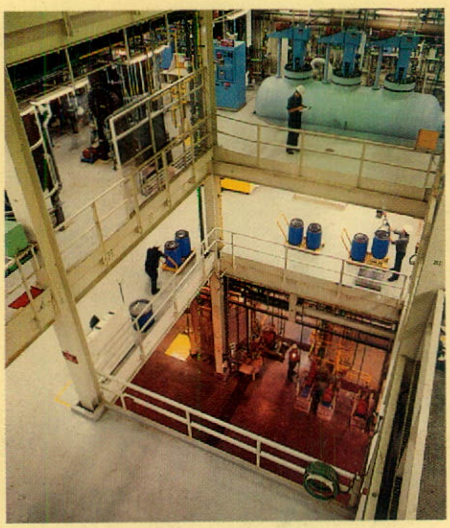
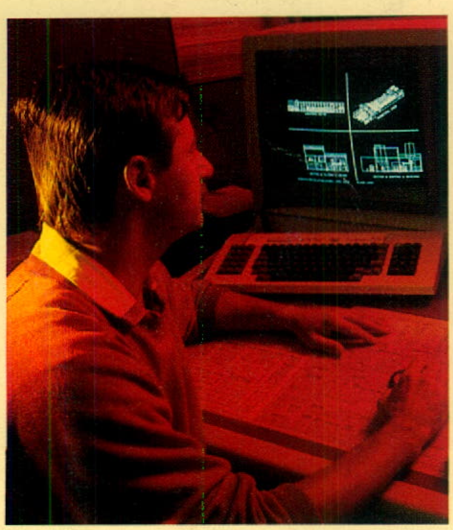
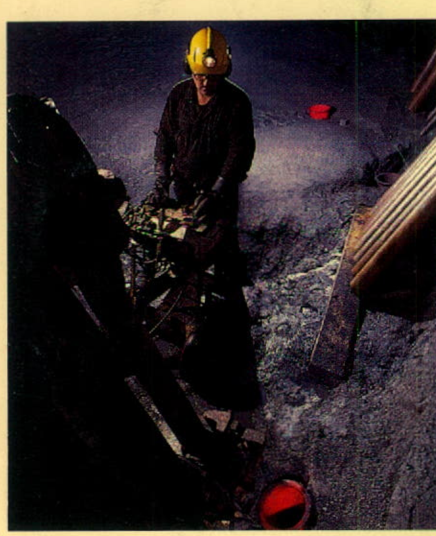
INCO

Annual Report 1987







Corporate Profile

Inco Limited is the non-communist world's leading producer of nickel and a substantial producer of copper, precious metals and cobalt. Inco is also the world's largest supplier of wrought and mechanically alloyed nickel alloys as well as a leading manufacturer of blades, discs, rings and other forged and precision-machined components made from special alloy materials. In addition, the Company is a major producer of sulphuric acid and liquid sulphur dioxide, and has other interests in metals, venture capital, mining equipment manufacturing, and engineering and technology sales. At year end, Inco employed 18,706 in 18 countries. Inco is a founding member of The Nickel Development Institute.

Contents

Annual Meeting
The Company's Annual Meeting will be held in Toronto on April 20, 1988.

Rapport Annuel
La version française du Rapport Annuel sera fournie sur demande.

10-K Report Available
A copy of the 1987 Annual Report on Form 10-K to be filed with the United States Securities and Exchange Commission may be obtained from the Company upon request. Requests should be addressed to: The Secretary, Inco Limited at Royal Trust Tower, Toronto-Dominion Centre, Toronto, Ontario M5K 1N4 or at One New York Plaza, New York, New York 10004.

Cover photos
Clockwise from top right: turbine casing forged at Blaenavon plant in Wales for new generation of passenger aircraft; underground at Thompson Mine in Manitoba; computer-aided drafting at Sudbury, Ontario; precious metals refinery at Port Colborne, Ontario.

Message to Shareholders

During 1987 the persistent and consistent cost-reduction and internal rationalization measures taken by the Company during recent years were rewarded. Additionally, a marketing strategy to increase sales in selected and targeted areas was successfully implemented and the Company delivered the highest volume of nickel in more than a decade.

High demand for nickel and limited supplies resulted in a gradual improvement in price during the first nine months followed by a sharp price rise late in the year. This, together with relatively high prices for copper, gold and other precious metals, enabled the Company to make a profit of $125 million for the year, with $75 million being achieved in the fourth quarter when the Company's average realized prices for nickel and copper were $2.57 and 86 cents per pound, respectively.

This result compared with an essentially break-even position in 1986 and was the Company's best financial performance since 1980.

Nickel Market Improvement

At the beginning of the year, nickel supply and demand for 1987 were projected to be roughly in balance at 1,250 million pounds, about the same level as 1986. These forecasts, however, proved to be conservative. Driven by record worldwide stainless steel production, demand increased steadily over the course of 1987 and for the full year came to an estimated 1,380 million pounds. Supply, at some 1,320 million pounds, was substantially below demand.

In last year's Annual Report, we stated that the long awaited restructuring and rationalization of the nickel industry appeared to be under way and that many higher cost producers were cutting back or closing capacity. This restructuring has proceeded with the result that effective worldwide nickel refining capacity has been reduced by about 130 million pounds, or 10 per cent, from 1983 levels. The bulk of this shutdown capacity is not likely to reopen unless nickel prices remain at a high level for a sustained period of time.

Alloys and Engineered Products

Financial results were unsatisfactory for our alloys and engineered products businesses, which incurred an operating loss in 1987. Product demand and prices were substantially lower than expected, particularly during the early part of the year. Management was reorganized, costs were reduced, prices increased and various

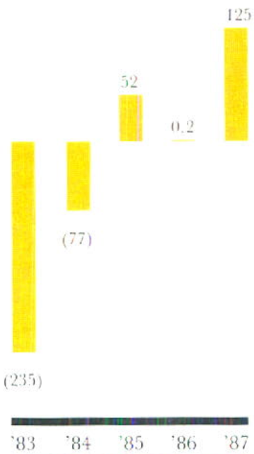
Results in Brief

$ millions	**1987**	1986	1985
Net sales	**$1,789.5**	$1,451.6	$1,490.5
Net earnings	**$ 125.2**	$ 0.2	$ 52.2
Internal cash flow – surplus	**$ 183.9**	$ 21.2	$ 243.5
Total debt	**$ 884.0**	$ 995.2	$ 929.4
Capital expenditures	**$ 137.9**	$ 138.5	$ 93.2
Employees	**18,706**	20,171	20,828

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

Net Earnings (Loss)

$ in millions



Centre is Chairman, President and Chief Executive Officer Donald J. Phillips with, left to right: Executive Vice Presidents I. David Balchin, Walter Curlook, Ian McDougall and W.R.O. Aitken.

other actions taken to improve our competitive position. Results improved in the second half and we expect continued improvement in 1988.

Strengthened Financial Position

In 1987, the Company generated an internal cash surplus of $184 million which was used mainly to reduce debt and redeem preferred shares. Since reaching their peak levels in 1980, debt and preferred shares have been reduced by more than $700 million.

Increased Focus on Gold

We are proceeding aggressively with projects which will make gold and other precious metals more important to Inco's future. In 1987, we consolidated the Company's various activities in gold and precious metals exploration, development and operation within a new business unit, Inco Gold Company.

This unit's first gold production will come on stream in 1988 from our operation at Casa Berardi in northwestern Quebec. In addition, Inco Gold holds interests in projects in advanced stages of development in Brazil and the United States. Inco Gold's production should reach 115,000 ounces by 1991 and its objective is to produce 400,000 ounces annually by the mid-1990s.

Capital Expenditures

Following a six-year period of severe constraints on capital spending to conserve cash, we plan a significant increase in 1988. Capital expenditures, which totalled $138 million in 1987, are expected to amount to approximately $230 million in the coming year. The 1988 figure includes some $40 million for the development of gold properties. Major investments are also planned for several important nickel mine development projects in Canada to improve productivity and to sustain the increased production level we achieved in 1987.

Employee Fatalities

Tragically, the Canadian mining industry experienced a rash of fatal accidents in 1987 and Inco was no exception. Eight of our employees were killed in five separate accidents during the year. We are deeply saddened by these terrible and unacceptable losses. We have intensified our ongoing programs to identify and eliminate causes of accidents, which could result from either human error or equipment

failure, and are determined to reduce the risk of accidents to the lowest possible level.

Environment

We remain committed to the achievement of environmentally clean processes at all of our operations. The fourth report in the series called for by the Ontario Government, dealing with SO_2 emission reductions at our Sudbury operations, has been submitted. As indicated in this report, we are making good progress toward the development of methods to meet the 1994 emission targets.

Outlook

Inco enters 1988 with the strongest markets in many years for its principal products, nickel and copper, with unit production costs below 1980 levels and with a strong market position.

Our worldwide cost competitiveness will be maintained by continued improvements in productivity and cost reductions. We are also determined to maintain our nickel market share and to develop new and specialized higher value nickel products. Our production of gold will be increased and the performance of our alloys and engineered products business will be improved. As well as seeking growth in our traditional businesses we will also actively seek opportunities for expansion into new and related areas.

It is too early to predict the strength of the marketplace for our principal products for the whole of 1988. However, current prices are strong and demand remains firm. Our prospects, therefore, look considerably better than they did a year ago.

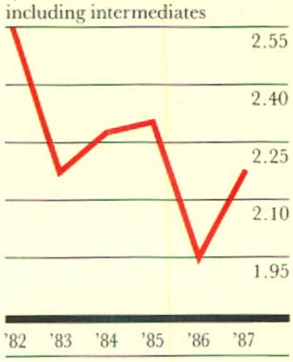
Based upon the improved results for 1987 and the outlook for the current year, the Company's Board of Directors on February 17, 1988 declared a regular quarterly dividend of 10 cents (U.S.) a common share, payable March 21 to shareholders of record February 26. This action represents an increase of five cents (U.S.) a share over the previous quarterly dividend rate.

The support of the Company's shareholders, employees and customers in 1987 was greatly appreciated and it is hoped that we can recognize the value of this support by continuing to be successful in 1988 and the years ahead.

Donald J. Phillips

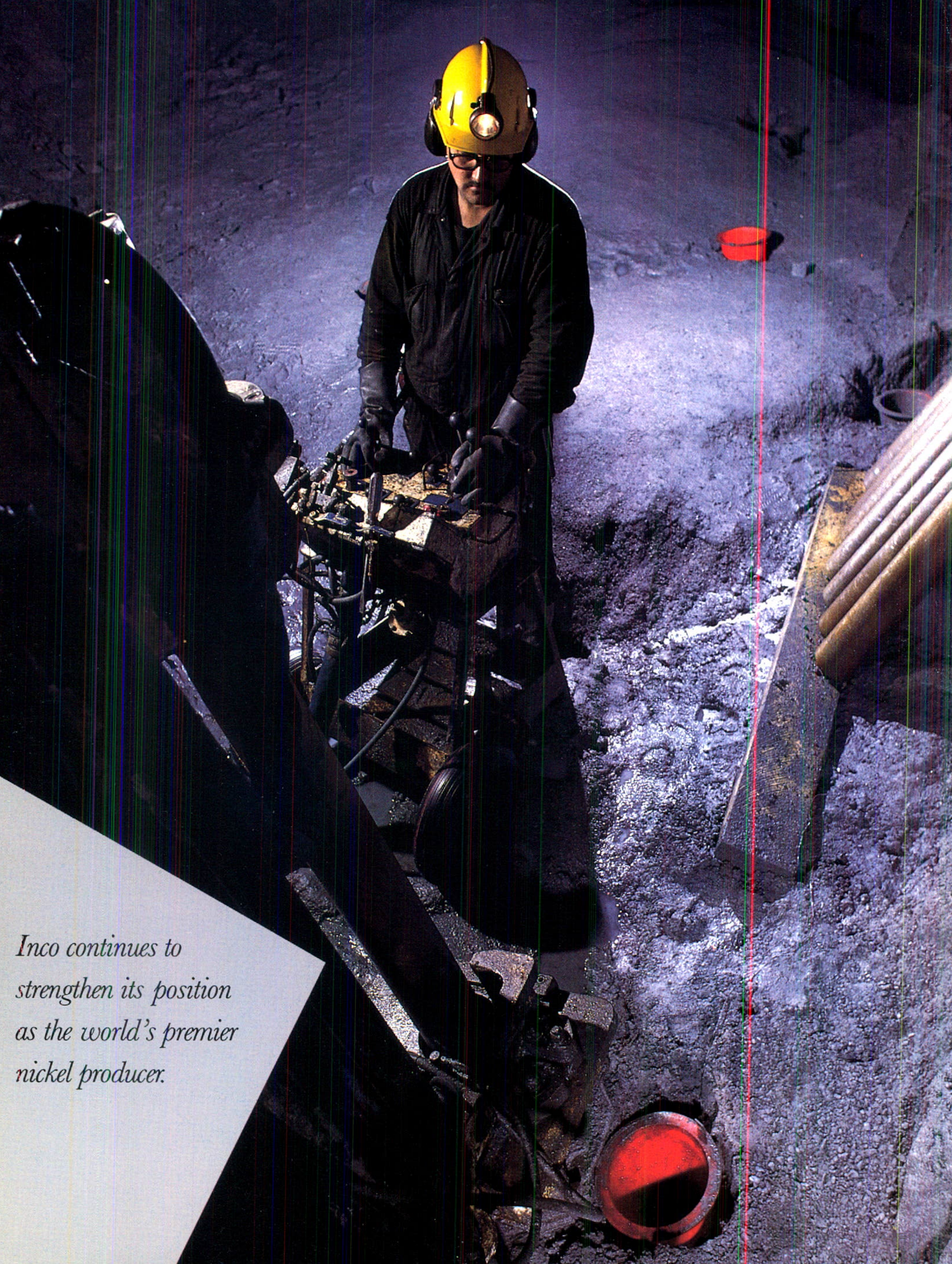
Donald J. Phillips
Chairman, President and
Chief Executive Officer
February 17, 1988

Average Realized Nickel Price
$ per pound
including intermediates



Internal Cash Flow (Shortfall)

$ in millions



Inco continues to strengthen its position as the world's premier nickel producer.

Inco's primary metals operations achieved a strong financial performance in 1987, aided by higher nickel and copper prices and record nickel demand. In addition, the Company increased its nickel market share and benefitted from continuing productivity improvements and cost reductions.

Primary metals operating earnings increased 199 per cent to $332 million, while sales of primary metals to customers rose 36 per cent to $1.4 billion.

Nickel Market Developments

In recent years, Inco has placed major emphasis on improving its worldwide competitiveness through productivity improvements and cost reductions. During 1987, as one of the lowest cost producers, the Company was able to adjust its marketing strategies and increase both its nickel deliveries and market share in response to a surge in demand.

Nickel demand in the non-communist world increased 10 per cent to an estimated 1,380 million pounds in 1987, driven primarily by record stainless steel production. Supply, at some 1,320 million pounds, fell short of demand, resulting in producer inventory depletions and higher nickel prices. This price rise was particularly sharp in the fourth quarter.

As the year began, world nickel prices remained at depressed levels. As the year ended, they had increased to a record high. The cash nickel price on the London Metal Exchange (LME) rose 166 per cent during the year to $4.23 per pound on December 31, 1987 from $1.59 on December 31, 1986.

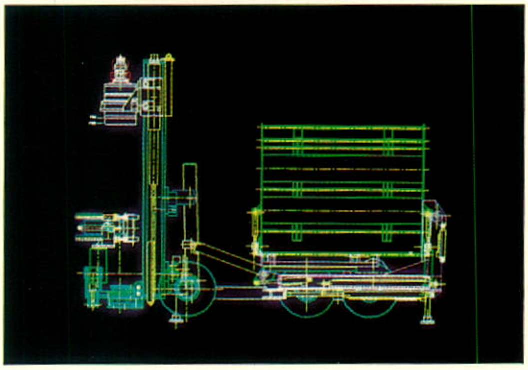
Inco's average realized price for primary nickel, including intermediates, was $1.80 per pound in the first quarter of 1987. It then rose to $1.96 in the second quarter, $2.27 in the third and $2.57 in the fourth. For the full year, Inco's average realized price was $2.18 per pound, up 12 per cent from 1986.

Inco participated vigorously in the strong market, delivering 477 million pounds of nickel in 1987 (including 18 million pounds of nickel purchased on the LME), the highest level since 1974. Inco's share of the non-communist world nickel market, which had declined to a low of about 25 per cent in 1982, has increased steadily in recent years and is

Operating Earnings (Loss)

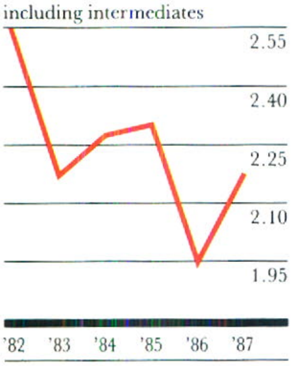
$ in millions

On the facing page, Dennis Fontaine operates an Inco-designed and manufactured CD-360 drill underground at Thompson Mine. Advancements in drill design continue at the Ontario Division's Mines Research Department.

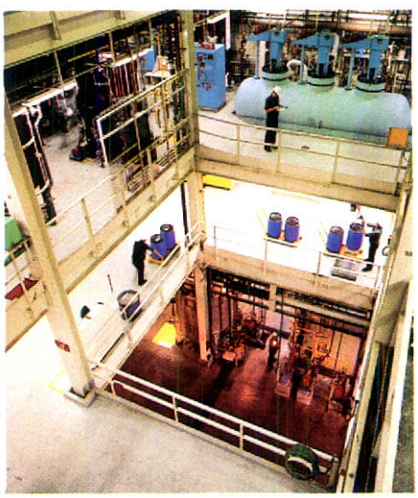


Average Realized Nickel Price

$ per pound including intermediates



At Port Colborne, the Company is bringing on stream a precious metals refinery to process gold and platinum-group metals mined in the Ontario Division as well as toll material.



estimated at 34 per cent in 1987. Of the Company's 1987 total primary nickel deliveries, 31 per cent was to customers in Europe, 23 per cent to Japan, 22 per cent to the United States and 24 per cent to other countries.

Following the success of its joint venture to produce utility nickel for the growing stainless steel industry in Taiwan, Inco plans to participate in a similar venture in Korea, where stainless steel production is expected to increase rapidly in the coming years. Korea Nickel Corporation, a joint venture of Inco and Korea Zinc, is constructing a production facility at Onsan, Korea with an initial annual capacity of 12,000 tonnes. Inco will supply feed to the plant, scheduled to be completed by the end of 1988.

In Japan, Inco's affiliate Tokyo Nickel Company, Ltd., which processes P.T. International Nickel Indonesia's nickel matte, doubled the production capacity of its roaster and successfully increased its sales of charge nickel products to the Japanese steel industry.

Inco is a founding member of The Nickel Development Institute, which is sponsoring more than 60 market development and research projects aimed at defending and expanding markets for nickel. These projects, focused on the need for materials resistant to high temperatures, high pressure and corrosion, are expected to generate up to 50 million pounds of additional nickel demand by 1990.

Copper, Precious Metals and Cobalt

Of the Company's total primary metals sales to customers in 1987, 15 per cent was derived from copper, 10 per cent from precious metals and two per cent from cobalt.

World copper prices, which had remained near a 50-year low in real terms for the past five years, began a sharp recovery in the latter part of 1987 as demand continued to exceed supply. Inco's price averaged 73 cents per pound compared with 64 cents per pound in 1986. The Company delivered 275 million pounds of copper, with production supplemented by the purchase of concentrates.

Prices for platinum-group metals also showed considerable strength. Inco's average realizations were $567 per troy ounce for platinum, up from $447 in 1986; $1,240 per troy ounce for rhodium, up from $1,156; and $130 per troy ounce for palladium, compared with $115.

World gold prices moved generally higher, and Inco's average realization increased to $449 per troy ounce in 1987 from $367 in 1986.

The Company's average realized price for cobalt was $6.78 per pound in 1987 compared with $7.57 a year earlier.

Production and Inventories

Inco's nickel and copper production was as follows:

(millions of pounds)	**1987**	1986	1985
Nickel	**430**	357	334
Copper	**261**	251	264

The Company's finished nickel inventory was 57 million pounds at year end, down from 70 million pounds at the end of 1986 and the lowest year-end level since 1970. Total estimated producer and LME finished nickel inventories in the non-communist world, at minimal working levels when the year began, were reduced further by some 60 million pounds to an estimated 240 million pounds at the end of 1987.

Productivity and Cost Improvements

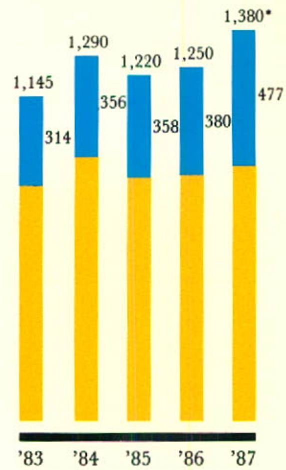
During the year, Inco continued a wide variety of programs to improve productivity, enhance safety and reduce costs at its mines, mills, smelters and refineries. As measured in pounds of nickel plus copper produced per manshift, productivity increased by three per cent in 1987 and, since 1980, has improved by nearly 70 per cent. Additional productivity improvements are planned in 1988.

Unit nickel production costs have been reduced by 33 per cent from their 1982 peak and in 1987 were lower than 1979 levels despite significant inflation in the intervening years. Unit costs have been reduced both at the Company's Canadian and Indonesian operations, as highlighted by the chart on page eight.

In 1987, 90 per cent of the Company's Canadian ore was mined by bulk methods. Having essentially completed the

Non-Communist World Nickel Demand

lbs. in millions

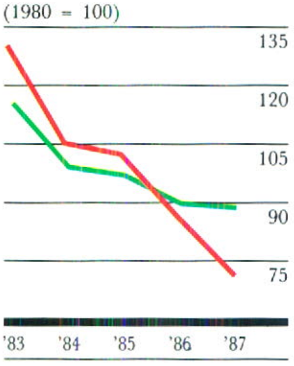


$ millions	**1987**	1986	1985
Sales by product			
Primary nickel	**$ 967**	$ 674	$ 732
Refined copper	**199**	162	160
Precious metals	**144**	125	97
Cobalt	**22**	19	29
Other products	**26**	22	22
Net sales to customers	**$1,358**	$1,002	$1,040
Operating earnings	**$ 332**	$ 111	$ 174
Deliveries (in thousands)			
Primary nickel, including intermediates(1)	**444,630**	346,890	317,300
Nickel contained in alloys and engineered products	**32,420**	32,710	40,460
Total nickel (pounds)	**477,050**	379,600	357,760
Copper (pounds)(2)	**274,860**	253,530	251,490
Platinum (troy ounces)(3)	**120**	132	124
Palladium (troy ounces)(3)	**162**	164	171
Rhodium (troy ounces)(3)	**16**	13	13
Gold (troy ounces)(3)	**49**	58	58
Silver (troy ounces)(3)	**1,550**	1,350	1,490
Cobalt (pounds)(2)	**3,450**	2,790	2,670
Sulphuric acid and liquid sulphur dioxide (tonnes)	**515**	505	432

(1) Includes 18 million pounds in 1987 and 16 million pounds in 1986 purchased on the London Metal Exchange.
(2) Includes metals contained in alloys and engineered products.
(3) Excludes toll refined materials.

Indexed Unit Nickel Production Costs

(1980 = 100)



When Crean Hill Mine resumes full production in 1989, miners will be assured a cleaner, quieter, safer working environment.

conversion to these methods, Inco is now focusing on the application of continuous mining systems and other new technology to achieve further productivity improvements.

Advances during 1987 included the first system that is truly a continuous mining operation, through the use of a continuous loader-crusher combination and the introduction of a "belt bender" conveyor system that can carry ore around corners. Other advances included the wider use of computers in the mines and development of an improved computerized down-the-hole drill.

Since the early 1980s, the Company has also undertaken a series of major mine development projects aimed at reducing costs, increasing production flexibility and assuring continuity of nickel supply. These projects represent an important thrust by Inco to develop a new generation of low-cost mines.

The Copper Cliff North Mine in Ontario, reactivated in 1984 as a full-scale mining research location employing the most advanced equipment and techniques, was the first of these projects. It was followed by development of the Thompson Open Pit in Manitoba, brought into production in 1986.

In 1987, two mining operations – the Creighton Deep orebody and the Crean Hill Mine – employing the most advanced underground mining techniques and equipment were brought into production in Ontario.

Creighton Deep has been developed as one of the lowest cost mining operations in the Sudbury Basin. Although production at Creighton had to be suspended in early November because of problems with the ore hoist motor, repairs were completed by year end and production resumed.

Crean Hill was reactivated as Inco's first all-electric mine and one of the most technologically advanced underground mining operations in Canada. When fully developed in 1989, Crean Hill will be capable of producing 3,000 tons of ore per day with a workforce of about 120. During its last previous full year of production in 1977, the mine produced 3,300 tons of ore per day with a workforce of 400.

Late in 1987, the Company initiated two additional projects: development of its second all-electric mine, the Lower Coleman nickel/copper orebody in Ontario, and development of the 1-C nickel orebody at Thompson. The $39 million Lower Coleman project will help

maintain existing production levels at Inco's Sudbury District mines, with full production scheduled to begin in 1990. First production ore from the 1-C underground deposit, the richest section of the Thompson orebody, is scheduled to be mined in 1988, moving toward full production by 1991. Projected capital cost of the 1-C project is $20 million.

Significant productivity improvements continue to be achieved, as well, in the Company's milling, smelting and refining operations. In Sudbury, installation of the first bank of large flotation cells at the Clarabelle Mill has demonstrated more efficient energy use and the Company is considering total conversion of the mill to these cells. The second and third stages in the mechanization and modernization of the Sudbury copper refinery were completed in 1987, with the fourth and final stage scheduled for completion in 1988. A new computerized control system for roasting and smelting ores, installed in 1987 at the Thompson smelter, is expected to reduce costs through savings in fuel and electrical energy and improved furnace productivity.

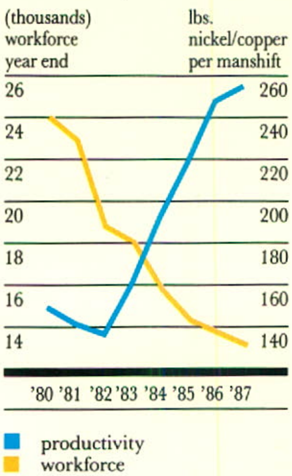
Inco Indonesia

After six years of substantial losses, Inco's Indonesian nickel operations generated operating earnings of $15 million in 1987. Results were aided by continuing cost reductions and improved product prices. The full cost of producing a pound of refined nickel from P.T. International Nickel Indonesia ore, including shipment to Japan and toll-refining there, was almost 20 per cent lower than in 1986 and, since 1982, has been reduced by about 50 per cent. Savings are being achieved through various actions, including technological improvements, energy cost reductions, employment reductions, and a steadier and increasing operating level in response to growing demand from the Japanese market.

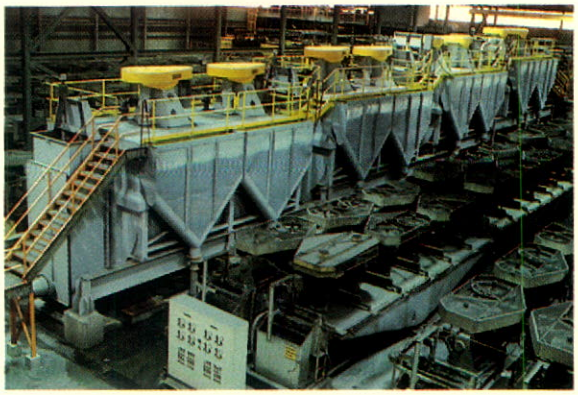
Employee Fatalities

Eight Inco employees – Rene J. Bedard, Wilbrod J. Gauvin, Rheal Giroux, Donald K. Knight, Victor Laundrie, Charles G. MacDonald, Patrick Moore and Germain St. Amour – were killed in accidents at Company mines in Canada during the year. We are deeply saddened by these tragic and unacceptable losses. The Company has intensified its

Productivity



Larger flotation cells at the Clarabelle Mill increase capacity and save energy.



programs to identify and eliminate potential causes of accidents which could result from human error or equipment failure.

Environment

Inco is committed to the operation of environmentally clean processes in all its activities. During 1987, the Company continued to operate in compliance with government regulations and control orders related to sulphur dioxide (SO_2) emissions at all operations.

In January 1988, the Company submitted the fourth in a series of semi-annual reports called for by the Ontario Government's Ministry of Environment under its SO_2 emission control program. The report sets out Inco's progress to date in developing methods to meet the 1994 regulated emission limit of 265 kilotonnes of SO_2 annually at its Sudbury operations. By year-end 1988, the final report in the series, setting out definitive plans and cost estimates, will be submitted. Development and testing programs are focused on methods to maximize the rejection of sulphur-bearing pyrrhotite from the smelter feed as well as on the capture of increased amounts of SO_2 through the application of Inco flash furnace technology. These methods continue to show the greatest promise.

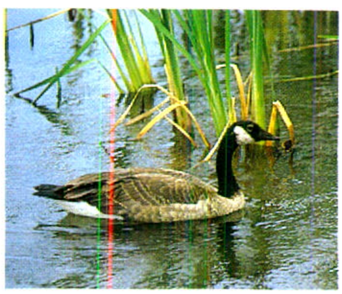
Research and Development

Expenditures for primary metals research and development programs were $19 million in 1987. Research activities are directed at improving safety and productivity, enhancing both the workplace and external environments, and increasing metals recoveries. In addition, an increasing portion of primary metals research is directed to product development, including the development of new proprietary nickel powders.

Technical Services

INCO TECH* provides a worldwide consulting service offering expertise in the fields of exploration, mining, processing and refining. In 1987, licensing agreements were reached with three gold producers and one plater for use of an Inco process to destroy cyanide in effluents. Inco's oxygen flash furnace smelting technology, which is state-of-the-art in the copper industry, is installed at two locations in the United States and continues to attract potential users worldwide.

For the third consecutive year, Inco participated with the Ontario Ministry of Natural Resources and a Sudbury conservation group in the transfer of goslings from Toronto Island, which is overpopulated with geese, to Inco's tailings basin in Sudbury.



*Trademark of the Inco family of companies.

Ore Reserves

At year end, Inco's proven and probable nickel/copper ore reserves in Canada totalled 448 million short tons, containing 6.5 million tons of nickel and 3.9 million tons of copper. This compares with year-earlier proven and probable reserves of 457 million short tons, containing 6.7 million tons of nickel and 4.1 million tons of copper. Only material that is economically viable and has been sampled in sufficient detail to permit a reliable calculation is included in reserves. Significant quantities of platinum-group metals, silver and gold are also contained in the Canadian ore reserves.

Proven and probable ore reserves at P.T. International Nickel Indonesia were 84 million short tons containing 1.6 million tons of nickel at year-end 1987, compared with 82 million short tons containing 1.5 million tons of nickel at year-end 1986.

(See also Inco Gold on page 13 of this Report.)

Nickel/Copper Exploration

Inco has increased its exploration activities in Ontario and Manitoba directed at finding additional nickel and copper reserves. Expenditures for such activities were $4 million in 1987, up from $2 million in 1986, and are budgeted to increase significantly in 1988.

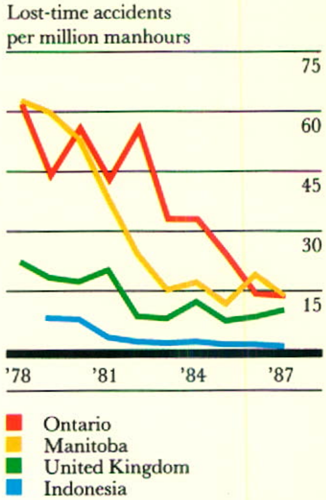
Employee Relations

In September, Inco negotiated a new three-year collective agreement with unionized employees in the Manitoba Division. A new one-year agreement was negotiated with hourly production workers at Clydach, Wales. Both the Manitoba and Clydach contracts provide an element of gain-sharing for the employees through a bonus system tied to nickel prices. A new one-year agreement was negotiated with process employees at Acton, England.

Collective agreements remain in effect with unionized employees at Sudbury and Port Colborne, Ontario through May 31, 1988 and with employees at P.T. International Nickel Indonesia through December 15, 1988.

Since 1982, Inco has offered a series of incentives to encourage early retirement as a means of reducing its workforce while minimizing layoffs. In 1987, more than 450 employees in the Sudbury District elected to take voluntary early retirement under such a program.

Safety



Bernie Filion, right, inputs data at a computer terminal 7,000 feet underground at Creighton Mine. Left is Gary Prior.

Gold and other precious metals are increasingly important to Inco's future.

Inco Gold Company

In August 1987, Inco Gold Company was formed as an unincorporated business unit responsible for Inco's expanding exploration and development activities focused on gold and other precious metals. Inco Gold will operate its own mines as well as participate in others in which it has, or can acquire, an interest. At the end of 1987, Inco Gold held interests in more than 50 precious metals ventures and prospects in Canada, the United States, Brazil and Indonesia.

The most advanced project is at Casa Berardi Township, Quebec, where Inco Gold holds a 60 per cent joint venture interest. Production is scheduled to begin in 1988 at a rate of 60,000 ounces of gold annually from Golden Pond East. To date, approximately 10 million tons of mineralization grading 0.22 ounces of gold per ton have been outlined by diamond drilling over a five kilometre strike length west from the Golden Pond East portal. At Golden Pond West, a ramp is being driven at a cost of $7 million to take a bulk sample of the ore, establish continuity and expand the proven reserves. Also, a $2 million surface drill program is planned for the remainder of the Golden Pond claim block to investigate a number of untested drill targets and outline additional reserves. It is anticipated that sufficient reserves will be proven at Casa Berardi to support production at an annual rate of 120,000 ounces.

Production is scheduled to begin in late 1989 at a project in Crixas, Brazil, where over seven million metric tonnes grading 0.34 ounces of gold per ton have been delineated. Inco Gold and its partners are developing a mine and mill complex designed for the production and treatment of 360,000 metric tonnes of ore per year to yield some 120,000 ounces of gold at full production. Inco Gold holds a 50 per cent equity interest.

In the United States, Inco Gold and a partner are proceeding with development of the Jardine deposit in Montana. Drilling has indicated gold bearing mineralization in excess of one million tons grading 0.33 ounces per ton. The mine and mill are being designed for the production and treatment of 150,000 tons of ore per year, yielding an annual average of 42,000 ounces of gold, with production scheduled to begin in 1989. Inco Gold's joint venture interest is 50 per cent.

Inco Gold invested $9 million in the development of these three projects in 1987 and plans to invest some $40 million in 1988. The Company's share of gold production from these projects is expected to total 115,000 ounces annually by 1991. This will be in addition to gold production obtained as a by-product of Inco's Canadian nickel/copper ores, which totalled 47,000 ounces in 1987. Inco Gold's objective is to produce 400,000 ounces annually by the mid-1990s.

In another advanced joint venture project, Inco Gold recently began a surface and underground exploration program at the Anoki deposit near the joint venture McBean mill at Kirkland Lake, Ontario.

Inco Gold's exploration expenditures were $18 million in 1987, with an increase of approximately 60 per cent planned in 1988.

At year end, Inco Gold Company's share of geological drill-indicated gold reserves was approximately 13 million short tons containing over three million ounces of gold. These reserves do not include gold contained as a by-product in Inco's nickel/copper ores.

Underground development is under way at the Golden Pond East property in northwestern Quebec. Left, Jean Yves Cloutier, mine geologist, and Gerry Lafantaisie, mine superintendent, review drawings at the mine.

The company has enhanced its ability to serve customers' special needs.

Alloys and Engineered Products

In a very competitive market environment, Inco's alloys and engineered products businesses incurred an operating loss of $12 million in 1987, including severance and early retirement costs of $8 million. This compared with operating earnings of $26 million in 1986. Sales declined five per cent to $418 million, reflecting lower volumes and lower prices.

Reduced demand for higher-margin products, increased unit costs and intense competition were largely responsible for a first-half 1987 operating loss. Operating earnings of $2 million and $4 million were achieved in the third and fourth quarters, respectively, as measures to restore profitability took effect. These measures included substantial reductions in fixed expenses, management reorganization, inventory reduction, and continued capital investments to improve throughput times, enhance product quality and upgrade Inco's product line.

Alloy prices were increased four times in the second half of the year to reflect higher raw material costs and somewhat improving market conditions. Average realized prices on superalloys had declined by as much as 20 per cent between 1985 and early 1987 because of oversupply and intense competition.

Inco Alloys International

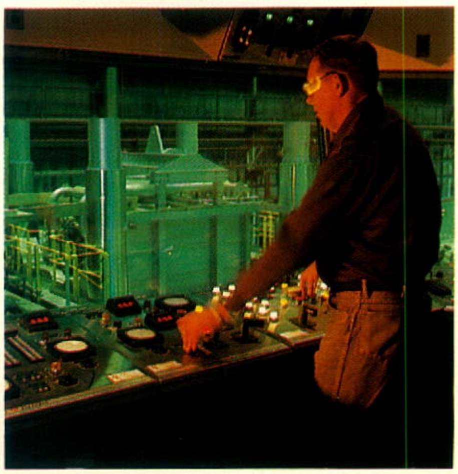
Inco Alloys International (IAI) is the world's leading producer of wrought and mechanically alloyed nickel alloys, with products marketed globally through an extensive distribution network. Sales in 1987 were $301 million, down three per cent from 1986. IAI's products are used in a variety of critical applications, including jet engines, commercial and military rockets, deep sour gas wells, chemical and process engineering, marine engineering, thermal processing, and electrical and electronics applications.

Alloys in strip, sheet, plate, tubing, bar, rod and wire are produced at Huntington, West Virginia; Burnaugh, Kentucky; and Hereford, England. A modern strip finishing mill for cold rolled sheet and strip products is located in Elkhart, Indiana. Advanced mechanically alloyed aluminum alloys are developed and produced at a new facility in Pittsboro, North Carolina and welding products are produced at Newton, North Carolina.

Operating Earnings (Loss)

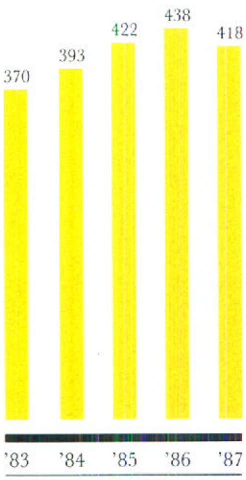
$ in millions

Don McCarty stands in the pulpit at the controls of the new hot strip reversing mill at Huntington, West Virginia. On the facing page is Project Engineer Bill Midkiff at the receiving end of the new mill which was commissioned early 1988.

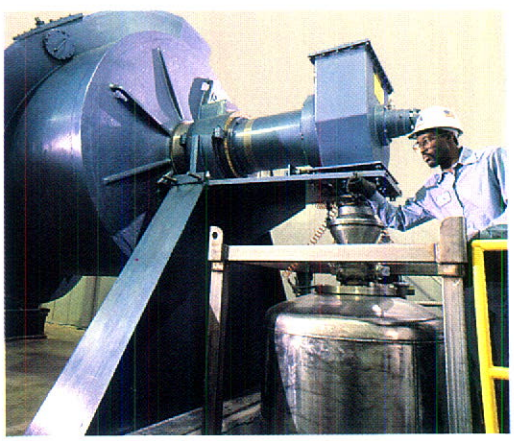


Sales to Customers

$ in millions



Ernest Snipes connects an Inco-patented discharge system to a ball mill at Inco Alloys' mechanical alloying facility at Pittsboro, North Carolina. Inco has developed a revolutionary, high-technology process that makes unique IncoMAP alloys that cannot be produced by conventional melting or powder technology.*



IAI manufactures more than 100 products, most of which were invented by Inco employees.

In 1987, IAI strengthened its research and development and marketing programs. These efforts are concentrated on the development and sales of high-performance, high-value proprietary and non-proprietary products.

Marketing activity was increased for mechanically alloyed products for the aerospace, energy and thermal processing industries. These proprietary high-value products, made in the United States and Europe, were moved to full product-line status. Applications include advanced gas turbine engine components, nuclear fuel element cladding, glass-making equipment, and heat treatment furnace components and handling baskets.

IAI continued its market development activities for aluminum and other light metal alloys produced by the mechanical alloying process. The first two aluminum-based products are designed for marine corrosion and airframe forging applications.

Other marketing programs are aimed at increasing sales of proprietary nickel-cobalt-iron controlled expansion alloys for casings and shafts of gas turbine engines; a range of products for oil and gas well tubing and completion systems; a new cobalt-free maraging steel; and premium quality superalloys for gas turbine rotating components.

Through the actions taken in 1987, IAI has strengthened its ability to serve customer demand for high-technology alloys and to improve its earnings and market position in the competitive general engineering business.

The company's largest capital investment project in the United States in recent years was completed in early 1988 with the installation at Huntington, West Virginia of a hot strip reversing mill to produce hot rolled sheet and strip in large coils. Most of this sheet and strip is further cold rolled at IAI's Elkhart, Indiana facility, purchased in 1986. IAI is a major supplier in the United States of high-nickel alloy sheet and strip, meeting the highest standards for tolerance and surface finish.

At Hereford, England, IAI began a modernization program to transform the forging plant into the most advanced open die press in Europe. This project, scheduled for completion in 1989,

**Trademark of the Inco family of companies.*

includes new automated mechanical handling and computer controls to improve throughput and product quality. The Hereford forge will remain in operation throughout the modernization program.

Inco Engineered Products

Inco Engineered Products Limited (IEPL) manufactures forged, cast, formed and machined products from nickel- and titanium-based alloys and other advanced materials at four plants in the United Kingdom, one in the United States and one in Belgium. Sales in 1987 were $117 million compared with $127 million in 1986.

IEPL manufactures technically demanding products that meet specialized needs in aircraft and industrial turbines and in military, marine, energy and other engineering applications. Products include seamless rolled and forged rings, flash butt welded rings, forged and machined blades and vanes, turbine discs of wrought and powdered alloys, precision machined components and precision titanium castings.

In 1987, IEPL continued the development of precision forged aluminum components for aerospace and military applications, and sales of these products increased.

Isothermally forged components in advanced wrought and powder alloys were successfully forged at the Doncasters Monk Bridge plant. Turbine discs for the proposed European Fighter Aircraft engine program were delivered in 1987.

Facilities were expanded for manufacturing superplastically formed sheet components in advanced alloys and electroformed nickel erosion shields for helicopter rotors and aircraft propellor blades.

Turbo Products International in the U.S. finish-machines blades and vanes for industrial and aerospace gas turbines. Sales increased 15 per cent in 1987.

SETTAS S.A. in Belgium manufactures precision castings in titanium alloys for the aerospace, process plant and marine industries. New facilities for manufacturing precision investment-cast casings for jet engines were installed and prototype components were delivered to customers for evaluation. IEPL holds a majority interest in SETTAS.

At Incoform in Birmingham, England, Production Supervisor Ken Belt inspects an electroformed nickel erosion shield for helicopter blades.

Venture Capital

Through its highly successful venture capital program, Inco has since 1974 provided equity capital and strategic direction to start-up and early stage companies having the potential for significant growth and investment returns. Inco Venture Capital Management realized operating earnings of $3 million in 1987, compared with $14 million in 1986, through the sale of positions in several portfolio companies which had become publicly held. At year-end 1987, the Company's portfolio had a book value of $25 million and, based on valuation methods employed in the venture capital industry, might be valued at $32 million.

Some planned sales were deferred and the value of Inco's holdings in several publicly traded securities declined due mainly to the significant decrease in market values for high-technology stocks in 1987. Inco's portfolio remains broadly based, encompassing investments in over 50 companies spread among a wide range of technologies as well as selective participation in leveraged buyouts.

Inco Venture Capital Management continued its role as an independent venture capital fund manager through participation in the management of $45 million raised from institutional investors through two Ontario limited partnerships, North American Ventures Fund and North American Ventures Fund II.

Mining Equipment

Continuous Mining Systems Limited (CMS), which designs, manufactures and markets innovative mining equipment, expanded its line of products to include hydraulic jumbo drills and related equipment. During the year, CMS continued to operate profitably and increased its sales by nearly 30 per cent, including its first export sales. Total sales to customers and to Inco's primary metals business totalled $7 million in 1987. Approximately 40 per cent of CMS's sales in 1987 were to customers outside Inco.

Reclamation Facilities

The International Metals Reclamation Company (Inmetco), which converts waste from specialty steel mills into steelmaking charge materials using proprietary Inco technology, reduced its operating loss to $1 million in 1987 from $18 million in 1986.

Corrosion Research and Consulting

The LaQue Center for Corrosion Technology, Inc., a world leader in corrosion research, testing, consulting and training, operated profitably in 1987.

Principal Officers

Stuart F. Feiner
President
Inco Venture Capital Management
New York, New York

Wilber W. Kirk
President
LaQue Center for Corrosion Technology
Wrightsville Beach
North Carolina

Dale D. Letts
President
Continuous Mining Systems Limited
Sudbury, Ontario

Frank W. Schaller
President
The International Metals Reclamation Company
Ellwood City, Pennsylvania

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

Systems of internal accounting control are maintained in order to assure on a reasonable basis the reliability of this financial information. These systems include formal policies and procedures, the careful selection and training of qualified personnel, and an organization providing for appropriate delegation of authority and segregation of responsibilities. These systems are monitored by our internal auditors who perform extensive tests and related procedures at major locations worldwide. Our independent auditors, whose report on their examinations of the consolidated financial statements appears on page 35, also review our systems of internal accounting control in accordance with generally accepted auditing standards for the purpose of expressing their opinion on the consolidated financial statements.

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

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

Donald J. Phillips

Chairman, President and
Chief Executive Officer

Ian McDougall

Executive Vice-President
(Chief Financial Officer)

Contents

	1987	1986	1985	1984	1983	1982	1981	1980	1979	1978
Summary of operations										
(U.S. $ in millions, except per share data)										
Net sales	**$1,789.5**	1,451.6	1,490.5	1,468.0	1,173.4	1,236.0	1,885.9	2,150.0	1,611.3	1,298.0
Cost of sales and operating expenses	**$1,355.8**	1,230.7	1,205.2	1,317.1	1,257.7	1,277.0	1,454.6	1,329.9	1,105.6	1,001.5
Selling, general and administrative expenses	**$ 111.8**	97.9	90.6	100.8	102.5	123.2	144.4	144.5	109.4	102.5
Interest, net of amounts capitalized	**$ 101.0**	94.0	101.6	122.1	111.4	148.3	147.1	124.8	109.9	59.0
Income and mining taxes	**$ 73.5**	26.5	49.4	22.2	(91.3)	(119.9)	81.1	260.7	126.2	68.5
Earnings (loss) from continuing operations before extraordinary charges	**$ 125.2**	0.2	52.2	(77.3)	(234.9)	(203.3)	20.4	261.7	141.6	57.2
Net earnings (loss)	**$ 125.2**	0.2	52.2	(77.3)	(234.9)	(203.3)	(469.6)	231.5	147.5	73.3
Net earnings (loss) applicable to common shares	**$ 113.8**	(16.6)	27.8	(100.1)	(256.8)	(231.4)	(497.6)	205.3	124.3	52.8
Per common share	**$ 1.09**	(0.16)	0.28	(1.02)	(2.69)	(2.81)	(6.51)	2.72	1.66	0.71
Common dividends	**$ 20.9**	20.4	19.9	19.5	19.1	16.1	45.0	52.1	37.4	52.2
Per common share	**$ 0.20**	0.20	0.20	0.20	0.20	0.20	0.59	0.69	0.50	0.70
Common shares outstanding (weighted average, in millions)	**104.5**	102.2	99.6	97.7	95.5	82.2	76.4	75.5	74.8	74.6
Other financial data										
(U.S. $ in millions)										
Capital expenditures	**$ 137.9**	138.5	93.2	103.6	71.1	95.3	152.2	143.3	85.4	193.4
Depreciation and depletion	**$ 152.5**	143.8	143.3	140.0	126.1	110.3	139.9	142.5	111.0	89.7
Research and development expense	**$ 27.0**	21.8	21.9	22.4	29.4	35.8	37.0	34.1	26.6	31.4
Exploration expense	**$ 21.9**	16.7	17.1	15.8	20.3	19.2	32.7	26.9	13.9	14.2
Working capital	**$ 472.6**	434.6	505.3	494.4	528.1	789.4	1,023.2	1,081.3	972.9	985.9
Net property, plant and equipment	**$1,850.7**	1,886.0	1,910.6	1,972.9	2,035.5	2,109.0	2,136.1	2,542.4	2,523.4	2,540.5
Total assets	**$2,994.4**	2,975.9	3,082.6	3,110.4	3,183.2	3,472.5	3,856.4	4,720.9	4,392.2	4,191.6
Total debt	**$ 884.0**	995.2	929.4	1,113.9	1,174.3	1,203.4	1,331.4	1,351.7	1,274.1	1,307.0
Preferred shares	**$ 111.1**	153.5	278.4	401.3	335.3	338.6	341.8	345.0	348.3	351.6
Common shareholders' equity	**$1,083.5**	996.1	987.1	914.3	1,027.4	1,215.6	1,332.9	1,859.1	1,687.7	1,590.7
Return on common shareholders' equity	**10.5%**	—	2.8%	—	—	—	—	11.0%	7.4%	3.3%
Total debt:equity ratio	**43:57**	46:54	42:58	46:54	46:54	44:56	44:56	38:62	39:61	40:60
Operating data										
Ore mined – short tons in millions	**16**	14	15	16	10	7	13	16	10	11
Nickel production – pounds in millions	**430**	357	334	359	283	201	330	394	255	267
Nickel deliveries – pounds in millions	**477**	380	358	356	314	251	342	345	394	377
Copper deliveries – pounds in millions	**275**	254	251	273	140	167	240	288	129	225
Cobalt deliveries – pounds in thousands	**3,450**	2,790	2,670	2,410	1,790	2,530	3,620	1,950	1,240	1,700
Platinum-group metals and gold deliveries – troy ounces in thousands	**371**	397	384	379	201	310	317	349	326	468
Realized prices per pound *(U.S. $)*										
Primary nickel, including intermediates	**$ 2.18**	1.94	2.31	2.28	2.17	2.55	2.99	3.14	2.43	1.98
Copper	**$ .73**	.64	.64	.63	.72	.71	.82	1.00	.91	.61
Other statistics										
Employees at year end	**18,706**	20,171	20,828	22,239	24,866	25,798	31,678	33,975	33,864	33,326
Common shareholders at year end	**30,030**	34,690	39,829	45,789	49,653	55,759	62,054	67,609	74,541	75,067

Results of Operations

Primary Metals Operating earnings rose substantially to $332 million compared to $111 million in 1986 and $174 million in 1985. The Company's nickel business, the principal determinant of its profitability, showed significant improvement in 1987. Non-communist world nickel demand, at strong levels in recent years, surged in 1987 to a record level. Nickel demand for 1987 is estimated at 1.38 billion pounds, compared to 1.25 billion pounds in 1986 and 1.22 billion pounds in 1985. Increased nickel demand in 1987 was driven primarily by record levels of stainless steel production, the single largest use of primary nickel. As a result of the strong demand, the Company's nickel deliveries increased by 26 per cent over 1986, to their highest level since 1974. In the process, the Company's market share increased to 34 per cent compared to 30 per cent in 1986 and 29 per cent in 1985. The combination of record levels of demand, together with a limited supply capability resulting from the reduction of producer capacity in recent years, caused a dramatic recovery in nickel prices during the year.

Primary Metals *($ millions)*	**1987**	1986	1985
Sales by product			
Primary nickel	**$ 967**	$ 674	$ 732
Refined copper	**199**	162	160
Precious metals	**144**	125	97
Cobalt	**22**	19	29
Other products	**26**	22	22
Net sales to customers	**$1,358**	$1,002	$1,040
Operating earnings	**$ 332**	$ 111	$ 174
Deliveries *(thousands)*			
Primary nickel, including intermediates(1)	**444,630**	346,890	317,300
Nickel contained in alloys and engineered products	**32,420**	32,710	40,460
Total nickel (pounds)(1)	**477,050**	379,600	357,760
Copper (pounds)(2)	**274,860**	253,530	251,490
Cobalt (pounds)(2)	**3,450**	2,790	2,670
Platinum-group metals and gold (troy ounces)(3)	**371**	397	384
Realized prices *($ per pound)*			
Primary nickel, including intermediates	**$2.18**	$1.94	$2.31
Copper	**0.73**	0.64	0.64

(1) Includes 18 million pounds in 1987 and 16 million pounds in 1986 purchased on the London Metal Exchange.

(2) Includes metals contained in alloys and engineered products.

(3) Excludes toll refined materials.

The London Metal Exchange (LME) cash nickel price which had drifted lower since mid-1985 and ended 1986 at a level of $1.59 per pound, rose to $2.00 per pound by the end of June 1987 and $2.43 per pound by the end of September, before ending the year at $4.23 per pound. A subsequent downward price correction took place early in 1988 resulting in an average January LME cash price of $3.67 per pound. For the year 1987, the LME cash nickel price averaged $2.21 per pound.

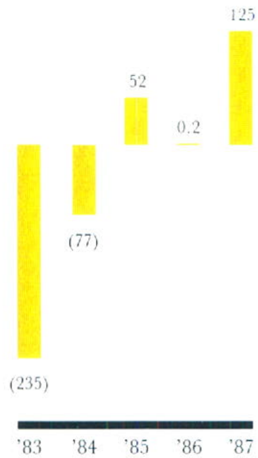
Realizations for the Company's nickel tend to lag the LME cash price whenever sudden price movements occur. As a result, Inco's nickel realizations averaged $2.18 per pound in 1987. While this represented a 12 per cent increase over the depressed levels of 1986, it was still 6 per cent below 1985 price levels. However, the fourth quarter realization of $2.57 per pound was a 43 per cent increase over the fourth quarter of 1986. The combination of increased deliveries and improving price realizations resulted in sales of primary nickel in 1987 of $967 million, a 43 per cent increase over 1986 and 32 per cent above the 1985 level.

Similar influences affected the copper market in 1987. Unexpectedly strong demand, coupled with reduced supply capability following the reduction of North American producer capacity in recent years, resulted in a recovery in copper prices. The Company's copper realizations averaged $0.73 per pound for 1987 compared to $0.64 per pound in the two prior years. This 14 per cent increase in price realization, coupled with increased deliveries, resulted in sales of refined copper of $199 million in 1987, approximately 23 per cent above the levels of 1986 and 1985. The Company's price realizations for platinum-group metals and gold also increased substantially in 1987, while its average price realizations for cobalt declined to $6.78 per pound compared to $7.57 in 1986 and $11.74 in 1985.

While much of the improvement in 1987 profitability was attributable to the recovery in prices and increased deliveries, the Company continued to improve its competitiveness through increased productivity and cost reduction. Productivity, measured in pounds of nickel plus copper produced per manshift, improved by 3 per cent in 1987, following year-to-year gains of 13 per cent in each of the previous two years. Productivity has now been increased almost 70 per cent since 1980. This improvement continues to reflect increased application of efficient bulk-mining methods, more extensive use of automated mining equipment and enhancements at processing facilities. Having largely completed the conversion to bulk-mining methods, the Company is now focusing on the application of

Net Earnings (Loss)

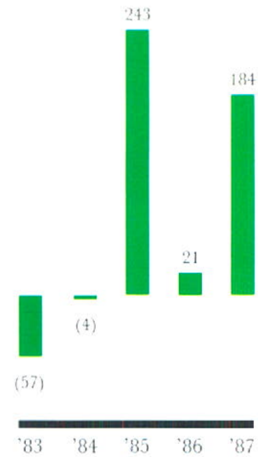
$ in millions



$ per common share	(2.69)	(1.02)	0.28	(0.16)	1.09

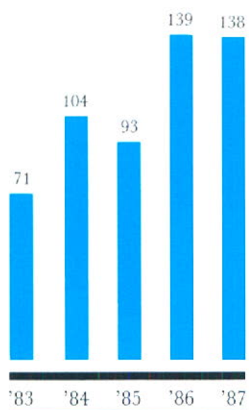
Internal Cash Flow (Shortfall)

$ in millions



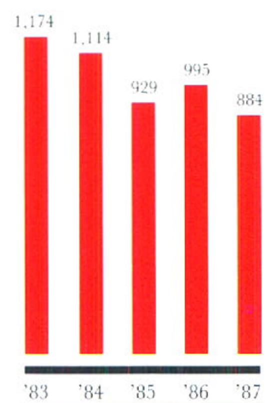
Capital Expenditures

$ in millions



Total Debt

$ in millions

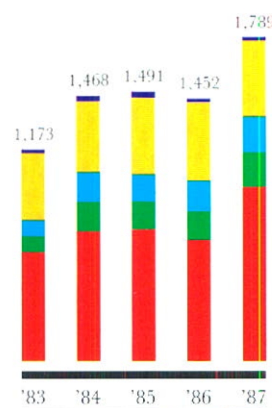


Indexed Unit Nickel Production Costs

(1980 = 100)

Sales by Product

$ in millions



	'83	'84	'85	'86	'87
Nickel	603	720	732	674	967
Copper	98	170	160	162	199
Other primary metals	85	162	148	166	192
Alloys and engineered products	370	393	422	438	418
Other	17	23	29	12	13

continuous mining systems and other new technology to achieve further productivity improvements. Despite inflation, unit production costs for nickel were further reduced in 1987 as they have been in each year since 1982. Unit production costs for copper remained essentially unchanged from 1986 as lower Canadian dollar copper production costs were offset by the strengthening Canadian currency in 1987. During 1986 nickel production was kept in balance with deliveries through the use, at all major operating locations, of both vacation and production shutdowns. Only normal vacation shutdowns were scheduled in 1987 and 1985. Costs associated with production shutdowns and workforce reductions at all primary metals locations totalled $9 million in 1987 compared to $23 million in 1986 and $16 million in 1985.

Primary metals results include operating earnings from the Company's Indonesian nickel operations of $15 million in 1987, compared to operating losses of $21 million and $17 million for 1986 and 1985, respectively. The 1987 results (the first substantial operating earnings since project start-up in 1979) represent a significant achievement for the Indonesian operations. In addition to benefitting from the strong nickel market, and resultant improvement in price realizations, the operations continued to achieve substantial unit production cost decreases in 1987. These cost reductions were achieved through a variety of programs including technological improvements, energy cost savings, employment reductions and a sustained, higher operating level.

Alloys and Engineered Products

Alloys and Engineered Products *($ millions)*	**1987**	1986	1985
Net sales to customers	**$418**	$438	$422
Operating earnings (loss)	**$ (12)**	$ 26	$ 25

Throughout 1987 these businesses operated in a very competitive market environment. Sales of alloys and engineered products in 1987 declined by 5 per cent, following increases of 4 per cent in 1986 and 7 per cent in 1985. An operating loss of $12 million was incurred in 1987 compared to operating earnings in 1986 and 1985 of $26 million and $25 million, respectively. Reduced demand for higher-margin products, increased costs and intense competitive pressures resulted in operating losses in the first half of the year. To redress this situation, a number of measures were taken aimed at restoring profitability and improving competitiveness in the face of a difficult market outlook. These measures included substantial reductions in fixed expenses, management reorganization, working capital reductions and continued capital investment designed to improve production throughput times, enhance product quality and upgrade product lines. These actions, together with subsequent increases in alloy prices as a result of higher raw material costs, and some improvement in market conditions, led to modest operating earnings in the second half of 1987. Costs for 1987 included $8 million for voluntary early retirement and severance programs as total employment was reduced by 16 per cent.

Other Business

Other Business *($ millions)*	**1987**	1986	1985
Net sales to customers	**$ 13**	$ 12	$ 29
Operating earnings (loss)	**$ 2**	$ (5)	$ 2

The principal units included in this segment are Inco Venture Capital Management and Inmetco, a metals reclamation and recycling operation. Venture Capital operating earnings, which consist primarily of net gains from sales of securities together with investment income less administrative expenses, totalled $3 million in 1987 compared with $14 million in 1986 and $10 million in 1985. Earnings for 1987 were adversely affected by the deferral of planned sales due to the significant price declines in Venture Capital's portfolio of publicly traded high-technology stocks. Inmetco recorded an operating loss of $1 million in 1987 compared to losses of $18 million and $7 million in 1986 and 1985, respectively. Approximately one-half of the 1986 operating loss was attributable to a restructuring of these operations, including the permanent closure of a subsidiary, Pittsburgh Pacific Processing Company.

Interest and Taxes Interest expense in 1987 totalled $101 million compared to $94 million in 1986 and $102 million in 1985. The 1987 increase was the result of higher average debt balances and stronger sterling exchange rates partially offset by lower interest rates. Debt levels were reduced markedly in the latter part of the year through the application of strong internal cash flows. The reduction in interest expense in 1986 was about equally attributable to lower average debt levels and lower interest rates.

The relationship of income and mining taxes to pretax earnings (the effective tax rate) has been increased by the losses of the Company's operations in Indonesia and the United States, on which no tax benefit is recognized. Additionally, currency translation factors increased the effective tax rate slightly in 1987 after having reduced the rate in 1986 and 1985. The effective tax rate has been reduced by recognition, upon utilization, of additional tax relief attributable to losses incurred in Canada in prior years and by earnings derived outside of Canada where the Company's operations are taxed at lower rates than those which prevail in Canada. In 1987, taxes were also reduced by a $13.6 million refund of Advance Corporation Tax under United Kingdom treaty provisions covering dividends paid to non-residents.

Accounting Change In 1986, the Company changed its method of accounting for pension costs to conform with new standards issued by the Canadian Institute of Chartered Accountants. These standards were adopted prospectively and, accordingly, prior years were not restated. The change increased 1986 net earnings by $8.4 million, or 8 cents per common share, and improved 1986 operating earnings of primary metals and alloys and engineered products by $13 million and $3 million, respectively.

Financial Position

Cash Flow, Capital Resources and Liquidity During 1987, the Company continued to reduce its reliance on debt and preferred share financing. As of December 31, 1987, the Company's total debt, preferred shares and common shareholders' equity constituted 43 per cent, 5 per cent and 52 per cent, respectively, of the Company's total capitalization. At December 31, 1986, these percentages were 46 per cent, 7 per cent and 47 per cent, respectively.

In 1987, the Company generated an internal cash surplus of $184 million as compared with surpluses of $21 million in 1986 and $243 million in 1985. The surplus in 1985 included $198 million from the reversion of surplus funds from two Company pension plans. Capital expenditures were $138 million in 1987, $139 million in 1986 and $93 million in 1985. Capital expenditures in 1988 are expected to increase to approximately $230 million, primarily as a result of increased mine development expenditures in Canada and $40 million for development of gold properties by Inco Gold Company.

During 1987, the level of total debt outstanding decreased by $111 million to $884 million, as compared with an increase of $66 million in 1986 and a reduction of $185 million in 1985. In addition to reducing debt, 1,946,164 shares of the Company's Series C Commodity-Indexed Preferred Shares were redeemed at a cost of $55 million. These shares carry a conversion privilege which permits them to be exchanged for a cash amount based on the price of copper or nickel, and the redemptions occurred as a result of the significant increase in the price of copper during the latter part of 1987. The $17 million difference between the redemption value and the book value of the shares redeemed was charged directly to Retained Earnings. In addition, during 1987, the Company purchased 217,100 Series B Preferred Shares through the open market at a cost of $3 million.

As a result of the significant refinancing program involving the issuance of $302 million of debt in the public markets in 1986 and $233 million in 1985, the Company was able to repay all its outstanding bank debt and to substantially reduce its scheduled debt maturities so that at December 31, 1987 its debt maturities through 1990 total less than $65 million.

In order to provide liquidity for its operations, the Company maintains about $600 million in bank revolving and term loan facilities, none of which were drawn down at December 31, 1987. These facilities include a covenant that requires the Company to maintain a ratio of consolidated debt to net worth (as defined therein) not to exceed 55:45. At December 31, 1987, this ratio was 41:59.

Given the Company's minimal near-term debt maturities and its improved financial performance, it believes that under current business conditions its internal cash flow will be more than sufficient to meet its operating needs and its anticipated capital expenditures. Furthermore its access to the credit markets, which has been improved by the recent upgrades in its credit ratings, and its unutilized bank credit facilities should provide it with sufficient flexibility to fund expansion opportunities and to finance any cash shortfalls that might occur in the event of a cyclical downturn.

Other Information The financial information presented and discussed in Management's Discussion and Analysis is derived from the Company's consolidated financial statements which are prepared in conformity with generally accepted accounting principles as established in Canada which, in the Company's case, generally conform with those established in the United States, except as explained in Note 2 of the Explanatory Financial Section.

Reference is made to page 36 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.

Consolidated Statement of Operations

Year ended December 31 (U.S. $ in thousands)	**1987**	1986	1985
Revenues			
Net sales	**$1,789,469**	$1,451,602	$1,490,516
Other income	**36,019**	38,140	34,407
	1,825,488	1,489,742	1,524,923
Costs and expenses			
Cost of sales and operating expenses	**1,355,774**	1,230,652	1,205,180
Selling, general and administrative expenses	**111,795**	97,850	90,635
Research and development	**26,984**	21,791	21,852
Exploration	**21,907**	16,672	17,107
Interest expense	**100,978**	93,951	101,650
Currency translation adjustments	**9,301**	2,151	(13,093)
	1,626,739	1,463,067	1,423,331
Earnings before income and mining taxes	**198,749**	26,675	101,592
Income and mining taxes	**73,508**	26,498	49,380
Net earnings	**125,241**	177	52,212
Dividends on preferred shares	**(11,465)**	(16,787)	(24,387)
Net earnings (loss) applicable to common shares	**$ 113,776**	$ (16,610)	$ 27,825
Net earnings (loss) per common share	**$ 1.09**	$ (0.16)	$ 0.28

Consolidated Statement of Retained Earnings

Year ended December 31 (U.S. $ in thousands)	**1987**	1986	1985
Retained earnings at beginning of year	**$ 495,818**	$ 512,907	$ 486,975
Net earnings	**125,241**	177	52,212
Gain (loss) on redemption of preferred shares	**(15,674)**	19,954	18,045
Preferred dividends	**(11,465)**	(16,787)	(24,387)
Common dividends – $.20 per share	**(20,895)**	(20,433)	(19,938)
Retained earnings at end of year	**$ 573,025**	$ 495,818	$ 512,907

The Explanatory Financial Section on pages 28 through 34 is an integral part of these statements.

Consolidated Balance Sheet

December 31 (U.S. $ in thousands)	1987	1986	1985
Current assets			
Cash	$ 7,965	$ 9,218	$ 7,051
Marketable securities, at cost (market 1987 – $28,700,000; 1986 – $19,100,000; 1985 – $14,100,000)	26,350	15,816	13,579
Accounts receivable	359,406	234,206	256,640
Tax refunds receivable	28,089	1,182	17,798
Inventories	561,692	632,113	696,995
Prepaid expenses	12,892	12,373	9,404
Total current assets	996,394	904,908	1,001,467
Property, plant and equipment	3,817,733	3,734,861	3,690,021
Less – Accumulated depreciation and depletion	1,967,068	1,848,893	1,779,384
	1,850,665	1,885,968	1,910,637
Other assets			
Investments in and advances to affiliates, on an equity basis	24,901	22,681	24,250
Miscellaneous investments	91,305	134,927	125,428
Deferred charges	31,116	27,384	20,795
	147,322	184,992	170,473
Total assets	$2,994,381	$2,975,868	$3,082,577
Current liabilities			
Notes payable	$ 43,029	$ 17,439	$ 12,346
Long-term debt due within one year	30,058	36,947	57,956
Accounts payable	101,652	99,347	102,349
Accrued payrolls and benefits	139,182	123,410	149,298
Other accrued liabilities	156,180	133,903	82,690
Income and mining taxes payable	53,687	59,227	91,528
Total current liabilities	523,788	470,273	496,167
Other liabilities and deferred credits			
Long-term debt	810,874	940,795	859,059
Deferred income and mining taxes	198,200	161,300	200,900
Pension benefits	230,455	248,592	256,565
Other	36,494	5,312	4,334
	1,276,023	1,355,999	1,320,858
Preferred shares issued, $25 (Cdn.) issue price:			
Series A floating rate	—	—	119,625
Series B 7.85%	79,234	84,183	89,493
Series C 10%	31,836	69,300	69,300
	111,070	153,483	278,418
Common shareholders' equity			
Common shares issued, without nominal or par value	449,439	439,259	413,191
Capital surplus	61,036	61,036	61,036
Retained earnings	573,025	495,818	512,907
Total common shareholders' equity	1,083,500	996,113	987,134
Total liabilities and shareholders' equity	$2,994,381	$2,975,868	$3,082,577

Approved by the Board of Directors: **Donald J. Phillips**
Ian McDougall

Consolidated Statement of Cash Flows

Year ended December 31 (U.S. $ in thousands)	1987	1986	1985
Cash provided by operations			
Net earnings	$ 125,241	$ 177	$ 52,212
Charges (credits) not affecting working capital			
Depreciation	118,659	117,536	118,254
Depletion	33,843	26,225	25,082
Deferred income and mining taxes	34,200	(36,200)	(200)
Pension benefits	(14,557)	(14,282)	6,291
Loss on disposals of property, plant and equipment	8,149	6,178	5,539
Currency translation adjustments not affecting working capital	6,603	(382)	(6,697)
Other – net	(1,094)	(280)	(2,356)
Working capital provided by operations	311,044	98,972	198,125
Decrease (increase) in working capital			
Accounts and tax refunds receivable	(152,107)	39,050	(6,774)
Inventories	70,421	64,882	(24,419)
Prepaid expenses	(519)	(2,969)	257
Payables and accrued liabilities	40,354	22,323	(2,792)
Income and mining taxes payable	(5,540)	(32,301)	21,411
Decrease (increase) in working capital	(47,391)	90,985	(12,317)
Proceeds from future product shipments	33,892	—	—
Cash provided by operations	297,545	189,957	185,808
Investment activities			
Proceeds from pension fund reversions	—	—	197,886
Capital expenditures	(137,942)	(138,538)	(93,229)
Proceeds from a reduction in miscellaneous investments	32,000	—	—
Proceeds from disposals of property, plant and equipment	12,979	9,785	6,401
Other – net	12,468	(2,813)	(8,995)
Cash provided by (used for) investment activities	(80,495)	(131,566)	102,063
Preferred and common dividends paid	(33,194)	(37,202)	(44,407)
Internal cash flow – surplus	183,856	21,189	243,464
Financing activities			
Long-term borrowings	110,970	548,346	345,872
Reduction of long-term debt	(256,339)	(470,302)	(532,756)
Net addition (reduction) to short-term debt	18,701	(15,916)	6,716
Net proceeds from preferred and common shares issued	10,180	26,118	47,001
Preferred shares redeemed	(58,087)	(105,031)	(104,959)
Cash used for financing activities	(174,575)	(16,785)	(238,126)
Increase in cash and marketable securities	$ 9,281	$ 4,404	$ 5,338

The Explanatory Financial Section on pages 28 through 34 is an integral part of these statements.

Note 1. Summary of Significant Accounting Policies

This summary of the major accounting policies of Inco Limited and subsidiaries is presented to assist the reader in evaluating the financial statements contained in this Report. These policies have been followed consistently in all material respects for the periods covered in the financial statements, except as described below under "Pension Costs".

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

Translation of Financial Statements into United States Dollars The financial statements are expressed in United States dollars. Cash, accounts receivable, current liabilities, the liability for pension benefits and unhedged long-term debt are translated at year-end rates of exchange. The translation of all other assets and liabilities generally recognizes the rates historically applicable or rates established by related forward exchange contracts. Revenues, expenses and certain costs are translated at monthly average rates during each year; inventoried costs, depreciation and depletion, and deferred tax drawdowns are translated at historical rates. Realized exchange gains and losses and currency translation adjustments are included in earnings currently except for currency translation adjustments relative to long-term monetary items with a fixed and ascertainable life which are deferred and amortized on a straight-line basis over the life of the item. Gains and losses on forward exchange contracts entered into to hedge future local currency transactions are deferred.

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

Property, Plant and Equipment Property, plant and equipment is stated at cost. Such cost in the case of the Company's mines represents related acquisition and development expenditures. Expenditures for mineral exploration are expensed as incurred.

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

Income and Mining Taxes Deferred taxes are provided in recognition of timing differences that arise in reporting depreciation and other expense and revenue items for financial statement and income and mining tax purposes. Investment tax credits, which are accounted for by the "cost reduction" method, are deferred and recognized in earnings as the related assets are depreciated. Income taxes have not been provided on undistributed earnings of subsidiaries because remittance of such earnings would not result in any significant tax liability.

Pension Costs Effective January 1, 1986, the Company changed its method of accounting for pension costs to conform with accounting standards issued by the Canadian Institute of Chartered Accountants. This change increased the Company's net earnings for 1986 by $8.4 million, or 8 cents per common share. As required, the new standards were applied prospectively and, accordingly, pension costs for 1985 were not restated.

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

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

United States accounting practices relating to foreign currency translation are not entirely compatible with Canadian accounting practices which the Company follows and which are described in Note 1. Under United States practices, all currency translation adjustments related to assets and liabilities are included in earnings currently whereas Canadian practices require that currency translation adjustments related to long-term monetary items with a fixed and ascertainable life be deferred and amortized over the life of the item. Deferred income and mining taxes and the Series A (while outstanding) and Series C Preferred Shares are translated at year-end rates of exchange under United States practices rather than historical rates of exchange which are required by Canadian practices. Under United States practices, the Series C Preferred Shares are also adjusted to reflect the premium which would have been paid by the Company had the outstanding shares been redeemed as a result of the holders thereof exercising their right, under the commodity-indexed exchange feature, to receive the cash equivalent of specified amounts of either nickel or copper.

This adjustment and any actual premiums paid on redemptions under the commodity-indexed exchange feature of the Series C Preferred Shares, together with the currency translation adjustments for Preferred Shares, are accounted for as preferred dividends in calculating earnings per share under United States practices.

United States accounting standards for pension costs, which are set forth in Statement of Financial Accounting Standards Nos. 87 and 88, are also not entirely compatible with the Canadian pension accounting standards adopted by the Company with effect from January 1, 1986. Coincident with the adoption of the United States standards for United States reporting purposes, also with effect from January 1, 1986, unamortized reversions of surplus pension funds are included in earnings to the extent that they exceed the unrecognized net obligation at the date of adoption ($163.3 million); under Canadian practices, the Company continues to amortize such reversions over the average remaining service life of existing employees, consistent with prior years' accounting treatment. The recognition of unamortized reversions of surplus pension funds under United States practices resulted in a benefit, net of income taxes, in the first quarter of 1986 of $93.8 million which is shown below as the cumulative effect of a change in accounting principle; the change also decreased 1986 pension expense under United States practices by $8.8 million and increased net earnings by $4.8 million, or 5 cents per common share.

In addition, gains from the retirement of long-term debt would be classified as extraordinary items under United States practices.

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

	Canada			*United States*		
($ in millions)	**1987**	1986	1985	**1987**	1986	1985
Net earnings (loss)						
First quarter	**$ (5.0)**	$ (2.1)	$ 12.1	**$(18.9)**	$ 91.6	$ 16.2
Second quarter	**13.8**	5.8	20.9	**16.3**	3.3	18.3
Third quarter	**41.4**	3.0	11.6	**43.0**	(0.3)	6.7
Fourth quarter	**75.0**	(6.5)	7.6	**65.4**	(7.7)	7.7
Year	**$125.2**	$ 0.2	$ 52.2	**$105.8**	$ 86.9	$ 48.9
Earnings (loss) per common share	**$ 1.09**	$(0.16)	$ 0.28	**$ 0.68**	$ 0.68	$ 0.28
December 31	**1987**	1986	1985	**1987**	1986	1985
Deferred income and mining taxes	**$198.2**	$161.3	$200.9	**$212.6**	$173.0	$145.9
Liability for pension benefits	**230.5**	248.6	256.6	**87.4**	96.0	256.6
Preferred Shares						
Series A	**—**	—	119.6	**—**	—	89.5
Series C	**31.8**	69.3	69.3	**51.1**	65.2	64.4
Retained earnings	**573.0**	495.8	512.9	**673.7**	639.4	592.0

The following table reconciles results as reported under Canadian practices with those that would be reported under United States practices:

($ in millions)	**1987**	1986	1985
Net earnings - Canadian practices	**$125.2**	$ 0.2	$ 52.2
Increased pension expense	**(9.5)**	(12.6)	—
Increased currency translation losses	**(18.3)**	(2.6)	(2.4)
Reduced other income	**(0.9)**	(2.7)	(13.5)
Reduced income and mining taxes	**8.6**	8.6	1.5
Net earnings (loss) before extraordinary gain and cumulative effect of change in accounting principle	**105.1**	(9.1)	37.8
Extraordinary gain on retirement of long-term debt, net of taxes	**0.7**	2.2	11.1
Cumulative effect of change in method of accounting for pension costs, net of taxes	**—**	93.8	—
Net earnings - United States practices	**105.8**	86.9	48.9
Dividends on preferred shares - United States practices	**(34.9)**	(17.5)	(20.7)
Net earnings applicable to common shares - United States practices	**$ 70.9**	$ 69.4	$ 28.2
Earnings (loss) per common share:			
Before extraordinary gain and cumulative effect of change in accounting principle	**$ 0.67**	$(0.26)	$ 0.17
Extraordinary gain	**0.01**	0.02	0.11
Cumulative effect of change in accounting principle	**—**	0.92	—
Earnings per common share - United States practices	**$ 0.68**	$ 0.68	$ 0.28

A new United States accounting standard for income taxes, issued in December 1987 for adoption by 1989, as set forth in Statement of Financial Accounting Standard No. 96, is not compatible with existing Canadian and previous United States practices. The Company has not yet completed its analysis of the potential impact of this new standard.

Note 3. Other Income

Other income includes net gains on sales of assets, gains on retirement of long-term debt, interest, dividends, results of equity interests in affiliates and joint ventures, and realized exchange gains and losses, which were gains of $9,140,000 in 1987 and $1,600,000 in 1986, and a loss of $2,190,000 in 1985. Also included in other income are gains on sales of securities, principally marketable equity securities, of $5,740,000 in 1987, $14,370,000 in 1986 and $11,930,000 in 1985.

Note 4. Inventories

Inventories consist of the following:

December 31 ($ in thousands)	**1987**	1986	1985
Metals, finished and in-process	**$472,650**	$544,969	$606,939
Supplies	**89,042**	87,144	90,056
	$561,692	$632,113	$696,995

Note 5. Property, Plant and Equipment

Property, plant and equipment consists of the following:

December 31 ($ in thousands)	1987	1986	1985
Mines and mining plants	**$1,374,976**	$1,319,508	$1,294,273
Processing facilities	**1,563,777**	1,538,933	1,525,927
Other	**320,327**	336,482	334,387
Primary metals facilities	**3,259,080**	3,194,923	3,154,587
Alloys and engineered products facilities	**495,027**	467,563	450,021
Other	**63,626**	72,375	85,413
Total property, plant and equipment	**3,817,733**	3,734,861	3,690,021
Accumulated depreciation	**1,544,905**	1,460,573	1,408,274
Accumulated depletion	**422,163**	388,320	371,110
	1,967,068	1,848,893	1,779,384
Net property, plant and equipment	**$1,850,665**	$1,885,968	$1,910,637

Net property, plant and equipment at December 31, 1987 includes $602 million relative to the Indonesian nickel operations and $102 million applicable to standby mines in Canada.

Note 6. Income and Mining Taxes

The provisions for income and mining taxes (tax relief) for the years 1985-1987 were as follows:

($ in thousands)	1987	1986	1985
Current taxes	**$41,608**	$29,798	$57,880
Current deferred	**(2,300)**	32,900	(8,300)
Future deferred	**34,200**	(36,200)	(200)
Total deferred taxes	**31,900**	(3,300)	(8,500)
Total income and mining taxes	**$73,508**	$26,498	$49,380
Canada	**$82,196**	$12,554	$39,025
Other (principally United Kingdom)	**(8,688)**	13,944	10,355
	$73,508	$26,498	$49,380

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

($ in thousands)	1987	1986	1985
Canada	**$188,080**	$19,058	$ 91,212
Other*	**10,669**	7,617	10,380
Total	**$198,749**	$26,675	$101,592

* Includes the losses of the Indonesian nickel operations.

Deferred taxes result from timing differences arising from transactions which enter into the determination of book income and taxable income in different reporting periods.

The sources of major timing differences, and the tax effect of each, for the three years were as follows:

($ in thousands)	1987	1986	1985
Tax effects of timing differences for:			
Depreciation	**$38,400**	$(19,900)	$ 63,200
Pension reversions	**2,900**	14,300	(87,900)
Employee benefits	**(1,200)**	3,700	(8,500)
Inventories	**(6,500)**	700	27,100
Other	**(1,700)**	(2,100)	(2,400)
Total	**$31,900**	$ (3,300)	$ (8,500)

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

Year ended December 31	1987	1986	1985
		Provision (Relief)	
Combined Canadian federal-provincial statutory income tax rate	**50.8 %**	49.8 %	49.3 %
Resource and depletion allowance	**(18.9)**	(24.0)	(19.6)
Adjusted income tax rate	**31.9**	25.8	29.7
Mining taxes	**14.1**	42.9	21.1
	46.0	68.7	50.8
Effects of losses in:			
Indonesia	**2.6**	47.0	15.0
United States	**3.8**	15.4	3.4
Currency translations	**1.8**	(17.1)	(8.7)
Prior year tax adjustments	**(0.1)**	8.4	4.6
Tax rate differential	**(11.8)**	(20.9)	(7.5)
Inventory allowance - Canada	**—**	(2.2)	(4.2)
Advance Corporation Tax refund	**(6.8)**	—	—
Other	**1.5**	—	(4.8)
Effective income and mining tax rate	**37.0 %**	99.3 %	48.6 %

The effective tax rate has been increased by the losses of the Company's operations in Indonesia and the United States, on which no tax benefit is recognized. Additionally, currency translation factors increased the effective tax rate slightly in 1987 after having reduced the rate in 1985 and 1986. The effective tax rate has been reduced by recognition, upon utilization, of additional tax relief attributable to losses incurred in Canada in prior years and by earnings derived outside of Canada where the Company's operations are taxed at lower rates than those which prevail in Canada. In 1987, taxes were also reduced by a $13.6 million refund of Advance Corporation Tax under United Kingdom treaty provisions covering dividends paid to non-residents. The percentages for 1986 reconciling items were accentuated significantly by the relatively low pretax amounts. Under the "cost reduction" method, investment tax credits reduced costs and expenses by $5.2 million in 1987 ($4.7 million in 1986 and $1.4 million in 1985). At December 31, 1987, the Company had approximately $27 million of investment tax credits which will be amortized over periods not exceeding 12 years.

The cumulative tax effect of timing differences relating to items of a non-current nature is shown separately as deferred income and mining taxes of $198,200,000 in the Consolidated Balance Sheet at December 31, 1987. The cumulative tax effect of timing differences relating to items of a current nature of $1,300,000 at December 31, 1987 is included in the current liability for income and mining taxes payable.

Losses and unutilized investment tax credits relative to the Company's nickel operations in Indonesia totalling $314 million and $56 million, respectively, can be carried forward indefinitely to reduce future taxes. Capital losses approximating $26 million are available to offset capital gains in the United States; half of these losses may be carried forward to 1988 and the remainder to 1989. The Company also has unutilized operating losses in the United States, approximating $41 million, which expire in 1997 to 2002. The Company received assessments relative to certain tax returns during 1986. The Company believes that the settlement of unresolved issues would not have a material adverse effect on its financial position.

Note 7. Long-Term Debt

The Company's long-term debt consists of the following (the applicable weighted average interest rates and repayment periods as at December 31, 1987 are shown in parentheses):

December 31 ($ in thousands)	1987	1986	1985
Inco Limited			
5.75% Swiss Franc Bonds (1996)	**$103,457**	$103,457	$ —
6.5% Deutsche Mark Bonds (1991)	**47,745**	38,993	—
6.85% U.S. $ Debentures (1992-1993)	**41,969**	43,830	50,668
8.625% Cdn. $ Debentures (1991)	**18,196**	22,820	35,350
9.0% U.S. $ Debentures (1991-1992)	**55,860**	63,113	65,313
9.25% Cdn. $ Debentures (1990)	**19,816**	24,100	33,380
9.5% ECU Notes (1994)	**64,400**	64,400	—
9.75% U.S. $ Notes (1996)	**99,000**	100,000	—
11.0% U.S. $ Notes (1992)	**75,000**	75,000	75,000
12.375% U.S. $ Debentures (2001-2010)	**51,046**	59,150	59,150
12.75% Sterling Notes (1993)	**61,010**	61,010	61,010
15.75% Sterling Unsecured Loan Stock (2006)	**45,001**	45,001	48,193
U.S. $ Floating Rate Notes (8.4%) (1995)*	**100,000**	100,000	100,000
U.S. $ Term loans	—	—	182,700
U.S. $ Revolving loans	—	88,500	86,500
P.T. International Nickel Indonesia			
Export & supplier credits (8.7%) (1988-1989)	**36,341**	58,650	82,692
U.S. $ Bank loans	—	1,111	3,333
8.0625% U.S. $ Production sharing loan	—	—	1,800
Other Indebtedness			
(8.7%) (1988-2001)	**22,091**	28,607	31,926
	840,932	977,742	917,015
Long-term debt due within one year	**30,058**	36,947	57,956
Long-term debt	**$810,874**	$940,795	$859,059

* Interest is based on Eurocurrency rates.

The average effective interest rate on long-term debt at December 31, 1987 was 10%. Approximately 13% of such debt carries interest rates that are subject to periodic adjustments based on market interest rates. The Company has completed currency swap agreements which effectively convert the 200 million Swiss Franc 5¾% Bonds and the 70 million ECU 9½% Notes into U.S. dollar obligations at annual interest costs of 10.2% and 10.5%, respectively. Interest expense on long-term debt for the years 1987, 1986 and 1985 was $97,234,000, $91,592,000 and $99,348,000, respectively. After reflecting forward exchange hedging and currency swap contracts, 88% of the long-term debt is effectively payable in U.S. dollars.

The Company maintains about $600 million in bank revolving and term loan facilities, none of which were drawn down at December 31, 1987. These facilities include a covenant that requires the Company to maintain a ratio of consolidated debt to net worth (as defined therein) not to exceed 55:45. At December 31, 1987, this ratio was 41:59. During 1987, the Company incurred fees of $790,000 to compensate banks for undrawn credit facilities.

Long-term debt maturities and sinking fund requirements for each of the five years through 1992 are: 1988 – $30,058,000; 1989 – $13,564,000; 1990 – $20,644,000; 1991 – $68,892,000; 1992 – $138,970,000.

Note 8. Preferred and Common Shares

At December 31, 1987, the authorized share capital of the Company consisted of 30,000,000 preferred shares and an unlimited number of common shares.

In each of 1985 and 1986, the Company retired 5 million Series A Floating Rate Preferred Shares at a cost of $101,580,000 and $101,508,000, respectively, based on Canadian dollar purchase contracts entered into in prior years. The 10 million shares were carried at $239,250,000, based on the Canadian dollar exchange rate prevailing when the shares were issued in 1977. The differences arising upon redemption, $18,045,000 in 1985 and $18,117,000 in 1986, have been credited directly to Retained Earnings.

The 7.85% cumulative Series B Preferred Shares have general voting rights and were redeemable at $25 (Cdn.) commencing December 1, 1987. The Company is required to repurchase 150,000 Series B Preferred Shares annually if such shares are available at a price not greater than $25 (Cdn.) per share. During 1987, as a result of this repurchase obligation and a normal course issuer bid, the Company retired 217,100 Series B Preferred Shares. The $1,504,000 gain on retirement has been credited directly to Retained Earnings.

The 10% Cumulative Redeemable Commodity-Indexed Series C Preferred Shares, which have general voting rights, are retractable at $25 (Cdn.) per share at the option of the holders in 1991 and contain a commodity-indexed exchange feature which gives each holder the right to receive the cash equivalent of specified amounts of either nickel or copper. During 1987, as a result of holders exercising their rights under this feature, the Company redeemed 1,946,164 shares at a cost of $54,642,000. These shares were carried at $37,464,000, based on the Canadian dollar exchange rate prevailing when the shares were issued in 1984. The difference of $17,178,000 arising on redemption has been charged directly to Retained Earnings. At December 31, 1987, 1,653,836 Series C Preferred shares, carried at a cost of $31,836,000, remained outstanding compared with 3,600,000 shares ($69,300,000) at December 31, 1986. The cost to redeem these outstanding shares at December 31, 1987, giving effect to the commodity-indexed exchange feature, would have been $51,149,000, including a premium of $19,313,000.

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

Changes in the Series B Preferred Shares and Common Shares for the years 1985 - 1987 are shown below.

	Series B Preferred Shares		*Common Shares*	
	Number of shares	$ in thousands	Number of shares	$ in thousands
December 31, 1984	4,073,405	$92,770	98,062,274	$366,292
Shares purchased	(148,200)	(3,379)	—	—
Options exercised	—	—	45,196	467
Shares issued in lieu of cash dividends	5,562	102	405,548	5,107
Shares sold under:				
Exploration program	—	—	57,196	732
Share Purchase Plan	—	—	26,408	346
Warrants exercised	—	—	3,412,082	40,247
December 31, 1985	3,930,767	89,493	102,008,704	413,191
Shares purchased	(235,100)	(5,360)	—	—
Options exercised	—	—	60,064	616
Shares issued in lieu of cash dividends	2,820	50	280,820	3,522
Shares sold under:				
Exploration program	—	—	5,883	82
Share Purchase Plan	—	—	19,377	256
Sale of Investment Tax Credits	—	—	1,800,000	21,592
December 31, 1986	3,698,487	84,183	104,174,848	439,259
Shares purchased	(217,100)	(4,949)	—	—
Options exercised	—	—	218,956	3,012
Shares issued in lieu of cash dividends	—	—	221,326	3,655
Shares sold under:				
Exploration program	—	—	236,200	2,934
Share Purchase Plan	—	—	15,317	269
Adjustment for 1986 Investment Tax Credits	—	—	—	310
December 31, 1987	3,481,387	$79,234	104,866,647	$449,439

Note 9. Stock Option Plans

The Company's 1968, 1979 and 1984 stock option plans each authorized the granting of options to key employees to purchase up to 1,000,000 Common Shares at prices not less than 100% of their market value on the day the option is granted. The plans provide that no shares subject to option shall be purchasable after ten years from the date of grant. The 1968 plan was terminated in 1978 and the 1979 plan was terminated in 1984 except as to options and share appreciation rights then outstanding. At December 31, 1987, outstanding options for 744,587 shares also carry share appreciation rights.

Changes during the year 1987 in options outstanding are summarized as follows:

	Number of Shares		
	1984 Plan	1979 Plan	1968 Plan
Outstanding at December 31, 1986	548,000	609,534	181,558
Options granted at $13.50 a share	220,000	—	—
Options exercised at average option price of $12.48 a share	(102,860)	(61,313)	(54,783)
Options terminated	(91,040)	(48,269)	(23,840)
Outstanding at December 31, 1987	574,100	499,952	102,935
Available for grant at December 31, 1987	182,550	—	—
Exercisable as at December 31, 1987	243,100	499,952	102,935

At December 31, 1987, the average option price per share of options outstanding was $15.93 (range $15.57 - $15.94) under the 1968 plan, $18.20 (range $9.13 - $23.94) under the 1979 plan and was $12.63 (range $11.00 - $13.50) under the 1984 plan. The expiration dates of options outstanding at December 31, 1987 ranged from April 30, 1988 to October 27, 1995. At December 31, 1987, there were 412 employees participating in the plans.

Note 10. Financial Data by Business Segment

Financial data by business segment and geographic area, for the years 1987, 1986 and 1985 follow ($ in millions):

Data by Business Segment	*Primary metals*			*Alloys and engineered products*			*Other business*			*Eliminations*			*Total*		
	1987	1986	1985	**1987**	1986	1985	**1987**	1986	1985	**1987**	1986	1985	**1987**	1986	1985
Net sales to customers	**$1,358**	1,002	1,040	**$ 418**	438	422	**$ 13**	12	29	**$ —**	—	—	**$1,789**	1,452	1,491
Intersegment sales	**49**	63	83	**—**	—	—	**4**	8	4	**(53)**	(71)	(87)	**—**	—	—
Total net sales	**$1,407**	1,065	1,123	**$ 418**	438	422	**$ 17**	20	33	**$ (53)**	(71)	(87)	**$1,789**	1,452	1,491
Operating earnings (loss)	**$ 332**	111	174	**$ (12)**	26	25	**$ 2**	(5)	2	**$ 1**	$ 3	(3)	**$ 323**	135	198
Non-operating expenses*													**(124)**	(108)	(96)
Earnings before income and mining taxes													**$ 199**	27	102
Capital expenditures	**$ 101**	91	68	**$ 35**	46	21	**$ 2**	2	4	**$ —**	—	—	**$ 138**	139	93
Depreciation and depletion	**$ 125**	118	116	**$ 23**	21	21	**$ 5**	5	6	**—**	—	—	**$ 153**	144	143
Identifiable assets at December 31	**$2,223****	2,212	2,307	**$ 545**	553	540	**$ 84**	79	104	**$ (24)**	(29)	(40)	**$2,828**	2,815	2,911
Other assets													**166**	161	172
Total assets at December 31													**$2,994**	2,976	3,083

Data by Geographic Area	*Canada*			*United States*			*Europe*			*Other*			*Total after eliminations*		
	1987	1986	1985	**1987**	1986	1985	**1987**	1986	1985	**1987**	1986	1985	**1987**	1986	1985
Net sales to customers	**$ 326**	266	246	**$ 544**	473	539	**$ 574**	484	487	**$ 345**	229	219	**$1,789**	1,452	1,491
Sales between geographic areas	**852**	651	695	**24**	23	18	**12**	18	10	**1**	—	—	**—**	—	—
Total net sales	**$1,178**	917	941	**$ 568**	496	557	**$ 586**	502	497	**$ 346**	229	219	**$1,789**	1,452	1,491
Operating earnings (loss)	**$ 295**	138	176	**$ (18)**	(3)	20	**$ 26**	24	18	**$ 21**	(18)	(12)	**$ 323**	135	198
Identifiable assets at December 31	**$1,446**	1,377	1,423	**$ 465**	454	478	**$ 303**	304	295	**$ 776****	799	836	**$2,828**	2,815	2,911

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

** Includes assets of $642 million relating to the Company's nickel operations in Indonesia.

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

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

The Company's intersegment sales are generally made at approximate prices used for sales to unaffiliated customers. Sales between geographic areas are generally made at prevailing market prices, except that sales of primary metals from Canada to other primary metals affiliates are net of discounts. Geographic area – Canada net sales to customers includes exports of $69 in 1987 (1986 – $75; 1985 – $45). Geographic area – Canada total net sales includes exports to the United States of $334 in 1987 (1986 – $273; 1985 – $326) and exports to Europe of $419 (1986 – $345; 1985 – $332). Geographic area – United States net sales to customers includes exports of $14 in 1987 (1986 – $13; 1985 – $14). Geographic area – Other net sales to customers includes sales to affiliated companies as follows: in Japan – Shimura Kako Company, Ltd. – $84 in 1987 (1986 – $59; 1985 – $61) and Tokyo Nickel Company, Ltd. – $118 in 1987 (1986 – $72; 1985 – $88); in Taiwan – Taiwan Nickel Refining Corporation – $52 in 1987 (1986 – $27; 1985 – $8).

Note 11. Retirement Benefits

The Company has defined benefit pension plans covering essentially all employees. Benefits for these plans are based primarily on either years of service and employees' final average pay or a stated amount for each year of service. Pension costs are calculated and funded based on annual actuarial estimates, except that funding is subject to limitations under applicable tax regulations. Plan assets consist principally of cash, equity securities and fixed income securities.

Pension expense totalled $9,779,000 in 1987, $7,347,000 in 1986 and $34,661,000 in 1985. Pension expense for 1987 includes a settlement loss of $1,452,000 in connection with the purchase of annuity contracts to provide for certain pension benefit obligations. Effective January 1, 1986, the Company changed its method of accounting for pension expense, on a prospective basis, as required under new accounting standards issued in 1986 by the Canadian Institute of Chartered Accountants. The accounting change decreased pension expense, which is largely charged to production costs, by $21.4 million in 1986.

Pension expense included the following components:

($ in thousands)	1987		1986	
Service cost – benefits earned during the year		$ 21,067		$ 20,296
Interest cost on projected benefit obligation		62,993		57,454
Return on assets – actual	$(37,958)		$(81,961)	
– unrecognized gain (loss)	(20,647)	(58,605)	28,803	(53,158)
Amortization of net asset at January 1, 1986		(17,627)		(17,245)
Amortization of deferred net loss		254		—
Amortization of unrecognized prior service costs		245		—
Settlement loss		1,452		—
Total pension expense for the year		$ 9,779		$ 7,347

The funded status of the Company's pension plans was as follows:

December 31 ($ in thousands)	1987		1986	
	Plans Where Assets Exceed Accumulated Benefits	Plans Where Accumulated Benefits Exceed Assets	Plans Where Assets Exceed Accumulated Benefits	Plans Where Accumulated Benefits Exceed Assets
Plan assets at market value	$363,423	$ 433,681	$344,887	$ 386,340
Projected benefits based on employment service to date and present pay levels:				
Vested	167,602	479,019	153,078	419,972
Nonvested	39,951	85,908	50,703	64,719
Accumulated benefit obligation	207,553	564,927	203,781	484,691
Additional amounts related to compensation increases	62,403	29,880	64,141	27,339
Total projected benefit obligation	269,956	594,807	267,922	512,030
Plan assets in excess of (less than) projected benefit obligation	$ 93,467	$(161,126)	$ 76,965	$(125,690)
Comprised of:				
Credits (charges) to future operations:				
Balance of January 1, 1986 net asset	$138,081	$ 48,007	$151,219	$ 52,496
Investment and actuarial gains and (losses)	17,589	(9,646)	18,248	12,088
Prior service costs	(2,829)	(6,701)	(1,243)	(888)
Currency translation adjustments	14,974	(1,679)	—	—
Pension liability at December 31	(74,348)	(191,107)	(91,259)	(189,386)
	$ 93,467	$(161,126)	$ 76,965	$(125,690)

The pension liability, aggregating $265 million at December 31, 1987, consists of a current liability of $35 million representing amounts to be funded in 1988 and $230 million recorded as a long-term liability for pension benefits. Included in the long-term liability is $157 million of unamortized reversions of surplus pension funds which will be credited to pension expense over 11 years as part of the amortization of the unrecognized balance of the January 1, 1986 net asset.

The projected benefit obligation was determined using an assumed discount rate of 8% and assumed long-term rates of compensation increase, where applicable, ranging from 3% to 5%. The assumed long-term rate of return on plan assets is 8%.

The Company provides certain health care and life insurance benefits for retired employees. Substantially all employees in Canada, the United States and the United Kingdom may become eligible for these benefits upon retirement from the Company. The cost of these benefits, which are generally provided through insurance companies, approximated $13 million in 1987, $12 million in 1986 and $12 million in 1985.

Price Waterhouse

To the Shareholders of Inco Limited:

We have examined the consolidated financial statements and explanatory financial section appearing on pages 25 through 34 of this report. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of Inco Limited at December 31, 1987, 1986 and 1985 and the results of its operations and its cash flows for the years then ended in accordance with generally accepted accounting principles as established in Canada applied on a consistent basis, except for the change in 1986, with which we concur, in the method of accounting for pension costs as described in Note 1 of the explanatory financial section.

Price Waterhouse

Toronto, Ontario
New York, New York
February 17, 1988

Supplementary Financial Information

Quarterly Financial Information

Quarterly financial information follows:

($ in thousands, except per share amounts)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
1987					
Net sales	$381,357	$422,131	$414,595	$571,386	$1,789,469
Cost of sales and operating expenses	$327,064	$339,511	$294,848	$394,351	$1,355,774
Earnings (loss) before income and mining taxes	$ (133)	$ 25,291	$ 60,080	$113,511	$ 198,749
Net earnings (loss)	$ (4,972)	$ 13,731	$ 41,462	$ 75,020	$ 125,241
Net earnings (loss) per common share	$ (.08)	$ .11	$ .36	$ .70	$ 1.09
Dividends per common share	$ .05	$ .05	$ .05	$ .05	$ .20
1986					
Net sales	$375,111	$387,364	$305,376	$383,751	$1,451,602
Cost of sales and operating expenses	$317,189	$325,258	$252,976	$335,229	$1,230,652
Earnings (loss) before income and mining taxes	$ 6,488	$ 16,802	$ 7,056	$ (3,671)	$ 26,675
Net earnings (loss)	$ (2,135)	$ 5,862	$ 2,981	$ (6,531)	$ 177
Net earnings (loss) per common share	$ (.06)	$ .01	$ (.01)	$ (.10)	$ (.16)
Dividends per common share	$ .05	$ .05	$ .05	$ .05	$ .20

Note:

Year 1987 results reflect $18 million of unusual charges relating to severance costs and production shutdowns as follows: first quarter – $1 million; second quarter – $4 million; third quarter – $3 million and fourth quarter – $10 million. Year 1987 results also reflect gains of $6 million on sales of securities as follows: first quarter – $3 million and second quarter – $3 million; and a credit of $14 million from a refund of Advance Corporation Tax under United Kingdom treaty provisions covering dividends paid to non-residents: third quarter – $10 million and fourth quarter – $4 million.

Year 1986 results reflect $28 million of unusual charges relating to severance costs and production shutdowns as follows: first quarter – $1 million, second quarter – $11 million, third quarter – $12 million and fourth quarter – $4 million. Year 1986 results also reflect gains of $14 million from sales of securities as follows: first quarter – $1 million, second quarter – $11 million and third quarter – $2 million.

Shareholders At year-end 1987, of the shareholders having general voting rights (the Common and the Series B and Series C Preferred shareholders), 67 per cent had addresses in Canada, 30 per cent in the United States and 3 per cent elsewhere. Of these voting shares, Canadian residents of record held 45 per cent, United States residents of record 46 per cent, and residents of record in other countries 9 per cent.

Dividends On February 17, 1988, the Board of Directors declared a quarterly dividend of 10 cents a common share, payable March 21 to shareholders of record on February 26. The Company paid total dividends per common share of 20 cents both in 1987 and in 1986. The Board of Directors on February 17 also declared quarterly dividends on the Company's 7.85% Series B Preferred Shares, payable March 1 to shareholders of record on February 24, and 10% Series C Preferred Shares, payable May 2 to shareholders of record on April 18.

Optional Stock Dividend Program Under the Company's Optional Stock Dividend Program, common shareholders have the right to elect to receive a stock dividend, valued at a 5 per cent discount from the market price of the Company's Common Shares, in lieu of a cash dividend. Holders of about 15 per cent of the Company's outstanding Common Shares are now participating in the Program. The Program provides common shareholders with a simple and convenient method of obtaining additional Common Shares at a 5 per cent discount and without payment of brokerage commissions or service charges.

Share Purchase Plan Under the Company's Share Purchase Plan, common shareholders are entitled to make cash payments to purchase Common Shares of the Company at prevailing market prices. There are no service charges or brokerage commissions for Common Shares purchased under the Plan. Common shareholders can contribute from $30 to $7,000 (Cdn.) or from $30 to $5,200 (U.S.) per calendar quarter to purchase Common Shares from the Company on scheduled quarterly dividend payment dates. Those shareholders who wish to participate in the Plan or the Optional Stock Dividend Program or who desire additional information should write to Shareholder Services, Inco Limited, at either the Company's Toronto or New York address.

Other Information Canadian federal legislation generally requires a 15 per cent withholding from dividends paid to common 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. 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. All stock dividends declared after May 23, 1985 are treated as ordinary taxable dividends. Accordingly, stock dividends paid to non-residents are subject to withholding tax at the same rate as cash dividends. Under present legislation in the United States, the Company is not subject to the backup withholding rules, which would require withholding at a rate of 20 per cent on dividends and interest paid to certain United States persons who have not provided the Company with a taxpayer identification number.

The Company has three classes or series of securities which have general voting rights, its Common Shares, its 7.85% Series B Preferred Shares and its 10% Series C Preferred Shares. At shareholders' meetings, each holder of these securities is entitled to one vote for each share held and there are no cumulative voting provisions. At December 31, 1987, the number of Series B Preferred shareholders totalled 1,238, principally Canadian residents, and the number of Series C Preferred shareholders totalled 768, principally Canadian residents.

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

There are certain restraints on the holding of Inco's voting equity securities. The Company's Series B Preferred Shares and Series C Preferred Shares were issued and sold in underwritten public offerings in Canada only and no market for such shares exists outside Canada. The Investment Canada Act (the "Act") limits the number of shares of a Canadian corporation which may be acquired by a non-Canadian without approval under the Act. The effect of the Act is to prohibit the acquisition of control by a non-Canadian of certain Canadian businesses, such as the Company, unless such acquisition is found by the responsible Minister of the Government of Canada to be of net benefit to Canada.

Through subsidiaries and affiliates, the Company's operations are conducted in numerous countries; some $1,100 million of the Company's consolidated total assets are located outside Canada and the United States. Accordingly, operations are subject to various governmental policies or regulations and changes therein and the risks associated with doing business in many overseas locations.

Market Price Range for Common and Preferred Shares

Year ended December 31	**1987**	1986
	Common Shares	
New York Stock Exchange (Composite transactions)		
First quarter	**$17 -11¾**	$16⅞-13
Second quarter	**19⅞-15⅝**	16½-12½
Third quarter	**23⅜-16½**	14⅜-10½
Fourth quarter	**24 -12⅜**	14½-11⅝
Toronto Stock Exchange (Canadian dollars)		
First quarter	**$22⅛-16⅛**	$23⅝-18¼
Second quarter	**26½-20⅝**	23 -17⅛
Third quarter	**30⅝-22⅛**	19⅞-14¾
Fourth quarter	**31⅛-16⅜**	20⅛-16
	Series B Preferred Shares	
First quarter	**$21½-20½**	$22½-19⅝
Second quarter	**21⅜-20**	21 -19¾
Third quarter	**21⅜-20¾**	21¾-20⅝
Fourth quarter	**21½-20½**	21¾-20½
	Series C Preferred Shares	
First quarter	**$27¾-25⅝**	$28¾-25½
Second quarter	**28½-26⅝**	28⅛-26⅛
Third quarter	**29¼-27⅝**	27¾-25¼
Fourth quarter	**41½-25**	27 -25⅝

Board of Directors
The Board of Directors presently consists of 15 members of whom two are officers of the Company. In 1987, the Board held 10 meetings. The activities of the Board are supported by its various committees.

Executive Committee
The Executive Committee, which held seven meetings during 1987, consists of Mr. Phillips, Chairman, Dr. Gerstein and Messrs. Gordon, Light, McDougall and Richardson. During intervals between meetings of the Board, the Executive Committee, with certain exceptions, has all the powers vested in the Board.

Audit Committee
The Audit Committee, which held three meetings during 1987, consists of Dr. Kane, Chairman, and Messrs. Aird, Bélanger, Crawford and Keating. This committee meets with the Company's financial management personnel, its internal auditors and its independent auditors at least three times a year to review and appraise the Company's financial reporting practices and procedures, the adequacy of the system of internal accounting control, the planned scope of examinations by both auditing groups and their findings and recommendations. It also reviews the Company's financial statements and monitors various other internal control policies.

Nominating Committee
The Nominating Committee, which held one meeting during 1987, consists of the same Directors who comprise the Executive Committee and has the function of recommending to the Board nominees for election as Directors.

Management Resources and Compensation Committee
This committee, which held seven meetings during 1987, consists of Mr. Gordon, Chairman, Dr. Gerstein and Messrs. Light and Richardson. This committee advises and consults with the Chairman of the Board and makes recommendations to the Board on the remuneration of senior executives of the Company and on the Company's various incentive plans. The committee also reviews the management development programs and the succession plans relating to senior management.

Pension Committee
The Pension Committee, which held four meetings during 1987, consists of Mr. Hamilton, Chairman, and Mrs. Erola and Mr. Thomson. This committee advises the Board regarding the financial aspects of the pension programs of the Company and its subsidiaries, including actuarial assumptions, the adequacy of funding and the implementation of sound investment of pension funds.

Directors
The Honourable Judith A. Erola, President, Pharmaceutical Manufacturers Association of Canada, was elected to Inco's Board of Directors on October 26, 1987.

Michel Bélanger, Chairman and Chief Executive Officer, National Bank of Canada, was elected to Inco's Board of Directors on January 11, 1988.

In accordance with the retirement policy adopted by the Board, the following Directors retired on February 17, 1988:

Harold Bridges, who served as a Director since 1978; The Right Honourable Lord Nelson of Stafford, who served as a Director from 1966 to 1974 and again since 1975; and Lucien G. Rolland, O.C., who served as a Director since 1967.

Also, on February 17, 1988, Robert P. Luciano resigned from the Board.

(Term expires 1988)

Michel Bélanger
Chairman and
Chief Executive Officer
National Bank of Canada
Montreal, Quebec

Purdy Crawford, Q.C.
Chairman, President and
Chief Executive Officer
Imasco Limited (consumer products and services corporation)
Montreal, Quebec

The Honourable Judith A. Erola
President
Pharmaceutical Manufacturers Association of Canada
Ottawa, Ontario

Walter F. Light, O.C.
Retired Chairman
Northern Telecom Limited
(manufacturer of telecommunications equipment)
Mississauga, Ontario

Ian McDougall
Executive Vice-President
New York, New York

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

Richard M. Thomson
Chairman and
Chief Executive Officer
The Toronto-Dominion Bank
Toronto, Ontario

(Term expires 1989)

The Honourable John Black Aird, O.C., Q.C.
Senior Partner
Aird & Berlis
Toronto, Ontario

Charles F. Baird
Former Chairman and
Chief Executive Officer
Inco Limited
Washington, D.C.

Reva Gerstein, O.C.
Psychologist and educator
Toronto, Ontario

J. Peter Gordon, O.C.
Former Chairman, Stelco Inc.
(producer of iron, primary steel and finished steel products)
Toronto, Ontario

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

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

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

Donald J. Phillips
Chairman, President and
Chief Executive Officer
Toronto, Ontario

Corporate Officers

Donald J. Phillips, President, assumed the additional positions of Chief Executive Officer in April 1987 and Chairman of the Board in September.

David Balchin was elected Executive Vice-President of Inco Limited effective March 1, 1987. Mr. Balchin is responsible for Inco's alloys and engineered products businesses worldwide.

During the year the following appointments were made in Inco's alloys and engineering products businesses: John O. Allen, Vice-President and General Manager, Inco Alloys International, Inc.; Edward R. Burrell, Vice-President, Marketing, Inco Alloys International; Donald E. DeBord, Vice-President, Technology, Inco Alloys International; John Smith, Director and General Manager, Inco Alloys Limited; and Ian L. Dillamore, Managing Director, Inco Engineered Products Limited.

David J. Anderson was appointed President of International Nickel, Inc. in September.

William F. Bissett retired in October as President of Inco Alloys International after 39 years service.

John J. Moran, Vice-President, Inco Limited, retired in October after 36 years service.

In 1987 the Company established a Strategic Planning and Business Development group headed by Scott M. Hand. The group is responsible for co-ordinating the development of programs and initiatives to permit the Company to achieve greater growth in its existing businesses and also the development of programs for entering new businesses.

In August the Company formed Inco Gold Company as a separate unincorporated business unit of Inco Limited. Walter Curlook was appointed President of this new unit and Claudio Barsotti and Terrence Podolsky were appointed Vice-Presidents. Inco Gold is charged with managing Inco's precious metals exploration activities, resources and assets, excluding those of its primary metals business.

Charles F. Baird, who was Chief Executive Officer of the Company until April 1987, continued as Chairman of the Board until September 30. The Board of Directors and the senior management of the Company wish to express their gratitude and appreciation to Mr. Baird for leading the Company through one of the most difficult periods of its history.

Donald J. Phillips
Chairman, President and Chief Executive Officer

Executive Vice-Presidents

W.R.O. Aitken **I. David Balchin** **Walter Curlook** **Ian McDougall**

Vice-Presidents

Malcolm C. Bell
Technology

James D. Guiry
Human Resources

Scott M. Hand
General Counsel and Secretary
Strategic Planning and Business Development

Terrence Podolsky
Exploration

Peter B. Salathiel
Primary Metals Marketing

J. Stuart Warner
Occupational and Environmental Health

Anthony J. Sabatino
Comptroller

Ian G. Austin
Treasurer

Principal Regional Officers

Kevin H. Belcher
Vice-President
Inco Limited
General Manager, Inco Limited
Japan Branch and President
Inco Pacific Limited

Samuel Goldberg
President
Inco United States, Inc.

Operations

Michael D. Sopko
President
Ontario Division

Lorne M. Ames
President
Manitoba Division

William P. Clement
President and
Managing Director
P.T. Inco Indonesia

Brian K. Davison
Production Director
Inco Europe Limited

David J. Anderson
President
International Nickel Inc.

Ivor Kirman
Marketing Director
Inco Europe Limited

John O. Allen
Vice-President and
General Manager
Inco Alloys International, Inc.

Edward R. Burrell
Vice-President, Marketing
Inco Alloys International

Donald E. DeBord
Vice-President, Technology
Inco Alloys International

John Smith
Director and General Manager
Inco Alloys Limited

Ian L. Dillamore
Managing Director
Inco Engineered Products Limited

Inco Worldwide

Principal Executive Offices

Royal Trust Tower
Toronto-Dominion Centre
Toronto, Ontario
M5K 1N4
(416) 361-7511

Other Executive Offices

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

Primary Metals

Principal Operating Units

Ontario Division
Copper Cliff, Ontario
Port Colborne, Ontario

Manitoba Division
Thompson Manitoba

P.T. International Nickel Indonesia
Soroako, Indonesia

Clydach Refinery
Clydach, Swansea, Wales

Acton Refinery
London, England

International Nickel Océanie S.A.
Noumea, New Caledonia

Inco Gold Company
Toronto, Ontario

Principal Sales Offices

Inco Limited

Toronto, Ontario
(416) 361-7511

International Nickel Inc.

Saddle Brook, New Jersey
U.S.A.
(201) 843-8600

Pittsburgh, Pennsylvania
U.S.A.
(412) 281-9546

Upland, California
U.S.A.
(716) 946-2111

Inco Europe Limited

London, England
(44) 1-834-3888

International Nickel France, S.A.
Paris, France
(33) 14 289 26 67

International Nickel G.m.b.H.
Düsseldorf, West Germany
(49) 211-32 91 77

International Nickel Services (U.K.) Limited
New Delhi, India 660060
(91) 11 660060

Inco Limited, Japan Branch

Tokyo, Japan
(81) 3-245-0621

Inco Pacific Limited

Hong Kong
(852) 5-212-333

Melbourne, Australia
(61) 3267-3666

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

Alloys and Engineered Products

Alloys

Principal Operating Units

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

Inco Alloys Limited
Hereford, England

Additional Operating Units

Burnaugh, Kentucky, U.S.A.

Newton, North Carolina
U.S.A.

Pittsboro, North Carolina
U.S.A.

Elkhart, Indiana, U.S.A.

Sales Offices

United States

Marietta, Georgia
(404) 971-4570

Chicago, Illinois
(312) 255-0888

Cleveland, Ohio
(216) 464-8705

Houston, Texas
(713) 440-6600

Huntington, West Virginia
(304) 526-5100

Franklin, Massachusetts
(617) 520-3801

Newton, North Carolina
(704) 465-0352

Upland, California
(714) 946-0803

Wilmington, Delaware
(302) 478-4900

Canada

Toronto, Ontario
(416) 361-7808

England

Hereford
(44) 432-272777

Northern England
(44) 61 236 5438

Southern England
(44) 21 456 1213

Europe

Paris, France
(33) 1 47 76 4251

Düsseldorf, West Germany
(49) 211 3790 78

Milan, Italy
(39) 2 65 950 82

Pacific

Melbourne, Australia
(61) 3267 3666

Hong Kong
(852) 5 212-333

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

Japan

Daido Inco Alloys Ltd.
50% owned

Tokyo
(81) 3-504-0921

Osaka
(81) 6-202-4951

Engineered Products

Inco Engineered Products Limited
Birmingham, England
(44) 21454-4871

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

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

Kirkby-In-Ashfield, England
(44) 623-751816

Doncasters Sheffield Limited
Sheffield, England
(44) 742 349444

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

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

Other Subsidiaries and Units

Canadian Nickel Company Limited
Sudbury, Ontario

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

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

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

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

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

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

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

Mineração Serras do Sul Limitada
Rio de Janeiro, Brazil

Exmibal
Guatemala, Central America

*Trademark of the Inco family of companies.

Counsel
Osler, Hoskin & Harcourt
Toronto

Sullivan & Cromwell
New York

Auditors
Price Waterhouse
Toronto and New York

Transfer Agents and Registrars
The Royal Trust Company
Toronto, Calgary, Montreal and London, England

The Bank of New York
New York, New York

INCO

Printed in Canada