INCO LIMITED 1978 ANNUAL REPORT

INCO

The Company

Inco Limited is a diversified company engaged in three principal businesses: primary metals, electrical energy and related products, and formed metals.

Inco Metals Company, a major operating unit of Inco Limited, is the world's leading producer of primary nickel and a substantial producer of copper and precious metals.

ESB Ray-O-Vac Corporation, a wholly owned subsidiary, is a worldwide manufacturer of automotive, dry-cell and industrial batteries and related products.

The Formed Metal Products Group is an international group of companies producing rolling mill, forged and machined products.

Inco Limited and its subsidiaries employ approximately 52,000 people in 22 countries. The parent company is incorporated in Canada, and Canadian residents of record hold more than 50 per cent of the Common Shares.

Inco Limited is in accord with the essential principles of the Guidelines issued in 1976 by the Organization for Economic Cooperation and Development for multinational companies.

Contents

Annual meeting

The Company's Annual Meeting will be held in Toronto on April 18, 1979.

10-K report available

A copy of the 1978 Annual Report on Form 10-K to be filed with the United States Securities and Exchange Commission may be obtained from the Company upon request. Requests should be addressed to The Secretary, Inco Limited at 1 First Canadian Place, Toronto, Ontario M5X 1C4 or at One New York Plaza, New York, New York 10004.

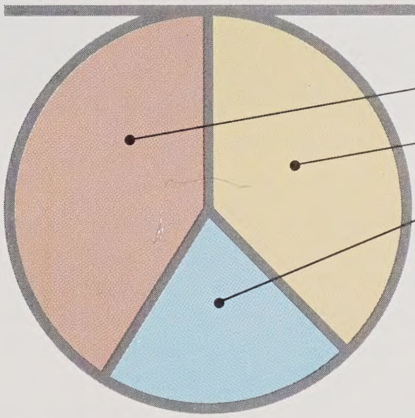
Rapport Annuel

La version française de la Rapport Annuel sera fournie sur demande.

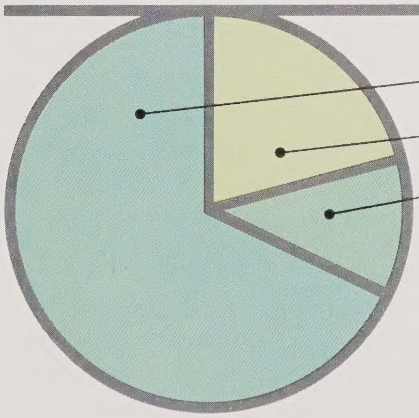
Results in brief (in thousands except where noted by asterisk)

	1978	1977
Net sales	$2,083,094	$1,953,328
Net earnings	$ 77,809	$ 99,859
Net earnings applicable to common shares	$ 57,298	$ 92,324
Per common share*	$0.77	$1.24
Common dividends paid	$ 52,216	$ 93,241
Per common share*	$0.70	$1.25
Income and mining taxes	$ 87,070	$ 75,494
Capital expenditures	$ 219,934	$ 432,837
Employees*	52,581	56,922
Common shareholders*	75,067	77,875

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



Contribution to sales ($millions)	1978		1977	
Inco Metals Company	$ 866	41%	$ 869	45%
ESB Ray-O-Vac Corporation	785	38	706	36
Formed Metal Products Group	429	21	377	19
Other business	3	—	1	—
Total	$2,083	100%	$1,953	100%



Contribution to operating earnings ($millions) (including equity in affiliates)	1978		1977	
Inco Metals Company	$ 167	70%	$ 183	75%
ESB Ray-O-Vac Corporation	49	21	34	14
Formed Metal Products Group	25	11	26	11
Other business	(4)	(2)	(5)	(2)
Consolidation adjustments	1	—	5	2
Total	$ 238	100%	$ 243	100%

Message to shareholders

The year 1978 was another year of unsatisfactory profit performance. The decline in nickel prices to a level lower than in 1975, while production costs and expenses suffered the inevitable consequences of inflation, was the single most important reason for the inadequate return on the shareholders' investment in 1978. In addition, 1978 earnings were adversely affected to a significant degree by the costs and expenses attributable to the Sudbury strike, which began in mid-September and continued through year end.

While Inco's three principal business groups operated profitably in 1978, none made an adequate contribution to earnings. This reflects a number of positive and negative factors of major consequence, the effects of which are discussed in this Message and other sections of this Report.

Chairman J. Edwin Carter (right) and President Charles F. Baird.

Inco Metals

In our Message to Shareholders last year, we expressed a cautionary note about restoration of the nickel industry to a healthy state. Unfortunately, this caution proved to be justified in part. Non-communist world demand in 1978 increased almost 20 per cent over 1977 to the third highest level in history. Prices, however, continued to weaken throughout the year as the result of a substantial oversupply of finished nickel accumulated by producers during the years 1975-77, when production exceeded demand.

In response to these market conditions, Inco continued in 1978 two basic actions described in last year's Annual Report. First, in marketing we moved vigorously to remain competitive; failure to do so would have resulted in a substantially reduced sales volume and severe loss of market position. Second, production of nickel was reduced through planned actions. Unanticipated start-up problems in Indonesia and Guatemala and the Sudbury strike reduced production even further.

As detailed later in this Report, nickel deliveries increased substantially from the previous year and the Company's nickel inventory was reduced very significantly.

During 1978, inventories of finished nickel held by producers in the non-communist world are estimated to have decreased by more than 200 million pounds to a level of approximately 550 million pounds, due to the high level of nickel consumption, production cutbacks in the industry and the Sudbury strike. Producer inventories have continued to fall.

Notwithstanding the problems faced in the past several years, Inco not only remains the leading nickel producer in terms of capacity and deliveries but also continues to have a superior earnings potential relative to other nickel producers. We believe this reflects a basic strength attributable to our operating efficiency, a condition we are determined to maintain.

Precious metals sales reached a record level, due principally to higher prices. Also, cobalt prices rose dramatically as the result of a severe supply shortage. Like copper, these metals are produced in association with our nickel production in Canada, and reduced production levels prevented us from taking full advantage of improved market conditions.

Sudbury strike

On September 16, 1978, the United Steelworkers of America went on strike at our Sudbury District facilities. The strike continued through the rest of the year and was still in effect at the time this Report was printed.

Throughout the long period of negotiations which preceded this strike and during the strike, Inco has been guided by one basic principle: we have sought an agreement that would be fair to our employees and responsible to our shareholders in light of the Company's financial condition and near-term outlook. Any other course would have been neither prudent nor thoughtful of our employees' interests.

Although we have been able thus far to meet customer demand for nickel because of our large inventory, we believe that no one benefits in the long run from a strike of this magnitude and duration. Relations between the Company and the union are damaged, workers and their families suffer hardships, and the effects of the strike are felt in the entire Sudbury community. We regret the strike but are confident that we have acted responsibly and in good faith.

ESB Ray-O-Vac

Sales reached the record level of $785 million. The increase in sales is basically attributable to higher prices, which represent largely the recovery of increased costs rather than improved profit margins. Operating earnings increased sharply from the 1977 level, which had been adversely affected to a significant degree by nonrecurring factors.

David C. Dawson, a former Vice-President of Inco Limited, became President and Chief Executive Officer. He initiated a major restructuring of this subsidiary, which is described in detail elsewhere in this Report. We believe this new organization will enable ESB Ray-O-Vac to improve its performance significantly, strengthen its position as a leader in the packaged-power industry, and make an improved contribution to your Company's performance.

Formed Metal Products Group

Each of the three principal units of this business group achieved increases in sales and in new orders in 1978. These gains reflect continuing aggressive efforts to market high-nickel alloys and related products in new and traditional fields. Severe competition, however, resulted in a deterioration of prices during the year.

The Formed Metal Products Group remains the single largest consumer of Inco primary nickel. The Group's deliveries to customers in 1978 included 58 million pounds of contained nickel.

Financial results

Earnings and other results are shown on page 1. Major factors contributing to the decline in earnings for the year 1978, as compared with the prior year, were the effects of the Sudbury strike and significantly lower nickel prices. These were partially offset by a substantial increase in nickel deliveries and higher prices for platinum-group metals and cobalt. Another adverse factor was increased interest expense in 1978, due to the commencement of expensing interest on the Guatemalan project borrowings in June and on the Indonesian project Stage I borrowings in August.

Last year, we stated in the Message to Shareholders that our primary objective was to conserve cash and strengthen our financial position. Despite the low level of earnings in 1978, we achieved this objective in large measure, reversing the massive net cash outflows experienced in each of the three preceding years. The extent of this achievement is evidenced by a positive, although modest, internal cash flow in 1978, as compared with negative annual internal cash flows totalling $1.2 billion over the previous three years. To some degree, this improvement was attributable to the fact that during the Sudbury strike we have been able to continue selling nickel from inventory while incurring substantially lower cash outlays for employment, energy and supplies. Additionally, early in 1978, we raised $150 million through the issuance of long-term notes and debentures in the Eurobond market. As a consequence of our cash-conservation programs and this borrowing, our short-term debt was reduced from $211 million at the end of 1977 to $26 million at year-end 1978, and our liquidity position was improved considerably. Given the present outlook, however, it will be necessary to continue our program of cash conservation.

Capital expenditures in 1978 totalled $220 million, down sharply from $433 million in 1977, reflecting reduced expenditures on the Guatemalan and Indonesian projects and cash-conservation measures. Capital expenditures for 1979 will again decline substantially and should approximate $150 million.

In December 1978, the dividend on our Common Shares was reduced to a quarterly rate of 10 cents, as compared with the previous rate of 20 cents a share. This represented another necessary, but most regrettable, reaction to reduced levels of earnings and the need to preserve a sound financial position.

Outlook

Our longer-term objectives continue to be the maintenance of a leading position in our existing businesses and achievement of stable earnings growth through internal development and balanced diversification. In the nearer term, cash conservation remains as a primary objective. For the year 1979, results of operations will continue to reflect the severe pressures of the last half of 1978, particularly inadequate nickel prices and costs attributable to the Sudbury strike. Additionally, since both the Guatemalan and Indonesian projects are now fully accounted for as operating units, interest expense will rise sharply in 1979. We are confident, however, of our ability to deal with these pressures and believe that 1979 may well mark the end of the severe decline and the beginning of a recovery in the nickel business.

We appreciate your support in these difficult years and look forward to the accomplishment of our objectives. With your continued understanding and the actions described in this Report, we anticipate the return in the not too distant future of levels of profitability and dividends which represent an adequate return on shareholders' investment.

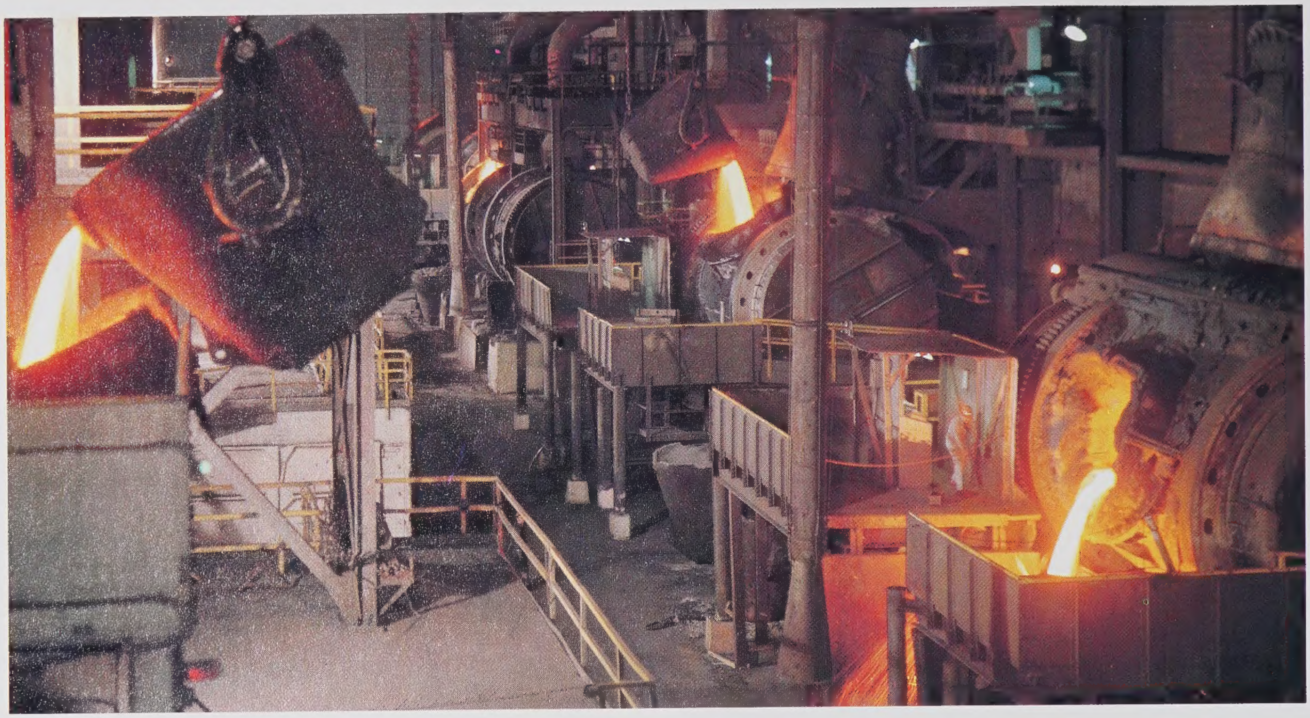
J. Edwin Carter

Chairman and Chief Executive Officer

Charles F. Baird

President

February 15, 1979



Smelting (top) produces the basic nickel matte from which Inco continues to develop new forms of nickel products for changing markets. One of these products, a granular Nickel Oxide Sinter 75, is now being marketed in bulk for injection by retractable lance (below) directly into furnaces producing stainless steel.

Inco Metals Company

Operating highlights	1978	1977
	(in millions)	
Net sales to customers	$ 866	$869
Intersegment sales	135	112
	$1,001	$981
Operating earnings, including equity in affiliates	$ 167	$183

Inco Metals was challenged in 1978 by significant problems that stemmed basically from oversupply and low price levels for nickel products. Necessary action had to be taken.

Production operations were reduced and productivity was improved. This effort to contain costs was a significant factor in enabling Inco Metals to remain profitable in a very competitive world marketplace.

The basic marketing strategy was to be competitive — both with respect to price and by supplying to customers nickel in the forms they required.

By the end of the year the imbalance between nickel supply and demand had reached a more manageable level.

Marketing

Marketing results for Inco's primary metals in 1978, compared with results in 1977, are shown in the tables on this page. Relative increases in share of revenue from sales of nickel and other products, as shown, were influenced by the 36-per-cent drop in sales of copper, a result of substantially reduced production.

Deliveries	1978	1977
	(in thousands)	
Primary nickel	319,070	257,210
Nickel in formed metal products	58,360	55,110
Total nickel (pounds)	377,430	312,320
Copper (pounds)	224,560	341,200
Platinum-group metals* and gold (troy ounces)	468	438
Silver (troy ounces)	1,140	2,150
Cobalt (pounds)	1,700	1,660
Iron ore (long tons)	355	638

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

Nickel

Inco's total nickel deliveries in 1978 were up by 21 per cent to 377 million pounds, compared with 312 million pounds in 1977. The figures include nickel contained in the Company's formed metal products delivered to customers.

John McCreedy, Chairman and Chief Executive Officer, Inco Metals Company

Nickel demand in the non-communist world in 1978 increased by some 20 per cent. It was spurred primarily by record levels of stainless steel production.

The nickel market during the year, however, remained extremely competitive. Prices continued to decline. The average net price realized by Inco Metals for primary nickel products was $1.98 per pound, compared with $2.17 in 1977, $2.15 in 1976 and $2.00 in 1975.

New nickel supply to the non-communist world in 1978 is estimated to have been some 200 million pounds below demand. Consequently, excess nickel producer inventories accumulated during the period from 1975 to 1977 were reduced substantially.

Inco Metals' inventories of nickel at year-end 1978 stood at 230 million pounds, a reduction of 111 million pounds from year-end 1977.

During 1978, Inco strengthened its marketing capabilities in Japan. Shipment to Japan of matte produced by P.T. International Nickel Indonesia at its Soroako nickel project was begun and some eight million pounds of finished nickel were delivered.

An important marketing development during the year was the commercial success of a continuous injection process for Inco Nickel Oxide Sinter 75. Devised after extensive joint test programs with stainless steel producers in Europe and the United States, the process uses bulk-handling techniques and offers both technical and cost advantages to steelmakers.

Copper

Deliveries of ORC* copper in 1978, at 225 million pounds, were 34 per cent lower than in 1977. The primary reason was reduced production of copper in the fourth quarter as a result of the strike at the Sudbury operations and lower nickel production during the year.

Demand for copper improved in 1978 while total production of refined copper declined. For the first time since 1973, the non-communist world consumed more refined copper than it produced.

Inco Metals, which markets copper in Canada at the Canadian producer price and in Europe on the basis of the London Metal Exchange (LME) settlement price, realized an average of 61 cents per pound in 1978, compared with a 1977 average of 63 cents per pound. Low volume of sales in the fourth quarter, when prices were highest, adversely affected the average price for the year.

Precious Metals

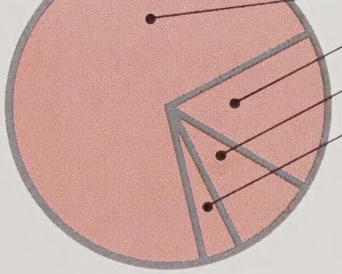
Sales of precious metals in 1978 increased by 28 per cent from 1977, and, at $81 million, reached an all-time high. The increase was due principally to higher realized prices for platinum, palladium, rhodium and gold.

Cobalt

Cobalt prices rose dramatically during the year because of a severe supply shortage. Producer prices increased from $6.40 per pound to $20 per pound.

Inco Metals' sales of cobalt were $20.6 million in 1978, an increase of 83 per cent from 1977. Inco's cobalt is sold as oxide and salts, products which normally command a premium over cobalt metal. Process changes and modifications are being made to increase capability to recover and produce cobalt in 1979.

* Inco Trademark



Sales ($millions)	1978		1977	
Primary nickel	$615	71%	$558	64%
Refined copper	135	16	211	24
Precious metals	81	9	63	7
Other	35	4	37	5
Total	$866	100%	$869	100%

Production

Inco's nickel production in 1978 totalled 267 million pounds, compared to 417 million pounds in 1977 and 462 million pounds in 1976.

Planned production cutbacks, begun in 1977 to bring production rates below sales volume, continued during the first half of the year. The strike at the Ontario Division's Sudbury operations further reduced output. The strike by hourly rated employees began September 16 and continued beyond the end of the year.

Production of copper, associated only with the ores mined in Canada, was 197 million pounds in 1978. A total of 328 million pounds of copper had been produced in 1977 and 345 million pounds in 1976.

At the Ontario Division, the Copper Cliff North and Crean Hill mines and the Levack mill were placed on standby by mid year.

The Thompson mine and the Pipe open pit mine at the Manitoba Division operated during the year. Work at the Birchtree mine was concentrated mainly on development, while the underground portions of Pipe mine were placed on standby.

Construction of Stage II of the P.T. International Nickel Indonesia project at Soroako was essentially completed. The Company holds a 96 per cent interest in the project which, when completed, will have an annual capacity of about 100 million pounds of nickel in matte. Start-up problems with Stage I limited 1978 production to some 10 million pounds of nickel contained in matte.

During the second quarter of the year, the 165-megawatt Larona hydroelectric power plant was completed ahead of schedule and dedicated in November by Indonesia's Minister of Mines and Energy.

In Guatemala, the Exmibal process plant was shut down for four months in 1978 during which time minor but important modifications were made. About four million pounds of nickel in matte were produced during the year. Inco holds an 80 per cent interest in the project.

The nickel refinery at Clydach, Wales, operated throughout 1978 at a planned 50 per cent of capacity.

Construction of a fluid-bed roaster at Clydach was completed in December. The new plant, to be commissioned in early 1979, will roast matte from the projects in Guatemala and Indonesia, preparing it for further refining or for direct sale as a sinter product.

At the Acton precious metals refinery in London, there was an increase in manufacture of special premium-priced compounds of precious metals. Demand was also strong for the high-quality platinum and palladium ingots produced at Acton. The increased efficiency of the refinery, following a modernization program, created a growing volume of toll-refining business.

Research and development

Inco Metals' process laboratories and pilot plants continued active support of company objectives — improved metal recoveries, energy conservation and development of processes protective of the environment.

Research and development expense in 1978 totalled $12 million, compared with $17 million in 1977.

Improved mineral separation techniques for Manitoba and Ontario ores came from basic development work in mineral dressing. One program led to commercial production of a high-nickel pentlandite concentrate from Manitoba ores. The concentrate is suitable for refining, by certain techniques, without prior smelting.

Several methods were developed successfully for improving cobalt recovery from ores and various intermediates. Research continued on production of electrolytic cobalt metal.

Pilot-plant work was continued on a unique oxygen-sulphide concentrate burner, designed to flash-smelt large tonnages of concentrate in a relatively small furnace.

Consulting

INCO TECH* was organized in 1978 to develop a worldwide consulting service to a variety of organizations in the mining and minerals business.

In addition to work done in Canada, projects have been undertaken by INCO TECH for clients in Brazil, Chile, Italy and the United States. Contracts are being sought in several other areas of the world, including the People's Republic of China.

Environmental control

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

The Ontario Ministry of the Environment, by Order dated July 27, 1978, restricted the emission of sulphur dioxide from the Copper Cliff smelter to not more than 3,600 tons per day until June 30, 1982. This Order replaced one that limited such emissions to 3,600 tons per day during 1977 and 1978 and to 750 tons per day from January 1, 1979. The new Order specified, for the first time, maximum allowable concentrations of sulphur dioxide at ground level. Other directives from the Ministry require Inco Metals to conduct extensive studies to determine the feasibility of implementing further environmental control measures in the future.

The Manitoba Clean Environment Commission, by Order dated July 7, 1978, continued the 1,250-tons-per-day restriction on sulphur dioxide emissions from the Thompson smelter but reduced the allowable level of particulate emissions to 14 tons per day from the previous level of 19 tons per day.

As a result of technical advances and considerable expenditures, Inco believes it can continue to comply with the orders in both Ontario and Manitoba at normal production levels.

Occupational safety and health

Inco Metals is substantially in compliance with the applicable occupational safety and health guidelines and standards prescribing in-plant working conditions.

On December 15, 1978, the Ontario Legislature passed major legislation relating to occupational safety and health in the province. Inco Metals was already carrying out many of the activities that became mandatory under this new legislation.

In Ontario, a major epidemiological study on workers exposed to nickel is being carried out by the Joint Occupational Health Committee of Inco and the United Steelworkers of America. A computerized data base of employee work histories has been completed and has passed an audit conducted by McMaster University, the independent contractor. McMaster will soon begin its analysis of the data.

This study, along with others being conducted by Inco and other producers and consumers of nickel, will be forwarded to the Occupational Safety and Health Administration (OSHA) in the United States. OSHA has announced its intention to develop new workplace standards for nickel.

* INCO TECH is an Inco Trademark

Exploration

Inco Metals spent $13 million on exploration in 1978, compared with $22 million in 1977.

More than 75 per cent of the 1978 expenditures were made in Canada, the largest portion in the vicinity of Inco's producing mines.

In the Sudbury area, deep drilling from surface to test unexplored geological targets to a depth of 10,000 feet continued to be the major program.

At Thompson, a program of deep drilling from surface was resumed to test geological targets near the Thompson mine area.

Elsewhere in Canada, field exploration was carried out in Labrador, New Brunswick, Quebec, Ontario, Saskatchewan, British Columbia and the Yukon Territory. Outside of Canada, exploration for a variety of minerals of interest to Inco was undertaken in the United States, Mexico, Brazil, Australia and the Republic of Ireland.

Exploration of the Tiebaghi chromite property, a joint venture with French partners in New Caledonia, located a second mineralized zone. At year end an underground program was begun to examine this zone in greater detail.

Ore reserves

At December 31, 1978, Inco had proven ore reserves in Canada of 397 million short tons, containing 6.6 million short tons of nickel and 4.2 million short tons of copper. This compares with ore reserves at year-end 1977 of 407 million short tons, containing 6.9 million short tons of nickel and 4.3 million short tons of copper. Only material that has been sampled in sufficient detail to enable a reliable calculation of tons of ore and tons of

Top. Completion of the Larona River power project provides P.T. Inco with a low-cost source of energy and minimizes the need for fossil fuels.

Centre. Newly constructed central shops facilities at Copper Cliff will ensure greater efficiency, improved productivity and expanded capability.

Bottom. Modernized nickel powder plant commissioned at Clydach, Wales during 1978 will enhance Inco's market position worldwide.

contained metal is included in reserves.

At Soroako, on the Island of Sulawesi in Indonesia, and in the Lake Izabal area in eastern Guatemala, Inco has outlined very large resources of nickeliferous laterite. At each location, these resources are adequate to support operations at design capacity for the expected lives of the facilities.

Officers

Ronald R. Taylor was elected in May as Assistant to the President of Inco Metals, with special responsibility for planning, and as President of INCO TECH. Mr. Taylor had been President of the Ontario Division. He joined Inco in 1948.

W. Roy Aitken was elected in May President and Managing Director of P. T. International Nickel Indonesia. He had been a Vice-President of Inco Metals Company. He joined Inco in 1970.

Winton K. Newman was elected President in May of Inco Metals' Ontario Division. He had been President of the Manitoba Division. Mr. Newman joined Inco in 1954.

Charles F. Hews was elected President of the Manitoba Division in May. He had been a Vice-President of the Ontario Division. He joined Inco in 1952.

Harold A. Laine was elected in October as President of Exmibal. He had served as Assistant Vice-President of Inco Limited, responsible for natural resources diversification. Mr. Laine joined the Company in 1947.

Industrial relations

In Canada, the Sudbury operations were shut down on September 16 by a strike of more than 11,000 hourly rated employees represented by the United Steelworkers of America. The strike, which continued through the year and into 1979, began after months of negotiations and expiration of a three-year contract on July 10. The union members rejected a proposal covering both economic and administrative issues put forward by the Ontario Minister of Labour. The Company had accepted the proposal for settlement.

Employees at the Port Colborne Nickel Refinery accepted this proposal and a one-year contract, expiring July 9, 1979, was signed without work interruption.

Negotiations with the United Steelworkers local representing some 1,700 hourly rated workers at the Manitoba Division began in January 1979. A three-year contract expires in February 1979.

In the United Kingdom, one-year agreements were negotiated in 1978 with unions representing hourly paid employees at the Clydach nickel refinery and with unions representing staff employees at the European Research & Development Centre in Birmingham, at the precious metals refinery at Acton, and at Clydach. The staff agreements expire on September 30, 1979, and the hourly rated agreements in late October 1979.

Employees

At year-end 1978, Inco Metals had a total of 23,795 employees. Of this total, 17,677 were in Canada; 3,455 in Indonesia; 1,389 in the United Kingdom; 874 in Guatemala; 288 in the United States; 112 in other countries. At year-end 1977, Inco Metals employed 28,665.

John McCreedy

Chairman and Chief Executive Officer
Inco Metals Company

Officers
Inco Metals Company

John McCreedy, Chairman and Chief Executive Officer
Donald J. Phillips, President and Chief Operating Officer
Walter Curlook, Senior Vice-President
Charles E. O'Neill, Senior Vice-President
Johannes P. Schade, Senior Vice-President
William A. Correll, Vice-President
William I. Gordon, Comptroller
Daniel Kelly, Vice-President
Donald B. MacDermott, Chief Legal Officer
Terrence Podolsky, Vice-President
Ronald R. Taylor, Assistant to the President and President, INCO TECH

Principal marketing operations

John H. Page, President
The International Nickel Company, Inc., New York

Robin B. Nicholson, Managing Director
Inco Europe Limited, London

Dean D. Ramstad, General Manager
Inco Limited, Japan Branch, Tokyo

J. A. Keith McPhail, General Manager
Canadian Marketing Division

Principal production operations

Winton K. Newman, President
Ontario Division, Sudbury

Charles F. Hews, President
Manitoba Division, Thompson

W. Roy Aitken, President
P.T. International Nickel Indonesia, Jakarta

Harold A. Laine, President
Exmibal, Guatemala City

Principal properties, plants, laboratories

Operating mines
Sudbury, Ontario; Shebandowan, Ontario; Thompson, Manitoba; Soroako, Indonesia; El Estor, Guatemala

Smelters
Sudbury, Ontario; Thompson, Manitoba; Soroako, Indonesia; El Estor, Guatemala

Iron ore recovery plant
Sudbury, Ontario

Matte refining
Sudbury, Ontario

Refineries
Sudbury, Ontario; Port Colborne, Ontario; Thompson, Manitoba; Clydach, Wales; Acton (London), England

Research laboratories and pilot plants
Sheridan Park (Mississauga), Sudbury and Port Colborne, Ontario; Clydach, Wales

ESB Ray-O-Vac Corporation

Operating highlights	1978	1977
	(in millions)	
Net sales to customers	$785	$706
Intersegment sales	1	1
	$786	$707
Operating earnings, including equity in affiliates	$ 49	$ 34

ESB Ray-O-Vac Corporation's sales to customers of batteries and other products reached a record $785 million during the year, up 11 per cent from sales of $706 million in 1977. Automotive battery products accounted for 36 per cent of sales in 1978; dry-cell batteries and portable lighting devices, 31 per cent; industrial and specialty batteries, 16 per cent; and personal safety products, fractional horsepower motors and other products, 17 per cent.

Operating earnings, including equity in earnings of affiliated companies, of $49 million in 1978 represents a 44 per cent increase over the 1977 level. Operating earnings in 1977 had been adversely affected by several nonrecurring factors, principally the closing of an industrial battery plant.

Business was good during 1978 but continued to be keenly competitive in most markets. Automotive and industrial battery margins were adversely affected by increasing lead prices, up to 40 cents per pound at year end from 33 cents per pound at year-end 1977. Production of automotive batteries also was affected by labor problems resulting from application of stringent occupational health standards.

The primary battery business was excellent worldwide, and Universal Electric had its second consecutive record year of sales.

Operations in Latin America, Africa and Europe showed improvements, while results in Canada remained fairly static.

Following a comprehensive study of its long-term strategic opportunities, ESB Ray-O-Vac in early 1979 restructured its core business to emphasize batteries and energy conversion products. This continued the reorganization begun in January 1978.

The dry-cell battery and the automotive and industrial battery businesses were formed into separate companies, each with worldwide product-line responsibility. These two new battery companies have been designated the Ray-O-Vac Company

David C. Dawson, President and Chief Executive Officer, ESB Ray-O-Vac Corporation

and the Exide Company, respectively.

Power conversion and related activities, including the fast-growing uninterruptible power supply business (UPS), were organized as the Systems & Electronics Company. It will also have responsibility for the company's medical equipment activities. Universal Electric Company, a fractional-horsepower-motor manufacturer, continues as a separate business.

The Safety Group, because it is not in packaged power or a related field, was put under the direction of Inco United States, Inc.

In its continuing effort to concentrate resources on its principal businesses, ESB Ray-O-Vac sold the S. H. Couch electronic communications equipment operations in Randolph, Mass., a facility that manufactures fishing tackle at Brainerd, Minn., and other small businesses.

Batteries and related products

Dry cells

Ray-O-Vac increased sales by approximately 15 per cent.

The consumer battery market continues to grow with the proliferation of battery-using devices. Demand for Polaroid camera battery components supplied by Ray-O-Vac was at record levels. The market for alkaline, longer-life batteries has been expanding at a rapid rate, creating new sales opportunities for Ray-O-Vac.

The increasing sophistication of battery-powered electronic devices has heightened the importance of product reliability and brought about an expansion and intensification of Ray-O-Vac's quality assurance program. It is applied at the company's plants worldwide.

Automotive

Automotive product sales in 1978 increased by 8 per cent.

To meet changing market requirements, the company completed conversion of virtually all its 12-volt automotive battery product line to maintenance-free construction. These batteries are marketed under the Exide*, Willard*, Weathermaster*, and Sure-Start* brand names as ESB Ray-O-Vac products and under private brand names by more than 35 customers.

Consumer response was favorable to several automotive products introduced during the year.

The new Water Miser* golf-car battery requires little maintenance, improving its service at golf courses and making it attractive to the total recreational vehicle market.

A new Money-Saver* Maintenance Free battery charger was introduced. The energy-efficient charger avoids waste by automatically controlling the charge rate to match it with a battery's condition.

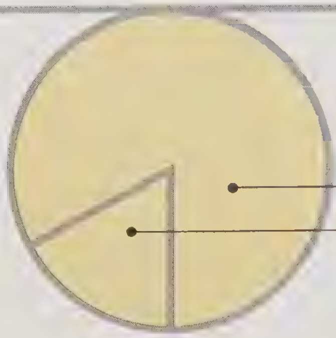
ESB Wisco introduced its Roughrider* motorcycle battery line, built to withstand the vibration and shock of hard riding. In a United States Ordnance Vibration Test, this battery outperformed other top motorcycle batteries by almost two to one. It uses a new triangular-grid design to protect plates against vibration damage.

Wisco also developed in 1978 four types of motorcycle batteries for private brand sales by a major mass merchandiser.

Industrial

Sales of industrial battery products were up

* ESB Incorporated Trademark



Sales ($millions)	**1978**		**1977**	
Batteries and related products				
Automotive	$282	36%	$262	37%
Dry cells	246	31	214	30
Industrial	127	16	109	16
	655	83	585	83
Other	130	17	121	17
Total	$785	100%	$706	100%

17 per cent from 1977 and were exceptionally strong during the fourth quarter.

The Philadelphia plant was closed and the property sold. Operations at the new plant in Richmond, Ky., and the expanded plant in Sumter, S.C., reached satisfactory levels. This completed the modernization and expansion of the company's industrial battery facilities.

A superior calcium-alloy stationary battery, the G-Line, used in powering telephone systems, switchgear equipment for power generating systems and uninterruptible power supply units, was introduced.

Sales of uninterruptible power supply (UPS) systems set records in 1978. The product line was expanded and a new 600 KW Uninterruptible Power Supply system was introduced. This is the largest-rated single-module UPS system made by any manufacturer.

Electric motors

Record levels of sales, reflecting the continuing surge in housing starts, were recorded by the Universal Electric subsidiary. Led by demand in 1978 for motors in the ventilating, air conditioning and heating industries, sales increased by 33 per cent.

Safety products

The company's safety product businesses were designated the Safety Group. Sales increased by 16 per cent in 1978. The Miller Equipment Division, manufacturer of personal safety equipment for linemen and construction workers, profited from growing activity in the heavy-construction industry. New, automated equipment for the production of optical products was installed by the Willson Division.

Technology

The ESB Technology Company sought and was granted two United States Department of Energy research contracts in 1978. Both contracts are concerned with energy conservation covering work on lead-acid batteries and battery chargers for electric vehicles.

During the year, scientists from the ESB Technology Company in Yardley, Pa., joined others at the Inco Research and Development Center in Sterling Forest, N.Y., to form a group to work on advanced energy systems. Research and development within ESB Ray-O-Vac will now be concentrated on shorter-term programs on batteries and electronics.

An agreement covering exchange of technology on lead-acid batteries was signed with Belgian Tudor of Brussels, the largest battery manufacturer in the Benelux area. The agreement is effective April 1, 1979.

Occupational safety and health

New government standards for lead exposure in the workplace were announced in the fall of 1978 by the United States Occupational Safety and Health Administration (OSHA). These regulations, which will be increasingly restrictive over the next five years, are believed to be, by both the company and the industry, unnecessarily stringent. They will be extremely difficult and expensive to achieve and, unless modified, will require substantial future investments by all storage-battery manufacturers.

Officers

David C. Dawson was elected President of ESB Ray-O-Vac Corporation in April and Chief Executive Officer in July. Prior to his election, he had been a Vice-President of Inco Limited. He joined Inco in New York in 1958.

Frederick J. Port, Chairman and Chief Executive Officer of ESB Ray-O-Vac Corporation since March 1978, died on July 7. Dr. Port joined ESB in 1955. He was elected President and Chief Operating Officer in 1971 and President and Chief Executive Officer in 1972.

Industrial relations

Ten labor contracts with unions representing production units were concluded by ESB Ray-O-Vac during the year. No major strikes took place. But, work was hampered at six automotive battery plants by sporadic work slowdowns and stoppages over an eight-week period.

Employees

At year-end 1978, ESB Ray-O-Vac had 19,255 employees, compared with 18,706 on December 31, 1977. Of these 11,777 were employed in the United States, 952 in Canada and 6,526 in 20 other countries.

President and Chief Executive Officer
ESB Ray-O-Vac Corporation

Officers
ESB Ray-O-Vac Corporation
David C. Dawson, President and Chief Executive Officer
Richard T. Nalle Jr., Senior Vice-President
Thomas P. Callahan, Comptroller
Lawrence S. Driever, Vice-President, Administration
John P. Guimond, Treasurer
Howard J. Strauss, Vice-President, Operations and Engineering
Dyer S. Wadsworth, Vice-President and Chief Counsel

Principal Operations
Benno A. Bernt, President, Ray-O-Vac Company, Madison, Wisconsin
Robert Kent, President, Exide Company, Philadelphia, Pennsylvania
Warren G. Mang, President, Systems & Electronics Company, Philadelphia Pennsylvania
Bruce C. Nash, President, Universal Electric Company, Owosso, Michigan

Principal properties, plants, laboratories and products
Corporate Headquarters
5 Penn Center Plaza, Philadelphia, Pennsylvania 19103 U.S.A.
90 plants in 22 countries
Batteries and related electrical and electronic products
29 plants in the U.S.; 7 in Canada; 5 in Brazil; 3 each in Japan and Mexico; 2 each in Colombia, Denmark, South Africa, Sweden, Venezuela and Iran; one each in the following countries: Austria, Dominican Republic, Greece, Guatemala, India, Korea, Morocco, Nicaragua, Peru, United Kingdom, Zaire.
Safety products
7 plants in the U.S.; one in Canada; one in Mexico
Electric motors
4 plants in the U.S.; two in the United Kingdom; one in India
Plastics and others
3 plants in the U.S.; one in the United Kingdom

Top. Some of the current and most popular lines of lighting devices produced by Ray-O-Vac.

Left. The gathering of button-cell performance data at the Ray-O-Vac Engineering and Development Center is part of a new battery quality assurance program the company has established worldwide.

Right. The Exide Company introduced its more powerful G-Line stationary cell battery used in telephone systems, generating plants and uninterruptible power supply units.

Formed Metal Products Group

Operating highlights	1978	1977
	(in millions)	
Net sales to customers	$429	$377
Intersegment sales	9	13
	$438	$390
Operating earnings, including equity in affiliates	$ 25	$ 26

Net sales of the Formed Metal Products Group in 1978 were $429 million, up 14 per cent from 1977. Deliveries of rolling mill products totalled 96 million pounds, compared with 88 million pounds in 1977. The backlog of open orders at the end of 1978 was 52 per cent greater than at the end of 1977, signalling ongoing improvements for sales in 1979.

Despite severe price competition in all markets and resulting deterioration in average prices for its products during 1978, the group aggressively pursued new and traditional markets. Such worldwide markets include the aircraft, aerospace, electronics, marine, chemical and petrochemical industries, as well as a number of energy-related industries. Among products supplied by the group are high-nickel alloys in the form of sheet, plate, strip, bar, rod, tubing, welding products and a variety of alloy forgings.

Huntington Alloys, Inc.

Net sales of $234 million were up 6 per cent from 1977. Deliveries of products during the year reached 65 million pounds, compared with 1977 deliveries of 59 million pounds.

The backlog of open orders at the end of 1978 was 45 per cent greater than at the end of 1977, reflecting both an improving trend in general business conditions during the year and the organization's competitive marketing efforts.

The business outlook for 1979 is good. Among markets requiring Huntington's alloys that indicate best potential growth are aircraft gas turbines, pollution-control equipment for the chemical, petrochemical and marine industries and high-technology equipment in energy production. The worldwide cobalt supply problems offer new market opportunities for Huntington's low-cobalt and cobalt-free, high-temperature, high-strength alloys.

Harold F. Hendershot, President, Formed Metal Products Group

Henry Wiggin & Company Limited

Net sales of $108 million were up 17 per cent from 1977. Product deliveries in 1978 were 31 million pounds, 7 per cent higher than they were in the previous year.

The backlog of open orders at the end of 1978 was 36 per cent greater than at the end of 1977, due for the most part to an increase in orders for Wiggin alloys used by the aircraft industry.

Capital investments, having a value of $13 million, completed during the year included expansion of tube-making facilities and vacuum-melting furnaces. Such improved installations, along with extensive efforts to develop export markets, trim costs and increase productivity, promise added success in competing in an expanding marketplace.

Daniel Doncaster & Sons Limited

Doncaster in May 1978, celebrated its 200th anniversary of service to industry as one of the most highly skilled specialty metalworking organizations in Europe.

Net sales in 1978 were $87 million, an increase of 36 per cent from 1977. The backlog of open orders at the end of 1978 was 64 per cent greater than at the end of 1977, an indication of renewed activity in the aerospace field and growth in petroleum exploration.

Investment in improved, more sophisticated equipment has increased Doncaster's capabilities for production of gas turbine discs and larger blades, complex axle components, and drill joints for oil-field equipment.

A continued effort to penetrate markets outside the United Kingdom has resulted in expanding shipments to other European countries and North America.

Canadian Alloys Division

Construction of the Canadian Alloys Division's rolling mill essentially was completed during the fourth quarter of 1977. The investment in this facility, including working capital, is expected to be about $25 million. Trial production continued during 1978 and small amounts of strip were produced. Training of personnel and refinement of production processes and equipment progressed but were disrupted by the Sudbury strike.

Based on new Inco-developed technology, the mill produces nickel and cupro-nickel strip. Its products will be sold for coinage minting, a growing international market, as well as for a variety of industrial applications.

Daido Special Alloys Ltd.

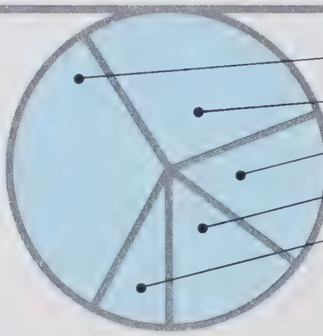
Daido Special Alloys Ltd., sells specialty and high-nickel alloys. It is a joint venture of Inco and Daido Steel Co., Ltd., Nagoya, Japan, in which the partners have equal interests.

The venture's business in 1978, spurred by sales to the automotive and chemical industries, showed improvement over previous years and is expected to improve further in 1979.

Toll production by Daido Steel of nickel alloys and other metals was begun during the year. Availability of domestically produced alloys contributed significantly to the venture's increase in sales.

Officers

Harold F. Hendershot was elected President of Inco Limited's Formed Metal Products Group in June. Since 1976, he served as a



Sales ($millions)	**1978**		**1977**	
Transportation	$141	33%	$113	30%
Process	118	28	106	28
Power and utilities	70	16	65	17
Consumer durables	65	15	60	16
Other	35	8	33	9
Total	$429	100%	$377	100%

Officers

Formed Metal Products Group

Harold F. Hendershot, President

Principal operations

Robert W. Simmons, President
Huntington Alloys, Inc., Huntington, W. Va.

Derek O. Herbert, Managing Director
Henry Wiggin & Company Limited, Hereford, England

Richard T. Doncaster, Chairman
Daniel Doncaster & Sons Limited, Sheffield, England

C. Bruce Goodrich, General Manager
Canadian Alloys Division, Lively, Ontario

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

Marketing subsidiary

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

Principal properties, plants, laboratories and products

Rolling mills
Huntington, West Virginia, and Burnaugh, Kentucky, U.S.A.; Hereford, England; Lively (Sudbury), Ontario
Products: Wrought nickel, high-nickel alloys, nickel and cupro-nickel coinage strip

Forging plants
Sheffield, Hull, Dudley, Leeds and Oldham, England; Blaenavon, Wales
Products: Forged and machined products of nickel and high-nickel alloys; stainless, carbon and alloy steels; titanium

Research laboratories
Huntington, West Virginia, U.S.A.; Hereford and Sheffield, England

Top. Discs and casings for aerospace and industrial gas turbines manufactured by Daniel Doncaster & Sons Limited.

Far left. Strip for coinage entering the furnace prior to hot rolling at the new Canadian Alloys plant near Sudbury.

Left. INCONEL alloy 718, produced at Huntington Alloys, is finding a strong market in gas turbine components.

Vice-President of the Company with responsibility for directing the Group. He joined the Inco organization in 1937 at Huntington Alloys.

I. David Balchin was elected in October Group Managing Director of Daniel Doncaster & Sons Limited. He had been Group Director, Operations.

Industrial relations

After a 20-week strike, Huntington Alloys, Inc., and the United Steelworkers of America's local representing 280 hourly rated employees at the Burnaugh, Ky., plant reached agreement in May 1978 on a new three-year contract. At the Huntington, W. Va., plant, a three-year agreement expires in December 1980.

At Henry Wiggin & Company Limited, negotiations with employees to renew agreements that had expired in November 1978 were completed early in 1979.

Canadian Alloys Division hourly rated employees, represented by the same union local as Inco Metals' workers in Sudbury, went on strike September 16. Negotiations were not completed at year end.

Employees

At year-end 1978, the Formed Metal Products Group had 8,676 employees, compared with 8,633 on December 31, 1977. Of the total, 5,652 were employed in the United Kingdom, 2,967 in the United States and 57 in other countries.

Harold F. Hendershot

President
Formed Metal Products Group

Other business

Diversification

Encouraging progress in diversification was made in 1978.

The International Metals Reclamation Company, Inc., (INMETCO) began operations in December. It was formed as a subsidiary in 1976 to use Inco-developed technology for converting steelmaking wastes into valuable remelt alloys for production of stainless steel. When fully operational, its Ellwood City, Pa., plant will process 40,000 tons of material annually and employ about 100 people. INMETCO represents an investment of about $30 million.

Pittsburgh Pacific Processing Company (PPP), a subsidiary of INMETCO acquired in 1977, increased sales significantly in 1978. Its briquetting business and consulting services supplement INMETCO's capacity to expand and grow in the reclamation business.

MPD Technology, a subsidiary formed to direct Inco's internally developed ventures, increased sales in several of its businesses during 1978.

Products gaining success in the marketplace include MAXORB* black nickel foil for selective capture of solar energy; CAPREZ** directly plateable plastic; HY-STOR** metal hydride alloys that afford novel and efficient energy utilization; NOVAMET** flake of bronze, nickel and stainless steel that provides specular reflectance in paints and conductivity in plastics.

Inco's venture capital portfolio, since its inception in 1976, has grown to 23 investments and has increased substantially in value. It consists of investments primarily in high-technology companies in the United States, Canada and Europe. Three investments, made in 1976 at a cost of some $1.3 million, were sold for $2.8 million.

Resource development

A consortium of equal partners, including Inco and companies from the United States, Germany and Japan, completed pilot tests of two distinct ocean-mining systems. Successful recovery of nodules from an ocean depth of three miles was accomplished on a tonnage basis.

Because of uncertainties in the legal situation and unfavorable economic factors, future activity will proceed at a reduced pace.

The major portion of the oil and gas exploration activities which continued during the year in Guatemala and Belize was financed by Inco's partners.

In Guatemala, a subsidiary of Atlantic Richfield Company, under an option agreement with Inco, conducted seismic surveys but declined to participate further in the venture. Subsequently, a farm-out agreement was concluded with a subsidiary of Allied Chemical Corp., whereby it could earn up to 65-per-cent interest in three of Inco's oil rights.

An Exxon Corporation subsidiary, the majority participant and operator in the joint venture in Belize, conducted seismic surveys that led to a decision to drill a shallow onshore exploratory well in early 1979.

Inco holds 4.5 per cent of the common shares of the Panarctic Oils Ltd., venture in the Canadian High Arctic.

Research and development

Advanced technological developments emerging from the Company's international complex of research and development facilities include:

Controlled-Micro-Geometry (CMG) battery electrodes for increased energy capacity in nickel-zinc, nickel-iron and nickel-cadmium batteries. These electrodes are being tested in several countries by organizations which are licensed under the court-approved decree which, on January 30, 1978, terminated the United States antitrust suit related to the Company's acquisition of ESB Ray-O-Vac Corporation.

A family of insoluble anodes suited to electrowinning of nickel and cobalt.

A process to manufacture Cis-Platinum II, a compound recently approved by the United States Food and Drug Administration as an anti-cancer agent. Inco also contributed funds to other institutions to foster this development.

Aluminum alloys, dispersion hardened

* Trademark of MPD Technology Limited, an Inco Company.

** Trademark of MPD Technology Corporation, an Inco Company.

by the Inco-invented mechanical alloying process, for aircraft structurals.

Ruthenium-cobalt bonded, cemented carbides that afford dramatic increases in tool life when machining steels.

During the year, several earlier inventions reached notable milestones.

Programs to adapt the reclamation concepts developed for INMETCO to iron oxide wastes and to superalloy scrap are under way. The latter is funded by the United States Bureau of Mines.

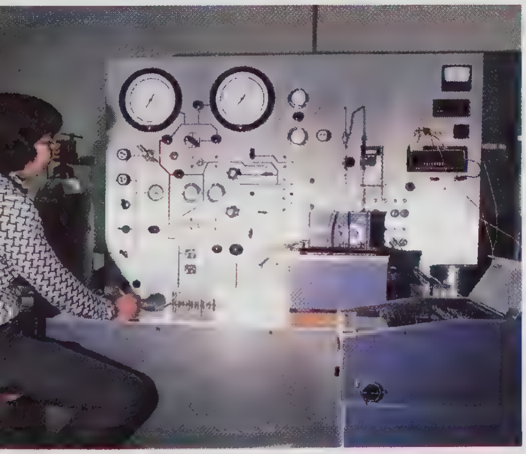
Mechanically alloyed superalloys, both nickel- and iron-based, have attracted substantial customer interest for high-temperature service, as in gas turbine blades.

An Inco-developed, highly corrosion-resistant nickel-base alloy, IN-939, has achieved commercial success in a variety of components for industrial gas turbines. Development work toward substituting this alloy for cobalt-based alloys in other applications is in progress.

Throughout Inco's more than 50 years of active research and development, its work in studying corrosion has earned particular respect. Among the most appreciated of Inco's activities has been its establishment of the Sea Horse Institute, an international forum for the free exchange of knowledge of corrosion in marine environments. The Institute marked its 40th anniversary in 1978.

Reclamation operations
Inmetco, Ellwood City, Pennsylvania, U.S.A.
Pittsburgh Pacific Processing Company, Pittsburgh, Pennsylvania, U.S.A.

Research and development laboratories
Sterling Forest, New York, U.S.A.
Wrightsville Beach, North Carolina, U.S.A.
Birmingham, England



Top. Inmetco's first commercial pouring of a nickel-chromium-iron remelt alloy recovered from stainless steel mill waste took place on December 30.

Centre. Corrosion specialists from many industries met at Wrightsville Beach, North Carolina, (the location of Inco's corrosion research centre) for the 40th annual meeting of the Sea Horse Institute.

Bottom. MPD laboratory-scale hydrogen generation and a metal hydride storage unit.

Corporate organization

Philip C. Jessup, Jr., was elected in May Vice-President and General Counsel of Inco Limited. He was elected to the additional position of Secretary of the Company in October, succeeding Donald C. McGavin, Q.C., who retires in early 1979. Mr. Jessup joined Inco in 1958. He had been President of P.T. International Nickel Indonesia, serving as Managing Director of the subsidiary since 1972.

Raymond F. Decker was elected in June a Vice-President of Inco Limited. He is responsible for corporate technology and diversification ventures. Dr. Decker joined Inco in 1958, serving since 1975 as a Vice-President responsible for research and development of The International Nickel Company, Inc., in the United States.

Alfred P. Statham was elected in June a Vice-President of Inco Limited with corporate responsibility for public affairs. He had been a Vice-President of Inco United States Inc., since joining the Company in 1975.

Anthony J. Sabatino was elected Comptroller of the Company in February 1979. He had been Assistant Comptroller. Mr. Sabatino joined Inco in 1973.

James C. Parlee, Vice-Chairman of Inco Limited from 1972 until he retired in 1975, died on August 16. He was responsible for directing construction and the development of the Company's nickel complex in Manitoba from 1957 to 1962. Mr. Parlee was a Director of the Company from 1965 to 1976. He joined Inco in 1933.

Employees

On December 31, 1978, Inco Limited employed a total of 52,581 people, compared with 56,922 at year-end 1977. The number of employees in each of the Company's major sectors is reported in their respective sections of this Report.

Shareholders

At year-end 1978, the Company had 75,067 Common shareholders of record and 2,041 Preferred shareholders of record, compared with 77,875 Common shareholders of record and 924 Preferred shareholders of record on December 31, 1977.

Effective January 1, 1979, the Company's Class A and Class B Common Shares were reclassified as Common Shares. The Board of Directors, furthermore, approved at its December meeting the Inco Optional Stock Dividend Program for holders of Common Shares. The Program, discussed on page 20 of this Report, was first effective for the cash dividend declared on February 5, 1979.

According to the Company's records, 67 per cent of shareholders had addresses in Canada, 31 per cent in the United States and 2 per cent elsewhere. Of the shares having general voting rights, the Common Shares and Series B Preferred Shares, Canadian residents of record held 58 per cent, United States residents of record 27 per cent, and residents of record in other countries 15 per cent.

The Company's Senior Vice-Presidents (and their corporate responsibilities) are, from left: Ashby McC. Sutherland (public affairs, employee relations, legal functions and office of the Secretary); William Steven (development and technology); Ian McDougall (finance).

Financial Folio

Inco Optional Stock Dividend Program

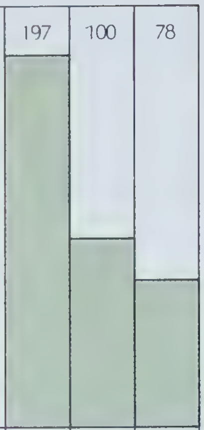
The Company's Board of Directors has adopted the Inco Optional Stock Dividend Program, under which Common shareholders may elect to receive, in lieu of any cash dividends declared, a stock dividend valued at a price which is equal to the market price of the Company's Common Shares. Details on the Program, which was first effective for the cash dividend declared on February 5, 1979, are contained in a prospectus mailed to Common shareholders in January 1979.

The Program permits many shareholders to receive tax benefits similar to those previously available to holders of the Company's former Class B Common Shares. In addition, the Program provides Common shareholders with a simple and convenient method of obtaining additional Common Shares without payment of any brokerage commissions or service charges. Those who wish to participate or desire additional information should write to Shareholder Relations, Inco Limited, at either of the following addresses:

1 First Canadian Place, Toronto, Ontario
M5X 1C4

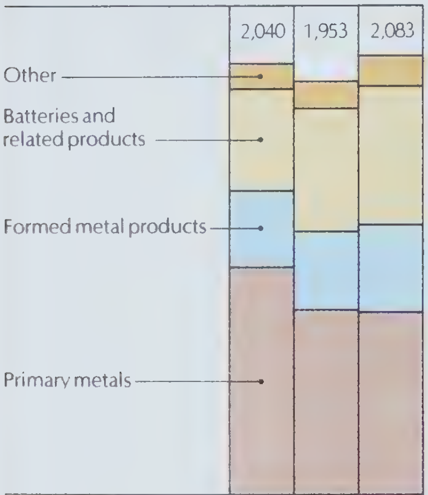
One New York Plaza, New York, New York
10004

Net earnings ($ millions)



	1976	1977	1978
	197	100	78
Per common share ($) ...	2.64	1.24	.77

Net sales ($ millions)



	1976	1977	1978
Primary nickel	762	558	615
Refined copper	227	211	135
Precious metals	57	63	81
Other primary metals	31	37	35
Total primary metals	1,077	869	866
Formed metal products	365	377	429
Batteries and related products	486	585	655
Other products	112	122	133
Total	2,040	1,953	2,083

Financial Review

Summary of Operations

1978 Results Compared with 1977

Net earnings

Net earnings in 1978 were $77.8 million, or 77 cents a common share after allowance for preferred dividends of $20.5 million, compared with $99.9 million in 1977, or $1.24 a common share after allowance for preferred dividends of $7.5 million. Major factors contributing to this decline were costs and expenses attributable to the Sudbury strike, significantly lower prices for primary nickel, and charges applicable to the Guatemalan and Indonesian projects, partially offset by a substantial increase in nickel deliveries and higher prices for platinum-group metals and cobalt.

Net sales

Net sales for the year were $2,083 million, or seven per cent above 1977. Primary metals sales were $866 million, compared with $869 million in 1977. Primary nickel sales increased by 10 per cent on the strength of higher deliveries resulting from increased demand, particularly from increased production of stainless steel. However, the nickel market remained extremely competitive and prices continued to decline. The Company's average net realized price for its primary nickel products was $1.98 a pound in 1978, compared with $2.17 a pound in 1977. Copper sales fell 36 per cent due principally to the reduced production attributable to the Sudbury strike. Since the Company had only small quantities of copper available for sale in the fourth quarter, it could not benefit from the increases in price that became effective during that time. Prices for cobalt and platinum-group metals increased sharply during 1978. Sales of formed metal products were $429 million in 1978, compared with $377 million in 1977. This 14 per cent increase resulted from higher deliveries. ESB Ray-O-Vac's sales of batteries and related products and other products were $785 million in 1978, surpassing the previous record of $706 million in 1977. The increase is primarily attributable to higher prices, which largely reflect the recovery of increased costs rather than improved profit margins.

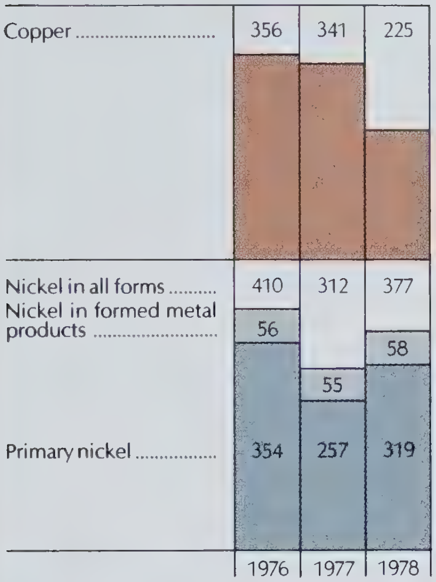
Costs and expenses

Costs and expenses in 1978, in addition to reflecting the constant pressure of escalating labor, supply and energy costs, include $61 million attributable to the Sudbury strike. The strike began on September 16 and was still in effect at the time this Report was printed. Strike expenses are those ongoing costs, such as employment costs of salaried staff at Sudbury and depreciation, which are normally treated as production costs and charged to inventories. In the absence of production because of the strike, however, these expenses must be accounted for as period costs and charged directly to costs and expenses in the Consolidated Statement of Earnings. The $61 million also includes $9 million of abnormal start-up costs which were incurred during the period between August 28 and September 16 when the Company's Sudbury District facilities resumed operations after a six-week summer shutdown but at reduced production levels pending clarification of the labor situation. Research and development expense, which had totalled $45 million in 1977, was cut back to $38 million in 1978.

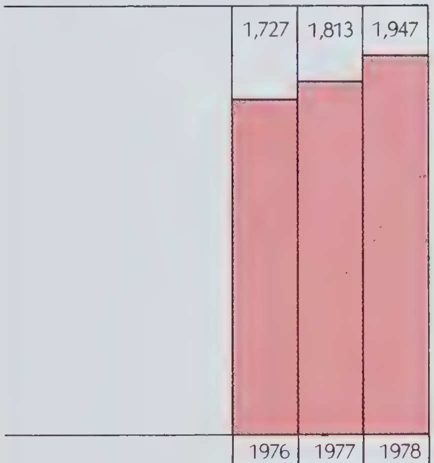
Interest expense increased from $66 million in 1977 to $76 million in 1978 mainly as a result of expensing $12 million of interest on certain borrowings related to the nickel projects in Guatemala and Indonesia. Interest was expensed commencing in June for the Guatemalan project and in August for Stage I of the Indonesian project. Interest on Stage II borrowings began to be expensed in January, 1979. Prior to these dates, interest had been capitalized while the projects were under construction. Interest expense on both projects is expected to total $56 million in 1979.

Currency translation adjustments, which in the Company's case arise mainly from fluctuations in the relative values of the Canadian dollar, pound sterling and the U.S. dollar, increased earnings by $15 million in 1978 and by $18 million in 1977. In addition to the favorable effect on currency translation adjustments, the decline in the value of the Canadian dollar also serves to reduce the U.S. dollar equivalent of Canadian production costs and expenses. The Canadian Institute of Chartered Accountants has determined that currency translation adjustments relating to certain non-current assets and liabilities, such as long-term debt, should be amortized over the remaining life of the asset or liability. The Company will, as required, adopt this procedure in 1979. Had this procedure been applied in 1978 and

Nickel and copper deliveries
(million pounds)



Costs and expenses ($ millions)



	1976	1977	1978
Costs	1,325	1,400	1,524
Selling, general and administrative expenses	172	189	197
Depreciation and depletion	113	117	109
Interest	66	66	76
Pension expense	53	59	56
Currency translation adjustments	(2)	(18)	(15)
Total	1,727	1,813	1,947

Exchange rates (U.S. $)	**1976**	**1977**	**1978**
Canadian dollar			
Beginning of year	.984	.991	.914
End of year	.991	.914	.843
Average for year	1.014	.941	.877
Pound sterling			
Beginning of year	2.024	1.700	1.917
End of year	1.700	1.917	2.042
Average for year	1.805	1.745	1.920

prior years, the effect on earnings in 1978 would not have been significant.

Income and mining taxes

Income and mining taxes were $87 million in 1978 and $75 million in 1977. The effective income and mining tax rates in the two years were 53 per cent and 43 per cent, respectively. The increased rate reflects several factors. Income subject to mining tax in Ontario in 1978 was greatly reduced by the costs and expenses attributable to the Sudbury strike. As a result, a larger proportion of income in 1978 was subjected to the higher mining tax rates prevailing in Manitoba. Additionally, the effective tax rate was increased by a larger amount of taxable exchange gains in 1978 compared with 1977. Such exchange gains do not enter into the determination of pretax earnings as expressed in U.S. dollars. During 1978, the Company began to expense interest and general and administrative expenses relative to the Guatemalan project and Stage I of the Indonesian project. No tax benefit has been recognized on these losses, although such losses can be carried forward to reduce taxable income in future periods. Partially offsetting these effects was the favorable settlement of tax issues relating to prior years.

Nickel projects in Guatemala and Indonesia

The Consolidated Balance Sheet at December 31, 1978 included total assets of $249 million and $869 million relative to the nickel projects in Guatemala and Indonesia, respectively. Accounting for these projects on an operational basis commenced in October, 1978 for the Guatemalan project and in January, 1979 for both stages of the Indonesian project.

Based on 1978 nickel prices and the project's heavy reliance on fuel oil, the Exmibal project in Guatemala would operate at a loss at full production levels. The longer-term profitability of the project will depend upon the future relationship of nickel prices to operating costs. With respect to the Indonesian project, given the favorable grade of ore and the availability of hydro-electric power, the Company believes that, based on 1978 price/cost relationships, the project, when operating at capacity, would make a positive contribution to operating earnings.

1977 Results Compared with 1976

Net earnings

Net earnings in 1977 were $99.9 million, or $1.24 a common share, compared with $196.8 million, or $2.64 a share, in 1976. Major factors contributing to this decline were lower deliveries of nickel and platinum-group metals, lower prices for copper, higher unit costs in the primary metals and formed metal products businesses and a decline in ESB Ray-O-Vac's contribution to earnings, primarily due to nonrecurring factors. These adverse factors more than offset benefits from improved prices for rolling mill products and platinum-group metals, and from currency translation adjustments.

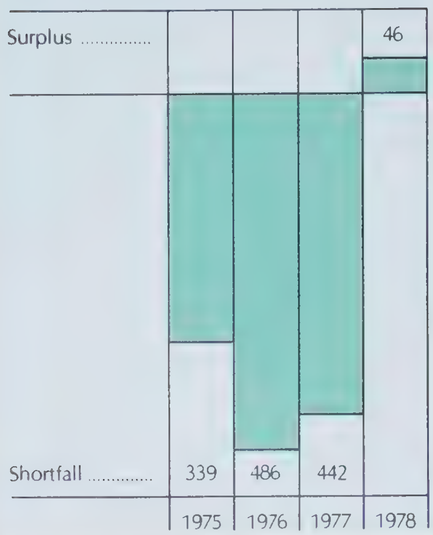
Net sales

Net sales in 1977 were $1,953 million, down from $2,040 million in 1976. Primary metals sales were $869 million in 1977, or 19 per cent below 1976, due mainly to reduced deliveries of nickel resulting from intensely competitive conditions during a period of depressed levels of demand stemming from unexpected weakness in key nickel-consuming capital goods spending, increased utilization of nickel-containing scrap by consumers, and the reduction of nickel inventories held by consumers. Sales of formed metal products in 1977 increased three per cent to $377 million due to improved prices. ESB Ray-O-Vac's sales for 1977 were $706 million, an increase of 18 per cent over 1976. Approximately one-third of this increase was contributed by AB Tudor, a company acquired effective January 31, 1977, with the balance attributable principally to higher prices.

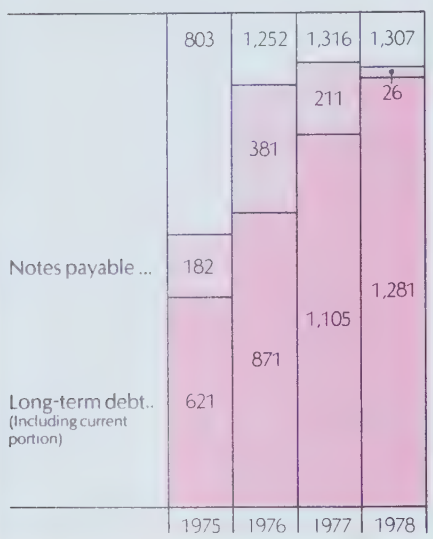
Costs and expenses

Increased costs for the year 1977 reflected inflationary pressures, partially offset by the lower volume of business. In addition, costs were adversely affected by provisions for employee severance costs principally in the primary metals business. Pension expense increased $6 million primarily because of a provision relative to the closing of an industrial battery plant. Taxes other than income and mining taxes increased by $15 million due mainly to higher payroll taxes. Research and development expense increased by $7 million largely as a result of the Company's increased spending on ocean mining feasibility studies.

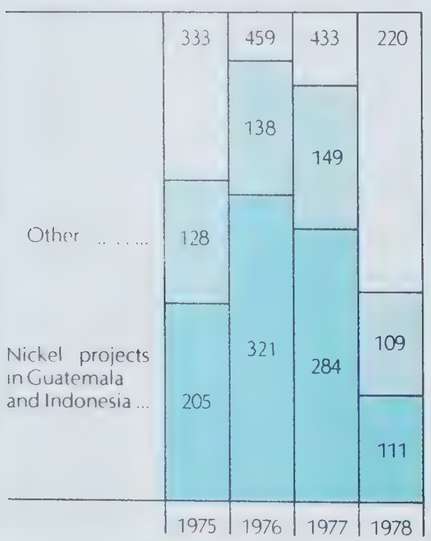
Internal cash flow ($ millions)



Debt levels ($ millions)



Capital expenditures ($ millions)



Currency translation adjustments increased 1977 earnings by $18 million and were attributable principally to the decline in value of the Canadian dollar, partly offset by the appreciation in the value of the pound sterling. In 1976, the adjustment resulted in increased earnings of $2 million, reflecting mainly a decline in the value of sterling almost entirely offset by an increase in the Canadian dollar.

Income and mining taxes

Income and mining taxes declined from $150 million in 1976 to $75 million in 1977 consistent with the decline in pretax earnings. Benefits in 1977 from higher investment tax credits and the introduction of an inventory allowance in Canada were largely offset by the effects of currency translations. Accordingly, the Company's effective income and mining tax rate for 1977 was 43 per cent, the same as in 1976.

Other Financial Highlights

Cash flow and financings

The Company entered 1978 with the stated objective of conserving cash and strengthening its financial position. In large measure, this objective was achieved. Despite the low level of earnings, 1978 marked the end of the succession of massive internal cash shortfalls experienced in each of the preceding three years. The improvement to a modest internal cash surplus in 1978 was to some degree attributable to the fact that during the Sudbury strike nickel continued to be delivered from surplus inventories while production costs for employment, energy and supplies were not being incurred. Additionally, early in 1978, $150 million was raised by the issuance of long-term notes and debentures in the Eurobond market. In 1977, $375 million (Cdn.) was raised through the sale of preferred shares in Canada. As a result of these financings and the modest internal cash surplus in 1978, the level of notes payable was reduced from $381 million at the end of 1976 to $26 million at year-end 1978, and the Company's liquidity position has been improved considerably.

P.T. International Nickel Indonesia, the Company's 96 per cent owned subsidiary, has begun discussions with the lenders to its $900 million Soroako nickel project in connection with a three-part plan providing for additional equity contributions to the subsidiary by the Company, the rescheduling of the principal payments under a $200 million credit facility, and the prepayment of $65 million outstanding under another credit facility. Technical problems experienced to date have significantly reduced the project's production schedule for the 1979-1981 period. The reduced production levels, coupled with depressed world nickel prices, have impaired the ability of the project to meet its operating costs and debt service requirements over the near-term. The proposed plan is intended to reduce and defer the project's debt service requirements.

Capital expenditures

The sharply reduced capital expenditures, from $433 million in 1977 to $220 million in 1978, reflected reduced spending on the nickel projects in Guatemala and Indonesia as well as cash conservation measures. A further substantial decline in capital expenditures, to a level of about $150 million, is expected in 1979.

Inco Optional Stock Dividend Program

On December 4, 1978, the Board of Directors adopted the Inco Optional Stock Dividend Program under which Common shareholders have the right to elect to receive a stock dividend in lieu of any cash dividend declared. Amendments made to the Income Tax Act of Canada in December, 1977 terminated the Company's ability to pay "tax-deferred" dividends on Class B Common Shares out of "1971 capital surplus on hand" after December 31, 1978. Such amendments, however, do provide tax benefits to certain recipients of stock dividends. One purpose of the Program is to make available to shareholders tax benefits similar to those which were available to the holders of the Company's Class B Common Shares. The Program also provides Common shareholders with a simple and convenient method of obtaining additional Common Shares at regular intervals without payment of brokerage commissions or service charges. Effective January 1, 1979, the Class A Common Shares and Class B Common Shares were reclassified as a single class of Common Shares pursuant to By-law X of the Company which was approved at the Annual and Special General Meeting of Shareholders held on April 19, 1978.

Continuance under the Canada Business Corporations Act

The Canada Business Corporations Act (CBCA) is a federal statute which came into force on December 15, 1975. The main purposes of the CBCA are the strengthening of shareholder rights and the simplification of corporate procedures. The Company is presently operating under the Canada Corpora-

Ten-Year Review

	1978	1977	1976	1975	1974(1)	1973	1972	1971	1970	1969
Summary of operations (in thousands)										
Net sales	**$2,083,100**	1,953,300	2,040,300	1,694,800	1,684,600	1,172,800	900,300	789,200	1,055,800	684,200
Costs	**$1,523,700**	1,399,700	1,324,600	1,071,600	888,400	643,300	594,400	525,300	619,200	431,400
Interest, net of amounts capitalized	**$ 75,900**	66,300	66,400	49,400	45,000	42,300	43,800	33,900	17,100	13,400
Income and mining taxes	**$ 87,100**	75,500	150,400	135,200	248,400	120,500	42,600	23,500	121,400	58,100
Net earnings	**$ 77,800**	99,900	196,800	186,900	298,600	225,600	112,100	90,300	207,400	115,200
Net earnings applicable to common shares	**$ 57,300**	92,300	196,800	186,900	298,600	225,600	112,100	90,300	207,400	115,200
Per common share	**$ 0.77**	1.24	2.64	2.51	4.01	3.02	1.50	1.21	2.78	1.54
Common dividends	**$ 52,200**	93,200	119,300	119,300	119,300	89,400	74,500	96,900	104,200	89,300
Per common share	**$ 0.70**	1.25	1.60	1.60	1.60	1.20	1.00	1.30	1.40	1.20
Common shares outstanding (weighted average)	**74,595**	74,593	74,576	74,552	74,541	74,535	74,525	74,499	74,435	74,401
Other financial data (in thousands)										
Capital expenditures (2)	**$ 219,900**	432,800	459,100	332,700	149,200	88,800	125,200	244,200	272,500	175,200
Exploration expenditures (2)	**$ 14,800**	23,800	36,100	30,100	19,900	17,800	18,700	32,900	31,900	19,900
Research and development expense	**$ 38,500**	45,400	38,700	36,300	31,500	24,300	23,300	24,700	22,400	18,000
Working capital	**$ 961,900**	826,200	595,300	589,500	648,000	537,800	395,700	387,300	375,800	356,300
Net property, plant and equipment	**$2,540,500**	2,436,700	2,119,400	1,785,000	1,560,200	1,395,400	1,402,200	1,351,900	1,167,700	940,000
Total assets (3)	**$4,145,600**	4,075,800	3,628,300	3,025,700	2,799,700	2,248,800	2,078,300	2,094,800	1,827,400	1,477,000
Common shareholders' equity	**$1,566,700**	1,561,600	1,562,400	1,484,400	1,416,400	1,236,900	1,100,700	1,062,800	1,067,900	963,100
Return on total assets	**1.9%**	2.5%	5.4%	6.2%	10.7%	10.0%	5.4%	4.3%	11.3%	7.8%
Return on common shareholders' equity	**3.7%**	5.9%	12.6%	12.6%	21.1%	18.2%	10.2%	8.5%	19.4%	12.0%
Operating data (in thousands)										
Ore mined – short tons	**10,900**	19,600	19,800	21,200	22,000	19,700	19,200	27,600	27,700	18,300
Nickel production – pounds (4)	**267,300**	416,700	461,600	458,900	509,600	469,200	401,200	463,400	500,900	342,000
Nickel deliveries – pounds (4)	**377,400**	312,300	409,800	351,100	549,100	517,000	425,100	342,500	518,900	382,200
Copper deliveries – pounds	**224,600**	341,200	356,000	334,600	367,200	327,100	308,200	340,300	348,100	208,200
Platinum-group metals and gold deliveries – troy ounces	**468**	438	554	301	317	413	452	437	388	422
Other statistics										
Employees at year end	**52,581**	56,922	55,767	53,515	48,962	31,311	32,082	36,089	37,313	34,321
Common shareholders at year end	**75,067**	77,875	78,014	84,369	86,795	90,660	92,024	92,217	84,320	84,219

(1) Includes applicable data relating to ESB Ray-O-Vac Corporation for the five months since its acquisition effective August 1, 1974.
(2) Includes capitalized exploration expenditures.
(3) Does not include any value for the minerals in the major portion of the Company's ore reserves.
(4) In years prior to 1972, the Company purchased finished nickel from various sources which is not included in nickel production. Resales of such nickel are included in nickel deliveries.

tions Act, but is required to be continued under the CBCA no later than December 15, 1980, failing which the Company would be dissolved automatically.

At the Annual and Special General Meeting of Shareholders to be held in Toronto on April 18, 1979, shareholders will be asked to pass a resolution which authorizes the continuance of the Company under the Canada Business Corporations Act and, in conjunction therewith, the amendment of the Company's charter by, among other things:

- Removing the existing limit on the authorized number of the Company's Common Shares and restoring the authorized number of the Company's Preferred Shares to 30,000,000 shares;
- Amending certain terms of the Company's 7.85% Preferred Shares Series B that relate to the issuance of additional Series B Preferred Shares as stock dividends; and
- Amending in several respects the optional stock dividend provisions applicable to the Company's Common Shares, including the addition of a provision that additional Common Shares may be issued as stock dividends at a discount from market value of up to 5%.

Consolidated Statement of Earnings (in thousands)

Year ended December 31	1978	1977
Revenues		
Net sales	$2,083,094	$1,953,328
Other income	28,637	35,131
	2,111,731	1,988,459
Costs and expenses		
Costs	1,523,689	1,399,735
Selling, general and administrative expenses	197,487	188,944
Depreciation and depletion	108,601	116,619
Interest, net of amounts capitalized	75,917	66,251
Pension expense	56,114	59,153
Currency translation adjustments	(14,956)	(17,596)
	1,946,852	1,813,106
Earnings before income and mining taxes	164,879	175,353
Income and mining taxes	87,070	75,494
Net earnings	77,809	99,859
Dividends on preferred shares	20,511	7,535
Net earnings applicable to common shares	$ 57,298	$ 92,324
Net earnings per common share	$0.77	$1.24

Consolidated Statement of Retained Earnings (in thousands)

Year ended December 31	1978	1977
Retained earnings at beginning of year	$1,403,525	$1,404,442
Net earnings	77,809	99,859
Preferred dividends	(20,511)	(7,535)
Common dividends — $.70 per share (1977 — $1.25 per share)	(52,216)	(93,241)
Retained earnings at end of year	$1,408,607	$1,403,525

The Explanatory Financial Section on pages 25 through 31 is an integral part of these statements.

Auditors' Report

To the Shareholders of Inco Limited:

We have examined the financial statements and explanatory financial section appearing on pages 22 through 31 of this report. Our examinations were made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of Inco Limited and subsidiaries at December 31, 1978 and 1977 and the results of their operations and changes in financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Toronto, Ontario
New York, New York
February 15, 1979

PRICE WATERHOUSE & CO.

Consolidated Balance Sheet (in thousands)

December 31	1978	1977
Current assets		
Cash	$ 25,940	$ 22,756
Marketable securities	59,322	20,269
Accounts receivable	394,937	381,657
Inventories	985,286	1,080,715
Prepaid expenses	10,892	12,697
Total current assets	1,476,377	1,518,094
Property, plant and equipment	3,705,335	3,501,665
Less — Accumulated depreciation and depletion	1,164,825	1,064,924
	2,540,510	2,436,741
Other assets		
Investments in and advances to affiliates, on an equity basis	59,627	51,376
Miscellaneous securities	23,702	21,984
Charges to future operations	12,614	11,678
Unamortized cost in excess of net assets of business acquired	32,792	35,891
	128,735	120,929
Total assets	$4,145,622	$4,075,764
Current liabilities		
Notes payable	$ 26,236	$ 211,020
Accounts payable and accrued expenses	327,790	328,047
Long-term debt due within one year	56,833	84,850
Income and mining taxes payable	103,581	67,961
Total current liabilites	514,440	691,878
Other liabilities		
Long-term debt	1,223,955	1,019,688
Deferred income and mining taxes	417,100	387,200
Pension benefits	48,271	41,593
Minority interest	23,508	20,576
	1,712,834	1,469,057
Shareholders' equity		
Preferred shares issued, $25 (Cdn.) par value:		
Series A floating rate — 10,000,000 shares	239,250	239,250
Series B 7.85% — 4,928,515 shares; 1977 — 5,000,000 shares	112,366	114,000
Common shares without nominal or par value, issued 74,597,925 shares; 1977 — 74,593,655 shares	97,089	97,018
Capital surplus	61,036	61,036
Retained earnings	1,408,607	1,403,525
	1,918,348	1,914,829
Total liabilities and shareholders' equity	$4,145,622	$4,075,764

The Explanatory Financial Section on pages 25 through 31 is an integral part of these statements.

Approved by the Board of Directors:

J. Edwin Carter

Charles F. Baird

Consolidated Statement of Changes in Financial Position (in thousands)

Year ended December 31	1978	1977
Financial resources were provided by		
Net earnings	$ 77,809	$ 99,859
Income charges (credits) not affecting working capital		
Depreciation	96,702	93,388
Depletion	11,899	23,231
Deferred income and mining taxes	29,900	16,600
Equity in earnings of affiliated companies	(3,575)	(1,574)
Loss on disposals of property, plant and equipment	1,618	6,177
Amortization of cost in excess of net assets of business acquired	3,099	3,099
Currency translation adjustments not affecting working capital	(7,153)	(12,995)
Other—net	(908)	5,285
Working capital provided by operations	209,391	233,070
Long-term borrowings	287,525	270,746
Net proceeds from sales of preferred shares	—	349,311
Other—net	8,065	18,481
Total	504,981	871,608
Financial resources were used for		
Preferred dividends	20,511	7,535
Common dividends	52,216	93,241
Capital expenditures	219,934	432,837
Reduction of long-term debt	76,599	107,085
Total	369,260	640,698
Increase in working capital	$135,721	$230,910

Analysis of changes in working capital		
Increase (decrease) in current assets		
Cash and marketable securities	$ 42,237	$ (29,848)
Accounts receivable	13,280	(51,284)
Inventories	(95,429)	200,941
Prepaid expenses	(1,805)	2,429
Total	(41,717)	122,238
Increase (decrease) in current liabilities		
Notes payable and other debt	(212,801)	(106,128)
Accounts payable and accrued expenses	(257)	21,067
Income and mining taxes payable	35,620	(23,611)
Total	(177,438)	(108,672)
Increase in working capital	$135,721	$230,910

The Explanatory Financial Section on pages 25 through 31 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 financial statements consolidate the accounts of the Company and its subsidiaries and are prepared in conformity with generally accepted accounting principles as established in Canada which, in the Company's case, conform with those established in the United States.

Translation of financial statements into United States dollars The financial statements are expressed in United States currency. Cash, accounts receivable, current liabilities, the liability for pension benefits and long-term debt are translated at year-end rates of exchange. The translation of all other assets and liabilities generally recognizes the rates historically applicable. Revenues, expenses and certain costs are translated at monthly average rates during each year; inventoried costs, depreciation and depletion are translated at historical rates. Realized exchange gains and losses and currency translation adjustments are included in earnings currently. The Canadian Institute of Chartered Accountants has determined that currency translation adjustments relating to certain non-current assets and liabilities, such as long-term debt, should be amortized over the remaining life of the asset or liability. The Company will, as required, adopt this procedure retroactively in 1979. Had this procedure been applied in 1978 and prior years, the effect on earnings in 1978 would not have been significant.

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

Property, plant and equipment Substantially all property, plant and equipment is stated at cost. Such cost in the case of the Company's mines — most of which were discovered and developed by the Company — represents, with relatively minor exceptions, only that part of related development and acquisition costs which was capitalized. All development costs, other than interest and general and administrative expenses, were capitalized through September 30, 1978 for the Guatemalan project and through December 31, 1978 for the Indonesian project. Expensing of interest and general and administrative expenses commenced in June 1978 for the Guatemalan project and commenced in August 1978 for Stage I of the Indonesian project, with the completion of preoperational testing of the projects' facilities.

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

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

Exploration Except in areas currently under development where production is highly probable, exploration expenditures are expensed as incurred. Exploration expense totalled $14,159,000 in 1978 and $22,354,000 in 1977.

Research and development Research and development expenditures are expensed as incurred. Research and development expense totalled $38,474,000 in 1978 and $45,438,000 in 1977.

Pension plans The Company and its subsidiaries have several pension plans covering most employees. Costs are provided for, and funded, based on actuarial estimates. Past service costs at December 31, 1978 approximated $130,000,000, the major portion of which will be charged to operations within the next 11 years. At December 31, 1978, vested benefits approximated the assets of the pension trust funds and balance sheet accruals. The liability for pension benefits comprises cost of living supplements for pensioners and certain pension liabilities of acquired companies.

Income and mining taxes Deferred taxes are provided for timing differences that exist in reporting depreciation and other expense and revenue items for financial statement and income and mining tax purposes. Investment tax credits are accounted for by the "flow-through" method; such credits totalled $6,629,000 in 1978 and $6,884,000 in 1977. The Company provides taxes on the undistributed earnings of subsidiaries to the extent such earnings are not considered to be permanently reinvested in the subsidiaries' operations.

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

Note 2. Other Income

Other income includes net gains on sales of assets, interest, dividends, income from equity interests in affiliates and joint ventures, and realized exchange gains and losses which were not material in 1978 and 1977.

Note 3. Marketable and Miscellaneous Securities

Marketable and miscellaneous securities are carried at cost. At December 31, 1978, marketable equity securities at a cost of $2,300,000 (1977 – $1,400,000), with a market value of $10,820,000 (1977 – $1,440,000), were included in marketable securities. Included in miscellaneous securities at December 31, 1978, were marketable equity securities at a cost of $520,000 (market value – $1,280,000). Realized gains on sales of marketable equity securities aggregated $9,470,000 in 1978 and $9,890,000 in 1977.

Note 4. Remuneration of Directors and Officers

The remuneration of directors and officers of the Company (including past officers) for the years 1978 and 1977 was as follows:

Year ended December 31	1978	1977
	(in thousands)	
Aggregate remuneration – as directors (16 in 1978, 15 in 1977) paid by:		
Inco Limited	$ 217	$ 209
Aggregate remuneration – as officers (53 in 1978, 48 in 1977) paid or accrued by:		
Inco Limited	$3,008	$2,866
Subsidiaries of Inco Limited	441	198
	$3,449	$3,064

Number of directors who are also officers: 6 in 1978 and 1977.

Note 5. Inventories

Inventories consist of the following:

December 31	1978	1977
	(in thousands)	
Metals (at average cost)		
Finished and in-process	$577,756	$ 723,955
Supplies	100,021	98,205
	677,777	822,160
Metals (at last-in, first-out cost)		
Finished and in-process	118,873	89,489
Batteries and other products (at first-in, first-out cost)		
Finished and in-process	124,188	108,195
Raw materials and supplies	64,448	60,871
	188,636	169,066
Total	$985,286	$1,080,715

Note 6. Property, Plant and Equipment

Property, plant and equipment consists of the following:

December 31	1978	1977
	(in thousands)	
Mines and mining plants	$1,026,676	$1,014,071
Smelters	636,032	625,662
Refineries	343,978	331,709
Indonesian nickel project	820,024	730,618
Guatemalan nickel project	231,399	210,659
Primary metals facilities	3,058,109	2,912,719
Formed metal products facilities	337,205	325,012
Battery and related product facilities	194,857	173,344
Other	115,164	90,590
	3,705,335	3,501,665
Accumulated depreciation	905,020	817,018
Accumulated depletion	259,805	247,906
	1,164,825	1,064,924
Net properties	$2,540,510	$2,436,741

The Guatemalan and Indonesian nickel projects are integrated mining and processing facilities for the production from lateritic ores of a nickel matte product containing 75 per cent nickel. The Guatemalan project and Stage I of the Indonesian project have been physically completed, and Stage II processing facilities were substantially completed by the end of 1978. Operational accounting, including depreciation, commenced for the Guatemalan project in October 1978. Similarly, operational accounting commenced in January 1979 for both stages of the Indonesian project.

Based on 1978 nickel prices and the project's heavy reliance on fuel oil, the Exmibal project in Guatemala would operate at a loss at full production levels. The longer-term profitability of the project will depend upon the future relationship of nickel prices to operating costs. With respect to the Indonesian project, given the favorable grade of ore and the availability of hydro-electric power, the Company believes that, based on 1978 price/cost relationships, the project, when operating at capacity, would make a positive contribution to operating earnings.

Net properties at December 31, 1978 include capitalized preproduction costs of $188 million for the Indonesian project and $74 million for the Guatemalan project. Net properties also include $161 million applicable to standby mines in Canada.

Note 7. Long-Term Debt

The Company's long-term debt consists of the following (the applicable repayment periods and weighted average interest rates as at December 31, 1978 are shown in parentheses):

December 31	1978	1977
	(in thousands)	
Inco Limited		
6.85% U.S. $ Debentures (1979-1993)	$ 143,150	$ 149,500
8.625% Cdn. $ Debentures (1979-1991)	58,137	65,792
9.25% Cdn. $ Debentures (1979-1990)	56,497	64,894
7.50% Cdn. $ Debentures	—	52,007
9.0% Eurodollar Debentures (1992)	97,544	—
8.25% Eurodollar Notes (1984)	50,000	—
P.T. International Nickel Indonesia		
Eurodollar Bank loans (11.0%) (1979-1987)*	284,231	258,077
Export & supplier credits (8.7%) (1979-1989)	188,022	155,654
Export & supplier credits (12.6%) (1979-1984)**	26,150	25,230
8.0625% U.S. $ Production sharing loan (1979-1986)	27,807	32,400
ESB Ray-O-Vac and subsidiaries		
U.S. $ Bank term loan (9.0%) (1981)	50,000	50,000
U.S. $ Revolving credit loans (11.5%) (1982)**	25,000	25,000
8.5% U.S. $ Senior notes (1985-1997)	45,000	20,750
Other (9.0%) (1979-1997)	19,132	19,136
Exmibal		
Export & supplier credits (8.6%) (1979-1988)	60,369	64,169
9.5% U.S. $ International agency loans (1979-1988)	19,950	21,000
Eurodollar Bank loans (10.8%) (1979-1983)*	18,000	20,000
U.S. $ Subordinated completion loan	4,000	4,000
Inco Europe Limited and subsidiaries		
Sterling Bank loans (12.2%) (1979-1986)*	53,079	38,340
Other (9.6%) (1979-2002)	3,838	3,614
Other indebtedness (4.5%) (1979-2002)	50,882	34,975
	1,280,788	1,104,538
Long-term debt due within one year	56,833	84,850
Long-term debt	$1,223,955	$1,019,688

* Interest is based on the London Interbank Offered rate.
** Interest is based on the banks' prime commercial lending rate.

The average interest rate on long-term debt at December 31, 1978 was 9.2%. The long-term debt is payable in the following currencies: 72% — U.S. dollars, 13% — Canadian dollars, 6% — U.K. sterling, and 9% — other currencies.

On January 5, 1978 the Company sold in the Eurobond market $50,000,000 of 8¼% Notes due December 15, 1984, and $100,000,000 of 9% Debentures due December 15, 1992. The Company is required to repurchase the debentures, if available at a price of less than 100% of their principal amount, at an annual rate of $2,000,000 to December 1982, and thereafter at an annual rate of $4,000,000 to December 1991.

The Company has not extended a financial guarantee of the debt of P.T. International Nickel Indonesia. The Company has agreed, subject to force majeure, to provide sufficient funds in the form of equity and senior loans to enable the project company to achieve project completion which, as defined in the security documents for the project's financing, is not currently forecast to be achieved until the late-1980's. In addition, the Company has agreed to purchase approximately two-thirds of the project's production at a formula price based on the price for nickel oxide sinter 75.

The Company has agreed, subject to force majeure, to provide sufficient funds in the form of subordinated and senior loans to enable Exmibal to complete and thereafter to operate its nickel project up to certain specified dates. The Company has also agreed to purchase Exmibal's production at a formula price based on the price for nickel oxide sinter 75, provided however, that the Company shall pay a minimum price of $2.10 per pound of contained nickel in 1979, and thereafter, until the formula price has risen sufficiently to sustain the project, the Company shall pay prices intended to meet Exmibal's operating and debt service costs. The Company has also agreed to make certain payments in respect of Exmibal's long-term debt if Exmibal fails to make payments when due on such debt, in return for which the Company would receive credits against its future purchases of Exmibal's production.

At December 31, 1978 the Company and its subsidiaries had unused lines of credit for both short-term and long-term debt in excess of $300 million. Of this amount, $270 million was available as back-up for Inco Limited's and ESB Ray-O-Vac's commercial paper borrowings in the United States and Canada as well as for general corporate purposes. Included in this latter figure is a revolving credit/term loan facility totalling $200 million made available by Canadian banks which provides for revolving credits which, at the option of the Company, are convertible until January 15, 1980 to either five or seven-year term loans.

Long-term debt maturities and sinking fund requirements for each of the five years through 1983 are: 1979 — $56,833,000; 1980 — $122,493,000; 1981 — $142,510,000; 1982 — $126,945,000; 1983 — $83,957,000. These five year amounts include $276,014,000 for P.T. International Nickel Indonesia borrowings and $60,272,000 for Exmibal borrowings. P.T. International Nickel Indonesia has begun discussions with certain financial institutions which have provided senior loans to its Soroako nickel project. The objective of these discussions is to defer and reduce the Indonesian subsidiary's debt service requirements by increasing the Company's equity investment therein and by prepaying and rescheduling certain debt of the subsidiary.

Note 8. Interest Expense

Interest expense, net of amounts capitalized, on long-term debt was $61,265,000 in 1978 and $40,607,000 in 1977. The expensing of interest commenced in June 1978 for the Guatemalan project and in August 1978 for Stage I of the Indonesian project; such interest expense totalled $11,617,000 in 1978. All interest incurred in connection with Stage II borrowings of the Indonesian project was capitalized through December 31, 1978. Interest capitalized in 1978 totalled $45,988,000 and in 1977 totalled $41,081,000.

Note 9. Income and Mining Taxes

The provisions for income and mining taxes were as follows:

Year ended December 31	1978	1977
	(in thousands)	
Future deferred	$29,900	$16,600
Current deferred	5,200	3,000
Total deferred taxes	35,100	19,600
Current taxes	51,970	55,894
	$87,070	$75,494
Canada	$58,284	$43,887
Other (principally United States and United Kingdom)	28,786	31,607
	$87,070	$75,494

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

Year ended December 31	1978	1977
	Percentage of pretax earnings	
Combined Canadian federal-provincial statutory income tax rate	49.2%	48.5%
Resource and depletion allowances	(16.1)	(15.6)
Adjusted income tax rate	33.1	32.9
Mining taxes	18.0	10.3
	51.1	43.2
Currency translations	11.1	5.6
Losses of nickel projects in Guatemala and Indonesia	4.0	—
Prior years' tax issues	(6.9)	(.1)
Investment tax credits	(4.0)	(3.9)
Inventory allowance	(3.5)	(2.3)
Statutory exemptions	(3.1)	(.7)
Other	4.1	1.3
Effective income and mining tax rate	52.8%	43.1%

Income subject to mining tax in Ontario was greatly reduced in 1978 by the costs and expenses attributable to the Sudbury strike. The increase in the effective income and mining tax rate relative to mining taxes is therefore largely due to a greater proportion of income in 1978 being subjected to the higher mining tax rates that prevail in Manitoba. Additionally, the increase in the effective tax rate reflects a larger amount of taxable exchange gains in 1978 compared with 1977. Such exchange gains do not enter into the determination of pretax earnings as expressed in U.S. dollars. During 1978, the Company began to expense interest and general and administrative expenses relative to the Guatemalan project and Stage I of the Indonesian project. No tax benefit was recognized on these losses, although such losses can be carried forward to offset taxable income in future periods. The effect of these increases was partially reduced by the favorable settlement of tax issues relating to prior years.

The cumulative tax effect of timing differences relating to items of a non-current nature is shown separately as deferred income and mining taxes of $417,100,000 in the Consolidated Balance Sheet. The cumulative tax effect of timing differences relating to items of a current nature of $31,700,000 is included in the current liability for income and mining taxes payable.

Note 10. Stock Option Plan

The Key Employees Incentive Plan, ratified by shareholders in 1968, authorized the granting of options to purchase up to 1,000,000 common shares at prices not less than 100% of their market value, determined in accordance with the Plan, on the day the option is granted. The Plan provides that no shares subject to option shall be purchasable prior to the expiration of one year after the date of grant nor after a period not exceeding ten years from the date of grant. With respect to stock options, the Plan was terminated in 1978 except as to options then outstanding, and no further options may be granted thereunder.

Directors who are not officers of the Company are not entitled to participate in the Plan. Changes during the year 1978 in options outstanding are summarized as follows:

	Number of Shares
Outstanding at December 31, 1977	602,985
Options granted at an average price of $15.94 a share (97,600 shares for officers)	392,700
Expired	(38,616)
Outstanding at December 31, 1978 (297,500 shares for officers)	957,069

The average option price per share of the options outstanding at December 31, 1978 was $26.74 (range $15.57 — $45.88).

Note 11. Preferred and Common Shares

Authorized preferred shares of the Company totalled 29,925,000 shares at December 31, 1978.

In May 1977, the Company sold 10 million Series A Preferred Shares for an aggregate of $250 million (Cdn.). The Series A Preferred Shares, which do not have general voting rights, have a cumulative floating rate dividend equal to half of the Canadian bank prime rate plus 1¼ per cent. The shares are redeemable at the option of the Company commencing in March, 1980 at a premium of three per cent over their $25.00 (Cdn.) par value, such premium declining thereafter by ¾ of one per cent per annum, and are redeemable at par commencing in 1984. The shares are retractable at par, at the option of the holders, in 1987. The dividends of $12,272,000 paid in 1978 on these preferred shares reflected an average annual dividend rate of approximately 5.6 per cent compared with a dividend rate of 5.5 per cent applicable to dividends of $7,535,000 paid in 1977.

In December 1977, the Company sold five million 7.85% Series B Preferred Shares for an aggregate of $125 million (Cdn.). The Series B Preferred Shares have general voting rights and are not redeemable before December, 1982, after which they are redeemable at a premium of four per cent over their $25.00 (Cdn.) par value, such premium declining by ⅘ of one per cent per annum until December 1987, and redeemable at par thereafter. The Company is required to repurchase 150,000 Series B Preferred Shares annually, commencing in July 1978, if such shares are available at a price not greater than par value; such purchases totalled 75,000 shares in 1978.

Authorized common shares of the Company totalled 100,000,000 shares at December 31, 1978. Effective January 1, 1979, the Company reclassified all of its outstanding Class A and Class B Common Shares as a single class of Common Shares.

Series B Preferred shareholders have the right to elect to receive Series B Preferred or Common Shares in lieu of cash dividends. In 1978, 3,515 Series B Preferred and 4,270 Common Shares were issued as stock dividends in lieu of cash dividends. Under the Inco Optional Stock Dividend Program, adopted in December 1978, Common shareholders may elect to receive, in lieu of cash dividends, Common Shares.

Note 12. Anti-Inflation Program

The Canadian government's anti-inflation program, effective October 14, 1975 to December 31, 1978, provided restraints on prices, profits, compensation and dividends. The Company believes that it has been in compliance with the program.

Note 13. Quarterly Financial Information (Unaudited)

Quarterly financial information follows (in thousands, except per share amounts):

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
1978:					
Net sales	$517,132	$538,898	$487,914	$539,150	$2,083,094
Currency translation adjustments	$ 10,895	$ (4,227)	$ 10,702	$ (2,414)	$ 14,956
Earnings before income and mining taxes	$ 60,773	$ 55,004	$ 32,355(1)	$ 16,747(1)	$ 164,879
Net earnings	$ 34,906	$ 23,028	$ 9,780	$ 10,095(2)	$ 77,809
Net earnings per common share	$.40	$.24	$.06	$.07	$.77
Dividends per common share	$.20	$.20	$.20	$.10	$.70
1977:					
Net sales	$450,923	$516,503	$452,285	$533,617	$1,953,328
Currency translation adjustments	$ 16,401	$ (818)	$ 2,796	$ (783)	$ 17,596
Earnings before income and mining taxes	$ 67,655	$ 65,954	$ 30,916	$ 10,828(3)	$ 175,353
Net earnings	$ 41,009	$ 32,607	$ 21,615	$ 4,628	$ 99,859
Net earnings per common share	$.55	$.42	$.25	$.02	$1.24
Dividends per common share	$.35	$.35	$.35	$.20	$1.25

(1) After provision of $18,670,000 for abnormal start-up costs and strike expenses in the third quarter, and $42,790,000 of strike expenses in the fourth quarter, attributable to the Sudbury strike which began on September 16 and continued into 1979.

(2) Fourth quarter 1978 net earnings include $8,740,000 relating to the favorable settlement of prior years' tax issues and $6,620,000 relating to gains on sales of securities.

(3) After provisions totalling $18,530,000 for employee severance costs at various locations and expenses of closing an industrial battery plant.

(4) As discussed in Note 1 of the Explanatory Financial Section, the Company will, in 1979, be required to exclude certain elements of currency translation adjustments from the determination of net earnings. Consequently, when earnings for future periods are reported, the earnings of prior periods will be restated for purposes of consistency.

Note 14. Replacement Cost Information (Unaudited)

Quantified replacement cost data will be disclosed in the Company's 1978 Annual Report on Form 10-K to be filed with the Securities and Exchange Commission.

Replacement of productive capacity has generally required a substantially larger investment than the original cost of the assets being replaced, reflecting the cumulative impact of inflation over the generally lengthy period during which the assets were in service.

Historically, the Company has been able to maintain its profit margins on its primary metals and formed metal products. However, in 1975 and 1976, these margins were reduced primarily as a result of escalating production costs coupled with weaker copper prices. In 1977 and 1978, profit margins deteriorated further due to a weakening in nickel prices and steadily increasing unit costs and expenses. Copper prices were generally depressed in these latter two years. While copper prices began to recover in the last quarter of 1978, little benefit accrued to the Company since only small quantities of copper were available for delivery due to the Sudbury strike. Since its acquisition in 1974, ESB Ray-O-Vac has generally maintained or improved the profit margins on its products, except that such profit margins decreased in 1977 and 1978 due primarily to the failure to recover cost increases because of competitive pressures.

Note 15. Financial Data by Business Segment

Financial data by business segment for the years 1978 and 1977 follow (in millions of dollars):

	Primary Metals	Formed Metal Products	Batteries and Related Products	Other	Eliminations	Total
Year 1978:						
Net sales to customers	$ 866	$429	$655	$133	$ –	$2,083
Intersegment sales	135	9	2	1	(147)	–
Total net sales	$1,001	$438	$657	$134	$(147)	$2,083
Operating earnings	$ 172	$ 25	$ 33	$ 3	$ 1	$ 234
Equity in earnings of affiliates	$ (5)		$ 9			4
Currency translation adjustments						15
Interest expense						(76)
General corporate expenses						(33)
General corporate income						21
Earnings before income and mining taxes						$ 165
Capital expenditures	$ 155	$ 13	$ 24	$ 28*	$ –	$ 220
Depreciation and depletion	$ 72	$ 16	$ 16	$ 5	$ –	$ 109
Identifiable assets at Dec. 31, 1978	$2,933**	$542	$480	$116	$ (60)	$4,011
Other assets						135
Total assets at December 31, 1978						$4,146
Year 1977 – Restated:						
Net sales to customers	$ 869	$377	$585	$122	$ –	$1,953
Intersegment sales	112	13	2	1	(128)	–
Total net sales	$ 981	$390	$587	$123	$(128)	$1,953
Operating earnings	$ 189	$ 26	$ 15	$ 7	$ 5	$ 242
Equity in earnings of affiliates	$ (6)		$ 7			1
Currency translation adjustments						18
Interest expense						(66)
General corporate expenses						(36)
General corporate income						16
Earnings before income and mining taxes						$ 175
Capital expenditures	$ 371	$ 27	$ 28	$ 7	$ –	$ 433
Depreciation and depletion	$ 84	$ 13	$ 17	$ 3	$ –	$ 117
Identifiable assets at Dec. 31, 1977	$2,985	$506	$456	$ 94	$(33)	$4,008
Other assets						68
Total assets at December 31, 1977						$4,076

* Includes $23 relating to the Company's metals reclamation facility in the United States.
** Includes assets relating to the Company's nickel projects in Indonesia and Guatemala of $869 and $249, respectively.

Financial data by geographic area for the years 1978 and 1977 follow (in millions of dollars):

	Canada	United States	Europe	Other	Eliminations	Total
Year 1978:						
Net sales to customers	$ 214	$1,107	$610	$ 152	$ –	$2,083
Sales between geographic areas	842	45	10	4	(901)	–
Total net sales	$1,056	$1,152	$620	$ 156	$(901)	$2,083
Operating earnings	$ 156	$ 44	$ 27	$ 19	$ (12)	$ 234
Equity in earnings of affiliates						4
Currency translation adjustments						15
Interest expense						(76)
General corporate expenses						(33)
General corporate income						21
Earnings before income and mining taxes						$ 165
Identifiable assets at Dec. 31, 1978	$1,766	$ 855	$394	$1,247**	$(251)	$4,011
Other assets						135
Total assets at December 31, 1978						$4,146
Year 1977 – Restated:						
Net sales to customers	$ 234	$1,011	$567	$141	$ –	$1,953
Sales between geographic areas	725	44	8	4	(781)	–
Total net sales	$ 959	$1,055	$575	$145	$(781)	$1,953
Operating earnings	$ 151	$ 37	$ 28	$ 9	$ 17	$ 242
Equity in earnings of affiliates						1
Currency translation adjustments						18
Interest expense						(66)
General corporate expenses						(36)
General corporate income						16
Earnings before income and mining taxes						$ 175
Identifiable assets at Dec. 31, 1977	$1,954	$ 771	$373	$1,116	$(206)	$4,008
Other assets						68
Total assets at December 31, 1977						$4,076

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

The Company's intersegment sales generally are made at approximate prices used for sales to unaffiliated customers. The elimination of $1 (1977 – $5) operating earnings represents mainly the net change in intersegment operating profit in beginning and ending inventories; the elimination of $60 (1977 – $33) identifiable assets, by industry, represents mainly operating profit in inventories and intersegment trade receivables at year end. Other assets include $60 (1977 — $51) of investments in and advances to affiliated companies and $75 (1977 — $17) of corporate assets, principally cash, marketable securities and certain fixed assets.

Sales between geographic areas generally are made at prevailing market prices, except that sales of primary metals from Canada to other primary metals locations are net of discounts. In 1978 sales to customers include $46 (1977 — $50) exported from Canada and $49 (1977 — $40) exported from the United States. The sales from Canada include $425 (1977 — $341) exported to the United States and $389 (1977 — $360) exported to Europe. The elimination of $251 (1977 — $206) of assets identifiable by geographic area consists mainly of intercompany trade receivables.

End of Explanatory Financial Section

Lines of Business Data

The Company's sales and earnings before income and mining taxes, by lines of business, for the years 1974 to 1976 are shown below. In these years, the metals business comprised both primary metals and formed metal products. Additionally, the business segment financial data presented on page 30 reports operating earnings, while the table below reports earnings before income and mining taxes. Primarily for these reasons the business segment financial data are not comparable with the lines of business data set forth below.

($ millions)	1976	1975	1974
Sales			
Metals	$1,442	$1,198	$1,451
Batteries and related products	486	413	196*
Other products **	112	84	38*
Net sales	$2,040	$1,695	$1,685
Earnings before taxes			
Metals	$ 309	$ 305	$ 540
Batteries and related products	37	18	7*
Other **	1	(1)	—*
Earnings before income and mining taxes	$ 347	$ 322	$ 547

* Consists of ESB Ray-O-Vac's sales and contribution to earnings before income and mining taxes since its acquisition effective August 1, 1974.
** Comprises ESB Ray-O-Vac's non-battery operations.

Sales by Principal Products

($ millions)	1978	1977	1976	1975	1974
Primary Metals					
Primary nickel	$ 615	$ 558	$ 762	$ 569	$ 756
Refined copper	135	211	227	194	318
Precious metals	81	63	57	44	59
Other metals	35	37	31	21	20
	866	869	1,077	828	1,153
Formed Metal Products	429	377	365	370	298
Metals business			1,442	1,198	1,451
Batteries and Related Products					
Automotive and electric vehicle batteries and related products	282	262	207	169	87
Dry-cell batteries and portable lighting devices	246	214	204	174	77
Other products	127	109	75	70	32
	655	585	486	413	196
Other Products	133	122	112	84	38
Net sales	$2,083	$1,953	$2,040	$1,695	$1,685

Pension Trust Funds

The Company and its subsidiaries have several pension plans covering most employees. Irrevocable pension trust funds, which are separate and distinct from the accounts of the Company and its subsidiaries, have been established to implement most of these pension plans. The funds consist of marketable securities at cost, cash and other assets. Trust fund operations are summarized as follows:

Year ended December 31	1978	1977
	(in thousands)	
Balance in funds at beginning of year	$412,803	$381,389
Company contributions	44,122	44,392
Employee contributions	389	317
Income from investments	47,380	31,151
Currency translation adjustments*	(16,716)	(14,928)
	487,978	442,321
Benefits paid	34,497	29,518
Balance in funds at end of year	$453,481	$412,803
Market value of funds at end of year	$506,100	$455,100

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

Market Price Range for Common and Series B Preferred Shares

Year ended December 31	1978	1977
New York Stock Exchange	Common Shares	
(Composite Transactions)		
First quarter	$17⅝–13⅜	$34 –29⅝
Second quarter	19 –15½	31¾–25⅞
Third quarter	18 –15¼	26⅝–19¼
Fourth quarter	19⅝–14⅝	20 –14¾
Toronto Stock Exchange		
(Canadian dollars)		
First quarter	$19¼–15¼	$34⅝–31½
Second quarter	21¼–17⅝	33½–27¼
Third quarter	21 –17	28¼–20¾
Fourth quarter	23⅛–17¼	21⅝–16¼
	Series B Preferred Shares	
First quarter	$24¾–24⅛	
Second quarter	25⅜–24	
Third quarter	25½–24¼	
Fourth quarter	25¼–24¼	

Board of Directors

The Board of Directors of Inco Limited consists of 21 members of whom six are Officers of the Company. Each year 15 meetings are scheduled to be held and special meetings may also be called from time to time.

In recent years, the Board has adopted the practice of holding one of its meetings at one of the Company's operational sites. For example, on September 6, 1978 the Board met in Madison, Wisconsin, at which battery producing facilities of ESB Ray-O-Vac Corporation are located. During the visit, the Board also inspected two ESB plants at the nearby Portage location and also toured the Engineering and Development Center in Madison.

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

The Executive Committee, which held nine meetings during 1978, consists of the Chairman, the President and five non-employee Directors. During intervals between meetings of the Board, the Executive Committee, with certain exceptions, has all the powers vested in the Board.

The Audit Committee, which held four meetings during 1978, consists of five non-employee Directors. This committee meets with the Company's financial management personnel and its independent auditors at least four times a year to review financial reporting matters, internal accounting controls and procedures, planned scope of examinations by both internal auditors and independent auditors, and their findings and recommendations. It also recommends to the Board the independent auditors to be proposed to the Shareholders for appointment at the Annual Meeting.

The Nominating Committee, which consists of the same Directors who comprise the Executive Committee, has the function of recommending to the Board nominees for election as Directors.

The Salary and Incentive Plan Committee, which held eight meetings during 1978, consists of five non-employee Directors. This committee advises and consults with the Chairman and reports and makes recommendations to the Board on the remuneration of senior executives of the Company. The committee also makes recommendations to the Board with respect to incentive compensation plans and has administered and made recommendations for awards under the 1968 Key Employees Incentive Plan of the Company. This committee will perform similar functions with respect to the proposed 1979 Key Employees Incentive Plan, if such plan is approved by the shareholders.

The Pension Committee, which held two meetings in 1978, consists of five non-employee Directors. It advises the Board, the Executive Committee, the Chairman, the President and other Executive Officers regarding the financial aspects of the pension programs of the Company and its subsidiaries, including actuarial assumptions and adequacy of funding and the implementation of sound investment of pension funds. In addition, this committee recommends to the Board or the Executive Committee the appointment of Trustees and Investment Advisers or Managers.

Inco Limited

Directors

(Term expires 1979)

Charles F. Baird
President

David W. Barr
Chairman of the Board, Moore Corporation Limited, Toronto (business forms)

Robert W. Bonner, Q.C.
Chairman of the British Columbia Hydro & Power Authority

Wm. Ward Foshay
Lawyer — Partner in the firm of Sullivan & Cromwell, New York

Reva Gerstein, C.M.
Psychologist and educator

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

John McCreedy
Chairman and Chief Executive Officer, Inco Metals Company

William Steven
Senior Vice-President

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

Samuel H. Woolley
Former Chairman of the Board, The Bank of New York, New York

(Term expires 1980)

Harold Bridges
Former President and Chief Executive Officer Shell Oil Company, Houston, Texas

J. Edwin Carter
Chairman and Chief Executive Officer

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

Albert P. Gagnebin
Former Chairman of the Board

J. Peter Gordon
Chairman of the Board and Chief Executive Officer The Steel Company of Canada, Limited, Toronto

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

Ian McDougall
Senior Vice-President

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

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

Lucien G. Rolland
President, Rolland Paper Company, Limited, Montreal

Ashby McC. Sutherland
Senior Vice-President

Executive committee
J. Edwin Carter, Chairman
Charles F. Baird
David W. Barr
Wm. Ward Foshay
G. Arnold Hart, M.B.E.
Allen T. Lambert, O.C.
Donald G. Willmot

Audit committee
Samuel H. Woolley, Chairman
Robert W. Bonner, Q.C.
Albert P. Gagnebin
J. Peter Gordon
Lucien G. Rolland

Nominating committee
J. Edwin Carter, Chairman
Charles F. Baird
David W. Barr
Wm. Ward Foshay
G. Arnold Hart, M.B.E.
Allen T. Lambert, O.C.
Donald G. Willmot

Salary and Incentive Plan committee
G. Arnold Hart, M.B.E., Chairman
David W. Barr
Wm. Ward Foshay
Allen T. Lambert, O.C.
Donald G. Willmot

Pension committee
Peter D. Curry, Chairman
Harold Bridges
Reva Gerstein, C.M.
The Rt. Hon. Lord Nelson of Stafford
George T. Richardson

Officers

Inco Limited

J. Edwin Carter, Chairman and Chief Executive Officer

Charles F. Baird, President

Ian McDougall, Senior Vice-President

William Steven, Senior Vice-President

Ashby McC. Sutherland, Senior Vice-President

Frank C. Burnet, Vice-President

Raymond F. Decker, Vice-President

Robert T. deGavre, Treasurer

Philip C. Jessup, Jr., Vice-President, General Counsel & Secretary

Dean D. Ramstad, Vice-President

Anthony J. Sabatino, Comptroller

Alfred P. Statham, Vice-President

J. Stuart Warner, Vice-President

Shane MacKay, Regional Vice-President

Principal regional subsidiaries or operating unit

John H. Page, President
Inco United States, Inc., New York

Anthony T. Shadforth, Chairman
Inco Europe Limited, London, England

Dean D. Ramstad, General Manager
Inco Limited, Japan Branch, Tokyo

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

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

Transfer agents for the Common Shares
Canada Permanent Trust Company, Toronto, Ontario and Calgary, Alberta
The Royal Trust Company, Montreal, Quebec
Morgan Guaranty Trust Company of New York, New York, N.Y.
The Royal Trust Company of Canada, London, England

Registrars for the Common Shares
Montreal Trust Company, Toronto, Ontario; Montreal, Quebec; and Calgary, Alberta
Morgan Guaranty Trust Company of New York, New York, N.Y.
Lloyds Bank Limited, London, England

Transfer agent and registrar for the 7.85% Preferred Shares Series B
Canada Permanent Trust Company, Toronto, Ontario; Montreal, Quebec; Calgary, Alberta; and Winnipeg, Manitoba

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

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

Principal subsidiaries and operating units

Inco Metals Company
1 First Canadian Place, Toronto, Ontario M5X 1C4

The International Nickel Company, Inc.
One New York Plaza, New York, N.Y. 10004, U.S.A.

Inco Europe Limited
Thames House, Millbank, London, SW1P 4QF, England

P.T. International Nickel Indonesia
Jalan Melawai V1/8, Kebayoran Baru, Jakarta, Indonesia

Exmibal
Edificio Valenzuela, 14 Calle 6-12, Zona 1, Guatemala City, Guatemala

ESB Ray-O-Vac Corporation
5 Penn Center Plaza, Philadelphia, Pa. 19103, U.S.A.

Ray-O-Vac Company
101 East Washington Avenue
Madison, Wisconsin 53703, U.S.A.

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

Systems and Electronics Company
5 Penn Center Plaza, Philadelphia, Pa. 19103, U.S.A.

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

Safety Group
3 Penn Center Plaza, Philadelphia, Pa. 19103, U.S.A.

Formed Metal Products Group
One New York Plaza, New York, N.Y. 10004, U.S.A.

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

Henry Wiggin & Company Limited
Holmer Road, Hereford, HR4 9SL, England

Daniel Doncaster & Sons Limited
Birley House, Wadsley Bridge, Sheffield, S6 1ET, England

Canadian Alloys Division
Industrial Park, Lively, Ontario P0M 2E0

Daido Special Alloys, Ltd.
Daido Building, 13-7, 1 Chome, Nishi-Shinbashi, Minato-ku, Tokyo, Japan

Regional subsidiaries or operating unit

Inco United States, Inc.
One New York Plaza, New York, N.Y. 10004, U.S.A.

Inco Europe Limited
Thames House, Millbank, London SW1P 4QF, England

Inco Limited, Japan Branch
Shin-Muromachi Building 3F
4-7, Nihonbashi Muromachi 2-chome
Chuo-ku, Tokyo 103, Japan

Other subsidiaries include

Canada
Canadian Nickel Company Limited, Toronto
International Sales Limited, Toronto

United States
The International Metals Reclamation Company, Inc., Ellwood City, Pennsylvania
Pittsburgh Pacific Processing Co., Pittsburgh, Pennsylvania
American Copper & Nickel Company, Inc., New York, N.Y.

Europe
International Nickel B.V., The Hague
International Nickel Deutschland G.m.b.H., Düsseldorf
International Nickel France S.A., Paris
International Nickel Iberica Limited, Madrid
International Nickel Italia Srl, Milan
International Nickel Océanie, S.A., Paris
International Nickel UK Limited, London
Wiggin Alloys S.A., Brussels
Wiggin Alloys G.m.b.H., Düsseldorf

South America
International Nickel do Brasil Comercial Ltda., Sao Paulo
Mineração Serras do Sul Ltda., Rio de Janeiro

Asia
International Nickel Japan Ltd., Tokyo
Inco East Asia Ltd., Tokyo

Australia
International Nickel Australia Limited, Melbourne

Printed in Canada

Principal Executive Offices
1 First Canadian Place, Toronto, Ontario M5X 1C4
Other Executive Offices
One New York Plaza, New York, N.Y. 10004, U.S.A.

Printed in Canada

Second Quarter Report 1978

INCO LIMITED

To the Shareholders:

The Company's earnings for the second quarter of 1978 were $23 million, or 24 cents a common share, compared with earnings of $32.6 million, or 42 cents a share, for the second quarter of 1977. Earnings for the first six months of 1978 were $57.9 million, or 64 cents a common share, compared with earnings of $73.6 million, or 97 cents a share, in the corresponding period of 1977. Earnings per share are after allowances for preferred dividends which totalled $9.9 million in the first half of 1978 and $1.2 million in the first half of 1977.

Net sales for the second quarter totalled $539 million, compared with $517 million for the second quarter of 1977. Sales for the first six months amounted to $1,056 million, compared with $967 million for the corresponding period last year. Sales by ESB Ray-O-Vac accounted for $367 million, or 35 per cent, of the Company's first half 1978 sales and $323 million, or 33 per cent, of first half 1977 sales.

Second quarter and first half earnings, as compared with the same periods last year, were adversely affected principally by lower nickel and copper prices and by currency translation adjustments, partially offset by higher deliveries of primary nickel and improved prices for platinum-group metals. Currency translation adjustments reduced second quarter earnings by $4.2 million in 1978 and $.8 million in 1977, and increased first half earnings by $6.7 million in 1978 and $15.6 million in 1977.

In the first six months, deliveries of nickel in all forms amounted to 195 million pounds, compared with 161 million pounds in the same period in 1977 when deliveries were depressed due to accumulation of nickel inventories by customers in the last quarter of 1976. Demand for nickel in the non-communist world gradually increased in the first six months of 1978 and was substantially improved from the second half of 1977 when it was exceptionally low. Average nickel price realizations, although lower than in the corresponding period in 1977, were stable during the first six months of 1978. However, within the last month, competitive prices for Class 2 products were reduced substantially and this is expected to affect the Company's profit margins adversely for the balance of the year.

Nickel production during the first six months of 1978 was 17 per cent lower than in the corresponding period in 1977. Finished nickel inventories at June 30 were 331 million pounds, a reduction of 10 million pounds from the level reported at March 31, 1978. Further reductions are expected to be achieved in the second half of the year and particularly when production is affected by summer shutdowns at the Company's Ontario and Manitoba Divisions. On July 17, a six-week shutdown began at the Sudbury and Port Colborne operations, a two-week shutdown began at the Manitoba Division and a four-week shutdown began at the Shebandowan, Ontario, operations.

Copper deliveries totalled 159 million pounds in the first six months, compared with 173 million pounds in the first half of last year. The Company's realized price for copper in the first half of 1978 was 11 per cent lower than in the comparable period of last year.

All costs incurred in the development of the Guatemalan and Indonesian projects were capitalized through May 31, 1978. Expensing of interest and general and administrative expenses commenced in June for the Guatemalan project and will commence in August for Stage I of the Indonesian project, with the completion of pre-operational testing of the projects' facilities. Such charges to this year's earnings will approximate $5 million for the Guatemalan project and $10 million for the Indonesian project. All costs incurred in connection with Stage II of the Indonesian project, including interest on Stage II borrowings, will continue to be capitalized for the remainder of 1978. A planned four-month shutdown commenced at the Guatemalan plant in late May during which time necessary technical and mechanical modifications will be made.

Negotiations with the United Steelworkers of America on collective agreements covering hourly-paid employees at the Company's Sudbury and Port Colborne, Ontario, operations continued past the July 10 expiration date of the old contracts. Discussions, which were adjourned July 14, will be resumed August 9. The parties have

INCO LIMITED AND SUBSIDIARIES

Consolidated Financial Statements - June 30, 1978

(In Thousands of Dollars)

Statement of Earnings

	Second Quarter 1978	Second Quarter 1977	Six Months 1978	Six Months 1977
Net sales	$538,898	$516,503	$1,056,030	$967,426
Other income	5,652	9,142	9,183	15,171
	544,550	525,645	1,065,213	982,597
Costs	378,585	350,162	744,118	653,994
Selling, general and administrative expenses	48,116	49,252	95,676	92,567
Depreciation and depletion	27,902	28,927	56,008	56,902
Interest, net of amounts capitalized	16,669	16,508	32,555	33,263
Pension expense	14,047	14,024	27,747	27,845
Currency translation adjustments	4,227	818	(6,668)	(15,583)
	489,546	459,691	949,436	848,988
Earnings before income and mining taxes	55,004	65,954	115,777	133,609
Income and mining taxes	31,976	33,347	57,843	59,993
Net earnings	$ 23,028	$ 32,607	$ 57,934	$ 73,616
Net earnings per common share	$0.24	$0.42	$0.64	$0.97
Common shares outstanding at end of period	74,594,742	74,593,755	74,594,742	74,593,755

Balance Sheet

	June 30, 1978	Dec. 31, 1977
Cash and securities	$ 33,112	$ 43,025
Accounts receivable	383,164	381,657
Inventories	1,123,787	1,080,715
Prepaid expenses	19,501	12,697
Total current assets	1,559,564	1,518,094
Property, plant and equipment–net	2,498,959	2,436,741
Cost in excess of net assets acquired	34,342	35,891
Other assets	94,738	85,038
	$4,187,603	$4,075,764

	June 30, 1978	Dec. 31, 1977
Notes payable	$ 123,302	$ 295,870
Accounts payable	345,441	328,047
Current taxes payable	94,564	67,961
Total current liabilities	563,307	691,878
Long-term debt	1,220,858	1,019,688
Deferred taxes	403,000	387,200
Other liabilities	67,401	62,169
Preferred shares	353,272	353,250
Common shares	97,035	97,018
Retained earnings and capital surplus	1,482,730	1,464,561
	$4,187,603	$4,075,764

Statement of Changes in Financial Position

	Six Months	
Financial resources were provided by	1978	1977
Net earnings	$ 57,934	$ 73,616
Depreciation and depletion	56,008	56,902
Deferred income and mining taxes	15,800	7,700
Net proceeds from sale of preferred shares	—	238,293
Long-term borrowings–net	205,830	69,106
Currency translation adjustments not affecting working capital	(4,868)	(11,043)
Other–net	1,045	10,144
Total	331,749	444,718
Financial resources were used for		
Preferred dividends	9,928	1,163
Common dividends	29,837	52,214
Capital expenditures	121,943	205,898
Total	161,708	259,275
Increase in working capital	$170,041	$185,443

These statements are expressed in United States currency and are unaudited.

agreed to maintain the hourly rates, benefit programs and cost-of-living payment of 79 cents an hour, provided under the previous collective agreements, during the current summer shutdown.

The Board of Directors today declared a quarterly dividend of 20 cents (U.S.) a common share, payable September 1 to Class A and Class B shareholders of record on August 3. This compares with a dividend of 35 cents (U.S.) a share in the third quarter of 1977 and dividends of 20 cents (U.S.) a share in each of the past three quarters. The dividend on the Class B Common Shares was declared payable out of "1971 capital surplus on hand" as defined in the Income Tax Act of Canada. The Board of Directors also declared a quarterly dividend at an annual rate of 5.725 per cent on the Company's Series A Preferred Shares, payable September 1 to shareholders of record on August 22, and a quarterly dividend on the Company's 7.85% Series B Preferred Shares, payable September 1 to shareholders of record on August 3.

J. Edwin Carter

Chairman and Chief Executive Officer

Charles F. Baird

July 20, 1978

President

Inco

Notice of Annual and Special General Meeting of Shareholders April 19, 1978

Information Circular and Proxy Statement

INCO LIMITED

To be held at 11:00 a.m.
Wednesday, April 19, 1978
Ballroom, Convention Floor, Royal York Hotel
Toronto, Ontario

INCO

Notice of Meeting

NOTICE IS HEREBY GIVEN that a combined Annual and Special General Meeting of Shareholders of INCO LIMITED will be held in the Ballroom, Convention Floor, Royal York Hotel, Toronto, Ontario, on Wednesday, April 19, 1978, at the hour of eleven o'clock in the morning, for the purposes of:

(a) receiving the report of the Directors and financial statements for 1977;

(b) electing Directors for the term expiring in 1980;

(c) considering and, if thought fit, approving By-law X of the Company, enacted by the Board of Directors on February 6, 1978 and amended on February 16, 1978, authorizing the alteration of the share capital of the Company, as described in the accompanying Information Circular and Proxy Statement, by:

(i) reclassifying the Class A Common Shares and Class B Common Shares as a single class of Common Shares and

(ii) providing that the Board of Directors may determine, with respect to any cash dividend declared on the Common Shares, or the Class A Common Shares and Class B Common Shares, as the case may be, that Shareholders may elect to receive such dividend as a stock dividend in the form of Common Shares, or Class A Common Shares or Class B Common Shares, as the case may be;

(d) appointing Auditors of the Company; and

(e) transacting such other business as may properly be brought before the meeting.

Only holders of record at the close of business on March 20, 1978 of Class A Common Shares, Class B Common Shares or 7.85% Preferred Shares Series B will be entitled to notice of and to vote at the meeting or adjournments thereof.

If you cannot be personally present, **please sign, date and return the accompanying separate form of proxy** to the Company in the enclosed envelope, postage prepaid.

By Order of the Board of Directors,
Donald C. McGavin
Secretary.

Dated: March 3, 1978.

February 16, 1978

Information Circular and Proxy Statement

This Information Circular and Proxy Statement is furnished in connection with **the solicitation by the Management of INCO LIMITED of proxies** to be used at the combined Annual and Special General Meeting of Shareholders of the Company, to be held on Wednesday, April 19, 1978, in the Ballroom, Convention Floor, Royal York Hotel, Toronto, Ontario, for the purposes set forth in the foregoing Notice of Meeting. This Information Circular and Proxy Statement and a form of proxy will be mailed to Shareholders of record entitled to vote at the meeting commencing March 3, 1978. The Company has its principal executive office at 1 First Canadian Place, Toronto, Ontario M5X 1C4 and also an executive office at One New York Plaza, New York, New York 10004.

If the accompanying separate form of proxy is executed and returned, the proxy may nevertheless be revoked pursuant to subsection 108.2(5) of the Canada Corporations Act by an instrument in writing executed by the Shareholder or his attorney authorized in writing or, if the Shareholder is a corporation, executed by the Shareholder under its corporate seal or by an officer or attorney thereof duly authorized. Any such instrument revoking a proxy must either be deposited at the Company's head office or at one of its executive offices no later than the close of business on the last business day prior to the date of the meeting or any adjournment thereof, or be deposited with the chairman of the meeting on the date of the meeting or any adjournment thereof. If the instrument of revocation is deposited with the chairman on the date of the meeting or any adjournment thereof, the instrument will not be effective with respect to any matter on which a vote has already been cast pursuant to the proxy.

Only holders of record at the close of business on March 20, 1978 of Class A Common Shares ("Class A Shares"), Class B Common Shares ("Class B Shares") or 7.85% Preferred Shares Series B ("Series B Preferred Shares") will be entitled to vote at the meeting or adjournments thereof. Each of such shares carries one vote. As of February 16, 1978, a total of 40,246,953 Class A Shares, 34,346,702 Class B Shares and 5,000,000 Series B Preferred Shares were outstanding.

All dollar amounts in this Information Circular and Proxy Statement are stated in United States dollars, unless otherwise indicated.

Respecting the Election of Directors

At the meeting 11 Directors are to be elected, each to hold office for the term expiring at the Annual Meeting in 1980. Unless the Shareholder signing the accompanying form of proxy specifies that the proxy be withheld from voting on the election of Directors, the persons named in the form of proxy intend to vote the proxy for the election of the following persons, all of whom are Directors whose terms of office expire at the meeting: Harold Bridges, J. Edwin Carter, Peter D. Curry, Albert P. Gagnebin, J. Peter Gordon, Allen T. Lambert, Ian McDougall, The Rt. Hon. Lord Nelson of Stafford, George T. Richardson, Lucien G. Rolland and Ashby McC. Sutherland.

The terms of office of the 10 Directors who are not nominees for election expire at the Annual Meeting in 1979.

The Management does not contemplate that any nominee will be unable to serve as a Director for any reason. However, should this be the case, the persons named in the accompanying form of proxy reserve the right to vote for another person of their choice in his place (unless the Shareholder signing the form of proxy has specified that the proxy be withheld from voting on the election of Directors).

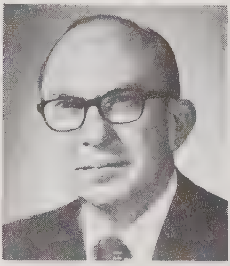
The information shown as to the shares of the Company beneficially owned by Directors is as of February 16, 1978, and, not being within the knowledge of the Company, has been furnished by the respective Directors individually. It does not include shares beneficially owned by wives and other members of the families of Directors as follows: Mr. Carter—573 common shares; Mr. Lambert—65 common shares; and Mr. Sutherland—26 common shares.

Nominees for Election

Harold Bridges
Director since
February 7, 1978

Mr. Bridges retired as President, Chief Executive Officer and Director of Shell Oil Company in 1976. He had been associated with the Royal Dutch/Shell group of companies working in their international operations in many countries since 1937. He became President and Chief Executive Officer of Shell Canada Limited in 1969. In 1970, he moved to the United States and became President and Chief Executive Officer of Shell Oil Company in July, 1971.

Inco shares beneficially owned—100 Class B Common.

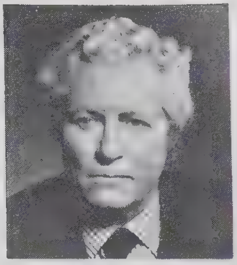


J. Edwin Carter
Director since 1973

Mr. Carter is Chairman and Chief Executive Officer of the Company. He joined Inco in 1937 at the Company's rolling mill division in Huntington, West Virginia, of which he became President in 1971. He became Executive Vice-President of the Company in 1972, President in 1974 and Chairman and Chief Executive Officer effective April 20, 1977. He is Chairman of Inco's Executive Committee.

Inco shares beneficially owned—7,525 Class B Common.

Peter D. Curry
Director since 1970



Mr. Curry is President of Power Corporation of Canada, Limited, an investment, management and transportation company which he joined in 1974. Previously he was and remains Chairman of The Investors Group.

Inco shares beneficially owned—1,501 Class A Common.

Albert P. Gagnebin
Director since 1965

Mr. Gagnebin served as Chairman of the Board of the Company and its Executive Committee from 1972 until his retirement from these positions in 1974. He joined Inco in 1932. He became a Vice-President of the Company in 1960, Executive Vice-President in 1964 and President in 1967.

Inco shares beneficially owned—8,205 Class B Common.

J. Peter Gordon
Director since 1973

Mr. Gordon is Chairman of the Board and Chief Executive Officer of The Steel Company of Canada, Limited. He joined that company in 1946, was elected President in 1971, President and Chief Executive Officer in 1973 and Chairman in April 1976. He is a member of Inco's Audit Committee.

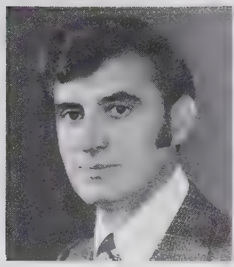
Inco shares beneficially owned—600 Class A Common.

Allen T. Lambert, O.C.
Director since 1964

Mr. Lambert is Chairman of the Board of The Toronto-Dominion Bank. He joined the bank in 1927 and became President in 1960, Chairman of the Board and President in 1961 and was Chairman and Chief Executive Officer from 1972 to May 1977. He is a member of Inco's Executive and Audit Committees.

Inco shares beneficially owned—1,000 Class B Common.

Ian McDougall
Director since
December 5, 1977



Mr. McDougall is a Senior Vice-President of the Company and has corporate responsibility for finance. He joined Inco in 1947. He became Deputy Comptroller of the Company in 1970, Comptroller in 1973 and Senior Vice-President in February 1977.

Inco shares beneficially owned—1,505 Class B Common.

The Rt. Hon.
Lord Nelson of Stafford
Director since 1975

Lord Nelson is Chairman of the Board of The General Electric Company Limited, England. He was Chairman and Chief Executive Officer of the English Electric Company from 1962 to 1968. When that company merged with The General Electric Company Limited in 1968, he became its Chairman. He served as a Director of Inco from February 1966 to January 1974.

Inco shares beneficially owned—124 Class A Common.

George T. Richardson
Director since 1968

Mr. Richardson is President of James Richardson & Sons, Limited, a financial, grain and management holding company. He has been associated with that firm since 1946 and has served as President since 1965. He is Senior Partner of Richardson Securities of Canada.

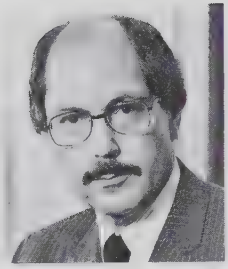
Inco shares beneficially owned—31,500 Class A Common.

Lucien G. Rolland
Director since 1967

Mr. Rolland is President of Rolland Paper Company, Limited. He joined that company in 1942 and became President in 1952. He is a member of Inco's Audit Committee.

Inco shares beneficially owned—250 Class A Common.

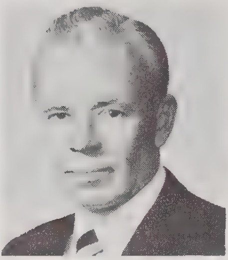
Ashby McC. Sutherland
Director since 1976



Mr. Sutherland is a Senior Vice-President of the Company and has corporate responsibility for the public affairs, employee relations, and legal functions and the Office of the Secretary. He joined Inco in 1953, and was Assistant to the Chairman from 1974 to February 1976 when he became Senior Vice-President. He was a Vice-President of the Company from 1970, Chief Legal Officer from 1972 and Secretary from 1973.

Inco shares beneficially owned—8,575 Class B Common.

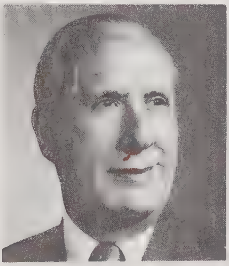
Directors Whose Terms of Office Expire at the Annual Meeting in 1979



Charles F. Baird
Director since 1974

Mr. Baird is President of the Company. Prior to joining Inco in 1969, he was Under Secretary of the United States Navy and previously was with Exxon Corporation for seventeen years. He was Vice-President—Finance of Inco from 1969 to 1972, Senior Vice-President from 1972 to 1975 and Vice-Chairman of the Board from 1976 to April 20, 1977 when he became President. He is a member of Inco's Executive Committee.

Inco shares beneficially owned—2,700 Class B Common.

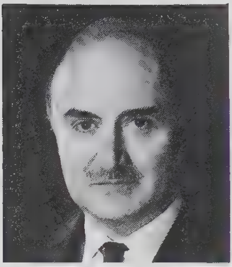


David W. Barr
Director since 1972

Mr. Barr is Chairman of the Board of Moore Corporation Limited. He has been associated with that business forms company since 1929 and became President in 1968 and Chairman in 1976. He is a member of Inco's Executive and Audit Committees.

Inco shares beneficially owned—1,250 Class B Common.

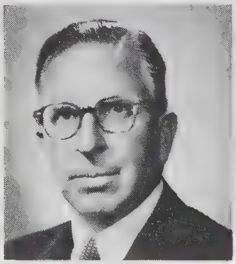
Robert W. Bonner, Q.C.
Director since 1973



Mr. Bonner is Chairman of the British Columbia Hydro and Power Authority. He was Attorney-General of the Province of British Columbia from 1952 to 1968. He subsequently was Chairman of the Board of MacMillan Bloedel Limited, having been associated with that company from 1968 to 1974.

Inco shares beneficially owned—110 Class A Common.

Wm. Ward Foshay
Director since 1971



Mr. Foshay is a partner in the law firm of Sullivan & Cromwell, New York City, with which he has been associated since 1935. He is a member of Inco's Executive Committee.

Inco shares beneficially owned—3,500 Class B Common.

Reva Gerstein, C.M.
Director since 1976

Dr. Gerstein is a psychologist and educator in Toronto. She has been engaged in various advisory activities for business and governmental groups during the past ten years.

Inco shares beneficially owned—100 Class A Common.

G. Arnold Hart, M.B.E.
Director since 1961

Mr. Hart retired as Chairman of the Executive Committee of the Board of Directors of the Bank of Montreal effective April 1, 1977. He joined the bank in 1931, was President from 1959 to 1967, Chief Executive Officer from 1959 to December 1971 and December 1972 to 1974 and was Chairman of the Board from 1964 to December 1975. He is a member of Inco's Executive Committee.

Inco shares beneficially owned—500 Class A Common.

John McCreedy
Director since 1974

Mr. McCreedy is Chairman and Chief Executive Officer of Inco Metals Company, an unincorporated unit of the Company. He joined Inco in 1949. From 1967 to 1970 he was General Manager of the Manitoba Division, and during the period 1970 to 1973 he was General Manager and President of the Ontario Division. He became a Senior Vice-President of the Company in 1973 and became Chairman and Chief Executive Officer of Inco Metals effective April 1977.

Inco shares beneficially owned—5,238 Class B Common.

William Steven
Director since 1974

Dr. Steven is a Senior Vice-President of the Company and has responsibility for corporate development and technology. He joined Inco in 1947. From 1968 until 1972 he was Vice-President—Process Technology and Product Development having formerly been in charge of the Company's Product Research and Development. In 1972 he became Senior Vice-President.

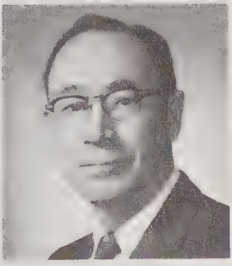
Inco shares beneficially owned—5,075 Class B Common.

Donald G. Willmot
Director since 1973

Mr. Willmot is Chairman of the Board of The Molson Companies Limited, which is engaged in brewing, retailing and diversified manufacturing. Prior to 1968 he was President of Anthes Imperial Limited which merged with Molson Breweries Limited in that year to form Molson Industries Limited. He became President and Chief Executive Officer of Molson's in 1968 and Chairman in 1974. He is a member of Inco's Executive Committee.

Inco shares beneficially owned—2,000 Class B Common.

Samuel H. Woolley
Director since 1965



Mr. Woolley retired as Chairman of the Board of The Bank of New York in 1974. He had been associated with that bank since 1933 and became President in 1961, Chief Executive Officer in 1963 and Chairman in 1968. He is Chairman of Inco's Audit Committee.

Inco shares beneficially owned—200 Class A Common and 300 Class B Common.

Remuneration of Directors and Officers

The direct remuneration paid or payable in respect of 1977 by the Company and its sub-

	Directors' Fees
REMUNERATION OF DIRECTORS[1] (15)	
INCO LIMITED	$209,000
REMUNERATION OF OFFICERS[2] (31)	
INCO LIMITED	—
Subsidiaries of Company	—
TOTAL TO ALL DIRECTORS AND OFFICERS (46)	$209,000
J. Edwin Carter, Chairman and Chief Executive Officer	—
Charles F. Baird, President	—
John McCreedy, Chairman and Chief Executive Officer of Inco Metals Company	—
Kenneth A. DeLonge[3], Ian McDougall, William Steven and Ashby McC. Sutherland, Senior Vice Presidents in the aggregate	—
L. Edward Grubb, Former Director and Chairman and Chief Officer[4]	—

[1] Only Directors who are not Officers.

[2] Includes Director-Officers named in the table. Each of the Officers received direct remuneration in excess of $40,000 (Cdn.).

[3] Retired as Director and Officer effective November 11, 1977.

[4] Retired as Director and Officer effective April 20, 1977.

The remuneration reported in the table above for "Total to All Directors and Officers" does not include $500,000 paid or payable to the firm of Sullivan & Cromwell, of which Mr. Foshay is a member, as fees for legal services rendered in 1977.

sidiaries to Directors and Officers of the Company, while serving as such, was as follows:

NATURE OF 1977 REMUNERATION

Salaries	1977 Incentive Compensation	Total
—	—	$ 209,000
$2,753,000	—	2,753,000
113,000	—	113,000
$2,866,000	—	$3,075,000
$ 276,000	—	
$ 194,000	—	
$ 146,000	—	
$ 447,000	—	
$ 90,000	—	

Key Employees Incentive Plan

For the year 1977 no cash awards to Officers were made under the Company's Key Employees Incentive Plan, and during the period from January 1, 1977 through February 16, 1978 no Officer of the Company was granted any option, incentive unit, share unit or other awards under that Plan. Directors as such are not eligible to receive awards under the Key Employees Incentive Plan.

During the period from January 1, 1977 through February 16, 1978, Directors and Officers, while serving as such, as a group exercised options as set forth in the table below to purchase Class A Shares of the Company previously granted under the Company's Key Employees Incentive Plan, as approved by the Shareholders in 1968.

During the period from January 1, 1977 through February 16, 1978, the only named individual in the table on pages 18 and 19 who exercised an option to purchase shares of the Company was Mr. Carter who purchased 2,000 shares at $27.19 per share or an aggregate purchase price of $54,380. The shares purchased by Mr. Carter had an aggregate market value of $63,000 on the date of purchase and the range of the market price of the shares on the New York Stock Exchange during the 30 days prior to the date of purchase was $33.875—$30.25. This information is included in the table below.

As of February 16, 1978, the number of Class A Shares subject to all unexercised op-

	Number of Shares Purchased
Directors and Officers as a Group	
First Quarter, 1977	2,000
	200
Second Quarter, 1977	225
	2,425

tions under the Key Employees Incentive Plan held by the Directors and Officers as a group was 228,875 shares and the average option price per share was $35.51. As of the same date, the comparable information for the following named individuals was: Mr. Carter—29,500 shares and $33.65; Mr. Baird—17,000 shares and $35.31; Mr. McCreedy—22,250 shares and $39.21; and Messrs. DeLonge, McDougall, Steven and Sutherland as a group—48,600 shares and $35.11.

As of February 16, 1978, incentive units awarded to Officers under the Key Employees Incentive Plan in 1973 were outstanding as follows: Mr. Carter—3,500 units; Mr. Baird—2,400 units; Mr. McCreedy—2,400 units; Messrs. DeLonge, McDougall, Steven and Sutherland as a group—5,500 units; and a total for all Officers as a group—22,950 units. Incentive units become payable five years after the date of grant (subject to forfeiture under certain circumstances). Each unit entitles the recipient to a payment equal to the excess (if any) of the average of the earnings per common share of the Company (after taxes but before any extraordinary items) for the three years preceding the year of payment over the unit's "basis" of $1.83 (being the

Purchase Price per Share	Aggregate Purchase Price of Shares	Aggregate Market Value of Shares on Purchase Date	Range of Market Price of Shares During Quarter
$27.19	$54,380	$63,000	$29.63-$34.88
$25.21	5,042	6,080	
$27.19	6,118	6,652	$25.88-$31.75
	$65,540	$75,732	

average of such earnings per share for the three years preceding the year of grant) multiplied by a factor of twenty.

As of February 16, 1978, share units awarded under the Key Employees Incentive Plan were outstanding as follows: Mr. McCreedy—400 units and Dr. Steven—450 units; and Directors and Officers as a group—4,960 units.

Not included in the remuneration in the table on pages 18 and 19 is $4,500 paid to a former Officer in respect of share units maturing in 1977.

Share units generally become payable five years after the grant of the award (subject to forfeiture under certain circumstances). They are paid either in common shares of the Company or in cash equal to the then market value of such shares, at the election of the Company.

Until payment or forfeiture of incentive units or share units, each recipient is entitled to receive cash payments equal to the amount per share of any cash dividends paid on the Company's common shares multiplied by the number of units remaining credited to the recipient's account on the record date. Such "dividend equivalents" paid in 1977 to Directors and Officers amounted to $37,500 and are not included in the remuneration in the table on pages 18 and 19.

Security Reserve Plans

Not included in the remuneration in the table on pages 18 and 19 is the amount of employer contributions for 1977 under "security reserve" plans of the Company and its subsidiaries as follows: Mr. Carter—$8,000; Mr. Baird—$5,600; Mr. McCreedy—$4,000; Messrs. DeLonge, McDougall, Steven and Sutherland as a group—$12,000; Mr. Grubb —$2,600; and total for Officers of the Company as a group—$74,700. Under these plans, participating employees may elect to contribute from 1% to 6% of base pay with the Company matching 50% of employee contributions, except that, if an employee was participating in a previous plan which was in effect through June 30, 1973, he may continue to elect to contribute 2% of base pay with the Company matching 100% of his contributions. Directors as such are not eligible to participate. These funds are invested by independent trustees and become distributable in whole or as to vested amounts upon retirement, death or other termination of employment, or upon discontinuance of the particular plan. Subject to various conditions, a participating employee may also make withdrawals during employment. Total employer contributions under these "security reserve" plans through 1977 have been as follows: Mr. Carter—$40,600; Mr. Baird—$24,200; Mr. McCreedy—$25,300; Messrs. DeLonge, McDougall, Steven and Sutherland as a group—$82,700; Mr. Grubb—$43,300; and total for Officers as a group—$455,200.

Retirement System

The amount of pension benefits payable under the Company's Retirement System to any particular member employee, including Officers, is dependent, among other factors, upon his years of service and his average final fixed remuneration and upon whether his pension is pursuant to an optional form of payment providing a pension during his life and after his death, either in approximately the same or a lesser amount, for the life of his spouse if his spouse should survive him. There are set forth below the annual service pensions estimated to be payable or being paid under the System to the individuals named, and to all Directors and Officers of the Company (Directors as such not being eligible to participate), in the event of their retirement after reaching age 65, calculated in the case of those who have not yet attained such age on the basis of their remuneration in effect at the end of the year 1977 and giving effect to the optional form of payment, if any, selected:

Individual or Group	Years of Service of Individual at Age 65	Annual Service Pension
J. Edwin Carter	43	$ 129,000
Charles F. Baird	19	$ 70,000
John McCreedy	33	$ 73,000
Messrs. DeLonge, McDougall, Steven and Sutherland as a group*		$ 238,000
L. Edward Grubb*	43	$ 127,000
All Directors and Officers, including those named above		$1,495,000

* Messrs. McDougall, Steven and Sutherland will have 48, 35 and 32 years of service, respectively, at age 65. Mr. Grubb has attained age 65 and has retired as an employee. Mr. DeLonge has retired as an Officer and Director and will attain age 65 early in 1978 after 41 years of service.

The estimated aggregate cost to the Company and its subsidiaries in 1977 of all pension benefits proposed to be paid under the Company's Retirement System to the Officers and Directors as a group upon retirement after reaching age 65 was $259,000.

Directors and Officers Liability Insurance

The Directors and Officers of the Company as a group are insured against certain liabilities pursuant to directors and officers liability insurance policies obtained by the Company. The general effect of these policies is that, if during the policy period any claims are made against Directors or Officers of the Company for a wrongful act (as defined) while acting in their capacities as Directors or Officers, the insurers will pay for loss (as defined) which the Directors or Officers shall become obligated to pay in excess of $10,000 (Cdn.) per occurrence, up to a limit of $20,000,000 (Cdn.) in a policy year.

The amount of premium paid by the Company for 1977 in respect of such group insurance coverage was $90,534 (Cdn.). The entire premium for such insurance was paid by the Company.

Alteration of the Share Capital of the Company—By-Law X

Summary

Amendments made to the Income Tax Act of Canada (the "Income Tax Act") in December, 1977 will terminate the Company's ability to pay "tax-deferred" dividends on the Class B Shares out of "1971 capital surplus on hand" after December 31, 1978. Such amendments also provide tax benefits to certain recipients of stock dividends. As a result and as set forth in more detail below, the Board of Directors considers it to be in the best interests of the Company and its Shareholders to alter the share capital of the Company by (1) reclassifying all outstanding Class A and Class B Shares as one class of Common Shares and (2) permitting the Board of Directors of the Company to determine that the holders of Common Shares (or those resident in Canada and such other jurisdictions as may be specified) may elect to receive any cash dividend declared payable on the Common Shares in the form of a Common Share stock dividend. The changes summarized above are contained in By-law X (appearing on pages 35-39 as Exhibit A) which was enacted by the Board of

Directors of the Company on February 6, 1978 and amended on February 16, 1978.

Reclassification of Class A and Class B Shares as one class of Common Shares

The Class A Shares and Class B Shares of the Company are interconvertible on a share-for-share basis and rank equally in all respects, including parity as to dividends, except that "tax-deferred" dividends may be paid on the Class B Shares out of "1971 capital surplus on hand" (as defined in the Income Tax Act) without the corresponding dividends on the Class A Shares being paid from the same source. To permit the Board of Directors to declare "tax-deferred" dividends to those Shareholders who wished to receive them, in 1974 the authorized capital of the Company was altered to provide for Class A and Class B Shares and since December 2, 1974, all dividends on the Class B Shares have been paid out of "1971 capital surplus on hand", whereas all dividends on the Class A Shares have been paid from regular sources.

The December 1977 amendments to the Income Tax Act provide for elimination of the concept of "1971 capital surplus on hand" effective December 31, 1978. Thus, after that date, the Company will not be permitted to pay "tax-deferred" dividends on its Class B Shares from that source. Accordingly, it appears that, after December 31, 1978, there will be no advantage to the Company and its Shareholders to continue to have two classes of interconvertible shares. By-law X provides for the reclassification, effective January 1, 1979 (or, if the date for elimination of "1971 capital surplus on hand" is extended, the later date), of all the outstanding Class A and Class B Shares, which are without nominal or par value, as a single class of Common Shares without nominal or par value.

Subject to the rights attached to the Company's Preferred Shares which were authorized in 1977, the proposed Common Shares will have the same rights as the Common Shares that were in existence prior to the creation of the Class A and Class B Shares in 1974. As is the case with the Class A and Class B Shares, the proposed Common Shares will rank after the Company's Preferred Shares in respect of the payment of dividends and the distribution of assets of the Company in the event of its liquidation. The Company has authorized 30,000,000 Preferred Shares of which 10,000,000 Floating Rate Preferred Shares Series A and 5,000,000 Series B Preferred Shares are currently outstanding. The holders of the proposed Common Shares will have the same voting rights as are presently enjoyed by the holders of the Class A and Class B Shares, namely, each share carries one vote at all Shareholders' meetings (other than meetings of another class or series) and there are no cumulative voting provisions. The Series B Preferred Shares also carry general voting rights. As is the case with the Class A and Class B Shares, no terms will be attached to the proposed Common Shares providing for their redemption or other retirement nor will any pre-emptive rights be attached to such shares. All presently outstanding Class A and Class B Shares have been issued as fully-paid and non-assessable and will continue to be outstanding as fully-paid and non-assessable after their reclassification as Common Shares.

At present 100,000,000 Class A Shares and 100,000,000 Class B Shares are authorized. However, because of the interconvertibility of the Class A and Class B Shares, no more than 100,000,000 shares of both classes in the aggregate may be outstanding at any one time. By-law X provides for the authorization of 100,000,000 Common Shares, which will, in effect, be the same as the existing authorized capital for Class A and Class B Shares in the aggregate.

Provision authorizing Board of Directors to determine that holders of Common Shares may elect to receive stock dividends in the form of Common Shares.

The recent amendments to the Income Tax Act referred to above also provide that shares issued as stock dividends to Shareholders resident in Canada will not be taxed as dividends when received but there may be tax payable on a capital gains basis when such shares are sold. In addition, shares issued as stock dividends to non-resident Shareholders will generally not be subject to Canadian withholding taxes. This treatment of stock dividends is similar to the tax treatment of cash dividends paid to the holders of Class B Shares out of "1971 capital surplus on hand".

By-law X contains a provision that will facilitate the Company's taking advantage of the change in the law regarding the taxation of stock dividends. The By-law provides that, effective January 1, 1979, the Board of Directors of the Company may (but need not) determine, with respect to any cash dividend that it declares payable on the Common Shares, or the Class A and Class B Shares, as the case may be, that the holders of the shares of such class or classes, or such of the holders who are resident in Canada and in specified jurisdictions outside Canada, shall have the right to elect to receive such dividend in the form of a stock dividend payable in Common Shares, or Class A or Class B Shares, as the case may be. Such stock dividend would have a value, as determined by the Board of Directors, substantially equivalent to the cash amount of the dividend. Unless the Board of Directors were to determine otherwise, Shareholders who elected to receive a stock dividend would receive cash in lieu of any fractional share interests to which they would otherwise be entitled.

Tax Consequences—Canadian Shareholders

In the opinion of Osler, Hoskin & Harcourt, Canadian counsel for the Company, for Canadian federal income tax purposes the reclassification of the outstanding Class A and Class B Shares as Common Shares will not result in a taxable capital gain or an allowable capital loss to a resident of Canada. The adjusted cost base to a holder of a Common Share immediately after the reclassification will be the same as the adjusted cost base of his Class A or Class B Share, as the case may be, immediately before the reclassification.

To the extent that dividends are paid by the issuance of Common Shares, or Class A or Class B Shares, as the case may be, of the Company, they will be deemed not to be dividends under the Income Tax Act. Consequently, such stock dividends will not be included in computing the income of a Shareholder resident in Canada. Under the Income Tax Act, the cost to the Shareholder of any share so received as a stock dividend will be deemed to be "nil", except that, for the purpose of computing the adjusted cost base of such share, the "nil" cost of the share will be averaged with the adjusted cost bases of all other shares of the same class owned by the Shareholder, other than shares treated by the Income Tax Act or the Income Tax Application Rules, 1971 as shares held at the end of 1971 for the purpose of computing the adjusted cost bases of such shares.

Dividends that are paid in cash (including cash paid in lieu of fractional share interests) to an individual resident in Canada will be taxable as ordinary dividends on a grossed-up basis and will be subject to a dividend tax credit.

Tax Consequences—United States Shareholders

For United States federal income tax purposes, the reclassification of the outstanding Class A and Class B Shares as Common Shares will result in no gain or loss to a Shareholder who is a citizen or resident of the United States, or a United States domestic corporation. A United States Shareholder's tax basis for his reclassified Common Shares will be the same as the tax basis of the Class A or Class B Shares, as the case may be, held by the Shareholder immediately prior to the reclassification. The holding period of the Common Shares will include the holding period of the Class A or Class B Shares, as the case may be, provided such Class A or Class B Shares were capital assets in the hands of the holder at the time of the reclassification. The Company intends to request a ruling confirming the foregoing United States federal income tax consequences of the reclassification of the outstanding Class A and Class B Shares as Common Shares.

Dividends paid with respect to Common Shares, or Class A and Class B Shares, as the case may be, held by United States Shareholders will be subject to United States federal income tax whether paid by the issuance of shares or in cash if the holders shall have the right to elect to receive such dividends in the form of either shares or cash. The amount of any stock dividend subject to tax will be the fair market value thereof as of the date of distribution and the basis of the shares distributed as a stock dividend will be such value. The holding period of the shares will begin the day after the day the dividend is received. To the extent that dividends are paid by the issuance of shares to a Shareholder resident in the United

States, such dividends will generally not be subject to Canadian withholding tax.

Dividends paid in cash (including cash paid in lieu of fractional share interests) to a Shareholder resident in the United States will be subject to Canadian withholding tax at a rate of 10%. Subject to certain limitations, a United States Shareholder may deduct from his United States federal taxable income any tax withheld in Canada, or may claim a credit for any such tax against his United States federal income tax liability incurred in respect of such dividends. United States organizations exempt from taxation under Article X of the Canada-United States Income Tax Treaty are generally entitled to receive cash dividends free from Canadian withholding tax.

Tax Consequences—Other Shareholders

The tax effect of the reclassification on Shareholders who are residents of countries other than Canada and the United States and the taxability of dividends to such Shareholders will be dependent upon the laws of their countries of residence.

To the extent that dividends are paid by the issuance of Common Shares, or Class A or Class B Shares, as the case may be, such stock dividends will generally not be subject to Canadian withholding tax. Dividends paid in cash (including cash paid in lieu of fractional share interests) to Shareholders resident in Switzerland, France and the United Kingdom will generally be subject to Canadian withholding tax at the rate of 10%. Dividends paid in cash (including cash paid in lieu of fractional share interests) to persons resident in other countries will be subject to Canadian withholding tax at a maximum rate of 20%, subject to the terms of any tax convention existing between Canada and the country in which that person resides.

Stock Exchange Listings

If By-law X is approved, the Company intends to apply for the listing or quotation of the Common Shares on the Toronto, Montreal, New York and London Stock Exchanges—the Exchanges on which the Company's Class A and Class B Shares are now listed or quoted.

Shareholders' Approval and Supplementary Letters Patent

To become effective, By-law X must be approved by separate votes of the holders present or represented at the meeting of (i) the Class A Shares, (ii) the Class B Shares, and (iii) all shares of the Company carrying voting rights at the meeting, namely, the Class A Shares, the Class B Shares and the Series B Preferred Shares, voting together. In the case of each such vote, the By-law must be approved by at least two-thirds of the votes of the holders present or represented and voting on the By-law. In addition, the By-law must be confirmed by supplementary letters patent issued by the Minister of Consumer and Corporate Affairs of Canada. If the By-law is so approved at the meeting, the Company expects to apply for supplementary letters patent confirming the By-law.

On January 1, 1979 (or, if the date for elimination of "1971 capital surplus on hand" is extended, the later date), all Class A and Class B Shares then outstanding will be automatically deemed to be Common Shares. It will ***not*** be necessary for a Shareholder to submit his share certificate or certificates for replacement with a new certificate.

The Board of Directors of the Company recommends that the Shareholders vote for the approval of By-law X. The persons named in the accompanying form of proxy intend to vote the proxy for the approval of By-law X, unless the Shareholder signing such form of proxy specifies that it be voted against the approval of By-law X.

Financial statements are not included herein because they are not considered material for the exercise of prudent judgment by Shareholders in regard to the proposed alteration in share capital.

The dollar amounts referred to in Exhibit A are stated in Canadian dollars.

Appointment of Auditors

Price Waterhouse & Co. served as Auditors of the Company's predecessor companies from 1902 until 1928. The Shareholders of the Company first appointed that firm to the office of Auditors of the Company at the Annual Meeting held March 19, 1929 and have re-appointed that firm in each ensuing year.

The persons named in the accompanying form of proxy intend to vote the proxy in favour of the appointment of Price Waterhouse & Co. to the office of Auditors of the Company for the term expiring with the Annual Meeting in 1979 at a remuneration to be fixed by the Board of Directors, unless the Shareholder signing such form of proxy specifies that it be voted against such appointment or be withheld from voting.

It is intended that Price Waterhouse & Co. will make an audit of the scope customarily made by them on behalf of the Company, as indicated in their report to Shareholders dated February 16, 1978, set forth on page 21 of the 1977 Annual Report of the Company.

Representatives of Price Waterhouse & Co. are expected to be present at the meeting with the opportunity to make a statement if they desire to do so and to respond to any appropriate questions.

Any Other Matters Which May Come Before the Meeting

The accompanying form of proxy will confer discretionary authority upon the persons named therein with respect to any variations to the matters set forth in the Notice of Meeting and with respect to any other matters that may properly come before the meeting.

The Management is not aware that any matters are to be presented for action at the meeting other than those specifically referred to in the Notice of Meeting. However, if any other matters properly come before the meeting, it is the intention of the persons named in the accompanying form of proxy to vote on such matters in accordance with their judgment.

On any ballot that may be called for at the meeting, all shares in respect of which the persons named in the accompanying form of proxy have been appointed to act will be voted or withheld from voting in accordance with the specification of the Shareholder signing the proxy. If no such specification is made, then the shares will be voted as stated above.

The Company will bear the cost of solicitation of proxies. Solicitation will be by mail, possibly supplemented by telephone or other personal contact by regular employees of the Company.

February 16, 1978

The Board of Directors of the Company has approved in substance the material contained in this Information Circular and Proxy Statement and also its mailing to Shareholders.

D. C. McGavin

Secretary

EXHIBIT A

BY-LAW X

BEING A BY-LAW PROVIDING FOR THE ALTERATION OF THE SHARE CAPITAL OF INCO LIMITED AND AUTHORIZING AN APPLICATION FOR SUPPLEMENTARY LETTERS PATENT

WHEREAS, the authorized share capital of Inco Limited ("the Company") consists of (i) thirty million (30,000,000) Preferred Shares ("Preferred Shares") issuable in series with a par value for each series to be fixed by the Board of Directors of the Company (the "Board of Directors") within specified limits prior to issuance, and (ii) one hundred million (100,000,000) Class A Common Shares ("Class A Shares") and one hundred million (100,000,000) Class B Common Shares ("Class B Shares") in each case without nominal or par value, which Class A Shares and Class B Shares shall not be issued for a consideration exceeding in the aggregate the sum of four billion dollars ($4,000,000,000) or such greater amount as the Board of Directors may deem expedient and as may be authorized by the Minister of Consumer and Corporate Affairs of Canada upon payment of the requisite fee;

WHEREAS, under the terms attaching to the Class A Shares and Class B Shares, the Class A Shares and Class B Shares are interconvertible and the Company may not issue any Class A Shares or Class B Shares if after such issue the number of authorized but unissued Class A Shares or Class B Shares, as the case may be, would be insufficient to provide for the conversion of all the Class A Shares or Class B Shares, as the case may be, into shares of the other class, and, as a result, no more than one hundred million (100,000,000) shares of both classes in the aggregate may be outstanding at any one time;

WHEREAS, as of the close of business on February 16, 1978, the following shares were issued and outstanding as fully paid and non-assessable: (i) ten million (10,000,000) Floating Rate Preferred Shares Series A with a par value of twenty-five dollars ($25) per share; (ii) five million (5,000,000) 7.85% Preferred Shares Series B with a par value of twenty-five dollars ($25) per share; and (iii) 74,593,655 Class A Shares and Class B Shares in the aggregate;

WHEREAS, as of the close of business on February 16, 1978, the number of Class A Shares and Class B Shares for which the Company had accepted subscriptions, or which the Company had otherwise agreed to issue, did not, when added to the number of Class A Shares and Class B Shares outstanding, exceed one hundred million (100,000,000) shares of both classes in the aggregate;

AND WHEREAS, it is desirable for the Company to alter its capital as provided in this By-law, and for the Company to apply for Supplementary Letters Patent confirming this By-law;

NOW THEREFORE BE IT ENACTED, AND IT IS HEREBY ENACTED, AS A BY-LAW OF THE COMPANY THAT:

1. Subject to confirmation of this By-law by Supplementary Letters Patent, the share

capital of the Company shall be altered, effective as of January 1, 1979, or, if the provisions of the Income Tax Act of Canada shall then permit a corporation to pay dividends from "1971 capital surplus on hand", as of the first subsequent date on which the provisions of such Act shall not permit a corporation to pay dividends from such source, by:

(a) reclassifying the one hundred million (100,000,000) existing Class A Shares, both issued and unissued, as one hundred million (100,000,000) Common Shares without nominal or par value ("Common Shares");

(b) reclassifying the one hundred million (100,000,000) existing Class B Shares, both issued and unissued, as one hundred million (100,000,000) Common Shares without nominal or par value ("Common Shares");

(c) cancelling one hundred million (100,000,-000) unissued Common Shares of the resultant two hundred million (200,000,000) Common Shares, and so diminishing the number of Common Shares from two hundred million (200,000,000) shares to one hundred million (100,000,000) shares;

(d) providing that the resultant one hundred million (100,000,000) Common Shares shall not be issued for a consideration exceeding in the aggregate the sum of four billion dollars ($4,000,000,000) or such greater amount as the Board of Directors may deem expedient and as may be authorized by the Minister of Consumer and Corporate Affairs of Canada upon payment of the requisite fee; and

(e) repealing the preferences, rights, conditions, restrictions, limitations or prohibitions attached to the Class A Shares and Class B Shares as contained in paragraph 2 of By-law S of the Company confirmed by Supplementary Letters Patent issued to the Company dated September 9, 1974.

2. Subject to confirmation of this By-law by Supplementary Letters Patent, the share capital of the Company shall be altered, effective as of January 1, 1979, by providing that the Board of Directors may (but need not) determine at any time or from time to time, with respect to any cash dividend declared payable on the Common Shares, or the Class A Shares and Class B Shares, as the case may be, that the holders of the shares of such class or classes, or the holders of shares of such class or classes whose addresses, on the books of the Company, are in Canada and/or in specified jurisdictions outside Canada, shall have the right to elect to receive such dividend in the form of a stock dividend payable in Common Shares, or Class A Shares or Class B Shares, as the case may be, having a value, as determined by the Board of Directors, that is substantially equivalent, as of a date determined by the Board of Directors, to the cash amount of such dividend, provided that Shareholders shall receive cash in lieu of any fractional interests in shares to which they would otherwise be entitled unless the Board of Directors shall otherwise determine.

3. After the alteration of the Company's share capital provided for in paragraph 1 of this By-law has become effective, the authorized share capital of the Company shall consist of:

(a) thirty million (30,000,000) Preferred Shares issuable in series with a par value for each series to be fixed by the Board of Directors, which par value shall not be less than one dollar ($1.00) per share, or its equivalent in a foreign currency at the date of issuance, or more than one hundred dollars ($100.00) per share, or its equivalent in a foreign currency at the date of issuance, provided that the aggregate par value of the Preferred Shares shall not exceed seven hundred and fifty million dollars ($750,000,000), and, for purposes of such aggregate par value, the par value of the shares of each series having a par value stated in a foreign currency shall be translated into Canadian currency at the respective rates of exchange in effect when issued; and

(b) one hundred million (100,000,000) Common Shares, without nominal or par value, which shall not be issued for a consideration exceeding in the aggregate the sum of four billion dollars ($4,000,000,000) or such greater amount as the Board of Directors may deem expedient and as may be authorized by the Minister of Consumer and Corporate Affairs of Canada upon payment of the requisite fee.

4. Subject to this By-law being duly approved by the Shareholders of the Company, the proper officers of the Company be and they hereby are authorized to make application on behalf of the Company to the Minister of Consumer and Corporate Affairs of Canada for Supplementary Letters Patent confirming this By-law and to execute such other documents and do all such other things as they deem necessary or desirable for the due carrying out of the provisions of this By-law.

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