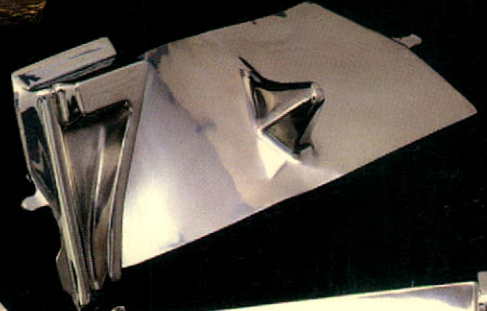
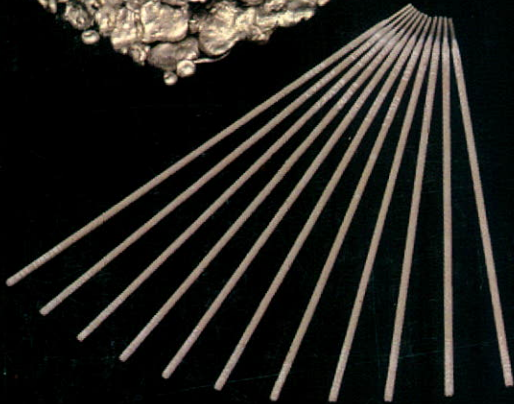
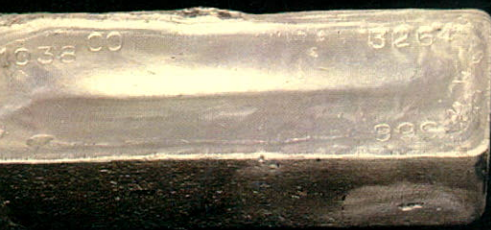


Inco

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Annual Report 1988



## Corporate Profile

*Inco Limited is the non-communist world's leading producer of nickel and a substantial producer of copper, precious metals and cobalt. Inco is also the world's largest supplier of wrought and mechanically alloyed nickel alloys as well as a leading manufacturer of blades, discs, rings and other forged and precision-machined components made from special alloy materials. In addition, the Company is a major producer of sulphuric acid and liquid sulphur dioxide, and has other interests in metals, venture capital, mining equipment manufacturing, and engineering and technology sales. At year end, Inco employed 18,658 in 18 countries. Inco is a founding member of The Nickel Development Institute.*

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### **Annual Meeting**

The Company's Annual Meeting will be held in Toronto on April 19, 1989.

### **Rapport Annuel**

La version française du Rapport Annuel sera fournie sur demande.

### **10-K Report Available**

A copy of the 1988 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, Royal Trust Tower, Toronto-Dominion Centre, Toronto, Ontario M5K 1N4 or at One New York Plaza, New York, New York 10004.



# Message to Shareholders

Nineteen eighty-eight was an extraordinary year for Inco and the best ever for its shareholders. Exceptionally high nickel prices combined with the Company's long-standing programs to reduce costs and strengthen its market position resulted in record net earnings of \$735 million, more than double any other annual earnings in the Company's history. During the year, record earnings levels were established each quarter.

The Company's average realized nickel price was an unprecedented \$4.81 per pound in 1988, more than double the 1987 average. Inco delivered 495 million pounds of nickel, its highest level of deliveries since 1974. The Company's average copper realization increased by more than one-half.

The Company generated a cash surplus, before financing activities, of \$887 million in 1988, compared with \$217 million in the prior year.

Financial results, in and of themselves, tell only part of Inco's story in 1988. Beyond the Company's excellent financial performance, 1988 was a year of important accomplishment in such diverse areas as shareholder dividends and shareholder rights, the environment, gold production and employee relations.

## Net Earnings (Loss)

\$ in millions



## Rapid Market Recovery

The speed and vigor with which the nickel market recovered from its depressed levels of the mid-1980s was truly remarkable. Less than two years ago, world nickel prices were below \$2 per pound, and many producers were leaving the business or closing capacity because of persistently depressed market conditions.

Since early 1987, however, the market has moved from one of excess supply to very tight supply-demand balance. This rapid and dramatic change has resulted from industry rationalization, coupled with a boom in stainless steel production. As a low-cost nickel producer and innovative marketer, Inco was well positioned to benefit from this recovery.

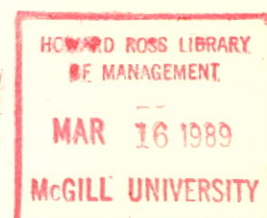
## Improved Operating Performance

Both of our core business sectors, primary metals and alloys and engineered products, achieved significant operating improvements in 1988. Earnings of primary metals operations increased over 300 per cent to a record \$1,385 million, reflecting higher metals prices and a continuing payoff from Inco's relentless programs to improve productivity.

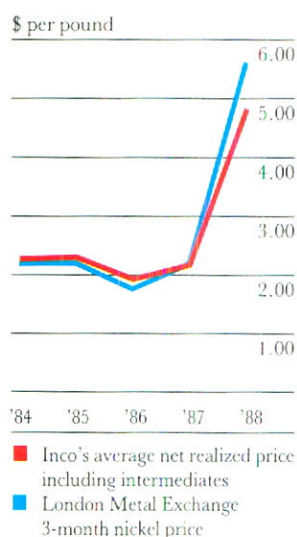
## Results in Brief

\$ millions	1988	1987	1986
Net sales	\$3,263.1	\$1,789.5	\$1,451.6
Net earnings	\$ 735.4	\$ 125.2	\$ 0.2
Cash surplus before financing activities	\$ 887.2	\$ 217.1	\$ 58.4
Total debt	\$ 735.2	\$ 884.0	\$ 995.2
Capital expenditures	\$ 228.9	\$ 137.9	\$ 138.5
Employees	18,658	18,706	20,171

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



## Nickel Prices



Following several years of disappointing results, Inco's alloys and engineered products businesses earned a \$48 million operating profit in 1988. We are encouraged by this improvement and will continue to stress cost reductions, upgrading of products and other efforts to achieve additional profit increases.

## Recapitalization Plan

Inco shareholders approved a recapitalization plan at a special shareholder meeting held on December 9, 1988. This plan was designed to enhance shareholder value and protect shareholders from any attempt to acquire control of the Company without an offer of full and fair value to all shareholders.

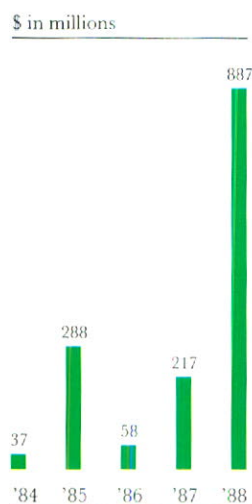
The recapitalization plan included a special cash dividend of \$1,059 million, or \$10 per common share, paid January 9, 1989 to shareholders of record as of December 22, 1988. This dividend represented, in effect, a direct distribution to shareholders of the cash surplus generated since early 1987.

The recapitalization clearly succeeded in its objective of enhancing shareholder value. Shareholders not only received a \$10 per share cash dividend, but saw the market price of Inco stock climb above the pre-announcement level shortly after payment of the dividend.

## Increased Capital Expenditures

The special dividend was proposed by Inco's Board of Directors only after an in-depth review of Inco's capital requirements for its core businesses, including expenditures required to meet environmental commitments. Your Company has embarked on a major program of increased capital investments to sustain and expand its nickel production capacity, achieve further productivity improvements, support its expansion in gold and meet environmental requirements. Capital expenditures were \$229 million in 1988, up from \$138 million a year earlier, and are scheduled to increase further to some \$350 million in 1989.

## Cash Surplus before Financing Activities



## Inco's Environmental Commitment

Nineteen eighty-eight was also an important year for Inco in the environmental area, the year in which we finalized our program for achieving further reductions in sulphur dioxide (SO<sub>2</sub>) emissions from our Sudbury, Ontario operations.

At year end, we submitted our plan to the Government of Ontario, as required by the Province's Countdown Acid Rain Program. Inco's contribution to that program, a massive 60 per cent reduction, greater than that of any other emitter in Canada, both in tonnage and percentage, follows the 70 per cent decrease in emissions already achieved since the peak years of the mid-60s. The result will be the containment of some 90 per cent of the sulphur in the ore we mine and process in Sudbury. Inco will invest an estimated \$414 million over the next five years to achieve this additional reduction.

We recognize that this is not the end of the line. We will continue to focus on the development of new technologies which could allow further reductions over time.



## Inco Gold

Inco took an important step into the future with the opening of Les Mines Casa Berardi in Quebec. Start-up of production at Casa Berardi in September 1988 signalled the first returns from our program to expand the Company's production of gold and other precious metals. Production from two additional gold mines, at Mineral Hill in Montana and Crixas in Brazil, is scheduled to begin in late 1989. We remain on target towards our objectives of producing 125,000 ounces of gold by 1991 and 400,000 ounces annually by the mid-1990s.

## Inco Employees

I wish to thank all our employees worldwide, who have helped rebuild Inco and make it the successful company it is today. Reflecting the Company's commitment to a spirit of partnership with employees, our new contract with unionized employees at Sudbury and Port Colborne, Ontario has been recognized as a model for enlightened labor relations.

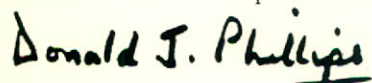
During the year, we moved ahead aggressively on programs to provide all employees with a greater stake in the Company's financial success. All employees now participate in profit-sharing or bonus arrangements that link a portion of their compensation to financial performance or the price of nickel.

In addition, through our new Employee Share Award Plan, some one million shares will be awarded to employees in two installments, one in 1989 and one in 1990, with individual awards being based on years of service. The Company also adopted a new five-year key employee incentive plan, covering several hundred management personnel at Inco locations worldwide.

## Outlook

Inco enters 1989 with strong momentum. Based on current market conditions, we expect financial results to be favorable once again in the coming year. We expect a strong first quarter but believe that it would be too optimistic to predict that earnings can be maintained at the extraordinary levels achieved in 1988.

Looking beyond the current boom, we must not lose sight of the fact that although there has been a fundamental improvement in the structure of the industry, the nickel market is still cyclical by nature. We are preparing for the possibility of a downturn by high but prudent capital expenditures in our core businesses and continued emphasis on controlling costs. Many other actions are described in this Report. We will continue to expand our gold operations and to examine opportunities for diversification and growth in related businesses. When the next downturn comes we will be well placed to compete and succeed.



Donald J. Phillips  
Chairman, President and Chief Executive Officer  
February 15, 1989







## Primary Metals

Operating earnings of Inco's primary metals operations increased over 300 per cent to a record \$1,385 million in 1988, as the Company's average nickel price realization more than doubled and the average copper price realization increased by more than one-half. Sales of primary metals rose 98 per cent to a record \$2,686 million.

Just two years ago, world nickel prices were below \$2.00 per pound. A dramatic surge in prices since mid-1987 reflects the impact of nickel industry rationalization, strong growth in demand from stainless steel producers, and a resultant shortage of nickel supply. As one of the world's lowest-cost nickel producers, Inco has been well positioned to benefit from this rapid market improvement.

Non-communist world nickel demand established a new record in 1988, increasing three per cent to an estimated 1,450 million pounds. Supply, at some 1,420 million pounds, fell short of demand for the second consecutive year. As supply tightened and inventories were depleted, the three-month nickel price on the London Metal Exchange (LME) increased from an average of \$3.41 per pound in January 1988 to an average of \$5.75 in March, peaking at an unprecedented \$8.55 on March 28. The LME three-month price then settled to somewhat lower, although still historically high, levels until the fourth quarter, spurring again late in the year. At year-end 1988, the LME three-month price was \$7.46 per pound.

Inco's average realized price for primary nickel, including intermediates, was \$4.81 per pound in 1988, up from \$2.18 in 1987. Responding to the surge in demand, the Company delivered 495 million pounds of nickel (including 40 million pounds purchased on the LME), its highest annual level of deliveries in 14 years. Deliveries in 1987 were 477 million pounds. Of Inco's 1988 total primary nickel deliveries, 30 per cent was to customers in Europe, 24 per cent to the United States, 23 per cent to Japan and 23 per cent to other countries.

### Innovative Marketing Strategies

Since the mid-1980s, Inco has implemented major changes in the way it markets its nickel products. These changes are directed toward serving customers better, fostering more consistent long-term demand for the Company's products regardless of market cycles and optimizing earnings in all market conditions.

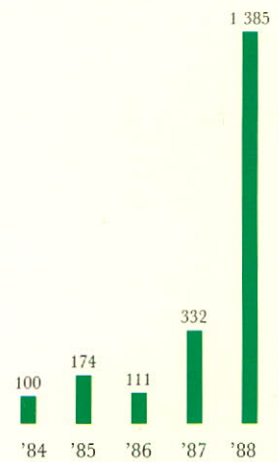
The Company has learned to operate with a much leaner nickel inventory, thereby reducing working capital requirements and enhancing its ability to serve customers' nickel requirements in periods of tight supply. Inco's finished nickel inventory was 46 million pounds at the end of 1988, the lowest year-end level in nearly two decades.

At the same time, through an aggressive marketing program, Inco has increased its share of the worldwide nickel market to 34 per cent in 1988 from a low of 25 per cent in 1982.

Increasingly, Inco is marketing nickel products to the steel industry through long-term contracts that provide customers with assured supply and a degree of price certainty, while offering the Company a degree of assurance concerning

### Operating Earnings

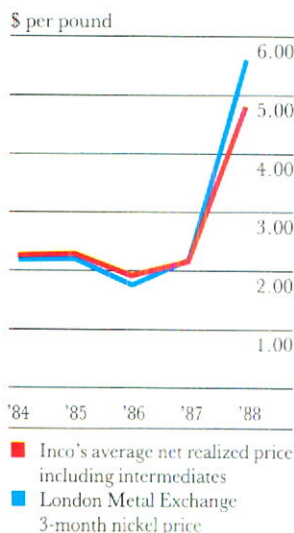
\$ in millions



*Food and beverage service equipment constitutes one of the largest markets for nickel stainless steel, consuming about 175,000 tonnes worldwide per year.*



## Nickel Prices



deliveries. More than 100 million pounds of annual sales are now being made through fixed-volume arrangements of various types. One-year fixed-volume contracts introduced in 1987 were broadened in 1988 to include three-year contracts. These contracts have been well accepted by customers.

The Company has also entered into a series of joint ventures to strengthen its market position in the Asia/Pacific region. The latest of these ventures is in Korea, where Korea Nickel Corporation is building a refinery to supply utility nickel to the domestic stainless steel industry. Inco will provide feedstock to the new facility, scheduled to open in mid-1989 with an initial capacity of about 25 million pounds of utility nickel annually. Inco holds a 25 per cent equity interest in this venture.

## New Specialty Powders Unit

Inco is also strengthening its position in nickel powders, an important long-term growth market. Inco Specialty Powder Products was formed in 1988 to serve powder customers worldwide. Inco markets more than a dozen powder products for use in powder metallurgy, catalysts, electronics, batteries and other applications. The new unit is responsible for research, production planning and marketing.

## Expanded Research Programs

The Company increased its expenditures for primary metals research and development programs for the second consecutive year, to \$26 million in 1988 from \$19 million in 1987. The major portion of these expenditures is directed to improving productivity and increasing metals recoveries while enhancing the workplace

*Group Leader Gerry Glaum and Analyst Dawn Greville-Hynek examine a scanning electron microscope image of a new nickel powder developed for Inco Specialty Powder Products.*





and external environments. At the same time, a growing share is focused on the development of proprietary value-added products, including nickel powders. Pilot production was started in 1988 on a new range of higher porosity battery powders. An experimental, very fine powder with higher surface area and nickel coated fibres are in the development stage.

### Nickel Development Institute

Inco is a founding member of The Nickel Development Institute, which continues to spearhead industry efforts to defend and expand markets for nickel. The Institute currently sponsors nearly 100 market development and research projects aimed at promoting the use of stainless steels and broadening markets for nickel-based alloys resistant to high temperatures, high pressure and corrosion.

### Copper, Precious Metals and Cobalt

Products other than nickel accounted for 18 per cent of Inco's primary metals net sales in 1988.

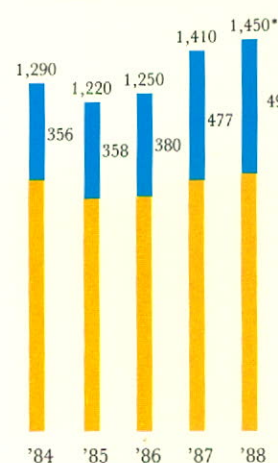
Principal among these products is copper, which accounted for 11 per cent of primary metals sales. As an important producer of copper, Inco is benefitting from a dramatic improvement in world market conditions following an extended period of depressed copper prices. Inco's average copper price rose to \$1.12 per pound in 1988 from 73 cents in 1987. The Company's copper deliveries declined to 256 million pounds from 275 million in 1987. Inco's copper is recovered in conjunction with nickel in Canada and sold under the brand name ORC\* to industrial users in North America and Europe.

With about five per cent of world supply, Inco is the largest producer of platinum-group metals outside South Africa and the Soviet Union. In addition to refining its own ores, the Company is processing increased volumes of spent catalysts and other recycled materials containing platinum-group metals. Inco's 1988 average price realizations were \$534 per troy ounce for platinum, down from \$567 in 1987; \$1,227 per troy ounce for rhodium, down from \$1,240; and \$126 per troy ounce for palladium, compared with \$130.

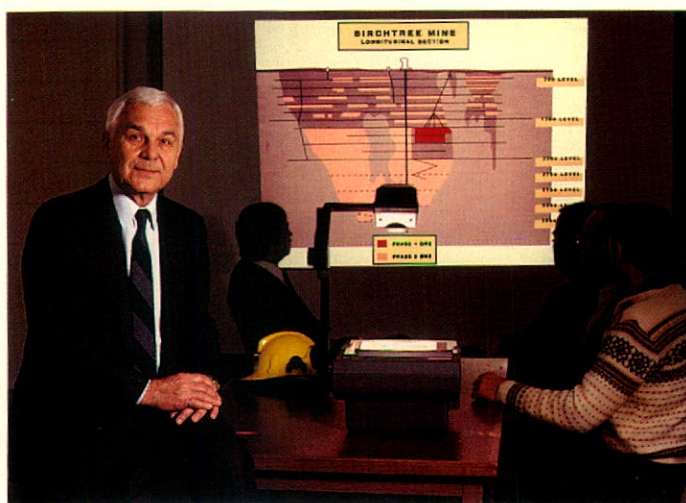
\* Trademark of the Inco family of companies.

### Non-Communist World Nickel Demand

lbs. in millions

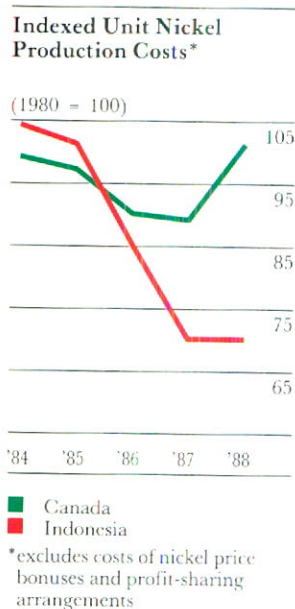


■ Inco deliveries  
\* provisional estimate



### Executive Vice-President

Walter Curlook meets with a safety team at Birchtree Mine near Thompson, Manitoba. Seated behind Dr. Curlook are, left to right: Ken Lowe, Marty Sanders, George Stewart and Nick Gerstner. Dr. Curlook is responsible for Inco's primary metals production, exploration and mineral resource development and technology.



Inco produces gold as a by-product of its Canadian nickel/copper ores, and is also developing gold mines and participating in precious metals prospects around the world through Inco Gold Company. Inco's average realized price for gold declined to \$435 per troy ounce in 1988 from \$449 in 1987. (A separate review of Inco Gold Company's activities is found on page 13 of this Report.)

Inco's average realized price for cobalt rose to \$7.36 per pound from \$6.78 in 1987, as world cobalt prices recovered from the depressed levels of the prior year. The Company derives cobalt from its Canadian ores, selling the product as metal and oxide.

In New Caledonia, production at the Tiebaghi chromite mining facility was 70,000 tonnes of high-quality chromite ore. Exploration programs were expanded, aimed at extending the life of the facility beyond 1989. The Company holds a 55 per cent interest and manages the project.

### Production at Ten-Year High

To support its nickel market share and maintain a reliable source of supply for customers, Inco increased its nickel production in 1987 and 1988 to the highest levels in more than a decade. Production was as follows:

(millions of pounds)	1988	1987	1986
Nickel	434	430	357
Copper	257	261	251

### Capital Investments and Productivity

The Company increased its capital expenditures for primary metals operations to \$198 million in 1988 from \$101 million in 1987, and plans a further increase in 1989. Capital investment is focused on improving productivity, enhancing safety, sustaining production capacity, implementing environmental improvements, and continuing the modernization of the Company's mines, smelters and refineries.

In Manitoba, Inco is investing a projected \$81 million from 1988 through 1993 to redevelop the underground Birchtree Mine and develop a new open pit mine, Thompson Open Pit South. On standby since 1977, Birchtree is scheduled to resume production in 1989 with modern equipment and techniques that are expected to be twice as productive as those employed during the mine's earlier operation. Birchtree has an estimated 700 million pounds of nickel reserves and is expected to produce for about 20 years. Thompson Open Pit South is being developed for production by 1990, when the existing Thompson Open Pit North will be depleted. The new open pit, with an estimated 150 million pounds of nickel reserves, is expected to produce for approximately five years.

In Ontario, the Shebandowan Mine will be reopened in 1989 to produce some 20 million pounds of nickel annually for at least three years.

Other mine development projects currently underway include: reactivation of Crean Hill in Ontario as Inco's first all-electric mine, scheduled to reach full production in 1989; development of a second all-electric mine, the Lower Coleman



Mine in Ontario, where production is scheduled to begin in 1990; and development of the 1-C underground deposit in Thompson, Manitoba, with initial production in 1988 moving toward full production by 1991.

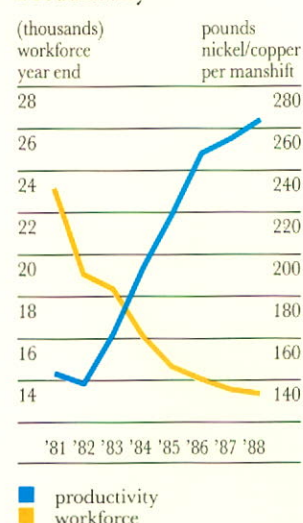
At its surface operations, the Company has launched a program to consolidate milling and concentrating operations in the Sudbury, Ontario area over the next two years at a capital cost of \$57 million. The Frood-Stobie mill will be retired, and all milling and concentrating will be done at the Clarabelle mill. Only the dewatering of concentrates prior to smelting will be carried out at the Copper Cliff mill. The expanded Clarabelle facility will feature a 32-foot diameter semi-autogenous grinding mill and high-volume flotation cells. In addition to enhancing productivity, this program provides for the separation and rejection of additional quantities of sulphur-bearing pyrrhotite to tailings, an important step in Inco's program to further reduce sulphur dioxide emissions. (See also page 15.) The Company plans to spend a further \$16 million to expand the tailings impoundment area at Sudbury to provide for the disposal of tailings well into the next century.

The fourth and final stage in the mechanization and modernization of the Sudbury copper refinery to a state-of-the-art facility was completed in 1988. Total cost of the modernization was \$12 million over three years.

As measured in pounds of nickel plus copper produced per manshift, productivity improved by four per cent in 1988 and has now improved almost 75 per cent since 1980. Despite this improvement, the unit production cost of both nickel and copper increased in 1988 for the first time since 1982. This increase, attributable to the Company's Canadian operations, was due principally to the increased value of the Canadian dollar relative to the U.S. dollar and new collective bargaining agreements.

Future productivity improvements will be achieved primarily through start-up of the more efficient mines now under development, the continued modernization of surface facilities, and the expanded use of computers, robotics and other advanced technology in mines and surface operations.

### Productivity



\$ millions	1988	1987	1986
<b>Sales by product</b>			
Primary nickel	\$2,202	\$ 967	\$ 674
Refined copper	283	199	162
Precious metals	146	144	125
Cobalt	24	22	19
Other products	31	26	22
Net sales to customers	\$2,686	\$1,358	\$1,002
<b>Operating earnings</b>	<b>\$1,385</b>	<b>\$ 332</b>	<b>\$ 111</b>
<b>Deliveries (in thousands)</b>			
Primary nickel, including intermediates <sup>(1)</sup>	457,920	444,630	346,890
Nickel contained in alloys and engineered products	36,870	32,420	32,710
Total nickel (pounds)	494,790	477,050	379,600
Copper (pounds) <sup>(2)</sup>	255,840	274,860	253,530
Platinum (troy ounces) <sup>(3)</sup>	132	120	132
Palladium (troy ounces) <sup>(3)</sup>	149	162	164
Rhodium (troy ounces) <sup>(3)</sup>	18	16	13
Gold (troy ounces) <sup>(3)</sup>	52	49	58
Silver (troy ounces) <sup>(3)</sup>	1,570	1,550	1,350
Cobalt (pounds) <sup>(2)</sup>	3,490	3,450	2,790
Sulphuric acid and liquid sulphur dioxide (tonnes)	523	515	505

(1) Includes 40 million pounds in 1988, 18 million pounds in 1987 and 16 million pounds in 1986 purchased on the London Metal Exchange.

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

(3) Excludes toll refined materials.

## Inco Indonesia

Inco's Indonesian operations, which supply nickel matte for processing in Japan, achieved operating earnings of \$205 million in 1988, compared with \$15 million a year earlier. In July, Inco sold a 20 per cent equity interest in its Indonesian subsidiary to Sumitomo Metal Mining Co. Ltd. of Japan for \$100 million and other considerations, resulting in a net gain of \$44 million. Concurrently, Inco and Sumitomo agreed to expand the capacity of the Indonesian operations by some 30 per cent to a nominal 105 million pounds of nickel in matte per year. The expansion is scheduled to be completed in 1990 at a capital cost of some \$80 million. Sumitomo will purchase approximately 20 per cent of annual production from the expanded facility.

The Indonesian operations achieved record production of 63 million pounds of nickel in matte, up from 58 million pounds in 1987, despite a number of setbacks during 1988. A 26-day production interruption early in 1988 resulted from damage, caused by an earthquake, to the canal that delivers water to the hydroelectric generating station. Moreover, production was curtailed throughout the year due to drastically reduced rainfall, resulting in shortages of hydroelectric power. Failure of a transformer in December is expected to reduce capacity by some one million pounds a month through mid-1989. Production for 1989 is, nevertheless, expected to exceed that of 1988 by at least 10 per cent.

## Employee Relations

The progress and accomplishments of Inco's primary metals operations in 1988 were made possible by the combined efforts of Inco people worldwide. Inco is committed to a spirit of cooperation and partnership with its employees.

All employees of the Company's primary metals operations now participate in profit-sharing or bonus arrangements that link a portion of their compensation to the financial performance of these operations or the price of nickel.

In May, the Company negotiated a new three-year collective agreement with unionized employees at Sudbury and Port Colborne, Ontario. In addition to providing wage increases, the contract includes an improved cash bonus tied to the price of nickel and a provision that partially indexes pensions against inflation for current and future retirees and their survivors.

The Company negotiated new one-year collective agreements with hourly production workers at Clydach, Wales and process employees at Acton, England. A one-year contract extension was negotiated in December with employees at P.T. International Nickel Indonesia.

Inco's collective agreement with unionized employees in the Manitoba Division remains in effect through September 15, 1990.

## Safety

Safety is a Company-wide priority. While the safety record of employees, as measured by lost-time accidents, continued the general trend of steady improvement achieved over the past decade, no amount of improvement is adequate so long as fatalities occur in the workplace. In 1988, two Ontario Division employees – Clement Dubois and Richard Kay – were killed when the train which they were operating struck an unattended CP Rail train improperly parked on Inco track.



*At the Port Colborne Refinery*

*Lloyd Goss uses a new laser bar code system to ensure accurate inventory control.*



Two other Inco employees – Clem Castonguay and Claude Ranger – were killed in separate accidents at surface facilities in Sudbury. We are deeply grieved by these tragic and unacceptable losses. More than ever, management, employees, unions, the Canadian mining industry and government agencies are seeking out the root causes of workplace fatalities and are determined to develop and implement effective “fail safe” procedures.

## Technical Services

INCO TECH\*, which provides worldwide consulting services in the areas of processing and refining, continued its success in licensing Inco’s environmentally superior process to destroy cyanide in effluents. Licensing agreements were reached with four gold producers and one plating shop during the year, increasing to 15 the total number of such agreements with gold producers and platers in Canada and the United States.

## Nickel/Copper Exploration

Inco increased its exploration expenditures directed at finding additional nickel and copper reserves to \$7 million in 1988 from \$4 million in 1987. In Manitoba, the increased level of activity in 1988 included a new airborne geophysical survey over Company property. Taking advantage of recent advances in geophysical instrumentation and computer enhancement of geophysical data, the survey is providing additional information for interpreting the geology of the Thompson Nickel Belt. This, in turn, will provide the basis for expanded exploration in 1989. In Sudbury, exploration in 1988 concentrated on surface mapping and drilling in areas with potential for new ore discoveries. The Company is emphasizing targets with a higher than average platinum-group metal content. Based on positive indications from the work carried out in 1988, exploration of the Sudbury geological structure will be further expanded in 1989.

## Ore Reserves

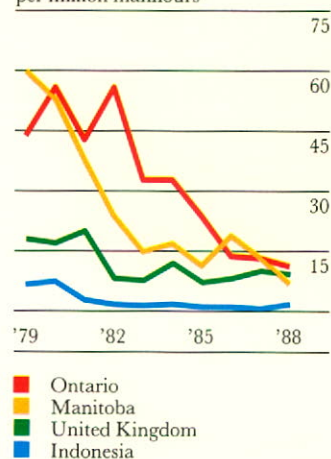
At year end, Inco’s proven and probable nickel/copper ore reserves in Canada were 434 million short tons, containing 6.2 million tons of nickel and 3.8 million tons of copper. This compares with year-earlier proven and probable reserves of 448 million short tons, containing 6.5 million tons of nickel and 3.9 million tons of copper. Only material that is economically viable and has been sampled in sufficient detail to permit a reliable calculation is included in reserves. Significant quantities of platinum-group metals, silver and gold are also contained in the Canadian ore reserves. (See also Inco Gold on page 13 of this Report.)

Proven and probable ore reserves at P.T. International Nickel Indonesia are essentially unchanged at 85 million short tons containing 1.6 million tons of nickel.

\* Trademark of the Inco family of companies.

## Safety

Lost-time accidents  
per million manhours









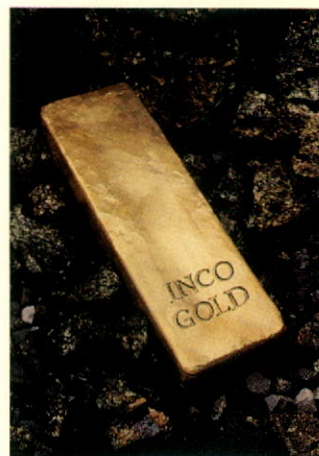
# Inco Gold

Inco Gold Company continues to move ahead rapidly on projects to increase its production of gold and other precious metals. With the first bullion poured in 1988 from Les Mines Casa Berardi in northwestern Quebec, and additional mines scheduled to open in 1989 in the United States and Brazil, the company expects to produce some 52,000 ounces of gold in 1989, with a target of more than 400,000 ounces annually by the mid-1990s. These figures do not include gold produced as a by-product of Inco's Canadian nickel/copper ores, amounting to 45,000 ounces in 1988.

Inco Gold holds interests in more than 80 precious metals ventures and prospects in Canada, the United States, Brazil, Indonesia and Papua-New Guinea. Properties are managed by Inco Gold Management, Inc., formed in 1988 to provide exploration, engineering and management services to mining companies inside and outside Canada, including companies and ventures in which Inco holds interests.

Production began at Casa Berardi Est in September 1988 at an annualized rate of 60,000 ounces of gold. A ramp is being driven at Casa Berardi Ouest to permit exploration at depth and confirm the grades and outlines of the ore reserves. Surface drilling is planned for the remainder of the Casa Berardi claim block to outline additional deposits. At year end, proven plus drill-indicated reserves at Casa Berardi were 11.6 million tons grading 0.22 ounces of gold per ton. The property is expected eventually to yield more than 120,000 ounces of gold per year. Inco Gold holds a 60 per cent joint venture interest and is the operator.

## Inco Gold Ventures



*The use of gold and other precious metals continues to be most visible in the manufacture of jewelry.*

Inco Gold expects to begin production during the third quarter of 1989 at Mineral Hill (Jardine), Montana, initially at a rate of some 42,000 ounces of gold annually. Exploration is planned over the next three years to expand proven reserves, currently one million tons grading 0.33 ounces of gold per ton. Mineral Hill will be the first mine of any type in the United States operated by Inco. Inco Gold holds a 50 per cent joint venture interest.

During the 1989 fourth quarter, production is scheduled to begin at Crixas in the State of Goias in Brazil at an annual rate of 120,000 ounces of gold. Drilling has delineated 7.7 million tons of gold-bearing mineralization grading 0.34 ounces per ton. Inco Gold holds a 50 per cent equity interest.

Cash production costs at these three mines are expected to average less than \$200 per ounce, establishing Inco Gold's position as a low-cost producer of gold. All three are underground mining operations, with their own new milling facilities. By 1991, Inco's annual share of gold production from these three properties is expected to be 125,000 ounces.

Inco Gold continues to pursue other opportunities in anticipation of starting up at least one new mine annually for the next several years. Projects currently in advanced stages of exploration, besides Casa Berardi Ouest, include Musselwhite, Upper Canada and Wilanour in Ontario and the former NorAcme mine in the Snow Lake District of Manitoba. The primary focus of Inco Gold is on "green-fields" exploration. The company is also interested in acquiring known mineral deposits ready for development or already in production. Inco Gold has purchased minority interests in several junior mining companies.

In Ontario, the McBean mill (65 per cent owned by Inco Gold) undertook custom milling work during 1988 and processed a bulk sample from the nearby Anoki deposit. A feasibility study for this deposit is nearing completion.

Inco Gold's exploration expenditures were \$36 million in 1988 compared with \$18 million a year earlier, and a further increase is planned in 1989. In addition, capital expenditures were \$32 million in 1988.

At year end, Inco Gold's share of drill-indicated gold reserves was approximately 14 million short tons containing 3.4 million ounces of gold, up from 13 million short tons containing three million ounces a year earlier. These reserves do not include gold contained in Inco's nickel/copper ores.

*At the Casa Berardi official opening Joël Gagnon, Jim Barrett and Réjean Ricard proudly display the operation's first gold bar.*





Inco is pleased to report that it has successfully developed new innovative technology which will allow it to reduce its sulphur dioxide (SO<sub>2</sub>) emissions to the level of 265 kilotonnes annually, as required by the Government of Ontario under its Countdown Acid Rain Program.

Four years ago, at the Annual Meeting of Shareholders in 1985, Inco committed to reducing its emissions of sulphur dioxide by a further 50 per cent by 1994, a reduction which would have matched the overall Canadian target level. Later that year, the Ontario Government called for a larger reduction, to 265 kilotonnes annually, and the Company's engineers and scientists went back to the laboratory, the drawing board and the pilot plants. Since then, they have developed improved technology for both the rejection of increased amounts of high sulphur-bearing pyrrhotite mineral to tailings and the capture of high strength SO<sub>2</sub> gas streams from new oxygen flash smelting furnaces treating bulk nickel/copper concentrates. The high strength SO<sub>2</sub> gas will be converted to either liquid sulphur dioxide or sulphuric acid, both saleable products.

This program has been launched and, on completion, Inco will have reduced its Sudbury emissions by 60 per cent from current levels, the biggest single tonnage reduction in Canada. At that point some 90 per cent of the sulphur in the ore mined and processed at Sudbury will be contained.

Over the past 10 years, the Company has spent more than \$100 million on research, development and testing, directed to the development of technologies dealing with sulphur containment. This latest project will cost an estimated \$414 million (Cdn. \$494 million) over the next five years.

Of this total, \$57 million (Cdn. \$69 million) will be invested to modify and rationalize milling and concentrating operations, permitting the separation and rejection of additional quantities of pyrrhotite. This portion of the project will generate a satisfactory financial return.

The remaining \$357 million (Cdn. \$425 million) will be invested in new oxygen flash smelting furnaces, a new acid plant, a new oxygen plant extension and



*Over a 30-year period 1,600 acres of land have been revegetated at Inco's tailings area in Copper Cliff. Surveys have identified 86 species of plantlife and 92 different types of birds in the area.*







additional services. These process changes will result in some cost and productivity improvements. The use of oxygen flash smelting technology will eliminate the use of fossil fuels in the smelting process, and the rationalization and modernization of facilities will result in some reduction in operating manpower, which will be accommodated through normal attrition. However, except for the need to lower SO<sub>2</sub> emissions, it would be difficult to justify this portion of the project on a financial basis.

Beyond this SO<sub>2</sub> abatement program, Inco is committed to the development of new technologies to permit still further reductions over time. The Company believes it has identified process concepts which, technically, could eventually allow those reductions. Inco will pursue that objective relentlessly.

Reduction of SO<sub>2</sub> emissions at Inco facilities in Thompson, Manitoba is also required by the Canadian program. While process development has not yet advanced to an equivalent stage, the project will be of substantially lesser proportions than the Sudbury program, and Inco is confident it will be able to meet the requirements specified by the Manitoba Government. A review of the status of those requirements is scheduled to follow completion of research and development currently being conducted in cooperation with Federal and Provincial government agencies.

Installation of a state-of-the-art waste water treatment facility at the Inco Alloys International facility in Huntington, West Virginia was completed in 1988 at a cost of \$6 million.

Inco is committed, in all its activities and facilities, to operate as a good environmental citizen, in a responsible manner which recognizes the critical importance to current and future generations of the wise use of resources.

The Company is particularly pleased that, in undertaking its environmental programs, it has been able to embrace the concept of environmentally sustainable economic development, the principal message delivered by the United Nations "Brundtland Commission" and by Canada's National Task Force on the Environment and the Economy.



*Opposite page – Wild flowers abound throughout the acreage reclaimed at Inco's Copper Cliff tailings area. Since the late '60s, Inco has been at the forefront of land reclamation, successfully returning tailings areas back to nature.*

*Executive Vice-President Roy Aitken at Inco's revegetated tailings area. In the background are: Larry Banbury, who heads up the Sudbury environmental control activities, left, and John Robertson, Ontario Ministry of the Environment. The pine trees in this area were planted by the Company 14 years ago. Mr. Aitken is responsible for corporate affairs including human resources, industrial relations, the environment and public affairs.*







## Alloys and Engineered Products

After several years of disappointing results, and following intensive efforts to reduce expenses and increase production volumes, Inco's alloys and engineered products businesses achieved operating earnings of \$48 million in 1988, compared with a \$12 million operating loss in 1987. Results for 1988 included costs of \$9.2 million for a writedown of scrap inventory and \$4.7 million for employment reduction costs. Sales increased 32 per cent to \$552 million.

The 1988 earnings improvement was due primarily to higher average selling prices, largely reflecting increased raw material costs, increased deliveries of alloys and reduced operating costs. In the face of intense competition, Inco is determined to reduce costs further, continue to upgrade its product line and strengthen its leadership position in the nickel alloys and specialty materials industries.

Inco's alloys and engineered products businesses serve a wide range of customers in the aerospace, marine, energy, transportation, petrochemical, thermal processing, general engineering, electrical and consumer goods industries. Products are marketed worldwide through sales offices and distributors. In Japan, nickel alloys are marketed through a joint venture, Daido Inco Alloys Ltd.

During 1988, marketing programs were restructured to improve customer service and place greater emphasis on higher value-added products. In addition, marketing activities were strengthened in the Asia/Pacific region, focused through a new subsidiary, Inco Alloys Pte. Ltd., in Singapore.

### Inco Alloys International

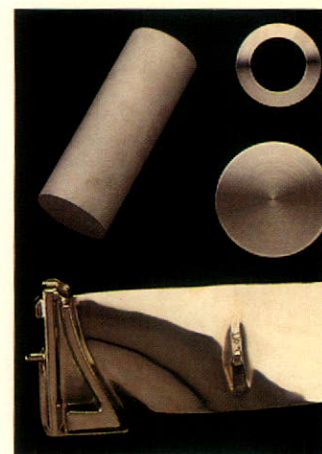
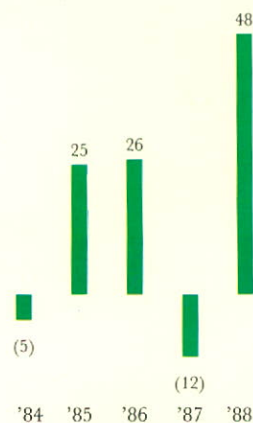
Inco Alloys International (IAI) is the larger component of Inco's alloys and engineered products businesses, representing 78 per cent of 1988 sales. IAI's sales increased 43 per cent over 1987, and the unit was profitable following an operating loss in 1987. The return to profitability reflected higher average selling prices, increased deliveries, reductions in fixed expenses, improvements in operating systems and inventory management and continued improvements in throughput times.

Alloy prices were increased five times and reduced once during the year in response to the unprecedented price volatility of raw materials. Normally, IAI offers products at firm prices when booked or, under certain circumstances, at prices in effect when shipped. In addition, during 1988 IAI introduced several market-linked pricing options to meet customers' business requirements.

IAI manufactures more than 100 wrought and mechanically alloyed nickel alloys, many of which are proprietary to Inco. Research programs are directed to developing new high value-added products for the most demanding applications. Additions to IAI's product portfolio in 1988 generated over \$15 million in new revenue. These additions included: mechanically alloyed materials for a variety of applications, such as steel-making furnace hardware, automobile emission control equipment, fabricated aerospace components and glass production; superalloy forging billet with improved cleanliness for aerospace disc applications; finned tubing for ethylene manufacture; and high-alloy tubing for deep sour gas wells. A similar level of revenue from new product additions is anticipated in 1989.

### Operating Earnings (Loss)

\$ in millions

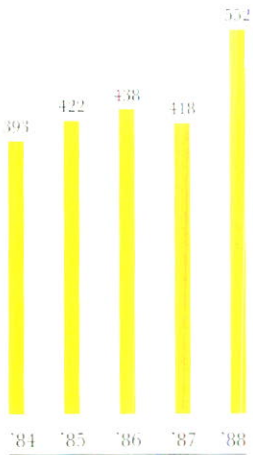


*High-performance alloys produced by IAI, and components forged and formed by IEPL, perform vital roles in critical areas of the Rolls Royce Tay turbofan aero engine. Inset photo: Inco's products are used in a wide range of civil and military aircraft worldwide.*



## Sales to Customers

\$ in millions



*At Inco Alloys International in Huntington, West Virginia, Jim England examines a unique new tubing product being introduced to the petrochemical market.*

*IAI produces advanced mechanically alloyed aluminum alloys at a modern facility in Pittsboro, North Carolina.*

IAI produces alloys in strip, sheet, plate, tubing, bar, rod, section and wire at Huntington, West Virginia; Burnaugh, Kentucky; and Hereford, England. A modern strip finishing mill for cold rolled alloys and strip products is located at Elkhart, Indiana.

IAI continued to modernize and expand its alloys production facilities through a major program of capital investment. The refurbished hot reversing strip mill, started up in 1988 at Huntington, is enabling the company to produce 48-inch-wide sheet and strip with tighter tolerances, better surface quality and in larger, weld-free coils up to 25,000 pounds in weight. The new mill enhances IAI's ability to meet the most stringent demands of the aerospace, pollution control, petrochemical, electronics and other industries.

In early 1989, IAI completed the modernization of the forging unit at Hereford into the most advanced forge press in Europe for a total cost of about \$4 million. IAI is investing \$20 million over the next two years to modernize other facilities at Hereford. The new investments include: installation of a new tube reducer, allowing product size, alloy ranges and production volumes to be expanded with improved tolerances and quality; modernization of the facility's extrusion press and vacuum-induction melting furnace; and installation of a new sheet coil-cutting line, permitting the processing of the larger coil products now supplied by IAI's wide-strip mills in the United States.

IAI produces advanced mechanically alloyed aluminum alloys at a modern facility in Pittsboro, North Carolina. The first commercial sales of lithium-containing IncoMAP\* alloy 905XL were made in 1988. Also in 1988, research resulted in the development of a new class of aluminum-titanium alloys for applications requiring high stiffness and resistance to high temperature. The Pittsboro facility has an annual capacity of 400,000 pounds, with flexibility for expansion.

\* Trademark of the Inco family of companies.





IAI and American Superconductor Corporation (ASC), Cambridge, Massachusetts, entered into a joint development agreement in the emerging field of superconductivity. In addition, Inco Venture Capital has acquired an equity position in ASC. Superconductivity is the ability to conduct electricity without loss of energy. IAI will use its proprietary mechanical alloying technology to make metallic precursors for ASC to transform into high-temperature superconductors. Trial quantities of precursors were successfully produced in 1988.

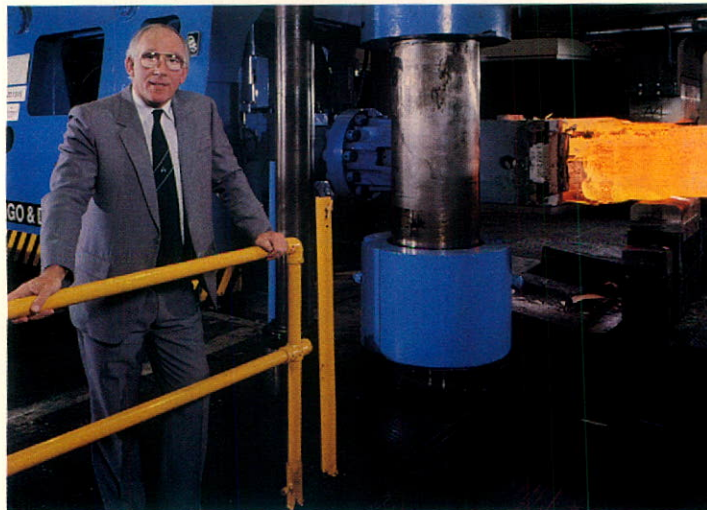
Nickel-based welding materials are manufactured at Newton, North Carolina, with a focus on high-quality products for demanding applications. To expand its markets in the United Kingdom, Europe, the Middle East, Africa and India, IAI acquired Greengrove Welding Wires Ltd., a welding products distributor with headquarters in Stratford-upon-Avon, England.

### **Inco Engineered Products**

Inco Engineered Products Limited (IEPL) manufactures forged, cast, formed and machined products from nickel-based and titanium-based alloys and other advanced materials at five plants in the United Kingdom and one in Belgium. In addition, Turbo Products International, Inc. in the United States manufactures precision-machined blades and other advanced components.

During 1988, the markets served by these businesses were highly competitive, with reduced demand in many market segments. The major focus was on restructuring, quality improvements and cost reductions. Although financial results were unsatisfactory, operating improvements and some strengthening of product demand late in the year should lead to improved results in 1989.

The principal thrust of these operating units is to work closely with customers in the aerospace, defense, energy and other industries to manufacture sophisticated components in advanced materials for demanding applications. Products include seamless rolled and forged rings, flash butt welded rings, forged and machined blades and vanes, turbine discs of wrought and powdered alloys, precision-machined components and precision titanium castings.



#### *Executive Vice-President*

*I. David Balchin at the up-dated Inco Alloys forge facility at Hereford, England. The facility includes the 1,750-tonne forge press, a new 8-tonne rail-bound manipulator and a new integrated computer control with full recording of all furnace and forging data. Mr. Balchin is responsible for Inco's alloys and engineered products operations.*



*At Welding Products Company, Newton, North Carolina, Joyce Lingerfelt packages a wide variety of products for shipment to customers. The company produces more than 100 types of welding product designed to join nickel alloys to themselves and other alloys and metals.*

*Development Engineer Dave Houchin monitors the operation of the isothermal forging press at IEPL's Doncasters Monk Bridge in England.*

In March 1988, IEPL acquired Bramah Engineering, a specialty sheet forming, fabricating and machining business in Sheffield, England, and integrated it with Incoform to create Incoform Bramah. The newly merged organization serves the aero engine and aircraft industries. It provides a commercial focus for a number of product developments in the forefront of technology, including superplastic forming of stainless steels and superalloys at very high temperatures permitting controlled deformation of over 100 per cent, and electroforming (electrically depositing nickel or nickel alloys onto moulds in a fashion which allows the highest precision in reproducing shape and surface finish). Products are as diverse as helicopter blades and credit cards.

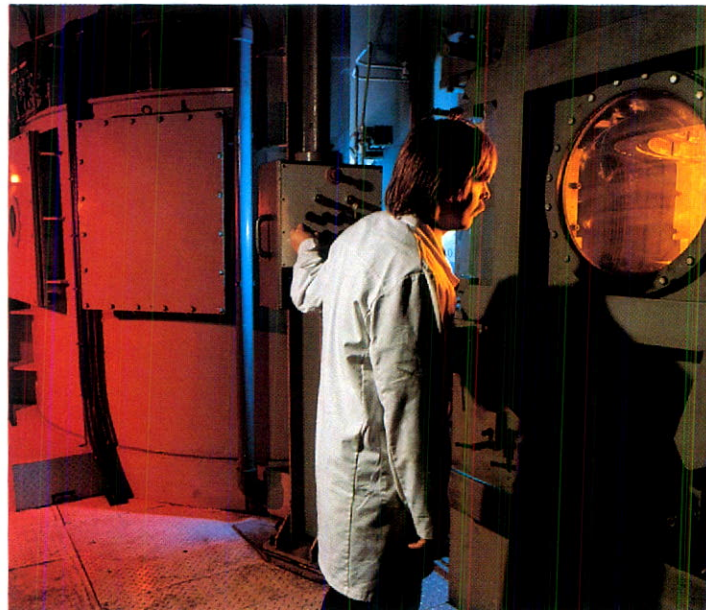
IEPL also acquired Renston Engineering Limited, a leading maker of specialized tools and dies, strengthening IEPL's capabilities in the use of advanced CAD/CAM techniques to design and produce metal-forming dies and tools.

## Employee Relations

Inco values the important contributions of its employees in the alloys and engineered products businesses and their readiness to adapt to change in a period of intense competition in all markets.

Employees participate in incentive plans, which provide for payments based on return on investment or other measures.

Annual contract negotiations were successfully completed with all operating units in the United Kingdom. Collective agreements with hourly employees in Huntington and Burnaugh remain in effect until December 1989 and April 1990, respectively.





### Venture Capital

For the venture capital industry, 1988 was a difficult year due to an extremely selective new issue market focused on mature businesses, investor disinterest in early-stage technology-based companies and adverse reactions to unrealistic expectations for revenue growth of many venture capital-backed companies. Inco Venture Capital Management (IVCM), Inco's venture capital unit, was not immune to this environment. Reflecting the significant downturn in both the new issue market and stock prices of publicly held biotechnology and other portfolio companies, IVCM realized an operating loss of \$3 million, compared with operating earnings of \$3 million in 1987. Some planned sales of portfolio positions were deferred due to depressed stock prices, and limited interest of major companies in acquiring technology also curtailed liquidity opportunities. At year-end 1988, the Company's portfolio had a book value of \$26 million and, based on valuation methods employed in the venture capital industry, might be valued at \$37 million.

IVCM has been a source of equity capital and strategic direction to start-up and early stage companies since 1974. Its portfolio remains broadly based, encompassing investments in over 50 companies spread among a wide range of technologies, as well as participation in leveraged buyouts. Several portfolio companies in the health care, publishing and software industries made significant progress during 1988 in commercializing their proprietary technologies and business strategies.

IVCM continued its role, initiated in 1981, as an independent venture capital fund manager through participation in the management of \$47 million raised from institutional investors through two Ontario limited partnerships, North American Ventures Fund and North American Ventures Fund II.

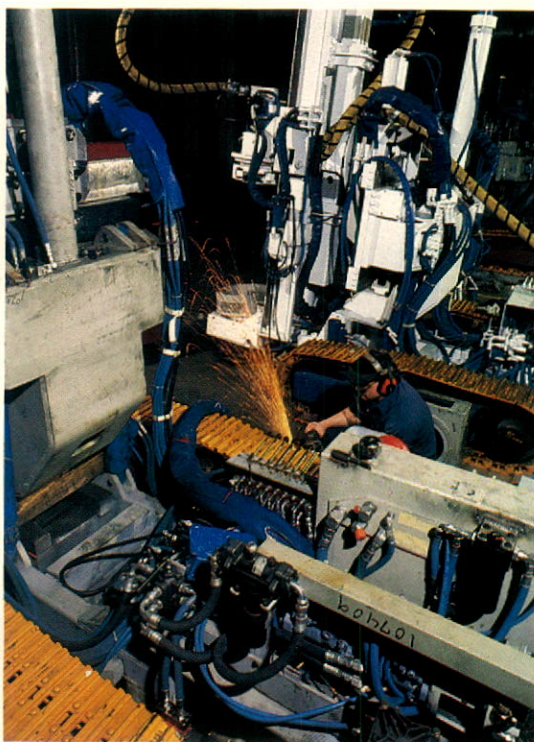
### Principal Officers

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

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

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

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



*At Continuous Mining Systems in Sudbury, Andy Hebert works on a new CD360S underground drill. The product has gained acceptance in foreign markets, particularly in South America, Australia and China.*



## **Mining Equipment**

Continuous Mining Systems Limited (CMS), which designs, manufactures and markets innovative mining equipment, maintained its strong growth in sales and profitability. Total sales to customers and to Inco's primary metals business doubled to \$14 million, leading to improved earnings. Approximately 50 per cent of 1988 sales were to customers other than Inco. The CMS product range includes automated and high-productivity drills, crushers, loaders and other equipment, marketed worldwide.

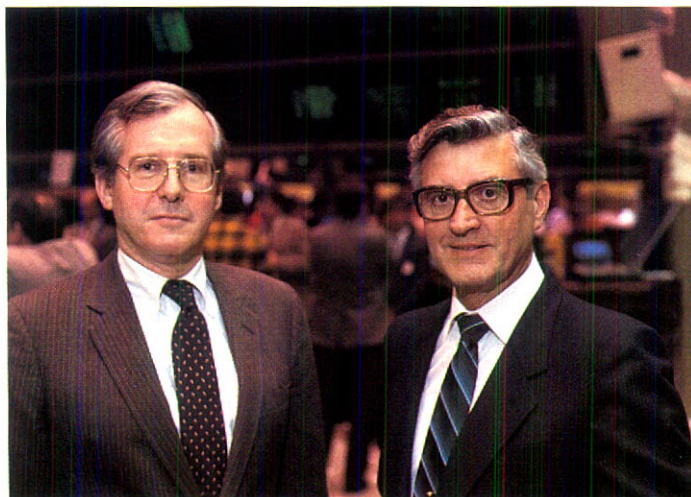
## **Reclamation Facilities**

The International Metals Reclamation Company (Inmetco) achieved operating earnings of \$4 million in 1988 following several years of operating losses. Inmetco converts waste from specialty steel mills into steelmaking charge materials using proprietary Inco technology. Improved financial results were due to higher product prices and increased demand for Inmetco's products and services.

## **Corrosion Research and Consulting**

The LaQue Center for Corrosion Technology, Inc. is a world leader in corrosion research, testing, consulting and training. LaQue works with companies in the chemical, marine, offshore oil production and other industries to control corrosion in all types of environments.

*Executive Vice-President Ian McDougall (Chief Financial Officer), right, and Scott M. Hand, Vice-President, General Counsel and Secretary, on the trading floor at The Toronto Stock Exchange.*





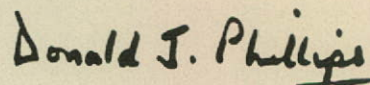
The information and representations in this Annual Report have been prepared by management. The consolidated financial statements have been prepared in conformity with generally accepted accounting principles in Canada and, where appropriate, reflect management's best estimates and judgments. The financial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

Systems of internal accounting control are maintained in order to assure on a reasonable basis the reliability of this financial information. These systems include formal policies and procedures, the careful selection and training of qualified personnel, and an organization providing for appropriate delegation of authority and segregation of responsibilities. These systems are monitored by our internal auditors who perform extensive tests and related procedures at major locations worldwide. Our independent auditors, whose report on their examinations

of the consolidated financial statements appears on page 46, also review our systems of internal accounting control in accordance with generally accepted auditing standards for the purpose of expressing their opinion on the consolidated financial statements.

Financial management personnel, our internal auditors and our independent auditors meet with the Audit Committee of the Board of Directors at least three times a year to report on accounting, auditing, internal accounting control and financial reporting matters. The Audit Committee also has other duties which are described on page 50.

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



Chairman, President and  
Chief Executive Officer



Executive Vice-President  
(Chief Financial Officer)

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	1988	1987	1986	1985	1984	1983	1982	1981	1980	1979
<b>Summary of operations</b>										
<i>(U.S. \$ in millions, except per share data)</i>										
Net sales	\$3,263.1	1,789.5	1,451.6	1,490.5	1,468.0	1,173.4	1,236.0	1,885.9	2,150.0	1,611.3
Cost of sales and operating expenses	\$1,732.7	1,355.8	1,230.7	1,205.2	1,317.1	1,257.7	1,277.0	1,454.6	1,329.9	1,105.6
Selling, general and administrative expenses	\$ 158.6	111.8	97.9	90.6	100.8	102.5	123.2	144.4	144.5	109.4
Interest, net of amounts capitalized	\$ 91.6	101.0	94.0	101.6	122.1	111.4	148.3	147.1	124.8	109.9
Income and mining taxes	\$ 577.5	73.5	26.5	49.4	22.2	(91.3)	(119.9)	81.1	260.7	126.2
Earnings (loss) from continuing operations before extraordinary items	\$ 690.8	125.2	0.2	52.2	(77.3)	(234.9)	(203.3)	20.4	261.7	141.6
Net earnings (loss)	\$ 735.4	125.2	0.2	52.2	(77.3)	(234.9)	(203.3)	(469.6)	231.5	147.5
Net earnings (loss) applicable to common shares	\$ 729.6	113.8	(16.6)	27.8	(100.1)	(256.8)	(231.4)	(497.6)	205.3	124.3
Per common share	\$ 6.92	1.09	(0.16)	0.28	(1.02)	(2.69)	(2.81)	(6.51)	2.72	1.66
Common dividends declared	\$1,132.3*	20.9	20.4	19.9	19.5	19.1	16.1	45.0	52.1	37.4
Per common share	\$ 10.70*	0.20	0.20	0.20	0.20	0.20	0.20	0.59	0.69	0.50
Common shares outstanding (weighted average, in millions)	105.4	104.5	102.2	99.6	97.7	95.5	82.2	76.4	75.5	74.8
<b>Other financial data</b>										
<i>(U.S. \$ in millions)</i>										
Capital expenditures	\$ 228.9	137.9	138.5	93.2	103.6	71.1	95.3	152.2	143.3	85.4
Depreciation and depletion	\$ 177.0	152.5	143.8	143.3	140.0	126.1	110.3	139.9	142.5	111.0
Research and development expense	\$ 33.1	27.0	21.8	21.9	22.4	29.4	35.8	37.0	34.1	26.6
Exploration expense	\$ 43.0	21.9	16.7	17.1	15.8	20.3	19.2	32.7	26.9	13.9
Working capital	\$ (130.9)*	472.6	434.6	505.3	494.4	528.1	789.4	1,023.2	1,081.3	972.9
Net property, plant and equipment	\$1,899.5	1,850.7	1,886.0	1,910.6	1,972.9	2,035.5	2,109.0	2,136.1	2,542.4	2,523.4
Total assets	\$4,078.8	2,994.4	2,975.9	3,082.6	3,110.4	3,183.2	3,472.5	3,856.4	4,720.9	4,392.2
Total debt	\$ 735.2	884.0	995.2	929.4	1,113.9	1,174.3	1,203.4	1,331.4	1,351.7	1,274.1
Preferred shares	\$ 78.1	111.1	153.5	278.4	401.3	335.3	338.6	341.8	345.0	348.3
Common shareholders' equity	\$ 689.2*	1,083.5	996.1	987.1	914.3	1,027.4	1,215.6	1,332.9	1,859.1	1,687.7
Return on year-end common shareholders' equity	105.9%	10.5%	—	2.8%	—	—	—	—	11.0%	7.4%
Total debt:equity ratio	49:51	43:57	46:54	42:58	46:54	46:54	44:56	44:56	38:62	39:61
<b>Operating data</b>										
Ore mined - short tons in millions	17	16	14	15	16	10	7	13	16	10
Nickel production - pounds in millions	434	430	357	334	359	283	201	330	394	255
Nickel deliveries - pounds in millions	495	477	380	358	356	314	251	342	345	394
Copper deliveries - pounds in millions	256	275	254	251	273	140	167	240	288	129
Cobalt deliveries - pounds in thousands	3,490	3,450	2,790	2,670	2,410	1,790	2,530	3,620	1,950	1,240
Platinum-group metals and gold deliveries - troy ounces in thousands	374	371	397	384	379	201	310	317	349	326
<b>Realized prices per pound (U.S. \$)</b>										
Primary nickel, including intermediates	\$ 4.81	2.18	1.94	2.31	2.28	2.17	2.55	2.99	3.14	2.43
Copper	\$ 1.12	.73	.64	.64	.63	.72	.71	.82	1.00	.91
<b>Other statistics</b>										
Employees at year end	18,658	18,706	20,171	20,828	22,239	24,866	25,798	31,678	33,975	33,864
Common shareholders at year end	26,036	30,030	34,690	39,829	45,789	49,653	55,759	62,054	67,609	74,541

\* Reflects special cash dividend of \$1,058.5 (\$10.00 per common share) payable January 9, 1989.



# Management's Discussion and Analysis

## Results of Operations

**Summary** The record level of net earnings in 1988 of \$735 million, compared to \$125 million in 1987 and essentially breakeven in 1986, reflected a dramatic improvement in the Company's primary metals business, driven primarily by higher base metal prices. The price of nickel, the principal determinant of the Company's profitability, attained unprecedented levels in 1988, while copper prices also improved substantially. Other positive factors included a \$44 million gain from the sale of a 20 per cent equity interest in the Company's Indonesian subsidiary and a significant improvement in the performance of the alloys and engineered products business. The 1988 results also included expenses of \$30 million relating to the Recapitalization Plan and Employee Share Award Plan adopted late in the year.

**Primary Metals** Following an increase of almost 200 per cent in 1987, operating earnings increased by over 300 per cent in 1988 to reach an all-time high. For the year operating earnings were \$1,385 million, compared to \$332 million in 1987 and \$111 million in 1986, reflecting the combined effect of continuing strong nickel demand and the leverage exerted by a record level of nickel prices.

Primary Metals (\$ millions)	1988	1987	1986
<b>Sales by product</b>			
Primary nickel	\$2,202	\$ 967	\$ 674
Refined copper	283	199	162
Precious metals	146	144	125
Cobalt	24	22	19
Other products	31	26	22
Net sales to customers	\$2,686	\$1,358	\$1,002
<b>Operating earnings</b>	<b>\$1,385</b>	<b>\$ 332</b>	<b>\$ 111</b>
<b>Deliveries (thousands)</b>			
Primary nickel, including intermediates <sup>(1)</sup>	457,920	444,630	346,890
Nickel contained in alloys and engineered products	36,870	32,420	32,710
Total nickel (pounds)	494,790	477,050	379,600
Copper (pounds) <sup>(2)</sup>	255,840	274,860	253,530
Cobalt (pounds) <sup>(2)</sup>	3,490	3,450	2,790
Platinum-group metals and gold (troy ounces) <sup>(3)</sup>	374	371	397
<b>Realized prices (\$ per pound)</b>			
Primary nickel, including intermediates	\$4.81	\$2.18	\$1.94
Copper	1.12	0.73	0.64

(1) Includes 40 million pounds in 1988, 18 million pounds in 1987 and 16 million pounds in 1986 purchased on the London Metal Exchange.

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

(3) Excludes toll refined materials.

Non-communist world nickel demand attained another new record for the second consecutive year. Nickel demand for 1988 is estimated at 1.45 billion pounds, compared to 1.41 billion pounds in 1987 and 1.25 billion pounds in 1986. This strong demand was again driven by the world's stainless steel industry which, at nearly 60 per cent, is the single largest consumer of primary nickel. Against this background of continuing strong demand, the Company's nickel deliveries rose a further 4 per cent in 1988 (following a 26 per cent increase in 1987) to their highest level since 1974. As a result, the Company's market share, which had risen to 34 per cent in 1987 from 30 per cent in 1986, was maintained.

Sustained strong growth in the demand for nickel, coupled with the limited supply resulting from the nickel industry rationalization of the early 1980s, continued throughout 1988 to maintain the upward pressure on nickel prices which first became evident in mid-1987.

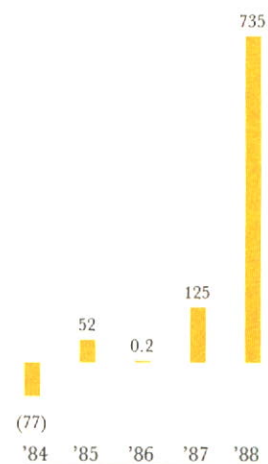
The London Metal Exchange (LME) three-month nickel price, which had languished at depressed levels throughout 1986 and much of the first half of 1987 before moving up sharply late in the year, finished 1987 at \$4.01 per pound, setting the stage for the dramatic price movements that occurred in 1988. In March, the LME three-month price again began to rise sharply and, on March 28, reached an all-time high of \$8.55 per pound. The LME three-month price then settled to somewhat lower, although still historically high, levels until spurring again in the fourth quarter, ending the year at \$7.46 per pound. For the year 1988, the LME three-month nickel price averaged a record \$5.59 per pound compared to \$2.20 per pound for 1987 and \$1.78 for 1986.

The Company's nickel price realizations tend to lag the LME price whenever sudden price changes occur. This was particularly evident in 1988 due to extreme movements in LME prices. At the same time, the Company is increasingly marketing charge nickel products for the steel industry through long-term contracts that provide customers with assured supply and a degree of price certainty while offering the Company a degree of assurance concerning deliveries. The Company's 1988 nickel price realization averaged \$4.81 per pound. This was by far a record for the Company exceeding the highest previous annual realization of \$3.14 per pound, recorded in 1980, by 53 per cent and was 121 per cent higher than 1987 and 148 per cent higher than 1986. The combination of strong deliveries and this record price realization resulted in 1988 primary nickel sales of \$2,202 million, an increase of 128 per cent over 1987 and 227 per cent above the 1986 level.



### Net Earnings (Loss)

\$ in millions

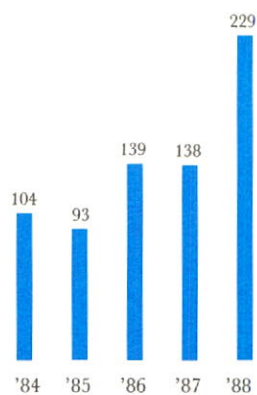


\$ per common share

(1.02) 0.28 (0.16) 1.09 6.92

### Capital Expenditures

\$ in millions



### Indexed Unit Nickel Production Costs\*

(1980 = 100)

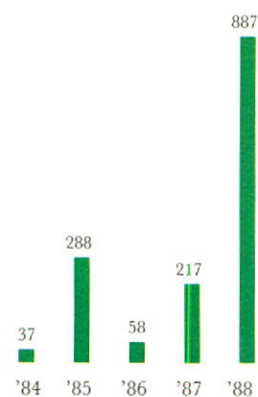


■ Canada  
■ Indonesia

\*excludes costs of nickel price bonuses and profit-sharing arrangements

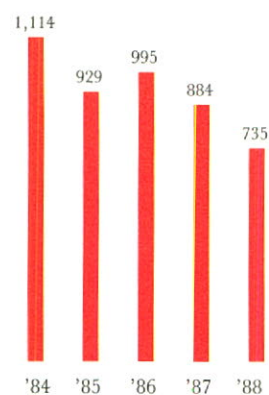
### Cash Surplus before Financing Activities

\$ in millions



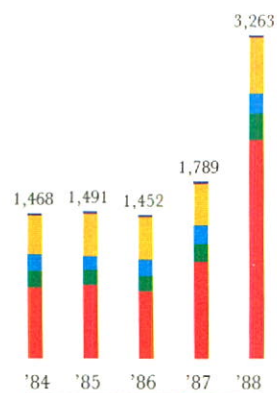
### Total Debt

\$ in millions



### Sales by Product

\$ in millions



Nickel	720	732	674	967	2,202
Copper	170	160	162	199	283
Other primary metals	162	148	166	192	201
Alloys and engineered products	393	422	438	418	552
Other	23	29	12	13	25



The operating earnings of the Company's primary metals business are highly dependent upon the markets for its products, particularly nickel. Such markets in the past have tended to be cyclical in nature, resulting in substantial volatility in demand and price. The Company's realized price for nickel products in 1988 rose dramatically from the 1987 and 1986 levels. The effect of this price improvement on operating earnings can largely be determined by applying the amount of the price increase to the quantity of nickel delivered excluding quantities of purchased nickel on which little profit is realized.

Dramatically improved world market conditions, following an extended period of depressed prices, also characterized the copper industry during 1988. Consequently, copper prices, which had risen sharply in the fourth quarter of 1987, remained at historically high levels throughout 1988 and were particularly strong in the fourth quarter. The Company's copper price realization averaged \$1.12 per pound for 1988, a 53 per cent increase over 1987 which was itself a 14 per cent increase over 1986. This higher price realization, despite 7 per cent lower deliveries, resulted in sales of refined copper in 1988 of \$283 million, approximately 42 per cent above the level of 1987 and 75 per cent above 1986. After increasing substantially in 1987, the Company's price realizations for platinum-group metals and gold in 1988 were relatively unchanged from the prior year. With respect to cobalt, the 1988 realization of \$7.36 per pound was a 9 per cent improvement over 1987, but remained 3 per cent below the price realized in 1986.

While the exceptional primary metals results in 1988 were directly attributable to the record level of nickel and, to a lesser extent, copper prices, the Company continued its focus on improved competitiveness through increased productivity. Measured in pounds of nickel plus copper produced per manshift, productivity improved by 4 per cent in 1988 following gains of 3 per cent in 1987 and 13 per cent in 1986. Productivity has now been increased almost 75 per cent since 1980. Despite the further improvement in 1988, however, the unit production cost of both nickel and copper increased for the first time since 1982. This increase, attributable to the Company's Canadian operations, was principally due to two factors: an 8 per cent strengthening of the Canadian dollar against the U.S. dollar and new collective bargaining agreements. Unit production costs in 1988 included a full year's impact of the three-year collective bargaining agreement negotiated by the Manitoba Division in September 1987 and a

part-year impact of the new Ontario Division three-year agreement, negotiated in May 1988. Wage and benefit improvements under both agreements were more heavily weighted into the first year. All employees of the Company's primary metals operations now participate in profit-sharing or bonus arrangements which link a portion of their compensation to the financial performance of these operations or the Company's realized price of nickel. As a result of the record levels of nickel prices and operating earnings, substantial payments were made under these arrangements in 1988.

Nickel production, especially from lateritic ores, is energy intensive and relative energy costs can be critical. The Company enjoys relatively low energy costs due to substantial production from its Canadian sulphide ores, which consume only about one-fifth the energy required to process lateritic ores, and low-cost electricity produced by its own hydroelectric facilities in Ontario and at its lateritic mining operations in Indonesia. The availability of captive hydroelectric power decreased the cash energy costs of the Indonesian operations in 1988 by about 50 per cent compared to those which would have been incurred had the operations been totally energy dependent on oil.

In response to continuing strong nickel demand, the Company increased nickel production in 1988 to 434 million pounds, its highest level since 1976. In contrast to 1986, when nickel production was kept in balance with deliveries through the use at all major operating locations of both vacation and production shutdowns, only normal vacation shutdowns were scheduled in 1988 and 1987. Costs associated with production shutdowns and workforce reductions at all primary metals locations totalled \$5 million in 1988 compared to \$9 million 1987 and \$23 million in 1986.

Primary metals results include operating earnings attributable to the Company's Indonesian nickel operations of \$205 million in 1988, compared to \$15 million in 1987 and an operating loss of \$21 million in 1986. The dramatic improvement in 1988 following, in 1987, the first substantial operating earnings since project start-up, illustrates the significant leverage exerted by nickel price on this operation. As well as benefitting in 1988 from the record level of nickel prices, the Indonesian operation, which sells its output into the Japanese market, also attained its highest level of nickel production since the start-up of operations in 1979. This was achieved in spite of a number of setbacks, including a 26-day production interruption earlier in the year caused by earthquake-related damage to a canal that delivers water to the operation's hydroelectric generating station. Unlike the Canadian operations, the unit production cost of nickel



from the Indonesian operations refined in Japan did not increase in 1988, as continuing productivity improvements offset the combined effect of inflation and a 12 per cent strengthening of the Japanese yen against the U.S. dollar. In July, the Company concluded the sale of a 20 per cent equity interest in its Indonesian subsidiary to Sumitomo Metal Mining Co. Ltd. of Japan for \$100 million. At the same time the Company and Sumitomo agreed to expand capacity of the operations from a nominal annual capacity of 80 million pounds of nickel in matte to 105 million pounds. This \$80 million expansion is scheduled to be completed in 1990 and thereafter Sumitomo will purchase about 20 per cent of production from the expanded facility.

Exploration expenditures increased for the second consecutive year to \$43 million in 1988 from \$22 million in 1987 and \$17 million in 1986. These increases reflect an increased focus on gold and other precious metals and, to a lesser extent, increased exploration activity at the Company's existing Canadian nickel/copper operations.

### Alloys and Engineered Products

Alloys and Engineered Products (\$ millions)	1988	1987	1986
Net sales to customers	\$552	\$418	\$438
Operating earnings (loss)	\$ 48	\$(12)	\$ 26

Operating earnings improved substantially in 1988 to \$48 million compared to an operating loss of \$12 million in 1987 and operating earnings of \$26 million in 1986. Net sales to customers rose in 1988 to \$552 million, a 32 per cent increase over 1987 and 26 per cent above the 1986 level. The improvement in 1988 as compared to 1987 was due to higher average selling prices, largely reflecting increased raw material prices, increased deliveries of alloys and reduced operating costs. The operating loss in 1987 was caused by intense competitive pressures, reduced demand for high-margin products and increased costs. Results of the alloys and engineered products business in 1988 included a \$9 million writedown as a result of a physical inventory of scrap metals. Costs associated with employment reductions totalled \$5 million in 1988, compared to \$8 million in 1987; there were no significant costs associated with employment reductions in 1986.

### Other Business

Other Business (\$ millions)	1988	1987	1986
Net sales to customers	\$ 25	\$ 13	\$ 12
Operating earnings (loss)	\$ 1	\$ 2	\$(5)

The principal units included in other business are Inco Venture Capital Management, Inmetco, a metals reclamation operation, and Continuous Mining Systems Limited, a manufacturer and marketer of innovative mining equipment. Venture Capital had an operating loss of \$3 million in 1988, compared to operating earnings of \$3 million in 1987 and \$14 million in 1986. The 1988 results reflected a difficult year for the venture capital industry characterized by a significant downturn in both the new issue market and stock prices of publicly held biotechnology and other portfolio companies. Adversely affecting the 1988 result was the deferral of planned portfolio sales and the recognition of losses in respect of investments totalling \$2 million. Inmetco had operating earnings of \$4 million in 1988 in contrast to operating losses of \$1 million in 1987 and \$18 million in 1986. Sales to customers increased to \$16 million in 1988 compared to \$9 million in 1987 and \$7 million in 1986. The 1988 results largely reflected higher product prices and increased demand for Inmetco's products and services. Approximately one-half of the 1986 operating loss was attributable to a restructuring of Inmetco's operations, including the permanent closure of a subsidiary, Pittsburgh Pacific Processing Company. Continuous Mining Systems Limited, in its fourth full year of operation, continued to maintain its strong growth. Sales to customers in 1988 totalled \$7 million compared to \$3 million in 1987 and \$1 million in 1986. Operating earnings doubled to \$1 million in 1988 from the levels of the two preceding years.

**Interest** Total interest expense declined in 1988 to \$92 million from \$101 million in 1987 and \$94 million in 1986. The lower interest expense in 1988 reflected a reduction in average debt balances of approximately 20 per cent, partially offset by higher interest rates. The increase in interest expense in 1987 was the result of higher average debt balances and stronger sterling exchange rates partially offset by lower interest rates.



**Taxes and Extraordinary Credit** The relationship of income and mining taxes to pretax earnings (the effective tax rate) had been increased by the losses incurred in 1987 and 1986 by the Company's operations in Indonesia and the United States, on which no tax benefit was recognized. These operations were profitable in 1988 and the provision for income and mining taxes for 1988 includes income taxes on these earnings at the statutory rate applicable in each country. The utilization in 1988 of the prior years' losses is, as required, reported as an extraordinary credit totalling \$44.6 million. Additionally, currency translation factors, which were neutral in 1988, increased the effective tax rate slightly in 1987 after having reduced the rate in 1986. The effective tax rate has been reduced by recognition, upon utilization in 1987 and 1986, of additional tax relief attributable to losses incurred in Canada in prior years and by earnings derived outside of Canada where the Company's operations are taxed at lower rates than those which prevail in Canada. Taxes were also reduced by refunds of \$1.8 million in 1988 and \$13.6 million in 1987 of Advance Corporation Tax under United Kingdom treaty provisions covering dividends paid to non-residents.

**Cash Flow, Capital Resources and Liquidity** During 1988 the Company generated a cash surplus, before financing activities, of \$887 million, as compared with surpluses of \$217 million in 1987 and \$58 million in 1986. The 1988 surplus included \$100 million from the sale of a 20 per cent equity interest in the Company's Indonesian subsidiary. The cash surplus for the year, together with \$21 million generated by the issuance of Common Shares (largely as a result of the Company's optional stock dividend program) was used to pay dividends of \$80 million; to redeem preferred shares at a cost of \$59 million; to repay \$146 million of debt; and to increase cash and marketable securities by \$623 million.

In 1988, total debt outstanding was reduced by payments of \$146 million to \$735 million, as compared to a reduction of \$111 million in 1987 and an increase of \$66 million in 1986. In addition to reducing debt, during 1988, 1,531,381 shares of the Company's Cumulative Redeemable Commodity-Indexed Series C Preferred Shares were redeemed at a cost of \$56 million, as compared to the redemption of 1,946,164 of such shares during 1987 at a cost of \$55 million. These shares carry a conversion privilege which permits them to be exchanged for a

cash amount based on the market price of copper or nickel, and most of the redemptions resulted from the significant increase in the price of copper during late 1987 and early 1988. The difference between the redemption value and the book value of the shares redeemed, which was \$27 million in 1988, and \$17 million in 1987, was charged directly to Retained Earnings. At December 31, 1988, 122,455 Series C Preferred Shares remained outstanding. During 1988 the Company also redeemed through open market purchases 151,600 Series B Preferred Shares compared to 217,000 in 1987, and 235,100 in 1986. These redemption costs amounted to \$3 million, the same amount as incurred in each of the two preceding years.

During 1988 the Company redeemed its \$100 million Floating Rate Notes due 1995, and renegotiated and increased its bank revolving and term loan facilities, which totalled \$600 million at December 31, 1987, to an aggregate amount of \$1,000 million, any outstandings of which are repayable as to 25 per cent in each of the years 1993 and 1994 with the balance due in 1995. These facilities are comprised of two tranches (Tranche A and Tranche B), and borrowings bear interest at floating rates customary for a borrower such as the Company. Of the facilities, an aggregate amount of \$400 million is designated as Tranche A and \$600 million is designated as Tranche B. In addition to negative pledge, sale and leaseback and amalgamation-merger covenants, the facilities provide that so long as advances under only Tranche A are outstanding the Company will be required to maintain a Consolidated Debt to Net Worth Ratio (as defined therein) not to exceed 55:45. If Tranche B advances are outstanding under any facility, the Company will no longer be bound by the Consolidated Debt to Net Worth Ratio covenant and will instead be required to maintain a minimum Tangible Net Worth of \$200 million, limit Aggregate Indebtedness to \$2,000 million, and maintain an Interest Coverage Ratio of not less than 1.75 to 1 (all as defined therein). At December 31, 1988, the Company's Consolidated Debt to Net Worth Ratio was 46:54, its Tangible Net Worth was \$876 million, and its Aggregate Indebtedness was \$735 million; for the year ended December 31, 1988, its Interest Coverage Ratio was 16.8 to 1.



On December 9, 1988 the Company's shareholders approved a Recapitalization Plan which included a special cash dividend of \$10 per common share, aggregating \$1,059 million. The dividend was paid on January 9, 1989, utilizing cash and marketable securities on hand, together with a borrowing of \$500 million under the Company's bank credit facilities. The Retained Earnings reflected in the Company's December 31, 1988 financial statements has been reduced by the full amount of this dividend, but the statements do not reflect the \$500 million borrowing which occurred subsequent to that date. Assuming that these borrowings had been drawn down on December 31, 1988, Tangible Net Worth would have remained unchanged at \$876 million, Aggregate Indebtedness would have been \$1,235 million, and the Consolidated Debt to Net Worth Ratio would have been 59:41. As the borrowing includes a drawdown under Tranche B of the facilities, the Company is no longer bound by the Consolidated Debt to Net Worth Ratio covenant, but is subject to the alternative covenants.

During the first quarter of 1989 the Company will be making substantial tax payments in respect of its 1988 earnings. The Company estimates that these payments will aggregate about \$430 million.

Capital expenditures were \$229 million in 1988, compared to \$138 million in 1987 and \$139 million in 1986. The Company has embarked on a major capital program which will require expenditures of about \$350 million in 1989 and an even larger amount in 1990. A major element of this program is the two-part project to reduce sulphur dioxide (SO<sub>2</sub>) emissions at the Ontario Division. One part involves the expenditure of \$57 million, essentially during 1989 and 1990, to modify and rationalize milling and concentrating operations, permitting the separation and rejection of additional quantities of high sulphur-bearing pyrrhotite. This part of the project is expected to generate a satisfactory financial return. The other part involves the expenditure of \$357 million over a five-year period, including some \$40 million in 1989 and \$105 million in 1990, for new oxygen flash smelting furnaces, a new acid plant, a new oxygen plant extension and additional services. These process changes will result in some cost and productivity improvements but, except for the need to lower SO<sub>2</sub> emissions, this part of the project would be difficult to justify on a financial basis. In addition, the Company will spend \$80 million by 1990 to increase nickel production capacity by 30 per cent in Indonesia and will also spend substantial amounts on mine development to maintain capacity in Canada.

At December 31, 1988, long-term debt maturities and sinking fund requirements for each of the five years through 1993 are: 1989 - \$14 million; 1990 - \$22 million; 1991 - \$63 million; 1992 - \$132 million; and 1993 - \$93 million.

Notwithstanding its heavy capital expenditure programs, the Company believes that, except for the borrowings to pay the special cash dividend, its cash flow will generally be sufficient to meet its cash requirements. In addition, its access to the credit markets, and its unutilized bank credit facilities should provide it with sufficient flexibility to fund any shortfalls which may occur.

**Other Information** The financial information presented and discussed in Management's Discussion and Analysis is derived from the Company's consolidated financial statements which are prepared in conformity with generally accepted accounting principles as established in Canada which, in the Company's case, generally conform with those established in the United States, except as explained in Note 13 of the Explanatory Financial Section.

Reference is made to page 47 of this Report for certain information on governmental and other policies and factors affecting the Company's operations and investments by non-Canadians in the Company's securities.



# Consolidated Statement of Operations

Inco Limited and Subsidiaries

<i>Year ended December 31 (U.S. \$ in thousands)</i>	1988	1987	1986
<b>Revenues</b>			
Net sales	\$3,263,054	\$1,789,469	\$1,451,602
Gain from sale of equity interest in subsidiary (Note 3)	44,188	—	—
Other income (Note 3)	40,926	36,019	38,140
	3,348,168	1,825,488	1,489,742
<b>Costs and expenses</b>			
Cost of sales and operating expenses	1,732,743	1,355,774	1,230,652
Selling, general and administrative expenses	158,637	111,795	97,850
Research and development	33,083	26,984	21,791
Exploration	42,981	21,907	16,672
Interest expense	91,637	100,978	93,951
Currency translation adjustments	20,824	9,301	2,151
	2,079,905	1,626,739	1,463,067
Earnings before income and mining taxes and extraordinary credit	1,268,263	198,749	26,675
Income and mining taxes (Note 6)	577,459	73,508	26,498
Net earnings before extraordinary credit	690,804	125,241	177
Utilization of prior years' tax losses (Note 6)	44,623	—	—
<b>Net earnings</b>	735,427	125,241	177
Dividends on preferred shares	(5,846)	(11,465)	(16,787)
Net earnings (loss) applicable to common shares	\$ 729,581	\$ 113,776	\$ (16,610)
Net earnings (loss) per common share			
Before extraordinary credit	\$ 6.50	\$ 1.09	\$ (0.16)
Extraordinary credit	0.42	—	—
Net earnings (loss) per common share	\$ 6.92	\$ 1.09	\$ (0.16)

# Consolidated Statement of Retained Earnings

<i>Year ended December 31 (U.S. \$ in thousands)</i>	1988	1987	1986
Retained earnings at beginning of year	\$ 573,025	\$ 495,818	\$ 512,907
Net earnings	735,427	125,241	177
Gain (loss) on redemption of preferred shares	(26,049)	(15,674)	19,954
Preferred dividends	(5,846)	(11,465)	(16,787)
Common dividends – Special (\$10.00 per share)	(1,058,508)	—	—
– Regular (1988 – \$.70; 1987 and 1986 \$.20 per share)	(73,825)	(20,895)	(20,433)
Retained earnings at end of year	\$ 144,224	\$ 573,025	\$ 495,818

The Explanatory Financial Section on pages 36 through 45 is an integral part of these statements.



## Consolidated Balance Sheet

December 31 (U.S. \$ in thousands)	1988	1987	1986
<b>Current assets</b>			
Cash	\$ 15,362	\$ 7,965	\$ 9,218
Marketable securities, at cost (market 1988 - \$645,000; 1987 - \$28,700; 1986 - \$19,100)	641,788	26,350	15,816
Accounts receivable	638,677	359,406	234,206
Tax refunds receivable	—	28,089	1,182
Inventories (Note 4)	611,376	561,692	632,113
Prepaid expenses	13,731	12,892	12,373
Total current assets	1,920,934	996,394	904,908
<b>Property, plant and equipment, net</b> (Note 5)	1,899,474	1,850,665	1,885,968
<b>Other assets and deferred charges</b>			
Investments in and advances to affiliates, on an equity basis	47,989	24,901	22,681
Miscellaneous investments	100,887	91,305	134,927
Deferred pension charges (Note 12)	76,391	—	—
Other	33,173	31,116	27,384
	258,440	147,322	184,992
	<b>\$4,078,848</b>	<b>\$2,994,381</b>	<b>\$2,975,868</b>
<b>Current liabilities</b>			
Notes payable	\$ 47,354	\$ 43,029	\$ 17,439
Long-term debt due within one year (Note 7)	14,025	30,058	36,947
Special common dividend payable (Note 2)	1,058,508	—	—
Accounts payable	135,147	101,652	99,347
Accrued payrolls and benefits	158,740	139,182	123,410
Accrued interest	44,005	47,529	44,135
Other accrued liabilities	156,655	108,651	89,768
Income and mining taxes payable (Note 6)	437,388	53,687	59,227
Total current liabilities	2,051,822	523,788	470,273
<b>Other liabilities and deferred credits</b>			
Long-term debt (Note 7)	673,790	810,874	940,795
Deferred income and mining taxes (Note 6)	288,500	198,200	161,300
Pension benefits (Note 12)	203,152	230,455	248,592
Minority interest	66,342	4,484	5,312
Other	27,945	32,010	—
	1,259,729	1,276,023	1,355,999
<b>Redeemable Preferred Shares Series C 10 %</b> (Note 8)	2,357	31,836	69,300
<b>Non-redeemable Preferred Shares Series B 7.85 %</b> (Note 8)	75,777	79,234	84,183
<b>Common shareholders' equity</b>			
Common shares issued and outstanding 105,850,823 shares (1987 - 104,866,647; 1986 - 104,174,848) (Notes 9 and 10)	470,400	449,439	439,259
Capital surplus	61,036	61,036	61,036
Retained earnings	144,224	573,025	495,818
Cumulative currency translation adjustments (Note 1)	13,503	—	—
	689,163	1,083,500	996,113
	<b>\$4,078,848</b>	<b>\$2,994,381</b>	<b>\$2,975,868</b>

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



# Consolidated Statement of Cash Flows

Inco Limited and Subsidiaries

Year ended December 31 (U.S. \$ in thousands)	1988	1987	1986
<b>Operating activities</b>			
Net earnings before extraordinary credit	\$ 690,804	\$ 125,241	\$ 177
Utilization of prior years' tax losses	44,623	—	—
Net earnings after extraordinary credit	735,427	125,241	177
Charges (credits) not affecting cash			
Depreciation	134,772	118,659	117,536
Depletion	42,184	33,843	26,225
Deferred income and mining taxes	94,100	34,200	(36,200)
Amortization of pension reversions	(14,557)	(14,557)	(14,282)
Loss on disposals of property, plant and equipment	4,652	8,149	6,178
Currency translation adjustments not affecting working capital	7,955	6,603	(382)
Other - net	6,262	(1,094)	(280)
Decrease (increase) in non-cash working capital related to operations			
Accounts and tax refunds receivable	(251,182)	(152,107)	39,050
Inventories	(49,684)	70,421	64,882
Prepaid expenses	(839)	(519)	(2,969)
Accounts payable and accrued liabilities	97,533	40,354	22,323
Income and mining taxes payable	383,701	(5,540)	(32,301)
Gain from sale of equity interest in subsidiary	(44,188)	—	—
Proceeds from future product shipments	—	33,892	—
Contributions to pension plans in excess of accruals	(108,319)	(4,869)	(5,998)
Cash provided by operating activities	1,037,817	292,676	183,959
<b>Investment activities</b>			
Capital expenditures	(228,936)	(137,942)	(138,538)
Proceeds from sale of equity interest in subsidiary	100,000	—	—
Proceeds from a reduction in miscellaneous investments	—	32,000	—
Proceeds from disposals of property, plant and equipment	5,121	12,979	9,785
Other - net	(26,822)	17,337	3,185
Cash used for investment activities	(150,637)	(75,626)	(125,568)
<b>Cash surplus before financing activities</b>	<b>887,180</b>	<b>217,050</b>	<b>58,391</b>
<b>Financing activities</b>			
Long-term borrowings	11,789	110,970	548,346
Reduction of long-term debt	(146,000)	(256,339)	(470,302)
Net addition (reduction) to short-term debt	(11,708)	18,701	(15,916)
Net proceeds from common shares issued	20,961	10,180	26,118
Preferred shares redeemed	(58,985)	(58,087)	(105,031)
Preferred and common dividends paid	(80,402)	(33,194)	(37,202)
Cash used for financing activities	(264,345)	(207,769)	(53,987)
<b>Increase in cash and marketable securities</b>	<b>\$ 622,835</b>	<b>\$ 9,281</b>	<b>\$ 4,404</b>

The Explanatory Financial Section on pages 36 through 45 is an integral part of these statements.



## *Explanatory Financial Section*

### **Note 1. Summary of Significant Accounting Policies**

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

**Principles of Consolidation** The consolidated financial statements include the accounts of the Company and its subsidiaries and are prepared in conformity with generally accepted accounting principles as established in Canada which, in the Company's case, generally conform with those established in the United States, except as explained in Note 13.

#### **Translation of Financial Statements into United States Dollars**

The financial statements are expressed in United States dollars using foreign currency translation procedures established by the Canadian Institute of Chartered Accountants. Prior to 1988, all of the Company's operations were classified as integrated operations for purposes of applying the translation procedures, and their functional currency was United States dollars. Effective January 1, 1988, as a result of a reorganization and change in operating objectives, the Company's alloys and engineered products businesses in the United Kingdom have been determined, for purposes of applying the translation procedures, to be self-sustaining operations, and the functional currency for these operations changed from United States dollars to pounds sterling.

For integrated operations, cash, accounts receivable, current liabilities, the liability for pension benefits and unhedged long-term debt are translated into United States dollars using year-end rates of exchange; all other assets and liabilities are translated at applicable historical rates of exchange or at rates established by related forward exchange contracts. Revenues, expenses and certain costs are translated at monthly average rates except for inventoried costs, depreciation and depletion which are translated at historical rates. Realized exchange gains and losses and currency translation adjustments are included in earnings currently except for currency translation adjustments relative to long-term monetary items with a fixed and ascertainable life which are deferred and amortized on a straight-line basis over the life of the item.

For self-sustaining operations, all assets and liabilities are translated into United States dollars at year-end rates of exchange and income and expense items are translated at monthly average rates. Realized exchange gains and losses are included in earnings currently. Currency translation adjustments, which aggregated a net credit of \$13.5 million at December 31, 1988, are included as a separate component of shareholders' equity, "Cumulative currency translation adjustments".

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

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

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

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

**Hedge Contracts** The Company periodically uses forward exchange contracts and currency swap agreements to hedge the effect of future local currency requirements and futures contracts to hedge the effect of price changes on a portion of the primary metals it sells. Gains and losses on hedge contracts are reported as a component of the related transaction.

**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. Recapitalization Plan**

At a Special Meeting of Shareholders held on December 9, 1988, shareholders approved the Company's Recapitalization Plan which had been adopted by the Board of Directors,



subject to shareholder approval, on October 3, 1988. The Recapitalization Plan consists of the payment of a special cash dividend of \$10 per Common Share and a Shareholder Rights Plan.

The special cash dividend was declared on December 9, 1988, payable January 9, 1989 to shareholders of record on December 22, 1988. The liability for the special cash dividend, totalling \$1,058.5 million, is shown separately as "Special common dividend payable" in the Consolidated Balance Sheet at December 31, 1988.

Under the Shareholder Rights Plan, one Common Share Purchase Right was issued on October 3, 1988 in respect of each outstanding Common Share. Each Right entitles the registered holder to purchase from the Company one Common Share at the exercise price of \$100 per share, subject to certain antidilution adjustments in the event of a stock dividend, split or reclassification in respect of the Common Shares, the grant of rights to subscribe for Common Shares at less than their current market price, or the distribution to holders of Common Shares of specified indebtedness or other rights or warrants. The effect of the Rights Plan is to require anyone who seeks to acquire 20 per cent or more of the Company's voting shares to negotiate with the Board of Directors to terminate the Rights issued under the Plan.

Pursuant to the Rights Plan, until the earlier of a person or group acquiring 20 per cent or more of the Company's outstanding Voting Shares or the tenth day (or such later date as the Board of Directors may fix by amendment of the Plan) following the announcement of a tender or exchange offer or takeover bid that will result in such person or group owning 20 per cent or more of the Voting Shares, the Rights will be evidenced by the Common Shares, will automatically trade with the Common Shares and will not be exercisable. Thereafter, separate Rights certificates will be distributed. If (i) any person or group acquires 20 per cent or more of the Voting Shares or (ii) the Company consolidates with, amalgamates with or into or enters into an arrangement with any person or group in which the Common Shares are changed or if the Company shall sell or transfer assets aggregating more than 50 per cent of assets or generating more than 50 per cent of operating income or cash flow, then each Right (excluding in certain circumstances Rights beneficially owned by a 20 per cent shareholder or certain transferees thereof, which Rights become void) will entitle the holder, on payment of the exercise price, to purchase Common Shares of the Company, in the circumstances in (i) above, or equity securities of the acquiror, in the circumstances in (ii) above, at a 50 per cent discount. In certain circumstances, the Board of Directors may, at its option and upon payment of the exercise price, issue or deliver debt or equity securities or other assets (or any combination thereof) having a value equal to twice the exercise price or, without charge, issue or deliver debt or equity securities or other assets (or any combination thereof) having a value equal to the exercise price.

A shareholder has instituted a lawsuit challenging the legality of the Shareholder Rights Plan. This action does not claim any damages against the Company. On January 17, 1989, the Company received a proposal from another shareholder requesting that the Board of Directors of the Company terminate the Shareholder Rights Plan, which advisory resolution will be voted on at the Company's 1989 Annual Meeting of Shareholders.

### Note 3. Gain from Sale of Equity Interest in Subsidiary and Other Income

During the third quarter of 1988, the Company realized a net gain of \$44.2 million from the sale, for \$100.0 million, of a 20 per cent equity interest in P.T. International Nickel Indonesia to Sumitomo Metal Mining Co. Ltd. of Japan.

Other income includes interest of \$23,590,000 in 1988, \$5,880,000 in 1987 and \$6,920,000 in 1986; realized exchange gains of \$1,830,000 in 1988, \$9,140,000 in 1987 and \$1,600,000 in 1986; and gains and losses on sales of securities, which were losses of \$340,000 in 1988, and gains of \$5,740,000 in 1987 and \$14,370,000 in 1986.

### Note 4. Inventories

Inventories consist of the following:

December 31 (\$ in thousands)	1988	1987	1986
Metals, finished and in-process	\$519,755	\$472,650	\$544,969
Supplies	91,621	89,042	87,144
	<b>\$611,376</b>	<b>\$561,692</b>	<b>\$632,113</b>

### Note 5. Property, Plant and Equipment

Property, plant and equipment consists of the following:

December 31 (\$ in thousands)	1988	1987	1986
Mines and mining plants	\$1,453,422	\$1,374,976	\$1,319,508
Processing facilities	1,606,670	1,563,777	1,538,933
Other	326,381	320,327	336,482
Primary metals facilities	3,386,473	3,259,080	3,194,923
Alloys and engineered products facilities	504,823	495,027	467,563
Other	59,962	63,626	72,375
Total property, plant and equipment	<b>3,951,258</b>	<b>3,817,733</b>	<b>3,734,861</b>
Accumulated depreciation	1,620,946	1,544,905	1,460,573
Accumulated depletion	430,838	422,163	388,320
	<b>2,051,784</b>	<b>1,967,068</b>	<b>1,848,893</b>
Property, plant and equipment, net	<b>\$1,899,474</b>	<b>\$1,850,665</b>	<b>\$1,885,968</b>

Property, plant and equipment, net at December 31, 1988 includes \$582 million relative to the Indonesian nickel operations and \$100 million applicable to standby mines in Canada.



The Company has developed technology which will allow it to reduce its sulphur dioxide (SO<sub>2</sub>) emissions at its Sudbury, Ontario operations to the level required by the Government of Ontario. The major part of this project, involving an estimated expenditure of \$357 million over the next five years, will be invested in new oxygen flash smelting furnaces, a new acid plant, a new oxygen plant extension and additional services. These process changes will result in some cost and productivity improvements but, except for the need to lower SO<sub>2</sub> emissions, this part of the project would be difficult to justify on a financial basis.

#### Note 6. Income and Mining Taxes and Extraordinary Credit

The provisions for income and mining taxes (tax relief) for the years 1986-1988 were as follows:

(\$ in thousands)	1988	1987	1986
Current taxes	\$ 525,759	\$41,608	\$29,798
Current deferred	(42,400)	(2,300)	32,900
Future deferred	94,100	34,200	(36,200)
Total deferred taxes	51,700	31,900	(3,300)
Total income and mining taxes, excluding extraordinary credit	\$ 577,459	\$73,508	\$26,498
Canada	\$ 511,559	\$82,196	\$12,554
Indonesia	38,217	—	—
United Kingdom	16,269	5,880	15,405
Other	11,414	(14,568)	(1,461)
	\$ 577,459	\$73,508	\$26,498

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

(\$ in thousands)	1988	1987	1986
Canada	\$1,007,263	\$188,080	\$19,058
Indonesia	109,191	(13,565)	(32,902)
United Kingdom	46,981	34,424	43,778
Other	104,828	(10,190)	(3,259)
Total	\$1,268,263	\$198,749	\$26,675

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

(\$ in thousands)	1988	1987	1986
Tax effects of timing differences for:			
Depreciation	\$ 14,700	\$38,400	\$(19,900)
Pensions	54,800	2,900	14,300
Employee benefits	(2,200)	(1,200)	3,700
Inventories	(24,600)	(6,500)	700
Other	9,000	(1,700)	(2,100)
Total	\$ 51,700	\$31,900	\$(3,300)

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

Year ended December 31	1988	1987	1986
	Provision (Relief)		
Combined Canadian federal-provincial statutory income tax rate	46.4 %	50.8 %	49.8 %
Resource and depletion allowance	(11.6)	(18.9)	(24.0)
Adjusted income tax rate	34.8	31.9	25.8
Mining taxes	15.0	14.1	42.9
	49.8	46.0	68.7
Effects of losses in:			
Indonesia	—	2.6	47.0
United States	—	3.8	15.4
Currency translations	—	1.8	(17.1)
Prior year tax adjustments	0.3	(0.1)	8.4
Tax rate differential	(2.6)	(11.8)	(20.9)
Advance Corporation Tax refund	(0.1)	(6.8)	—
Other	(1.9)	1.5	(2.2)
Effective income and mining tax rate	45.5 %	37.0 %	99.3 %

The effective tax rate had been increased by the losses incurred in 1987 and 1986 by the Company's operations in Indonesia and the United States, on which no tax benefit was recognized. These operations were profitable in 1988 and the provision for income and mining taxes for 1988 includes income taxes on these earnings at the statutory rate applicable in each country. The utilization in 1988 of the prior years' losses is, as required, reported as an extraordinary credit totalling \$44.6 million. Additionally, currency translation factors, which were neutral in 1988, increased the effective tax rate slightly in 1987 after having reduced the rate in 1986. The effective tax rate has been reduced by recognition, upon utilization in 1987 and 1986, of additional tax relief attributable to losses incurred in Canada in prior years and by earnings derived outside of Canada where the Company's operations are taxed at lower rates than those which prevail in Canada. Taxes were also reduced by refunds of \$1.8 million in 1988 and \$13.6 million in 1987 of Advance Corporation Tax under United Kingdom treaty provisions covering dividends paid to non-residents. The percentages for 1986 reconciling items were accentuated significantly by the relatively low pretax amounts.

Under the "cost reduction" method, investment tax credits reduced costs and expenses by \$7.2 million in 1988 (\$5.2 million in 1987 and \$4.7 million in 1986). At December 31, 1988, the Company had approximately \$27 million of investment tax credits which will be amortized over periods not exceeding 12 years.



The cumulative tax effect of timing differences relating to items of a non-current nature is shown separately as deferred income and mining taxes of \$288.5 million in the Consolidated Balance Sheet at December 31, 1988. The cumulative tax effect of timing differences relating to items of a current nature of \$39.7 million at December 31, 1988 is included as a reduction in the current liability for income and mining taxes payable.

Losses and unutilized investment tax credits relative to the Company's nickel operations in Indonesia totalling \$311 million and \$56 million, respectively, can be carried forward indefinitely to reduce future tax expense.

## 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, 1988 are shown in parentheses):

<i>December 31 (\$ in thousands)</i>	<b>1988</b>	<b>1987</b>	<b>1986</b>
<b>Inco Limited</b>			
5.75% Swiss Franc Bonds (1996)	\$103,457	\$103,457	\$103,457
6.5% Deutsche Mark Bonds (1991)	42,293	47,745	38,993
6.85% U.S. \$ Debentures (1993)	29,390	41,969	43,830
8.625% Cdn. \$ Debentures (1991)	19,033	18,196	22,820
9.0% U.S. \$ Debentures (1992)	52,725	55,860	63,113
9.25% Cdn. \$ Debentures (1990)	21,426	19,816	24,100
9.5% ECU Notes (1994)	64,400	64,400	64,400
9.75% U.S. \$ Notes (1996)	99,000	99,000	100,000
11.0% U.S. \$ Notes (1992)	75,000	75,000	75,000
12.375% U.S. \$ Debentures (2002-2010)	47,046	51,046	59,150
12.75% Sterling Notes (1993)	61,010	61,010	61,010
15.75% Sterling Unsecured Loan Stock (2006)	45,001	45,001	45,001
U.S. \$ Floating Rate Notes	—	100,000	100,000
U.S. \$ Revolving loans	—	—	88,500
<b>P.T. International Nickel Indonesia</b>			
Export & supplier credits (8.7%) (1989)	12,404	36,341	58,650
U.S. \$ Bank loans	—	—	1,111
<b>Other Indebtedness</b>			
(9.4%) (1989-2001)	15,630	22,091	28,607
	<b>687,815</b>	<b>840,932</b>	<b>977,742</b>
Long-term debt due within one year	14,025	30,058	36,947
Long-term debt	<b>\$673,790</b>	<b>\$810,874</b>	<b>\$940,795</b>

The average effective interest rate on long-term debt at December 31, 1988 was 10.4%. The Company has currency swap agreements which effectively convert the 200 million Swiss Franc 5¾% Bonds and the 70 million ECU 9½% Notes into U.S. dollar obligations at annual interest costs of 10.2% and 10.5%, respectively. The Company has also entered into interest rate swap agreements with financial institutions based on a principal amount of \$85 million. These agreements, which expire in 1994, require the

Company to make floating rate interest payments based on the London Interbank Offered Rate in exchange for fixed interest payments at 7.9%. Interest expense on long-term debt for the years 1988, 1987 and 1986 was \$80,793,000, \$97,234,000 and \$91,592,000, respectively. After reflecting forward exchange hedging and currency swap contracts, 89% of the long-term debt is effectively payable in U.S. dollars.

During 1988, the Company incurred fees of \$1,280,000 to compensate banks for undrawn credit facilities.

At December 31, 1988 long-term debt maturities and sinking fund requirements for each of the five years through 1993 are: 1989 - \$14,025,000; 1990 - \$22,456,000; 1991 - \$62,522,000; 1992 - \$131,575,000; 1993 - \$92,582,000.

The Company has two related committed bank credit facilities aggregating \$1,000 million, neither of which was drawn down at December 31, 1988. Each of these facilities is divided into two tranches and bears interest at floating rates. One facility designates up to \$250 million as Tranche A and a further \$250 million as Tranche B. The other facility designates up to \$150 million as Tranche A and a further \$350 million as Tranche B. Each facility provides that so long as advances under only Tranche A are outstanding, the Company will be required to maintain a Consolidated Debt to Net Worth Ratio (as defined therein) not to exceed 55:45. At December 31, 1988, this ratio was 46:54. Once Tranche B advances become outstanding, each facility provides that the Company will no longer be bound by the Consolidated Debt to Net Worth Ratio covenant and will instead be required to maintain a minimum Tangible Net Worth (as defined therein) of \$200 million, to limit Aggregate Indebtedness (as defined therein) to \$2,000 million, and to maintain an Interest Coverage Ratio (as defined therein) of not less than 1.75 to 1. At December 31, 1988, Tangible Net Worth was \$876 million and Aggregate Indebtedness was \$735 million; for the year ended December 31, 1988, the Interest Coverage Ratio was 16.8 to 1.

In January 1989, the Company borrowed \$500 million from the first facility with \$250 million under Tranche A and \$250 million under Tranche B. These borrowings together with available cash and marketable securities were used to pay the special cash dividend on January 9, 1989. Assuming that these borrowings had been drawn down and the special cash dividend paid on December 31, 1988, Tangible Net Worth would have remained unchanged at \$876 million and Aggregate Indebtedness would have been \$1,235 million.



## Note 8. Preferred Shares

At December 31, 1988, the authorized preferred shares of the Company, which are issuable in series, consisted of 30,000,000 shares with no par value.

The Series A Floating Rate Preferred Shares, which did not have general voting rights, were issued at \$25 (Cdn.) per share. In 1986, the Company retired the 5 million Series A Preferred Shares which remained outstanding at a cost of \$101,508,000, based on Canadian dollar purchase contracts entered into in prior years. These shares were carried at \$119,625,000, based on the Canadian dollar exchange rate prevailing when the shares were issued in 1977. The difference of \$18,117,000 arising upon redemption was credited directly to Retained Earnings in 1986.

The 7.85% cumulative Series B Preferred Shares are not redeemable at the option of the holders. These shares have general voting rights, were issued at \$25 (Cdn.) per share and are redeemable, at the option of the Company, at \$25 (Cdn.) per share. The Company is required to make all reasonable efforts to repurchase 150,000 Series B Preferred Shares annually if such shares are available at a price not greater than \$25 (Cdn.) per share. During 1988, as a result of this repurchase obligation, the Company retired 151,600 Series B Preferred Shares. The \$757,000 gain on retirement has been credited directly to Retained Earnings.

The 10% Cumulative Redeemable Commodity-Indexed Series C Preferred Shares, which have general voting rights, were issued at \$25 (Cdn.) per share, are redeemable at \$25 (Cdn.) per share at the option of the holders in 1991 and contain a commodity-indexed exchange feature which gives each holder the right to receive the cash equivalent of specified amounts of either nickel or copper. During 1987 and 1988, as a result of holders exercising their rights under this feature, 1,946,164 shares were redeemed at a cost of \$54,642,000 in 1987 and 1,531,381 shares were redeemed at a cost of \$56,285,000 in 1988. These shares were carried at \$66,943,000, based on the Canadian dollar exchange rate prevailing when the shares were issued in 1984. The differences arising on redemption, \$17,178,000 in 1987 and \$26,806,000 in 1988, have been charged directly to Retained Earnings. The cost to redeem the remaining 122,455 shares outstanding at December 31, 1988, giving effect to the commodity-indexed exchange feature, would have been \$6,145,000 including a premium of \$3,788,000.

Changes in the Series B Preferred Shares and Series C Preferred Shares for the years 1986 - 1988 are shown below.

	Series B Preferred Shares		Series C Preferred Shares	
	Number of shares	\$ in thousands	Number of shares	\$ in thousands
<b>December 31, 1985</b>	3,930,767	\$89,493	3,600,000	\$ 69,300
Shares purchased	(235,100)	(5,360)	—	—
Shares issued in lieu of cash dividends	2,820	50	—	—
<b>December 31, 1986</b>	3,698,487	84,183	3,600,000	69,300
Shares redeemed	—	—	(1,946,164)	(37,464)
Shares purchased	(217,100)	(4,949)	—	—
<b>December 31, 1987</b>	3,481,387	79,234	1,653,836	31,836
Shares redeemed	—	—	(1,531,381)	(29,479)
Shares purchased	(151,600)	(3,457)	—	—
<b>December 31, 1988</b>	3,329,787	\$75,777	122,455	\$ 2,357

## Note 9. Common Shares

At December 31, 1988, the authorized shares of the Company consisted of an unlimited number of shares with no par value.

Under the Inco Optional Stock Dividend Program, common shareholders may elect to receive Common Shares in lieu of cash dividends. This program, which was temporarily suspended on October 3, 1988 as a result of the Company's announced Recapitalization Plan, will be reintroduced effective February 24, 1989.

Changes in the Common Shares for the years 1986 - 1988 are shown below.

	Common Shares	
	Number of shares	\$ in thousands
<b>December 31, 1985</b>	102,008,704	\$413,191
Options exercised	60,064	616
Shares issued in lieu of cash dividends	280,820	3,522
Shares sold under:		
Exploration program	5,883	82
Share Purchase Plan	19,377	256
Sale of Investment Tax Credits	1,800,000	21,592
<b>December 31, 1986</b>	104,174,848	439,259
Options exercised	218,956	3,012
Shares issued in lieu of cash dividends	221,326	3,655
Shares sold under:		
Exploration program	236,200	2,934
Share Purchase Plan	15,317	269
Adjustment for 1986 Investment Tax Credits	—	310
<b>December 31, 1987</b>	104,866,647	449,439
Options exercised	450,024	8,167
Shares issued in lieu of cash dividends	420,891	11,252
Shares sold under:		
Exploration program	106,312	1,358
Share Purchase Plan	6,949	184
<b>December 31, 1988</b>	105,850,823	\$470,400



## Note 10. Stock Option Plans and Employee Share Award Plan

The Company's 1968, 1979 and 1984 stock option plans each authorized the granting of options to key employees to purchase up to 1,000,000 Common Shares at prices not less than 100% of their market value on the day the option is granted. The plans provide that no shares subject to option shall be purchasable after ten years from the date of grant. The plans also include an "antidilution" provision to protect the optionholder for stock splits or other significant capital changes. This provision has been applied to options outstanding on December 22, 1988 in order to reflect the special cash dividend of \$10 per common share payable to shareholders of record on that date. For certain optionholders, the antidilution adjustment increased the number of options outstanding on December 22, 1988 and reduced the related option price. For the remaining optionholders, to avoid possible adverse tax treatment, the antidilution adjustment for options issued after February 15, 1984 will be made in the form of cash and common shares on the earlier of January 8, 1992 or when the options are exercised. At December 31, 1988, outstanding options for 270,581 shares, as amended for the antidilution adjustment, also carry share appreciation rights.

The 1968 plan was terminated in 1978 and the 1979 plan was terminated in 1984 except as to options and share appreciation rights then outstanding. A new 1989 stock option plan, which will succeed the 1984 plan, was approved by shareholders at the Special Meeting of Shareholders held on December 9, 1988. The 1989 plan, which has a term of five years, authorizes the granting of options to purchase up to 2,000,000 Common Shares. No options have been granted under the 1989 plan during 1988.

Changes during the year 1988 in options outstanding are summarized as follows:

	Number of Shares		
	1984 Plan	1979 Plan	1968 Plan
Outstanding at December 31, 1987	574,100	499,952	102,935
Options exercised at average option price of \$15.00 a share	(209,318)	(152,806)	(87,900)
Options terminated	(157,109)	(206,846)	(15,035)
Option increase from antidilution adjustment	29,828	39,336	—
Outstanding at December 31, 1988	237,501	179,636	—
Available for grant at December 31, 1988	182,550	—	—
Exercisable as at December 31, 1988	118,685	179,636	—

At December 31, 1988, the average option price per share of options outstanding, after giving effect to the antidilution adjustment, was \$14.22 (range \$7.09 – \$18.58) under the 1979 plan and \$11.37 (range \$8.54 – \$13.50) under the 1984 plan. The expiration dates of options outstanding at December 31, 1988 ranged from July 18, 1989 to October 27, 1995. At December 31, 1988, there were 226 employees participating in the plans.

The Company's Employee Share Award Plan authorized the awarding of common shares of the Company to all eligible employees of Inco Limited and its wholly owned subsidiaries. The plan provides for awarding shares, in February 1989, to full time employees on December 31, 1988 who have at least one year of service with the Company. A further award will be made to similarly eligible employees in February 1990. The number of shares to be awarded to each eligible employee is based on the employee's length of service with the Company and, in the case of the shares to be awarded in February 1990, is also dependent, in part, on the number of shares the employee retained from those awarded in February 1989. A maximum aggregate number of 1,000,000 shares may be awarded during the years 1989 and 1990. The Company intends to purchase these shares on behalf of the Employee Share Award Plan in the open market. At December 31, 1988, a liability of \$11.9 million has been recorded for the shares to be issued in February 1989.



## Note 11. Financial Data by Business Segment

Financial data by business segment and geographic area, for the years 1988, 1987 and 1986 follow (\$ in millions):

Data by Business Segment	Primary metals			Alloys and engineered products			Other business			Eliminations			Total		
	1988	1987	1986	1988	1987	1986	1988	1987	1986	1988	1987	1986	1988	1987	1986
Net sales to customers	\$2,686	1,358	1,002	\$ 552	418	438	\$ 25	13	12	\$ —	—	—	\$3,263	1,789	1,452
Intersegment sales	137	49	63	—	—	—	7	4	8	(144)	(53)	(71)	—	—	—
Total net sales	\$2,823	1,407	1,065	\$ 552	418	438	\$ 32	17	20	\$ (144)	(53)	(71)	\$3,263	1,789	1,452
Operating earnings (loss)	\$1,385	332	111	\$ 48	(12)	26	\$ 1	2	(5)	\$ (46)	1	3	\$1,388	323	135
Non-operating expenses*													(120)	(124)	(108)
Earnings before income and mining taxes and extraordinary credit													\$1,268	199	27
Capital expenditures	\$ 198	101	91	\$ 30	35	46	\$ 1	2	2	\$ —	—	—	\$ 229	138	139
Depreciation and depletion	\$ 147	125	118	\$ 25	23	21	\$ 5	5	5	\$ —	—	—	\$ 177	153	144
Identifiable assets at December 31	\$2,613**	2,223	2,212	\$ 610	545	553	\$ 104	84	79	\$ (73)	(24)	(29)	\$3,254	2,828	2,815
Other assets													825	166	161
Total assets at December 31													\$4,079	2,994	2,976
Data by Geographic Area	Canada			United States			Europe			Other			Total after eliminations		
	1988	1987	1986	1988	1987	1986	1988	1987	1986	1988	1987	1986	1988	1987	1986
Net sales to customers	\$ 562	326	266	\$ 954	544	473	\$ 956	574	484	\$ 791	345	229	\$3,263	1,789	1,452
Sales between geographic areas	1,842	852	651	42	24	23	33	12	18	3	1	—	—	—	—
Total net sales	\$2,404	1,178	917	\$ 996	568	496	\$ 989	586	502	\$ 794	346	229	\$3,263	1,789	1,452
Operating earnings (loss)	\$1,141	295	138	\$ 36	(18)	(3)	\$ 54	26	24	\$ 210	21	(18)	\$1,388	323	135
Identifiable assets at December 31	\$1,762	1,446	1,377	\$ 537	465	454	\$ 411	303	304	\$ 863**	776	799	\$3,254	2,828	2,815

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

\*\* Includes assets of \$623 million relating to the Company's nickel operations in Indonesia.

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

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

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

metals from Canada to other primary metals affiliates are net of discounts. Geographic area - Canada net sales to customers includes exports of \$127 in 1988 (1987 - \$69; 1986 - \$75). Geographic area - Canada total net sales includes exports to the United States of \$720 in 1988 (1987 - \$334; 1986 - \$273) and exports to Europe of \$827 (1987 - \$419; 1986 - \$345). Geographic area - United States net sales to customers includes exports of \$20 in 1988 (1987 - \$14; 1986 - \$13). Geographic area - Other net sales to customers includes sales to affiliated companies as follows: in Japan - Shimura Kako Company, Ltd. - \$190 in 1988 (1987 - \$84; 1986 - \$59) and Tokyo Nickel Company, Ltd. - \$310 in 1988 (1987 - \$118; 1986 - \$72); in Taiwan - Taiwan Nickel Refining Corporation - \$119 in 1988 (1987 - \$52; 1986 - \$27).



**Note 12. Retirement Benefits**

The Company has defined benefit pension plans covering essentially all employees. Benefits for these plans are based primarily on either years of service and employees' final average pay or a stated amount for each year of service. Pension costs are calculated and funded based on annual actuarial estimates, except that funding is subject to limitations under applicable tax regulations. Plan assets consist principally of cash, equity securities and fixed income securities. During 1988, the Company improved the retirement benefits for a significant number of its existing employees and provided cost-of-living adjustments for most of its pensioners. The past service costs associated with these improvements, aggregating \$185.6 million, are being amortized to pension expense over the average remaining service life of existing employees. Pension expense for defined benefit plans totalled \$20,993,000 in 1988, \$9,779,000 in 1987 and \$7,347,000 in 1986.

Future indexing of post-age 65 pensions for existing employees covered by the Company's Ontario Pension Plan was provided, in 1988, as part of the defined benefit plan improvements. Also during 1988, the Company initiated defined contribution plans (side fund contributions) for employees and pensioners covered by the Ontario Pension Plan to provide for future indexing of pre-age 65 pensions for existing employees who retire prior to age 65 and to provide for five indexation adjustments of pensions for those pensioners who retired prior to January 1, 1988. After an initial contribution of \$8.4 million, which is being amortized to expense over the average remaining service life of existing employees, monthly contributions are made based on the number of hours worked by current employees. Pension expense for defined contribution plans totalled \$4,085,000 in 1988. The unamortized balance of the initial contribution at December 31, 1988, \$8.0 million, is included in deferred pension charges.

***Pension expense included the following components:***

(\$ in thousands)	1988	1987	1986
Service cost - benefits earned during the year	\$ 22,084	\$ 21,067	\$ 20,296
Interest cost on projected benefit obligation	75,716	62,993	57,454
Return on assets - actual	\$(88,095)	\$(37,958)	\$(81,961)
- unrecognized gain (loss)	21,512	(20,647)	28,803
Amortization of net asset at January 1, 1986	(17,627)	(17,627)	(17,245)
Amortization of deferred net (gains) losses	(1,052)	254	—
Amortization of unrecognized prior service costs	8,455	245	—
Settlement loss	—	1,452	—
Total defined benefit pension expense	20,993	9,779	7,347
Total defined contribution pension expense	4,085	—	—
Total pension expense	\$ 25,078	\$ 9,779	\$ 7,347

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

December 31 (\$ in thousands)	1988		1987		1986	
	Plans Where Assets Exceed Accumulated Benefits	Plans Where Accumulated Benefits Exceed Assets	Plans Where Assets Exceed Accumulated Benefits	Plans Where Accumulated Benefits Exceed Assets	Plans Where Assets Exceed Accumulated Benefits	Plans Where Accumulated Benefits Exceed Assets
Plan assets at market value	\$376,713	\$ 600,631	\$363,423	\$ 433,681	\$344,887	\$ 386,340
Projected benefits based on employment service to date and present pay levels:						
Vested	219,605	639,285	167,602	479,019	153,078	419,972
Nonvested	48,748	112,112	39,951	85,908	50,703	64,719
Accumulated benefit obligation	268,353	751,397	207,553	564,927	203,781	484,691
Additional amounts related to compensation increases	79,810	27,384	62,403	29,880	64,141	27,339
Total projected benefit obligation	348,163	778,781	269,956	594,807	267,922	512,030
Plan assets in excess of (less than) projected benefit obligation	\$ 28,550	\$(178,150)	\$ 93,467	\$(161,126)	\$ 76,965	\$(125,690)
Comprised of:						
Credits (charges) to future operations:						
Balance of January 1, 1986 net asset	\$124,714	\$ 43,747	\$138,081	\$ 48,007	\$151,219	\$ 52,496
Investment and actuarial gains (losses)	788	16,270	17,589	(9,646)	18,248	12,088
Prior service costs	(49,526)	(143,186)	(2,829)	(6,701)	(1,243)	(888)
Currency translation adjustments	17,085	(3,836)	14,974	(1,679)	—	—
Pension liability at December 31	(64,511)	(159,532)	(74,348)	(191,107)	(91,259)	(189,386)
Deferred pension charges at December 31	—	68,387	—	—	—	—
	\$ 28,550	\$(178,150)	\$ 93,467	\$(161,126)	\$ 76,965	\$(125,690)



The pension liability, aggregating \$224 million at December 31, 1988, consists of a current liability of \$21 million representing amounts to be funded in 1989 and \$203 million recorded as a long-term liability for pension benefits. Included in the long-term liability is \$142 million of unamortized reversions of surplus pension funds which will be credited to pension expense over 10 years as part of the amortization of the unrecognized balance of the January 1, 1986 net asset. The deferred pension charges of \$68 million at December 31, 1988 arose primarily as a result of advance contributions, aggregating \$83 million, which were made to improve the funded position of the Ontario Pension Plan following implementation of plan improvements.

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

The Company provides certain health care and life insurance benefits for retired employees. Substantially all employees in Canada, the United States and the United Kingdom may become eligible for these benefits upon retirement from the Company. The cost of these benefits, which are generally provided through insurance companies, approximated \$16 million in 1988, \$13 million in 1987 and \$12 million in 1986.

### **Note 13. Differences Between Canadian and United States Generally Accepted Accounting Principles**

United States accounting practices relating to foreign currency translation, which are set forth in Statement of Financial Accounting Standards No. 52, are not entirely compatible with Canadian accounting practices which the Company follows and which are described in Note 1. Under United States practices, where the functional currency is United States dollars, all currency translation adjustments related to assets and liabilities are included in earnings currently whereas Canadian practices for integrated operations require that currency translation adjustments related to long-term monetary items with a fixed and ascertainable life be deferred and amortized over the life of the item. Deferred income and mining taxes and the Series C Preferred Shares are translated at year-end rates of exchange under United States practices rather than historical rates of exchange which are required by Canadian practices. Under United States practices, the Series C Preferred Shares are also adjusted to reflect the premium which would have been paid by the Company had the outstanding shares been redeemed as a result of the holders thereof exercising their right, under

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

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

The Company's 1988 results, as reported under Canadian practices, include an extraordinary credit, aggregating \$44.6 million, from utilization of prior years' tax losses in Indonesia and the United States. Under United States practices, all prior years' tax losses of the Company's United States operations had been utilized with the inclusion in earnings of the pension fund reversions discussed in the preceding paragraph. Accordingly, the Company's 1988 results, as reported under United States practices, include an extraordinary credit of \$38.2 million from utilization of prior years' tax losses in Indonesia.

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



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

	Canada			United States		
(\$ in millions)	1988	1987	1986	1988	1987	1986
Net earnings (loss)						
First quarter	\$125.9	\$ (5.0)	\$ (2.1)	\$113.1	\$ (18.9)	\$ 91.6
Second quarter	190.2	13.8	5.8	185.7	16.3	3.3
Third quarter	200.3	41.4	3.0	198.9	43.0	(0.3)
Fourth quarter	219.0	75.0	(6.5)	211.1	65.4	(7.7)
Year	\$735.4	\$125.2	\$ 0.2	\$708.8	\$105.8	\$ 86.9
Earnings (loss) per common share	\$ 6.92	\$ 1.09	\$ (0.16)	\$ 6.56	\$ 0.68	\$ 0.68
December 31	1988	1987	1986	1988	1987	1986
Deferred income and mining taxes	\$288.5	\$198.2	\$161.3	\$323.0	\$212.6	\$173.0
Liability for pension benefits	203.2	230.5	248.6	73.1	87.4	96.0
Preferred Shares Series C	2.4	31.8	69.3	6.1	51.1	65.2
Retained earnings	144.2	573.0	495.8	233.8	673.7	639.4

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

(\$ in millions)	1988	1987	1986
Net earnings before extraordinary credits			
- Canadian practices	\$690.8	\$125.2	\$ 0.2
Increased pension expense	(13.0)	(9.5)	(12.6)
Increased currency translation losses	(9.8)	(18.3)	(2.6)
Reduced other income	—	(0.9)	(2.7)
Reduced income and mining taxes	2.6	8.6	8.6
Net earnings (loss) before extraordinary credits and cumulative effect of change in accounting principle	670.6	105.1	(9.1)
Extraordinary credits:			
Utilization of prior years' tax losses	38.2	—	—
Gain on retirement of long-term debt, net of taxes	—	0.7	2.2
Cumulative effect of change in method of accounting for pension costs, net of taxes	—	—	93.8
Net earnings - United States practices	708.8	105.8	86.9
Dividends on preferred shares - United States practices	(17.1)	(34.9)	(17.5)
Net earnings applicable to common shares - United States practices	\$691.7	\$ 70.9	\$ 69.4
Earnings (loss) per common share:			
Before extraordinary credits and cumulative effect of change in accounting principle	\$ 6.20	\$ 0.67	\$ (0.26)
Extraordinary credits	0.36	0.01	0.02
Cumulative effect of change in accounting principle	—	—	0.92
Earnings per common share - United States practices	\$ 6.56	\$ 0.68	\$ 0.68

In connection with the Consolidated Statement of Cash Flows, the following supplemental disclosures are required by Statement of Financial Accounting Standard No. 95:

(\$ in millions)	1988	1987	1986
Interest paid	\$ 95.2	\$ 97.6	\$ 74.4
Income and mining taxes paid	\$ 28.1	\$ 58.4	\$ 81.2

In December 1988, the effective date for adoption of the new United States accounting standard for income taxes, Statement of Financial Accounting Standard No. 96 (SFAS 96), was deferred for one year. For the Company, adoption is now required on January 1, 1990. This new United States standard is not compatible with existing Canadian and United States practices. In November 1988, the Canadian Institute of Chartered Accountants issued an exposure draft covering a proposed new Canadian accounting standard for income taxes. This proposed new Canadian standard is not compatible with existing Canadian and United States practices and it is not entirely compatible with the new United States standard. The Company has not yet completed its analysis of the potential impact of the new United States standard or the proposed new Canadian standard. Under SFAS 96 and the proposed new Canadian standard, utilization of prior years' tax losses would be reflected as a reduction of the provision for income and mining taxes rather than as an extraordinary credit.



# Auditors' Report

Price Waterhouse



To the Shareholders of Inco Limited:

We have examined the consolidated financial statements and explanatory financial section appearing on pages 33 through 45 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, 1988, 1987 and 1986 and the results of its operations and its cash flows for the years then ended in accordance with generally accepted accounting principles as established in Canada applied on a consistent basis.

*Price Waterhouse*

Toronto, Ontario

New York, New York

February 15, 1989

## Supplementary Financial Information

### Quarterly Financial Information

(\$ in thousands, except per share amounts)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
<b>1988</b>					
Net sales	\$676,218	\$830,825	\$784,480	\$971,531	\$3,263,054
Cost of sales and operating expenses	\$382,619	\$397,629	\$432,799	\$519,696	\$1,732,743
Earnings before income and mining taxes and extraordinary credit	\$220,994	\$351,530	\$335,466	\$360,273	\$1,268,263
Net earnings before extraordinary credit	\$119,730	\$181,431	\$187,414	\$202,229	\$ 690,804
Utilization of prior years' tax losses	6,124	8,835	12,890	16,774	44,623
Net earnings	\$125,854	\$190,266	\$200,304	\$219,003	\$ 735,427
Net earnings per common share					
Before extraordinary credit	\$ 1.12	\$ 1.72	\$ 1.76	\$ 1.90	\$ 6.50
Extraordinary credit	.06	.08	.12	.16	.42
Net earnings per common share	\$ 1.18	\$ 1.80	\$ 1.88	\$ 2.06	\$ 6.92
Dividends per common share	\$ .10	\$ .20	\$ .20	\$ 10.20	\$ 10.70
<b>1987</b>					
Net sales	\$381,357	\$422,131	\$414,595	\$571,386	\$1,789,469
Cost of sales and operating expenses	\$327,064	\$339,511	\$294,848	\$394,351	\$1,355,774
Earnings (loss) before income and mining taxes	\$ (133)	\$ 25,291	\$ 60,080	\$113,511	\$ 198,749
Net earnings (loss)	\$ (4,972)	\$ 13,731	\$ 41,462	\$ 75,020	\$ 125,241
Net earnings (loss) per common share	\$ (.08)	\$ .11	\$ .36	\$ .70	\$ 1.09
Dividends per common share	\$ .05	\$ .05	\$ .05	\$ .05	\$ .20

Note: Year 1988 results reflect \$30 million in expenses, recorded in the fourth quarter, for the recapitalization and employee share award plans; additional provisions for Manitoba mining taxes of \$23 million resulting from legislation enacted in the third quarter of 1988 which was retroactive to the beginning of the year: third quarter - \$17 million including \$11 million which applies to the first six months; fourth quarter - \$6 million; and a \$9 million writedown, recorded in the third quarter, as a result of a physical inventory of scrap metals. Year 1988 results also reflect a net gain of \$44 million, recorded in the third quarter, arising from the sale of a 20 per cent equity interest in P.T. International Nickel Indonesia.

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



**Shareholders** At year-end 1988, of the shareholders having general voting rights (the Common and the Series B and Series C Preferred shareholders), 63 per cent had addresses in Canada, 34 per cent in the United States and 3 per cent elsewhere. Of these voting shares, Canadian residents of record held 46 per cent, United States residents of record 50 per cent, and residents of record in other countries 4 per cent.

**Dividends** On December 9, 1988, as part of the Recapitalization Plan, the Board of Directors declared a special cash dividend of \$10 a common share, payable on January 9, 1989 to shareholders of record on December 22, 1988. On February 15, 1989, the Board of Directors declared a regular quarterly dividend of 20 cents a common share, payable March 20 to shareholders of record on February 24. The Company paid total regular dividends per common share of 70 cents in 1988 and 20 cents in 1987. The Board of Directors on February 15 also declared quarterly dividends on the Company's 7.85% Series B Preferred Shares, payable March 1 to shareholders of record on February 22, and 10% Series C Preferred Shares, payable May 1 to shareholders of record on April 18.

As Company policy, dividends are paid to Canadian residents in Canadian currency unless the shareholder, by written notification to Shareholder Services, has requested payment in United States currency.

**Shareholder Investment Plans** Under the Company's Optional Stock Dividend Program, common shareholders have the right to elect to receive a stock dividend, valued at 100 per cent of market price of the Company's Common Shares, in lieu of a cash dividend. The Program provides common shareholders with a simple and convenient method of acquiring additional Common Shares without payment of brokerage commissions or service charges.

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

These two shareholder investment plans, which had been temporarily suspended on October 3, 1988 as a result of the Company's announced Recapitalization Plan, will be reintroduced effective February 24, 1989.

**Shareholder Rights Plan** At a Special Meeting of Shareholders held on December 9, 1988 shareholders approved the Company's Recapitalization Plan which included a Shareholder Rights Plan unanimously approved by the Board of Directors on October 3, 1988.

Under the Shareholder Rights Plan, one Common Share Purchase Right was issued on October 3, 1988 in respect of each outstanding Common Share. Each Right entitles the registered holder to purchase from the Company one Common Share at the exercise price of \$100 per share, subject to certain antidilution adjustments as specified in the Rights Plan. The Rights Plan was implemented to enable all holders of Common Shares to realize full and fair value for their investment in the Company in the event of a takeover, by in effect requiring anyone who seeks to acquire 20 per cent or more of the Company's voting shares to negotiate with the Board of Directors to terminate the rights issued under the Plan. The Plan does not prevent a takeover; rather, it is designed to encourage anyone seeking to acquire the Company to make an offer that would be considered by the Board of Directors to represent full and fair value for all holders of Common Shares.

Pursuant to the Rights Plan, until the earlier of a person or group acquiring 20 per cent or more of the Company's outstanding Voting Shares or the tenth day (or such later date as the Board of Directors may fix by amendment of the Plan) following the announcement of a tender or exchange offer or takeover bid that will result in such person or group owning 20 per cent or more of the Voting Shares, the Rights will be evidenced by the Common Shares, will automatically trade with the Common Shares and will not be exercisable. Thereafter, separate Rights certificates will be distributed. If (i) any person or group acquires 20 per cent or more of the Voting Shares or (ii) the Company consolidates with, amalgamates with or into or enters into an arrangement with any person or group in which the Common Shares are changed or if the Company shall sell or transfer assets aggregating more than 50 per cent of assets or generating more than 50 per cent of operating income or cash flow, then each Right (excluding in certain circumstances Rights beneficially owned by a 20 per cent shareholder or certain transferees thereof, which Rights become void) will entitle the holder, on payment of the exercise price, to purchase Common Shares of the Company, in the circumstances in (i) above, or equity securities of the acquiror, in the circumstances in (ii) above, at a 50 per cent discount. In certain circumstances, the Board of Directors may, at its option and upon payment of the exercise price, issue or deliver debt or equity securities or other assets (or any combination thereof) having a value equal to twice the exercise price or, without charge, issue or deliver debt or equity securities or other assets (or any combination thereof) having a value equal to the exercise price.



A shareholder has instituted a lawsuit challenging the legality of the Shareholder Rights Plan. This action does not claim any damages against the Company. On January 17, 1989, the Company received a proposal from another shareholder requesting that the Board of Directors of the Company terminate the Shareholder Rights Plan, which advisory resolution will be voted on at the Company's 1989 Annual Meeting of Shareholders.

**Other Information** Canadian federal legislation generally requires a 15 per cent withholding from dividends paid to common shareholders resident in the United States, the United Kingdom and most western European countries. Similarly, depending upon applicable tax treaties, dividends paid to other non-residents of Canada are subject to a withholding tax at a maximum rate of 25 per cent. Interest payable on the Company's debt securities held by non-Canadian residents may also be subject to Canadian withholding tax, depending upon the terms and provisions of such securities. All stock dividends are treated as ordinary taxable dividends. Accordingly, stock dividends paid to non-residents are subject to withholding tax at the same rate as cash dividends. Under present legislation in the United States, the Company is not subject to the backup withholding rules, which would require withholding at a rate of 20 per cent on dividends and interest paid to certain United States persons who have not provided the Company with a taxpayer identification number.

The Company has three classes or series of securities which have general voting rights, its Common Shares, its 7.85% Series B Preferred Shares and its 10% Series C Preferred Shares. At shareholders' meetings, each holder of these securities is entitled to one vote for each share held and there are no cumulative voting provisions. At December 31, 1988, the number of Series B Preferred shareholders totalled 1,163, principally Canadian residents, and the number of Series C Preferred shareholders totalled 150, principally Canadian residents.

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

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

Through subsidiaries and affiliates, the Company's operations are conducted in numerous countries; some \$1,400 million of the Company's consolidated total assets are located outside Canada and the United States. Accordingly, operations are subject to various governmental policies or regulations and changes therein and the risks associated with doing business in many overseas locations.

### Market Price Range for Common and Preferred Shares

<i>Year ended December 31</i>	<b>1988*</b>	<b>1987</b>
<i>Common Shares</i>		
New York Stock Exchange (Composite transactions)		
First quarter	\$25 <sup>3</sup> / <sub>4</sub> -17 <sup>3</sup> / <sub>8</sub>	\$17 -11 <sup>3</sup> / <sub>4</sub>
Second quarter	34 <sup>1</sup> / <sub>4</sub> -24 <sup>1</sup> / <sub>4</sub>	19 <sup>7</sup> / <sub>8</sub> -15 <sup>5</sup> / <sub>8</sub>
Third quarter	35 <sup>1</sup> / <sub>8</sub> -25 <sup>3</sup> / <sub>8</sub>	23 <sup>3</sup> / <sub>8</sub> -16 <sup>1</sup> / <sub>2</sub>
Fourth quarter	33 <sup>3</sup> / <sub>4</sub> -22 <sup>7</sup> / <sub>8</sub>	24 -12 <sup>3</sup> / <sub>8</sub>
Toronto Stock Exchange (Canadian dollars)		
First quarter	\$31 <sup>7</sup> / <sub>8</sub> -22 <sup>1</sup> / <sub>8</sub>	\$22 <sup>1</sup> / <sub>8</sub> -16 <sup>1</sup> / <sub>8</sub>
Second quarter	41 <sup>1</sup> / <sub>4</sub> -29 <sup>3</sup> / <sub>4</sub>	26 <sup>1</sup> / <sub>2</sub> -20 <sup>3</sup> / <sub>8</sub>
Third quarter	42 <sup>1</sup> / <sub>2</sub> -31 <sup>3</sup> / <sub>8</sub>	30 <sup>5</sup> / <sub>8</sub> -22 <sup>1</sup> / <sub>8</sub>
Fourth quarter	40 <sup>1</sup> / <sub>2</sub> -27 <sup>1</sup> / <sub>4</sub>	31 <sup>1</sup> / <sub>8</sub> -16 <sup>3</sup> / <sub>8</sub>
<i>Series B Preferred Shares</i>		
First quarter	\$23 -20 <sup>3</sup> / <sub>4</sub>	\$21 <sup>1</sup> / <sub>2</sub> -20 <sup>1</sup> / <sub>2</sub>
Second quarter	22 <sup>7</sup> / <sub>8</sub> -21 <sup>3</sup> / <sub>4</sub>	21 <sup>3</sup> / <sub>8</sub> -20
Third quarter	23 -22	21 <sup>3</sup> / <sub>8</sub> -20 <sup>3</sup> / <sub>4</sub>
Fourth quarter	23 -21 <sup>1</sup> / <sub>8</sub>	21 <sup>1</sup> / <sub>2</sub> -20 <sup>1</sup> / <sub>2</sub>
<i>Series C Preferred Shares</i>		
First quarter	\$63 <sup>3</sup> / <sub>4</sub> -34	\$27 <sup>3</sup> / <sub>4</sub> -25 <sup>3</sup> / <sub>8</sub>
Second quarter	68 <sup>1</sup> / <sub>2</sub> -56 <sup>5</sup> / <sub>8</sub>	28 <sup>1</sup> / <sub>2</sub> -26 <sup>5</sup> / <sub>8</sub>
Third quarter	56 <sup>1</sup> / <sub>8</sub> -47	29 <sup>1</sup> / <sub>4</sub> -27 <sup>3</sup> / <sub>8</sub>
Fourth quarter	66 -42	41 <sup>1</sup> / <sub>2</sub> -25

\* The market price ranges for common shares for 1988 reflect actual share prices as reported for each day's trading. They have not been restated to give effect to the \$10 special cash dividend. Accordingly, the fourth quarter 1988 low market price of \$22<sup>7</sup>/<sub>8</sub> (Cdn. \$27<sup>1</sup>/<sub>4</sub>) reflects the decline after the shares commenced trading ex-dividend on December 16, 1988.



# Corporate Officers

## Donald J. Phillips

*Chairman, President and Chief Executive Officer*

### *Executive Vice-Presidents*

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

### *Vice-Presidents*

**Malcolm C. Bell**  
Technology

**James D. Guiry**  
Human Resources

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

**Terrence Podolsky**  
Exploration

**Peter B. Salathiel**  
Primary Metals Marketing

**J. Stuart Warner**  
Occupational and  
Environmental Health

**Ian G. Austin**  
Treasurer

**Anthony J. Sabatino**  
Comptroller

### *Principal Regional Officers*

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

**Samuel Goldberg**  
President  
Inco United States, Inc.

### *Operations*

**Michael D. Sopko**  
President  
Ontario Division

**Lorne M. Ames**  
President  
Manitoba Division

**William P. Clement**  
President and  
Managing Director  
P.T. International Nickel  
Indonesia

**Brian K. Davison**  
Production Director  
Inco Europe Limited

**David J. Anderson**  
President  
International Nickel Inc.

**Ivor Kirman**  
Marketing Director  
Inco Europe Limited

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

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

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

**John Smith**  
Director and General Manager  
Inco Alloys Limited

**Ian L. Dillamore**  
Managing Director  
Inco Engineered Products  
Limited

### *Auditors*

Price Waterhouse  
Toronto and New York

### *Counsel*

Osler, Hoskin & Harcourt  
Toronto  
Sullivan & Cromwell  
New York

### *Transfer Agents and Registrars*

The Royal Trust Company  
Toronto, Calgary, Montreal  
and London, England  
The Bank of New York  
New York, New York



## *Directors*

### **Board of Directors**

The Board of Directors presently consists of 14 members of whom three are officers of the Company. In 1988, the Board held 14 meetings. The activities of the Board are supported by its various committees.

### **Executive Committee**

The Executive Committee, which held three meetings during 1988, consists of Mr. Phillips, Chairman, and Messrs. Gordon, Light, McDougall, G.T. Richardson and Thomson. During intervals between meetings of the Board, the Executive Committee, with certain exceptions, has all the powers vested in the Board.

### **Audit Committee**

The Audit Committee, which held four meetings during 1988, consists of Mr. Crawford, Chairman, and Messrs. Aird, Baird and R.J. Richardson. This committee meets with the Company's financial management personnel, its internal auditors and its independent auditors at least three times a year to review and appraise the Company's financial reporting practices and procedures, the adequacy of the system of internal accounting control, the planned scope of examinations by both auditing groups and their findings and recommendations. It also reviews the Company's financial statements and monitors various other internal control policies.

### **Nominating Committee**

The Nominating Committee, which held one meeting during 1988, consists of the same Directors who comprise the Executive Committee and has the function of recommending to the Board nominees for election as Directors.

### **Management Resources and Compensation Committee**

This committee, which held four meetings during 1988, consists of Mr. Gordon, Chairman, and Messrs. Light, G.T. Richardson and Thomson. This committee advises and consults with the Chairman of the Board and makes recommendations to the Board on the remuneration of senior executives of the Company and on the Company's various incentive plans. The committee also reviews the management development programs and the succession plans relating to senior management.

### **Pension Committee**

The Pension Committee, which held three meetings during 1988, consists of Mr. Bélanger, Chairman, and Mrs. Erola and Mr. Hantho. This committee advises the Board regarding the financial aspects of the pension programs of the Company and its subsidiaries, including actuarial assumptions, the adequacy of funding and the implementation of sound investment of pension funds.

### **Directors**

On February 15, 1989 the following were elected to the Board of Directors: Walter Curlook, Executive Vice-President; Charles H. Hantho, President and Chief Operating Officer, Dominion Textile Inc.; Robert J. Richardson, Company Director, operates Robert J. Richardson-Consultants.

In accordance with the retirement policy adopted by the Board, the following Directors retired on February 15, 1989: Dr. Reva Gerstein, who served as a Director since 1976; and Alexander D. Hamilton, Edward R. Kane and Stephen F. Keating, each of whom served as a Director since 1981.



*(Term expires 1989)*

**The Honourable John  
Black Aird, O.C., Q.C.**

Senior Partner  
Aird & Berlis  
Toronto, Ontario

**Charles F. Baird**

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

**Walter Curlook**

Executive Vice-President  
Toronto, Ontario

**J. Peter Gordon, O.C.**

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

**Charles H. Hantho**

President and Chief  
Operating Officer  
Dominion Textile Inc.  
(textile manufacturing)  
Montreal, Quebec

**Donald J. Phillips**

Chairman, President and  
Chief Executive Officer  
Toronto, Ontario

**Robert J. Richardson**

Robert J. Richardson-Consultants  
Montreal, Quebec

*(Term expires 1990)*

**Michel Bélanger**

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

**Purdy Crawford, Q.C.**

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

**The Honourable Judith A. Erola**

President  
Pharmaceutical Manufacturers  
Association of Canada  
Ottawa, Ontario

**Walter F. Light, O.C.**

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

**Ian McDougall**

Executive Vice-President  
New York, New York

**George T. Richardson**

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

**Richard M. Thomson**

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



## Principal Executive Office

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

## Other Executive Office

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

## Primary Metals

### Principal Operating Units

Ontario Division  
Copper Cliff, Ontario  
Port Colborne, Ontario

Manitoba Division  
Thompson, Manitoba

P.T. International Nickel  
Indonesia  
Soroako, Indonesia

Clydach Refinery  
Clydach, Swansea, Wales

Acton Refinery  
London, England

International Nickel  
Océanie S.A.

Noumea, New Caledonia

Inco Gold Company  
Toronto, Ontario

### Principal Sales Offices

Inco Limited  
Toronto, Ontario  
(416) 361-7511

International Nickel Inc.

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

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

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

Inco Europe Limited

London, England  
(44) 1-235-2040

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

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

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

Inco Limited, Japan Branch

Tokyo, Japan  
(81) 3-245-0621

Inco Pacific Limited

Hong Kong  
(852) 5-212-333

Melbourne, Australia  
(61) 3267-3666

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

International Nickel Océanie  
S.A.

Paris, France  
(33) 42 89 26 69

## Alloys and Engineered Products

### Alloys

#### Principal Operating Units

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

Inco Alloys Limited  
Hereford, England

#### Additional Operating Units

Burnaugh, Kentucky, U.S.A.

Pittsboro, North Carolina,  
U.S.A.

Elkhart, Indiana, U.S.A.

Welding Products Company  
Newton, North Carolina,  
U.S.A.

Wiggin Steel & Alloys  
Birmingham, England

Greengrove Welding Wires Ltd.  
Stratford-upon-Avon, England

### Sales Offices

#### United States

Inco Alloys International, Inc.  
Marietta, Georgia  
(404) 971-4570

Chicago, Illinois  
(312) 255-0888

Cleveland, Ohio  
(216) 464-8705

Houston, Texas  
(713) 440-6600

Huntington, West Virginia  
(304) 526-5100

Franklin, Massachusetts  
(617) 520-3801

Newton, North Carolina  
(704) 465-0352

Upland, California  
(714) 946-0803

Wilmington, Delaware  
(302) 478-4900

### Canada

Inco Alloys Canada Ltd.  
Toronto, Ontario  
(416) 361-7808

### England

Inco Alloys International Ltd.  
Hereford  
(44) 432-272777

Northern England  
(44) 61 236 5438

Southern England  
(44) 21 456 1213

### Europe

Inco Alloys International Ltd.  
Paris, France  
(33) 1 47 76 4251

Düsseldorf, West Germany  
(49) 211 3790 78

Milan, Italy  
(39) 2 65 950 82

### Pacific

Melbourne, Australia  
(61) 3267 3666

Hong Kong  
(852) 5 212-333

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

Singapore  
(65) 222-3988

### Japan

Daido Inco Alloys Ltd.  
50% owned

Tokyo  
(81) 3-504-0921

Osaka  
(81) 6-202-4951

## Engineered Products

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

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

Doncasters Monk Bridge  
Limited

Leeds, England  
(44) 532 446262

Doncasters Sheffield Limited  
Sheffield, England  
(44) 742 349444

Incoform Bramah Limited  
Sheffield, England  
(44) 742-483981

Turbo Products International,  
Inc.

Ivoryton, Connecticut, U.S.A.  
(203) 767-0161

Turbo Products (UK) Limited  
Kirkby-in-Ashfield, England  
(44) 623-751816

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

Inco Engineered Products, Inc.  
Arlington Heights, Illinois, U.S.A.  
(312) 640-0600

Renston Engineering Ltd.  
Redditch, England  
(44) 527 501-310

## Other Subsidiaries and Units

Inco Gold Management Inc.  
Toronto, Ontario

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

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

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

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

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

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

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

Mineração Serras do Sul  
Limitada  
Rio de Janeiro, Brazil

Exmibal  
Guatemala, Central America

\*Trademark of the Inco  
family of companies.

*Inset photo page 18 courtesy Canadian Forces*



# Seventy-Fifth Anniversary of Stainless Steel

Nineteen eighty-nine marks the 75th anniversary of the commercial introduction of stainless steel, a signal event in the history of the nickel industry. Nickel is used in stainless steels to impart strength and corrosion resistance. From modest beginnings, stainless steel production has expanded steadily over the years, helping drive the nickel industry's growth. In fact, 60 per cent of non-communist world nickel supply was absorbed by stainless steel production in 1988.

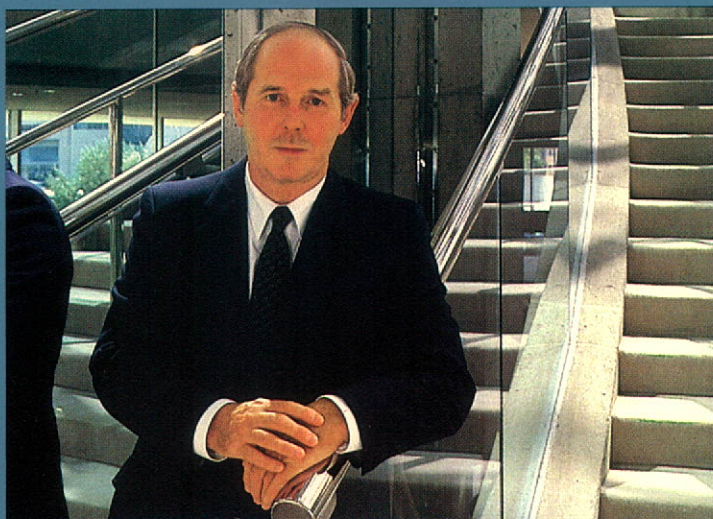
Today, it's hard to imagine a world without stainless steels. Yet, 75 years ago, corrosion-resistant metals that were affordable for everyday use simply did not exist. For centuries, scientists had searched for alloys resistant to rust, and the development of stainless steels in the early years of this century was an outgrowth of that quest.

As early as 1903 an American, A. L. Marsh, successfully applied nickel-chromium-steel to electrical appliances. But it was not until 1914 that the first cutlery bearing the legend "stainless" was introduced, an event widely regarded as marking the beginning of the stainless steel industry. The term was coined by Harry Brearley, an Englishman. During his investigations into alternative steels for rifle barrels, Brearley experimented with several melts containing various amounts of chromium. Quickly recognizing that these new alloys resisted rust, he began to promote their use for a wide range of industrial and consumer applications.

Meanwhile, Krupp of Germany produced a steel containing 0.25 per cent carbon, 25 per cent chromium and seven per cent nickel. This steel, known as austenitic, was softer and more ductile than Brearley's and therefore easier to fabricate into components for the developing chemical industry.

These two types of steel – Brearley's and Krupp's – laid the foundations for research work into alloys which have influenced almost every aspect of modern society. Inco scientists have contributed significantly over the years to the development and market expansion of these alloys.

More than 50 different grades of stainless steel are now in use throughout the world, surrounding us in our everyday lives. Stainless steels are employed in industrial process, power generation and transportation equipment, kitchen appliances and hundreds of other applications where strength and corrosion-resistance are required. Despite competitive assaults from plastics, ceramics and other new materials, demand for stainless steels is today greater than ever.



*Inco's Chairman, President and Chief Executive Officer Donald J. Phillips is surrounded by the stainless steel architecture of Toronto's Roy Thomson Hall.*



