

INCO LIMITED: GUIDELINES OF THE BOARD OF DIRECTORS ON CORPORATE GOVERNANCE*

Introduction

As part of the corporate governance policies, processes and procedures of Inco Limited (“Inco” or the “Company”) and the charter of the Corporate Governance and Nominating Committee of the Board of Directors, the following points outline certain key principles, guidelines or practices governing how the Board of Directors and management of the Company will operate in meeting their responsibilities, including the Board’s overall stewardship responsibility, and in enhancing shareholder value over the long term. The Board continues to believe that these guidelines should be an evolving set of corporate governance principles, subject to modification and updating as circumstances warrant. The Corporate Governance and Nominating Committee will be responsible for reviewing these guidelines at least once a year, subject to any requirement to review them sooner as circumstances warrant, to determine the extent to which they adequately address all applicable regulatory, stock exchange and self-regulatory requirements relating to corporate governance and develop and recommend any changes to these guidelines to the Board.

1. Role of the Board of Directors

Inco’s business is conducted by its employees, managers and officers, under the direction of its Chief Executive Officer (CEO) and the oversight of the Board of Directors, to enhance the long-term value of the Company for its shareholders. The Board of Directors is elected by Inco’s shareholders to oversee management and to assure that the long-term interests of shareholders are being properly served. Both the Board of Directors and management recognize that the long-term interests of Inco’s shareholders are advanced by responsibly addressing the concerns of other stakeholders and interested parties, including existing and prospective employees, customers, suppliers, the communities in which Inco operates, government officials and the public at large.

2. Functions of the Board of Directors

The Board of Directors holds at least 8 regularly scheduled meetings a year at which it reviews and discusses reports by management on the performance of the Company, the Company’s plans and prospects, as well as immediate issues facing the Company. Directors are expected to attend all scheduled Board meetings and meetings of Board Committees on which they serve. In addition to its general oversight of management, the Board, either directly or through one or more of its standing Board Committees, also performs a number of specific functions, including:

- (a) selecting and evaluating, and approving the compensation arrangements for, the CEO and overseeing CEO and senior management succession planning given that

the Board deems as one of its most critical functions the selection of a CEO and senior management team that will be able to meet the challenges facing the Company, implement the Company's strategy and objectives and inspire others to follow their lead;

- (b) providing counsel, oversight and approval, as appropriate, with respect to the selection, evaluation, development and compensation of management;
- (c) while recognizing that management is responsible for the development of individual business unit and the Company's overall corporate strategy, overseeing the Company's agreed upon strategic planning process and reviewing the corporate strategy at least on an annual basis, and questioning and validating, and ultimately approving, the corporate strategy for the Company and monitoring the results of such strategy;
- (d) reviewing, approving and monitoring the results of the Company's major corporate actions;
- (e) understanding and assessing the principal risks associated with the Company's businesses and operations on an ongoing basis, including a comprehension of the appropriate balance between risks and rewards, with management ensuring that the Board (as well as the applicable Board Committee(s) having oversight or responsibility for particular risks) are kept well informed of any changes in, or additions to, such principal risks on a timely basis, and reviewing options identified by management for the mitigation or management of such risks and supporting the key decisions to be made by management in respect of the strategies implemented to mitigate or manage such principal risks;
- (f) oversight of the implementation and effectiveness of internal control over financial reporting and other related systems which can help to ensure the discharge of the Board's responsibilities; and
- (g) ensuring that satisfactory processes, procedures or policies are in place for maintaining the honesty and integrity of management; the integrity of the Company and its financial statements; the integrity of compliance with all applicable laws and regulations and the highest ethical standards; the integrity of relationships with customers, suppliers and competitors; and the integrity of relationships with all other stakeholders.

3. Chairman and CEO Role

While the Board recognizes that this practice varies among major publicly-traded companies in North America and is an evolving one, it has adopted a policy supporting the current practice that the Chief Executive Officer would also serve as Chairman of the Board. However, the Board will evaluate, as appropriate, whether or not the role of the CEO and Chairman should be separate, and has considered, and will continue to consider, exceptions or changes to the current practice when it would be in the best interests of the Company in light of all relevant factors and circumstances at a particular point in time.

4. "Lead Director" Concept

The Board has adopted a policy to have a Director selected from among its outside/independent Directors who would serve as, and assume the duties and responsibilities of, a "Lead Director", as such duties and responsibilities are determined by the Board. The Board will periodically review the duties and responsibilities of the "Lead Director" and implement any changes to be made in such duties and responsibilities as the Board believes to be necessary or appropriate.

5. Chairman and CEO's Death, Resignation, or Incapacity

In the event of the death, resignation or incapacity of the Chairman and CEO, the Lead Director and the Chair of the Corporate Governance and Nominating Committee will immediately call a meeting of that Committee to review and recommend to the full Board the selection of a temporary or permanent replacement for either or both positions.

6. Board Committees

Each Board Committee will operate according to a charter approved by the Board outlining its duties and responsibilities. The current Board Committee structure (Audit, Pension, Management Resources and Compensation, Corporate Governance and Nominating and Environment, Health and Safety) is felt to be appropriate at this time. The number and form of Committees may be subject to change as the Board considers from time to time which of its responsibilities can best be fulfilled through more detailed review of, and delegation to, a committee of the Board rather than by the Board as a whole.

7. Committee Members

The Board favours a periodic rotation in Board Committee Chairperson and Committee membership in a way which recognizes and balances the need for renewal of ideas, as well

as continuity and maintenance of functional expertise. The Board does not feel that a specific rotation policy should, however, be mandated and the Board has recognized that the desired rotation can generally be accomplished through the process of periodic retirements from, and other changes in the composition of, the Board. The Corporate Governance and Nominating Committee will continue to be responsible for proposing to the Board the Chairperson and the membership of each Board Committee on an annual basis or more frequently depending upon unanticipated retirements or resignations. In preparing its recommendations to the Board, the Corporate Governance and Nominating Committee will consult with the Chairperson of each Board Committee and the Chairman and CEO, and will take into account the preferences of the individual Directors. Each Board Committee Chairperson should have had membership experience on, or other relevant experience relating to, the particular Committee prior to assuming the Chair position.

8. Committee Meetings

No inside or non-independent Director shall be a voting member of a Board Committee but may attend meetings of a Committee as appropriate as a non-voting and ex-officio member. The Chairman and CEO has, for example, served as a non-voting and ex-officio member of the Corporate Governance and Nominating Committee. The schedule of meetings of each Board Committee will be determined based upon an annual work plan designed to discharge the responsibilities of the Committee. The Chairperson of a Board Committee will develop the agenda for each Committee meeting through consultation as appropriate with management, staff and the members of the Committee. Each Committee Chairperson (or designee) will report to the Board on the results of each Committee meeting.

9. Board Meeting Agendas

The Lead Director, in consultation with the Chairman and CEO and Corporate Secretary, will develop the agenda for each Board meeting. Agendas will be distributed to Directors before each Board meeting, and all Board members shall be free to suggest additions or revisions to the agenda in advance of the particular Board meeting.

10. Information for Board Meetings

Whenever practicable, information and reports pertaining to Board meeting agenda items will be circulated to the Directors in advance of the meeting. Such materials should be concise, yet complete, with one or more summary pages, and be prepared in a way to focus attention on critical issues to be considered by the Board. Reports may be presented during

Board meetings by members of the Board, management and/or staff, or by invited outside advisors. It is recognized that under some circumstances, due to the unusual confidential nature of a particular matter to be discussed at a meeting, it would not be prudent or appropriate to distribute written materials on such a matter in advance.

11. Non-Directors at Board Meetings

The Board appreciates the value of having at least certain members of the Company's internal Management Committee attend each Board meeting to provide information and individual perspectives to assist the Directors in their deliberations. The Chairman and CEO will obtain the Board's concurrence in the event of any proposed change to the management attendees at Board meetings. Management attendees will be excused for any agenda items, including executive sessions, which are reserved for discussion among Directors only.

The Board encourages the Chairman and CEO to bring into Board and Board Committee meetings Company personnel to provide (a) additional insight on items being discussed because of their personal involvement in a particular item, and/or (b) Board exposure to individuals with outstanding management potential. The Board encourages having members of management participate appropriately in Board meetings in order to better inform outside/independent Directors about the business of the Company and help the Directors in their ongoing evaluation of the management team.

12. Executive Sessions of Outside/Independent Directors

The outside/independent Directors of the Board will meet on a regular basis (at most, if not all, regularly scheduled Board meetings) and as circumstances warrant in executive (private) session. The Lead Director will determine when such sessions will be held and will chair such sessions. Following such executive sessions, the Lead Director will, as appropriate, brief the Chairman and CEO on the nature of the discussions and deliberations covered at such sessions.

Committees of the Board will also meet in executive (private) session on a regular basis and as circumstances warrant.

13. Board Contacts with Senior Management

All of the outside/independent Directors shall have open access to the Company's senior management. It is expected that, absent special circumstances where the Lead Director believes that he or she should be the sole interface, outside/independent Directors may contact senior management on any issue of concern to that Director and will exercise appropriate judgment to ensure that their contacts will not distract from the Company's business and operations.

The Board encourages outside/independent Directors to make themselves available for consultations with management outside Board meetings in order to provide specific advice and counsel on subjects where such Directors have special knowledge and experience.

14. Size of the Board

The Board currently consists of twelve Directors. It is the general consensus of the Board that the target number for the size of the Board is twelve which is large enough to provide a diversity of expertise and opinion, yet small enough to allow for efficient operation and decision-making. The Board has the ability to increase or decrease its size, within certain limits established by the Company's By-law No. 1. The Corporate Governance and Nominating Committee will review the size of the Board at least annually and make recommendations to the Board when it believes a change would be in the best interests of the Company.

15. Mix of Inside and Outside/Independent Directors: Interlocks

The Board believes that as long as the Company's shares are widely held without any controlling shareholder, the significant majority of Directors should be outside/independent and unrelated to the Company. While it is the sense of the Board to preserve its flexibility and not fix the specific number of "inside" or employee Directors, the Board shall seek, absent special circumstances, a target mix of one to two inside/employee Directors (the CEO and, if the Board believes it to be appropriate, the President or Chief Operating Officer if the CEO does not hold those titles as well), with the balance of the Board consisting of outside/independent Directors, recognizing that this mix could change over time.

The Board of Directors will also evaluate the number of interlocks, where more than two Directors of the Company sit on the board of another company, which exist on the Board and the extent to which such interlocks could affect the independence of a Director.

16. Determination of Who is an "Outside/Independent" Director and Prohibition on Non-Director Compensation

The Corporate Governance and Nominating Committee will, as provided for in (d) below, taking into account all applicable regulatory and other requirements, review at least on an annual basis all relationships between outside/independent Directors and the Company which might be construed in any way to compromise the designation of any Director as being outside/independent or unrelated to the Company and report on such review to the full Board. The objective of such review will be to make an affirmative determination of the existence of any relationships, including any “material relationships”, that a Director has with the Company (either directly or as a partner, shareholder or officer of an organization that has a relationship with the Company) under applicable stock exchange listing standards, to ensure that the composition of the Board remains such that a significant majority of the Directors are outside/independent and unrelated and that, where any relationships with the Company exist, the Director is acting appropriately. For purposes of this requirement, the following requirements will apply in determining who is an “outside/independent” Director:

- (a) a Director will not be considered to be outside/independent if (i) within the past three years the Director was employed by Inco, including any subsidiary or affiliated entity of Inco; (ii) within the past three years an immediate family member of the Director was employed by Inco, including any subsidiary or affiliated entity of Inco, as an executive officer; (iii) within the past three years the Director was employed by or affiliated with any of Inco’s current or former internal or independent auditors; (iv) within the past three years an immediate family member of the Director was employed by or affiliated with any of Inco’s current or former internal or independent auditors as a partner, principal, manager or in any other professional capacity; or (v) within the past three years an Inco executive officer has served on the compensation committee of the board of directors of a company which, in turn, employed either (a) the particular Director (“Director’s Employer”) as an executive officer or (b) an immediate family member of such Director as an executive officer of the Director’s Employer;
- (b) if a Director has any of the following commercial or charitable relationships, such Director will not be considered to be “outside/independent”: (i) the Director has served as an executive officer or employee of, or any of his or her immediate family members has served as an executive officer of, another company that makes payments to, or receives payments from, Inco for property or services in an amount that, in any of the three most recent fiscal years, exceeds the greater of (x) U.S. \$100,000 and (y) 2 percent of the annual consolidated gross revenues of the company for which such Director, or any of his or her immediate family members, has served as an executive officer (or as an employee in the case of the Director); or (ii) the Director has served as an officer, director or trustee of a charitable organization, and Inco’s discretionary charitable contributions to that organization exceeds 2 percent of that organization’s total annual charitable consolidated gross

revenues or receipts/contributions within any of the three most recent fiscal years (provided that Inco's matching of employee charitable contributions will not be included in the amount of Inco's contributions for this purpose);

- (c) a Director will not be considered to be outside/independent if he or she, within the past three fiscal years, receives any direct compensation fees or other compensation from the Company, other than the fees paid for service as a Director, including service on any Board Committee, and pension or other forms of deferred compensation for prior service as a Director (provided that such compensation is not contingent in any way on continued service). If the Board believes that it would be appropriate, as part of any report it makes on its corporate governance practices, the Board will make the review of these Director independence guidelines public prior to any Directors standing for nomination or re-election to the Board; and
- (d) with respect to any of the relationships covered by subsection (a), (b) or (c) above, the determination of whether a relationship does meet the requirements of (a), (b) or (c) above, and therefore whether the Director would be outside/independent or not, shall be made by the Directors on the Corporate Governance and Nominating Committee who satisfy the independence requirements set forth in subsections (a), (b) or (c) above and then reviewed with the full Board. The Company shall, if required under applicable stock exchange, regulatory or self-regulatory requirements, explain in its next Proxy Circular and Statement the basis for any Board Committee/Board determination that a particular relationship that a Director has or had with the Company was or was not a material relationship.

For purposes of these guidelines, an immediate family member shall include a Director's spouse, parents, children, siblings, mother(s)-in-law, father(s)-in-law, son(s)-in-law, daughter(s)-in-law, brother(s)-in-law, sister(s)-in-law, and any other person (other than a household employee) who shares the Director's home. No Director or immediate family member of a Director shall provide any personal services for compensation to Inco.

17. Ethics, Conflicts of Interest and Directors Who Change Their Present Job Responsibility

The Board expects all Directors, in addition to all Inco officers and employees, to act ethically at all times and to acknowledge their adherence to all of the Company's codes of conduct and other similar policies. The Board will not permit any waiver of any ethics policy or code of conduct for any Director or executive officer. If an actual or potential conflict of interest arises for a Director, the Director shall promptly inform the Chairman and CEO and the Lead Director of such conflict. If a significant conflict exists that cannot be resolved, then the Director shall tender his or her resignation. All Directors will recuse

themselves from any discussion at or decision to be taken at any Board or Board Committee meeting affecting their personal, business or professional interests.

The Board has adopted a policy which requires that a Director who makes any significant change in his or her principal occupation to offer his or her resignation to the Board for consideration. It is not intended that Directors who retire or whose professional position(s) change to any significant degree should necessarily leave the Board; in such circumstances it is the sense of the Board that there should be an opportunity for the Board to review, through its Corporate Governance and Nominating Committee, the continued appropriateness of Board membership of such a Director.

18. Former Officer's Continued Board Membership

The Board believes that whether the Chairman and CEO or another officer of the Company should continue to serve on the Board after his/her retirement as an officer of the Company is a matter to be decided in each individual instance. The Chairman and CEO and any such other officer will offer his/her resignation from the Board at the time of his/her retirement from the Company. Whether that retiring officer would continue to serve on the Board would be a matter for discussion at that time by the Board and the Chairman and CEO. Any former officer of the Company who continues to serve on the Board will be considered to be an inside/employee Director for purposes of corporate governance until, as provided for in 16(a) above, sufficient time has elapsed since, and appropriate distance has been established from, the officer's former executive duties to make the officer independent and unrelated to the Company.

19. Criteria for Board Membership

The Corporate Governance and Nominating Committee will review at least annually, or more frequently as circumstances warrant, the general and specific criteria applicable to candidates to be considered for nomination to the Board. The objective of this review will be to maintain the composition of the Board in a way which provides the best mix of skills and experience to oversee the long term strategy and ongoing businesses and operations of the Company. This review will take into account the desirability of maintaining an appropriate diversity of background, skills and experience and personal characteristics, including, but not otherwise limited to, age, gender and geographic location/residence, among the Directors along with the key common characteristics required for effective Board participation.

20. Selection of New Director Candidates

The Corporate Governance and Nominating Committee shall be responsible for identifying individuals believed to be qualified to become Board members, consistent with criteria approved by the Board and such other factors as it deems appropriate. These factors shall include judgment, skill, integrity, independence, diversity, experience with businesses and other organizations of comparable size, the interplay of a candidate's experience with the experience of other Board members, willingness to commit the necessary time and energy to serve as a Director, and a genuine interest in the Company's business, and the extent to which a candidate would be a desirable addition to the Board and any Committees of the Board. The Corporate Governance and Nominating Committee shall recommend to the Board nominees to stand for election as Directors by the shareholders, or for appointment by the Directors, as the case may be. The Corporate Governance and Nominating Committee shall consider all candidates recommended by the Company's shareholders in accordance with the procedures set forth in the Company's annual Proxy Circular and Statement. The Corporate Governance and Nominating Committee may consider candidates proposed by management but shall not be required to do so. All Directors are encouraged to identify potential candidates. An invitation to stand for election or appointment to the Board will normally be made to a candidate through the Lead Director, as Chair of the Corporate Governance and Nominating Committee.

21. New Director Orientation

New Directors will continue to be provided with an orientation and education program which will meet all regulatory and related requirements and will include written information about the duties and obligations of Directors, the business and operations of the Company, documents from recent Board meetings and opportunities for meetings and discussions with senior management and other Directors, as well as attending, as appropriate, outside director education courses sponsored by recognized organizations. The General Counsel and the Chief Financial Officer shall be responsible for overseeing the orientation and education program for new Directors, and for periodically providing materials or briefing sessions for all Directors on subjects that would assist them in discharging their duties. Each new Director shall, normally within one month after election to the Board, spend at least two full days at Inco's corporate headquarters for personal briefings by senior management on the Company's strategic plans, its financial statements and objectives, its key policies and practices and the principal risks facing the Company.

22. Assessing the Board's Performance and Individual Director Performance

The Corporate Governance and Nominating Committee is responsible for making an annual assessment of the overall performance of the Board, Board Committees, and of each

individual Director's contribution and performance, and reporting on the results of such assessments. The objective of these assessments is to contribute to a process of continuous improvement in the overall Board's and individual Director's execution of their responsibilities. It is expected that the result of such assessments will be to identify any areas where the Directors and/or management believe that the Board could make a better collective contribution to overseeing the affairs of the Company and meeting its overall responsibilities. The Lead Director will coordinate the assessment of individual Director performance and report on such review and evaluation to the full Board as appropriate.

23. Term Limits and Retirement Age

The Board does not believe it should establish term limits for its Directors. The Board believes that its current policy of having Directors retire prior to or as of the end of the term during which they shall have reached 70 years of age is appropriate. The Board has amended, subject to shareholder approval, the Company's By-law No. 1 to have all Directors elected annually beginning with the Annual Meeting of Shareholders in 2004.

24. Board Compensation

The Corporate Governance and Nominating Committee will review the compensation of outside/independent Directors at least annually. The Committee will make recommendations to the Board for consideration when it believes changes in compensation are warranted, taking into account compensation paid to directors of other similarly situated companies and consistency with current market practices, provided that compensation levels for outside/independent Directors shall not be structured or set at a level that would call into question the objectivity of such Directors.

25. Board Member Commitments

The Company recognizes that its Board members benefit from service on the boards of other companies and, accordingly, encourages that service. However, it also believes it is critical that Directors have the opportunity to dedicate sufficient time to their service on the Board. To that end, the Corporate Governance and Nominating Committee will, taking into appropriate account special circumstances or other factors, review periodically the maximum number of boards of public companies that (1) the Company's Chairman and CEO and any other Director who is an employee of the Company shall serve on in addition to the Board of the Company and (2) Directors other than the Chairman and CEO or other employees of the Company shall serve on in addition to the Board of the Company.

26. Share Ownership by Directors

The Board has determined that ownership of the Company's shares by Directors represents one way of enhancing the alignment of the interests of Directors with those of the shareholders of the Company. The Board has adopted policies requiring outside/independent Directors to hold, over time, a minimum number of the Company's Common Shares and/or deferred share units and providing that such Directors, through the Company's 1998 Non-Employee Director Share Ownership Plan, will elect to receive all or a minimum portion of their annual cash compensation as outside/independent Directors in the form of Common Shares or deferred share units until then applicable ownership guidelines have been met.

27. Evaluation of the Chairman and CEO and Succession and Management Development

The Corporate Governance and Nominating Committee will periodically review with the Chairman and CEO his or her job description and conduct an annual review of the performance of the Chairman and CEO as measured against objectives (1) established in respect of the applicable year by that Committee and the Chairman and CEO and (2) reviewed by the Lead Director and Chair of the Corporate Governance and Nominating Committee with the full Board. The results of this annual review will be communicated to the full Board which will then undertake an evaluation of the overall performance of the Chairman and CEO. This performance evaluation will be communicated to the Chairman and CEO by the Lead Director. This evaluation will also be used by the Management Resources and Compensation Committee in its deliberations concerning the Chairman and CEO's annual compensation. The Corporate Governance and Nominating Committee shall also be responsible for the evaluation of the Chairman and CEO's recommendation as to a successor in the event of the unexpected incapacity of the Chairman and CEO or otherwise. Given the importance of overall succession planning and management development, these areas will be reviewed with and reported on to the full Board at least annually by the appropriate Board Committees.

28. Limits to Management Authority

The Board has established specific approval limits in terms of dollar amounts and/or other specified terms and conditions with respect to management's authority to approve certain expenditures or transactions depending on the nature and size of the proposed expenditure or transaction. These limits permit some flexibility within approved budgets but otherwise must not be exceeded without prior Board approval or ratification.

29. Board Communication Policy

The Board will review and approve the content of the Company's major communications to shareholders and the investing public, including the Company's Annual Report to Shareholders, Proxy Circular and Statement, Annual Report on Form 10-K and any prospectuses which may be issued. However, the Board believes that it is the function and responsibility of the Chairman and CEO and the management of the Company under the guidance of the Chairman and CEO to speak for the Company in its communications with the investment community, the media, customers, suppliers, employees and other stakeholders, governments and the general public. It is understood that individual Directors may from time to time be requested by management to assist with such communications. It is expected, if contacts by, or communications from, stakeholders are made to individual Directors, management will be informed and consulted to determine any appropriate response. Outside/independent Directors should refrain from any comments concerning the Company to the outside world.

30. Reporting of Concerns to Outside/Independent Directors or the Audit Committee.

Consistent with the Company's "whistleblower" policies and procedures, any employee who has a concern with respect to the conduct or any activities of Inco, the honesty or integrity of any officer or employee of Inco or the Company's financial reporting, accounting, internal accounting or other controls or any matters relating to the Company's financial statements, or any audit or financial review by Inco's internal audit function or independent auditors, may communicate that concern directly to the Chair of the Audit Committee. Mechanisms under such policies and procedures shall exist to provide that any such communication shall be confidential and anonymous. The Company shall implement procedures to prohibit any officer or employee from retaliating or taking any adverse action against any employee who raises or helps to resolve any of the concerns so communicated pursuant to the Company's "whistleblower" policies and procedures.

31. Outside Advisors for Individual Directors or any Group of Directors

The Board or any group or Committee of outside/independent Directors may, as appropriate, and after discussion with the Lead Director, at the expense of the Company retain the services of legal counsel, accountants, auditors or any other outside advisor or expert to assist on matters involving their responsibilities as Board or Board Committee members. The Chairman and CEO shall be promptly advised of any such engagement unless the Lead Director believes that special circumstances exist where it would not be appropriate to provide such advice. The Company shall have in place procedures to assure that funding is made available to meet the fees and expenses of any such person so retained.

32. Communications of Corporate Governance Guidelines and Other Constituents

The Board believes it would be useful to make its corporate governance guidelines available to its Shareholders and other stakeholders/constituents and requests that management do so in whatever manner it believes is most feasible or appropriate.

33. Confidentiality

The proceedings and deliberations of the Board and all Board Committees are confidential. Each Director shall continue to maintain the confidentiality of information received in connection with his or her service as a Director.

34. Personal Loans to Directors and Executive Officers

No personal loans or other extensions of credit shall be made by the Company to any Director or executive officer of the Company that are prohibited by any applicable laws or regulations.

*As amended as of March 20, 2000
and as of February 3, 2004