To succeed in responsible energy development, we need the right tools. At Nexen, I believe our technology, our people and the way we work form our unique advantage.

At Long Lake, I am proud of our progress on a technological solution that is groundbreaking on many fronts. Our integrated facility will be almost entirely energy self-sufficient and will recycle more than 90% of the produced water. In 2009, we planted 37,000 trees to accelerate reclamation on our lease. On our own and through an industry initiative described on page 35, we are looking to drive further environmental progress.

As this report is published, we are closely monitoring the aftermath of the BP Deepwater Horizon incident in the Gulf of Mexico, where industry, governments and regulators are coming together to identify root causes and implement lessons learned. At the same time, we continue to build our culture of individual accountability and leadership, where every one of us contributes to safe operations and responsible environmental stewardship.

TOOLS FOR RESPONSIBLE DEVELOPMENT

To succeed in responsible energy development, we need the right tools. At Nexen, I believe our technology, our people and the way we work form our unique advantage.

Technology is unlocking the value of hard-to-access resources in the UK North Sea and other areas. Technology is driving down costs in the shale gas region of northeastern BC, and it's helping us reduce energy use, and land and water impacts in the oil sands. In the future, technology will drive further environmental advances.

But we can't deploy technology without the right people. And ours are among the best. Our people welcome new challenges—technical, operational or environmental—and deliver results. We are committed to ensuring our talent continues to grow.

And finally, the way we work is an advantage. We focus on safe, ethical operations, minimize our environmental footprint and build lasting relationships with our stakeholders.

This approach has delivered results in Yemen where we have created a legacy asset by building safe, reliable operations and strong relationships with local stakeholders. We understand what it takes to operate in complex environments and we will continue to be guided by Nexen's way of working throughout our world.

In my first year as CEO, I've met with many of Nexen's stakeholders. I am pleased by their comments about the way Nexen employees work, and I welcome their ongoing feedback.

We have an exciting future of responsible energy development ahead of us. In the past year, we have made discoveries in the Golden Eagle area of the North Sea, at Owowo offshore West Africa and in the US Gulf of Mexico. Our considerable unconventional resources include a significant shale gas position and an estimated six billion barrels of contingent recoverable oil sands resource.

Transparency, accountability and meaningful engagement will help us unlock the value of these tremendous assets. We will continue to be part of the conversation on important issues, whether it's on climate change with international agencies or at the kitchen table with our closest neighbours.

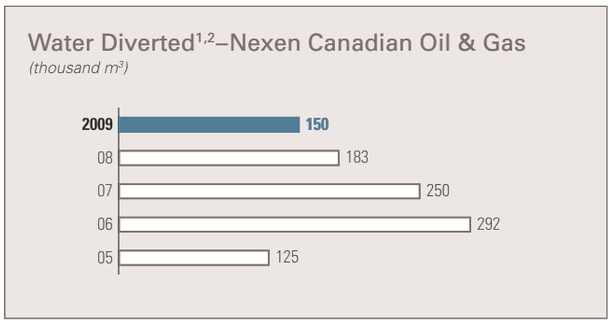
Because that's Nexen's way.

Marvin Romanow
President and Chief Executive Officer

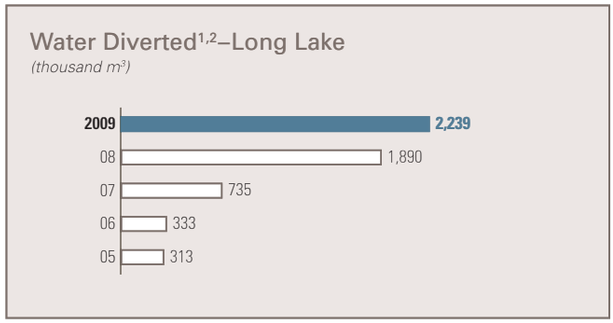
Nexen's mission is to grow value responsibly. In pursuing that mission, our vision is to be the pre-eminent global independent energy producer in North America.

We grow our business to be successful and sustainable by engaging resourceful people, capitalizing on superior assets and innovation and operating in a socially responsible manner.

In this section



Our Canadian water use declined in 2009 primarily because less water was required in our enhanced oil recovery operations.



Water use at Long Lake increased as we continued to generate steam for ramp-up of bitumen production.

MEASURING OUR IMPACTS

Managing our environmental performance starts with understanding our impacts. Good measurement tools are essential.

Nexen launched a company-wide HSE&SR data management project in 2007 to document and enhance our health, safety, environmental and social reporting tools and processes.

We found a wide range of reporting practices across the company. Some worked well; others were cumbersome or inefficient. We began to build a suite of tools that would consolidate information in a single spot and improve overall data quality.

The first phase of the project was completed in 2009—a single data 'hub' that will become the repository for company-wide HSE&SR data.

The next step will be to implement water and waste tracking tools. With these tools in place by 2011, we will have better data on our environmental footprint and can direct our efforts toward areas where we have the greatest opportunities to improve performance.

1 *Water diverted includes total non-saline (fresh) surface and groundwater diverted (excluding run-off) for industrial use under license (as per 2009 CAPP Stewardship Guidelines).*
2 *Excludes drilling and completion activities.*

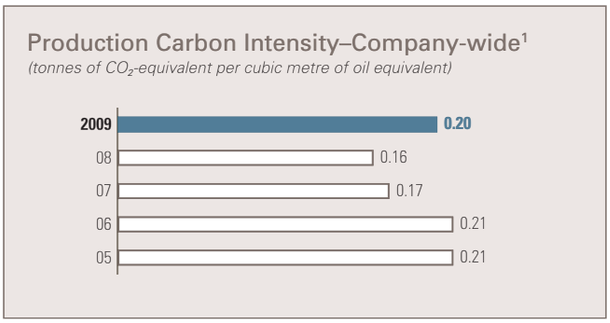
SHALE GAS

Shale gas is a significant growth area for Nexen, with the potential to double our proved reserves. This gas is trapped in tight spaces of shale rock formations. Developing this resource cost-effectively was a challenge until recent advances in horizontal drilling and fracturing technologies.

During fracture operations, water and sand are injected at high pressure into the wells to crack the rock, creating pathways for the gas to flow. In BC's Horn River, access to surface water is regulated by the provincial government. To ensure potential impacts are understood and addressed, Nexen is monitoring surface water flows, lake levels, and water quality. This monitoring provides information about the natural variability of specific watersheds to guide our responsible water use.

In the Horn River Basin, Nexen is investigating saline groundwater reservoirs as an alternative to using fresh surface water.

Nexen is also investigating saline groundwater reservoirs as an alternative to fresh surface water use. Research through GeoScience BC, supported by the Horn River Basin Producers Group and the BC Government, has identified a saline aquifer more than 600 metres below the surface (see page 17). Further drilling and testing of this deep saline water source across the Horn River Basin is underway to help operators collaboratively develop a long-term water usage strategy for the area.



As production ramps up to design levels at Long Lake, company-wide emission intensity will increase.

Our early action on climate change has prevented the release of almost eight million tonnes of CO_2 since 1997.

We recognize climate change as an important policy and business issue that must be actively managed to ensure our long-term success as an energy producer. That's why Nexen is broadly engaged in the public policy debate, carbon markets, technology solutions and information sharing with third parties. Our board and executive management regularly review Nexen's strategic approach to climate change.

Nexen follows a four-point emission management strategy:

- Manage our direct greenhouse gas emissions;
- Explore technological solutions;
- Continue to participate and develop expertise in carbon markets; and
- Invest in renewables.

GHG emissions from our US and Yemen operations decreased in 2009 due to declining production in these areas. In the UK, production started from the Ettrick field, resulting in a modest increase in emissions. A significant increase (about 55%) in reported emissions from Canadian operations is partly due to the change in operator status of Long Lake (which increased the portion of emissions we report from 50% to 100%) and partly due to continued ramping-up of production from Long Lake. We expect Long Lake operations and emissions to stabilize at their design levels once we reach steady production.

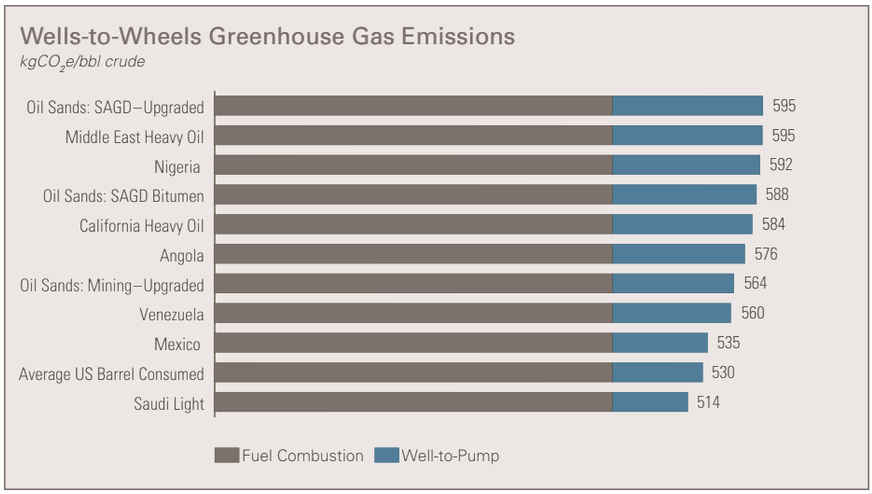
For the past 10 years, Nexen has taken voluntary action to reduce our direct emissions through vent gas conservation. In 2009, our avoided emissions totalled 1.2 million tonnes of CO_2e. Overall, our early action has prevented the release of almost eight million tonnes of CO_2e since 1997. Other examples of our actions include:

- Designing state-of-the-art, energy-efficient facilities such as Buzzard and Long Lake;
- Designing a technology path at Long Lake that can create a stream of CO_2 suitable for carbon capture and storage;
- Investing in a large conservation project in Belize to avoid deforestation;
- Partnering to develop a 70-megawatt wind farm in southern Alberta and filing a development application for a second wind farm (see page 33); and
- Investing in a Buyers Pool in 2005 with a commitment to acquire 500,000 tonnes of eligible certified emission reductions over five years.

OUR PERSPECTIVE

Nexen operates in some jurisdictions, such as Alberta, BC, Norway and the UK, where greenhouse gases are regulated and compliance requirements are clear through at least 2012. In other jurisdictions, such as the US and Canada at the federal level, details of climate policy have yet to be decided.

1 *PCI is a measure of the greenhouse gas emission intensity of our oil and gas operations. It is the total GHG emissions as carbon dioxide equivalent divided by gross operated production from all Nexen-operated wells in cubic metres of oil equivalent.*



On a wells-to-wheels basis, crude oil produced from the oil sands has emissions comparable to many fuels produced and consumed in the US.

Source: Cambridge Energy Research Associates

We support climate change policy that:

- Engages all producers and users of fossil fuels—industry and the consumer—in addressing climate change;
- Does not discriminate by fuel type, source or sector of the economy;
- Includes a simple and transparent compliance system, such as a carbon tax or levy;
- Creates pools of capital for low carbon technology and infrastructure development; and
- Provides predictability, certainty and clarity for companies and shareholders.

MANAGING CLIMATE RISK

Nexen regularly assesses the operational, regulatory and reputational risks associated with the climate change issue. These are reviewed with our executive management and board of directors and are discussed in our Carbon Disclosure Project submission (www.cdproject.net) and Annual Report.

One of the industry's most significant regulatory risks is a lack of policy clarity. In 2009, some clarity was achieved. Canada signalled it would align with a US policy approach to climate change, given the high integration of our economies. Canada and the US also signed the Copenhagen Accord and made identical pledges. Meanwhile, we continue to work closely with provincial governments in Alberta, Saskatchewan and BC on future regulatory developments.

Meaningful engagement is one of our most effective tools in this evolving regulatory environment. We are an informed, engaged contributor to the climate dialogue through industry associations, and in discussions with governments, academics and other stakeholders. We do this not only because we believe we have insights to offer, but it helps us identify emerging trends that aid our investment decision-making process.

OIL SANDS AND CLIMATE CHANGE

Only about 30% of the world's conventional resources are open to exploration and development by independent oil companies. As a result, Canada's oil sands will play an important part in North America's future energy mix.

Carbon emissions from unconventional resources are higher than conventional oil because bitumen requires more processing to make usable energy, such as gasoline and diesel. However, we believe it is important to consider the full life cycle of emissions from a barrel of oil to ensure all greenhouse gas impacts and reduction opportunities are identified.

Two independent studies completed in 2009 compared the life cycle greenhouse gas emissions of conventional and unconventional crudes commonly imported into the US. Findings conclude that when a full life cycle, "wells-to-wheels" emissions analysis is done, crude produced in the oil sands has emissions that are comparable (5-15% higher) to many fuels produced and used in the US.[2]

2 The two independent studies are: "Growth in the Canadian Oil Sands: Finding the New Balance" by the Cambridge Energy Research Associates (www.cera.com/aspx/cda/public1/home/home.aspx) and "Life Cycle Analysis—Exploring the Facts on Oil Sands Development," by the Alberta Energy Research Institute (www.albertainnovates.ca/energy).

SUSTAINABILITY PROFILES

A CLIMATE CHANGE CONVERSATION

As our Special Advisor on climate change, Wishart Robson recommends strategic direction on Nexen's climate change policy and programs. He also participates in a number of external advisory groups and forums, including the 2009 Copenhagen climate conference. Here he shares his views on current climate change challenges and opportunities.

Q WHY IS PROGRESS ON GREENHOUSE GASES TAKING SO LONG?

Climate change is a complex subject that doesn't lend itself to easy solutions. That's because the economy, energy and the environment are inextricably linked. As you start to peel back the layers, you get to some very big questions. How does each one of us use energy in our lives? What kind of quality of life do governments want for their citizens, today and in the future? How do developing nations raise living standards? And, where we have options, what choices are we prepared to make to bring about positive change?

Underpinning these questions is the reality that global energy demand is increasing. Control of the remaining resources is changing, and many conventional oil reservoirs are in decline. The world needs new energy sources, but not at any social or environmental cost.

Climate change is fundamentally a consumption issue. Real progress on this issue is possible, but it's going to take a more honest dialogue that constructively engages everybody—industry, governments and consumers. We should also recognize that change will require significant investments that will likely increase the cost of many goods and services we rely on.

Q SO WHAT DOES A LOW CARBON FUTURE LOOK LIKE?

A future low carbon energy system would include a suite of transportation solutions such as energy-efficiency standards, biofuels, and hybrid and electric vehicles. Electricity transmission systems would more easily incorporate renewables, nuclear and micro-generation. However, there can be no low carbon energy system without a coal-based solution, as more than 50% of global electricity currently comes from coal.

I think the "wedge" concept put forward by Princeton professors Stephen Pacala and Robert Socolow is a possible scenario—it shows how existing technologies can be applied to stabilize global greenhouse gas emissions (www.cmi.princeton.edu/wedges). Under this scenario, energy conservation, energy-efficiency improvements and renewables can all be pursued now. But public commitment and technology development will be needed for progress on the use of nuclear and carbon capture and storage.

The question of who leads on climate change is a good one. In a democratic society, sometimes people have to lead before politicians follow, and other times the opposite is true.

Q WHAT'S YOUR VIEW OF THE GROWING PROFILE OF THE OIL SANDS IN THE CLIMATE DEBATE?

I understand if people are confused by what they hear about the oil sands. So let's start with a couple of facts. First, oil sands crude is not significantly more carbon intensive than other North American crude oil sources on a life cycle basis.

It's also important to remember that greenhouse gases from the oil sands are already regulated—in fact, Alberta was the first jurisdiction in North America to introduce economy-wide greenhouse gas legislation, including a price for carbon. Alberta is also making a significant investment in carbon capture and storage technology, and emitters are paying into a fund to "green" Alberta's production, some of which will be directed to new low-carbon technologies.

As a strategic North American resource, the oil sands need to be part of a global climate change solution. But we will not solve the problem by isolating the oil sands—which account for 0.1% of global emissions—and ignoring much larger emission sources such as those from global coal-fired electricity.

And don't underestimate this industry's capacity for innovation. In-situ technology is still relatively new and I'm confident we will see some game-changing advances in coming years, including technologies that significantly reduce steam generation requirements and associated emissions.

Q IN THE ABSENCE OF CLEAR REGULATION, SHOULD COMPANIES TAKE THE LEAD ON CLIMATE CHANGE?

Quite honestly, this is a challenging area. Nexen has taken early voluntary action to reduce greenhouse gas emissions. However, we have not been rewarded for getting ahead of regulation. In fact, we face the risk of stranding capital in investments that may not fit within future regulatory frameworks and carbon pricing regimes. We will do our part, but we need to understand the rules under which we'll be operating.

The question of who leads on climate change is a good one. In a democratic society, sometimes people have to lead before politicians follow, and other times the opposite is true—kind of like how cyclists in a road race work as a team to share the hard work of leading the pack. On climate change, I think society is still trying to work out who should lead in what circumstances. We're all trying to work out the best approach.

Q DOES THAT MEAN NEXEN WILL JUST WAIT IT OUT?

Definitely not. There are areas where we can be—and are—leaders. The best thing Nexen can do is stay engaged in the dialogue. We've been leaders in the public policy arena through our work with governments and third parties. That work will continue. And we've been technology leaders, by designing state-of-the-art facilities at Buzzard and Long Lake which will deliver energy efficiencies well into the future.

Ultimately, technology needs to be part of the long-term solution. For Nexen, that means continuing to support independent research while nurturing innovation and progressive thinking in our organization. Technology can help us drive efficiency improvements that will create environmental benefits as well.

We believe good consultation starts with solid relationships based on mutual respect and a shared understanding of each other's issues.

From left: Willow Lake Métis Local #780 President Margaret Scott, Vice President Kevin Tremblay and Nexen's Stella Lavallee-Kreutzer, Christine White and Matt Michetti.

Our relationships with Aboriginal peoples are guided by a set of principles outlined in our Aboriginal Relations Policy (see page 27), which is due to be finalized in 2010. Our day-to-day interaction with Aboriginal communities is focused on four key areas: consultation, business development, employment and social responsibility.

CONSULTATION

The Aboriginal and treaty rights of Aboriginal peoples are protected under Canada's Constitution. The Supreme Court of Canada has stated that the Crown has a duty to consult and, where appropriate, accommodate Aboriginal peoples in certain circumstances. While the duty rests with the Crown, aspects of the duty may be delegated to industry.

We believe good consultation starts with solid relationships based on mutual respect and a shared understanding of each other's issues. We knew at the start of the Long Lake project that our long-term success would be determined in part by the quality of our relationships with local Aboriginal communities. So we engaged early and invited them to define how they wanted to be involved.

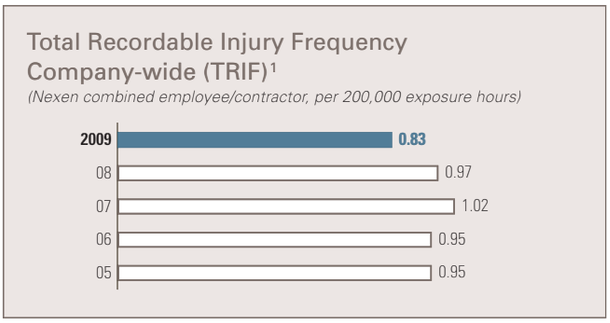
We also recognize that meaningful consultation requires considerable time and resources for stakeholders, and we have worked closely with Aboriginal communities to address their issues. For example, Jessica Saunders, a program and planning advisor with Nexen's Aboriginal Relations team, was seconded to help the Fort McMurray Métis Local #1935 develop a work plan to acquire a parcel of land for a proposed cultural centre. This proved to be a triple-win for the Métis Local, Nexen and Jessica herself.

APPRECIATING ABORIGINAL CULTURE

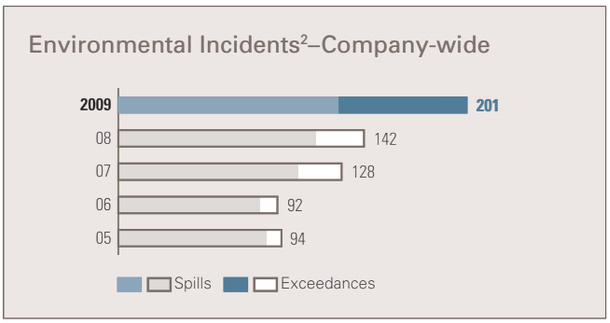
We know good relationships are built on understanding. That's why Nexen introduced mandatory Aboriginal awareness training for our Long Lake employees. Since 2008, approximately 600 employees from all parts of the operation have taken the training.

Developed in consultation with local First Nations, the training focuses on Nexen's principles and commitments to Aboriginal stakeholders. It reviews the unique role of Aboriginal peoples in Canada's history and their treaty rights. A local Métis elder provides a first-hand account of Métis culture and history.

The aim is to give Nexen employees a better understanding and appreciation of Aboriginal history and culture—a solid foundation for building strong relationships.



Improved contractor safety performance more than offset a higher employee injury rate and led to Nexen's best-ever combined safety performance in 2009.



In 2010, we are focusing on training and process safety management to improve company-wide performance, including programs at Long Lake to address exceedances during ramp-up.

RESPONSIBLE CARE® AND PRODUCT STEWARDSHIP

The life cycle of Nexen products extends well beyond the boundaries of our field or processing facilities. Through Responsible Care, Nexen's Canadian Oil and Gas and Yemen operations work to protect people and the environment as raw materials in our facilities make their way through the delivery portions of their lifespan and on to their ultimate refining, retail and consumer destinations.

Product stewardship is a significant component of the Responsible Care commitment Nexen made in 2000, when our Balzac, Alberta gas plant became the first Canadian energy facility to adopt this integrated business management system. Our Yemen operation adopted Responsible Care a year later.

Our Responsible Care product stewardship policy requires both operations to regularly assess the suppliers, contractors and carriers who deliver our products and ensure they are clear about our expectations, have information about the hazards of our products and are equipped to handle emergency situations. We also share our plans and work closely with communities and first responders.

Brian McAusland, Nexen's Responsible Care Manager, explains, "Product stewardship is about risk reduction and managing the molecule. We perform due diligence before hiring a carrier and track their performance through carrier audits. Those with better performance get the work."

1 *Does not include Long Lake construction.*
2 *Reportable incidents are spills or exceedances that must be reported to one or more regulatory agencies in the jurisdiction in which the event occurred.*

Air quality at Long Lake is monitored around the clock.

2009 PERFORMANCE

ENVIRONMENT

ENVIRONMENTAL SPILLS AND EXCEEDANCES

We reported 127 environmental spills in 2009, totalling 2,261 cubic metres. Most spills were very small volumes and we recovered 88% of the material spilled. Equipment failure and human error together accounted for about two-thirds of the spills.

Our largest spill was a release of approximately 1,100 cubic metres of produced water containing some hydrocarbons near Court, Saskatchewan. The spill was contained in a nearby slough. We will continue with remediation despite recently selling the property.

The number of exceedances of regulatory permits more than doubled in 2009 over 2008. Many occurred at Long Lake as a result of sour gas flaring during ramp up. Most exceedances were minor and posed no significant risk to people or the environment. We are implementing process and instrumentation reliability improvement programs to address the issue.

We also recorded an unusual number of ambient hydrogen sulphide exceedances at our Balzac gas plant, most likely due to emissions from a nearby lake. Additional monitoring and testing is under way to confirm whether the lake is the natural source of the emissions, in which case they will be removed from our exceedance count.

Nexen investigates every environmental spill and exceedance to identify and address its cause. In 2010, we will continue to focus on training and process safety management to address the equipment, human error and maintenance factors associated with these events.

IMPROVING ECO-EFFICIENCY

Understanding the sources of greenhouse gas emissions is the first step to their effective reduction.

That's why Nexen's Eco-Efficiency team has been working since 2008 to identify, document and create a knowledge base of greenhouse gases in our Canadian Oil and Gas (COG) division. The team's goals are to promote greater awareness and create a strategic framework for action.

The initiative involved establishing current emission baselines and evaluating potential emissions reductions opportunities. The cost of carbon was included as an input in an Optimization Calculator, alongside production and cost inputs. This tool helps identify the best candidates for process changes or improvements, retrofitting, replacement or the application of new technologies.

Garth Bird, Manager, COG Operations Improvement, says, "This initiative has elevated the value of taking proactive steps. It has also improved understanding of the risks and costs, and enabled us to move emissions reduction in front of facility design and construction rather than retrofitting after the fact."

Plans are now under way to determine how the eco-efficiency model can be applied to other areas of Nexen.

Balzac has been an important asset for Nexen and has helped set the bar for how we engage with communities across the company.

COMMUNITIES

Being a good neighbour means minimizing the impacts of our activities and contributing to the places where we operate through employment, local spending and investments in community organizations.

Balzac: What We Learned

In early 2010, Nexen announced the planned closure of the 49-year-old Balzac sour gas plant on the outskirts of Calgary, primarily due to declining gas reserves. Balzac has been an important asset for Nexen and has helped set the bar for how we engage with communities across the company.

In the late 1980s, we were set to begin a sour gas drilling program in the Balzac area, but our drilling plans stalled when the local community voiced its opposition to more sour gas development in the area.

We saw we needed a new way of working with the community—an approach based on open, honest communication and meaningful engagement.

Over time, Nexen has built strong relationships with our Balzac neighbours. We learned to listen, to engage our stakeholders early and to be willing to act on the feedback we receive. As a result, we continued to operate at Balzac safely and with community support, and we secured approval for additional sour gas drilling in the area.

The Balzac experience taught us the value of positive community engagement. We have applied those lessons in other parts of the world, including Yemen, Long Lake and, most recently, Horn River.

As Balzac moves into its final phase, Nexen will continue to consult with local officials, landowners and other community members to ensure a safe and responsible decommissioning of the sour gas processing facility.

Planning it Right from the Start

While Nexen has an established track record for community engagement in our existing operations, it's also important to integrate our way of working into newer projects and facilities.

Nexen's UK division drilled its first onshore well in 2009 at Doe Green near Liverpool. This small coalbed methane (CBM) pilot facility is close to many homes, so we worked with the local community to address potential impacts.

Nexen installed visual and acoustic screening of the site, minimized and redirected lighting and even shut down operations over Christmas to avoid disrupting family celebrations. In addition to a strong safety record, the team completed the project without any concerns raised from nearby residents. The facility has become a showcase site to demonstrate how CBM can be developed near populated areas.

Our communities are important stakeholders. As those closest to our operations they have a unique perspective on how we work.

Nexen's Aberdeen employees are big supporters of the Pitcaple self-sustaining garden project that provides training for mentally and physically challenged adults.

In Norway, several years of planning culminated in the drilling of our first offshore well in the Norwegian North Sea in early 2010.

We identified our key stakeholders, including government officials, regulatory agencies, labour unions and environmental groups. We met with these groups early, informed them of our plans and invited their feedback.

While Nexen has an established track record for community engagement in our existing operations, it's also important to integrate our way of working into newer projects and facilities.

For instance, we met with the Norwegian Petroleum Safety Authority and the Norwegian Climate and Pollution Agency before submitting applications for government permits. We outlined Nexen's Norway organization, drilling plans, management system and emergency response organization. We incorporated feedback from these meetings in the planning process for the well and in the development of our management system.

Based in part on our thorough consultation process, Nexen received all government permissions for the project without conditions.

A PARTNERSHIP IN RECYCLING

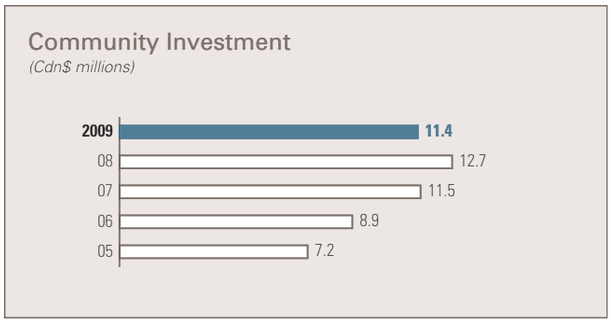
Sometimes an initiative that has an environmental advantage can have additional community benefits.

This was the case in the US Gulf of Mexico, where Nexen joined an offshore waste and recycling partnership in 2009 with other drillers and producers in the region.

The Recycle the Gulf program helps reduce waste onboard our deep-water drilling and manned production platforms by recycling paper, plastic and other waste. Equipment is installed on offshore platforms to help reduce and sort waste products. The sorted waste is shipped onshore and donated to a facility operated by ARC of Iberia in Louisiana.

ARC provides employment to people with developmental disabilities and the proceeds of the recycled products remain with ARC to support programs. Recycle the Gulf has diverted 4.1 million pounds of waste to date.

Over the past 11 years, Nexen has provided more than $12 million for scholarships to enable more than 100 students from Yemen to study in Canada.



Community giving held relatively steady in 2009 despite the economic downturn.

COMMUNITY INVESTMENT

Giving back to the communities in which we operate is a deeply rooted value at Nexen. We contributed $11.4 million to charitable and non-profit initiatives in 2009— a level consistent with previous years' contributions, despite recent economic volatility.

> We see value in this strategic approach. Not only does it help build strong communities, but it supports Nexen's goal of being an employer and developer of choice.

Nexen unveiled a new strategy and approach to community involvement in 2009 called "ReachOut—Giving, Matching, Helping." The program is intended to support the priorities of our employees and communities while providing a strategic link back to our business.

ReachOut's "Giving" component refers to the community investment grants Nexen issues annually to registered charities, not-for-profit charitable organizations and social investment projects in international jurisdictions. The "Matching" category relates to Nexen's matching of charitable contributions made by our employees and directors. "Helping" refers to a new volunteer program at Nexen.

Starting in 2010, our employees in Canada, the UK, the US and Norway are entitled to two days of paid time off for community volunteer work annually. We also introduced employee volunteer grants that allow employees to earn grants for the charitable and amateur sporting groups they volunteer with in their own time.

ReachOut is intended to elevate community investment at Nexen while consolidating all of our programming onto a single platform. Nexen has prioritized five core areas for the company's community investment dollars:

- Education;
- Employee Matching;
- Arts and Culture;
- Community Development; and
- Aboriginal Partnerships.

Through a new online tracking system, Nexen will be able to track the organizations supported by employees through their volunteer efforts and align corporate giving with those priorities. We also will be able to better measure the long-term outcomes of our strategic giving.

Pierre Alvarez, Nexen's Vice-President, Corporate Relations, says, "We see value in this strategic approach. Not only does it help build strong communities, but it supports Nexen's goal of being an employer and developer of choice."

Engaging with local communities and developing positive relationships with hosts and stakeholders helps us to keep our people and facilities safe and our reputation secure.

SECURITY AND HUMAN RIGHTS

Nexen employees travel to many parts of the world in search of new business opportunities. Our security department is responsible for evaluating security risks in foreign jurisdictions in which our employees and contractors operate, including Yemen, Colombia and Nigeria.

Paul Nelson, Director of Global Security, says, "Engaging with the local communities and developing positive relationships with hosts and stakeholders helps us to keep our people and facilities safe and our reputation secure."

Nexen has had a standalone human rights policy since 2001, which includes support for the Universal Declaration of Human Rights.

Nexen screens all third-party security providers that we hire and they are trained according to our company's standards. Paul explains, "When we operate in a foreign environment, we integrate local and Canadian standards and clearly communicate our expectations to those who work on our behalf. Regular meetings and ongoing training ensure that these expectations are understood and demonstrated."

PUBLIC POLICY

Nexen believes good public policy is achieved when all stakeholders contribute to the government decision-making process. For Nexen, that means being a policy resource and partner to governments and helping to inform policy-makers and other stakeholders who interact with governments. In return, we enhance our own understanding of the wider goals and objectives of governments.

Nexen discusses a number of topics with governments, either directly or through industry associations. Examples include:

- Energy demands and consumption patterns;
- Investment imperatives;
- Environmental performance;
- Taxation and royalties;
- Local communities and First Nations consultation and involvement;
- Infrastructure; and
- New technologies and innovation.

Nexen has developed strong ethical practices in our dealings with governments. This entails being in compliance with all laws, including those related to lobbyist registration and political contributions.

We only make political contributions at the provincial level in Canada and the annual budget of approximately $10,000 does not increase during an election year.

Cash Income Taxes [1]

(Cdn $ millions)	2007	2008	2009
Yemen	249	275	148
Canada	1	2	1
United States	8	-43	5
United Kingdom [2]	159	650	632
Other [3,4]	17	-24	-10
Total	**434**	**859**	**776**

Royalties Paid [5]

(Cdn $ millions)	2007	2008	2009
Yemen	904	970	514
Canada [6]	202	290	125
United States	90	91	38
United Kingdom	1	–	-
Other [4]	13	19	6
Total	**1,210**	**1,370**	**683**

Income tax and royalty payments declined in 2009 compared to 2008 due to lower income as a result of lower commodity prices.

LOCAL PURCHASING

We believe in sharing the economic benefits of development with the people closest to our operations.

Nexen benefits from the proximity of local suppliers, and working with people who know the local culture, community and environment the best. Communities, in turn, benefit from direct and indirect employment and diversification of the local economy.

When we enter a community, the services we require don't always exist locally. In some cases, such as Wood Buffalo and northeastern BC, we have worked with local governments, businesses and First Nations to enhance their capacity to provide services such as trucking, camp, construction and security services.

In northeastern BC, Nexen is working with the Horn River Basin Producers Group to connect producers with local workers and companies. The group also supported an oil and gas field operator course delivered by a local college. Where possible, we hire local contractors who meet our requirements for price, quality, technical and safety qualifications.

The Producers Group also worked with the BC government to create a procurement office in Fort Nelson that provides a 'matchmaking' service between companies and local individuals and contractors. As these programs mature, we expect to see an increase in the number of local suppliers taking part in, and benefiting from, shale gas development.

The Producers Group received the 2009 CAPP Stewardship Award for its collaborative multi-stakeholder approach.

Yemen is another area where we have made special efforts to ensure local businesses benefit from our activities. Through our Vendor Development Program, we have steadily increased the portion of goods and services we purchase from Yemeni suppliers.

DIALOGUE WITH INVESTORS

Nexen's investors and other financial stakeholders expect transparent disclosure about how we are managing environmental, social and governance (ESG) risk. They recognize the value of an integrated management approach that considers a wide range of ESG factors.

Nexen met with a number of groups in 2009 and early 2010—from institutional investors to banks to insurance companies—to explain how we are managing environmental and social issues in the oil sands and other parts of our business. We also conduct an annual governance roadshow to share information with our largest institutional investors and governance institutions such as stock exchanges. We invite feedback on our governance practices through these meetings.

Nexen has been recognized for our transparent disclosure on ESG risk (see page 47). In addition to our annual sustainability report, we discuss risks in our Annual Report and our submission to the Carbon Disclosure Project.

1 *Negative amounts represent tax refunds.*
2 *In the UK, new discoveries pay no royalties but UK oil and gas income is subject to a 50% tax rate.*
3 *Norway oil and gas expenditures are subject to a 78% tax recovery in the year.*
4 *Includes mainly Colombia, Nigeria and Norway.*
5 *Royalties are cash payments and, in some international operations, the government's share of Nexen's production.*
6 *Includes Syncrude.*

EXTERNAL REVIEWS

For the seventh consecutive year, Nexen invited a diverse group of stakeholders to contribute to the development of our sustainability report. This group provided valuable input that helped improve our disclosure. The group was designed, organized and facilitated by Stratos Inc., a Canadian-based sustainability consultancy.


1


2


3


4


5


6


7

1 **Peter Chapman** Executive Director, Shareholder Association for Research & Education (SHARE), Vancouver, BC

2 **Julie Desjardins** President, Desjardins & Associates Mississauga, ON

3 **Cameron Dillabough** Responsible Care® Verifier, The Chemistry Industry Association of Canada, Collingwood, ON

4 **Pippa Howard** Director, Corporate Partnerships, Fauna and Flora International, Cambridge, UK

5 **Andrew Logan** Director, Oil & Gas Industry Program, Ceres, Boston, MA

6 **Dr. Bob Page** TransAlta Professor of Environmental Management and Sustainability; Institute for Sustainable Energy, Environment, & Economy, University of Calgary, Calgary, AB

7 **Ian Thomson** Program Coordinator, Ecological Justice and Corporate Accountability, KAIROS, Ottawa, ON

ADVISORY GROUP REVIEW STATEMENT

In the spirit of continual improvement, Nexen invited the external Expert/Stakeholder Advisory Group to review and provide comments on the content of the company's 2009 Sustainability Report. The process was guided by the AA1000 Assurance Standard, which addresses the principles of materiality, completeness and responsiveness. We comment on the level of progress achieved and highlight areas for improvement. Our views are expressed as individuals, not on behalf of our organizations.

We met with key Nexen executives, including the CEO, in February 2010, to discuss Nexen's approach to sustainability management and reporting and to review an annotated outline of the report. The Group commends Nexen for providing access to the Executive team and strongly believes that this involvement strengthens the process. In March and April 2010, via conference call, we provided comment on two full drafts of the report and assessed the integration of our feedback and recommendations. Our review was limited to the printed report and our commentary is not an audit or verification statement. We did not verify the accuracy of performance data underlying the report.

A follow-up meeting with Nexen executives will take place in June for further engagement and to identify potential areas of improvement in this process.

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

NEXEN'S RESPONSIVENESS TO STAKEHOLDER ADVISORY GROUP RECOMMENDATIONS

The Advisory Group feels that Nexen has demonstrated a high degree of responsiveness to the Group's comments and recommendations this year. The Group flagged that there is still a need to address some recommendations from last year's

GRI CONTENT INDEX

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

Category	GRI Indicator	Description	Document/ Location	Page #
Strategy & Analysis	1.1	CEO statement	SR	2–3
	1.2	Key impacts, risks and opportunities	SR	Inside front cover, 3–5
Organizational Profile	2.1	Company name	SR	Foldout
	2.2	Primary brands, products, and/or services	SR	Foldout
	2.3	Operational structure	SR	Foldout, 9
	2.4	Location of headquarters	SR	Foldout
	2.5	Countries where Nexen operates	SR	Foldout, 9
	2.6	Nature of ownership and legal form	SR	Foldout
	2.7	Nature of markets served	10-K	6, 32, 34–36
	2.8	Scale of the company	SR	42
	2.9	Significant changes during reporting period	SR	4–5
	2.10	Awards received	SR	47
Report Parameters	3.1	Reporting period	SR	4
	3.2	Date of most recent previous report	SR	5
	3.3	Reporting cycle	SR	4–5
	3.4	Contact point for questions	SR	Back cover
	3.5	Process for defining report content	SR	4
	3.6	Boundary of report	SR	5
	3.7	Limitations on report scope or boundary	SR	4–5
	3.8	Basis for reporting on non-wholly owned operations	SR	5
	3.9	Techniques for data measurement, calculations and estimates	SR Web	16, 31, 43
	3.10	Explanation of information restatements	NA	
	3.11	Significant changes in measurement	SR	21
	3.12	List of GRI indicators addressed	SR	48–49
	3.13	Policy and current practice on external assurance of report	SR	4–5, 44–48
Governance, Commitments & Engagement	4.1	Governance structure, including major Board committees	SR MPC	9 33–48
	4.2	Independence of Board chair	MPC	23
	4.3	Independent, non-executive directors on Board	MPC	23
	4.4	Mechanisms for shareholder and employee participation	MPC	5–6
	4.5	Link between compensation and Nexen's performance (including social and environmental performance)	SR MPC	37 55
	4.6	Processes for the Board to avoid conflicts of interest	MPC	86
	4.7	Process for determining qualifications and expertise of Board members for guiding Nexen's sustainability strategy	MPC	19–20
	4.8	Mission and values statements, internally developed codes of conduct or principles and policies	SR	7, 9–10, 27
	4.9	Board procedures for sustainability management	SR MPC	9 46–47
	4.10	Processes for evaluating Board performance, including on economic, environmental, and social performance	MPC	87
	4.11	Application of the precautionary principle [1]	SR	49
	4.12	Externally developed economic, environmental, and social principles or other initiatives endorsed by Nexen	SR	10, 31, 35, 47
	4.13	Association memberships	SR	47
	4.14	Stakeholder groups engaged	SR	11