



Policy Name: Reward and Recognition

Policy Number: HR 202

Policy Owner: Vice President, Human Resource Programs and Corporate Administration

Policy Approver: Vice President Operational Services, Technology and Human Resources

Approval Date: September 30, 2010

Policy Statement:

The Company understands the importance of providing reward and recognition programs that are fair, equitable, value Employee performance, support business objectives and are competitive in the marketplace. Reward and recognition programs include both monetary and Non-Monetary Rewards. This policy provides the guiding principles and philosophy behind the Company's reward and recognition programs which include Base Pay, Short-Term Incentives, Long-Term Incentives, other monetary and Non-Monetary Rewards, as well as Benefits programs.

The Company shall comply with applicable laws in the relevant jurisdictions.

1. Definitions:

Annual Incentive Bonus Program - refers to a discretionary cash bonus that may be paid to certain Employees based on Company and individual performance measured over a period of one year or less and against pre-established performance targets.

Base Pay (Salary) – refers to a rate or amount of pay for a standard work period, job, or position exclusive of additional payments, allowances or Benefits.

Benefits – generally refers to Company-provided plans that help protect the health of certain Employees and their dependents, to provide financial security in the event of death and income replacement in the event of disability. Benefits may also include participation in a Company Savings and/or Pension Plan, as well as access to optional employee-paid programs.

Company (or Nexen) - refers to Nexen Inc. and its majority owned subsidiaries.

Compensation - refers to the financial value provided by the Company to Employees related to their work contribution. The primary components are Base Pay, Short-Term Incentives and Long-Term Incentives.



Contractor – means any person or entity, including their employees or sub-contractors that have been contracted, sub-contracted or otherwise engaged to provide services to the Company. The Contractor may be identified by, but not limited to, such terms as third party, direct hire, or independent contractor. Contractors are ineligible for the terms of this Policy.

Employee - means a regular full-time, regular part-time, temporary, casual or fixed-term employee of the Company. For the purposes of this policy a “Regular Employee” is an Employee of the Company whose end date of employment is not defined.

Employee Change Notice (ECN) - refers to an approval document that itemizes changes to an Employee’s employment record. A change to pay, position title, job level, reporting relationship, etc. are all examples of when an ECN is required.

Global Assignment – refers to an international temporary long-term, short-term, rotational or commuter assignment.

Global Employee – refers to a regular full-time, salaried Employee of the Company who is assigned to work temporarily in another country other than his or her Home Location

Hub - defines the competitive Market for pay, currency, frequency of pay and the benefits, pension and savings plans for the Employee.

Long-Term Incentive - refers to a discretionary grant of equity based incentives including Stock Appreciation Rights (STARs) or Tandem Options (TOPs) that provides for potential financial benefits over a period greater than one year. These incentives are designed to enhance the alignment of Regular Employees key to the Company’s future long-term success and shareholder value, and to support specific long-term retention objectives.

Market (Pay) - refers to Compensation that is aligned with the market place as defined by local and national compensation surveys. Survey data is influenced by a number of factors including the number of participating companies, line of business, level of responsibility, demand for particular job skills, and the performance and experience of incumbents.

Non-Monetary Reward - includes the intrinsic value of working for the Company, such as the culture, Benefits, work-life programs and career opportunities. A Non-Monetary Reward may also include such non-cash items as increased flexibility in time off, attendance at a career enhancing course and other personalized recognition (“thank you”) for additional effort and results.

Pay-for-Performance - means that Employee Compensation (Base Pay, Short and Long-Term incentives) takes into account individual and Company performance.

Pension Program – refers to a program established by the Company for certain Employees that accumulates long-term value and is intended to provide benefits to certain Employees when they retire.



Savings Plan – refers to a program which allows certain Employees to accumulate investments or funds through systematic payroll deductions.

Short-Term Incentives – refer to discretionary payments made to certain Employees for past performance. They include the Annual Incentive Bonus, recognition awards as well as other cash awards.

Stock Appreciation Rights (STARs)/ Tandem Options (TOPs) - refer to Long-Term Incentives that provide for financial gain over a prescribed period of time as the Company's stock price appreciates above the price at the time of grant.

Total Rewards – represents the full value proposition (both monetary and Non-Monetary Rewards) to Employees in their employment relationship with the Company.

2. Objectives:

The objective of this policy is to ensure that Employees, their supervisors/managers and Human Resources representatives understand the scope of the Company's reward and recognition programs and underlying Market-based, Pay-for-Performance philosophy. The policy is intended to provide guidance and direction regarding the implementation of these programs.

3. Persons Affected:

This policy applies to all Employees of the Company but may differentiate between different employment types such as regular employee and fixed term employee.. Only certain Employees are entitled to participate in the reward and recognition programs as provided for in this policy.

4. Policy:

4.1. Compensation (Base Pay and Incentives)

The Company supports a Market competitive, Pay-for-Performance Compensation philosophy and is committed to providing competitive Base Pay that reflects each Employee's job function, level of responsibility, experience and performance. The intent of this philosophy is to attract, retain and motivate highly qualified Employees to perform at a sustained high level in support of the Company's business objectives. The Company supports the differentiation of Base Pay between Employees who are in similar positions to recognize differences in performance levels. This philosophy also provides Employees with an opportunity to participate in the Company's success through Short and Long-Term Incentive programs.

The Company's Compensation programs provide Employees with both fixed Compensation in the form of Base Pay and variable or at-risk Compensation in the form of the Annual Incentive Bonus Program and Long-Term Incentives. Employees' ratio of at-risk Compensation generally increases with job responsibilities and level in the Company.



The following Compensation programs are provided to Regular Employees. Eligibility for temporary, casual and fixed term Employees varies by program and is outlined below.. All programs are designed to support the Company's competitive Pay-for-Performance philosophy.

- **Salary Program** – This program applies to all Employees. It is the policy of the Company to compensate Employees consistent with job functions, levels of responsibility, skills, and experience. Salaries are comparable within the Company for those Employees performing similar functions, recognizing performance level. They are competitive with the salaries paid by other companies in the same geographic areas that employ individuals in similar positions with similar qualifications. The Salary Program for Global Employees is defined by the Global Employees' Hub. Salaries of full-time and part-time Regular Employees are reviewed at least annually and may be adjusted to reflect changes in the external Market as well as Employee performance, skills and potential. Over time, it is expected that sustained high performers should earn salaries positioned at the higher end of the competitive range of the Market. Other categories of Employees such as temporary, casual or fixed-term are not typically included in the annual review. The timing of salary reviews for temporary, casual and fixed-term employees is typically defined by their terms and conditions of their employment agreement.
- **Wage Administration Program (non-Union)** - This program applies to all Employees who are paid on an hourly basis and who are not subject to a collective agreement. It is the policy of the Company to compensate Employees consistent with job functions, levels of responsibility, skills and experience. Wages are comparable within the Company for those Employees performing similar functions. They are competitive with those wages paid by other companies in the same geographic areas that employ individuals in similar positions with similar qualifications. Employees on the Wage Administration Program are allowed to progress through the various levels, up to the fully qualified level, in accordance with the established progression in each location. Wages of full-time and part-time Regular Employees are reviewed at least annually and may be adjusted to reflect changes in the external Market. Promotions beyond the fully qualified level generally require that an approved vacancy exist at that level.
- **Wage Administration Program (Union)** - This program has been designed to administer the wages of Employees paid on an hourly basis who are subject to a collective agreement.
- **Annual Incentive Bonus Program** - The Company's discretionary Annual Incentive Bonus is designed to reward Regular Employees with cash bonuses, based on the financial, strategic and operating performance of the Company along with individual contribution and level of performance. Individual bonuses, expressed as a percentage of Base Salary, are a function of salary grade level and discipline, and reflect competitive practice. The program is reviewed annually and amended as required to ensure its ongoing competitiveness. Annual payouts are subject to the approval of the Board of Directors. Other categories of Employees such as temporary, casual or fixed-term are not eligible for Annual Incentive Bonuses.



- **Other Recognition Programs** - The Company also provides cash awards designed to recognize Regular Employees' contributions to the Company's success. These cash awards include recognition awards to individuals and/or teams of Regular Employees teams who make significant contributions, beyond their regular job requirements, to achieve desired outcomes. In addition, referral bonuses are paid to Employees who refer a successful applicant for an eligible position. Other categories of Employees such as temporary, casual or fixed-term are not eligible for recognition programs.
- **Long-Term Incentive Program** - The Company's discretionary Long-Term Incentive program enhances the alignment between Regular Employees key to the Company's long-term success and the Company's other shareholders. The program provides equity-based grants in the form of Stock Appreciation Rights (STARs) or Tandem Options (TOPs) that can reward Employees over a longer period of time as the Company prospers. It is designed to recognize select high performing Employees who consistently make exceptional contributions to the Company's business results and who demonstrate the potential for high performance in the future. It also recognizes the risk associated with losing Employees with skills that are difficult to replace or expertise that is critical to the Company's continued success. The plans are reviewed annually and any allocation is subject to the approval of the Board of Directors. Other categories of Employees such as temporary, casual or fixed-term are not eligible for Long-Term Incentives.
- **Global Assignment Programs** – For Employees who undertake a Global Assignment (as defined in the Global Assignment Policy), the Company provides a remuneration program that is designed to minimize the potential for financial hardship or windfall gain experienced by the Employee solely as a result of the Global Assignment. Competitive Compensation and Benefits programs take into account differences in living and working conditions between the Employee's home and host locations and the potential disruption of the Global Assignment to the Employee and his or her family.

Approvals Required for Compensation Transactions

To ensure compliance with the Company's Compensation programs, specific approvals are required to implement changes to Employees' Compensation. The Approval Matrix for Employee Change Notices (ECN's) specifies the approvals required for actions which impact an Employee's Base Salary or wages. It includes approvals required for all types of Base Pay changes, hires, transfers, employment status changes, terminations and retirements. Any deviations from or exceptions to the Approval Matrix must be approved by the General Manager, Human Resources Services and/or the Vice President, Human Resource Programs and Corporate Administration. Changes to the Approval Matrix must be approved by the President and Chief Executive Officer.

Approvals required for individual Employee Compensation changes made during the annual Compensation program require approval from Divisional Vice Presidents and the Vice President, Human Resource Programs and Corporate Administration.

Overtime Pay Administration



Overtime pay and statutory holiday pay are paid to eligible Employees according to local labour laws. In most cases supervisors/managers must approve overtime hours before and after they are worked. Employees may be eligible for reimbursement of related expenses according to local practices and labour regulations.

Disclosure of Salary Information

All documentation will be maintained in accordance with the Company's Privacy of Information Policy.

The Company recognizes that in order for a Compensation program to be effective Employees should have a basic understanding of how the program is administered and how their Compensation is derived. This may include their understanding of their Base Pay relative to the Market. Employees are entitled to access their personal information that is contained in their employee files which are maintained by Human Resources.

4.2. Other Rewards

Other Company reward programs are described in location specific Company guides and on Employees' Total Reward Statements.

4.3. Benefits

The Company provides access to competitive Benefits plans designed to help Employees protect their health and the health of their dependents, and to provide financial security in the event of death and income replacement in the event of disability. To help Employees prepare for the future, the Company provides competitive Pension Programs that are designed to contribute to Employees' long-term financial security and Savings Plans that are designed to provide Employees with an opportunity to save for the future, to build ownership in the Company and to share in the Company's success. These programs may differ by geographic area and are designed to be locally competitive and comply with all applicable laws and regulations.

5. Roles and Responsibilities:

Employees - are responsible for understanding the Company's reward and recognition programs. They are accountable for their job responsibilities and the achievement of their annual goals as determined in their performance and career management discussions. An Employee's Base Salary, bonus and awards are directly linked to his or her performance and contribution.

Supervisors/Managers – act as advocates for the Company's reward and recognition programs by communicating key program-related messages to Employees. They are responsible for ensuring Employees in their departments are compensated in accordance with this policy and specifically adhering to the Pay-for-Performance philosophy whereby they differentiate the pay of their Employees based on performance. They coach and develop their Employees to achieve their maximum performance on a go-forward basis and request assistance/clarity from divisional and corporate Human Resources as required.



Supervisors/managers are responsible for recognizing and/or rewarding Employee performance on a regular basis through regular performance and career management discussions and/or providing monetary and Non-Monetary Rewards.

Corporate Human Resources – is responsible for the development and administration of the Company’s reward and recognition programs as well as the communication of these programs to supervisors/managers and Employees. It regularly reviews these programs and practices to ensure they remain competitive and continue to attract, retain and motivate Employees.

Divisional Human Resources Representatives – are responsible for ensuring Employees and supervisors/managers understand the terms and conditions of the reward and recognition programs. They are instrumental in the implementation of the Company’s various reward and recognition programs by coaching and supporting managers as required and by serving as a sounding board/advisor for one-on-one discussions with Employees. They may be responsible for developing and reviewing reward and recognition programs that are unique to their location.

6. Compliance:

Corporate and Divisional Human Resources ensure that all supervisors/managers understand and comply with the terms and conditions of the Company’s reward and recognition programs.

7. Guiding Principles / Related Policies:

The following policies, codes of practice and guides enable implementation of this policy.

Appendix A - Approval Matrix for Employee Change Notices (ECN's)

HR100 People Strategy Policy

A106 Privacy of Personal Information Policy

HR217 Employee Relations Policy and related legislation in each jurisdiction

HR205 Global Assignment Policy

Employee Recognition Program

For information on Human Resources Programs, Guides and Manuals see the Loop’s Human Resources home page related to Benefits and Compensation.

8. Revision History:

DATE	REVISION #	DESCRIPTION OF CHANGE
September 30, 2010	New policy	- New policy created to align a number of existing HR policies with the Company’s People Strategy*.



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Appendix A



Corporate Policies & Procedures

Wage and Salary Administration

Policy Number: HR211 **Approved by:** Charlie Fischer
Approval Date: October 25, 2004 **President & Chief Executive Officer**
Last Revised: June 15, 2005

Schedule 1

Approval Matrix
Employee Change Notice (ECN)

Action	Description	HR Mgr	Bus. Area Mgr	Bus. Area Mgr Supvr	HR VP-DIV	Sr Bus Area Mgr**	Exec VP DIV	HR VP-CORP	CEO	
Hire/Rehire	Hourly	x	x							
	Employment Status Change (fixed term to regular)	Grades up to and including 26	x	x	x					
		Grades 27 & 28	x	x	x	x	x	x		
	Extension	Grades 29 and Officers	x	x		x	x	x	x	x
		Extension of Fixed Term – Non Pay Impacting	x	x						
		Extension of Fixed Term - Pay Impacting	x	x	x					
Student - <i>outside of annual program</i>		x	x							
Promotions/ Pay Changes	Hourly	x	x							
	Grades up to and including 26	x	x	x						
	Grades 27 & 28	x	x	x	x	x	x			
	Grades 29 and Officers	x	x	x	x	x	x	x	x	
Transfers	Transfer (Hourly)	x	x							
	Transfer (within dept)	x	x							
	Transfer (new dept)	x	x	x						
Assignment	Start or end of temporary assignment (Hourly)	x	x							
	Start or end of temporary assignment	x	x	x						
Cost Centre Change	Change cost centre	x	x							
Leave of Absence	Long Term Disability	Benefits Mgr								
	Maternity/Paternity Leave	x	x							
	Personal Leave (within policy)	x	x	x	x					
	Personal Leave (outside policy)	x	x	x	x	x	x			
Return from Leave	All Leaves	x	x							
Retirement	Some situations may require higher authority	x	x							
Termination*	Resignations	x								
Data Changes	Jobcode (no grade change), Title, Supervisor, Department Name change	x								

X Denotes level where approvals required

* Some situations may require higher authority

** Where approval at the Executive VP Division is required.