

Dupic

The background of the entire page is a complex, abstract collage. It features a variety of textures and colors, including dark charcoal, bright orange, yellow, green, and pink. There are also some faint, light-colored patterns that resemble wood grain or marbled paper. The collage is composed of many small, irregular pieces that are layered on top of each other, creating a sense of depth and complexity.

Inco Limited 1980 Annual Report

The Company

Inco Limited is a diversified company. It is the world's leading producer of nickel and a substantial producer of copper and precious metals; a worldwide manufacturer of automotive, dry cell and industrial batteries, and related products; and operates a group of companies producing rolling mill, forged and machined products. Inco Limited also has a variety of other interests. At year end the Company employed 52,653 people in 36 countries.

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Cover

Beauty some two billion years old is captured by polarized light in this microscopic view of a thin section of norite rock from the Sudbury Basin, which contains the world's largest deposit of copper-nickel sulphides.

Annual Meeting

The Company's Annual Meeting will be held in Toronto on April 15, 1981.

(dollars in thousands, except per share amounts)

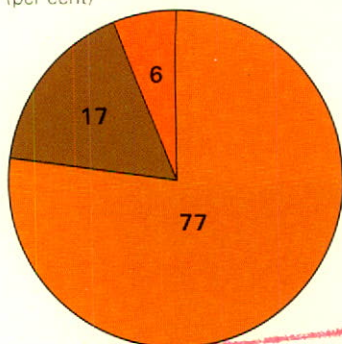
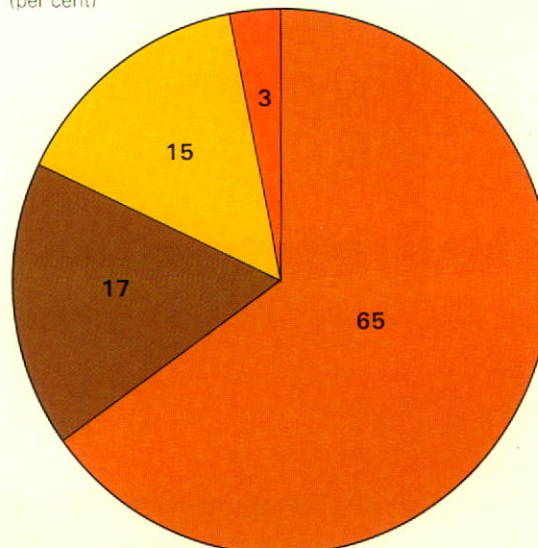
| | 1980 | 1979 |
|--|-------------|-------------|
| Net sales | \$3,036,099 | \$2,488,543 |
| Net earnings | \$ 219,407 | \$ 141,725 |
| Net earnings applicable to common shares | \$ 193,228 | \$ 118,451 |
| Per common share | \$2.56 | \$1.58 |
| Common dividends paid | \$ 52,054 | \$ 37,380 |
| Per common share | \$0.69 | \$0.50 |
| Income and mining taxes | \$ 237,401 | \$ 138,242 |
| Capital expenditures | \$ 191,461 | \$ 128,848 |
| Employees | 52,653 | 53,460 |

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

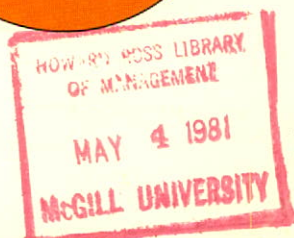
Highlights of the Year

- Operating earnings up 48 per cent; net earnings increased 55 per cent.
- Dividends totalled 69 cents a share, up from 50 cents in 1979.
- Inco Metals Company and Inco Alloy Products Company results increased sharply.
- Capital expenditures increased 49 per cent to \$191 million.
- Important initiatives undertaken on environmental control.
- Nickel and copper price realizations improved; copper deliveries rebound from strike-affected year 1979.

Inco's total assets have grown from \$1.8 billion in 1970 to \$4.6 billion in 1980.

1970 Total Assets
(per cent)1980 Total Assets
(per cent)

■ Inco Metals
■ Inco Alloy Products
■ Inco ElectroEnergy
■ Other



Inco at a Glance

Sales

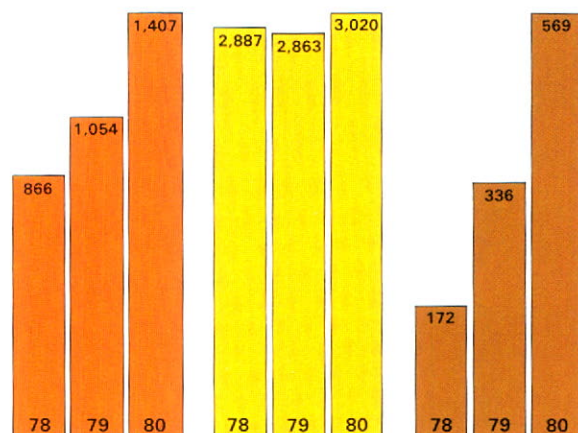
Total Assets

Operating Earnings

Products and Markets

Inco Metals Company

(\$ millions)



Inco Metals is the non-communist world's largest producer of nickel, is a major producer of copper and platinum-group metals, and produces significant quantities of cobalt, silver, gold, selenium and tellurium. Primary nickel accounted for 65 per cent of Inco Metals' 1980 sales.

The company's mines and major processing facilities are located in Ontario and Manitoba, Canada, and in Indonesia, Guatemala and the United Kingdom.

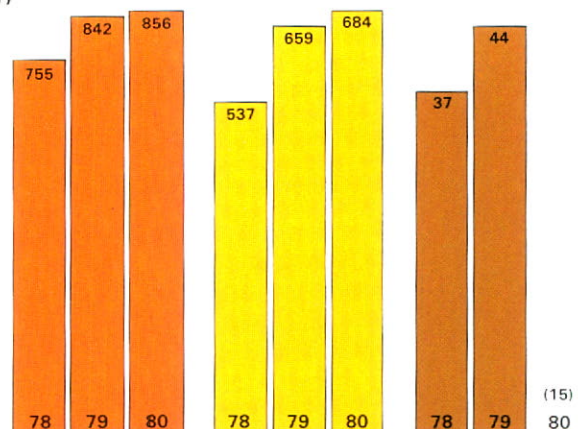
About 55 per cent of non-communist world nickel output is used as an alloying element in the production of stainless steel and low-alloy steels, which have a wide variety of industrial, consumer product, transportation and energy applications. Other major nickel markets include nonferrous alloys and nickel plating.

The company's copper is readily salable, even in times of world oversupply, because of its high purity. Copper is sold primarily to industrial users in Canada and Europe for such end-markets as plumbing and electrical wiring.

Other metals are sold to industry in various markets around the world.

Inco ElectroEnergy Corporation

(\$ millions)



Inco ElectroEnergy Corporation is a leading manufacturer of batteries and specialized electrical products under a number of well-known brand names, including Ray-O-Vac*, Exide*, Willard* and Wisco*. Slightly more than half the company's sales are in the U.S., with the balance in other countries through local manufacture and export. The company has 69 plants in 21 countries and distributes its products in more than 100 countries.

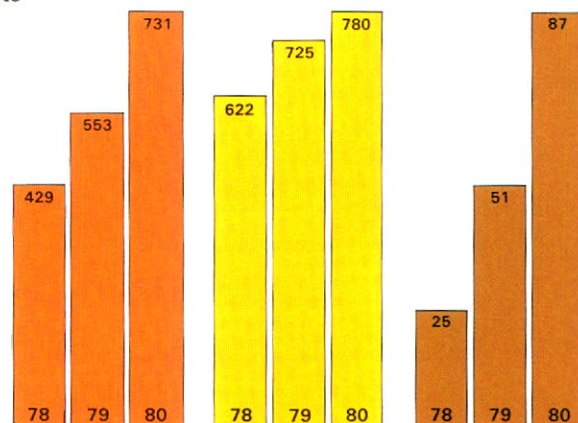
The company's four operating subsidiaries are:

- Exide Corporation – automotive, industrial and specialty batteries;
- Exide Electronics Corporation – uninterruptible power systems for computers, communications equipment and other sensitive electronic equipment; and emergency lighting systems for industrial and commercial facilities;
- Ray-O-Vac Corporation – flashlight and lantern batteries, hearing aid and watch cells, and flashlights and other lighting devices;
- Universal Electric Company – fractional horsepower electric motors for use in residential, consumer and industrial products.

*Trademark of the Inco family of companies

Inco Alloy Products Company

(\$ millions)



Inco Alloy Products Company produces high-nickel rolling mill alloys as well as forged and machined components made of high-performance alloys. Because of their high strength and temperature and corrosion resistance, these products are used by many customers in the aerospace, chemical, petrochemical, marine, electronics, pollution control, power generation, and oil and gas industries. The company is the largest single consumer of Inco Metals Company's primary nickel.

The company's major operating units are:

- Huntington Alloys, Inc., which produces rolling mill alloys at mills in Huntington, West Virginia, and Burnaugh, Kentucky;
- Wiggin Alloys Limited, which manufactures rolling mill alloys at facilities in Hereford and Birmingham, England;
- Daniel Doncaster & Sons Limited, which forges and machines high-stress metal components at six locations in the United Kingdom.

Other units include Turbo Products International, Inc., which machines blades for gas turbines; Canadian Alloys Division, which manufactures nickel and copper-nickel strip for coinage; and Daido Special Alloys Ltd., jointly owned by Inco and Daido Steel, which markets high-nickel alloys in Japan.

1980 Performance

Net sales rose 33 per cent and operating earnings by 69 per cent.

Strong demand for nickel early in the year gave way to market weakness due to the U.S. and European recessions. Nickel demand in the non-communist world is estimated at about 1,150 million pounds in 1980, down 16 per cent from 1979.

Although the company's primary nickel deliveries declined 12 per cent, prices held up well until the fourth quarter. During the second half of the year the company cut back nickel production in an effort to bring its supplies more in line with reduced demand.

Copper sales increased substantially, reflecting both increased output from strike-depressed 1979 levels and higher average realized prices.

Sales of metals other than nickel and copper totalled a record \$204 million, up 55 per cent from 1979. Results were aided by sharply higher prices for platinum-group metals, gold and silver.

The company's \$15 million operating loss resulted primarily from a very difficult year in the automotive battery business and protracted labor difficulties at seven of the company's 11 U.S. automotive battery plants.

Auto battery sales and operating earnings were hurt by the impact of sharply lower U.S. car sales and volatile lead prices, as well as the labor difficulties. Sales of industrial batteries were strong despite a soft market; large gains were recorded in stationary batteries for communications and standby power systems.

Exide Electronics' sales nearly doubled, led by uninterruptible power systems.

Ray-O-Vac's Latin American and micro power markets continued strong. Sales in North America were up moderately, although profits were adversely affected by competition and increased marketing expenses.

Universal Electric, despite a fall-off in residential construction, turned in a good performance.

Net sales increased 32 per cent and operating earnings rose 71 per cent to record levels. All major operating units contributed to these gains. Sales growth was due mainly to increased prices, implemented to recover higher metals and manufacturing costs, and a sales shift toward higher-performance alloys and components.

Customer orders were strong through the first quarter, continuing the record levels set in late 1979, but then declined as the effects of the U.S. and European recessions took hold. Aerospace markets continued relatively strong.

The company ended the year with a \$450 million order backlog, down from \$540 million at year-end 1979.

Market Outlook

Non-communist world nickel consumption is expected to grow at a compound annual rate of approximately four per cent in the 1980s. Inco's strategy is to seek to protect and gradually rebuild market share through competitive pricing and superior customer service.

Nickel is one of the most versatile metals. A specific goal is to develop new uses for nickel and nickel-containing alloys in such markets as aerospace, electronics, environmental control, automotive and defense.

At the same time, we expect higher-priced metals – including cobalt, gold, platinum and silver – to be of increasing importance to Inco over the next decade. Our exploration emphasis has traditionally been on nickel, but in recent years has shifted toward uranium, gold, molybdenum and other metals. A potentially significant uranium discovery was made in 1979 in northern Saskatchewan on property held jointly by Inco and Canadian Occidental Petroleum Ltd.; the summer 1980 drill program delineated an estimated 14 million pounds of uranium oxide.

Demand for primary batteries is expected to increase substantially over the next decade. One reason is the continued drive toward micro-miniaturization and packaged energy in calculators, watches, electronic games and other products. We anticipate moderate worldwide sales growth for carbon-zinc dry cells and continued rapid gains for premium (alkaline) batteries. Mercury and silver batteries still dominate the "button" cell market, but even more powerful battery systems are appearing – such as Ray-O-Vac's new long-lasting zinc-air battery. The next generation of primary batteries is likely to be lithium. The largest single research commitment within Inco ElectroEnergy is to various lithium systems.

Demand in our industrial battery markets is largely related to capital spending. However, an important growth factor which cuts across these markets is the increasing concern about energy efficiency and assured energy supplies. This concern should continue to aid sales of uninterruptible power systems, high-efficiency electric motors and large industrial batteries.

Demand for automotive batteries is expected to increase marginally in 1981 from the depressed levels of 1980.

Current prospects are for lower sales and operating earnings in 1981, reflecting the likelihood of weak capital spending in the United States and Europe.

Longer term, the company is expected to benefit from increased worldwide demand for high-performance alloys in the aerospace, energy exploration and production, pollution control, chemical and power generation sectors. For example, the development of new energy sources – through deeper oil and gas wells, coal gasification plants, synfuels plants, and nuclear and conventional power facilities – will require sizable amounts of high-performance nickel alloys for drill pipe, stack liners, vessel interiors, critical parts and other uses.

In aerospace, high-performance alloys will be required for engine components capable of withstanding higher operating temperatures and offering longer service life.



Message to Shareholders

Significant progress was achieved by Inco in 1980 despite recession and inflation, which were key factors affecting the Company's performance. Sales and earnings improved substantially for the second consecutive year. Important initiatives were undertaken in regard to environmental control measures and also with regard to improved communications with employees and the public. Most importantly, our financial and business strategies were subjected to intensive examination by the business units and corporate management. These strategies, by directly influencing the decision-making process, will help shape our future.

Financial Results

Earnings for 1980 of \$219.4 million or \$2.56 per common share were up from \$141.7 million or \$1.58 per share in 1979. First quarter earnings were a record high for any quarter in the Company's history, but earnings for the subsequent three quarters turned down reflecting the onset of recessionary conditions in our principal markets.

Operating earnings of Inco Metals Company and Inco Alloy Products Company for 1980 increased sharply due principally to improved prices. Inco Metals earnings in 1979 were depressed due to costs and expenses attributable to the Sudbury strike. On the other hand, Inco ElectroEnergy Corporation recorded an operating loss, primarily because of the depressed North American automotive battery market and protracted labor difficulties in its Exide unit.

The strengthening of our financial position that began in 1979 continued due to the improvement in earnings and an on-going emphasis on cash conservation. A public sale in the United States of \$100,000,000 of 12% per cent Debentures due 2010 was completed in July 1980. The proceeds were used principally to reduce short-term debt previously incurred to finance working capital and other general corporate requirements. Capital expenditures in 1980 increased to \$191 million

from \$129 million in 1979, largely due to increased expenditures on the primary metals business in Canada. In 1981 capital expenditures are expected to approximate \$200 million.

Strategic Planning

A review of the longer term strategic plans for each of our businesses is conducted each year. The purpose of the review is to ensure that the plans are supportive of the Company's objectives, to analyze the outlook for the markets each business serves and to confirm that these businesses offer the prospects of satisfactory returns on investment. Subsequently, capital, operating and financial plans are formulated, designed to allocate the Company's resources to those businesses considered to have the best potential for profitable growth. During the year actual results are monitored closely to review progress against plans.

Our basic long-term objective is to achieve profitable, sustainable growth in businesses involving technology broadly compatible with our skills. We have established a goal of generating one-third of our earnings from businesses other than our traditional metals businesses by the end of this decade. A specific objective is to capitalize on the Company's knowledge of natural resources, particularly mineral resources. Acquisitions in support of our objectives are not excluded, nor are divestitures of businesses that cannot meet our criteria. In the foreseeable future, however, the performance of our primary metals business will be the overriding determinant of our Company's fortunes.

Critical to the achievement of our plans is the restoration of our financial strength, which is our near-term goal. This restoration must come primarily from earning satisfactory returns on the assets employed in our businesses. Currently, major portions of our total assets are not contributing to earnings.

Losses resulting from the Guatemalan and Indonesian nickel operations have been well documented in prior reports and in other sections of this Report. As announced in November 1980, a decision was made to not operate the Guatemalan facility in 1981 as a result of recent substantial

Chairman Charles F. Baird (left) and President Donald J. Phillips on a visit to Inco's J. Roy Gordon Research Laboratory, Mississauga, Ontario. This facility is the hub of Inco's mineral processing technology and environmental research for reduction of emissions, particularly sulphur dioxide. In the background is a laboratory scale circuit for the new cobalt electro winning plant being constructed at Port Colborne, Ontario.

increases in operating costs, due primarily to higher oil prices, which coincided with a reduction in nickel price realizations. The plant will be maintained on a standby basis.

The Guatemalan operations are wholly dependent on oil for energy, and the Indonesian operations depend on oil for about one-half of their energy requirements with the remainder being supplied by hydroelectric power. We are studying the feasibility of alternative energy sources including the conversion of part or all of oil-dependent operations to coal in both locations and the possible availability of hydroelectric power in Guatemala.

In pursuit of our near-term goal to restore our financial strength we took several other important steps in 1980. More rigorous financial targets for the Company as a whole and for each of our business units have been established. We instituted stricter monitoring of working capital levels, which are particularly vulnerable to rapid growth in the current inflationary environment, and implemented corrective actions in response to changing business conditions to control the growth of the Company's investment in working capital. For the reasons discussed in last year's report we adopted a policy of paying, under normal circumstances, common dividends at a rate averaging approximately one-third of reported earnings per common share over a period of years.

Common Share Dividends

In 1980 the regular quarterly dividend was increased from 10 cents a share to 15 cents a share in February and was increased again in April to 18 cents a share. The 18 cents a share rate was continued for the last two quarters of 1980, bringing the total dividend for 1980 to 69 cents a share as compared with 50 cents a share in 1979. In view of worldwide uncertainties

and the need to ensure that the Company has adequate funds to finance its short and long-term needs, no year-end extra dividend was declared. The 69 cents a share dividend in 1980 represented 27 per cent of earnings applicable to common shares as compared to 32 per cent in 1979. Earlier this month the Board of Directors declared a regular quarterly dividend of 18 cents per share, payable March 13, 1981.

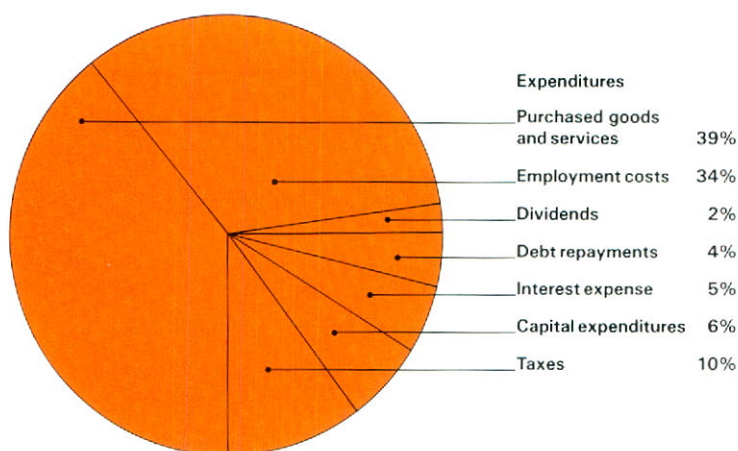
Outlook

The year just completed got off to a very good start, particularly due to the performance of our primary metals business. Recession and inflation, however, took their toll as the year progressed, and short range forecasts indicate that slow rates of growth in the world's industrialized economies will not permit substantial improvement in our results before the latter half of 1981. Continued rigorous financial control will be necessary in order to maintain the improvements of the last two years.

Longer term, the many strengths of our primary metals business, including the quality and quantity of our ore reserves, our underutilized capacity, and the added value of our related copper, precious metals and cobalt, place Inco in an excellent position to benefit from any surges in demand for nickel over the coming years. Inco Alloy Products should benefit from prospective growth in its markets and will continue to be the largest nickel customer of Inco Metals. The unsatisfactory performance of certain major units of Inco ElectroEnergy's business presents challenges to which solutions must and will be found.

Improved communications with shareholders, employees and the public, and continuing advances in our occupational safety and health and our environmental control programs will continue to rank as high priority corporate goals. We are mindful of the strains placed on employees and shareholders by the constraints of the past few years and are most appreciative of the support they have demonstrated.

Inco spent \$3.2 billion in 1980 of which 94% came from revenues and 6% from external financing. Here's how the money was spent:



Charles F. Baird

Chairman and Chief Executive Officer

Donald F. Phillips

President

February 12, 1981

Producing new mineral wealth for Canada every day from mines in Ontario and Manitoba, the thousands of hard-rock miners of Inco form one of the major economic sinews of the nation. Seen leaving the cage from their afternoon shift at the Copper Cliff South Mine are (from left): John Leonard (18 years of service), Bill Weiler (9 years), Val Tastula (17 years), Don Martin (7 years) and Bob Fortin (13 years).



Report on Operations

Report on Operations

Inco Metals Company

| (\$ millions) | 1980 | 1979 | 1978 |
|---|----------------|----------------|----------------|
| Sales by product | | | |
| Primary nickel | \$ 917 | \$ 807 | \$ 615 |
| Refined copper | 286 | 115 | 135 |
| Precious metals | 153 | 87 | 81 |
| Other metals | 51 | 45 | 35 |
| Net sales to customers | \$1,407 | \$1,054 | \$ 866 |
| Operating earnings | \$ 569 | \$ 336 | \$ 172 |
| Total assets | \$3,020 | \$2,863 | \$2,887 |
| Deliveries (in thousands) | | | |
| Primary nickel and intermediates | 291,910 | 332,090 | 319,070 |
| Nickel contained in alloy products | 53,530 | 61,540 | 58,360 |
| Total nickel (pounds) | 345,440 | 393,630 | 377,430 |
| Copper* (pounds) | 288,280 | 129,090 | 224,560 |
| Platinum-group metals** and gold (troy ounces) | 349 | 326 | 468 |
| Silver* (troy ounces) | 1,400 | 790 | 1,140 |
| Cobalt* (pounds) | 1,950 | 1,240 | 1,700 |
| Iron ore (long tons) | 64 | 166 | 355 |

*Includes metals contained in alloy products and batteries.

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

The year 1980 was one of rise and decline for Inco Metals. The 1979 boom in stainless steel production and nickel consumption spilled over into the first quarter when the company's nickel deliveries exceeded production and earnings were at a record high. However, the general recession in the United States struck the nickel industry in April/May, followed by the slowdown in Europe. By year end, the early lustre had faded.

Nevertheless, average realized prices for the company's principal products, nickel and copper, improved substantially

and contributed to 1980 operating earnings of \$569 million, compared to a strike-depressed \$336 million in 1979.

Even when nickel deliveries fell sharply in the second half of 1980, the company benefited from a strong market for platinum, palladium, gold, silver and other by-products. Fourteen elements besides nickel come out of the ore at our Ontario Division mines. As prices for precious metals have soared, by-products have provided an increasingly important contribution to help offset some of the fluctuations in nickel.

An immediate thrust is toward increased production of cobalt, which is essential to various aerospace alloys. Increased cobalt recoveries are expected in 1981. In addition, in June the company announced plans to construct a \$21 million cobalt refinery at Port Colborne, Ontario. The facility will have an annual capacity of two million pounds of high-purity cobalt metal and will employ a new Inco-developed electrocobalt process.

In January 1981 Inco agreed in principle to acquire four plants from C-I-L Inc. The plants, adjacent to Inco Metals' Sudbury smelters, use SO₂ emissions to produce sulphuric acid and liquid sulphur dioxide. Under the agreement, Inco will own and operate the plants and C-I-L will continue to market the end-products.

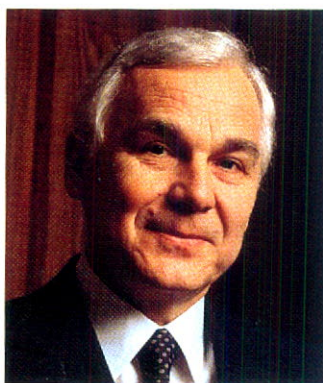
Marketing

Marketing results for Inco's primary metals are shown in the tables on this page. Figures for 1978 and 1979 reflect the impact of the strike at the company's Sudbury, Ontario, operations which ended in June 1979 and severely limited output of copper and, to a somewhat lesser degree, precious metals.

Nickel

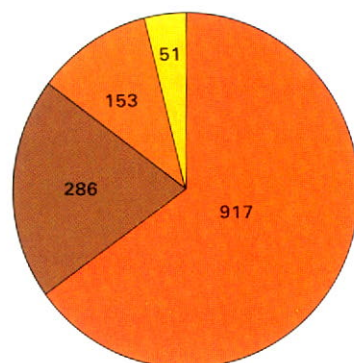
Inco's total nickel deliveries, including nickel in alloy products, declined 12 per cent from 1979.

Nickel demand in the non-communist world is estimated at



Walter Curlook
President and Chief Executive Officer
Inco Metals Company

**Inco Metals Company
Sales by Product—1980**
(\$ millions)



■ Primary nickel
■ Refined copper
■ Precious metals
■ Other metals

Officers

Inco Metals Company

Walter Curlook
President and Chief Executive Officer

Charles E. O'Neill
Senior Vice-President

Johannes P. Schade
Senior Vice-President

William A. Correll
Vice-President

William I. Gordon
Comptroller

James D. Guiry
Vice-President
President, INCO TECH

Daniel Kelly
Vice-President

Donald B. MacDermott
Chief Legal Officer

Terrence Podolsky
Vice-President

Norman W. Hayman
Assistant to the President

Principal marketing operations

Edward R. Burrell
President, The International Nickel Company, Inc., New York

Robin B. Nicholson

Managing Director, Inco Europe Limited, London

J. A. Keith McPhail

General Manager, Canadian Marketing Division, Toronto

Kevin H. Belcher

Managing Director, International Nickel Australia Limited, Melbourne

Dean D. Ramstad

Vice-President, Inco Limited, General Manager, Japan Branch

Principal production operations

Winton K. Newman

President, Ontario Division, Sudbury

Charles F. Hews

President, Manitoba Division, Thompson

W. Roy Aitken

President, P. T. International Nickel Indonesia, Jakarta

Harold A. Laine

President, Exmibal, Guatemala City

about 1,150 million pounds in 1980, down 16 per cent from a record level in 1979. Because of declining nickel demand after the first quarter, nickel producer inventories are estimated to have increased 32 per cent during the year to 395 million pounds at December 31. Inco Metals' inventories of finished nickel amounted to 155 million pounds at year end compared with 89 million pounds at year-end 1979.

The company's average net realized price of nickel, including intermediate products, was \$3.14 per pound in 1980 compared with \$2.43 in 1979.

Copper

Deliveries of copper rose 123 per cent from the strike-affected levels of 1979. The company realized an average price of \$1.00 per pound, compared with 91 cents in 1979.

Precious metals

Rising world prices for platinum-group metals, gold and silver helped the company attain a 76 per cent increase in precious metals revenues to a record \$153 million in 1980.

Cobalt

Although cobalt availability was curtailed by a strike at the Clydach, Wales, refinery, 1980 cobalt revenue totalled \$39 million, up two per cent from 1979.

Production

The company cut back nickel production in the second half of the year in an attempt to maintain a prudent balance between production and sales. Production at the Canadian divisions was reduced through manpower attrition; vacation shutdowns are planned in 1981. Operations at the Exmibal facility in Guatemala were shut down for the fourth quarter and will not be reopened during 1981. Production at P.T. International Nickel Indonesia was also reduced from the levels originally planned for 1980.

Total nickel and copper production, in millions of pounds, was as follows:

| | 1980 | 1979* | 1978* |
|--------|------|-------|-------|
| Nickel | 394 | 255 | 267 |
| Copper | 291 | 146 | 197 |

*Strike affected

In May, the Ontario Division suspended production of iron ore pellets at its iron ore recovery plant in Sudbury due to market conditions. Employees from the pellet department were transferred to other Ontario Division operations.

At the Manitoba Division, surface exploration drilling of the Thompson Mine crown pillar was concluded, delineating sufficient tonnage of good grade ore that could sustain a sizable open-pit operation. The deep drilling program in the Thompson area identified additional mineral reserves.

The series of technical and mechanical problems which delayed scheduled production at P.T. International Nickel Indonesia led to an in-depth review of production capability. As a result of the review, P.T. Inco's production capacity in the earlier years was reduced significantly from previous estimates. It is now anticipated that, upon completion of certain process improvements at a cost of about \$15 million, annual production capacity will be in the range of 75 to 80 million pounds of nickel in matte. As these improvements are implemented and further operating experience is gained, the

company expects to consider additional improvements to raise capacity by approximately 10 per cent. During 1980, P.T. Inco continued to fortify its furnace linings with additional cooling devices and modified the feed to the furnaces. Production in 1980 totalled 45 million pounds of nickel in matte, more than double the previous year.

The Exmibal facility in Guatemala operated at approximately 80 per cent of rated capacity prior to the fourth-quarter shutdown. In August, Exmibal completed a performance test required under its loan agreements, demonstrating its ability to operate at or near design levels. Thus, the facility has been proved a technical success.

In November, however, we decided to extend the shutdown through 1981 because of substantial increases in Exmibal's operating costs, primarily oil costs, and reduced nickel price realizations. Oil is used in Exmibal's power plant and process facilities and accounts for about 60 per cent of cash operating costs. The plant will be maintained on a standby basis. No personnel layoffs are contemplated at this time. During the shutdown the company will continue to study possible alternative energy sources, including hydroelectric and coal.

The Clydach, Wales refinery – which suffered both a strike and severe flood in late 1979 – was back to full operation eight weeks after workers returned on March 3, 1980. However, in October operations were reduced to one kiln line from two because of reduced market demand.

The Acton precious metals refinery operated satisfactorily throughout the year.

Occupational Safety and Health

Inco Metals continued to comply with the occupational health guidelines and standards applicable to all its operations. It also continued to develop the scientific information needed to revise standards for workplaces where nickel is present. As part of this effort, the company formed, with 12 other nickel



The Rt. Hon. Nicholas Edwards, M.P., Secretary of State for Wales, inaugurating the new fluid bed roaster at Clydach nickel refinery in the United Kingdom.



The basic strength of Inco has always been its Canadian mining and refining operations, which are central to Inco's position as the world's leading producer of nickel and a substantial producer of copper and precious metals.

In the Sudbury District of Ontario a geologist logs drill cores as part of a deep drilling program to investigate potential nickel-copper sulphide ore horizons to depths of 10,000 feet.



producers, an organization to fund research in occupational health and environmental matters.

The year was marred by the tragic deaths of six workers in the Ontario Division, one in the Manitoba Division and one at P.T. Inco. Inco has always placed great emphasis on worker safety, and this deeply troubling series of fatalities has led to intensified safety efforts, including improved communications between management and workers in the belief that greater awareness and cooperation are essential to improving safety performance.

Environmental Control

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

The Ontario Ministry of Environment control order limiting sulphur dioxide emissions from the Sudbury smelter to 3,600 tons per day was replaced in September by an Ontario Government regulation limiting emissions to 2,500 tons per working day. On the basis of our present facilities and processes, this regulation effectively restricts production at Sudbury to about 280 million pounds of nickel a year. The regulation also specifies that emissions should not exceed 1,950 tons per day after December 31, 1982 – a further 22 per cent reduction.

Even before the Ontario Government regulation was issued, the company had announced it was proceeding with the implementation of a pyrrhotite separation process aimed at further decreasing sulphur dioxide emissions from the Sudbury smelter by some 25 per cent. The new process, the result of seven years of basic research and pilot-plant testing, uses a novel flotation technique to remove additional pyrrhotite, a sulphur-rich nickel-poor material, from nickel concentrates prior to smelting. The cost of implementing the first phase is estimated at \$11 million. If the new technique is successful, the Sudbury nickel production limit will remain at approxi-

mately 280 million pounds annually after December 31, 1982 assuming no further changes in facilities or processes.

A new nickel concentrate smelting process, referred to in last year's Annual Report, has been successfully pilot tested. The process is now being tested on a commercial scale in the Thompson smelter, at an expenditure of \$17 million, for possible implementation at the Sudbury smelter. This process has the potential of converting as much as 80 per cent of the sulphur in the nickel concentrate into a continuous stream of high-strength sulphur dioxide gas suitable for the production of sulphuric acid.

In October, a \$4 million water effluent treatment plant was put into operation at the Port Colborne nickel refinery.

The Thompson smelter continues to meet the 1978 Clean Environment Commission order limiting sulphur dioxide emissions to 1,250 tons per day and dust emissions to 14 tons per day.

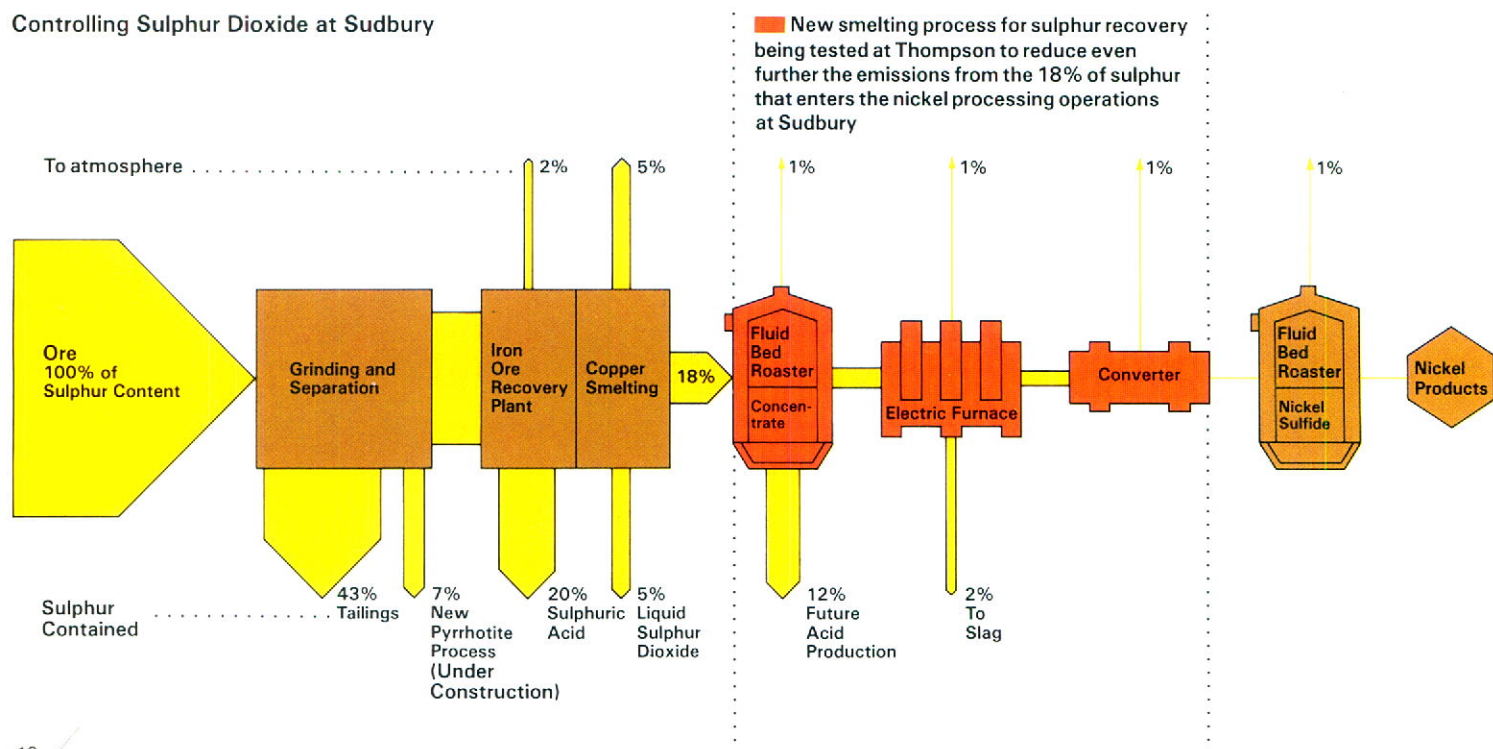
Research and Development

Having launched the first phase of the pyrrhotite separation process described above in Environmental Control, research continued on the second phase – chemical conditioning of sulphide minerals for improved recovery of nickel and platinum-group metals that would otherwise be lost as a result of the additional pyrrhotite separation.

Pilot plant tests are progressing favorably on a new process to improve Inco's gold, silver and platinum-group metals treatment. This would combine, in a single process stream, materials which are currently being processed at a number of separate locations. Engineering data are being obtained for the detailed design of a full-scale plant, which would be built in Sudbury and would recover and refine all of Inco's gold and silver as well as accept outside concentrates for toll refining.

Research related to nickel-zinc batteries for electric vehicles continued. The major goal is to produce an improved form of

Controlling Sulphur Dioxide at Sudbury



nickel with the potential for increasing battery life and reducing costs.

The company launched expanded programs in mining research to develop safer, more productive mining methods. Research departments were created in the Manitoba Division and the Ontario Division dedicated solely to mining research.

Expenditures on research and development at Inco Metals' process laboratories, research stations and operating locations were \$19 million in 1980 compared with \$14 million in 1979.

Exploration

Inco Metals spent \$24 million on exploration, up from \$13 million in 1979. Approximately 70 per cent of the 1980 expenditures were in Canada. Exploration programs were also conducted in the U. S., Mexico, Brazil, Australia and Ireland.

The summer drill programs delineated an estimated 14 million pounds of uranium oxide in Saskatchewan on property held jointly by Inco Metals Company and Canadian Occidental Petroleum Ltd. Studies are now in progress to determine possible methods of mining the deposit.

Together with French partners, Inco announced plans to develop a small chromite mine at Tiebaghi, New Caledonia. Ore production is scheduled for mid-1982 start-up.

Ore Reserves

At year end, Inco had proven and probable ore reserves in Canada of 543 million short tons containing 8.1 million tons of nickel and 4.9 million tons of copper. This compares with year-earlier proven and probable reserves of 514 million tons containing 7.6 million tons of nickel and 4.8 million tons of copper. Only material that has been sampled in sufficient detail to permit a reliable calculation is classified as reserves.

In Indonesia and Guatemala, Inco has outlined large resources of nickeliferous laterite adequate to supply each operation at its design capacity for its expected life.

Industrial Relations

In Canada, the Sudbury and Port Colborne labor agreements remain in effect until May 31, 1982, and at Shebandowan until July 22, 1982. In the Manitoba Division, the collective bargaining agreement expires September 15, 1981.

In Indonesia, a first collective agreement was negotiated with workers at the mining and smelting operations in Soroako. The agreement remains in effect until December 1, 1982.

In Guatemala, the labor agreement expires September 30, 1981.

In the United Kingdom, a 4½-month strike by hourly production and maintenance workers at the Clydach refinery ended on March 3, 1980. The resulting agreements remain in force through February 1981. New agreements terminating on September 30 and October 31, 1981, respectively, were negotiated with unions representing staff employees at the Clydach and Acton refineries.

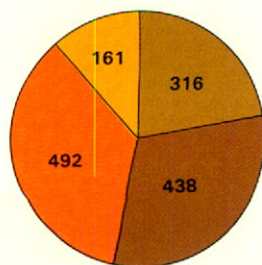
Inco ElectroEnergy Corporation

| | 1980 | 1979 | 1978 |
|---------------------------------------|---------|-------|-------|
| Sales by product (in millions) | | | |
| Batteries and related products | | | |
| Automotive | \$261 | \$303 | \$282 |
| Dry cells | 294 | 268 | 246 |
| Industrial | 210 | 173 | 127 |
| Total | 765 | 744 | 655 |
| Other products | 91 | 98 | 100 |
| Net sales to customers | \$856 | \$842 | \$755 |
| Operating earnings (loss) | \$ (15) | \$ 44 | \$ 37 |
| Total assets | \$684 | \$659 | \$537 |

Inco Metals Company — 1980 Geographic Data

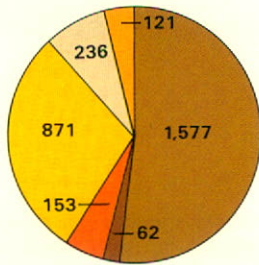
Sales

(\$ millions)



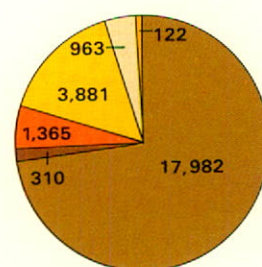
Total Assets

(\$ millions)



Employees

(Total: 24,623)



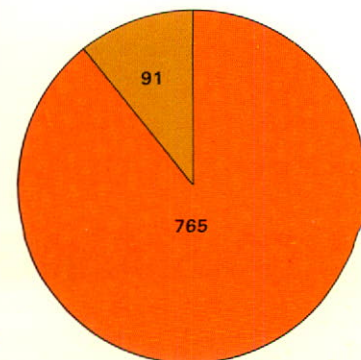
■ Canada
 ■ U.S.
 ■ Europe
 ■ Indonesia
 ■ Guatemala
 ■ Other



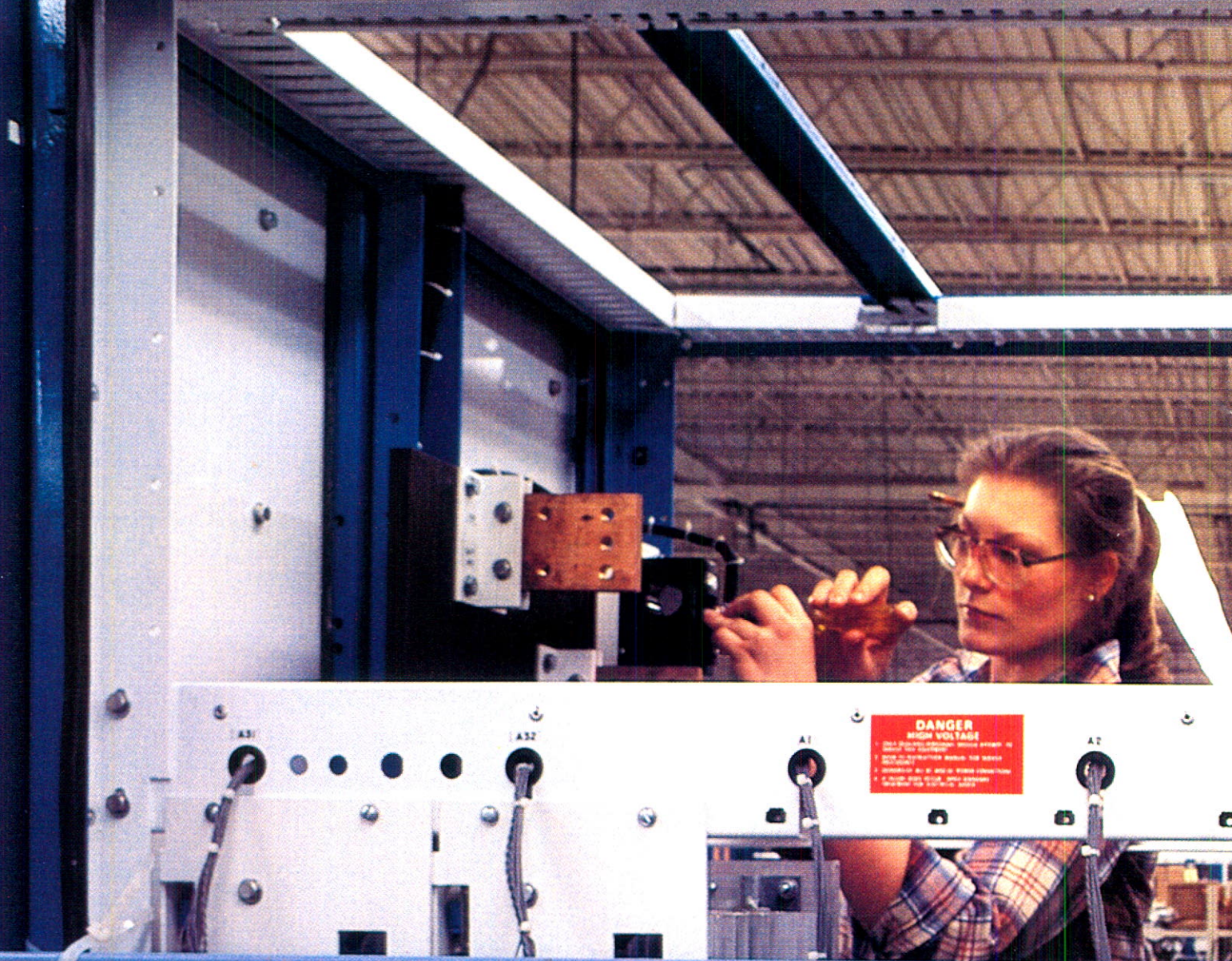
David C. Dawson
President and Chief Executive Officer
Inco ElectroEnergy Corporation

Inco ElectroEnergy Corporation Sales by Product — 1980

(\$ millions)



■ Batteries and related products
 ■ Other products



World energy needs are an important growth market for the 1980s. Inco ElectroEnergy serves this market with products that provide portable energy, store energy from natural resources and supply uniform, reliable power for sensitive electronic devices.

Exide Electronics' Raleigh, North Carolina operation manufactures uninterruptible power systems (UPS) which supply back-up power and purify utility power for computers, transportation networks, point-of-sale terminals, and mini- and micro-computer systems.



For Inco ElectroEnergy, 1980 was a very difficult year, particularly in automotive batteries. The company reported slightly higher sales, but suffered a \$15 million operating loss.

Noteworthy sales increases were achieved in uninterruptible power systems and industrial batteries, and most foreign markets were strong. However, North American consumer battery sales, especially automotive, were depressed.

The company's four operating subsidiaries are Exide Corporation (automotive, industrial and specialty batteries), Exide Electronics Corporation (static power conversion equipment, including uninterruptible power systems, emergency lighting units and related products), Ray-O-Vac Corporation (consumer dry-cell batteries and flashlights and other portable lighting devices) and Universal Electric Company (fractional horsepower electric motors).

Exide Corporation

Sales fell sharply to \$427 million due to lower automotive battery volume in North America. The original equipment market for auto batteries decreased more than 30 per cent in the U.S. as a result of depressed car sales. Volatile lead prices were a second major negative, severely squeezing profit margins throughout the automotive battery industry.

For Exide, these problems were compounded by labor disputes of approximately five months at seven of its 11 U.S. auto battery plants. These disputes were resolved in October.

In response to reduced market demand, many auto battery manufacturers are trimming capacity. Somewhat more orderly market conditions seem likely, therefore, in 1981.

Exide's major programs for restoring profitability include plant consolidations, streamlining of product lines and more efficient production methods. The company closed five small, less efficient plants in North America and opened a new plant in Canada, and is studying its manufacturing facilities for optimal plant location and arrangement.

The market for battery chargers was very good in 1980. Exide holds a major position in industrial batteries – including batteries for in-plant electric vehicles, such as fork-lift trucks and mine locomotives, and large stationary batteries which provide back-up power and electrical current control for communications systems, railroads and power plants. This portion of its business achieved record results.

Exide Electronics Corporation

Exide Electronics reported strong sales in its first full year as a separate subsidiary. The company's growth is keyed to increasing worldwide demand for precise, reliable power.

Exide Electronics is an acknowledged leader in the design, manufacture and maintenance of uninterruptible power systems. Major 1980 deliveries were made in North and South America, Europe, and the Middle and Far East – evidence of the company's growing global presence. Production facilities were enlarged and modernized in Canada, the United Kingdom and Mexico. Test facilities were expanded at Raleigh, North Carolina, and the company opened a new engineering and development centre in Newtown, Pennsylvania.

In emergency lighting systems, the company is seeking to build market share through new product development and more aggressive marketing. A new low-cost unit, MacBrite*, was introduced in 1980.

Ray-O-Vac Corporation

Sales increased 10 per cent to \$294 million, led by Latin American markets.

The company introduced a zinc-air "button" cell, the Air 2000*, for hearing aids. The Air 2000 has both a longer shelf life and twice the in-use life of mercury and silver batteries.

Ray-O-Vac is pursuing four main growth strategies: 1) strengthen its marketing program in North America, especi-

*Trademark of the Inco family of companies

Officers Inco ElectroEnergy Corporation

David C. Dawson
President and Chief Executive Officer

Richard T. Nalle, Jr.
Senior Vice-President

Lawrence S. Driever
Vice-President, Administration

Samuel A. Stewart
Director, Financial Services

Howard J. Strauss
Vice-President, Operations and Engineering

Dyer S. Wadsworth
Vice-President and Chief Counsel

Principal Operations

Robert Kent
President and Chief Executive Officer,
Exide Corporation, Philadelphia,
Pennsylvania

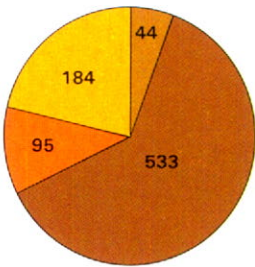
Warren G. Mang
President, Exide Electronics
Corporation, Philadelphia,
Pennsylvania

Benno A. Bernt
President, Ray-O-Vac Corporation,
Madison, Wisconsin

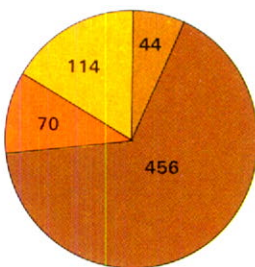
William A. Lawson
President and Chief Executive Officer,
Universal Electric Company, Owosso,
Michigan

Inco ElectroEnergy Corporation – 1980 Geographic Data

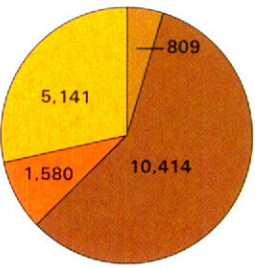
Sales
(\$ millions)



Total Assets
(\$ millions)



Employees
(Total: 17,944)



Canada
U.S.
Europe
Other

ally in the rapidly-expanding premium (alkaline) battery market; 2) modernize plant and reduce production costs; 3) introduce premium batteries in selected Latin American markets; 4) develop a variety of lithium battery systems, which the company believes represent the next generation of primary batteries. A newly constructed advanced battery centre in Madison, Wisconsin, is developing lithium systems technology and manufacturing processes.

Universal Electric Company

Universal had another good year. The company manufactures high-quality, custom-designed electric motors ranging in size from 1/500 to one horsepower for use in hundreds of household, consumer and industrial products. Sales for ventilating and air conditioning systems, garage door openers, and blowers for fireplaces and wood-burning stoves were among the biggest growth markets in 1980.

To keep pace with customer demand, the company is building a fifth U.S. plant—in Prairie Grove, Arkansas—and is expanding two existing facilities in Owosso, Michigan.

Occupational Safety and Health and Environment

Inco ElectroEnergy is in substantial compliance with the regulations of the Occupational Safety and Health Administration (OSHA) and the Environmental Protection Agency (EPA). Both agencies have issued standards governing the use of lead in the United States in processing and manufacturing operations. The EPA's Ambient Air Quality Standard and proposed New Source Performance Standards and the OSHA lead exposure regulations will, to the extent they become effective, require substantial future investments by all storage-battery manufacturers. Certain of these standards have begun to take effect; the company has estimated it will spend approximately \$5 million in 1981 and \$10 million in 1982 to comply with these regulations.

Industrial Relations

Inco ElectroEnergy negotiated 12 contracts with unions representing employees in the United States and Canada. Negotiations with the United Automobile, Aerospace and Agricultural Implement Workers of America (UAW) involved seven automotive battery plants and were marked by a labor dispute that was resolved in October with the signing of a three-year agreement. Elsewhere, four contracts were negotiated, none involving any significant labor dispute.

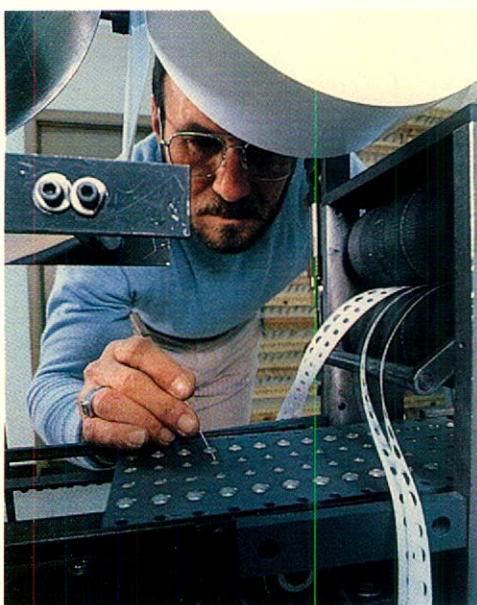
Inco Alloy Products Company

| | 1980 | 1979 | 1978 |
|------------------------|---------------|-------|-------|
| | (in millions) | | |
| Net sales to customers | \$731 | \$553 | \$429 |
| Operating earnings | \$ 87 | \$ 51 | \$ 25 |
| Total assets | \$780 | \$725 | \$622 |

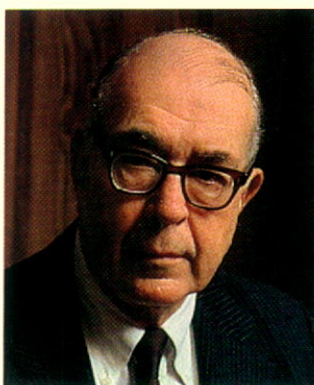
Inco Alloy Products Company, previously known as the Formed Metal Products Group, achieved its second consecutive year of record sales and operating earnings in 1980. Net sales increased 32 per cent to \$731 million, due mainly to higher prices implemented to recover increased metals and manufacturing costs and a sales shift toward higher-performance products. Operating earnings rose to \$87 million.

All major operating units contributed sales and earnings gains. Return on investment improved, although satisfactory rates of return were not achieved by all units. Higher sales and operating earnings of Wiggin Alloys Limited and Daniel Doncaster & Sons Limited resulted in part from the strength of the pound sterling relative to the U.S. dollar.

During the year a worldwide, centrally-directed program was established to accelerate commercial production of



Ray-O-Vac introduced its Air 2000 premium zinc-air cell for use in hearing aids.



John H. Page
President
Inco Alloy Products Company

Officers Inco Alloy Products Company

Benjamin W. Durrant
Vice-President

John L. Shaw
Vice-President

Principal Operations

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

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

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

Saburo Minato
President, Daido Special Alloys Ltd.,
Tokyo, Japan

Kevin H. Belcher
Managing Director, International
Nickel Australia Limited,
Melbourne, Australia

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

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



Inco Alloy Products Company is keying its long-term growth to the worldwide demand for high-performance alloys and high-stress components in such fields as aerospace, energy exploration and production, pollution control, chemical processing and power generation.

Electroflux melting operation at Huntington, West Virginia plant which produces high-purity nickel alloys that retain strength and resistance to heat, wear and corrosion in the most severe environments. Huntington alloys bring performance and reliability to tough jobs such as high temperature aeroengine applications, pollution control devices and chemical processing equipment.



mechanically alloyed materials. These materials, produced by powder metallurgical processes pioneered by Inco, offer superior corrosion and heat resistance and stability at very high temperatures. Since the mid-1970s, the company has produced limited commercial amounts of these materials for use in aircraft engines.

Huntington Alloys Inc.

Net sales increased 14 per cent to \$342 million, reflecting significant price increases to recover higher costs and a shift in delivery mix toward high-performance alloys. However, customer orders declined throughout the year because of the U.S. economic recession, and the year-end backlog was substantially below the December 31, 1979, level.

Operating earnings rose from depressed 1979 levels, due both to higher sales prices and improved productivity. Return on investment increased, reflecting higher earnings and improved working capital management. Sizable inventory reductions were brought about by continuing efforts to improve in-process and scrap inventory control and production yields. Investment in receivables was reduced by shortening distributor credit terms. These actions also resulted in a significant improvement in operating cash flow.

Wiggin Alloys Limited

Net sales rose 50 per cent to \$201 million, reflecting price increases and greater deliveries of higher-value NIMONIC* alloys.

Orders from aerospace customers were exceptionally high through the third quarter. This was partially offset by reduced demand from non-aerospace customers. Non-aerospace markets remain severely depressed at present, although some pickup is expected in late 1981. Limited short-time work schedules were necessary in the last two months of 1980. Further reductions in operating activity are expected in 1981.

Daniel Doncaster & Sons Limited

Net sales increased 53 per cent to \$180 million. This improvement reflected strong demand for turbine components for aerospace and industrial applications through most of 1980, partially offset by a dramatic drop in sales to the general engineering and commercial vehicle industries. Operating earnings were higher.

The order backlog, at record levels in mid-year, declined in the fourth quarter due to several substantial cancellations and reschedulings of turbine component orders. Demand for turbine components stabilized by year end.

Turbine component production facilities were expanded. In addition, an energy conservation program initiated during the year is expected to reduce energy consumption by 20 per cent by the end of 1982.

Turbo Products International Inc.

Acquired from Dana Corporation in September 1980, this manufacturer of industrial turbine blades is located in Ivoryton, Connecticut, and has 202 employees. In expanding its business base, Turbo is expected to machine aircraft engine compressor blades produced by Daniel Doncaster & Sons.

Canadian Alloys

This unit reported net sales of \$3 million in its first full year of operation. Deliveries were less than anticipated due to weak demand for coinage strip in Canada and extremely competitive conditions in export markets.

Full width strip forming equipment was started up in September. This doubled the strip production capability and moved Canadian Alloys from a pilot plant to a full commercial operation.

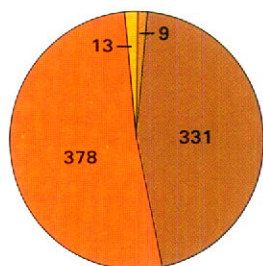
Daido Special Alloys Ltd.

Daido Special Alloys Ltd., owned equally by Inco Limited and Daido Steel Co. Ltd., Nagoya, Japan, increased its sales

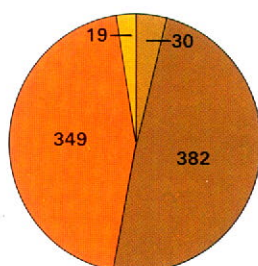
*Trademark of the Inco family of companies

Inco Alloy Products Company — 1980 Geographic Data

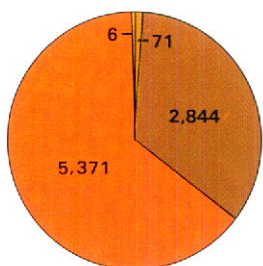
Sales
(\$ millions)



Total Assets
(\$ millions)



Employees
(Total: 8,292)



Canada
U.S.
Europe
Other



Electrostatic fluorescent dye penetrant examination of a forged INCONEL* alloy 625 bar at Daniel Doncaster. Also shown are other forged components.

by over 50 per cent to \$26 million. Daido Special Alloys markets specialty and high-nickel alloys in Japan.

Industrial Relations

Industrial relations were generally good. A new three-year labor agreement covering 1,350 hourly employees at Huntington Alloys was signed in December.

Because of the uncertain market outlook at Wiggin Alloys, unions covering 1,440 hourly and 813 staff employees agreed at the November annual contract negotiation to a deferral for at least six months of any increase in wages and salaries. A lump sum bonus was paid to almost all employees in recognition of favorable 1980 operating results.

Annual negotiations were successfully concluded with Daniel Doncaster unionized employees at all locations.

Other Business

Inmetco

The International Metals Reclamation Company, Inc., which uses an Inco-developed process to convert steelmaking wastes into valuable remelt alloys for the production of stainless steel, provides Inco with an entry into the waste reclamation business. The company's facility at Ellwood City, Pennsylvania, experienced operational problems during the year. These were progressively overcome, and the facility is expected to be operating at capacity by the second quarter of 1981.

Pittsburgh Pacific Processing Company, an Inmetco subsidiary, is engaged in metals recycling through agglomeration and briquetting technology. Sales decreased in 1980 due to the depressed state of the steel industry. During the year the company installed and made operational de-oiling and hot briquetting equipment, opening new markets.

Inco Safety Products Company

This subsidiary produces worker safety equipment for the industrial, construction, institutional and government markets. Products include respiratory devices, safety gloves, and ear, eye and head protection and fall protection gear. Net sales, at \$34 million, were about even with 1979, reflecting the impact of the North American recession.

Oil and Gas

Early in the year, Inco Energy Resources Ltd. was incorporated in Alberta to direct Inco's hydrocarbon exploration and development activities. Currently, Inco Energy is involved with a number of partners in some 35 oil and gas prospects, mainly in Alberta. Total program expenditures in 1980 were \$9 million, of which \$6 million was capitalized. This modest program will be expanded in 1981 to include the development of oil discoveries.

Inco holds 4.4 per cent of the common shares of Panarctic Oils Ltd., which is involved in oil and gas ventures in the Canadian Arctic islands.

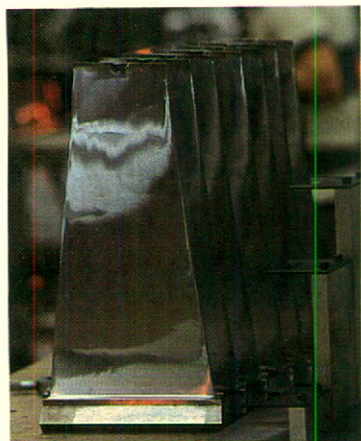
Growth from Internal Development

MPD Technology promotes the sale of new products based on Inco's research. Sales totalled \$1.6 million in 1980, almost double those of 1979.

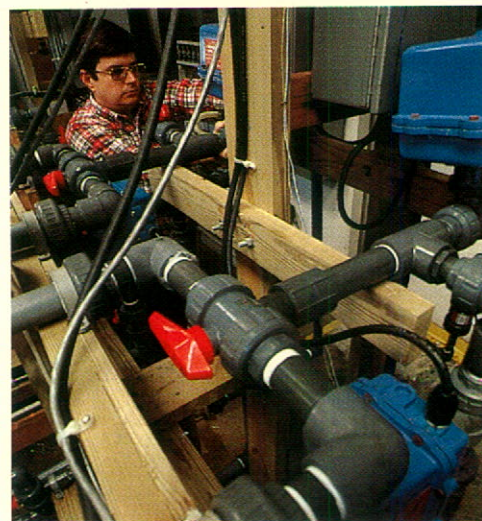
Two proprietary mechanically-alloyed aluminum alloys have been sold for testing by major aircraft builders in the U.S. and Europe. These alloys offer excellent strength and corrosion resistance for a variety of aircraft components and structural parts.

HY-STOR* metal hydride alloys have been sold for development as safe, nonpolluting sources of hydrogen fuel in specialized vehicles. Progress continued to be made in

*Trademark of the Inco family of companies



Finely machined turbine blades are ready for market. Turbo Products International supplies stator and rotor blades, as well as machined vanes to the turbine industry.



Heat transfer module is key component of Ocean Thermal Energy Conversion Project being undertaken for the U.S. Department of Energy by the LaQue Center for Corrosion Technology.

developing hydride systems for recovering waste heat or hydrogen from industrial processes.

Principal Operations

The International Metals Reclamation Company, Inc.
Ellwood City, Pennsylvania
R. Todd Grant, President

Inco Safety Products Company, Inc.
Philadelphia, Pennsylvania
Robert E. Theis, President
Inco Energy Resources Ltd.,
Calgary, Alberta
David B. Craig, President

Venture Capital

Inco started its venture capital program in 1975 with the objective of investing in emerging technologies with the potential for excellent growth and a yield of high returns within a five to ten-year period. This program has been very successful.

During 1980 proceeds from sales of venture capital portfolio investments totalled \$6.8 million compared with a cost of \$0.9 million. At year-end 1980, the book value of our investments totalled \$15.4 million which, based upon valuation methods employed in the venture capital industry, might be worth as much as \$50 million.

Inco's current portfolio encompasses investments in some 30 companies in Canada, the United States, France and Switzerland. Major areas of interest include genetic engineering, electronics, medical technology, communications and computer technologies.

Our largest single venture capital investment, approximating \$6 million at the end of 1980, is in Biogen N.V., which is involved in recombinant DNA research and technology. In collaboration with Biogen, Inco is exploring the possible application of recombinant DNA technology to mining and metals extraction.

On February 11, 1981, Inco and SB Capital Corporation Ltd. of Toronto launched the North American Ventures Fund,

an Ontario limited partnership, which will invest funds contributed to the partnership by various pension funds and corporations in venture capital investments in Canada and the United States.

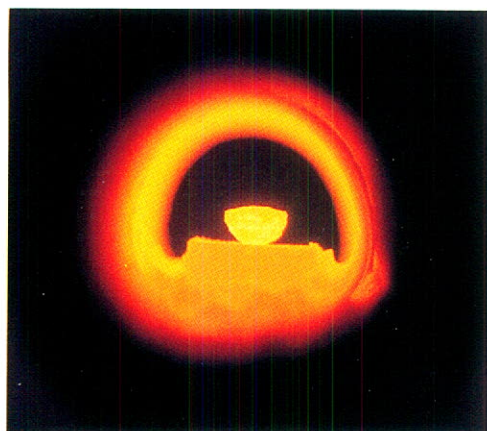
Research and Development

Inco Limited and its operating units spent a total of \$49 million on research and development in 1980. Of this amount, \$15 million was devoted to programs at the corporate laboratories and the balance to programs within the operating units. At both the corporate and operating unit levels, the bulk of research is aimed at improving the Company's processes and products, developing new products and markets, and achieving advances in resource recovery, materials and energy conservation, and environmental control. A portion of corporate research relates to areas of potential diversification.

Inco Metals Company's research programs are discussed on page 12 of this Report.

Within both Inco ElectroEnergy Corporation and corporate research, there is a strong effort to develop improved battery designs and better methods for producing batteries. In addition, there are a number of active programs directed toward developing new types of batteries, including electric vehicle batteries and advanced consumer and industrial batteries.

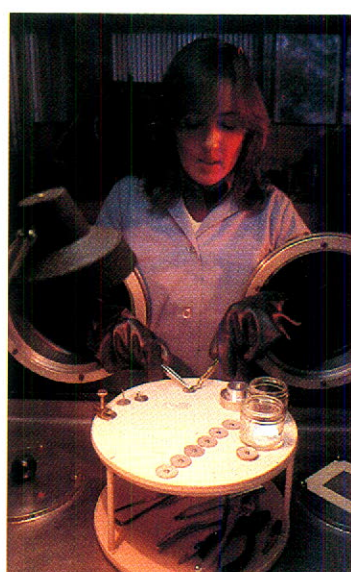
At Inco Alloy Products Company, also in coordination with the corporate research staff, work is in progress to assess how various Inco proprietary alloys can meet emerging market needs, and to develop new high-performance alloy systems and improved methods of forming metal products.



Experiment at the European Research and Development Centre on the reaction between nickel-containing melts and furnace linings.



Hydrogen absorption qualities of various metal hydrides are measured at the Inco Research and Development Center. Inco's HY-STOR metal hydride alloys are being used in fuel systems for specialized vehicles.



A controlled environment is used to test electrolytes for solid state batteries in prototype cells. Tests indicate that solid state power systems promise extremely long life and no threat of electrolyte leakage.

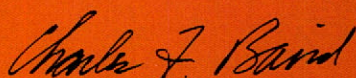
Management's Statement on Financial Reporting

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

Systems of internal accounting control are maintained in order to assure on a reasonable basis the reliability of this financial information. These systems include formal policies and procedures, the careful selection and training of qualified personnel, and an organization providing for appropriate delegation of authority and segregation of responsibilities. These systems are monitored by our internal auditors who perform extensive tests and related procedures at major locations worldwide. Our independent auditors, whose report on their examination of the consolidated financial statements appears on page 30, also review our systems of internal accounting control in accordance with generally accepted auditing standards for the purpose of expressing their opinion on the consolidated financial statements.

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

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



Chairman and Chief Executive Officer



Senior Vice-President
(Chief Financial Officer)

| | |
|--|----|
| Economic and Market Trends | 24 |
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| Ten-Year Review | 26 |
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Economic and Market Trends

Inco's results are significantly influenced by general economic conditions and trends in major end-use markets.

In many industrial nations, 1980 was the weakest year economically since the 1974-75 recession. While economic conditions were sluggish during most of 1979, the downturn did not begin until early 1980. The U.S. recession began in February, and although the economy showed signs of recovery during the second half of the year, the recession in Western Europe and the slowdown in Japan resulted in a continuation of weak economic performance for the balance of the year.

The 1980 combined gross national product (GNP) of member nations of the Organization for Economic Cooperation and Development (OECD) increased one per cent over 1979 – the smallest gain in five years. These nations account for about two-thirds of total world output.

Capital investment within the OECD countries actually declined, the first decrease since 1975. Sales of many Inco products – including sales of nickel by Inco Metals Company, rolling mill alloys and forged and machined parts by Inco Alloy Products Company, and industrial batteries by Inco ElectroEnergy Corporation – are closely related to capital spending.

The single largest first use for nickel is stainless steel production, in which nickel is used as an alloying element. Stainless steel has a wide variety of applications in the process, chemical, energy, transportation and consumer products industries. Reflecting the economic trends of 1980, stainless steel production was strong in the first quarter, weakened slightly in the second quarter and then fell

sharply. Total production of stainless steel in the non-communist world came to an estimated seven million metric tons for the year, down about seven per cent from the record level of 1979.

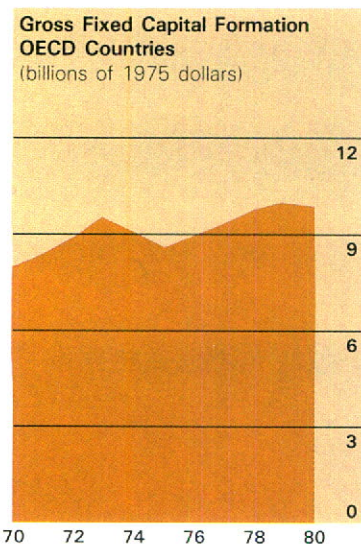
Automotive production is another significant market for Inco. Inco ElectroEnergy serves this market with original equipment batteries, and Inco Metals sells nickel for use in auto parts, including wheel covers and the plating of bumpers. Motor vehicle production in OECD countries, which account for about 85 per cent of world motor vehicle production, fell for the second consecutive year, declining an estimated 10 per cent from 1979 levels. In North America, where Inco ElectroEnergy sells most of its automotive batteries, the drop was much sharper – due both to the U.S. recession and increased imports of cars arriving with batteries installed.

Other end-markets important to the Company include chemical and petrochemical plants, environmental control systems, energy exploration and production, aerospace production, consumer battery markets and general engineering. Aerospace was especially strong in 1980.

The year was marked by intensified inflation, raising Inco's costs of doing business. The combined inflation rate for the OECD countries, as measured by consumer prices, was more than 12 per cent – up from 10 per cent in 1979 and the highest inflation rate since 1974.

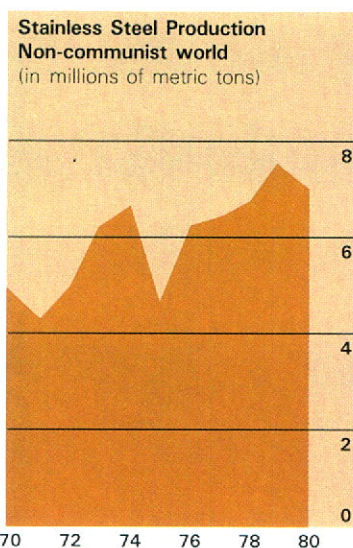
A very favorable trend for Inco was the continued rise in prices for many metals, including nickel, copper, gold, silver and platinum. Although their prices began to weaken toward the end of the year, gold, silver and platinum-group metals, in particular, are taking on growing importance for Inco.

Capital investment within OECD countries fell in 1980 for the first time since 1975.



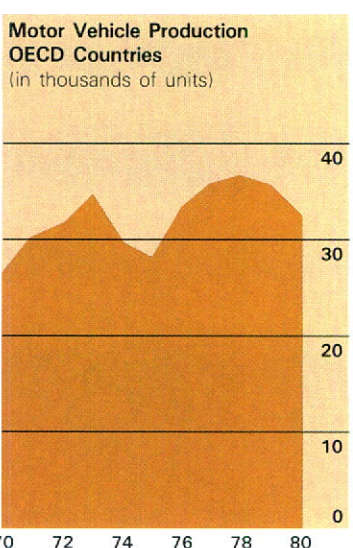
Source: OECD and Inco estimates

Stainless steel production declined 7% from the record high of 1979.



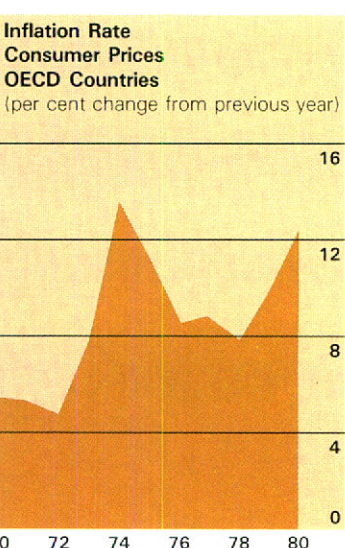
Source: Inco estimates

Motor vehicle production, a major Inco end market, declined for the second consecutive year.



Source: World Motor Vehicle Data Book, 1980; U.S. Motor Vehicle Manufacturers' Association; and Inco estimates

The economic environment was affected by the highest inflation rate in six years.



Source: OECD and Inco estimates

Management's Discussion and Analysis

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

Results of Operations

Summary. The increases in net earnings in 1980 and 1979 reflect improvements in the Company's primary metals and alloy products businesses, partially offset by a decline in its batteries and related products business in 1980. Other significant factors affecting earnings during these periods were the interest charges relative to the Guatemalan and Indonesian nickel operations and a favorable tax change in the United Kingdom.

Primary Metals. The Company's nickel business is the principal determinant of its profitability. At the beginning of 1978, the nickel market was characterized by excessive producer inventories and soft demand. Nickel prices declined steadily throughout 1978. In early 1979, however, strong demand, particularly in the stainless steel sector, and curtailed production, due in part to the Sudbury strike, brought the market more into balance and prices began to recover. Demand remained strong through the first quarter of 1980, but weakened as recessionary conditions began to take hold first in the United States and then in Europe. The Company's average net price realized for its primary nickel products, including intermediate products, has improved from \$1.98 a pound in 1978 to \$2.43 a pound in 1979 and \$3.14 a pound in 1980. In response to market conditions, however, in November 1980 the Company offered its customers a six per cent discount on all nickel products. In January 1981, the Company advised customers that this discount would not apply to orders placed after February 28, 1981. With this discount, nickel prices are now still at about the same level as the average 1980 realizations.

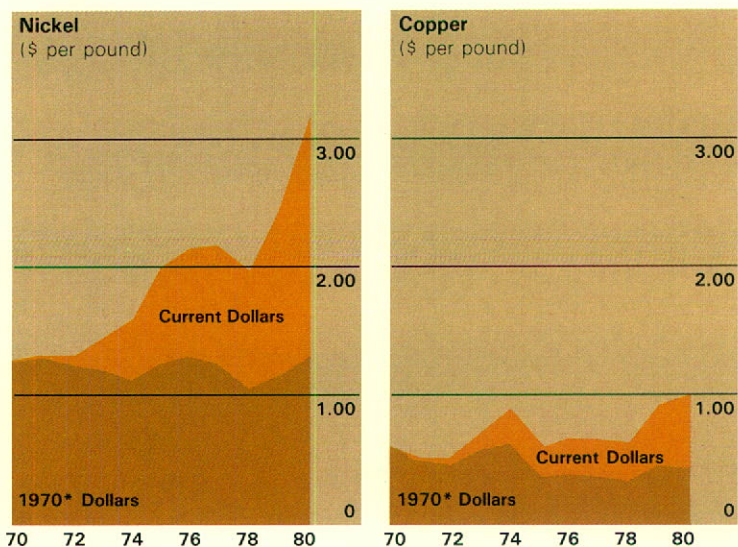
| Primary Metals (\$ millions) | 1978 | 1979 | 1980 |
|--|-------|---------|---------|
| Sales by product | | | |
| Primary nickel | \$615 | \$ 807 | \$ 917 |
| Refined copper | 135 | 115 | 286 |
| Precious metals | 81 | 87 | 153 |
| Other metals | 35 | 45 | 51 |
| Net sales to customers | \$866 | \$1,054 | \$1,407 |
| Operating earnings | | | |
| | \$172 | \$ 336 | \$ 569 |
| Deliveries (millions of pounds) | | | |
| Primary nickel and intermediates | 319 | 332 | 292 |
| Nickel contained in alloy products | 58 | 62 | 53 |
| Total nickel | 377 | 394 | 345 |
| Copper | 225 | 129 | 288 |

Copper was unavailable for sale during portions of 1978 and 1979 due to the Sudbury strike. The Company's average realized price for copper was \$1.00 a pound in 1980, compared with 91 cents a pound in 1979 and 61 cents a pound in 1978. Copper prices peaked in the first quarter of 1980 and, due in part to a prolonged strike of copper workers in the United States, remained at relatively high levels for much of the year. In December, however, the Company's average realized price declined to 88 cents a pound.

Although prices of precious metals have declined during the fourth quarter of 1980 and into 1981, prices have increased significantly since the end of 1977 and these metals have become a more important source of earnings for the Company. Production of precious metals was restricted somewhat after the Sudbury strike and into 1980 as supplies of feed materials were re-established.

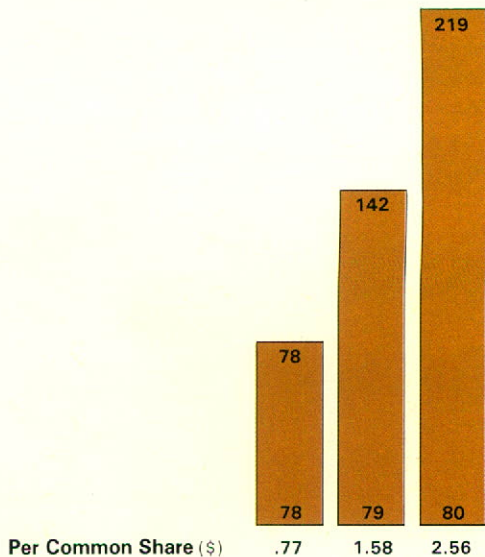
Expenses associated with the Sudbury strike, which began

Inco Metals Average Realized Prices



* Average realized price deflated by the U.S. Producer Price Index

Net Earnings (\$ millions)



Per Common Share (\$)

.77 1.58 2.56

Ten-Year Review

on September 16, 1978 and was settled on June 3, 1979, totalled \$61 million in 1978 and \$76 million in 1979. Strike expenses are those ongoing costs, such as employment costs of salaried staff and depreciation, which are normally treated as production costs and charged to inventories. In the absence of production because of the strike, however, these costs were expensed.

Alloy Products. Sales and operating earnings reached record levels in 1980, again reflecting a sharp year-to-year increase. While the improvement in 1979 related primarily to increased demand in the turbine, environmental control, chemical and energy fields, the 1980 improvement reflected higher prices, a shift of business towards higher performance alloys and productivity improvements. During the latter part of 1980, the level of new orders, particularly for general engineering applications, fell sharply, and improvement is not expected until late 1981. However, while the market for alloys and components for aerospace applications also showed weakness in the latter part of 1980, the demand for these products should remain relatively strong throughout 1981.

| Alloy Products (\$million) | 1978 | 1979 | 1980 |
|----------------------------|-------|-------|-------|
| Net sales to customers | \$429 | \$553 | \$731 |
| Operating earnings | \$ 25 | \$ 51 | \$ 87 |

Batteries and Related Products. The increase in sales of batteries and related products in 1979, compared with 1978, resulted mainly from higher prices, although cost increases, particularly for lead, could not be fully recovered due to competitive conditions and operating earnings improved only marginally. The operating loss in 1980 was primarily due to conditions in the North American markets. The automotive battery industry, as a whole, was plagued by a sharp drop in demand coupled with volatile lead prices which squeezed profit margins. Although demand for dry-cell batteries continued to grow, intense competition for market share resulted in low prices and high marketing expenses. Other factors which adversely affected the performance of the Company's batteries and related products business included work stoppages of about five months at seven of its 11 U.S. automotive battery plants and the costs associated with closing seven of its smaller, less-efficient plants. However, results improved in markets outside North America and in the industrial battery portion of the business.

| Batteries and Related Products (\$millions) | 1978 | 1979 | 1980 |
|---|-------|-------|---------|
| Sales by product | | | |
| Automotive | \$282 | \$303 | \$261 |
| Dry cells | 246 | 268 | 294 |
| Industrial | 127 | 173 | 210 |
| Net sales to customers | \$655 | \$744 | \$765 |
| Operating earnings (loss) | \$ 33 | \$ 36 | \$ (24) |

Other Business. The electric motor and safety products businesses again reported profits, but not at the record 1979 levels. Inmetco, the Company's metals reclamation operations, experienced operational problems during 1980 which

| | 1980 | 1979 |
|---|-------------|-----------|
| Summary of operations | | |
| (in thousands) | | |
| Net sales | \$3,036,100 | 2,488,500 |
| Cost of sales and operating expenses | \$2,088,700 | 1,799,600 |
| Selling, general and administrative expenses | \$ 296,100 | 243,700 |
| Interest, net of amounts capitalized | \$ 156,500 | 133,700 |
| Income and mining taxes | \$ 237,400 | 138,200 |
| Net earnings | \$ 219,400 | 141,700 |
| Net earnings applicable to common shares | \$ 193,200 | 118,500 |
| Per common share | \$ 2.56 | 1.58 |
| Common dividends | \$ 52,100 | 37,400 |
| Per common share | \$ 0.69 | 0.50 |
| Common shares outstanding (weighted average) | 75,464 | 74,762 |
| Other financial data | | |
| (in thousands) | | |
| Capital expenditures | \$ 191,500 | 128,800 |
| Depreciation and depletion | \$ 165,300 | 131,700 |
| Pension expense | \$ 72,500 | 63,500 |
| Research and development expense | \$ 49,000 | 40,000 |
| Exploration expense | \$ 26,900 | 13,900 |
| Working capital | \$1,039,500 | 943,100 |
| Net property, plant and equipment | \$2,542,400 | 2,523,400 |
| Total assets | \$4,631,500 | 4,335,400 |
| Long-term debt | \$1,044,800 | 1,072,300 |
| Preferred shares | \$ 345,000 | 348,300 |
| Common shareholders' equity | \$1,817,300 | 1,657,900 |
| Return on total assets | 4.7% | 3.3% |
| Return on common shareholders' equity | 10.6% | 7.1% |
| Operating data (in thousands) | | |
| Ore mined – short tons | 16,400 | 9,600 |
| Nickel production – pounds | 393,800 | 255,000 |
| Nickel deliveries – pounds | 345,400 | 393,600 |
| Copper deliveries – pounds | 288,300 | 129,100 |
| Platinum-group metals and gold deliveries – troy ounces | 349 | 326 |
| Other statistics | | |
| Employees at year end | 52,653 | 53,460 |
| Common shareholders at year end | 67,609 | 74,541 |

*Includes applicable data relating to Inco ElectroEnergy Corporation for the five months since its acquisition effective August 1, 1974.

| 1978 | 1977 | 1976 | 1975 | 1974* | 1973 | 1972 | 1971 |
|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| 2,083,100 | 1,953,300 | 2,040,300 | 1,694,800 | 1,684,600 | 1,172,800 | 900,300 | 789,200 |
| 1,615,700 | 1,488,100 | 1,401,600 | 1,142,800 | 956,500 | 693,300 | 617,600 | 541,500 |
| 213,500 | 203,700 | 184,200 | 157,000 | 111,100 | 66,300 | 60,600 | 58,300 |
| 75,900 | 66,300 | 66,400 | 49,400 | 45,000 | 42,300 | 43,800 | 33,900 |
| 87,100 | 75,500 | 150,400 | 135,200 | 248,400 | 120,500 | 42,600 | 23,500 |
| 77,800 | 99,900 | 196,800 | 186,900 | 298,600 | 225,600 | 112,100 | 90,300 |
| 57,300 | 92,300 | 196,800 | 186,900 | 298,600 | 225,600 | 112,100 | 90,300 |
| 0.77 | 1.24 | 2.64 | 2.51 | 4.01 | 3.02 | 1.50 | 1.21 |
| 52,200 | 93,200 | 119,300 | 119,300 | 119,300 | 89,400 | 74,500 | 96,900 |
| 0.70 | 1.25 | 1.60 | 1.60 | 1.60 | 1.20 | 1.00 | 1.30 |
| 74,595 | 74,593 | 74,576 | 74,552 | 74,541 | 74,535 | 74,525 | 74,499 |
| 219,900 | 432,800 | 459,100 | 332,700 | 149,200 | 88,800 | 125,200 | 244,200 |
| 108,600 | 116,600 | 113,300 | 111,000 | 97,400 | 76,800 | 56,300 | 50,600 |
| 56,100 | 59,200 | 53,300 | 38,000 | 33,000 | 21,300 | 12,400 | 8,200 |
| 42,500 | 50,300 | 43,100 | 39,600 | 34,500 | 26,700 | 25,700 | 27,200 |
| 14,200 | 22,400 | 34,100 | 26,500 | 18,200 | 15,200 | 13,700 | 20,600 |
| 961,900 | 826,200 | 595,300 | 589,500 | 648,000 | 537,800 | 395,700 | 387,300 |
| 2,540,500 | 2,436,700 | 2,119,400 | 1,785,000 | 1,560,200 | 1,395,400 | 1,402,200 | 1,351,900 |
| 4,145,600 | 4,075,800 | 3,628,300 | 3,025,700 | 2,799,700 | 2,248,800 | 2,078,300 | 2,094,800 |
| 1,224,000 | 1,019,700 | 849,600 | 611,200 | 539,500 | 420,800 | 441,000 | 461,800 |
| 351,600 | 353,300 | — | — | — | — | — | — |
| 1,566,700 | 1,561,600 | 1,562,400 | 1,484,400 | 1,416,400 | 1,236,900 | 1,100,700 | 1,062,800 |
| 1.9% | 2.5% | 5.4% | 6.2% | 10.7% | 10.0% | 5.4% | 4.3% |
| 3.7% | 5.9% | 12.6% | 12.6% | 21.1% | 18.2% | 10.2% | 8.5% |
| 10,900 | 19,600 | 19,800 | 21,200 | 22,000 | 19,700 | 19,200 | 27,600 |
| 267,300 | 416,700 | 461,600 | 458,900 | 509,600 | 469,200 | 401,200 | 463,400 |
| 377,400 | 312,300 | 409,800 | 351,100 | 549,100 | 517,000 | 425,100 | 342,500 |
| 224,600 | 341,200 | 356,000 | 334,600 | 367,200 | 327,100 | 308,200 | 340,300 |
| 468 | 438 | 554 | 301 | 317 | 413 | 452 | 437 |
| 52,581 | 56,922 | 55,767 | 53,515 | 48,962 | 31,311 | 32,082 | 36,089 |
| 75,067 | 77,875 | 78,014 | 84,369 | 86,795 | 90,660 | 92,024 | 92,217 |

resulted in an operating loss of \$10 million. These problems were progressively overcome and the facility is expected to be operating at capacity by the second quarter of 1981.

| Other Business (\$millions) | 1978 | 1979 | 1980 |
|-----------------------------|-------|-------|--------|
| Net sales to customers | \$133 | \$138 | \$133 |
| Operating earnings (loss) | \$ 3 | \$ 7 | \$ (7) |

Guatemalan and Indonesian Nickel Operations. The reduction in the Company's net earnings attributable to the Guatemalan and Indonesian nickel operations has been as follows :

| | 1978 | 1979 | 1980 |
|--------------------------------------|---------------|--------|--------|
| | (in millions) | | |
| Reduction in net earnings * | | | |
| Guatemala | \$ 6.6 | \$10.4 | \$11.6 |
| Indonesia | 6.8 | 77.7 | 52.3 |
| | \$13.4 | \$88.1 | \$63.9 |
| *Includes interest expense of | | | |
| Guatemala | \$ 5.2 | \$ 8.7 | \$ 6.0 |
| Indonesia | 6.4 | 56.6 | 53.6 |
| | \$11.6 | \$65.3 | \$59.6 |

Prior to 1978, all costs and expenses during construction of these operations had been capitalized. The expensing of interest with respect to the Guatemalan operations commenced in June 1978, and with respect to the Indonesian operations commenced in August 1978 for Stage I and in January 1979 for Stage II. No tax benefit has been recognized relative to the losses incurred by these operations. Such losses can be carried forward indefinitely to offset taxable income of the respective operations in future years.

In November 1980, the Company announced that, in light of recent substantial increases in operating costs, due primarily to significantly higher oil prices, and the recent reduction in nickel price realizations, the Guatemalan operations would be shut down for all of 1981. The reduction in the Company's net earnings in 1981 relative to this operation is expected to be about \$30 million, including interest, depreciation and some \$14 million to maintain the operations on a standby basis.

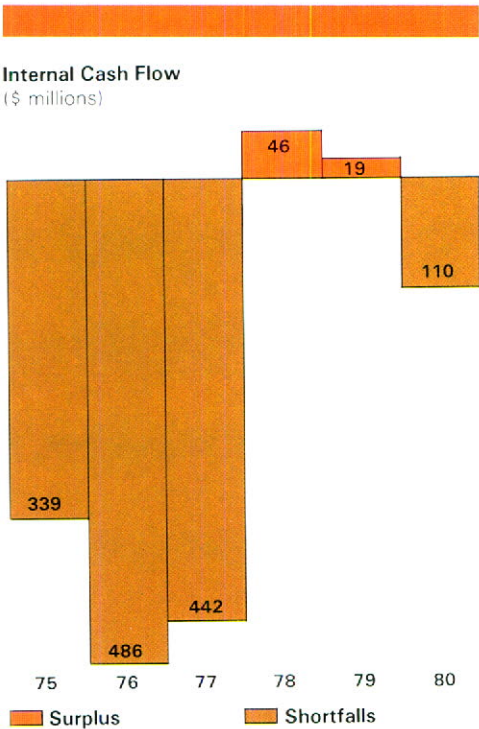
The Indonesian operations made a small contribution to operating earnings in 1980, as compared to an operating loss of \$22 million in 1979. Operating earnings exclude interest expense and certain other items of income and expense, which are deducted in computing the reduction in the Company's net earnings shown above. In 1981, the Indonesian operations are scheduled to be run at about 50 per cent of capacity, slightly below the 1980 level. On the basis of current price/cost relationships, the reduction in the Company's net earnings attributable to the Indonesian operations would be marginally greater in 1981.

Income and Mining Taxes. As a result of legislation enacted in the United Kingdom in 1979 eliminating certain of the recapture provisions relative to "stock appreciation relief", income and mining taxes were reduced by \$13.4 million in 1980 and \$43.4 million in 1979, of which latter amount \$25.7 million represented the reversal of deferred tax liabilities established in prior years.

Financial Position

Cash Flow. The Company entered 1978 with the stated objective of conserving cash and strengthening its financial position. Substantial progress has been achieved, and this remains a key objective today. In the three-year period 1975-1977, the Company incurred internal cash shortfalls totalling \$1,267 million, as the Guatemalan and Indonesian nickel projects were under construction and nickel production in Canada was maintained at relatively high levels in anticipation of improved market conditions that did not materialize. The Company generated internal cash surpluses in 1978 and 1979. These surpluses were due, in part, to the fact that during the Sudbury strike nickel continued to be delivered from inventories while production costs for employment, energy and supplies were not being incurred, but also reflected reduced capital expenditures on the Guatemalan and Indonesian projects and the effects of the cash conservation program. In 1980, however, the Company incurred a shortfall of \$110 million resulting principally from an increase in its primary metals inventories. In August 1980, in order to stem the growth of these inventories, the Company announced production cutbacks at all of its nickel operations. The closing of the Guatemalan nickel operations for the year 1981 will result in cash savings of some \$40 million. Capital expenditures in 1981 are expected to approximate \$200 million.

Dividends. Two important measures have been taken in recent years regarding the Company's common dividends. The effect of each has been to improve the Company's equity position. First, in December 1978, the Board of Directors adopted the Inco Optional Stock Dividend Program which gives common shareholders the right to elect to receive a



stock dividend in lieu of a cash dividend. Holders of about 30 per cent of the Company's Common Shares have been participating in this Program. Second, as set forth in last year's Annual Report the Board of Directors has determined that, although a number of factors must be weighed in considering a dividend, a payout averaging approximately one-third of earnings per common share over a period of years would represent an appropriate level of dividends. Common dividends averaged 29 per cent of earnings per common share for the two-year period 1979-1980, compared with 57 per cent during the decade of the seventies.

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

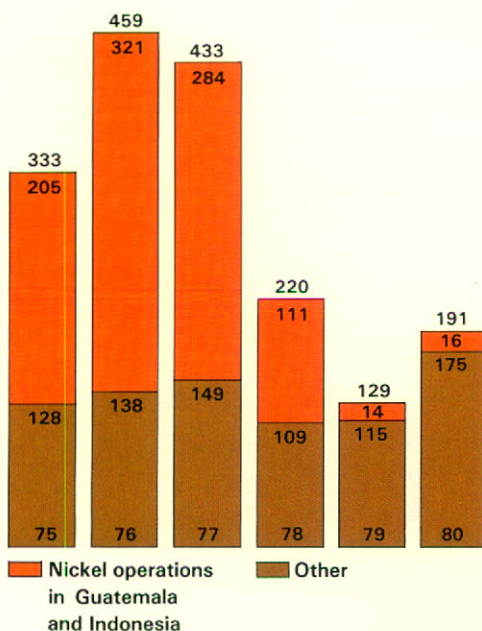
The internal cash shortfalls of the 1975-1977 period were financed principally by some \$530 million of long-term borrowings by the Company's majority-owned Guatemalan and Indonesian subsidiaries in connection with the construction of their respective nickel projects, an increase in short-term debt of about \$130 million, and the sale in Canada of two series of preferred shares totalling \$375 million (Cdn.). During the three years 1978-1980, two major

financings were undertaken – \$150 million raised early in 1978 by the issuance of long-term notes and debentures in the Eurobond market and \$100 million raised in July 1980 by the issuance of debentures in the United States. However, during the last three years, total debt has increased by only \$36 million as existing debt has been repaid. At the same time, total assets have grown by \$556 million and common shareholders' equity by \$256 million.

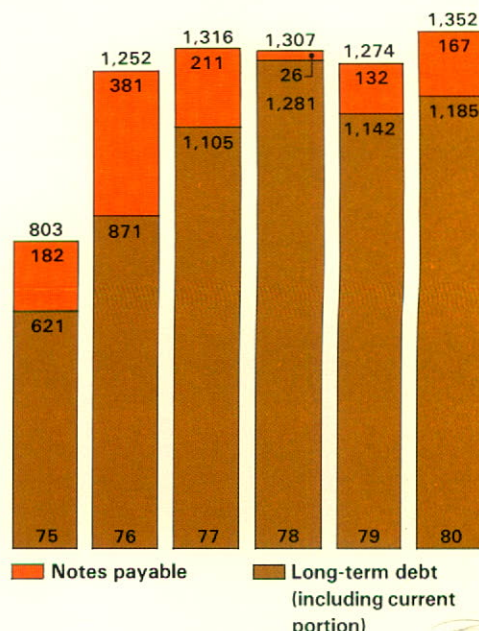
At year-end 1980, notes payable were \$167 million, which is below any practical limit on the Company's short-term debt capacity. At the same time, the Company had unutilized credit facilities of about \$320 million, of which as much as \$250 million can be drawn down as term loans with maturities ranging from five to eight years. Since these facilities provide financing at floating interest rates, the Company does not consider them a source of permanent long-term financing. The Company anticipates that it will be able to meet its cash requirements in 1981 principally from internally generated funds and short-term debt, consisting of commercial paper and bank loans. As in the past, the Company expects to have access to capital markets in Canada, the United States and Europe. In order to maintain its liquidity and flexibility, the Company will remain alert for opportunities to raise fixed-rate, long-term debt in 1981.

Reference is made to pages 40 and 44 of this Report for certain information on the effects of inflation and governmental and other policies and factors affecting the Company's operations and investments by non-Canadians in the Company's securities.

Capital Expenditures
(\$ millions)



Debt Levels
(\$ millions)



Consolidated Statement of Earnings (in thousands)

Inco Limited and Subsidiaries

| Year ended December 31 | 1980 | 1979 | 1978 |
|--|-------------|-------------|-------------|
| Revenues | | | |
| Net sales | \$3,036,099 | \$2,488,543 | \$2,083,094 |
| Other income | 41,676 | 35,056 | 28,637 |
| | 3,077,775 | 2,523,599 | 2,111,731 |
| Costs and expenses | | | |
| Cost of sales and operating expenses | 2,088,679 | 1,799,650 | 1,615,731 |
| Selling, general and administrative expenses | 296,110 | 243,667 | 213,533 |
| Research and development | 49,012 | 40,053 | 42,468 |
| Exploration | 26,882 | 13,865 | 14,159 |
| Interest, net of amounts capitalized | 156,485 | 133,718 | 75,917 |
| Currency translation adjustments | 3,799 | 12,679 | (14,956) |
| | 2,620,967 | 2,243,632 | 1,946,852 |
| Earnings before income and mining taxes | 456,808 | 279,967 | 164,879 |
| Income and mining taxes | 237,401 | 138,242 | 87,070 |
| Net earnings | 219,407 | 141,725 | 77,809 |
| Dividends on preferred shares | 26,179 | 23,274 | 20,511 |
| Net earnings applicable to common shares | \$ 193,228 | \$ 118,451 | \$ 57,298 |
| Net earnings per common share | \$2.56 | \$1.58 | \$0.77 |

Consolidated Statement of Retained Earnings (in thousands)

| Year ended December 31 | 1980 | 1979 | 1978 |
|---|-------------|-------------|-------------|
| Retained earnings at beginning of year | \$1,489,678 | \$1,408,607 | \$1,403,525 |
| Net earnings | 219,407 | 141,725 | 77,809 |
| Preferred dividends | (26,179) | (23,274) | (20,511) |
| Common dividends – \$.69 per share (1979 – \$.50, 1978 – \$.70) | (52,054) | (37,380) | (52,216) |
| Retained earnings at end of year | \$1,630,852 | \$1,489,678 | \$1,408,607 |

The Explanatory Financial Section on pages 33 through 39 is an integral part of these statements.

Auditors' Report

To the Shareholders of Inco Limited :

We have examined the consolidated financial statements and explanatory financial section appearing on pages 30 through 39 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, 1980, 1979 and 1978 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles applied on a consistent basis.

Price Waterhouse & Co.

Toronto, Ontario
New York, New York
February 12, 1981

Consolidated Balance Sheet (in thousands)

Inco Limited and Subsidiaries

| December 31 | 1980 | 1979 | 1978 |
|---|--------------------|--------------------|--------------------|
| Current assets | | | |
| Cash | \$ 26,321 | \$ 37,956 | \$ 25,940 |
| Marketable securities, at cost (market \$27,000,000; 1979 – \$36,000,000; 1978 – \$67,800,000) | 26,962 | 36,018 | 59,322 |
| Accounts receivable | 574,700 | 518,260 | 394,937 |
| Inventories | 1,305,613 | 1,081,644 | 985,286 |
| Prepaid expenses | 17,977 | 11,548 | 10,892 |
| Total current assets | 1,951,573 | 1,685,426 | 1,476,377 |
| Property, plant and equipment | 3,951,238 | 3,794,506 | 3,705,335 |
| Less – Accumulated depreciation and depletion | 1,408,882 | 1,271,123 | 1,164,825 |
| | 2,542,356 | 2,523,383 | 2,540,510 |
| Other assets | | | |
| Investments in and advances to affiliates, on an equity basis | 66,152 | 62,170 | 59,627 |
| Miscellaneous securities | 27,841 | 23,373 | 23,702 |
| Charges to future operations | 16,964 | 11,344 | 12,614 |
| Unamortized cost in excess of net assets of business acquired | 26,594 | 29,693 | 32,792 |
| | 137,551 | 126,580 | 128,735 |
| Total assets | \$4,631,480 | \$4,335,389 | \$4,145,622 |
| Current liabilities | | | |
| Notes payable | \$ 166,646 | \$ 131,731 | \$ 26,236 |
| Long-term debt due within one year | 140,260 | 70,073 | 56,833 |
| Trade accounts payable | 112,063 | 102,861 | 79,594 |
| Accrued payrolls and vacations | 92,802 | 82,162 | 68,226 |
| Other payables and accrued liabilities | 249,205 | 230,884 | 179,970 |
| Income and mining taxes payable | 151,139 | 124,594 | 103,581 |
| Total current liabilities | 912,115 | 742,305 | 514,440 |
| Other liabilities | | | |
| Long-term debt | 1,044,780 | 1,072,326 | 1,223,955 |
| Deferred income and mining taxes | 445,000 | 446,000 | 417,100 |
| Pension benefits | 52,156 | 49,493 | 48,271 |
| Minority interest | 15,088 | 19,010 | 23,508 |
| | 1,557,024 | 1,586,829 | 1,712,834 |
| Preferred shares issued, \$25 (Cdn.) par value: | | | |
| Series A floating rate | 239,250 | 239,250 | 239,250 |
| Series B 7.85% | 105,790 | 109,066 | 112,366 |
| | 345,040 | 348,316 | 351,616 |
| Common shareholders' equity | | | |
| Common shares issued, without nominal or par value | 125,413 | 107,225 | 97,089 |
| Capital surplus | 61,036 | 61,036 | 61,036 |
| Retained earnings | 1,630,852 | 1,489,678 | 1,408,607 |
| Total common shareholders' equity | 1,817,301 | 1,657,939 | 1,566,732 |
| Total liabilities and shareholders' equity | \$4,631,480 | \$4,335,389 | \$4,145,622 |

The Explanatory Financial Section on pages 33 through 39 is an integral part of these statements.

Approved by the Board of Directors:

Charles F. Baird

Donald J. Phillips

Consolidated Statement of Changes in Financial Position (in thousands)

| Year ended December 31 | 1980 | 1979 | 1978 |
|---|------------------|--------------------|------------------|
| Financial resources were provided by | | | |
| Net earnings | \$219,407 | \$141,725 | \$ 77,809 |
| Charges (credits) to earnings not affecting working capital | | | |
| Depreciation | 146,961 | 121,591 | 96,702 |
| Depletion | 18,383 | 10,120 | 11,899 |
| Deferred income and mining taxes | (1,000) | 28,900 | 29,900 |
| Equity in earnings of affiliated companies | (6,174) | (3,768) | (3,575) |
| Amortization of cost in excess of net assets of business acquired | 3,099 | 3,099 | 3,099 |
| Currency translation adjustments not affecting working capital | 2,372 | 6,539 | (7,153) |
| Other – net | (871) | (1,363) | 710 |
| Working capital provided by operations | 382,177 | 306,843 | 209,391 |
| Long-term borrowings | 153,655 | 42,785 | 287,525 |
| Shares issued in lieu of cash dividends | 16,923 | 10,048 | 147 |
| Other – net | (2,418) | 9,926 | 7,918 |
| Total | 550,337 | 369,602 | 504,981 |
| Financial resources were used for | | | |
| Preferred dividends | 26,179 | 23,274 | 20,511 |
| Common dividends | 52,054 | 37,380 | 52,216 |
| Capital expenditures | 191,461 | 128,848 | 219,934 |
| Reduction of long-term debt | 184,306 | 198,916 | 76,599 |
| Total | 454,000 | 388,418 | 369,260 |
| Increase (decrease) in working capital | \$ 96,337 | \$ (18,816) | \$135,721 |
| Analysis of changes in working capital | | | |
| Increase (decrease) in current assets | | | |
| Cash and marketable securities | \$ (20,691) | \$ (11,288) | \$ 42,237 |
| Accounts receivable | 56,440 | 123,323 | 13,280 |
| Inventories | 223,969 | 96,358 | (95,429) |
| Prepaid expenses | 6,429 | 656 | (1,805) |
| Total | 266,147 | 209,049 | (41,717) |
| Increase (decrease) in current liabilities | | | |
| Notes payable and other debt | 105,102 | 118,735 | (212,801) |
| Payables and accrued liabilities | 38,163 | 88,117 | (257) |
| Income and mining taxes payable | 26,545 | 21,013 | 35,620 |
| Total | 169,810 | 227,865 | (177,438) |
| Increase (decrease) in working capital | \$ 96,337 | \$ (18,816) | \$135,721 |

The Explanatory Financial Section on pages 33 through 39 is an integral part of these statements.

Note 1. Summary of Significant Accounting Policies

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

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

Translation of financial statements into United States dollars.

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

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

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

Depreciation and depletion. Depreciation is calculated using the straight-line method and, for the nickel operations in Guatemala and Indonesia, the unit-of-production method based on the estimated economic lives of property, plant and equipment. Such lives are generally limited to a maximum of 20 years and are subject to annual review. Facilities placed on a standby basis are depreciated using the straight-line method. Depletion is calculated by a method which allocates the related recorded costs ratably to the tons of ore mined. Depletion is the systematic amortization of the recorded cost of the Company's mines and does not represent the decrease, if any, in the value of ore reserves as a result of ore mined.

Cost in excess of net assets acquired. The excess of purchase cost over the fair value of acquired net assets, relating to the acquisition in 1974 of Inco ElectroEnergy Corporation, is amortized on a straight-line basis over 15 years.

Exploration. Expenditures for mineral exploration are expensed as incurred. Expenditures for oil and gas prospects are accounted for by the successful efforts method.

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

Pension plans. The Company has pension plans, which are mainly noncontributory, covering most employees. Pension costs are calculated and funded based on actuarial estimates. Prior service costs at December 31, 1980 approximated \$160 million, the major portion of which will be charged to operations within the next 14 years. The liability for pension benefits comprises supplements for pensioners and certain pension liabilities of acquired companies.

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. Other Income

Other income includes net gains on sales of assets, gains on retirement of long-term debt, interest, dividends, income from equity interests in affiliates and joint ventures, and realized exchange gains and losses which were not material. Included in other income are gains on sales of marketable equity securities of \$480,000 (1979 - \$8,630,000; 1978 - \$9,470,000).

Note 3. Inventories

Inventories consist of the following:

| December 31 | 1980 | 1979 | 1978 |
|---|----------------|-------------|-----------|
| | (in thousands) | | |
| Metals (at average cost) | | | |
| Finished and in-process | \$ 829,175 | \$ 610,198 | \$577,756 |
| Supplies | 139,390 | 119,057 | 100,021 |
| | 968,565 | 729,255 | 677,777 |
| Metals (at last-in, first-out cost) | | | |
| Finished and in-process | 64,492 | 84,950 | 118,873 |
| Batteries and related products (at first-in, first-out cost) | | | |
| Finished and in-process | 170,915 | 174,064 | 111,201 |
| Raw materials and supplies | 74,098 | 67,981 | 50,624 |
| | 245,013 | 242,045 | 161,825 |
| Other products (principally at first-in, first-out cost) | 27,543 | 25,394 | 26,811 |
| Total | \$1,305,613 | \$1,081,644 | \$985,286 |

During 1980 and 1979, the quantity of inventories accounted for by the last-in, first-out (LIFO) method was reduced. The resultant liquidation of inventories valued at lower costs prevailing in prior years, as compared with 1980 and 1979 costs, had the effect of reducing cost of sales and operating expenses by approximately \$14,100,000 in 1980 and \$8,500,000 in 1979. Current cost in excess of the recorded cost of metals inventories accounted for by the LIFO method was \$82,200,000 at December 31, 1980.

Note 4. Property, Plant and Equipment

Property, plant and equipment consists of the following :

| December 31 | 1980 | 1979 | 1978 |
|--|----------------|-------------|-------------|
| | (in thousands) | | |
| Mines and mining plants | \$1,107,036 | \$1,083,853 | \$1,081,645 |
| Processing facilities | 1,606,534 | 1,578,372 | 1,551,897 |
| Other | 453,184 | 447,225 | 449,393 |
| Primary metals facilities | 3,166,754 | 3,109,450 | 3,082,735 |
| Alloy products facilities | 377,513 | 348,336 | 337,205 |
| Battery and related product facilities | 268,445 | 232,772 | 194,857 |
| Other | 138,526 | 103,948 | 90,538 |
| | 3,951,238 | 3,794,506 | 3,705,335 |
| Accumulated depreciation | 1,121,851 | 1,002,475 | 905,020 |
| Accumulated depletion | 287,031 | 268,648 | 259,805 |
| | 1,408,882 | 1,271,123 | 1,164,825 |
| Net property, plant and equipment | \$2,542,356 | \$2,523,383 | \$2,540,510 |

Net property, plant and equipment at December 31, 1980 includes \$790 million relative to the Indonesian nickel operations, which made a positive contribution to operating earnings in 1980, and \$215 million relative to the Guatemalan nickel operations.

The nickel mining and processing operations of Exmibal, the Company's 80 per cent owned Guatemalan subsidiary, are totally dependent on oil for energy. Recent substantial increases in oil prices coincident with a reduction in nickel price realizations resulted in a decision in November 1980 not to operate these facilities in 1981. The process plant had been shut down since late September 1980 as one of several measures taken by the Company to reduce production. The plant will be maintained on a standby basis. As a result of these recent changes in costs and prices, Exmibal would operate at a loss at current price/cost relationships. The longer term profitability of the operations will depend upon the future relationship of nickel prices to operating costs and upon the level of production.

The Company recognizes that, for the longer term, serious consideration should be given to converting the operations to an alternative energy source such as hydroelectric power or coal. Preliminary studies indicate that Exmibal would be

profitable using an alternative energy source and more specific energy conversion studies have been commissioned, the results of which are expected during 1981. Additional capital investment, the amount of which could be significant relative to the current investment depending upon the alternative energy source selected and the degree to which the operations would be converted from oil to such alternative energy source, could be required to implement an energy conversion project.

The reduction in the Company's consolidated net earnings attributable to the Guatemalan operations was \$12 million for the full year 1980, including \$7 million applicable to the fourth-quarter shutdown. The reduction in the Company's 1981 net earnings attributable to the Guatemalan nickel operations is estimated at about \$30 million. In addition to interest and depreciation, this includes some \$14 million to maintain the operations on a standby basis for the entire year, much of which would otherwise have been treated as production costs and charged to inventories. In the absence of production, these costs must be expensed. By not producing, however, the Company's cash position will be improved, since substantial cash costs, principally for oil, will not be incurred.

While the ultimate economic viability of the Company's investment in Exmibal is not determinable at this time, it is the opinion of management that any future adjustment would not have a material adverse effect on the Company's financial position.

Net property, plant and equipment at December 31, 1980 also includes \$141 million applicable to standby mines in Canada.

Note 5. Interest Expense

Interest expense on long-term debt for the years 1980, 1979 and 1978 was \$122,136,000, \$118,598,000 and \$61,265,000, respectively. The expensing of interest commenced in June 1978 for the Guatemalan nickel operations, and with respect to the Indonesian operations commenced in August 1978 for Stage I and in January 1979 for Stage II. Interest capitalized for the years 1980, 1979 and 1978 totalled \$287,000, \$1,606,000 and \$45,988,000, respectively.

Note 6. Notes Payable

Notes payable included commercial paper borrowings of \$63,663,000 at December 31, 1980 and \$80,215,000 at December 31, 1979. The Company uses a combination of fees and bank balances to compensate banks in the United States and Canada for lines of credit used to support its commercial paper borrowings. During 1980, the balances maintained averaged approximately \$4,640,000 and fees paid totalled approximately \$543,000, which amounts were sufficient to fully compensate the banks for the lines of credit provided. Where compensation took the form of balances, the requirement was met on an average basis so that the availability of cash was not restricted at any point in time.

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, 1980 are shown in parentheses) :

| December 31 | 1980 | 1979 | 1978 |
|--|------------------|------------------|------------------|
| | (in thousands) | | |
| Inco Limited | | | |
| 6.85% U.S. \$ Debentures (1984-1993) | \$ 117,667 | \$ 123,820 | \$ 143,150 |
| 8.625% Cdn. \$ Debentures (1982-1991) | 53,486 | 57,194 | 58,137 |
| 9.25% Cdn. \$ Debentures (1982-1990) | 51,079 | 54,784 | 56,497 |
| 9.0% Eurodollar Debentures (1982-1992) | 91,944 | 93,744 | 97,544 |
| 8.25% Eurodollar Notes (1984) | 50,000 | 50,000 | 50,000 |
| 12.375% U.S. \$ Debentures (1991-2010) | 100,000 | — | — |
| P.T. International Nickel Indonesia | | | |
| Eurodollar Bank loans (17.3%) (1981-1989) * | 211,538 | 215,385 | 284,231 |
| Export & supplier credits (8.7%) (1981-1989) | 184,727 | 193,243 | 188,022 |
| Export & supplier credits (20.0%) (1981-1984) ‡ | 15,318 | 22,608 | 26,150 |
| 8.0625% U.S. \$ Production sharing loan (1981-1986) | 19,800 | 23,400 | 27,807 |
| Inco ElectroEnergy Corporation and subsidiaries | | | |
| U.S. \$ Bank term loan (9.0%) (1981) | 50,000 | 50,000 | 50,000 |
| U.S. \$ Revolving credit loan (21.5%) (1985) ‡ | 50,000 | 38,000 | 25,000 |
| 8.5% U.S. \$ Senior notes (1985-1997) | 45,000 | 45,000 | 45,000 |
| Other (10.4%) (1981-1997) | 19,712 | 19,920 | 19,132 |
| Exmibal | | | |
| Export & supplier credits (8.6%) (1981-1988) | 39,083 | 38,906 | 60,369 |
| 9.5% U.S. \$ International agency loans (1981-1988) | 11,100 | 12,600 | 19,950 |
| Eurodollar Bank loans (14.2%) (1981-1983) * | 9,882 | 9,882 | 18,000 |
| U.S. \$ Subordinated completion loan | 2,734 | 4,000 | 4,000 |
| Inco Europe Limited and subsidiaries | | | |
| Sterling Bank loans (14.8%) (1984-1988) * | 23,890 | 28,841 | 53,079 |
| Other (10.0%) (1981-2002) | 9,841 | 4,087 | 3,838 |
| Other indebtedness (6.3%) (1981-2002) | 28,239 | 56,985 | 50,882 |
| | 1,185,040 | 1,142,399 | 1,280,788 |
| Long-term debt due within one year | 140,260 | 70,073 | 56,833 |
| Long-term debt | \$1,044,780 | \$1,072,326 | \$1,223,955 |

* Interest is based on the London Interbank Offered rate.

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

The average interest rate on long-term debt at December 31, 1980 was 11.2%. Approximately 27% of the Company's long-term debt carries interest rates that are subject to periodic adjustments based on market interest rates. The long-term debt is payable in the following currencies : 76%-U.S. dollars, 13%-Canadian dollars, 4%-pound sterling, and 7%-other currencies.

In July 1980, the Company issued, in the United States, \$100 million of 12% Debentures due 2010, which require sinking fund payments of \$4,750,000 annually from 1991 to 2009.

The Company has not extended a financial guarantee of the debt of P.T. International Nickel Indonesia (P.T. Inco). However, the Company has agreed, subject to force majeure, to provide sufficient funds in the form of equity and senior loans to enable the project company to achieve project completion, as defined in one of the security documents for the project's financing. Project completion requires, in part, that the project produce nickel in matte at an annualized rate of approximately 81 million pounds. Based on an in-depth review of the project's production capabilities, which was completed in March 1980, it was determined that, after making certain process improvements at a cost of about \$15 million, P.T. Inco's annual production capacity will be 75 to 80 million pounds of nickel in matte. As these improvements are implemented and further operating experience is gained, the Company expects to consider further improvements to raise the project's capacity by approximately 10 per cent beyond the 75 to 80 million pound range. Project completion also includes a cash flow test. The project's ability to meet such test before its senior debt is repaid, will depend on future price/cost relationships. In addition, the Company has agreed to purchase approximately two-thirds of P.T. Inco's production at a formula price based on the price for nickel oxide sinter 75.

The Company has agreed to purchase Exmibal's production at a formula price based on the price for nickel oxide sinter 75 with the provision that until the formula price has risen sufficiently to sustain the project or until the senior loans have been repaid in full, the Company will pay variable prices intended to meet Exmibal's operating and debt service costs. The Company has also agreed to make certain payments in respect of Exmibal's long-term debt if Exmibal fails to make payments when due on such debt, in return for which the Company would receive credits against its future purchases of Exmibal's production. As discussed in Note 4, the Exmibal operations will remain shut down for 1981. The Company has agreed, subject to certain events of force majeure, to provide Exmibal with sufficient funds to meet regularly scheduled payments of principal and interest due Exmibal's senior lenders in 1981.



Testing of advanced battery components

At December 31, 1980, the Company and its subsidiaries had unused committed credit facilities of approximately \$320 million. Approximately \$280 million of this amount was available to support the Company's commercial paper borrowings in Canada and the United States as well as for general corporate purposes. Included in the latter amount are revolving term loan facilities totalling \$250 million which are available as revolving credits through June 1981. These credit facilities also permit the Company to convert the \$250 million to term loans for periods ranging from five to eight years. In addition, included in notes payable is \$50 million outstanding under another revolving term loan facility which provides for revolving credit through March 1982, at which time any advances may be converted to term loans for periods up to eight years.

Long-term debt maturities and sinking fund requirements for each of the five years through 1985 are: 1981 – \$140,260,000; 1982 – \$32,232,000; 1983 – \$70,750,000; 1984 – \$120,183,000; 1985 – \$143,499,000.

Note 8. Income and Mining Taxes

The provisions for income and mining taxes for the years 1978 – 1980 were as follows:

| | 1980 | 1979 | 1978 |
|-------------------------------|----------------|-----------|----------|
| | (in thousands) | | |
| Current taxes | \$248,601 | \$146,742 | \$51,970 |
| Current deferred | (10,200) | (37,400) | 5,200 |
| Future deferred | (1,000) | 28,900 | 29,900 |
| Total deferred taxes | (11,200) | (8,500) | 35,100 |
| Total income and mining taxes | \$237,401 | \$138,242 | \$87,070 |
| Canada | \$222,441 | \$133,311 | \$58,284 |
| Other | 14,960 | 4,931 | 28,786 |
| | \$237,401 | \$138,242 | \$87,070 |

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

| | 1980 | 1979 | 1978 |
|--------|----------------|-----------|-----------|
| | (in thousands) | | |
| Canada | \$448,585 | \$252,667 | \$111,772 |
| Other* | 8,223 | 27,300 | 53,107 |
| Total | \$456,808 | \$279,967 | \$164,879 |

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

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

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

| | 1980 | 1979 | 1978 |
|---|----------------|------------|----------|
| | (in thousands) | | |
| Tax over (under) book inventory valuation | \$ (7,500) | \$ 12,500 | \$ (800) |
| Tax over book depreciation | 9,600 | 7,000 | 35,400 |
| Tax over (under) book pension deductions | (600) | 1,600 | (6,500) |
| Tax over (under) book separation cost deductions | — | (400) | 4,300 |
| Effect of U.K. tax change relating to prior years | — | (25,700) | — |
| Other | (12,700) | (3,500) | 2,700 |
| Total | \$(11,200) | \$ (8,500) | \$35,100 |

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 | 1980 | 1979 | 1978 |
|--|-------------------------------|--------|--------|
| | Percentage of pretax earnings | | |
| Combined Canadian federal-provincial statutory income tax rate | 49.1% | 49.3% | 49.2% |
| Resource and depletion allowances | (15.5) | (15.0) | (16.1) |
| Adjusted income tax rate | 33.6 | 34.3 | 33.1 |
| Mining taxes | 12.9 | 13.8 | 18.0 |
| | 46.5 | 48.1 | 51.1 |
| Losses of nickel operations in Guatemala and Indonesia | 6.6 | 13.5 | 4.0 |
| Effect of U.K. tax change – prior years | — | (9.2) | — |
| — current year | (3.0) | (6.3) | — |
| Currency translations | 0.3 | 4.4 | 11.1 |
| Tax rate differential outside Canada | 1.9 | 2.7 | 0.3 |
| Investment tax credits | (2.1) | (1.9) | (4.0) |
| Inventory allowance – Canada | (0.8) | (1.4) | (3.5) |
| Prior year tax adjustments | (1.0) | 0.9 | (6.9) |
| Statutory exemptions | (0.2) | (0.9) | (3.1) |
| Other | 3.8 | (0.5) | 3.8 |
| Effective income and mining tax rate | 52.0% | 49.4% | 52.8% |

In the three-year period 1978 through 1980, the changes in the effective income and mining tax rate were largely influenced by the level of losses of the nickel operations in Guatemala and Indonesia, on which no tax benefit is recognized, and by the effect of currency translations arising mainly from fluctuations in the relative values of the Canadian dollar, pound sterling, and the U.S. dollar. In addition, starting in 1979 the effective tax rate was reduced by a change in tax legislation in the United Kingdom related to

stock relief and the reduction in mining tax rates in Manitoba and Ontario.

The losses of \$179 million incurred through December 31, 1980 by the Company's nickel operations in Indonesia and Guatemala can be carried forward indefinitely to offset taxable income of the respective operations in future years. Similarly, unutilized investment tax credits relative to the Indonesian operations, which totalled \$53.5 million at December 31, 1980, can be carried forward indefinitely to reduce future tax payments.

Effective from the year 1973, legislation in the United Kingdom provided tax relief on increases in the value of inventories, subject to recapture if such value declines. Accordingly, tax payments were reduced each year, but deferred tax liabilities were established simultaneously to provide for the possibility of recapture. Legislation enacted in 1979 removed such recapture for the years 1973 and 1974 and limited to six years the period during which tax relief on increases in the value of inventories occurring subsequent to 1974 could be recaptured if such value declines. As a result, income and mining taxes were reduced by \$13.4 million in 1980 and \$43.4 million in 1979, of which latter amount \$25.7 million represents the reversal of deferred tax liabilities established in prior years.

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 \$445,000,000 in the Consolidated Balance Sheet. The cumulative tax effect of timing differences relating to items of a current nature of \$6,700,000 is reflected as a reduction in the current liability for income and mining taxes payable. Investment tax credits reduced income and mining taxes by \$9,390,000 in 1980, \$5,279,000 in 1979 and \$6,629,000 in 1978.



Increased cobalt production will come from new \$21 million plant.

Note 9. Stock Option Plans

The Key Employees Incentive Plan ("1968 Plan") and the 1979 Key Employees Incentive Plan ("1979 Plan") each authorized the granting of options to purchase up to 1,000,000 common shares at prices not less than 100% of their market value on the day the option is granted. The Plans provide that no shares subject to option shall be purchasable after ten years from the date of grant. With respect to stock options, the 1968 Plan was terminated in 1978 except as to options then outstanding, and no further options may be granted thereunder. At December 31, 1980, outstanding options for 255,175 shares under these Plans also carry share appreciation rights.

Directors who are not officers of the Company are not entitled to participate in the Plans. Changes during the year 1980 in options outstanding are summarized as follows:

| | Number of Shares | |
|--|------------------|-----------|
| | 1979 Plan | 1968 Plan |
| Outstanding at December 31, 1979 | 419,700 | 629,564 |
| Options granted at a price of \$23.94 a share | 194,475 | — |
| Exercised at average option price of \$17.47 a share | (8,090) | (47,624) |
| Expired | (12,875) | (59,176) |
| Outstanding at December 31, 1980 | 593,210 | 522,764 |
| Shares available for grant at December 31, 1980 | 394,950 | — |
| Shares exercisable at December 31, 1980 | 139,160 | 319,434 |

At December 31, 1980, the average option price per share of options outstanding was \$20.66 (range \$15.57 – \$44.50) under the 1968 Plan and \$20.90 (range \$19.13 – \$23.94) under the 1979 Plan. The expiration dates of options outstanding at December 31, 1980 ranged from April 4, 1981 to October 5, 1990. At December 31, 1980 there were 860 employees participating in the 1979 Plan and 479 employees participating in the 1968 Plan.

Note 10. Preferred and Common Shares

At December 31, 1980, the authorized share capital of the Company consisted of 30,000,000 preferred shares and an unlimited number of common shares.

The Series A Preferred Shares, which do not have general voting rights, have a cumulative floating rate dividend equal to half of the Canadian bank prime rate plus 1¼ per cent. The shares are redeemable at the option of the Company at \$25.75 (Cdn.) currently, such price decreasing annually to \$25.00 (Cdn.) by March 1, 1984. The shares are retractable at par, at the option of the holders, in 1987. The dividends of \$18,234,000 paid in 1980 on these preferred shares reflected an average annual dividend rate of approximately 8.5%; this dividend rate averaged 7.1% in 1979 and 5.6% in 1978.

The 7.85% cumulative Series B Preferred Shares have general voting rights and are redeemable at \$26.00 (Cdn.) commencing December 1, 1982, such price decreasing annually to \$25.00 (Cdn.) by December 1, 1987. The Company is required to repurchase 150,000 Series B Preferred Shares annually if such shares are available at a price not greater than par value.

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

Under the Company's Share Purchase Plan, which became effective in the fourth quarter of 1980, common shareholders can purchase Common Shares of the Company at prevailing market prices. Common shareholders can contribute from \$30 to \$6,000 (Cdn.) or from \$30 to \$5,200 (U.S.) quarterly (the maximum amount to be adjusted periodically to make allowance for significant currency fluctuations) for such purchases on scheduled quarterly dividend payment dates.

Changes in the Series B Preferred Shares and Common Shares for the years 1978-1980 are shown below. There were no changes in the 10,000,000 Series A Preferred Shares issued in 1977.

| | Series B Preferred Shares | | Common Shares | |
|---------------------------------------|---------------------------|-----------------|------------------|-----------------|
| | Number of shares | \$ in thousands | Number of shares | \$ in thousands |
| Balance at December 31, 1977 | 5,000,000 | \$114,000 | 74,593,655 | \$ 97,018 |
| Shares purchased | (75,000) | (1,710) | — | — |
| Shares issued in lieu of dividends | 3,515 | 76 | 4,270 | 71 |
| December 31, 1978 | 4,928,515 | 112,366 | 74,597,925 | 97,089 |
| Shares purchased | (149,300) | (3,404) | — | — |
| Stock options exercised | — | — | 12,025 | 192 |
| Shares issued in lieu of dividends | 4,875 | 104 | 524,377 | 9,944 |
| December 31, 1979 | 4,784,090 | 109,066 | 75,134,327 | 107,225 |
| Shares purchased | (150,000) | (3,420) | — | — |
| Stock options exercised | — | — | 55,714 | 971 |
| Shares issued in lieu of dividends | 6,662 | 144 | 755,771 | 16,779 |
| Shares sold under Share Purchase Plan | — | — | 21,075 | 438 |
| December 31, 1980 | 4,640,752 | \$105,790 | 75,966,887 | \$125,413 |

Note 11. Pension Plans

Pension expense totalled \$72,467,000 in 1980, \$63,536,000 in 1979 and \$56,114,000 in 1978. A comparison of accumulated plan benefits and plan net assets for the Company's major Canadian, United States and United Kingdom pension plans is shown below. The actuarial present value of accumulated plan benefits and the net assets available for benefits have not been calculated for all of the Company's other pension plans; such benefits and related net assets are not material. At December 31, 1980, vested and nonvested benefits exceeded the net assets of one major Canadian pension trust fund by approximately \$75 million.

| December 31 | 1980 | 1979 |
|---|----------------|-----------|
| | (in thousands) | |
| Actuarial present value of accumulated plan benefits, using an assumed discount rate of 6.4%: | | |
| Vested benefits | \$603,000 | \$556,000 |
| Nonvested benefits | 136,000 | 122,000 |
| | \$739,000 | \$678,000 |
| Net assets available for benefits* | \$830,800 | \$659,600 |

*Comprises pension trust funds, at market, and balance sheet accruals.

Note 12. Financial Data by Business Segment

Financial data by business segment and geographic area for the years 1980, 1979 and 1978 follow (in millions of dollars) :

| Data by Business Segment | Year 1980 | | | | | Total after elimi-nations | Year 1979 | | | | | Total after elimi-nations | Year 1978 | | | | | Total after elimi-nations |
|---|----------------|----------------|------------------------------|-----------|---------------------------|---------------------------|----------------|----------------|------------------------------|---------|---------------------------|---------------------------|----------------|----------------|------------------------------|---------|---------------------------|---------------------------|
| | Primary metals | Alloy products | Batteries & related products | Other | | | Primary metals | Alloy products | Batteries & related products | Other | | | Primary metals | Alloy products | Batteries & related products | Other | | |
| Net sales to customers | \$1,407 | \$731 | \$765 | \$133 | | \$3,036 | \$1,054 | \$553 | \$744 | \$138 | | \$2,489 | \$ 866 | \$429 | \$655 | \$133 | | \$2,083 |
| Intersegment sales | 148 | 3 | — | 1 | | — | 135 | 7 | 3 | 1 | | — | 135 | 9 | 2 | 1 | | — |
| Total net sales | \$1,555 | \$734 | \$765 | \$134 | | \$3,036 | \$1,189 | \$560 | \$747 | \$139 | | \$2,489 | \$1,001 | \$438 | \$657 | \$134 | | \$2,083 |
| Operating earnings (loss) | \$ 569 | \$ 87 | \$ (24) | \$ (7) | | \$ 630 | \$ 336 | \$ 51 | \$ 36 | \$ 7 | | \$ 425 | \$ 172 | \$ 25 | \$ 33 | \$ 3 | | \$ 234 |
| Non-operating expenses* | | | | | | 173 | | | | | | 145 | | | | | | 69 |
| Earnings before income and mining taxes | | | | | | \$ 457 | | | | | | \$ 280 | | | | | | \$ 165 |
| Capital expenditures | \$ 93 | \$ 28 | \$ 42 | \$ 28 | | \$ 191 | \$ 56 | \$ 15 | \$ 40 | \$ 18 | | \$ 129 | \$ 155 | \$ 13 | \$ 24 | \$ 28 | | \$ 220 |
| Depreciation and depletion | \$ 120 | \$ 17 | \$ 20 | \$ 8 | | \$ 165 | \$ 94 | \$ 15 | \$ 18 | \$ 5 | | \$ 132 | \$ 72 | \$ 16 | \$ 16 | \$ 5 | | \$ 109 |
| Identifiable assets at December 31 | \$3,020** | \$780 | \$633 | \$145 | | \$4,494 | \$2,863 | \$725 | \$608 | \$134 | | \$4,221 | \$2,887 | \$622 | \$480 | \$116 | | \$4,002 |
| Other assets | | | | | | 137 | | | | | | 114 | | | | | | 144 |
| Total assets at December 31 | | | | | | \$4,631 | | | | | | \$4,335 | | | | | | \$4,146 |
| Data by Geographic Area | Year 1980 | | | | Total after elimi-nations | | Year 1979 | | | | Total after elimi-nations | | Year 1978 | | | | Total after elimi-nations | |
| | Canada | United States | Europe | Other | | | Canada | United States | Europe | Other | | | Canada | United States | Europe | Other | | |
| Net sales to customers | \$ 372 | \$1,341 | \$965 | \$ 358 | | \$3,036 | \$ 234 | \$1,264 | \$745 | \$ 246 | | \$2,489 | \$ 214 | \$1,107 | \$610 | \$ 152 | | \$2,083 |
| Sales between geographic areas | 1,062 | 60 | 18 | 60 | | — | 879 | 62 | 23 | 73 | | — | 842 | 45 | 10 | 4 | | — |
| Total net sales | \$1,434 | \$1,401 | \$983 | \$ 418 | | \$3,036 | \$1,113 | \$1,326 | \$768 | \$ 319 | | \$2,489 | \$1,056 | \$1,152 | \$620 | \$ 156 | | \$2,083 |
| Operating earnings (loss) | \$ 556 | \$ (17) | \$ 77 | \$ 58 | | \$ 630 | \$ 336 | \$ 27 | \$ 62 | \$ 21 | | \$ 425 | \$ 156 | \$ 44 | \$ 27 | \$ 19 | | \$ 234 |
| Non-operating expenses* | | | | | | 173 | | | | | | 145 | | | | | | 69 |
| Earnings before income and mining taxes | | | | | | \$ 457 | | | | | | \$ 280 | | | | | | \$ 165 |
| Identifiable assets at December 31 | \$1,896 | \$ 991 | \$588 | \$1,380** | | \$4,494 | \$1,750 | \$1,012 | \$517 | \$1,326 | | \$4,221 | \$1,757 | \$ 916 | \$413 | \$1,247 | | \$4,002 |
| Other assets | | | | | | 137 | | | | | | 114 | | | | | | 144 |
| Total assets at December 31 | | | | | | \$4,631 | | | | | | \$4,335 | | | | | | \$4,146 |

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

**Includes assets relating to the Company's nickel operations in Indonesia and Guatemala of \$871 and \$236, respectively.

The Company's business is organized around three principal product groups: primary metals, alloy products and batteries and related products. The Company's principal primary metals are nickel and copper. Wrought nickel, high-nickel alloys in rolling mill forms, and forgings are the Company's major alloy products. Automotive, dry-cell and industrial batteries and related products are the Company's major battery products. Other products comprise mainly fractional horsepower motors and safety products.

The Company's intersegment sales generally are made at approximate prices used for sales to unaffiliated customers. Other assets include \$66 (1979—\$62, 1978—\$60) of investments in and advances to affiliated companies and \$71 (1979—\$52, 1978—\$84) of corporate assets, principally cash, securities and certain fixed assets.

Sales between geographic areas generally are made at prevailing market prices, except that sales of primary metals from Canada to other primary metals affiliates are net of discounts. In 1980, sales to customers include \$109 (1979—\$42, 1978—\$46) exported from Canada and \$96 (1979—\$68, 1978—\$49) exported from the United States. The sales from Canada include \$511 (1979—\$419, 1978—\$425) exported to the United States and \$494 (1979—\$428, 1978—\$389) exported to Europe.

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 |
|--|------------------|-------------------|------------------|-------------------|-------------|
| 1980 : | | | | | |
| Net sales | \$820,506 | \$720,953 | \$689,106 | \$805,534 | \$3,036,099 |
| Cost of sales and operating expenses | \$522,823 | \$487,547 | \$487,820 | \$590,489 | \$2,088,679 |
| Currency translation adjustments – loss (gain) | \$ (4,031) | \$ 8,882 | \$ 59 | \$ (1,111) | \$ 3,799 |
| Earnings before income and mining taxes | \$192,785 | \$ 98,904 | \$ 79,117 | \$ 86,002 | \$ 456,808 |
| Net earnings | \$ 97,479 | \$ 46,122 | \$ 38,930 | \$ 36,876 | \$ 219,407 |
| Net earnings per common share | \$1.21 | \$.53 | \$.42 | \$.40 | \$2.56 |
| Dividends per common share | \$.15 | \$.18 | \$.18 | \$.18 | \$.69 |
| 1979 : | | | | | |
| Net sales | \$555,022 | \$574,561 | \$604,401 | \$754,559 | \$2,488,543 |
| Cost of sales and operating expenses (1) | \$446,107 | \$416,405 | \$415,003 | \$522,135 | \$1,799,650 |
| Currency translation adjustments – loss (gain) | \$ 5,346 | \$ 6,320 | \$ 3,200 | \$ (2,187) | \$ 12,679 |
| Earnings before income and mining taxes | \$ 15,712 | \$ 54,366 | \$ 85,865 | \$124,024 | \$ 279,967 |
| Net earnings (2) | \$ 537 | \$ 16,036 | \$ 55,933 | \$ 69,219 | \$ 141,725 |
| Net earnings (loss) per common share | \$ (.06) | \$.13 | \$.67 | \$.84 | \$1.58 |
| Dividends per common share | \$.10 | \$.10 | \$.10 | \$.20 (3) | \$.50 |

Notes :

(1) Includes Sudbury strike expenses of \$40,480,000 in the first quarter and \$35,060,000 in the second quarter of 1979.

(2) After tax benefits of \$6,580,000, \$24,140,000 and \$12,720,000 in the second, third and fourth quarters of 1979, respectively, applicable to United Kingdom tax legislation enacted in 1979 (See Note 8).

(3) Consists of a regular quarterly dividend and a year-end extra dividend of 10 cents each.

Pension Trust Funds

The Company has established irrevocable pension trust funds, which are separate and distinct from the accounts of the Company, to implement its major pension plans.

Trust fund operations are summarized as follows :

| Year ended December 31 | 1980 | 1979 |
|--|----------------|-----------|
| | (in thousands) | |
| Balance in funds at beginning of year | \$554,090 | \$453,481 |
| Company contributions | 62,119 | 57,902 |
| Employee contributions | 1,193 | 939 |
| Income from investments | 106,152 | 71,818 |
| Currency translation adjustments* | (5,113) | 6,717 |
| | 718,441 | 590,857 |
| Benefits paid | 39,757 | 36,767 |
| Balance in funds at end of year, at cost | \$678,684 | \$554,090 |
| Market value of funds at end of year | \$810,600 | \$637,900 |

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

Effect of Inflation on Selected Financial Data

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

In the accompanying statement of income from continuing operations adjusted for changing prices, the Company's results as reported in the primary financial statements are compared with inflation-adjusted data. The terminology used in that presentation and elsewhere in this discussion has been defined in Statement No. 33 as follows :

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

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

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

The historical cost/nominal dollar values of property, plant and equipment, inventories, and cost of sales and operating expenses have been restated into average 1980 constant dollars by applying, as required, the Consumer Price Index for All Urban Consumers (CPI-U), published by the Bureau of Labor Statistics of the U.S. Department of Labor. The current cost of property, plant and equipment has been determined principally by the application of specific indices either to the historical cost/nominal dollar value of the assets or, with respect to Inco ElectroEnergy, a company acquired in 1974, to the appraised value of the acquired property, plant and equipment. Depreciation and depletion have been calculated by applying the methods used in historical cost/nominal dollar accounting to the values of property, plant and equipment expressed in constant dollars and at current cost.

As discussed in Note 4 to the Consolidated Financial Statements, the ultimate economic viability of the investment in the Guatemalan nickel operations is not determinable at this time. For this reason, the historical cost/nominal dollar values for property, plant and equipment and depreciation and depletion associated with these operations have been used in the inflation-adjusted data.

The current cost of inventories and cost of sales and operating expenses is based on recent production or manufacturing costs appropriately adjusted for current prices of raw materials and supplies. Current cost values for depreciation and depletion are used in these calculations.

The current cost information has been estimated initially in local currency and translated into U.S. dollars using approximate year-end exchange rates for property, plant and equipment and inventories and average exchange rates for cost of sales and operating expenses and depreciation and depletion.

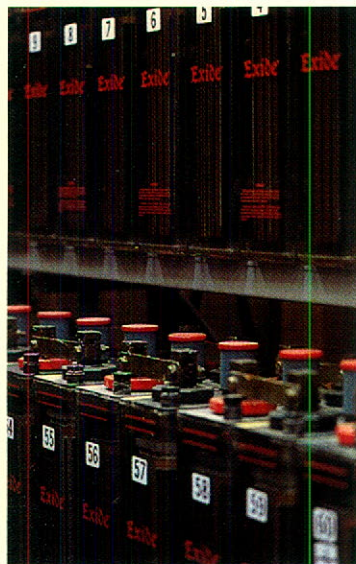
The gain from decline in purchasing power of net monetary liabilities derives from the concept that the value of monetary assets and monetary liabilities decreases with inflation. The gain is calculated by measuring the decrease in purchasing power for the year attributable to general inflation having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

As required, in the accompanying five-year comparison of selected supplementary financial data adjusted for the effects of changing prices, net sales and other income, dividends per common share and market price per common share at year end are restated into constant/average 1980 dollars for each of the five years shown. Losses from continuing operations, gains from decline in purchasing power of net amounts owed, and net assets at year end are required to be reported only from 1979. Net assets at year end is a restatement into average 1980 dollars of common shareholders' equity at year end, as reported in the primary financial statements, adjusted to reflect the excess of the constant dollar and current cost values for inventories and property, plant and equipment over the respective historical cost/nominal dollar amounts.

Comments on Inflation-Adjusted Data

The net losses from continuing operations for the years 1979 and 1980, determined by constant dollar or current cost accounting methods, result principally from the requirement that, despite the significant reduction in pretax income, income and mining taxes be reported at the same amount as in the primary financial statements based on historical cost/nominal dollar accounting. This treatment highlights the hidden tax being borne by companies because tax legislation does not give adequate recognition to the effects of inflation.

With respect to pretax income, the inflation-adjusted results are influenced by the same factors that affected results expressed in historical cost/nominal dollars. The low level of pretax income in 1979 reflects the depressed prices for nickel, particularly in the first half of the year, the Sudbury strike costs and the reduction in earnings attributable to the Guatemalan and Indonesian nickel operations. The improvement in 1980 reflects increased metals prices, the absence of strike costs and reduced losses from Guatemala and Indonesia. The relatively greater year-to-year improvement indicated at



Exide stationary batteries for use in electric utilities, process control and telecommunications applications.

Statement of Income from Continuing Operations Adjusted for Changing Prices

For the Year Ended December 31, 1980
(in millions of dollars)

| | As reported in the primary statements (Historical/ nominal dollars) | Adjusted for general inflation (Average 1980 constant dollars; 1967=100) | Adjusted for specific price changes (Current cost) |
|--|---|--|---|
| Net sales and other income | \$3,078 | \$3,078 | \$3,078 |
| Cost of sales and operating expenses | 2,089* | 2,365* | 2,315* |
| Selling, general and administrative expenses | 296* | 301* | 302* |
| Research and development | 49* | 51* | 52* |
| Exploration | 27 | 27 | 27 |
| Interest | 156 | 156 | 156 |
| Currency translation adjustments | 4 | 4 | 4 |
| Total costs and expenses | 2,621 | 2,904 | 2,856 |
| Earnings before income and mining taxes | 457 | 174 | 222 |
| Income and mining taxes | 238 | 238 | 238 |
| Income (loss) from continuing operations | \$ 219 | \$ (64) | \$ (16) |
| Gain from decline in purchasing power of net amounts owed | | \$ 240 | \$ 240 |
| *Includes depreciation and depletion, which for the year 1980 totalled | \$ 165 | \$ 306 | \$ 320 |
| Increase in specific prices (current cost) of inventories and net property, plant and equipment held during the year** | | | \$ 819 |
| Effect of increase in general price level | | | 656 |
| Excess of increase in specific prices over general price level | | | \$ 163 |

**At December 31, 1980 current cost of inventory was \$1,437 million and property, plant and equipment, net of accumulated depreciation, was \$4,468 million.

current cost compared to constant dollar results relates principally to the fact that, relative to the CPI-U, prices specific to the Company with respect to certain key elements of product cost increased at a faster rate in 1979, but at a slower rate in 1980. In some cases, costs actually declined. An example of this is lead which is a principal component of automotive and industrial batteries. Lead prices, which exceeded 60 cents a pound at times in 1979, declined to 39 cents a pound by the end of 1980.

A loss in constant dollars or at current cost should not be interpreted to mean that the Company will be unable to replace its productive capacity, particularly if the year's results were adversely affected by unusual factors, as was true in the case of the Company's 1979 results. The Company is particularly well positioned with respect to its productive capacity for mining and processing primary metals in that very substantial expenditures have been made in recent years to expand and modernize these facilities. Approximately 80 per cent of the Company's gross investment in property, plant and equipment has been made in the last 12 years.

Since the Company's monetary liabilities were substantially in excess of its monetary assets at year-end 1979 and 1980, there were purchasing power gains of \$280 million and \$240 million, respectively, in net amounts owed.

Supplementary Operating Statistics

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

Of the 543 million short tons of proven and probable ore reserves at December 31, 1980 a total of 338 million tons were in the Company's mines in Canada which were producing in

Five-Year Supplementary Operating Statistics

| Year ended December 31 | 1980 | 1979 | 1978 | 1977 | 1976 |
|---|--------|--------|-------------------------|--------|--------|
| Canadian Operations: | | | | | |
| Proven and probable ore reserves | | | | | |
| at year end (tons in millions) | 543 | 514 | 462 | 470 | 487 |
| Nickel content (tons in millions) | 8.1 | 7.6 | 7.5 | 7.7 | 7.7 |
| Copper content (tons in millions) | 4.9 | 4.8 | 4.7 | 4.8 | 4.9 |
| Ore mined (tons in millions) | 14.5 | 8.4* | 10.1* | 19.6 | 19.8 |
| Average grade of ore mined | | | | | |
| Nickel | 1.46% | 1.53% | 1.56% | 1.40% | 1.41% |
| Copper | 1.07% | 1.02% | 1.07% | 0.98% | 0.97% |
| Guatemalan and Indonesian Operations: | | | | | |
| Ore mined (tons in millions) | 1.9 | 1.2 | { Pre-operating Years } | | |
| Average grade of nickel in ore mined | 2.02% | 2.08% | | | |
| Combined Canadian, Guatemalan and Indonesian Operations: | | | | | |
| Production (pounds in millions) | | | | | |
| Nickel | 393.8 | 255.0* | 267.3* | 416.7 | 461.6 |
| Copper | 290.8 | 146.1* | 197.5* | 327.5 | 344.9 |
| Average prices realized (historical/nominal dollars per pound) | | | | | |
| Nickel | \$3.14 | \$2.43 | \$1.98 | \$2.17 | \$2.15 |
| Copper | \$1.00 | \$0.91 | \$0.61 | \$0.63 | \$0.65 |

*Strike-affected years.

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

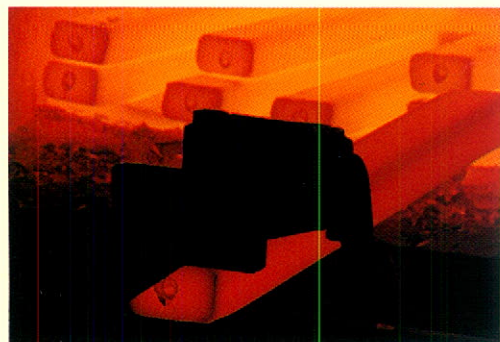
| Year ended December 31 | 1980 | 1979 | 1978 | 1977 | 1976 |
|---|---------|---------|---------|---------|---------|
| (dollar amounts in millions, except per share amounts) | | | | | |
| Net sales and other income | | | | | |
| As reported | \$3,078 | \$2,524 | \$2,112 | \$1,988 | \$2,075 |
| Constant/average 1980 dollars | 3,078 | 2,865 | 2,667 | 2,703 | 3,004 |
| Earnings before income and mining taxes | | | | | |
| As reported | \$ 457 | \$ 280 | | | |
| Constant/average 1980 dollars | 174 | 92 | | | |
| Current cost/average 1980 dollars | 222 | 46 | | | |
| Net earnings (loss) | | | | | |
| As reported | \$ 219 | \$ 142 | | | |
| Constant/average 1980 dollars | (64) | (65) | | | |
| Current cost/average 1980 dollars | (16) | (111) | | | |
| Net earnings (loss) per common share | | | | | |
| As reported | \$ 2.56 | \$ 1.58 | | | |
| Constant/average 1980 dollars | (1.19) | (1.22) | | | |
| Current cost/average 1980 dollars | (0.56) | (1.83) | | | |
| Gain from decline in purchasing power of net amounts owed (constant/average 1980 dollars) | \$ 240 | \$ 280 | | | |
| Net assets at year end (common shareholders' equity) | | | | | |
| As reported | \$1,817 | \$1,658 | | | |
| Constant/average 1980 dollars | 4,059 | 3,938 | | | |
| Current cost/average 1980 dollars | 3,700 | 3,619 | | | |
| Excess of increase in specific prices of inventories and net property, plant and equipment held during the year over general inflation | \$ 163 | \$ 414 | | | |
| Dividends per common share | | | | | |
| As reported | \$ 0.69 | \$ 0.50 | \$ 0.70 | \$ 1.25 | \$ 1.60 |
| Constant/average 1980 dollars | 0.69 | 0.57 | 0.88 | 1.70 | 2.32 |
| Market price per common share, New York Stock Exchange – Composite transactions, at year end | | | | | |
| Historical dollars | \$20.38 | \$23.75 | \$15.88 | \$17.13 | \$32.63 |
| Constant/average 1980 dollars | 19.47 | 26.96 | 20.06 | 23.29 | 47.23 |
| Average consumer price index | 246.8 | 217.4 | 195.4 | 181.5 | 170.5 |

1980, and 205 million tons were in mines in Canada under development and non-producing mines. Only material that has been sampled in sufficient detail to enable a reliable calculation is classified as reserves. Ore grades are shown for both nickel and copper. The Canadian ore reserves also contain significant quantities of platinum-group metals, gold and silver.

The Company has also outlined large resources of nickeliferous lateritic ore bodies at its Guatemalan and Indonesian nickel operations. At each location, these resources are adequate to supply operations at design capacity

for the expected lives of the facilities. As at the end of 1980, approximately 190 million tons of nickeliferous laterite with an average nickel content of 1.85% had been delineated at the Indonesian location and approximately 50 million tons of nickeliferous laterite with an average nickel content of 1.80% had been delineated at the Guatemalan location.

However, the Guatemalan and Indonesian operations have been accounted for on an operational basis for less than three years during which period production levels have been gradually increasing. Consequently, the Company does not consider that there is sufficient production cost experience presently to permit the classification of proven and probable ore reserves at these locations.



High-nickel alloys are heated prior to rolling into wire rod.

Shareholders

At year-end 1980, according to the Company's records, 69 per cent of the shareholders had addresses in Canada, 29 per cent in the United States and 2 per cent elsewhere. Of the shares having general voting rights, the Common Shares and Series B Preferred Shares, Canadian residents of record held 55 per cent, United States residents of record 32 per cent, and residents of record in other countries 13 per cent.

Dividends

On February 2, 1981, the Board of Directors declared a regular quarterly dividend of 18 cents a common share, payable March 13 to shareholders of record on February 13. The Company paid total dividends per common share of 69 cents in 1980 and 50 cents in 1979. The Board of Directors on February 2 also declared a quarterly dividend at an annual rate of 7.595 per cent on the Company's floating rate Series A Preferred Shares, payable March 2 to shareholders of record on February 18, and declared a quarterly dividend on the Company's 7.85% Series B Preferred Shares, payable March 2 to shareholders of record on February 13.

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 five per cent discount from the market price of the Company's Common Shares, in lieu of a cash dividend. Holders of 31 per cent of the Company's outstanding Common Shares are now participating in the Program. The Program permits many shareholders to receive tax benefits similar to those previously available to holders of the Company's former Class B Common Shares and also provides common shareholders with a simple and convenient method of obtaining additional Common Shares without payment of brokerage commissions or service charges.

Share Purchase Plan

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

Other Information

Cash dividends paid to common shareholders resident in the U.S., the U.K. and most Western European countries are generally subject to Canadian withholding tax at a rate of 10%. Cash dividends paid to other non-residents of Canada will also generally be subject to Canadian withholding tax at a maximum rate of 20%, depending upon applicable tax treaties. Interest payable on the Company's debt securities held by non-Canadian persons may also be subject to Canadian withholding tax depending upon the terms and provisions of such securities. Stock dividends paid to non-Canadian residents, are generally not subject to Canadian withholding tax.

The Company has two classes or series of securities which have general voting rights, its Common Shares and its 7.85%

Preferred Shares Series B. At shareholders' meetings, each holder of these securities is entitled to one vote for each share held and there are no cumulative voting provisions. In addition, the institutional holders of the Company's Series A Preferred Shares have certain limited rights to elect two directors if dividends thereon are in arrears.

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. The Company could, however, become subject to governmental restrictions on dividends as was the case in the 1975-1978 period under Canadian anti-inflation legislation.

There are certain restraints on the holding of Inco's voting equity securities. The Company's Series B Preferred Shares were issued and sold in a 1977 underwritten public offering in Canada only and no market for such shares exists outside Canada. Under the Foreign Investment Review Act of Canada (FIRA) enacted in 1973, there are limitations on the number of shares of a Canadian company which may be acquired by persons who are non-residents of Canada, including non-Canadian companies. The effect of FIRA is to prohibit the acquisition of "control" (as defined under FIRA) of Canadian business enterprises such as the Company by non-Canadian persons unless such acquisition is found by the Canadian Government to be of significant benefit to Canada.

The Company, through its subsidiaries and affiliates, operates in over 35 countries; some \$1,900 million of the Company's consolidated total assets are located outside Canada and the U.S. Accordingly, its operations are subject to various governmental policies or regulations and changes therein and the risks associated with doing business in numerous overseas locations.

Market price range for Common and Series B Preferred Shares

| Year ended December 31 | 1980 | 1979 |
|--------------------------------|--------------|---------------|
| – Common Shares – | | |
| New York Stock Exchange | | |
| (Composite transactions) | | |
| First quarter | ✓\$33¼ – 19% | \$21½ – 15¼ ✓ |
| Second quarter | 24% – 19% | 22½ – 19¼ |
| Third quarter | 27¼ – 21¼ | ✓24 – 18% |
| Fourth quarter | 24% – 17¼ ✓ | 23% – 18 |
| Toronto Stock Exchange | | |
| (Canadian dollars) | | |
| First quarter | \$38¼ – 23½ | \$24¼ – 18% ✓ |
| Second quarter | 29% – 22% | 25½ – 22% |
| Third quarter | 31% – 24% | 27% – 21½ |
| Fourth quarter | 25 – 21% | 27% – 21 |
| – Series B Preferred Shares – | | |
| First quarter | \$25 – 19% | \$25% – 24% |
| Second quarter | 24¼ – 20¼ | 26% – 25 |
| Third quarter | 23¼ – 20 | 25% – 24% |
| Fourth quarter | 21 – 17¼ | 24% – 22% |



Inco copper is noted in marketplace for its high quality.

The Board of Directors

presently consists of 20 members of whom five are Officers of the Company. Each year regular meetings are scheduled to be held, and special meetings may be called from time to time. In 1980 the Board held 15 meetings.

Each year the Board holds at least one meeting at an operational site. In 1980, the Board met at the J. Roy Gordon Research Laboratory in Mississauga, Ontario on June 2, and at the Research and Development Center in Sterling Forest, New York on October 6.

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

The Executive Committee,

which held seven meetings during 1980, consists of the Chairman, the President and five non-employee Directors. During intervals between meetings of the Board, the Executive Committee, with certain exceptions, has all the powers vested in the Board.

The Audit Committee, which held four meetings during 1980, consists of five non-employee Directors. This committee meets with the Company's financial management personnel, its internal auditors and its independent auditors at least four times a year to review and appraise the financial

reporting practices and procedures, the adequacy of the system of internal accounting control, the planned scope of examinations by both the internal auditors and the independent auditors and their findings and recommendations, and the non-auditing services performed by the independent auditors.

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

The Nominating Committee,

which held six meetings during 1980, consists of the same Directors who comprise the Executive Committee and has the function of recommending to the Board nominees for election as Directors.

The Management Resources and Compensation Committee

(formerly the Salary and Incentive Plan Committee), which held seven meetings during 1980, consists of five non-employee Directors. This committee advises and con-

sults with the Chairman and makes recommendations to the Board on the remuneration of senior executives of the Company. The committee also administers and makes recommendations to the Board with respect to the Company's incentive compensation plans. The committee also reviews the management development programs, the succession plans relating to senior management and the performance goals of the major units of the Company as they relate to incentive plans of each unit.

The Pension Committee, which held four meetings during 1980, consists of five non-employee Directors. This committee advises the Board regarding the financial aspects of the pension programs of the Company and its subsidiaries, including actuarial assumptions, the adequacy of funding and the implementation of sound investment of pension funds. In addition, this committee recommends to the Board the appointment of trustees and investment advisers or managers.

Directors and Officers. J. Edwin Carter retired as Chairman and Chief Executive Officer of the Company and as a member of the Board of Directors on April 16, 1980, upon reaching the Company's normal retirement age of 65. Mr. Carter had been Chief Executive Officer of the Company since 1977 and a Director since 1973. He served Inco in various management positions for more than 40 years.

Charles F. Baird, who had been President of the Company since April 1977, was elected Chairman and Chief Executive Officer on April 16, 1980. He has been a Director since January 1974. Mr. Baird joined Inco as Vice-President—Finance in 1969 and served as Senior Vice-President from 1972 to 1975 and Vice-Chairman of the Board from 1976 to April 1977, when he became President.

Donald J. Phillips, who had been President and Chief Executive Officer of Inco Metals Company since June 1979, was elected President of Inco Limited on April 16, 1980. He has been a Director since February 1980. Mr. Phillips joined Inco in 1956 and

was Chairman and Chief Executive Officer of Inco Europe Limited from 1972 until April 1977, when he became President and Chief Operating Officer of Inco Metals Company.

Robert P. Luciano, President and Chief Operating Officer of Schering-Plough Corporation, was elected a member of the Board of Directors on April 16, 1980.

Edmund B. Fitzgerald retired from the Board of Directors effective August 1, 1980.

On February 12, 1981, the following Directors retired from the Board in accordance with the retirement policy adopted by the Board:

David W. Barr, Director since 1972
Wm. Ward Foshay, Director since 1971

Samuel H. Woolley, Director since 1965

On February 12, 1981, the following were elected to the Board of Directors:

Alexander D. Hamilton, President and Chief Executive Officer of Domtar Inc.

Edward R. Kane, former President and Chief Operating Officer of E.I. du Pont de Nemours & Company.

Stephen F. Keating, former Chairman of Honeywell Inc.

Philip E. McCarthy was elected Vice-President of the Company on October 6, 1980, with corporate responsibility for the venture capital and diversification activities of the Company. Mr. McCarthy joined Inco in 1970.

John J. Moran was elected Vice-President of the Company on October 6, 1980, with responsibility for corporate planning. Mr. Moran joined Inco in 1951.

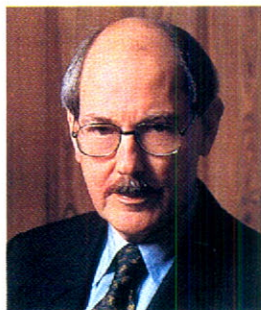
Donald G. Walker was elected Vice-President of the Company on January 6, 1981 with corporate responsibility for human resources management and development. Mr. Walker joined Inco in 1970.

Directors

(Term expires 1981)

Charles F. Baird
Chairman and Chief Executive Officer

Robert W. Bonner, O.C.
Chairman of the British Columbia Hydro and Power Authority, Vancouver
Reva Gerstein, O.C.
Consultant and educator, Toronto



The Company's Senior Vice-Presidents (and their corporate responsibilities) are, top left: Ian McDougall (finance); top right: William Steven (development and technology); and, below: Ashby McC. Sutherland (corporate affairs).

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

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

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

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

Donald J. Phillips
President

William Steven
Senior Vice-President

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

Directors

(Term expires 1982)

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

Peter D. Curry
Deputy Chairman,
Power Corporation of Canada, Limited,
Montreal (investment, management
and transportation)

Allen T. Lambert, O.C.
Former Chairman of the Board
The Toronto-Dominion Bank, Toronto

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

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

Ian McDougall
Senior Vice-President

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

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

Lucien G. Rolland
President, Rolland inc., Montreal
(specialists in coated and uncoated
printing papers)

Ashby McC. Sutherland
Senior Vice-President

Executive Committee

Charles F. Baird, Chairman
Peter D. Curry
G. Arnold Hart, M.B.E.
Allen T. Lambert, O.C.
Donald J. Phillips
Lucien G. Rolland
Donald G. Willmot

Audit Committee

Allen T. Lambert, O.C., Chairman
Robert W. Bonner, O.C.
Harold Bridges
Edward R. Kane
Walter F. Light

Nominating Committee

Charles F. Baird, Chairman
Peter D. Curry
G. Arnold Hart, M.B.E.
Allen T. Lambert, O.C.
Donald J. Phillips
Lucien G. Rolland
Donald G. Willmot

Management Resources and Compensation Committee

G. Arnold Hart, M.B.E., Chairman
Peter D. Curry
Allen T. Lambert, O.C.
Lucien G. Rolland
Donald G. Willmot

Pension Committee

George T. Richardson, Chairman
Reva Gerstein, O.C.
Alexander D. Hamilton
Robert P. Luciano
The Rt. Hon. Lord Nelson of
Stafford

Officers Inco Limited

Charles F. Baird, Chairman
and Chief Executive Officer
Donald J. Phillips, President
Ian McDougall,
Senior Vice-President
William Steven,
Senior Vice-President
Ashby McC. Sutherland,
Senior Vice-President
Frank C. Burnet, Vice-President
Raymond F. Decker, Vice-President
Robert T. deGavre, Treasurer
Philip C. Jessup, Jr.,
Vice-President, General Counsel
& Secretary
Philip E. McCarthy, Vice-President
John J. Moran, Vice-President
Dean D. Ramstad, Vice-President
Anthony J. Sabatino, Comptroller
Alfred P. Statham, Vice-President
Donald G. Walker, Vice-President
J. Stuart Warner, Vice-President

Principal regional officers

John H. Page, President,
Inco United States, Inc., New York
Anthony T. Shadforth
Chairman, Inco Europe Limited,
London, England and Chairman of
Inco's other major companies in the
United Kingdom
Dean D. Ramstad
Vice-President, Inco Limited,
General Manager, Japan Branch



The Management Committee meets
on a regularly scheduled basis to
review the business of the Company.
With back to camera is Charles F.
Baird (Chairman) and from left to
right: Donald J. Phillips, Ian
McDougall, David C. Dawson,
Philip C. Jessup, Jr. (Secretary),
John H. Page, Ashby McC.
Sutherland, Walter Curlook and
William Steven.

Principal executive offices

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

Other executive offices

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

Principal subsidiaries and operating units

Inco Metals Company

1 First Canadian Place, Toronto, Ontario M5X 1C4

The International Nickel Company, Inc.

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

Inco Europe Limited

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

P.T. International Nickel Indonesia

Jalan Melawai VI/8, Kebayoran Baru, Jakarta, Indonesia

Exmibal

Torre 1-14 Nivel, Edificio Financiero, 7 Avenida 5-10, Zona 4,
Guatemala City, Guatemala

Inco ElectroEnergy Corporation

5 Penn Center Plaza, Philadelphia, Pa. 19103, U.S.A.

Exide Corporation

5 Penn Center Plaza, Philadelphia, Pa. 19103, U.S.A.

Exide Electronics Corporation

2 Penn Center Plaza, Philadelphia, Pa. 19102, U.S.A.

Ray-O-Vac Corporation

101 East Washington Avenue, Madison, Wisconsin 53703, U.S.A.

Universal Electric Company

300 East Main Street, Owosso, Michigan 48867, U.S.A.

Inco Alloy Products Company

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

Huntington Alloys, Inc.

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

Wiggin Alloys Limited

Holmer Road, Hereford HR4 9SL, England

Daniel Doncaster & Sons Limited

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

Daido Special Alloys Ltd. (50% owned)

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

Turbo Products International, Inc.

Pond Meadow Road

Ivoryton, Connecticut 06442, U.S.A.

Canadian Alloys Division

Walden Industrial Park, Lively, Ontario P0M 2E0

Regional subsidiaries or operating unit

Inco United States, Inc.

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

Inco Europe Limited

Thames House, Millbank, London SW1P 4QF, England

Inco Limited, Japan Branch

Shin-Muromachi Building, 4-7, Nihonbashi Muromachi 2-Chome
Chuo-ku, Tokyo 103, Japan

International Nickel Australia Limited

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

Other subsidiaries include

Canada

Canadian Nickel Company Limited, Toronto

International Sales Limited, Toronto

United States

Inco Safety Products Company, Inc.

Philadelphia, Pennsylvania

The International Metals Reclamation Company, Inc.

Ellwood City, Pennsylvania

Pittsburgh Pacific Processing Co.

Pittsburgh, Pennsylvania

American Copper & Nickel Company, Inc.

New York, N.Y.

Europe

International Nickel B.V. The Hague

International Nickel Deutschland G.m.b.H. Düsseldorf

International Nickel France S.A. Paris

International Nickel Iberica Limited, Madrid

International Nickel Italia Srl, Milan

International Nickel Océanie S.A. Paris

Wiggin Alloys G.m.b.H. Düsseldorf

Wiggin Alloys S.A. Brussels

South America

International Nickel do Brasil Comercial Ltda. São Paulo

Mineração Serras do Sul Ltda. Rio de Janeiro

Asia

International Nickel Japan Ltd. Tokyo

Inco Gulf, E.C., Bahrain



Counsel

Osler, Hoskin & Harcourt,
Toronto, Ontario
Sullivan & Cromwell, New York, N.Y.

Auditors

Price Waterhouse & Co., Toronto,
Ontario; New York, N.Y.

Transfer agents

for the Common Shares

Canada Permanent Trust Company,
Toronto, Ontario and Calgary,
Alberta

The Royal Trust Company,
Montreal, Quebec

Morgan Guaranty Trust Company of
New York, New York, N.Y.

The Royal Trust Company of Canada,
London, England

Registrars for the Common Shares

Montreal Trust Company, Toronto,
Ontario; Montreal, Quebec; and
Calgary, Alberta

Morgan Guaranty Trust Company of
New York, New York, N.Y.

Lloyds Bank Limited, London, England

Transfer agent and registrar for the 7.85% Preferred Shares Series B

Canada Permanent Trust Company,
Toronto, Ontario; Montreal, Quebec
and Calgary, Alberta.

10-K report available

A copy of the 1980 Annual Report on Form 10-K to be filed with the United States Securities and Exchange Commission may be obtained from the Company upon request. Requests should be addressed to The Secretary, Inco Limited at 1 First Canadian Place, Toronto, Ontario M5X 1C4 or at One New York Plaza, New York, New York 10004.

Rapport Annuel

La version française du Rapport Annuel sera fournie sur demande.

