

Nexen Inc. Sustainability Report 2003

# **making the link**

Delivering Solid Returns

Engaging Our Employees  
and Communities

Safeguarding the Public  
and the Environment

# Making the link to a sustainable future



Nexen is a strong and profitable company with a bright future. This future is made brighter because of our commitment to all stakeholders: our shareholders, employees, host communities and governments, regulators, joint-venture partners, suppliers and other interest groups.

At Nexen, we are making the link to a sustainable future by growing value responsibly each day. Every decision we make is multi-faceted: Will it add value for shareholders? Does a decision or behaviour inform and engage our many stakeholders as valued partners? Are we operating with integrity, respecting people and the environment in creating a net gain for society? Clearly, the answer must be yes to all these questions because we know the way we do business is linked directly to the results we achieve.



# About Nexen

Independent. Global. Canadian-based. We are an energy and chemicals company whose values and pursuit of value are linked to success in full-cycle exploration and development and the application of breakthrough technology.

Nexen's Global Operations



Our core oil and gas assets in Western Canada, the Gulf of Mexico, Yemen and at Syncrude produce approximately a quarter-million equivalent barrels per day (boe/d) and significant cash flow. We are investing the cash flow they generate primarily into four prospective and exciting regions—the deep blue waters of the Gulf of Mexico, the Athabasca oil sands, the Middle East and offshore West Africa. These prolific areas provide multiple exploration opportunities, attractive fiscal regimes and high-netback barrels. With operating footholds already established in these basins, we are expanding with exploration success and significant development projects.

Our fastest-growing division is the US Gulf of Mexico, where our goal is to produce 100,000 boe/d by year-end 2006. Already, our deep-water Aspen and Gunnison operations have substantially increased production and cash flow and reduced divisional operating costs. We have created an extensive portfolio of highly prospective deep-shelf and deep-water blocks in the Gulf, with plans to drill four or five high-impact wells each year. These blocks have large and prolific targets, allowing significant growth in value with each commercial discovery.

In Western Canada, we are tapping into the vast unconventional hydrocarbon resources, while extracting maximum value from our maturing conventional operations. In addition to our Syncrude interest, we have over four billion barrels of recoverable resource in the Athabasca oil sands and are applying proprietary technology to produce and upgrade bitumen into a premium synthetic crude oil. Long Lake is our first project here, and it is expected to produce 30,000 barrels per day (bbls/d) of premium synthetic crude oil for Nexen starting in 2007. We are also industry leaders in other unconventional resources such as coalbed methane and enhanced oil recovery.

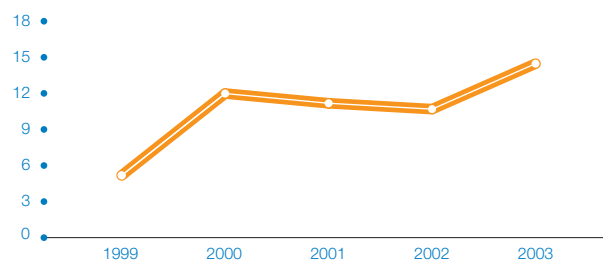
Yemen has been the backbone of our international operations since 1993 when production began at Masila. More than a decade later, we continue to operate this world-class facility safely and without interruption. Masila is the country's largest oil project and has contributed significantly to Yemen's oil exports. Our recent success on the adjacent Block 51 will help us sustain production from Yemen as Masila matures. We expect to begin producing 25,000 bbls/d from this block in spring 2005.

Our reputation in Yemen has opened doors internationally, including offshore West Africa, where we have a series of discoveries. On OPL-222, offshore Nigeria, the recoverable resource on the Usan field is estimated at over half-a-billion barrels (100 million net to Nexen), and the partners are finalizing a plan to develop this resource. Before year-end, we will drill additional exploration wells on OPL-222 and on other exploration blocks offshore Nigeria and offshore Equatorial Guinea. All of these projects have significant potential and are located near large discoveries.

Our marketing division continues to sell our own and third-party oil and gas volumes, providing us with market intelligence and generating independent earnings and cash flow. To complement our oil and gas business, we also have world-class specialty chemicals operations that produce bleaching chemicals, primarily for the pulp and paper industry in North America and Brazil.

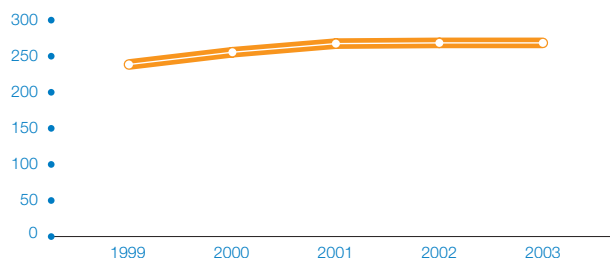
Nexen is one of the largest independent Canadian energy companies, with an enterprise value of approximately \$8 billion. We have about 129 million shares outstanding and trade under the symbol NXY on both the Toronto and New York stock exchanges. Worldwide, we have almost 3,000 employees.

**Cash Flow from Operations** (\$Cdn/share)



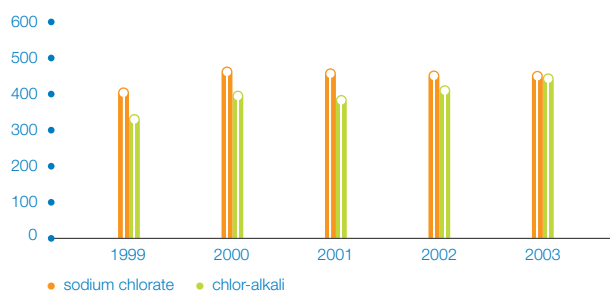
Our record cash flow soared to \$14.50 per share in 2003, reflecting growing production from the deep-water Gulf of Mexico that is adding more value because royalties and operating costs are lower.

**Oil and Gas Production** (thousand boe/day, before royalties)



We are transitioning from mature conventional oil and gas basins in North America to under-explored areas worldwide, and incorporating emerging technologies in established regions.

**Chemicals Production** (1,000 short tons/year)



Over the past four years, we've made significant investments to lower our costs and expand internationally, strengthening our position in the bleaching chemicals industry.

A man with light-colored hair and a mustache, wearing a white dress shirt and a patterned tie, stands in front of a large, leafy indoor plant. The background is slightly blurred, showing more of the plant and a window.

President and Chief Executive Officer

# message from charlie fischer

**“Making the Link” recognizes the importance of safety, environment and social responsibility in every decision we make. We believe that companies that follow sustainable business practices outperform, in the long term, those with narrower priorities.**

The way we do business at Nexen links us to opportunities that are adding real value.

It helps us attract and retain talented employees who, for the past three years, have ranked us as one of the top 50 companies to work for in Canada. And we recognize that Nexen’s future is linked to the ingenuity and skill of our people. We are also welcome in the communities where we operate because we involve local people in the decisions that affect them and develop

mutually beneficial relationships. At Long Lake, our extensive community consultations helped ensure a smooth regulatory approval process for this oil sands project. Around the globe, we partner with some of the best exploration companies—firms that share our concern for the environment and the safety of our people and the public. This enabled us to enter into exciting exploration joint-ventures in the Gulf of Mexico and offshore West Africa that would not be feasible on our own.

And our global reputation has gained us market confidence to continue securing the financial capital we need to grow our business long term. In 2003, we raised US\$960 million of public debt to replace higher-cost debt and secure funding for major development projects such as Long Lake. This market confidence is also evident in our continued inclusion in the Dow Jones Sustainability Index and the Jantzi Social Index.

In today's world, we cannot and will not ignore these factors in achieving profitability. In fact, we believe our 30 years of profitability are linked directly to the sustainable business practices we follow.

So how do we ensure we are living our values? By developing systems and programs throughout the organization that reinforce them. It starts at the top with an informed and engaged Board committed to honest, transparent communication. We are fortunate to attract a high-quality Board, named as one of the Top 25 Boards in Canada by *Canadian Business* magazine. And it extends through senior management to all employees with integrity programs, safety programs, continued professional development, and guiding policies on ethics, anti-bribery and governance practices.

Good governance extends beyond regulatory compliance. Simply stated, governance is about building and maintaining trust. We

want you, our stakeholders, to know what we are doing, to contribute your input and to trust the results we report back to you. Whether it's our financial results, our reserve estimates, safety records or a development plan in your community, you can trust our communication. Legislation such as Sarbanes-Oxley has given us the opportunity to improve what we were already doing well. We are committed to continue improving our sustainable business practices and reporting.

For me, sustainability is about balancing the interests of multiple stakeholders and finding opportunities for all to benefit long term. It begins with ensuring a strong and profitable business, engaging in open and active consultation and investing in company- and community-based initiatives that build capacity and self-sufficiency. It's a superior way of doing business and it links us to a sustainable future.



**Charlie Fischer**

## 2003 Highlights

- Cash flow up 34% from 2002 to \$1.9 billion
- Earnings jumped 41% to \$639 million
- Production after royalties grew 5% to 185,000 boe/d
- Lowest injury incident rate (combined employee/contractor) in five years
- Unfortunately, suffered two driver fatalities in Yemen
- Stakeholder endorsement supported regulatory approval of Long Lake oil sands project
- Announced a \$2 million water and sanitation project in Yemen
- Yemen operations adopted the Responsible Care® program
- Environmental incidents reduced to 97 from 104
- Earned a special Environmental Award for cleaning up our former Squamish chemicals site
- One of only three Canadian-based oil and gas companies included in Dow Jones Sustainability Index
- Since 1998, awarded 60 post-secondary scholarships to Yemeni students
- Supported communities where we operate by donating \$4.2 million
- For the third year, ranked by Nexen employees as one of the 50 Best Employers in Canada
- Earned 2003 Ethics Award from the Better Business Bureau of Southern Alberta for reclaiming a contaminated site





Vice President Safety, Environment and Social Responsibility

# message from randy gossen

**At Nexen, the way we conduct our business delivers great outcomes. Increasingly, stakeholders are rewarding companies like ours that pay careful attention to sustainability.**

I lead a department called Safety, Environment and Social Responsibility. You'll see the abbreviation 'SESR' throughout this report. But SESR is much more than a department name. It's a philosophy and a way of doing business. And at Nexen, SESR is linked with sustainability, corporate social responsibility, corporate governance and integrity. They're all part of living our values.

Ten to fifteen years ago, the big challenge in our business was finding commercial quantities of oil and gas. Our challenges are now greatly expanded and include understanding risks above the ground—including those related to safety, environment and social

responsibility. And we pay attention to those risks for two reasons. First, because it's the right thing to do. And second, because we understand our SESR performance is linked to our business performance. And what sets Nexen apart is the way we turn our understanding of SESR challenges into rewarding opportunities.

#### **Our Internal Reporting Systems**

Part of gaining the trust Charlie spoke of is reporting our progress in building sustainable operations. That's why our internal reporting systems are so important.



Our strongest sustainability reporting systems are found in Nexen Canada (Canadian Oil and Gas) and Nexen Chemicals. Our Brazilian chemicals plant, which we acquired in 1999, will be undergoing Responsible Care® verification, and our data capture from Brazil is growing quickly. We have increasingly strong performance data collection from our Yemen operations. Some of our international oil and gas operations—in the US Gulf of Mexico, Colombia and West Africa—are still progressing on the reporting curve. Worldwide, we meet all regulatory reporting requirements and through initiatives such as Responsible Care®, we regularly exceed those requirements.

As you'll see throughout this report, while we certainly aren't perfect, there's no question that we practice what we preach in every corner of Nexen. We will continue to enhance our data collection, so we can better measure our progress and share that information with you.

For most of the report, we will refer to year-end 2003 statistical data. Since this report is being published in the fall of 2004, we will refer to more recent data and updated information where appropriate.

### 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 draft guidelines on sustainability reporting; and
- Canadian Business for Social Responsibility Good Company Guidelines.

We're aware that the Global Reporting Initiative is emerging as a popular standard for sustainability reporting. We have kept the GRI Guidelines 'on our radar' as we developed this report, although this document does not attempt to rigorously match their reporting format.


### Connecting with the Global Village

Every Nexen employee connects with the concept of sustainability in his or her own way. My strongest personal connection is through our project supporting water and sanitation in Yemen. To me, the Yemen water supply project symbolizes the way businesses such as Nexen must connect with the broader world.

The World Bank estimates that half of Yemen's 18.8 million people live below the poverty line. And Yemen is one of the most water-scarce countries on Earth. You can't address poverty, basic health and a sustainable food supply without addressing the issue of water.

So when the Secretary-General of the United Nations called on business leaders to engage with governments, non-governmental organizations and society to make global commerce a force for bettering the world, I was proud that our company stood up. And though our water supply and sanitation project may be small in the face of Yemen's overall challenge, it's directed at the heart of the issue. And it comes from the heart of Nexen and its people.


### Link with Us

I encourage you to share your thoughts on this report and Nexen's sustainability performance. Please send me your comments on the enclosed comment card; you'll find it inside the back cover. You can also send an e-mail to [sustainability@nexeninc.com](mailto:sustainability@nexeninc.com). 



**Randy Gossen**

### A Note on Corporate Names and Graphs

Where you see the words Nexen Inc. or Nexen, we are referring to the whole company, including our subsidiaries. Nexen Canada refers to our Canadian oil and gas business. Nexen Chemicals refers to our North American and Brazilian chemicals operations. Other divisions and units are identified by name. For ease in reading, we have used simple line and bar charts to demonstrate our performance data. Actual data points for each graph in this report—and a number of supplemental graphs—can be found on our website. 

# Integrity, Governance & Management Systems

Operating with complete integrity and constant respect for the public, shareholders and communities not only helps our performance—we believe it's the only way to successfully do business.


## A Culture of Integrity and Ethics

Our leadership—beginning with our Board of Directors—demands the highest ethics and integrity in all of our business activity. Our governance practices, including our board structure and processes, commitments to transparency in disclosure and continuous improvement and our management systems for Safety, Environment and Social Responsibility (SESR), ensure we are well equipped to make the best possible decisions on behalf of our stakeholders. In a 2004 corporate governance ranking by GovernanceMetrics International, Nexen was one of just 26 companies worldwide to earn a perfect 10.0 rating (2,600 companies surveyed). *Nexen's Corporate Governance Policy can be found in the March 2004 Management Proxy Circular (Proxy Circular) and on our website.* 

## Stock Exchange Compliance

Meeting superior standards of corporate disclosure is good for Nexen and for capital markets. Nexen's Proxy Circular details our full compliance with the Toronto Stock Exchange Proposed Corporate Governance Guidelines and the New York Stock Exchange Governance Guidelines.


## Ethics Policy

Nexen has a comprehensive Ethics Policy requiring all directors, officers and employees to demonstrate a commitment to ethical business practices. The policy provides 'whistle-blower' protection and is being updated to include an external, anonymous hotline, revised procedures for reporting accounting-related concerns, and a new section on the Estimation of Oil and Gas Reserves (see page 9). *Nexen's Ethics Policy can be found on our website.* 

## Sarbanes-Oxley Update

The Sarbanes-Oxley Act of 2002 (SOX) was a US legislative response to a series of high-profile scandals in the corporate sector. To comply with SOX, companies trading in the US must introduce comprehensive procedures covering director and auditor independence, financial disclosure and corporate and criminal fraud. We are ensuring our continuous compliance with SOX. The Corporate Audit department is coordinating a comprehensive program to ensure Nexen has the required business processes and controls in place by December 31, 2004.

## Anti-Bribery and Corruption

We maintain our standards for ethical business practices wherever we do business. Nexen adopted a comprehensive policy on the Prevention of Improper Payments in 1997. (A predecessor policy was in place since the 1980s.) The policy prohibits bribes, kickbacks and other improper payments. It provides due diligence requirements for hiring foreign agents and entering into joint ventures with local partners in foreign countries. The policy sets clear guidelines on the restricted 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). Nexen's Director of Corporate Audit reports quarterly on the administration of the policy to the Audit and Conduct Review Committee of the Board of Directors. In 2003, no violations of the Policy were recorded. *You can find the full text of this policy on our website.* 

## Political Contributions

Nexen supports the democratic process and a variety of political parties through a focused political contributions program. In 2003, we made 26 political contributions in Canada, totaling \$122,565. All political contributions must be approved by Nexen's President and Chief Executive Officer and documented. Nexen does not make political contributions outside Canada.

## Reserves Estimation

Nexen established a Reserves Review Committee of the Board of Directors in 2000. The Committee assists the Board and the Audit and Conduct Review Committee in overseeing the annual review of reserves and related disclosures. The Committee appoints and consults with an internal qualified reserves evaluator and independent reserve consultants to review Nexen's reserves data. Six of the seven members of this Committee are independent directors.


Following our annual reserve evaluation at year-end 2003, we reduced our proved reserve estimate by 67 million boe, primarily in Canada, and recorded a related charge of \$175 million, after-tax, in our 2003 financial statements. This revision had no impact on our 2004 production and represented 8% of our company-wide proved reserves. While disappointed with the revision, we remain confident in our reserves estimation process and the internal and external scrutiny applied to these numbers.

## University of Calgary Chair in Business Ethics


In June 2004, Nexen initiated a fundraising effort and pledged \$250,000 to establish a new Chair in Business Ethics at the University of Calgary. The Chair will develop research opportunities, engage with the business sector and provide leadership in ethical issues facing business today. In addition to Nexen, the Chair is sponsored by several Calgary-based energy, accounting and legal companies.

## Accountability for 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 is built on 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 to 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 11 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 incidents, corporate SESR policies, relevant public policy and the annual Sustainability Report. *The mandate of this Committee can be found on our website.* 

## Vice President, SESR

Dr. Randy Gossen is responsible and accountable for all of Nexen's SESR management systems and due diligence activities. Randy 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 uses the Responsible Care® approach throughout its operations, and Nexen Petroleum USA uses the Safety & Environmental Management Program required by the US Minerals Management Service. Each business unit within Nexen has dedicated safety and environmental specialists supporting the specific needs of the unit. *For details on how we audit our performance against this management system, see pages 33 and 34 of this report.*

Nexen's sound strategy, superior operating expertise and attractive assets enable us to create value for our shareholders and all stakeholders who benefit from the energy we produce, the jobs we create and the communities we support.

In 2003, we achieved record financial results with cash flow soaring 34% to a record \$1.9 billion and net income topping \$639 million. Much of this growth came from new, more profitable operations in the deep-water Gulf of Mexico. Production after royalties grew 5%, and our cash flow per share climbed 10%, assuming similar prices year-over-year. We expect strong financial results in 2004, and more value long term from our major development projects underway.

# economic performance

Since 1999, our cash flow per share has grown 9% per year, even before the impact of rising commodity prices.

An investment in our employees and our communities is an investment in Nexen's future. We want our stakeholders to know that Nexen's priorities are aligned with their priorities, that our presence enhances their present—and their future.

Social responsibility means going beyond what's required. We drill water wells and build health clinics in villages in Yemen. We support community events at Fort Assiniboine, Alberta. And we give our employees time off to build new homes for low-income families through Habitat for Humanity. We understand that doing these things isn't outside the realm of business... it's about being a part of sustainable societies.

# social responsibility

The way we do business opens doors to opportunities worldwide, supporting Nexen's 'Transitioning 4 Growth' strategy.


A healthy environment and a healthy workforce—nothing could be more fundamental. At Nexen, our focus is on the co-workers we value, the air we breathe, the water we use, and the land we steward, whether for days or for decades.

Consider just some of the challenges Nexen is addressing. Access to land and water. A multinational team of employees working in deserts, oceans, muskeg and grasslands. Complex equipment handling volatile substances at high pressures and temperatures. Transportation of our products by road, rail, pipeline and tanker. Malaria and HIV/AIDS in West Africa. An aging workforce in North America. We owe it to our investors, employees, host communities, contractors, partners, governments and to the fragile ecosystems of this planet to treat safety and environmental performance as an integral part of Nexen's bottom line.

# safety & environment

We reduced employee and contractor injuries in 2002 and 2003. The number of environmental incidents has been declining since 2000.





We carefully handle produced water by reinjecting it into the producing formation, disposing it deep under ground or treating it prior to approved disposal.

# water

**Water is vital to society and to Nexen. We treat it with respect—in our offshore operations, where it's used to enhance hydrocarbon recovery, and where it's produced as a byproduct of our operations.**

#### **Recycling a Vital Resource at Long Lake**

The Long Lake oil sands project is the first bitumen upgrading development in Alberta to commit to not using any surface water in its operation. The project is tapping into the massive Athabasca oil sands of Northern Alberta by producing and upgrading bitumen into premium synthetic crude (PSC) oil. Bitumen production is scheduled to begin in 2006, with upgraded PSC production beginning in 2007. Our site is about 40 kilometres southeast of Fort McMurray, Alberta.

Nexen and our partner OPTI Canada will require water for our steam assisted gravity drainage (SAGD) technology. Using SAGD, we will inject steam into the bitumen formation. The steam softens the tarry oil and helps it flow (by gravity) to producing wells.

We estimate that more than 75% of the water required for steam injection will be drawn from non-potable, brackish aquifers. Much of the injected steam will come back to the surface as produced water along with the bitumen. Our goal is to recycle more than 90% of this water and, after it is treated, we will re-convert it to steam and reinject it to stimulate production. Produced water that is unsuitable for recycling will be disposed at the base of the bitumen formation—well below possible contact with the aquifers that supply local fresh water needs. Extensive groundwater monitoring will be conducted throughout the life of the project to ensure there is no contact between our disposed water and fresh water resources. *For more information visit our website*

*or [www.longlake.ca](http://www.longlake.ca).*



#### **Handling Produced Water at Fort Assiniboine**

Methane extracted from coal seams has been identified as a high-potential source of natural gas, especially as conventional production sources decline. Nexen and our partners are testing a coalbed methane (CBM) project near Fort Assiniboine, 160 kilometres northwest of Edmonton, Alberta.

CBM is produced from coal seams that are typically saturated with varying degrees of water and gas. If the coal is water-saturated, water must be extracted to allow gas production. As we evaluate the Fort Assiniboine resource, the handling of produced water is a critical consideration. Improper handling of produced water led to controversy surrounding several CBM projects in the United States.

Some produced water may contain salts and low levels of hydrocarbons and is unfit for consumption or irrigation, so it is reinjected underground. To ensure produced water doesn't contact local groundwater, we are reinjecting it at a depth of 1,300 metres.

Reducing the footprint of our operation further protects the community and the environment. CBM is a low-pressure gas and requires more wells to achieve the same production as most conventional gas. The project team is investigating the feasibility of placing multiple wells on a single drilling pad, reaching a variety of target zones underground by directional drilling.



## New Technology for Water Restoration

In Okotoks, Alberta, Nexen decommissioned a gas plant in 1991 and began a major remediation project. Prior to being acquired by Nexen, disposal of produced water at the plant left the groundwater near the facility contaminated with salt. We are cleaning up the affected groundwater through a process called reverse osmosis. With reverse osmosis, salty water is pushed through a filter at high pressure. Salt molecules are too large to flow through the filter, and a difference in electrical charge traps more salt, while allowing fresh water to pass through. Our target is to restore the groundwater to a condition consistent with unaffected local groundwater by the end of 2004.

## Water and Sanitation: Keys to Yemen's Future

In addition to our focus on water conservation and management, we are also committed to improving accessibility to water in one of our core areas of operation—Yemen.

With virtually no surface water and limited groundwater resources, Yemen is one of the most water-scarce countries in the world. This has implications not only in terms of water for human consumption, but also for agriculture and the nation's economy.

As Nexen explores for oil and gas in Yemen, we sometimes find underground aquifers, sources of water typically too deep for local communities to access. We saw an opportunity to use these water discoveries to benefit the Yemeni people.

In April 2004, Nexen entered into a partnership with the United Nations Development Program and the Government of Yemen to promote improved water management and sanitation in the Governorate of Hadhramout in eastern Yemen. Water from an underground aquifer that Nexen helped identify will be the centre-point of a water pilot project focused on the community of Ressib.

The Ressib project has four objectives:

- Enhance access to clean water for drinking and domestic use;
- Improve health by reducing incidence of disease caused by unclean water and poor hygiene;

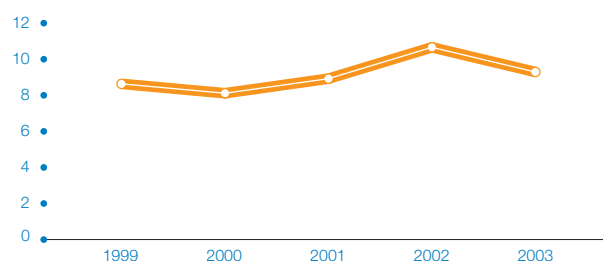
- Promote awareness of water conservation, environmental protection and sustainability, particularly with regard to disposal of wastewater, effluent and solid waste; and
- Increase support for community-based development and sustainable water resource management, supply and sanitation services by strengthening local institutions and capacity building.

The Ressib water project will be a model of cooperation between the United Nations and the private sector. If successful, this project could be replicated in other communities in Yemen with the support of multinational agencies. Nexen has committed \$1 million to the project—matching the \$1 million contributed by the Canadian International Development Agency and the United Nations.

## Nexen Chemicals Targeting Reduced Water Usage

Nexen Chemicals is continuously seeking ways to reduce its consumption of raw materials, including water. At our North Vancouver operation in British Columbia, we modified several pump seal water systems to decrease the amount of water we require. We also are evaluating options for recycling the water we use to cool our hydrochloric acid plants, which now comes from a 'once-through' city water system. We are developing a way to recycle a majority of that water through cooling tower or heat exchangers. Initial estimates are that the investment required will pay for itself in one to two years and reduce our demand for city water by up to 20%.

**Nexen Chemicals Water Consumption** (cubic metres/tonne production)




The 20% increase in water use in 2002 came from our North Vancouver plant where we increased productive capacity of hydrochloric acid, which consumes more water, and installed a new, more accurate meter that registers higher consumption.

The prospect of global  
climate change warrants a  
global approach supported  
by international, national  
and local actions.

air





**We are working to improve our capture of data on greenhouse gases, lead in our industry's emission reduction programs, improve energy efficiency and explore renewable energy technologies.**

#### **Nexen's First Renewable Energy Investment**


Nexen is taking its first steps in renewable energy, announcing an investment of approximately \$100 million in a wind power project near the community of Fort Macleod, Alberta. Nexen is acquiring a 50% working interest in the Soderghen Wind Power Project, in partnership with GW Power Corporation. The facility will consist of up to 50 wind turbines with a total generating capacity of 70 megawatts (MW). The facility is subject to regulatory review and is expected to be in service by December 2005. This would represent a long-life, low-risk investment for Nexen, generating stable cash flows.

Participation in renewable energy will complement Nexen's future growth initiatives in the Athabasca oil sands. It is widely expected that oil sands developers will require some form of emissions reduction or offset strategy. Nexen already has experience in the power business with our 50% interest in the 110 MW co-generation operation at Balzac, Alberta, and we are proceeding with a 170 MW co-generation plant at the Long Lake oil sands project in Alberta (in partnership with OPTI Canada).

#### **Measurement and Disclosure**

Nexen records and discloses data on greenhouse gases generated by our Canadian operations. In 2000, we established a senior management committee, the Climate Change Steering Group, to consider national and international developments, the views of leading experts in science, business and risk issues, and opportunities for carbon-offset and renewable energy investments. We work closely with governments to assess the impact of regulatory options and provide information on our business to assist them in policy development. We continue to evaluate a range of options to meet reporting and reduction requirements that may be required by future legislation.

As a Gold Level reporter in Canada's Voluntary Challenge and Registry (VCR), Nexen Canada's most recent report noted that we have voluntarily reduced our GHG emissions by almost two million tonnes of CO<sub>2</sub>-equivalent since we started reporting in 1996. Our reductions were largely achieved through capturing methane that had previously been vented at our heavy oil sites. Since 1996, we have reduced our GHG emissions by 46% compared with a business-as-usual projection.

Nexen Chemicals did not participate in the VCR program because its emissions were below the reporting threshold. The VCR program is being wound down, and the federal and provincial governments are working on legislative options regarding domestic GHG emissions reporting and management. *You can find Nexen Canada's VCR emissions data at [www.vcr-mvr.ca](http://www.vcr-mvr.ca).* 

**Update on Kyoto Protocol**

The Canadian federal government has not yet enacted legislation detailing industry obligations for emission reduction and management, and it isn't clear when such legislation might be enacted. The government has addressed the investment risk and the uncertainty around ratification and implementation of the Kyoto Protocol. It has provided the oil and gas sector with limits on cost (\$15 per tonne of GHG emissions) and volume reductions (15% of business-as-usual emissions, representing 55 megatonnes of GHGs, collectively, for Large Final Emitters) as well as its position on long-term projects with high capital costs.

**The Future at Long Lake**

When the Long Lake oil sands project begins commercial production of premium synthetic crude oil in 2007, our CO<sub>2</sub> emissions will rise significantly. By upgrading bitumen into premium synthetic crude oil on-site, we will generate CO<sub>2</sub> emissions that

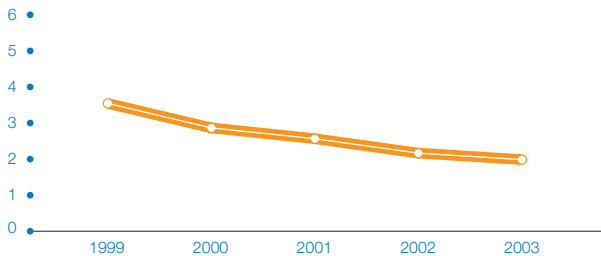
would typically be generated by an oil refinery. The premium synthetic crude oil produced at Long Lake will require less refining to make it 'consumer-ready' than conventional oil and other synthetic crude oils, thereby reducing refinery-related CO<sub>2</sub> emissions. Nexen's carbon-offset strategies and renewable energy investments reflect our commitment to manage GHG emissions.

The potential cost of Kyoto compliance on Long Lake has been estimated at a maximum of \$0.30 to \$0.40 per barrel of oil, depending on the final calculation methodologies the government applies.

**Carbon-Offset Investments**

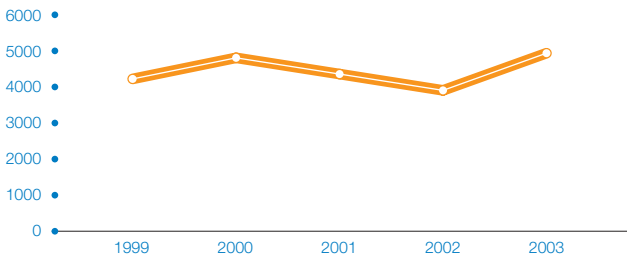
Nexen has worked closely with the Clean Development Mechanism/Joint Implementation Office (CDM) of the Canadian government as part of an effort to ensure that Canadian companies get access to low cost/high quality carbon-offset investments. These investments contribute to GHG-reducing activities in developing countries and earn abatement credits that could be applied against our own GHG emissions or sold on the open market. In addition to reducing emissions, CDM projects have the dual objective of contributing to the sustainable development of the host country.

**Nexen Canada CO<sub>2</sub>-Equivalent Emissions** (million tonnes/year)



Our CO<sub>2</sub> emissions in Canada have been steadily declining, and are down 44% from five years ago, primarily because we are capturing, compressing and selling methane from our heavy oil properties instead of venting it to the atmosphere.

**Nexen Canada SO<sub>2</sub> Emissions** (tonnes/year)



More than 90% of Nexen Canada's SO<sub>2</sub> emissions come from our natural gas plant at Balzac, Alberta. Emissions increased in 2003 primarily because of catalyst deterioration (since rejuvenated) and the tie-in of new wells.

Nexen has held discussions with several GHG investment pools and is evaluating opportunities associated with biological and geological sequestration of CO<sub>2</sub> and the capture of methane from landfills. We are investigating carbon-offset investment opportunities in each of the countries where we have core operations.

**Office Building Intelligence**

During recent renovations at our Calgary headquarters, Nexen incorporated several energy and cost reduction features. As a result, we are now saving approximately 1.4 million kilowatts of power and \$160,000 annually in electricity costs through a state-of-the-art building automation system, which features sensors that turn lights off when offices are vacant, and systems for energy-efficient temperature control and air flow.

**Focus on Our Homes**

Our commitment to energy efficiency extends beyond the workplace. With the Home Energy Program, Nexen offers Canadian employees the opportunity to have their homes inspected by certified EnerGuide agents who prepare a customized Home Energy Report. The audit pinpoints energy-saving tips that enable typical homeowners to reduce energy consumption by 60 GigaJoules per year—with a related drop in GHG emissions. To date, 150 employees have taken advantage of the program, with the cost of the home energy audit supported by Nexen.

**Green Learning**

Nexen has worked with the Pembina Institute to develop a public environmental education initiative. Green Learning Online Alberta is a web-based school program that includes materials and learning activities in the areas of climate change, energy efficiency and green/renewable energy. Visit [www.greenlearning.ca](http://www.greenlearning.ca).

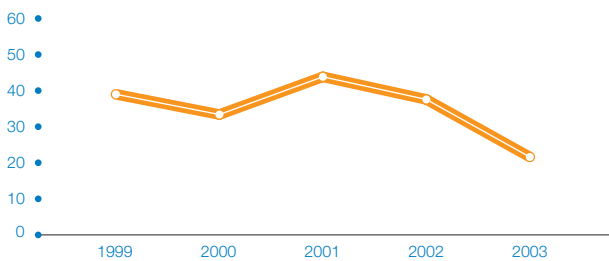
Together with Alcan Inc., Nexen is sponsoring the Climate Change Education Action Program for the 100,000 members of Scouts Canada. The program includes awareness activities, ideas on how to reduce household greenhouse gas emissions and tips on how to conduct an energy audit.

*More information on Nexen and Climate Change can be found on pages 53 and 54 of our Form 10-K and on pages 11 and 12 of our 2004 Proxy Circular.*

**Further Emissions/Energy Consumption Data**

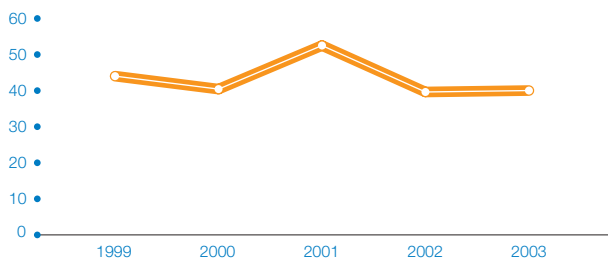
A number of additional graphs, including Production Carbon Intensity and Production Energy Intensity for Nexen Canada and Nexen Chemicals, can be found on our website. National Pollutant Release Inventory data for Nexen Canada and Nexen Chemicals can be found at Environment Canada’s website ([www.ec.gc.ca](http://www.ec.gc.ca)).

**Nexen Canada Total Gas Flared** (million cubic metres/year)



The flaring of natural gas in Nexen’s conventional oil and gas operations declined to 21.6 million cubic metres in 2003 primarily as the result of divesting some of our properties in Western Canada.

**Nexen Chemicals Emissions – NERM** (kg/tonne product)



The National Emissions Reduction Masterplan (NERM) is an emissions reporting and reduction initiative of the Canadian Chemical Producers’ Association. More than 600 chemicals of concern to land, air and water quality are reported through NERM.



After an oil, gas or chemical facility has finished its productive life—or in the event of a spill or operation upset—Nexen takes careful steps to remediate the site.

# land





**Our number of reportable environmental incidents (spills or regulatory exceedances) has declined in each of the last three years. We are enhancing our tracking systems to identify opportunities to reduce waste.**

#### **Cleaning up the Squamish Waterfront**

In December 2003, Nexen Chemicals completed an ambitious remediation and restoration project at Squamish, British Columbia. Over a five-year period, we spent \$45 million remediating the site of our former chlor-alkali and sodium chlorate plants (highlighted at left). The contaminant of greatest concern was mercury, deposited by previous owners in the 1960s and 1970s when standards were less rigorous. Our reclamation featured innovations in water and soil treatment, precise planning of tidal/estuary excavation techniques and risk assessments to better understand the complex Howe Sound ecosystem. As a result, 29 hectares of land are now ready for productive use and have been turned

over to the District of Squamish for development. Nexen's clean-up is a key step toward the revitalization of the community's downtown core. Nexen received a special environmental award from the Government of British Columbia for our efforts.

#### **Reducing Our Seismic Footprint**

When exploring for oil and gas in remote areas, it's often necessary to clear a path through natural landscapes to allow seismic operations. Historically, seismic lines have been up to six metres wide. Nexen is now able to limit seismic line width to as little as one to two metres in environmentally sensitive areas, using techniques such as hand clearing and helicopter support.

#### **Environmental Incidents** (number of reportable<sup>1</sup> spills and exceedances)

	Canada	United States	International	Chemicals	Corporate	Total
1999	99	0	3	7	0	109
2000	111	10	7	4	0	132
2001	110	5	3	4	0	122
2002	93	4	5	1	1	104
2003	86	1	6	4	0	97

<sup>1</sup> reportable to the environmental regulator; reporting thresholds may vary by jurisdiction

#### **Well Site Reclamation<sup>1</sup>**

	2003			2002			2001		
	Producing	Shut-In	Abandoned	Producing	Shut-In	Abandoned	Producing	Shut-In	Abandoned
Canada	3,447	686	47	3,863	1,095	62 <sup>2</sup>	4,188	929	66
United States	152	243	4	145	240	0	145	234	0
International	387	36	3	289	33	15	220	31	— <sup>3</sup>
Total	3,986	965	54	4,297	1,368	77	4,553	1,194	66

<sup>1</sup> Nexen-operated wells only <sup>2</sup> includes 17 wells transferred to other operators <sup>3</sup> no data available

Landfill Remediation at Balzac

While digging a trench during the installation of a water pipeline for the Alberta Power Plant at Balzac, we discovered construction and production debris from a 1960s landfill—a site we believed had already been remediated. After 20,000 tons of landfill material was sorted and disposed, soil samples were gathered from the excavation to ensure all contaminated material had been removed. After backfilling the site with clean material and compacting it, we spread topsoil and grass seed over the area to create a permanent natural cover. Monitoring wells were installed around the perimeter of the site to detect any further impacts.

First Year of Waste Tracking at Nexen Canada

In 2003, Nexen Canada implemented a waste tracking program at our production and processing sites. The identified volume—53,650 tonnes—is our initial estimate of waste (hazardous/non-hazardous combined). We will use this volume as our baseline as we verify and refine our waste calculations in the future.

Planning for Future Reclamations

At year-end 2003, Nexen had 965 company-operated oil and gas wells classified as shut-in (not producing, not yet reclaimed). Some of these wells may be restored

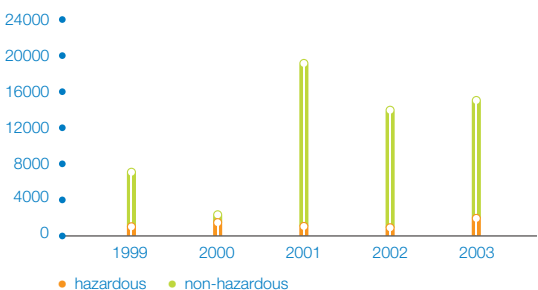
to production in the future, but most will be abandoned and reclaimed over the next five to ten years.

Well count varies from year to year as wells may be bought, sold, recompleted or reactivated. In 2003, Nexen completed a sale of more than 500 shut-in properties to another operator.

At year-end 2003, Nexen has provided for (as a balance sheet item) \$197 million for future dismantlement and site restoration costs. Most of these expenditures are slated for reclamations in our maturing Western Canadian conventional operations, as well as the abandonment of our offshore production infrastructure in Ejulebe, Nigeria and Buffalo, Australia. This level of provision is calculated considering our experience, current legislation and industry practices and is consistent with Generally Accepted Accounting Principles in Canada and the United States.

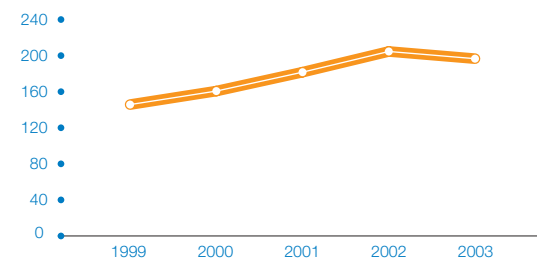
Many of Nexen's operations have very long productive lives (for example, the Long Lake oil sands project is projected to have a life of 35 to 50 years). As a result of these long life spans, much of our decommissioning and abandonment obligations will not be realized for decades.

Nexen Chemicals Waste (tonnes/year)




A multi-year remediation project at Brandon increased non-hazardous waste in 2001 and beyond. In 2003, hazardous waste increased because we removed chlorate-contaminated sludge as we reclaim our Taft facility.

Dismantlement & Site Restoration Liability (\$Cdn millions)



As of December 31, 2003, Nexen Inc. provided for \$197 million in future dismantlement and restoration obligations on our balance sheet to cover our expected costs.



A photograph of an industrial facility, likely a refinery or chemical plant, featuring several large, cylindrical storage tanks. The tanks are made of corrugated metal and are arranged in a row. A worker wearing a dark blue uniform and a white hard hat is visible in the foreground, working on a valve or pipe near the base of one of the tanks. The ground is covered in snow, indicating a cold environment. The sky is clear and blue. The word "safety" is overlaid in large white letters on the left side of the image.

We are working to achieve sustained improvement in safety performance by taking safety from a company-mandated program to a way of living and working.

**safety**



**Nexen's employee safety continued to improve in 2003, although there was an increase in incidents in the first six months of 2004. A focused effort to achieve stronger safety performance among our contractors is delivering results.**

#### **Improved Driver Safety Performance in Yemen Marred by Two Fatalities**

From the beginning of Nexen's investment in Yemen, in-country driving practices have been an area of concern. Nexen introduced the industry's first driver evaluation and training program in 1993.

Following years of effort—and a commitment by workers to change their driving habits—Canadian Nexen Petroleum Yemen (CNPY) reported a 21% reduction in vehicle incidents to 50 incidents in 2003 from 63 in 2002. These results are based on the driving performance of contractors as well as employees.

The improvements in 2003 were marred by two contractor fatalities. These tragedies spurred an initiative to reduce vehicle-related incidents and injuries even further.

CNPY's safe driving program emphasizes mandatory seatbelt use by all employees and contractors, drivers and passengers, and an expectation to fully respect the rules of the road. We have installed DriveRight™ units on all company vehicles. These devices sound an alarm when the vehicle exceeds a preset speed limit, record the maximum speed reached per trip and the amount of time—if any—spent driving over the speed limit. The safe driving message was further endorsed by the Yemen government, with the President of the Republic, H.E. Ali Abdullah Saleh, appearing on the CNPY 2004 safety calendar with his seatbelt firmly buckled.

Safe driving results continue to improve. In the first seven months of 2004, incidents have been reduced to 21, with no fatalities.

In terms of overall employee safety, CNPY had no lost-time injuries (LTI) in 2003. As of April 2004, CNPY was LTI-free for a full two-year period, equating to more than 3.25 million work hours with no missed shifts.

#### **Responsible Care®—Becoming a Way of Life at Nexen**

In 2002, Nexen's Balzac, Alberta gas plant became the first upstream oil and gas facility in the world to implement Responsible Care®, an initiative developed by the chemical industry to ensure the safe and environmentally sound management of chemicals throughout their life cycle. As a gas processing plant has many similarities to a chemical manufacturing facility, Nexen recognized an opportunity to enhance the SESR performance of the Balzac facility by adopting Responsible Care®. Balzac is working to achieve the next level of compliance, Round 2 certification, in 2005.

Following the successful implementation of Responsible Care® at Balzac, we extended the program to our Yemen operations. Some of the challenges to be faced include a multicultural workforce with 35 different nationalities and five different languages, as well as diverse facilities that include a widespread series of wellheads, a one-square-kilometre central processing facility, 600 kilometres of flowlines and a 138-kilometre export pipeline, massive oil storage tanks and a marine tanker-loading terminal, as well as an aviation department and medical clinics.

By implementing Responsible Care®, Nexen will be setting a new standard for SESR performance in Yemen by voluntarily self-regulating to a much higher standard than required by national laws. Yemen operations will seek Responsible Care® Round 1 verification in early 2005.

Our chemical plant at Aracruz, Brazil (acquired in December 1999) also plans to complete the Round 1 verification process in 2005.

In September 2004, the Canadian Oil and Gas Division appointed a Manager, Responsible Care®. The establishment of this position signals Nexen Canada's intention to extend the program throughout its oil and gas business.

President's Safety Award

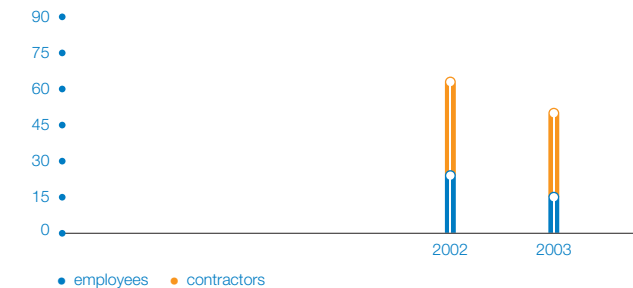
Nexen's Buffalo Venture operation in the Timor Sea, 560 kilometres northwest of Darwin, Australia, was the recipient of the Nexen President's 2003 Safety, Environment and Social Responsibility Award. This award recognized the Australian crew's outstanding safety record for 2003 and over the period since Nexen acquired full ownership of the Buffalo field in 2000. The award comes with a US\$10,000 cash prize, which the winners donate to the charity of their choice. As one of the staff has a child in the Stuart Centre, a school for children with cerebral palsy in Newcastle, New South Wales, the team decided to donate \$5,000 to the

school. The Stuart Centre purchased custom computer equipment for the children, as well as software to aid in their education. The remaining \$5,000 was donated to a children's hospital in Perth.

Good Samaritans of Safety

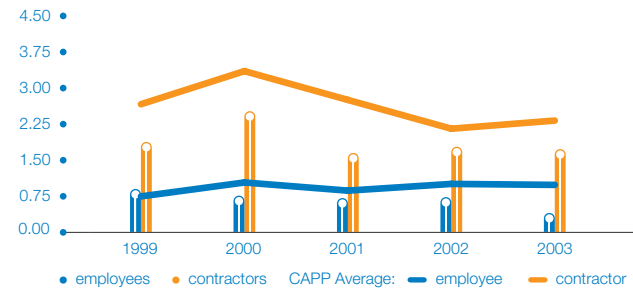
On a windy evening in March 2004, Nexen staff on the Eugene Island 258A Platform—located 130 kilometres off the coast of Louisiana—came to the rescue of a man who had broken both legs and an arm in a winch accident aboard a shrimp boat about 20 kilometres away. Two Nexen employees heard about the accident on VHF Marine Radio and knew the US Coast Guard wouldn't reach the injured man for over two hours. Nexen's Brad Tarpley and David Russo, both company-trained first responders, climbed aboard the Eugene Island field boat with Petroleum Helicopters pilot Doug Boyd to help out. When they boarded the shrimp boat, Tarpley and Russo used their training to assess the injuries and provide emergency assistance to the injured man until the medical evacuation helicopter arrived. Given the conditions on the night of the incident, the rescue could not have happened without the assistance of Nexen staff and Petroleum Helicopters. All three were recognized with Good Samaritan Awards from the Nexen Field Office staff.

Vehicle Incidents in Yemen



While incidents in Yemen decreased for employees and contractors in 2003, there were two contractor driving fatalities. This has added emphasis to our safe driving initiatives in Yemen, including mandatory seatbelt use, speed control devices and adherence to safe driving practices.

Nexen Inc. Injury Incident Rate (per 200,000 hours worked)




Compared to the Canadian Association of Petroleum Producers average, Nexen's 2003 employee injury rate was 70% lower, and our contractor rate was 30% lower. Employee safety is a concern in 2004, with 15 incidents (mostly low-risk) in the first 6 months versus 5 incidents for the same period in 2003.

Our spectrum of stakeholders includes investors, employees, governments, communities, indigenous peoples (including First Nations), interest groups, industry associations and more. The art of our business is balancing their multiple, and sometimes conflicting, goals.

# stakeholder engagement








**Nexen fosters a dialogue with stakeholders about the opportunities and challenges of our operations, from exploration to extraction to reclamation. Our goal is to help them become engaged participants in a continuing consultation process.**

#### **Demystifying Coalbed Methane**

When Nexen and its joint venture partners decided to develop a coalbed methane (CBM) pilot project near Fort Assiniboine, Alberta, an ambitious community involvement program was developed. In Canada, CBM is a relatively new natural gas resource, and we anticipated community reaction would range from curiosity to concern. Starting in the fall of 2001, we launched a public involvement program including field tours, presentations to residents, newsletters, a toll-free information line, open-house information sessions and a committee of local residents. Wide community input has been gathered to help Nexen and our partners as we evaluate moving the pilot project to commercial production.

#### **Engaging the Community**

Similarly, public consultation has been essential as Nexen and our partner OPTI Canada (OPTI) begin to develop the Long Lake oil sands project. Two-way communication with project stakeholders is continuing through open houses, local contractor information sessions and one-on-one meetings to encourage awareness, enhance opportunities for involvement and foster community dialogue. In granting approval to the project, the Alberta Energy and Utilities Board (AEUB) commended Nexen and OPTI for their proactive approach to consultation and success in reaching agreements with Aboriginal communities and other stakeholders. Thanks to Nexen's and OPTI's thorough

public outreach, the AEUB approved the project without a public hearing. *For information on the Long Lake Project, visit our website or [www.longlake.ca](http://www.longlake.ca).* 

#### **Strategic Collaboration in Athabasca**

Nexen and OPTI are also part of an industry group that signed an agreement with the Athabasca Tribal Council (ATC) in January 2003. The ATC All Parties Core Agreement was signed by chiefs from the Athabasca Chipewyan, Chipewyan Prairie, Fort McKay, Fort McMurray and Mikisew Cree First Nations and 15 industry representatives from the Athabasca region. The agreement provides more than \$4 million in funding to the five First Nations and makes a commitment to help build self-sustaining communities and strong economies in the region. Each First Nation will use a portion of the funding to establish an Industry Relations Corporation that works with industry to develop standards of consultation and identify development issues.

#### **Putting Commitments into Action**

In September 2003, Nexen and OPTI helped sponsor a series of free safety training courses for the communities of Anzac, Conklin and Janvier in northeastern Alberta. The training focused on applications related to the oil and gas industry, such as ground disturbance, transportation of dangerous goods, information systems for hazardous materials and chainsaw safety. These courses helped the participants acquire skills for seasonal work or as a base for more specialized training.

Nexen and OPTI support local entrepreneurs such as the Swamp Mats plant on the Fort McMurray First Nation reserve. We purchase locally produced wooden mats to provide a firm foundation for drilling rigs, trucks and associated equipment to improve site access in muddy spring conditions.

### Supporting Community Growth

Nexen supports local organizations that help to meet cultural and educational needs in our host communities. In September 2003, the Chipewyan Prairie First Nation began constructing a \$1.2 million multipurpose facility that will enhance educational, cultural and recreational opportunities for members, residents and people in adjoining communities. Nexen and OPTI donated \$100,000 toward making this project a reality. Nexen and OPTI also commissioned a study for a sustainable building design that will make the multiplex more energy efficient, reducing heating and cooling costs by as much as 60% and lighting costs up to 30%.

### Supporting Our Host Communities

Nexen’s long-term prosperity is tied to the well-being of the communities where we do business. We respond to community needs by supporting employee voluntarism, fostering employee donations to the United Way and other agencies, and through our corporate donations program.

Nexen provided \$4.2 million in corporate contributions in 2003, supporting more than 600 initiatives worldwide. We made major donations in 2003 to the Alberta Children’s Hospital Foundation

(\$100,000), the Canadian Youth Business Foundation (\$35,000) and Alberta Ecotrust (\$30,000). We also made long-term commitments totalling more than \$600,000 for the period 2001–2008 to the Nature Conservancy of Canada.

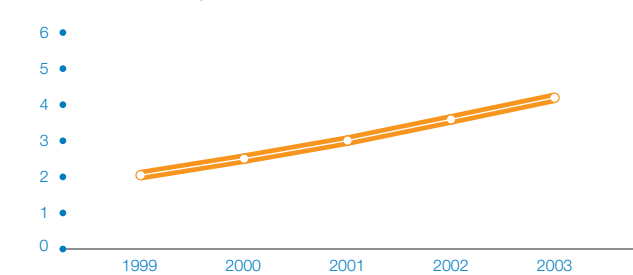
### Lasting Education Legacy in Yemen

Together with our partners in the Masila Block in Yemen, we’ve created exceptional post-secondary education opportunities, enabling Yemeni students to pursue studies in Calgary and gain the foundation to participate actively in their country’s development when they return to Yemen.

Nexen and its partners have provided merit-based scholarships to deserving Yemeni students every year since 1998. In 2003, ten Yemeni students graduated from the Southern Alberta Institute of Technology and the University of Calgary. To date, 60 scholarships have been awarded, 25% of them to female students. Graduates from our program have earned degrees in business, international relations, economics, computer science, engineering, petroleum technology and information technology. In May 2004, the program was extended to offer 20 additional scholarships over the next two years.

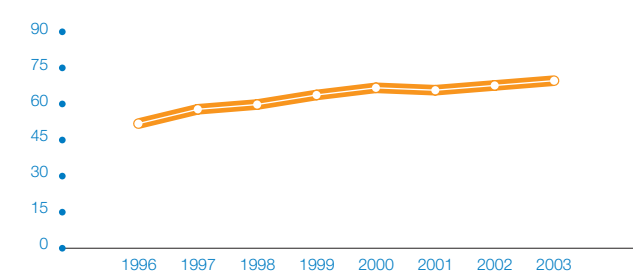
Also in Yemen, Nexen is working to increase the participation of Yemeni nationals in our workforce. Currently, 73% of Canadian Nexen Petroleum Yemen (CNPY) employees are Yemeni nationals. We support Yemeni employees through Individual Development Plans, whereby employees enhance targeted skills related to

Nexen Inc. Community Investment (\$Cdn millions)



As a member of the IMAGINE program to promote public and corporate giving, each year we contribute 1% of Nexen Inc.’s pre-tax operating profits, based on an average of the 3 preceding years.

Yemeni Nationals in Nexen’s Yemen Operations (%)



At year-end 2003, 70% of our CNPY workforce was Yemeni, and increased to 73% in 2004. Nexen currently employs more than 1,000 people in Yemen.

their position and develop new skills to help them compete for new positions and promotions. Some areas of CNPY are already seeing the rewards, with the administration and logistics departments having almost 100% Yemeni staff, several of whom have advanced to senior supervisory roles. Nexen's operations in Masila and Block 51 also help to broaden the experience of Yemen's workforce. Our contractors currently employ some 2,500 Yemenis, building skills for today and tomorrow.

Skills Training for Tomorrow

In Brazil, we partner with a local social agency to foster skills development in a disadvantaged community near our Aracruz chemical facility. The Hook Project—so-called because of the old saying that it's better to teach people to fish than to give them one—helps the population develop professional qualifications, improve community health and extend basic education levels. Through the program, the community is developing the capacity to take responsibility for their own sustainable development.

Thinking Inside the Box

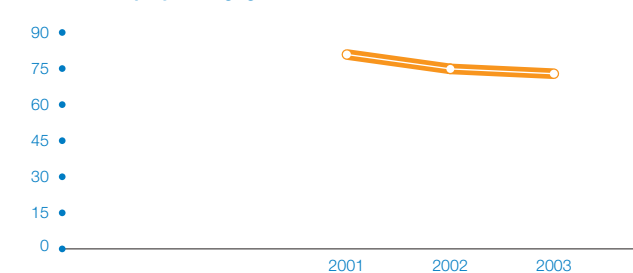
Employees are clearly a primary stakeholder at Nexen. We work hard to build policies and practices that provide an optimal work environment. Formal human resources policies and our internal practices address issues such as discrimination prevention, anti-harassment and an employee assistance program. [You can find a copy of our Employee/Labour Relations policy on our website.](#)

Nexen participates in the Hewitt Associates/Globe and Mail survey "The 50 Best Employers in Canada". Our employees' positive responses to work life at Nexen ranked us among the Top 50 in Canada in 2001, 2002 and 2003. We are paying close attention to one particular area of the study, "Employee Engagement". This measures whether employees have energy and passion for the organization's goals, or whether they have average levels of satisfaction and commitment. While Nexen has scored highly on the Engagement scale for the last three years, our trend is downward, from 81% to 75% to 73% (the average score among the top 50 ranged from 79% to 80% over the same period). We've recently addressed a number of previously flagged employee concerns—including implementing our enhanced company benefits program—and will be closely monitoring the next results, expected in the fall of 2004.

Integrity in Practice

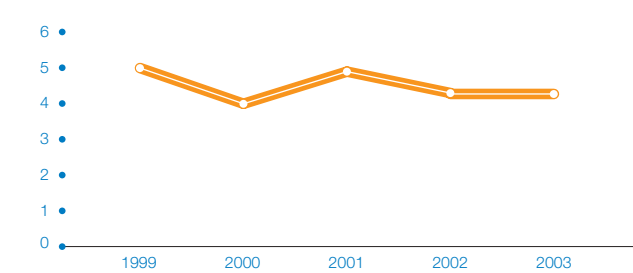
In 2003, *Integrity Evergreening* was developed to keep Nexen's Integrity Program relevant. Every employee had a chance to get involved by attending a focus group, completing an online survey or consulting with their division's Integrity Program Leader. Input was sought in three areas: greatest risks/challenges, best practices, and suggestions for tools, actions and training to maintain high standards of integrity. In all, 14 focus groups were held at various locations. Each focus group consisted of 12 to 15 employees and was led by one internal and one external facilitator. The results will be presented to the SESR Senior Executive Committee in the fall of 2004.

Nexen Inc. Employee Engagement Score (% , Hewitt Associates Survey)




Nexen's high scores on the Hewitt Associates survey have placed us among the top employers in Canada. We monitor our *Employee Engagement* score to gauge employees' satisfaction.

Nexen Inc. Voluntary Turnover Rate (%)




Our voluntary turnover rate of 4.24% is lower than the 5% average for large oil and gas companies, and much lower than the 7.7% average for oil and gas exploration/production companies.






Nexen was one of the first Canadian companies to publicly recognize its human rights responsibilities by committing to the International Code of Ethics for Canadian Business in 1997. Our Human Rights Policy endorses the Universal Declaration of Human Rights.

# human rights



**Nexen operates in regions where respect for human rights is less assured than in North America. Human rights must also be protected in our own backyard, through respect for host communities and indigenous peoples and the prevention of discrimination.**

#### **Our Commitment to Human Rights**

Nexen helped to launch the International Code of Ethics for Canadian Business in 1997, committing our Company to high standards of conduct with respect to community participation, environmental protection, human rights, business conduct, employee rights and safety. We have had a formal Human Rights Policy since 2001. The policy covers the promotion and protection of human rights as well as security, community and employee issues. *Both documents can be found on our website.* 

#### **Anticipating Human Rights Risks**

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. The AGR is our starting point in learning more about a country from an above-ground perspective. Through the AGR, we actively engage governments, non-governmental organizations and communities in a dialogue on how stakeholders may be affected by Nexen's investment. From the initial review, we continuously look at the changing conditions within a country and how we can better live up to our obligations and commitments such as the International Code of Ethics for Canadian Business and the United Nations Global Compact.

The AGR takes into account a range of socio-political risks, including human rights. These reviews are conducted by Nexen's Corporate Security, Government

Relations and Safety, Environment and Social Responsibility departments. These findings are integrated into our operating decisions. In 2003, we conducted three AGRs—in Equatorial Guinea, Mexico and Indonesia.

#### **Contracts for Security Services**

We protect our reputation and the security of our people, our assets and the communities where we do business through our Corporate Security specialists and by contracting for security services, typically through public security forces. Our contracts for security contain clauses designed to reduce the risk of human rights abuses. All security contracts include provisions consistent with the United Nations' Basic Principles on the Use of Firearms by Law Enforcement Officials.

#### **Human Rights in West Africa**

Nexen has a growing portfolio of opportunities in West Africa. Our experience in Yemen has taught us that companies that align themselves with the best interests of the people of a country and—within its sphere of influence—promote those interests are better able to contribute to the country's long term stability and development. By demonstrating a commitment to be a positive part of the community, the potential for corruption, bribery, environmental damage and human rights abuses is reduced. While Nigeria and Equatorial Guinea are challenging places to do business, we will stay true to our values and apply what we have learned from our years of international experience.



## Human Rights in Colombia

For the Nexen-led projects in Colombia (Atadero 1 and Andino), we developed and promoted human rights training for employees, contractors, private security and military personnel. Between 2001 and 2003, we presented a two-day training program for 400 soldiers based in the region and another 50 employees, contractors and private security personnel. The program was developed by lawyers specializing in human rights and international humanitarian law, working with guidelines established by the Colombia Office of the Public Advocate (Defensoría del Pueblo).

In addition to our policy requiring all military personnel to respect human rights, we also stipulate that the compensation we pay for security must not be used to acquire lethal arms or equipment.

Nexen participated in a 2004 research project carried out by the Collaborative for Development Action (CDA). The Canadian Department of Foreign Affairs and International Trade sponsored CDA to document the current practice of companies operating in Colombia and provide advice on how companies can play a positive role. *CDA's final report, "Efforts to Operate Constructively in a Context of Conflict: Best Corporate Practices in Colombia", can be found at [www.cdainc.com](http://www.cdainc.com).* 

## Communities and Human Rights


Our Human Rights Policy states that, within our sphere of influence, we will strive to ensure our operations positively affect local communities. We seek meaningful and transparent consultations

with stakeholders who may be affected by our operations. We promote community development initiatives that advance the economic, social, cultural and civil rights of individuals and communities, while respecting local culture and traditions. *See the Stakeholder Engagement section of this report (beginning on page 26) for examples of Nexen's community relations programs.*

## Nexen at the United Nations

Nexen joined the United Nations Global Compact initiative soon after its operational launch in July 2000. The Global Compact advances responsible corporate citizenship so business can be part of the solution to the challenges of globalization.

Nexen CEO Charlie Fischer and SESR Vice President Dr. Randy Gossen attended the Global Compact Leaders Summit in June 2004, where UN Secretary-General Kofi Annan announced an initiative against corruption and bribery. Also, 20 major investment companies endorsed a program to connect financial markets to environmental, social and governance criteria. The goal is to make these factors standard components in the analysis of corporate performance and investment decision-making.

The Global Compact has cited Nexen's water supply and sanitation project in Yemen (see page 15 of this report) as a strong example of private sector cooperation with the United Nations. *See [www.unglobalcompact.org](http://www.unglobalcompact.org)* 



# Verification—Linking Internal and External Assurance Processes

The discipline of measuring non-financial performance is evolving. Through a growing series of verification processes, we're getting better at measuring and reporting our sustainability performance.

## 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. Seventeen different non-financial audits were conducted in 2003, compared with 12 conducted in 2002. In 2004, we plan to conduct 25 non-financial audits.

## Responsible Care® Verification

Throughout Nexen Chemicals and at Nexen's Balzac, Alberta and Yemen operations, we have adopted Responsible Care® as our overarching safety, environment and social responsibility ethic. To ensure that 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 and players, opportunities for improvement, findings requiring corrective action and successful practices. Once the team has completed its work, Nexen is issued a verification report and certificate. The reports are made public by Nexen and the Canadian Chemical Producers' Association.

The most recent verification certificates received by Nexen include Reverification (Round 3) of Nexen Chemicals' overall operations in 2002 and Round 1 verification of the Balzac operation in 2002.

In 2005, our Yemen operations and Aracruz, Brazil chemicals facility will seek Round 1 verification and our Balzac facility will seek Round 2 verification.

## A Pilot Project to Assure Nexen's Non-Financial Reporting

To complement our existing audits and inspections, Nexen is piloting a multi-stakeholder external assurance process. We have assembled a team of diverse experts and stakeholders representing academia (Professor Errol Mendes, University of Ottawa), non-governmental organizations (Pembina Institute), communities where we operate (Balzac Community Advisory Committee) and Nexen's broader employee population. This team worked in tandem with sustainability assurance specialists from PricewaterhouseCoopers to evaluate Nexen's 2002 Sustainability Report. For the purposes of our pilot project, we limited the group's scope to the SESR performance of Nexen Canada.

The Pembina Institute led a multi-stakeholder evaluation of the 2002 Report. The evaluation assessed the report's conformance with stated SESR commitments and with general reporting principles, such as clarity, relevance, neutrality and completeness. The team's observations and recommendations were documented in a report to Nexen management.

The PricewaterhouseCoopers assessment reviewed opportunities to improve data management processes relevant to the Sustainability Report. The assessment included interviews with Nexen personnel and external contractors and an evaluation of processes used for managing SESR data, records and internal correspondence and reports. A set of recommendations was reported to

Nexen management. The assessment did not constitute an audit of the performance information in the 2002 report.

Nexen is working with the external assurance team to advance verification processes for our future SESR reporting.

### PwC Assessment of Nexen's SESR Management Systems

Between November 2003 and March 2004, a team of sustainability specialists from PricewaterhouseCoopers (PwC) conducted an external assessment to determine whether Nexen's SESR management systems were being effectively implemented across the company.

PwC's review found that, "There is a consistent, strong commitment to the principles of SESR across the company, backed by effective management systems and practices. This commitment is evident at all levels of the organization." PwC also provided recommendations to Nexen's management, including:

- enhancements to the way SESR audits are carried out in Nexen Canada, Nexen Chemicals and Nexen USA;
- clarification of responsibility for managing certain occupational health risks, some of which are shared between Nexen's SESR department and the Human Resources department; and
- evaluation of the need for an Occupational Health and Industrial Hygiene specialist within the SESR department.

PwC also assessed the key and future SESR-related risks and challenges facing Nexen. Following is the list of risks identified (through workshops and interviews with Nexen personnel) and the divisions most affected:

- pending climate change regulations (Canadian Oil & Gas);
- stakeholder pressure to be active in the renewable energy area (Canadian Oil & Gas);
- communicable diseases and occupational health issues for employees and contractors (International Oil & Gas);
- political instability in international areas of operations (International Oil & Gas);
- access to water resources and increasing water efficiency requirements (Canadian Oil & Gas);
- SESR-related risks and challenges associated with joint venture partnerships (all divisions);
- residential encroachment on operating facilities (Canadian Oil & Gas); and
- strong SESR performance of contractors (all divisions).

Nexen is developing and implementing detailed action plans for each of PwC's recommendations and a response plan for each of the risk areas identified.

### Nexen as a Socially Responsible Investment

Nexen participates in several external corporate monitoring reviews. Nexen is one of three Canadian oil and gas companies included in the Dow Jones Sustainability Index ([www.sustainability-index.com](http://www.sustainability-index.com)). This index includes more than 300 companies considered to be among the top 10% of firms worldwide committed to sustainable business practices. We also participate in the Canadian Social Investment Database sponsored by Michael Jantzi Research Associates ([www.mjra-jsi.com](http://www.mjra-jsi.com)).



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 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.



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.

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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 59 in our Form 10-K for a full discussion of the risks and uncertainties associated with our business.



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.

Links for all the organizations listed at left can be found on our website.



 **[www.nexeninc.com](http://www.nexeninc.com)**

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