


08

2008 SUSTAINABILITY REPORT

BALANCE

nexen



BALANCING PRIORITIES

Nexen has clear economic priorities as a publicly traded company to deliver value to our shareholders. Our goal is to grow that financial value responsibly and for the long term.

We recognize our operations have impacts on the environment and we are continually working to improve our environmental performance. We also support research to promote greater understanding of environmental issues and are investigating technologies to help reduce impacts on air, land, water and wildlife.

Nexen and our people are part of the social fabric of every community in which we operate. We contribute to society by listening to diverse stakeholders, participating in the development of public policy and investing in community programs that enhance quality of life. We also place a strong emphasis on ensuring the safety of our employees, communities and the public.

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BALANCE

For Nexen, achieving balance means considering diverse views and understanding the impacts of our decisions. Each choice we make brings us closer to our long-term vision of sustainability: delivering value to shareholders while providing social and economic benefits and managing our environmental footprint.

This report summarizes our 2008 sustainability performance and our continuing efforts to make informed choices about the way we find and develop energy.

Nexen Inc. is an independent, Canadian-based global energy company, listed on the Toronto and New York stock exchanges under the symbol NXY. We are uniquely positioned for growth in the North Sea, Western Canada (including the Athabasca oil sands of Alberta and unconventional gas resource plays such as coalbed methane and shale gas), deep-water Gulf of Mexico, offshore West Africa and the Middle East. We add value for shareowners through successful full-cycle oil and gas exploration and development and leadership in ethics, integrity, governance and environmental protection.

2008 PERFORMANCE SUMMARY

The Long Lake oil sands facility delivers a high-quality, low-cost synthetic crude oil.



2008 HIGHLIGHTS

Commissioned the first phase of the Long Lake oil sands facility	Page 6
Achieved a major safety milestone at our Buzzard offshore platform in the United Kingdom	16
Launched a Nexen-wide water strategy	22
Received regulatory approval to drill 15 additional sour gas wells near Calgary, Alberta, without a public hearing	28
Included on the Dow Jones Sustainability Index for the eighth consecutive year	40

2008 DISAPPOINTMENTS

Tragically, two contractors died on the job in Yemen. We also recorded 38 lost-time injuries globally	Page 15
Total number of reportable environmental incidents increased 9% over 2007, which meant we missed our target of best-ever performance	23
Did not achieve the 50 Best Employers in Canada ranking after being included for six of the past eight years	33
Share price on the Toronto Stock Exchange closed the year 33% lower than in 2007 as markets responded to the worsening economic situation	39

NEXEN-WIDE PERFORMANCE SUMMARY

The following table provides a three-year snapshot of performance in key areas of our health and safety, environmental, social and economic performance. Looking ahead, we also provide selected 2009 performance targets. We will report our progress against these targets in our 2009 Sustainability Report.

Indicator	2006	2007	2008	2009 target	Page
Production after royalties (mboe/d)	156	207	210	225 to 240	6
Employee total recordable injury frequency	0.22	0.32	0.26	Best-ever performance of less than 0.22	15
Contractor total recordable injury frequency	1.17	1.25	1.27	Best-ever performance of less than 1.07	15
Company-wide production carbon intensity (tonnes of CO ₂ equivalent/m ³ of oil equivalent)	0.21	0.17	0.16	See page 46	21
Company-wide CO ₂ equivalent (million tonnes)	3.48	3.95	3.81	See page 46	21
Number of reportable environmental incidents	92	128	139	Best-ever performance of less than 76	24
Community investment (\$ millions)	8.9	11.5	12.7	1% of pre-tax profits (averaged over five years)	32
Voluntary turnover (%)	5.66	6.19	7.29	-	34
Active workforce attending integrity training (%)	88	86	93	90	12

LEADERS' MESSAGE



Marvin F. Romanow
President and
Chief Executive Officer



Barry Jackson
Chair
Health, Safety, Environment &
Social Responsibility Committee



Kelly Kowalchuk
Vice President
Health, Safety, Environment &
Social Responsibility

Despite volatile markets in 2008, our underlying commitment to sustainability remains constant. As a result, we continue to make progress on our economic, environmental and social performance.

For Nexen, sustainability means delivering long-term value to our shareholders while providing social and economic benefits and managing our environmental footprint. To do that, we work hard to strike a balance among the complex—and sometimes conflicting—issues facing our company. We believe we achieve better overall outcomes by integrating sustainability considerations into our decision making.

A high-level commitment to sustainability is important, but stakeholders expect us to demonstrate that commitment through action. For Nexen, that means integrating sustainability into our business through the management systems, measurement tools and governance structures we describe throughout this report. It also means clearly articulating our

values and expectations through our culture of integrity and our employee programs. In a rapidly changing and complex environment, these systems and values guide our decisions and behaviour. We may not get it right every time, but we are moving forward.

Sustainability in Uncertain Times

The global financial crisis that began in 2008 has prompted many of us to think once again about sustainability. In the wake of a series of corporate crises, we were reminded that a company can only contribute to society if it first establishes a solid financial foundation. To that end, Nexen finished 2008 with strong financial results, but we are approaching 2009 with caution while the economic outlook remains uncertain.

We came close to achieving our employee safety targets in 2008, while enhancing internal management frameworks such as Responsible Care® and process safety management.

We believe we achieve better overall outcomes
by integrating sustainability considerations
into our decision making.



Regrettably, however, we experienced two contractor fatalities in Yemen. We've taken concrete steps to address the underlying causes of those incidents (see page 15).

In 2008, Nexen and OPTI Canada commissioned the first phase of our oil sands strategy at our Long Lake facility, Canada's first integrated steam-assisted gravity drainage (SAGD) and upgrading project in the Athabasca oil sands. It is also the only oil sands project to employ gasification technology that enables the capture of CO₂ pre-combustion.

Oil sands development moved further into the global spotlight in 2008 as stakeholders asked challenging questions about its impacts. The oil sands resource has strategic importance for meeting North America's energy demand but it also poses some unique social and environmental challenges. These cannot be viewed in isolation. We must consider the range of interrelated social, environmental and economic factors when mapping a way forward. We describe how Nexen is addressing these issues in a special feature on the oil sands (page 8) and throughout the report.

With the oil sands in mind, Nexen invested in water and biodiversity research in 2008. We also launched new company-wide water management principles and established an eco-efficiency team in our Canadian Oil and Gas division to find ways to reduce emissions and energy costs.

In 2008, we also said goodbye to Charlie Fischer, who retired as Nexen's president and chief executive officer. Charlie was widely recognized as a sustainability leader in our industry and set a positive example.

Sustainability as a Strategic Advantage

As we engage in the public dialogue about energy and the environment, we hear a recurring theme: consumers want secure, affordable and clean energy. At Nexen, our purpose is to develop the energy that contributes to society's economic well-being and quality of life. As we do this, we also work hard to protect people and the environment.

Climate change remains one of Nexen's—and our industry's—most challenging sustainability issues, and we are addressing it in several ways. We are actively contributing to the public dialogue on climate change and continue to support renewable energy development. We are also positioned at the forefront of carbon capture and storage with the gasification technology we are employing at Long Lake. However, we need clarity from governments around regulation and carbon pricing so we can evaluate long-term emission management strategies and understand how greenhouse gas regulation will affect future investment decisions.

Nexen will do our part to address the production of greenhouse gases but it's clear we can't solve the problem on our own. Consumers around the world must also be engaged in climate change solutions through energy conservation measures and an honest dialogue about what each of us as individual citizens can do to reduce our impacts.

We view our commitment to sustainability as a strategic advantage that enables us to gain access to new business opportunities.

Nexen's long-term success depends on our ability to first access, then responsibly develop, new resources. We view our commitment to sustainability as a strategic advantage that enables us to gain access to new business opportunities. We also know our social licence to operate must be continually renewed through responsible economic, environmental and social practices.

We are confident this approach will help us find thoughtful, balanced solutions to the sustainability challenges that lie ahead.

Responsible Care® is the registered trademark of the Canadian Chemical Producers' Association.

COMPANY PROFILE

NEXEN'S STRATEGY OF CHOICE

Nexen is a Canadian-based oil and gas company with operations worldwide. Our strategy is focused on three areas: oil sands, unconventional gas and select conventional exploration and exploitation opportunities. The right asset mix provides stability and flexibility in uncertain economic times while offering choices about how to allocate capital and expertise.

Nexen's conventional exploration and exploitation is concentrated in the North Sea, Gulf of Mexico and West Africa. We still have legacy assets in Yemen, where we have shown we can operate safely, responsibly and successfully.

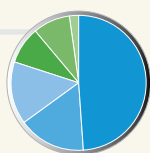
As conventional basins in North America mature, we are focusing our investment on unconventional resources such as shale gas and coalbed methane (CBM). Nexen is

accumulating large shale gas land positions in the Horn River area of northeastern British Columbia and CBM land positions in central Alberta. Using cutting-edge technology, we are transitioning these resources into valuable assets that can help fuel our short- to medium-term growth.

We are also tapping into the long-term potential of Canada's Athabasca oil sands, the world's second-largest hydrocarbon basin after Saudi Arabia. With the commissioning of the first phase of Long Lake in 2008, we have an integrated SAGD and upgrading solution that is delivering a high quality, low-cost synthetic crude oil. Long Lake's proprietary upgrading technology enables the capture of a concentrated stream of carbon dioxide (CO₂), which can be developed in future phases as the policy framework for carbon capture and storage emerges.

2008 PRODUCTION BY REGION

United Kingdom 49%	United States 9%
Canada ¹ 16%	Syncrude ² 9%
Yemen 15%	Other Countries ³ 2%



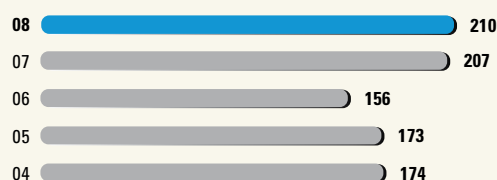
¹ Includes Long Lake.

² As a non-operated entity, Syncrude HSE&SR data is not included in the Sustainability Report.

³ Other includes Colombia.

2008 NET PRODUCTION

thousand barrels of oil equivalent per day (mboe/d)



Sustainability significance

Balanced global production reduces our vulnerability to single-market fluctuations.

How we are doing

Production was consistent with 2007 but we experienced production down time due to hurricanes that reduced output from the U.S. Gulf of Mexico.

Looking ahead

We expect 2009 net production to increase to approximately 225,000 to 240,000 boe/d as Long Lake production ramps up and Ettrick comes on line.

Nexen's Global Operations

Canada

Our Canadian operations include heavy oil, CBM and conventional oil and gas in Western Canada as well as shale gas development in B.C.'s Horn River Basin. Nexen is a 65% owner and operator of the Long Lake oil sands facility near Fort McMurray, Alberta, and is a 7.23% non-operating owner of Syncrude joint venture. We also have an indirect interest in the Canexus Income Fund chemicals business and we are investing in wind power in Alberta.

UK North Sea

The UK North Sea is a key growth area for Nexen with the world-class Buzzard development, the Scott and Telford producing fields and recent discoveries in the Golden Eagle area. These assets position Nexen as one of the largest producers in the region. The offshore Ettrick field is due to start producing in 2009.

Norway

We have 10 offshore licences in the Norwegian North Sea with plans to drill our first exploration well in the near future.

Colombia

We own non-operated interests in two areas. Our share of production averaged 5,800 bbl/d before royalties in 2008.

Gulf of Mexico

We are a top deep-water leaseholder in the Gulf of Mexico, with numerous prospects identified and rigs secured to drill.

West Africa

We own a 20% working interest in the Usan field, offshore Nigeria. This project was sanctioned in 2008 and is expected to come on stream in 2012.

Yemen

Nexen began operating in Yemen in 1993 and it remains a significant asset that generates strong cash flow. We produced our billionth barrel of oil in Yemen in 2008.

Seeking Sustainable Solutions in the Oil Sands

The Athabasca oil sands resource is one of the largest oil deposits in the world—second only to Saudi Arabia. But developing this resource also has impacts on the environment and local communities that need to be managed. The challenge for Nexen and other oil sands producers is to unlock the value of the resource in a responsible way.

Why the Oil Sands Matter

After years of rising consumer demand, the world's conventional oil resources are declining. That means more of the world's energy is coming from unconventional sources such

as the oil sands. Despite the current global recession, long-term consumer demand for energy is expected to continue to rise. Consumers want affordable energy.

With an estimated 173 billion barrels of oil—97% of Canada's total oil reserves—the oil sands can help to meet this global demand. Today, approximately four in 10 barrels of oil produced in Canada come from the oil sands. Canada is also the largest supplier of energy to the United States. The industry generates billions of dollars in taxes, royalties and capital spending and directly or indirectly employs hundreds of thousands of people across Canada.

Understanding the Impacts

The scale and nature of oil sands development pose some unique environmental and social challenges. The oil sands region is located in the boreal forest, which is home to many species and interconnected ecosystems. Oil sands production generates air emissions, including greenhouse gases, and requires water for steam production and upgrading. The region is also home to First Nations peoples whose traditional way of life is tied to the land.

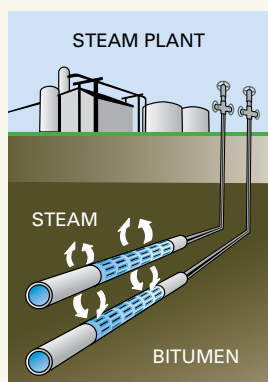
As the oil sands industry moves into the global spotlight, the message is clear—Albertans and Canadians will not permit development of the oil sands at any environmental or social cost. That's why Nexen is committed to reducing our impacts on water, land, biodiversity, air and communities.



Long Lake at a Glance

- A joint venture between Nexen and OPTI Canada
- An integrated SAGD and upgrading facility
- First premium synthetic crude oil produced in January 2009
- Full production capacity of 60,000 barrels of premium synthetic crude oil per day
- Long Lake leases contain enough bitumen for up to nine future phases

Applying Technology to Environmental Challenges



Nexen's Long Lake facility uses steam-assisted gravity drainage (SAGD) technology to access bitumen that is too deep to be mined. SAGD operations have a smaller footprint on the earth's surface than open pit mines. That's because we drill multiple wells from a single pad. The sand stays underground and we therefore don't create tailings ponds. Nevertheless, SAGD technology has surface impacts, including seismic lines, roads and well sites. Nexen has employed strategies and technologies to minimize those disturbances (see page 25).

SAGD and upgrading processes require water. Again, technology is helping minimize our impacts. Nexen is among the first SAGD producers to commit to using only brackish, non-potable groundwater to generate steam for SAGD operation. Once production has ramped up, we expect to recycle a significant portion of the water used to generate steam at Long Lake.

Climate change is one of the highest profile issues associated with the oil sands, largely because bitumen requires more processing than conventional oil. Nexen's greenhouse gas emissions are expected to increase as we ramp up production at Long Lake. We are pursuing a number of mitigation strategies as a result (see page 19).

Our proprietary upgrading process allows us to extract maximum energy from each barrel of bitumen by converting the bottom of the barrel into a synthetic gas. This gas is used as a fuel source for steam generation and upgrading. As a result, we are using less natural gas and are not producing petroleum coke as a waste product.

We recognize we will be developing future phases of Long Lake in a carbon-constrained environment. Our gasification technology gives us options for addressing greenhouse gases once Canada's regulatory framework is clarified. With the addition of a shift reactor on future phases at Long Lake, we could capture large volumes of CO₂ at the source. Carbon capture and storage, however, is a high-cost technology, so economic factors such as commodity prices and project costs must be considered along with environmental factors.

Addressing Community Concerns

The communities closest to our operations have a right to benefit from development and to be consulted about issues that concern them. As part of a broader consultation program, we conducted detailed community research during construction at Long Lake. Residents identified the lack of affordable housing, traffic and lack of infrastructure as key issues. This feedback has helped guide our community investments in the region and led to improved communication and other measures related to traffic volumes and safety.

Nexen is also active in a number of regional groups working to enhance quality of life in the oil sands region. We work closely with the Athabasca Tribal Council, a group representing the region's five First Nations. We also participate in organizations such as the Alberta Biodiversity Monitoring Institute that are working to understand and evaluate how human activity affects biodiversity in the province.

Find out more about Nexen's commitment to responsible development of the oil sands:

- Carbon capture and storage – page 20
- Mitigating impacts in the boreal forest – page 25
- Aboriginal partnerships – page 29
- Long Lake partners support local education – page 33
- Understanding our oil sands advantage—
Nexen 2008 Summary Report – page 24

What Drives Nexen's Focus on Sustainability?

- Social licence to operate
- Employee recruitment, retention and satisfaction
- Access to unique opportunities, land and resources
- Due diligence and risk management
- Compliance and beyond
- Investor confidence
- Better business decisions and a better operating environment

INTEGRATING SUSTAINABILITY

Every Nexen employee has a role to play in translating Nexen's sustainability commitment into action. Here are some of the sustainable business practices we use to guide our decision making:

Policies and Commitments

Policies – Nexen's Health, Safety, Environment & Social Responsibility (HSE&SR) policy says Nexen will work to be a recognized leader in sustainability and to integrate health, safety, environmental and social responsibility considerations into the way we do business. The policy is reviewed periodically and signed by the President and CEO (see www.nexeninc.com).

Responsible Care – Responsible Care is an ethic for the safe and environmentally sound management of products over their life cycle. It features six codes of practice covering areas such as community awareness, hazardous waste management and research and development (see www.ccpa.ca; also see page 17).

Planning and Decision Making

Nexen Investment Decision Process (NIDP) – The NIDP is a staged gate review process for capital projects at Nexen. Projects are divided into six stages with internal reviews following each stage. Nexen project teams use this process to scope projects, identify financial and non-financial risks, and execute the project plan effectively. As NIDP matures, we are looking to enhance the integration of life cycle value assessment and other HSE&SR parameters, such as water management.

Above Ground Reviews – Nexen conducts above ground reviews to assess political, security, regulatory and human rights issues in countries where we currently do business or are considering future investments. Nexen's management considers the risks and opportunities identified in the above ground review along with technical and financial risk (see page 30).

Performance Management

Management Systems – We implement and steward Nexen's HSE&SR policy through our Corporate HSE&SR Management System. This system incorporates Responsible Care's continual improvement model of Plan, Do, Check, Act. The management system also outlines the minimum expectations for each Nexen division in 12 elements, and each element includes standards and guidelines for implementation (see page 47).

Culture and Behaviour

Integrity Resource Centre – The Integrity Resource Centre oversees and supports Nexen's efforts to promote an ethical work environment. We strive to enhance the culture of integrity within our organization by providing education, engaging employees in integrity initiatives and managing integrity-related issues (see page 12).

GOVERNANCE

The 2008 financial crisis turned the spotlight on the way companies manage their organizations, reward performance and show accountability to shareholders. We believe good governance and transparency are essential to earning and maintaining the confidence of our shareholders and other stakeholders. That's why accountability remains a defining characteristic of Nexen's corporate culture—in any economic climate.

A Diverse and Experienced Board

Nexen's Board of Directors oversees management to ensure they are making the best choices for creating long-term value. Our directors are experienced industry leaders who bring diverse views and expertise to the boardroom table. Ten of our 12 directors, including the board chair, are independent.

The board places an emphasis on director education to ensure we have the right mix of competencies and attributes. In 2008, board members took part in a range of educational initiatives including topics such as securities regulations, climate change, human rights and emergency response planning. See our 2009 Management Proxy Circular (available at www.nexeninc.com) for a full list of director education topics.

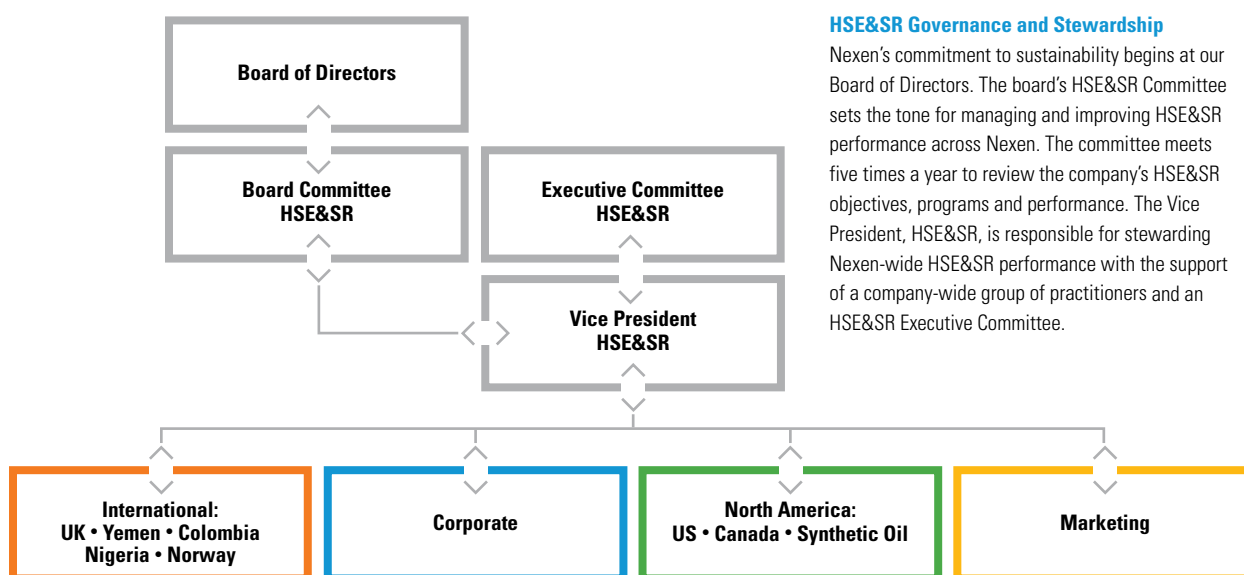
Compensation Linked to Strategy

Nexen's philosophy is to compensate executives based on performance at a level that is competitive with our peers. This approach is designed to attract and retain the leadership required to deliver on Nexen's strategic business objectives.

Nexen's Management Proxy Circular details our compensation philosophy, how we benchmark our compensation programs and the objectives against which executive performance is measured. This year, we provide additional disclosure around CEO compensation by clearly outlining the board's performance assessment against each of the CEO's major objectives in 2008.

Governance Roadshows

Nexen conducts governance roadshows to build relationships through face-to-face meetings with stock exchanges and governance-minded shareholders. As part of the program, we talk about our governance programs and ask these groups what Nexen should be doing differently. We explain our approach on specific issues such as term limits for directors and the use of stock options to attract and retain talent. Feedback from these sessions is reported to our board and is used to help continually improve our governance practices.





Integrity Leaders Make the Difference

How does integrity become part of a company's culture?

Cam Foss, manager of production operations at Nexen's Medicine Hat field, has served as an Integrity Leader since 2005. He explains, "Integrity at Nexen is a very grass-roots thing. Like most other companies, we have written policies. But having a network of leaders means we have 'go to' people that employees can tap into with questions or concerns—that's what sets our approach apart."

In 2008, 23 Nexen employees served as integrity leaders. They provide integrity training to new employees, ensure staff complete yearly statements of compliance, answer employee questions and ensure our company's integrity expectations are clearly understood.

Cam says, "As a manager, I'm absolutely convinced that training employees about integrity, right from day one, is the way to get it right. All my direct reports have an integrity piece in their performance reviews. It's important to talk about it regularly. We do the same thing with the contractors we hire. And it pays off. Our commitment to integrity and doing the right thing is a real drawing card in attracting folks to work with us."

ETHICS AND INTEGRITY

Nexen embeds a culture of integrity through integrated thinking and behaviour. We steward our culture of integrity through leadership, high standards and expectations, policies and ongoing efforts to communicate the importance of integrity and ethics to our employees, contractors, vendors and others with whom we do business.

Integrity Case Management

Nexen's Integrity Resource Centre received 54 allegations of breaches of company policies in 2008, compared to 60 incidents reported in 2007 and 34 in 2006. All incidents reported to the Integrity Resource Centre are investigated and resolved promptly, while respecting confidentiality.

The majority of the 2008 reports pertained to issues concerning security, employee relations, Nexen assets and reserves, and legal and regulatory compliance.

Education and Awareness

By the end of 2008, 93% of Nexen's workforce had attended the internal integrity workshop, exceeding our target of 90%. We also held 19 prevention of improper payments workshops for employees working in locations that Nexen has deemed to have a potentially higher risk for corruption. Approximately 100 employees attended these workshops in 2008.

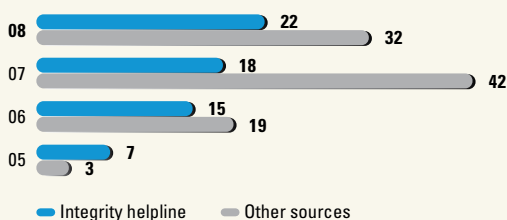
The annual online statement of compliance completed by every Nexen employee is designed to educate and continually reinforce the importance of adhering to our integrity and ethics policies. Employees also have the opportunity to report policy violations or suspected violations. In 2008, 3,643 designated employees and contractors (2007: 3,426) were required to acknowledge their compliance with Nexen's Ethics, Information Technology Acceptable Use and HSE&SR policies. Every member of Nexen's Board of Directors also completed the 2008 statement of compliance.

Alleged Integrity Incidents Raised (by category)

Type	2006	2007	2008
Security	4	26	14
Employee Relations	11	9	13
Nexen Assets and Reserves	3	3	10
Legal and Regulatory Compliance	2	7	9
Environment, Health and Safety	4	5	4
Community Affairs and Human Rights	3	–	2
Financial	3	3	1
Other	–	2	1
External Stakeholders	4	5	–
Total	34	60	54

INCIDENTS BY INTAKE METHOD

(number)



Sustainability significance

An open, responsive integrity management system helps embed a culture of integrity by addressing the risk of misconduct and creating a commitment to our business values.

How we are doing

Of the 54 alleged policy breaches reported to the Integrity Resource Centre, 22 were substantiated as actual breaches of Nexen's Ethics Policy.

Looking ahead

Based on the outcomes of incident investigations, we will improve processes and training as required and communicate those changes.

An integrity incident is any business practice, action or decision that potentially violates Nexen's Ethics Policy and/or the obligation to conduct business in accordance with local laws, regulations or customs.

STAKEHOLDER ENGAGEMENT

Nexen values the diverse views and perspectives our stakeholders bring to our business. Our stakeholders include governments in all jurisdictions where we operate, First Nations and community members, shareholders, employees, regulators, environmental groups, suppliers and partner companies.

We believe it's easier to solve issues across a kitchen table than in a courtroom. That's why we believe our stakeholders have a right to be involved in the decisions that affect them.

Nexen uses systematic processes to plan, develop and maintain productive stakeholder relationships in communities where we operate. We aim for a consistent approach with all of our stakeholders while recognizing that each community has unique issues and interests and that our impacts vary in each area.

Before we put a drill bit in the ground, we take the time to understand the community we are entering. Our stakeholder engagement approach typically begins with:

- community characterization profiles and history
- stakeholder identification and issue scoping
- detailed community involvement plans.

Not all stakeholder engagement revolves around a specific development project with defined timelines. Nexen also works hard to maintain ongoing long-term relationships with stakeholders where we already operate. This includes identifying community investment opportunities and participating in regional multistakeholder groups.

In Yemen and the Canadian Oil and Gas division, Nexen's stakeholder engagement is guided by the Responsible Care ethic, which leads us to identify community leaders, talk with them early and often and share our plans in an honest and transparent manner. As required by regulators in certain jurisdictions, we maintain secure databases to track our contact with stakeholders.

See pages 26 to 35 for examples of Nexen's stakeholder engagement approach.

HEALTH AND SAFETY



Maintaining a safe and healthy work environment is paramount to our success.

SAFETY PERFORMANCE OVERVIEW

In 2008, Nexen achieved mixed results in our ongoing efforts to improve safety performance. Our injury rate among employees, measured as a Total Recordable Injury Frequency Rate (TRIF), improved 19% in 2008 compared to 2007. Our performance for contractors in 2008 was not as positive. Despite some significant improvements in our Canadian drilling operations, we recorded a 3% increase in our contractor injury rate over 2007. Our combined employee/contractor injury rate for 2008 was down slightly over 2007 and fell just short of our target of best-ever performance.

To help put our safety performance in context, we compare our injury rates against those of our peers in the Canadian Association of Petroleum Producers (CAPP) and the International Association of Oil and Gas Producers (OGP). Overall, we found our safety performance stacks up well against our Canadian peers but we have work to do to become an international leader in employee/contractor safety performance.

We introduced a company-wide safety performance improvement initiative in 2008 to help us reach our safety targets for 2009 and beyond. This initiative includes a strong focus on the fundamentals of:

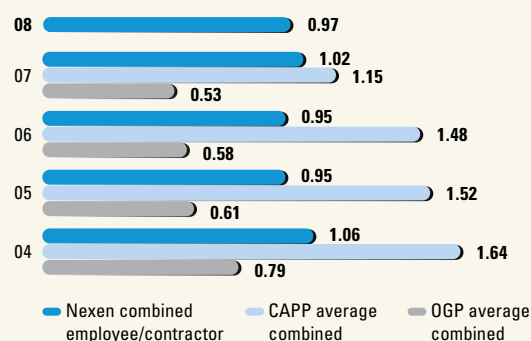
- assessing the understanding and quality of existing safety systems
- advancing methods for identifying and controlling hazards
- more stringently assessing workers' competency in their work procedures.

Major Safety Incidents

While Nexen employees improved their overall safety performance in 2008, we experienced major safety incidents involving contractors in Yemen, which regrettably resulted in two fatalities. One contractor was fatally injured through contact with live electrical equipment. In a separate incident, a contractor on a drilling rig sustained fatal head injuries.

Following the electrical fatality, we implemented new procedures for working on live electrical equipment at our Yemen well sites, and prepared guidelines for fatigue management, as this was viewed as a contributing factor. Following the second incident, we took over management of service rigs from the contractor, as we felt this was the best way to quickly and sustainably improve safety standards and culture in these operations.

TOTAL RECORDABLE INJURY FREQUENCY (combined employee/contractor Nexen-wide per 200,000 exposure hours)



Sustainability significance

Maintaining a safe and healthy work environment means protecting our people and sending them home safely each day. Paying attention to safety also improves productivity and attracts and retains workers.

How we are doing

Our combined employee and contractor injury frequency rate decreased slightly in 2008 but fell short of our target of best-ever performance.

Looking ahead

We have initiated a company-wide focus on safety fundamentals to help us reach our 2009 target of best-ever performance, and our ultimate goal of zero injuries.

Injury frequency rates are calculated using a combination of actual and estimated exposure hours. Does not include Long Lake construction. CAPP and OGP data for 2008 was not available at time of printing.



Buzzard Records 600 Days Without a Lost-Time Injury

Nexen's Buzzard Platform was recognized with a 2008 President's HSE&SR Excellence Award for outstanding safety performance. Employees recorded more than 600 days without a lost-time injury during an intense period of work. After the large and complex start-up of Buzzard in 2007, crews have prepared the facility for hydrogen sulphide by-product management and project tie-ins, with a largely temporary construction workforce. The Buzzard team has worked closely with key contractors to instill a "one team" approach and every offshore work cycle begins with a meeting of all new arrivals to promote a safety culture of openness and responsibility.

Process Safety Management

We are continuing to integrate process safety management (PSM) throughout our company and reduce the risk of process safety incidents. A process safety incident is an unplanned and/or sudden hazardous release of material or energy from a process that could result in harm to people, property or the environment.

In 2008, we appointed process safety and management of change coordinators in all divisions and completed two-day PSM training sessions in Calgary, Yemen, Long Lake and the U.S. To date, approximately 500 Nexen employees have completed PSM training.

While fully implementing PSM inside a company is a long-term effort, the payback is a much higher level of process safety awareness and more consistent work practices, leading to more reliable and safe operations.

Wellness Portal for Employees

Accurate, accessible online information about healthy living, fitness tips and health issues is now available to Nexen employees and their families through a new web portal launched in 2008. Nexen partnered with Foothills Health Consultants to provide information on a variety of health issues, including diet and physical activity, relationships, parenting, and emotional and psychological health. The portal also features self-screening assessments in lifestyle, relationships and emotional health, monthly newsletters and a health encyclopedia.

RESPONSIBLE CARE

Responsible Care is an integrated business management approach that promotes an ethic for the safe and environmentally sound management of products over their life cycle. Nexen was the first Canadian upstream oil and gas producer to adopt Responsible Care when we introduced it at our Balzac, Alberta gas plant in 2002 and in Yemen a year later. We are now working to implement Responsible Care in the rest of our Canadian Oil and Gas division.



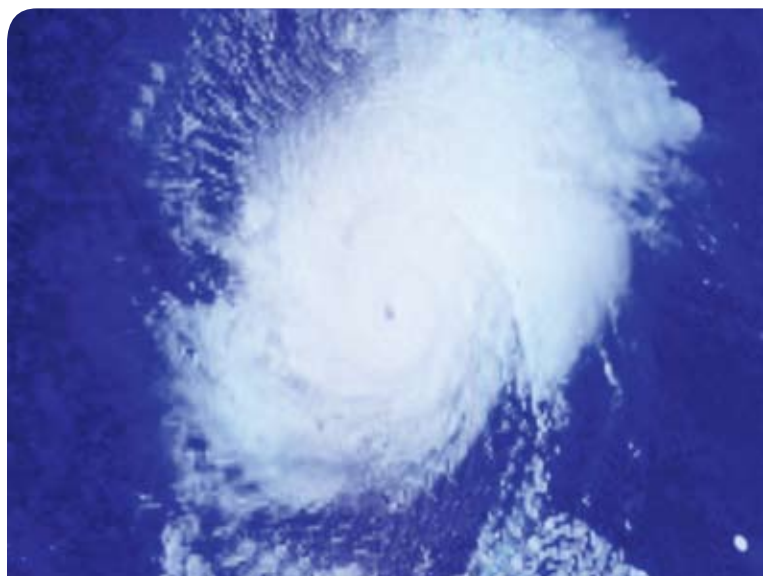
Responsible Care was developed in 1985 in Canada by the chemical industry. The Responsible

Care ethic is captured within six codes of practice that have an underlying theme of protecting people and the environment. Member companies' responsibilities extend to suppliers, transporters, distributors, contractors and customers. With its strong focus on continual improvement, Responsible Care is helping us improve health, safety and environmental performance, enhance communication with stakeholders and act as responsible stewards of our products throughout their life cycles.

At the heart of the Responsible Care ethic is a commitment to do the right thing and be seen to do the right thing. This approach aligns closely with Nexen's values and corporate culture.

In 2008, we continued to integrate Responsible Care throughout our Canadian Oil and Gas division. Seventeen groups are involved in preparing for a comprehensive external verification process, planned for 2010, to confirm that Nexen has work practices in place to support Responsible Care. Once verified, facilities undergo re-verification every three years. In 2008, Nexen's Yemen operation successfully completed its re-verification, and in early 2009, our Balzac Gas Plant finished its third re-verification. Reports from each verification are posted at www.ccpa.ca.

At Long Lake, we introduced a behavioural-based driving initiative entitled "Your Greatest Risk". Preventable vehicle incidents decreased 40% in 2008.



Hurricanes Test Response Plans

Nexen operates in the U.S. Gulf of Mexico, where we experienced two hurricanes in 2008. Our hurricane preparedness plan involved shutting in production at our offshore platforms and safely evacuating offshore personnel before storms arrived. We also evacuated employees from our Houston office before Hurricane Ike reached land. Several of Nexen's offshore platforms sustained damage and production was reduced during repairs; however, there were no injuries or environmental spills.

Nexen is evaluating the lessons learned during the 2008 hurricane season. Evacuation procedures and emergency communication with employees are two of the areas being factored into future plans.



Nexen is applying technology to address environmental challenges in the oil sands.



CLIMATE CHANGE

A growing awareness of the possible causes and effects of climate change has increased concern over the ways the world produces and consumes energy. We recognize climate change is an issue of growing importance to our stakeholders, including governments, investors and the public at large.

Nexen has been working to actively manage our own emissions through energy efficiency measures, wind power and technology development while also contributing to constructive dialogue on climate change public policy.

2008 Greenhouse Gas Emissions

In 2008, Nexen continued to follow a four-point emissions management strategy:

- physically reduce emissions
- self-generate carbon credits from wind power
- acquire eligible carbon credits
- participate in eligible domestic and international offset projects.

Nexen's total CO₂ equivalent emissions decreased about 3.5% between 2007 and 2008. The decline was primarily due to decreased flaring from our UK operations, naturally declining production and emissions from Yemen, and hurricane-related shut-ins in the Gulf of Mexico. Production carbon intensity, a measure of our emissions per unit of production, decreased about 5.5% mainly due to increased production from relatively low emission intensity operations in the UK.

Improving Energy Efficiency

Energy is a significant operating cost so we are continually looking for ways to reduce our fuel consumption and associated emissions. For instance, we upgraded a sulphur plant tail gas incinerator burner and controls at our Balzac gas plant and introduced a program of field heater optimization in the Balzac field that reduced fuel consumption. In Yemen, we introduced a project that allows us to use gas that was previously flared in our topping (diesel) plant.

In 2008, Nexen also began working on a new energy efficiency initiative designed to help our Canadian Oil and Gas division reduce its environmental impacts. The Eco-Program team's mandate includes finding ways to improve fuel efficiency and reduce air emissions such as CO₂, NO_x and volatile organic compounds. We will report on the team's progress in next year's report.

Investing in Offsets


Investing in wind power offers two benefits for Nexen. It provides a partial offset to emissions from our operations and it allows us to establish a presence in an industry that we expect to play a growing role in meeting future electricity demand. Our first wind power project, the 70.5-megawatt Soderghen Wind Farm near Fort Macleod, Alberta, was commissioned in 2006. In 2008, we began consulting with community members near Delia, Alberta, about a planned second wind farm. This proposed 80-megawatt facility is targeted for start-up in 2011, subject to approvals and transmission availability.

What Does Our Energy Future Look Like?

That's the fundamental question that drives the discussion about energy and climate change. It's not a question our company—or even our industry—can answer alone. Governments, energy companies and consumers all must be part of the solution.

Nexen believes consumer behaviour is an important piece of the climate change challenge. That's because more than 80% of greenhouse gas emissions from a barrel of oil come from the end use of the product by individuals. Nexen intends to do our part to manage CO₂ emissions from energy production, but society-wide conservation and other consumption-reducing alternatives will also be needed.

Significant progress on climate change is possible, but it will take coordinated action from all sectors of society, including both the producers and consumers of energy.



We believe all forms of energy will be required to meet society's growing energy needs. Wind power has environmental benefits but it also poses some challenges. Wind is an intermittent power source, which means it tends to sell at a discount on the spot market when compared to other sources. It also requires continued use of conventional sources such as coal and natural gas for back-up generation when the wind isn't blowing. Looking ahead, governments can help stimulate investments in wind power through instruments such as renewable portfolio standards, which require a certain percentage of power to be generated by renewable sources.

An Overview of GHG Regulation

Nexen operates in several jurisdictions with varying degrees of greenhouse gas regulation:

- In Colombia, Yemen and Nigeria, either no regulations currently exist or they are in early development.
- A number of state-level initiatives are under way in the U.S. and the new administration in Washington has identified energy and climate change as priority issues.
- The Canadian government outlined a plan to reduce GHG emissions by 20% from 2006 levels by 2020. However, the government is currently pursuing a clean energy dialogue with the U.S. It's unclear how bilateral discussions with the U.S. will affect Canada's proposed air emissions framework.
- Nexen has operations in both Alberta and British Columbia that fall under provincial greenhouse gas regulations. Our Long Lake facility will be required to meet Alberta's regulations after three years of commercial operation.
- In the UK, we have allocations from the regulator as part of the European Union Emissions Trading Scheme.

Nexen has also contracted to receive more than 200,000 tonnes of credits from the Greenhouse Gas Credit Aggregation Pool (GGCAP), an international buyers' pool that is investing in emission reduction projects. We received our first Certified Emission Reductions through the pool in early 2009. They will be used to help meet our compliance obligations in the UK or in other jurisdictions where they qualify.

Understanding the Regulatory Context

As we work to reduce our own emissions, we have also been engaged in the climate change dialogue with governments, industry associations, scientists and academic institutions. In our discussions, we support climate change policy that meets the following objectives:

- provides incentives for technology development
- includes a simple and transparent compliance system
- does not disadvantage a single region or sector of the economy
- does not assign unlimited liability to companies and their shareholders
- engages the end user of fossil fuels—the consumer—in addressing climate change.

There is still uncertainty around greenhouse gas regulations in some jurisdictions where we have major assets. As we look ahead to an increasingly regulated environment, we will maintain a range of options for managing compliance and emissions. But we need greater clarity from regulators before we can accurately evaluate these options over the long term.

Carbon Capture and Storage (CCS)

CCS involves capturing CO₂ at large industrial facilities and safely storing it underground in geological formations. We are well positioned to incorporate CCS technology into future phases of our Long Lake facility once the right development cost, commodity price and regulatory frameworks are established. Our proprietary gasification technology enables the capture of an essentially pure stream of CO₂ for sequestration. We are advancing CCS as one of several potential compliance strategies for the oil sands.

Nexen continues to support the Integrated CO₂ Network (ICO₂N) as a founding member. ICO₂N is working to promote a cost-effective business model for implementing a network that would tie large sources of CO₂ with underground storage.

CCS is a promising technology, but the legal, regulatory and economic frameworks to support it are not in place. CCS remains one of the highest-cost emission reduction options and is not economical in the current environment. Looking ahead, one possible solution is to introduce carbon pricing tools such as a carbon tax or an auction through a cap and trade system, which would create a pool of capital for CCS development, demonstration and deployment.

CO₂-EQUIVALENT EMISSIONS – COMPANY-WIDE¹
(million tonnes)



Sustainability significance

Climate change is an issue of growing importance to many of our stakeholders. Companies such as Nexen have to establish business plans anticipating a carbon-constrained future.

How we are doing

Increased emissions from the Long Lake start-up were offset by reductions in the UK, U.S. and Yemen.

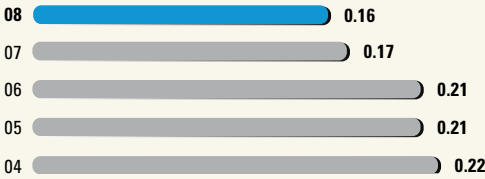
Looking ahead

Total CO₂ emissions are expected to grow as Long Lake production ramps up. CCS is one option we are pursuing to help manage emissions.

Low Carbon Fuels Standards

Some jurisdictions in the United States are proposing low carbon fuel standards that seek reductions in life cycle CO₂ emissions from transportation fuels, including those produced from the oil sands. These proposals apply a life cycle analysis (LCA) approach, which attempts to measure emissions of transportation fuel from its production through to its end use.

PRODUCTION CARBON INTENSITY (PCI) – COMPANY-WIDE¹
(tonnes of CO₂-equivalent per cubic metre of oil equivalent)



Sustainability significance

Production carbon intensity measures our CO₂ emissions per unit of gross operated production. Several jurisdictions, including Alberta, have set intensity-based reduction targets.

How we are doing

PCI has decreased in recent years, mainly due to increased production from relatively low emission intensity operations in the UK.

Looking ahead

As Long Lake production ramps up, our company-wide PCI will increase. We are employing a range of emission management options to meet regulated targets.

Since the Nexen-operated Balzac Power Station is not part of our oil and gas operations, its emissions are not included in the PCI calculation.

¹ Base data used to estimate emissions include both measured data and production-based emission factors. Includes indirect emissions from electricity consumption. Fifty per cent of Long Lake emissions are included because in 2008 this was a jointly operated facility. For a description of our emissions calculation methodology, refer to our Carbon Disclosure Project submission at www.cdproject.net.



Nexen's Water Management Principles Include:

- optimize water use efficiency
- minimize our impacts on ecosystem functions and ensure public health and safety are not adversely affected by our activities
- engage with stakeholders to promote responsible watershed management and evaluate opportunities to provide water management benefits to stakeholders
- measure and communicate our water management performance.

Several LCA tools exist and have produced different outcomes. We believe it's important to establish a common LCA tool that takes into account all inputs and outputs to the life cycle and is equitable for any energy source.

Nexen is engaging with U.S. legislators, industry peers and academics to develop an LCA tool that will accurately and transparently measure the carbon intensity of all transportation fuels and help guide future energy and environmental policy.

WATER MANAGEMENT

Water is essential to the oil and gas industry. We heat water to produce steam for steam-assisted gravity drainage (SAGD), we use it to lubricate the drilling and completion of oil and gas wells on and offshore, as well as to enhance the recovery of hydrocarbons from older production operations.

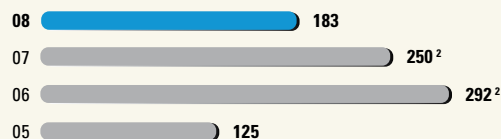
We recognize water is an area of increasing focus and concern so we treat water as a scarce and finite resource. This is particularly true in the oil sands region, where multiple users are drawing on the region's water sources. As we expand our oil sands production over the long term, we will be looking for innovative ways to enhance water conservation in our operations.

Nexen's Water Strategy

In February 2008, we hosted a Water Strategy Workshop with staff from across our global operations, where we drafted a series of water management principles for Nexen (see sidebar).

FRESH WATER DIVERTED UNDER PROVINCIAL LICENCE – CANADIAN OIL AND GAS¹

(thousand m³ per year)



Sustainability significance

Economic development and population growth are placing increasing demands on Western Canada's finite fresh water resources.

How we are doing

Fresh water use has decreased since 2006 while our saline water use has increased. This trend reflects Nexen's commitment to minimize the use of fresh water.

Looking ahead

We will be guided by our company-wide water principles as we develop action plans for water management.

¹ Includes non-saline water diverted for industrial use under provincial licence for Canadian Oil and Gas operations.

² As a result of improved water tracking, data for 2006 and 2007 has been restated.

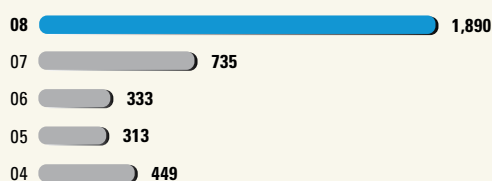
Workshop participants also identified practices and actions to advance each principle. Recommendations included developing a water efficiency program that would involve audits, identifying beneficial water reuse opportunities, establishing a scorecard to rate performance and considering shadow pricing of water in project metrics.

Roll-out of the water strategy in 2009 will focus on:

- compliance and early adoption of best practices
- incorporating water assessment tools in the Nexen Investment Decision Process (NIDP)
- developing water management systems to enhance water tracking and reporting
- seeking waste water reuse opportunities.

FRESH WATER DIVERTED UNDER PROVINCIAL LICENCE – LONG LAKE¹

(thousand m³ per year)



Sustainability significance

Nexen is one of several oil sands operators that require groundwater and/or surface water for their operations.

How we are doing

Water consumption increased significantly as bitumen production ramped up in 2008 and more steam was required.

Looking ahead

Further expansion at Long Lake will require additional water from various sources despite anticipated advances in water re-use efficiency.

¹ Includes non-saline water diverted for industrial use under provincial licence for Long Lake operations.

Environmental Incidents Increase

Nexen defines a reportable environmental incident as any spill of liquids at or above regulatory reporting thresholds, or an exceedance of regulatory permit requirements. In 2008, we recorded 139 reportable events, a 9% increase over 2007. These included 111 environmental spills, totalling 3,833 cubic metres. We recovered approximately 74% of the spilled volumes.

Nexen's Canadian Oil and Gas division experienced three large-volume spills of produced water, which is water that we extract from underground formations along with oil and gas. None of these spills (totalling 1,170 cubic metres) impacted large areas. The affected soils can be remediated in one growing season.



Nexen Fellowship in Water Research

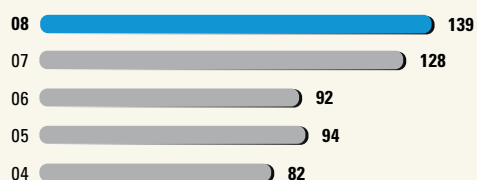
Nexen contributed \$300,000 in 2008 to support the creation of the single largest corporate-funded award for graduate students at the University of Lethbridge in Alberta—and one that will be used to create graduate scholarships and fellowships in water research.

The inaugural recipient of the first Nexen Fellowship in Water Research is Lars Brinkmann, a University of Lethbridge alumnus and doctoral student whose research focuses on mercury concentrations in fish populations in the South Saskatchewan River Basin.

At Long Lake, 560 cubic metres of production water (a mixture of surface runoff, produced water and waste water from industrial sources) spilled over the banks of a pond. At our Yemen Masila operations, 715 cubic metres of produced water overflowed a pond, due to human error. We recovered most of the spilled volumes and completed site remediation to the satisfaction of regulatory authorities.

ENVIRONMENTAL INCIDENTS – COMPANY-WIDE

(number)



Sustainability significance

The number and severity of spills or exceedances affects our environmental footprint as well as clean-up and remediation costs.

How we are doing

The number of incidents increased 9% over 2007. Investigations did not identify an overriding cause or trend.

Looking ahead

In 2009, we will focus on process safety management to help reduce equipment failure while also raising awareness of human error factors.

Nexen investigates every environmental spill and exceedance, regardless of volume, to determine its cause and take steps to prevent a recurrence. In 2009, Nexen will concentrate on increasing employee awareness of the engineering, maintenance and human error factors associated with these events.

LAND AND BIODIVERSITY

Every environment contains many life forms. Biodiversity reflects the unique ways these life forms interact. An ecosystem rich in biodiversity is considered healthy, complex and more resilient to change.

Nexen recognizes the importance of biodiversity protection in all areas where we operate, both onshore and offshore. We demonstrate this by implementing biodiversity protection practices, supporting biodiversity research, and taking part in organizations that influence public policy and create protected areas.

Multi-Regulator Approval for Infill Drilling Program

Nexen operates more than 2,300 shallow natural gas wells in the Medicine Hat fields in southern Alberta and Saskatchewan. In 2008, we completed a drilling program to enhance recovery of the remaining gas there. The region consists of farms and grazing and native grasslands, with many endangered species.

The drilling program moved forward smoothly due to Nexen's approach to the complex multi-regulatory and stakeholder consultation process, as well as meeting the stringent environmental protection practices established for this sensitive area. Nexen committed to a voluntary five-year cumulative effects monitoring study as part of the program—our first for a shallow gas infill project.

Our team worked with multiple provincial and federal regulatory agencies to make the program happen. We also hired a wildlife biologist to conduct the pre-disturbance wildlife assessments that were part of the environmental assessment plan and cumulative effects monitoring plan. This program was recognized with a 2008 President's HSE&SR Excellence Award.

Well Reclamation and Abandonment

Reducing potential liabilities, lowering operating costs and restoring land to its pre-industrial use are the goals of our Canadian Oil and Gas well abandonment and reclamation program.

Following well abandonment, Nexen conducts an environmental assessment to ensure soil or groundwater impacts are identified. Any contaminated material is excavated and either disposed of safely or reclaimed using bioremediation techniques. Once clean, final reclamation involves contouring the surface terrain, replacing topsoil and returning it to a state specified by the landowner.

In 2008, Nexen's Canadian Oil and Gas division completed 24 well abandonments and achieved 58 reclamation releases and 50 certifications. The benefit is twofold—we avoid potential future environmental issues and we achieve lower land rental costs.

Mitigating Impacts in the Boreal Forest

Canada's boreal forest is a vast and diverse ecosystem. It also supports a number of natural resource industries, such as the oil sands, and is home to many Aboriginal communities.

The SAGD technology used at Nexen's Long Lake facility has some environmental advantages, but is not without its impacts. While it does not feature the open pits and tailings ponds associated with oil sands mining, it does create other surface disturbances. These include seismic lines, well pads, roads and processing facilities.

Planning ahead to minimize the surface footprint of these facilities makes sense for a number of reasons. It can reduce Nexen's construction and reclamation costs while decreasing surface disturbance and supporting traditional land use. From the outset at Long Lake, Nexen worked closely with a local forestry company to develop a joint access management plan for the lease lands. This includes sharing road access, planning timber harvesting in project areas requiring clearing and locating well pads to reduce surface impacts.

Where surface disturbance is necessary, Nexen focuses on responsible land stewardship. Some environmental groups have encouraged us to explore biodiversity offsets as a means of offsetting our oil sands footprint by protecting an equivalent amount of boreal habitat elsewhere in northeastern Alberta. As a first step, we worked with the Canadian Boreal Initiative to develop a model for conservation offsets in the oil sands region. We are now looking to implement a pilot project in the region to test this model.

Communication is Key to Coexistence

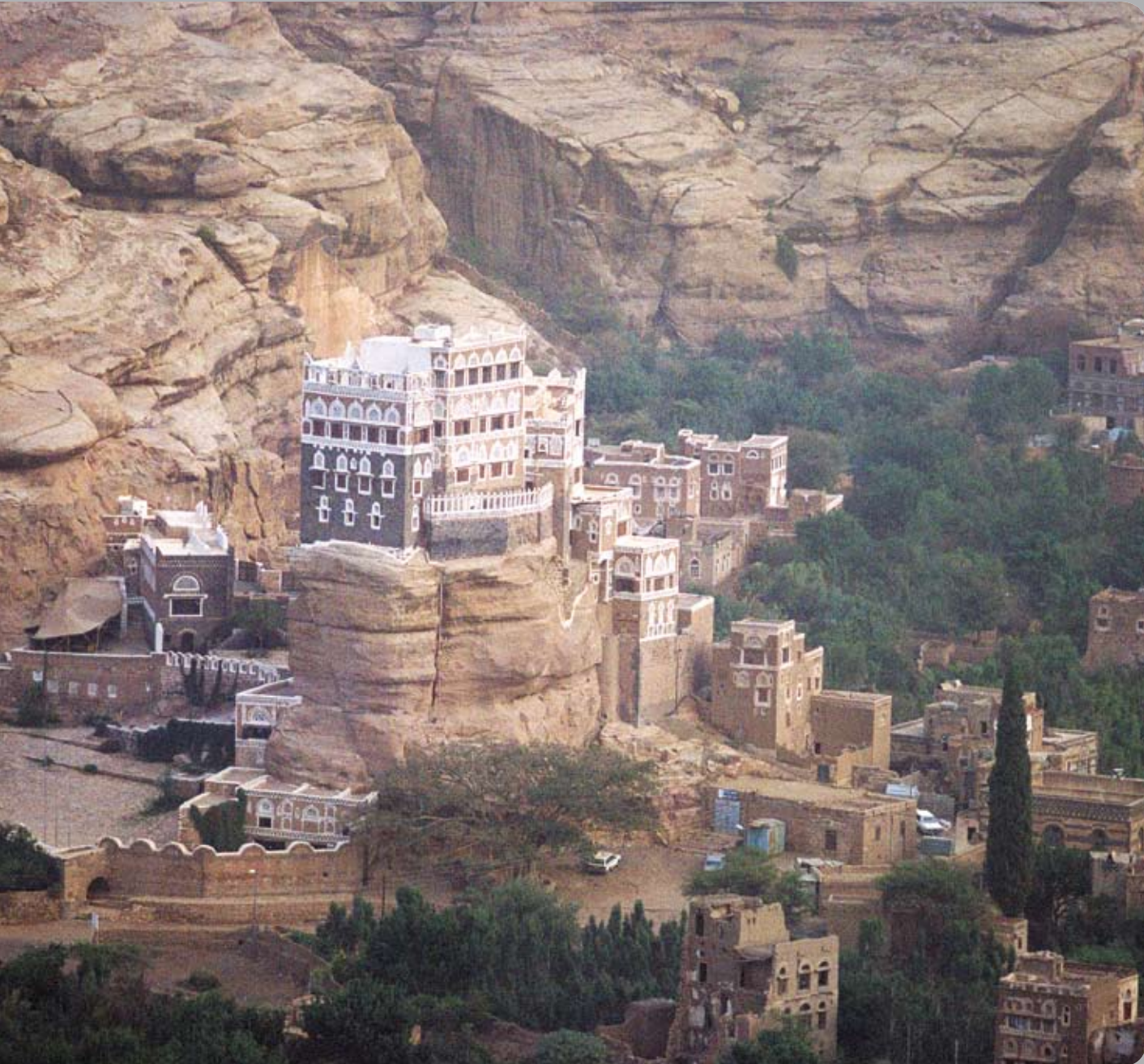
Nexen's Long Lake Project area overlays lands used by trappers and other residents near the Hamlet of Anzac.

Rollo Goodwin is a member of Willow Lake Métis Local #780 and is a registered trapline holder in an area that includes the Long Lake Project area. While Rollo works in Fort McMurray for a construction contractor, trapping is also an important part of his lifestyle.

Nexen has been working with Rollo since 2000 as part of a comprehensive consultation program with stakeholders in the region. Through an open dialogue, we have been able to identify issues and develop mutually agreeable plans. For example, Rollo raised concerns about Nexen's plant site limiting access to his trapping area. We found a solution that allowed him to have unimpeded access.

"If I had something negative to say, I'd say it. But I don't," says Rollo. "There's good communication. And there's a good relationship. They give us the work schedules, so I know where on the lands they'll be and I tell them where I'm going to put my traps. They'll avoid those areas and do the seismic there at a different time. I appreciate it."

Rollo admits he still has a few concerns. "Most of the impact has to do with the seismic lines," he explains. "There are trails all over the bush now. So there's a wider area for me to cover with bait stations. But you adapt. And since the plant hasn't yet started full operation, it's hard for me to say what it will be like in the future. But we've been able to work pretty well together so far."



Nexen has contributed to health care, education and other community projects in Yemen.

COMMUNITY ENGAGEMENT

Collaborating in the Horn River Basin

British Columbia's Horn River Basin is one of the largest shale gas resource plays in North America and has the potential to double Nexen's proven reserves. Our lands here are estimated to contain between three and six trillion cubic feet of recoverable resources.

With significant development planned for the region, energy companies in the area are coming together to find ways to reduce environmental impacts, coordinate development and strive to ensure a fair share of benefits to stakeholders affected by our activities. Nexen is one of a number of energy companies participating in the Horn River Basin Shale Gas Producers' Group, which is working towards responsible development in the region.

The Horn River Basin is one of the largest shale gas resource plays in North America.

One way for group members to reduce environmental impacts is to share infrastructure such as roads, pipelines and processing facilities. For instance, Nexen and two other energy companies built the Komie Road Extension near Dilly Creek, close to Nexen's project area. This all-season road will improve access to land holdings from a single shared roadway rather than multiple roads through the boreal forest. Also, industry can spread out its activity over a longer period of time each year, reducing road traffic during the drilling season. The Komie Road Extension will also serve as a pipeline corridor, reducing the need for additional land clearing.

The Horn River Basin Shale Gas Producers' Group hosted a two-day Fort Nelson Energy Expo, a career development event to inform residents about possible career opportunities and training programs in the oil and gas industry. Forty-two exhibitors, including Nexen, service contractors and local educational institutions, participated in the event.



Tracking Public Complaints

Nexen uses a public complaints management tool in our Canadian Oil and Gas division to better track public concerns related to our operations. This database allows us to identify emerging issues and to ensure we address each concern in a timely way.

We received 62 public complaints in 2008 on matters such as operations-related odours and how we access and work on private land. Information is shared internally on each complaint and responsibility is assigned for resolving the issue. Nexen management reviews these metrics monthly.

Addressing Community Concerns in Balzac

In late 2008, Nexen received regulatory approval to drill 15 new sour gas wells and build related pipeline infrastructure near the existing Nexen Balzac Gas Plant. The regulator concluded that Nexen's extensive public consultation process made a public hearing unnecessary.

Consultation began in 2006 and involved meetings with over 650 families, businesses, regulators and local officials in this community just outside of Calgary.

Nexen applied the principles of integration to bring all parts of the project together at once, instead of submitting several individual well and pipeline applications. A program of open houses, regular newsletters and emergency response planning were key elements of our approach.

Face-to-face meetings with stakeholders help Nexen understand and address community concerns.

Consultation with the local community identified four key areas of discussion: potential impacts on land values, setback distances from pipelines and other facilities, sulphur emissions and the protection of groundwater.

Nexen took a number of steps to address stakeholder concerns. These included agreeing to go beyond regulatory minimums and install 350 metres of surface casing in each well to protect groundwater, and changing the location of a new well site to address a landowner's concerns. We also took steps to minimize surface impacts by using existing well pads and pipeline corridors wherever possible. Remaining issues were resolved through a dispute resolution dialogue initiated by Nexen and facilitated by the provincial regulator, the Alberta Energy Resources Conservation Board.

Stakeholder engagement didn't end when we received our regulatory approval. Nexen is continuing to keep residents informed of our progress through all phases of the project. We are also active participants in the Balzac Community Advisory Panel to ensure we stay informed of issues and concerns that matter to the community.





ABORIGINAL PARTNERSHIPS

Because some of Nexen's activities take place in traditional territories of Aboriginal people, we have developed an approach that recognizes their unique legal rights and seeks to avoid disruption to traditional practices.

Nexen's engagement with our Aboriginal stakeholders is guided by a "Statement of Principles for Relations with Aboriginal Communities". In 2006, Nexen's Aboriginal Partnership team worked to revise this document into a formal company policy. Its overarching principle is a commitment to create mutually beneficial relationships with Aboriginal peoples and communities.

A number of regulatory changes have been introduced by the provinces of Saskatchewan, Alberta and British Columbia that have the potential to change how Aboriginal consultation is to be conducted. Accordingly, Nexen is waiting to introduce our updated Aboriginal consultation policy to ensure it is consistent with any new regulations in those jurisdictions. In the meantime, we are operating according to our draft policy.

Aboriginal Stakeholders and the Long Lake Project

Long Lake is just one of several oil sands projects underway in the Wood Buffalo region. The rapid increase in industrial activity in recent years has posed specific challenges for Aboriginal communities in the region. These include environmental impacts on traditional lands, social impacts from changing communities and challenges related to participating in the jobs and contracts generated by the oil sands industry.

Nexen recognized that these complex issues would need to be considered in our long-term consultation approach with our First Nations and Métis neighbours over the life of the Long Lake Project. We also understood that fostering positive, long-term relationships with our First Nations and Métis neighbours would be instrumental to the Long Lake Project's long-term success.

Several issues shaped our consultation approach. First, we worked hard to establish open and accessible communication channels through all phases of the project. We asked the communities what they needed in order to consult with us. In response, we provided support that included translation of certain project materials into local languages and funding for computers and other technologies. To promote communication and understanding, we also made Aboriginal cultural awareness training mandatory for new Nexen employees at Long Lake. Between 2007 and 2008, approximately 130 Nexen employees completed the training.

We also encourage Aboriginal participation in the oil sands economy by facilitating joint ventures between First Nations and suppliers. These joint ventures help to address the common challenge for First Nations businesses of finding short-term access to capital, and enable First Nations to increase their ownership and responsibility in the ventures over time.

Supporting Leadership and Education

Nexen made a five-year, \$350,000 sponsorship commitment to the National Aboriginal Achievement Foundation (NAAF), an organization that encourages and celebrates excellence in Canada's Aboriginal community. Approximately \$75,000 of Nexen's contribution will be used to support NAAF's annual career fair. The balance will help fund the National Aboriginal Achievement Awards, which annually recognize 14 Aboriginal people who have excelled in their careers and who serve as exceptional role models.

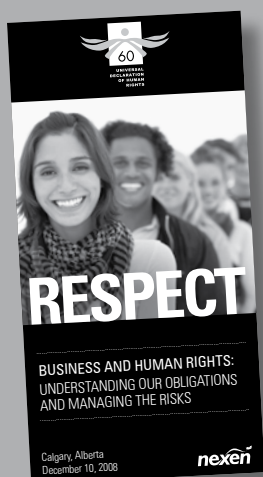
Nexen also supports a wide range of educational, leadership and cultural institutions in Western Canada that provide opportunities for Aboriginal students. These include universities, technical schools and the Banff Centre's Aboriginal Leadership and Management Program, where Nexen provides funding for the research chair.

HUMAN RIGHTS

"All human beings are born free and equal in dignity and rights." That statement was written in 1948 in the Universal Declaration of Human Rights and influences Nexen's own stand-alone Human Rights Policy. Wherever we operate, Nexen demonstrates respect for human rights directly, through our own operations, and indirectly, through our influence on our partners, contractors and suppliers.

We participate in several industry and international initiatives focused on human rights, including the United Nations Global Compact and the International Petroleum Industry Environmental Conservation Association (IPIECA). This involvement enables our company to share experiences and learn from others while gathering new insights to apply to our own human rights practices.

Marking a Milestone



Nexen joined with several other Canadian corporate members of the United Nations Global Compact to place an advertisement in one of Canada's national daily newspapers to mark the 60th anniversary of the Universal Declaration of Human Rights in December 2008.

Understanding Our Obligations, Managing Our Risks

Nexen marked the 60th Anniversary of the Universal Declaration of Human Rights in December 2008 with a half-day workshop for 23 Nexen senior managers and three board members. The session was titled *Business and Human Rights: Understanding Our Obligations and Managing Our Risks*. Participants discussed a number of questions about human rights, examined Nexen's policy and commitments, and received an overview of contemporary human rights issues from security, community, indigenous rights and supply chain perspectives.

Updating Above Ground Review in Colombia

Nexen assesses human rights risks associated with both existing and potential investments. These Above Ground Reviews assess a country's political, security, regulatory and social issues through interviews with government officials, industry operators, journalists, non-governmental organizations and security specialists. We typically conduct these reviews every two years in existing operations or when we are considering entering a new area. In 2008, Nexen updated an earlier Above Ground Review for Colombia.

Security, Communities and Human Rights

Nexen operates in some politically challenging areas of the world where security and human rights issues are closely linked. That means we must protect our people and property while behaving ethically, paying attention to community interests and respecting human rights. This requirement also applies to government and third-party security providers working for Nexen.

Nexen uses contract security providers in Colombia and Yemen. Each security company is screened and its activities are directed by Nexen's local security manager. In Yemen, Nexen plans to introduce additional training in security procedures in 2009 that will cover human rights and community engagement issues.



PUBLIC POLICY

Our Approach to Public Policy

Nexen believes good public policy is achieved when all stakeholders contribute to the government decision-making process. Resource development will always come with benefits and impacts. Wise decisions can only be achieved if we are prepared to engage in a broad, balanced and informed debate.

For Nexen, that means being more than a policy advocate. It also entails being a policy resource and partner to governments, helping to educate policy-makers and other stakeholders on our industry and, in return, seeking a better understanding ourselves of the wider goals and objectives of governments. Through this open, two-way engagement, mutual benefits and responsibilities emerge. This leads to better policy and regulatory frameworks than would otherwise be the case.

Nexen has developed strong ethical practices in our dealings with governments. This includes supporting and being in compliance with related laws in the jurisdictions in which we operate, such as lobbyist registration and political contribution requirements.

In 2008, we made political contributions in Canada totalling \$36,500. These contributions are made to support the fundamental political process. They are part of an annual budget and do not increase during political campaigns.

Areas of Discussion

The oil and gas industry is one of many sectors that meet with government on policy matters, along with many other stakeholders and interest groups. Examples of topics that Nexen discusses with government, either directly or through the various associations to which we belong, include:

- environmental responsibility, including air emissions and water use
- taxation and royalties
- economic and social benefits
- infrastructure
- local community and First Nations consultations
- new technologies
- general political stability.

COMMUNITY INVESTMENT

We believe it's important to give back to communities through charitable giving and the volunteer efforts of our employees.

Nexen aims to allocate 1% of pre-tax earnings (averaged over five years) for community investments each year. This benchmark is recommended by Imagine Canada, a research organization that supports corporate philanthropy. Nexen invested approximately \$12.7 million in 2008 to support a variety of community initiatives in countries where we operate.

Our employees also give back to their communities by donating their time and talents to charitable causes. Nexen supports a number of employee volunteer events and in some cases provides employees with paid time off from work to volunteer. We also supported the causes that matter to employees by providing \$1.2 million to match employee donations to registered charities in 2008.

Learning Lessons in Community Capacity Building

Community investment programs don't always run smoothly. A water and sanitation program for a community neighbouring our Yemen operations is a case in point.

As part of our commitment to the United Nations Global Compact initiative, Nexen and the United Nations Development Programme (UNDP) agreed to sponsor a clean water and sanitation system for the community of Ressib. The UNDP had responsibility for project execution. The project was launched in 2002, with a goal to complete the system within three years. As of year-end 2008, only the water delivery system had been completed.

Several issues contributed to the delays. The UNDP's processes for reviewing and approving project elements were complex, and there was considerable turnover of project staff. On Nexen's part, we revisited project governance to strengthen transparency.

The good news is that 5,000 people now have safe drinking water. Nexen has assumed responsibility for the remaining project components, with completion of the sanitation system and capacity building targeted for the end of 2010. We are documenting the lessons learned from this experience to enhance future collaborative social investments.



A Decade of Yemen Scholarships

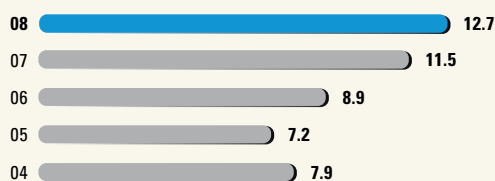
Nexen marked the 10-year anniversary of our Yemen Scholarship Program in 2008. The program was launched to enable young Yemenis to pursue a post-secondary education in Calgary in fields critical to the country's economic development. While the original plan was to offer 20 scholarships in total, we quickly saw the benefits of the program and expanded it.

To date, we have awarded scholarships to 100 Yemeni students. Each scholarship underwrites a four-year post-secondary degree program and includes tuition, books, accommodation, meals and other essentials—a value estimated at around \$140,000 per student.

The program has produced 44 graduates to date. In particular, the program has enhanced opportunities for Yemeni women, who comprise about 30% of our scholarship recipients.

COMMUNITY INVESTMENT

(\$ millions)



Sustainability significance

Nexen invests in charitable initiatives in our host communities. This helps support our ongoing social licence to operate and ensures communities benefit from resource development.

How we are doing

Our 2008 community investments were based on the Imagine Canada guidelines of allocating 1% of pre-tax earnings to community investment.

Looking ahead

We are looking at ways to enhance and support employee volunteer efforts.



Supporting Quality Health Care in Dallas

Nexen's U.S. division announced a U.S. \$1.5 million contribution to the Parkland Health and Hospital System in 2008 to build a new hospital in Dallas, Texas. The five-year commitment is Nexen's largest ever in the U.S. and the largest corporate donation to date for the *I Stand for Parkland* capital campaign. Nexen's U.S. management team recommended Parkland for funding after recognizing the scope and quality of care, particularly for visible minorities and low-income patients.



Providing Flood Relief in Yemen

In October 2008, a severe tropical storm caused massive flooding throughout Yemen. Close to 200 Yemenis lost their lives in floods following the storm and more than 20,000 people were displaced from their homes.

Nexen provided financial and hands-on support in the critical days following the floods. Our field staff helped reopen roads, distribute emergency food rations and restore water and electric power infrastructure in some of the hardest-hit areas. Nexen also made a \$1 million donation to relief efforts in Yemen and matched donations from employees.

Long Lake Partners Support Local Education

Nexen and OPTI Canada used the occasion of the Long Lake Project commissioning to announce two community investments totalling \$2.5 million. The investments include a \$1.5 million commitment to improve the educational offerings at the Bill Woodward School, which is now being built in Anzac. The funds are earmarked for items such as playground equipment, science labs, library resources and computers. The school was named after a respected elder and community leader who passed away in 2007. Another \$1 million in scholarships was announced for future Grade 12 graduates in the Regional Municipality of Wood Buffalo to help finance their post-secondary studies.

OUR EMPLOYEES

Nexen's goal is to be a preferred employer by creating a culture where employees are engaged, committed to doing their best and where they feel their contributions are valued. We work hard to be a company that encourages people to learn, grow and contribute to the organization.

Measuring Employee Engagement

For the eighth consecutive year, Nexen participated in the 50 Best Employers in Canada study sponsored by Hewitt Associates and the *Globe and Mail's Report on Business* magazine. The study also serves as Nexen's annual employee opinion survey and the results help us understand what we are doing well and where we can improve.

About 66% of our employees from around the globe took part in the survey. We did not place among the 50 Best Employers, after having done so six times previously. Our overall corporate engagement score was 69%, down slightly from previous years. The survey results showed that employees who say the career and performance communication process is meeting their expectations are the most engaged; those who don't are the least engaged.

We are continuing to focus on career and performance development as a way to improve employee engagement. Nexen is implementing a new career and performance management system and we held our first professional development forum at the end of 2008. Divisions will also implement their own action plans through 2009 to address their specific survey results.

Improving the "Onboarding" Process for New Hires

According to The Human Capital Institute, 90% of new employees decide whether they will remain with a company during their first six months on the job. That's why Nexen made several improvements to its employee "onboarding" process in 2008. Our goals are to engage new hires from their first days, provide a better sense of community and enhance their company knowledge.

Putting Technology to Work

Nexen has introduced next-generation videoconferencing technology to help increase collaboration across the company. Nexen has had traditional videoconferencing technology for some time; however, this new system is far more widely used because it creates a “just like being there” experience. Now Nexen’s Calgary, Uxbridge and Dallas offices are connected through high-definition video and sophisticated acoustic technologies. Increased collaboration and cost and time savings were the primary drivers for investing in this technology, but it also promises to reduce our carbon footprint for employee travel.

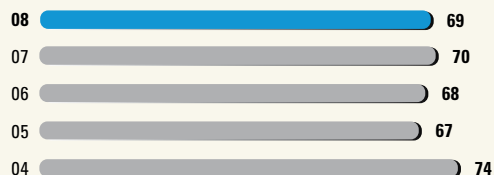
To help achieve these improvements, Nexen implemented a program of scheduled start dates. New employees now start their employment on a fixed start date scheduled once every two weeks and participate in group orientation sessions over their first two days on the job.

Unions and Collective Agreements

Nexen’s Balzac, Alberta facility (represented by the Communications, Energy and Paperworkers Union) and our operations in Yemen (Masila Labour Union) are the only two unionized operations in our company, with 61 and 980 unionized employees respectively in 2008. Based on Nexen’s total workforce of 3,776 employees at the end of 2008, approximately 28% of our employees were covered by collective agreements. There were no collective labour actions or disputes with our unionized workforce in 2008.

EMPLOYEE ENGAGEMENT

(%)



Sustainability significance

Employee engagement measures the emotional or intellectual commitment of employees to their work. Committed employees are essential to Nexen’s ongoing success.

How we are doing

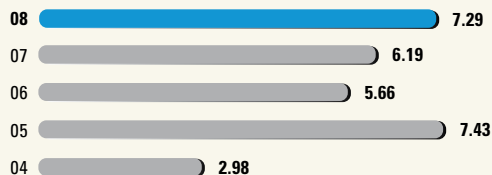
Nexen’s employee engagement score fell slightly in 2008. We were not included on Canada’s 50 Best Employers list for 2008. However, Nexen was included on *The Sunday Times* 100 Best Companies to Work For list in the UK.

Looking ahead

Career and performance management is a key focus area for 2009.

VOLUNTARY TURNOVER RATE

(%)



Sustainability significance

A low voluntary turnover rate signifies higher levels of employee satisfaction. It helps us to retain critical knowledge and reduces costs associated with recruitment and retraining.

How we are doing

Voluntary turnover increased in 2008 due in part to a competitive job market, but remained below the energy sector median of 8.4%.

Looking ahead

We are refining our people strategies by focusing on leadership development, a flexible work environment, competitive compensation and benefits, and enhanced onboarding for new employees.



Employees by Country

Canada	1,868
United Kingdom	416
United States	307
Yemen	1,101
Norway	25
Other	59
Total	3,776

Developing our Yemeni Workforce

Nexen is committed to maximize the percentage of Yemeni nationals at our Yemen facilities (approximately 83% of our Yemen Masila workforce in 2008 comprised Yemeni nationals). An important means of achieving our Yemenization goals is the creation of Individual Development Plans (IDPs) for Yemeni national employees.

An IDP is developed for each job position. It indicates the specific skills required to be fully qualified in that position, so the employee is well positioned when a vacancy arises in more advanced roles. Through regular reviews with their supervisors, employees demonstrate they can perform a set of skills independently and correctly over time. While the plan is consistent for a specific position, progress within the IDP is customized to the individual. For example, one employee may need to emphasize a broad skill such as leadership, while another employee in a similar position might focus on a specific technical discipline.

Engaging Employees on Sustainability

We believe that demonstrating commitment to sustainability helps us recruit and retain talented employees whose values fit with our corporate culture. These employees also provide the expertise and innovation that help us to integrate sustainability into our day-to-day operations.



Guy Haslam, from our Aberdeen office, won Nexen's first Environmental Stewardship Award in 2008 for his leadership role in creating a cemetery in the village of Finzean near Aberdeen. Guy engaged the community and initiated the development of a "green" cemetery with native vegetation, minimizing the impact on the environment.

Employees from across Nexen's operations organized company-wide Environment Week celebrations in June 2008 that included lunch and learn sessions, a commuter challenge and an environment fair. As part of Environment Week, Nexen launched an environmental stewardship award for employees who "walk the talk" when it comes to environmental commitment. We also introduced a Home Energy Efficiency Program that funds home energy audits for employees and helps them identify energy efficiency improvement opportunities.



Since acquiring Buzzard, we have increased proved plus probable reserves by almost 50%.

ECONOMIC PERFORMANCE

Sustainability at Nexen begins with a solid financial foundation that allows us to deliver returns to shareholders, invest in the long-term future of our business and deliver broader economic and social benefits to society.

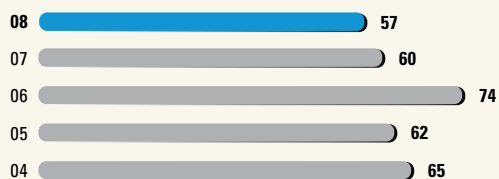
In a highly integrated global economy, Nexen's economic performance has direct impacts on our stakeholders and the broader society. For instance, Nexen's ability to reinvest in our business means we spend significantly on goods and services from our suppliers. Our operations also create

direct and indirect employment in each country where we operate, as well as revenues for host governments through taxes and royalties.

Nexen achieved record financial results in 2008, generating cash flow of more than \$4.2 billion and net income of \$1.7 billion. Strong production from our Buzzard offshore operation and record oil prices in the first half of the year contributed to these results, although commodity prices fell dramatically in the last half of the year.

HOST GOVERNMENTS' SHARE OF NEXEN'S NET INCOME¹

(%)



Sustainability significance

Payment of taxes and royalties shares the resource value with the host country in addition to the other benefits of industrial development.

How we are doing

Attractive fiscal environments encourage industry investment. Nexen also contributes substantial economic benefits through our purchases and employment and through economic multipliers.

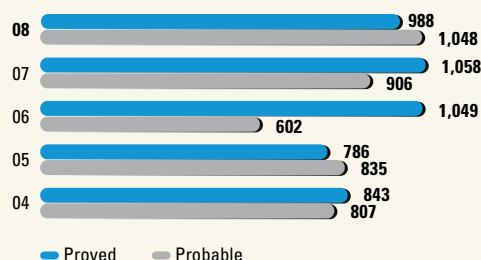
Looking ahead

We believe governments recognize the need for stable and predictable fiscal terms that allow for an acceptable rate of return to our shareholders.

¹ Calculated as the sum of royalties paid and cash income tax expense, divided by the sum of net income before royalties paid and tax expense (residual).

YEAR-END RESERVES

(mmboe before royalties; includes Syncrude)



Sustainability significance

Reserves give an investor a sense of our physical inventories.

How we are doing

We have more than two billion boe of proved and probable reserves, which represents a reserve life index of more than 20 years.

Looking ahead

We have far more in our opportunity portfolio than we are permitted to recognize as reserves. As future projects take shape at Long Lake, the UK North Sea, Gulf of Mexico and Horn River in Canada, we expect to book significantly more reserves.

Managing in an Economic Downturn

Nexen finished 2008 with a strong balance sheet. This leaves us relatively well positioned to weather the economic downturn when access to credit is tight. Much of our production has low operating costs, resulting in cash netbacks that are among the highest in the industry. As a result, our assets can generate positive cash flow at lower commodity prices.

Despite our strong financial position, we are approaching 2009 with caution and plan to maintain as much of our financial capacity as possible. We will focus our discretionary capital investment on projects that are economic in the current environment and proceed cautiously on others. Projects that are deferred will be restored when demand and confidence return to the commodity markets.

Royalties ¹

(\$ millions)	2004	2005	2006	2007	2008
Yemen	935	1,186	1,092	904	970
Canada ²	174	162	155	202	290
United States	126	122	98	90	91
Other ³	12	11	13	14	19
Total	1,247	1,481	1,358	1,210	1,370

¹ Royalties are cash payments and, in some international operations, the government's share of Nexen's production.

² Includes Syncrude.

³ Includes mainly the UK, Colombia and Nigeria, and Australia prior to 2005.

Cash Income Taxes ¹

(\$ millions)	2004	2005	2006	2007	2008
Yemen	227	296	286	249	275
United Kingdom	–	2	2	159	650
Colombia	2	28	37	46	–
United States	8	10	38	8	(43)
Canada	6	1	13	1	–
Norway	–	(2)	(15)	(35)	–
Other	5	4	7	6	(23)
Total	248	339	368	434	859

¹ Negative amounts represent tax refunds.

Positioned for Growth

Nexen is well positioned for long-term growth when the economic recovery begins. We are pursuing a strategy of choice to maximize value for shareholders. This strategy has led Nexen to develop opportunities that are global and diverse, making us more resilient in changing market conditions.

Nexen achieved a number of milestones in 2008 that continued to enhance our portfolio of opportunities. These include:

- a significant discovery at Hobby/Golden Eagle in the UK
- Long Lake Phase 1 commissioning, followed by production of first premium synthetic crude in early 2009
- agreement to acquire an additional 15% interest in the Long Lake Project to increase Nexen's oil sands position
- enhancing Buzzard facility's ability to handle hydrogen sulphide and help ensure continued strong production volumes
- acquired a substantial resource position in the Horn River Basin in northeastern B.C. for shale gas development
- approvals completed for the Usan Project, offshore Nigeria, and platform construction under way.

Capital Investment

Nexen invested total capital of \$3.2 billion in 2008. This included more than \$700 million in the UK, where successful drilling and production performance at Buzzard resulted in both an increase in reservoir size and overall recovery factor. We also spent more than \$1 billion to develop our in situ oil sands resource. Overall, 22% of Nexen's 2008 capital spending program was directed toward next-generation new growth projects such as offshore Nigeria, shale gas, coalbed methane and future phases of Long Lake.

Economic Value Generated and Distributed

To measure the economic impacts and benefits of our business on our stakeholders, we look beyond traditional financial performance to track how economic value is generated and distributed among stakeholders such as suppliers, host governments and, of course, our shareholders.

In 2008, Nexen generated revenues before royalties of \$9.6 billion from our activities. We paid approximately \$3 billion to third parties for supplies and services and capital providers to generate this revenue. The majority of this money was spent in local jurisdictions, contributing to economic activity in those regions. We paid \$2.2 billion to host governments in 2008 through taxes and royalties and paid approximately \$349 million to our employees in salaries.

SHAREHOLDER RELATIONS

As with other publicly traded companies, Nexen's share price was affected by the sharp downturn in global financial markets in the last half of 2008. Our shares on the Toronto Stock Exchange closed down about a third over the end of 2007—a disappointing result but consistent with other companies in

Socially Responsible Investing (SRI) and the Oil Sands

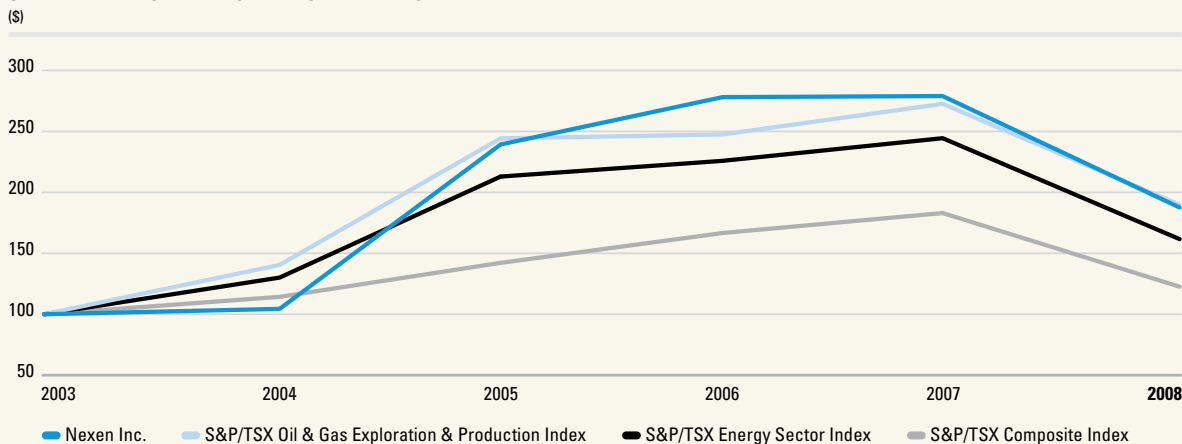
The oil sands industry is attracting attention from investors who want to know how companies are addressing related social and environmental impacts. Nexen joined a panel of environmentalists and ethical investing experts at the *SRI in the Rockies* conference in Whistler, B.C., in 2008 to explain the steps we are taking to mitigate our environmental footprint in the oil sands. The panel focused on the need for cross-sector collaboration and the need to communicate our progress regularly to the investment community.

our sector. Nexen remains focused on providing long-term value to shareholders. Our strong balance sheet enabled us to make strategic choices in 2008 that position Nexen to capitalize on the eventual economic recovery.

Managing Environmental, Social and Governance Risk

We believe we add value for shareholders by conducting our business in a way that manages environmental, social and governance risk. A number of investor-driven initiatives

SHARE PERFORMANCE – TOTAL RETURN ¹



¹ Assuming an investment of \$100 and the reinvestment of dividends.



Commodity Prices in 2008

The price of oil reached record highs and a four-year low in 2008, which had significant impacts—both positive and negative—on Nexen's 2008 financial results. Oil climbed through the first half of 2008 to reach a record of US\$147.27/bbl in the summer and then fell below US\$35/bbl before closing the year at US\$44.60/bbl.

While we can't predict future commodity prices, Nexen's strategy of choice allows us to deploy capital and expertise to areas of our business that are best able to capitalize on the current price environment—whatever that may be.

have begun to assess how well publicly traded companies are doing this. For instance, Sustainable Asset Management produces the Dow Jones Sustainability World Index, which tracks the financial performance of leading sustainability-driven companies. Nexen was named to the index in 2008 for the eighth consecutive year. Nexen also ranked seventh of 59 global oil and gas companies and first among upstream companies in the Goldman Sachs GS SUSTAIN Focus List.

SUPPLY CHAIN

Nexen relies on an extensive network of suppliers, contractors and partner companies to develop, build and operate the many projects we undertake around the world. In 2008, we paid approximately \$3 billion for supplies and services—much of that was spent with vendors in communities where we operate.

Yemen Vendor Development Program

Helping local communities benefit from our operations is part of our approach to doing business.

In Yemen, where many vendors are less familiar with the needs of the oil and gas industry, we have made concerted efforts to purchase goods and services in-country, as well as build capacity among local suppliers. This has been challenging, as the Yemeni business culture tends to be geared towards one-time contracts at the lowest possible price. Since 1997, Nexen's Yemen-based procurement team has worked to help local vendors focus on product quality and accurate invoicing, and emphasize lasting buyer-supplier relations.

In many cases, Nexen must order specialized materials from outside Yemen. We have worked with a number of Yemeni companies to help them achieve local agent status, so some commonly ordered goods could be available in-country. As a result, some local suppliers now serve several oil industry operators in Yemen.



In 2008, Nexen ordered more than \$22 million in goods and services from local suppliers, representing close to one-third of our vendor expenditures in the country.

Building Capacity in Northeastern B.C.

The planned development of northeastern British Columbia's shale gas resource will require significant expenditures on goods and services over many years. Local communities expect to share in the economic benefits of this activity. Developing relationships and capacity with local suppliers takes time in an area of new development and the pace of activity is moderated by current low gas prices. But Nexen has taken some early steps to help local workers and companies gain access to future opportunities.

For example, we have developed contracts with our major suppliers to encourage local hiring in the region. These contracts outline our expectation that contractors try to hire local companies and individuals if they meet criteria related to safety and other requirements. These contracts are based on a similar process used by Nexen in the oil sands region, where local procurement is also an important issue.

In addition, we plan to open an office in Fort Nelson in 2009 where residents can find out about hiring opportunities and contracts or talk directly to a Nexen representative about issues or concerns.

We intend to be in the Horn River region for many years, so we are working with regional and provincial governments and the Chamber of Commerce to understand the community's capacity to participate in shale gas development over the long term. This will include a comprehensive listing of local suppliers and eventual tracking of local spending by industry.



Purchasing Green Power

In 2008, Nexen's Power Marketing Group made an arrangement to sell Bullfrog Power as the green power option for our commercial customers. This marketing arrangement with Bullfrog Power is intended to strengthen Nexen's own green power marketing program, through which we sell the output of our investments in the 70.5-megawatt Soderglen wind farm in southern Alberta, as well as that of the 80-megawatt Hand Hills wind farm we're developing near Drumheller, Alberta.

Bullfrog Power is a Canadian electricity provider that sells only green power and its generation sources are certified under the federal government's Environmental Choice Program.

ABOUT THIS REPORT



Nexen has been reporting our sustainability performance annually since 1996. This year's report, our thirteenth, summarizes Nexen's performance for the 2008 calendar year. Our last report was published in June 2008.

What's New This Year

We continue to review and refine our sustainability reporting to help ensure we are meeting the information needs of our stakeholders. Significant changes to this year's report include:

- a new performance scorecard highlighting Nexen's progress against key performance indicators and selected targets for 2009
- a third-party review of data from our U.S. and Energy Marketing divisions
- new indicators on public complaints, Aboriginal awareness training and abandonment and reclamation.

For More Information

We strive to provide our stakeholders with the right mix of detail and readability in our annual sustainability report. For those looking for more detailed disclosure, we publish additional data on our website (www.nexeninc.com). This spreadsheet includes supplementary 2008 data for air emissions, waste and occupational safety. We also provide a discussion of our management approach in key areas, as recommended by the Global Reporting Initiative (GRI).

Content Selection

Nexen applied the GRI principles of materiality, sustainability context and completeness when preparing this report. We also considered how our stakeholders would use the information in the report. For instance, current and prospective employees use our sustainability report to better understand the company's culture and values. Governments and community members are looking for evidence that Nexen is complying with regulations and being responsive to community concerns. Investors want to see evidence that Nexen is managing risk. Non-governmental organizations and the public want to understand how we are addressing the environmental and social impacts of our business.

This report was prepared using the Global Reporting Initiative's G3 Guidelines, to a level of B+ Self Declared. We also considered reporting guidance provided by other organizations, including the Canadian Association of Petroleum Producers Stewardship Initiative, Responsible Care and the United Nations Global Compact.

Assurance and External Reviews

Nexen uses a two-tiered review process to enhance the credibility and transparency of our reporting. We asked PricewaterhouseCoopers (PwC) to review selected performance data for validity, completeness and accuracy. At the same time, we invited a group of expert external stakeholders to review and provide input on the report content. Both groups provided written feedback on the process and their findings (see pages 44 and 48).

Reporting Conventions

Nexen Inc. or Nexen refers to the entire company and its subsidiaries (excluding Canexus and Syncrude). Data for Long Lake is included in overall Nexen data. Dollar figures are Canadian unless otherwise noted.

NEXEN'S EXPERT/STAKEHOLDER ADVISORY GROUP

For the sixth year, we have invited a diverse group of stakeholders to participate in the development of our sustainability report. Their input leads to a better report and gives us a deeper understanding of the interests and priorities of our stakeholders. The group was designed, organized and facilitated by Stratos, a Canadian sustainability consultancy. All members participated in an individual capacity rather than as representatives of their organizations.



David Bell Professor Emeritus and Former Dean of the Faculty of Environmental Studies, York University, and Chair of Learning for a Sustainable Future, Toronto, Ontario



Cameron Dillabough Canadian Chemical Producers Association Responsible Care Verifier, Collingwood, Ontario



Matthew Gitsham Programme Director, Ashridge Centre for Business and Society, Berkhamsted, United Kingdom



Jennifer Grant Policy Analyst, The Pembina Institute, Calgary, Alberta



Lucy Greenhill Offshore Industries Advisor, Joint Nature Conservation Committee, Aberdeen, United Kingdom



Andrew Logan Director, Oil & Gas Industry Program, Ceres, Boston, Massachusetts



Bill Streeper Mayor, Town of Fort Nelson and Northern Rockies Regional District, Fort Nelson, British Columbia



Ian Thomson Program Coordinator, CSR, KAIROS, Toronto, Ontario

Not pictured: **Roy Vermillion** Chief Executive Officer, Athabasca Tribal Council, Fort McMurray, Alberta

EXTERNAL REVIEWS

EXPERT/STAKEHOLDER ADVISORY GROUP REVIEW STATEMENT **What We Did**

The Advisory Group provided input on Nexen's 2008 Sustainability Report and advice for Nexen's future reporting efforts. Our opinions on the report were guided by the AA1000 Assurance Standard, which addresses the principles of materiality, completeness and responsiveness.

We met in person in January 2009 to discuss Nexen's approach to sustainability management and reporting with key Nexen executives, including the CEO, and to review an annotated outline of the report. In March and April 2009, via conference call, we provided comment on two full drafts of the report and assessed the integration of our suggestions. Our review was limited to the printed report. Our commentary is not an audit or verification statement.

Each Advisory Group member was offered an honorarium in recognition of our time and expertise, payable to us individually or to an organization of our choice. Nexen also paid for all expenses related to our travel and accommodations.

What We Found

We commend Nexen for its ongoing commitment to sustainability disclosure. Overall, Nexen's 2008 Sustainability Report presents a comprehensive account of the company's health, safety, environment and social responsibility performance.

Advisory Group members were not involved in the selection of the report title or theme. In the future, the Advisory Group would like to be involved early enough in the process to have input on the report title and theme to ensure it will resonate with stakeholders.

The Advisory Group presents the following commentary on Nexen's 2008 Sustainability Report.

Materiality, Completeness and Responsiveness

Materiality

We feel that the report addresses Nexen's key material issues, and appreciate the addition of a feature on the company's oil sands operations as well as more discussion on land and biodiversity. However, the report could benefit from more information on why Nexen considers the issues it discusses to be material, and additional details on their strategic implications for the business.

We recommend that Nexen develops a formal process for identifying material issues that involves senior management from across the company and is conducted on a regular basis (e.g. annually). Nexen should report the results of this analysis and indicate how the findings inform Nexen's business strategy, sustainability strategy and corporate reporting.

Completeness

We agree that the report addresses all aspects of Nexen's business, and that Nexen has demonstrated an understanding of the range of issues and impacts associated with its business. Nexen needs more comprehensive reporting on key impacts (e.g. oil sands, impacts on local communities and Aboriginal Peoples), and needs to define specific, short- and long-term plans to manage these impacts.

Responsiveness

We acknowledge Nexen's efforts to respond to and incorporate some of our feedback throughout this process, and from last year's Advisory Group. However, we encourage Nexen to take more action on several of the recommendations made by last year's Advisory Group, such as climate change, product impacts and Aboriginal relations, and to more fully explain why some recommendations were not, or could not, be addressed.

We believe Nexen's reporting should also be more explicit about who the organization's key stakeholders are, their major concerns, and how the organization is responding to these concerns.

Specific Recommendations

Integrate sustainability into the business

We recommend that Nexen more clearly demonstrate and report how sustainability is integrated into its business strategy and accountability structures. Some progress has been made in disclosing Nexen's understanding of the business value of sustainability and how sustainability is integrated into decision-making; this could be enhanced by providing further details of how sustainability criteria are considered in the Nexen Investment Decision Process (NIDP). We encourage Nexen to continue improving its reporting in this area, particularly to illustrate how sustainability principles are carried through to operations on the ground.

Nexen should also report on how internal sustainability awareness and education is being implemented and the associated results.

Be more outcome-oriented and forward-looking

The lack of disclosure of specific data and outcomes, such as on local and Aboriginal employment and procurement, raises questions about the legitimacy of Nexen's stated claims in some specific areas. Nexen should report more fully on outcomes and results.

We also encourage Nexen to disclose their long-term vision for sustainability, highlight key milestones along this journey, and identify key challenges and how the company plans to address them.

Demonstrate leadership

There are key issues for the oil and gas sector that present leadership opportunities, such as greenhouse gas targets, carbon capture and storage, as well as Aboriginal relations. Experts/stakeholders noted that Nexen's disclosure gives the impression that the company appears to be taking a wait and see approach versus establishing a leadership agenda. We would like to see Nexen play a leadership role.

To help achieve the company's sustainability vision, track performance on specific issues, and assess how the company is performing against its peers, Nexen needs to expand its use of benchmarks and targets. We would also like to see Nexen more clearly communicate where it wants to be vis-à-vis its peers.

Focus on climate change policy, impacts and risks

Nexen should be transparent about the company's position on climate policy, whether it supports carbon reductions, and the company's actions related to climate policy, both nationally and internationally.

While Nexen continues to improve reporting on climate change, there are several steps Nexen could take to provide a more accurate picture of this significant issue and what the company is doing to manage it.

Nexen should articulate what regulation to constrain carbon means for the company's long-term business strategy. In light of emerging political and regulatory developments, there is urgency for the company to clarify its climate change strategy and disclose how climate change is integrated into key business decisions. Specifically, experts/stakeholders were interested in descriptions of how climate change is considered and integrated into pre-operational decision-making versus only downstream mitigation.

Nexen should be more candid about the impacts of its operations related to climate change, and demonstrate leadership in addressing these impacts, with an emphasis on the oil sands. The lack of any climate change targets is a key weakness, and setting a target would demonstrate accountability.

Nexen should report on emissions generated by its products throughout their lifecycle, not just production. Nexen should also report on actions the company is taking to reduce consumption and emissions from consumer use, and discuss the role public policy should play in changing consumer behaviour.

Expand coverage on other environmental issues

Water is a critically important environmental issue, especially around the company's oil sands operations. Stakeholders were encouraged by Nexen's new water principles and are looking forward to seeing the application of these to its operations in the coming year. Another critical environmental issue for Nexen is biodiversity. We encourage Nexen to demonstrate greater awareness of the intricate ecological links associated with the impacts of Nexen's activities, both locally and globally, and address biodiversity issues in greater depth.

Demonstrate performance on Aboriginal relations

Nexen should more clearly define the company's impacts on Aboriginal Peoples with respect to their traditional lands and resources, human health, and cultural traditions and customs, and discuss how the company plans to mitigate these impacts. Further clarity on Nexen's performance with regards to Aboriginal relations activities is required (e.g. employment and procurement, education sponsorship), including describing the current context and expectations around consultation, and Nexen's activities with Aboriginal Peoples that go beyond regulatory requirements. More information would also be valuable on Nexen's support for affected communities versus national Aboriginal organizations.

In keeping with last year's recommendation, we encourage Nexen to approach Aboriginal relations from a rights-based perspective, guided by Treaty and Title Rights and the UN Declaration on the Rights of Indigenous Peoples.

Provide more fulsome information on human rights

Nexen should provide greater clarity on how human rights are managed, protected and promoted through its security arrangements (e.g. clauses in contracts with security providers, training, etc.) in all countries where they operate. While Nexen demonstrates leadership in conducting above ground reviews to assess human rights issues, more significant information is required on how the results of these reviews are applied to improve Nexen's human rights practices and performance.

Conclusion

We thank Nexen for the opportunity to comment on its report and appreciate the company's leadership in the area of sustainability disclosure. Our comments are provided to help continually improve the company's reporting practices, and we hope that Nexen's willingness to engage in this external review continues.

Nexen Expert/Stakeholder Advisory Group

April 15, 2009

RESPONSE TO LAST YEAR'S ADVISORY GROUP RECOMMENDATIONS

This year we made partial progress on the group's recommendations on our 2007 sustainability report. In some cases, addressing the feedback is a long-term effort that unfolds over several years. Where we haven't implemented a recommendation, we explain why. Here is our response to the advisory group's recommendations from last year:

Set targets and use more benchmarks to compare Nexen's performance to its peers. This year's report includes quantitative targets for 2009 in areas such as community investment, safety and environmental spills (see page 3). We will report our progress against these targets in next year's report.

In some areas, such as climate change and water, we have not set targets. However, we are improving our ability to track, report and verify air, water and waste data to quantify our impacts and identify opportunities for improvement. We recognize the importance some stakeholders place on targets. We will work towards developing operations-level environmental targets where we think they will help us manage performance. Setting greenhouse gas targets poses additional challenges, which are outlined below.

Nexen also sees the value in benchmarking our performance. This year's report includes benchmarking data for safety, shareholder return and voluntary turnover. Finding reliable external data is sometimes difficult, but we will continue to work with industry associations and peer companies to develop meaningful benchmarks.

Annually expand use of the GRI standard and applicable performance indicators. Nexen closely monitors external reporting guidelines and best practices. This year, we expanded our disclosure to achieve a GRI B⁺ reporting level. Nexen will continue to review the GRI Guidelines, including a planned oil and gas sector supplement, and apply those guidelines to our reporting where they add value.

Include a performance scorecard to summarize the company's performance and progress against goals and targets. This year's report includes a performance summary table on page 3, showing a three-year performance trend for nine key indicators. Where targets exist, we have reported those. We will continue to review the performance scorecard indicators to ensure they provide a meaningful measure of our progress.

Take a more strategic approach to disclosure, including discussing the intersection between sustainability and business strategy. The leaders' message outlines Nexen's sustainability commitment and the rationale for our approach. It also discusses the connection between sustainability and business strategy in an economic downturn. To supplement this discussion, this year's report includes a new section called "Integrating Sustainability," which describes the tools and processes we use to incorporate sustainability into our business. We also included a special feature on the oil sands to provide context around the social, environmental and economic factors at play.

Clearly identify Nexen's material issues and the process used to prioritize them. Discuss these issues in greater depth. We have provided additional information on water, land and climate change—three of our material issues. In response to stakeholder feedback, this year's report includes a special feature on the oil sands to reflect the growing global importance of this resource. We have not formally assessed and prioritized our material issues but will consider formalizing this process for future reports.

Provide more facility-specific data as it becomes available. Our environmental approvals from regulators spell out the facility-specific data and reports we are required to provide. These reports

are publicly available. In Alberta, for example, all our environmental approvals can be found at www.environment.alberta.ca. Our reports range from air emissions to wetlands management to sulphur handling. We also communicate directly with stakeholders such as the Balzac Community Advisory Panel, the Hamlet of Anzac and the Regional Municipality of Wood Buffalo on the local and regional impacts of our operations. Given the widespread and extensive nature of our operations, we believe direct review with the most affected stakeholders is more effective than detailed disclosure in our sustainability report. Readers looking for specific data are welcome to contact Nexen directly.

Expand coverage of stakeholder engagement. This year's report includes a new section on page 13 that summarizes our approach to engaging stakeholders. We added new data related to public complaints in our Canadian Oil and Gas division and provide examples of our stakeholder engagement approach and outcomes at Balzac, Yemen and Long Lake. Nexen has reported in detail on our stakeholder engagement approach in previous sustainability reports, which are available at www.nexeninc.com.

Improve climate change reporting with a stronger statement about the impact of Nexen's operations and articulate a clear long-term strategy. Set reduction targets and articulate your public policy position related to climate change. Nexen's long-term climate change strategy will be driven by the evolving regulatory environment. For instance, we first need to understand how carbon capture and storage will be treated in Canada, how carbon will be priced and what incentives will be provided for investments in technology.

In this year's report we outline what we feel are the main components of sound climate change policy. We also provide more information about what is required to make carbon capture and storage a viable option for Nexen, and how we are engaging on the low carbon fuels issue.

Nexen already has regulated greenhouse gas targets in Alberta and the UK. In other jurisdictions, there is a lack of clarity around future regulation. We need clear direction before setting targets or making significant investments in new technologies. In the past, Nexen has invested shareholders' dollars to take action on climate change but has not received credit from regulators for those early efforts.

Quantify end-use emissions from Nexen's products and identify actions to reduce these emissions. We are working to develop reliable data on greenhouse gas emissions from the production phase of the life cycle of fossil fuels. As an upstream producer, Nexen has no direct interface with the end user of fossil fuel products so our ability to influence consumer behaviour is limited. However, we are active in public policy discussions around energy production and use, and we believe consumers, as well as energy producers, must be part of a society-wide approach to managing climate change.

Address the long- and short-term context around water, strengthen disclosure of water use data and draw linkages between water and climate change. We have included new information on our water management strategy on page 22, along with a discussion of why water is a material issue for Nexen. Last year's data review by PricewaterhouseCoopers (PwC) helped improve our data collection systems and further enhancements are planned as part of our new water strategy.

Provide more information about Nexen's approach to biodiversity. We have outlined Nexen's most recent efforts related to integrated land management, biodiversity offsets and mitigation. We have not yet developed a set of biodiversity indicators, although we included new abandonment and reclamation data from our Canadian Oil and Gas division.

Expand human rights reporting to focus on impacts and outcomes. Measuring human rights performance is a challenge. Nexen is monitoring work by both the Global Reporting Initiative and the Voluntary Principles on Security and Human Rights to support improved human rights reporting. In the meantime, we have outlined how we manage third-party security providers in developing countries.

Report on performance as it relates to Nexen's new Aboriginal policy. Nexen is waiting for direction from provincial governments on Aboriginal consultation before we roll out a formal Aboriginal Partnerships policy. In the meantime, we continue to be guided by Nexen's draft policy on Aboriginal Partnerships. We describe how we are applying that policy on page 29.

MANAGEMENT SYSTEMS AND AUDITS

Nexen's HSE&SR Management System is an important tool for managing risk, demonstrating due diligence and supporting continuous improvement across the company. This system outlines the company's commitments and minimum requirements in each of 12 elements:

- Leadership and Commitment
- Regulatory Compliance
- Safety and Occupational Health Management
- Social Responsibility
- Environmental Management
- Supply Chain Management
- Documentation and Procedure Management
- Training and Awareness
- Process Safety Management
- Emergency Preparedness
- Event Reporting, Investigation and Follow-up
- Continuous Improvement

Assessing our Management Systems

Nexen's HSE&SR Management System is regularly assessed by external auditors. The most recent assessment was completed in 2008 by PwC. This high-level assessment looked at how well HSE&SR systems are applied and understood across the company. PwC concluded that Nexen's HSE&SR management systems are, in general, effectively aligned with the company's business objectives and that there is strong company-wide commitment to HSE&SR principles. PwC identified a number of areas for improvement, including the need to better define social responsibility at the operational level and the need to develop a process to determine when HSE&SR programs and procedures should be standardized across the company.

The PwC report was presented to the HSE&SR Committee of the Board and progress against the auditors' 21 recommendations is reported to the board quarterly.

Nexen also conducts internal management system audits of our operating divisions every three to five years to verify compliance with the corporate management system and standards, assess the effectiveness of our systems and identify areas for improvement. We conducted two such audits in 2008—one at Long Lake and one of our U.S. division. The audit teams provided a list of recommendations as well as recognition for areas of best practice. Progress against the recommendations is reported quarterly to the HSE&SR Committee of the Board.

We plan to conduct up to three divisional audits in 2009 and also plan to introduce a process safety management baseline audit program.

ASSOCIATIONS AND PROGRAMS

To supplement our auditing and review processes, Nexen also participates in a number of industry associations and multi-sector initiatives. These groups help us understand and contribute to industry best practices.

- Canadian Boreal Initiative
- Canadian Association of Petroleum Producers Stewardship Initiative
- Carbon Disclosure Project
- Dow Jones Sustainability Index
- Imagine Canada
- International Association of Oil & Gas Producers
- International Petroleum Industry Environmental Conservation Association
- Jantzi Social Index
- Oil & Gas UK
- Responsible Care
- United Nations Global Compact
- World Petroleum Council

INDEPENDENT REVIEWER'S REPORT

TO THE BOARD OF DIRECTORS AND MANAGEMENT OF NEXEN INC. ("NEXEN")

We have reviewed selected quantitative performance indicators presented in Nexen's Sustainability Report (the "Report") for the year ended December 31, 2008. We did not review all information included in the Report. Nexen management is responsible for collection and presentation of the indicators and information set out in the Report. A review does not constitute an audit and, consequently, we do not express an audit opinion on the selected quantitative performance indicators.

Scope

We reviewed the following consolidated 2008 quantitative performance indicators set out in the Report:

- CO₂-equivalent emissions
- production carbon intensity
- fresh water diverted under provincial licence (Canada only)
- number of reportable environmental incidents (spills and exceedances)
- employee total recordable injury frequency
- contractor total recordable injury frequency
- percentage of Yemeni national employees
- employee engagement score
- voluntary turnover rate
- community investment
- number of designated employees and contractors who have completed annual Statement of Compliance
- active workforce attending improper payments workshop
- active workforce attending integrity training
- alleged integrity incidents raised.

The selected quantitative performance indicators were chosen by Nexen primarily on the basis of perceived external stakeholder interest. We did not review the narrative sections of the Report, except where they incorporated the selected quantitative performance indicators. The Report contains a statement from the Expert/Stakeholder Advisory Group describing the results of their evaluation; this evaluation was conducted separately and independently from our review.

Methodology

We conducted our review in accordance with the International Standard on Assurance Engagements (ISAE) 3000 developed by the International Federation of Accountants. As such, we planned and performed our work in order to provide limited assurance with respect to the selected quantitative performance indicators that we reviewed. Our review criteria were based on the Global Reporting Initiative Sustainability Reporting Guidelines, relevant regulations, Nexen management definitions and accepted industry standards. Our procedures included obtaining and evaluating evidence related to the selected quantitative performance indicators. Our process is further described in the sidebar on this page.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the selected quantitative performance indicators listed above are not, in all material respects, reported in accordance with the relevant criteria.



PricewaterhouseCoopers LLP
Calgary, Alberta, Canada
May 8, 2009

DESCRIPTION OF OUR REVIEW METHODOLOGY

Nexen Inc. asked us to review management's assertions regarding the Company's sustainability performance and to provide a report setting out our conclusion. Our review team comprised individuals with backgrounds and experience in environment, health and safety, social, economic and financial assurance.

During our review, we obtained, examined, and evaluated evidence using a variety of procedures, including:

- interviewing relevant Nexen management and staff responsible for data collection and reporting
- obtaining an understanding of the management systems, processes and the relevant controls used to generate, aggregate and report the data at Nexen's regional operations and head office

- examining relevant documents and records on a sample basis
- testing and re-calculating quantitative information related to the selected performance indicators on a sample basis
- assessing the information for consistency with our knowledge of Nexen's operations, including comparing the Company's assertions to publicly available third-party information.

We carried out our review work at Nexen's offices in Calgary, Canada; Fort McMurray, Canada; and Lafayette, USA. We did not visit all of Nexen's international locations. Information relating to these operations was collected and reviewed at the Calgary head office.

2008 AWARDS AND RECOGNITION

Nexen was recognized by a number of external organizations in 2008 for our sustainability efforts. These external rankings help Nexen understand how we perform against our peers and identify opportunities for improvement.

Nexen's 2008 awards and recognition include:

- Dow Jones Sustainability World Index
- Jantzi Social Index
- Global 100 List for Sustainability by *Corporate Knights* magazine and Innovest Strategic Value Advisors
- 10 out of 10 rating for corporate governance from GovernanceMetrics International

- *The Sunday Times* 100 Best Companies to Work For (United Kingdom)
- Canada's Best 50 Corporate Citizens by *Corporate Knights* magazine
- Chartered Accountants of Canada 2008 Award of Excellence in corporate reporting for the oil and gas sector
- *ATB/Oilweek Magazine* award for sustainability reporting
- Conference Board of Canada's 2008 Climate Disclosure Leaders Index
- Fort McMurray Chamber of Commerce Environmental Leadership Award for the Long Lake Project

GLOSSARY

Barrels of oil equivalent (boe) – A boe is derived by converting six thousand cubic feet of gas to one barrel of oil (6 mcf/bbl). Mboe is a thousand boe and mmboe is a million boe.

Bitumen – A highly viscous, tarry, black hydrocarbon composed of carbon, hydrogen, sulphur and nitrogen.

Carbon capture and storage (CCS) – Capturing large volumes of CO₂ at the source (e.g., industrial facility) and safely storing it underground in geological formations.

Carbon dioxide equivalent (CO₂e) – Measure used to compare emissions from greenhouse gases based on their global warming potential (GWP). For example, the GWP for methane is 21 times greater than that for CO₂.

Coalbed methane (CBM) – Natural gas deposits adsorbed onto the surface of coal; extracted by easing pressure in the formation by dewatering or fracturing.

Environmental incident/exceedance – Events detrimental to the environment, such as oil and water spills, unauthorized emissions and unapproved cutting of forested areas. The threshold for reporting an incident or exceedance to a regulator varies by jurisdiction.

Gasification – A key process at Long Lake in which asphaltenes are converted to synthetic gas for use as fuel (as an alternative to natural gas) and hydrogen.

Greenhouse gases (GHGs) – Gaseous components of the atmosphere that contribute to the greenhouse effect. GHGs enter the atmosphere by natural and man-made processes. Common GHGs include water vapour, carbon dioxide, nitrous oxide, methane, hydrofluorocarbons, perfluorocarbons and sulphur hexafluoride.

HSE&SR – A Nexen-wide approach supporting enhanced occupational health, safety, environmental and social responsibility (HSE&SR) performance.

Lost-time injury rate – A measure of safety performance calculated as the number of incidents that caused an employee to lose time from work, multiplied by 200,000, and then is divided by the total number of hours worked.

Oil sands (a.k.a. tar sands) – Sand deposits containing a heavy hydrocarbon (bitumen) in the pore space of sands and fine-grained particles.

Premium synthetic crude (PSC™) oil – The light-sweet crude oil produced at Long Lake. It has a specific gravity of 39° API.

Produced water – Water extracted from a petroleum formation along with other oil and gas production fluids.

Responsible Care – A global voluntary initiative to improve safety and environmental management of chemicals throughout their life cycle, which we have adapted for the oil and gas industry.

Shale gas – Shale gas is natural gas contained within shale sequences. Most gas shales have very low permeability and may require fracture stimulation to achieve economic recovery.

Steam-assisted gravity drainage (SAGD) – An in situ bitumen extraction technology. It involves drilling two parallel horizontal wells and injecting steam into the shallower well, where it heats the bitumen that then flows by gravity to the deeper producing well.

Synthetic gas – Fuel artificially made as opposed to natural gas, which is found in nature. At Long Lake, asphaltenes are converted into synthetic gas for use in steam generation and as a hydrogen source for the upgrader.

Total recordable injury frequency (TRIF) – A common standard for benchmarking safety performance. TRIF is calculated as the number of fatalities, lost-time injuries, medical treatment cases, and modified work cases multiplied by 200,000, and then is divided by the number of hours worked.

GRI CONTENT INDEX

This report has been prepared using the Global Reporting Initiative's (GRI) G3 Sustainability Reporting Guidelines. We self-declare this report as achieving Application Level B⁺. For more information on the GRI, please visit www.globalreporting.org.

Category	GRI Indicator	Description	Document/ Location	Page #
Strategy & Analysis	1.1	CEO statement	SR	4–5
	1.2	Key impacts, risks and opportunities	SR	3, 5, 8–9
Organizational Profile	2.1	Company name	SR	1
	2.2	Primary brands, products, and/or services	SR	6
	2.3	Operational structure	SR	6–7, 11
	2.4	Location of headquarters	SR	48
	2.5	Countries where Nexen operates	SR	7
	2.6	Nature of ownership and legal form	SR	1
	2.7	Nature of markets served	10-K	22–26
	2.8	Scale of the company	SR	6, 35
	2.9	Significant changes during reporting period	SR	6, 38
	2.10	Awards received	SR	49
Report Parameters	3.1	Reporting period	SR	42
	3.2	Date of most recent previous report	SR	42
	3.3	Reporting cycle	SR	42
	3.4	Contact point for questions	SR	52
	3.5	Process for defining report content	SR	42
	3.6	Boundary of report	SR	42
	3.7	Limitations on report scope or boundary	SR	43–47
	3.8	Basis for reporting on non-wholly owned operations	SR	42
	3.9	Techniques for data measurement, calculations and estimates	SR	13, 15, 21–23, 37–40, 49
	3.10	Explanation of information restatements	SR	22
	3.11	Significant changes in measurement	SR	NA
	3.12	List of GRI indicators addressed	SR	50–51
	3.13	Policy and current practice on external assurance of report	SR	43–46, 48
Governance, Commitments & Engagement	4.1	Governance structure, including major board committees	SR	11
			MPC	27–38
	4.2	Independence of board chair	SR	11
	4.3	Independent, non-executive directors on board	SR	11
	4.4	Mechanisms for shareholder and employee participation	MPC	4–5
	4.5	Link between compensation and Nexen's performance (including social and environmental performance)	MPC	41–43, 59–60
	4.6	Processes for the board to avoid conflicts of interest	MPC	73
	4.7	Process for determining qualifications and expertise of board members for guiding Nexen's sustainability strategy	MPC	19
	4.8	Mission and values statements, internally developed codes of conduct or principles and policies	SR	22, 29, 47
	4.9	Board procedures for sustainability management	MPC	36–37
			SR	11
	4.10	Processes for evaluating board performance, including on economic, environmental, and social performance	MPC	77
	4.11	Application of the precautionary principle	SR ¹	10, 16–17, 19–20, 30
	4.12	Externally developed economic, environmental, and social principles or other initiatives endorsed by Nexen	SR	10, 17, 30

Category	GRI Indicator	Description	Document/ Location	Page #
	4.13	Association memberships	SR	47
	4.14	Stakeholder groups engaged	SR	9, 13, 24–25, 27–33, 40–41
	4.15	Basis for identification and selection of stakeholders with whom to engage	SR	13
	4.16	Approaches to stakeholder engagement	SR	13, 28–29, 40–41
	4.17	Key topics raised through stakeholder engagement, and response	SR	9, 28–29, 41, 44–46
Economic		Disclosure on management approach	10-K	2
	EC1	Direct economic value generated and distributed	SR, Web	31, 37–40
	EC2	Financial implications and other risks and opportunities due to climate change	10-K	27, 34–35
	EC3	Coverage of defined benefit plan obligations	10-K	106
	EC6	Policy, practices, and proportion of spending on locally based suppliers at significant locations of operation	SR	40–41
Environmental		Disclosure on management approach	Web	
	EN3	Direct energy consumption by primary energy source	Web	
	EN8	Total water withdrawal by source	SR	22–23
	EN13	Habitats protected or restored	SR	25
	EN14	Strategies, current actions, and future plans for managing biodiversity impacts	SR	24–25
	EN16	Total direct and indirect greenhouse gas emissions	SR	3, 19, 21
	EN18	Initiatives to reduce greenhouse gas emissions	SR	9, 19–21
	EN20	NO, SO, and other significant emissions	Web	
	EN23	Number and volume of significant spills	SR	23–24
	EN28	Environmental non-compliance and fines	Web	
	EN30	Environmental protection expenditures	10-K	27–28
Social		Disclosure on management approach	Web	
	LA1	Workforce profile	SR, Web	35
	LA2	Employee turnover	SR	34
	LA4	Employees covered by collective bargaining agreements	SR	35
	LA7	Standard injury and lost day rates and fatalities	SR	2, 3, 15
	LA13	Diversity	Web	
	HR4	Incidents of discrimination	SR ²	12
	SO3	Employees trained in anti-corruption	SR	12
	SO5	Participation in public policy development	SR	31
	SO6	Political contributions	SR	31
Product Responsibility	PR1	Health and safety impacts of products and services	SR	17

¹ Nexen has not formally adopted the precautionary approach as outlined in the Rio Principles; however, we have several management tools that enable us to identify and prevent or mitigate environmental impacts. Our wind power investments and CO₂ mitigation efforts are also consistent with the precautionary approach.

² In 2008, a former Nexen employee commenced legal proceedings alleging discrimination during employment. Nexen believes the allegations are without foundation and is presenting a legal defence.



10-K Form 10-K
MPC Management Proxy Circular
NA not applicable
SR Sustainability Report
Web www.nexeninc.com/sustainability

Forward-looking Statements. Certain statements in this report constitute “forward-looking statements” (within the meaning of the United States Private Securities Litigation Reform Act of 1995), or “forward-looking information” (within the meaning of applicable Canadian securities legislation). Such statements or information (together “forward-looking statements”) are generally identifiable by the forward-looking terminology used such as “anticipate”, “believe”, “intend”, “plan”, “expect”, “estimate”, “budget”, “outlook”, “forecast” or other similar words and include statements relating to or associated with individual wells, regions or projects. Any statements as to possible future capital expenditures, development plans or capacity expansions, expected operating costs, future expenditures and future allowances relating to environmental matters and dates by which certain areas will be developed or will come on stream, and changes in any of the foregoing are forward-looking statements. Statements relating to “reserves” or “resources” are forward-looking statements, as they involve the implied assessment, based on estimates and assumptions that the reserves and resources described exist in the quantities predicted or estimated, and can be profitably produced in the future. The forward-looking statements are subject to known and unknown risks and uncertainties and other factors which may cause actual results, levels of activity and achievements to differ materially from those expressed or implied by such statements.

Although we believe that the expectations conveyed by the forward-looking statements are reasonable based on information available to us on the date such forward-looking statements were made, no assurances can be given as to future results, levels of activity and achievements. Undue reliance should not be placed on the statements contained herein, which are made as of the date hereof and, except as required by law, Nexen undertakes no obligation to update publicly or revise any forward-looking statements, whether as a result of new information, future events or otherwise. The forward-looking statements contained herein are expressly qualified by this cautionary statement. Readers should also refer to Items 1A and 7A, and the note regarding forward looking statements on pages 78 and 79 in our 2008 Annual Report on Form 10-K for a full discussion of the risks and uncertainties associated with our business.

Reserves Disclosures. Nexen is required to disclose oil and gas activities in accordance with Canadian securities requirements, however, Nexen has received certain exemptions allowing it to follow States Securities and Exchange Commission (SEC) disclosure requirements. As a result, disclosures of oil and gas activities herein may differ from those of other Canadian companies. Please refer to the ‘Special Note to Canadian Investors’ in Item 7A on page 79 of our 2008 Annual Report on Form 10-K for a summary of the exemptions granted and the major differences between SEC and Canadian requirements.

Tell us what you think We welcome feedback on our sustainability report and performance. Please send questions or comments to:

Manager, Sustainability Reporting & Assurance
Nexen Inc.
801 – 7th Avenue SW
Calgary, Alberta
Canada T2P 3P7

Or email us at sustainability@nexeninc.com

You can find additional information about Nexen at our company website: www.nexeninc.com.

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