




SUSTAINABILITY  
REPORT 2004



see the VALUE



Like a series of open windows, this report provides scenes of Nexen's sustainability policies, achievements and verification. It is a look into a strong and profitable company that operates with integrity—a picture of our performance in safety, environment and social responsibility. Throughout, you can see the value in Nexen's commitment to all of our stakeholders: our shareholders, employees, host communities and governments, joint-venture partners, suppliers and other interest groups.

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see the **VALUE**

A photograph of three men in business attire standing in a modern building hallway with large windows. The man on the left is wearing a brown blazer and glasses. The man in the center is wearing a dark suit and glasses. The man on the right is wearing a dark suit and has a mustache. They are all smiling and looking towards the camera. The background shows a modern building with large windows and a glass railing.

see the VALUE



# in our LEADERSHIP

What does sustainability mean to an energy and chemicals company like Nexen? Our business is meeting society's need for warmth, mobility and a host of everyday products. Meeting those needs generates safety and operating risks, and impacts on the environment and the communities where we work. Our goal is to do business in a way that maximizes social and economic benefits while minimizing our environmental footprint. And to do so in a way that is open and respectful of our many stakeholders. At Nexen, sustainability begins with being competitive and profitable. But we won't pursue profit at any cost. How we conduct our business is just as important to us as the outcomes. Here are some of our leaders' perspectives on sustainability.

"Superior safety, environmental and social performance helps drive superior economic performance—and it's the right thing to do. We believe, and studies prove, that in the long term, companies that follow sustainable business practices outperform those with narrower priorities. Our approach helps us attract and retain employees who see the value in working at a company named one of the top 50 employers in Canada over the last four years. Our endorsement of the United Nations Global Compact initiative demonstrates our commitment to responsible corporate citizenship. The way we do business strengthens the financial market's confidence in Nexen, so we continue to secure the capital we need to grow, and we can insure against risk at very competitive rates. Some of the best exploration companies around the world see the value in partnering with us, firms that share our concern for the environment and the safety of our employees and the public."

*Charlie Fischer, President and CEO*

"We are welcome in communities where we operate because we involve local people in decisions that affect them and work hard at developing mutually beneficial relationships. Some powerful examples for me are the water and sanitation program in Yemen and establishing a Chair in Business Ethics at the University of Calgary—initiatives that will deliver direct local benefits as well as indirectly assisting Nexen in our operations. Likewise, at Long Lake our extensive community consultation resulted in a smooth regulatory process that saved us time and money and helped us anticipate and manage our impact on the local community. At Nexen, sustainability means turning safety, environment and social responsibility (SESR) challenges into rewarding opportunities."

*Randy Gossen, Vice President, Safety, Environment and Social Responsibility (SESR)*

"Board members must ensure Nexen's strategic direction delivers sustainability and that we have the systems and procedures in place to grow value responsibly. Clearly, Nexen has a strong portfolio of excellent assets that we believe will generate top-tier results for years, and our goal is to maintain leading-edge SESR practices. We are proud to have been named as one of the Top 25 Boards in Canada by *Canadian Business* magazine and to be included in the Dow Jones Sustainability Index for the fourth year in a row. We're equally proud of the good decisions that shape our company's integrity, such as the cleanup of our former Squamish, B.C. chemicals site. By thoroughly reclaiming the site, Nexen received a reclamation certificate from the province that releases the company from future site obligations. At the same time, we delivered a superb piece of waterfront property to the community of Squamish."

*Barry Jackson, Chair, SESR Committee of the Board*

# in our REPORT

## STAKEHOLDERS FOR THIS REPORT

This is our ninth report on corporate responsibility/sustainability. This year, we are introducing new sections on Nexen's economic performance, shareholder relations and supply chain.

Investors are a key audience for this report. They want to see how we are managing safety, environment and social risks and turning these challenges into rewarding opportunities.


Our employees want to understand what sustainability means to Nexen. They also want to see data supporting our performance against our stated values. Newly hired employees use this document to orient themselves to our culture around sustainability, and the report is a valuable tool in recruiting top graduates to our company.

The communities where we do business—and where we hope to do business—are another audience. They look for evidence of the ways we will manage the environmental and social impacts of our operations. Similarly, regulators are looking for transparency in our reporting and evidence we are contributing to the achievement of public goals, such as lowering safety incidents and reducing specific emissions.

Non-governmental organizations are another audience. They monitor corporate behaviour on a range of issues from environmental protection to human rights to transparency in financial transactions.

Other audiences include socially responsible investment funds and indices such as the Dow Jones Sustainability Index and the Jantzi Social Index that use this report as they review Nexen's performance against specific sustainability criteria.

This report is also a business development tool. As we seek new opportunities, we point to examples of delivering widespread social and economic benefits—such as those achieved in Yemen—to demonstrate the added value we can provide.

We include a comment card in our report, and readers have provided helpful suggestions. We also created an email address for reader input—[sustainability@nexeninc.com](mailto:sustainability@nexeninc.com). 

## OUR INTERNAL REPORTING SYSTEMS

Our strongest sustainability reporting systems are found in our Canadian oil and gas business and Nexen Chemicals. This year, we are adding additional data on water use and CO<sub>2</sub>-equivalent emissions from our Yemen operations. We will be integrating data from our U.K. operations (acquired December 2004) into our 2005 data. Worldwide, we meet all regulatory reporting requirements and through initiatives such as Responsible Care®, we regularly exceed those requirements. Note that not all quantitative performance data are available for all divisions.

## HOW WE CHOOSE WHAT TO REPORT

There are many guidelines and protocols that could potentially guide our sustainability reporting. These are the primary initiatives we consider:

- International Code of Ethics for Canadian Business
- Canadian Association of Petroleum Producers' Stewardship Initiative
- Responsible Care®
- United Nations Global Compact
- International Petroleum Industry Environmental Conservation Association Guidance on Voluntary Sustainability Reporting
- Canadian Business for Social Responsibility Good Company Guidelines


The Global Reporting Initiative (GRI) is becoming a popular standard for sustainability reporting. Where we see business and stakeholder value, we are incrementally adding new GRI indicators to this report and our supporting website.

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## CONVENTIONS USED IN THIS REPORT

Where you see the words Nexen Inc. or Nexen, we are referring to the whole company, including its subsidiaries. Nexen Chemicals refers to our chemicals operations in Canada and Brazil. Other divisions and units are identified by name. Most of this report refers to year-end 2004 data. Where notable, we have included selected 2005 updates. Actual data points for each graph in this report—and a number of supplemental graphs—can be found on our website. Dollar figures are in Canadian dollars, unless specified otherwise. The green 'link' icon indicates that further information can be found at [www.nexeninc.com](http://www.nexeninc.com) and other websites. 

# in our COMPANY

Independent and Canadian-based, Nexen is an energy company producing about 250,000 barrels of oil equivalent per day before royalties. Our oil and gas assets, together with our chemicals and marketing businesses, generated almost \$2 billion in cash flow in 2004. For long-term growth, we're investing in five of the world's best basins—the Gulf of Mexico, Yemen, West Africa, Alberta's oil sands and the North Sea, where we made a major acquisition in 2004.

Our goal is to ensure we maximize the value for every dollar we invest—and to do so in a responsible, respectful and ethical manner. This applies to every project: drilling a 25,000-foot well in the deep waters of the Gulf of Mexico; developing our 'next-generation' project at Long Lake, Alberta; and getting the world-renowned Buzzard field in the North Sea on-stream. It also applies to every decision: implementing initiatives to increase driver safety in Yemen; deciding where to allocate the more than \$7 million we invested last year in communities where we operate; and managing the implications of the Kyoto Protocol. Our results are clear: strong returns; engaged employees; and solid safety and environmental performance.

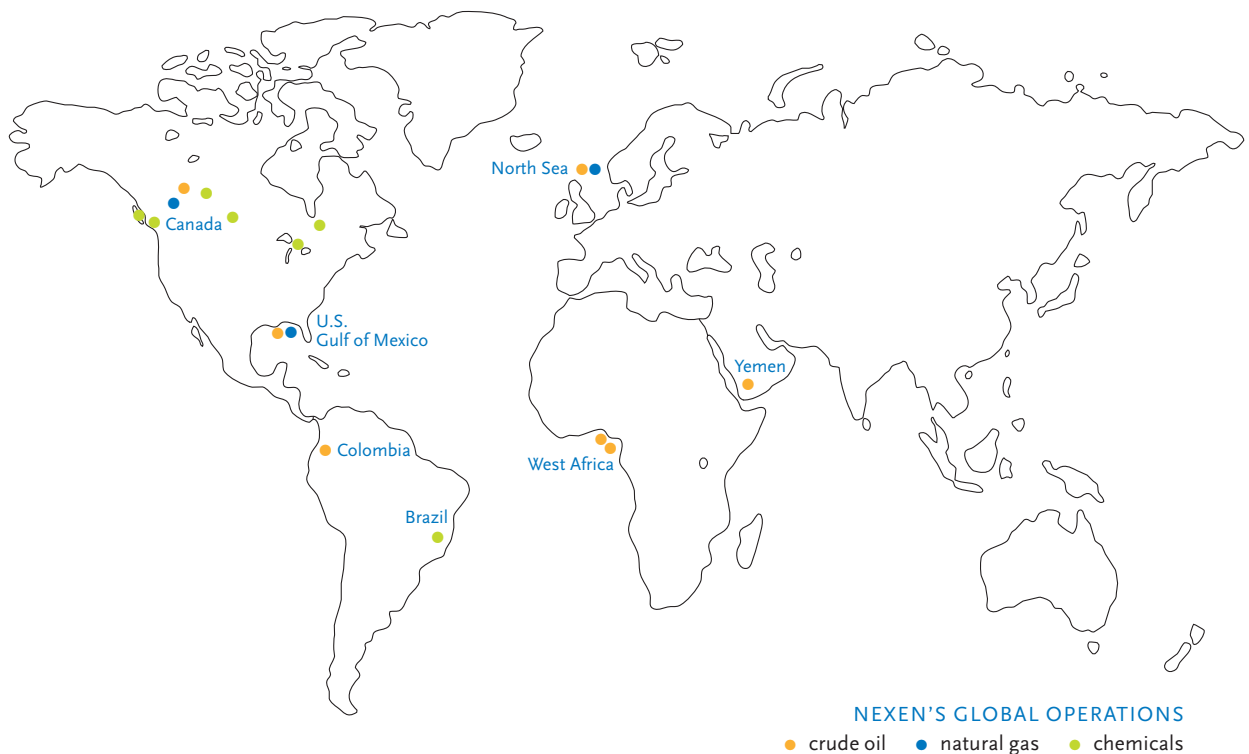
Worldwide, Nexen has more than 3,200 employees. We have a market capitalization of more than \$8 billion. Following our 2005 stock split, we have 260 million shares outstanding. Our shares trade on the Toronto and New York stock exchanges under the symbol NXY.

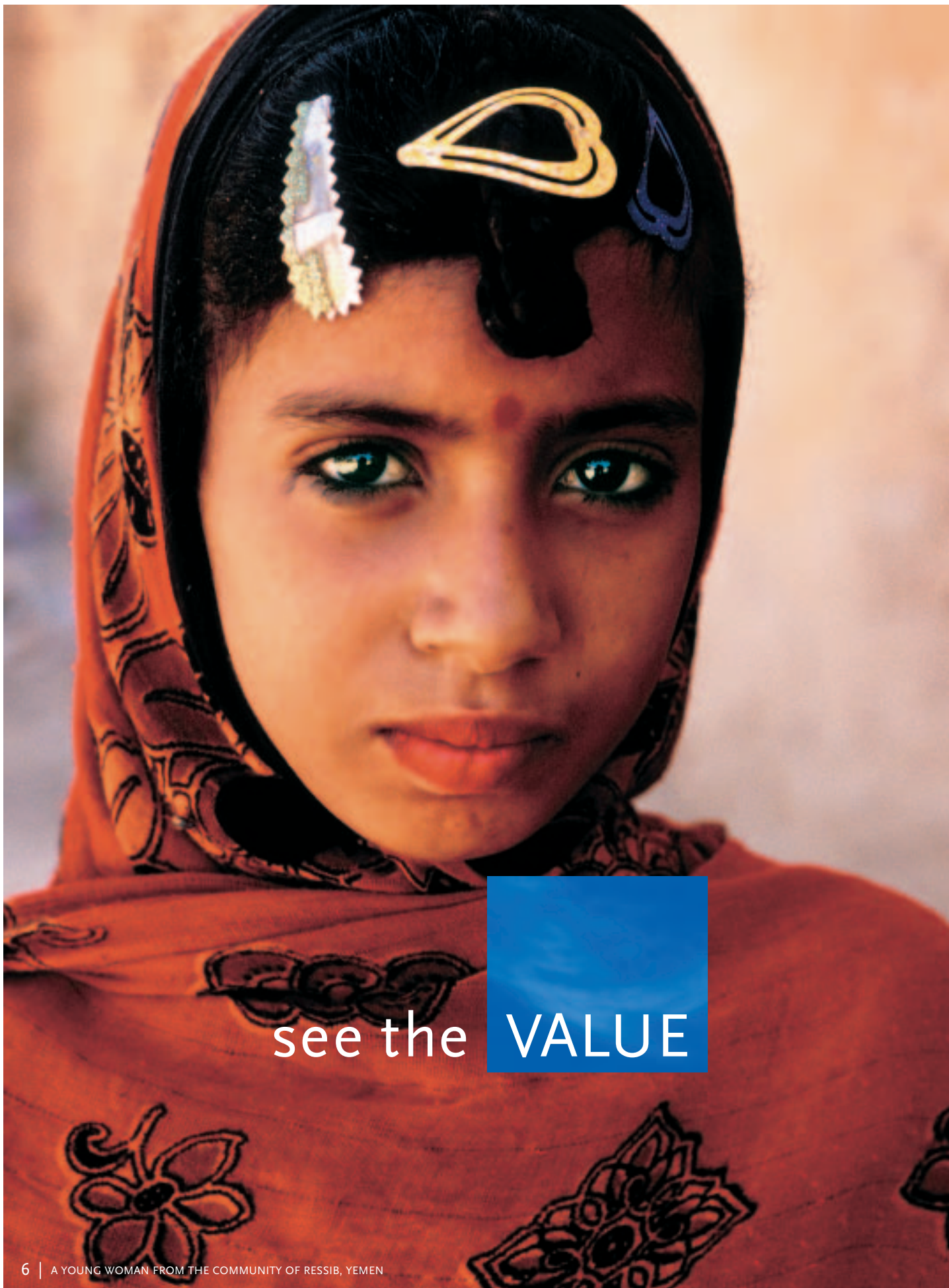
## SUSTAINABILITY HIGHLIGHTS 2004

- Included in Dow Jones Sustainability Index for 4th year
- Launched United Nations Global Compact Water and Sanitation project in Yemen
- Lowest-ever combined employee/contractor injury incident rate
- Nexen Petroleum U.S.A. earned 2004 Safety Award for Excellence from the U.S. Minerals Management Service
- Reduced the number of reportable environmental incidents for the 4th consecutive year, down 17.5% from 2003
- Announced Soderghen wind power project, 2006 launch
- Introduced Integrity Hotline in February 2005
- Recognized by GovernanceMetrics International for our corporate governance practices
- Hewitt Associates employee survey, 50 Best Employers in Canada (4th year)
- Mediacorp survey, Canada's Top 100 Employers (1st year)

## DISAPPOINTMENTS

- Contractor driving fatality in Yemen
- Employee injury incident rate up (0.62 in 2004 versus 0.29 in 2003)





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# in our INTEGRITY & GOVERNANCE

All Nexen employees are encouraged to demonstrate the highest standards of integrity and ethics in their daily work. And it's the responsibility of Nexen's leadership, senior management and Board of Directors to ensure employees have a comprehensive understanding of these expectations.

## EXCEPTIONAL PROGRESS IN CORPORATE GOVERNANCE

In 2004, the Corporate Governance and Nominating Committee of the Board and Nexen's management worked with Dr. Richard Leblanc from the Schulich School of Business, York University, on a substantial review of Nexen's governance practices. Based on the review, the committee recommended (and the Board approved) updated mandates for the Board and each of the committees, and revised position descriptions for Nexen's Board Chair and CEO. New mandates or position descriptions for individual directors, committee chairs, the Chief Financial Officer and the Secretary were also adopted, and Nexen's annual process for evaluating the Board's performance was enhanced.

In February 2005, Nexen's Corporate Governance Policy was updated, and our revised Ethics Policy, which provides for an external Integrity Hotline, came into effect.

*All of Nexen's key governance documents are available on our website.* 

## BUILDING INTEGRITY INTO EVERYDAY PRACTICE

In August 2000, Nexen introduced an integrity workshop for all regular and contract employees. The workshop reviews our core values, key company policies and related tools and resources. A March 2005 review of attendance records showed that approximately 65% of active employees and contractors have participated. The backlog of employees who have not yet attended the integrity workshop reflects Nexen's recent growth and employee turnover. Our goal is to increase attendance to 85% by the end of 2005 and reach full attendance in 2006. The workshop was presented to our Board in May 2004.

In previous years, only senior employees were required to sign a Statement of Compliance with designated Nexen policies. In 2005, we plan to extend the compliance program to all employees. In 2004, approximately 1,500 targeted employees signed the Statement of Compliance.

To help keep integrity awareness relevant and top-of-mind for employees, we are working to build integrity discussions into team meetings so examples and best practices can be reinforced in a day-to-day context.

In February 2005, Nexen introduced a new Integrity Hotline for employees and other stakeholders as an anonymous and confidential medium for reporting actual or suspected integrity-related concerns. Nexen chose a third-party supplier to provide the Hotline, which may be accessed by website or call centre worldwide.

When a concern is raised, our Chief Legal Officer and our Integrity Coordinator will be notified. One or both will coordinate an investigation. Depending on the nature and severity of the concern, it may be referred to a designated three-person investigation committee for resolution. Any person raising a concern in good faith is protected from retaliation.

## 2004 CICA AWARD OF EXCELLENCE

Nexen's Management Proxy Circular received the Canadian Institute of Chartered Accountants' (CICA) 2004 Award of Excellence in Corporate Governance Disclosure. Our best practices in structuring our Board of Directors and aligning stakeholder interests with those of senior management and the Board were noted, along with the openness and clarity of our governance reporting.

## SARBANES-OXLEY UPDATE

The Sarbanes-Oxley Act of 2002 (SOX) was a U.S. legislative response to a series of high-profile scandals in the corporate sector. To comply with SOX, companies registered with the Securities Exchange Commission (including Nexen) must maintain comprehensive procedures covering director and auditor independence, financial disclosure and fraud prevention. In 2004, we became one of the first Canadian energy companies to develop a methodology and successfully execute a program to satisfy these requirements.

#### RECOGNITION FROM GOVERNANCEMETRICS

GovernanceMetrics International (GMI) is an international corporate governance research and ratings agency that annually evaluates approximately 3,200 companies using a comprehensive global ranking system. Its analysis considers board accountability, financial disclosure and internal controls, executive compensation, shareholder rights, ownership base and takeover provisions, corporate behaviour and social responsibility. In GMI's March 2005 ranking, Nexen was one of only 34 companies worldwide to receive a perfect score of 10 and one of only three Canadian companies to achieve this exemplary rating.

#### ETHICS IN ACTION AWARD

Nexen's innovative \$45-million reclamation project at Squamish, B.C. was recognized in 2004 by Ethics in Action, a Vancouver-based awards program. Our five-year reclamation project restored 26 hectares of leased land where we formerly operated chlor-alkali and sodium chlorate plants. The land has been turned over to the District of Squamish as an exceptional new public space.

#### ANTI-CORRUPTION CONFERENCE IN NIGERIA

In 2004, we helped to sponsor an international conference in Abuja, Nigeria, to further work on the Integrity Pact for the Oil and Gas Sector in that country. The conference is part of the worldwide *Extractive Industries Transparency Initiative* whose goal is to establish greater transparency in reporting financial transactions between extractive industry members,

including the oil and gas, mining and forestry industries, and host governments. See page 13 for information on the taxes and royalties we pay.

#### POLITICAL DONATIONS

Nexen supports the democratic process and a variety of political parties. In 2004, we made 15 political contributions in Canada totalling just over \$55,000. All political contributions must be approved by our President and Chief Executive Officer and documented. Nexen does not make political contributions outside Canada.

#### IMPROPER PAYMENTS POLICY

We adopted a comprehensive policy on the Prevention of Improper Payments in 1997, updating a predecessor policy that has been in place since the 1980s. The policy prohibits bribes, kickbacks and other improper payments. It outlines the requirements for hiring foreign agents and entering into joint ventures with local partners in other countries. Nexen offers training on the application of this policy. In 2004, 97 targeted employees attended the Prevention of Improper Payments workshop.

Nexen discourages the use of facilitating payments, which may be made solely to expedite or secure the performance of routine government actions, such as obtaining telephone service or a visa. Where deemed necessary, any such payments must be properly recorded. Nexen's Director of Corporate Audit reports quarterly on the administration of the Improper Payments Policy to the Audit and Conduct

see the **VALUE**


WE EARN LOWER  
INSURANCE COSTS  
BY OUR ATTENTION  
TO MANAGING  
RISK AND  
BUSINESS ETHICS

NEXEN'S EARLY  
COMPLIANCE WITH  
SARBANES-OXLEY  
PLACES US AMONG  
CANADA'S LEADERS  
IN GOVERNANCE

Review Committee of the Board of Directors. In 2004, no violations of the policy were recorded.

#### SAFETY, ENVIRONMENT AND SOCIAL RESPONSIBILITY (SESR) MANAGEMENT SYSTEMS AT NEXEN

To support our efforts to grow value responsibly, we have implemented comprehensive systems to promote sustainable business practices throughout Nexen. Our SESR management system includes the SESR Committee of the Board, a Senior Executive SESR Committee and a management and staff group that implement, steward and report on our SESR performance.

*Our SESR Reporting and Stewardship policy can be found on our website.* 


#### Board of Directors and Board SESR Committee

The SESR Committee of the Board is made up of seven members, six of whom are independent directors. Its role is to oversee the development and implementation of SESR management systems and ensure Nexen remains on the leading edge of SESR best practices. The SESR Committee meets at least five times per year.

*You can find the mandate of this committee on our website.* 

#### Senior Executive SESR Committee

This committee consists of 16 senior executives of Nexen and functions as a key mechanism for our SESR due diligence responsibilities. The committee typically meets five times per year. It reviews SESR issues, safety and environmental performance, security issues, corporate SESR policies, relevant public policy and the annual Sustainability Report.

*You can find the mandate of this committee on our website.* 

USING A THIRD-PARTY  
TO TAKE CALLS  
ON OUR INTEGRITY  
HOTLINE PROMOTES  
PUBLIC AND  
EMPLOYEE TRUST



#### Vice President, SESR

The Vice President, SESR, is responsible and accountable for all of Nexen's SESR management systems and due diligence activities. The position reports directly to the Senior Vice President, General Counsel and Secretary, and functionally to the Senior Executive and Board SESR Committees.

#### Corporate, Divisional and Business Unit SESR Departments

The corporate SESR group provides ongoing support to the entire company. In managing their SESR programs, the chemicals division, the Balzac, Alberta gas processing facility and our Masila operations in Yemen use the Responsible Care® approach. Nexen Petroleum U.S.A. uses the Safety & Environmental Management Program required by the U.S. Minerals Management Service. Nexen has dedicated safety and environmental specialists supporting the specific needs of each business unit.

*For details on how we audit our performance against this management system, see the Verification section of this report (page 48).*

An aerial photograph of the Scott-Telford production platform, a large offshore oil and gas structure. The platform features a prominent derrick, a helipad, and various support structures, all situated in the deep blue waters of the North Sea. The text "see the VALUE" is overlaid on the image, with "see the" in white and "VALUE" in white text on a blue rectangular background.

see the VALUE



# in our ECONOMIC PERFORMANCE

You can see the value in our 2004 record financial results, our attractive returns on capital, and the superior production and cash flow our major development projects will deliver over the next three years.

## RECORD-SETTING FINANCIAL RESULTS

In 2004, we continued our record-setting financial performance with a 32% increase in earnings to \$6.17 per share and a 4% increase in cash flow to \$15.10 per share. Strong oil and gas prices, attractive cash operating margins and exceptional contributions from our marketing group delivered these strong results. Our capital investment of \$4.3 billion, including acquisitions, continued to shift our focus away from high-cost maturing assets into regions where we're building sustainable businesses. These growth regions—Alberta's oil sands, the Gulf of Mexico, Middle East, offshore West Africa, and most recently the North Sea—are less mature and offer attractive fiscal terms.

## BUILDING SUSTAINABLE BUSINESSES

In 2004, we acquired the world-class Buzzard oil field and other assets in the U.K. North Sea for \$2.6 billion. Buzzard is one of the largest North Sea discoveries of the past decade and is expected to come on-stream in late 2006, climbing to approximately 80,000 barrels of oil equivalent per day in 2007 (net to Nexen). Additional exploitation opportunities at our

In February 2004, we sanctioned our oil sands joint venture at Long Lake—the first project to fully integrate steam-assisted gravity drainage and upgrading processes to extract maximum value from our five billion barrels of recoverable bitumen resource. We are on track for bitumen production in late 2006 and upgrader start-up in the second half of 2007, with our share of premium synthetic crude production climbing to 30,000 barrels per day in 2008. We also own just over 7% of Syncrude and are involved in its Stage 3 expansion, which will increase our share of production there to more than 25,000 barrels per day in 2006.

In Western Canada, we continue to shift our focus from mature, conventional plays to new, unconventional oil and gas opportunities such as enhanced oil recovery, coalbed methane and vapour extraction technology (VAPEX) to unlock value.

The deep-water Gulf of Mexico has been our area of greatest growth over the past two years, as we've added over 30,000 barrels of oil equivalent production per day at Aspen and Gunnison. Aspen has paid for itself in just over two years. We are now in the midst of our largest Gulf exploration program ever and expect to drill up to 10 wells here this year.

In Yemen, we continued to develop the deeper horizons at Masila and brought the adjacent Block 51 on-stream. With Masila alone expected to generate an additional \$1.4 billion in free cash flow over its remaining life, Yemen will continue to be a significant contributor to our bottom line for years.

Offshore West Africa, the value of OPL-222 in Nigeria grows with every well drilled. We are finalizing development plans for the Usan field and plan further exploration drilling this year. We hold interests in two blocks offshore Nigeria and one offshore Equatorial Guinea, where we plan exploration wells in 2005.

Our major development projects all generate attractive returns in the low US \$20s per barrel (based on the West Texas Intermediate crude benchmark). Over the next few years, we expect production, after royalties, to grow at a compound rate of between 15% and 20%. To reduce debt associated with the North Sea acquisition, we intend to sell or spin off our chemicals business and certain Canadian conventional oil and gas assets in 2005. In essence, we are highgrading our asset portfolio by selling non-strategic assets, in exchange for prolific North Sea production, into a very strong market.

OUR RETURN  
ON CAPITAL HAS  
AVERAGED 17%  
OVER THE  
PAST THREE YEARS

DISCLOSING OUR  
TAX PAYMENTS  
AND ROYALTIES  
SUPPORTS GLOBAL  
ANTI-CORRUPTION  
EFFORTS

producing Scott and Telford fields plus tie-in of surrounding smaller discoveries could double our non-Buzzard production from the North Sea by 2008.

## NEXEN'S ROLE IN THE BROADER ECONOMY

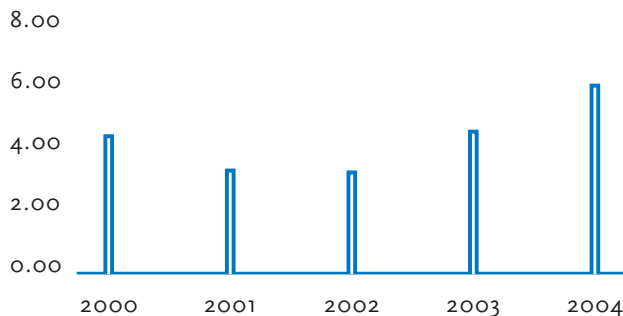
Financial and operating accomplishments are indicators of a company's performance and long-term prospects. Our economic interactions—the capital investments, the goods and services we purchase, the dividends, salaries, taxes and royalties we pay—have direct and indirect impacts on a wide range of stakeholders. For example, our Masila operations provide 50% of Yemen's oil production, which represents a significant portion of the country's Gross Domestic Product. Our Yemen scholarship program, the water and sanitation project with the United Nations Global Compact, our ongoing community relations program and our commitment to maximize the percentage of Yemeni nationals in our employ (now 73%) are clear examples of our response to the demands of responsible corporate citizenship.

## TRANSPARENCY IN OUR TRANSACTIONS

Transparency regarding revenue, taxes and royalties is part of our commitment to leading corporate governance. Initiatives such as the *Extractive Industries Transparency Initiative* demonstrate the growing importance of promoting greater transparency in our industry.

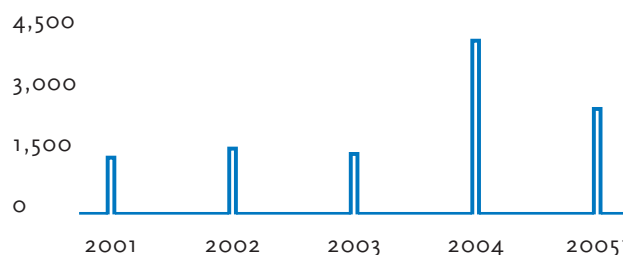
In this year's Sustainability Report, we have provided a table outlining the taxes and royalties we paid, by jurisdiction, for the last five years. Readers will note that a high percentage of the taxes and royalties we pay goes to the Government of Yemen. This reflects the terms of our original Production Sharing Agreement (PSA), dating back to our first discoveries in Yemen. Nexen's operations are very significant to Yemen's economy, and our oil operations are by far the largest in the country. The terms of the PSA stipulate that as the volumes of production rise, the Yemenis benefit through increasing taxes and royalties. Our success in Yemen has resulted in a win-win situation, with Nexen enjoying increased cash flow and the Yemen government and the Yemeni people benefiting from increasing oil industry revenues.

## EARNINGS NEXEN-WIDE (dollars per share)



■ In 2004, we realized record earnings of \$793 million, \$6.17 per share, from strong commodity prices, high netback production and solid marketing results.

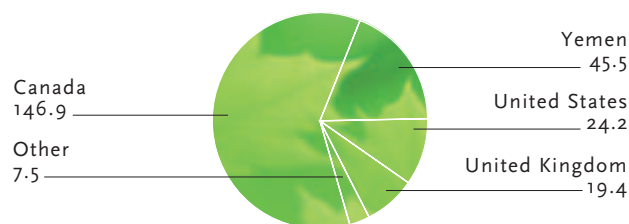
## CAPITAL INVESTMENT, INCLUDING BUSINESS ACQUISITIONS (millions of dollars)



<sup>1</sup> Estimated

■ Our acquisition of major assets in the North Sea that provide current and long-term value represented approximately 65% of our 2004 capital investment.

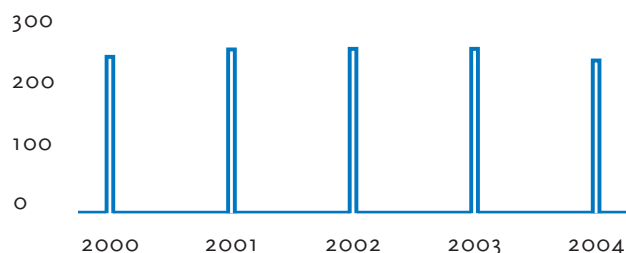
## ANNUAL BASE SALARY (YEAR-END 2004) (millions of dollars)



■ Base salary for regular employees totalled \$243.5 million in 2004. 'Other' includes Australia, Barbados, Brazil, Colombia, Equatorial Guinea, Nigeria, Singapore and United Arab Emirates.

## OIL AND GAS PRODUCTION NEXEN-WIDE

(thousand barrels of oil equivalent per day, before royalties)

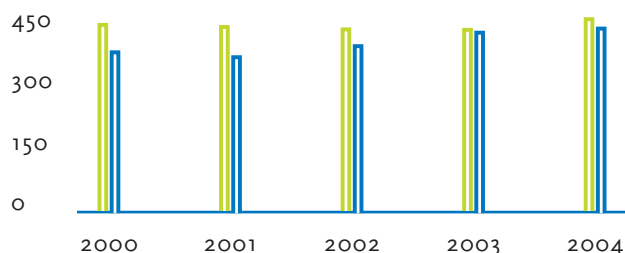


■ Production was affected by increasing maturity of assets in Canada and Yemen, asset sales in Canada in 2003 and depletion of fields in Nigeria and Australia.

## CHEMICALS PRODUCTION

(thousand short tons)

■ Sodium Chlorate ■ Chlor-alkali



■ Strong demand supported peak operating rates. Expansion of the Brandon plant was completed in October 2004.

CURRENT INCOME TAX PROVISION (millions of dollars)	2004	2003	2002	2001	2000
Canada	6.3	5.0	4.1	6.1	6.4
United States	8.3	2.7	(10.1) <sup>1</sup>	0.5	12.9
Yemen	226.7	200.7	206.6	190.7	217.1
Australia <sup>2</sup>	(0.4)	(4.1)	16.3	16.4	0.5
Colombia	2.3	1.4	2.0	0.0	0.0
Nigeria	0.0	0.6	1.3	0.9	1.6
Other	4.5	3.9	2.6	1.8	3.1
Total	247.7	210.2	222.8	216.4	241.6

<sup>1</sup> Negative amounts represent refunds of taxes paid in prior years.

<sup>2</sup> Results of operations from Australia, including current income taxes, are shown as Discontinued Operations in our 2004 Annual Report.

ROYALTIES PAID <sup>1</sup> (millions of dollars)	2004	2003	2002	2001	2000
Canada	174	202	202	209	263
United States	126	113	61	75	85
Yemen	935	849	879	808	906
Australia <sup>2</sup>	6	6	40	9	—
Other <sup>3</sup>	6	11	57	15	22
Total	1,247	1,181	1,239	1,116	1,276

<sup>1</sup> Royalties are cash payments and in some international operations, the representative government's share of Nexen's production. In Australia, royalties also include a Petroleum Resource Rent Tax.

<sup>2</sup> Includes results of discontinued operations as described in Note 11 of Nexen's Audited Consolidated Financial Statements.

<sup>3</sup> Includes mainly Colombia and Nigeria.



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# in our SAFETY MEASURES

On any given day, more than 3,200 Nexen employees and thousands of contractors are at work around the world, many in complex operations and challenging environments. We're proud of the safety records our people and contractors achieved together in 2004.

## COMBINED EMPLOYEE/CONTRACTOR SAFETY PERFORMANCE LOWEST EVER

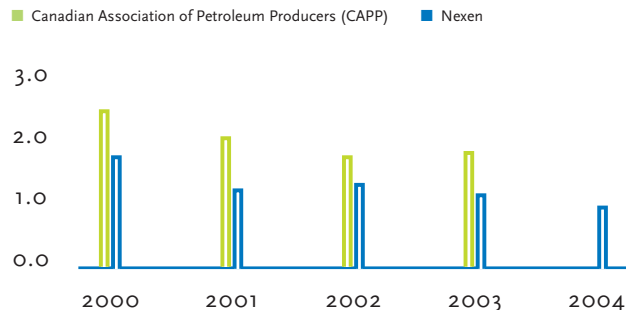
A safety incident inflicts the same harm to individuals and the company whether it happens to a Nexen employee or one of our contractors. In the upstream petroleum and chemicals industries, it's typical to see higher injury incident rates among contractors than company employees. Contractors tend to conduct higher-risk activities, such as drilling, service rig work, maintenance and project construction. Nexen's major construction programs in Europe, Yemen and Long Lake add to the challenge of ensuring superior contractor safety performance.

By applying increasingly rigorous pre-contract screening, working closely with contractors on-site and conducting thorough incident investigations and follow-up, Nexen has lowered its contractor injury incident rate by 51% over the past five years. Coupled with our general trend in lower employee incident rates (with 2004 as an exception), Nexen's combined employee/contractor incident rate was at its lowest rate ever.

Employee injury incident rates increased to 0.62 in 2004 from 0.29 in 2003. To help us review and analyze safety incidents, we use an internal system to assign a degree of severity to every incident: low; moderate; substantial; high; or very high risk. While the majority of the employee injury incidents in 2004 were classified as low risk we remain concerned about the increase and have set a target to better our best-ever performance achieved in 2003.

*Injury Incident Rate equals: (number of medical treatment cases + number of modified work cases + number of lost-time accidents x 200,000) / hours worked.*

## INJURY INCIDENT RATE – COMBINED EMPLOYEE/ CONTRACTOR NEXEN-WIDE (per 200,000 hours worked)



■ Nexen's combined injury rate was at its lowest ever in 2004 and has decreased 51% over the last five years. CAPP data are not yet available for 2004.

## CONTINUED REDUCTION IN YEMEN VEHICLE INCIDENTS MARRED BY FATALITY

Vehicle incidents are a continuing concern for Nexen in Yemen. We've worked hard to instill a safe-driving philosophy in a country where basic driving skills and public attitudes toward vehicle safety differ greatly from those in North America and Europe.

Through a range of initiatives, we have substantially reduced vehicle incidents involving Nexen employees (more than 70% are Yemeni) and contractors. Since 2002, Nexen employee vehicle incidents are down 58.3% (to 10 incidents from 24) and contractor vehicle incidents are down 35.9% (to 25 incidents from 39). On a combined employee/contractor basis, vehicle incidents are down 44.4% since 2002.

Our pride in these achievements is tempered by sadness. One of our subcontractors died in a vehicle roll-over in October 2004. Clearly, we must continue to emphasize driving safety in Yemen.

## NEXEN PETROLEUM U.S.A. NEAR-PERFECT EMPLOYEE SAFETY RECORD

At our offshore operations in the U.S. Gulf Coast, Nexen achieved zero recordable employee injuries in 2004. The Dallas office experienced one medical aid injury. Combined with stronger contractor safety performance, Nexen Petroleum U.S.A. achieved its second-best-ever safety performance. The U.S. Minerals Management Service recognized Nexen's safety leadership with its 2004 Safety Award for Excellence (SAFE). The awards honour outstanding performance in safety and stewardship in offshore oil and gas operations.

Nexen won the award of excellence for high-activity Outer Continental Shelf operators (producing at least 10 million barrels of oil equivalent per year). Nexen has been a finalist in the SAFE awards in each of the past four years. In addition, Nexen's Eugene Island operations won the Lafayette District SAFE award for 2004.

#### NEXEN CHEMICALS

Nexen Chemicals' North Vancouver facility was recognized by the Chlorine Institute as having the second-best safety performance (employees and contractors combined, 2003) among the 22 member companies across North America.

Also, over the course of two significant projects in 2004—the demolition of the Taft, Louisiana plant and the expansion of the Brandon, Manitoba facility—there was just one medical aid incident through some 350,000 contractor hours worked. Of special note was Taft's dedication to sustaining outstanding SESR performance through the facility's final day of operation and the decommissioning of the site. In fact, the Taft facility had no recordable employee or contractor injuries during the entire nine years of Nexen's ownership (1995 to 2004). Overall, employee and contractor injury incident rates were up modestly in 2004 in Nexen Chemicals compared with our best-ever safety performance in 2003.

Nexen Chemicals earned several rail transportation safety awards in 2004, including recognition from Canadian National, Canadian Pacific, CSX Transportation, Kansas City Southern and Union Pacific.

#### NEXEN U.K. BUZZARD CONSTRUCTION PROGRAM

In January 2004, Nexen Petroleum U.K. Limited (then EnCana U.K. Limited) began an ambitious construction program at four sites across Europe in support of the Buzzard offshore development project. The development involves the construction of three decks (wellhead, quarters and utilities, and production) and three jackets (supporting structures). It is one of the largest North Sea development projects in the last decade.

Working at two construction sites in the United Kingdom, plus one each in Norway and Spain, Nexen site leadership teams are working to ensure the facilities are constructed to the highest environment, health and safety (EHS) standards.

Through pre-contract audits, we confirmed that all contractors had superior safety management systems and a record of safe operations. The team implemented a program establishing environment, health and safety as a line management responsibility and actively engaged with the workforce on EHS.

A host of initiatives followed, including training for management teams and on-site managers on behavioural-based safety training and incident investigation and root-cause analysis. EHS targets and key performance indicators were established, and performance on these targets was linked to incentive compensation.

With more than two million hours worked on the project, lost-time incident rates are down by more than 80% and medical treatment incident rates are down 20% compared with the same sites in 2003.

see the



SAFETY PROGRAMS  
REDUCE INJURY  
RATES SO MORE  
PEOPLE GO HOME  
SAFELY TO FAMILY  
AND FRIENDS

MORE THAN  
TWO MILLION  
WORK HOURS  
WITHOUT A LOST-TIME  
ACCIDENT KEEPS  
BUZZARD ON TRACK

## CANADIAN OIL AND GAS BOOSTS CONTRACTOR SAFETY

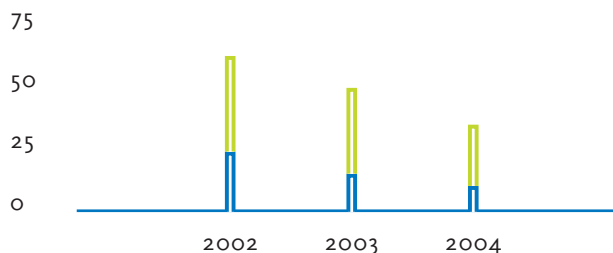
Nexen's Canadian oil and gas operations achieved a 24% decrease in contractor injury incident rates in 2004.

The Drilling group contributed significantly to this result by conducting thorough screening of contractor safety performance during bid evaluation, focusing on safety issues during pre-work orientations and setting specific safety targets for contractors. Across the division, we worked closely with contractor and employee on-site supervisors to establish accountability and share advanced safety assessment tools.

We introduced our CARE safety program (Committed; Accountable; Responsible; Engaged) throughout Canadian oil and gas operations in 2003. In CARE, employees set SESR objectives for the year and post these objectives in their work areas. Throughout the year, employees review their achievements against these goals with their leaders, and part of employees' annual incentive compensation is based on the results.

## YEMEN DRIVING SAFETY PERFORMANCE

■ Employee Vehicle Incidents ■ Contractor Vehicle Incidents



■ Our employee vehicle incidents are down 58%, and our combined employee/contractor rates are down 44%, since 2002.

The division had six employee injuries in 2004, versus one in 2003. While the increase is a concern, these six injuries are a relatively small number considering 1.58 million employee hours worked in 2004. We have again set a target of zero for employee injury incidents in 2005.

### EMPLOYEE SAFETY TARGETS

	2004 IIR	Best Ever	2005 Target	Benchmarks (2003)
Canada <sup>1</sup>	0.76	0.15	0.0	1.33 (CAPP)
United States	0.44	0.0	0.0	
International	0.67	0.33	<0.33	
Chemicals	1.01	0.0	0.0	2.01 (CCPA)
Corporate	0.29	0.0	0.0	
Total	0.61	0.29	<0.29	0.36 (OGP)
United Kingdom	0.24	0.24	0.0	

<sup>1</sup> Includes Energy Marketing and Long Lake pilot plant.

### CONTRACTOR SAFETY TARGETS

	2004 IIR	Best Ever	2005 Target	Benchmarks (2003)
Canada <sup>1</sup>	3.38	3.38	2.57	2.14 (CAPP), 8.47 (CAODC)
United States	1.78	1.03	<1.03	
International	0.75	0.71	<0.71	2.86 (IADC)
Chemicals	1.61	1.30	<1.30	1.74 (CCPA)
Corporate	0.62	0.0	0.0	
Total	1.19	1.19	<1.19	0.94 (OGP)
United Kingdom	0.80	0.80	<0.80	
Long Lake Construction <sup>2</sup>	2.06	2.06	<2.06	

<sup>1</sup> Includes Energy Marketing and Long Lake pilot plant.

<sup>2</sup> Combined employee/contractor lost-time and medical treatment injuries only.

Acronyms:

IIR—Injury Incident Rate; CAPP—Canadian Association of Petroleum Producers; CCPA—Canadian Chemical Producers' Association; CAODC—Canadian Association of Oilwell Drilling Contractors; OGP—International Association of Oil and Gas Producers; IADC—International Association of Drilling Contractors.



An aerial photograph of a temporary drilling camp in a snowy, forested area. The camp consists of several long, white, rectangular buildings arranged in a grid-like pattern. The surrounding landscape is covered in snow and dense evergreen trees. A blue rectangular box is overlaid on the image, containing the text "see the VALUE".

see the **VALUE**



# in our LAND STEWARDSHIP

From the prairie sod in Saskatchewan to the dusty wadis of Yemen, Nexen is a steward of the land in our areas of operation and beyond. Applying innovative and integrated land management techniques enables us to reduce our operating footprint and that of others through cooperative efforts to decrease cumulative land impacts and maintain biodiversity.

## CONSTRAINTS MAPPING MINIMIZES LAND USE AT LONG LAKE

Begin with the end in mind. That is the thinking behind integrated land management and the comprehensive constraints mapping tool we are applying to develop the Long Lake Project, now under construction in northeastern Alberta. Long Lake's low-cost proprietary technology is expected to be operational and producing premium synthetic crude oil by late 2007.

Our constraints mapping process started in the early planning stages of the project with a rigorous assessment of Long Lake's land base. Potential environmental, cultural, historical and archaeological sensitivities on the lease were logged and categorized, and this information was used to plan and choose the locations for the steam-assisted gravity drainage well pairs and upgrading facilities. Low-impact seismic practices were used to delineate the property. We avoided water crossings,

wetlands and areas of historical significance to the local community. Well pads were centrally located to reduce the facility footprint.

Intra-industry cooperation furthered the land-use savings at Long Lake. Nexen and our project partner, OPTI Canada Inc., worked with Alberta-Pacific Forest Industries to share road access and plan timber harvesting in lease areas requiring clearing. This saved hundreds of hectares of land from being unnecessarily cleared, as well as hundreds of thousands of dollars in road construction costs. This created a win-win situation for the environment and shareholders and illustrated how cumulative environmental impacts can be managed through industry cooperation.

## CANADA'S FIRST OIL SANDS RAILWAY

In 2004, Nexen and OPTI launched a five-kilometre rail track connecting the Long Lake Project site to Athabasca Northern Railway's main line. The rail spur, the first to be built in Alberta in 14 years, will be used to transport large equipment to the project site and move by-products, such as sulphur, off site. This initiative was designed to increase transportation efficiency, while reducing the impact of the project on the local highway system and community.

## TWO LARGE-VOLUME, LOW-IMPACT SPILLS CLEANED UP IN 2004

At our Senlac, Saskatchewan heavy oil operations, a pipeline failure resulted in a spill of approximately 1,100 cubic metres of oil/water emulsion. All surface liquids were quickly recovered, and contaminated soil was excavated and properly disposed of. The site has been reclaimed to the regulator's and landowner's satisfaction. Follow-up soil sampling is planned for 2005.

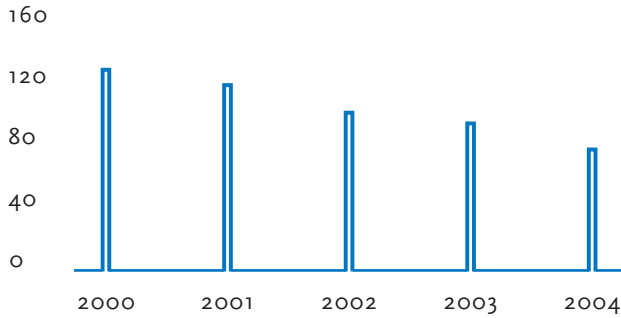
At our Bruderheim, Alberta sodium chlorate facility, a leak in an underground pipe one metre below surface led to a seepage of approximately 50 cubic metres of brine (saltwater) into the soil. The near-surface soils have been excavated and disposed of in a secure landfill. Testing and cleanup of additional soils and groundwater will continue in 2005.

No environmental fines or penalties were levied against Nexen's energy or chemicals operations in Canada in 2004.

REDUCING THE SIZE  
OF OUR FOOTPRINT  
REDUCES OUR  
IMPACT ON WILDLIFE  
AND REDUCES  
RECLAMATION COSTS

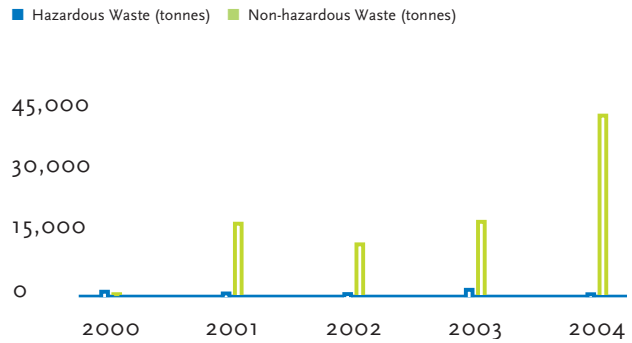


## ENVIRONMENTAL INCIDENTS NEXEN-WIDE



■ Our number of reportable spills and exceedances declined 18% in 2004 to 80 compared with 97 in 2003 and is down 39% from five years ago. In 2004, spills accounted for 95% of our incidents, and exceedances accounted for 5%.

## NEXEN CHEMICALS WASTE



■ Demolition of the Taft chlorate plant accounted for almost all of the 140% increase in non-hazardous waste. 2003 non-hazardous waste data have been restated (42% higher) to correct calculated waste from Brandon.

## PROMOTING PRAIRIE CONSERVATION

Nexen contributes to several initiatives promoting the revitalization of natural prairie habitat and species. In 2004, 50 plains bison were reintroduced to the Old Man on His Back Prairie and Heritage Conservation Area near Eastend, Saskatchewan through a partnership with the Nature Conservancy of Canada (NCC). Nexen and the NCC are working toward a long-term goal for the Eastend property that will return 400 hectares of cultivated land to natural prairie and encourage neighbouring landowners to conserve and restore native grassland.

Nexen is also one of several supporters of a seven-year research program by the Semiarid Prairie Agricultural Research Centre in Swift Current, Saskatchewan which is demonstrating practical techniques for cattle producers to improve forage production using native grass stands.

## ENVIRONMENTAL MANAGEMENT PRACTICES AND BIODIVERSITY

We recognize the growing attention paid to the issue of biodiversity. We consider our potential impacts on threatened habitat and species at risk in our environmental management practices.

At our oil and gas sites in Canada, we practice low-impact drilling wherever possible, minimizing disturbance to soils and native grass, transporting all waste off site and favouring winter drilling to take advantage of frozen soil conditions.

We modify our operating procedures to protect species at risk, such as ferruginous hawks and burrowing owls (Medicine Hat, Alberta), peregrine falcons (Balzac, Alberta) and woodland caribou (northern Alberta).

see the



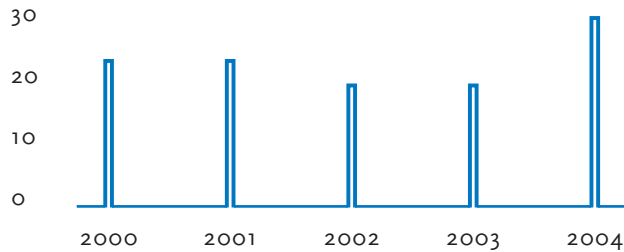
VALUE

RESTORING GRASSLANDS DISCOURAGES INVASIVE PLANTS AND PROMOTES ENDANGERED HABITATS AND SPECIES

BUILDING A RAIL LINE AT LONG LAKE REDUCES LOCAL TRAFFIC, IMPROVES SAFETY AND LOWERS PROJECT COSTS

## SITE REMEDIATION EXPENDITURES NEXEN-WIDE

(millions of dollars)



■ Our costs in 2004 increased 55% because of the higher number of abandoned well sites reclaimed compared with previous years.

The Long Lake Project is helping to develop biodiversity expertise in Alberta. In conducting its biodiversity review, our Long Lake staff teamed up with the Alberta Biodiversity Monitoring Program (ABMP), a new organization monitoring and reporting on biodiversity status and trends throughout Alberta. By working with ABMP, Long Lake staff are helping the organization to field test its biodiversity management protocol and prepare for province-wide implementation in 2007.

We follow similar habitat and species protection practices abroad. Careful planning of the decommissioning of our offshore production platform in Australia protected the sensitive coral reefs (see page 24). In Yemen, we avoided disturbing sea turtle nesting habitat when installing a pipeline to an offshore oil-loading buoy. We also relocated a 22-kilometre section of our export pipeline out of a flood-prone wadi system to minimize the risk of pipeline damage or oil spills that might result from seasonal flooding.


Nexen is contributing to the Biodiversity Working Group of the International Petroleum Industry Environmental

Conservation Association (IPIECA). IPIECA is developing a guidance document to help oil companies worldwide develop biodiversity action plans.

In Nigeria, we made a \$10,000 contribution to a research project aimed at preserving biodiversity and habitat in a rare section of high-altitude forest near the border between Nigeria and Cameroon. The Nigerian montane forest is one of the most threatened habitats in Africa and is home to many rare species of plants and animals. It harbours at least 24 endangered tree species, African wild dogs, the Nigerian chimpanzee, buffalo and klipspringer, as well as numerous bird species. The Nexen-sponsored project aims to create benefits for the environment as well as for local subsistence farmers and cattle grazers by combining community education with scientific research on this threatened ecosystem.

## ASSET RETIREMENT OBLIGATIONS

We estimate our future environmental costs based on past experience and current regulations. At year-end 2004, \$468 million (\$770 million, undiscounted) has been provided in our consolidated financial statements for asset retirement obligations related to our oil and gas, Syncrude and chemicals facilities. During 2004, we increased our retirement obligations by \$146 million primarily due to the acquisition of oil and gas properties in the North Sea. Prior to a 2003 change in Canadian accounting practice, we used a similar measure — calculated using a different formula — called Dismantlement and Site Restoration Liability.

You can find the data points for all graphs in this section, plus the following data, on our website: *Environmental Incidents segmented by spills and exceedances (by location); and Canadian Oil and Gas Waste (2003 and 2004)*. 

## WELL SITE RECLAMATION<sup>1</sup>

	2004					2003				
	Producing	Shut-in	Abandoned	Reclaimed	Undergoing <sup>2</sup> Reclamation	Producing	Shut-in	Abandoned	Reclaimed	Undergoing Reclamation
Canada	3,494	758	109 <sup>3</sup>	55	680	3,447	686	47	31	690
United States	154	252	3	0	1	152	243	4	0	0
International	393	38	5	1	6	336	54	9	1	1
Total	4,041	1,048	117	56	687	3,935	983	60	32	691

<sup>1</sup> Nexen-operated wells only.

<sup>2</sup> Estimate as of December 31, 2004.

<sup>3</sup> The formation of a dedicated abandonment and reclamation team resulted in a more methodical, efficient and effective abandonment program in 2004. This level of activity is expected to extend into 2005 and 2006.





see the **VALUE**



# in our WATER CONSERVATION

Nearly every aspect of Nexen's operations hinges on the responsible use of water. Yemen is one of the most water-scarce countries on Earth. Western Canada is increasingly concerned about the oil industry's demand for water. Our operations in the U.S. Gulf Coast, the United Kingdom and West Africa are exclusively offshore. And water is an essential component in our manufacturing of sodium chlorate and chlor-alkali.

## GLOBAL COMPACT WATER AND SANITATION PROJECT

Yemen has been Nexen's flagship international operation since 1992 when we declared our first commercially successful well at Sunah. In 2004, production from Yemen generated approximately 30% of Nexen's cash flow.

When Nexen began looking for opportunities to support the United Nations Global Compact—to advance responsible corporate citizenship so business can be part of the solution to the challenges of globalization—it was natural for us to respond to Yemen's most pressing environmental issue.

On April 24, 2004, representatives from Nexen, the United Nations Development Program and the Government of Yemen launched a joint initiative to promote water management and sanitation in Masila-Hadhramout, Yemen. Nexen is committing

US \$1 million to the project, which will promote water resource management, community water supply and sanitation and capacity building in the vicinity of Masila Block 14. Later in 2004, the Canadian International Development Agency joined the project partnership.

The project has four complementary objectives:

- enhance access to clean water for drinking and domestic use and conserve this scarce resource;
- improve health by preventing the incidence of diseases caused by unclean water and poor hygiene;
- promote practices to enhance environmental protection and sustainability, especially for disposing wastewater, effluent and solid waste; and
- strengthen local institutions to support the community-based development goals in general, and sustainable water resource management, supply and sanitation services.

The project's official kickoff was on October 1, 2004, and start-up workshops have been held in the communities of Sana'a and Sah. A project manager has been recruited, a field office established, and the project team is almost complete. They've completed water quality testing and begun baseline data collection and community mobilization. By year-end 2005, we expect the beginnings of the project infrastructure and improvements to be in place.

The project will stand as a model of joint United Nations and private sector cooperation and as an example for future replication throughout Yemen.

## RECYCLING WATER AT LONG LAKE

The Long Lake Project is the first oil sands upgrading development to commit to not using surface water in its operation. We will re-use more than 90% of the water we recover with our bitumen production. After multiple re-uses of this recovered water, unusable, process-affected water will be disposed of into deep formations beneath the bitumen. We will conduct extensive monitoring of the level and quality of local groundwater throughout the project's life.

NEXEN'S CLEAN WATER  
AND SANITATION  
PROJECT TACKLES  
YEMEN'S MOST  
PRESSING ENVIRON-  
MENTAL ISSUE

LONG LAKE IS THE  
FIRST OIL SANDS  
PROJECT TO COMMIT  
TO NOT USING  
SURFACE WATER IN  
ITS OPERATIONS

## WATER HANDLING AND DISPOSAL FOR COALBED METHANE

Coalbed methane (CBM) is a form of unconventional natural gas where gas that is trapped in coal deposits is released in response to a drop in reservoir pressure. CBM represents a huge potential resource in the Western Canada Sedimentary Basin, and is becoming especially important as conventional gas sources mature and decline.

At the end of 2004, Nexen had 285,000 net acres (115,000 hectares) of undeveloped CBM land, most of it in the Fort Assiniboine region of Alberta where our Corbett pilot project is located. We hope to achieve commercial feasibility for the Corbett pilot, operated by Trident Exploration, in 2005.

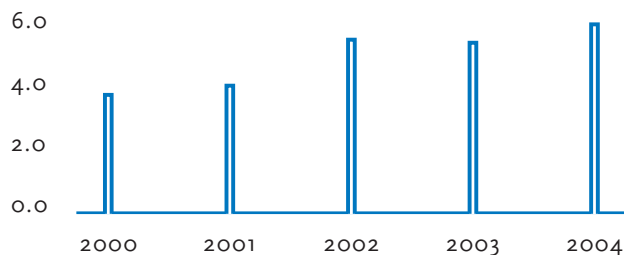
In the early stages of CBM production, it's common for large quantities of saline water to be produced along with low quantities of gas. As reservoir pressure declines, produced water volumes decline and gas volumes begin to rise.

Water production and disposal is a key issue in CBM development. Cementing the well casing from production levels to the surface helps to prevent produced water from escaping, thereby protecting groundwater, drinking water sources, fish habitat and local vegetation.

Canadian regulations require that water produced from natural gas operations, including CBM, be injected into an underground formation unless the composition or volume of water makes surface disposal acceptable. When surface disposal is inappropriate, produced saline water is re-injected into suitable underground formations, after approval from

## NEXEN CHEMICALS TOTAL WATER CONSUMPTION

(million cubic metres)



■ In 2004, water consumption increased to 6.2 million cubic metres, up 11% from 2003 because of an increase in hydrochloric acid production. Data for 2000 through 2003 have been restated to include Aracruz, Brazil.

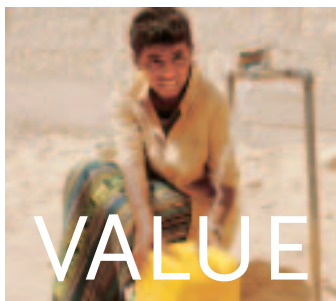
environmental authorities. If the quality of the produced water meets or exceeds approved levels for surface discharge, the water may be used for irrigation or to create or enhance wetlands for wildlife.

See the diagram of CBM water handling on page 25.

## THOROUGH OFFSHORE DECOMMISSIONING

Nexen ceased oil production from the Buffalo field, offshore Australia, in November 2004 and subsequently began a US \$25 million decommissioning and abandonment program. The extensive 77-day decommissioning included disconnecting and demobilizing the Floating Production, Storage and Offshore loading vessel, plugging and abandoning five wells and slicing the wellhead platform in two to enable the sections to be barged to shore. We also had to cut the supporting piles

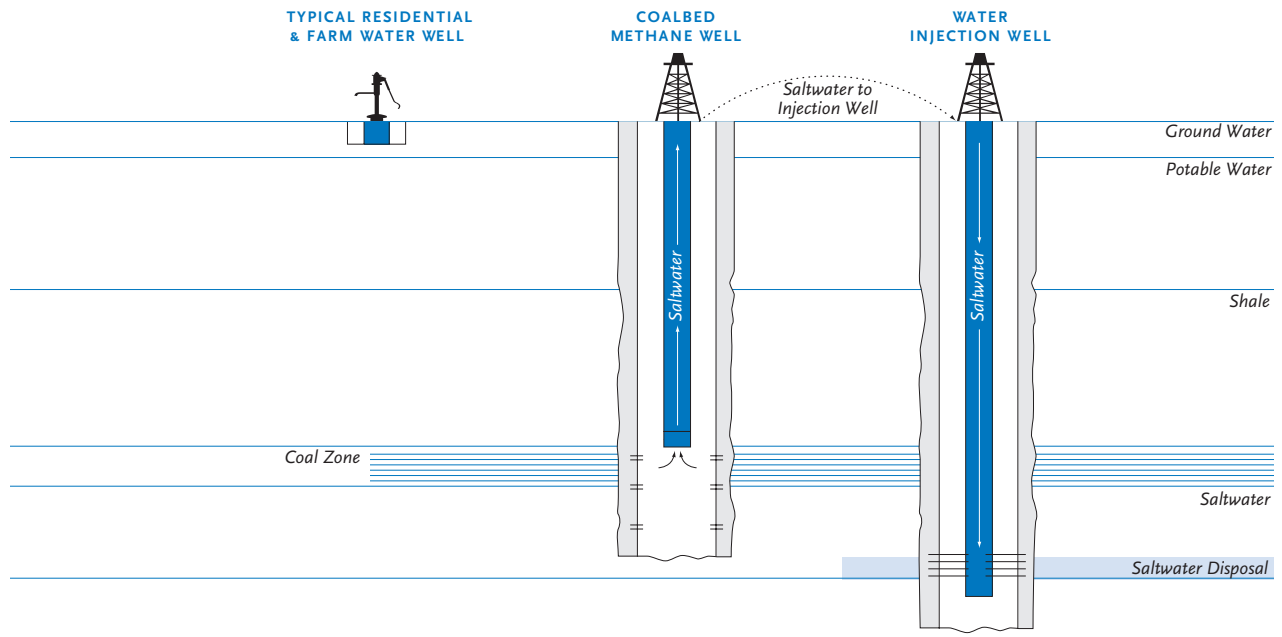
see the VALUE



LONG LAKE WILL RE-USE MORE THAN 90% OF THE WATER RECOVERED WITH BITUMEN PRODUCTION

OUR APPROACH TO COALBED METHANE RECOGNIZES PUBLIC CONCERN OVER WATER TREATMENT AND DISPOSAL

## WATER HANDLING FOR COALBED METHANE OPERATIONS




■ This diagram illustrates how saltwater produced with CBM is re-injected deep underground, preventing contact with potable water sources.

free from the seabed and recover rigid and flexible pipelines and the umbilical line.

The Australian regulators approved the seabed disposal of well tubing and piping spools after initial cleaning. A final environmental survey was conducted in February 2005, using a camera-equipped remotely operated submersible vehicle

to survey the seabed for impacts. We will submit our final environmental audit report to the regulator in mid-2005 and relinquish the oil production leases.

You can find the data points for Nexen Chemicals' water consumption (2000 to 2004), plus water consumption in Nexen's Canadian oil and gas operations (2003 and 2004), on our website. 

CLEAN UP IN  
BUFFALO, AUSTRALIA  
GAVE US VALUABLE  
EXPERIENCE TO APPLY  
IN FUTURE OFFSHORE  
ABANDONMENTS







see the **VALUE**

# in our CLEAN AIR ACTIONS

A healthy planet depends on clean air. At Nexen, we're doing our part to achieve this in a cost-effective way over the long term. We're enhancing the data collection of emissions from our operations. We're taking a leadership role in our industry in emissions reduction. And we're exploring the benefits of new technology.

## IMPLICATIONS OF KYOTO PROTOCOL RATIFICATION FOR NEXEN

The Kyoto Protocol became legally binding on the more than 150 signatory countries, including Canada and the United Kingdom, in February 2005. Canada committed to reduce its greenhouse gas (GHG) emissions to 6% below 1990 levels between 2008 and 2012. Achieving these mandatory emissions reductions is a major challenge for many industries in Canada, including the upstream oil and natural gas sector.

Nexen's approach to GHG management is to:

- reduce GHG emissions through cost-effective voluntary initiatives;
- pursue other domestic and international carbon offsets including renewable energy;
- participate in the development of GHG-reduction technologies; and
- position the company for the emerging emissions trading market.

One of the major challenges facing our industry is the absence of detailed information from the Canadian government on its legislative framework and detailed options for managing compliance with targeted GHG reductions. Nexen has introduced several initiatives designed to deliver carbon offsets. As a result, we have reduced our direct GHG emissions by almost two million tonnes of CO<sub>2</sub>-equivalent over the past six years. However, because of policy and regulatory changes, it's not clear whether the reductions we've achieved will be eligible under future compliance instruments. The continuing regulatory uncertainty discourages companies from taking early action, pursuing new technologies and other emission management and reduction strategies.

## CO<sub>2</sub>-EQUIVALENT EMISSIONS AT LONG LAKE

The Long Lake oil sands project, a joint venture between OPTI Canada Inc. and Nexen, will begin full operations near the end of 2007. The bitumen resource is too deep to mine, so we will extract bitumen (about 70,000 barrels per day) by steam-assisted gravity drainage. The bitumen will be sent to an on-site upgrader, which will produce 60,000 barrels per day of premium synthetic crude oil. Oil sands projects are more energy-intensive than conventional oil and gas operations; as a result they generate greater CO<sub>2</sub>-equivalent emissions.

The Long Lake Project is notable for many reasons—one of the most important is its innovative energy supply. Oil sands projects typically consume large quantities of natural gas to mine or extract bitumen, separate the oil from the sand and upgrade the oil to meet market specifications. Instead, Long Lake uses proprietary technology to convert the heavy residue from the upgrading process into a synthetic gas mixture that will produce electricity and steam for extraction and upgrading, hydrogen for the upgrader and fuel for the cogeneration facility.

We will require only minor amounts of natural gas as part of our fuel mix, enabling the project to be essentially energy self-sufficient and to export surplus power we generate to the local electricity grid. Our substantially reduced consumption of natural gas will enable this low-CO<sub>2</sub> emission fuel to be used for other higher-value purposes elsewhere in the energy marketplace.

As a steam-assisted gravity drainage operation, Long Lake operates without diesel-powered mining and hauling equipment, resulting in low NO<sub>x</sub> emissions. Using best-available demonstrated technology, Long Lake's sulphur recovery is expected to approach 98%, giving it one of the highest recovery efficiencies possible. As a new operation with advanced technologies, Long Lake will also have lower emissions of volatile organic compounds and lower fugitive emissions than older oil sands operations.

The Long Lake Project has a number of other attractive environmental attributes including important initiatives to significantly decrease the volume and quality of water required and to reduce the project's environmental footprint. You can read more about these attributes in the sections on Land Stewardship (page 18) and Water Conservation (page 22).

## U.K. OFFSHORE FACILITIES: EUROPEAN EMISSIONS TRADING SCHEME

Nexen's December 2004 acquisition of the Scott-Telford installation and the Buzzard field introduced a new dimension to the GHG issue for Nexen. In contrast to Canada, the United Kingdom and other European Union (EU) member states have announced detailed national and EU-wide plans for reducing their CO<sub>2</sub> emissions in line with their ratification of the Kyoto Protocol.

To help achieve their reduction targets, EU countries have introduced a Greenhouse Gas Emissions Trading Scheme. Under the U.K. National Allocation Plan, each designated installation is given an annual CO<sub>2</sub> emissions allowance based on its past emissions. An installation emitting more than its allocated allowance will be required to buy credits to offset excess emissions. Conversely, an installation emitting less CO<sub>2</sub> can sell its excess credits. Companies can invest in emissions reduction technology rather than buying extra CO<sub>2</sub> credits.

The Scott platform has received a provisional CO<sub>2</sub> allowance which reflects the U.K. government's commitment to maintain 'business as usual'; that is, allowances are intended to cover the current level of emissions. The major sources of CO<sub>2</sub> emissions from Scott-Telford are from main turbines burning either fuel gas or diesel and from small engines used for equipment such as cranes and fire pumps.


The Buzzard field, scheduled to begin production in late 2006, has already been registered in the Emissions Trading

Scheme. Buzzard's CO<sub>2</sub> allowance will come out of a designated 'new entrant reserve' and although not yet designated, we expect its CO<sub>2</sub> allowance will be sufficient to match the operation's emissions.

## PREPARING FOR MANDATORY GHG REPORTING

The Canadian petroleum industry has worked closely with Alberta government regulators to help develop their climate change action plan, and with the federal government to transition the Voluntary Challenge and Registry program to a mandatory reporting program.

In late 2004, we engaged the Sustainability practice group of PricewaterhouseCoopers (PwC) to assess our GHG data management system as well as the 2002 and 2003 GHG emissions data from our Canadian oil and gas operations. During the assessment, PwC identified opportunities to enhance the reliability and auditability of our GHG data management system and the accuracy and completeness of our emission calculations (for example, by improving the way we calculate indirect emissions associated with our electrical power consumption).

Nexen and all members of the Canadian Association of Petroleum Producers report data related to GHG emissions as a part of the industry's Stewardship Initiative. We use CAPP's methodology for calculating our GHG emissions. See [www.capp.ca](http://www.capp.ca). 

see the



VALUE

AN INDEPENDENT  
REVIEW OF OUR  
DATA SYSTEMS  
PREPARES US  
FOR MANDATORY  
GHG REPORTING

WE'RE GAINING  
CARBON TRADING  
EXPERIENCE  
THROUGH THE  
EU EMISSIONS  
TRADING SCHEME



#### NEXEN WORKING WITH NATSOURCE ON GHG AGGREGATION POOL

A cost-effective way of complying with regulated GHG limits may be realized by participating in a pool with other companies or entities that require carbon offsets. Such an arrangement would reduce the technical, political and commercial risk associated with investments in the developing world (promoted by the Clean Development Mechanism) or in economies in transition such as Russia, under the Joint Implementation program. Both these initiatives are sanctioned by the Kyoto Protocol and expected to be eligible for domestic GHG reduction obligations.

Nexen has worked with Natsource—a global firm offering emissions management services—on the design principles for a GHG credit aggregation pool, and we recently signed an agreement to participate in the development phase of this concept.

#### SODERGLEN WIND POWER PROJECT

In November 2004, we announced our first renewable energy project: the 70 MW Soderglen wind power project, near the community of Fort Macleod in southern Alberta.

Together with our 50% partner GW Power, we are negotiating to purchase up to 47 wind turbines and have filed applications for regulatory approvals and permits. We have also applied to Natural Resources Canada for available federal funding for this project. We estimate project start-up in mid-2006. We initiated the Soderglen project as part of our strategy to manage greenhouse gas emissions across Nexen.

GAS RECOVERED  
FROM HEAVY OIL  
SAVES GHG EMISSIONS  
AND BECOMES  
A NEW REVENUE  
SOURCE FOR NEXEN

WE'RE INVESTING IN  
RENEWABLE ENERGY,  
ANTICIPATING  
CARBON CREDITS  
AGAINST HIGHER-CO<sub>2</sub>  
FUELS WE PRODUCE

#### GEOLOGICAL SEQUESTRATION OF CO<sub>2</sub>

Geological sequestration of CO<sub>2</sub> in depleted oil and gas reservoirs or other suitable geological formations could provide Canada with a significant made-at-home solution to reduce GHG emissions in advance of a future low-carbon or zero-carbon energy system. The technology is largely known and available, but the costs far exceed the current cost of carbon offsets, and the issue of the permanence of sequestration has yet to be resolved. Nexen has and continues to fund several research projects evaluating technical initiatives associated with this opportunity, anticipating that technical and political solutions to reduce costs will be found.

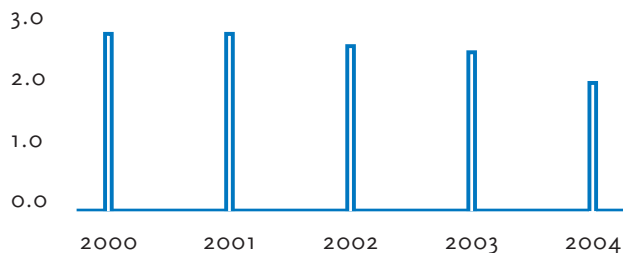
#### REDUCING EMISSIONS AND ENHANCING RECOVERY FROM HEAVY OIL

Nexen continues to look for opportunities to reduce direct emissions of GHG from our operations. Most of the approximately two million tonnes of CO<sub>2</sub>-equivalent reductions we've achieved over the past six years has come from capturing methane previously vented from our heavy oil operations. We continue to look for ways to further reduce vented methane including incinerating gases that we cannot collect and turn into sales gas. Burning methane, rather than venting it to the atmosphere, reduces the global warming potential of the resulting emissions by some 80%.

We are evaluating a new technology for extracting more of the available oil from our heavy oil assets. This technology has the potential to create significant additional resources for Alberta and Saskatchewan from existing oil fields and also dramatically reduce the carbon intensity of the produced oil. In this process, fluids such as propane, butane and ethane are injected into the reservoir to mobilize oil that conventional recovery methods cannot. The process eliminates many combustion and venting sources associated with current methods of production and enhanced recovery.

## CANADIAN OIL & GAS CO<sub>2</sub>-EQUIVALENT EMISSIONS

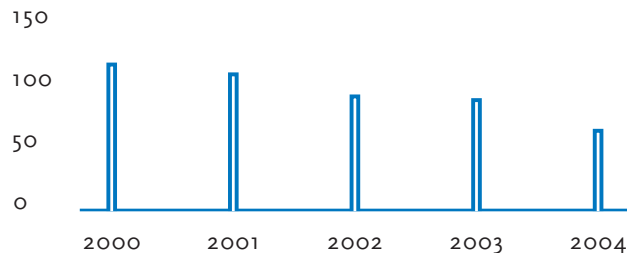
(million tonnes)



■ Emissions decreased 19.2% in 2004 primarily from the capture of methane from our heavy oil operations. Emissions from prior years have been restated due to more precise data input.

## CANADIAN OIL & GAS TOTAL METHANE VENTED

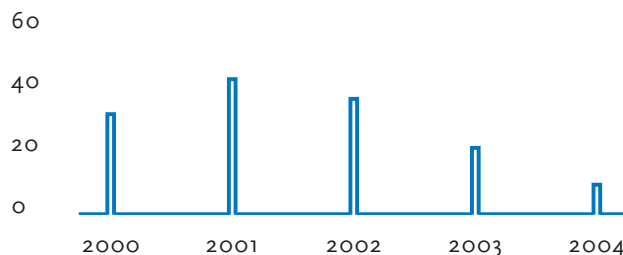
(million cubic metres)



■ Volumes declined in 2004 as a result of capturing methane and divesting properties in Canada. Volumes in prior years have been restated due to more precise data input. A significant portion of this data is estimated, so degrees of uncertainty are higher.

## CANADIAN OIL & GAS TOTAL GAS FLARED

(million cubic metres)



■ Our divestiture of conventional oil and gas operations was the main contributor to a continued reduction in the amount of gas we flare.

## CANADIAN OIL & GAS SO<sub>2</sub> EMISSIONS

(tonnes)




■ Our SO<sub>2</sub> emissions have remained constant because sour gas processing volumes at Balzac, Alberta have been steady.

## INTERNATIONAL OPTIONS WITH CDM AND LANDFILL GAS COLLECTION

We have looked at our international operations to determine if there are emission reduction projects that might qualify under the Clean Development Mechanism (CDM). We have not yet identified a project that would meet the standards set by CDM, but we continue to monitor its approved methodologies.

We have also registered interest in obtaining emission reductions associated with landfill gas collection projects in South America. We may have an opportunity to purchase qualifying offsets if these projects proceed beyond the planning phase.

You can find the data points for all graphs in this section, plus the following data for selected worldwide oil and gas operations, on our website: CO<sub>2</sub>-equivalent Emissions; Production Carbon Intensity (PCI); Production Energy Intensity (PEI); Energy Use; Flared Gas; and Vented Gas. You can also find PCI, PEI and National Emission Reduction Masterplan data for Nexen Chemicals. National Pollutant Release Inventory data for Nexen's Canadian oil and gas operations and Nexen Chemicals can be found at Environment Canada's website ([www.ec.gc.ca](http://www.ec.gc.ca)). 

## WELLS TO WHEELS: CO<sub>2</sub>-EQUIVALENT LIFE-CYCLE EMISSIONS


The accompanying graph compares the emissions generated when you produce 1,000 litres of transportation fuel from three different energy sources: Long Lake premium synthetic crude using synthetic gas; Syncrude oil sands mining operations; and Brent Crude, an international benchmark for ‘sweet’ crude oil.

An independent study referenced in Long Lake’s December 2000 Environmental Impact Assessment estimated that, on a full life-cycle basis, transportation fuel made from Long Lake premium synthetic crude oil will generate 5% more CO<sub>2</sub>-equivalent (CO<sub>2</sub>-e) emissions than Syncrude and 21% more than Brent Crude. Long Lake will generate more CO<sub>2</sub>-e emissions than Syncrude because we will be producing synthetic gas on-site and using it in the upgrading process. In contrast, Syncrude pipelines natural gas to its site to use as fuel and a source of hydrogen to upgrade bitumen, so its CO<sub>2</sub>-e emissions are lower.

At Long Lake, by transforming heavy asphaltene into a usable fuel, we use more of the bitumen resource—nearly the ‘full barrel’ of bitumen. In traditional oil sands operations, asphaltenes are a waste product (also known as coke) and are stored in on-site landfills. By creating our own synthetic gas, we dramatically reduce Long Lake’s demand for natural gas and

minimize the amount of residual material to be landfilled. Long Lake will have its own power cogeneration facility on-site, providing electricity and steam for the project and surplus electricity for export to the local grid.

The graph shows that a very high percentage of CO<sub>2</sub>-e emissions (up to 80%) occurs at the point of consumption as transportation or heating fuel. Therefore, a 10% reduction in emissions at the point of consumption has the potential to deliver an 8% net decrease in life-cycle emissions. A 10% reduction in emissions from the production, refining and transportation portions of the chain—which represent about 20% of life-cycle emissions—has the potential to deliver a 2% net reduction in emissions. While the Long Lake Project has capitalized on new technology to maximize bitumen utilization and minimize natural gas consumption, it’s clear there are opportunities for emission reductions throughout the ‘wells-to-wheels’ chain.

The graph data were developed during the design stage of the Long Lake Project and will be updated when actual data are available from operations. Long Lake’s Environmental Impact Assessment can be found online at [www.longlake.ca/EIA/application.asp](http://www.longlake.ca/EIA/application.asp) 

## COMPARABLE LIFE-CYCLE EMISSIONS

(kg of CO<sub>2</sub>-e emissions per 1,000 litres of transport fuel)

### TRANSPORTATION

The emissions for transporting the consumer-ready product to end users are shown in the purple bar.

### REFINING

The yellow bar represents refining, the process of converting the raw resource into a usable product such as gasoline.

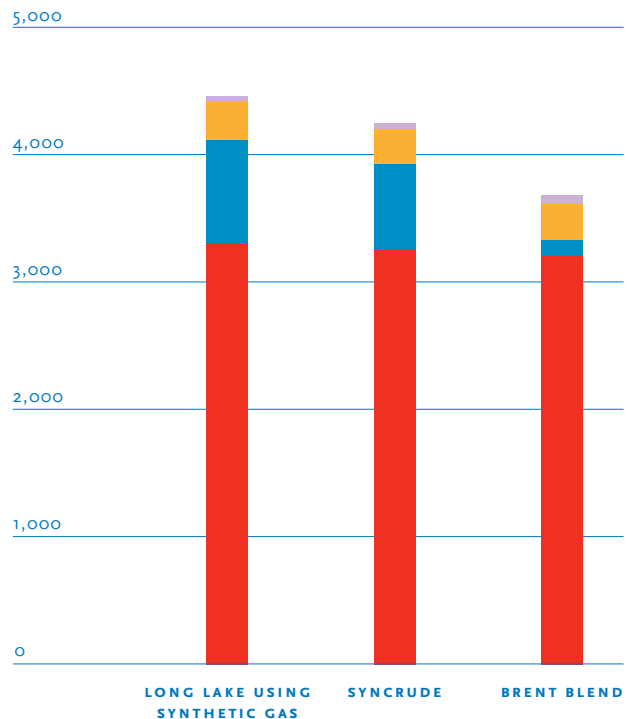
### PRODUCTION

Production, represented by the blue bar, means getting the oil, gas or bitumen out of the ground and to a refinery or upgrader.

### COMBUSTION

The red bar shows combustion of fossil fuels by businesses or individual consumers, which accounts for 70% to 80% of all CO<sub>2</sub>-e emissions.

Adapted from: Long Lake Environmental Impact Assessment, December 2000







see the VALUE

# in our SHAREHOLDER RELATIONS

Nexen's fundamental purpose is to deliver sustainable value to our shareholders. Over the years, we have attracted many long-term shareholders who see the value in our strategy, strong management, superior return on investment and our leadership in corporate social responsibility.


Our strategy is to grow through the drill-bit, supplemented with acquisitions when they make sense. We believe creating value means generating an attractive return on every dollar of capital we invest, not simply adding production or reserves. We define value growth as increasing production and cash flow per share over the long term, adjusted for debt. To achieve this, we're creating value through exploration, technology application, strategic acquisitions and disciplined allocation of capital. We're gaining economies of scale and securing solid opportunities for future growth.

We've established a foothold in the Middle East, the Gulf of Mexico and the rapidly expanding oil sands. We recognized the importance of developing a niche and attracting international partners in world-class basins. We've built liquidity and flexibility in our balance sheet to suit our strategy and to weather the fluctuations in commodity prices. And we've taken a leadership role in international ethics, engaged local communities in determining how our relationships can be

more mutually beneficial, and worked with governments and industry on emissions control.

To prosper, a company like ours with long investment cycles, global operations and huge capital investments needs to address the issues of today and anticipate those of the future. Our shareholders recognize our major projects have time lags between sanctioning and first production, which results in a 'lumpy' growth curve year-over-year and significant upfront capital investment before we see the benefits of financial returns. The long-term rewards are worth it.

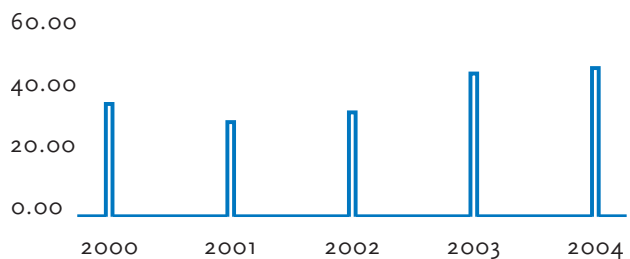
We are committed to clear, effective and transparent communication with stakeholders at all stages of our projects' life cycles. We want shareholders to understand our plans, progress and results. We treat our shortcomings and our successes with the same honesty—in our one-on-one discussions, group presentations, Form 10-K, news releases, website, corporate profile and this Sustainability Report.

Nexen's website ([www.nexeninc.com](http://www.nexeninc.com)) is designed to be a comprehensive information source for all stakeholders. Our Investor Relations (IR) website continues to be ranked as one of the best among Canadian companies by IR Web Report Global Rankings, which benchmarks the online investor relations practices of 500 international large market capitalization companies. 

INCORPORATING  
INVESTOR INPUT  
HELPS US BUILD  
A TOP-RANKED  
IR WEBSITE

OUR STATISTICAL  
SUPPLEMENT  
FEATURES BOTH  
CANADIAN AND  
U.S. DISCLOSURE

**NEXEN INC. CLOSING COMMON SHARE PRICE**  
(dollars, TSX)



■ Nexen's share price has increased 31.6% since 2000, based on year-end prices.



A full-page photograph of a male worker in a white hard hat and dark blue short-sleeved uniform shirt. He is working on a large, curved metal component on an offshore platform. The background shows complex industrial structures, including a large red chain and various pipes. The lighting is bright, suggesting daylight. A semi-transparent blue rectangle is positioned behind the text "see the VALUE".

see the **VALUE**

# in our SUPPLY CHAIN

In Nexen Chemicals, the products we manufacture are classed as hazardous goods. As a result, the handling of our products by carriers, distributors and customers is a key concern.


Before we sign up a new customer, we visit prospective customer sites to assess their ability to safely receive, handle and use our products. We review everything from storage tanks and hoses to process management systems, and we provide a written evaluation. Product delivery doesn't occur until the customer passes this review.

Nexen Chemicals supplies redistribution terminals at Vancouver, Washington; Texarkana, Texas; and Red Deer, Alberta. These terminals receive bulk shipments from our manufacturing facilities and re-ship the product by truck to customers, primarily in the pulp and paper industry. Each of these terminals is subject to a regular Responsible Care® assessment of its ability to handle and re-ship our product safely and in an environmentally responsible way.

Nexen's chemical products are shipped by barge, rail and truck. We have an extensive carrier pre-qualification process and conduct a formal review of carriers before they are allowed to move our products. In addition, we conduct an annual carrier assessment ranking with a written report, with input from our supply group, operations and shipping departments. CN Rail won our Carrier Partnership Award in 2003 and 2004.

In addition, we conduct risk assessments along the routes our products travel and maintain details of all fire departments and other emergency responders. Every year, we participate in at least one Canadian and one U.S. emergency response exercise. This helps us familiarize key communities with our products and how we would respond to an emergency. In 2004, we conducted a major emergency response exercise at Red Deer, Alberta. In addition, each of our plants holds community awareness programs throughout the year.

Every three years, Nexen Chemicals reverifies its performance against the Responsible Care® ethic, including our processes to select and assess customers, distributors, suppliers, carriers and storage facility operators. In the most recent review of November 2002, the Canadian Chemical Producers' Association concluded that "An excellent overall system is in

place". The review (available at [www.ccpa.ca](http://www.ccpa.ca)) also recommended several opportunities for improvement, which we implemented. These will be reviewed in our November 2005 reverification. 

## SUPPORTING STEWARDSHIP IN OIL AND GAS

Nexen's upstream oil and gas business does not sell products to the public, such as gasoline or motor oil. Our energy marketing business sells oil and gas through offices in Canada, the United States and Singapore. Our crude oil production is generally sold to large integrated companies and national oil companies. Nexen's natural gas production is sold to large industrial users or local distribution companies in our core market areas in the midwest U.S. states and southern Ontario. Nexen also markets crude oil and natural gas from third-party producers to the same markets and customers.

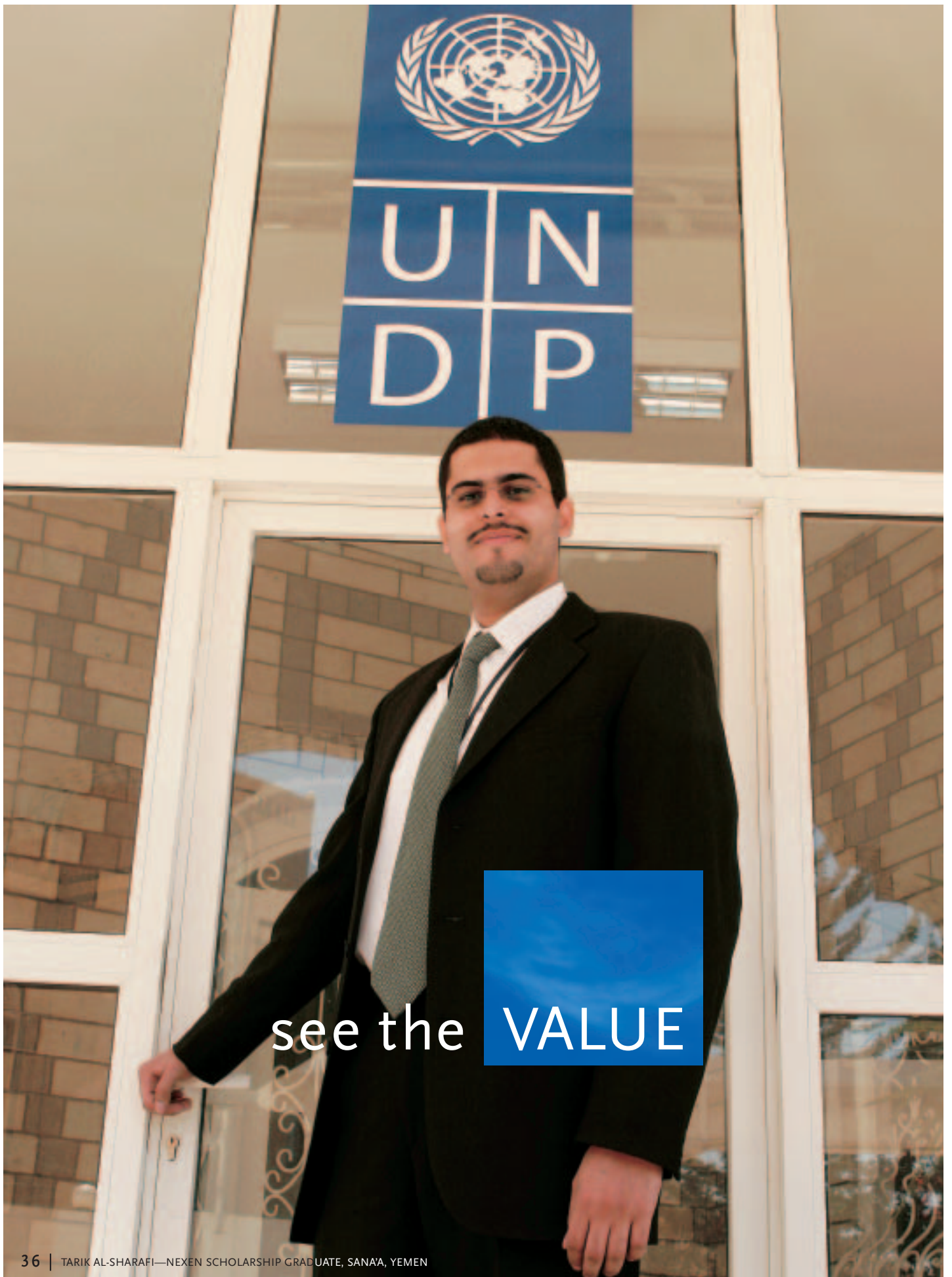
The Canadian Risk Advisory Survey, conducted among energy marketers and producers biannually, reported that customers ranked Nexen as a top decile Marketer of Choice for oil and gas (combined), from a field of approximately 300 companies.

The Responsible Care® ethic drives customer and carrier relations at Nexen's gas processing facility in Balzac, Alberta. In 2003, Balzac became the first upstream oil and gas facility in the world to achieve Responsible Care® verification.

Balzac's end products include natural gas, sulphur, condensate and waste streams. Whether entering or leaving the facility, by rail, truck or pipeline, these products are managed through our internal management systems, supplemented by product and route risk assessments, self-assessments for pipelines and detailed third-party assessments for motor carriers. Our aim is to expand the 'circle of influence' from Balzac. For example, we ask all our suppliers, carriers and customers to complete a detailed self-assessment on their emergency response, community awareness and product management systems. Reviewing the results from these assessments helps Nexen and its supply chain partners enhance product stewardship. We also review risk and response plans with residents and businesses along the major transportation corridors to and from our Balzac facility.

Similarly, Canadian Nexen Petroleum Yemen uses the Responsible Care® program to review the safe operation of its marine loading terminal and the safety records of ocean-going tankers transporting our products to market.





see the **VALUE**

# in our COMMUNITY INVOLVEMENT

We believe in creating a positive and lasting impact by developing successful partnerships built on mutual trust and respect with employees and the local communities where they work and live, along with governments, Aboriginals and other stakeholders.

## TARIK AL-SHARAFI— NEXEN SCHOLARSHIP GRADUATE

Since 1998, Nexen and its partners in the Masila Block in Yemen have committed to provide 80 scholarships for Yemeni students to pursue post-secondary education opportunities in Canada. The program has produced a number of remarkable alumni who have returned to Yemen and are now building impressive careers. Tarik Al-Sharafi stands out as a student who has already begun to make his mark in his home country.

It's been two years since Tarik graduated from the Southern Alberta Institute of Technology with a Bachelor of Applied Information Systems Technology. Arriving in Calgary in December 1998, he went from knowing virtually nothing about computers to his current job, Manager of Information and Communications Technology at the United Nations Development Program (UNDP) in Yemen's capital, Sana'a. In his new role, he focuses on leveraging technology to help Yemen advance its development.

Tarik, 25, was part of the first cohort of six students to pursue post-secondary studies in Calgary. He excelled academically. His professional potential became evident during his year-long work term at the Calgary Urban Project Society, a downtown community centre providing health care, social services and educational services to individuals who struggle with poverty and marginalization.

Following his graduation in May 2003, Tarik returned to Yemen. He found it a challenge to find work after being out of his native country for four-and-a-half years. But his diligence and patience were rewarded in January 2004, when Tarik was offered his position with the UNDP. Since then, he has worked throughout the Middle East, including Jordan and Lebanon.

Tarik is passionate in his belief that technology can be a powerful tool for poverty alleviation and democratic governance. He led a recent UNDP training program enhancing computer

literacy for 100 staff members from five different Yemen government ministries. Tarik describes this program as an example of how small-scale projects can have a great impact.

As part of the first group of graduates returning to Yemen, he and other alumni from the program will serve as resources to future students returning to Yemen. When asked what he felt was the best part of the scholarship program he replied, "Giving back what has been gained."

## COMMUNITY INVESTMENT OVERVIEW

Viable, vibrant communities are a better place for us to do business. That's why we support charitable organizations, community projects, scholarships and employee volunteerism.

Our funding reflects our core values. We make significant contributions to education, health and welfare initiatives, the arts, environmental programs and development projects such as community infrastructure in Yemen.

We follow the Imagine Canada formula, donating 1% of our pre-tax earnings, based on an average of the three preceding years. Steadily increasing earnings have driven a corresponding increase in our community investment budget. Our 2004 budget increased significantly compared with 2003, as we now include community infrastructure projects in Yemen—including more than \$1 million in water and power projects in 2004. Previously, these projects were considered as a separate investment in our international business.

In 2004, we invested \$7.9 million in community programs worldwide. Some of the notable programs included:

- Yemen electricity infrastructure (Wadi Arf and Al-Ma'di): \$1 million;
- Alberta Children's Hospital, Calgary: \$100,000 toward the new 35-bed day surgery area (\$1 million over five years);
- University of Saskatchewan: \$375,000 toward the Thinking the World of our Future campaign (\$750,000 over five years);
- Yemen Scholarship Program: \$650,000 (annually);
- United Way, all locations, including matching of employee donations: \$507,000;
- Old Man on His Back native prairie conservation, Saskatchewan: \$50,000 (\$600,000 between 2001 and 2008);
- Tsunami relief: \$100,000 from Nexen, with further employee donations and company matching in 2005;
- University of Calgary, Chair in Business Ethics: \$50,000 (\$250,000 over five years);

- Alberta Ecotrust: \$30,000 (\$90,000 over three years); and
- Brandon University, Manitoba, Nexen Chemicals Scholarship in Environmental Science: \$15,000.

#### PRESIDENT'S SESR AWARD RECOGNIZES COLOMBIA TEAM

While only 2% of Nexen's oil production comes from Colombia (5,500 barrels per day), those barrels may be among the most difficult to produce. Nexen's production comes from our 20% non-operating interest in the Guando field, approximately 45 kilometres southwest of Bogotá. We also have interests in three exploration blocks in the Upper Magdalena Basin.

Colombia is locked in a decades-long civil conflict. In the midst of this difficult operating environment, Nexen's SESR team in Colombia has supported our seismic and drilling programs and environmental applications—while protecting and enhancing Nexen's reputation—with skill and integrity.

The team has organized citizen advisory committees, public hearings and local employment initiatives to support Nexen's activities. In a particularly innovative—and low-cost—initiative, they helped community members apply for and access funds from a special federal government program to reconstruct a community bridge.

The team has also delivered strong safety and environmental performance, ensuring contractors follow Nexen's SESR commitments. Positive relationships with host communities are the cornerstone of our company security program. The oil industry has been a particular target in Colombia's

conflict, but thanks to the team's efforts our activities have been carried out without interruption.

In recognition of their strong performance in implementing Nexen's SESR management systems in a difficult operating environment, the Colombia team was awarded the Nexen President's Award for SESR Excellence for 2004. The award includes a US \$10,000 prize, which the team donated to support three charitable foundations.

#### NIGERIA: ORON-CALABAR FERRY

Offshore Nigeria, Nexen has one operating field (Ejulebe), an interest in other commercially viable discoveries awaiting development and plans to drill additional exploration prospects.

Nigeria has significant oil revenues and significant social problems. Distribution of oil revenues has been at the heart of numerous community conflicts, especially in the Niger Delta. The challenge for any company doing business in Nigeria is to ensure its operations support the gradual improvements emerging in the country.

In 2000, Nexen was approached by a prominent non-governmental organization, Pro-Natura International, to support a feasibility study on a community development initiative in Bayelsa State, adjacent to one of our offshore drilling prospects. Pro-Natura had previously achieved notable success in Akassa, where several community-owned and managed institutions (a medical laboratory, ferry, dock and market) have been sustained for over 10 years.

see the **VALUE**



WE INVEST IN  
HOST COMMUNITIES  
SO THEY SHARE IN  
THE BENEFITS FROM  
OUR OPERATIONS

PAYING ATTENTION  
TO COMMUNITY  
ISSUES HELPS US  
TO DO BUSINESS IN  
DIFFICULT COUNTRIES  
SUCH AS COLOMBIA

The feasibility study demonstrated the potential for replicating the successful Akassa program in several other communities across the Nigerian coast/Niger Delta region. Nexen is sponsoring a new Pro-Natura project in Akwa Ibom State, adjacent to our OML-115 offshore exploration site. We are working with a community organization to fund the Oro Community Development Trust, which will receive, evaluate and fund sustainable community development projects aimed at improving the circumstances of disadvantaged people in particular and the local community in general. A Board of Trustees, transparent governance system and bank account have been established.

Nexen has provided start-up funding of \$130,000 to help set up the Trust and launch its first project—a 30-passenger water ferry from Oron to Calabar. We're proud to support Pro-Natura's ambitious goal of creating 'a corridor of peace' along the coastal regions of the Niger Delta.

#### SUPPORTING COMMUNITY DEVELOPMENT IN BRAZIL

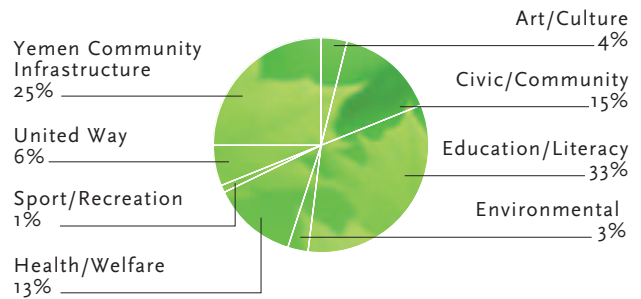
Residents of Barro do Riacho, an impoverished fishing village on the coast of Brazil, are learning new skills to become more self-sufficient thanks to a unique program sponsored by Nexen.

Some of the activities of Projeto Anzol—which means 'Project Fish Hook' in Portuguese—include a program to teach sewing to local women who then sell garments to a local clothing shop, an assistant electrician's course and an artisan's course on craft skills.

OPEN AND HONEST  
CONSULTATION  
WAS KEY IN  
GAINING APPROVAL  
FOR THE LONG  
LAKE PROJECT

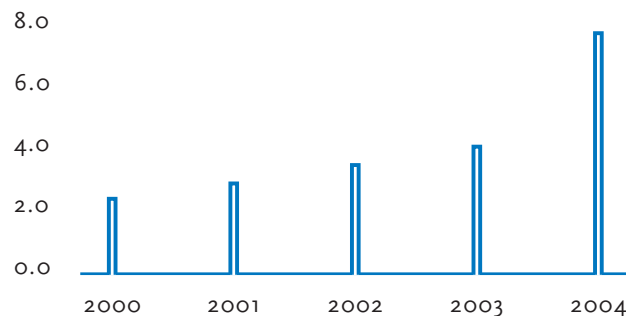
OUR INNOVATIVE  
COMMUNITY WORK  
IN YEMEN SUPPORTS  
OUR BUSINESS  
DEVELOPMENT  
IN WEST AFRICA

#### CORPORATE CONTRIBUTIONS (percent)



■ Valuing education, we allocated one-third of our community investments to university scholarships, research chairs and literacy.

#### COMMUNITY INVESTMENT (millions of dollars)



■ Community investment was up 88% in 2004 versus 2003 as a result of an increase in our community investment budget and incorporating projects previously not included. Data from prior years have not been restated.

Other elements of the program include community seminars on health issues, the labour market and income generation. In addition, the program provides cultural workshops including theatre, school choir, poetry and capoeira (a Brazilian traditional dance), as well as classes for children with learning difficulties.

Projeto Anzol was recognized in a nationwide review of corporate citizenship projects sponsored by *Revista Exame*, a prominent Brazilian business magazine. Of the more than 1,400 projects submitted for review, Projeto Anzol placed 8th out of 180 entrants in the Education category and was ranked among the 55 best projects.





see the **VALUE**

# in our EMPLOYEE RELATIONS

## STRIVING TO BE AN EMPLOYER OF CHOICE

Each year, Hewitt Associates and *The Globe and Mail Report on Business* magazine sponsor the **50 Best Employers in Canada** study. Nexen—for the fourth consecutive year—was named to the 50 Best list. In 2004, we were ranked #43—no other energy companies made the list. The full list of the **50 Best Employers in Canada** appeared in the January 2005 issue of *Report on Business* magazine. A total of 129 organizations participated in the 2004 survey.

As part of the study, Nexen employees completed an opinion survey in May and June, 2004. Nexen uses this benchmarking as a valuable tool for understanding employees' views of the company and identifying ways to continuously enhance our employee practices. We had a record-high response rate for this year's survey—57% in 2004 versus 40% in 2003.

In addition, Nexen was also named one of Canada's Top 100 Employers in a national review involving more than 6,000 organizations. The Top 100 list is compiled by the Canadian publishing firm Mediacorp Canada Inc. The only other Canadian oil and gas companies included were Husky Energy and Shell.

The Mediacorp study considers six criteria: Is the employer's business expanding and likely to grow? Is the physical environment of their workplace stimulating? Do they let employees know if they are performing well? Do they keep employees informed about company news and developments? Are their employment benefits exceptional for the industry? And do they go the extra distance to attract and retain outstanding people?

HIGH EMPLOYEE  
SATISFACTION  
SCORES HELP US  
ATTRACT THE BEST  
GRADUATES WITH  
SKILLS WE NEED

LINKING INCENTIVE  
COMPENSATION  
TO COMPANY AND  
PERSONAL TARGETS  
FOCUSES PEOPLE  
ON KEY RESULTS

Mediacorp's academic partner on the survey, the University of Toronto's Rotman School of Management, has completed research showing a correlation between being a top employer and a financial leader. The Top 100 Employers list was featured in the October 4, 2004, issue of *Maclean's* magazine.

## COMMUNICATING WITH EMPLOYEES ABOUT ASSET DISPOSITIONS

On October 29, 2004, we announced our intent to acquire the Scott and Telford producing fields and the Buzzard discovery—all offshore U.K.—for \$2.6 billion and to sell some of our existing assets.

For our chemicals business, we are evaluating options ranging from a sale to a strategic or financial buyer to spinning out the business as a stand-alone public entity. In Canadian oil and gas, we have identified several disposition candidates accounting for about 20,000 barrels of oil equivalent production per day. We expect to have all the dispositions completed by the end of 2005.

Since the first announcement of the U.K. acquisition, employee communication has been frequent and transparent. We recognize the disposition has created uncertainty for many employees. To the extent anyone's job is affected by these actions, they will be treated fairly and with dignity.

CEO Charlie Fischer hosted employee information sessions on the day of the U.K. acquisition and another in March 2005. Webcasts of these meetings were made available for replay through Nexen's intranet.

We created a special section of Nexen's intranet where employees can read updates and post questions. Canadian oil and gas senior vice president Roger Thomas hosted a divisional employee meeting and visited sites throughout Western Canada.

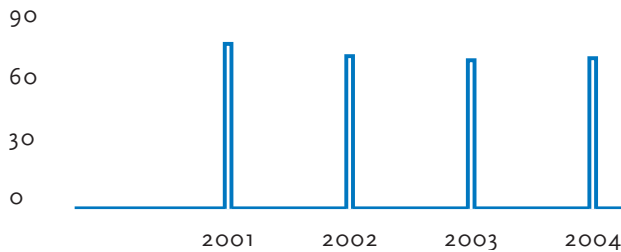
In Nexen Chemicals, we've held monthly teleconferences since the announcement. Audiotapes of these meetings were sent to every location so employees on various shift schedules have the opportunity to hear them and participate in a Q&A session.

## LINKING INCENTIVE COMPENSATION TO PERFORMANCE

As part of Nexen's People Strategy, we have an Annual Incentive Plan (AIP) to help us continue to attract, motivate, reward and retain the high-performing and high-potential employees needed to achieve Nexen's business objectives, while reflecting long-term fiscal responsibility to our shareholders. Reviewed annually and approved by the Board, the AIP provides cash compensation that varies depending on the achievement of business and operating objectives.

## EMPLOYEE ENGAGEMENT SCORE NEXEN-WIDE

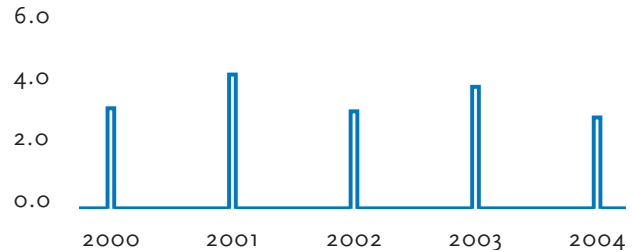
(percent)



■ Employee satisfaction moved up a point in 2004 on the Hewitt Associates survey, continuing to place Nexen among Canada's top employers.

## VOLUNTARY TURNOVER RATE NEXEN-WIDE

(percent) Data restated to reflect Mercer's methodology.



■ Our voluntary turnover rate of 3.0% is lower than the 3.4% average for large Canadian oil and gas companies (2004 Mercer Total Compensation Survey).

A committee of the Board determines the amount of cash available for the AIP by evaluating a combination of financial and non-financial criteria, including net income, cash flow and a qualitative assessment of our performance based on a scorecard of operating targets. Net income and cash flow, commonly used performance measures in our industry, each contributes 25% to the assessment. Performance indicators, such as our cost management, safety record, growth in net asset value, production and reserves, and other criteria make up the remaining 50%. Another important measure in the scorecard is the extent to which our operations were conducted in an environmentally safe and socially responsible manner.

Individual incentive awards reflect the combined performance of the employee, his or her business unit and Nexen, along with market competitiveness. Annual incentive payments vary, with a range of 0% to approximately 200% of targeted awards.

## EMPLOYEE BENEFITS

Nexen is committed to supporting work-life balance for its employees. We believe employees are happier and more productive at work when they have a reasonable opportunity to meet their obligations to family, community and themselves outside of work. We demonstrate our support in this area through our vacation policy, holiday schedule (including 'flex' and corporate days off), part-time work arrangements and personal leaves of absence.

We also offer flexible work hours for Canadian employees, an employee assistance program with referrals to external consultants for counselling on personal problems, referrals to elder care and an annual health and wellness subsidy.

see the

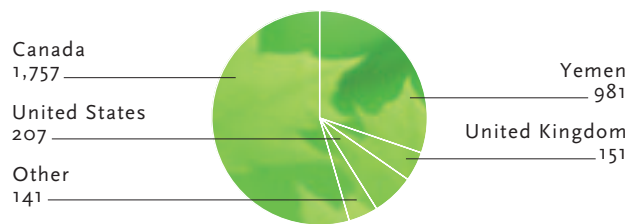


VALUE

A LOW EMPLOYEE  
TURNOVER RATE  
REDUCES THE COSTS  
OF RECRUITING  
AND TRAINING  
NEW HIRES

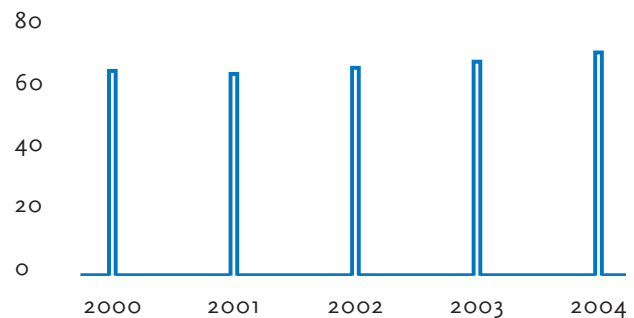
INCREASING THE %  
OF YEMENIS IN  
OUR WORKFORCE  
PROVES NEXEN'S  
COMMITMENT TO  
HOST COUNTRIES

## EMPLOYEES BY REGION (YEAR-END 2004)



■ The category of Other includes Australia, Barbados, Brazil, Colombia, Equatorial Guinea, Nigeria, Singapore and United Arab Emirates.

## YEMENI NATIONALS IN CNPY-MASILA (percent)



■ Yemeni nationals increased to 73% of our workforce at Masila at year-end 2004, continuing the upward trend. In Yemen, Nexen employs almost 1,000 people.

## EMPLOYEE TRAINING AND DEVELOPMENT

Nexen has a formal training and development policy, published on our employee intranet. The policy supports a variety of training and development programs to enhance employees' abilities to do their current jobs or handle increasing responsibilities in the future.


Training and development are available to all regular full-time and regular part-time employees. Managers and supervisors are responsible for ensuring all employees have a development plan. On approval of training, we cover 100% of registration and tuition fees, required textbooks and exam fees.

## UNIONS AND COLLECTIVE AGREEMENTS

Nexen respects employees' choice to raise workplace issues through unions and collective labour agreements. We work to keep lines of communications open and deal with issues as they arise. Our goal is to keep our collective agreements 'evergreen', so the members have the confidence to renew agreements when they expire. Since 1992—the date of our last labour dispute—we've negotiated 31 collective agreements without disruption to our operations.

Our employees are members of five different unions in Canada, Brazil and Yemen. Nexen Chemicals has 55.7% of its employees covered by collective agreements. The Communications, Energy and Paperworkers Union has the greatest number of Nexen members in Canada, with 228 members in North Vancouver, Brandon and Balzac.

The union culture in Yemen is less formal than in North America. While all Yemeni nationals are considered part of the national labour union, there is no formal sign-up process, and there is no collective agreement.

You can find the data points for all graphs in this section, plus the following data, on our website: *Breakdown of Workforce (by employment contract and employment type); Net Employment Creation; and Percentage of Unionized Workforce*. 

UNIONS	NEXEN FACILITY	MEMBERSHIP
Communications, Energy and Paperworkers	Balzac, Alberta	65
	North Vancouver, B.C.	120
	Brandon, Manitoba	43
Pulp, Paper and Woodworkers	Nanaimo, B.C.	14
Syndicat des travailleurs et travailleuses de Nexen	Beauharnois, Québec	22
Sindicato de Trabalhadores nas Industrias de Celulose	Aracruz, Brazil	35
Masila Labour Union	All Yemeni nationals employed in our operations in Yemen	700





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# in our ABORIGINAL PARTNERSHIPS

## ABORIGINAL PARTNERSHIP STRATEGY

Nexen's Aboriginal Partnership Strategy is built on two key beliefs. First, host communities, including Aboriginal communities, should have the opportunity to benefit from Nexen's investments in their region. Second, our relations with Aboriginal peoples should be integrated into every aspect of the way we do business.

An important goal of Nexen's Aboriginal Partnership Strategy is to employ a representative work force of Aboriginal people. To help recruit and retain Aboriginal employees, our company is taking steps to create an inclusive workplace for Aboriginal people.

Working effectively with Aboriginal peoples begins with understanding. We offer a two-day Aboriginal Awareness workshop for employees and contractors and host additional learning sessions for employees on current Aboriginal issues and concerns.

These awareness efforts are complemented by a long-term commitment to supporting scholarships and innovative education programs for Aboriginal youth. Nexen developed an educational award program to encourage students of Aboriginal ancestry to pursue post-secondary education. We offer six education awards worth a total of \$20,000 annually: four to students enrolled in university degree programs and two for students in certificate or diploma programs at a college or technical institution. In addition, we've established several award programs for Aboriginal students pursuing post-secondary education at universities and technical colleges across Western Canada. Nexen is a regular visitor to college

campuses, recruiting high-potential candidates for summer student and new graduate opportunities.

## SUPPORT FOR ABORIGINAL LEADERSHIP

Self-determination. Solid governance structures. Effective institutions. Successful, long-term economic ventures. These positive outcomes are the result of effective leadership and key reasons why Nexen is sponsoring an important partnership with The Banff Centre to provide ongoing support for its Aboriginal Leadership and Management (ALM) programs.

Nexen is the lead partner for ALM with a commitment of \$150,000 over three years. Developing the leadership potential and capacity of Aboriginal people is the key to effecting change and growth in Aboriginal Nations, communities and businesses. Designed by Aboriginal leaders from Canada and the U.S., The Banff Centre's ALM program includes high-level skill offerings in areas that include board governance, negotiation, Aboriginal health, economics and Indigenous women in leadership.

## BUILDING RELATIONSHIPS ONE LOG AT A TIME

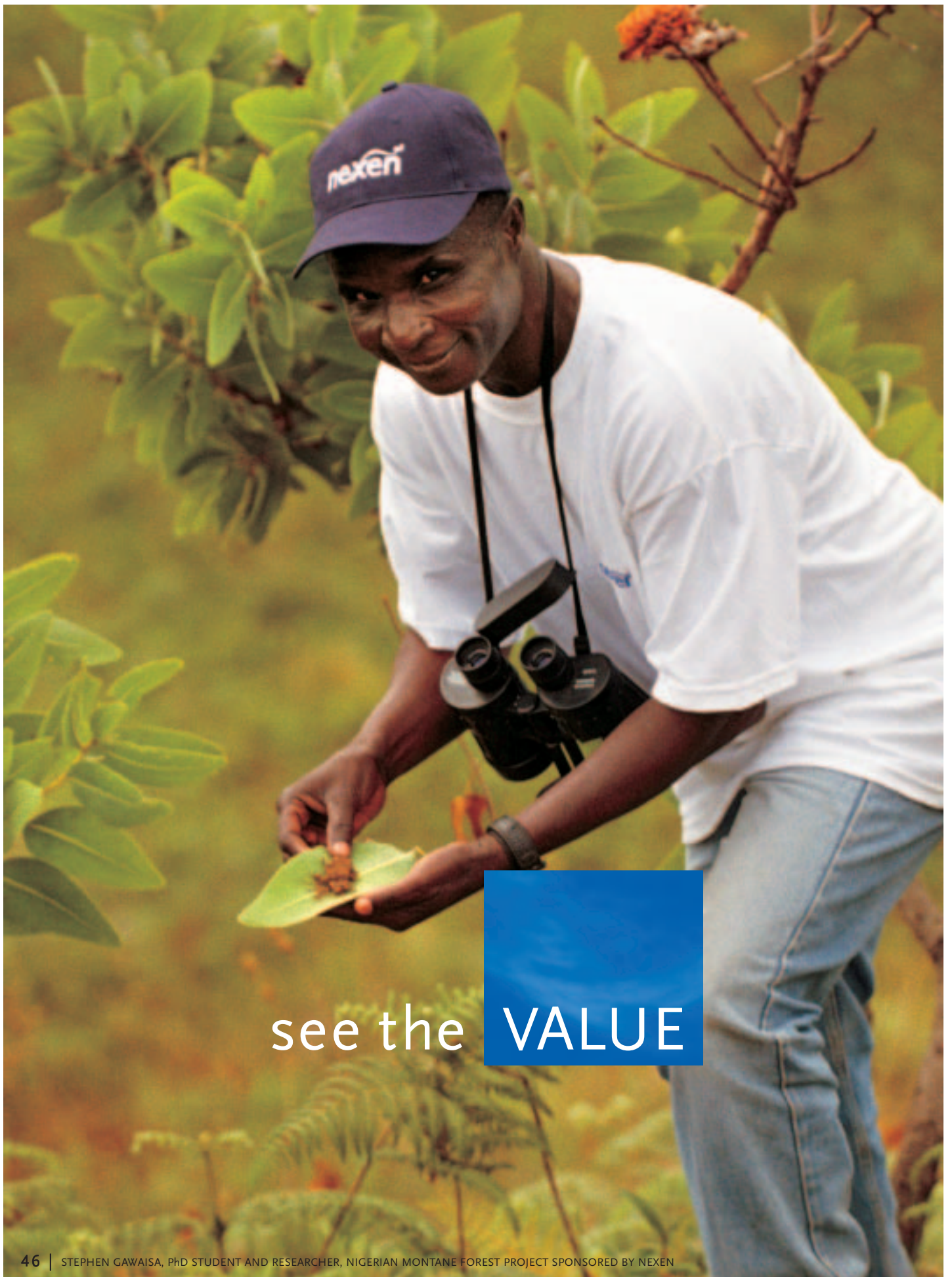
The Chipewyan Prairie Dene First Nation shares ownership and operatorship of Log Technologies Inc., a company that mills logs and provides construction services in Janvier and Lac La Biche, Alberta. In 2004, we purchased nine two-bedroom log cabins from Log Technologies to house supervisory staff at the nearby Long Lake Project.

In addition to this contract, Log Technologies recently constructed the Chipewyan Prairie Dene First Nation Education Centre in Janvier. The 12,600-square-foot building, which incorporates many energy-efficiency features, provides space for the community's social, cultural and recreational activities, as well as a new home for the high school. Nexen and OPTI contributed \$125,000 toward this \$1.2 million facility.

WE'RE REMOVING  
BARRIERS TO  
ABORIGINAL  
EDUCATION  
AND BUSINESS  
OPPORTUNITIES







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# in our HUMAN RIGHTS COMMITMENTS

## NEXEN'S HUMAN RIGHTS APPROACH

We led the development of the International Code of Ethics for Canadian Business in 1997 and we have had a formal Human Rights Policy, including an endorsement of the Universal Declaration of Human Rights, since 2001. Our policy covers the promotion and protection of human rights as well as security, community and employee issues.


Nexen conducts Above Ground Reviews (AGRs) to evaluate new or incremental investments and how changing political, social, economic and security events could affect our ability to operate. An AGR takes into account a range of socio-political risks, including human rights. In 2004, we conducted one AGR, reviewing Nigeria's prospects for stability and prosperity.

Nexen is a part of the United Nations Global Compact initiative, which advances corporate citizenship so business can help address the challenges of globalization. The table below summarizes Nexen's response to the 10 principles of the Global Compact.

## CORRESPONDENCE WITH AMNESTY

### INTERNATIONAL REGARDING NIGERIA

In November 2004, Amnesty International (AI) released a major report reviewing human rights concerns related to oil production in the Niger Delta. The report states that the human rights of individuals and communities have been abused as a result of the practices of some transnational corporations and violated by the inactions and actions of the Nigerian federal government in the Niger Delta. The Canadian section of AI subsequently contacted Nexen, asking for our response to the recommendations in the report directed at transnationals.

Nexen's response to AI—providing an overview of our presence in Nigeria, our approach to social responsibility in the country, and a point-by-point response to the eight recommendations contained in the AI report—can be found on Nexen's website. AI's report—*Nigeria: Are human rights in the pipeline?*—is available at [web.amnesty.org/pages/ec-nigeria2004-eng](http://web.amnesty.org/pages/ec-nigeria2004-eng). 

### GLOBAL COMPACT PRINCIPLE

### NEXEN'S RESPONSE

#### PRINCIPLE 1

Support and respect the protection of internationally proclaimed human rights.

Nexen has a formal Human Rights policy and endorses the Universal Declaration of Human Rights (UDHR). We participate in the Global Compact and are supporting a new Business and Human Rights training course for Canadian businesses. Our Above Ground Reviews consider the potential human rights impacts of our investments.

#### PRINCIPLE 2

Make sure you are not complicit in human rights abuses.

All security contracts include provisions consistent with the UN Basic Principles on the Use of Firearms by Law Enforcement Officials.

#### PRINCIPLE 3

Uphold the freedom of association and the effective recognition of the right to collective bargaining.

Page 43 of this report references the five unions Nexen works with. We've negotiated 31 consecutive collective agreements since 1992.

#### PRINCIPLE 4

Uphold the elimination of all forms of forced and compulsory labour.

Our endorsement of the UDHR prohibits the use of forced or compulsory labour. We have no indication of contraventions to this principle in our operations.

#### PRINCIPLE 5

Uphold the effective abolition of child labour.

Our endorsement of the UDHR prohibits the use of child labour. We have no indication of contraventions to this principle in our operations.

#### PRINCIPLE 6

Uphold the elimination of discrimination in respect of employment and occupation.

Our Employee/Labour Relations Policy promises fair conditions of employment, conforming to all legislative requirements, including anti-discrimination.

#### PRINCIPLE 7

Support a precautionary approach to environmental challenges.

Examples of anticipating increasingly stringent environmental policy include our water recycling program for Long Lake and voluntary emissions reductions.

#### PRINCIPLE 8

Undertake initiatives to promote greater environmental responsibility.

Nexen has demonstrated leadership in Canadian and global oil industry associations to promote greater environmental responsibility. We support environmental organizations such as Alberta Ecotrust.

#### PRINCIPLE 9

Encourage the development and diffusion of environmentally friendly technologies.

We announced plans to build our first wind energy project in 2004. We are developing enhanced oil recovery technology to reduce emissions.

#### PRINCIPLE 10

Work against all forms of corruption, including extortion and bribery.

Nexen has an advanced integrity training program with mandatory attendance; our Improper Payments Policy prohibits bribes and kickbacks. We supported an anti-corruption conference in Nigeria. We disclose taxes and royalties paid by country. We are a member of a UN advisory committee on anti-corruption.





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NEXEN'S MULTISTAKEHOLDER ADVISORY GROUP. SEATED LEFT: SALLY KNIGHT, BALZAC AB COMMUNITY; SEATED RIGHT: MARK BROWNLIE, PEMBINA INSTITUTE. STANDING, L TO R: BILL CUBITT, NEXEN EMPLOYEE, CALGARY AB; BRIAN R. SINCLAIR, FACULTY OF ENVIRONMENTAL DESIGN, UNIVERSITY OF CALGARY; DONNA MENDELSON, FORT ASSINIBOINE AB COMMUNITY; MICKEY CADDEN, ANZAC AB COMMUNITY; MATTHEW MCCULLOCH, PEMBINA INSTITUTE; DON ABEL, NEXEN EMPLOYEE, LOCAL COMMUNICATIONS, ENERGY AND PAPERWORKERS UNION PRESIDENT, BALZAC AB; DALE KLUIN, FORT ASSINIBOINE AB COMMUNITY

# in our VERIFICATION

## SESR AUDITS AND INSPECTIONS


Audits and inspections help us evaluate our operations and gain assurance that we are complying with regulatory requirements and putting our principles into practice. Trained internal auditors and third-party auditors conduct formal reviews of the safety and environmental performance of each of our operations every two to four years. Audit results are communicated quarterly to the Board of Directors. Thirty-three different non-financial audits were conducted in 2004, compared with 17 conducted in 2003. In 2005, we plan to conduct a minimum of 22 non-financial audits.

## RESPONSIBLE CARE® VERIFICATION

Throughout Nexen Chemicals—and at Nexen's Balzac, Alberta and Yemen oil and gas operations—we have adopted Responsible Care® as our overarching safety, environment and social responsibility ethic. To ensure the ethic and practices of Responsible Care® are in place and driving continuous improvement, we follow an external verification process.

Every three years, each operation is verified by teams of industry experts, public advocates and local citizens who write a consensus report summarizing the verification process, opportunities for improvement, findings requiring corrective action and successful practices. When the team has completed its work, Nexen is issued a verification report. The reports are made public by Nexen and the Canadian Chemical Producers' Association.

Nexen Chemicals completed its Round 3 reverification in 2002 and is scheduled to undergo Round 4 reverification in the fourth quarter of 2005. In 2004, integrated Responsible Care® audits were conducted at our facilities at Amherstburg, Ontario and Beauharnois, Québec. Our facility at Aracruz, Brazil, successfully completed a pre-verification audit in preparation for Responsible Care® verification in 2005. Our gas processing facility at Balzac, Alberta will seek its Round 2 reverification in 2005.

Our Masila operations at Yemen successfully completed an ambitious Responsible Care® review in early 2005. Yemen staff invested more than two years preparing for the verification by conducting gap analyses, documenting stewardship processes and coaching site leaders on their expanded responsibilities. We will review the outcomes of the Yemen verification program in next year's report. In the meantime, readers can find the external verifiers' report at [www.ccpa.ca](http://www.ccpa.ca). 

## EXTERNAL ASSURANCE FOR THIS REPORT

The discipline of non-financial reporting is evolving, as are the approaches to providing external assurance for the data and assertions in our Sustainability Report. To complement our existing audits and inspections, we conduct a two-pronged external assurance process.

The sustainability practice group at PricewaterhouseCoopers (PwC) reviewed selected quantitative information in this report and provided their conclusion on whether or not the data were fairly stated. The reviewed indicators and the scope, methodology and conclusions are included in PwC's Assurance Statement on page 51. PwC also provided us with recommendations on how to improve our data management processes.

We also assembled a team of diverse experts and stakeholders representing Nexen's employees, communities where we operate (Balzac, Alberta; Fort Assiniboine, Alberta; Wood Buffalo, Alberta), labour (Communications, Energy and Paperworkers Union), non-governmental organizations (Pembina Institute) and academia (University of Calgary). The Pembina Institute led a multistakeholder evaluation of this report. The multistakeholder group's evaluation and assessment of this report is on page 50.

## ENHANCING NEXEN'S SESR MANAGEMENT SYSTEMS

In last year's Sustainability Report, we noted that PwC conducted an assessment of Nexen's SESR management systems in late 2003 and early 2004. The PwC study found a strong commitment to SESR across Nexen, and also identified 37 opportunities for improvement. Nexen developed action plans for each item. Progress against each item was tracked and reported to Nexen's Senior Executive SESR Committee and the SESR Committee of the Board of Directors throughout 2004.

Essentially all of the 37 items have been addressed, including obtaining in-house occupational health and industrial hygiene expertise; clarifying health-related responsibilities between the SESR department and human resources; expanding the independent assurance processes for our SESR reporting; and developing a closer integration of some business unit SESR initiatives with overall corporate systems. Two outstanding items include updating training materials and records at some locations and developing social responsibility performance indicators for our internal audit protocol. These are being addressed in 2005.

# Assurance Statement from Pembina Institute and Multistakeholder Group

## Objectives and Scope

We were asked to lead a multistakeholder evaluation of Nexen's 2004 Sustainability Report (the Report). The purpose of this engagement was to evaluate the quality of the Report, and Nexen's SESR performance. Our goal was to ensure a fair and meaningful assessment, and to provide insights as to where future reports and/or Nexen's SESR performance could be improved. We were not involved in the preparation of any part of the Report. Our responsibility was to elicit and synthesize the views and opinions of a sample of Nexen's stakeholders. The scope of our assessment included the Report in its entirety.

## Methodology

Nexen initiated the multistakeholder evaluation and was engaged and responsive throughout. There are currently no specific standards regarding multistakeholder reviews of corporate sustainability reports such as we have undertaken. We formed a nine-person multistakeholder review team representing Nexen's workforce, labour, three communities where Nexen operates, academia, and an environmental non-governmental organization. The multistakeholder team held two half-day workshops following reviews of draft reports. We provided Nexen with summary reports following each workshop. Nexen addressed many of our comments during the report preparation process. Our remaining comments are provided below.

### Assessment Criteria

The team evaluated the Report in the context of Nexen's reporting and performance alignment with:

- Nexen's stated beliefs, values, and commitments described in its SESR Policy, and with stakeholders' expectations of an organization endeavouring to become a sustainable company.
- Nexen's implicit commitments and principles based on the company's adoption of the International Code of Ethics for Canadian Business, the UN Global Compact, and the Canadian Association of Petroleum Producers' Stewardship Program.
- Sustainability reporting principles (e.g., neutrality, completeness, clarity) described in the Global Reporting Initiative's Sustainability Reporting Guidelines.

### Observations and Expectations

The team came to consensus on areas for future report and performance improvement:

- More clearly define the company's sustainability vision and strategy.
- Set and communicate long-term targets.
- Articulate an alternative energy position.
- Become more proactive in pursuing greenhouse gas reductions through energy efficiency activities at their facilities.
- Improve reporting on non-GHG air emissions.
- Expand supply chain focus to address upstream (e.g., suppliers) sustainability issues.
- Ensure management and monitoring systems and related metrics are established to support Nexen in meeting its human rights commitments, including employee diversity.
- Consider making facility-level data publicly available.

### Conclusions

Notwithstanding the areas for improvement identified above, based on our assessment we believe:

- Nexen's SESR performance is aligned with the company's policies, stated beliefs, and adopted principles.
- Nexen's SESR performance predominantly meets stakeholder expectations.
- The Report meets the information expectations of Nexen's main stakeholders.

Pembina Institute  
Calgary, Alberta, Canada  
May 9, 2005

Nexen supplements its verification efforts by participating in the following associations and programs:



The Dow Jones Sustainability Indexes were launched in 1999 to provide asset managers with reliable, objective benchmarks to manage sustainability portfolios. They are the first indexes tracking the financial performance of leading sustainability-driven companies worldwide.



The Global Compact is an international initiative championed by United Nations Secretary-General Kofi Annan in 1999 to bring companies together with UN agencies, labour and civil society to support 10 principles in the areas of human rights, labour, anti-corruption and the environment.



The International Petroleum Industry Environmental Conservation Association is a non-profit organization. Established in 1974, members include petroleum companies and national, regional and international associations addressing environmental and social issues in the petroleum industry.

# Assurance Statement from PricewaterhouseCoopers

To: The Board of Directors and Management of Nexen Inc.

We have been asked to review selected quantitative performance indicators presented in Nexen's Sustainability Report (the Report) for the year ended December 31, 2004. We did not attempt to review all information included in the Report. Nexen management is responsible for collection and presentation of the indicators and information within the Report. Our responsibility is to indicate whether anything has come to our attention to suggest that the selected performance indicators are not presented fairly in accordance with the selected criteria.

## Scope

We reviewed the following 2004 performance indicators for Nexen's Canadian Oil and Gas Operations and for Nexen Inc.:

### Canadian Oil and Gas

- CO<sub>2</sub>-equivalent emissions
- SO<sub>2</sub> emissions
- Total gas flared
- Methane vented
- Production Carbon Intensity
- Production Energy Intensity
- Environmental incidents
- Well site reclamation
- Waste production
- Water consumption
- Fines and penalties
- Employee injury incident rate
- Contractor injury incident rate

### Nexen Inc.

- Employee engagement
- Percent of employees who have completed integrity training course
- Number of targeted employees who have signed Statement of Compliance
- Voluntary turnover

We did not review the narrative sections of the Report except where they incorporated the selected quantitative performance indicators. The Report contains financial performance information extracted from Nexen's 2004 consolidated financial statements, which are audited by Deloitte & Touche, LLP. We did not review this information.

The Report contains a statement from The Pembina Institute describing a multistakeholder evaluation which they carried out concurrently with our review. We did not participate in the work of The Pembina Institute.

## Methodology

Our review was completed in accordance with the International Standard on Assurance Engagements (ISAE) 3000 developed by the International Federation of Accountants. We planned and performed our work in order to provide limited, rather than absolute, assurance with respect to the selected quantitative information that we reviewed. Our review criteria were based on relevant regulations, Nexen management definitions, and industry standards referenced in the Report. Our procedures included obtaining, examining, and evaluating evidence relating to the selected indicators. Our review was carried out by a team comprising individuals with backgrounds and experience in environment, health and safety, social, and financial assurance. We believe our work provides a reasonable basis for our conclusion.

## Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the selected quantitative indicators listed above and set out in the Report are not presented fairly in accordance with the selected criteria.

PricewaterhouseCoopers LLP  
Calgary, Alberta, Canada  
May 9, 2005



Founded in 1995, Canadian Business for Social Responsibility is a non-profit, business-led organization of Canadian companies committed to operating in a socially, environmentally and financially responsible manner, recognizing the interests of their stakeholders.



The Globe and Mail's Report on Business magazine annually publishes a list of the 50 Best Employers in Canada, generated from the Best Employers in Canada study conducted annually by global human resources consulting firm Hewitt Associates.



The Canadian Association of Petroleum Producers (CAPP) represents the upstream oil and natural gas industry in Canada, including 150 member companies who explore for, develop and produce more than 98% of Canada's natural gas, crude oil, oil sands and elemental sulphur.



Founded in 1985 by the Canadian Chemical Producers' Association (CCPA), Responsible Care® is an 'ethic' for the safe and environmentally sound management of chemicals. Each member and partner company must commit to implementing the ethic and codes of practice.



## FORWARD-LOOKING INFORMATION

Certain statements in this report are “forward-looking statements” within the meaning of the United States *Private Securities Litigation Reform Act* of 1995, Section 21E of the United States Securities Exchange Act of 1934, as amended, and Section 27A of the United States *Securities Act of 1933*, as amended. Forward-looking statements are generally identifiable by terms such as “intend”, “plan”, “expect”, “estimate”, “budget” or other similar words. The forward-looking statements are subject to known and unknown risks and uncertainties, and other factors that may cause actual results, levels of activity and achievements to differ materially from those expressed or implied. Please read item 7 and the note regarding forward-looking statements on page 71 in our Form 10-K for a full discussion of the risks and uncertainties associated with our business.

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