







2011 SUSTAINABILITY REPORT





## **About Nexen**

Nexen Inc. is an upstream oil and gas company responsibly developing energy resources in some of the world's most significant basins, including the UK North Sea, offshore West Africa, the Gulf of Mexico and Western Canada. We're strategically focused on three businesses: conventional oil and gas, oil sands and shale gas.

At Nexen, it's not just what we do that matters—it's how we get the job done. And the foundation of our growth strategy is the energy and expertise of our employees who are committed to working with integrity and engaging our stakeholders. We're proud of our track record of safe, reliable and environmentally responsible energy development. That's Nexen's Way.

Nexen is a publicly traded company listed on the TSX and NYSE under the symbol NXY.

#### SUSTAINABILITY: WHERE WE'VE BEEN, WHERE WE'RE HEADED

This publication highlights the sustainability initiatives underway at Nexen, with most of the information relating to activities that occurred in 2011. Additional information—including data, graphs and videos—is available at www.nexeninc.com/responsibledevelopment.

Our reporting is aligned with the Global Reporting Initiative G3.1 Sustainability Reporting Guidelines (Application Level B+). This reporting framework sets out principles and indicators that help corporations measure and report their sustainability performance. Please refer to our GRI Index at www.nexeninc.com/gri. Our report is also guided by reporting guidelines from IPIECA, a global oil and gas industry association for environmental and social issues.

In late 2011, we undertook a materiality analysis to better understand what sustainability issues matter most to our stakeholders and to identify what impact these issues could have on our business. The content of this report reflects the most significant issues that were identified.

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# Responsible development is Nexen's Way WE WORK.

At Nexen, responsible development is the way we supply the energy that fuels people's lives today, without compromising the well-being of future generations.

It's our roadmap for producing clean, secure and affordable energy and respecting the environment, community and our stakeholders.





#### **PROTECTING PEOPLE &** THE ENVIRONMENT

We each play a role in protecting the safety and well-being of ourselves, our co-workers and the communities and environment in which we work.

#### COMMITMENT TO EXCELLENCE

We drive for, and reward, high performance. We are passionate about delivering results and innovative in overcoming obstacles.

for our decisions, behaviour and actions.

**INTEGRITY** We conduct business in an ethical manner and build relationships based on collaboration,

to speak up and make difficult decisions.

## CEO's Message To Stakeholders

As a global upstream oil and gas company, Nexen's purpose is straightforward: we create value by responsibly supplying the energy that fuels people's lives. By exploring and developing



some of the world's most significant basins, we're doing our part to provide secure and affordable energy consumers, and growing economies, require. At a time when a quarter of the world's population lack access to basic energy needs, that's a mandate we can pursue with pride.

But just as important as the mandate are the means. At Nexen, we're committed to being a sustainable energy company in every sense of the word. So it's not just what we do that matters — it's how we get the job done. Nexen's Way is to be true to our values, starting with integrity. We conduct business in an ethical manner and build relationships based on collaboration, honesty and respect. We take steps to reduce the impact of our operations on water, land and air. Finally, we earn and maintain our social license to operate by working safely and responsibly while investing in our host communities and openly engaging all of our stakeholders.

With global energy demand on the rise, building a sustainable future is about responsibly developing a wide range of energy sources. While renewable forms of energy hold promise, it's going to take time and investment to make them viable and competitive. In the meantime, hydrocarbons will remain the world's dominant energy source.

Nexen is strongly positioned to help meet this energy demand. Our portfolio is strategically focused in three businesses conventional oil and gas, oil sands and shale gas. All of these resources present technical and sustainability challenges,



amplified by fluctuating commodity prices, which can swing widely over the construction of a project, let alone its full life-cycle. We address these challenges by committing to operational excellence, which includes individual accountability among employees and contractors for meeting high safety and environmental performance standards as well as production targets.

For example, Nexen is a major player in Canada's oil sands—an important source of new oil but one that comes with environmental, social and economic challenges and opportunities. Nexen continues to invest in new technologies to increase production, and reduce costs and environmental impacts. We're also putting industry minds together by co-founding Canada's Oil Sands Innovation Alliance (COSIA), a collaborative effort by oil sands producers to accelerate improvement in environmental performance. We work with our neighbouring communities as well—a commitment that has made the oil sands industry one of the largest employers of Aboriginal peoples in the country.

This combination of investment in technology and innovation, collaboration with industry peers and community engagement is one that is repeated across Nexen's operations; from offshore operations, where we're strengthening safety and emergency response preparedness processes, to our shale gas assets in British Columbia, where we're leading the industry in developing new technology to reduce our fresh water use.

Our commitment to responsibly develop energy is one that's made at every level of our company and ingrained in all that we do. And every day, we challenge ourselves to do better:

- As a publicly traded company, we are ultimately responsible to our shareholders. We must invest their capital wisely to support growth of their investment. In sustainability terms, this includes up-front design considerations, where an early investment can pay dividends over the life-cycle of our assets.
- We are responsible to our employees and contractors to provide a challenging, rewarding and safe place to work. Our new Life Saving Rules are evidence that we take this responsibility seriously.
- As a responsible member of the energy industry, we contribute to public policy issues, including government's response to climate change and providing insight on how best to regulate energy resources such as shale gas and deepwater developments.
- And as a responsible member of society, we have to manage our use of natural resources and the impacts of our operations on the environment we share. This means working to reduce water use and limit emissions and waste generated. How we achieve this in a context where the easy-todevelop resources are declining will require the engagement of policy makers and energy consumers.

At Nexen, we live by a core set of values. Operating with integrity, compliance with the law and respect for our stakeholders not only helps our operating performance—we believe it's the best way to succeed. That's Nexen's Way.

#### **Kevin Reinhart**

Interim President and Chief Executive Officer

## PROGRESS & CHALLENGES: A CEO'S PERSPECTIVE

Nexen made progress on many of our sustainability goals in 2011—but we continue to work to address outstanding challenges. Despite impressive gains on key employee safety measurements, contractor injuries increased and, tragically, there was an off-site, work-related contractor fatality. We recorded significant decreases in spills, but continued to experience an unacceptably high number of environmental exceedances.

Nexen placed a renewed focus on social responsibility in 2011. We worked to refine our Human Rights and Aboriginal Relations policies, drafted a guide to improve engagement of stakeholders and indigenous peoples and began to develop key benchmarks for monitoring and measuring our social performance. We also recognized the need to improve local hiring, particularly building Aboriginal capacity.





#### ☐ ☐ THE ENERGY WE DEVELOP

Whether it's using hydraulic fracturing technology to unlock unconventional gas assets, implementing gasification technology at our oil sands operations, or drilling wells 34,000 feet deep in the Gulf of Mexico, we work to responsibly develop the energy products consumers need.



#### DID YOU KNOW:

In 2011, we produced an average of 207,000 barrels of oil equivalent per day before royalties. From filling our gas tanks to heating our homes, the energy we produce has a variety of uses. Petroleum by-products are used to create everything from cosmetics to cell phones to shoes.

#### AT NEXEN, WE HAVE THREE CORE BUSINESSES



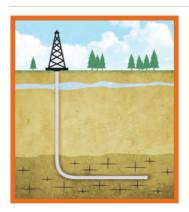
#### Conventional Oil & Gas

The largest component of our conventional business occurs offshore, in the UK North Sea—where we are the UK's second largest oil producer—the Gulf of Mexico and offshore West Africa. We also have onshore production in Canada, Yemen and Colombia. In 2012, approximately 70% of our production is expected to come from offshore facilities.



#### Oil Sands

We're a major player in Canada's oil sands with investments in oil sands mining, in-situ bitumen production and upgrading. We operate the Long Lake oil sands facility that uses innovative technology to develop this vast resource.



#### Shale Gas

Like all natural gas, shale gas is a clean-burning and abundant resource. We produce shale gas in northeast British Columbia, Canada and we're exploring development opportunities in Poland and Colombia.



## THE ENERGY INDUSTRY HELPS DRIVE ECONOMIC GROWTH

Energy is the lifeblood of any economy. It's what heats our homes, fuels our vehicles, powers our factories—and generates the jobs and economic growth that shape the quality of our lives.

The International Energy Agency (IEA) estimates that worldwide energy consumption will increase 36% by 2035, driven in large part by expanding economies and rising standards of living in China and India. While alternative energy sources will become increasingly important, the IEA estimates fossil fuels—oil, gas and coal—will account for more than 50% of the increase in total primary energy demand.

Nexen is in the business of responsibly producing oil and gas to help meet this demand. And while our business enables us to deliver value to our shareholders, it also generates far-reaching economic benefits through various means including direct and indirect job creation, the payment of taxes and royalties, and community investment.

#### Investing in our energy future

In 2011, Nexen invested \$2.5 billion in oil and gas activities. Our capital spending plan for 2012 calls for investments between \$2.7 billion and \$3.2 billion, primarily to fund future growth as we move ahead with several major projects.

Our capital investments include:

- Advancing our Usan discovery in offshore West Africa towards first oil, which occurred in February 2012.
- Bringing on new production in the UK North Sea.
- Advancing new exploration projects.
- Continuing to ramp up production at our Long Lake oil sands operations.

### Measuring the economic benefits we create

The economic benefits of Nexen's activities extend beyond our company's shareholders and employees. For example, production before royalties averaged 207,000 barrels of oil equivalent per day in 2011, which in turn resulted in royalties and taxes of approximately \$2.3 billion. These taxes and royalties are then reinvested by governments to support civic infrastructure, schools and

hospitals that are essential to the well-being of society. Nexen also contributes to the economy through the direct employment of about 3,000 people. For each of these positions, an estimated three additional indirect jobs are created by third-party providers to our industry.

## Total Royalties<sup>1</sup> and Current Income Taxes<sup>2</sup> (CAD\$ millions)

|                     | 2009  | 2010  | 2011  |
|---------------------|-------|-------|-------|
| Yemen               | 662   | 730   | 779   |
| Canada <sup>3</sup> | 126   | 113   | 95    |
| United States       | 43    | 21    | 41    |
| United Kingdom      | 632   | 1,005 | 1,448 |
| Other <sup>4</sup>  | (4)   | (20)  | (27)  |
| Total               | 1,459 | 1,849 | 2,336 |
|                     |       |       |       |

- 1 Royalties are cash payments and, in some international operations, the government's share of Nexen's production.
- 2 Negative amounts represent income tax refunds accrued.
- 3 Includes oil sands (Syncrude and Long Lake).
- 4 Includes results of discontinued operations.

## JOINT VENTURES & NEXEN STANDARDS

Nexen frequently develops strategic partnerships with other companies to invest in large-scale assets. In joint ventures where Nexen is the operating partner, our standards are used throughout the operation. When we act as a non-operating partner, we review the standards of the operating partner to ensure they are aligned with our values and practices.

For example, we have a non-operating interest in the Usan project, offshore West Africa. Our partners share our view of using

local resources, including labour, to ensure the local economy benefits from our investment. The Usan project, which began producing oil in early 2012, involved an unprecedented level of Nigerian local content, with more than 500,000 engineering person hours and 14 million construction and installation person hours performed in Nigeria. Construction included an offshore integration of 3,500 tonnes of locally fabricated structures. In addition, large-scale training and capacity building programs were put in place to raise the skills of the local workforce and benefit future projects.

## Nexen is committed to transparent disclosure and continuous improvement.

That's why we track and share our health and safety, environmental and social performance through metrics that show how we're doing and what's required to continuously improve.

#### **OUR PERFORMANCE AT A GLANCE**

|  | 2009  | 2010 | 2011 |
|--|-------|------|------|
| Employee total recordable injury frequency                         | 0.37  | 0.37 | 0.22 |
| Contractor total recordable injury frequency                       | 1.04  | 0.80 | 0.86 |
| Combined employee and contractor total recordable injury frequency | 0.83  | 0.67 | 0.67 |
| Company-wide production carbon intensity                           |       |      |      |
| (tonnes of CO <sub>2</sub> equivalent/m³ of oil equivalent)        | 0.20  | 0.28 | 0.31 |
| Company-wide CO <sub>2</sub> equivalent (million tonnes)           | 4.72  | 6.34 | 5.82 |
| Number of reportable environmental spills                          | 127   | 83   | 80   |
| Volume of reportable spills (m³)                                   | 2,261 | 630  | 208  |
| Number of environmental exceedances (company-wide)                 | 74    | 423  | 445  |
| Community investment (\$ millions)                                 | 11.4  | 11.4 | 11.3 |

#### **MAKING PROGRESS**

Overall, 2011 was a positive year for Nexen with the achievement of a record-setting Total Recordable Injury Frequency (TRIF) for employees only and for employees and contractors combined (see page 10). We recorded a 67% decrease in the volume of liquid spilled over 2010, of which only one spill totaled over 30 m³. We also decreased the number of crude oil, chemical and produced water spills by nearly 5% (see page 17).

#### **MORE WORK REQUIRED**

Gains in employee safety were offset by an increase in contractor injuries and tragically, there was a work-related fatality of a contractor in 2011 (see page 11). To improve our safety culture, we launched Nexen's Life Saving Rules (see page 11), which provides practical guidance on safe behaviour in the workplace.

We continue to work to reduce our environmental exceedances, which increased in 2011.

### A closer look at what led to exceeding regulatory limits

Nexen exceeded environmental regulatory requirements on 445 occasions in 2011, an increase from 423 in 2010.

#### **Environmental Exceedances**



Of the 445 exceedances, approximately 95% occurred at our Long Lake oil sands facility, where half were due to water exceedances and half were due to air exceedances.

- Water exceedances at Long Lake resulted from using two wells with expired temporary licenses for 100 days. The water well licenses have been amended, and internal procedures were revised to prevent reoccurrence.
- We have also worked to reduce air exceedances at Long Lake. In 2011, we reduced the number of NO<sub>x</sub> exceedances from our Heat Recovery System Generators (HRSG), Once Through Steam Generators (OTSG) and Sulphur Recovery Units (SRU) by increasing process reliability, improving operator training and strengthening our procedures. While we significantly reduced air exceedances from the utility boilers—to 161 in 2011 from 208 in 2010—this will be an area of continued focus in 2012.

#### PROGRESS ON OUR PROMISES

In our 2010 Sustainability Report, we highlighted several focus areas for 2011. The table below summarizes what we promised, what we've achieved and our commitments for 2012.

|  | What we promised in 2010  | What we achieved in 2011   | Our Commitments for 2012  |
|--|---|--|---|
| Health & Safety  | Implement the Life Saving Rules for safety.   | Created from industry-recognized practices, our Life Saving Rules lay the foundation for us to achieve zero serious incidents. These rules were launched in 2011 through a company-wide awareness campaign and they are being enforced at all our facilities. See page 11.   | <ul> <li>Complete a major audit of our Health, Safety,<br/>Environment and Social Responsibility (HSE&amp;SR)<br/>management systems at our UK and U.S. operations.</li> <li>Revise our Occupational Health and Industrial<br/>Hygiene procedures and communicate them<br/>throughout the company.</li> <li>Conduct assessments of our Process Safety<br/>Management System.</li> </ul>   |
|  | Advance the implementation of process safety standards across our business.   | In 2011, we introduced the eMOC application, a tracking tool that electronically captures changes to our operating facilities, procedures and organization—enhancing process safety. See page 12.  |   |
| Environment  | Advance work to capture and verify waste and water data.  | Established a data management system to centralize waste and water data across the company. See page 18.   | Continue implementation of the centralized water and waste data management system.      Advance the water monitoring program in   |
| At our shale gas operations in British Columbia, continue the hydrometric assessment and monitoring program and advance research into new technology that may reduce the use of fresh water. | We're in year four of a water monitoring program and are assessing new technology that is expected to enable the use of water from the Debolt formation in our shale gas operations. See page 19. | <ul> <li>our shale gas operations in British Columbia.</li> <li>Continue to test new technology for using saline water instead of fresh water in oil sands and shale gas development.</li> <li>Implement a program to reduce wildlife attractants at our Long Lake oil sands facility to minimize human-wildlife interaction.</li> </ul> |   |
| Social<br>Responsibility   | Update our Human Rights Policy to reflect United Nations and multistake-holder developments in this field.  | The revised Human Rights Policy is expected to be issued in 2012. See page 9.  | Conduct a benchmark study of Nexen's approach to Aboriginal Relations and identify improvement areas.  Output  Description of the content of the conten |
| -  | Complete a stakeholder relations good practice guide.   | Nexen's Guide to Effective Engagement with Stakeholders & Indigenous Peoples has been drafted and is undergoing review. See page 25.   | <ul> <li>Draft and test social performance metrics that<br/>enable us to measure and benchmark our social<br/>performance.</li> </ul>   |

#### **EFFECTIVE GOVERNANCE**

Nexen's Board of Directors provides strategic direction and oversees how we manage the HSE&SR aspects of our business. The directors on our HSE&SR Committee meet at least five times a year to monitor our progress against those measures.

Performance indicators are also reviewed regularly by divisional leadership and an Executive HSE&SR Management Committee that includes Nexen's CEO. This committee also monitors Nexen's approach to, and performance on, strategic issues such as process safety management and climate change. More information on governance at Nexen is available at www.nexeninc.com/sustainability.

## OUTSIDE OPINIONS KEY TO CONTINUOUS IMPROVEMENT

For Nexen, seeking input from third parties is a vital part of continuous improvement. Since 2004, we've had select performance indicators assured by an external verifier. See page 31 for an assurance letter from our external verifier, Deloitte & Touche LLP.

Nexen engages a diverse group of external stakeholders to contribute to the development of the sustainability report. This group has representatives from a number of organizations including environmental and disclosure, with individual expertise in their respective areas. For more information, see their report on page 28.



## Integrity & Compliance

Integrity is not just a value at Nexen—it's a defining characteristic. From our earliest days in Western Canada, to our international operations in conventional oil and gas, oil sands and shale gas—how we work has always contributed to our business success.

By fostering a culture of integrity—in all of the environments where we operate—our organization achieves better results. When we behave ethically, safely and responsibly, we build loyalty with all of our stakeholders.

Our culture is defined by the actions of our employees. We set high expectations and provide a variety of resources to help our employees make responsible decisions. Working this way helps us attract and retain talented employees, enables us to access capital and opportunities in countries that might otherwise be difficult, and strengthens the work we do with our stakeholders.

#### **Our integrity tools**

 How We Work: Our Integrity Guide is Nexen's code of conduct and is recognized as being in line with best practices. It provides practical advice that helps ensure our actions are consistent with our commitments.



- How We Work: Our Integrity Guide for Suppliers sets expectations for how suppliers conduct business on our behalf.
- Our Prevention of Improper Payments Policy requires that all employees comply with applicable laws everywhere we operate.
   We have workshops to provide employees in high-risk positions with guidance on avoiding improper payments. In line with the *UK Bribery Act*, Nexen does not permit facilitation payments in any of its operations.

#### **Integrity incidents**

When a concern is reported to Nexen's Integrity and Compliance group it is promptly investigated. In 2011, 44 concerns were reported, compared to 35 in 2010. Thirty-two of the reports were confirmed as integrity-related and the remaining 12 were transferred to the appropriate department for resolution. Of the 32 integrity-related incidents, 16 were substantiated breaches of the Integrity Guide with two ranked as medium-risk and the rest as low-risk. Ninety-four percent of incidents identified have been resolved and the remaining 6% are still under investigation.

#### **Substantiated Breaches to Nexen's Integrity Guide**

| Category                               | 2009 | 2010 | 2011 |
|--|------|------|------|
| Employee Relations                     | 3    | 3    | 6    |
| Misuse of Computer Assets              | 5    | 5    | 4    |
| Falsification of Business Records      | _    | 1    | 2    |
| Safety Violations                      | _    | _    | 2    |
| Breach of Confidentiality              | 1    | 1    | 1    |
| Fraud                                  | _    | _    | 1    |
| Theft                                  | _    | 1    | _    |
| Conflict of Interest                   | 3    | 1    | _    |
| Vandalism/Violence                     | 1    | _    | _    |
| Community Affairs                      | 1    | _    | _    |
| Solicitation for Gifts & Entertainment | _    | _    | _    |
| Human Rights                           | _    | _    | _    |
| Total                                  | 14   | 12   | 16   |



#### **ANTI-CORRUPTION**

### **Embedding standards at all levels of our company**

Corruption, whether in the private or public sector, is a significant impediment to sustainable economic and social development. It's also illegal. As a responsible global citizen, Nexen is committed to doing business free from all forms of corruption.

This commitment is embedded in Nexen's leadership principles and is endorsed by our executive management team, who emphasize that compliance with our standards of integrity is supported at the highest level of our organization.

These standards apply to all of us—every employee, director and officer is required to comply with our policies and is personally responsible for refusing to pay bribes or make improper payments.

#### DID YOU KNOW:

Transparency International recognized Nexen as a leader in its "Promoting Revenue Transparency, 2011 Report on Oil and Gas Companies". The report examined the reporting practices of 44 global oil and gas companies and their anti-corruption programs.

#### Supporting our culture of integrity

Nexen's culture and processes support our commitment to integrity. A Prevention of Improper Payments Policy, which requires that all employees comply with applicable laws everywhere we operate, is periodically reviewed for best practices, vetted by external legal counsel and reviewed by our Compliance Committee.

The Compliance Committee is comprised of members from our executive management team, who provide oversight on potential high risk payments. The Committee deals with any approvals required under the policy. As an additional control, our internal audit department assesses corruption risk on a periodic basis and conducts investigations if necessary.

Another way Nexen is contributing to the fight against international corruption is by participating in the UN Global Compact (UNGC) anticorruption multistakeholder working group, which supports the UNGC's 10<sup>th</sup> principle that "business should work against corruption in all its forms, including extortion and bribery".

#### REPORTING A CONCERN

Providing employees and external stakeholders with a safe environment to raise concerns is an important element of an ethical culture. While we encourage concerns to be initially raised with Nexen management, employees and external stakeholders can use a secure reporting system operated by EthicsPoint, an independent third-party service provider. The helpline allows anyone to anonymously report a concern and can be accessed online or through a toll-free number. The link to the reporting page and the integrity helpline numbers are available on Nexen's Integrity and Compliance webpage at www.nexeninc.com.

## MODIFYING OUR HUMAN RIGHTS POLICY TO ALIGN WITH UNITED NATIONS GUIDING PRINCIPLES

In June 2011, the UN Human Rights Council endorsed Professor John Ruggie's *Guiding Principles on Business and Human Rights*. The Guiding Principles provide a blueprint for companies to reduce the risk of causing or contributing to human rights harm.

Nexen is working with IPIECA, a global oil and gas industry association for environmental and social issues, to develop a coordinated, effective industry response to the Guiding Principles. We plan to update our systems and processes for due diligence and grievance mechanisms. As part of this effort we're updating our Human Rights Policy, one of the first to be published by an upstream oil and gas company. The updated policy is expected to be launched in 2012.



## Improving Safety Culture and Performance

Producing energy is an important job, but just as important is ensuring the safety of workers and nearby communities. We do both.

At Nexen, we're focused on having a safety-first mindset. Preventing workplace incidents and injuries means empowering everyone to take action. Our ultimate goal is to eliminate workplace injuries. It takes continued commitment to be a leading health and safety performer and we work towards that goal through:

- strong safety awareness;
- consistent work practices;
- proactive hazard identification;
- rigorous risk mitigation, especially for non-routine work; and
- recognition and support for safety performance.

We're committed to providing our employees and contractors with clear expectations about safe on-the-job performance and to ensure ongoing safety training and resource support is provided everywhere we operate.

#### PREDICTING TO PREVENT INCIDENTS

Nexen tracks 10 leading indicators as a proactive way of managing safety performance. Leading indicators are developed to help predict the likelihood of incidents before they occur. Some of our leading indicators relate to training, inspections, drills, safety critical equipment and senior management visits. Targets are established and performance is monitored regularly.

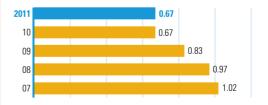
#### **RECORD-SETTING TRIF** PERFORMANCE

Our ongoing efforts to provide safety training and instill safe work practices and attitudes among employees and contractors are paying off. In 2011, for the second consecutive year, we attained a total recordable injury frequency rate (TRIF) of 0.67—the lowest in our history. Our lost time incident frequency (LTIF) was also the lowest we have recorded.

Over the last five years we've accomplished a 34% reduction in TRIF. We're challenging ourselves to reduce TRIF to 0.66 in 2012, with an ultimate goal of zero serious incidents.

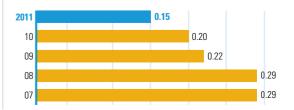
#### Total Recordable Injury Frequency (TRIF) Company-Wide

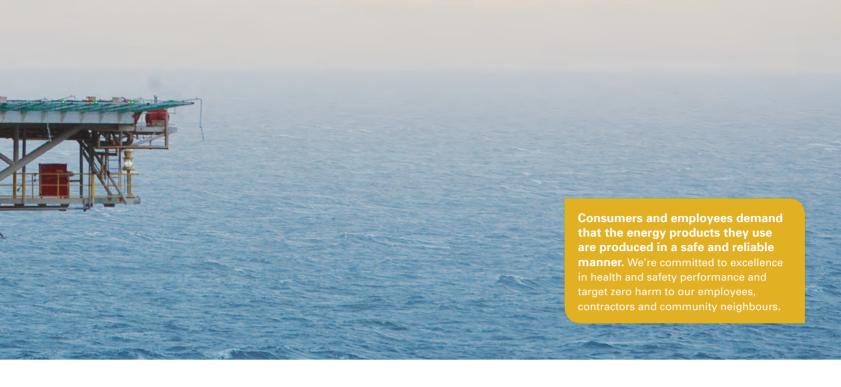
TRIF represents the total number of combined employee/ contractor fatalities, lost-time injuries, medical treatment cases and modified work cases for every 200,000 hours worked.



#### Lost Time Injury Frequency (LTIF)

LTIF is a measure of safety performance calculated as the total number of combined employee/contractor lost time injuries recorded for every 200,000 hours worked.





#### TRAGIC INCIDENT A CATALYST FOR CHANGE

Sadly, in 2011, a contractor who worked at our northeast British Columbia shale gas operations was fatally injured in a vehicle collision on a public highway while driving to our Dilly Creek facility.

An independent investigation determined that poor visibility due to roadway dust was a contributing factor in the incident. We shared the results with employees, contractors and peer companies.

To help prevent similar incidents, we're working in two areas: driver training and road improvements. In the Horn River area, Nexen crew cab truck drivers must now take defensive driving courses, and a defensive driving session has been added to our contractor orientation. In conjunction with some of the members of the Horn River Basin Producers Group, we're in discussion with the B.C. government about improving road conditions through a new central access road and enhancing dust control on roads in the region.



#### LIFE SAVING RULES START WITH AWARENESS

As part of our commitment to creating a safe working environment, we implemented 12 Life Saving Rules in 2011. The rules apply to all of our employees and contractors and provide practical guidance on safe behaviour in the workplace. A variety of activities and materials were created to raise awareness about the rules, including presentations to employees and a dedicated internal website.

#### The rules are:

- · Always conduct a hazard assessment
- · Ensure safe systems of work
- Follow the management of change (MOC) process
- · Isolate energy sources
- · No breaking of containment without a valid work permit
- · Do not enter a confined space without authorization

- · Work safely at heights
- · Conduct safe lifting operations
- Drive safely
- · Assess all ground disturbance hazards
- Do not work under the influence of drugs or alcohol
- Ignition sources are not allowed in areas where hydrocarbons may be present

Created from industry-recognized practices, these Life Saving Rules give clear and direct guidance on occupational safety. The program also includes the Stop Work Authority Card, which means all Nexen employees, contractors and partners are responsible and authorized to stop any work that does not comply with the rules. At Nexen, we want to do work safely or not at all.

Living the Life Saving Rules: Employees and contractors are embracing our 12 Life Saving Rules from our offshore platforms to our head office in Calgary.



#### A COMMON LANGUAGE FOR CHANGE

Nexen has adapted a framework for process safety management designed by the Center for Chemical Process Safety called Risk Based Process Safety (RBPS). The goal of the framework is to reduce the likelihood and consequences of incidents involving unplanned or sudden hazardous releases of materials or energy from our operations.

Nexen's framework was developed in 2008 and we immediately began integrating 20 different elements of RBPS company-wide. We've made steady progress; our current focus is on integrating six key elements including Management of Change (MOC) a standardized approach to managing change activities across each operating area. Nexen tracks the progress of implementation using a scorecard. Every quarter the maturity level of the six key elements is reported for each division and reviewed with senior management and the Board of Directors.

In 2011, we introduced the eMOC application, a tool that electronically captures changes to our operating facilities, procedures and organization. It's gained rapid uptake because employees find it accessible, user-friendly and flexible. The eMOC application is now in use in our conventional businesses in Canada and the U.S. and will be rolled out to our Oil Sands and UK divisions in 2012.

#### PROMOTING HEALTHY WORK **ENVIRONMENTS**

At Nexen, we're committed to anticipating, recognizing, evaluating and controlling workplace environmental health hazards that may cause illness or impair the well-being of our employees, contractors or the community members who live or work near our operations. As a result, we've developed an occupational health management system that works to promote healthy work environments, protect the well-being of employees and prevent occupational injuries and illnesses.

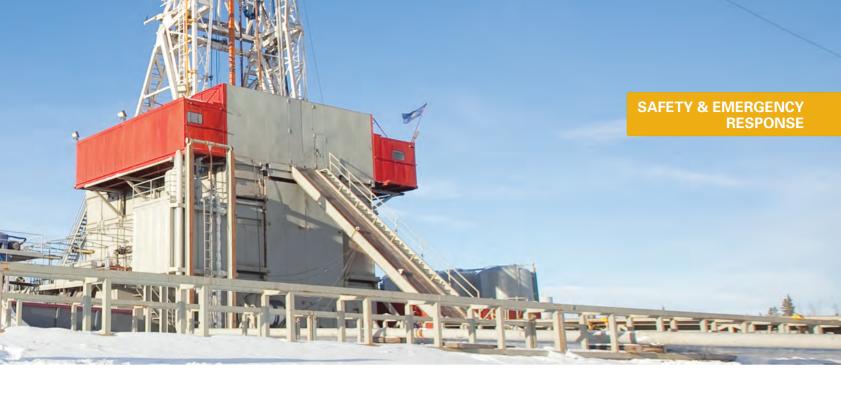
#### **Progress in 2011**

- We began revising and expanding our Occupational Health and Industrial Hygiene Manual, which outlines protocols including hearing conservation standards and codes of practice in the case of exposure to potential chemical, physical, ergonomic and biological workplace hazards.
- We enhanced our Wellness Portal Program—an online tool that provides Nexen employees and their families with a variety of health-related information including psychological and physical health, nutrition and physical fitness.

#### USER-FRIENDLY APP FOR MANAGING CHANGE

Management of Change (MOC) is a fundamental element of our environment, health and safety and process safety management systems. "If we don't effectively manage changes in our operations, we could introduce hazards that result in increased risk to people, the environment and our assets," said David Guss, Manager, Process Safety. "The eMOC application was developed as a tool to help identify and manage risks that may result from process changes."





#### Wellness is important to Nexen

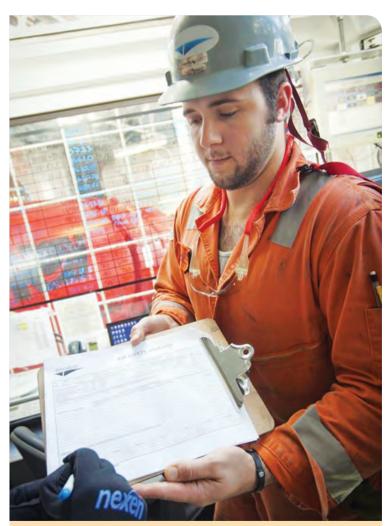
- We're constructing a new fitness facility at our Calgary office.
- We provide a physical wellness subsidy for employees that can be used towards gym memberships, fitness dues, nutritional counseling and smoking cessation.
- When employees need support, there is a comprehensive Employee and Family Assistance Program (EFAP) that provides confidential counseling to employees and their dependents in all our locations.
- All employees have access to free (and healthy!) snacks; in Canada we provide emergency child care; and in the UK we support a cycle to work program.

#### MINIMIZING INCIDENTS OF NON-COMPLIANCE

#### Responsible Care®—a shared training experience

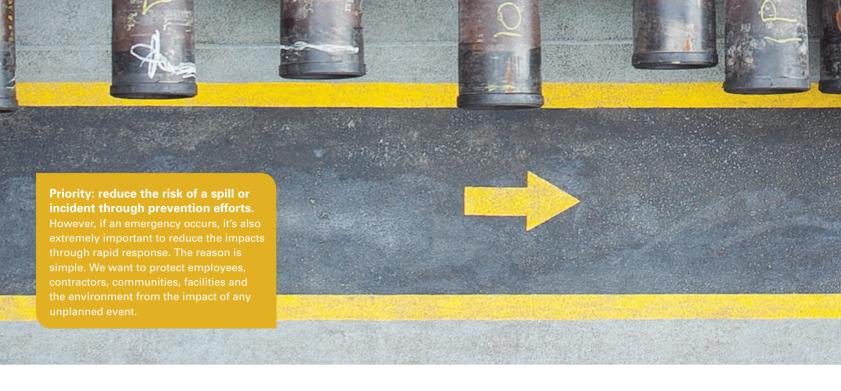
Nexen first introduced Responsible Care® at our Balzac, Alberta, gas processing facility in 2002 and in 2010, our Canadian Conventional Oil and Gas division attained Responsible Care® "In-Place" verification status. In 2011, we followed this milestone by establishing a training program designed to instill a deep familiarity with Responsible Care® practices. Dubbed "Responsible Care 101", this two-day offsite workshop brought together 17 senior operators from our Alberta-based Conventional Oil and Gas business. The training session included interactive, hands-on exercises, case studies and group discussions.

Marty Yarrow, an operator at our Fort Assiniboine facilities, said, "The offsite was valuable because we don't get many opportunities to meet with operators from other locations. We all do basically the same type of work, but our perspectives on how to conduct the work can sometimes be guite different. The offsite ensured everyone is on the same page and tackling our work the same way."



#### COMPLYING WITH REGULATION

Regulators regularly visit offshore platforms in the Gulf of Mexico to conduct compliance inspections, many of which are unannounced. In 2011, regulators made eight visits to a mobile offshore drilling unit that Nexen had under contract, identifying in total, two incidents of non-compliance that we took action to correct.



## Being Prepared— A 24/7 Responsibility

Producing energy is a 24/7 business and so is emergency preparedness.

Nexen has plans in place to respond to a wide variety of incidents everywhere we work and has highly trained specialists and significant resources at the ready. Protecting our employees, the public, the environment and our corporate assets is not just a regulatory requirement, it's a commitment Nexen makes as a responsible energy developer.

Meeting that commitment involves more than being prepared for potential emergency situations. Our primary focus is to prevent incidents from occurring by providing a high degree of stewardship, risk assessment and scrutiny of major accident hazards through our Process Safety Management System and personnel training programs.

#### **Practice makes perfect**

Emergency situations can be chaotic, fast-moving and dangerous, which is why continuous training, practice and testing are essential. Nexen uses the internationally recognized Incident Command System as a basis for our emergency management philosophy.

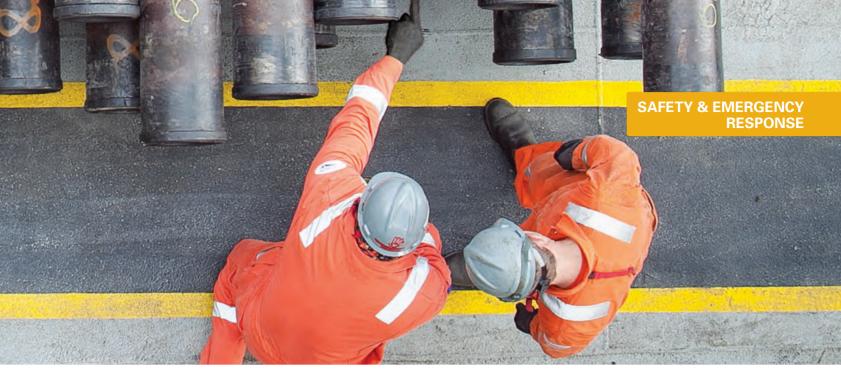
Tabletop exercises are part of the testing and measurement processes for our emergency management system. These are theoretical scenarios we conduct in an office environment. Emergency response team members are provided with event parameters and work together to test existing plans and develop new approaches. A specific scenario may be escalated during a training exercise and role-playing is often used to test individual capabilities and identify opportunities for improvement.

Emergency response drills involve full activation of our company's emergency response plan, personnel and external resources, and may also involve regulatory agencies and industry peers as participants or observers. Usually staged as one or two day events, Nexen conducts emergency response drills in full accordance with regulatory guidelines, with the intent to learn from each simulation and share our learnings with relevant stakeholders.

#### **Crisis management training**

Major exercises in 2011 tested the capabilities of our corporate emergency management systems. Simulated emergencies at our Scott Platform in the UK North Sea and in the deepwater Gulf of Mexico required the mobilization of company-wide resources including Human Resources, Health, Safety and Environment, Corporate Communications and Legal. Nexen's executive team was also involved in these exercises.

Neil Shand, Nexen's Corporate Emergency Response Manager, said, "The ability of both local and corporate groups to effectively support, communicate and work together while focusing on their respective responsibilities is one of the key objectives of the exercises." The exercises were also an opportunity to identify areas for improvement, which were incorporated into Emergency Management Planning processes.



#### ENHANCED EMERGENCY RESPONSE CAPACITY IN THE GULF OF MEXICO

In 2011. Nexen staged two emergency response exercises in the deepwater Gulf of Mexico. The exercises gave us a chance to put into practice some of the enhancements we've made to our response capability. Enhancements in well design, cement parameters and blow-out preventer capabilities address the more stringent offshore emergency response regulations developed by the U.S. Department of Interior's Bureau of Safety and Environmental Enforcement (BSEE). We also significantly increased our oil spill clean-up capacity, sub-sea dispersant capability and personnel, equipment and additional resources available for response.

• In June 2011, we staged a full-day tabletop exercise involving approximately 90 people. Designed to test our ability to respond to a



near-shore oil spill close to the coastal Louisiana wetlands, the exercise increased our understanding of potential shoreline impacts and how an oil spill clean-up unfolds over an extended time.

• In October 2011, approximately 130 people attended a two-day emergency response drill that tested our ability to address a source control issue (in this case, an oil leak on the ocean floor). We demonstrated our oil spill clean-up capacity while being observed by federal regulators and the U.S. Coast Guard.

#### **Applying lessons learned**

We applied the lessons learned from the Deepwater Horizon incident and worked to strengthen our environmental and safety prevention measures. Actions we took included hiring additional environmental compliance specialists and ensuring blowout preventers on third-party drilling rigs surpass the criteria of new regulations. We also strengthened our ability to respond to a spill by joining a consortium of deepwater operators in the Gulf of Mexico that provides us with the ability to capture or contain and process 55,000 barrels of oil per day from a subsea well.

#### OIL SPILL PREVENTION & RESPONSE IN THE NORTH SEA

Beginning in December 2010, Nexen participated in a collaborative effort among the offshore oil and gas industry, regulatory agencies and trade unions to coordinate the UK's response to the safety, environmental and commercial issues arising from the Deepwater Horizon incident in the Gulf of Mexico. The UK Oil Spill Prevention and Response Advisory Group (OSPRAG) was tasked with assessing and addressing the implications for offshore oil and gas activity in the UK Continental Shelf through:

- · first response protection of personnel;
- · oil spill response capability and remediation, including national emergency response measures;
- · indemnity and insurance requirements; and
- Pan-North Sea regulations and response mechanisms.

OSPRAG's recommendations were developed over 16 months and are now being adopted by the UK offshore oil and gas industry. The recommendations

- · increasing the frequency of testing of the Oil and Gas National Contingency Plan, to every three years instead of every five years as done previously;
- strengthening of the UK offshore environmental regulatory regime;
- · enhancing Oil Pollution Emergency Plans and Environmental Statements; and
- using the OSPRAG capping device, designed to swiftly seal off an uncontrolled well and to be ready for deployment.



## Reducing Impacts Through Responsible Development

As global demand for hydrocarbons continues to increase, our commitment is to responsibly develop the energy needed by consumers and a growing economy. To do this, we focus on strengthening our operational performance—increasing oil and gas production while also working to reduce our impacts to air, water and land.

We apply technology and innovation to improve operating efficiencies and minimize our footprint. We also work cooperatively and constructively with industry peers, governments, Aboriginal and local community leaders, and many diverse stakeholder groups to bring about outcomes that reduce environmental impacts.

#### WORKING TO REDUCE EMISSIONS

Through investments in technology, we're working to ensure the oil and gas products we generate are produced in a manner that meets or exceeds regulatory requirements that preserve regional air quality. Some examples of how we're working to reduce our emissions include:

- Our Long Lake oil sands facility in northern Alberta features state-of-the-art sulphur recovery equipment that enables the capture of at least 98.4% of sulphur dioxide (SO<sub>2</sub>) emissions.
- At our shale gas operations in northeast B.C. we're working to reduce nitrogen oxides (NO<sub>2</sub>), SO<sub>2</sub> and particulate emissions through the use of a bi-fuel/diesel engine system, which allows diesel fuel use to be offset with cleaner-burning natural gas.

- In the Gulf of Mexico, we monitor and report on NO,, SO<sub>2</sub>, volatile organic compounds (VOCs), carbon monoxide (CO) and particulate emissions through the Gulfwide Offshore Activities Data System (GOADS), managed by the Bureau of Safety and Environmental Enforcement. This air emissions inventory allows regulators to understand the sources of air pollutants and their effect on local air quality.
- At our offshore operations in the UK we estimate and report on NO,, SO,, VOCs, CO and other emissions to the Environmental Emissions Monitoring System (EEMS) managed by the Department of Energy and Climate Change.

To learn more about our emissions management or to see more detailed emissions disclosure please visit www.nexeninc.com/responsibledevelopment.



The deep sea (below 200 metres) is the largest habitat on earth, but due to cold temperatures and a lack of sunlight, little is known about life in this ecosystem. To operate in and learn more about these environments, Remotely Operated Vehicles (ROVs) are used. ROVs are the "eyes and hands" needed to complete deep subsea missions, from turning bolts to closing valves. When the ROV is not being used to support rig operations, it's employed as part of an innovative academic/industrial collaboration known as SERPENT. By performing bottom and mid-water column surveys, the Gulf SERPENT Project is able to document the range of habitat for known species while also visually identifying wildlife that has rarely, if ever, been seen.



#### WORKING TOWARD 7FRO SPILLS

In 2011, we decreased the total volume of liquid we spilled by 67% over 2010. Our spill reduction programs were key to this success, enabling us to:

- reduce hydrocarbon spills by 25% between 2010 and 2011;
- reduce hydrocarbon spills (not recovered) by 46% between 2010 and 2011: and
- decrease the size of our spills. Nexen had only one spill over 30m<sup>3</sup> in 2011, compared to three spills of this size in 2010.

#### Spills All data for 2011

|   |                     | Volume <sup>2</sup> |  |
|---|---------------------|---------------------|--|
| Location                                  | Number <sup>1</sup> | (m³)                |  |
| Canadian Conventional Oil & Gas           | 5                   | 10.7                |  |
| Energy Marketing (pipelines & tank farms) | 0                   | 0                   |  |
| Oil Sands                                 | 22                  | 105.6               |  |
| Technical & Operating Solutions           | 16                  | 64.8                |  |
| U.S.                                      | 8                   | 1.3                 |  |
| Yemen                                     | 4                   | 1.6                 |  |
| UK  | 25                  | 24.3                |  |
| Other International                       | 0                   | 0                   |  |
| Total                                     | 80                  | 208.3               |  |

- 1 Reportable spills only, not including exceedances
- 2 Not including natural gas releases; volumes are estimated.

Nexen reports to Canadian federal and/or provincial regulatory authorities whenever a spill is released into the environment and a) established volume criteria are exceeded or b) the spill (any volume) has, or may cause, an adverse effect.

Under United States Coast Guard legislation, all spills of hydrocarbons to sea are reportable, regardless of volume.

Under the UK Offshore Petroleum Activities Regulations, all spills (unplanned releases) of hydrocarbons to sea are reportable, regardless of volume.

#### WATER—REDUCE, REUSE & PROTECT

Water is a key ingredient that enables us to successfully develop hydrocarbon resources around the world. We're implementing new processes and new technologies to reduce our water use and our impacts.

Continually evolving hydrocarbon recovery technologies such as steam assisted gravity drainage (SAGD) and hydraulic fracturing have increased our industry's water requirements. At the same time, technological innovation, monitoring and recycling measures, as well as industry cooperation, are improving the way we work with water. We're also improving the way we engage our stakeholders about our water use, providing them with more transparent information about our water use and our water strategy.

#### Water use mirrors development activity

In 2011, our land-based operations used approximately 4.11 million cubic metres of fresh water, an increase of 0.65 million cubic metres from 2010. This increase reflects a growth in production, including exploration and development activity at Long Lake and at our shale gas operations in northeast British Columbia.

#### **Annual Fresh Water Withdrawn & Consumed**

(millions of cubic metres/year)

|   | 2010¹ | 2011 |
|---|-------|------|
| Long Lake Oil Sands Facility <sup>2</sup> | 2.76  | 3.06 |
| NE B.C. Shale Gas                         | 0.47  | 0.89 |
| Other                                     | 0.23  | 0.16 |
| Total for Onshore Assets <sup>3</sup>     | 3.46  | 4.11 |

- 1 Only two years of data are provided since data was not systematically tracked prior to 2010.
- 2 Includes water use for SAGD and upgrader.
- 3 Includes all of Nexen's onshore operations that use fresh water.



#### TRACKING OFFSHORE WATER USE

During offshore oil and gas production, a mixture of hydrocarbons and water is extracted from the reservoir. The water is separated from the oil and gas and once it meets strict regulatory requirements, the water is discharged into the ocean. This water is called "produced water". Nexen reports these discharges to regulators. If the water does not meet specifications, it is injected into a disposal well or sent back to separators to be retreated. A disposal well is a deep well in a closed formation that is drilled to dispose a particular type of waste.

#### **Produced Water Discharged Overboard**

(millions of cubic metres/year)

|                           | 2010 | 2011 |
|---------------------------|------|------|
| UK                        | 6.78 | 6.97 |
| U.S.                      | 1.10 | 0.49 |
| Total for Offshore Assets | 7.88 | 7.46 |

#### **Hydrocarbon Discharged Overboard**

|                           | 2011      |
|---------------------------|-----------|
| UK¹                       | 87 tonnes |
| U.S.                      | 4 tonnes  |
| Total for Offshore Assets | 91 tonnes |

<sup>1</sup> In 2011, 6.97 million m<sup>3</sup> of water was discharged from our UK operations. This equates to the average concentration of oil in discharged water being 0.00001 tonnes/m<sup>3</sup>.

Nexen began measuring this data in 2011. As a result, no comparable information for prior years is available. In order to discharge produced water to the ocean it must meet strict regulatory limits.

#### New initiative aims to reduce hydrocarbon releases in the UK North Sea

To achieve our goal of zero environmental incidents across all of our operations, we're working to strengthen specific processes and systems which are directed at improving operational reliability and reducing unplanned downtime. One of the key focus areas for our UK operations is reducing hydrocarbon releases from our offshore platforms including Buzzard, our largest producing asset.

We implemented our Hydrocarbon Release Reduction Project in 2011 and we're already seeing results. A number of improvements made to our management systems associated with facility integrity have led to the reduction in the number and size of releases. Key to this project's success has been the engagement of the workforce and the involvement of management and leadership. The use of large-scale simulations to raise workforce awareness of the hazards resulting from hydrocarbon releases has been particularly successful, illustrated by a 40% reduction in releases since the project was initiated.

Initiatives under the Hydrocarbon Release Reduction Project include:

- Hydrocarbon Leak Prevention Inspection, a strategy using advanced imaging technology to spot seeps and leaks before they escalate.
- Small Bore Tubing "No Leak" Campaign. Small bore tubing failures are the single largest contributor to hydrocarbon releases in the industry.
- Mandatory Hazard Awareness workshop for all offshore and onshore personnel.
- Hydrocarbon release "Save Awards" to recognize areas where potential hydrocarbon leaks could occur.
- Established a working group to carry out systematic audits and to review and improve containment procedures.
- Analysis of human factor causes of hydrocarbon releases, and a company-wide initiative to address our safety culture.

#### Hydrocarbon releases in the Gulf of Mexico

In the Gulf of Mexico, there were eight reportable spills in 2011. While this is a disappointing increase from seven releases in 2010, it is a decrease from 10 spills in 2009. The total volume spilled in 2011 was one cubic metre.



#### Going with the flow in the Horn River Basin

A major part of our development plan for our shale gas resources in northeast B.C. is our Horn River Basin Surface Water Management Plan. The plan was developed in 2009 to support our application for a long-term water allocation license and includes the following features:

- Nexen was granted long-term allocations of variable water volumes, based on actual water availability, which we've backed with a lifetime water monitoring commitment rather than making annual ad hoc requests for water withdrawals.
- We've invested more than \$1 million to create a local water monitoring network and we're sharing this data with the Horn River Basin Producers Group (Nexen is a founding member), Geoscience B.C., B.C. Ministry of the Environment, the B.C. Oil and Gas Commission and other interested stakeholders.
- In 2012, we committed to continue the water assessment and monitoring program at our shale gas operations in B.C. and advance research into new technology that may reduce the use of fresh water.

#### Pioneering new pressurized fracturing technology

In 2009, we began investigating the use of groundwater from the Debolt formation beneath our Dilly Creek shale gas development in northeast B.C. to reduce fresh water use. Water from the Debolt formation is both saline and sour, meaning it contains salt and hydrogen sulphide (H2S) and other gases. While the sour water is abundant, the gas and saline content make it difficult to use given current technology.

The potential solution? Pressurized Frac on Demand. This technology is essentially a pump that is designed to handle saline and sour water at the high pressures necessary for shale gas operations. If successful, this technology will enable Nexen to utilize sour water from the Debolt formation rather than fresh water currently used during the hydraulic fracturing process. In addition, we would not require water treatment facilities on site, further reducing our footprint.

In 2011, we continued with prototype testing and applied for a patent, and will continue to advance this technology over the coming years as our development grows.



To unlock shale gas, Nexen horizontally drills and stimulates (fractures) gas-bearing zones, most of which are located hundreds or thousands of metres below groundwater aquifers. Multiple layers of cement and protective steel casing in the well provide well control and protection of water sources.

#### INDUSTRY'S NEW FRACKING **GUIDELINES**

Nexen was part of a Canadian Association of Petroleum Producers (CAPP) team that developed new guiding principles for hydraulic fracturing.

"The principles represent a philosophy of responsible development and we're using them to guide the development of recommended practices for the industry," said Shad Watts, Director of Community Consultation and Regulatory Affairs—Shale Gas, who represents Nexen on the CAPP Shale Water Steering Committee.

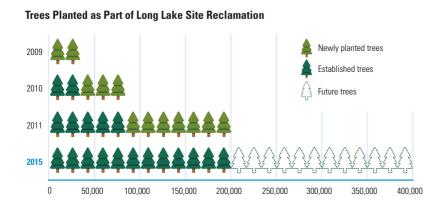
For more information on CAPP's operating practices, go to www.capp.ca.



## Responsibly Developing Canada's Oil Sands

As conventional resources decline and become less accessible, Canada's oil sands—the world's third-largest hydrocarbon basin—will play an increasingly important role in supplying secure and affordable energy that growing economies require. But, as with other forms of energy, oil sands development presents both environmental and social challenges.

By harnessing technology, innovation and industry collaboration, and by investing in the communities where we operate, Nexen seeks to maximize the benefits and minimize the adverse impacts of developing this vital resource base.



#### MAXIMIZING ECONOMIC BENEFITS

Production from the oil sands, and the supporting fabrication and manufacturing activities across Canada, provide a major benefit to employment and economic activity across Canada. And the potential for boosting economic benefits even further is significant. The Canadian Energy Research Institute (CERI) projects there will be more than \$2 trillion in oil sands investment over the next 25 years and nearly one million new jobs generated. To realize that potential, Nexen recognizes the industry must be sustainable. That's why we're a founding member of Canada's Oil Sands Innovation Alliance (COSIA), a joint effort by oil sands producers to accelerate improvement in industry's environmental performance.

#### MINIMIZING LAND IMPACTS

Long Lake is an integrated steam assisted gravity drainage (SAGD) and upgrading operation. Unlike oil sands mining, SAGD disturbs much less land and does not produce tailings. Importantly, Long Lake's in-situ wells are drilled horizontally, which further reduces land disturbance. We're also working with other land users in the region to reduce the linear disturbance caused by roads, pipelines and utility corridors.

DID YOU KNOW: Nexen is committed to reclaiming land disturbed by operations. One way that we're making a difference is by planting trees to grow forests faster. To date, we've planted more than 200,000 trees and that number is expected to more than double by 2015.



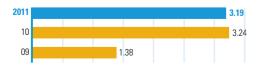
#### Oil sands and greenhouse gas emissions

According to Jacobs Consulting Canada, the crude oil produced through oil sands development, on a "well-to-wheels" basis, is only marginally more carbon-intensive than other oil sources. Nexen, along with the industry as a whole, is investing in new technologies to further narrow that gap:

- We are one of four companies working jointly on a new approach towards two major SAGD inputs—water and fuel for steam generation. The research could reduce water use and greenhouse gas (GHG) emissions from SAGD operations.
- We're also part of a five-year multistakeholder project that could lead to improved energy efficiency and reduced GHG emissions in oil sands upgrading.

While these initiatives are longer term, immediate progress on managing GHG emissions has been made. By improving operational reliability, we decreased CO<sub>2</sub>e emission intensity by 2% at Long Lake in 2011 over 2010. We also anticipate an improvement to GHG emissions on a per barrel basis as our Long Lake facility moves from a ramp-up stage to operating at full capacity.

#### CO, Emissions at Long Lake (million tonnes)



#### IMPROVING WATER MANAGEMENT AT LONG LAKE

Oil sands development can be waterintensive. Long Lake is designed to recycle over 90% of all water used and we've further reduced fresh water consumption by using saline water in our operations. We're also supporting research that would see wastewater from tailings ponds, a by-product of oil sands mining, recycled and used at in-situ operations.

At Long Lake, Nexen uses SAGD to extract bitumen from the oil sands reservoir. The SAGD process involves injecting hot steam into the ground, which enables the bitumen contained within the sand (which is later upgraded into oil) to be heated and released. The resulting water and bitumen is pumped back to the surface, where the water is separated and

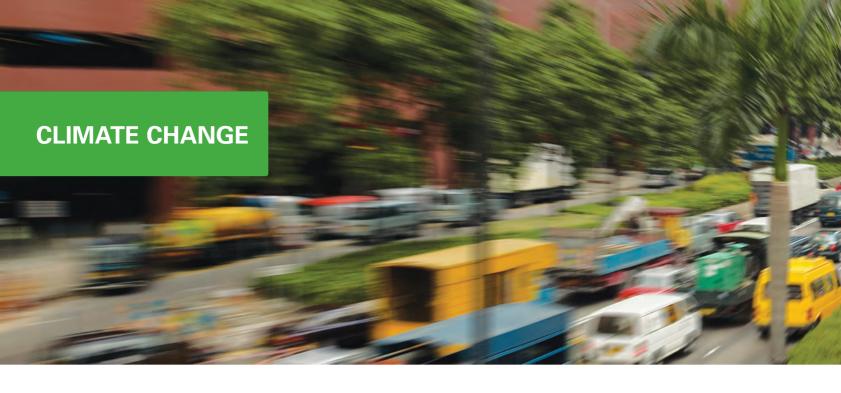
treated before it is recycled and reprocessed back into steam and then re-injected into the reservoir. While this recycling process reduces our need for water, we still require about three million cubic metres of water per year.

Early in 2011, Nexen devised a series of strategies to reduce our need for fresh water. These included daily monitoring of water use, aggressive water and steam conservation, and improvements to the electronic control systems on the steam generators. This enabled us to not only more accurately track the amount of water we use, but to use it as efficiently as possible and reduce the amount of water loss. Within a month, we saw an increase in water recycling as we were able to recover more water from the process.

#### **ODOUR COMPLAINTS**

As Long Lake production ramps up, occasional process upsets occur and there is potential for intermittent flaring and odours. Sometimes, the cause of odours can be difficult to pinpoint. In December 2011 and continuing into early 2012, Nexen received several community nearest to our Long Lake

operations, about odours. Long Lake has 12 air monitors that continually real-time data provided to Alberta Environment and the Wood Buffalo Environmental Association (this data can be viewed at www.wbea.org/ air-monitoring). We're determined to resolve community concerns and keep our stakeholders informed every step



## Taking Action on Climate Change

Climate change is a global issue requiring global solutions from energy producers, governments and consumers. At Nexen, we're committed to doing our part.

Investing in technological solutions—One of the biggest opportunities for reducing greenhouse gas (GHG) emissions is improved energy efficiency. While the first step is to utilize energy-efficient technology in the initial design and construction of our facilities—as we did with our Long Lake oil sands project and our Buzzard platform in the UK North Sea—it also entails investing in the research and development of future technologies that enable the production of oil and gas in a less carbon-intensive manner. Our investments include collaborating with the University of Calgary on research to reduce the energy and environmental impact of oil sands upgrading, and testing technology that has the potential to reduce the amount of steam used by in-situ operators—a key step to improving energy efficiency and reducing GHG emissions.

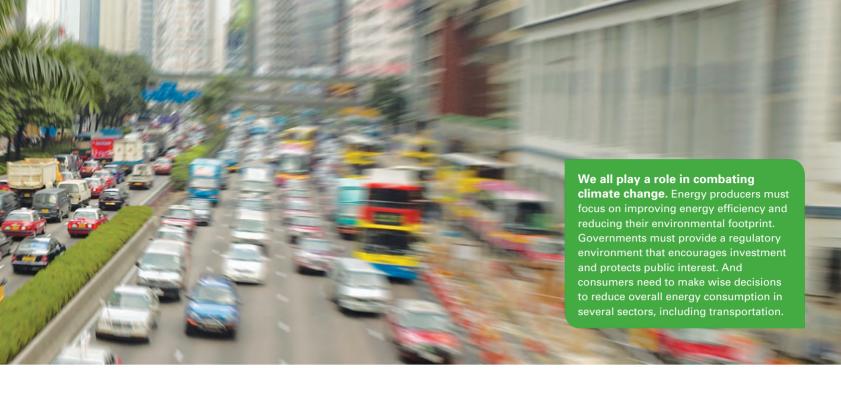
Engaging in public policy—World energy demand is increasing and hydrocarbons will continue to be an important part of the energy mix for decades to come. Companies such as Nexen are in the business of responsibly developing the oil and gas resources our economies require, and that responsibility includes working towards a lower-carbon future. While that means taking action within our own operations to tackle climate change, transitioning to a lower-carbon future also means focusing on energy consumption. Approximately 80% of the GHG emissions associated with oil use come from combustion. Industry, governments and consumers need to work together on a suite of solutions from biofuels and powertrains to transportation systems in an effort to achieve this low-carbon future. Nexen is actively involved in the public policy arena. Our efforts are focused on encouraging energy and climate change policies that are fair, transparent and provide clarity for companies, shareholders and the public alike.

Participating in carbon markets—Nexen operates in some jurisdictions, including Alberta, British Columbia and the UK, where GHG emissions are regulated. In addition to the carbon credits earned through our ownership in the Soderglen, Alberta wind farm, we pay into an Alberta technology fund that is directed towards researching and developing new low-carbon technologies. Nexen's UK facilities are covered by the UK Emissions Trading Scheme. In instances where our emissions exceed our allocations, we purchase European Union Allowances (EUAs) or eligible Kyoto Protocol credits such as certified emission reductions (CERs) to attain compliance.



#### WIND CREATES ENERGY... AND CARBON CREDITS

Nexen is a 50% partner in the 70.5-megawatt (MW) Soderglen wind farm in southern Alberta and we own 100% of the carbon credits associated with its production—credits that can be used to help us meet our GHG compliance at our Albertabased operations.



#### Overall GHG emissions decrease, while intensity measures increase

On a company-wide basis, carbon dioxide equivalent (CO<sub>2</sub>e) emissions declined to 5.82 million tonnes in 2011 from 6.34 million tonnes in 2010. This 8% decrease is attributed to the divestiture of our Heavy Oil operations in mid 2010; the closing of the Balzac gas plant in May 2011; and efforts undertaken at our Long Lake oil sands facility to improve operational performance (for more on Long Lake GHG emissions, see page 21).

However, production carbon intensity (PCI), which measures the amount of carbon dioxide equivalent per unit of production, rose 11% in 2011 over 2010. And production energy intensity (PEI), which measures the amount of energy consumed for each gross operated cubic metre of oil equivalent production, rose by 20% over the same period. These intensity increases occurred primarily because our gross operated company-wide oil and gas production was 18.5% lower in 2011 than 2010.

#### **GHG Emission Intensity (PCI and PEI)**

Company-wide

|                                   | Units                      | 2009 | 2010 | 2011 |
|-----------------------------------|----------------------------|------|------|------|
| Production Carbon Intensity (PCI) | t CO <sub>2</sub> e / m³OE | 0.20 | 0.28 | 0.31 |
| Production Energy Intensity (PEI) | GJ / m³0E                  | 2.47 | 3.42 | 4.11 |

#### Total GHG Emissions<sup>1</sup>

(million tonnes CO2e)



1 Emissions include direct emissions and indirect emissions.

#### DID YOU KNOW:

The carbon intensity of oil is dictated primarily by the type and age of a reservoir, as well as the age and fuel source of the production facilities. Our UK North Sea oil production has the lowest carbon intensity in the Nexen portfolio.



#### TEST DRIVING THE FUTURE

We consider it important to monitor and understand the range of transportation technology options available as well as developments in policy related to hydrocarbons and mobility. As part of that process, we've decided to test drive the Chevrolet Volt, an electric car, for ourselves, and spark a wider discussion about transportation and our energy future.



## **Engaging Our** Stakeholders

Integral to Nexen's culture of operating with integrity is demonstrating respect for our stakeholders and Aboriginal communities and building trust through ongoing, meaningful engagement. We do this by working with stakeholders and community members to integrate their interests into responsible resource development.

We believe stakeholders have a right to know about our future plans and ongoing activities and to be involved in the decision-making process on issues that affect them. That's why we've worked to integrate stakeholder engagement into all stages of the lifecycle at our operations; it's how we earn and maintain our social license to operate.

#### BUILDING MUTUALLY-BENEFICIAL RELATIONSHIPS

Our stakeholders contribute to our success. That's why meaningful engagement with our host communities is embedded in the way we work. Like our operations, the stakeholders we work with are diverse; their issues, interests and backgrounds vary. As a result, the way we engage with them depends on the circumstances and their preferences.

- Information Sharing—We provide timely information to stakeholders through open houses, special events and our website. In Canada, we also issue a newsletter called Community Matters.
- Consultation—We consult our stakeholders in various ways, from face-to-face meetings to multistakeholder sessions.
- Collaboration—We participate in shared decision-making through forums. In Canada, for example, we collaborate with stakeholders through the Cumulative Environmental Management Association (CEMA) and Wood Buffalo Environmental Association (WBEA)—two organizations working to improve the environmental performance of the oil sands industry.

We support community activities through donations, sponsorships and volunteering. And we always welcome feedback and can be reached by phone or in person at our "storefront" offices in several communities.

#### ABORIGINAL RELATIONS AT NEXEN

Nexen operates on or near the traditional lands of Canada's Aboriginal peoples. Our engagement with Aboriginal communities is founded on respect for their rights and unique culture, traditional knowledge and practices, good faith negotiation, as well as meaningful consultation. Our work with Aboriginal communities focuses on four key areas:

- information sharing and mitigation strategy development;
- business development and capacity building;
- Aboriginal employment; and
- community investment.



We strive to be a good neighbour and we provide Aboriginal cultural awareness training to help our employees understand and work more effectively with Aboriginal peoples. Through ongoing dialogue, our goal is to work with Aboriginal communities to understand their concerns and views regarding both the potential benefits and impacts of our operations. Our aim is to achieve mutually-satisfactory outcomes.

We invest in Aboriginal communities and work to identify and develop opportunities to ensure Aboriginal people fully participate in our industry and share in the economic and social benefits of our energy development. Since 2008, we've invested more than \$1.3 million in health, arts and culture, education, environmental and civic initiatives that support Aboriginal communities.

To achieve greater consistency in our work with Aboriginal communities across our operations, we drafted an Aboriginal Relations Policy that will be finalized in 2012. We're also developing an Aboriginal Relations strategy, which will be completed in 2012.

#### STRENGTHENING COMMUNITIES

In 2011, Nexen developed a Guide to Effective Engagement with Stakeholders & Indigenous Peoples that sets out our commitment and approach to working with communities in Canada and across Nexen's global operations. As part of our commitment to continuous improvement we're also developing key performance measures to help us monitor and evaluate our social performance across our operating divisions. We continue to participate in multistakeholder groups to engage stakeholders on environmental, social and community-based issues. These groups include Synergy Alberta, Wetaskiwin Synergy Initiative, and the Fort Assiniboine and Area Multi-stakeholder Alliance, as well as industry groups such as the Oil Sands Leadership Initiative and the Horn River Basin Producers Group.

#### DID YOU KNOW:

During our recent drilling program in Colombia, we brought together community leaders, contractors and security providers in an innovative forum to identify stakeholder concerns and implement mitigative measures and focused social investment.



#### WHO ARE OUR STAKEHOLDERS?

We define stakeholders as any individuals or groups who could be affected by our operations or who could, through their own actions, affect our business. Many people have a "stake" in Nexen:

- investors;
- employees, contractors and suppliers;
- governments and regulators;
- industry partners and peers, and other industry sectors;
- · community residents and landowners;
- Aboriginal/indigenous communities; and
- special interest groups, media, non-government organizations and civil society organizations.

Nexen invests considerable effort to build positive and mutually-beneficial relationships. We take into consideration project and operational size, the scope of the anticipated impact and the degree to which stakeholders themselves wish to be involved.



## Measuring Our Commitment

Wherever we operate, Nexen is reaching out to help build sustainable communities. Through our community involvement strategy called ReachOut, we contributed \$11.3 million to communities in 2011. The investments were made in three areas:

#### **GIVING**

Direct financial non-profit and

#### **MATCHING**

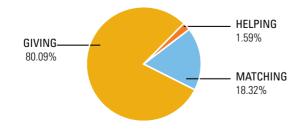
and contractor contributions to registered charitable

#### **HELPING**

Two paid days-off annually to volunteer; employees can qualify for volunteer hour grants to help local

#### **Community Investment**

Nexen employees are encouraged to take two paid work days to volunteer and give back to the community. We estimate that we contributed an additional CAD \$384,500 in 2011 "sweat equity."



In 2011, we invested approximately \$9.1 million in communities through grants and donations.

#### **Education excellence**

- The Nexen Yemen Scholarship Program has, since 1997, awarded scholarships to 130 Yemenis to pursue post-secondary degrees in Calgary.
- Educational partnerships that support high school students and graduates in Fort McMurray and Anzac, Alberta.
- Support for universities including the Nexen Scholars Program at Mount Royal University, funding for research chairs at the University of Alberta and University of Calgary, and contributions to the University of Texas at Austin's Jackson School of Geosciences.

#### **Community support**

- We're helping the Calgary Drop-In and Rehabilitation Centre finance an affordable housing complex.
- Support for the Greater New Orleans Foundation is helping fishing families recover from the impact of the Deepwater Horizon incident.
- In the UK, we fund the Journey of a Lifetime Trust, which helps disadvantaged young people.
- In Colombia and Nigeria, we're investing in community projects aimed at advancing health care, child welfare and environmental protection.



#### Celebrating arts and culture

Arts and culture are a vital part of the fabric of our communities. Nexen recognizes this by funding prominent arts and cultural organizations such as Alberta Ballet, the Calgary Philharmonic Orchestra, Aberdeen Opera Company, Theatre Junction Grand and Telus Spark.

#### MATCHING

The generosity of Nexen employees led to a record-breaking giftmatch in 2011: Nexen matched \$2 million in employee contributions dollar-for-dollar. The previous gift-match record was \$1.6 million in 2010. In Calgary, we also broke our United Way fundraising record, raising \$1.48 million in 2011.

#### DID YOU KNOW:

Through our ReachOut program, Nexen supported more than 500 charitable/ non-profit organizations in our communities worldwide in 2011.

#### **HELPING**

Many Nexen employees are putting community first by giving their time as volunteers. We estimate that Nexen contributed approximately \$565,000 to communities through our employee volunteer program in 2011. The value we bring as neighbours, partners and employers includes:

- In 2011, our employees applied for \$180,000 in grants for volunteering 40 hours of personal time to qualified organizations.
- Employees also contributed 13,550 hours to their communities in 2011 through Nexen Volunteer Days, team-building initiatives and summer student secondments to charitable and non-profit organizations. When monetized, these hours represent \$384,500 of value given back to communities. We organized volunteer opportunities for 20 young professionals at Nexen. They worked with six local community agencies throughout the summer of 2011.



lt's a bird...it's a plane...it's 437 Nexen employees dressed up like Superman! To kick off the 2011 United Way Campaign in Calgary, we broke a Guinness World Record and raised a record-breaking \$1.48 million.





**INTEGRITY & GOVERNANCE Jermyn Brooks** Board Member and Chair, Business Advisory Board Transparency International Berlin, Germany



WATER **Jim Bruce** Independent Consultant Ottawa, ON



**INTEGRITY & GOVERNANCE Julie Desjardins** President Desjardins and Associates Mississauga, ON



**STAKEHOLDER ENGAGEMENT** AND ABORIGINAL RELATIONS **Roger Hammond Development Director** Living Earth Foundation

London, UK



SAFETY AND EMERGENCY **PREPAREDNESS Mark Fleming** Professor, Department of Psychology Saint Mary's University Halifax, NS



**ENVIRONMENTAL, SOCIAL** AND GOVERNANCE **Andrew Logan** Director, Oil & Gas Program Ceres Boston, MA



SHALE GAS **Jennifer Miskimins** Associate Professor Colorado School of Mines Golden, CO



ENVIRONMENTAL, SOCIAL AND GOVERNANCE **Dayna Linley** Sr. Sustainability Analyst Sustainalytics Toronto, ON



## Nexen Advisory Group Statement

For the ninth consecutive year, Nexen engaged a diverse group of experts to provide feedback on our sustainability management, performance and disclosure. This engagement provides substantial value to Nexen in addressing and navigating complex sustainability issues. The group is organized and facilitated by Stratos Inc., a specialized management consultancy, and members provide their input and expertise as individuals rather than as representatives of their organizations.

#### **OVERVIEW**

The Advisory Group (AG) highlights an inherent tension between sustainability and a long-term strategy founded on fossil fuel extraction. This issue is particularly critical for Nexen, whose assets are long-lived, carbon- and water-intensive. We recognize that Nexen is in many ways a sustainability leader in the oil and gas industry, and encourage the company to address this tension as it develops its business strategy. Our comments below reflect the issues explored in this engagement process.

#### **Governance and integrity**

While we saw evidence of good oversight of material sustainability issues and performance, we are concerned that Nexen does not have a long-term sustainability strategy. Because turnover of executive leadership can impact the continuity of sustainability performance, the Board of Directors should strengthen oversight of the development and implementation of such a strategy.

We strongly support the integration of sustainability factors into executive compensation and encourage Nexen to expand this practice by linking compensation to publicly available short- and long-term sustainability goals. Transparency of sustainability goals has previously been recommended in AG letters.

#### **PROCESS**

This process involved conference calls, meetings with Nexen staff and executives, a site visit to Nexen's shale gas operations and interviews with three local stakeholders. We were impressed with the access and transparency that Nexen provided the Advisory Group, including internal documentation, staff time and a dialogue with the Interim President & CEO. We feel this openness is critical and commend Nexen for creating an effective and thorough engagement process.

This statement expresses our views on Nexen's sustainability management, performance and disclosure. Members of the Advisory Group were offered an honourarium 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 accommodation.

We commend Nexen for seriously addressing anti-corruption and for their commitment to transparency through the Extractives Industry Transparency Initiative (EITI). We welcome the recent shift to a zero tolerance policy regarding facilitation payments and encourage Nexen to follow the UN Global Compact-Transparency International Reporting Guidance on the 10th Principle Against Corruption.



#### Safety and emergency preparedness

There is evidence of a strong commitment at the senior level to safety and establishing the right processes to ensure results. We recognize Nexen's effort to implement globally, an industry best practice process safety management system, and encourage adopting a similar approach for occupational health and safety.

We question how senior management assures itself that Nexen's safety culture has traction at the site-level, and encourage the assessment of the behavioural impact of the new "Life Saving Rules" program. This assurance is equally important when it comes to contractor safety management and education. We welcome the integration of more leading safety indicators and the evaluation of safety risk. We encourage Nexen to review the adequacy of their emergency preparedness procedures to deal with climate change impacts and natural disasters (e.g. wildfires).

#### Water

Nexen has established water management principles, emphasizes water reuse and recycling, and is working with Aboriginal partners on a water monitoring program. We encourage Nexen to do more to share monitoring results and to work with industry to better engage the Horn River Basin community on long-term water plans and potential impacts. Nexen should investigate

the impact of its oil sands and shale gas operations on the Mackenzie watershed in the Northwest Territories and take action to address any impacts identified.

We recommend setting targets to drive Nexen's move to saline versus fresh water use. Nexen should also set a long-term water strategy and ensure the management and disclosure of all chemicals used in shale gas operations.

#### Stakeholder relations and **Aboriginal engagement**

We acknowledge Nexen's efforts in stakeholder and Aboriginal engagement and the strong relationships with some communities. We commend Nexen for recognizing the need to better institutionalize learnings and to bring greater global consistency to their engagement systems, processes and practices. We look forward to seeing the Aboriginal Relations strategy, scheduled for completion this year.

We recommend that Nexen engage external stakeholders directly in the materiality analysis. Stakeholder engagement should aim to co-create plans and to develop trust-based relations. Nexen should ensure its pace and scale of development is aligned with the community's capacity to engage. We encourage Nexen to continue to contribute to local capacity building and sustainability, and to inspire leadership through collaborative sector initiatives.

#### **Additional comments**

We recognize Nexen for valuable contributions such as commissioning third-party research on biodiversity impacts; however, the company's increasing exceedances of environmental regulations is a negative trend.

We encourage Nexen to more aggressively address its greenhouse gas emissions and energy efficiency, and to expand transparency of its policy position on energy and climate change.

#### Sustainability disclosure

The Advisory Group reviewed draft versions of the online and printed sustainability report and provided substantive recommendations. However, we did not have the opportunity to review the final versions to see where our input was reflected. Given this limitation, we are not providing a perspective on Nexen's disclosure in this statement.

We look forward to monitoring progress on Nexen's commitments and to observing how the company's sustainability management, performance and disclosure evolve over time. We commend Nexen for its leadership in conducting this open engagement process.

Nexen External Advisory Group May 24, 2012



## Independent Assurance Report

To the Board of Directors and Management of Nexen Inc. ("Nexen")

We have reviewed selected performance indicators (the "Subject Matter") presented in Nexen's Sustainability Report (the "Report") for the year ended December 31, 2011. A review does not constitute an audit and, consequently, we do not express an audit opinion on the selected performance indicators.

#### **Subject matter**

We reviewed the selected performance indicators listed below and set out in the Report [GRI Reference]:

• Community investment [EC1]

• Fresh water withdrawn and consumed in onshore assets [EN8]

• Total CO<sub>a</sub> equivalent emissions [EN16]

• Production carbon intensity [EN16]

• Number of reportable environmental spills [EN23]

• Estimated volume of reportable environmental spills [EN23]

• Number of reportable environmental exceedances [EN23]

• Percentage of Yemeni employees [LA1]

• Voluntary employee turnover rate [LA2]

• Employee and contractor loss time injury frequency [LA7]

• Employee and contractor total recordable injury frequency [LA7]

• Employee engagement score

• Reported and substantiated integrity incidents [SO4]

\$11.3 (CAD millions)

4.11 (millions of cubic meters)

5.82 (million tonnes)

0.31 (t CO<sub>2</sub>e / m<sup>3</sup>OE)

208 (cubic meters) 445

91%

8.87%

0.15 0.67

The Subject Matter was chosen by Nexen management primarily on the basis of perceived external stakeholder interest. We did not review the narrative sections of the Report except where they incorporated the Subject Matter, nor did we review other performance indicators included in the report.

#### Responsibilities

Nexen management is responsible for collection and presentation of the Subject Matter set out in the Report. Our responsibility is to express a conclusion, based on our assurance procedures, as to whether anything has come to our attention to suggest that the Subject Matter is not presented fairly in accordance with the relevant criteria

#### **Assurance standards and procedures**

We conducted our work in accordance with the International Standard on Assurance Engagements (ISAE) 3000, "Assurance Engagements other than Audits or Reviews of Historical Financial Information", issued by the International Federation of Accountants. As such, we planned and performed our work in order to provide limited assurance with respect to the Subject Matter. We obtained 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 operations and corporate office;
- Reviewing relevant documents and records on a sample basis;
- Testing and re-calculating information related to the selected performance indicators on a sample basis; and,
- Assessing the information for consistency with our knowledge of Nexen's operations, including comparing Nexen's assertions to publicly available third-party information.

Our assurance criteria comprised the Global Reporting Initiative (GRI) Sustainability Reporting 3.0 Guidelines (2006 Version), industry standards, and Nexen internal management definitions as disclosed in the Report, informed by relevant regulations. Our assurance team included individuals with environmental, health and safety, social, economic and assurance experience.

Environmental and energy use data are subject to inherent limitations of accuracy given the nature and the methods used for determining such data. The selection of different acceptable measurement techniques can result in materially different measurements. The precision of different measurement techniques may also vary.

#### **Conclusion**

Based on our work as described in this report, nothing has come to our attention that causes us to believe that the Subject Matter is not, in all material respects, presented fairly in accordance with the relevant criteria. This report is intended solely for use by the Management and Board of Directors of Nexen.

Deloute & Toucho UP

Deloitte & Touche LLP Calgary, Alberta, Canada May 2, 2012

## Learn More **About Nexen**



#### **FOLLOW US ONLINE**

Want more information? A more detailed version of Nexen's sustainability disclosure is available at www.nexeninc.com/responsibledevelopment.

Easy viewing: If you don't want to read more about what we're doing, you now have the opportunity to watch instead; our online disclosure includes several concise videos on our sustainability progress and challenges.

Among others, watch:

- Interim President & CEO Kevin Reinhart on Nexen's culture of integrity.
- Aboriginal contractors on Nexen's positive impact on the Wood Buffalo regional economy.
- Balzac's Reeve and homeowners on how Nexen's early adoption of the Responsible Care® model is leading to continuous improvement in the company's environmental, health and safety performance.

Looking for some hard numbers? Our online disclosure includes comprehensive performance data on how we're doing on health, safety, environmental stewardship, social responsibility and economic benefits.

Gung-ho about good governance? Nexen is a recognized industry leader in corporate governance. Our approach, detailed online, is all about building and maintaining the trust of our stakeholders through systems and programs based on ethics, integrity and transparent communication.

GRI-minded? We continue to use the Global Reporting Initiatives G3.1 Guidelines. Check out our online content index prepared in accordance with GRI G3.1 Application Level B+. Our Sustainability Report is also guided by a joint, industry-specific framework on oil and gas industry guidance for voluntary reporting developed by IPIECA, the American Petroleum Institute, and the International Association of Oil & Gas Producers.

Why the web? The intent of our online sustainability reporting is to be timely, comprehensive and environmentally responsible. We are reducing our paper use while also achieving a better balance between the annual data we report and relevant information we share via our website throughout the year.

Watch us on YouTube. www.youtube.com/Nexen

#### flickr

See photos of our operations, how we invest in our communities and how we're working to be a responsible energy developer. www.flickr.com/photos/nexeninc

Nexen is hiring! www.linkedin.com/company/nexen-inc

Forward-Looking Statements This report contains forward-looking statements and forward-looking information, including statements regarding: business strategies; expected production growth and developments; planned environmental and regulatory targets, performance, monitoring and initiatives; planned safety targets and programs; planned studies, evaluations and internal management system audits; planned emission monitoring, reporting, reduction and recovery; planned technological and systems advancements, developments, implementation, testing and initiatives; planned support of research; planned emissions offset and climate change policy; planned stakeholder collaboration; planned updates to Human Rights Policy; planned Aboriginal Relations Policy and strategy; planned employee health initiatives; planned scholarship programs; planned community commitment including employee volunteer program, direct contributions and matching; statements about possible future events, conditions, results of operation or performance; and changes in any of the foregoing. All forward-looking statements in this report are based on Nexen's current expectations, estimates and projections, and are qualified by the assumptions that are stated or inherent in such forward-looking statements. Although we believe these assumptions are reasonable, readers should not place an undue reliance on these assumptions and such forward-looking statements. 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. 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 the Risk Factors contained in our 2011 Annual Information Form, and to the Quantitative Disclosures about Market Risk and our Forward-Looking Statements contained in our 2011 Management Discussion and Analysis. All financial information is in Canadian dollars. Reproduced with permission of Yahoo! Inc. ©2012 Yahoo! Inc. FLICKR and the Flickr logo are registered trademarks of Yahoo! Inc



#### The Last Word...

Less than a ten minute drive west of Nexen's Long Lake oil sands operation is Gregoire Lake Provincial Park, a year-round facility that offers swimming and boating in summer and snowmobiling and cross country skiing during the winter. It's frequently visited by out of town campers and residents of the nearby communities of Anzac and Fort McMurray, Alberta.

Our cover photo was taken at Gregoire Lake because it illustrates Nexen's Way: it's located in the heart of the oil sands region, is popular with energy sector employees while the services the park offers—recreational activities and community events—enhances the lives of the people and families who live there.

We're pleased to be recognized, especially when the awards reflect our values: good governance practices, transparent disclosure, effective stakeholder relations and a dynamic workplace that attracts and engages talented people. Here are just a few of the recent recognitions earned by Nexen:

Global 100 Most Sustainable Corporations

\*\*GLOBAL100\*\*

from Corporate Knights magazine

Canada's Top 100 Employers from MediaCorp Canada

2011 Dow Jones Sustainability Index **Dow Jones Sustainability Indexes** 

2012 Macleans Sustainalytics Top 50



Macleans Green 30





The world needs clean, secure and affordable energy. At Nexen, we help meet this need by harnessing our exceptional talent, world-class assets and progressive technology to find and develop oil and gas resources around the world. It's Nexen's way of building a profitable and responsible business.





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The print report focuses on a sampling of high-priority issues. For additional information visit www.nexeninc.com/responsibledevelopment.