

NABORS INDUSTRIES LTD

Form 10-K

February 28, 2008

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K
ANNUAL REPORT**

**Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the Fiscal Year Ended December 31, 2007**

Commission File Number: 000-49887

NABORS INDUSTRIES LTD.

Incorporated in Bermuda

Mintflower Place

8 Par-La-Ville Road

Hamilton, HM08

Bermuda

(441) 292-1510

98-0363970

(I.R.S. Employer Identification No.)

Securities registered pursuant to Section 12(b) of the Securities Exchange Act of 1934:

Title of each class	Name of each exchange on which registered
----------------------------	--

Common shares, \$.001 par value per share	The New York Stock Exchange
Securities registered pursuant to Section 12(g) of the Securities Exchange Act of 1934:	
None.	

Indicate by check mark whether the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

YES NO

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

YES NO

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES NO

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer <input type="checkbox"/>	Accelerated filer <input type="checkbox"/>	Non-accelerated filer <input type="checkbox"/>	Smaller reporting company <input type="checkbox"/>
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Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
YES NO

The aggregate market value of the 268,520,223 common shares, par value \$.001 per share, held by non-affiliates of the registrant, based upon the closing price of our common shares as of the last business day of our most recently

completed second fiscal quarter, June 30, 2007, of \$33.38 per share as reported on the New York Stock Exchange, was \$8,963,205,044. Common shares held by each officer and director and by each person who owns 5% or more of the outstanding common shares have been excluded in that such persons may be deemed affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

The number of common shares, par value \$.001 per share, outstanding as of February 22, 2008 was 280,678,568. In addition, our subsidiary, Nabors Exchangeco (Canada) Inc., had 121,008 exchangeable shares outstanding as of February 22, 2008 that are exchangeable for Nabors common shares on a one-for-one basis, and have essentially identical rights as Nabors Industries Ltd. common shares, including but not limited to voting rights and the right to receive dividends, if any.

DOCUMENTS INCORPORATED BY REFERENCE (to the extent indicated herein)

Specified portions of the 2008 Notice of Annual Meeting of Shareholders and the definitive Proxy Statement to be distributed in connection with the 2008 annual meeting of shareholders (Part III)

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Form 10-K Annual Report
For the Fiscal Year Ended December 31, 2007
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Our internet address is www.nabors.com. We make available free of charge through our website our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (the "Exchange Act") as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission (the "SEC"). In addition, a glossary of drilling terms used in this document and documents relating to our corporate governance (such as committee charters, governance guidelines and other internal policies) can be found on our website. The SEC maintains an internet site (www.sec.gov) that contains reports, proxy and information statements and other information regarding issuers that file electronically with the SEC.

FORWARD-LOOKING STATEMENTS

We often discuss expectations regarding our future markets, demand for our products and services, and our performance in our annual and quarterly reports, press releases, and other written and oral statements. Statements that relate to matters that are not historical facts are "forward-looking statements" within the meaning of the safe harbor

provisions of Section 27A of the Securities Act of 1933 and Section 21E of the Exchange Act. These forward-looking statements are based on an analysis of currently available competitive, financial and economic data and our operating plans. They are inherently uncertain and investors should recognize that events and actual results could turn out to be significantly different from our expectations. By way of illustration, when used in this document, words such as anticipate, believe, expect, plan, intend, estimate, project, will, should, could, may, predict intended to identify forward-looking statements.

You should consider the following key factors when evaluating these forward-looking statements:

fluctuations in worldwide prices of and demand for natural gas and oil;

fluctuations in levels of natural gas and oil exploration and development activities;

fluctuations in the demand for our services;

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the existence of competitors, technological changes and developments in the oilfield services industry;

the existence of operating risks inherent in the oilfield services industry;

the existence of regulatory and legislative uncertainties;

the possibility of changes in tax laws;

the possibility of political instability, war or acts of terrorism in any of the countries in which we do business;

and

general economic conditions.

Our businesses depend, to a large degree, on the level of spending by oil and gas companies for exploration, development and production activities. Therefore, a sustained increase or decrease in the price of natural gas or oil, which could have a material impact on exploration, development and production activities, could also materially affect our financial position, results of operations and cash flows.

The above description of risks and uncertainties is by no means all-inclusive, but is designed to highlight what we believe are important factors to consider. For a more detailed description of risk factors, please see *Part I Item 1A. Risk Factors*.

Unless the context requires otherwise, references in this Annual Report on Form 10-K to we, us, our, the Company or Nabors means Nabors Industries Ltd. and, where the context requires, includes our subsidiaries.

PART I

ITEM 1. BUSINESS

Introduction.

Nabors is the largest land drilling contractor in the world with approximately 535 actively marketed land drilling rigs. We conduct oil, gas and geothermal land drilling operations in the U.S. Lower 48 states, Alaska, Canada, South America, Mexico, the Caribbean, the Middle East, the Far East, Russia and Africa. We are also one of the largest land well-servicing and workover contractors in the United States and Canada. We actively market approximately 564 land workover and well-servicing rigs in the United States, primarily in the southwestern and western United States, and approximately 173 land workover and well-servicing rigs in Canada. Nabors is a leading provider of offshore platform workover and drilling rigs, and actively markets 35 platform, 12 jack-up units and 4 barge rigs in the United States and multiple international markets. These rigs provide well-servicing, workover and drilling services. We have a 51% ownership interest in a joint venture in Saudi Arabia, which actively markets 9 rigs. We also offer a wide range of ancillary well-site services, including engineering, construction, maintenance, well logging, directional drilling, rig instrumentation, data collection and other support services in selected domestic and international markets. We provide logistics services for onshore drilling in Canada using helicopters and fixed-winged aircraft. We manufacture and lease or sell top drives for a broad range of drilling applications, directional drilling systems, rig instrumentation and data collection equipment, pipeline handling equipment and rig reporting software. We also invest in oil and gas exploration, development and production activities and have 49% ownership interests in joint ventures in the U.S., Canada and International areas.

Nabors was formed as a Bermuda-exempt company on December 11, 2001. Through predecessors and acquired entities, Nabors has been continuously operating in the drilling sector since the early 1900s. Our principal executive offices are located at Mintflower Place, 8 Par-La-Ville Road, Hamilton, HM08, Bermuda. Our phone number at our principal executive offices is (441) 292-1510.

Our Fleet of Rigs.

Land Rigs. A land-based drilling rig generally consists of engines, a drawworks, a mast (or derrick), pumps to circulate the drilling fluid (mud) under various pressures, blowout preventers, drill string and related equipment. The engines power the different pieces of equipment, including a rotary table or top drive that turns the drill string, causing the drill bit to bore through the subsurface rock layers. Rock cuttings are carried to the surface by the

circulating drilling fluid. The intended well depth, bore hole diameter and drilling site conditions are the principal factors that determine the size and type of rig most suitable for a particular drilling job.

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A land-based workover or well-servicing rig consists of a mobile carrier, engine, drawworks and a mast. The mobile workover or well-servicing rig is specially designed for periodic maintenance as well as major repairs and modifications of oil and gas wells for which service is required to maximize the productive life of such wells. Workovers may be required to remedy failures, modify well depth and formation penetration to capture hydrocarbons from alternative formations, clean out and recompleat a well when production has declined, repair leaks or convert a depleted well to an injection well for secondary or enhanced recovery projects. The primary function of a workover or well-servicing rig is to act as a hoist so that pipe, sucker rods and down-hole equipment can be run into and out of a well. Because of size and cost considerations, well-servicing and workover rigs are used for these operations rather than the larger drilling rigs. Land-based drilling rigs are moved between well sites and between geographic areas of operations by using our fleet of cranes, loaders and transport vehicles or those from a third party service vendor. Well-servicing rigs are generally self-propelled units and heavier capacity workover rigs are either self-propelled or trailer mounted and include auxiliary equipment, which is either transported on trailers or moved with trucks.

Platform Rigs. Platform rigs provide offshore workover, drilling and re-entry services. Our platform rigs have drilling and/or well-servicing or workover equipment and machinery arranged in modular packages that are transported to, and assembled and installed on, fixed offshore platforms owned by the customer. Fixed offshore platforms are steel tower-like structures that either stand on the ocean floor or are moored floating structures. The top portion, or platform, sits above the water level and provides the foundation upon which the platform rig is placed.

Jack-up Rigs. Jack-up rigs are mobile, self-elevating drilling and workover platforms equipped with legs that can be lowered to the ocean floor until a foundation is established to support the hull, which contains the drilling and/or workover equipment, jacking system, crew quarters, loading and unloading facilities, storage areas for bulk and liquid materials, helicopter landing deck and other related equipment. The rig legs may operate independently or have a mat attached to the lower portion of the legs in order to provide a more stable foundation in soft bottom areas. Many of our jack-up rigs are of cantilever design—a feature that permits the drilling platform to be extended out from the hull, allowing it to perform drilling or workover operations over adjacent, fixed platforms. Nabors shallow workover jack-up rigs generally are subject to a maximum water depth of approximately 125 feet, while some of our jack-up rigs may drill in water depths as shallow as 13 feet. Nabors also has deeper water depth capacity jack-up rigs that are capable of drilling at depths between eight feet and 150 to 250 feet. The water depth limit of a particular rig is determined by the length of the rig's legs and the operating environment. Moving a rig from one drill site to another involves lowering the hull down into the water until it is afloat and then jacking up its legs with the hull floating. The rig is then towed to the new drilling site.

Inland Barge Rigs. One of Nabors' barge rigs is a full-size drilling unit. Nabors also owns two workover inland barge rigs. These barges are designed to perform plugging and abandonment, well service or workover services in shallow inland, coastal or offshore waters. Our barge rigs can operate at depths between three and 20 feet.

Additional information regarding the geographic markets in which we operate and our business segments can be found in Note 19 of the Notes to Consolidated Financial Statements included in Part II, Item 8. below.

Customers: Types of Drilling Contracts.

Our customers include major oil and gas companies, foreign national oil and gas companies and independent oil and gas companies. No customer accounted for greater than 10% of consolidated revenues in 2007 or in 2006.

On land in the U.S. Lower 48 states and Canada, we have historically been contracted on a single-well basis, with extensions subject to mutual agreement on pricing and other significant terms. Beginning in late 2004, as a result of increasing demand for drilling services, our customers started entering into longer term contracts with durations ranging from one to three years. Under these contracts our rigs are committed to one customer over that term. Increasingly, these contracts are being signed for three-year terms for newly constructed rigs. Contracts relating to offshore drilling and land drilling in Alaska and international markets generally provide for longer terms, usually from one to five years. Offshore workover projects are often on a single-well basis. We generally are awarded drilling contracts through competitive bidding, although we occasionally enter into contracts by direct negotiation. Most of our single-well contracts are subject to termination by the customer on short notice, but some can be firm for a number

of wells or a period of time, and may provide for early termination compensation in certain circumstances. The contract terms and rates may differ depending on a variety of factors, including competitive conditions, the geographical area, the geological formation to be drilled, the equipment and services to be supplied, the on-site drilling conditions and the anticipated duration of the work to be performed.

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In recent years, all of our drilling contracts have been daywork contracts. A daywork contract generally provides for a basic rate per day when drilling (the dayrate for us providing a rig and crew) and for lower rates when the rig is moving, or when drilling operations are interrupted or restricted by equipment breakdowns, adverse weather conditions or other conditions beyond our control. In addition, daywork contracts may provide for a lump sum fee for the mobilization and demobilization of the rig, which in most cases approximates our incurred costs. A daywork contract differs from a footage contract (in which the drilling contractor is paid on the basis of a rate per foot drilled) and a turnkey contract (in which the drilling contractor is paid for drilling a well to a specified depth for a fixed price).

Well-Servicing and Workover Services.

Although some wells in the United States flow oil to the surface without mechanical assistance, most are in mature production areas that require pumping or some other form of artificial lift. Pumping oil wells characteristically require more maintenance than flowing wells because of the operation of the mechanical pumping equipment installed.

Well-Servicing/Maintenance Services. We provide maintenance services on the mechanical apparatus used to pump or lift oil from producing wells. These services include, among other things, repairing and replacing pumps, sucker rods and tubing. We provide the rigs, equipment and crews for these tasks, which are performed on both oil and natural gas wells, but which are more commonly required on oil wells. Maintenance services typically take less than 48 hours to complete. Well-servicing rigs generally are provided to customers on a call-out basis. We are paid an hourly rate and work typically is performed five days a week during daylight hours.

Workover Services. Producing oil and natural gas wells occasionally require major repairs or modifications, called workovers. Workovers normally are carried out with a well-servicing rig that includes additional specialized accessory equipment, which may include rotary drilling equipment, mud pumps, mud tanks and blowout preventers. A workover may last anywhere from a few days to several weeks. We are paid an hourly rate and work is generally performed seven days a week, 24 hours a day.

Completion Services. The kinds of activities necessary to carry out a workover operation are essentially the same as those that are required to complete a well when it is first drilled. The completion process may involve selectively perforating the well casing at the depth of discrete producing zones, stimulating and testing these zones and installing down-hole equipment. The completion process may take a few days to several weeks. We are paid an hourly rate and work is generally performed seven days a week, 24 hours a day.

Production and Other Specialized Services. We also can provide other specialized services, including onsite temporary fluid-storage facilities, the provision, removal and disposal of specialized fluids used during certain completion and workover operations, and the removal and disposal of salt water that often is produced in conjunction with the production of oil and natural gas. We also provide plugging services for wells from which the oil and natural gas has been depleted or further production has become uneconomical. We are paid an hourly or a per unit rate, as applicable, for these services.

Oil and Gas Investments.

Through our Ramshorn business unit, Nabors makes selective investments in oil and gas exploration, development and production operations. Beginning in late 2006, we entered into an agreement with First Reserve Corporation to form select joint ventures to invest in oil and gas exploration opportunities worldwide. During 2007, three joint ventures were formed for operations in the United States, Canada and International areas. We hold a 49% ownership interest in these joint ventures. *Additional information about recent activities for this segment can be found in Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Oil and Gas.*

Other Services.

Canrig Drilling Technology Ltd., our drilling technologies subsidiary, manufactures top drives, which are installed on both onshore and offshore drilling rigs. Our top drives are marketed throughout the world. During the last three years, approximately 65% of our top drive sales were made to other Nabors companies. We also rent top drives and provide top drive installation, repair and maintenance services to our customers. Canrig Drilling Technology Canada Ltd. manufactures catwalks and wrenches which are installed on both onshore and offshore drilling rigs. During the last nineteen months of operations since acquisition, approximately 62% of the equipment sales were made to other Nabors companies. Epoch Well Services, Inc., our well services subsidiary, offers rig instrumentation equipment, including sensors, proprietary RIGWATCH software and computerized equipment that monitors the

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real-time performance of a rig. In addition, Epoch specializes in daily reporting software for drilling operations, making this data available through the internet via *mywells.com*. Epoch also provides mudlogging services. Ryan Energy Technologies, Inc., another one of our subsidiaries, manufactures and sells directional drilling and rig instrumentation and data collection services to oil and gas exploration and service companies. Nabors has a 50% interest in Peak Oilfield Services Company, a general partnership with a subsidiary of Cook Inlet Region, Inc., a leading Alaskan native corporation. Peak Oilfield Services provides heavy equipment to move drilling rigs, water, other fluids and construction materials, primarily on Alaska's North Slope and in the Cook Inlet region. The partnership also provides construction and maintenance for ice roads, pads, facilities, equipment, drill sites and pipelines. Nabors also has a 50% interest in Alaska Interstate Construction, a limited liability company whose other primary partner is Cook Inlet Region, Inc. Alaska Interstate Construction is a general contractor involved in the construction of roads, bridges, dams, drill sites and other facility sites, as well as providing mining support in Alaska. Revenues are derived from services to companies engaged in mining and public works. Our subsidiary, Peak USA Energy Services, Ltd., provides hauling and maintenance services for customers in the U.S. Lower 48 states. Nabors Blue Sky Ltd. leases aircraft used for logistics services for onshore drilling in Canada using helicopters and fixed-winged aircraft.

Our Employees.

As of December 31, 2007, Nabors employed approximately 23,965 persons, of whom approximately 3,044 were employed by unconsolidated affiliates. We believe our relationship with our employees generally is good.

Certain rig employees in Argentina and Australia are represented by collective bargaining units.

Seasonality.

Our Canadian and Alaskan drilling and workover operations are subject to seasonal variations as a result of weather conditions and generally experience reduced levels of activity and financial results during the second calendar quarter of each year. Seasonality does not have a material impact on the remaining portions of our business. Our overall financial results reflect the seasonal variations experienced in our Canadian and Alaskan operations.

Research and Development.

Research and development constitutes a growing part of our overall business. The effective use of technology is critical to the maintenance of our competitive position within the drilling industry. As a result of the importance of technology to our business, we expect to continue to develop technology internally or to acquire technology through strategic acquisitions.

Industry/Competitive Conditions.

To a large degree, Nabors' businesses depend on the level of capital spending by oil and gas companies for exploration, development and production activities. A sustained increase or decrease in the price of natural gas or oil could have a material impact on exploration, development and production activities by our customers and could also materially affect our financial position, results of operations and cash flows. See *Part I Item 1A. Risk Factors Fluctuations in oil and gas prices could adversely affect drilling activity and Nabors' revenues, cash flows and profitability.*

Our industry remains competitive. Historically, the number of rigs has exceeded demand in many of our markets, resulting in strong price competition. More recently, as a result of improved demand for drilling services driven by a sustained high level of commodity prices, supply and demand have been in balance in most of our markets, with demand actually exceeding supply in some of our markets. This economic reality has resulted in an increase in rates being charged for rigs across our North American, Offshore and International markets. Furthermore, over the last three years, the dramatic increase in rates along with our customers' willingness to enter into firm three-year commitments has resulted in our building of new rigs in significant quantities for the first time in over 20 years. However, as many existing rigs can be readily moved from one region to another in response to changes in levels of activity and many of the total available contracts are currently awarded on a bid basis, competition based on price for both existing and new rigs still exists across all of our markets. The land drilling, workover and well-servicing market is generally more competitive than the offshore market due to the larger number of rigs and market participants.

In all of our geographic market areas, we believe price and availability and condition of equipment are the most significant factors in determining which drilling contractor is awarded a job. Other factors include the availability of

trained personnel possessing the required specialized skills; the overall quality of service and safety record; and domestically, the ability to offer ancillary services.

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Increasingly, as the market requires additional rigs and as a result of new build capacity, the ability to deliver rigs within certain timeframes is becoming a competitive factor. In international markets, experience in operating in certain environments and customer alliances, also have been factors in the selection of Nabors.

Certain competitors are present in more than one of Nabors' operating regions, although no one competitor operates in all of these areas. In the U.S. Lower 48 states, there are several hundred competitors with national, regional or local rig operations. In domestic land workover and well-servicing, we compete with Basic Energy Services, Inc. and Key Energy Services, Inc. and with numerous other competitors having smaller regional or local rig operations. In Canada and offshore, Nabors competes with many firms of varying size, several of which have more significant operations in those areas than Nabors. Internationally, Nabors competes directly with various contractors at each location where it operates. Nabors believes that the market for land drilling, workover and well-servicing contracts will continue to be competitive for the foreseeable future.

Our other operating segments represent a relatively smaller part of our business, and we have numerous competitors in each area. Our Canrig subsidiary is one of the four major manufacturers of top drives. Its largest competitors are National Oilwell Varco, Tesco and MH Pyramid. Epoch's largest competitors in the manufacture of rig instrumentation systems are Pason and National Oilwell Varco's Totco subsidiary. Mudlogging services are provided by a number of entities that serve the oil and gas industry on a regional basis. Epoch competes for mudlogging customers with Baker Hughes, Sperry Sun, Diversified, and Stratagraph in the Gulf Coast region, California and Alaska. In the U.S. Lower 48 states, there are hundreds of rig transportation companies, and there are at least three or four that compete with Peak USA in each of its operating regions. In Alaska, Peak Oilfield Services principally competes with Alaska Petroleum Contractors for road, pad and pipeline maintenance, and is one of many drill site and road construction companies, the largest of which is VECO Corporation, and Alaska Interstate Construction principally competes with Wilder Construction Company and Cruz Construction Company for the construction of roads, bridges, dams, drill sites and other facility sites.

Our Business Strategy.

Since 1987, with the installation of our current management team, Nabors has adhered to a consistent strategy aimed at positioning our company to grow and prosper in good times and to mitigate adverse effects during periods of poor market conditions. We have maintained a financial posture that allows us to capitalize on market weakness and strength by adding to our business base, thereby enhancing our upside potential. The principal elements of our strategy have been to:

- Maintain flexibility to respond to changing conditions.
- Maintain a conservative and flexible balance sheet.
- Build cost effectively a base of premium assets.
- Build and maintain low operating costs through economies of scale.
- Develop and maintain long-term, mutually attractive relationships with key customers and vendors.
- Build a diverse business in long-term, sustainable and worthwhile geographic markets.
- Recognize and seize opportunities as they arise.
- Continually improve safety, quality and efficiency.
- Implement leading edge technology where cost-effective to do so.
- Build shareholder value by an expansion of our oil and gas reserves and production.

Our business strategy is designed to allow us to grow and remain profitable in any market environment. The major developments in our business in the past three years illustrate our implementation of this strategy and its continuing success. Specifically, we have taken advantage of the robust rig market to obtain a high volume of contracts for newly constructed rigs. A large proportion of these rigs are subject to long-term contracts with creditworthy customers with the most significant impact occurring in our International operations. This will not only expand our operations with the latest state-of-the-art rigs, which should better weather downturns in market activity, but eventually replace the oldest least capable rigs in our existing fleet.

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Acquisitions and Divestitures.

We have grown from a land drilling business centered in the U.S. Lower 48 states, Canada and Alaska to an international business with operations on land and offshore in many of the major oil, gas and geothermal markets in the world. At the beginning of 1990, our fleet consisted of 44 actively marketed land drilling rigs in Canada, Alaska and in various international markets. Today, Nabors' worldwide fleet of actively marketed rigs consist of approximately 535 land drilling rigs, approximately 564 domestic and 173 international land workover and well-servicing rigs, 35 offshore platform rigs, 12 jack-up units, 4 barge rigs and a large component of trucks and fluid hauling vehicles. This growth was fueled in part by strategic acquisitions. Although Nabors continues to examine opportunities, there can be no assurance that attractive rigs or other acquisition opportunities will continue to be available, that the pricing will be economical or that we will be successful in making such acquisitions in the future.

On January 3, 2006, we completed an acquisition of 1183011 Alberta Ltd., a wholly-owned subsidiary of Airborne Energy Solutions Ltd., through the purchase of all common shares outstanding for cash for a total purchase price of Cdn. \$41.7 million (U.S. \$35.8 million). In addition, we assumed debt, net of working capital, totaling approximately Cdn. \$10.0 million (U.S. \$8.6 million). Nabors Blue Sky Ltd. (formerly 1183011 Alberta Ltd.) owns 42 helicopters and fixed-wing aircraft and owns and operates a fleet of heliportable well-service equipment. The purchase price has been allocated based on final valuations of the fair value of assets acquired and liabilities assumed as of the acquisition date and resulted in goodwill of approximately U.S. \$18.8 million.

On May 31, 2006, we completed an acquisition of Pragma Drilling Equipment Ltd.'s business, which manufactures catwalks, iron roughnecks and other related oilfield equipment, through an asset purchase consisting primarily of intellectual property for a total purchase price of Cdn. \$46.1 million (U.S. \$41.5 million). The purchase price has been allocated based on final valuations of the fair market value of assets acquired and liabilities assumed as of the acquisition date and resulted in goodwill of approximately U.S. \$10.5 million.

On August 8, 2007, we sold our Sea Mar business which had previously been included in Other Operating segments. The assets included 20 offshore supply vessels and certain related assets, including a right under a vessel construction contract. The operating results of this business for all periods presented are accounted for as a discontinued operation in the accompanying audited consolidated statements of income.

From time to time, we may sell a subsidiary or group of assets outside of our core markets or business, if it is economically advantageous for us to do so.

Environmental Compliance.

Nabors does not presently anticipate that compliance with currently applicable environmental regulations and controls will significantly change its competitive position, capital spending or earnings during 2008. Nabors believes it is in material compliance with applicable environmental rules and regulations, and the cost of such compliance is not material to the business or financial condition of Nabors. For a more detailed description of the environmental laws and regulations applicable to Nabors operations, see below under *Part I Item 1A. Risk Factors Changes to or noncompliance with governmental regulation or exposure to environmental liabilities could adversely affect Nabors results of operations.*

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In addition to the other information set forth elsewhere in this Form 10-K, the following factors should be carefully considered when evaluating Nabors.

Fluctuations in oil and gas prices could adversely affect drilling activity and our revenues, cash flows and profitability

Our operations are materially dependent upon the level of activity in oil and gas exploration and production. Both short-term and long-term trends in oil and gas prices affect the level of such activity. Oil and gas prices and, therefore, the level of drilling, exploration and production activity can be volatile. Worldwide military, political and economic events, including initiatives by the Organization of Petroleum Exporting Countries, may affect both the demand for, and the supply of, oil and gas. Weather conditions, governmental regulation (both in the United States and elsewhere), levels of consumer demand, the availability of pipeline capacity, and other factors beyond our control may also affect the supply of and demand for oil and gas. We believe that any prolonged reduction in oil and gas prices would depress the level of exploration and production activity. This would likely result in a corresponding decline in the demand for our services and could have a material adverse effect on our revenues, cash flows and profitability. Lower oil and gas prices could also cause our customers to seek to terminate, renegotiate or fail to honor our drilling contracts; affect the fair market value of our rig fleet which in turn could trigger a write-down for accounting purposes; affect our ability to retain skilled rig personnel; and affect our ability to obtain access to capital to finance and grow our business. There can be no assurances as to the future level of demand for our services or future conditions in the oil and gas and oilfield services industries.

We operate in a highly competitive industry with excess drilling capacity, which may adversely affect our results of operations

The oilfield services industry in which we operate is very competitive. Contract drilling companies compete primarily on a regional basis, and competition may vary significantly from region to region at any particular time. Many drilling, workover and well-servicing rigs can be moved from one region to another in response to changes in levels of activity and provided market conditions warrant, which may result in an oversupply of rigs in an area. In many markets in which we operate, the number of rigs available for use exceeds the demand for rigs, resulting in price competition. Most drilling and workover contracts are awarded on the basis of competitive bids, which also results in price competition. The land drilling market generally is more competitive than the offshore drilling market because there are larger numbers of rigs and competitors.

The nature of our operations presents inherent risks of loss that, if not insured or indemnified against, could adversely affect our results of operations

Our operations are subject to many hazards inherent in the drilling, workover and well-servicing industries, including blowouts, cratering, explosions, fires, loss of well control, loss of hole, damaged or lost drilling equipment and damage or loss from inclement weather or natural disasters. Any of these hazards could result in personal injury or death, damage to or destruction of equipment and facilities, suspension of operations, environmental damage and damage to the property of others. Our offshore operations are also subject to the hazards of marine operations including capsizing, grounding, collision, damage from hurricanes and heavy weather or sea conditions and unsound ocean bottom conditions. In addition, our international operations are subject to risks of war, civil disturbances or other political events. Generally, drilling contracts provide for the division of responsibilities between a drilling company and its customer, and we seek to obtain indemnification from our customers by contract for certain of these risks. To the extent that we are unable to transfer such risks to customers by contract or indemnification agreements, we seek protection through insurance. However, there is no assurance that such insurance or indemnification agreements will adequately protect us against liability from all of the consequences of the hazards described above. The occurrence of an event not fully insured or indemnified against, or the failure of a customer or insurer to meet its indemnification or insurance obligations, could result in substantial losses. In addition, there can be no assurance that insurance will be available to cover any or all of these risks, or, even if available, that it will be adequate or that insurance premiums or other costs will not rise significantly in the future, so as to make such insurance prohibitive. It is possible that we will face continued upward pressure in our upcoming insurance renewals, our premiums and deductibles will be higher, and certain insurance coverage either will be unavailable or more expensive than it has

been in the past. Moreover, our insurance coverage generally provides that we assume a portion of the risk in the form of a deductible. We may choose to increase the levels of deductibles (and thus assume a greater degree of risk) from time to time in order to minimize the overall cost to the Company.

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The profitability of our international operations could be adversely affected by war, civil disturbance or political or economic turmoil

We derive a significant portion of our business from international markets, including major operations in Canada, South America, Mexico, the Caribbean, the Middle East, the Far East, Russia and Africa. These operations are subject to various risks, including the risk of war, civil disturbances and governmental activities that may limit or disrupt markets, restrict the movement of funds or result in the deprivation of contract rights or the taking of property without fair compensation. In certain countries, our operations may be subject to the additional risk of fluctuating currency values and exchange controls. In the international markets in which we operate, we are subject to various laws and regulations that govern the operation and taxation of our business and the import and export of our equipment from country to country, the imposition, application and interpretation of which can prove to be uncertain.

Changes to or noncompliance with governmental regulation or exposure to environmental liabilities could adversely affect our results of operations

The drilling of oil and gas wells is subject to various federal, state, local and foreign laws, rules and regulations. Our cost of compliance with these laws and regulations may be substantial. For example, federal law imposes a variety of regulations on responsible parties related to the prevention of oil spills and liability for damages from such spills. As an owner and operator of onshore and offshore rigs and transportation equipment, we may be deemed to be a responsible party under federal law. In addition, our well-servicing, workover and production services operations routinely involve the handling of significant amounts of waste materials, some of which are classified as hazardous substances. Our operations and facilities are subject to numerous state and federal environmental laws, rules and regulations, including, without limitation, laws concerning the containment and disposal of hazardous substances, oilfield waste and other waste materials, the use of underground storage tanks and the use of underground injection wells. We generally require customers to contractually assume responsibility for compliance with environmental regulations. However, we are not always successful in allocating to customers all of these risks nor is there any assurance that the customer will be financially able to bear those risks assumed.

We employ personnel responsible for monitoring environmental compliance and arranging for remedial actions that may be required from time to time and also use consultants and to advise on and assist with our environmental compliance efforts. Liabilities are recorded when the need for environmental assessments and/or remedial efforts become known or probable and the cost can be reasonably estimated.

Laws protecting the environment generally have become more stringent than in the past and are expected to continue to become more so. Violation of environmental laws and regulations can lead to the imposition of administrative, civil or criminal penalties, remedial obligations, and in some cases injunctive relief. Such violations could also result in liabilities for personal injuries, property damage, and other costs and claims.

Under the Comprehensive Environmental Response, Compensation and Liability Act, also known as CERCLA or Superfund, and related state laws and regulations, liability can be imposed jointly on the entire group of responsible parties or separately on any one of the responsible parties, without regard to fault or the legality of the original conduct on certain classes of persons that contributed to the release of a hazardous substance into the environment. Under CERCLA, such persons may be liable for the costs of cleaning up the hazardous substances that have been released into the environment and for damages to natural resources.

Changes in federal and state environmental regulations may also negatively impact oil and natural gas exploration and production companies, which in turn could have a material adverse effect on us. For example, legislation has been proposed from time to time in Congress which would reclassify certain oil and natural gas production wastes as hazardous wastes, which would make the reclassified wastes subject to more stringent handling, disposal and clean-up requirements. If enacted, such legislation could dramatically increase operating costs for oil and natural gas companies and could reduce the market for our services by making many wells and/or oilfields uneconomical to operate.

The Oil Pollution Act of 1990, as amended, contains provisions specifying responsibility for removal costs and damages resulting from discharges of oil into navigable waters or onto the adjoining shorelines. In addition, the Outer Continental Shelf Lands Act provides the federal government with broad discretion in regulating the leasing of offshore oil and gas production sites.

As a holding company, we depend on our subsidiaries to meet our financial obligations

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We are a holding company with no significant assets other than the stock of our subsidiaries. In order to meet our financial needs, we rely exclusively on repayments of interest and principal on intercompany loans made by us to our operating subsidiaries and income from dividends and other cash flow from such subsidiaries. There can be no assurance that our operating subsidiaries will generate sufficient net income to pay upstream dividends or cash flow to make payments of interest and principal to us in respect of their intercompany loans. In addition, from time to time, our operating subsidiaries may enter into financing arrangements which may contractually restrict or prohibit such upstream payments to us. There may also be adverse tax consequences associated with making dividend payments upstream.

We do not currently intend to pay dividends

We have not paid any cash dividends on our common shares since 1982. Nabors does not currently intend to pay any cash dividends on its common shares. However, we note that there have been recent positive industry trends and changes in tax law providing more favorable treatment of dividends. As a result, we can give no assurance that we will not reevaluate our position on dividends in the future.

Because our option, warrant and convertible securities holders have a considerable number of common shares available for issuance and resale, significant issuances or resales in the future may adversely affect the market price of our common shares

As of February 22, 2008, we had 800,000,000 authorized common shares, of which 280,678,568 shares were outstanding. In addition, 29,557,933 common shares were reserved for issuance pursuant to option and employee benefit plans, and 99,156,387 shares were reserved for issuance upon conversion or repurchase of outstanding zero coupon convertible debentures and zero coupon senior exchangeable notes. In addition, up to 121,008 of our common shares could be issuable on exchange of the shares of Nabors Exchangeco (Canada) Inc. We also may sell up to \$700 million of securities of various types in connection with a shelf registration statement declared effective on January 16, 2003 by the SEC. The sale, or availability for sale, of substantial amounts of our common shares in the public market, whether directly by us or resulting from the exercise of warrants or options (and, where applicable, sales pursuant to Rule 144) or the conversion into common shares, or repurchase of debentures and notes using common shares, would be dilutive to existing security holders, could adversely affect the prevailing market price of our common shares and could impair our ability to raise additional capital through the sale of equity securities.

Provisions of our organizational documents may deter a change of control transaction and decrease the likelihood of a shareholder receiving a change of control premium

Our board of directors is divided into three classes, with each class serving a staggered three-year term. In addition, our board of directors has the authority to issue a significant amount of common shares and up to 25,000,000 preferred shares and to determine the price, rights (including voting rights), conversion ratios, preferences and privileges of the preferred shares, in each case without further vote or action by the holders of the common shares. Although we have no present plans to issue preferred shares, the classified board and our board's ability to issue additional preferred shares may discourage, delay or prevent changes in control of Nabors that are not supported by our board, thereby possibly preventing certain of our shareholders from realizing a possible premium on their shares. In addition, the requirement in the indenture for our \$2.75 billion senior exchangeable notes due 2011 and Series B of our \$700 million zero coupon senior exchangeable notes due 2023 to pay a make-whole premium in the form of an increase in the exchange rate in certain circumstances could have the effect of making a change in control of Nabors more expensive.

We have a substantial amount of debt outstanding

As of December 31, 2007, we have long-term debt of approximately \$4.0 billion, including current maturities of \$700 million, and cash and cash equivalents and investments of \$1.1 billion, including \$236.3 million of long-term investments and \$53.1 million in cash proceeds receivable from the sale of certain non-marketable securities that is included in other current assets. If either of our \$2.75 billion 0.94% senior exchangeable notes or the \$700 million zero coupon senior exchangeable notes are exchanged or our \$700 million zero coupon senior exchangeable notes are put to us, we believe that we have the ability to access capital markets or otherwise obtain financing in order to satisfy any payment obligations that might arise upon exchange of these notes and that any cash payment due of this magnitude, in addition to our other cash obligations, will not ultimately have a material adverse impact on our

liquidity or financial position. We have a gross funded debt to capital ratio of 0.44:1 and a net funded debt to capital ratio of 0.37:1. The gross funded debt to capital ratio is calculated by dividing funded debt by funded debt plus deferred tax liabilities net of deferred tax assets plus capital. Funded debt is defined as the sum of (1) short-term borrowings, (2) current portion of long-term debt and (3) long-term debt. Capital is defined as shareholders' equity. The net funded debt to capital ratio is calculated by dividing net funded debt by net funded debt plus deferred tax liabilities net of deferred tax assets plus capital. Net funded debt is defined as the sum of (1) short-term borrowings, (2) current portion of long-term debt and (3) long-term debt reduced by the sum of cash and cash equivalents and short-term and long-term investments. Capital is

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defined as shareholders' equity. Both of these ratios are methods for calculating the amount of leverage a company has in relation to its capital.

On February 20, 2008, Nabors Industries, Inc., our wholly-owned subsidiary, issued \$575 million aggregate principal amount of 6.15% senior notes due 2018 that are fully and unconditionally guaranteed by Nabors Industries Ltd. See Note 21 Subsequent Event of our accompanying consolidated financial statements for additional information.

Our ability to perform under new contracts and to grow our business as forecasted depends to a substantial degree on timely delivery of rigs and equipment from our suppliers

The forecasted growth in the operating revenues and net income for our Contract Drilling subsidiaries depends to a substantial degree on the timely delivery of rigs and equipment from our suppliers as part of our recently expanded capital programs. We can give no assurances that our suppliers will meet expected delivery schedules for delivery of these new rigs and equipment or that the new rigs and equipment will be free from defects. Delays in the delivery of new rigs and equipment and delays incurred in correcting any defects in such rigs and equipment could cause us to fail to meet our operating forecasts and could subject us to late delivery penalties under contracts with our customers.

We may have additional tax liabilities

We are subject to income taxes in both the United States and numerous foreign jurisdictions. Significant judgment is required in determining our worldwide provision for income taxes. In the ordinary course of our business, there are many transactions and calculations where the ultimate tax determination is uncertain. We are regularly under audit by tax authorities. Although we believe our tax estimates are reasonable, the final determination of tax audits and any related litigation could be materially different than that which is reflected in historical income tax provisions and accruals. Based on the results of an audit or litigation, a material effect on our financial position, income tax provision, net income, or cash flows in the period or periods for which that determination is made could result.

It is possible that future changes to tax laws (including tax treaties) could have an impact on our ability to realize the tax savings recorded to date as well as future tax savings as a result of our corporate reorganization, depending on any responsive action taken by us.

On September 14, 2006, Nabors Drilling International Limited (NDIL), a wholly-owned Bermuda subsidiary of Nabors, received a Notice of Assessment (the Notice) from the Mexican Servicio de Administracion Tributaria (the SAT) in connection with the audit of NDIL 's Mexican branch for tax year 2003. The Notice proposes to deny a depreciation expense deduction that relates to drilling rigs operating in Mexico in 2003, as well as a deduction for payments made to an affiliated company for the provision of labor services in Mexico. The amount assessed by the SAT is approximately \$19.8 million (including interest and penalties). Nabors and its tax advisors previously concluded that the deduction of said amounts was appropriate and more recently that the position of the SAT lacks merit. NDIL 's Mexican branch took similar deductions for depreciation and labor expenses in 2004, 2005, 2006 and 2007. It is likely that the SAT will propose the disallowance of these deductions upon audit of NDIL 's Mexican branch 's 2004, 2005, 2006 and 2007 tax years.

Proposed tax legislation could mitigate or eliminate the benefits of our 2002 reorganization as a Bermuda company

Various bills have been introduced in Congress which could reduce or eliminate the tax benefits associated with our reorganization as a Bermuda company. Legislation enacted by Congress in 2004 provides that a corporation that reorganized in a foreign jurisdiction on or after March 4, 2003 shall be treated as a domestic corporation for United States federal income tax purposes. Nabors' reorganization was completed June 24, 2002. There have been and we expect that there may continue to be legislation proposed by Congress from time to time applicable to certain companies that completed such reorganizations on or after March 20, 2002 which, if enacted, could limit or eliminate the tax benefits associated with our reorganization.

Because we cannot predict whether legislation will ultimately be adopted, no assurance can be given that the tax benefits associated with our reorganization will ultimately accrue to the benefit of the Company and its shareholders. It is possible that future changes to the tax laws (including tax treaties) could have an impact on our ability to realize the tax savings recorded to date as well as future tax savings resulting from our reorganization.

Legal proceedings could affect our financial condition and results of operations

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We are from time to time subject to legal proceedings or governmental investigations which include employment, tort, intellectual property and other claims, and purported class action and shareholder derivative actions. We also are subject to complaints or allegations from former, current or prospective employees from time to time, alleging violations of employment-related laws. Lawsuits or claims could result in decisions against us which could have a material adverse effect on our financial condition or results of operations.

Our financial results could be affected by changes in the value of our investment portfolio

We invest our excess cash in a variety of investment vehicles, many of which are subject to fluctuations resulting from a variety of economic factors or factors associated with a particular investment, including without limitation, overall declines in the equity markets, currency and interest rate fluctuations, volatility in the credit markets, exposures related to concentrations of investments in a particular fund or investment, exposures related to hedges of financial positions, and the performance of particular fund or investment managers. As a result, events or developments which negatively affect the value of our investments could have a material adverse effect on our results of operations.

The loss of key executives could reduce our competitiveness and prospects for future success

The successful execution of our strategies central to our future success will depend, in part, on a few of our key executive officers. We have entered into employment agreements with our Chairman and Chief Executive Officer, Mr. Eugene M. Isenberg and our Deputy Chairman, President and Chief Operating Officer, Mr. Anthony G. Petrello, to secure their employment through September 30, 2010. We do not carry key man insurance. The loss of Mr. Isenberg or Mr. Petrello could have an adverse effect on our financial condition or results of operations.

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 2. PROPERTIES

Many of the international drilling rigs and certain of the Alaska rigs in our fleet are supported by mobile camps which house the drilling crews and a significant inventory of spare parts and supplies. In addition, we own various trucks, forklifts, cranes, earth moving and other construction and transportation equipment and own various helicopters, fixed-wing aircraft and heliportable well-service equipment, which are used to support drilling and logistics operations.

Nabors and its subsidiaries own or lease executive and administrative office space in Hamilton, Bermuda (principal executive office); Houston, Texas; Anchorage, Alaska; Harvey, Houma, New Iberia and Lafayette, Louisiana; Bakersfield, California; Magnolia, Texas; Calgary, Red Deer and Nisku, Alberta, Canada; Sana'a, Yemen; Dubai, U.A.E.; Dhahran, Saudi Arabia; Anaco, Venezuela; and Luanda, Angola. We also own or lease a number of facilities and storage yards used in support of operations in each of our geographic markets.

Nabors and its subsidiaries own certain mineral interests in connection with their investing and operating activities. Nabors does not consider these properties to be material to its overall operations.

Additional information about our properties can be found in Notes 2 and 6 (each, under the caption *Property, Plant and Equipment*) and 14 (under the caption *Operating Leases*) of the Notes to Consolidated Financial Statements in *Part II, Item 8.* below. The revenues and property, plant and equipment by geographic area for the fiscal years ended December 31, 2005, 2006 and 2007, can be found in Note 19 of the Notes to Consolidated Financial Statements in *Part II, Item 8.* below. A description of our rig fleet is included under the caption *Introduction* in *Part I, Item 1. Business.*

Nabors management believes that our existing equipment and facilities and our planned expansion of our equipment and facilities through our capital expenditure programs currently in process are adequate to support our current level of operations as well as an expansion of drilling operations in those geographical areas where we may expand.

Table of Contents**ITEM 3. LEGAL PROCEEDINGS**

Nabors and its subsidiaries are defendants or otherwise involved in a number of lawsuits in the ordinary course of business. We estimate the range of our liability related to pending litigation when we believe the amount and range of loss can be estimated. We record our best estimate of a loss when the loss is considered probable. When a liability is probable and there is a range of estimated loss with no best estimate in the range, we record the minimum estimated liability related to the lawsuits or claims. As additional information becomes available, we assess the potential liability related to our pending litigation and claims and revise our estimates. Due to uncertainties related to the resolution of lawsuits and claims, the ultimate outcome may differ from our estimates. In the opinion of management and based on liability accruals provided, our ultimate exposure with respect to these pending lawsuits and claims is not expected to have a material adverse effect on our consolidated financial position or cash flows, although they could have a material adverse effect on our results of operations for a particular reporting period.

On December 22, 2005, we received a grand jury subpoena from the United States Attorney's Office in Anchorage, Alaska, seeking documents and information relating to an alleged spill, discharge, overflow or cleanup of drilling mud or sludge involving one of our rigs during March 2003. We are cooperating with the authorities in this matter.

On February 6, 2007, a purported shareholder derivative action entitled *Kenneth H. Karstedt v. Eugene M. Isenberg, et al* was filed in the United States District Court for the Southern District of Texas against the Company's officers and directors, and against the Company as a nominal defendant. The complaint alleged that stock options were priced retroactively and were improperly accounted for, and alleged various causes of action based on that assertion. The complaint sought, among other things, payment by the defendants to the Company of damages allegedly suffered by it and disgorgement of profits. On March 5, 2007, another purported shareholder derivative action entitled *Gail McKinney v. Eugene M. Isenberg, et al* was also filed in the United States District Court for the Southern District of Texas. The complaint made substantially the same allegations against the same defendants and sought the same elements of damages. The two derivative actions were consolidated into one proceeding. On December 31, 2007, the Company and the individual defendants agreed with the plaintiffs-shareholders to settle the derivative action. The settlement is subject to preliminary and final approval of the United States District Court for the Southern District of Texas. Under the terms of the proposed settlement, the Company and the individual defendants have implemented or will implement certain corporate governance reforms and adopt certain modifications to our equity award policy and our Compensation Committee charter. The Company and its insurers have agreed to pay up to \$2.85 million to plaintiffs' counsel for their attorneys' fees and the reimbursement of their expenses and costs.

During the fourth quarter of 2006 and the first quarter of 2007, a review was conducted of the Company's granting practices and accounting for certain employee equity awards to both the senior executives of the Company and other employees from 1988 through 2006. Based on the results of the review, the Company recorded a noncash charge of \$38.3 million, net of tax, at December 31, 2006. The Company determined that no restatement of its historical financial statements was necessary because there were no findings of fraud or intentional wrongdoing, and because the effects of certain revised measurement dates were not material in any fiscal year. In a letter dated December 28, 2006, the SEC staff advised us that it had commenced an informal inquiry regarding our stock option grants and related practices, procedures and accounting. By letter dated May 7, 2007, the SEC staff informed us they had closed the investigation without any recommendation of enforcement action.

On July 5, 2007, we received an inquiry from the U.S. Department of Justice relating to its investigation of one of our vendors and compliance with the Foreign Corrupt Practices Act. Our Audit Committee of the Board of Directors has engaged outside counsel to review certain transactions with this vendor, which provides freight forwarding and customs clearance services, and we are cooperating with the Department of Justice inquiry. The ultimate outcome of this review cannot be determined at this time.

On October 17, 2007, we settled a dispute with a vendor. Pursuant to the settlement, we received an equity interest in a parent company of the vendor, we granted the vendor a nonexclusive, royalty-free license to use certain technology, and the parties each executed a mutual release of claims against each other.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Not applicable.

Table of Contents**PART II****ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED SHAREHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES****STOCK PERFORMANCE GRAPH**

The following graph illustrates comparisons of five-year cumulative total returns among Nabors Industries Ltd., the S&P 500 Index and the Dow Jones Oil Equipment and Services Index. Total return assumes \$100 invested on December 31, 2002 in shares of Nabors Industries Ltd., the S&P 500 Index, and the Dow Jones Oil Equipment and Services Index. It also assumes reinvestment of dividends and is calculated at the end of each calendar year, December 31, 2003 to December 31, 2007.

	2003	2004	2005	2006	2007
Nabors Industries Ltd.	118	145	215	169	155
S&P 500 Index	129	143	150	173	183
Dow Jones Oil Equipment and Services Index	115	155	236	267	388

I. Market and Share Prices.

Our common shares are traded on the New York Stock Exchange under the symbol **NBR**. At December 31, 2007, there were approximately 2,006 shareholders of record. We have not paid any cash dividends on our common shares since 1982. Nabors does not currently intend to pay any cash dividends on its common shares. However, we note that there have been recent positive industry trends and changes in tax law providing more favorable treatment of dividends. As a result, we can give no assurance that we will not reevaluate our position on dividends in the future.

On December 13, 2005, our Board of Directors approved a two-for-one stock split of our common shares to be effectuated in the form of a stock dividend. The stock dividend was distributed on April 17, 2006 to shareholders of record on March 31, 2006. For all balance sheets presented, capital in excess of par value was reduced by \$.2 million and common shares were increased by \$.2 million.

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The following table sets forth the reported high and low sales prices of our common shares as reported on the New York Stock Exchange for the periods indicated.

Calendar Year		Share Price	
		High	Low
2006	First quarter	41.35	31.36
	Second quarter	40.71	29.75
	Third quarter	36.04	28.35
	Fourth quarter	34.62	27.26
2007	First quarter	32.74	27.53
	Second quarter	36.42	29.59
	Third quarter	34.10	27.05
	Fourth quarter	31.23	26.00

The following table provides information relating to Nabors' repurchase of common shares during the fourth quarter of 2007:

Period (In thousands, except per share prices)	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar
				Value of Shares that May Yet Be Purchased Under the Plans or Programs(1)
November 1 - November 30, 2007	951	\$ 26.87	951	\$ 380,721
December 1 - December 31, 2007	2,831	\$ 27.16	2,831	\$ 303,810

(1) In July 2006, our Board of Directors authorized a share repurchase program under which we may repurchase up to \$500 million of our common shares in the open market or in privately

negotiated transactions. This program supersedes and cancels our previous share repurchase program. Through December 31, 2007, approximately \$196.2 million of our common shares had been repurchased under this program. As of December 31, 2007, we had \$303.8 million of shares that still may be purchased under the July 2006 share repurchase program.

No common shares were repurchased during October 2007.

See Part III, Item 12. for a description of securities authorized for issuance under equity compensation plans.

II. Dividend Policy.

See *Part I Item 1A. Risk Factors* We do not currently intend to pay dividends.

III. Shareholder Matters.

Bermuda has exchange controls which apply to residents in respect of the Bermudian dollar. As an exempt company, Nabors is considered to be nonresident for such controls; consequently, there are no Bermuda governmental restrictions on the Company's ability to make transfers and carry out transactions in all other currencies, including currency of the United States.

There is no reciprocal tax treaty between Bermuda and the United States regarding withholding taxes. Under existing Bermuda law, there is no Bermuda income or withholding tax on dividends, if any, paid by Nabors to its shareholders. Furthermore, no Bermuda tax or other levy is payable on the sale or other transfer (including by gift or on the death of the shareholder) of Nabors common shares (other than by shareholders resident in Bermuda).

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Operating Data (1)(2) (In thousands, except per share amounts and ratio data)	Year Ended December 31,				
	2007	2006	2005	2004	2003
Revenues and other income:					
Operating revenues	\$ 4,938,848	\$ 4,707,289	\$ 3,394,472	\$ 2,351,571	\$ 1,814,520
Earnings from unconsolidated affiliates	17,724	20,545	5,671	4,057	10,058
Investment (loss) income	(15,891)	102,007	85,428	50,044	33,800
Total revenues and other income	4,940,681	4,829,841	3,485,571	2,405,672	1,858,378
Costs and other deductions:					
Direct costs	2,764,559	2,511,392	1,958,538	1,542,364	1,225,960
General and administrative expenses	436,282	416,610	247,129	192,692	164,136
Depreciation and amortization	467,730	364,653	285,054	248,057	219,841
Depletion	72,182	38,580	46,894	45,460	8,599
Interest expense	53,702	46,586	44,849	48,507	70,740
Losses (gains) on sales of long-lived assets, impairment charges and other expense (income), net	10,895	24,118	45,952	(5,036)	1,362
Total costs and other deductions	3,805,350	3,401,939	2,628,416	2,072,044	1,690,638
Income from continuing operations before income taxes	1,135,331	1,427,902	857,155	333,628	167,740
Income tax expense (benefit)	239,664	434,893	219,000	32,660	(19,968)
Income from continuing operations, net of tax	895,667	993,009	638,155	300,968	187,708
Income from discontinued operations, net of tax	35,024	27,727	10,540	1,489	4,520
Net income	\$ 930,691	\$ 1,020,736	\$ 648,695	\$ 302,457	\$ 192,228
Earnings per share:					
Basic from continuing operations	\$ 3.21	\$ 3.42	\$ 2.05	\$ 1.01	\$.64
Basic from discontinued operations	.13	.10	.03	.01	.02
Total Basic	\$ 3.34	\$ 3.52	\$ 2.08	\$ 1.02	\$.66
Diluted from continuing operations	\$ 3.13	\$ 3.31	\$ 1.97	\$.96	\$.61
Diluted from discontinued operations	.12	.09	.03		.01
Total Diluted	\$ 3.25	\$ 3.40	\$ 2.00	\$.96	\$.62
Weighted-average number of common shares outstanding:					
Basic	279,026	290,241	312,134	297,872	292,989
Diluted	286,606	299,827	324,378	328,060	313,794
Capital expenditures and acquisitions of businesses (3)	\$ 1,979,831	\$ 1,997,971	\$ 1,003,269	\$ 544,429	\$ 353,138
Interest coverage ratio (4)	32.5:1	38.1:1	25.6:1	12.9:1	6.1:1

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(In thousands, except ratio data)	2007	2006	2005	2004	2003
Cash and cash equivalents and short-term and long-term investments					
(5)	\$ 1,056,358	\$ 1,653,285	\$ 1,646,327	\$ 1,411,047	\$ 1,579,090
Working capital	710,980	1,650,496	1,264,852	821,120	1,529,691
Property, plant and equipment, net	6,689,126	5,410,101	3,886,924	3,275,495	2,990,792
Total assets	10,103,382	9,142,303	7,230,407	5,862,609	5,602,692
Long-term debt	3,306,433	4,004,074	1,251,751	1,201,686	1,985,553
Shareholders' equity	\$ 4,514,121	\$ 3,536,653	\$ 3,758,140	\$ 2,929,393	\$ 2,490,275
Funded debt to capital ratio:					
Gross (6)	0.44:1	0.50:1	0.32:1	0.38:1	0.45:1
Net (7)	0.37:1	0.37:1	0.08:1	0.15:1	0.20:1

(1) All periods present the Sea Mar business as a discontinued operation.

(2) Our acquisitions results of operations and financial position have been included beginning on the respective dates of acquisition and include Pragma Drilling Equipment Ltd. assets (May 2006), 1183011 Alberta Ltd. (January 2006), Sunset Well Service, Inc. (August 2005), Alexander Drilling, Inc. assets (June 2005), Phillips Trucking, Inc. assets (June 2005), and

Rocky
Mountain Oil
Tools, Inc.
assets
(March 2005).

- (3) Represents capital expenditures and the portion of the purchase price of acquisitions allocated to fixed assets and goodwill based on their fair market value.
- (4) The interest coverage ratio from continuing operations is computed by calculating the sum of income from continuing operations before income taxes, interest expense, depreciation and amortization, and depletion expense less investment income (loss) and then dividing by interest expense. This ratio is a method for calculating the amount of operating cash flows available to cover interest expense. The interest coverage ratio from continuing

operations is not a measure of operating performance or liquidity defined by accounting principles generally accepted in the United States of America and may not be comparable to similarly titled measures presented by other companies.

(5) The December 31, 2007 amount includes \$53.1 million in cash proceeds receivable from brokers from the sale of certain long-term investments that are included in other current assets. These proceeds were received during January 2008.

(6) The gross funded debt to capital ratio is calculated by dividing funded debt by funded debt plus deferred tax liabilities, net of deferred tax assets plus capital. Funded debt is defined as the sum of

(1) short-term borrowings,
(2) current portion of long-term debt and (3) long-term debt. Capital is defined as shareholders equity.

(7) The net funded debt to capital ratio is calculated by dividing net funded debt by net funded debt plus deferred tax liabilities, net of deferred tax assets plus capital. Net funded debt is defined as the sum of (1) short-term borrowings, (2) current portion of long-term debt and (3) long-term debt reduced by the sum of cash and cash equivalents and short-term and long-term investments. Capital is defined as shareholders equity. The net funded debt to capital ratio is not a measure of operating performance or liquidity defined

by accounting principles generally accepted in the United States of America and may not be comparable to similarly titled measures presented by other companies.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

MANAGEMENT OVERVIEW

The following Management's Discussion and Analysis of Financial Condition and Results of Operations is intended to help the reader understand the results of our operations and our financial condition. This information is provided as a supplement to, and should be read in conjunction with our consolidated financial statements and the accompanying notes to our consolidated financial statements.

Nabors is the largest land drilling contractor in the world. We conduct oil, gas and geothermal land drilling operations in the U.S. Lower 48 states, Alaska, Canada, South America, Mexico, the Caribbean, the Middle East, the Far East, Russia and Africa. Nabors also is one of the largest land well-servicing and workover contractors in the United States and Canada and is a leading provider of offshore platform workover and drilling rigs in the United States and multiple international markets. To further supplement and complement our primary business, we offer a wide range of ancillary well-site services, including engineering, construction,

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maintenance, well logging, directional drilling, rig instrumentation, data collection and other support services, in selected domestic and international markets. We offer logistics services for onshore drilling in Canada using helicopter and fixed-winged aircraft. We manufacture and lease or sell top drives for a broad range of drilling applications, directional drilling systems, rig instrumentation and data collection equipment, and rig reporting software. We also invest in oil and gas exploration, development and production activities worldwide.

The majority of our business is conducted through our various Contract Drilling operating segments, which include our drilling, workover and well-servicing operations, on land and offshore. Our oil and gas exploration, development and production operations are included in a category labeled Oil and Gas for segment reporting purposes. Our operating segments engaged in drilling technology and top drive manufacturing, directional drilling, rig instrumentation and software, and construction and logistics operations are aggregated in a category labeled Other Operating Segments for segment reporting purposes.

Our businesses depend, to a large degree, on the level of spending by oil and gas companies for exploration, development and production activities. Therefore, a sustained increase or decrease in the price of natural gas or oil, which could have a material impact on exploration, development and production activities, could also materially affect our financial position, results of operations and cash flows.

The magnitude of customer spending on new and existing wells is the primary driver of our business. The primary determinate of customer spending is the degree of their cash flow and earnings which are largely determined by natural gas prices in our U.S. Lower 48 Land Drilling, Canadian and U.S. Offshore (Gulf of Mexico) operations, while oil prices are the primary determinate in our Alaskan, International and U.S. Land Well-servicing operations. The following table sets forth natural gas and oil price data per Bloomberg for the last three years:

	Year Ended December 31,			Increase / (Decrease)			
	2007	2006	2005	2007 to 2006		2006 to 2005	
Commodity prices:							
Average Henry Hub natural gas spot price (\$/million cubic feet (mcf))	\$ 6.97	\$ 6.73	\$ 8.89	\$0.24	4%	\$(2.16)	(24%)
Average West Texas intermediate crude oil spot price (\$/barrel)	\$72.23	\$66.09	\$56.59	\$6.14	9%	\$ 9.50	17%

Operating revenues and earnings from unconsolidated affiliates for the year ended December 31, 2007 totaled \$5.0 billion, representing an increase of \$228.7 million, or 5%, compared to the year ended December 31, 2006. Adjusted income derived from operating activities and net income for the year ended December 31, 2007 totaled \$1.2 billion and \$930.7 million (\$3.25 per diluted share), respectively, representing decreases of 13% and 9%, respectively, compared to the year ended December 31, 2006. Operating revenues and earnings from unconsolidated affiliates for the year ended December 31, 2006 totaled \$4.7 billion, representing an increase of \$1.3 billion, or 39%, compared to the year ended December 31, 2005. Adjusted income derived from operating activities and net income for the year ended December 31, 2006 totaled \$1.4 billion and \$1.0 billion (\$3.40 per diluted share), respectively, representing increases of 62% and 57%, respectively, compared to the year ended December 31, 2005.

The decrease in our adjusted income derived from operating activities from 2006 to 2007 related primarily to our U.S. Lower 48 Land Drilling, Canada Drilling and Well-servicing, and our U.S. Well-servicing operations, where activity levels have decreased despite slightly higher natural gas prices and higher oil prices. Operating results were further negatively impacted by higher levels of depreciation expense due to our capital expenditures. Partially offsetting the decreases in our adjusted income derived from operating activities were the increases in operating results from our International operations and to a lesser extent by our Alaska operations, driven by continuing high oil prices. In addition, our net income and earnings per share for 2007 has decreased compared to 2006 as a result of investment net losses during 2007 only partially offset by a lower effective tax rate and a lower number of average shares outstanding.

The increase in operating results from 2005 to 2006 resulted from higher revenues realized by essentially all of our operating segments. Revenues increased as a result of higher average dayrates and activity levels during 2006 compared to 2005. This increase in average dayrates and activity reflects an increase in demand for our services in these markets during 2006, which resulted from continuing higher expenditures by our customers for drilling and workover services as a result of historically high oil and natural gas prices throughout 2006.

Our operating results for 2008 are expected to approximate the levels realized during 2007. We expect our International operations to show substantial increases resulting from the deployment of additional rigs under long-term contracts and the renewal of existing contracts at higher current market rates. However, our North American natural gas driven operations are expected to decrease. In our U.S. Lower 48 Land Drilling operations, we expect a significant number of expiring term contracts for older rigs to rollover in 2008 at lower margins. These decreases should be partially offset by the remaining new rig deployments at higher margins and improved margins of the previously deployed new rigs. We expect our Canadian operations to decrease as a result of the depressed market conditions there.

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The following tables set forth certain information with respect to our reportable segments and rig activity:

(In thousands, except percentages and rig activity)	Year Ended December 31,			Increase/(Decrease)			
	2007	2006	2005	2007 to 2006		2006 to 2005	
Reportable segments:							
Operating revenues and earnings from unconsolidated affiliates from continuing operations: ⁽¹⁾							
Contract Drilling: ⁽²⁾							
U.S. Lower 48 Land Drilling	\$ 1,710,990	\$ 1,890,302	\$ 1,306,963	\$ (179,312)	(9%)	\$ 583,339	45%
U.S. Land Well-servicing	715,414	704,189	491,704	11,225	2%	212,485	43%
U.S. Offshore	212,160	221,676	158,888	(9,516)	(4%)	62,788	40%
Alaska	152,490	110,718	85,768	41,772	38%	24,950	29%
Canada	545,035	686,889	553,537	(141,854)	(21%)	133,352	24%
International	1,094,802	746,460	552,656	348,342	47%	193,804	35%
Subtotal Contract Drilling ⁽³⁾	4,430,891	4,360,234	3,149,516	70,657	2%	1,210,718	38%
Oil and Gas ^{(4) (5)}	152,320	59,431	62,913	92,889	156%	(3,482)	(6%)
Other Operating Segments ^{(6) (7)}	588,483	505,286	282,910	83,197	16%	222,376	79%
Other reconciling items ⁽⁸⁾	(215,122)	(197,117)	(95,196)	(18,005)	(9%)	(101,921)	(107%)
Total	\$ 4,956,572	\$ 4,727,834	\$ 3,400,143	\$ 228,738	5%	\$ 1,327,691	39%
Adjusted income (loss) derived from operating activities from continuing operations: ⁽¹⁾⁽⁹⁾							
Contract Drilling:							
U.S. Lower 48 Land Drilling	\$ 596,302	\$ 821,821	\$ 464,570	\$ (225,519)	(27%)	\$ 357,251	77%
U.S. Land Well-servicing	156,243	199,944	107,728	(43,701)	(22%)	92,216	86%
U.S. Offshore	51,508	65,328	38,783	(13,820)	(21%)	26,545	68%
Alaska	37,394	17,542	16,608	19,852	113%	934	6%
Canada	87,046	185,117	136,368	(98,071)	(53%)	48,749	36%
International	332,283	208,705	135,588	123,578	59%	73,117	54%
Subtotal Contract Drilling ⁽³⁾	1,260,776	1,498,457	899,645	(237,681)	(16%)	598,812	67%
Oil and Gas	56,133	4,065	10,194	52,068	N/M ⁽¹⁰⁾	(6,129)	(60%)
Other Operating Segments ⁽⁶⁾	35,273	30,028	17,619	5,245	17%	12,409	70%
Other reconciling items ⁽¹¹⁾	(136,363)	(135,951)	(64,930)	(412)	0%	(71,021)	(109%)
Total	1,215,819	1,396,599	862,528	(180,780)	(13%)	534,071	62%
Interest expense	(53,702)	(46,586)	(44,849)	(7,116)	(15%)	(1,737)	(4%)
Investment (loss) income	(15,891)	102,007	85,428	(117,898)	(116%)	16,579	19%
(Losses) gains on sales of long-lived assets, impairment charges and other income (expense), net	(10,895)	(24,118)	(45,952)	13,223	55%	21,834	48%
Income from continuing operations before income taxes	\$ 1,135,331	\$ 1,427,902	\$ 857,155	\$ (292,571)	(20%)	\$ 570,747	67%

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(In thousands, except percentages and rig activity)	Year Ended December 31,			Increase/(Decrease)			
	2007	2006	2005	2007 to 2006		2006 to 2005	
Rig activity:							
Rig years: ⁽¹²⁾							
U.S. Lower 48 Land Drilling	229.4	255.5	235.9	(26.1)	(10%)	19.6	8%
U.S. Offshore	15.8	16.4	15.6	(0.6)	(4%)	0.8	5%
Alaska	8.7	8.6	7.1	0.1	1%	1.5	21%
Canada	36.7	53.3	53.0	(16.6)	(31%)	0.3	1%
International ⁽¹³⁾	115.2	97.1	82.3	18.1	19%	14.8	18%
Total rig years	405.8	430.9	393.9	(25.1)	(6%)	37.0	9%
Rig hours: ⁽¹⁴⁾							
U.S. Land Well-servicing	1,119,497	1,256,141	1,216,453	(136,644)	(11%)	39,688	3%
Canada Well-servicing	283,471	360,129	367,414	(76,658)	(21%)	(7,285)	(2%)
Total rig hours	1,402,968	1,616,270	1,583,867	(213,302)	(13%)	32,403	2%

(1) Information excludes the Sea Mar business, which has been classified as a discontinued operation.

(2) These segments include our drilling, workover and well-servicing operations, on land and offshore.

(3) Includes earnings (losses), net from unconsolidated affiliates, accounted for by the equity method, of \$5.6 million, \$4.0 million and \$(1.3) million

for the years
ended
December 31,
2007, 2006 and
2005,
respectively.

- (4) Represents our oil and gas exploration, development and production operations.
- (5) Includes earnings (losses), net, from unconsolidated affiliates, accounted for by the equity method, of \$(3.9) million for the year ended December 31, 2007 and \$0 for the years ended December 31, 2006 and 2005, respectively.
- (6) Includes our drilling technology and top drive manufacturing, directional drilling, rig instrumentation and software, and construction and logistics operations.
- (7) Includes earnings from unconsolidated affiliates, accounted for

by the equity method, of \$16.0 million, \$16.5 million and \$7.0 million for the years ended December 31, 2007, 2006 and 2005, respectively.

- (8) Represents the elimination of inter-segment transactions.
- (9) Adjusted income derived from operating activities is computed by: subtracting direct costs, general and administrative expenses, and depreciation and amortization, and depletion expense from Operating revenues and then adding Earnings from unconsolidated affiliates. Such amounts should not be used as a substitute to those amounts reported under accounting principles generally accepted in the United States of America (GAAP). However, management

evaluates the performance of our business units and the consolidated company based on several criteria, including adjusted income derived from operating activities, because it believes that this financial measure is an accurate reflection of the ongoing profitability of our company. A reconciliation of this non-GAAP measure to income from continuing operations before income taxes, which is a GAAP measure, is provided within the above table.

- (10) The percentage is so large that it is not meaningful.
- (11) Represents the elimination of inter-segment transactions and unallocated corporate expenses.
- (12) Excludes well-servicing rigs, which are

measured in rig hours. Includes our equivalent percentage ownership of rigs owned by unconsolidated affiliates. Rig years represent a measure of the number of equivalent rigs operating during a given period. For example, one rig operating 182.5 days during a 365-day period represents 0.5 rig years.

(13) International rig years include our equivalent percentage ownership of rigs owned by unconsolidated affiliates which totaled 4.0 years during the years ended December 31, 2007 and 2006, respectively, and 3.9 years during the year ended December 31, 2005.

(14) Rig hours represents the number of hours that our well-servicing rig fleet operated during the year.

Table of Contents**SEGMENT RESULTS OF OPERATIONS****Contract Drilling**

Our Contract Drilling operating segments contain one or more of the following operations: drilling, workover and well-servicing, on land and offshore.

U.S. Lower 48 Land Drilling. The results of operations for this reportable segment are as follows:

(In thousands, except percentages and rig activity)	Year Ended December 31,			Increase/(Decrease)			
	2007	2006	2005	2007 to 2006		2006 to 2005	
Operating revenues and earnings from unconsolidated affiliates	\$ 1,710,990	\$ 1,890,302	\$ 1,306,963	\$ (179,312)	(9%)	\$ 583,339	45%
Adjusted income derived from operating activities	\$ 596,302	\$ 821,821	\$ 464,570	\$ (225,519)	(27%)	\$ 357,251	77%
Rig years	229.4	255.5	235.9	(26.1)	(10%)	19.6	8%

The decrease in operating results from 2006 to 2007 is a result of year-over-year decreases in drilling activity. Additionally, the decrease in operating results is due to higher drilling rig operating costs, including depreciation expense related to capital expansion projects.

The increase in our operating results from 2005 to 2006 primarily resulted from year-over-year increases in average dayrates and drilling activity, which is reflected in the increase in rig years from 2005 to 2006. Average dayrates and activity levels improved during 2005 and 2006 as a result of an increase in demand for drilling services, which resulted primarily from continuing higher price levels for natural gas during 2006.

U.S. Land Well-servicing. The results of operations for this reportable segment are as follows:

(In thousands, except percentages and rig activity)	Year Ended December 31,			Increase/(Decrease)			
	2007	2006	2005	2007 to 2006		2006 to 2005	
Operating revenues and earnings from unconsolidated affiliates	\$ 715,414	\$ 704,189	\$ 491,704	\$ 11,225	2%	\$ 212,485	43%
Adjusted income derived from operating activities	\$ 156,243	\$ 199,944	\$ 107,728	\$ (43,701)	(22%)	\$ 92,216	86%
Rig hours	1,119,497	1,256,141	1,216,453	(136,644)	(11%)	39,688	3%

Operating revenues and earnings from unconsolidated affiliates increased from 2006 to 2007 primarily due to year-over-year higher average dayrates, supported by the sustained level of high oil prices and an expansion of our geographic market through nine additional service centers from our capital spending program. Higher average dayrates were partially offset by lower rig utilization. The decrease in adjusted income derived from operating activities from 2006 to 2007 reflects lower rig utilization, higher operating costs, higher SG&A costs and higher depreciation expense related to capital expansion projects.

The increase in our operating results from 2005 to 2006 primarily resulted from a year-over-year increase in average dayrates and from higher well-servicing hours. This increase in dayrates and well-servicing hours resulted from higher customer demand for our services in a number of markets in which we operate, which was driven by a sustained level of higher oil prices.

U.S. Offshore. The results of operations for this reportable segment are as follows:

(In thousands, except percentages and rig activity)	Year Ended December 31,			Increase/(Decrease)			
	2007	2006	2005	2007 to 2006		2006 to 2005	
Operating revenues and earnings from unconsolidated affiliates	\$ 212,160	\$ 221,676	\$ 158,888	\$ (9,516)	(4%)	\$ 62,788	40%
Adjusted income derived from operating activities	\$ 51,508	\$ 65,328	\$ 38,783	\$ (13,820)	(21%)	\$ 26,545	68%
Rig years	15.8	16.4	15.6	(0.6)	(4%)	0.8	5%

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The decrease in operating results from 2006 to 2007 primarily resulted from a decrease in average dayrates and utilization for our jack-up rigs partially offset by the deployment of two new-built Barge and one Platform Workover Drilling rigs in early 2007. Operating results were further negatively impacted by increased depreciation expense relating to the new rigs added to the fleet.

The increase in operating results from 2005 to 2006 primarily resulted from an increase in dayrates for our entire rig fleet due to higher customer demand for our services stemming from higher natural gas prices. Additionally, our fourth quarter operating results for 2006 were increased by \$4.0 million of net business interruption insurance proceeds related to rigs of ours that were significantly damaged during Hurricane Rita in the third quarter of 2005.

Alaska. The results of operations for this reportable segment are as follows:

(In thousands, except percentages and rig activity)	Year Ended December 31,			Increase			
	2007	2006	2005	2007 to 2006		2006 to 2005	
Operating revenues and earnings from unconsolidated affiliates	\$ 152,490	\$ 110,718	\$ 85,768	\$ 41,772	38%	\$ 24,950	29%
Adjusted income derived from operating activities	\$ 37,394	\$ 17,542	\$ 16,608	\$ 19,852	113%	\$ 934	6%
Rig years	8.7	8.6	7.1	0.1	1%	1.5	21%

The increase in operating results from 2006 to 2007 and from 2005 to 2006 is primarily due to year-over-year increases in average dayrates, driven by the sustained level of high oil prices. Drilling activity levels have increased as a result from new customer demand and deployment and utilization of additional rigs in 2006 and 2007. The increases in 2006 and 2007 were partially offset by increased labor and repairs and maintenance costs in 2006 and 2007 as compared to prior years.

Canada. The results of operations for this reportable segment are as follows:

(In thousands, except percentages and rig activity)	Year Ended December 31,			Increase/(Decrease)			
	2007	2006	2005	2007 to 2006		2006 to 2005	
Operating revenues and earnings from unconsolidated affiliates	\$ 545,035	\$ 686,889	\$ 553,537	\$ (141,854)	(21%)	\$ 133,352	24%
Adjusted income derived from operating activities	\$ 87,046	\$ 185,117	\$ 136,368	\$ (98,071)	(53%)	\$ 48,749	36%
Rig years Drilling	36.7	53.3	53.0	(16.6)	(31%)	0.3	1%
Rig hours Well-servicing	283,471	360,129	367,414	(76,658)	(21%)	(7,285)	(2%)

The decrease in operating results from 2006 to 2007 resulted from year-over-year decreases in drilling and well-servicing activity. Our operating results for 2007 were further negatively impacted by proposed changes to the Alberta royalty and tax regime causing customers to assess the impact of such changes. The continued strengthening of the Canadian dollar versus the U.S. dollar positively impacted operating results in 2007 when translated to U.S. dollar equivalents but negatively impacted demand for our services as much of our customers revenue is denominated in U.S. dollars while their costs are denominated in Canadian dollars. Additionally, operating results were negatively impacted by increased operating expenses, including depreciation expense related to capital expansion projects.

The increase in our operating results from 2005 to 2006 primarily resulted from year-over-year increases in average dayrates and hourly rates for our Canadian drilling and well-servicing operations, respectively, and from year-over-year increases in drilling activity. Average dayrates and hourly rates and drilling activity levels improved as a result of increased demand for our services in this market, which was driven by increased commodity prices from 2005 to 2006. The increases in drilling activity are reflected in the year-over-year increases in rig years. Well-servicing hours decreased from 2005 to 2006 as lower natural gas prices during the fourth quarter of 2006 reduced the demand for completion work on gas wells. Our results for 2006 and 2005 were also positively impacted by the strengthening of the Canadian dollar versus the U.S. dollar during those years.

International. The results of operations for this reportable segment are as follows:

(In thousands, except percentages and rig activity)	Year Ended December 31,			Increase			
	2007	2006	2005	2007 to 2006		2006 to 2005	
Operating revenues and earnings from unconsolidated affiliates	\$1,094,802	\$746,460	\$552,656	\$348,342	47%	\$193,804	35%
Adjusted income derived from operating activities	\$ 332,283	\$208,705	\$135,588	\$123,578	59%	\$ 73,117	54%
Rig years	115.2	97.1	82.3	18.1	19%	14.8	18%

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The increase in operating results from 2006 to 2007 and from 2005 to 2006 primarily resulted from year-over-year increases in average dayrates and increases in drilling activities which is reflected in the increase in rig years from 2006 to 2007 and from 2005 to 2006. Average dayrates and activity levels improved during 2007 and 2006 as a result of an increase in demand for drilling services, due to the continuing high price for oil during 2006 and 2007. Results for 2007 have also been positively impacted from an expansion of our rig fleet and renewal of existing multi-year contracts at higher average dayrates.

Oil and Gas

This operating segment represents our oil and gas exploration, development and production operations. The results of operations for this reportable segment are as follows:

(In thousands, except percentages)	Year Ended December 31,			Increase/(Decrease)			
	2007	2006	2005	2007 to 2006		2006 to 2005	
Operating revenues and earnings from unconsolidated affiliates	\$ 152,320	\$ 59,431	\$ 62,913	\$ 92,889	156%	\$(3,482)	(6%)
Adjusted income derived from operating activities	\$ 56,133	\$ 4,065	\$ 10,194	\$ 52,068	N/M ⁽¹⁾	\$(6,129)	(60%)

(1) The percentage is so large that it is not meaningful.

The increase in our operating results from 2006 to 2007 was primarily a result of year-over-year increases in income attributable to earnings related to production payment contracts and gains totaling \$88 million recognized on the sale of certain properties during 2007. Additionally, operating results were higher year-over-year due to increases in production and increases in oil, gas and natural gas liquid prices. These increases to operating results were partially offset by a \$33.6 million increase in depletion expense and approximately \$3.9 million in net losses from the First Reserve joint ventures which commenced operations in 2007, as well as higher seismic costs and workover expenses compared to the prior year. The higher depletion expense resulted from increased units-of-production depletion and impairment charges, related to higher costs and lower than expected performance of certain oil and gas developmental wells.

The decrease in our operating results from 2005 to 2006 primarily resulted from a reduction in production stemming from the payout of one investment with El Paso Corporation in late 2005 and the reversion of our net profits interest to an overriding royalty interest. The net impact of changes in commodity prices from 2005 to 2006 further contributed to the decrease in operating results from 2005 to 2006. Additionally, we incurred higher seismic costs and work-over expenses as compared to prior period and also recorded an impairment of oil and gas properties totaling approximately \$9.9 million that was recorded as depletion expense. This impairment resulted from lower than expected performance of certain asset groups. These decreases were partially offset by a \$20.7 million gain on the sale of certain leasehold interests in the first quarter of 2006.

Other Operating Segments

These operations include our drilling technology and top drive manufacturing, directional drilling, rig instrumentation and software, and construction and logistics operations. The results of operations for these operating segments are as follows:

(In thousands, except percentages)	Year Ended December 31,			Increase			
	2007	2006	2005	2007 to 2006		2006 to 2005	
Operating revenues and earnings from unconsolidated affiliates	\$ 588,483	\$ 505,286	\$ 282,910	\$ 83,197	16%	\$ 222,376	79%
Adjusted income (loss) derived from operating activities	\$ 35,273	\$ 30,028	\$ 17,619	\$ 5,245	17%	\$ 12,409	70%

The increase in our operating results from 2006 to 2007 and from 2005 to 2006 primarily resulted from increased sales of top drives driven by the strengthening of the oil market and increased equipment sales associated with the acquisition of Pragma Drilling Equipment Ltd. in May 2006 and increased demand for the directional drilling market in the U.S. and increased market share in Canada. Results for construction and logistics services decreased during 2007 compared to 2006 due to lower demand for our services and increased in 2006 compared to 2005 due to higher demand for our services.

Table of Contents**Discontinued Operations**

During the third quarter of 2007, we sold our Sea Mar business which had previously been included in Other Operating Segments for a cash purchase price of \$194.3 million. The assets included 20 offshore supply vessels and certain related assets, including a right under a vessel construction contract. The operating results of this business for all periods presented are accounted for as discontinued operations in the accompanying consolidated statements of income, including a gain, net of tax of \$19.6 million recorded in the third quarter of 2007. The results of operations from discontinued operations are as follows:

(In thousands, except percentages)	Year Ended December 31,			Increase/(Decrease)			
	2007	2006	2005	2007 to 2006		2006 to 2005	
Revenues	\$58,887	\$112,873	\$65,436	\$(53,986)	(48%)	\$47,437	72%
Income from discontinued operations, net of tax	\$35,024	\$27,727	\$10,540	\$7,297	26%	\$17,187	163%

The decrease in revenues from 2006 to 2007 resulted from seven months of operations before our sale of the Sea Mar business in August 2007. The increase in income, net of tax, from 2006 to 2007 resulted from the gain recognized on the sale. The increase in our operating results from 2005 to 2006 primarily resulted from increased margins for our marine transportation and supply services driven by higher average dayrates and higher utilization, which was primarily driven by an improvement in the offshore drilling market that resulted in increased demand for our services.

OTHER FINANCIAL INFORMATION**General and administrative expenses**

(In thousands, except percentages)	Year Ended December 31,			Increase/(Decrease)			
	2007	2006	2005	2007 to 2006		2006 to 2005	
General and administrative expenses	\$436,282	\$416,610	\$247,129	\$19,672	5%	\$169,481	69%
General and administrative expenses as a percentage of operating revenues	8.8%	8.9%	7.3%	(.1%)	(1%)	1.6%	22%

General and administrative expenses increased from 2006 to 2007 and from 2005 to 2006 primarily as a result of increases in wages and burden for a majority of our operating segments compared to the prior year period, which primarily resulted from an increase in the number of employees required to support the increase in activity levels and from higher wages, and increased corporate compensation expense, which primarily resulted from higher bonuses and non-cash compensation expenses recorded for stock options and restricted stock grants during each sequential year. During 2006, the increase was also impacted by \$51.6 million additional compensation expense recorded during the fourth quarter relating to the review of employee stock option granting practices performed by the Company as more fully described in Note 3.

Depreciation and amortization, and depletion expense

(In thousands, except percentages)	Year Ended December 31,			Increase/(Decrease)			
	2007	2006	2005	2007 to 2006		2006 to 2005	
Depreciation and amortization expense	\$467,730	\$364,653	\$285,054	\$103,077	28%	\$79,599	28%
Depletion expense	\$72,182	\$38,580	\$46,894	\$33,602	87%	\$(8,314)	(18%)

Depreciation and amortization expense. Depreciation and amortization expense increased from 2006 to 2007 and from 2005 to 2006 as a result of depreciation on capital expenditures made throughout 2005, 2006 and 2007 from our expanded capital expenditure program commenced in early 2005.

Depletion expense. Depletion expense increased from 2006 to 2007 as a result of increased units-of-production depletion and impairment charges resulting from higher costs and lower than expected performance of certain oil and gas developmental wells.

Depletion expense decreased from 2005 to 2006 as a result of lower oil and gas production due to the payout of the El Paso Red River program in late 2005. These decreases were partially offset due to increases in depletion expense

on non-El Paso properties due to impairments of approximately \$9.9 million. The impairments resulted from lower than expected performance of certain asset groups.

Table of Contents**Interest expense**

(In thousands, except percentages)	Year Ended December 31,			Increase			
	2007	2006	2005	2007 to 2006	2006 to 2005		
Interest expense	\$53,702	\$46,586	\$44,849	\$7,116	15%	\$1,737	4%

Interest expense increased from 2006 to 2007 and from 2005 to 2006 as a result of the additional interest expense related to the May 2006 issuance of the \$2.75 billion 0.94% senior exchangeable notes due 2011. This increase was partially offset by interest expense reductions resulting from the redemption of 93% or \$769.8 million of our zero coupon convertible senior debentures due 2021 on February 6, 2006. These zero coupon notes accreted at a rate of 2.5% per annum. See further discussion of these transactions in Note 9 to our accompanying consolidated financial statements in Part II, Item 8.

Investment (loss) income

(In thousands, except percentages)	Year Ended December 31,			Increase/(Decrease)			
	2007	2006	2005	2007 to 2006	2006 to 2005		
Investment (loss) income	\$(15,891)	\$102,007	\$85,428	\$(117,898)	(116%)	\$16,579	19%

Investment (loss) income during 2007 was a net loss of \$15.9 million compared to income of \$102.0 million during the prior year. The current year loss reflected a net loss of \$61.4 million from the portion of our long-term investments comprised of our actively managed funds inclusive of substantial gains from sales of our marketable equity securities. Investment income from our short-term investments was approximately \$45.5 million during 2007 and slightly lower than 2006 primarily due to a combination of decreasing interest rates and a lower average cash balance.

Investment income increased from 2005 to 2006 as a result of higher interest income earned on investments in cash and short-term and long-term investments due to rising interest rates and a higher average investment balance related to the proceeds from the issuance of the \$2.75 billion 0.94% senior exchangeable notes due 2011 received in May 2006. The proceeds from the note issuance were reduced by approximately \$1.2 billion, which represents the cost of the purchase of the call options and the buy back of our stock, net of the sale of warrants. In addition, earnings on our long-term investments increased during 2006 as compared to the prior year period. The increase was partially reduced in 2006 compared to the prior year periods by reduced gains realized from the sale of equity securities.

Gains (losses) on sales of long-lived assets, impairment charges and other income (expense), net

(In thousands, except percentages)	Year Ended December 31,			Increase			
	2007	2006	2005	2007 to 2006	2006 to 2005		
Gains (losses) on sales of long-lived assets, impairment charges and other income (expense), net	\$(10,895)	\$(24,118)	\$(45,952)	\$13,223	55%	\$21,834	48%

The amount of gains (losses) on sales of long-lived assets, impairment charges and other income (expense), net for 2007 includes losses on retirements and impairment charges on long-lived assets of approximately \$40.0 million and increases to litigation reserves of \$9.6 million. These losses were partially offset by the \$38 million gain on the sale of three accommodation jack-up rigs in the second quarter of 2007.

The amount of gains (losses) on sales of long-lived assets, impairment charges and other income (expense), net for 2006 primarily includes losses on sales of long-lived assets of approximately \$21.6 million, of which approximately \$12.4 million relates to asset impairment charges.

Income tax rate

	Year Ended December 31,		
	2007	2006	2005
Effective income tax rate from continuing operations	21%	30%	26%

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The decrease in our effective income tax rate from 2006 to 2007 is a direct result of (1) the reversal of certain tax reserves during 2007 in the amount of \$25.5 million, (2) a decrease in tax expense of approximately \$16 million resulting from a reduction in Canadian tax rates, and (3) a decrease in the proportion of income generated in the U.S. versus the international jurisdictions in which we operate. Income generated in the U.S. is generally taxed at a higher rate than international jurisdictions. During 2006, a tax expense relating to the redemption of common shares held by a foreign parent of a U.S. based Nabors subsidiary in the amount of \$36.2 million increased taxes while a reduction in Canadian tax rates decreased tax expense in the amount of \$20.5 million.

Significant judgment is required in determining our worldwide provision for income taxes. In the ordinary course of our business, there are many transactions and calculations where the ultimate tax determination is uncertain. We are regularly under audit by tax authorities. Although we believe our tax estimates are reasonable, the final determination of tax audits and any related litigation could be materially different than that which is reflected in our income tax provisions and accruals. Based on the results of an audit or litigation, a material effect on our financial position, income tax provision, net income, or cash flows in the period or periods for which that determination is made could result.

In October 2004, the U.S. Congress passed and the President signed into law the American Jobs Creation Act of 2004 (the Act). The Act did not impact the corporate reorganization completed by Nabors effective June 24, 2002, that made us a foreign entity. It is possible that future changes to tax laws (including tax treaties) could have an impact on our ability to realize the tax savings recorded to date as well as future tax savings as a result of our corporate reorganization, depending on any responsive action taken by Nabors.

We expect our effective tax rate during 2008 to be in the 22-24% range. We are subject to income taxes in both the U.S. and numerous foreign jurisdictions. Significant judgment is required in determining our worldwide provision for income tax. One of the most volatile factors in this determination is the relative proportion of our income being recognized in high versus low tax jurisdictions.

LIQUIDITY AND CAPITAL RESOURCES**Cash Flows**

Our cash flows depend, to a large degree, on the level of spending by oil and gas companies for exploration, development and production activities. Sustained increases or decreases in the price of natural gas or oil could have a material impact on these activities, and could also materially affect our cash flows. Certain sources and uses of cash, such as the level of discretionary capital expenditures, purchases and sales of investments, issuances and repurchases of debt and of our common shares are within our control and are adjusted as necessary based on market conditions. The following is a discussion of our cash flows for the years ended December 31, 2007 and 2006.

Operating Activities Net cash provided by operating activities totaled \$1.4 billion during 2007 compared to net cash provided by operating activities of \$1.5 billion during 2006. During 2007 and 2006, net income was increased for non-cash items, such as depreciation and amortization, depletion, and deferred income tax expense and was reduced for changes in our working capital and other balance sheet accounts.

Investing Activities Net cash used for investing activities totaled \$1.5 billion during 2007 compared to net cash used for investing activities of \$1.8 billion during 2006. During 2007 and 2006, cash was primarily used for capital expenditures. During 2007, cash was provided by sales of investments, net of purchases, totaling \$482.1 million, proceeds from sales of assets and insurance claims totaling \$162.1 million primarily from the sale of three accommodation jack-up rigs in the second quarter and \$194.3 million from the sale of our Sea Mar business. During 2006, cash was provided by sales of investments, net of purchases, totaling \$190.4 million.

Financing Activities Net cash used for financing activities totaled \$78.9 million during 2007 compared to net cash provided by financing activities of \$418.3 million during 2006. During 2007, cash was used to repurchase our common shares totaling \$102.5

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million, which was partially offset by our receipt of proceeds totaling \$61.6 million from the exercise of options to acquire our common shares by our employees.

During 2006, cash was provided by approximately \$2.72 billion in net proceeds from the issuance of the \$2.75 billion 0.94% senior exchangeable notes due 2011 by Nabors Delaware, our receipt of proceeds totaling \$25.7 million from the exercise of options to acquire our common shares by our employees, and by approximately \$421.2 million from the sale of the warrants. During 2006, cash was used for the purchase of call options in the amount of \$583.6 million, the redemption of 93% of our zero coupon senior convertible debentures due 2021 for a total redemption price of \$769.8 million and for repurchases of our common shares in the open market for \$1.4 billion.

Future Cash Requirements

As of December 31, 2007, we had long-term debt, including current maturities, of \$4.0 billion and cash and cash equivalents and investments of \$1.1 billion, including \$236.3 million of long-term investments and \$53.1 million in cash proceeds receivable from the sale of certain non-marketable securities that is included in other current assets. The cash proceeds were received during January.

Nabors Delaware's \$2.75 billion 0.94% senior exchangeable notes due 2011 provide that upon an exchange of these notes, it will be required to pay holders of the notes, in lieu of common shares, cash up to the principal amount of the notes and our common shares for any amount exceeding the principal amount of the notes required to be paid pursuant to the terms of the note indentures. The notes cannot be exchanged until the price of our shares exceeds approximately \$59.57 for at least 20 trading days during the period of 30 consecutive trading days ending on the last trading day of the previous calendar quarter; or during the five business days immediately following any ten consecutive trading day period in which the trading price per note for each day of that period was less than 95% of the product of the sale price of Nabors' common shares and the then applicable exchange rate; or upon the occurrence of specified corporate transactions set forth in the indenture.

The \$700 million zero coupon senior exchangeable notes due 2023 provide that upon an exchange of these notes, we will be required to pay holders of the notes, in lieu of common shares, cash up to the principal amount of the notes and, at our option, consideration in the form of either cash or our common shares for any amount above the principal amount of the notes required to be paid pursuant to the terms of the note indentures. The notes cannot be exchanged until the price of our shares exceeds \$42.06 for at least 20 trading days during the period of 30 consecutive trading days ending on the last trading day of the previous calendar quarter, or with respect to all calendar quarters beginning on or after July 1, 2008, \$38.56 on such last trading day, or subject to certain exceptions, during the five business day period after any ten consecutive trading day period in which the trading price per note for each day of that period was less than 95% of the product of the sale price of Nabors' common shares and the then applicable exchange rate; or if Nabors Delaware calls the notes for redemption; or upon the occurrence of specified corporate transactions described in the note indenture. The notes can be put to us on June 15, 2008, June 15, 2013 and June 15, 2018 for a purchase price equal to 100% of the principal amount of the notes plus contingent interest and additional amounts, if any. Accordingly, as our \$700 million zero coupon senior exchangeable notes can be put to us on June 15, 2008, the outstanding principal amount of these notes of \$700 million were reclassified from long-term debt to current liabilities in our balance sheet as of June 30, 2007. If these notes are not put to us on June 15, 2008, the notes will be reclassified back to long-term debt in our balance sheet at that time. See a detailed discussion of the terms of these notes included in Note 9 to our accompanying consolidated financial statements in Part II, Item 8.

As of December 31, 2007, we had outstanding purchase commitments of approximately \$318.0 million, primarily for rig-related enhancing, construction and sustaining capital expenditures. Total capital expenditures over the next twelve months, including these outstanding purchase commitments, are currently expected to be approximately \$.9-1.1 billion, including currently planned rig-related enhancing, construction and sustaining capital expenditures. This amount could change significantly based on market conditions and new business opportunities. The level of our outstanding purchase commitments and our expected level of capital expenditures over the next twelve months represent a number of capital programs that are currently underway or planned. These programs have resulted in an expansion in the number of drilling and well-servicing rigs that we own and operate and consist primarily of land drilling and well-servicing rigs.

On September 22, 2006, we entered into an agreement with First Reserve Corporation to form a new joint venture, NFR Energy LLC, to invest in oil and gas exploration opportunities worldwide. First Reserve Corporation is a private equity firm specializing in the energy industry. Each party initially made a non-binding commitment to fund its proportionate share of \$1.0 billion in equity. During 2007, joint venture operations in the U.S., Canada, and International areas, were divided among three separate joint venture entities, including NFR Energy LLC (NFR), Stone Mountain Ventures Partnership (Stone Mountain), and Remora Energy International LP (Remora), respectively. We hold a 49%

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ownership interest in these joint ventures. Each joint venture pursues development and exploration projects with both existing customers of ours and with other operators in a variety of forms including operated and non-operated working interests, joint ventures, farm-outs and acquisitions. As of December 31, 2007, we had made capital contributions of approximately \$243.1 million, \$19.1 million and \$14.7 million, respectively, to NFR, Stone Mountain and Remora.

We have historically completed a number of acquisitions and will continue to evaluate opportunities to acquire assets or businesses to enhance our operations. Several of our previous acquisitions were funded through issuances of our common shares. Future acquisitions may be paid for using existing cash or issuance of debt or Nabors shares. Such capital expenditures and acquisitions will depend on our view of market conditions and other factors.

See our discussion of guarantees issued by Nabors that could have a potential impact on our financial position, results of operations or cash flows in future periods included under *Off-Balance Sheet Arrangements (Including Guarantees)* below.

The following table summarizes our contractual cash obligations as of December 31, 2007:

(In thousands)	Total	Payments due by Period				Other
		< 1 Year	1-3 Years	3-5 Years	Thereafter	
Contractual cash obligations:						
Long-term debt:						
Principal	\$4,014,557	\$ 700,000 ⁽¹⁾	\$225,000 ⁽²⁾	\$3,089,557 ⁽³⁾	\$	\$
Interest	186,320	51,600	92,232	42,488		
Operating leases (4)	34,940	12,794	15,061	5,117	1,968	
Purchase commitments (5)	317,980	317,942	38			
Employment contracts (4)	6,685	2,616	4,069			
Pension funding obligations (6)	1,050	1,050				
Tax reserves (7)	83,989					83,989
Total contractual cash obligations	\$4,645,521	\$1,086,002	\$336,400	\$3,137,162	\$1,968	\$83,989

(1) Represents the \$700 million zero coupon senior exchangeable notes, which can be put to us on June 15, 2008 and can be exchanged for cash in certain circumstances including when the price of our shares exceeds

approximately
\$42.06 for the
required period
of time.

- (2) Represents our
\$225 million
4.875% senior
notes due
August 2009.
- (3) Includes our
\$2.75 billion
0.94% senior
exchangeable
notes due 2011,
the remainder of
our \$82 million
zero coupon
senior
debentures due
2021, which can
be put to us on
February 5,
2011 and the
\$275 million
5.375% senior
notes due 2012.
- (4) See Note 14 to
our
accompanying
consolidated
financial
statements.
- (5) Purchase
commitments
include
agreements to
purchase goods
or services that
are enforceable
and legally
binding and that
specify all
significant
terms,
including: fixed
or minimum
quantities to be

purchased;
fixed, minimum
or variable
pricing
provisions; and
the approximate
timing of the
transaction.

- (6) See Note 12 to
our
accompanying
consolidated
financial
statements.
- (7) Tax reserves are
included in
Other due to the
difficulty in
making
reasonably
reliable
estimates of the
timing of cash
settlements to
taxing
authorities.

In July 2006, our Board of Directors authorized a share repurchase program under which we may repurchase up to \$500 million of our common shares in the open market or in privately negotiated transactions. This program supersedes and cancels our previous share repurchase program. Through December 31, 2007, approximately \$196.2 million of our common shares had been repurchased under this program. As of December 31, 2007, we had \$303.8 million of shares that still may be purchased under the July 2006 share repurchase program.

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See Note 14 to our accompanying consolidated financial statements for discussion of commitments and contingencies relating to (i) employment contracts that could result in significant cash payments by the Company if there are terminations of certain executives in the event of death, disability, termination without cause or in the event of a change in control and (ii) off-balance sheet arrangements (including guarantees).

Financial Condition and Sources of Liquidity

Our primary sources of liquidity are cash and cash equivalents, short-term and long-term investments and cash generated from operations. As of December 31, 2007, we had cash and cash equivalents investments of \$1.1 billion (including \$236.3 million of long-term investments and \$53.1 million in cash proceeds receivable from the sale of certain non-marketable securities that is included in other current assets) and working capital of \$711.0 million. This compares to cash and cash equivalents and investments of \$1.7 billion (including \$513.3 million of long-term investments) and working capital of \$1.7 billion as of December 31, 2006.

Our gross funded debt to capital ratio was 0.44:1 as of December 31, 2007 and 0.50:1 as of December 31, 2006. Our net funded debt to capital ratio was 0.37:1 as of December 31, 2007 and 2006, respectively. The gross funded debt to capital ratio is calculated by dividing funded debt by funded debt plus deferred tax liabilities net of deferred tax assets plus capital. Funded debt is defined as the sum of (1) short-term borrowings, (2) current portion of long-term debt and (3) long-term debt. Capital is defined as shareholders' equity. The net funded debt to capital ratio is calculated by dividing net funded debt by net funded debt plus deferred tax liabilities net of deferred tax assets plus capital. Net funded debt is defined as the sum of (1) short-term borrowings, (2) current portion of long-term debt and (3) long-term debt reduced by the sum of cash and cash equivalents and short-term and long-term investments. Capital is defined as shareholders' equity. Both of these ratios are a method for calculating the amount of leverage a company has in relation to its capital.

Long-term investments consist of investments in overseas funds investing primarily in a variety of public and private U.S. and non-U.S. securities (including asset-backed securities and mortgage-backed securities, global structured asset securitizations, whole loan mortgages, and participations in whole loans and whole loan mortgages). These investments are classified as non-marketable, because they do not have published fair values. Our interest coverage ratio from continuing operations was 32.5:1 as of December 31, 2007, compared to 38.1:1 as of December 31, 2006. The interest coverage ratio is a trailing twelve-month computation of the sum of income from continuing operations before income taxes, interest expense, depreciation and amortization, and depletion expense less investment income and then dividing by interest expense. This ratio is a method for calculating the amount of operating cash flows available to cover interest expense.

We have four letter of credit facilities with various banks as of December 31, 2007. Availability and borrowings under our credit facilities as of December 31, 2007 are as follows:

(In thousands)

Credit available	\$ 211,165
Letters of credit outstanding	(157,877)
Remaining availability	\$ 53,288

We have a shelf registration statement on file with the SEC to allow us to offer, from time to time, up to \$700 million in debt securities, guarantees of debt securities, preferred shares, depository shares, common shares, share purchase contracts, share purchase units and warrants. We currently have not issued any securities registered under this registration statement.

Our current cash and cash equivalents, investments and projected cash flows generated from current operations are expected to more than adequately finance our purchase commitments, our debt service requirements, and all other expected cash requirements for the next twelve months. However, as discussed under *Future Cash Requirements* above, the \$2.75 billion 0.94% senior exchangeable notes and \$700 million zero coupon senior exchangeable notes can be exchanged when the price of our shares exceeds \$59.57 and \$42.06, respectively, for the required periods of time, resulting in our payment of the principal amount of the notes, or \$2.75 billion and \$700 million, respectively, in

cash. Our \$700 million zero coupon senior exchangeable notes can be put to us on June 15, 2008 resulting in our payment of cash or we may redeem some or all of the notes at any time on or after June 15, 2008, at a redemption price equal to 100% of the principal amount of the notes plus

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contingent interest, if any, and accordingly, the outstanding principal amount of these notes of \$700 million was reclassified from long-term debt to current liabilities in our balance sheet as of June 30, 2007.

On February 20, 2008, Nabors Industries, Inc. (Nabors Delaware), our wholly-owned subsidiary, completed a private placement of \$575 million aggregate principal amount of 6.15% senior notes due 2018 with registration rights, which are unsecured and are fully and unconditionally guaranteed by us. The issue of senior notes was resold by a placement agent to qualified institutional buyers under Rule 144A of the Securities Act of 1933, as amended (Securities Act). The notes bear interest at a rate of 6.15% per year, payable semiannually on February 15 and August 15 of each year, beginning August 15, 2008. We intend to use the remaining proceeds of the offering for general corporate purposes, including the repayment of debt.

On February 22, 2008, the market price for our shares closed at \$30.90. If the market price threshold of \$59.57 for our \$2.75 billion 0.94% senior exchangeable notes or \$42.06 for our \$700 million zero coupon senior exchangeable notes was exceeded and the notes were exchanged or if the holders of the \$700 million zero coupon senior exchangeable notes require us to repurchase the notes at a purchase price equal to 100% of the principal amount of the notes on June 15, 2008, the required cash payment could have a significant impact on our level of cash and cash equivalents and investments available to meet our other cash obligations. Management believes that the holders of these notes would not be likely to exchange the notes as it would be more economically beneficial to them if they sold the notes on the open market. However, there can be no assurance that the holders would not exchange the notes. If either of the notes were exchanged or the \$700 million zero coupon senior exchangeable notes are put to us on June 15, 2008, management believes, in addition to our current cash and cash equivalents and investments, that we have the ability to access capital markets or otherwise obtain financing in order to satisfy any payment obligations that might arise upon exchange of these notes and that any cash payment due of this magnitude, in addition to our other cash obligations, will not ultimately have a material adverse impact on our liquidity or financial position. Our ability to access capital markets or to otherwise obtain sufficient financing is enhanced by our senior unsecured debt ratings as provided by Dominion Bond Rating Service (DBRS), Fitch Ratings, Moody s Investor Service and Standard & Poor s, which are currently A-1 , A- , A3 and BBB+ , respectively, and our historical ability to access those markets needed.

See our discussion of the impact of changes in market conditions on our derivative financial instruments discussed under *Item 7A. Quantitative and Qualitative Disclosures About Market Risk* below.

OFF-BALANCE SHEET ARRANGEMENTS (INCLUDING GUARANTEES)

We are a party to certain transactions, agreements or other contractual arrangements defined as off-balance sheet arrangements that could have a material future effect on our financial position, results of operations, liquidity and capital resources. The most significant of these off-balance sheet arrangements involve agreements and obligations in which we provide financial or performance assurance to third parties. Certain of these agreements serve as guarantees, including standby letters of credit issued on behalf of insurance carriers in conjunction with our workers compensation insurance program and other financial surety instruments such as bonds. In addition, we have provided indemnifications to certain third parties which serve as guarantees. These guarantees include indemnification provided by Nabors to our share transfer agent and our insurance carriers. We are not able to estimate the potential future maximum payments that might be due under our indemnification guarantees.

Management believes the likelihood that we would be required to perform or otherwise incur any material losses associated with any of these guarantees is remote. The following table summarizes the total maximum amount of financial and performance guarantees issued by Nabors:

(In thousands)	Maximum Amount				
	2008	2009	2010	Thereafter	Total
Financial standby letters of credit and other financial surety instruments	\$ 131,732	\$ 100	\$ 1,953	\$	\$ 133,785
Contingent consideration in acquisitions		1,417	1,417	1,416	4,250
Total	\$ 131,732	\$ 1,517	\$ 3,370	\$ 1,416	\$ 138,035

Table of Contents**OTHER MATTERS****Recent Legislation and Actions**

Our Sea Mar division time chartered supply vessels to offshore operations in U.S. waters. The vessels were owned by one of our financing company subsidiaries, but were operated and managed by a U.S. citizen-controlled company pursuant to long-term bareboat charters. As a result of legislation, beginning in August 2007, Sea Mar no longer qualified to charter vessels for employment in the U.S. coastwise trade. In August 2007, we sold our Sea Mar business to an unrelated third party for a cash purchase price of \$194.3 million, resulting in a pre-tax gain of \$49.5 million. The operating results of this business for all periods presented are accounted for as a discontinued operation in the accompanying audited consolidated statements of income.

As a result of our internal stock option review concluded in the first quarter of 2007, we determined that the exercise price for certain of our employee stock options was less than the fair market value of our common shares on the date the options were granted. On November 29, 2007, we made an offer to eligible employees to amend certain outstanding options granted under the Nabors Industries, Inc. 1996 Employee Stock Plan and the Nabors Industries, Inc. 1998 Employee Stock Plan to increase the exercise price per option to the fair market value of a common share of Nabors on each option's measurement date for financial accounting purposes and to make to eligible employees a cash payment equal to the difference between the new exercise price per share of the amended option and the original exercise price per share, multiplied by the number of unexercised eligible options. As a result of the tender offer, we cancelled options with a fair value of \$24.3 million, replaced with a new award of options with a fair value of \$22.2 million and paid \$3.3 million in cash. This resulted in \$1.2 million of additional compensation expense. See Note 14 regarding our internal stock option review in the accompanying consolidated financial statements.

Recent Accounting Pronouncements

In December 2007, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 141(R), Business Combinations. This statement retains the fundamental requirements in SFAS No. 141, Business Combinations that the acquisition method of accounting be used for all business combinations and expands the same method of accounting to all transactions and other events in which one entity obtains control over one or more other businesses or assets at the acquisition date and in subsequent periods. This statement replaces SFAS No. 141 by requiring measurement at the acquisition date of the fair value of assets acquired, liabilities assumed and any noncontrolling interest. Additionally, SFAS No. 141(R) requires that acquisition-related costs, including restructuring costs, be recognized as expense separately from the acquisition. SFAS No. 141(R) applies prospectively to business combinations for fiscal years beginning after December 15, 2008. We will adopt SFAS No. 141(R) beginning January 1, 2009 and apply to future acquisitions.

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51. This statement establishes the accounting and reporting standards for a noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. This statement clarifies that a noncontrolling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements. SFAS No. 160 requires retroactive adoption of the presentation and disclosure requirements for existing minority interests and applies prospectively to business combinations for fiscal years beginning after December 15, 2008. We will adopt SFAS No. 160 beginning January 1, 2009. We are currently evaluating the impact that this pronouncement may have on our consolidated financial statements.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements. This statement establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements for financial assets and liabilities, as well as for any other assets and liabilities that are carried at fair value on a recurring basis in financial statements. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. There is a one year deferral for the implementation of SFAS No. 157 for other nonfinancial assets and liabilities. We will adopt SFAS No. 157 beginning January 1, 2008. We are currently evaluating the impact on our consolidated results of operations and financial condition.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115. This statement permits entities to choose to measure

many financial

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instruments and certain other items at fair value that are not currently required to be measured at fair value and establishes presentation and disclosure requirements designed to facilitate comparisons between entities that choose different measurement attributes for similar types of assets and liabilities. SFAS No. 159 is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. We will adopt SFAS No. 159 beginning January 1, 2008. We are currently evaluating the impact on our consolidated results of operations and financial condition.

Related Party Transactions

Pursuant to their employment agreements, Nabors and its Chairman and Chief Executive Officer, Deputy Chairman, President and Chief Operating Officer, and certain other key employees entered into split-dollar life insurance agreements pursuant to which we paid a portion of the premiums under life insurance policies with respect to these individuals and, in certain instances, members of their families. Under these agreements, we are reimbursed for such premiums upon the occurrence of specified events, including the death of an insured individual. Any recovery of premiums paid by Nabors could potentially be limited to the cash surrender value of these policies under certain circumstances. As such, the values of these policies are recorded at their respective cash surrender values in our consolidated balance sheets. We have made premium payments to date totaling \$11.2 million related to these policies. The cash surrender value of these policies of approximately \$10.5 million and \$10.3 million is included in other long-term assets in our consolidated balance sheets as of December 31, 2007 and 2006, respectively.

Under the Sarbanes-Oxley Act of 2002, the payment of premiums by Nabors under the agreements with our Chairman and Chief Executive Officer and with our Deputy Chairman, President and Chief Operating Officer may be deemed to be prohibited loans by us to these individuals. We have paid no premiums related to our agreements with these individuals since the adoption of the Sarbanes-Oxley Act and have postponed premium payments related to our agreements with these individuals.

In the ordinary course of business, we enter into various rig leases, rig transportation and related oilfield services agreements with our unconsolidated affiliates at market prices. Revenues from business transactions with these affiliated entities totaled \$153.4 million, \$99.2 million and \$82.3 million for the years ended December 31, 2007, 2006 and 2005, respectively. Expenses from business transactions with these affiliated entities totaled \$6.6 million, \$4.7 million and \$4.0 million for the years ended December 31, 2007, 2006 and 2005, respectively. Additionally, we had accounts receivable from these affiliated entities of \$62.3 million and \$41.2 million as of December 31, 2007 and 2006, respectively. We had accounts payable to these affiliated entities of \$14.7 million and \$.3 million as of December 31, 2007 and 2006, respectively, and long-term payables with these affiliated entities of \$7.8 million and \$6.6 million as of December 31, 2007 and 2006, respectively, which is included in other long-term liabilities.

During the fourth quarter of 2006, the Company entered into a transaction with Shona Energy Company, LLC (Shona), a company in which Mr. Payne, an outside director of the Company, is the Chairman and Chief Executive Officer. Pursuant to the transaction, a subsidiary of the Company acquired and holds a minority interest of less than 20% of the issued and outstanding common shares of Shona in exchange for certain rights derived from an oil and gas concession held by that subsidiary.

Critical Accounting Estimates

The preparation of our financial statements in conformity with GAAP requires management to make certain estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosures of contingent assets and liabilities at the balance sheet date and the amounts of revenues and expenses recognized during the reporting period. We analyze our estimates based on our historical experience and various other assumptions that we believe to be reasonable under the circumstances. However, actual results could differ from such estimates. The following is a discussion of our critical accounting estimates. Management considers an accounting estimate to be critical if:

it requires assumptions to be made that were uncertain at the time the estimate was made; and

changes in the estimate or different estimates that could have been selected could have a material impact on our consolidated financial position or results of operations.

For a summary of all of our significant accounting policies, see Note 2 to the accompanying consolidated financial statements.

Depreciation of Property, Plant and Equipment The drilling, workover and well-servicing industries are very capital intensive. Property, plant and equipment represented 66% of our total assets as of December 31, 2007, and depreciation constituted 12% of our total costs and other deductions for the year ended December 31, 2007.

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Depreciation for our primary operating assets, drilling and workover rigs, is calculated based on the units-of-production method over an approximate 4,900-day period, with the exception of our jack-up rigs which are depreciated over an 8,030-day period, after provision for salvage value. When our drilling and workover rigs are not operating, a depreciation charge is provided using the straight-line method over an assumed depreciable life of 20 years, with the exception of our jack-up rigs, where a 30-year day depreciable life is used.

Depreciation on our buildings, well-servicing rigs, oilfield hauling and mobile equipment, marine transportation and supply vessels, aircraft equipment, and other machinery and equipment is computed using the straight-line method over the estimated useful life of the asset after provision for salvage value (buildings 10 to 30 years; well-servicing rigs 3 to 15 years; marine transportation and supply vessels 10 to 25 years; aircraft equipment 5 to 20 years; oilfield hauling and mobile equipment and other machinery and equipment 3 to 10 years).

These depreciation periods and the salvage values of our property, plant and equipment were determined through an analysis of the useful lives of our assets and based on our experience with the salvage values of these assets. Periodically, we review our depreciation periods and salvage values for reasonableness given current conditions. Depreciation of property, plant and equipment is therefore based upon estimates of the useful lives and salvage value of those assets. Estimation of these items requires significant management judgment. Accordingly, management believes that accounting estimates related to depreciation expense recorded on property, plant and equipment are critical.

There have been no factors related to the performance of our portfolio of assets, changes in technology or other factors that indicate that these lives do not continue to be appropriate. Accordingly, for the years ended December 31, 2007, 2006 and 2005, no significant changes have been made to the depreciation rates applied to property, plant and equipment, the underlying assumptions related to estimates of depreciation, or the methodology applied. However, certain events could occur that would materially affect our estimates and assumptions related to depreciation. Unforeseen changes in operations or technology could substantially alter management's assumptions regarding our ability to realize the return on our investment in operating assets and therefore affect the useful lives and salvage values of our assets.

Impairment of Long-Lived Assets As discussed above, the drilling, workover and well-servicing industries are very capital intensive, which is evident in the fact that our property, plant and equipment represented 66% of our total assets as of December 31, 2007. Other long-lived assets subject to impairment consist primarily of goodwill, which represented 4% of our total assets as of December 31, 2007. We review our long-lived assets for impairment when events or changes in circumstances indicate that the carrying amounts of such assets may not be recoverable. In addition, we review goodwill and intangible assets with indefinite lives for impairment annually, as required by SFAS No. 142, Goodwill and Other Intangible Assets. An impairment loss is recorded in the period in which it is determined that the carrying amount of the long-lived asset is not recoverable. Such determination requires us to make judgments regarding long-term forecasts of future revenues and costs related to the assets subject to review in order to determine the future cash flows associated with the asset or, in the case of goodwill, our reporting units. These long-term forecasts are uncertain in that they require assumptions about demand for our products and services, future market conditions, technological advances in the industry, and changes in regulations governing the industry. Significant and unanticipated changes to the assumptions could require a provision for impairment in a future period. As the determination of whether impairment charges should be recorded on our long-lived assets is subject to significant management judgment and an impairment of these assets could result in a material charge on our consolidated statements of income, management believes that accounting estimates related to impairment of long-lived assets are critical.

Assumptions made in the determination of future cash flows are made with the involvement of management personnel at the operational level where the most specific knowledge of market conditions and other operating factors exists. For the years ended December 31, 2007, 2006 and 2005, no significant changes have been made to the methodology utilized to determine future cash flows.

Given the nature of the evaluation of future cash flows and the application to specific assets and specific times, it is not possible to reasonably quantify the impact of changes in these assumptions.

Income Taxes Deferred taxes represent a substantial liability for Nabors. For financial reporting purposes, management determines our current tax liability as well as those taxes incurred as a result of current operations yet deferred until future periods. In accordance with the liability method of accounting for income taxes as specified in SFAS No. 109, Accounting for Income Taxes, the provision for income taxes is the sum of income taxes both currently payable and deferred. Currently payable taxes represent the liability related to our income tax return for the current year while the net deferred tax expense or benefit represents the change in the

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balance of deferred tax assets or liabilities reported on our consolidated balance sheets. The tax effects of unrealized gains and losses on investments and derivative financial instruments are recorded through accumulated other comprehensive income (loss) within shareholders' equity. The changes in deferred tax assets or liabilities are determined based upon changes in differences between the basis of assets and liabilities for financial reporting purposes and the basis of assets and liabilities for tax purposes as measured by the enacted tax rates that management estimates will be in effect when these differences reverse. Management must make certain assumptions regarding whether tax differences are permanent or temporary and must estimate the timing of their reversal, and whether taxable operating income in future periods will be sufficient to fully recognize any gross deferred tax assets. Valuation allowances are established to reduce deferred tax assets when it is more likely than not that some portion or all of the deferred tax assets will not be realized. In determining the need for valuation allowances, management has considered and made judgments and estimates regarding estimated future taxable income and ongoing prudent and feasible tax planning strategies. These judgments and estimates are made for each tax jurisdiction in which we operate as the calculation of deferred taxes is completed at that level. Further, under U.S. federal tax law, the amount and availability of loss carryforwards (and certain other tax attributes) are subject to a variety of interpretations and restrictive tests applicable to Nabors and our subsidiaries. The utilization of such carryforwards could be limited or effectively lost upon certain changes in ownership. Accordingly, although we believe substantial loss carryforwards are available to us, no assurance can be given concerning the realization of such loss carryforwards, or whether or not such loss carryforwards will be available in the future. These loss carryforwards are also considered in our calculation of taxes for each jurisdiction in which we operate. Additionally, we record reserves for uncertain tax positions which are subject to a significant level of management judgment related to the ultimate resolution of those tax positions. Accordingly, management believes that the estimate related to the provision for income taxes is critical to our results of operations. We have received notifications from the IRS on various matters as a result of IRS audits of certain tax years. See *Item 1A. Risk Factors* We may have additional tax liabilities and *Note 10 under Item 8. Financial Statements and Supplementary Data* for additional discussion.

Effective January 1, 2007, we adopted the provisions of the FASB issued Interpretation No. 48 (FIN 48),

Accounting for Uncertainty in Income Taxes. In connection with the adoption of FIN 48, we recognized increases of \$24 million and \$21 million to our tax reserves for uncertain tax positions and interest and penalties, respectively. See *Note 10 under Item 8. Financial Statements and Supplementary Data* for additional discussion.

We are subject to income taxes in both the United States and numerous foreign jurisdictions. Significant judgment is required in determining our worldwide provision for income taxes. In the ordinary course of our business, there are many transactions and calculations where the ultimate tax determination is uncertain. We are regularly under audit by tax authorities. Although we believe our tax estimates are reasonable, the final determination of tax audits and any related litigation could be materially different than that which is reflected in historical income tax provisions and accruals. Based on the results of an audit or litigation, a material effect on our financial position, income tax provision, net income, or cash flows in the period or periods for which that determination is made could result. However, certain events could occur that would materially affect management's estimates and assumptions regarding the deferred portion of our income tax provision, including estimates of future tax rates applicable to the reversal of tax differences, the classification of timing differences as temporary or permanent, reserves recorded for uncertain tax positions, and any valuation allowance recorded as a reduction to our deferred tax assets. Management's assumptions related to the preparation of our income tax provision have historically proved to be reasonable in light of the ultimate amount of tax liability due in all taxing jurisdictions.

For the year ended December 31, 2007, our provision for income taxes from continuing operations was \$239.7 million, consisting of \$228.0 million of current tax expense and \$11.7 million of deferred tax expense. Changes in management's estimates and assumptions regarding the tax rate applied to deferred tax assets and liabilities, the ability to realize the value of deferred tax assets, or the timing of the reversal of tax basis differences could potentially impact the provision for income taxes. Changes in these assumptions could potentially change the effective tax rate. A 1% change in the effective tax rate from 21% to 22% would increase the current year income tax provision by approximately \$11.4 million.

Self-Insurance Reserves Our operations are subject to many hazards inherent in the drilling, workover and well-servicing industries, including blowouts, cratering, explosions, fires, loss of well control, loss of hole, damaged or lost drilling equipment and damage or loss from inclement weather or natural disasters. Any of these hazards could result in personal injury or death, damage to or destruction of equipment and facilities, suspension of operations, environmental damage and damage to the property of others. Generally, drilling contracts provide for the division of responsibilities between a drilling company and its customer, and we seek to obtain indemnification from our customers by contract for certain of these risks. To the extent that we are unable to transfer such risks to customers by contract or indemnification agreements, we seek protection through insurance. However, there is no assurance that such insurance or indemnification agreements will adequately protect us against liability from all of the consequences of the hazards described above. Moreover, our insurance coverage generally provides that we assume a portion of the risk in the form of a deductible or self-insured retention.

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Based on the risks discussed above, it is necessary for us to estimate the level of our liability related to insurance and record reserves for these amounts in our consolidated financial statements. Reserves related to self-insurance are based on the facts and circumstances specific to the claims and our past experience with similar claims. The actual outcome of self-insured claims could differ significantly from estimated amounts. We maintain actuarially-determined accruals in our consolidated balance sheets to cover self-insurance retentions for workers' compensation, employers liability, general liability and automobile liability claims. These accruals are based on certain assumptions developed utilizing historical data to project future losses. Loss estimates in the calculation of these accruals are adjusted based upon actual claim settlements and reported claims. These loss estimates and accruals recorded in our financial statements for claims have historically been reasonable in light of the actual amount of claims paid.

As the determination of our liability for self-insured claims is subject to significant management judgment and in certain instances is based on actuarially estimated and calculated amounts, and such liabilities could be material in nature, management believes that accounting estimates related to self-insurance reserves are critical.

For the years ended December 31, 2007, 2006 and 2005, no significant changes have been made to the methodology utilized to estimate insurance reserves. For purposes of earnings sensitivity analysis, if the December 31, 2007 reserves for insurance were adjusted (increased or decreased) by 10%, total costs and other deductions would have changed by \$15.7 million, or 0.4%.

Fair Value of Assets Acquired and Liabilities Assumed We have completed a number of acquisitions in recent years as discussed in Note 4 to our accompanying consolidated financial statements. In conjunction with our accounting for these acquisitions, it was necessary for us to estimate the values of the assets acquired and liabilities assumed in the various business combinations, which involved the use of various assumptions. These estimates may be affected by such factors as changing market conditions, technological advances in the industry or changes in regulations governing the industry. The most significant assumptions, and the ones requiring the most judgment, involve the estimated fair values of property, plant and equipment, and the resulting amount of goodwill, if any. Unforeseen changes in operations or technology could substantially alter management's assumptions and could result in lower estimates of values of acquired assets or of future cash flows. This could result in impairment charges being recorded in our consolidated statements of income. As the determination of the fair value of assets acquired and liabilities assumed is subject to significant management judgment and a change in purchase price allocations could result in a material difference in amounts recorded in our consolidated financial statements, management believes that accounting estimates related to the valuation of assets acquired and liabilities assumed are critical.

The determination of the fair value of assets and liabilities are based on the market for the assets and the settlement value of the liabilities. These estimates are made by management based on our experience with similar assets and liabilities. For the years ended December 31, 2007, 2006 and 2005, no significant changes have been made to the methodology utilized to value assets acquired or liabilities assumed. Our estimates of the fair values of assets acquired and liabilities assumed have proved to be reliable.

Given the nature of the evaluation of the fair value of assets acquired and liabilities assumed and the application to specific assets and liabilities, it is not possible to reasonably quantify the impact of changes in these assumptions.

Share-Based Compensation We have historically compensated our executives and employees through the awarding of stock options and restricted stock. Based on the requirements of SFAS 123(R), which we adopted on January 1, 2006, we account for stock option awards in 2006 and 2007 using a fair-value based method, resulting in compensation expense for stock option awards being recorded in our consolidated statements of income. Additionally, under the provisions of SFAS No. 148, Accounting for Stock-Based Compensation – an Amendment to FAS 123, we are currently required to disclose the effect on our net income and earnings per share as if we had applied the fair value recognition provisions of SFAS 123 to the periods presented in our consolidated statements of income. This tabular disclosure is included in Note 3 to our accompanying consolidated financial statements for the year ended December 31, 2005. Determining the fair value of stock-based awards at the grant date requires judgment, including estimating the expected term of stock options, the expected volatility of our stock and expected dividends. In addition, judgment is also required in estimating the amount of stock-based awards that are expected to be forfeited. As the determination of these various assumptions is subject to significant management judgment and different assumptions could result in material differences in amounts recorded in our consolidated financial statements beginning in the first

quarter of 2006 and in our disclosure presented in the footnotes to our accompanying consolidated financial statements for the year ended December 31, 2005, management believes that accounting estimates related to the valuation of stock options are critical.

The assumptions used to estimate the fair market value of our stock options are based on historical and expected performance of our common shares in the open market, expectations with regard to the pattern with which our employees will exercise their options

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and the likelihood that dividends will be paid to holders of our common shares. For the years ended December 31, 2007, 2006 and 2005, no significant changes have been made to the methodology utilized to determine the assumptions used in these calculations.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We may be exposed to certain market risks arising from the use of financial instruments in the ordinary course of business. This risk arises primarily as a result of potential changes in the fair market value of financial instruments that would result from adverse fluctuations in foreign currency exchange rates, credit risk, interest rates, and marketable and non-marketable security prices as discussed below.

Foreign Currency Risk We operate in a number of international areas and are involved in transactions denominated in currencies other than U.S. dollars, which exposes us to foreign exchange rate risk. The most significant exposures arise in connection with our operations in Canada, which usually are substantially unhedged.

At various times, we utilize local currency borrowings (foreign currency-denominated debt), the payment structure of customer contracts and foreign exchange contracts to selectively hedge our exposure to exchange rate fluctuations in connection with monetary assets, liabilities, cash flows and commitments denominated in certain foreign currencies. A foreign exchange contract is a foreign currency transaction, defined as an agreement to exchange different currencies at a given future date and at a specified rate. A hypothetical 10% decrease in the value of all our foreign currencies relative to the U.S. dollar as of December 31, 2007 would result in a \$24.0 million decrease in the fair value of our net monetary assets denominated in currencies other than U.S. dollars.

Credit Risk Our financial instruments that potentially subject us to concentrations of credit risk consist primarily of cash equivalents, investments and marketable and non-marketable securities, accounts receivable and our range cap and floor derivative instrument. Cash equivalents such as deposits and temporary cash investments are held by major banks or investment firms. Our investments in marketable and non-marketable securities are managed within established guidelines which limit the amounts that may be invested with any one issuer and which provide guidance as to issuer credit quality. Certain of our non-marketable securities are invested in a fund that invests in securities which have been significantly impacted by the current credit market and comprise approximately \$26.2 million of our \$236.3 million long-term investments in our cash and investment portfolio as of December 31, 2007. We believe that the credit risk in our cash and investment portfolio is minimized as a result of the mix of our investments. In addition, our trade receivables are with a variety of U.S., international and foreign-country national oil and gas companies. Management considers this credit risk to be limited due to the financial resources of these companies. We perform ongoing credit evaluations of our customers and we generally do not require material collateral. However, we do occasionally require prepayment of amounts from customers whose creditworthiness is in question prior to provision of services to those customers. We maintain reserves for potential credit losses, and such losses have been within management's expectations.

Interest Rate, and Marketable and Non-marketable Security Price Risk Our financial instruments that are potentially sensitive to changes in interest rates include the \$2.75 billion 0.94% senior exchangeable notes due 2011, our \$82.8 million zero coupon convertible senior debentures, our \$700 million zero coupon senior exchangeable notes, our 4.875% and 5.375% senior notes, our range cap and floor derivative instrument, our investments in debt securities (including corporate, asset-backed, U.S. Government, Government agencies, foreign government, mortgage-backed debt and mortgage-CMO debt securities) and our investments in overseas funds investing primarily in a variety of public and private U.S. and non-U.S. securities (including asset-backed securities and mortgage-backed securities, global structured asset securitizations, whole loan mortgages, and participations in whole loans and whole loan mortgages), which are classified as non-marketable securities.

We may utilize derivative financial instruments that are intended to manage our exposure to interest rate risks. We account for derivative financial instruments under SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, SFAS No. 138, Accounting for Certain Derivative Instruments and Certain Hedging Activities, and SFAS No. 149, Amendment of Statement 133 on Derivative Instruments and Hedging Activities, (collectively, SFAS 133, as amended). The use of derivative financial instruments could expose us to further credit risk and market risk. Credit risk in this context is the failure of a counterparty to perform under the terms of the derivative contract. When the fair value of a derivative contract is positive, the counterparty would owe us, which can create credit risk for us. When the

fair value of a derivative contract is negative, we would owe the counterparty, and therefore, we would not be exposed to credit risk. We attempt to minimize credit risk in derivative instruments by entering into transactions with major financial institutions that have a significant asset base. Market risk related to derivatives is the adverse effect to the value of a financial instrument that results from changes in interest rates. We try to manage market risk associated with interest-rate contracts by establishing and monitoring parameters that limit the type and degree of market risk that we undertake.

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Our \$700 million zero coupon senior exchangeable notes include a contingent interest provision, discussed under *Liquidity and Capital Resources* above, which qualifies as an embedded derivative under SFAS 133, as amended. This embedded derivative is required to be separated from the notes and valued at its fair value at the inception of the note indenture. Any subsequent change in fair value of this embedded derivative would be recorded in our consolidated statements of income. The fair value of the contingent interest provision at inception of the note indenture was nominal. In addition, there was no significant change in the fair value of this embedded derivative through December 31, 2007, resulting in no impact on our consolidated statements of income for the year ended December 31, 2007 or 2006.

On October 21, 2002, we entered into an interest rate swap transaction with a third-party financial institution to hedge our exposure to changes in the fair value of \$200 million of our fixed rate 5.375% senior notes due 2012, which has been designated as a fair value hedge under SFAS 133, as amended. Additionally, on October 21, 2002, we purchased a LIBOR range cap and sold a LIBOR floor, in the form of a cashless collar, with the same third-party financial institution with the intention of mitigating and managing our exposure to changes in the three-month U.S. dollar LIBOR rate. This transaction does not qualify for hedge accounting treatment under SFAS 133, as amended, and any change in the cumulative fair value of this transaction is reflected as a gain or loss in our consolidated statements of income. In June 2004 we unwound \$100 million of the \$200 million range cap and floor derivative instrument. During the fourth quarter of 2005, we unwound the interest rate swap resulting in a loss of \$2.7 million, which has been deferred and will be recognized as an increase to interest expense over the remaining life of our 5.375% senior notes due 2012. During the year ended December 31, 2005, we recorded interest savings related to our interest rate swap agreement accounted for as a fair value hedge of \$2.7 million, which served to reduce interest expense.

The fair value of our range cap and floor transaction is recorded as a derivative asset, included in other long-term assets, and was nominal as of December 31, 2007 and totaled approximately \$2.3 million as of December 31, 2006. We recorded a loss of approximately \$1.3 million for the year ended December 31, 2007 and gains of approximately \$1.4 million and \$1.1 million for the years ended December 31, 2006 and 2005, respectively, related to this derivative instrument; such amounts are included in losses (gains) on sales of long-lived assets, impairment charges and other expense (income), net in our consolidated statements of income.

A hypothetical 10% adverse shift in quoted interest rates as of December 31, 2007 would decrease the fair value of our range cap and floor derivative instrument by approximately \$.5 million.

Fair Value of Financial Instruments The fair value of our fixed rate long-term debt is estimated based on quoted market prices or prices quoted from third-party financial institutions. The carrying and fair values of our long-term debt, including the current portion, are as follows:

(In thousands, except interest rates)	Effective Interest Rate	2007		December 31,		2006	
		Carrying Value	Fair Value	Effective Interest Rate	Carrying Value	Fair Value	
\$2.75 billion 0.94% senior exchangeable notes due May 2011	1.15%	\$ 2,750,000	\$ 2,595,313	1.09%	\$ 2,750,000	\$ 2,628,725	
\$700 million zero coupon senior exchangeable notes due June 2023	0.32%	700,000	696,990	0.32%	700,000	730,380	
5.375% senior notes due August 2012	5.69% ⁽¹⁾	272,097 ⁽²⁾	279,043	5.69% ⁽¹⁾	271,470 ⁽²⁾	270,545	
4.875% senior notes due August 2009	5.10%	224,562	225,709	5.10%	224,296	221,749	
\$82.8 million zero coupon convertible senior debentures due February 2021	2.48% ⁽³⁾	59,774	56,897	2.94% ⁽³⁾	58,308	50,354	
		\$ 4,006,433	\$ 3,853,952		\$ 4,004,074	\$ 3,901,753	

- (1) Includes the effect of interest savings realized from the interest rate swap executed on October 21, 2002.
- (2) Includes \$1.9 million and \$2.3 million as of December 31, 2007 and 2006, respectively, related to the unamortized loss on the interest rate swap that was unwound during the fourth quarter of 2005.
- (3) Represents the rate at which accretion of the original discount at issuance of these debentures is charged to interest expense.

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The fair values of our cash equivalents, trade receivables and trade payables approximate their carrying values due to the short-term nature of these instruments. Our cash and cash equivalents, and investments are included in the table below:

(In thousands, except interest rates)	Fair Value	December 31,			2006	
		2007	Weighted-Average		Interest	Weighted-Average
		Interest	Life	Fair Value	Rates	Life
		Rates	(Years)			(Years)
Cash and cash equivalents	\$ 531,306	3.15%-6.07%	0.01	\$ 700,549	4.12%-5.37%	0.1
Available-for-sale marketable equity securities				117,220	N/A	N/A
Marketable debt securities:						
Commercial paper and CDs				16,778	5.04%-5.69%	0.3
Corporate debt securities	95,456	4.38%-7.60%	0.5	131,079	4.86%-5.76%	1.0
U.S. Government debt securities	20,048	3.06%-3.32%	1.2			
Government agencies debt securities	39,634	4.25%-5.14%	1.1	61,318	5.05%-5.76%	0.7
Mortgage-backed debt securities	6,788	2.79%-5.39%	1.5	1,373	5.20%-5.69%	1.4
Mortgage-CMO debt securities	23,784	2.49%-5.68%	0.9	49,629	4.99%-5.98%	1.0
Asset-backed debt securities	50,035	3.96%-10.53%	1.1	62,070	4.60%-5.83%	1.0
Total marketable debt securities	235,745			322,247		
Long-term investments	236,253	N/A	N/A	513,269	N/A	N/A
Total cash and cash equivalents and investments	\$1,003,304			\$ 1,653,285		

Our investments in marketable debt securities listed in the above table and a portion of our investment in non-marketable securities are sensitive to changes in interest rates. Additionally, our investment portfolio of marketable debt and equity securities, which are carried at fair value, expose us to price risk. A hypothetical 10% decrease in the market prices for all marketable securities as of December 31, 2007 would decrease the fair value of our debt securities by \$23.6 million.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors of Nabors Industries Ltd.:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, of cash flows and of changes in shareholders' equity present fairly, in all material respects, the financial position of Nabors Industries Ltd. and its subsidiaries at December 31, 2007 and 2006, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2007 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the index appearing under Item 15(a)(2) presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2007, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements and financial statement schedule, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on these financial statements, on the financial statement schedule, and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we consider necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

As discussed in Note 1 to the consolidated financial statements, the Company changed the manner in which it accounts for share-based compensation in 2006 and the manner in which it accounts for uncertain tax positions effective January 1, 2007.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP

Houston, Texas

February 28, 2008

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CONSOLIDATED BALANCE SHEETS
Nabors Industries Ltd. and Subsidiaries

(In thousands, except per share amounts)	December 31,	
	2007	2006
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 531,306	\$ 700,549
Short-term investments	235,745	439,467
Accounts receivable, net	1,039,238	1,109,738
Inventory	133,786	100,487
Deferred income taxes	12,757	38,081
Other current assets	252,280	116,534
Total current assets	2,205,112	2,504,856
Long-term investments	236,253	513,269
Property, plant and equipment, net	6,689,126	5,410,101
Goodwill	368,432	362,269
Other long-term assets	604,459	351,808
Total assets	\$ 10,103,382	\$ 9,142,303
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Current portion of long-term debt	\$ 700,000	\$
Trade accounts payable	348,524	459,179
Accrued liabilities	348,515	294,958
Income taxes payable	97,093	100,223
Total current liabilities	1,494,132	854,360
Long-term debt	3,306,433	4,004,074
Other long-term liabilities	246,714	208,553
Deferred income taxes	541,982	538,663
Total liabilities	5,589,261	5,605,650
Commitments and contingencies (Note 14)		
Shareholders' equity:		
Common shares, par value \$.001 per share:		
Authorized common shares 800,000; issued 305,458 and 299,333, respectively	305	299
Capital in excess of par value	1,710,036	1,637,204
Accumulated other comprehensive income	322,635	201,261
Retained earnings	3,359,080	2,473,373
Less: treasury shares, at cost, 26,122 and 22,340 common shares, respectively	(877,935)	(775,484)
Total shareholders' equity	4,514,121	3,536,653
Total liabilities and shareholders' equity	\$ 10,103,382	\$ 9,142,303

The accompanying notes are an integral part of these consolidated financial statements.

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CONSOLIDATED STATEMENTS OF INCOME
Nabors Industries Ltd. and Subsidiaries

(In thousands, except per share amounts)	Year Ended December 31,		
	2007	2006	2005
Revenues and other income:			
Operating revenues	\$ 4,938,848	\$ 4,707,289	\$ 3,394,472
Earnings from unconsolidated affiliates	17,724	20,545	5,671
Investment (loss) income	(15,891)	102,007	85,428
 Total revenues and other income	 4,940,681	 4,829,841	 3,485,571
Costs and other deductions:			
Direct costs	2,764,559	2,511,392	1,958,538
General and administrative expenses	436,282	416,610	247,129
Depreciation and amortization	467,730	364,653	285,054
Depletion	72,182	38,580	46,894
Interest expense	53,702	46,586	44,849
Losses (gains) on sales of long-lived assets, impairment charges and other expense (income), net	10,895	24,118	45,952
 Total costs and other deductions	 3,805,350	 3,401,939	 2,628,416
 Income from continuing operations before income taxes	 1,135,331	 1,427,902	 857,155
Income tax expense:			
Current	227,951	213,866	21,324
Deferred	11,713	221,027	197,676
 Total income tax expense	 239,664	 434,893	 219,000
 Income from continuing operations, net of tax	 895,667	 993,009	 638,155
Income from discontinued operations, net of tax	35,024	27,727	10,540
 Net income	 \$ 930,691	 \$ 1,020,736	 \$ 648,695
 Earnings per share:			
Basic from continuing operations	\$ 3.21	\$ 3.42	\$ 2.05
Basic from discontinued operations	.13	.10	.03
 Total Basic	 \$ 3.34	 \$ 3.52	 \$ 2.08
 Diluted from continuing operations	 \$ 3.13	 \$ 3.31	 \$ 1.97
Diluted from discontinued operations	.12	.09	.03
 Total Diluted	 \$ 3.25	 \$ 3.40	 \$ 2.00

Weighted-average number of common shares outstanding:

Basic	279,026	290,241	312,134
Diluted	286,606	299,827	324,378

The accompanying notes are an integral part of these consolidated financial statements.

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CONSOLIDATED STATEMENTS OF CASH FLOWS
Nabors Industries Ltd. and Subsidiaries

(In thousands)	Year Ended December 31,		
	2007	2006	2005
Cash flows from operating activities:			
Net income	\$ 930,691	\$ 1,020,736	\$ 648,695
Adjustments to net income:			
Depreciation and amortization	472,077	371,127	291,638
Depletion	72,182	38,580	46,894
Deferred income tax (benefit) expense	(24,725)	218,323	194,738
Deferred financing costs amortization	8,352	6,241	4,880
Pension liability amortization and adjustments	277	484	401
Discount amortization on long-term debt	1,958	3,798	20,729
Amortization of loss on hedges	551	554	218
Losses on long-lived assets, net	4,318	22,648	19,465
Losses (gains) on investments, net	61,395	(46,260)	(40,197)
Gain on disposition of Sea Mar business	(49,500)		
Losses (gains) on derivative instruments	1,347	(1,363)	(1,076)
Share-based compensation	30,176	79,888	4,819
Foreign currency transaction (gains) losses, net	(3,223)	354	465
Equity in earnings of unconsolidated affiliates, net of dividends	(5,136)	(18,111)	(2,600)
Changes in operating assets and liabilities, net of effects from acquisitions:			
Accounts receivable	93,490	(279,686)	(271,969)
Inventory	(28,668)	(48,631)	(21,704)
Other current assets	(47,959)	(31,536)	(6,808)
Other long-term assets	(117,237)	(106,357)	811
Trade accounts payable and accrued liabilities	4,501	145,046	121,850
Income taxes payable	(80,692)	71,767	8,262
Other long-term liabilities	46,023	38,656	9,989
Net cash provided by operating activities	1,370,198	1,486,258	1,029,500
Cash flows from investing activities:			
Purchases of investments	(378,318)	(1,135,525)	(745,743)
Sales and maturities of investments	860,385	1,325,903	749,562
Cash paid for acquisitions of businesses, net	(8,391)	(82,407)	(46,201)
Deposits released (held) on acquisitions		35,844	(36,005)
Investment in unconsolidated affiliates	(278,100)	(2,433)	
Capital expenditures	(2,014,469)	(1,927,407)	(907,316)
Proceeds from sales of assets and insurance claims	162,055	17,556	27,463
Proceeds from sale of Sea Mar business	194,332		
Net cash used for investing activities	(1,462,506)	(1,768,469)	(958,240)
Cash flows from financing activities:			
Proceeds from sale of warrants		421,162	
Purchase of exchangeable note hedge		(583,550)	

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(Decrease) increase in cash overdrafts	(38,416)	2,154	10,805
Proceeds from long-term debt		2,750,000	
Reduction in long-term debt		(769,789)	(424)
Debt issuance costs		(28,683)	
Proceeds from issuance of common shares	61,620	25,682	194,464
Repurchase of common shares	(102,451)	(1,402,840)	(99,483)
Purchase of restricted stock	(1,811)		
Tax benefit related to the exercise of stock options	2,159	4,139	
Termination payment for interest rate swap			(2,736)
Net cash (used for) provided by financing activities	(78,899)	418,275	102,626
Effect of exchange rate changes on cash and cash equivalents	1,964	(516)	6,406
Net (decrease) increase in cash and cash equivalents	(169,243)	135,548	180,292
Cash and cash equivalents, beginning of period	700,549	565,001	384,709
Cash and cash equivalents, end of period	\$ 531,306	\$ 700,549	\$ 565,001

The accompanying notes are an integral part of these consolidated financial statements.

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**CONSOLIDATED STATEMENTS OF CHANGES
IN SHAREHOLDERS' EQUITY
Nabors Industries Ltd. and Subsidiaries**

	Common		Capital in Excess of Par Value	Unearned Compensation	Accumulated Other Comprehensive Income (Loss)			Retained Earnings	Total Shareholders' Equity
	Shares	Par Value			Unrealized Gains (Losses) on Cumulative Translation Adjustment	Other			
(In thousands)	Shares	Value	Par Value	Compensation	Securities	Adjustment	Other	Earnings	Equity
Balances, December 31, 2004	299,722	\$ 300	\$ 1,358,224	\$	\$ 271	\$ 151,520	\$ (3,562)	\$ 1,422,640	\$ 2,929,393
Comprehensive income (loss):									
Net income								648,695	648,695
Translation adjustment						26,589			26,589
Unrealized gains on marketable securities, net of income taxes of \$812					34,987				34,987
Less:									
reclassification adjustment for gains included in net income, net of income taxes of \$131					(16,393)				(16,393)
Pension liability amortization, net of income taxes of \$148							253		253
Minimum pension liability adjustment, net of income taxes of \$615							(836)		(836)
Amortization of loss on cash							151		151

flow hedges

Total comprehensive income (loss)				18,594	26,589	(432)	648,695	693,446	
Issuance of common shares for stock options exercised	18,396	17	194,447					194,464	
Nabors Exchangeco shares exchanged	220								
Repurchase of common shares	(3,578)	(2)	(17,672)				(81,809)	(99,483)	
Tax effect of stock option deductions			35,501					35,501	
Restricted stock awards, net	633		20,468	(20,468)					
Amortization of unearned compensation				4,819				4,819	
Subtotal	15,671	15	232,744	(15,649)			(81,809)	135,301	
Balances, December 31, 2005	315,393	\$ 315	\$ 1,590,968	\$ (15,649)	\$ 18,865	\$ 178,109	\$ (3,994)	\$ 1,989,526	\$ 3,758,140

The accompanying notes are an integral part of these consolidated financial statements.

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	Common		Accumulated Other Comprehensive Income (Loss)					Retained Earnings	Treasury Shares	Total Shareholders Equity
	Shares	Par Value	Capital in Excess of Par Value	Unearned Compensation	Unrealized Gains (Losses) on Marketable Securities	Cumulative Translation Adjustment	Other			
(In thousands)	Shares	Par Value	Par Value	Compensation	Securities	Adjustment	Other	Earnings	Shares	Equity
Balances, December 31, 2005	315,393	\$ 315	\$ 1,590,968	\$ (15,649)	\$ 18,865	\$ 178,109	\$ (3,994)	\$ 1,989,526	\$	\$ 3,758,140
Comprehensive income (loss):										
Net income								1,020,736		1,020,736
Translation adjustment						(6,949)				(6,949)
Unrealized gains on marketable securities, net of income taxes of \$623					17,620					17,620
Less:										
reclassification adjustment for gains included in net income, net of income tax benefit of \$12					(3,085)					(3,085)
Pension liability amortization, net of income taxes of \$179							305			305
Minimum pension liability adjustment, net of income taxes of \$140							239			239
Amortization of loss on cash flow hedges							151			151
					14,535	(6,949)	695	1,020,736		1,029,017

Total comprehensive income (loss)										
Adoption of SFAS 123-R			(15,649)	15,649						
Issuance of common shares for stock options exercised	1,226	1	25,681						25,682	
Nabors Exchangeco shares exchanged	45									
Purchase of call options			(583,550)						(583,550)	
Sale of warrants			421,162						421,162	
Tax benefit from the purchase of call options			215,914						215,914	
Repurchase and retirement of common shares	(17,935)	(18)	(90,449)			(536,889)			(627,356)	
Repurchase of 22,340 treasury shares							(775,484)		(775,484)	
Tax effect of exercised stock option deductions			(6,761)						(6,761)	
Restricted stock awards, net	604	1							1	
Share-based compensation			79,888						79,888	
Subtotal	(16,060)	(16)	46,236	15,649		(536,889)	(775,484)		(1,250,504)	
Balances, December 31, 2006	299,333	\$ 299	\$ 1,637,204	\$	\$ 33,400	\$ 171,160	\$ (3,299)	\$ 2,473,373	\$ (775,484)	\$ 3,536,653

The accompanying notes are an integral part of these consolidated financial statements.

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	Common		Accumulated Other Comprehensive Income (Loss)				Retained Earnings	Treasury Shares	Total Shareholders Equity
	Shares	Par Value	Capital in Excess of Par Value	Unrealized Gains (Losses) on Marketable Securities	Cumulative Translation Adjustment	Other			
(In thousands)	Shares	Value	Par Value	Securities	Adjustment	Other	Earnings	Shares	Equity
Balances, December 31, 2006	299,333	\$ 299	\$ 1,637,204	\$ 33,400	\$ 171,160	\$ (3,299)	\$ 2,473,373	\$ (775,484)	\$ 3,536,653
Comprehensive income (loss):									
Net income							930,691		930,691
Translation adjustment					153,487				153,487
Unrealized gains on marketable securities, net of income taxes of \$704				14,164					14,164
Less:									
reclassification adjustment for gains included in net income, net of income taxes of \$2,664				(47,283)					(47,283)
Pension liability amortization, net of income taxes of \$101						176			176
Pension liability adjustment, net of income taxes of \$319						679			679
Amortization of loss on cash flow hedges						151			151
Total comprehensive income (loss)				(33,119)	153,487	1,006	930,691		1,052,065

Cumulative effect of adoption of FIN 48 effective January 1, 2007							(44,984)		(44,984)
Issuance of common shares for stock options exercised, net of surrender of unexercised stock options	4,521	5	61,615						61,620
Nabors Exchangeco shares exchanged	51								
Repurchase of 3,782 treasury shares							(102,451)		(102,451)
Tax effect of exercised stock option deductions			(17,147)						(17,147)
Restricted stock awards, net	1,553	1	(1,812)						(1,811)
Share-based compensation, net of tender offer for stock options			30,176						30,176
Subtotal	6,125	6	72,832				(44,984)	(102,451)	(74,597)
Balances, December 31, 2007	305,458	\$ 305	\$ 1,710,036	\$ 281	\$ 324,647	\$ (2,293)	\$ 3,359,080	\$ (877,935)	\$ 4,514,121

The accompanying notes are an integral part of these consolidated financials.

Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****Nabors Industries Ltd. and Subsidiaries****1. NATURE OF OPERATIONS AND BASIS OF PRESENTATION**

Nabors is the largest land drilling contractor in the world, with approximately 535 actively marketed land drilling rigs. We conduct oil, gas and geothermal land drilling operations in the U.S. Lower 48 states, Alaska, Canada, South America, Mexico, the Caribbean, the Middle East, the Far East, Russia and Africa. We are also one of the largest land well-servicing and workover contractors in the United States and Canada. We actively market approximately 564 land workover and well-servicing rigs in the United States, primarily in the southwestern and western United States, and approximately 173 land workover and well-servicing rigs in Canada. Nabors is a leading provider of offshore platform workover and drilling rigs, and actively markets 35 platform, 12 jack-up units and 4 barge rigs in the United States and multiple international markets. These rigs provide well-servicing, workover and drilling services. We have a 51% ownership interest in a joint venture in Saudi Arabia, which actively markets 9 rigs. We also offer a wide range of ancillary well-site services, including engineering, transportation, construction, maintenance, well logging, directional drilling, rig instrumentation, data collection and other support services in selected domestic and international markets. We provide logistics services for onshore drilling in Canada using helicopters and fixed-winged aircraft. We manufacture and lease or sell top drives for a broad range of drilling applications, directional drilling systems, rig instrumentation and data collection equipment, pipeline handling equipment and rig reporting software. We also invest in oil and gas exploration, development and production activities and have 49% ownership interests in joint ventures in the U.S., Canada and International areas.

The majority of our business is conducted through our various Contract Drilling operating segments, which include our drilling, workover and well-servicing operations, on land and offshore. Our oil and gas exploration, development and production operations are included in a category labeled Oil and Gas for segment reporting purposes. Our operating segments engaged in drilling technology and top drive manufacturing, directional drilling, rig instrumentation and software, and construction and logistics operations are aggregated in a category labeled Other Operating Segments for segment reporting purposes.

During the third quarter of 2007, we sold our Sea Mar business to an unrelated third party. Accordingly, the accompanying consolidated statements of income, and certain accompanying notes to the consolidated financial statements, have been updated to retroactively reclassify the operating results of this Sea Mar business, previously included in Other Operating Segments, as a discontinued operation for all periods presented. See Note 18 under Item 8. *Financial Statements and Supplementary Data* for additional discussion.

The accompanying consolidated financial statements and related footnotes are presented in accordance with accounting principles generally accepted in the United States of America (GAAP). Certain reclassifications have been made to prior periods to conform to the current period presentation, with no effect on our consolidated financial position, results of operations or cash flows.

On December 15, 2005, our Board of Directors approved a two-for-one stock split of our common shares to be effectuated in the form of a stock dividend. The stock dividend was distributed on April 17, 2006 to shareholders of record on March 31, 2006. All common share, per share, stock option and restricted stock amounts included in the accompanying Consolidated Financial Statements and related notes have been restated to reflect the effect of the stock split.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**Principles of Consolidation**

Our consolidated financial statements include the accounts of Nabors, all majority-owned subsidiaries, and all non-majority owned subsidiaries required to be consolidated under Financial Accounting Standards Board (FASB) Interpretation No. 46(R), Consolidation of Variable Interest Entities, an interpretation of ARB No. 51 (FIN 46R), which are not material to our financial position, results of operations or cash flows. All significant intercompany accounts and transactions are eliminated in consolidation.

Investments in operating entities where we have the ability to exert significant influence, but where we do not control their operating and financial policies, are accounted for using the equity method. Our share of the net income of these entities is recorded as Earnings from unconsolidated affiliates in our consolidated statements of income, and

our investment in these entities is included in other long-term assets as a single amount in our consolidated balance sheets. Investments in net assets of unconsolidated affiliates accounted for using the equity method totaled \$383.4 million and \$98.0 million as of December 31, 2007 and 2006, respectively. Similarly, investments in certain offshore funds classified as non-marketable are accounted for using the equity method of accounting based on our ownership interest in each fund. Our share of the gains and losses of these funds is recorded in investment income in our

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consolidated statements of income, and our investments in these funds are included in long-term investments in our consolidated balance sheets.

Cash and Cash Equivalents

Cash and cash equivalents include demand deposits and various other short-term investments with original maturities of three months or less.

Investments*Short-term investments*

Short-term investments consist of equity securities, certificates of deposit, corporate debt securities, U.S. Government debt securities, Government agencies debt securities, foreign government debt securities, mortgage-backed debt securities and asset-backed debt securities. Securities classified as available-for-sale or trading are stated at fair value. Unrealized holding gains and temporary losses for available-for-sale securities are excluded from earnings and, until realized, are reported net of taxes in a separate component of shareholders' equity. Other than temporary losses are included in earnings. Unrealized and realized gains and losses on securities classified as trading are reported in earnings currently.

In computing realized gains and losses on the sale of equity securities, the specific identification method is used. In accordance with this method, the cost of the equity securities sold is determined using the specific cost of the security when originally purchased.

Long-term investments

We are also invested in overseas funds investing primarily in a variety of public and private U.S. and non-U.S. securities (including asset-backed securities and mortgage-backed securities, global structured asset securitizations, whole loan mortgages, and participations in whole loans and whole loan mortgages). These investments are classified as non-marketable, because they do not have published fair values. We account for these funds under the equity method of accounting based on our percentage ownership interest and recognize gains or losses, as investment income, on a quarterly basis based on changes in the net asset value of our investment.

Inventory

Inventory is stated at the lower of cost or market. Cost is determined using the first-in, first-out (FIFO) method and includes the cost of materials, labor and manufacturing overhead.

Property, Plant and Equipment

Property, plant and equipment, including renewals and betterments, are stated at cost, while maintenance and repairs are expensed currently. Interest costs applicable to the construction of qualifying assets are capitalized as a component of the cost of such assets. We provide for the depreciation of our drilling and workover rigs using the units-of-production method over an approximate 4,900-day period, with the exception of our jack-up rigs which are depreciated over an 8,030-day period, after provision for salvage value. When our drilling and workover rigs are not operating, a depreciation charge is provided using the straight-line method over an assumed depreciable life of 20 years, with the exception of our jack-up rigs, where a 30-year depreciable life is used.

Depreciation on our buildings, well-servicing rigs, oilfield hauling and mobile equipment, marine transportation and supply vessels, aircraft equipment, and other machinery and equipment is computed using the straight-line method over the estimated useful life of the asset after provision for salvage value (buildings 10 to 30 years; well-servicing rigs 3 to 15 years; marine transportation and supply vessels 10 to 25 years; aircraft equipment 5 to 20 years; oilfield hauling and mobile equipment and other machinery and equipment 3 to 10 years). Amortization of capitalized leases is included in depreciation and amortization expense. Upon retirement or other disposal of fixed assets, the cost and related accumulated depreciation are removed from the respective accounts and any gains or losses are included in our results of operations.

We review our assets for impairment when events or changes in circumstances indicate that the net book value of property, plant and equipment may not be recovered over its remaining service life. Provisions for asset impairment are charged to income when the sum of estimated future cash flows, on an undiscounted basis, is less than the asset's net book value. Impairment charges are recorded using discounted cash flows which requires the estimation of dayrates and utilization, and such estimates can change based on market conditions, technological advances in the industry or changes in regulations governing the industry. We recorded impairment charges

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of approximately \$40.0 million and \$12.4 million in 2007 and 2006, respectively, related to asset retirements. See Note 16. There were no impairment charges related to assets held for use recorded by Nabors in 2005. Damage incurred to certain of our rigs during Hurricanes Katrina and Rita in the third quarter of 2005 resulted in an involuntary conversion loss of approximately \$7.8 million, net of insurance proceeds. Impairment charges and the involuntary conversion loss are included in losses (gains) on sales of long-lived assets, impairment charges and other expense (income), net in the consolidated statements of income.

Oil and Gas Properties

We follow the successful efforts method of accounting for our oil and gas activities. Under the successful efforts method, lease acquisition costs and all development costs are capitalized. Proved oil and gas properties are reviewed when circumstances suggest the need for such a review and, if required, the proved properties are written down to their estimated fair value. Unproved properties are reviewed to determine if there has been impairment of the carrying value, with any such impairment charged to expense in that period. We recorded impairment charges of approximately \$21.9 million, \$9.9 million and \$1.6 million during 2007, 2006 and 2005, respectively, related to our oil and gas properties. Estimated fair value includes the estimated present value of all reasonably expected future production, prices, and costs. Exploratory drilling costs are capitalized until the results are determined. If proved reserves are not discovered, the exploratory drilling costs are expensed. Interest costs related to financing major oil and gas projects in progress are capitalized until the projects are evaluated or until the projects are substantially complete and ready for their intended use if the projects are evaluated as successful. Other exploratory costs are expensed as incurred. Our provision for depletion is based on the capitalized costs as determined above and is determined on a property-by-property basis using the units-of-production method, with costs being amortized over proved developed reserves.

During 2007 and 2006, the Company completed sales of certain properties and leasehold interests, which resulted in gains of approximately \$88.0 million and \$20.7 million, respectively. Gains from the sale of our interests in oil and gas properties are included in operating revenues.

Goodwill

Goodwill represents the cost in excess of fair value of the net assets of companies acquired. We review goodwill and intangible assets with indefinite lives for impairment annually. The change in the carrying amount of goodwill for our various Contract Drilling segments and our Other Operating Segments for the years ended December 31, 2007 and 2006 is as follows:

(In thousands)	Balance as of December 31, 2005	Acquisitions and Purchase Price Adjustments	Sales and Disposals	Cumulative Translation Adjustment	Balance as of December 31, 2006
Contract Drilling:					
U.S. Lower 48 Land Drilling	\$ 30,154	\$	\$	\$	\$ 30,154
U.S. Land Well-servicing	50,786	53			50,839
U.S. Offshore	18,003				18,003
Alaska	19,995				19,995
Canada	154,552			(395)	154,157
International	18,983				18,983
Subtotal Contract Drilling	292,473	53		(395)	292,131
Other Operating Segments	49,466	20,815		(143)	70,138
Total	\$ 341,939	\$ 20,868	\$	\$ (538)	\$ 362,269

(In thousands)	Balance as of December 31, 2006	Acquisitions and Purchase Price Adjustments	Sales and Disposals	Cumulative Translation Adjustment	Balance as of December 31, 2007
Contract Drilling:					
U.S. Lower 48 Land Drilling	\$ 30,154	\$	\$	\$	\$ 30,154
U.S. Land Well-servicing	50,839				50,839
U.S. Offshore	18,003				18,003
Alaska	19,995				19,995
Canada	154,157			27,110	181,267
International	18,983				18,983
Subtotal Contract Drilling	292,131			27,110	319,241
Other Operating Segments	70,138	8,391	(34,989) ⁽¹⁾	5,651	49,191
Total	\$ 362,269	\$ 8,391	\$ (34,989)	\$ 32,761	\$ 368,432

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- (1) Represents goodwill associated with our Sea Mar business which was sold in August 2007.

Our Oil and Gas segment does not have any goodwill. Goodwill totaling approximately \$10.0 million is expected to be deductible for tax purposes.

Derivative Financial Instruments

We record derivative financial instruments (including certain derivative instruments embedded in other contracts) in our consolidated balance sheets at fair value as either assets or liabilities. The accounting for changes in the fair value of a derivative instrument depends on the intended use of the derivative and the resulting designation, which is established at the inception of a derivative. Accounting for derivatives qualifying as fair value hedges allows a derivative's gains and losses to offset related results on the hedged item in the statement of income. For derivative instruments designated as cash flow hedges, changes in fair value, to the extent the hedge is effective, are recognized in other comprehensive income until the hedged item is recognized in earnings. Hedge effectiveness is measured quarterly based on the relative cumulative changes in fair value between the derivative contract and the hedged item over time. Any change in fair value resulting from ineffectiveness is recognized immediately in earnings. Any change in fair value of derivative financial instruments that are speculative in nature and do not qualify for hedge accounting treatment is also recognized immediately in earnings. Proceeds received upon termination of derivative financial instruments qualifying as fair value hedges are deferred and amortized into income over the remaining life of the hedged item using the effective interest rate method.

Litigation and Insurance Reserves

We estimate our reserves related to litigation and insurance based on the facts and circumstances specific to the litigation and insurance claims and our past experience with similar claims. We maintain actuarially-determined accruals in our consolidated balance sheets to cover self-insurance retentions. See Note 14 regarding self insurance accruals. We estimate the range of our liability related to pending litigation when we believe the amount and range of loss can be estimated. We record our best estimate of a loss when the loss is considered probable. When a liability is probable and there is a range of estimated loss with no best estimate in the range, we record the minimum estimated liability related to the lawsuits or claims. As additional information becomes available, we assess the potential liability related to our pending litigation and claims and revise our estimates.

Revenue Recognition

We recognize revenues and costs on daywork contracts daily as the work progresses. For certain contracts, we receive lump-sum payments for the mobilization of rigs and other drilling equipment. Deferred fees related to mobilization periods are recognized over the term of the related drilling contract. Costs incurred to relocate rigs and other drilling equipment to areas in which a contract has not been secured are expensed as incurred. We defer recognition of revenue on amounts received from customers for prepayment of services until those services are provided.

We recognize revenue for top drives and instrumentation systems we manufacture when the earnings process is complete. This generally occurs when products have been shipped, title and risk of loss have been transferred, collectibility is probable, and pricing is fixed and determinable.

We recognize, as operating revenue, proceeds from business interruption insurance claims in the period that the applicable proof of loss documentation is received. Proceeds from casualty insurance settlements in excess of the carrying value of damaged assets are recognized in losses (gains) on sales of long-lived assets, impairment charges and other expense (income), net in the period that the applicable proof of loss documentation is received. Proceeds from casualty insurance settlements that are expected to be less than the carrying value of damaged assets are recognized at the time the loss is incurred and recorded in losses (gains) on sales of long-lived assets, impairment

charges and other expense (income), net.

We recognize reimbursements received for out-of-pocket expenses incurred as revenues and account for out-of-pocket expenses as direct costs.

We recognize revenue on our interests in oil and gas properties as production occurs and title passes. We recognize as operating revenues gains on sales of our interests in oil and gas properties when title passes and our earnings associated with production contracts when realized.

Share-Based Compensation

Prior to January 1, 2006, we accounted for awards granted under our stock-based employee compensation plans following the recognition and measurement principles of Accounting Principles Bulletin Opinion No. 25, Accounting for Stock Issued to Employees, (APB 25) and related interpretations. Under APB 25, no compensation expense is recognized for stock options when the option price is equal to the market price of the underlying stock on the date of award. We generally did not recognize compensation expense in connection with stock option awards to employees, directors and officers under our plans. Under the provisions of SFAS 123, the pro forma effects on income for stock options were instead disclosed in a footnote to the financial statements. Compensation expense was recorded in the income statement for restricted stock awards over the vesting period of the award.

Effective January 1, 2006, we adopted the fair value recognition provisions of SFAS No. 123(R), Share-Based Payment, (SFAS 123-R), using the modified prospective application method. Under this transition method, the Company records compensation expense for all stock option awards granted after the date of adoption and for the unvested portion of previously granted stock option awards that remain outstanding at the date of adoption. The amount of compensation cost recognized is based on the grant-date fair value estimated in accordance with the original provisions of SFAS No. 123. Results for the year ended December 31, 2005 have not been restated.

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Income Taxes

We are a Bermuda-exempt company and are not subject to income taxes in Bermuda. Consequently, income taxes have been provided based on the tax laws and rates in effect in the countries in which our operations are conducted and income is earned. The income taxes in these jurisdictions vary substantially. Our effective tax rate for financial statement purposes will continue to fluctuate from year to year as our operations are conducted in different taxing jurisdictions.

Effective January 1, 2007, we adopted the provisions of the FASB issued Interpretation No. 48 (FIN 48), Accounting for Uncertainty in Income Taxes. In connection with the adoption of FIN 48, the Company recognized increases to its tax reserves for uncertain tax positions and interest and penalties which was accounted for as an increase to other long-term liabilities and as a reduction to retained earnings at January 1, 2007. Results for prior periods have not been restated.

For U.S. and other foreign jurisdiction income tax purposes, we have net operating and other loss carryforwards that we are required to assess annually for potential valuation allowances. We consider the sufficiency of existing temporary differences and expected future earnings levels in determining the amount, if any, of valuation allowance required against such carryforwards and against deferred tax assets.

We do not provide for U.S. or foreign income or withholding taxes on unremitted earnings of all U.S. and certain foreign entities, as these earnings are considered permanently reinvested. Unremitted earnings, representing tax basis accumulated earnings and profits, totaled approximately \$477.6 million, \$397.5 million and \$303.5 million as of December 31, 2007, 2006 and 2005, respectively. It is not practicable to estimate the amount of deferred income taxes associated with these unremitted earnings.

In circumstances where our drilling rigs and other assets are operating in certain foreign taxing jurisdictions, and it is expected that we will redeploy such assets before they give rise to future tax consequences, we do not recognize any deferred tax liabilities on the earnings from these assets.

Nabors realizes an income tax benefit associated with certain stock options issued under its stock plan. Prior to our adoption of SFAS 123 R, these benefits were reflected as an increase in capital in excess of par, and were not reflected in our consolidated income statements. Since adoption of SFAS 123 R, we recognize the benefits related to tax deductions up to the amount of the compensation expense recorded for the award in the consolidated income statement. Any excess tax benefit is reflected as an increase in capital in excess of par.

Foreign Currency Translation

For certain of our foreign subsidiaries, such as those in Canada and Argentina, the local currency is the functional currency, and therefore translation gains or losses associated with foreign-denominated monetary accounts are accumulated in a separate section of shareholders' equity. For our other international subsidiaries, the U.S. dollar is the functional currency, and therefore local currency transaction gains and losses, arising from remeasurement of payables and receivables denominated in local currency, are included in our consolidated statements of income.

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Cash Flows

We treat the redemption price, including accrued original issue discount, on our convertible debt instruments as a financing activity for purposes of reporting cash flows in our consolidated statements of cash flows.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make certain estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosures of contingent assets and liabilities at the balance sheet date and the amounts of revenues and expenses recognized during the reporting period. Actual results could differ from such estimates. Areas where critical accounting estimates are made by management include:

depreciation and amortization of property, plant and equipment

impairment of long-lived assets

income taxes

litigation and insurance reserves

fair value of assets acquired and liabilities assumed

share-based compensation

Recent Accounting Pronouncements

In December 2007, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 141(R), Business Combinations. This statement retains the fundamental requirements in SFAS No. 141, Business Combinations that the acquisition method of accounting be used for all business combinations and expands the same method of accounting to all transactions and other events in which one entity obtains control over one or more other businesses or assets at the acquisition date and in subsequent periods. This statement replaces SFAS No. 141 by requiring measurement at the acquisition date of the fair value of assets acquired, liabilities assumed and any noncontrolling interest. Additionally, SFAS No. 141(R) requires that acquisition-related costs, including restructuring costs, be recognized as expense separately from the acquisition. SFAS No. 141(R) applies prospectively to business combinations for fiscal years beginning after December 15, 2008. We will adopt SFAS No. 141(R) beginning January 1, 2009 and apply to future acquisitions.

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51. This statement establishes the accounting and reporting standards for a noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. This statement clarifies that a noncontrolling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements. SFAS No. 160 requires retroactive adoption of the presentation and disclosure requirements for existing minority interests and applies prospectively to business combinations for fiscal years beginning after December 15, 2008. We will adopt SFAS No. 160 beginning January 1, 2009. We are currently evaluating the impact that this pronouncement may have on our consolidated financial statements.

In September 2006 the FASB issued SFAS No. 157, Fair Value Measurements. This statement establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements for financial assets and liabilities, as well as for any other assets and liabilities that are carried at fair value on a recurring basis in financial statements. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. There is a one year deferral for the implementation of SFAS No. 157 for other nonfinancial assets and liabilities. We will adopt SFAS No. 157 beginning January 1, 2008. We are currently evaluating the impact on our consolidated results of operations and financial condition.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115. This statement permits entities to choose to measure

many financial instruments and certain other items at fair value that are not currently required to be measured at fair value and establishes presentation and disclosure requirements designed to facilitate comparisons between entities that choose different measurement attributes for similar types of assets and liabilities. SFAS No. 159 is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. Early adoption is permitted as of the beginning of a fiscal year that begins on or before November 15, 2007, provided the entity also elects to apply the provisions of SFAS No. 157. We will adopt SFAS No. 159 beginning January 1, 2008. We are currently evaluating the impact on our consolidated results of operations and financial condition.

Table of Contents**3. SHARE-BASED COMPENSATION**

As a result of adopting SFAS 123-R on January 1, 2006, Nabors' income before income taxes and net income for the year ended December 31, 2006, were \$16.6 million and \$12.4 million lower, respectively, than if we had continued to account for share-based compensation under APB 25. Basic and diluted earnings per share were \$.04 and \$.05 lower, respectively, for the year ended December 31, 2006, as a result of adopting SFAS 123-R.

Compensation expense related to awards of restricted stock was recognized before the adoption of SFAS 123-R. Compensation expense for restricted stock totaled \$26.4 million, \$11.8 million and \$4.8 million for the years ended December 31, 2007, 2006 and 2005, respectively, and is included in direct costs and general and administrative expenses in our consolidated statements of income. Total stock-based compensation expense, which includes both stock options and restricted stock totaled \$33.5 million and \$79.9 million (inclusive of the \$51.6 million noncash charge related to our 2006 employee stock option review) for the years ended December 31, 2007 and 2006, respectively. Share-based compensation expense has been allocated to our various operating segments. See Note 19.

Prior to adoption of SFAS 123-R, Nabors presented all tax benefits of deductions resulting from the exercise of options as operating cash flows in the Consolidated Statements of Cash Flows. SFAS 123-R requires the cash flows resulting from tax deductions in excess of the compensation cost recognized for those options (excess tax benefits) to be classified as financing cash flows. The actual tax benefit realized from options exercised during the years ended December 31, 2007 and 2006 was \$3.3 million and \$5.2 million, respectively.

Under the provisions of SFAS 123-R, the recognition of unearned compensation, a contra-equity account representing the amount of unrecognized restricted stock compensation expense, is no longer required. Therefore, in the first quarter of 2006 the unearned compensation amount that was included in our December 31, 2005 consolidated balance sheet in the amount of \$15.6 million was reduced to zero with a corresponding decrease to capital in excess of par value.

Prior Period Pro Forma Presentation

Under the modified prospective application method, results for prior periods have not been restated to reflect the effects of implementing SFAS 123-R. The following pro forma information, as required by SFAS No. 148 Accounting for Stock-Based Compensation—an Amendment to FAS 123, is presented for comparative purposes and illustrates the effect on our net income and earnings per share as if we had applied the provisions of SFAS 123-R effective January 1, 2005:

	Year Ended December 31, 2005
<i>(In thousands, except per share amounts)</i>	
Net income, as reported	\$ 648,695
Add: Stock-based compensation expense, relating to restricted stock awards, included in reported net income, net of related tax effects	3,635
Deduct: Total stock-based employee compensation expense determined under the fair value method for all awards, net of related tax effects	(72,281)
Pro forma net income-basic	580,049
Add: Interest expense on assumed conversion of our zero coupon convertible/exchangeable senior debentures/notes, net of tax	
Adjusted pro forma net income-diluted	\$ 580,049
Earnings per share:	
Basic as reported	\$ 2.08

Basic pro forma	\$	1.86
Diluted as reported	\$	2.00
Diluted pro forma	\$	1.79

Stock Option Plans

As of December 31, 2007, we have several stock option plans under which options to purchase Nabors common shares may be granted to key officers, directors and managerial employees of Nabors and its subsidiaries. Options granted under the plans generally are at prices equal to the fair market value of the shares on the date of the grant. Options granted under the plans generally are exercisable in varying cumulative periodic installments after one year. In the case of certain key executives, options granted under the

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plans are subject to accelerated vesting related to targeted common share prices, or may vest immediately on the grant date. Options granted under the plans cannot be exercised more than ten years from the date of grant. Options to purchase 14.4 million and 9.9 million Nabors common shares remained available for grant as of December 31, 2007 and 2006, respectively. Of the common shares available for grant as of December 31, 2007, approximately 13.2 million of these shares are also available for issuance in the form of restricted shares.

The fair value of each option award is estimated on the date of grant using the Black-Scholes option-pricing model that uses the assumptions for the risk-free interest rate, volatility, dividend yield and the expected term of the options. The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of grant for a period equal to the expected term of the option. Expected volatilities are based on implied volatilities from traded options on the Nabors common shares, historical volatility of Nabors common shares, and other factors. We do not assume any dividend yield, as the Company does not pay dividends. We use historical data to estimate the expected term of the options and employee terminations within the option-pricing model; separate groups of employees that have similar historical exercise behavior are considered separately for valuation purposes. The expected term of the options represents the period of time that the options granted are expected to be outstanding.

We also consider an estimated forfeiture rate for these option awards, and we only recognize compensation cost for those shares that are expected to vest, on a straight-line basis over the requisite service period of the award, which is generally the vesting term of three to four years. The forfeiture rate is based on historical experience. Estimated forfeitures have been adjusted to reflect actual forfeitures during 2007.

As a result of our internal stock option review concluded in the first quarter of 2007, we determined that the exercise price for certain of our employee stock options was less than the fair market value of one of our common shares on the date the options were granted. On November 29, 2007, we made an offer to eligible employees to amend certain outstanding options granted under the Nabors Industries, Inc. 1996 Employee Stock Plan and the Nabors Industries, Inc. 1998 Employee Stock Plan to increase the exercise price per share to the fair market value of a common share of Nabors on each option's measurement date for financial accounting purposes and to make to eligible employees a cash payment equal to the difference between the new exercise price per share of the amended option and the original exercise price per share, multiplied by the number of unexercised eligible options. As a result of the tender offer, we cancelled options with a fair value of \$24.3 million, replaced with a new award of options with a fair value of \$22.2 million and paid \$3.3 million in cash. This resulted in \$1.2 million of additional compensation expense. See Note 14 regarding our internal stock option review in the accompanying consolidated financial statements.

Other than those discussed above, there were no stock options granted, and as a result, no fair value determinations were made during the year ended December 31, 2007 or 2006. For stock options granted during the year ended December 31, 2005, the following weighted-average assumptions were utilized: risk-free interest rates of 4.13%; volatility of 29.50%; dividend yield of 0.0%; and expected life of 3.4 years. Stock option transactions under the Company's various stock-based employee compensation plans are presented below:

Options	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value
<i>(In thousands, except exercise price)</i>				
Options outstanding as of December 31, 2006	37,172	\$ 21.89		
Granted				
Exercised	(4,521)	20.20		
Surrendered	(4,143)	23.25		
Forfeited	(154)	25.66		
Options outstanding as of December 31, 2007	28,354	\$ 22.06	5.13	\$ 191,647

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Options exercisable as of December 31, 2007	27,752	\$	22.03	5.10	\$ 189,322
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Of the options outstanding, 27.8 million, 34.3 million and 31.5 million were exercisable at weighted-average exercise prices of \$22.03, \$21.85 and \$22.03, as of December 31, 2007, 2006 and 2005, respectively. The weighted-average grant-date fair value of options granted during the year ended December 31, 2005 was \$9.21. There were no options granted during the years ended December 31, 2007 or 2006.

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A summary of our nonvested stock options as of December 31, 2007, and the changes during the year then ended is presented below:

Nonvested Stock Options <i>(In thousands, except fair values)</i>	Outstanding		Weighted-Average Grant-Date Fair Value
Nonvested as of December 31, 2006	2,870	\$	6.95
Granted			
Vested	(1,867)		6.40
Forfeited	(401)		7.01
Nonvested as of December 31, 2007	602	\$	7.19

The total intrinsic value of options exercised during the years ended December 31, 2007, 2006 and 2005 was \$76.2 million, \$17.8 million and \$336.1 million, respectively. The total fair value of options that vested during the years ended December 31, 2007, 2006 and 2005 was \$11.9 million, \$30.1 million and \$102.9 million, respectively.

As of December 31, 2007, there was \$.7 million of total future compensation cost related to nonvested options. That cost is expected to be recognized over a weighted-average period of less than one year. We expect substantially all of the nonvested options to vest.

Restricted Stock and Restricted Stock Units

Our stock compensation plans allow grants of restricted stock. Restricted stock is issued on the grant date, but is restricted as to transferability. Restricted stock vests in varying periodic installments ranging from 3 to 4 years.

A summary of our restricted stock as of December 31, 2007, and the changes during the year ended is presented below:

Restricted Stock <i>(In thousands, except fair values)</i>	Outstanding		Weighted-Average Grant-Date Fair Value
Nonvested as of December 31, 2006	1,274	\$	31.14
Granted	1,745		30.18
Vested	(436)		30.60
Forfeited	(83)		30.33
Nonvested as of December 31, 2007	2,500	\$	30.47

The fair value of restricted stock that vested during the year ended December 31, 2007 and 2006 was \$13.2 million and \$4.8 million, respectively. There was not any restricted stock that vested during the year ended December 31, 2005.

As of December 31, 2007, there was \$49.5 million of total future compensation cost related to nonvested restricted stock awards. That cost is expected to be recognized over a weighted-average period of 1.1 years. We expect substantially all of the nonvested restricted stock awards to vest.

During February 2008, the Company awarded 921,100 and 390,777 shares of restricted stock to its Chairman and Chief Executive Officer; and its Deputy Chairman, President and Chief Operating Officer, respectively. These awards had an aggregate value at the date of grant of \$40.5 million and vest over a period of three years. See Note 14 regarding employment contracts.

4. ACQUISITIONS

On January 3, 2006, we completed an acquisition of 1183011 Alberta Ltd., a wholly-owned subsidiary of Airborne Energy Solutions Ltd., through the purchase of all common shares outstanding for cash for a total purchase price of Cdn. \$41.7 million (U.S. \$35.8 million). In addition, we assumed debt, net of working capital, totaling approximately Cdn. \$10.0 million (U.S. \$8.6 million). Nabors Blue Sky Ltd. (formerly 1183011 Alberta Ltd.) owns 42 helicopters and fixed-wing aircraft and owns and operates a fleet of heliportable well-service equipment. The purchase price has been allocated based on final valuations of the fair value of assets acquired and liabilities assumed as of the acquisition date and resulted in goodwill of approximately U.S. \$18.8 million.

On May 31, 2006, we completed an acquisition of Pragma Drilling Equipment Ltd.'s business, which manufactures catwalks, iron roughnecks and other related oilfield equipment, through an asset purchase consisting primarily of intellectual property for a total purchase price of Cdn. \$46.1 million (U.S. \$41.5 million). The purchase price has been allocated based on final valuations of the fair

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market value of assets acquired and liabilities assumed as of the acquisition date and resulted in goodwill of approximately U.S. \$10.5 million.

5. CASH AND CASH EQUIVALENTS AND INVESTMENTS

Certain information related to our cash and cash equivalents and investments in marketable securities follows:

(In thousands)	December 31,					
	Fair Value	2007 Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value	2006 Gross Unrealized Holding Gains	Gross Unrealized Holding Losses
Cash and cash equivalents	\$ 531,306	\$	\$	\$ 700,549	\$	\$
Available-for-sale marketable equity securities				117,220	38,197	(1,740)
Marketable debt securities:						
Commercial paper and CDs				16,778		(6)
Corporate debt securities	95,456		(22)	131,079	154	
U.S. Government debt securities	20,048	257				
Government agencies debt securities	39,634	245		61,318	106	
Mortgage-backed debt securities	6,788	27		1,373	5	
Mortgage-CMO debt securities	23,784	22		49,629	19	
Asset-backed debt securities	50,035		(29)	62,070		(9)
Total marketable debt securities	\$ 235,745	\$ 551	\$ (51)	\$ 322,247	\$ 284	\$ (15)

Our cash and cash equivalents, short-term and long-term investments consist of the following:

(In thousands)	December 31,	
	2007	2006
Cash and cash equivalents	\$ 531,306	\$ 700,549
Short-term investments:		
Available-for-sale marketable equity securities		117,220
Marketable debt securities	235,745	322,247
Total short-term investments	235,745	439,467
Long-term investments	236,253	513,269
Total cash and cash equivalents and investments	\$ 1,003,304	\$ 1,653,285

The estimated fair values of our corporate, U.S. Government, Government agencies, mortgage-backed, mortgage-CMO and asset-backed debt securities at December 31, 2007, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because the issuers of the securities may have the right to repay obligations without prepayment penalties and we may elect to sell the securities prior to the maturity date.

(In thousands)	Estimated Fair Value 2007
Marketable debt securities:	
Due in one year or less	\$ 162,952
Due after one year through five years	72,793
Total marketable securities	\$ 235,745

Certain information regarding our marketable debt and equity securities is presented below:

(In thousands)	Year Ended December 31,		
	2007	2006	2005
Available-for-sale:			
Proceeds from sales and maturities	\$531,230	\$1,324,882	\$688,275
Realized gains, net of realized losses	49,947	3,073	16,524

Table of Contents**6. PROPERTY, PLANT AND EQUIPMENT**

The major components of our property, plant and equipment are as follows:

(In thousands)	December 31,	
	2007	2006
Land	\$ 26,732	\$ 26,859
Buildings	84,000	74,048
Drilling, workover and well-servicing rigs, and related equipment	7,585,414	5,749,260
Marine transportation and supply vessels	13,663	156,593
Oilfield hauling and mobile equipment	417,308	383,387
Other machinery and equipment	92,792	73,301
Oil and gas properties	501,549	344,423
Construction in process (1)	477,343	625,719
	9,198,801	7,433,590
Less: accumulated depreciation and amortization	(2,275,081)	(1,868,075)
accumulated depletion on oil and gas properties	(234,594)	(155,414)
	\$ 6,689,126	\$ 5,410,101

(1) Relates to amounts capitalized for new or substantially new drilling, workover and well-servicing rigs that were under construction and had not yet been placed in service as of December 31, 2007 or 2006.

Repair and maintenance expense included in direct costs in our consolidated statements of income totaled \$438.0 million, \$410.6 million and \$327.5 million for the years ended December 31, 2007, 2006 and 2005, respectively.

Interest costs of \$9.9 million, \$9.5 million and \$4.2 million were capitalized during the years ended December 31, 2007, 2006 and 2005, respectively.

7. INVESTMENTS IN UNCONSOLIDATED AFFILIATES

Our principal operations accounted for using the equity method include a construction and logistics operation (50% ownership) in Alaska, drilling and workover operations located in Saudi Arabia (51% ownership) and oil and gas exploration, development and production joint ventures in the U.S., Canada and internationally (49% ownership). These unconsolidated affiliates are integral to our operations in those locations. See Note 13 for a discussion of transactions with these related parties.

As of December 31, 2007 and 2006, our investments in net assets of unconsolidated affiliates accounted for using the equity method totaled \$383.4 million and \$98.0 million, respectively, and are included in other long-term assets in our consolidated balance sheets. Combined condensed financial data for investments in unconsolidated affiliates is summarized as follows:

(In thousands)	December 31,	
	2007	2006
Current assets	\$260,766	\$154,136
Long-term assets	801,333	182,310
Current liabilities	161,761	91,815
Long-term liabilities	128,073	49,340

(In thousands)	Year Ended December 31,		
	2007	2006	2005
Gross revenues	\$589,923	\$486,347	\$346,127
Gross margin	94,952	85,700	46,722
Net income	35,332	45,123	16,119
Nabors earnings from unconsolidated affiliates	17,724	20,545	5,671

Cumulative undistributed earnings of our unconsolidated affiliates included in our retained earnings as of December 31, 2007 and 2006 totaled approximately \$69.9 million and \$64.7 million, respectively.

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As of December 31, 2007, our other long-term assets include a \$21.4 million investment in unconsolidated affiliates accounted for using the cost method of accounting for our 18% ownership interest in a manufacturer of drilling rigs and equipment. There were no investments in unconsolidated affiliates accounted for by the cost method of accounting in 2006. The cost recorded was determined based on our estimate of the fair value of the shares that we received of the privately-held company. See Note 14 for further discussion.

8. FINANCIAL INSTRUMENTS AND RISK CONCENTRATION

We may be exposed to certain market risks arising from the use of financial instruments in the ordinary course of business. This risk arises primarily as a result of potential changes in the fair market value of financial instruments that would result from adverse fluctuations in foreign currency exchange rates, credit risk, interest rates, and marketable and non-marketable security prices as discussed below.

Foreign Currency Risk

We operate in a number of international areas and are involved in transactions denominated in currencies other than U.S. dollars, which exposes us to foreign exchange rate risk. The most significant exposures arise in connection with our operations in Canada, which usually are substantially unhedged.

At various times, we utilize local currency borrowings (foreign currency-denominated debt), the payment structure of customer contracts and foreign exchange contracts to selectively hedge our exposure to exchange rate fluctuations in connection with monetary assets, liabilities, cash flows and commitments denominated in certain foreign currencies. A foreign exchange contract is a foreign currency transaction, defined as an agreement to exchange different currencies at a given future date and at a specified rate.

Credit Risk

Our financial instruments that potentially subject us to concentrations of credit risk consist primarily of cash equivalents, investments in marketable and non-marketable securities, accounts receivable and our range cap and floor derivative instrument. Cash equivalents such as deposits and temporary cash investments are held by major banks or investment firms. Our investments in marketable and non-marketable securities are managed within established guidelines which limit the amounts that may be invested with any one issuer and which provide guidance as to issuer credit quality. Certain of our non-marketable securities are invested in a fund that invests in securities which have been significantly impacted by the current credit market and comprise approximately \$26.2 million of our \$236.3 million long-term investments in our cash and investment portfolio as of December 31, 2007. We believe that the credit risk in our cash and investment portfolio is minimized as a result of the mix of our investments. In addition, our trade receivables are with a variety of U.S., international and foreign-country national oil and gas companies. Management considers this credit risk to be limited due to the financial resources of these companies. We perform ongoing credit evaluations of our customers and we generally do not require material collateral. However, we do occasionally require prepayment of amounts from customers whose creditworthiness is in question prior to provision of services to those customers. We maintain reserves for potential credit losses, and such losses have been within management's expectations.

Interest Rate and Marketable and Non-marketable Security Price Risk

Our financial instruments that are potentially sensitive to changes in interest rates include our \$2.75 billion 0.94% senior exchangeable notes, our \$82.8 million zero coupon convertible senior debentures, our \$700 million zero coupon senior exchangeable notes, our 4.875% and 5.375% senior notes, our range cap and floor derivative instrument, our investments in debt securities (including corporate, asset-backed, U.S. Government, Government agencies, foreign government, mortgage-backed debt and mortgage-CMO debt securities) and our investments in overseas funds investing primarily in a variety of public and private U.S. and non-U.S. securities (including asset-backed securities and mortgage-backed securities, global structured asset securitizations, whole loan mortgages, and participations in whole loans and whole loan mortgages), which are classified as non-marketable securities.

We may utilize derivative financial instruments that are intended to manage our exposure to interest rate risks. The use of derivative financial instruments could expose us to further credit risk and market risk. Credit risk in this context is the failure of a counterparty to perform under the terms of the derivative contract. When the fair value of a derivative contract is positive, the counterparty would owe us, which can create credit risk for us. When the fair value of a derivative contract is negative, we would owe the counterparty, and therefore, we would not be exposed to credit

risk. We attempt to minimize credit risk in derivative instruments by entering into transactions with major financial institutions that have a significant asset base. Market risk related to derivatives is the

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adverse effect to the value of a financial instrument that results from changes in interest rates. We try to manage market risk associated with interest-rate contracts by establishing and monitoring parameters that limit the type and degree of market risk that we undertake.

Our \$700 million zero coupon senior exchangeable notes include a contingent interest provision, discussed in Note 9 below, which qualifies as an embedded derivative. This embedded derivative is separated from the notes and valued at its fair value at the inception of the note indenture. Any subsequent change in fair value of this embedded derivative would be recorded in our consolidated statements of income. The fair value of the contingent interest provision at inception of the note indenture was nominal. In addition, there was no significant change in the fair value of this embedded derivative through December 31, 2007, resulting in no impact in any of our consolidated statements of income for the years ended December 31, 2007, 2006 or 2005.

On October 21, 2002, we entered into an interest rate swap transaction with a third-party financial institution to hedge our exposure to changes in the fair value of \$200 million of our fixed rate 5.375% senior notes due 2012, which has been designated as a fair value hedge. Additionally, on October 21, 2002, we purchased a LIBOR range cap and sold a LIBOR floor, in the form of a cashless collar, with the same third-party financial institution with the intention of mitigating and managing our exposure to changes in the three-month U.S. dollar LIBOR rate. This transaction does not qualify for hedge accounting treatment, and any change in the cumulative fair value of this transaction will be reflected as a gain or loss in our consolidated statements of income. In June 2004 we unwound \$100 million of the \$200 million range cap and floor derivative instrument. During the fourth quarter of 2005, we unwound the interest rate swap resulting in a loss of \$2.7 million, which has been deferred and will be recognized as an increase to interest expense over the remaining life of our 5.375% senior notes due 2012. During the year ended December 31, 2005, we recorded interest savings related to our interest rate swap agreement accounted for as a fair value hedge of \$2.7 million, which served to reduce interest expense.

The fair value of our range cap and floor transaction is recorded as a derivative asset, included in other long-term assets, and was nominal as of December 31, 2007 and totaled approximately \$2.3 million as of December 31, 2006. We recorded a net loss of approximately \$1.3 million for the year ended December 31, 2007 and gains of approximately \$1.4 million and \$1.1 million for the years ended December 31, 2006 and 2005, respectively, related to this derivative instrument; such amounts are included in losses (gains) on sales of long-lived assets, impairment charges and other expense (income), net in our consolidated statements of income.

Fair Value of Financial Instruments

The fair value of our fixed rate long-term debt is estimated based on quoted market prices or prices quoted from third-party financial institutions. The carrying and fair values of our long-term debt, including the current portion, are as follows:

(In thousands)	December 31,			
	2007			2006
	Carrying Value	Fair Value	Carrying Value	Fair Value
\$2.75 billion, 0.94% senior exchangeable notes due May 2011	\$ 2,750,000	\$ 2,595,313	\$ 2,750,000	\$ 2,628,725
\$700 million zero coupon senior exchangeable notes due June 2023	700,000	696,990	700,000	730,380
5.375% senior notes due August 2012	272,097 ⁽¹⁾	279,043 ⁽¹⁾	271,470 ⁽¹⁾	270,545 ⁽¹⁾
4.875% senior notes due August 2009	224,562	225,709	224,296	221,749
\$82.8 million zero coupon convertible senior debentures due February 2021	59,774	56,897	58,308	50,354
	\$ 4,006,433	\$ 3,853,952	\$ 4,004,074	\$ 3,901,753

- (1) The amount presented as of December 31, 2007 and 2006 includes \$1.9 million and \$2.3 million, respectively, related to the unamortized loss on the interest rate swap executed on October 21, 2002 and unwound during the fourth quarter of 2005.

The fair values of our cash equivalents, trade receivables and trade payables approximate their carrying values due to the short-term nature of these instruments.

We maintain an investment portfolio of short-term and long-term investments that exposes us to price risk. See Note 5. As of December 31, 2007 and 2006, our short-term investments were carried at fair market value and included \$235.7 million and \$439.5 million, respectively, in securities classified as available-for-sale. Certain of our long-term investments are also carried at fair value. See Note 2. The fair value of our long-term investments totaled \$236.3 million and \$513.3 million as of December 31, 2007 and 2006, respectively. We had no investments classified as trading as of December 31, 2007 and 2006.

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Long-term debt consists of the following:

(In thousands)	December 31,	
	2007	2006
\$2.75 billion 0.94% senior exchangeable notes due May 2011	\$ 2,750,000	\$ 2,750,000
\$700 million zero coupon senior exchangeable notes due June 2023 (1)	700,000	700,000
5.375% senior notes due August 2012 (2)	272,097	271,470
4.875% senior notes due August 2009	224,562	224,296
\$82.8 million zero coupon convertible senior debentures due February 2021	59,774	58,308
	4,006,433	4,004,074
Less: current portion	700,000	
	\$ 3,306,433	\$ 4,004,074

(1) Our \$700 million zero coupon senior exchangeable notes due 2023 can be put to us on June 15, 2008 and are classified as current liabilities.

(2) The amount presented for the year ended December 31, 2007 and 2006 includes \$1.9 and \$2.3 million, respectively, related to the unamortized loss on the interest rate swap executed on October 21, 2002 and unwound during the fourth quarter of 2005.

See Note 8.

As of December 31, 2007, the maturities of our long-term debt for each of the five years after 2007 and thereafter are as follows:

(In thousands)	Assuming Zero Coupon Convertible Debentures are	
	Paid at Maturity	Paid at First Put Date
2008	\$	\$ 700,000 ⁽¹⁾
2009	225,000	225,000
2010		
2011	2,750,000 ⁽²⁾	2,814,557 ⁽³⁾
2012	275,000 ⁽⁴⁾	275,000 ⁽⁴⁾
Thereafter	782,765 ⁽⁵⁾	
	\$4,032,765	\$ 4,014,557

(1) Represents our \$700 million zero coupon senior exchangeable notes due 2023, which can be put to us on June 15, 2008.

(2) Represents our \$2.75 billion 0.94% senior exchangeable notes due 2011.

(3) Represents our \$2.75 billion 0.94% senior exchangeable notes due 2011 and the remainder of our \$82.8 million zero coupon convertible senior debentures due 2021, which can be put back to us on February 5,

2011.

- (4) Represents our \$275 million 5.375% senior notes due 2012.
- (5) Represents our \$82.8 million zero coupon convertible senior debentures due 2021 and \$700 million of our zero coupon senior exchangeable notes due 2023.

Table of Contents***\$2.75 billion Senior Exchangeable Notes Due May 2011***

On May 23, 2006, Nabors Industries, Inc., (Nabors Delaware), our wholly-owned subsidiary, completed a private placement of \$2.5 billion aggregate principal amount of 0.94% senior exchangeable notes due 2011 that are fully and unconditionally guaranteed by us. On June 8, 2006, the initial purchasers exercised their option to purchase an additional \$250 million of the 0.94% senior exchangeable notes due 2011, increasing the aggregate issuance of such notes to \$2.75 billion. Nabors Delaware sold the notes to the initial purchasers in reliance on the exemption from registration provided by Section 4(2) of the Securities Act. The notes were reoffered by the initial purchasers of the notes to qualified institutional buyers under Rule 144A of the Securities Act. Nabors and Nabors Delaware filed a registration statement on Form S-3 pursuant to the Securities Act with respect to resale of the notes and shares received in exchange for the notes on August 21, 2006. The notes bear interest at a rate of 0.94% per year payable semiannually on May 15 and November 15 of each year, beginning on November 15, 2006. Debt issuance costs of \$28.7 million were capitalized in connection with the issuance of the notes in other long-term assets in our consolidated balance sheet and are being amortized through May 2011.

The notes are exchangeable into cash and, if applicable, Nabors common shares based on an exchange rate of the equivalent value of 21.8221 Nabors common shares per \$1,000 principal amount of notes (which is equal to an initial exchange price of approximately \$45.83 per share), subject to adjustment during the 30 calendar days ending at the close of business on the business day immediately preceding the maturity date and prior thereto only under the following circumstances: (1) during any calendar quarter (and only during such calendar quarter), if the closing price of Nabors common shares for at least 20 trading days in the 30 consecutive trading days ending on the last trading day of the immediately preceding calendar quarter is more than 130% of the applicable exchange rate; (2) during the five business day period after any ten consecutive trading day period in which the trading price per note for each day of that period was less than 95% of the product of the closing sale price of Nabors common shares and the exchange rate of the note; and (3) upon the occurrence of specified corporate transactions set forth in the indenture.

The notes are unsecured and are effectively junior in right of payment to any of Nabors Delaware's future secured debt. The notes will rank equally with any of Nabors Delaware's other existing and future unsubordinated debt and will be senior in right of payment to any of Nabors Delaware's future subordinated debt. Our guarantee of the note is unsecured and ranks equal in right of payments to all of our unsecured and unsubordinated indebtedness from time to time outstanding. Holders of the notes, who exchange their notes in connection with a change in control, as defined in the indenture, may be entitled to a make-whole premium in the form of an increase in the exchange rate. Additionally, in the event of a change in control, the holders of the notes may require Nabors Delaware to purchase all or a portion of their notes at a purchase price equal to 100% of the principal amount of notes, plus accrued and unpaid interest, if any. Upon exchange of the notes, a holder will receive for each note exchanged an amount in cash equal to the lesser of (i) \$1,000 or (ii) the exchange value, determined in the manner set forth in the indenture. In addition, if the exchange value exceeds \$1,000 on the exchange date, a holder will also receive a number of Nabors common shares for the exchange value in excess of \$1,000 equal to such excess divided by the exchange price.

In connection with the sale of the notes, Nabors Delaware entered into exchangeable note hedge transactions with respect to our common shares. The call options are designed to cover, subject to customary anti-dilution adjustments, the net number of our common shares that would be deliverable to exchanging noteholders in the event of an exchange of the notes. Nabors Delaware paid an aggregate amount of approximately \$583.6 million of the proceeds from the sale of the notes to acquire the call options.

Nabors also entered into separate warrant transactions at the time of the sale of the notes whereby we sold warrants which give the holders the right to acquire approximately 60.0 million of our common shares at a strike price of \$54.64 per share. On exercise of the warrants, we have the option to deliver cash or our common shares equal to the difference between the then market price and strike price. All of the warrants will be exercisable and will expire on August 15, 2011. We received aggregate proceeds of approximately \$421.2 million from the sale of the warrants and used \$353.4 million of the proceeds to purchase 10.0 million of Nabors common shares.

The purchased call options and sold warrants are separate contracts entered into by Nabors and Nabors Delaware with two financial institutions, and are not part of the terms of the notes and will not affect the holders' rights under the notes. The purchased

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call options are expected to offset the potential dilution upon exchange of the notes in the event that the market value per share of our common shares at the time of exercise is greater than the strike price of the purchased call options, which corresponds to the initial exchange price of the notes and is simultaneously subject to certain customary adjustments. The warrants will effectively increase the exchange price of the notes to \$54.64 per share of our common shares, from the perspective of Nabors, representing a 55% premium based on the last reported bid price of \$35.25 per share on May 17, 2006. In accordance with Emerging Issues Task Force Issue No. 00-19, Accounting for Derivative Financial Instruments Indexed To and Potentially Settled In, a Company's Own Stock and SFAS No. 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity, we recorded the exchangeable note hedge and warrants in capital in excess of par value as of the transaction date, and will not recognize subsequent changes in fair value. We also recognized a deferred tax asset of \$215.9 million in the second quarter of 2006 for the effect of the future tax benefits related to the exchangeable note hedge.

4.875% Senior Notes Due August 2009 and 5.375% Senior Notes Due August 2012

On August 22, 2002, Nabors Holdings 1, ULC, one of our indirect, wholly-owned subsidiaries, issued \$225 million aggregate principal amount of 4.875% senior notes due 2009 that are fully and unconditionally guaranteed by Nabors and Nabors Industries, Inc. (Nabors Delaware). Concurrently with this offering by Nabors Holdings, Nabors Delaware issued \$275 million aggregate principal amount of 5.375% senior notes due 2012, which are fully and unconditionally guaranteed by Nabors. Both issues of senior notes were resold by a placement agent to qualified institutional buyers under Rule 144A of the Securities Act of 1933, as amended. Interest on each issue of senior notes is payable semi-annually on February 15 and August 15 of each year, beginning on February 15, 2003.

Both issues are unsecured and are effectively junior in right of payment to any of their respective issuers' future secured debt. The senior notes rank equally in right of payment with any of their respective issuers' future unsubordinated debt and are senior in right of payment to any of such issuers' subordinated debt. The guarantees of Nabors Delaware and Nabors with respect to the senior notes issued by Nabors Holdings, and the guarantee of Nabors with respect to the senior notes issued by Nabors Delaware, are similarly unsecured and have a similar ranking to the series of senior notes so guaranteed.

Subject to certain qualifications and limitations, the indentures governing the senior notes issued by Nabors Holdings and Nabors Delaware limit the ability of Nabors and its subsidiaries to incur liens and to enter into sale and lease-back transactions. In addition, such indentures limit the ability of Nabors, Nabors Delaware and Nabors Holdings to enter into mergers, consolidations or transfers of all or substantially all of such entity's assets unless the successor company assumes the obligations of such entity under the applicable indenture.

\$700 million Zero Coupon Senior Exchangeable Notes Due June 2023

On June 10, 2003, Nabors Delaware, our wholly-owned subsidiary, completed a private placement of \$700 million aggregate principal amount of zero coupon senior exchangeable notes due 2023 that are fully and unconditionally guaranteed by us. The notes were reoffered by the initial purchaser of the notes to qualified institutional buyers under Rule 144A of the Securities Act of 1933, as amended, and outside the United States in accordance with Regulation S under the Securities Act. Nabors and Nabors Delaware filed a registration statement on Form S-3 pursuant to the Securities Act with respect to the notes on August 8, 2003. The notes do not bear interest, do not accrete and have a zero yield to maturity, unless Nabors Delaware becomes obligated to pay contingent interest as defined in the related note indenture.

We used a portion of the net proceeds from the issuance of the notes to redeem the remaining outstanding principal amount of Nabors Delaware's \$825 million zero coupon convertible senior debentures due 2020 on June 20, 2003 and our associated guarantees (see discussion below under the caption "Other Debt Transactions"). The remainder of the proceeds of the notes were invested in cash and marketable securities.

The notes are unsecured and are effectively junior in right of payment to any of Nabors Delaware's future secured debt. The notes rank equally with any of Nabors Delaware's other existing and future unsecured and unsubordinated debt and are senior in right of payment to any of Nabors Delaware's subordinated debt. The guarantee of Nabors is similarly unsecured and have a similar ranking to the notes so guaranteed. We may redeem some or all of the notes at any time on or after June 15, 2008, at a redemption price equal to 100% of the principal amount of the notes plus contingent interest. Holders of the notes have the right to require Nabors Delaware to repurchase the notes at a

purchase price equal to 100% of the principal amount of the notes plus contingent interest and additional amounts, if any, on June 15, 2008, June 15, 2013 and June 15, 2018 or upon a fundamental change as described in the related note indenture. Accordingly, as our \$700 million zero coupon senior exchangeable notes can be put to us on June 15, 2008, the outstanding principal amount of these notes of \$700 million were reclassified from long-term debt to current liabilities in our balance sheet as of June 30, 2007. If these notes are not put to us on June 15, 2008, the notes will be reclassified back to long-term debt in our balance sheet at that time.

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Nabors Delaware is obligated to pay contingent interest during any six-month period from June 15 to December 14 or from December 15 to June 14 commencing on or after June 15, 2008 for which the average trading price of the notes for each day of the applicable five trading day reference period equals or exceeds 120% of the principal amount of the notes as of the day immediately preceding the first day of the applicable six-month interest period. The amount of contingent interest payable per note in respect to any six-month period will equal 0.185% of the principal amount of a note. The five day trading reference period means the five trading days ending on the second trading day immediately preceding the relevant six-month interest period.

The notes are exchangeable at the option of the holders into the equivalent value of 28.5306 common shares of Nabors per \$1,000 principal amount of notes (subject to adjustment for certain events) if any of the following circumstances occur: (1) if in any calendar quarter beginning after the quarter ending September 30, 2003, the closing sale price per share of Nabors common shares for at least 20 trading days during the period of 30 consecutive trading days ending on the last trading day of the previous calendar quarter is greater than or equal to 120%, or with respect to all calendar quarters beginning on or after July 1, 2008, 110%, of the applicable exchange price per share of the Nabors common shares on such last trading day (the initial exchange price per share is \$35.05 and is subject to adjustment for certain events detailed in the note indenture; 120% of this initial price per share is \$42.06 and 110% of this initial price per share is \$38.56), (2) subject to certain exceptions, during the five business day period after any ten consecutive trading day period in which the trading price per \$1,000 principal amount of notes for each day of such ten trading day period was less than 95% of the product of the closing sale price of Nabors common shares and the exchange rate of such note, (3) if Nabors Delaware calls the notes for redemption, or (4) upon the occurrence of specified corporate transactions described in the note indenture. See the discussion below related to the method of settlement required upon exchange of these notes. The \$700 million notes can be put to us on June 15, 2008, June 15, 2013 and June 15, 2018, for a purchase price equal to 100% of the principal amount of the notes plus contingent interest and additional amounts, if any.

In October 2004 we executed a supplemental indenture relating to our \$700 million zero coupon senior exchangeable notes providing that upon an exchange of these notes, we will in all circumstances, except when we are in default under the indenture, elect to pay holders of these debt instruments, in lieu of common shares, cash up to the principal amount of the instruments and, at our option, consideration in the form of either cash or our common shares for any amount above the principal amount of the instruments required to be paid pursuant to the terms of the indenture. Additionally, the supplemental indenture provides that if the instruments are put to us at various dates commencing June 15, 2008, we will in all circumstances elect to pay holders of these debt instruments cash upon such repurchase. The number of common shares that will be issued, if we choose to deliver common shares for any amount due to the holders of the notes above the principal amount of the notes, will be equal to the amount due in excess of the principal amount of the notes divided by the market price of our common shares. For these purposes, the market price means the average of the sale prices of our common shares for the five trading day period ending on the third business day prior to the applicable purchase date.

In December 2004, we concluded an offer to exchange Series B of our \$700 million zero coupon senior exchangeable notes due 2023 for our existing \$700 million zero coupon senior exchangeable notes. This exchange of shares removed the obligation under these notes where we would be required to issue shares upon conversion when we are in default under the indenture related to the notes. Series B of our \$700 million zero coupon senior exchangeable notes have substantially similar terms to our existing \$700 million zero coupon senior exchangeable notes as supplemented, except that, in addition to the elimination of the default language discussed above, the Series B exchanged notes contain additional anti-dilution protection for cash dividends and tender or exchange offers for our common shares at above-market prices, and provide for payment of a make-whole premium in certain circumstances upon exchange in connection with certain fundamental changes involving Nabors. The exchange resulted in an aggregate principal amount of \$699.9 million of Series B of our \$700 million zero coupon senior exchangeable notes being issued to those holders of the original series of \$700 million zero coupon senior exchangeable notes, leaving \$.1 million of the original series of notes outstanding as of December 31, 2006.

\$82.8 million Zero Coupon Convertible Senior Debentures Due February 2021

On February 6, 2006, we redeemed 93% of our \$1.2 billion zero coupon senior convertible debentures due 2021 for a total redemption price of \$769.8 million; an amount equal to the issue price of \$679.9 million plus accrued original issue discount of \$89.9 million to the date of repurchase (resulting in a remaining outstanding balance for our zero coupon senior convertible debentures of approximately \$82.8 million as of December 31, 2006). We treat the redemption price, including accrued original discount, on our convertible debt instruments as a financing activity for purposes of reporting cash flows in our consolidated statements of cash flows.

The original principal amount of these debentures upon issuance was \$1.381 billion, of which \$180.8 million had been redeemed prior to 2005. The original issue price of these debentures is \$608.41 per \$1,000 principal amount at maturity. The yield to maturity is

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2.5% compounded semi-annually with no periodic cash payments of interest. At the holder's option, the remaining debentures may be put to us on February 5, 2011. Additionally, at the holder's option, the remaining debentures may be converted, at any time prior to maturity or their earlier redemption, into the equivalent value of 14.149 common shares per \$1,000 principal amount at maturity. The conversion rate is subject to adjustment under formulae set forth in the indenture in certain events, including: (1) the issuance of Nabors' common shares as a dividend or distribution of common shares; (2) certain subdivisions and combinations of the common shares; (3) the issuance to all holders of common shares of certain rights or warrants to purchase common shares; (4) the distribution of common shares, other than Nabors' common shares to Nabors' shareholders, or evidences of Nabors' indebtedness or of assets; and (5) distribution consisting of cash, excluding any quarterly cash dividend on the common shares to the extent that the aggregate cash dividend per common share in any quarter does not exceed certain amounts. See the discussion below related to the method of settlement required upon conversion of these debentures.

In October 2004 we executed a supplemental indenture (similar to the supplemental indenture for our \$700 million zero coupon senior exchangeable notes discussed above) relating to our \$82.8 million zero coupon convertible senior debentures providing that upon a conversion of these convertible debt instruments, we would in all circumstances, except when we are in default under the indenture, elect to pay holders of these debt instruments, in lieu of common shares, cash up to the principal amount of the instruments and, at our option, consideration in the form of either cash or our common shares for any amount above the principal amount of the instruments required to be paid pursuant to the terms of the indenture. Additionally, the supplemental indenture provided that if the instruments were put to us at various dates commencing February 5, 2006, we will in all circumstances elect to pay holders of these debt instruments cash upon such repurchase.

Other Debt Transactions

On May 23, 2006, Nabors International Management Ltd. (NIML), a direct wholly-owned subsidiary of Nabors borrowed from affiliates of the initial purchasers of the \$2.75 billion senior exchangeable notes, \$650 million pursuant to a 90-day senior unsecured loan. The proceeds of the loan were used to purchase 18.4 million of Nabors' common shares, which are held in treasury. The unsecured loan was paid in full on June 30, 2006.

Short-Term Borrowings

We have four letter of credit facilities with various banks as of December 31, 2007. We did not have any short-term borrowings outstanding at December 31, 2007 or 2006. Availability and borrowings under our credit facilities are as follows:

(In thousands)	December 31,	
	2007	2006
Credit available	\$ 211,165	\$ 147,545
Letters of credit outstanding	(157,877)	(108,580)
Remaining availability	\$ 53,288	\$ 38,965

10. INCOME TAXES

Effective January 1, 2007, we adopted the provisions of the FASB issued Interpretation No. 48 (FIN 48), Accounting for Uncertainty in Income Taxes. In connection with the adoption of FIN 48, we recognized increases of \$24 million and \$21 million to our tax reserves for uncertain tax positions and interest and penalties, respectively. These increases were accounted for as an increase to other long-term liabilities and as a reduction to retained earnings at January 1, 2007. The change in our unrecognized tax benefits for year ended December 31, 2007 is as follows:

(In thousands)	
Balance as of January 1, 2007	\$ 84,294
Additions based on tax positions related to the current year	3,298
Additions for tax positions of prior years	9,873
Reductions for tax positions of prior years	(41,838)

Settlements

Balance as of December 31, 2007 \$ 55,627

The balance also represents the amount of unrecognized tax benefits that, if recognized, would favorably impact the effective income tax rate in future periods. As of December 31, 2007, we had approximately \$28.4 million of interest and penalties related to our total gross unrecognized tax benefits. During the year ended December 31, 2007, we accrued and recognized estimated interest related to

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unrecognized tax benefits and penalties of approximately \$6.9 million. During the years ended December 31, 2006 and 2005, we accrued and recognized estimated interest and penalties of approximately \$1.7 million and \$1.6 million, respectively. We recognize interest and penalties related to income tax matters in the income tax expense line item in our consolidated statements of income.

We are subject to income taxes in the United States and numerous foreign jurisdictions. Internationally, income tax returns from 1995 through 2005 are currently under examination. The Company anticipates that several of these audits could be finalized within 12 months. It is reasonably possible that the amount of the unrecognized benefits with respect to certain of our unrecognized tax positions could significantly increase or decrease within 12 months. However, based on the current status of examinations, and the protocol for finalizing audits with the relevant tax authorities, which could include formal legal proceedings, it is not possible to estimate the future impact of the amount of changes, if any, to recorded uncertain tax positions at December 31, 2007.

Income from continuing operations before income taxes was comprised of the following:

(In thousands)	Year Ended December 31,		
	2007	2006	2005
Domestic and foreign summary:			
United States	\$ 616,588	\$ 929,261	\$ 411,659
Foreign	518,743	498,641	445,496
Income before income taxes from continuing operations	\$ 1,135,331	\$ 1,427,902	\$ 857,155

Income taxes have been provided based upon the tax laws and rates in the countries in which operations are conducted and income is earned. We are a Bermuda-exempt company. Bermuda does not impose corporate income taxes. Our U.S. subsidiaries are subject to a U.S. federal tax rate of 35%.

Income tax expense (benefit) from continuing operations consisted of the following:

(In thousands)	Year Ended December 31,		
	2007	2006	2005
Current:			
U.S. federal	\$ 116,456	\$ 148,655	\$ (2,730)
Foreign	97,489	50,313	23,745
State	14,006	14,898	309
	227,951	213,866	21,324
Deferred:			
U.S. federal	42,846	196,465	141,531
Foreign	(41,167)	9,219	47,862
State	10,034	15,343	8,283
	11,713	221,027	197,676
Income tax expense	\$ 239,664	\$ 434,893	\$ 219,000

Nabors is not subject to tax in Bermuda. A reconciliation of the differences between taxes on income before income taxes computed at the appropriate statutory rate and our reported provision for income taxes follows:

(In thousands)	Year Ended December 31,		
	2007	2006	2005

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Income tax provision at statutory rate (Bermuda rate of 0%)	\$	\$	\$
Taxes on U.S. and foreign earnings (losses) at greater than the Bermuda rate	250,126	387,748	208,781
Increase in valuation allowance	8,144	4,574	3,058
Effect of change in tax rate	(17,119)	(21,382)	(12)
Tax reserves established (released), net and interest	(25,527)	(2,438)	(1,419)
Stock redemption withholding		36,150	
State income taxes	24,040	30,241	8,592
Income tax expense	\$ 239,664	\$ 434,893	\$ 219,000
Effective tax rate	21%	30%	26%

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In 2007, 2006 and 2005 we provided a valuation allowance against net operating loss (NOL) carryforwards in various foreign tax jurisdictions based on our consideration of existing temporary differences and expected future earnings levels in those jurisdictions. The decrease in our effective tax rate from 2006 to 2007 is a direct result of (1) the reversal of certain tax reserves during 2007 in the amount of \$25.5 million, (2) a decrease in tax expense of \$16 million resulting from a reduction in Canadian tax rates, and (3) a decrease in the proportion of income generated in the U.S. versus the international jurisdictions in which we operate. Income generated in the U.S. is generally taxed at a higher rate than international jurisdictions. During 2006, a tax expense relating to the redemption of common shares held by a foreign parent of a U.S. based Nabors subsidiary in the amount of \$36.2 million increased taxes while a reduction in Canadian tax rates decreased tax expense in the amount of \$20.5 million.

The significant components of our deferred tax assets and liabilities were as follows:

(In thousands)	December 31,	
	2007	2006
Deferred tax assets:		
Net operating loss carryforwards	\$ 42,415	\$ 60,221
Accrued expenses not currently deductible for tax and other		13,479
Less: Valuation allowance	(29,658)	(22,140)
Deferred tax assets, net of valuation allowance	\$ 12,757	\$ 51,560

(In thousands)	December 31,	
	2007	2006
Deferred tax liabilities:		
Exchangeable note hedge	\$ 143,150	\$ 188,666
Net operating loss carryforward - Non-current	17,737	
Depreciation and depletion for tax in excess of book expense	(708,568)	(652,326)
Tax deduction (in excess) less than book expense	5,923	(86,296)
Unrealized gain on marketable securities	(224)	(2,186)
Total deferred tax liabilities	(541,982)	(552,142)
Net deferred tax liabilities	(529,225)	(500,582)
Less: net current asset portion	12,757	38,081
Net long-term deferred tax liability	\$ (541,982)	\$ (538,663)

For U.S. federal income tax purposes, we have NOL carryforwards of approximately \$50.8 million that, if not utilized, will expire at various times from 2017 to 2018. The NOL carryforwards for alternative minimum tax purposes are approximately \$20.9 million. Additionally, we have foreign NOL carryforwards of approximately \$97 million that, if not utilized, will expire at various times from 2008 to 2027.

The NOL carryforwards by year of expiration:

(In thousands)	Year ended December 31,	Total	U.S.	
			Federal	Foreign
	2008	\$ 3,906		\$ 3,906
	2009	1,233		1,233
	2010	740		740

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2011	173		173
2012	5,758		5,758
2013			
2014	460		460
2015	5,147		5,147
2016	27,535		27,535
2017	50,997	33,111	17,886
2018	17,721	17,721	
2026	8,360		8,360
2027	25,782		25,782
Subtotal: expiring NOLs	147,812	50,832	96,980
Non-expiring NOLs	58,365		58,365
Total	\$ 206,177	\$ 50,832	\$ 155,345

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In addition, for state income tax purposes, we have net operating loss carryforwards of approximately \$47 million that, if not utilized, will expire at various times from 2008 to 2026.

Under U.S. federal tax law, the amount and availability of loss carryforwards (and certain other tax attributes) are subject to a variety of interpretations and restrictive tests applicable to Nabors and our subsidiaries. The utilization of such carryforwards could be limited or effectively lost upon certain changes in ownership. Accordingly, although we believe substantial loss carryforwards are available to us, no assurance can be given concerning such loss carryforwards, or whether or not such loss carryforwards will be available in the future.

In October 2004 the U.S. Congress passed and the President signed into law the American Jobs Creation Act of 2004 (the Act). The Act did not impact the corporate reorganization completed by Nabors effective June 24, 2002, that made us a foreign entity. It is possible that future changes to tax laws (including tax treaties) could have an impact on our ability to realize the tax savings recorded to date as well as future tax savings as a result of our corporate reorganization, depending on any responsive action taken by Nabors.

11. COMMON SHARES**Common Shares**

The authorized share capital of Nabors consists of 800 million common shares, par value \$.001 per share, and 25 million preferred shares, par value \$.001 per share. Common shares issued were 305,457,798 and 299,332,578 at \$.001 par value as of December 31, 2007 and 2006, respectively.

During 2007, we repurchased 3.8 million of our common shares from the open market for \$102.5 million, all of which are held in treasury. During 2006, we repurchased 40.3 million of our common shares in the open market for \$1.4 billion. We retired 17.9 million shares during 2006 and held 22.3 million of these shares in treasury.

During 2007, our outstanding shares increased by 729,866 related to a share settlement of stock options exercised by Nabors Chairman and Chief Executive Officer, Eugene M. Isenberg. As part of the share settlement, Mr. Isenberg surrendered 4,142,812 unexercised vested stock options to the Company with a value of approximately \$29.7 million to satisfy the stock options exercise price and related income taxes owed.

During 2007 and 2006 the Compensation Committee of our Board of Directors granted restricted stock awards to certain of our executive officers, other key employees, and independent directors. In conjunction with these grants, we awarded 1,744,627 and 764,024 restricted shares at an average market price of \$30.18 and \$32.92 to these individuals for 2007 and 2006, respectively. See Note 3 for a summary of our restricted stock as of December 31, 2007.

During 2007, 2006 and 2005, our employees exercised vested options to acquire 4.5 million, 1.2 million, and 18.4 million of our common shares, respectively, resulting in proceeds of \$61.6 million, \$25.7 million and \$194.5 million, respectively, for each year.

In conjunction with our acquisition of Ryan in October 2002 and our acquisition of Enserco in April 2002, we issued 760,528 and 7,098,164 exchangeable shares of Nabors Exchangeco (Canada) Inc., an indirectly wholly-owned Canadian subsidiary of Nabors, respectively, of which 7,737,684 exchangeable shares have been exchanged for our common shares, leaving a total of 121,008 exchangeable shares outstanding as of December 31, 2007. The exchangeable shares of Nabors Exchangeco are exchangeable for Nabors common shares on a one-for-one basis. The exchangeable shares are included in capital in excess of par value.

Table of Contents**12. PENSION, POSTRETIREMENT AND POSTEMPLOYMENT BENEFITS****Pension Plans**

In conjunction with our acquisition of Pool Energy Services Co. in November 1999, we acquired the assets and liabilities of a defined benefit pension plan, the Pool Company Retirement Income Plan. Benefits under the plan are frozen and participants were fully vested in their accrued retirement benefit on December 31, 1998.

We adopted SFAS No. 158 as of December 31, 2006. The adoption did not have a material impact on our consolidated results of operations, financial condition or the disclosures herein.

Summarized information on the Pool pension plan is as follows:

(In thousands)	Pension Benefits	
	2007	2006
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 17,297	\$ 17,016
Interest cost	1,020	989
Actuarial gain	(1,208)	(236)
Benefit payments	(478)	(472)
Benefit obligation at end of year (1)	\$ 16,631	\$ 17,297
 Change in plan assets:		
Fair value of plan assets at beginning of year	\$ 13,953	\$ 11,953
Actual return on plan assets	810	1,132
Employer contribution	1,024	1,340
Benefit payments	(478)	(472)
Fair value of plan assets at end of year	\$ 15,309	\$ 13,953
 Funded status:		
Underfunded status at end of year	\$ (1,322)	\$ (3,344)
 Amounts recognized in consolidated balance sheets:		
Other long-term liabilities	\$ (1,322)	\$ (3,344)
 Components of net periodic benefit cost (recognized in our consolidated statements of income):		
Interest cost	\$ 1,020	\$ 989
Expected return on plan assets	(936)	(806)
Recognized net actuarial loss	193	301
Net periodic benefit cost	\$ 277	\$ 484
 Weighted-average assumptions:		
Weighted-average discount rate	6.50%	6.00%
Expected long-term rate of return on plan assets	6.50%	6.50%

(1) As of
December 31,

2007 and 2006,
the accumulated
benefit
obligation is the
same as the
projected
benefit
obligation.

For the years ended December 31, 2007, 2006 and 2005, the net actuarial loss amounts included in accumulated other comprehensive income (loss) in the consolidated statements of shareholders' equity were approximately \$2.6 million, \$3.9 million and \$4.8 million, respectively. There were no other components, such as prior service costs or transition obligations relating to pension costs recorded within accumulated other comprehensive income (loss) during 2007, 2006 and 2005.

The amount included in accumulated other comprehensive income (loss) in the consolidated statements of shareholders' equity that is expected to be recognized as a component of net periodic benefit cost during 2008 is approximately \$.1 million.

We analyze the historical performance of investments in equity and debt securities, together with current market factors such as inflation and interest rates to help us make assumptions necessary to estimate a long-term rate of return on plan assets. Once this estimate is made, we review the portfolio of plan assets and make adjustments thereto that we believe are necessary to reflect a diversified blend of investments in equity and debt securities that is capable of achieving the estimated long-term rate of return without assuming an unreasonable level of investment risk.

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The measurement date used to determine pension measurements for the plan is December 31.

Our weighted-average asset allocations as of December 31, 2007 and 2006, by asset category are as follows:

	Pension Benefits	
	2007	2006
Equity securities	55%	55%
Debt securities	45%	45%
Total	100%	100%

We invest plan assets based on a total return on investment approach, pursuant to which the plan assets include a diversified blend of investments in equity and debt securities toward a goal of maximizing the long-term rate of return without assuming an unreasonable level of investment risk. We determine the level of risk based on an analysis of plan liabilities, the extent to which the value of the plan assets satisfies the plan liabilities and our financial condition. Our investment policy includes target allocations approximating 55% investment in equity securities and 45% investment in debt securities. The equity portion of the plan assets represents growth and value stocks of small, medium and large companies. We measure and monitor the investment risk of the plan assets both on a quarterly basis and annually when we assess plan liabilities.

We expect to contribute approximately \$1.1 million to the Pool pension plan in 2008. This is based on the sum of (1) the minimum contribution for the 2007 plan year that will be made in 2008 and (2) the estimated minimum required quarterly contributions for the 2008 plan year. We made contributions to the Pool pension plan in 2007 and 2006 totaling \$1.0 million and \$1.3 million, respectively.

As of December 31, 2007, we expect that benefits to be paid in each of the next five fiscal years after 2007 and in the aggregate for the five fiscal years thereafter will be as follows:

(In thousands)

2008	\$ 559
2009	598
2010	640
2011	703
2012	774
2013 2017	5,397

Certain of Nabors' employees are covered by defined contribution plans. Our contributions to the plans are based on employee contributions and totaled \$15.1 million and \$11.7 million for the years ended December 31, 2007 and 2006, respectively. Nabors does not provide postemployment benefits to its employees.

Postretirement Benefits Other Than Pensions

Prior to the date of our acquisition, Pool provided certain postretirement healthcare and life insurance benefits to eligible retirees who had attained specific age and years of service requirements. Nabors terminated this plan at the date of acquisition (November 24, 1999). A liability of approximately \$.2 million is recorded in our consolidated balance sheets as of December 31, 2007 and 2006, respectively, to cover the estimated costs of beneficiaries covered by the plan at the date of acquisition.

13. RELATED PARTY TRANSACTIONS

Pursuant to their employment agreements, Nabors and its Chairman and Chief Executive Officer, Deputy Chairman, President and Chief Operating Officer, and certain other key employees entered into split-dollar life insurance agreements pursuant to which we pay a portion of the premiums under life insurance policies with respect to these individuals and, in certain instances, members of their families. Under these agreements, we are reimbursed for such premiums upon the occurrence of specified events, including the death of an insured individual. Any recovery of premiums paid by Nabors could potentially be limited to the cash surrender value of these policies under certain circumstances. As such, the values of these policies are recorded at their respective cash surrender values in our

consolidated balance sheets. We have made premium payments to date totaling \$11.2 million related to these policies. The cash surrender value of these policies of approximately \$10.5 million and \$10.3 million is included in other long-term assets in our consolidated balance sheets as of December 31, 2007 and 2006, respectively.

Under the Sarbanes-Oxley Act of 2002, the payment of premiums by Nabors under the agreements with our Chairman and Chief Executive Officer and with our Deputy Chairman, President and Chief Operating Officer may be deemed to be prohibited loans by us to these individuals. We have paid no premiums related to our agreements with these individuals since the adoption of the Sarbanes-Oxley Act and have postponed premium payments related to our agreements with these individuals.

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In the ordinary course of business, we enter into various rig leases, rig transportation and related oilfield services agreements with our unconsolidated affiliates at market prices. Revenues from business transactions with these affiliated entities totaled \$153.4 million, \$99.2 million and \$82.3 million for the years ended December 31, 2007, 2006 and 2005, respectively. Expenses from business transactions with these affiliated entities totaled \$6.6 million, \$4.7 million and \$4.0 million for the years ended December 31, 2007, 2006 and 2005, respectively. Additionally, we had accounts receivable from these affiliated entities of \$62.3 million and \$41.2 million as of December 31, 2007 and 2006, respectively. We had accounts payable to these affiliated entities of \$14.7 million and \$.3 million as of December 31, 2007 and 2006, respectively, and long-term payables with these affiliated entities of \$7.8 million and \$6.6 million as of December 31, 2007 and 2006, respectively, which is included in other long-term liabilities.

During the fourth quarter of 2006, the Company entered into a transaction with Shona Energy Company, LLC (Shona), a company in which Mr. Payne, an outside director of the Company, is the Chairman and Chief Executive Officer. Pursuant to the transaction, a subsidiary of the Company acquired and holds a minority interest of less than 20% of the issued and outstanding common shares of Shona in exchange for certain rights derived from an oil and gas concession held by that subsidiary.

14. COMMITMENTS AND CONTINGENCIES**Commitments****Operating Leases**

Nabors and its subsidiaries occupy various facilities and lease certain equipment under various lease agreements. The minimum rental commitments under non-cancelable operating leases, with lease terms in excess of one year subsequent to December 31, 2007, are as follows:

(In thousands)

2008	\$ 12,794
2009	10,696
2010	4,365
2011	3,072
2012	2,045
Thereafter	1,968
	\$ 34,940

The above amounts do not include property taxes, insurance or normal maintenance that the lessees are required to pay. Rental expense relating to operating leases with terms greater than 30 days amounted to \$25.9 million, \$21.6 million and \$20.1 million for the years ended December 31, 2007, 2006 and 2005, respectively.

Employment Contracts

We have entered into employment contracts with certain of our employees. Our minimum salary and bonus obligations under these contracts as of December 31, 2007 are as follows:

(In thousands)

2008	\$ 2,616
2009	2,376
2010	1,693
2011	
2012 and thereafter	
	\$ 6,685

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Nabors Chairman and Chief Executive Officer, Eugene M. Isenberg, and its Deputy Chairman, President and Chief Operating Officer, Anthony G. Petrello, have employment agreements which were amended and restated effective October 1, 1996 and which currently are due to expire on September 30, 2010.

Mr. Isenberg's employment agreement was originally negotiated with a creditors committee in 1987 in connection with the reorganization proceedings of Anglo Energy, Inc., which subsequently changed its name to Nabors. These contractual arrangements subsequently were approved by the various constituencies in those reorganization proceedings, including equity and debt holders, and confirmed by the United States Bankruptcy Court.

Mr. Petrello's employment agreement was first entered into effective October 1, 1991. Mr. Petrello's employment agreement was agreed upon as part of arm's length negotiations with the Board before he joined Nabors in October 1991, and was reviewed and approved by the Compensation Committee of the Board and the full Board of Directors at that time.

The employment agreements for Messrs. Isenberg and Petrello were amended in 1994 and 1996. These amendments were approved by the Compensation Committee of the Board and the full Board of Directors at that time.

The employment agreements provide for an initial term of five years with an evergreen provision which automatically extended the agreement for an additional one-year term on each anniversary date, unless Nabors provided notice to the contrary ten days prior to such anniversary. In March 2006, the Board of Directors exercised its election to fix the expiration date of the employment agreements for Messrs. Isenberg and Petrello, and accordingly, these agreements will expire at the end of their current term at September 30, 2010.

In addition to a base salary, the employment agreements provide for annual cash bonuses in an amount equal to 6% and 2%, for Messrs. Isenberg and Petrello, respectively, of Nabors' net cash flow (as defined in the respective employment agreements) in excess of 15% of the average shareholders' equity for each fiscal year. (Mr. Isenberg's cash bonus formula originally was set at 10% in excess of a 10% return on shareholders' equity and he has voluntarily reduced it over time to its 6% in excess of 15% level.) Mr. Petrello's bonus is subject to a minimum of \$700,000 per year. In 17 of the last 18 years, Mr. Isenberg has agreed voluntarily to accept a lower annual cash bonus (i.e., an amount lower than the amount provided for under his employment agreement) in light of his overall compensation package. Mr. Petrello has agreed voluntarily to accept a lower annual cash bonus (i.e., an amount lower than the amount provided for under his employment agreement) in light of his overall compensation package in 14 of the last 17 years.

Mr. Isenberg voluntarily agreed to amend his employment agreement in March 2006 (the 2006 Amendment). Under the 2006 Amendment, Mr. Isenberg agreed to reduce the annual cash bonus to an amount equal to 3% of Nabors' net cash flow (as defined in his employment agreement) in excess of 15% of the average shareholders' equity for 2006. For the three months ended March 31, 2007, Messrs. Isenberg and Petrello voluntarily agreed to a reduction of the cash bonus in an amount equal to 3% and 1.5%, respectively, of Nabors' net cash flow (as defined in their respective employment agreements). Mr. Isenberg voluntarily agreed to the same reduction for the three months ended June 30, 2007 and agreed to a \$3 million reduction in the amount of his annual cash bonus for the three months ended September 30, 2007. For the remainder of 2007 through the expiration date of the employment agreement, the annual cash bonus will be 6% and 2%, respectively, for Messrs. Isenberg and Petrello of Nabors' net cash flow in excess of 15% of the average shareholders' equity for each fiscal year.

For 2007, the annual cash bonuses for Messrs. Isenberg and Petrello pursuant to the formula described in their employment agreements, as adjusted above, were \$50.9 million and \$22.7 million, respectively. In light of their overall compensation package including significant restricted stock awards (see Note 3), they agreed to accept cash bonuses in the amount of \$22.5 million and \$10.7 million, respectively.

Messrs. Isenberg and Petrello also are eligible for awards under Nabors' equity plans and may participate in annual long-term incentive programs and pension and welfare plans, on the same basis as other executives; and may receive special bonuses from time to time as determined by the Board.

Termination in the event of death, disability, or termination without cause. In the event that either Mr. Isenberg's or Mr. Petrello's employment agreement is terminated (i) upon death or disability (as defined in the respective employment agreements), (ii) by Nabors prior to the expiration date of the employment agreement for any reason other than for Cause (as defined in the respective employment agreements) or (iii) by either individual for

Constructive Termination Without Cause (as defined in the respective employment agreements), each would be entitled to receive within 30 days of the triggering event (a) all base salary which would have been

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payable through the expiration date of the contract or three times his then current base salary, whichever is greater; plus (b) the greater of (i) all annual cash bonuses which would have been payable through the expiration date; (ii) three times the highest bonus (including the imputed value of grants of stock awards and stock options), paid during the last three fiscal years prior to termination; or (iii) three times the highest annual cash bonus payable for each of the three previous fiscal years prior to termination, regardless of whether the amount was paid. In computing any amount due under (b)(i) and (iii) above, the calculation is made without regard to the 2006 Amendment reducing Mr. Isenberg's bonus percentage as described above. If, by way of example, these provisions had applied at December 31, 2007, Mr. Isenberg would have been entitled to a payment of approximately \$264 million, subject to a true-up equal to the amount of cash bonus he would have earned under the formula during the remaining term of the agreement, based upon actual results, but the payment would not be less than approximately \$264 million. Similarly, with respect to Mr. Petrello, had these provisions applied at December 31, 2007, Mr. Petrello would have been entitled to a payment of approximately \$103 million, subject to a true-up equal to the amount of cash bonus he would have earned under the formula during the remaining term of the agreement, based upon actual results, but the payment would not be less than approximately \$103 million. These payment amounts are based on historical data and are not intended to be estimates of future payments required under the agreements. Depending upon future operating results, the true-up could result in the payment of amounts which are significantly higher. The Company does not have insurance to cover its obligations in the event of death, disability, or termination without cause for either Messrs. Isenberg or Petrello. In addition, the affected individual is entitled to receive (a) any unvested restricted stock outstanding, which shall immediately and fully vest; (b) any unvested outstanding stock options, which shall immediately and fully vest; (c) any amounts earned, accrued or owing to the executive but not yet paid (including executive benefits, life insurance, disability benefits and reimbursement of expenses and perquisites), which shall be continued through the later of the expiration date or three years after the termination date; (d) continued participation in medical, dental and life insurance coverage until the executive receives equivalent benefits or coverage through a subsequent employer or until the death of the executive or his spouse, whichever is later; and (e) any other or additional benefits in accordance with applicable plans and programs of Nabors. For Messrs. Isenberg and Petrello, the value of unvested restricted stock was approximately \$25 million and \$15 million, respectively, as of December 31, 2007. Neither Messrs. Isenberg nor Petrello had unvested stock options as of December 31, 2007. Estimates of the cash value of Nabors' obligations to Messrs. Isenberg and Petrello under (c), (d) and (e) above are included in the payment amounts above.

As noted above in March 2006, the Board of Directors exercised its election to fix the expiration date of the employment agreements for Messrs. Isenberg and Petrello such that each of these agreements expires at the end of their respective current term at September 30, 2010. Messrs. Isenberg and Petrello have informed the Board of Directors that they have reserved their rights under their employment agreements with respect to the notice setting the expiration dates of their employment agreements, including whether such notice could trigger an acceleration of certain payments pursuant to their employment agreements.

Termination in the event of a Change in Control. In the event that Messrs. Isenberg's or Petrello's termination of employment is related to a Change in Control (as defined in their respective employment agreements), they would be entitled to receive a cash amount equal to the greater of (a) one dollar less than the amount that would constitute an excess parachute payment as defined in Section 280G of the Internal Revenue Code, or (b) the cash amount that would be due in the event of a termination without cause, as described above. If, by way of example, there was a change of control event that applied on December 31, 2007, then the payments to Messrs. Isenberg and Petrello would be approximately \$264 million and \$103 million, respectively. These payment amounts are based on historical data and are not intended to be estimates of future payments required under the agreements. Depending upon future operating results, the true-up could result in the payment of amounts which are significantly higher but the payment would not be less than \$264 million and \$103 million, respectively. In addition, they would receive (a) any unvested restricted stock outstanding, which shall immediately and fully vest; (b) any unvested outstanding stock options, which shall immediately and fully vest; (c) any amounts earned, accrued or owing to the executive but not yet paid (including executive benefits, life insurance, disability benefits and reimbursement of expenses and perquisites), which shall be continued through the later of the expiration date or three years after the termination date; (d) continued

participation in medical, dental and life insurance coverage until the executive receives equivalent benefits or coverage through a subsequent employer or until the death of the executive or his spouse, whichever is later; and (e) any other or additional benefits in accordance with applicable plans and programs of Nabors. For Messrs. Isenberg and Petrello, the value of unvested restricted stock was approximately \$25 million and \$15 million, respectively, as of December 31, 2007. Neither Messrs. Isenberg nor Petrello had unvested stock options as of December 31, 2007. The cash value of Nabors' obligations to Messrs. Isenberg and Petrello under (c), (d) and (e) above are included in the payment amounts above. Also, they would receive additional stock options immediately exercisable for five years to acquire a number of shares of common stock equal to the highest number of options granted during any fiscal year in the previous three fiscal years, at an option exercise price equal to the average closing price during the 20 trading days prior to the event which resulted in the change of control. If, by way of example, there was a change of control event that applied at December 31, 2007, Mr. Isenberg would have received 3,366,666 options valued at approximately \$31 million and Mr. Petrello would have received 1,683,332 options valued at approximately \$16 million, in each case based upon a Black Scholes analysis. Finally, in the event that an excise tax was applicable, they would receive a gross-up payment to make them whole with respect to any excise taxes imposed by Section 4999 of the Internal Revenue Code. With respect to the preceding sentence, by way of

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example, if there was a change of control event that applied on December 31, 2007, and assuming that the excise tax was applicable to the transaction, then the additional payments to Messrs. Isenberg and Petrello for the gross-up would be up to approximately \$114 million and \$46 million, respectively.

Other Obligations. In addition to salary and bonus, each of Messrs. Isenberg and Petrello receive group life insurance at an amount at least equal to three times their respective base salaries, various split-dollar life insurance policies, reimbursement of expenses, various perquisites and a personal umbrella insurance policy in the amount of \$5 million. Premiums payable under the split-dollar life insurance policies were suspended as a result of the adoption of the Sarbanes - Oxley Act of 2002.

Oil and Gas Joint Ventures

On September 22, 2006, we entered into an agreement with First Reserve Corporation to form a new joint venture, NFR Energy LLC, to invest in oil and gas exploration opportunities worldwide. First Reserve Corporation is a private equity firm specializing in the energy industry. Each party initially made a non-binding commitment to fund its proportionate share of \$1.0 billion in equity. During 2007, joint venture operations in the U.S., Canada and International areas, were divided among three separate joint venture entities, including NFR Energy LLC (NFR), Stone Mountain Ventures Partnership (Stone Mountain) and Remora Energy International LP (Remora), respectively. We hold a 49% ownership interest in these joint ventures. Each joint venture pursues development and exploration projects with both existing customers of ours and with other operators in a variety of forms including operated and non-operated working interests, joint ventures, farm-outs and acquisitions. As of December 31, 2007, we had made capital contributions of approximately \$243.1 million, \$19.1 million and \$14.7 million, respectively, to NFR, Stone Mountain and Remora.

Contingencies**Income Tax Contingencies**

We are subject to income taxes in both the United States and numerous foreign jurisdictions. Significant judgment is required in determining our worldwide provision for income taxes. In the ordinary course of our business, there are many transactions and calculations where the ultimate tax determination is uncertain. We are regularly under audit by tax authorities. Although we believe our tax estimates are reasonable, the final determination of tax audits and any related litigation could be materially different than that which is reflected in our income tax provisions and accruals. Based on the results of an audit or litigation, a material effect on our financial position, income tax provision, net income, or cash flows in the period or periods for which that determination is made could result.

It is possible that future changes to tax laws (including tax treaties) could have an impact on our ability to realize the tax savings recorded to date as well as future tax savings as a result of our corporate reorganization, depending on any responsive action taken by us.

On September 14, 2006, Nabors Drilling International Limited (NDIL), a wholly-owned Bermuda subsidiary of Nabors, received a Notice of Assessment (the Notice) from the Mexican Servicio de Administracion Tributaria (the SAT) in connection with the audit of NDIL 's Mexican branch for tax year 2003. The Notice proposes to deny a depreciation expense deduction that relates to drilling rigs operating in Mexico in 2003, as well as a deduction for payments made to an affiliated company for the provision of labor services in Mexico. The amount assessed by the SAT is approximately \$19.8 million (including interest and penalties). Nabors and its tax advisors previously concluded that the deduction of said amounts was appropriate and more recently that the position of the SAT lacks merit. NDIL 's Mexican branch took similar deductions for depreciation and labor expenses in 2004, 2005, 2006 and 2007. It is likely that the SAT will propose the disallowance of these deductions upon audit of NDIL 's Mexican branch 's 2004, 2005, 2006 and 2007 tax years.

Self-Insurance Accruals

We are self-insured for certain losses relating to workers' compensation, employers' liability, general liability, automobile liability and property damage. Effective April 1, 2007, with our insurance renewal, certain changes have been made to our insurance coverage increasing our self-insured retentions. Our domestic workers' compensation program continues to be subject to a \$1.0 million per occurrence deductible. Employers' liability and Jones Act cases are subject to a \$2.0 million deductible. Automobile liability is subject to a \$1.0 million deductible. We are assuming an additional \$3.0 million corridor deductible for domestic workers' compensation claims. General liability claims

continue to be subject to a \$5.0 million deductible. Our hurricane coverage for U.S.

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Gulf of Mexico exposures is subject to a \$10.0 million deductible. We are insured for \$25.0 million over the deductible at 100%, and have added a second insured layer for \$30.0 million at 60%. We are self-insuring 40% of the second layer.

In addition, we are subject to a \$1.0 million deductible for all land rigs except for those located in Alaska, and a \$5.0 million deductible for all our Alaska and offshore rigs with the exception of the Pool Arabia rigs, which are subject to a \$2.5 million deductible. This applies to all kinds of risks of physical damage except for named windstorms in the U.S. Gulf of Mexico.

Political risk insurance is procured for select operations in South America, Africa, the Middle East and Asia. Losses are subject to a \$0.25 million deductible, except for Colombia, which is subject to a \$0.5 million deductible. There is no assurance that such coverage will adequately protect Nabors against liability from all potential consequences.

As of December 31, 2007 and 2006, our self-insurance accruals totaled \$156.5 million and \$129.7 million, respectively, and our related insurance recoveries/receivables were \$9.9 million and \$7.5 million, respectively.

Litigation

Nabors and its subsidiaries are defendants or otherwise involved in a number of lawsuits in the ordinary course of business. We estimate the range of our liability related to pending litigation when we believe the amount and range of loss can be estimated. We record our best estimate of a loss when the loss is considered probable. When a liability is probable and there is a range of estimated loss with no best estimate in the range, we record the minimum estimated liability related to the lawsuits or claims. As additional information becomes available, we assess the potential liability related to our pending litigation and claims and revise our estimates. Due to uncertainties related to the resolution of lawsuits and claims, the ultimate outcome may differ from our estimates. In the opinion of management and based on liability accruals provided, our ultimate exposure with respect to these pending lawsuits and claims is not expected to have a material adverse effect on our consolidated financial position or cash flows, although they could have a material adverse effect on our results of operations for a particular reporting period.

On December 22, 2005, we received a grand jury subpoena from the United States Attorney's Office in Anchorage, Alaska, seeking documents and information relating to an alleged spill, discharge, overflow or cleanup of drilling mud or sludge involving one of our rigs during March 2003. We are cooperating with the authorities in this matter.

On February 6, 2007, a purported shareholder derivative action entitled *Kenneth H. Karstedt v. Eugene M. Isenberg, et al* was filed in the United States District Court for the Southern District of Texas against the Company's officers and directors, and against the Company as a nominal defendant. The complaint alleged that stock options were priced retroactively and were improperly accounted for, and alleged various causes of action based on that assertion. The complaint sought, among other things, payment by the defendants to the Company of damages allegedly suffered by it and disgorgement of profits. On March 5, 2007, another purported shareholder derivative action entitled *Gail McKinney v. Eugene M. Isenberg, et al* was also filed in the United States District Court for the Southern District of Texas. The complaint made substantially the same allegations against the same defendants and sought the same elements of damages. The two purported derivative actions were consolidated into one proceeding. On December 31, 2007, the Company and the individual defendants agreed with the plaintiffs-shareholders to settle the derivative action. The settlement is subject to preliminary and final approval of the United States District Court for the Southern District of Texas. Under the terms of the proposed settlement, the Company and the individual defendants have implemented or will implement certain corporate governance reforms and adopt certain modifications to our equity award policy with no financial accounting impact and our Compensation Committee charter. The Company and its insurers have agreed to pay up to \$2.85 million to plaintiffs' counsel for their attorneys' fees and the reimbursement of their expenses and costs.

During the fourth quarter of 2006 and the first quarter of 2007, a review was conducted of the Company's granting practices and accounting for certain employee equity awards to both the senior executives of the Company and other employees from 1988 through 2006. Based on the results of the review, the Company recorded a noncash charge of \$38.3 million, net of tax, at December 31, 2006. The Company determined that no restatement of its historical financial statements was necessary because there were no findings of fraud or intentional wrongdoing, and because the effects of certain revised measurement dates were not material in any fiscal year. In a letter dated December 28, 2006,

the SEC staff advised us that it had commenced an informal inquiry regarding our stock option grants and related practices, procedures and accounting. By letter dated May 7, 2007, the SEC staff informed us they had closed the investigation without any recommendation of enforcement action.

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On July 5, 2007, we received an inquiry from the U.S. Department of Justice relating to its investigation of one of our vendors and compliance with the Foreign Corrupt Practices Act. Our Audit Committee of the Board of Directors has engaged outside counsel to review certain transactions with this vendor, which provides freight forwarding and customs clearance services, and we are cooperating with the Department of Justice inquiry. The ultimate outcome of this review cannot be determined at this time.

On October 17, 2007, we settled a dispute with a vendor. Pursuant to the settlement, we received an 18% ownership equity interest in a parent company of the vendor, we granted the vendor a nonexclusive, royalty-free license to use certain technology, and the parties each executed a mutual release of claims against each other.

Off-Balance Sheet Arrangements (Including Guarantees)

We are a party to certain transactions, agreements or other contractual arrangements defined as off-balance sheet arrangements that could have a material future effect on our financial position, results of operations, liquidity and capital resources. The most significant of these off-balance sheet arrangements involve agreements and obligations in which we provide financial or performance assurance to third parties. Certain of these agreements serve as guarantees, including standby letters of credit issued on behalf of insurance carriers in conjunction with our workers' compensation insurance program and other financial surety instruments such as bonds. In addition, we have provided indemnifications to certain third parties which serve as guarantees. These guarantees include indemnification provided by Nabors to our share transfer agent and our insurance carriers. We are not able to estimate the potential future maximum payments that might be due under our indemnification guarantees.

Management believes the likelihood that we would be required to perform or otherwise incur any material losses associated with any of these guarantees is remote. The following table summarizes the total maximum amount of financial and performance guarantees issued by Nabors:

(In thousands)	Maximum Amount				
	2008	2009	2010	Thereafter	Total
Financial standby letters of credit and other financial surety instruments	\$ 131,732	\$ 100	\$ 1,953	\$	\$ 133,785
Contingent consideration in acquisition		1,417	1,417	1,416	4,250
Total	\$ 131,732	\$ 1,517	\$ 3,370	\$ 1,416	\$ 138,035

15. EARNINGS PER SHARE

A reconciliation of the numerators and denominators of the basic and diluted earnings per share computations is as follows:

(In thousands, except per share amounts)	Year Ended December 31,		
	2007	2006	2005
Net income (numerator):			
Income from continuing operations, net of tax - basic	\$ 895,667	\$ 993,009	\$ 638,155
Add interest expense on assumed conversion of our zero coupon convertible/exchangeable senior debentures/notes, net of tax:			
\$2.75 billion due 2011 (1)			
\$82.8 million due 2021 (2)			
\$700 million due 2023 (3)			
Adjusted income from continuing operations, net of tax - diluted	895,667	993,009	638,155
Income from discontinued operations, net of tax	35,024	27,727	10,540
Total adjusted net income	\$ 930,691	\$ 1,020,736	\$ 648,695

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Earnings per share:				
Basic from continuing operations		\$ 3.21	\$ 3.42	\$ 2.05
Basic from discontinued operations		.13	.10	.03
Total Basic		\$ 3.34	\$ 3.52	\$ 2.08
Diluted from continuing operations		\$ 3.13	\$ 3.31	\$ 1.97
Diluted from discontinued operations		.12	.09	.03
Total Diluted		\$ 3.25	\$ 3.40	\$ 2.00
Shares (denominator):				
Weighted-average number of shares outstanding	basic (4)	279,026	290,241	312,134
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(In thousands, except per share amounts)	Year Ended December 31,		
	2007	2006	2005
Net effect of dilutive stock options, warrants and restricted stock awards based on the treasury stock method	7,580	9,446	10,146
Assumed conversion of our zero coupon convertible/exchangeable senior debentures/notes:			
\$2.75 billion due 2011 (1)			
\$82.8 million due 2021 (2)			
\$700 million due 2023 (3)		140	2,098
Weighted-average number of shares outstanding diluted	286,606	299,827	324,378

(1) Diluted earnings per share for the years ended December 31, 2007 and 2006 do not include any incremental shares issuable upon the exchange of the \$2.75 billion 0.94% senior exchangeable notes. The number of shares that we would be required to issue upon exchange consists of only the incremental shares that would be issued above the principal amount of the notes, as we are required to pay cash up to the principal amount of the notes exchanged. We would only issue an incremental number of shares upon exchange of these notes. Such

shares are only included in the calculation of the weighted-average number of shares outstanding in our diluted earnings per share calculation, when the price of our shares exceeds \$45.83 on the last trading day of the quarter, which did not occur during any period for the years ended December 31, 2007 and 2006. The \$2.75 billion notes were issued during the quarter ended June 30, 2006 and had no effect on 2005's earnings per share calculation.

- (2) Diluted earnings per share for the years ended December 31, 2007 and 2006 excludes approximately 1.2 million potentially dilutive shares initially issuable upon the conversion of the \$82.8 million zero coupon convertible senior debentures. Diluted earnings per share for the year ended December 31, 2005 excludes approximately

17.0 million potentially dilutive shares initially issuable upon the conversion of these debentures. We would only issue an incremental number of shares upon conversion of these debentures. Such shares would only be included in the calculation of the weighted-average number of shares outstanding in our diluted earnings per share calculation if the price of our shares exceeded approximately \$51.

- (3) Diluted earnings per share for the year ended December 31, 2007 do not include any incremental shares issuable upon the exchange of the \$700 million zero coupon senior exchangeable notes. Diluted earnings per share for the years ended December 31, 2006 and 2005 reflects the assumed conversion of our \$700 million zero

coupon senior exchangeable notes resulting in the inclusion of the incremental number of shares that we would be required to issue upon exchange of these notes. The number of shares that we would be required to issue upon exchange consists of only the incremental shares that would be issued above the principal amount of the notes, as we are required to pay cash up to the principal amount of the notes exchanged. We would only issue an incremental number of shares upon exchange of these notes. Such shares are only included in the calculation of the weighted-average number of shares outstanding in our diluted earnings per share calculation, when the price of our shares exceeds \$35.05 on the last trading day of the quarter. This was the case for the quarter ended March 31, 2006 and the three months ended December 31,

2005 and are therefore included in the weighted-average number of shares outstanding in our diluted earnings per share calculation for the years ended December 31, 2006 and 2005.

- (4) Includes the following weighted-average number of common shares of Nabors and weighted-average number of exchangeable shares of Nabors (Canada) Exchangeco Inc., respectively: 278.9 million and .1 million shares for the year ended December 31, 2007; 290.0 million and .2 million shares for the year ended December 31, 2006; and 311.7 million and .4 million shares for the year ended December 31, 2005. The exchangeable shares of Nabors Exchangeco are exchangeable for Nabors common shares on a one-for-one basis, and have essentially identical rights as

Nabors Industries
Ltd. common
shares, including
but not limited to,
voting rights and
the right to
receive dividends,
if any.

For all periods presented, the computation of diluted earnings per share excludes outstanding stock options and warrants with exercise prices greater than the average market price of Nabors common shares, because the inclusion of such options and warrants would be anti-dilutive. The average number of options and warrants that were excluded from diluted earnings per share that would potentially dilute earnings per share in the future were 4,952,799, 2,995,447 and 761,378 shares during 2007, 2006 and 2005, respectively. In any period during which the average market price of Nabors common shares exceeds the exercise prices of these stock options and warrants, such stock options and warrants will be included in our diluted earnings per share computation using the treasury stock method of accounting. Restricted stock will similarly be included in our diluted earnings per share computation using the treasury stock method of accounting in any period where the amount of restricted stock exceeds the number of shares assumed repurchased in those periods based upon future unearned compensation.

16. SUPPLEMENTAL BALANCE SHEET, INCOME STATEMENT AND CASH FLOW INFORMATION

Accounts receivable is net of an allowance for doubtful accounts of \$16.7 million and \$14.9 million as of December 31, 2007 and 2006, respectively.

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Accrued liabilities include the following:

(In thousands)	December 31,	
	2007	2006
Accrued compensation	\$ 141,473	\$ 136,276
Deferred revenue	91,071	65,747
Other taxes payable	32,539	20,035
Workers compensation liabilities	31,427	28,032
Interest payable	13,165	13,024
Warranty accrual	8,602	6,377
Litigation reserves	5,083	4,536
Other accrued liabilities	25,155	20,931
	\$ 348,515	\$ 294,958

Investment (loss) income includes the following:

(In thousands)	Year Ended December 31,		
	2007	2006	2005
Interest income	\$ 44,732	\$ 54,606	\$ 41,413
(Losses) gains on marketable and non-marketable securities, net	(61,389) ⁽¹⁾	46,260	43,007
Dividend and other investment income	766	1,141	1,008
	\$ (15,891)	\$ 102,007	\$ 85,428

(1) This amount reflects a net loss of approximately \$61.4 million from the portion of our long-term investments comprised of our actively managed funds inclusive of substantial gains from sales of our marketable equity securities.

Losses (gains) on sales of long-lived assets, impairment charges and other expense (income), net includes the following:

(In thousands)	Year Ended December 31,		
	2007	2006	2005
Losses (gains) on sales, retirements and involuntary conversions of long-lived assets	\$ 4,429 ⁽¹⁾	\$ 20,824 ⁽²⁾	\$ 18,343 ⁽³⁾

Litigation reserves	9,568	2,217	27,195 ⁽⁴⁾
Foreign currency transaction losses (gains)	(3,235)	380	465
(Gains) losses on derivative instruments	1,348	(1,361)	(1,078)
Other	(1,215)	2,058	1,027
	\$ 10,895	\$ 24,118	\$ 45,952

(1) This amount includes a \$38.6 million gain from the sale of three accommodation units in the second quarter of 2007 and \$40.0 million in impairment charges and losses on asset retirements during 2007.

(2) This amount includes \$12.4 million in impairment charges related to asset retirements.

(3) This amount includes involuntary conversion losses recorded as a result of Hurricanes Katrina and Rita during the third quarter of 2005 of approximately \$7.8 million, net of expected insurance proceeds.

(4) This amount primarily relates to an interim

judgment received in February 2006 against us in the amount of \$25.6 million related to a class-action arbitration hearing regarding compensation issues brought on behalf of field employees for our well-servicing unit operations in California. The final award was \$24.3 million, which was paid in May 2006.

Supplemental cash flow information for the years ended December 31, 2007, 2006 and 2005 is as follows:

(In thousands)	Year Ended December 31,		
	2007	2006	2005
Cash paid for income taxes	\$ 378,726	\$ 157,209	\$ 25,480
Cash paid for interest, net of capitalized interest	41,715	28,605	28,507

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(In thousands)	Year Ended December 31,		
	2007	2006	2005
Acquisitions of businesses:			
Fair value of assets acquired		79,070	38,682
Goodwill	8,391	20,815	9,554
Liabilities assumed or created		(17,293)	(2,035)
Common stock of acquired company previously owned			
Equity consideration issued			
Cash paid for acquisitions of businesses	8,391	82,592	46,201
Cash acquired in acquisitions of businesses		(185)	
Cash paid for acquisitions of businesses, net	\$ 8,391	\$ 82,407	\$ 46,201

17. UNAUDITED QUARTERLY FINANCIAL INFORMATION

(In thousands, except per share amounts)	Year Ended December 31, 2007			
	March 31,	June 30,	September 30,	December 31,
Operating revenues and Earnings from unconsolidated affiliates from continuing operations (1)	\$ 1,248,454	\$ 1,138,120	\$ 1,252,988	\$ 1,317,010
Income from continuing operations, net of tax	\$ 256,890	\$ 220,862	\$ 195,763	\$ 222,152
Income from discontinued operations, net of tax	5,272	7,487	22,265	
Net income	\$ 262,162	\$ 228,349	\$ 218,028	\$ 222,152
Earnings per share: (2)				
Basic from continuing operations	\$.93	\$.79	\$.70	\$.79
Basic from discontinued operations	.02	.03	.08	
Total Basic	\$.95	\$.82	\$.78	\$.79
Diluted from continuing operations	\$.90	\$.77	\$.68	\$.78
Diluted from discontinued operations	.02	.02	.08	
Total Diluted	\$.92	\$.79	\$.76	\$.78

(In thousands, except per share amounts)	Year Ended December 31, 2006			
	March 31,	June 30,	September 30,	December 31,
Operating revenues and Earnings from unconsolidated affiliates from continuing operations	\$ 1,142,157	\$ 1,098,349	\$ 1,218,958	\$ 1,268,370

(3)

Income from continuing operations, net of tax	\$ 249,797	\$ 226,042	\$ 284,783	\$ 232,387
Income from discontinued operations, net of tax	6,966	7,391	7,968	5,402
Net income	\$ 256,763	\$ 233,433	\$ 292,751	\$ 237,789
Earnings per share: (2)				
Basic from continuing operations	\$.80	\$.76	\$ 1.02	\$.84
Basic from discontinued operations	.02	.03	.03	.02
Total Basic	\$.82	\$.79	\$ 1.05	\$.86
Diluted from continuing operations	\$.77	\$.74	\$.99	\$.82
Diluted from discontinued operations	.02	.03	.03	.02
Total Diluted	\$.79	\$.77	\$ 1.02	\$.84

(1) Includes earnings (losses) from unconsolidated affiliates, net, accounted for by the equity method, of \$12.4 million, \$3.4 million, \$2.7 million and \$(.8) million, respectively.

(2) Earnings per share is computed independently for each of the quarters presented. Therefore, the sum of the quarterly earnings per share may not equal the total computed for the year.

(3)

Includes earnings (losses) from unconsolidated affiliates, net, accounted for by the equity method, of \$4.4 million, \$9.4 million, \$5.7 million and \$1.1 million, respectively.

18. DISCONTINUED OPERATION

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In August 2007, we sold our Sea Mar business which had previously been included in Other Operating Segments to an unrelated third party for a cash purchase price of \$194.3 million, resulting in a pre-tax gain of \$49.5 million. The assets included 20 offshore supply vessels and certain related assets, including its right under a vessel construction contract. The operating results of this business for all periods presented are reported as discontinued operations in the accompanying consolidated statements of income and the respective accompanying notes to the consolidated financial statements. Our condensed statements of income from discontinued operations related to the Sea Mar business for the years ended December 31, 2007, 2006 and 2005 were as follows:

Condensed Statements of Income

<i>(In thousands)</i>	Year Ended December 31,		
	2007	2006	2005
Revenues from discontinued operations	\$ 58,887	\$ 112,873	\$ 65,436
Income from discontinued operations			
Income from discontinued operations	\$ 26,092	\$ 43,017	\$ 16,795
Gain on disposal of business	49,500		
Income tax expense	40,568	15,290	6,255
Income from discontinued operations, net of tax	\$ 35,024	\$ 27,727	\$ 10,540

19. SEGMENT INFORMATION

As of December 31, 2007, we operate our business out of 13 operating segments. Our six Contract Drilling operating segments are engaged in drilling, workover and well-servicing operations, on land and offshore, and represent reportable segments. These operating segments consist of Alaska, U.S. Lower 48 Land Drilling, U.S. Land Well-servicing, U.S. Offshore, Canada and International business units. Our oil and gas operating segment includes Ramshorn Investments, Inc. and our oil and gas joint ventures with First Reserve Corporation. This Segment is engaged in the exploration for, development of and production of oil and natural gas. Our Other Operating Segments, consisting of Canrig Drilling Technology Ltd., Epoch Well Services, Inc., Peak Oilfield Service Company, Peak USA Energy Services, Ltd., Ryan Energy Technologies, and Nabors Blue Sky Ltd. (formerly 1183011 Alberta Ltd.), are engaged in the manufacturing of top drives, manufacturing of drilling instrumentation systems, construction and logistics services, trucking and logistics services, manufacturing and marketing of directional drilling and rig instrumentation systems, directional drilling, rig instrumentation and data collection services, and heliportable well services, respectively. These Other Operating Segments do not meet the criteria included in SFAS No. 131,

Disclosures about Segments of an Enterprise and Related Information for disclosure, individually or in the aggregate, as reportable segments.

The accounting policies of the segments are the same as those described in the Summary of Significant Accounting Policies. See Note 2. Inter-segment sales are recorded at cost or cost plus a profit margin. We evaluate the performance of our segments based on several criteria, including adjusted income derived from operating activities.

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The following table sets forth financial information with respect to our reportable segments:

(In thousands)	Year Ended December 31,		
	2007	2006	2005
Operating revenues and earnings from unconsolidated affiliates from continuing operations (1):			
Contract Drilling (2):			
U.S. Lower 48 Land Drilling	\$ 1,710,990	\$ 1,890,302	\$ 1,306,963
U.S. Land Well-servicing	715,414	704,189	491,704
U.S. Offshore	212,160	221,676	158,888
Alaska	152,490	110,718	85,768
Canada	545,035	686,889	553,537
International	1,094,802	746,460	552,656
Subtotal Contract Drilling (3)	4,430,891	4,360,234	3,149,516
Oil and Gas (4)(5)	152,320	59,431	62,913
Other Operating Segments (6)(7)	588,483	505,286	282,910
Other reconciling items (8)	(215,122)	(197,117)	(95,196)
Total	\$ 4,956,572	\$ 4,727,834	\$ 3,400,143
Depreciation and amortization, and depletion (1):			
Contract Drilling:			
U.S. Lower 48 Land Drilling	\$ 146,928	\$ 106,399	\$ 90,979
U.S. Land Well-servicing	57,245	43,217	28,065
U.S. Offshore	34,408	31,253	24,272
Alaska	14,889	13,012	12,550
Canada	63,271	54,924	46,384
International	121,985	95,045	71,035
Subtotal Contract Drilling	438,726	343,850	273,285
Oil and Gas	72,182	38,580	46,894
Other Operating Segments	35,203	24,829	13,856
Other reconciling items (8)	(6,199)	(4,026)	(2,087)
Total depreciation and amortization, and depletion	\$ 539,912	\$ 403,233	\$ 331,948
Adjusted income (loss) derived from operating activities from continuing operations: (1)(9)			
Contract Drilling:			
U.S. Lower 48 Land Drilling	\$ 596,302	\$ 821,821	\$ 464,570
U.S. Land Well-servicing	156,243	199,944	107,728
U.S. Offshore	51,508	65,328	38,783
Alaska	37,394	17,542	16,608
Canada	87,046	185,117	136,368
International	332,283	208,705	135,588
Subtotal Contract Drilling (3)	1,260,776	1,498,457	899,645
Oil and Gas	56,133	4,065	10,194

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Other Operating Segments (6)	35,273	30,028	17,619
Total segment adjusted income derived from operating activities	1,352,182	1,532,550	927,458
Other reconciling items (10)	(136,363)	(135,951)	(64,930)
Interest expense	(53,702)	(46,586)	(44,849)
Investment (loss) income	(15,891)	102,007	85,428
(Losses) gains on sales of long-lived assets, impairment charges and other income (expense), net	(10,895)	(24,118)	(45,952)
Income from continuing operations before income taxes (1)	\$ 1,135,331	\$ 1,427,902	\$ 857,155

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(In thousands)	Year Ended December 31,		
	2007	2006	2005
Capital expenditures and acquisitions of businesses: (11)			
Contract Drilling:			
U.S. Lower 48 Land Drilling	\$ 728,465	\$ 726,171	\$ 357,441
U.S. Land Well-servicing	205,185	224,812	113,910
U.S. Offshore	49,270	98,618	22,218
Alaska	69,233	27,145	5,364
Canada	94,058	222,727	112,415
International	620,264	382,911	315,199
Subtotal Contract Drilling	1,766,475	1,682,384	926,547
Oil and Gas	171,834	155,681	59,263
Other Operating Segments	53,594	146,895	23,687
Other reconciling items (10)	(12,072)	13,011	(6,228)
Total capital expenditures	\$ 1,979,831	\$ 1,997,971	\$ 1,003,269

(In thousands)	December 31,		
	2007	2006	2005
Total assets:			
Contract Drilling: (12) (13)			
U.S. Lower 48 Land Drilling	\$ 2,544,629	\$ 2,210,070	\$ 1,513,618
U.S. Land Well-servicing	725,845	597,082	389,002
U.S. Offshore	452,505	456,889	366,354
Alaska	283,121	221,927	202,315
Canada	1,398,363	1,059,243	1,109,627
International	2,577,057	2,006,941	1,436,234
Subtotal Contract Drilling	7,981,520	6,552,152	5,017,150
Oil and Gas (14)	646,837	328,114	127,834
Other Operating Segments (15)	610,041	638,600	387,422
Other reconciling items (10)	864,984	1,623,437	1,698,001
Total assets	\$ 10,103,382	\$ 9,142,303	\$ 7,230,407

(1) Information excludes the Sea Mar business, which has been reclassified as a discontinued operation.

(2) These segments include our

drilling,
workover and
well-servicing
operations, on
land and
offshore.

(3) Includes earnings (losses), net from unconsolidated affiliates, accounted for by the equity method, of \$5.6 million, \$4.0 million and \$(1.3) million for the years ended December 31, 2007, 2006 and 2005, respectively.

(4) Represents our oil and gas exploration, development and production operations.

(5) Includes earnings (losses), net, from unconsolidated affiliates, accounted for by the equity method, of \$(3.9) million for the year ended December 31, 2007 and \$0 for the years ended December 31, 2006 and 2005, respectively.

- (6) Includes our drilling technology and top drive manufacturing, directional drilling, rig instrumentation and software, and construction and logistics operations.
- (7) Includes earnings (losses), net from unconsolidated affiliates, accounted for by the equity method, of \$16.0 million, \$16.5 million and \$7.0 million for the years ended December 31, 2007, 2006 and 2005, respectively.
- (8) Represents the elimination of inter-segment transactions.
- (9) Adjusted income derived from operating activities is computed by: subtracting direct costs, general and administrative expenses, and depreciation and amortization, and depletion

expense from operating revenues and then adding earnings from unconsolidated affiliates. Such amounts should not be used as a substitute to those amounts reported under GAAP.

However, management evaluates the performance of our business units and the consolidated company based on several criteria, including adjusted income

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derived from operating activities, because it believes that this financial measure is an accurate reflection of the ongoing profitability of our company. A reconciliation of this non-GAAP measure to income before income taxes from continuing operations, which is a GAAP measure, is provided within the above table.

(10) Represents the elimination of inter-segment transactions and unallocated corporate expenses, assets and capital expenditures.

(11) Includes the portion of the purchase price of acquisitions allocated to fixed assets and goodwill based on their fair market value.

(12) Includes \$47.3 million, \$39.6 million and

\$35.3 million of investments in unconsolidated affiliates accounted for by the equity method as of December 31, 2007, 2006 and 2005, respectively.

(13) Includes \$21.4 million, \$0 and \$0 of investments in unconsolidated affiliates accounted for by the cost method as of December 31, 2007, 2006 and 2005, respectively.

(14) Includes \$274.1 million of investments in unconsolidated affiliates accounted for by the equity method as of December 31, 2007, and \$0 as of December 31, 2006 and 2005, respectively.

(15) Includes \$62.0 million, \$58.5 million and \$35.9 million of investments in unconsolidated affiliates accounted for by the equity

method as of
December 31,
2007, 2006 and
2005,
respectively.

The following table sets forth financial information with respect to Nabors operations by geographic area:

(In thousands)	Year Ended December 31,		
	2007	2006	2005
Operating revenues and earnings from unconsolidated affiliates from continuing operations:			
United States	\$ 3,189,230	\$ 3,141,299	\$ 2,230,614
Foreign	1,767,342	1,586,535	1,169,529
	\$ 4,956,572	\$ 4,727,834	\$ 3,400,143
Property, plant and equipment, net:			
United States	\$ 3,782,280	\$ 3,211,023	\$ 2,131,598
Foreign	2,906,846	2,199,078	1,755,326
	\$ 6,689,126	\$ 5,410,101	\$ 3,886,924
Goodwill:			
United States	\$ 130,275	\$ 165,264	\$ 165,211
Foreign	238,157	197,005	176,728
	\$ 368,432	\$ 362,269	\$ 341,939

20. CONDENSED CONSOLIDATING FINANCIAL INFORMATION

Nabors has fully and unconditionally guaranteed all of the issued public debt securities of Nabors Delaware, a wholly-owned subsidiary, and Nabors and Nabors Delaware have fully and unconditionally guaranteed the \$225 million 4.875% senior notes due 2009 issued by Nabors Holdings 1, ULC, our indirect wholly-owned subsidiary.

The following condensed consolidating financial information is included so that separate financial statements of Nabors Delaware and Nabors Holdings are not required to be filed with the SEC. The condensed consolidating financial statements present investments in both consolidated and unconsolidated affiliates using the equity method of accounting.

The following condensed consolidating financial information presents: condensed consolidating balance sheets as of December 31, 2007 and 2006, statements of income and cash flows for each of the three years in the period ended December 31, 2007 of (a) Nabors, parent/guarantor, (b) Nabors Delaware, issuer of public debt securities guaranteed by Nabors and guarantor of the \$225 million 4.875% senior notes issued by Nabors Holdings, (c) Nabors Holdings, issuer of the \$225 million 4.875% senior notes, (d) the non-guarantor subsidiaries, (e) consolidating adjustments necessary to consolidate Nabors and its subsidiaries and (f) Nabors on a consolidated basis.

Table of Contents**Condensed Consolidating Balance Sheets**

(In thousands)	December 31, 2007					
	Nabors (Parent/ Guarantor)	Nabors Delaware (Issuer/ Guarantor)	Nabors Holdings (Issuer)	Other Subsidiaries (Non- Guarantors)	Consolidating Adjustments	Consolidated Total
ASSETS						
Current assets:						
Cash and cash equivalents	\$ 10,659	\$ 2,753	\$ 4	\$ 517,890	\$	\$ 531,306
Short-term investments				235,745		235,745
Accounts receivable, net				1,039,238		1,039,238
Inventory				133,786		133,786
Deferred income taxes				12,757		12,757
Other current assets	136	1,039	376	250,729		252,280
Total current assets	10,795	3,792	380	2,190,145		2,205,112
Long-term investments				236,253		236,253
Property, plant and equipment, net				6,689,126		6,689,126
Goodwill, net				368,432		368,432
Intercompany receivables	361,832	1,224,222		19,918	(1,605,972)	
Investments in affiliates	4,148,256	4,429,139	304,450	2,306,797	(10,783,800)	404,842
Other long-term assets		22,180	638	176,799		199,617
Total assets	\$ 4,520,883	\$ 5,679,333	\$ 305,468	\$ 11,987,470	\$ (12,389,772)	\$ 10,103,382
LIABILITIES AND SHAREHOLDERS EQUITY						
Current liabilities:						
Current portion of long-term debt	\$	\$ 700,000	\$	\$	\$	\$ 700,000
Trade accounts payable	2	24		348,498		348,524
Accrued liabilities	6,760	8,877	4,151	328,727		348,515
Income taxes payable		71,761	2,411	22,921		97,093
	6,762	780,662	6,562	700,146		1,494,132

Total current liabilities						
Long-term debt		3,081,871	224,562			3,306,433
Other long-term liabilities		1,900		244,814		246,714
Deferred income taxes		15,131	16	526,835		541,982
Intercompany payable			193	1,605,779	(1,605,972)	
Total liabilities	6,762	3,879,564	231,333	3,077,574	(1,605,972)	5,589,261
Shareholders equity	4,514,121	1,799,769	74,135	8,909,896	(10,783,800)	4,514,121
Total liabilities and shareholders equity	\$ 4,520,883	\$ 5,679,333	\$ 305,468	\$ 11,987,470	\$ (12,389,772)	\$ 10,103,382

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(In thousands)	December 31, 2006					
	Nabors (Parent/ Guarantor)	Nabors Delaware (Issuer/ Guarantor)	Nabors Holdings (Issuer)	Other Subsidiaries (Non- Guarantors)	Consolidating Adjustments	Consolidated Total
ASSETS						
Current assets:						
Cash and cash equivalents	\$ 14,874	\$ 2,394	\$ 8	\$ 683,273	\$	\$ 700,549
Short-term investments				439,467		439,467
Accounts receivable, net				1,109,738		1,109,738
Inventory				100,487		100,487
Deferred income taxes				38,081		38,081
Other current assets	162	1,103	376	114,893		116,534
Total current assets	15,036	3,497	384	2,485,939		2,504,856
Long-term investments						
Property, plant and equipment, net				513,269		513,269
Goodwill, net				5,410,101		5,410,101
Intercompany receivables	343,644	1,151,556		19,944	(1,515,144)	
Investments in affiliates	3,184,303	3,748,626	286,818	1,318,478	(8,440,176)	98,049
Other long-term assets		249,040	608	220,025	(215,914)	253,759
Total assets	\$ 3,542,983	\$ 5,152,719	\$ 287,810	\$ 10,330,025	\$ (10,171,234)	\$ 9,142,303
LIABILITIES AND SHAREHOLDERS EQUITY						
Current liabilities:						
Current portion of long-term debt	\$	\$	\$	\$	\$	\$
Trade accounts payable	35	22		459,122		459,179
Accrued liabilities	6,295	8,870	4,151	275,642		294,958
Income taxes payable		81,429	1,792	17,002		100,223
Total current liabilities	6,330	90,321	5,943	751,766		854,360

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Long-term debt		3,779,778	224,296			4,004,074
Other long-term liabilities				162,744		162,744
Deferred income taxes		50,696		749,690	(215,914)	584,472
Intercompany payable			3,733	1,511,411	(1,515,144)	
Total liabilities	6,330	3,920,795	233,972	3,175,611	(1,731,058)	5,605,650
Shareholders equity	3,536,653	1,231,924	53,838	7,154,414	(8,440,176)	3,536,653
Total liabilities and shareholders equity	\$ 3,542,983	\$ 5,152,719	\$ 287,810	\$ 10,330,025	\$ (10,171,234)	\$ 9,142,303

Table of Contents**Condensed Consolidating Statements of Income**

(In thousands)	Year Ended December 31, 2007					Consolidated Total
	Nabors (Parent/ Guarantor)	Nabors Delaware (Issuer/ Guarantor)	Nabors Holdings (Issuer)	Other Subsidiaries (Non-Guarantors)	Consolidating Adjustments	
Revenues and other income:						
Operating revenues	\$	\$	\$	\$ 4,938,848	\$	\$ 4,938,848
Earnings from unconsolidated affiliates				17,724		17,724
Earnings from consolidated affiliates	914,328	503,713	17,632	543,370	(1,979,043)	
Investment (loss) income	687	146		(16,724)		(15,891)
Intercompany interest income	3,989	85,550	2		(89,541)	
Total revenues and other income	919,004	589,409	17,634	5,483,218	(2,068,584)	4,940,681
Costs and other deductions:						
Direct costs				2,764,559		2,764,559
General and administrative expenses	17,085	144	17	419,573	(537)	436,282
Depreciation and amortization		600		467,130		467,730
Depletion				72,182		72,182
Interest expense		51,156	11,456	(8,910)		53,702
Intercompany interest expense	6,260			83,281	(89,541)	
Losses (gains) on sales of long-lived assets, impairment charges and other expense (income), net	(8)	1,377		8,989	537	10,895
Total costs and other deductions	23,337	53,277	11,473	3,806,804	(89,541)	3,805,350
Income before income taxes from continuing operations	895,667	536,132	6,161	1,676,414	(1,979,043)	1,135,331
Income tax expense		11,996	1,971	225,697		239,664

Income from continuing operations, net of tax	895,667	524,136	4,190	1,450,717	(1,979,043)	895,667
Income from discontinued operations, net of tax	35,024	35,024		70,048	(105,072)	35,024
Net income	\$ 930,691	\$ 559,160	\$ 4,190	\$ 1,520,765	\$ (2,084,115)	\$ 930,691

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(In thousands)	Year Ended December 31, 2006					
	Nabors (Parent/ Guarantor)	Nabors Delaware (Issuer/ Guarantor)	Nabors Holdings (Issuer)	Other Subsidiaries (Non Guarantors)	Consolidating Adjustments	Consolidated Total
Revenues and other income:						
Operating revenues	\$	\$	\$	\$ 4,707,289	\$	\$ 4,707,289
Earnings from unconsolidated affiliates				20,545		20,545
Earnings from consolidated affiliates	1,007,301	772,123	16,357	807,604	(2,603,385)	
Investment (loss) income	324	10,480		91,203		102,007
Intercompany interest income	4,050	66,476			(70,526)	
Total revenues and other income	1,011,675	849,079	16,357	5,626,641	(2,673,911)	4,829,841
Costs and other deductions:						
Direct costs				2,511,392		2,511,392
General and administrative expenses	17,130	388	5	399,454	(367)	416,610
Depreciation and amortization		600		364,053		364,653
Depletion				38,580		38,580
Interest expense		40,457	11,440	(5,311)		46,586
Intercompany interest expense	1,536			68,990	(70,526)	
Losses (gains) on sales of long-lived assets, impairment charges and other expense (income), net		(1,339)		25,090	367	24,118
Total costs and other deductions	18,666	40,106	11,445	3,402,248	(70,526)	3,401,939
Income before income taxes from continuing operations	993,009	808,973	4,912	2,224,393	(2,603,385)	1,427,902
Income tax expense		13,635	1,622	419,636		434,893
	993,009	795,338	3,290	1,804,757	(2,603,385)	993,009

Income from continuing operations, net of tax						
Income from discontinued operations, net of tax	27,727	27,727		55,454	(83,181)	27,727
Net income	\$ 1,020,736	\$ 823,065	\$ 3,290	\$ 1,860,211	\$ (2,686,566)	\$ 1,020,736

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(In thousands)	Year Ended December 31, 2005					
	Nabors (Parent/ Guarantor)	Nabors Delaware (Issuer/ Guarantor)	Nabors Holdings (Issuer)	Other Subsidiaries (Non Guarantors)	Consolidating Adjustments	Consolidated Total
Revenues and other income:						
Operating revenues	\$	\$	\$	\$ 3,394,472	\$	\$ 3,394,472
Earnings from unconsolidated affiliates				5,671		5,671
Earnings from consolidated affiliates	629,098	365,561	15,487	389,015	(1,399,161)	
Investment (loss) income	11,980		7	73,441		85,428
Intercompany interest income	4,000	73,356			(77,356)	
Total revenues and other income	645,078	438,917	15,494	3,862,599	(1,476,517)	3,485,571
Costs and other deductions:						
Direct costs				1,958,538		1,958,538
General and administrative expenses	6,514	1,149	7	240,353	(894)	247,129
Depreciation and amortization		600		284,454		285,054
Depletion				46,894		46,894
Interest expense		37,488	11,439	(4,078)		44,849
Intercompany interest expense				77,356	(77,356)	
Losses (gains) on sales of long-lived assets, impairment charges and other expense (income), net	344	(1,078)		45,792	894	45,952
Total costs and other deductions	6,858	38,159	11,446	2,649,309	(77,356)	2,628,416
Income before income taxes from continuing operations	638,220	400,758	4,048	1,213,290	(1,399,161)	857,155
Income tax expense	65	13,023	1,376	204,536		219,000
Income from continuing operations,	638,155	387,735	2,672	1,008,754	(1,399,161)	638,155

net of tax						
Income from discontinued operations, net of tax	10,540	10,540		21,076	(31,616)	10,540
Net income	\$ 648,695	\$ 398,275	\$ 2,672	\$ 1,029,830	\$ (1,430,777)	\$ 648,695

Table of Contents**Condensed Consolidating Statements of Cash Flows**

(In thousands)	Year Ended December 31, 2007					
	Nabors (Parent/ Guarantor)	Nabors Delaware (Issuer/ Guarantor)	Nabors Holdings (Issuer)	Other Subsidiaries (Non Guarantors)	Consolidating Adjustments	Consolidated Total
Net cash provided by (used for) operating activities	\$ (6,213)	\$ 117,758	\$ (16,111)	\$ 1,280,248	\$ (5,484)	\$ 1,370,198
Cash flows from investing activities:						
Purchases of investments				(378,318)		(378,318)
Sales and maturities of investments		926		859,459		860,385
Cash paid for acquisitions of businesses, net				(8,391)		(8,391)
Investment in affiliates				(278,100)		(278,100)
Capital expenditures				(2,014,469)		(2,014,469)
Proceeds from sales of assets and insurance claims				356,387		356,387
Cash paid for investments in consolidated affiliates		(120,484)		(16,107)	136,591	
Net cash provided by (used for) investing activities		(119,558)		(1,479,539)	136,591	(1,462,506)
Cash flows from financing activities:						
Decrease in cash overdrafts				(38,416)		(38,416)
Proceeds from long-term debt	(57,811)			57,811		
Proceeds from issuance of common shares	61,620					61,620
Repurchase and retirement of common shares				(102,451)		(102,451)
Purchase of restricted stock	(1,811)					(1,811)
Tax benefit related to the exercise of stock options		2,159				2,159
Proceeds from parent contributions			16,107	120,484	(136,591)	

Cash dividends paid				(5,484)	5,484	
Net cash (used for) provided by financing activities	(1,998)	2,159	16,107	31,944	(131,107)	(78,899)
Effect of exchange rate changes on cash and cash equivalents				1,964		1,964
Net (decrease) increase in cash and cash equivalents	(4,215)	359	(4)	(165,383)		(169,243)
Cash and cash equivalents, beginning of period	14,874	2,394	8	683,273		700,549
Cash and cash equivalents, end of period	\$ 10,659	\$ 2,753	\$ 4	\$ 517,890	\$	\$ 531,306

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	Year Ended December 31, 2006					Consolidated Total
	Nabors (Parent/ Guarantor)	Nabors Delaware (Issuer/ Guarantor)	Nabors Holdings (Issuer)	Other Subsidiaries (Non Guarantors)	Consolidating Adjustments	
(In thousands)						
Net cash provided by (used for) operating activities	\$ 1,172,786	\$ (189,608)	\$ (10,971)	\$ 3,356,390	\$ (2,842,339)	\$ 1,486,258
Cash flows from investing activities:						
Purchases of investments				(1,135,525)		(1,135,525)
Sales and maturities of investments				1,325,903		1,325,903
Cash paid for acquisitions of businesses, net				(82,407)		(82,407)
Investment in affiliates				(2,433)		(2,433)
Deposits released on acquisitions closed subsequent to year-end				35,844		35,844
Capital expenditures				(1,927,407)		(1,927,407)
Proceeds from sales of assets and insurance claims				17,556		17,556
Cash paid for investments in consolidated affiliates	(977,927)	(487,275)		(1,189,056)	2,654,258	
Cash received from investments in consolidated affiliates				2,000,000	(2,000,000)	
Net cash provided by (used for) investing activities	(977,927)	(487,275)		(957,525)	654,258	(1,768,469)
Cash flows from financing activities:						
Proceeds from sale of warrants	421,162					421,162
Purchase of exchangeable note hedge		(583,550)				(583,550)
Increase in cash overdrafts				2,154		2,154
		2,750,000				2,750,000

Proceeds from long-term debt						
Reduction in long-term debt		(769,789)				(769,789)
Debt issuance costs		(28,683)				(28,683)
Proceeds from issuance of common shares	25,682					25,682
Repurchase and retirement of common shares	(627,356)			(2,775,484)	2,000,000	(1,402,840)
Tax benefit related to the exercise of stock options		4,139				4,139
Proceeds from parent contributions		1,178,088	10,968	1,465,202	(2,654,258)	
Cash dividends paid		(1,870,942)		(971,397)	2,842,339	
Net cash (used for) provided by financing activities	(180,512)	679,263	10,968	(2,279,525)	2,188,081	418,275
Effect of exchange rate changes on cash and cash equivalents				(516)		(516)
Net (decrease) increase in cash and cash equivalents	14,347	2,380	(3)	118,824		135,548
Cash and cash equivalents, beginning of period	527	14	11	564,449		565,001
Cash and cash equivalents, end of period	\$ 14,874	\$ 2,394	\$ 8	\$ 683,273	\$	\$ 700,549

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	Year Ended December 31, 2005					Consolidated Total
	Nabors (Parent/ Guarantor)	Nabors Delaware (Issuer/ Guarantor)	Nabors Holdings (Issuer)	Other Subsidiaries (Non Guarantors)	Consolidating Adjustments	
(In thousands)						
Net cash provided by (used for) operating activities	\$ 121,081	\$ 122,921	\$ (10,975)	\$ 918,881	\$ (122,408)	\$ 1,029,500
Cash flows from investing activities:						
Purchases of investments	(117,623)			(628,120)		(745,743)
Sales and maturities of investments	104,508			645,054		749,562
Cash paid for acquisitions of businesses, net				(46,201)		(46,201)
Capital expenditures				(907,316)		(907,316)
Proceeds from sales of assets and insurance claims				27,463		27,463
Cash paid for investments in consolidated affiliates	(85,400)	(19,671)		(10,968)	116,039	
Deposits held on acquisitions closed subsequent to year-end				(36,005)		(36,005)
Net cash used for investing activities	(98,515)	(19,671)		(956,093)	116,039	(958,240)
Cash flows from financing activities:						
Increase in cash overdrafts				10,805		10,805
Reduction in long-term debt				(424)		(424)
Proceeds from issuance of common shares	9,860			184,604		194,464
Repurchase and retirement of common shares	(99,483)					(99,483)
Termination payment for interest rate swap		(2,736)				(2,736)
Proceeds from parent contributions			10,968	105,071	(116,039)	

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Cash dividends paid		(100,500)		(21,908)		122,408	
Net cash (used for) provided by financing activities	(89,623)	(103,236)	10,968	278,148		6,369	102,626
Effect of exchange rate changes on cash and cash equivalents				6,406			6,406
Net (decrease) increase in cash and cash equivalents	(67,057)	14	(7)	247,342			180,292
Cash and cash equivalents, beginning of period	67,584		18	317,107			384,709
Cash and cash equivalents, end of period	\$ 527	\$ 14	\$ 11	\$ 564,449	\$	\$	\$ 565,001

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21. SUBSEQUENT EVENT

On February 20, 2008, Nabors Industries, Inc., our wholly-owned subsidiary, completed a private placement of \$575 million aggregate principal amount of 6.15% senior notes due 2018 with registration rights, which are unsecured and are fully and unconditionally guaranteed by us. The issue of senior notes was resold by a placement agent to qualified institutional buyers under Rule 144A of the Securities Act of 1933, as amended. The notes bear interest at a rate of 6.15% per year, payable semiannually on February 15 and August 15 of each year, beginning August 15, 2008.

We and Nabors Delaware intend to file a registration statement with the SEC with respect to an offer to exchange the notes for registered notes with substantially identical terms pursuant to a registration rights agreement, within 90 days following the original issue date of the notes.

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ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable.

ITEM 9A. CONTROLS AND PROCEDURES

- (a) Disclosure Controls and Procedures. We maintain a set of disclosure controls and procedures that are designed to provide reasonable assurance that information required to be disclosed in our reports filed under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms. We have investments in certain unconsolidated entities that we do not control or manage.

Because we do not control or manage these entities, our disclosure controls and procedures with respect to such entities are necessarily more limited than those we maintain with respect to our consolidated subsidiaries.

The Company's management, with the participation of the Company's Chairman and Chief Executive Officer and Vice President and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this report. Based on such evaluation, the Company's Chairman and Chief Executive Officer and Vice President and Chief Financial Officer have concluded that, as of the end of such period, the Company's disclosure controls and procedures are effective, at the reasonable assurance level, in recording, processing, summarizing and reporting, on a timely basis, information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act and are effective, at the reasonable assurance level, in ensuring that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the Company's management, including the Company's Chairman and Chief Executive Officer and Vice President and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

- (b) Changes in Internal Control Over Financial Reporting. There have not been any changes in the Company's internal control over financial reporting (identified in connection with the evaluation required by paragraph (d) in Rules 13a-15 and 15d-15 under the Exchange Act) during the most recently completed fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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Management's Report on Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting. Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Our internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements.

Internal control over financial reporting cannot provide absolute assurance of achieving financial reporting objectives because of its inherent limitations. Internal control over financial reporting is a process that involves human diligence and compliance and is subject to lapses in judgment and breakdowns resulting from human failures. Internal control over financial reporting also can be circumvented by collusion or improper management override. Because of such limitations, there is a risk that material misstatements may not be prevented or detected on a timely basis by internal control over financial reporting. However, these inherent limitations are known features of the financial reporting process. Therefore, it is possible to design into the process safeguards to reduce, though not eliminate, this risk.

Management conducted an evaluation of the effectiveness of the Company's internal control over financial reporting based on the framework in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this evaluation, management concluded that the Company's internal control over financial reporting was effective as of December 31, 2007. PricewaterhouseCoopers LLP has issued a report on the effectiveness of internal control over financial reporting, which is included in Part II, Item 8. of this report.

ITEM 9B. OTHER INFORMATION

Not applicable.

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PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information called for by this item will be contained in the Nabors Industries Ltd. definitive Proxy Statement to be distributed in connection with its 2008 annual meeting of shareholders under the captions *Election of Directors* and *Other Executive Officers* and is incorporated into this document by reference.

Section 16(a) Beneficial Ownership Reporting Compliance. Section 16(a) of the Exchange Act requires Nabors directors and executive officers, and persons who own more than 10% of a registered class of Nabors equity securities, to file with the SEC and the national securities exchange that the common shares are registered on the initial reports of ownership and reports of changes in ownership of common shares and other equity securities of Nabors. Officers, directors and greater than 10% shareholders are required by Commission regulation to furnish Nabors with copies of all Section 16(a) forms which they file.

To our knowledge, based solely on review of the copies of Forms 3 and 4 and amendments thereto furnished to us during 2007 and Form 5 and amendments thereto furnished to us with respect to the year 2007, and written representations that no other reports were required, all Section 16(a) filings required to be made by Nabors officers, directors and greater than 10% beneficial owners with respect to the fiscal year 2007 were timely filed.

We have adopted a Code of Business Conduct that satisfies the SEC's definition of a Code of Ethics and applies to all employees, including our principal executive officer, principal financial officer, and principal accounting officer. The Code of Ethics is posted on our website at www.nabors.com. We intend to disclose on our website any amendments to the Code of Conduct and any waivers of the Code of Conduct that apply to our principal executive officer, principal financial officer, and principal accounting officer.

On October 21, 2005, we filed with the New York Stock Exchange, or NYSE, the Annual CEO Certification regarding our compliance with the NYSE's Corporate Governance listing standards as required by Section 303A-12(a) of the NYSE Listed Company Manual.

ITEM 11. EXECUTIVE COMPENSATION

The information called for by this item will be contained in our definitive Proxy Statement to be distributed in connection with our 2008 annual meeting of shareholders under the caption *Management Compensation* and except as specified in the following sentence, is incorporated into this document by reference. Information in Nabors 2008 proxy statement not deemed to be soliciting material or filed with the Commission under its rules, including the Compensation Committee Report, is not deemed to be incorporated by reference.

Table of Contents**ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED SHAREHOLDER MATTERS**

The Company maintains eleven different equity compensation plans: the 1993 Stock Option Plan for Non-Employee Directors, 1996 Employee Stock Plan, 1997 Executive Officers Incentive Stock Plan, 1998 Employee Stock Plan, 1999 Stock Option Plan for Non-Employee Directors and 2003 Employee Stock Plan pursuant to which it may grant equity awards to eligible persons from certain plans. The terms of the Company's Equity Compensation Plans are described more fully below.

The following table gives information about these equity compensation plans as of December 31, 2007:

Plan category	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights	(b) Weighted-average exercise price of outstanding options, warrants and rights	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders	18,691,294	\$ 22.0514	13,236,536 ⁽¹⁾⁽²⁾
Equity compensation plans not approved by security holders	9,662,971	\$ 22.0864	1,142,109
Total	28,354,265		14,378,645

(1) The 1996 Employee Stock Plan incorporated an evergreen formula pursuant to which on each January 1, the aggregate number of shares reserved for issuance under the 1996 Employee Stock Plan were increased by an amount equal to 1^{1/2} % of the common shares

outstanding on December 31 of the immediately preceding fiscal year. The 1996 Employee Stock Plan expired on January 17, 2006, and no additional shares were reserved for issuance during fiscal 2006.

- (2) The 2003 Employee Stock Plan incorporates an evergreen formula commencing on June 1, 2006 and thereafter for a period of four (4) years on each January 1, for an automatic increase in the number of shares reserved and available for issuance under the Plan by an amount equal to two percent (2%) of the Company's outstanding common shares as of each June 1 or January 1 date.

Following is a brief summary of the material terms of the plans that have not been approved by our shareholders. Unless otherwise indicated, (1) each plan is administered by an independent committee appointed by the Company's Board of Directors; (2) the exercise price of options granted under each plan shall be no less than 100% of the fair market value per common share on the date of the grant of the option; (3) the term of an award granted under each plan may not exceed ten years; (4) options granted under the plan are nonstatutory options not intended to qualify under Section 422 of the Internal Revenue Code of 1986, as amended (NSOs); and (5) unless otherwise determined by the committee in its discretion, options may not be exercised after the optionee has ceased to be in the employ of the Company.

1997 Executive Officers Incentive Stock Plan

The plan reserves for issuance up to 4,900,000 common shares of the Company pursuant to the exercise of options granted under the plan. Options may be granted under the plan to executive officers of the Company. No optionee may receive grants in excess of 50% of the total number of common shares authorized to be issued under the plan.

1998 Employee Stock Plan

The plan reserves for issuance up to 35,000,000 common shares of the Company pursuant to the exercise of options granted under the plan. The persons who shall be eligible to participate in the plan are employees and consultants of the Company. Options granted to employees may either be awards of shares, non-qualified stock options (NQSOs), incentive stock options (ISOs) or stock appreciation rights (SARs). An optionee may reduce the option exercise price by paying the Company in cash, shares, options, or the equivalent, an amount equal to the difference between the exercise price and the reduced exercise price of the option. The committee

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shall establish performance goals for stock awards in writing not later than the date required for compliance under IRC Section 162(m) and the vesting of such shares shall be contingent upon the attainment of such performance goals. Stock awards shall vest over a period determined by the Committee, which period shall expire no later than January 18, 2006. The committee may grant ISOs of not less than 100% of the fair market value per common share on the date of grant; except that in the event the optionee owns on the date of grant, securities possessing more than 10% of the total combined voting power of all classes of securities of the Company or of any subsidiary of the Company, the price per share shall not be less than 110% of the fair market value per common share on the date of the grant and such option shall expire five years from the date such option is granted. SARs may be granted in conjunction with all or part of any option granted under the plan, in which case the exercise of the SAR shall require the cancellation of a corresponding portion of the option and the exercise of the option will result in cancellation of a corresponding portion of the SAR. In the case of a NQSO, such rights may be granted either at or after the time of grant of such option. In the case of an ISO, such rights may be granted only at the time of grant of such option. A SAR may also be granted on a stand alone basis. The term of a SAR shall be established by the committee. The exercise price of a SAR shall in no event be less than 100% of the fair market value per common share on the date of grant. The committee shall have the authority to make provisions in its award and grant agreements to address vesting and other issues arising in connection with a change of control.

1999 Stock Option Plan for Non-Employee Directors

The plan reserves for issuance up to 3,000,000 common shares of the Company pursuant to the exercise of options granted under the plan. The plan is administered by the Company's Board of Directors, provided that the Board may appoint a committee to administer the plan. In no event shall an eligible director consider or vote on the administration of this plan or serve as a member of the committee. Options may be granted under the plan to non-employee directors of the Company. Options shall vest and become non-forfeitable on the first year anniversary of the day on which such option was granted, if the optionee has continued to serve as a director until that day, unless otherwise provided. In the event of termination of an optionee's service as a director by reason of voluntary retirement, declining to stand for re-election or becoming a full time employee of the Company or a subsidiary of the Company, all unvested options granted pursuant to this Plan shall automatically expire and shall not be exercisable and all options unexercised shall continue to be exercisable until the stated expiration date of such options. In the event of death or disablement of an optionee while the optionee is a director, the then-outstanding options of such optionee shall be exercisable for two years from the date of the death or disablement of the optionee or by his/her successors in interest. All unvested options shall automatically vest and become non-forfeitable as of the date of death or disablement and shall be exercisable for two years from the date of the death of the optionee or until the stated grant expiration date, whichever is earlier, by the optionee or by his/her successors in interest. In the event of the termination of an optionee's service as a director by the Board of Directors for cause or the failure of such director to be re-elected, the administrator of the plan in its sole discretion can cancel the then-outstanding options of such optionee, including those options which have vested and such options shall automatically expire and become non-exercisable on the effective date of such termination.

The remainder of the information called for by this item will be contained in our definitive Proxy Statement to be distributed in connection with our 2008 annual meeting of shareholders under the caption *Share Ownership of Management and Principal Shareholders* and is incorporated into this document by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information called for by this item will be contained in our definitive Proxy Statement to be distributed in connection with our 2008 annual meeting of shareholders under the caption *Certain Relationships and Related Transactions* and is incorporated into this document by reference.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information called for by this item will be contained in our definitive Proxy Statement to be distributed in connection with our 2008 annual meeting of shareholders under the caption *Principal Accounting Fees and Services* and is incorporated into this document by reference.

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PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) The following documents are filed as part of this report:

(1) Financial Statements

	Page No.
<u>Consolidated Balance Sheets as of December 31, 2007 and 2006</u>	42
<u>Consolidated Statements of Income for the Years Ended December 31, 2007, 2006 and 2005</u>	43
<u>Consolidated Statements of Cash Flows for the Years Ended December 31, 2007, 2006 and 2005</u>	44
Consolidated Statements of Changes in Shareholders Equity for the Years Ended December 31, 2007, 2006 and 2005	45

(2) Financial Statement Schedules

	Page No.
<u>Schedule II Valuation and Qualifying Accounts</u>	104

All other supplemental schedules are omitted because of the absence of the conditions under which they are required or because the required information is included in the financial statements or related notes.

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(b) Exhibits

Exhibit No.	Description
2.1	Agreement and Plan of Merger among Nabors Industries, Inc., Nabors Acquisition Corp. VIII, Nabors Industries Ltd. and Nabors US Holdings Inc. (incorporated by reference to Annex I to the proxy statement/prospectus included in Nabors Industries Ltd. s Registration Statement on Form S-4 (File No. 333-76198) filed with the Commission on May 10, 2002, as amended).
2.2	Amended and Restated Acquisition Agreement, dated as of March 18, 2002, by and between Nabors Industries, Inc. and Enserco Energy Service Company Inc. (incorporated by reference to Exhibit 2.1 to Nabors Industries, Inc. s Registration Statement on Form S-3 (File No. 333-85228)).
2.3	Form of Plan of Arrangement Under Section 192 of the Canada Business Corporations Act Involving and Affecting Enserco Energy Service Company Inc. and its Security holders (included in Schedule B to Exhibit 2.2).
2.4	Arrangement Agreement dated August 12, 2002 between Nabors Industries Ltd. and Ryan Energy Technologies Inc. (incorporated by reference to Exhibit 2.4 to Nabors Industries Ltd. s Form 10-K for the year ended December 31, 2002 (File No. 000-49887)).
2.5	Asset Purchase Agreement dated July 20, 2007, by and among Nabors US Finance LLC, Nabors Well Services Co. (inclusive of its Sea Mar Division), Sea Mar Management LLC and Hornbeck Offshore Services, Inc. (incorporated by reference to Exhibit 2.5 to Nabors Industries Ltd. s Form 10-Q (File No. 001-32657) filed with the Commission on August 2, 2007).
3.1	Memorandum of Association of Nabors Industries Ltd. (incorporated by reference to Annex II to the proxy statement/prospectus included in Nabors Industries Ltd. s Registration Statement on Form S-4 (Registration No. 333-76198) filed with the Commission on May 10, 2002, as amended).
3.2	Amended and Restated Bye-Laws of Nabors Industries Ltd. (incorporated by reference to Exhibit 4.2 to Nabors Industries Ltd. s Form 10-Q (File No. 000-49887) filed with the Commission on August 3, 2005).
3.3	Amendment to Amended and Restated Bye-Laws of Nabors Industries Ltd. (incorporated by reference to Exhibit A of Nabors Industries Ltd. Notice of Special General Meeting and Proxy Statement, File No. 001-32657, filed February 24, 2006).
3.4	Form of Resolutions of the Board of Directors of Nabors Industries Ltd. authorizing the issue of the Special Voting Preferred Share (incorporated by reference to Exhibit 3.3 to Nabors Industries Ltd. s Post-Effective Amendment No. 1 to Registration Statement on Form S-3 (Registration No. 333-85228-99) filed with the Commission on June 11, 2002).
4.1	Indenture dated as of February 5, 2001 between Nabors Industries, Inc. and Bank One, N.A., as trustee, in connection with \$1,382,200,000 principal amount at maturity of Zero Coupon Convertible Senior Debentures due 2021 (incorporated by reference to Exhibit 4.11 to Nabors Industries, Inc. s Form 10-K, File No. 1-9245, filed with the Commission on March 30, 2001).
4.2	

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First Supplemental Indenture, dated as of June 21, 2002 among Nabors Industries, Inc., as issuer, Nabors Industries Ltd. as guarantor, and Bank One, N.A. as trustee, with respect to Nabors Industries, Inc. s Zero Coupon Convertible Senior Debentures due 2021 (incorporated by reference to Exhibit 4.5 to Nabors Industries Ltd. s Form 10-Q, File No. 000-49887, filed with the Commission on August 14, 2002).

- 4.3 Second Supplemental Indenture dated as of October 25, 2004 by and among Nabors Industries, Inc., as issuer, Nabors Industries Ltd., as guarantor, and J.P. Morgan Trust Company, National Association (as successor to Bank One, N.A.), as Trustee, to the Indenture, dated as of February 5, 2001, as amended, with respect to Nabors Industries, Inc. s Zero Coupon Convertible Senior Debentures due 2021 (incorporated by reference to Exhibit 4.1 to Nabors Industries Ltd. s Current Report on Form 8-K, File No. 000-49887, filed with the Commission on October 27, 2004).
- 4.4 Indenture, dated August 22, 2002, among Nabors Industries, Inc., as issuer, Nabors Industries Ltd., as guarantor, and Bank One, N.A., with respect to Nabors Industries, Inc. s Series A and Series B 5.375% Senior Notes due 2012 (incorporated by reference to Exhibit 4.1 to Nabors Industries, Inc. s Registration Statement on Form S-4 (Registration No. 333-10049201) filed with the Commission on October 11, 2002).
- 4.5 Indenture, dated August 22, 2002, among Nabors Holdings 1, ULC, as issuer, Nabors Industries, Inc. and Nabors Industries Ltd., as guarantors, and Bank One, N.A., with respect to Nabors Holdings 1, ULC s Series A and Series B 4.875% Senior Notes due 2009 (incorporated by reference to Exhibit 4.1 to Nabors Holdings 1, ULC s Registration

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Exhibit No.	Description
	Statement on Form S-4 (Registration No. 333-10049301) filed with the Commission on October 11, 2002).
4.6	Form of Provisions Attaching to the Exchangeable Shares of Nabors Exchangeco (Canada) Inc. (incorporated by reference to Exhibit 4.1 to Nabors Industries, Inc. s Registration Statement on Form S-3 (Registration No. 333-85228) filed with the Commission on March 29, 2002, as amended).
4.7	Form of Support Agreement between Nabors Industries, Inc., 3064297 Nova Scotia Company and Nabors Exchangeco (Canada) Inc. (incorporated by reference to Exhibit 4.2 to Nabors Industries, Inc. s Registration Statement on Form S-3 (Registration No. 333-85228) filed with the Commission on March 29, 2002, as amended).
4.8	Form of Acknowledgement of Novation to Nabors Industries, Inc., Nabors Exchangeco (Canada) Inc., Computershare Trust Company of Canada and 3064297 Nova Scotia Company executed by Nabors Industries Ltd. (incorporated by reference to Exhibit 4.3 to Nabors Industries Ltd. s Post-Effective Amendment No. 1 to Registration Statement on Form S-3 (Registration No. 333-85228-99) filed with the Commission on June 11, 2002).
4.9	Indenture, dated as of June 10, 2003, between Nabors Industries, Inc., Nabors Industries Ltd. and Bank One, N.A. with respect to Nabors Industries, Inc. s Zero Coupon Senior Exchangeable Notes due 2023 (incorporated by reference to Exhibit 4.1 to Nabors Industries, Inc. s and Nabors Industries Ltd. s Registration Statement on Form S-3, (File No. 333-107806-01, filed with the Commission on August 8, 2003)).
4.10	Registration Rights Agreement, dated as of June 10, 2003, by and among Nabors Industries, Inc., Nabors Industries Ltd. and Citigroup Global Markets Inc. (incorporated by reference to Exhibit 4.2 to Nabors Industries Inc. s and Nabors Industries Ltd. s Registration Statement on Form S-3, File No. 333-107806-01, filed with the Commission on August 8, 2003).
4.11	First Supplemental Indenture, dated as of October 25, 2004, by and among Nabors Industries, Inc., as issuer, Nabors Industries Ltd., as guarantor, and J.P. Morgan Trust Company, National Association, (as successor to Bank One, N.A.), as trustee to the Indenture, dated as of June 10, 2003, with respect to Nabors Industries, Inc. s Zero Coupon Senior Exchangeable Notes due 2023 (incorporated by reference to Exhibit 4.2 to Nabors Industries Ltd. s Current Report on Form 8-K, File No. 000-49887, filed with the Commission on October 27, 2004).
4.12	Indenture, dated as of December 13, 2004, by and among Nabors Industries, Inc., Nabors Industries Ltd., and J.P. Morgan Trust Company, National Association, with respect to Nabors Industries, Inc. s Series B Zero Coupon Senior Exchangeable Notes due 2023 (incorporated by reference to Exhibit 4.12 to Nabors Industries Ltd. s Form 10-K (File No. 000-49887) filed with the Commission on March 7, 2005).
4.13	Purchase Agreement, dated May 18, 2006, among Nabors Industries, Inc., Nabors Industries Ltd., Citigroup Global Markets Inc. and Lehman Brothers Inc. (incorporated by reference to Exhibit 4.1 to Nabors Industries Ltd. Form 8-K, File No. 000-49887, filed with the Commission on May 24,

2006).

- 4.14 Indenture related to the Senior Exchangeable Notes, due 2011, dated as of May 23, 2006, among Nabors Industries, Inc., Nabors Industries Ltd. and Wells Fargo Bank, National Association, as trustee (including form of 0.94% Senior Exchangeable Note due 2011) incorporated by reference to Exhibit 4.2 to Nabors Industries Ltd. Form 8-K, File No. 000-49887, filed with the Commission on May 24, 2006.
- 4.15 Registration Rights Agreement, dated as of May 23, 2006, among Nabors Industries, Inc., Nabors Industries Ltd., Citigroup Global Markets Inc. and Lehman Brothers Inc. (incorporated by reference to Exhibit 4.3 to Nabors Industries Ltd. Form 8-K, File No. 000-49887, filed with the Commission on May 24, 2006).
- 4.16 Amended and Restated 2003 Employee Stock Plan (incorporated by reference to Exhibit A of Nabors Industries Ltd. Notice of 2006 Annual General Meeting of Shareholders and Proxy Statement, File No. 001-32657, filed May 4, 2006).
- 4.17 Purchase Agreement, dated February 14, 2008, among Nabors Industries, Inc., Nabors Industries Ltd., Citigroup Global Markets Inc. and UBS Securities LLC (incorporated by reference to Exhibit 4.1 to Nabors Industries Ltd. Form 8-K, File No. 000-49887, filed February 22, 2008).
- 4.18 Indenture related to the Senior Notes due 2018, dated February 20, 2008, among Nabors Industries, Inc., Nabors Industries Ltd. and Wells Fargo Bank, National Association, as trustee (including form of 6.15% Senior Note due 2018) (incorporated by reference to Exhibit 4.2 to Nabors Industries Ltd. Form 8-K, File No. 000-49887, filed February 22, 2008).
- 4.19 Registration Rights Agreement, dated as of February 20, 2008, among Nabors Industries, Inc., Nabors Industries, Ltd., Citigroup Global Markets Inc. and UBS Securities LLC (incorporated by reference to Exhibit 4.3 to Nabors Industries Ltd. Form 8-K, File No. 000-49887, filed February 22, 2008).
- 10.1 (+) 1996 Employee Stock Plan (incorporated by reference to Nabors Industries Inc. s Registration Statement on Form S-8, Registration No. 333-11313, filed September 3, 1996).
- 10.2 (+) 1994 Executive Stock Option Agreement effective December 28, 1994 between Nabors Industries, Inc. and Eugene M. Isenberg (incorporated by reference to Exhibit 10.4 to Nabors Industries Inc. s Form 10-K, File No. 1-9245, filed December 30, 1996).
- 10.3 (+) 1994 Executive Stock Option Agreement effective December 28, 1994 between Nabors Industries, Inc. and Anthony G. Petrello (incorporated by reference to Exhibit 10.5 to Nabors Industries Inc. s Form 10-K, File No. 1-9245, filed December 30, 1996).

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Exhibit No.	Description
10.4 (+)	Employment Agreement effective October 1, 1996 between Nabors Industries, Inc. and Eugene M. Isenberg (incorporated by reference to Exhibit 10.7 to Nabors Industries Inc. s Form 10-Q, File No. 1-9245, filed May 16, 1997).
10.5 (+)	First Amendment to Amended and Restated Employment Agreement between Nabors Industries, Inc., Nabors Industries Ltd. and Eugene M. Isenberg dated as of June 24, 2002 (incorporated by reference to Exhibit 10.1 to Nabors Industries Ltd. s Form 10-Q, File No. 000-49887, filed August 14, 2002).
10.6 (+)	Second Amendment to Employment Agreement between Nabors Industries, Inc., Nabors Industries Ltd. and Eugene M. Isenberg dated as of July 17, 2002 (incorporated by reference to Exhibit 10.1 to Nabors Industries Ltd. s Form 10-Q, File No. 000-49887, filed August 14, 2002).
10.7 (+)	Third Amendment to Employment Agreement between Nabors Industries, Inc., Nabors Industries Ltd. and Eugene M. Isenberg dated as of December 28, 2005 (incorporated by reference to Exhibit 10.01 to Nabors Industries Ltd. s Form 8-K, File No. 000-49887, filed December 28, 2005).
10.8 (+)	Fourth Amendment to Employment Agreement between Nabors Industries, Inc., Nabors Industries Ltd. and Eugene M. Isenberg dated as of March 10, 2006. (incorporated by reference to Exhibit 10.8 to Nabors Industries Ltd. s Form 10-K, File No. 000-49887, filed March 16, 2006).
10.9 (+)	Employment Agreement effective October 1, 1996 between Nabors Industries, Inc. and Anthony G. Petrello (incorporated by reference to Exhibit 10.8 to Nabors Industries Inc. s Form 10-Q, File No. 1-9245, filed May 16, 1997).
10.10 (+)	First Amendment to Amended and Restated Employment Agreement between Nabors Industries, Inc., Nabors Industries Ltd. and Anthony G. Petrello dated as of June 24, 2002 (incorporated by reference to Exhibit 10.2 to Nabors Industries Ltd. s Form 10-Q, File No. 000-49887, filed August 14, 2002).
10.11 (+)	Second Amendment to Employment Agreement between Nabors Industries, Inc., Nabors Industries Ltd. and Anthony G. Petrello dated as of July 17, 2002 (incorporated by reference to Exhibit 10.3 to Nabors Industries Ltd. s Form 10-Q, File No. 000-49887, filed August 14, 2002).
10.12 (+)	Third Amendment to Employment Agreement between Nabors Industries, Inc., Nabors Industries Ltd. and Anthony G. Petrello dated as of December 28, 2005 (incorporated by reference to Exhibit 10.02 to Nabors Industries Ltd. s Form 8-K, File No. 000-49887, filed December 28, 2005).
10.13 (+)	Waiver dated as of September 27, 2002 pursuant to Section 9.[c] and Schedule 9.[c] of the Amended Employment Agreement among Nabors Industries, Inc., Nabors Industries Ltd., and Anthony G. Petrello (incorporated by reference to Exhibit 10.1 to Nabors Industries Ltd. s Form 10-Q, File No. 000-49887, filed November 14, 2002).
10.14 (+)	Nabors Industries, Inc. 1996 Chairman s Executive Stock Plan (incorporated by reference to Exhibit 10.17 to Nabors Industries Inc. s Form 10-K, File No. 1-9245, filed December 29, 1997).

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- 10.15 (+) Nabors Industries, Inc. 1996 Executive Officers Stock Plan (incorporated by reference to Exhibit 10.18 to Nabors Industries Inc. s Form 10-K, File No. 1-9245, filed December 29, 1997).
- 10.16 (+) Nabors Industries, Inc. 1996 Executive Officers Incentive Stock Plan (incorporated by reference to Exhibit 10.9 to Nabors Industries Inc. s Form 10-K, File No. 1-9245, filed December 29, 1997).
- 10.17 (+) Nabors Industries, Inc. 1997 Executive Officers Incentive Stock Plan (incorporated by reference to Exhibit 10.20 to Nabors Industries Inc. s Form 10-K, File No. 1-9245, filed December 29, 1997).
- 10.18 (+) Nabors Industries, Inc. 1998 Employee Stock Plan (incorporated by reference to Exhibit 10.19 to Nabors Industries Inc. s Form 10-K, File No. 1-9245, filed March 31, 1999).
- 10.19 (+) Nabors Industries, Inc. 1998 Chairman s Executive Stock Plan (incorporated by reference to Exhibit 10.20 to Nabors Industries Inc. s Form 10-K, File No. 1-9245, filed March 31, 1999).
- 10.20 (+) Nabors Industries, Inc. 1999 Stock Option Plan for Non-Employee Directors (incorporated by reference to Exhibit 10.21 to Nabors Industries Inc. s Form 10-K, File No. 1-9245, filed March 31, 1999).
- 10.21 (+) Amendment to Nabors Industries, Inc. 1999 Stock Option Plan for Non-Employee Directors (incorporated by reference to Exhibit 10.19 to Nabors Industries Inc. s Form 10-K, File No. 1-09245, filed March 19, 2002).
- 10.22 (+) 1999 Pool Employee/Director Option Exchange Plan (incorporated by reference to Exhibit 10.20 to Nabors Industries Inc. s Form 10-K, File No. 1-09245, filed March 19, 2002).
- 10.23 Form of Indemnification Agreement entered into between Nabors Industries Ltd. and the directors and executive officers identified in the schedule thereto (incorporated by reference to Exhibit 10.28 to Nabors Industries Ltd. s Form

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Exhibit No.	Description
	10-K, File No. 000-49887, filed March 31, 2003).
10.24 (+)	Amended and Restated 1999 Stock Option Plan for Non-Employee Directors (amended on May 2, 2003) (incorporated by reference to Exhibit 10.29 to Nabors Industries Ltd. s Form 10-Q, File No. 000-49887, filed May 12, 2003).
10.25 (+)	2003 Employee Stock Option Plan (incorporated by reference to Annex D of Nabors Industries Ltd. s Notice of 2003 Annual General Meeting of Shareholders and Proxy Statement, File No. 000-49887, filed May 8, 2003).
10.26	Purchase and Sale Agreement (Red River) by and among El Paso Production Company and El Paso Production GOM Inc., jointly and severally as Seller and Ramshorn Investments, Inc., as Purchaser dated October 8, 2003 (incorporated by reference to Exhibit 10.23 to Nabors Industries Ltd. s Form 10-K, File No. 000-49887, filed March 15, 2004).
10.27	Purchase and Sale Agreement (USA) between El Paso Production Oil & Gas USA, L.P., as Seller and Ramshorn Investments, Inc., as Purchaser dated October 8, 2003 (incorporated by reference to Exhibit 10.24 to Nabors Industries Ltd. s Form 10-K, File No. 000-49887, filed March 15, 2004).
10.28	Exploration Participation Agreement (South Texas) by and between El Paso Production Oil & Gas Company and El Paso Production Oil & Gas USA, L.P., jointly and severally and Ramshorn Investments, Inc., dated November 6, 2003 (incorporated by reference to Exhibit 10.25 to Nabors Industries Ltd. s Form 10-K, File No. 000-49887, filed March 15, 2004).
10.29	Exploration Participation Agreement (Catapult) by and between El Paso Production Company, and Ramshorn Investments, Inc., dated November 6, 2003 (incorporated by reference to Exhibit 10.26 to Nabors Industries Ltd. s Form 10-K, File No. 000-49887, filed March 15, 2004).
10.30 (+)	Form of Restricted Stock Award Isenberg/Petrello (incorporated by reference to Exhibit 10.01 to Nabors Industries Ltd. s Form 8-K, File No. 000-49887, filed March 2, 2005).
10.31 (+)	Form of Restricted Stock Award Others (incorporated by reference to Exhibit 10.02 to Nabors Industries Ltd. s Form 8-K, File No. 000-49887, filed March 2, 2005).
10.32 (+)	Form of Stock Option Agreement Isenberg/Petrello (incorporated by reference to Exhibit 10.03 to Nabors Industries Ltd. s Form 8-K, File No. 000-49887, filed March 2, 2005).
10.33 (+)	Form of Stock Option Agreement Others (incorporated by reference to Exhibit 10.04 to Nabors Industries Ltd. s Form 8-K, File No. 000-49887, filed March 2, 2005).
10.34 (+)	First Amendment to 2003 Employee Stock Plan (incorporated by reference to Exhibit 4.1 to Nabors Industries Ltd. s Form 10-Q (File No. 000-49887) filed August 3, 2005).
12	Computation of Ratios. *

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Code of Business Conduct (incorporated by reference to Exhibit 14 to Nabors Industries Ltd. s Form 10-K, File No. 000-49887, filed March 15, 2004).

- 18 Preference Letter of Independent Accountants Regarding Change in Accounting Principle (incorporated by reference to Exhibit 18 to Nabors Industries Ltd. s Form 10-Q (File No. 000-49887) filed November 2, 2005).
- 21 Significant Subsidiaries of Nabors Industries Ltd. *
- 23 Consent of Independent Registered Public Accounting Firm. *
- 31.1 Rule 13a-14(a)/15d-14(a) Certification, executed by Eugene M. Isenberg, Chairman and Chief Executive Officer of Nabors Industries Ltd. *
- 31.2 Rule 13a-14(a)/15d-14(a) Certification, executed by Bruce P. Koch, Vice President and Chief Financial Officer of Nabors Industries Ltd. *
- 32.1 Certifications required by Rule 13a-14(b) or Rule 15d-14(b) and Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. 1350), executed by Eugene M. Isenberg, Chairman and Chief Executive Officer of Nabors Industries Ltd. and Bruce P. Koch, Vice President and Chief Financial Officer of Nabors Industries Ltd. (furnished herewith).

* Filed herewith.

(+) Management contract or compensatory plan or arrangement.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

NABORS INDUSTRIES LTD.

By: /s/ Eugene M. Isenberg
 Eugene M. Isenberg
 Chairman and
 Chief Executive Officer

By: /s/ Bruce P. Koch
 Bruce P. Koch
 Vice President and Chief Financial
 Officer (Principal Financial and
 Accounting Officer)

Date: February 28, 2008

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Eugene M. Isenberg Eugene M. Isenberg	Chairman and Chief Executive Officer	February 28, 2008
/s/ Alexander M. Knaster Alexander M. Knaster	Director	February 28, 2008
/s/ James L. Payne James L. Payne	Director	February 28, 2008
/s/ Anthony G. Petrello Anthony G. Petrello	Deputy Chairman, President and Chief Operating Officer	February 28, 2008
/s/ Hans Schmidt Hans Schmidt	Director	February 28, 2008

/s/ Myron M. Sheinfeld Director February 28, 2008

Myron M. Sheinfeld

/s/ Martin J. Whitman Director February 28, 2008

Martin J. Whitman

Table of Contents**NABORS INDUSTRIES LTD.****SCHEDULE II VALUATION AND QUALIFYING ACCOUNTS**

Years Ended December 31, 2007, 2006 and 2005

(In thousands)	Balance at Beginning of Period	Charged to Costs and Expenses	Charged to Other Accounts	Deductions	Balance at End of Period
2007					
Allowance for doubtful accounts	\$ 14,850	\$ 2,824	\$ 88	\$ (1,049) ⁽¹⁾	\$ 16,713
Inventory reserve	1,145	1,164			2,309
Valuation allowance on deferred tax assets	22,140	8,144	(626)		29,658
2006					
Allowance for doubtful accounts	\$ 11,364	\$ 3,354	\$ 652	\$ (520) ⁽¹⁾	\$ 14,850
Inventory reserve	1,808	534		(1,197) ⁽²⁾	1,145
Valuation allowance on deferred tax assets	17,566	4,574			22,140
2005					
Allowance for doubtful accounts	\$ 10,978	\$ 1,024	\$ 289	\$ (927) ⁽¹⁾	\$ 11,364
Inventory reserve	1,749	178		(119) ⁽²⁾	1,808
Valuation allowance on deferred tax assets	14,508	3,058			17,566
(1) Uncollected receivables written-off, net of recoveries.					
(2) Inventory reserves written-off.					

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Exhibit Index

12	Computation of Ratios. *
21	Significant Subsidiaries of Nabors Industries Ltd. *
23	Consent of Independent Registered Public Accounting Firm. *
31.1	Rule 13a-14(a)/15d-14(a) Certification, executed by Eugene M. Isenberg, Chairman and Chief Executive Officer of Nabors Industries Ltd. *
31.2	Rule 13a-14(a)/15d-14(a) Certification, executed by Bruce P. Koch, Vice President and Chief Financial Officer of Nabors Industries Ltd. *
32.1	Certifications required by Rule 13a-14(b) or Rule 15d-14(b) and Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. 1350), executed by Eugene M. Isenberg, Chairman and Chief Executive Officer of Nabors Industries Ltd. and Bruce P. Koch, Vice President and Chief Financial Officer of Nabors Industries Ltd. (furnished herewith).

* Filed herewith.

(+) Management contract or compensatory plan or arrangement.