

NABORS INDUSTRIES LTD

Form 10-Q

November 01, 2007

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

**Form 10-Q**

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the Quarterly Period Ended September 30, 2007**

**Commission file number: 001-32657**

**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.)*

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 whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):  
Large Accelerated Filer  Accelerated Filer  Non-accelerated Filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

The number of common shares, par value \$.001 per share, outstanding as of October 26, 2007 was 283,089,379. In addition, our subsidiary, Nabors Exchangeco (Canada) Inc., has 130,440 exchangeable shares outstanding as of October 26, 2007 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.

**NABORS INDUSTRIES LTD. AND SUBSIDIARIES**

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**Table of Contents****PART I FINANCIAL INFORMATION****Item 1. Financial Statements****NABORS INDUSTRIES LTD. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS  
(Unaudited)**

| <b>(In thousands, except per share amounts)</b> | <b>September 30,<br/>2007</b> | <b>December 31,<br/>2006</b> |
|---|-------------------------------|------------------------------|
| <b>ASSETS</b>                                   |                               |                              |
| Current assets:                                 |                               |                              |
| Cash and cash equivalents                       | \$ 693,777                    | \$ 700,549                   |
| Short-term investments                          | 186,196                       | 439,467                      |
| Accounts receivable, net                        | 1,043,235                     | 1,109,738                    |
| Inventory                                       | 131,646                       | 100,487                      |
| Deferred income taxes                           | 35,738                        | 38,081                       |
| Other current assets                            | 455,829                       | 116,534                      |
| Total current assets                            | 2,546,421                     | 2,504,856                    |
| Long-term investments                           | 383,288                       | 513,269                      |
| Property, plant and equipment, net              | 6,466,732                     | 5,410,101                    |
| Goodwill  | 367,376                       | 362,269                      |
| Other long-term assets                          | 314,590                       | 351,808                      |
| Total assets                                    | \$ 10,078,407                 | \$ 9,142,303                 |
| <b>LIABILITIES AND SHAREHOLDERS EQUITY</b>      |                               |                              |
| Current liabilities:                            |                               |                              |
| Current portion of long-term debt               | \$ 700,000                    | \$                           |
| Trade accounts payable                          | 367,113                       | 459,179                      |
| Accrued liabilities                             | 348,680                       | 294,958                      |
| Income taxes payable                            | 141,703                       | 100,223                      |
| Total current liabilities                       | 1,557,496                     | 854,360                      |
| Long-term debt                                  | 3,305,840                     | 4,004,074                    |
| Other long-term liabilities                     | 238,936                       | 208,553                      |
| Deferred income taxes                           | 562,442                       | 538,663                      |
| Total liabilities                               | 5,664,714                     | 5,605,650                    |
| Commitments and contingencies (Note 7)          |                               |                              |
| Shareholders' equity:                           |                               |                              |
| Common shares, par value \$.001 per share:      |                               |                              |

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|  |               |              |
|--|---------------|--------------|
| Authorized common shares 800,000; issued 305,403 and 299,333, respectively | 306           | 299          |
| Capital in excess of par value   | 1,731,531     | 1,637,204    |
| Accumulated other comprehensive income                                     | 320,412       | 201,261      |
| Retained earnings  | 3,136,928     | 2,473,373    |
| Less: treasury shares, at cost, 22,340 common shares                       | (775,484)     | (775,484)    |
| Total shareholders' equity   | 4,413,693     | 3,536,653    |
| Total liabilities and shareholders' equity                                 | \$ 10,078,407 | \$ 9,142,303 |

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

**Table of Contents****NABORS INDUSTRIES LTD. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF INCOME****(Unaudited)**

| <b>(In thousands, except per share amounts)</b>  | <b>Three Months Ended<br/>September 30,</b> |                   | <b>Nine Months Ended<br/>September 30,</b> |                   |
|--|---|-------------------|--|-------------------|
|  | <b>2007</b>                                 | <b>2006</b>       | <b>2007</b>                                | <b>2006</b>       |
| Revenues and other income:   |   |                   |  |                   |
| Operating revenues   | \$ 1,250,299                                | \$ 1,213,252      | \$ 3,620,996                               | \$ 3,439,989      |
| Earnings from unconsolidated affiliates  | 2,689                                       | 5,706             | 18,566                                     | 19,475            |
| Investment (loss) income   | (27,466)                                    | 37,155            | (8,029)                                    | 67,753            |
| <b>Total revenues and other income</b>   | <b>1,225,522</b>                            | <b>1,256,113</b>  | <b>3,631,533</b>                           | <b>3,527,217</b>  |
| Costs and other deductions:  |   |                   |  |                   |
| Direct costs   | 722,058                                     | 654,265           | 2,043,459                                  | 1,835,523         |
| General and administrative expenses  | 105,975                                     | 92,783            | 319,824                                    | 267,709           |
| Depreciation and amortization  | 125,089                                     | 95,937            | 340,069                                    | 262,035           |
| Depletion  | 12,533                                      | 7,731             | 28,318                                     | 28,661            |
| Interest expense   | 13,450                                      | 13,744            | 40,235                                     | 33,970            |
| Losses (gains) on sales of long-lived assets,<br>impairment charges and other expense (income),<br>net | 30,524                                      | 4,076             | 4,775                                      | 11,925            |
| <b>Total costs and other deductions</b>  | <b>1,009,629</b>                            | <b>868,536</b>    | <b>2,776,680</b>                           | <b>2,439,823</b>  |
| <b>Income before income taxes from continuing<br/>operations</b>                                       | <b>215,893</b>                              | <b>387,577</b>    | <b>854,853</b>                             | <b>1,087,394</b>  |
| Income tax (benefit) expense:  |   |                   |  |                   |
| Current  | 4,211                                       | 15,207            | 164,038                                    | 125,864           |
| Deferred   | 15,919                                      | 87,587            | 17,300                                     | 200,907           |
| <b>Total income tax expense</b>  | <b>20,130</b>                               | <b>102,794</b>    | <b>181,338</b>                             | <b>326,771</b>    |
| <b>Income from continuing operations, net of tax</b>   | <b>195,763</b>                              | <b>284,783</b>    | <b>673,515</b>                             | <b>760,623</b>    |
| <b>Income from discontinued operations, net of tax</b>   | <b>22,265</b>                               | <b>7,968</b>      | <b>35,024</b>                              | <b>22,324</b>     |
| <b>Net income</b>  | <b>\$ 218,028</b>                           | <b>\$ 292,751</b> | <b>\$ 708,539</b>                          | <b>\$ 782,947</b> |
| Earnings per share:  |   |                   |  |                   |
| Basic from continuing operations   | \$ .70                                      | \$ 1.02           | \$ 2.42                                    | \$ 2.58           |
| Basic from discontinued operations   | .08   | .03               | .12  | .07               |
| <b>Total Basic</b>   | <b>\$ .78</b>                               | <b>\$ 1.05</b>    | <b>\$ 2.54</b>                             | <b>\$ 2.65</b>    |

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|   |    |         |    |         |    |         |    |         |
|---|----|---------|----|---------|----|---------|----|---------|
| Diluted from continuing operations                    | \$ | .68     | \$ | .99     | \$ | 2.35    | \$ | 2.50    |
| Diluted from discontinued operations                  |    | .08     |    | .03     |    | .12     |    | .07     |
| Total Diluted   | \$ | .76     | \$ | 1.02    | \$ | 2.47    | \$ | 2.57    |
| Weighted-average number of common shares outstanding: |    |         |    |         |    |         |    |         |
| Basic   |    | 280,152 |    | 277,553 |    | 278,782 |    | 294,987 |
| Diluted   |    | 287,969 |    | 286,544 |    | 286,894 |    | 305,066 |

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

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**NABORS INDUSTRIES LTD. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(Unaudited)**

| <b>(In thousands)</b>  | <b>Nine Months Ended<br/>September 30,</b> |             |
|--|--|-------------|
|  | <b>2007</b>                                | <b>2006</b> |
| Cash flows from operating activities:  |  |             |
| Net income   | \$ 708,539                                 | \$ 782,947  |
| Adjustments to net income:   |  |             |
| Depreciation and amortization  | 344,415                                    | 266,891     |
| Depletion  | 28,318                                     | 28,661      |
| Deferred income tax (benefit) expense  | (19,139)                                   | 198,730     |
| Deferred financing costs amortization  | 6,264                                      | 4,168       |
| Pension liability amortization   | 280  | 315         |
| Discount amortization on long-term debt  | 1,465                                      | 3,370       |
| Amortization of loss on hedges   | 414  | 416         |
| (Gains) losses on long-lived assets, net                                       | (252)                                      | 10,394      |
| Losses (gains) on investments, net   | 40,383                                     | (26,421)    |
| Gain on disposition of Sea Mar business  | (49,500)                                   |             |
| Losses (gains) on derivative instruments                                       | 194  | (850)       |
| Share-based compensation   | 24,686                                     | 22,601      |
| Foreign currency transaction (gains) losses, net                               | (3,073)                                    | 556         |
| Equity in earnings of unconsolidated affiliates, net of dividends              | (6,979)                                    | (17,041)    |
| Changes in operating assets and liabilities, net of effects from acquisitions: |  |             |
| Accounts receivable  | 88,892                                     | (254,403)   |
| Inventory  | (25,851)                                   | (46,047)    |
| Other current assets   | (67,347)                                   | (26,720)    |
| Other long-term assets   | (147,573)                                  | (52,922)    |
| Trade accounts payable and accrued liabilities                                 | (79,090)                                   | 107,081     |
| Income taxes payable   | (26,457)                                   | 12,634      |
| Other long-term liabilities  | 39,467                                     | 25,179      |
| Net cash provided by operating activities                                      | 858,056                                    | 1,039,539   |
| Cash flows from investing activities:  |  |             |
| Purchases of investments   | (231,070)                                  | (1,087,987) |
| Sales and maturities of investments  | 495,563                                    | 799,713     |
| Cash paid for acquisitions of businesses, net                                  | (8,391)                                    | (46,510)    |
| Capital expenditures   | (1,482,845)                                | (1,344,682) |
| Investment in affiliates   | (28,314)                                   | (2,433)     |
| Proceeds from sales of assets and insurance claims                             | 135,525                                    | 10,322      |
| Proceeds from sale of Sea Mar business   | 194,332                                    |             |
| Net cash used for investing activities   | (925,200)                                  | (1,671,577) |



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|  |            |             |
|--|------------|-------------|
| Cash flows from financing activities:                        |            |             |
| Decrease in cash overdrafts                                  | (15,337)   | (15,845)    |
| Proceeds from long-term debt                                 |            | 2,750,000   |
| Reduction of long-term debt                                  |            | (769,789)   |
| Proceeds from sale of warrants                               |            | 421,162     |
| Purchase of exchangeable note hedge                          |            | (583,550)   |
| Debt issuance costs  |            | (27,972)    |
| Proceeds from issuance of common shares                      | 60,362     | 21,925      |
| Repurchase and retirement of common shares                   |            | (1,373,334) |
| Purchase of restricted stock                                 | (1,811)    |             |
| Tax benefit related to the exercise of stock options         | 10,044     | 4,315       |
| Net cash provided by financing activities                    | 53,258     | 426,912     |
| Effect of exchange rate changes on cash and cash equivalents | 7,114      | 331         |
| Net decrease in cash and cash equivalents                    | (6,772)    | (204,795)   |
| Cash and cash equivalents, beginning of period               | 700,549    | 565,001     |
| Cash and cash equivalents, end of period                     | \$ 693,777 | \$ 360,206  |

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

Table of Contents**NABORS INDUSTRIES LTD. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CHANGES  
IN SHAREHOLDERS' EQUITY  
(Unaudited)**

|   | <b>Common Shares</b> | <b>Par Value</b> | <b>Capital in Excess of Par Value</b> | <b>Accumulated Other Comprehensive Income (Loss) Unrealized Gains (Losses) on Marketable Securities</b> | <b>Cumulative Translation Adjustment</b> | <b>Other</b> | <b>Retained Earnings</b> | <b>Treasury Shares</b> | <b>Shareholders' Equity</b> |
|---|----------------------|------------------|---------------------------------------|---|--|--------------|--------------------------|------------------------|-----------------------------|
| December 31,  | 299,333              | \$ 299           | \$ 1,637,204                          | \$ 33,400   | \$ 171,160                               | \$ (3,299)   | \$ 2,473,373             | \$ (775,484)           | \$ 3,000,000                |
| Comprehensive income                                  |                      |                  |                                       |   |  |              |                          |                        |                             |
| Net income  |                      |                  |                                       |   |  |              | 708,539                  |                        |                             |
| Translation adjustment                                |                      |                  |                                       |   | 152,286                                  |              |                          |                        |                             |
| Unrealized gains on securities, net of taxes of \$495 |                      |                  |                                       | 13,621  |  |              |                          |                        |                             |
| Classification adjustment for gains                   |                      |                  |                                       |   |  |              |                          |                        |                             |
| Change in net income, net of taxes of \$2,661         |                      |                  |                                       | (47,046)  |  |              |                          |                        |                             |
| Availability  |                      |                  |                                       |   |  |              |                          |                        |                             |
| Provision, net of income                              |                      |                  |                                       |   |  |              |                          |                        |                             |
| 104   |                      |                  |                                       |   |  | 176          |                          |                        |                             |
| Recognition of loss on hedges                         |                      |                  |                                       |   |  | 114          |                          |                        |                             |
| Comprehensive (loss)                                  |                      |                  |                                       | (33,425)  | 152,286                                  | 290          | 708,539                  |                        |                             |
| Reverse effect of FIN 48                              |                      |                  |                                       |   |  |              |                          |                        |                             |
| January 1, 2007                                       |                      |                  |                                       |   |  |              | (44,984)                 |                        |                             |
| Issuance of common shares                             |                      |                  |                                       |   |  |              |                          |                        |                             |
| Options exercised, tender of                          |                      |                  |                                       |   |  |              |                          |                        |                             |
| Restricted vested stock                               | 4,457                | 5                | 60,357                                |   |  |              |                          |                        |                             |
| Exchange of shares                                    |                      |                  |                                       |   |  |              |                          |                        |                             |
| and   | 41                   |                  |                                       |   |  |              |                          |                        |                             |

|                 |         |        |              |         |            |            |              |              |       |  |
|-----------------|---------|--------|--------------|---------|------------|------------|--------------|--------------|-------|--|
| of exercised    |         |        |              |         |            |            |              |              |       |  |
| on deductions   |         |        | 11,097       |         |            |            |              |              |       |  |
| l stock awards, |         |        |              |         |            |            |              |              |       |  |
|                 | 1,572   | 2      | (1,813)      |         |            |            |              |              |       |  |
| ed compensation |         |        | 24,686       |         |            |            |              |              |       |  |
|                 | 6,070   | 7      | 94,327       |         |            |            |              | (44,984)     |       |  |
| September 30,   | 305,403 | \$ 306 | \$ 1,731,531 | \$ (25) | \$ 323,446 | \$ (3,009) | \$ 3,136,928 | \$ (775,484) | \$ 4, |  |

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

Table of Contents**NABORS INDUSTRIES LTD. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CHANGES  
IN SHAREHOLDERS' EQUITY (Continued)  
(Unaudited)**

|   | <b>Common Shares</b> | <b>Par Value</b> | <b>Capital in Excess of Par Value</b> | <b>Unearned Compensation</b> | <b>Accumulated Other Comprehensive Income (Loss) Unrealized Gains (Losses) on Marketable Securities</b> | <b>Cumulative Translation Adjustment</b> | <b>Other</b> | <b>Retained Earnings</b> | <b>Treasury Shares</b> |
|---|----------------------|------------------|---------------------------------------|------------------------------|---|--|--------------|--------------------------|------------------------|
| December 31,                                | 315,393              | \$ 315           | \$ 1,590,968                          | \$ (15,649)                  | \$ 18,865   | \$ 178,109                               | \$ (3,994)   | \$ 1,989,526             | \$                     |
| Net income                                  |                      |                  |                                       |                              |   |  |              | 782,947                  |                        |
| Investment on securities, net of \$749      |                      |                  |                                       |                              | 10,099  | 31,528                                   |              |                          |                        |
| Realization gains on income, net expense of |                      |                  |                                       |                              | (2,489)   |  |              |                          |                        |
| Change of income                            |                      |                  |                                       |                              |   |  | 198          |                          |                        |
| Loss on sales                               |                      |                  |                                       |                              |   |  | 113          |                          |                        |
| Dispositive                                 |                      |                  |                                       |                              | 7,610   | 31,528                                   | 311          | 782,947                  |                        |
| AS 123-R common shares exercised            | 1,033                | 1                | (15,649)                              | 15,649                       |   |  |              |                          |                        |
| Restricted stock                            | 43                   |                  | 21,924                                |                              |   |  |              |                          |                        |
| Options                                     |                      |                  | (583,550)                             |                              |   |  |              |                          |                        |
| the options                                 | (17,935)             | (18)             | 421,162                               | 215,914                      |   |  |              | (536,890)                |                        |
|   |                      |                  | (90,449)                              |                              |   |  |              |                          |                        |

|              |          |        |              |        |           |            |            |              |    |           |
|--------------|----------|--------|--------------|--------|-----------|------------|------------|--------------|----|-----------|
| retirement   |          |        |              |        |           |            |            |              |    |           |
| es           |          |        |              |        |           |            |            |              |    |           |
| 2,240        |          |        |              |        |           |            |            |              |    | (772,554) |
| exercised    |          |        |              |        |           |            |            |              |    |           |
| uctions      |          |        | 4,455        |        |           |            |            |              |    |           |
| awards,      |          |        |              |        |           |            |            |              |    |           |
|              | 609      |        |              |        |           |            |            |              |    |           |
| compensation |          |        | 22,601       |        |           |            |            |              |    |           |
|              | (16,250) | (17)   | (3,592)      | 15,649 |           |            |            | (536,890)    |    | (772,554) |
| ber 30,      |          |        |              |        |           |            |            |              |    |           |
|              | 299,143  | \$ 298 | \$ 1,587,376 | \$     | \$ 26,475 | \$ 209,637 | \$ (3,683) | \$ 2,235,583 | \$ | (772,554) |

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

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**NABORS INDUSTRIES LTD. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Note 1 Nature of Operations**

Nabors is the largest land drilling contractor in the world, with approximately 670 land drilling rigs. We conduct oil, gas and geothermal land drilling operations in the U.S. Lower 48 states, Alaska, Canada, South and Central America, the Middle East, the Far East and Africa. We are also one of the largest land well-servicing and workover contractors in the United States and Canada. We own approximately 635 land workover and well-servicing rigs in the United States, primarily in the southwestern and western United States, and approximately 191 land workover and well-servicing rigs in Canada. Nabors is a leading provider of offshore platform workover and drilling rigs, and actively markets 41 platform, 14 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 50% ownership interest in a joint venture in Saudi Arabia, which owns 18 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 and well-servicing operations 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, and rig reporting software. We also invest in oil and gas exploration, development and production activities.

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 the respective 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 10 Discontinued Operations.

As used in this Report, we, us, our, the Company and Nabors means Nabors Industries Ltd. and, where the context requires, includes our subsidiaries.

**Note 2 Summary of Significant Accounting Policies**

***Interim Financial Information***

The unaudited consolidated financial statements of Nabors are prepared in conformity with accounting principles generally accepted in the United States of America ( GAAP ). Certain reclassifications have been made to the prior period to conform to the current period presentation, with no effect on our consolidated financial position, results of operations or cash flows. Pursuant to the rules and regulations of the U.S. Securities and Exchange Commission ( SEC ), certain information and footnote disclosures normally included in annual financial statements prepared in accordance with GAAP have been omitted. Therefore, these financial statements should be read along with our Annual Report on Form 10-K for the year ended December 31, 2006. In our management's opinion, the consolidated

financial statements contain all adjustments necessary to present fairly our financial position as of September 30, 2007 and the results of our operations for the three and nine months ended September 30, 2007 and 2006, and our cash flows for the nine months ended September 30, 2007 and 2006, in accordance with GAAP. Interim results for the three and nine months ended September 30, 2007 may not be indicative of results that will be realized for the full year ending December 31, 2007.

Our independent registered public accounting firm has performed a review of, and issued a report on, these consolidated interim financial statements in accordance with standards established by the Public Company

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**NABORS INDUSTRIES LTD. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Accounting Oversight Board. Pursuant to Rule 436(c) under the Securities Act of 1933, as amended (the Securities Act ), this report should not be considered a part of any registration statement prepared or certified within the meanings of Sections 7 and 11 of the Securities Act.

***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 ). 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 carried as a single amount in our consolidated balance sheets. Investments in net assets of unconsolidated affiliates accounted for using the equity method totaled \$134.4 million and \$98.0 million as of September 30, 2007 and December 31, 2006, respectively, and are included in other long-term assets in our consolidated balance sheets. 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 (loss) income in our consolidated statements of income and our investments in these funds are included in long-term investments in our consolidated balance sheets.

**Note 3 Share-Based Compensation**

The Company has several share-based employee compensation plans, which are more fully described in Note 3 of our Annual Report on Form 10-K for the year ended December 31, 2006. 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.

Total share-based compensation expense, which includes both stock options and restricted stock, totaled \$8.4 million and \$7.5 million for the three months ended September 30, 2007 and 2006, respectively, and \$24.7 million and \$22.6 million for the nine months ended September 30, 2007 and 2006. Share-based compensation expense has been allocated to our various operating segments (Note 11).

During the nine months ended September 30, 2007, the Company awarded 1,740,763 shares of restricted stock to its employees, directors and executive officers. These awards had an aggregate value at their date of grant of \$52.5 million and vest over a period of three to four years.

**Note 4 Long-term Debt**

Our \$700 million zero coupon senior exchangeable notes due 2023 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 at that time.

**Note 5 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, the Company recognized increases of \$24 million and \$21 million to its tax reserves for uncertain tax positions and interest and penalties,

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**NABORS INDUSTRIES LTD. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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. As of January 1, 2007, the Company had approximately \$114.1 million of total gross unrecognized tax benefits, including \$29.8 million of interest and penalties, which also represents the amount of unrecognized tax benefits that, if recognized, would favorably impact the effective income tax rate in future periods. As of September 30, 2007, the Company had approximately \$74.1 million of total gross unrecognized tax benefits, including \$26.0 million of interest and penalties, recorded as other long-term liabilities. During the three and nine months ended September 30, 2007, the Company accrued and recognized estimated interest and penalties of approximately \$1.5 million and \$5.5 million, respectively.

We are subject to income taxes in the United States and numerous foreign jurisdictions. U.S. federal income tax returns for 2004 and 2005 are currently under examination. Internationally, income tax returns from 1995 through 2005 are currently under examination. Based on the number of tax years currently under audit by relevant Federal, State and foreign tax authorities, the Company anticipates that several of these audits could be finalized within 12 months. As a result, it is reasonably possible that the amount of the unrecognized benefits with respect to certain of our unrecognized tax positions will significantly increase or decrease within the next 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 September 30, 2007. Due to recent examinations, our FIN 48 tax reserves were reduced by \$38.6 million during the quarter ended September 30, 2007.

The Company recognizes interest and penalties related to income tax matters in the income tax expense line item in the consolidated statement of income.

**Note 6 Common Shares**

During the nine months ended September 30, 2007 and 2006, our employees exercised vested options to acquire 4.5 million and 1.0 million of our common shares, respectively, resulting in proceeds of \$60.4 million and \$21.9 million, respectively.

During the three months ended September 30, 2007, our outstanding shares increased by 729,866 related to a share settlement of stock options exercised by Mr. 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 the nine months ended September 30, 2007, there were no repurchases of our common shares in the open market. During the nine months ended September 30, 2006, we repurchased 40.2 million of our common shares in the open market for \$1.4 billion. We retired 17.9 million shares during the nine months ended September 30, 2006 and held 22.2 million of these shares in treasury.

**Note 7 Commitments and Contingencies**

***Commitments***

*Employment Contracts*

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 creditor's 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.

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**NABORS INDUSTRIES LTD. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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 each 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 2006, the annual cash bonuses for Messrs. Isenberg and Petrello pursuant to the formula described in their employment agreements, as amended per the 2006 Amendment described above, were \$43.2 million and \$28.7 million, respectively. In light of their overall compensation package including significant restricted stock awards, they agreed to accept cash bonuses in the amount of \$22.0 million and \$14.6 million, respectively.

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 remain 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.

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 payable through

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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 or the amounts agreed to for 2007 reducing Mr. Isenberg's and Mr. Petrello's bonus percentages as described above. If, by way of example, these provisions had applied at September 30, 2007, Mr. Isenberg would have been entitled to a payment of approximately \$328 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 September 30, 2007, Mr. Petrello would have been entitled to a payment of approximately \$111 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 values of unvested restricted stock were approximately \$28 million and \$17 million, respectively, as of September 30, 2007. Neither Messrs. Isenberg nor Petrello had unvested stock options as of September 30, 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 constructive Termination Without Cause, as described above. If, by way of example, there was a change of control event that applied on September 30, 2007, then the payments to Messrs. Isenberg and Petrello would be approximately \$328 million and \$111 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

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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 values of unvested restricted stock were approximately \$28 million and \$17 million, respectively, as of September 30, 2007. Neither Messrs. Isenberg nor Petrello had unvested stock options as of September 30, 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 5 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 September 30, 2007, Mr. Isenberg would have received 3,366,666 options valued at approximately \$36 million and Mr. Petrello would have received 1,683,332 options valued at approximately \$18 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 example, if there was a change of control event that applied on September 30, 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 \$146 million and \$51 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.

***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 reserves 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 May 31, 2006, Nabors International Finance Inc. ( NIFI ), a wholly-owned U.S. subsidiary of Nabors, received from the U.S. Internal Revenue Service (the IRS ) two Notices of Proposed Adjustment ( NOPA ) in connection with an audit



of NIFI for tax years 2002 and 2003. One NOPA proposes to deny a deduction of \$85.1 million in interest expense in our 2002 tax year relating to intercompany indebtedness incurred in connection with our June 2002 transaction, whereby we reorganized as a Bermuda company. The second NOPA proposes to deny a deduction of \$207.6 million in the same item of interest expense in our 2003 tax year. On August 9, 2006, NIFI received a Revenue Agent Report, asserting the adjustments relating to the two NOPAs referred to above. On September 18, 2006, NIFI filed a protest with the IRS related to the two adjustments. We previously had obtained

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**NABORS INDUSTRIES LTD. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

advice from our tax advisors that the deduction of such amounts was appropriate, and more recently that the position of the IRS lacks merit. At the end of 2003, the Company paid off approximately one-half of the intercompany indebtedness incurred in connection with the inversion. On August 30, 2007, the Company was notified by the Appeals Division of the IRS that neither NOPA had been sustained. The IRS could propose the disallowance of the deductions that relate to the remaining inversion debt upon audit of NIFI's 2004, 2005, 2006 and 2007 tax years. We have not recorded any reserves related to the foregoing matters.

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 and 2006. 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, hurricane coverage for Gulf of Mexico exposures is subject to a \$10 million deductible. We are insured for \$25 million over the deductible at 100%, and have added a second insured layer for \$30 million at 60%. We are self-insuring 40% of the second layer.

*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 alleges that stock options were priced retroactively and were improperly accounted for, and alleges various causes of action based on that assertion. The complaint seeks, 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 makes substantially the same allegations against the same defendants and

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**NABORS INDUSTRIES LTD. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

seeks the same elements of damages. The two purported derivative actions have been consolidated into one proceeding. The ultimate outcome of this matter cannot be determined at this time.

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. We are reviewing certain transactions with this vendor, which provides freight forwarding and customs clearance services, and intend to cooperate 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, in consideration of which, 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. We have also guaranteed payment of contingent consideration in conjunction with certain acquisitions in 2005. Potential contingent consideration is based on future operating results of those businesses. 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:

|                  | <b>Maximum Amount</b> |
|------------------|-----------------------|
| <b>Remainder</b> |                       |

| <i>(In thousands)</i>   | <b>of 2007</b> | <b>2008</b> | <b>2009</b> | <b>Thereafter</b> | <b>Total</b> |
|---|----------------|-------------|-------------|-------------------|--------------|
| Financial standby letters of credit and other<br>financial surety instruments | \$ 23,822      | \$ 109,574  | \$ 100      | \$ 1,953          | \$ 135,449   |
| Contingent consideration in acquisition                                       |                | 1,063       | 1,063       | 2,124             | 4,250        |
| Total   | \$ 23,822      | \$ 110,637  | \$ 1,163    | \$ 4,077          | \$ 139,699   |

Table of Contents**NABORS INDUSTRIES LTD. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Note 8 Earnings Per Share**

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

| <i>(In thousands, except per share amounts)</i>   | <b>Three Months Ended<br/>September 30,</b> |             | <b>Nine Months Ended<br/>September 30,</b> |             |
|---|---|-------------|--|-------------|
|   | <b>2007</b>                                 | <b>2006</b> | <b>2007</b>                                | <b>2006</b> |
| Net income (numerator):   |   |             |  |             |
| Income from continuing operations, net of tax basic   | \$ 195,763                                  | \$ 284,783  | \$ 673,515                                 | \$ 760,623  |
| 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  | 195,763                                     | 284,783     | 673,515                                    | 760,623     |
| Income from discontinued operations, net of tax   | 22,265                                      | 7,968       | 35,024                                     | 22,324      |
| Total adjusted net income   | \$ 218,028                                  | \$ 292,751  | \$ 708,539                                 | \$ 782,947  |
| Earnings per share:   |   |             |  |             |
| Basic from continuing operations  | \$ .70                                      | \$ 1.02     | \$ 2.42                                    | \$ 2.58     |
| Basic from discontinued operations  | .08   | .03         | .12  | .07         |
| Total Basic   | \$ .78                                      | \$ 1.05     | \$ 2.54                                    | \$ 2.65     |
| Diluted from continuing operations  | \$ .68                                      | \$ .99      | \$ 2.35                                    | \$ 2.50     |
| Diluted from discontinued operations  | .08   | .03         | .12  | .07         |
| Total Diluted   | \$ .76                                      | \$ 1.02     | \$ 2.47                                    | \$ 2.57     |
| Shares (denominator):   |   |             |  |             |
| Weighted-average number of shares outstanding basic(4)  | 280,152                                     | 277,553     | 278,782                                    | 294,987     |
| Net effect of dilutive stock options, warrants and restricted stock awards based on the treasury stock method               | 7,817                                       | 8,991       | 8,112                                      | 9,893       |
| 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)                     |         |         |         |         | 186     |
| Weighted-average number of shares outstanding | diluted | 287,969 | 286,544 | 286,894 | 305,066 |

- (1) Diluted earnings per share for the three and nine months ended September 30, 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

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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 either the three and nine months ended September 30, 2007 or 2006.

- (2) Diluted earnings per share for the three and nine months ended September 30, 2007 and 2006 exclude approximately 1.2 million potentially dilutive shares initially issuable upon the conversion of the \$82.8 million zero coupon convertible senior debentures. We would only issue an incremental number of shares upon conversion of these debentures, and 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 three months ended September 30, 2007 and 2006 and the nine months ended September 30, 2007 do not include any incremental shares issuable upon the exchange of the \$700 million zero coupon 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 \$35.05 on the last trading day of the quarter. This was the case for the quarter ended March 31, 2006, and is, therefore, included in the weighted-average number of shares outstanding in our diluted earnings per share calculation for the nine months ended September 30, 2006.
- (4) Includes the following weighted-average number of common shares of Nabors and weighted-average number of exchangeable shares of our subsidiary, Nabors (Canada) Exchangeco Inc., respectively: 280.1 million and .1 million shares for the three months ended September 30, 2007; 277.4 million and .2 million shares for the three months ended September 30, 2006; 278.6 million and .2 million for the nine months ended September 30, 2007; and 294.8 million and .2 million shares for the nine months ended September 30, 2006. 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 4,601,925 and 4,327,513 shares during the three months ended September 30, 2007 and 2006, respectively, and 4,629,158 and 2,443,254 shares during the nine months ended September 30, 2007 and 2006, 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.





**Table of Contents****NABORS INDUSTRIES LTD. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Note 9 Supplemental Balance Sheet and Income Statement Information**

Accrued liabilities include the following:

| <i>(In thousands)</i>             | <b>September 30,<br/>2007</b> | <b>December 31,<br/>2006</b> |
|-----------------------------------|-------------------------------|------------------------------|
| Accrued compensation              | \$ 121,886                    | \$ 136,276                   |
| Deferred revenue                  | 110,497                       | 65,747                       |
| Workers' compensation liabilities | 28,032                        | 28,032                       |
| Interest payable                  | 13,224                        | 13,024                       |
| Litigation reserves               | 4,868                         | 4,536                        |
| Other taxes payable               | 33,944                        | 19,906                       |
| Warranty accrual                  | 10,034                        | 6,377                        |
| Other accrued liabilities         | 26,195                        | 21,060                       |
|                                   | <b>\$ 348,680</b>             | <b>\$ 294,958</b>            |

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

| <i>(In thousands)</i>     | <b>September 30,<br/>2007</b> | <b>December 31,<br/>2006</b> |
|---------------------------|-------------------------------|------------------------------|
| Cash and cash equivalents | \$ 693,777                    | \$ 700,549                   |
| Short-term investments    | 186,196                       | 439,467                      |
| Long-term investments     | 383,288                       | 513,269                      |
| Other current assets      | 43,555                        |                              |
| Total                     | <b>\$ 1,306,816</b>           | <b>\$ 1,653,285</b>          |

As of September 30, 2007 and December 31, 2006, our short-term investments consist entirely of investments in available-for-sale marketable debt securities while our long-term investments consist entirely of investments in non-marketable securities. The \$43.6 million represents cash proceeds receivable from the sale of certain non-marketable securities. The cash proceeds were received during October.

Investment income for the three months ended September 30, 2007 was a net loss of \$27.5 million compared to income of \$37.2 million during the prior year quarter. The loss during the current quarter reflected a net loss of \$37.7 million from the portion of our investment portfolio that is comprised of our actively managed funds that are classified as long-term investments. Investment income for the nine months ended September 30, 2007 was a net loss of \$8.0 million compared to income of \$67.8 million during the prior year period. The loss for the nine months ended

September 30, 2007 included a net loss of \$40.7 million from our long-term investments described above inclusive of substantial gains recorded in the second quarter of 2007 from sales of short-term investments of marketable equity securities.

On June 28, 2007, the Company completed the sale of three accommodation jackups from its International operating segment to an unrelated party. As consideration for the sale, the Company received net proceeds of approximately \$99 million, resulting in a \$38 million gain. The gain is included in the Losses (gains) on sales of long-lived assets, impairment charges and other expense (income), net line item of the consolidated statements of income for the nine months ended September 30, 2007.

During the three months ended September 30, 2007, we recorded impairment losses totaling \$29 million, primarily related to certain rig components across several business units. The loss is included in the Losses (gains) on sales of long-lived assets, impairment charges and other expense (income), net line item of the consolidated statements of income for the three and nine months ended September 30, 2007.

Table of Contents**NABORS INDUSTRIES LTD. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Note 10 Discontinued Operations**

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. 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 current quarter. Our condensed statements of income from discontinued operations related to the Sea Mar business for the three and nine months ended September 30, 2007 and 2006 were as follows:

**Condensed Statements of Income**

| <i>(In thousands)</i>                                    | <b>Three Months Ended<br/>September 30,</b> |             | <b>Nine Months Ended<br/>September 30,</b> |             |
|--|---|-------------|--|-------------|
|  | <b>2007</b>                                 | <b>2006</b> | <b>2007</b>                                | <b>2006</b> |
| <b>Revenues from discontinued operations</b>             | \$ 6,168                                    | \$ 31,226   | \$ 58,887                                  | \$ 86,415   |
| <b>Income from discontinued operations</b>               |   |             |  |             |
| Income from discontinued operations                      | \$ 4,852                                    | \$ 12,361   | \$ 26,092                                  | \$ 34,634   |
| Gain on disposal of business                             | 49,500                                      |             | 49,500                                     |             |
| Income tax expense                                       | (32,087)                                    | (4,393)     | (40,568)                                   | (12,310)    |
| <b>Income from discontinued operations, net of taxes</b> | \$ 22,265                                   | \$ 7,968    | \$ 35,024                                  | \$ 22,324   |

As of December 31, 2006, the net book value of the assets of Sea Mar being disposed of was approximately \$141 million.

**Table of Contents****NABORS INDUSTRIES LTD. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Note 11 Segment Information**

The following tables set forth certain financial information with respect to our reportable segments:

| <i>(In thousands)</i>   | <b>Three Months Ended<br/>September 30,</b> |              | <b>Nine Months Ended<br/>September 30,</b> |              |
|---|---|--------------|--|--------------|
|   | <b>2007</b>                                 | <b>2006</b>  | <b>2007</b>                                | <b>2006</b>  |
| Operating revenues and Earnings from unconsolidated affiliates from continuing operations:(1) |   |              |  |              |
| Contract Drilling:(2)   |   |              |  |              |
| U.S. Lower 48 Land Drilling   | \$ 416,525                                  | \$ 498,173   | \$ 1,295,908                               | \$ 1,393,310 |
| U.S. Land Well-servicing  | 180,370                                     | 188,650      | 544,998                                    | 518,224      |
| U.S. Offshore   | 48,895                                      | 56,219       | 164,986                                    | 162,299      |
| Alaska  | 30,854                                      | 24,098       | 115,467                                    | 75,816       |
| Canada  | 132,434                                     | 167,705      | 400,802                                    | 514,849      |
| International   | 296,219                                     | 195,445      | 781,963                                    | 511,487      |
| Subtotal Contract Drilling(3)   | 1,105,297                                   | 1,130,290    | 3,304,124                                  | 3,175,985    |
| Oil and Gas(4)(5)   | 35,770                                      | 9,268        | 67,009                                     | 48,808       |
| Other Operating Segments(6)(7)  | 163,397                                     | 120,539      | 433,771                                    | 366,416      |
| Other reconciling items(8)  | (51,476)                                    | (41,139)     | (165,342)                                  | (131,745)    |
| Total   | \$ 1,252,988                                | \$ 1,218,958 | \$ 3,639,562                               | \$ 3,459,464 |
| Adjusted income (loss) derived from operating activities:(1)(9)                               |   |              |  |              |
| Contract Drilling:  |   |              |  |              |
| U.S. Lower 48 Land Drilling   | \$ 130,761                                  | \$ 219,485   | \$ 458,354                                 | \$ 611,912   |
| U.S. Land Well-servicing  | 42,291                                      | 54,495       | 125,752                                    | 148,000      |
| U.S. Offshore   | 9,245                                       | 17,492       | 43,500                                     | 51,613       |
| Alaska  | 4,214                                       | 2,123        | 29,006                                     | 9,749        |
| Canada  | 16,920                                      | 42,549       | 62,056                                     | 145,524      |
| International   | 88,574                                      | 58,145       | 240,001                                    | 146,142      |
| Subtotal Contract Drilling(3)   | 292,005                                     | 394,289      | 958,669                                    | 1,112,940    |
| Oil and Gas   | 17,868                                      | (5,101)      | 22,370                                     | 7,751        |
| Other Operating Segments  | 10,297                                      | 7,975        | 28,630                                     | 24,345       |
| Total segment adjusted income derived from operating activities                               | 320,170                                     | 397,163      | 1,009,669                                  | 1,145,036    |
| Other reconciling items(10)   | (32,837)                                    | (28,921)     | (101,777)                                  | (79,500)     |

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|  |            |            |            |              |
|--|------------|------------|------------|--------------|
| Interest expense   | (13,450)   | (13,744)   | (40,235)   | (33,970)     |
| Investment (loss) income   | (27,466)   | 37,155     | (8,029)    | 67,753       |
| Losses on sales of long-lived assets, impairment charges and other income (expense), net | (30,524)   | (4,076)    | (4,775)    | (11,925)     |
| Income before income taxes from continuing operations                                    | \$ 215,893 | \$ 387,577 | \$ 854,853 | \$ 1,087,394 |

**Table of Contents****NABORS INDUSTRIES LTD. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

| <i>(In thousands)</i>          | <b>September 30,<br/>2007</b> | <b>December 31,<br/>2006</b> |
|--------------------------------|-------------------------------|------------------------------|
| Total assets:                  |                               |                              |
| Contract Drilling:             |                               |                              |
| U.S. Lower 48 Land Drilling    | \$ 2,521,415                  | \$ 2,210,070                 |
| U.S. Land Well-servicing       | 720,154                       | 597,082                      |
| U.S. Offshore                  | 439,732                       | 456,889                      |
| Alaska                         | 258,772                       | 221,927                      |
| Canada                         | 1,249,979                     | 1,059,243                    |
| International                  | 2,426,707                     | 2,006,941                    |
| Subtotal Contract Drilling(11) | 7,616,759                     | 6,552,152                    |
| Oil and Gas(12)                | 616,333                       | 328,114                      |
| Other Operating Segments(13)   | 629,919                       | 638,600                      |
| Other reconciling items(10)    | 1,215,396                     | 1,623,437                    |
| Total assets                   | \$ 10,078,407                 | \$ 9,142,303                 |

- (1) All segment 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 \$3.4 million and \$1.1 million for the three months ended September 30, 2007 and 2006, respectively, and \$5.9 million for the nine months ended September 30, 2007 and 2006, 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 (\$2.0) million and (\$2.8) million for the three and nine months ended September 30, 2007, respectively, and \$0 for the three and nine months ended September 30, 2006.
- (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 \$1.3 million and \$4.6 million for the three months ended September 30, 2007 and 2006, respectively, and \$15.5 million and \$13.6 million for the nine months ended September 30, 2007 and 2006, 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, 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 before income taxes, which is a GAAP measure, is provided within the above table.



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**NABORS INDUSTRIES LTD. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

- (10) Represents the elimination of inter-segment transactions and unallocated corporate expenses and assets.
- (11) Includes \$47.1 million and \$39.6 million of investments in unconsolidated affiliates accounted for by the equity method as of September 30, 2007 and December 31, 2006, respectively.
- (12) Includes \$25.0 million and \$0 of investments in unconsolidated affiliates accounted for by the equity method as of September 30, 2007 and December 31, 2006, respectively.
- (13) Includes \$62.4 million and \$58.5 million of investments in unconsolidated affiliates accounted for by the equity method as of September 30, 2007 and December 31, 2006, respectively.

**Note 12 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 information presents 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 September 30, 2007 and December 31, 2006, statements of income and cash flows for each of the three and nine month periods ended September 30, 2007 and 2006 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****NABORS INDUSTRIES LTD. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Condensed Consolidating Balance Sheets**

| <i>(In thousands)</i>                      | September 30, 2007               |  |                                |   |                              |                       |
|--|----------------------------------|--|--------------------------------|---|------------------------------|-----------------------|
|  | Nabors<br>(Parent/<br>Guarantor) | Nabors<br>Delaware<br>(Issuer/<br>Guarantor) | Nabors<br>Holdings<br>(Issuer) | Other<br>Subsidiaries<br>(Non-<br>Guarantors) | Consolidating<br>Adjustments | Consolidated<br>Total |
| <b>ASSETS</b>                              |                                  |  |                                |   |                              |                       |
| Current assets:                            |                                  |  |                                |   |                              |                       |
| Cash and cash equivalents                  | \$ 18,002                        | \$ 4,428                                     | \$ 4                           | \$ 671,343                                    | \$                           | \$ 693,777            |
| Short-term investments                     |                                  |  |                                | 186,196                                       |                              | 186,196               |
| Accounts receivable, net                   |                                  |  |                                | 1,043,235                                     |                              | 1,043,235             |
| Inventory                                  |                                  |  |                                | 131,646                                       |                              | 131,646               |
| Deferred income taxes                      |                                  |  |                                | 35,738  |                              | 35,738                |
| Other current assets                       | 162                              | 1,127  | 376                            | 454,164                                       |                              | 455,829               |
| Total current assets                       | 18,164                           | 5,555  | 380                            | 2,522,322                                     |                              | 2,546,421             |
| Long-term investments                      |                                  |  |                                | 383,288                                       |                              | 383,288               |
| Property, plant and<br>equipment, net      |                                  |  |                                | 6,466,732                                     |                              | 6,466,732             |
| Goodwill                                   |                                  |  |                                | 367,376                                       |                              | 367,376               |
| Intercompany receivables                   | 348,596                          | 1,379,605                                    |                                | 19,944  | (1,748,145)                  |                       |
| Investments in affiliates                  | 4,051,149                        | 4,235,944                                    | 300,767                        | 1,868,163                                     | (10,321,608)                 | 134,415               |
| Other long-term assets                     |                                  | 25,690                                       | 649                            | 153,836                                       |                              | 180,175               |
| Total assets                               | \$ 4,417,909                     | \$ 5,646,794                                 | \$ 301,796                     | \$ 11,781,661                                 | \$ (12,069,753)              | \$ 10,078,407         |
| <b>LIABILITIES AND SHAREHOLDERS EQUITY</b> |                                  |  |                                |   |                              |                       |
| Current liabilities:                       |                                  |  |                                |   |                              |                       |
| Current portion of long-<br>term debt      | \$                               | \$ 700,000                                   | \$                             | \$  | \$                           | \$ 700,000            |
| Trade accounts payable                     | 13                               | 36   |                                | 367,064                                       |                              | 367,113               |
| Accrued liabilities                        | 4,203                            | 11,625                                       | 1,409                          | 331,443                                       |                              | 348,680               |
| Income taxes payable                       |                                  | 95,504                                       | 2,416                          | 43,783  |                              | 141,703               |
| Total current liabilities                  | 4,216                            | 807,165                                      | 3,825                          | 742,290                                       |                              | 1,557,496             |
| Long-term debt                             |                                  | 3,081,344                                    | 224,495                        | 1   |                              | 3,305,840             |
| Other long-term liabilities                |                                  |  |                                | 238,936                                       |                              | 238,936               |
| Deferred income taxes                      |                                  | 13,700                                       | 15                             | 548,727                                       |                              | 562,442               |
| Intercompany payable                       |                                  |  | 5,015                          | 1,743,130                                     | (1,748,145)                  |                       |

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|   |              |              |            |               |                 |               |
|---|--------------|--------------|------------|---------------|-----------------|---------------|
| Total liabilities                         | 4,216        | 3,902,209    | 233,350    | 3,273,084     | (1,748,145)     | 5,664,714     |
| Total shareholders equity                 | 4,413,693    | 1,744,585    | 68,446     | 8,508,577     | (10,321,608)    | 4,413,693     |
| Total liabilities and shareholders equity | \$ 4,417,909 | \$ 5,646,794 | \$ 301,796 | \$ 11,781,661 | \$ (12,069,753) | \$ 10,078,407 |

**Table of Contents****NABORS INDUSTRIES LTD. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

| <i>(In thousands)</i>                      | December 31, 2006                |  |                                |   |              | Consolidating<br>Adjustments | Consolidated<br>Total |
|--|----------------------------------|--|--------------------------------|---|--------------|------------------------------|-----------------------|
|  | Nabors<br>(Parent/<br>Guarantor) | Nabors<br>Delaware<br>(Issuer/<br>Guarantor) | Nabors<br>Holdings<br>(Issuer) | Other<br>Subsidiaries<br>(Non-<br>Guarantors) |              |                              |                       |
| <b>ASSETS</b>                              |                                  |  |                                |   |              |                              |                       |
| 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                      |                                  |  |                                | 513,269                                       |              |                              | 513,269               |
| Property, plant and<br>equipment, net      |                                  |  |                                | 5,410,101                                     |              |                              | 5,410,101             |
| Goodwill                                   |                                  |  |                                | 362,269                                       |              |                              | 362,269               |
| 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          |
| <b>LIABILITIES AND SHAREHOLDERS EQUITY</b> |                                  |  |                                |   |              |                              |                       |
| Current liabilities:                       |                                  |  |                                |   |              |                              |                       |
| 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               |
| Long-term debt                             |                                  | 3,779,778                                    | 224,296                        |   |              |                              | 4,004,074             |
| Other long-term liabilities                |                                  |  |                                | 208,553                                       |              |                              | 208,553               |
| Deferred income taxes                      |                                  | 50,696                                       |                                | 703,881                                       | (215,914)    |                              | 538,663               |
| 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             |
| Total shareholders equity                  | 3,536,653                        | 1,231,924                                    | 53,838                         | 7,154,414                                     | (8,440,176)  |                              | 3,536,653             |

|  |              |              |            |               |                 |              |
|--|--------------|--------------|------------|---------------|-----------------|--------------|
| Total liabilities and<br>shareholders equity | \$ 3,542,983 | \$ 5,152,719 | \$ 287,810 | \$ 10,330,025 | \$ (10,171,234) | \$ 9,142,303 |
|--|--------------|--------------|------------|---------------|-----------------|--------------|

**Table of Contents****NABORS INDUSTRIES LTD. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Condensed Consolidating Statements of Income**

| <i>(In thousands)</i>   | <b>Three Months Ended September 30, 2007</b> |  |   |   |                                      |                               |
|---|--|--|---|---|--------------------------------------|-------------------------------|
|   | <b>Nabors<br/>(Parent/<br/>Guarantor)</b>    | <b>Nabors<br/>Delaware<br/>(Issuer/<br/>Guarantor)</b> | <b>Nabors<br/>Holdings<br/>(Issuer)</b> | <b>Other<br/>Subsidiaries<br/>(Non-<br/>Guarantors)</b> | <b>Consolidating<br/>Adjustments</b> | <b>Consolidated<br/>Total</b> |
| Revenues and other income:  |  |  |   |   |                                      |                               |
| Operating revenues  | \$   | \$   | \$                                      | \$ 1,250,299  | \$                                   | \$ 1,250,299                  |
| Earnings from<br>unconsolidated affiliates  |  |  |   | 2,689   |                                      | 2,689                         |
| Earnings (losses) from<br>consolidated affiliates   | 204,052                                      | 107,763  | 3,684                                   | 118,464   | (433,963)                            |                               |
| Investment income (loss)  | 170  | 39   |   | (27,675)  |                                      | (27,466)                      |
| Intercompany interest<br>income   | 1,333  | 22,544   | 1                                       |   | (23,878)                             |                               |
| Total revenues and other<br>income  | 205,555                                      | 130,346  | 3,685                                   | 1,343,777   | (457,841)                            | 1,225,522                     |
| Costs and other deductions:   |  |  |   |   |                                      |                               |
| Direct costs  |  |  |   | 722,058   |                                      | 722,058                       |
| General and administrative<br>expenses  | 3,954  | 83   | 5                                       | 102,056   | (123)                                | 105,975                       |
| Depreciation and<br>amortization  |  | 150  |   | 124,939   |                                      | 125,089                       |
| Depletion   |  |  |   | 12,533  |                                      | 12,533                        |
| Interest expense  |  | 12,811   | 2,860                                   | (2,221)   |                                      | 13,450                        |
| Intercompany interest<br>(expense)  | 5,846  |  |   | 18,032  | (23,878)                             |                               |
| Losses (gains) on sales of<br>long-lived assets,<br>impairment charges and<br>other expense (income), net | (8)  | 1,189  |   | 29,220  | 123                                  | 30,524                        |
| Total costs and other<br>deductions   | 9,792  | 14,233   | 2,865                                   | 1,006,617   | (23,878)                             | 1,009,629                     |
| Income before income taxes<br>from continuing operations  | 195,763                                      | 116,113  | 820                                     | 337,160   | (433,963)                            | 215,893                       |
| Income tax expense  |  | 3,090  | 262                                     | 16,778  |                                      | 20,130                        |

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|   |            |            |        |            |              |            |
|---|------------|------------|--------|------------|--------------|------------|
| Income from continuing operations, net of tax   | 195,763    | 113,023    | 558    | 320,382    | (433,963)    | 195,763    |
| Income from discontinued operations, net of tax | 22,265     | 22,265     |        | 44,530     | (66,795)     | 22,265     |
| Net income                                      | \$ 218,028 | \$ 135,288 | \$ 558 | \$ 364,912 | \$ (500,758) | \$ 218,028 |

**Table of Contents****NABORS INDUSTRIES LTD. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

| <i>(In thousands)</i>  | <b>Three Months Ended September 30, 2006</b> |  |                                 |  |                                  | <b>Consolidated Total</b> |
|--|--|--|---------------------------------|--|----------------------------------|---------------------------|
|  | <b>Nabors (Parent/ Guarantor)</b>            | <b>Nabors Delaware (Issuer/ Guarantor)</b> | <b>Nabors Holdings (Issuer)</b> | <b>Other Subsidiaries (Non-Guarantors)</b> | <b>Consolidating Adjustments</b> |                           |
| Revenues and other income:   |  |  |                                 |  |                                  |                           |
| Operating revenues   | \$   | \$   | \$                              | \$ 1,213,252                               | \$                               | \$ 1,213,252              |
| Earnings from unconsolidated affiliates  |  |  |                                 | 5,706                                      |                                  | 5,706                     |
| Earnings (losses) from consolidated affiliates   | 288,552                                      | 210,881                                    | 3,683                           | 216,136                                    | (719,252)                        |                           |
| Investment income  | 68   | 683  |                                 | 36,404                                     |                                  | 37,155                    |
| Intercompany interest income   | 1,019  | 17,289                                     |                                 |  | (18,308)                         |                           |
| <b>Total revenues and other income</b>   | <b>289,639</b>                               | <b>228,853</b>                             | <b>3,683</b>                    | <b>1,471,498</b>                           | <b>(737,560)</b>                 | <b>1,256,113</b>          |
| Costs and other deductions:  |  |  |                                 |  |                                  |                           |
| Direct costs   |  |  |                                 | 654,265                                    |                                  | 654,265                   |
| General and administrative expenses  | 4,417  | 67   |                                 | 88,552                                     | (253)                            | 92,783                    |
| Depreciation and amortization  |  | 150  |                                 | 95,787                                     |                                  | 95,937                    |
| Depletion  |  |  |                                 | 7,731                                      |                                  | 7,731                     |
| Interest expense   |  | 12,727                                     | 2,860                           | (1,843)                                    |                                  | 13,744                    |
| Intercompany interest (expense)  | 439  |  |                                 | 17,869                                     | (18,308)                         |                           |
| Losses (gains) on sales of long-lived assets, impairment charges and other expense (income), net |  | 809  |                                 | 3,014                                      | 253                              | 4,076                     |
| <b>Total costs and other deductions</b>  | <b>4,856</b>                                 | <b>13,753</b>                              | <b>2,860</b>                    | <b>865,375</b>                             | <b>(18,308)</b>                  | <b>868,536</b>            |
| Income before income taxes from continuing operations  | 284,783                                      | 215,100                                    | 823                             | 606,123                                    | (719,252)                        | 387,577                   |
| Income tax expense   |  | 1,561                                      | 263                             | 100,970                                    |                                  | 102,794                   |
| <b>Income from continuing operations, net of tax</b>   | <b>284,783</b>                               | <b>213,539</b>                             | <b>560</b>                      | <b>505,153</b>                             | <b>(719,252)</b>                 | <b>284,783</b>            |



|   |            |            |        |            |              |            |
|---|------------|------------|--------|------------|--------------|------------|
| Income from discontinued operations, net of tax | 7,968      | 7,968      |        | 15,936     | (23,904)     | 7,968      |
| Net income                                      | \$ 292,751 | \$ 221,507 | \$ 560 | \$ 521,089 | \$ (743,156) | \$ 292,751 |

**Table of Contents****NABORS INDUSTRIES LTD. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

| <i>(In thousands)</i>  | Nine Months Ended September 30, 2007 |  |                                |   |                              |                       |
|--|--------------------------------------|--|--------------------------------|---|------------------------------|-----------------------|
|  | Nabors<br>(Parent/<br>Guarantor)     | Nabors<br>Delaware<br>(Issuer/<br>Guarantor) | Nabors<br>Holdings<br>(Issuer) | Other<br>Subsidiaries<br>(Non-<br>Guarantors) | Consolidating<br>Adjustments | Consolidated<br>Total |
| Revenues and other<br>income:  |                                      |  |                                |   |                              |                       |
| Operating revenues   | \$                                   | \$   | \$                             | \$ 3,620,996                                  | \$                           | \$ 3,620,996          |
| Earnings from<br>unconsolidated affiliates   |                                      |  |                                | 18,566  |                              | 18,566                |
| Earnings (losses) from<br>consolidated affiliates  | 688,748                              | 312,350                                      | 13,949                         | 341,672                                       | (1,356,719)                  |                       |
| Investment (loss) income   | 504                                  | 96   |                                | (8,629)                                       |                              | (8,029)               |
| Intercompany interest<br>income  | 2,989                                | 63,208                                       | 2                              |   | (66,199)                     |                       |
| Total revenues and other<br>income   | 692,241                              | 375,654                                      | 13,951                         | 3,972,605                                     | (1,422,918)                  | 3,631,533             |
| Costs and other<br>deductions:   |                                      |  |                                |   |                              |                       |
| Direct costs   |                                      |  |                                | 2,043,459                                     |                              | 2,043,459             |
| General and<br>administrative expenses   | 12,473                               | 96   | 7                              | 307,685                                       | (437)                        | 319,824               |
| Depreciation and<br>amortization   |                                      | 450  |                                | 339,619                                       |                              | 340,069               |
| Depletion  |                                      |  |                                | 28,318  |                              | 28,318                |
| Interest expense   |                                      | 38,366                                       | 8,592                          | (6,723)                                       |                              | 40,235                |
| Intercompany interest<br>expense   | 6,261                                |  |                                | 59,938  | (66,199)                     |                       |
| Losses (gains) on sales of<br>long-lived assets,<br>impairment charges and<br>other expense (income),<br>net | (8)                                  | 223  |                                | 4,123   | 437                          | 4,775                 |
| Total costs and other<br>deductions  | 18,726                               | 39,135                                       | 8,599                          | 2,776,419                                     | (66,199)                     | 2,776,680             |
| Income before income<br>taxes from continuing<br>operations  | 673,515                              | 336,519                                      | 5,352                          | 1,196,186                                     | (1,356,719)                  | 854,853               |

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|   |            |            |          |              |                |            |
|---|------------|------------|----------|--------------|----------------|------------|
| Income tax expense                              |            | 8,943      | 1,712    | 170,683      |                | 181,338    |
| Income from continuing operations, net of tax   | 673,515    | 327,576    | 3,640    | 1,025,503    | (1,356,719)    | 673,515    |
| Income from discontinued operations, net of tax | 35,024     | 35,024     |          | 70,048       | (105,072)      | 35,024     |
| Net income                                      | \$ 708,539 | \$ 362,600 | \$ 3,640 | \$ 1,095,551 | \$ (1,461,791) | \$ 708,539 |

**Table of Contents****NABORS INDUSTRIES LTD. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

| <i>(In thousands)</i>  | Nine Months Ended September 30, 2006      |  |   |   |                                      |                               |
|--|---|--|---|---|--------------------------------------|-------------------------------|
|  | <b>Nabors<br/>(Parent/<br/>Guarantor)</b> | <b>Nabors<br/>Delaware<br/>(Issuer/<br/>Guarantor)</b> | <b>Nabors<br/>Holdings<br/>(Issuer)</b> | <b>Other<br/>Subsidiaries<br/>(Non-<br/>Guarantors)</b> | <b>Consolidating<br/>Adjustments</b> | <b>Consolidated<br/>Total</b> |
| Revenues and other income:   |   |  |   |   |                                      |                               |
| Operating revenues   | \$  | \$   | \$                                      | \$ 3,439,989  | \$                                   | \$ 3,439,989                  |
| Earnings from unconsolidated affiliates  |   |  |   | 19,475  |                                      | 19,475                        |
| Earnings from consolidated affiliates  | 771,504                                   | 609,076  | 12,672                                  | 636,880   | (2,030,132)                          |                               |
| Investment income  | 179                                       | 10,343   |   | 57,231  |                                      | 67,753                        |
| Intercompany interest income   | 3,003                                     | 48,669   |   |   | (51,672)                             |                               |
| Total revenues and other income  | 774,686                                   | 668,088  | 12,672                                  | 4,153,575   | (2,081,804)                          | 3,527,217                     |
| Costs and other deductions:  |   |  |   |   |                                      |                               |
| Direct costs   |   |  |   | 1,835,523   |                                      | 1,835,523                     |
| General and administrative expenses  | 12,966                                    | 146  | 2                                       | 254,938   | (343)                                | 267,709                       |
| Depreciation and amortization  |   | 450  |   | 261,585   |                                      | 262,035                       |
| Depletion  |   |  |   | 28,661  |                                      | 28,661                        |
| Interest expense   |   | 27,776   | 8,580                                   | (2,386)   |                                      | 33,970                        |
| Intercompany interest expense  | 1,097                                     |  |   | 50,575  | (51,672)                             |                               |
| Losses (gains) on sales of long-lived assets, impairment charges and other expense (income), net |   | (832)  |   | 12,414  | 343                                  | 11,925                        |
| Total costs and other deductions   | 14,063                                    | 27,540   | 8,582                                   | 2,441,310   | (51,672)                             | 2,439,823                     |
| Income before income taxes from continuing operations  | 760,623                                   | 640,548  | 4,090                                   | 1,712,265   | (2,030,132)                          | 1,087,394                     |

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|   |            |            |          |              |                |            |
|---|------------|------------|----------|--------------|----------------|------------|
| Income tax expense                              |            | 11,645     | 1,359    | 313,767      |                | 326,771    |
| Income from continuing operations, net of tax   | 760,623    | 628,903    | 2,731    | 1,398,498    | (2,030,132)    | 760,623    |
| Income from discontinued operations, net of tax | 22,324     | 22,324     |          | 44,648       | (66,972)       | 22,324     |
| Net income                                      | \$ 782,947 | \$ 651,227 | \$ 2,731 | \$ 1,443,146 | \$ (2,097,104) | \$ 782,947 |

**Table of Contents****NABORS INDUSTRIES LTD. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Condensed Consolidating Statements of Cash Flows**

| <i>(In thousands)</i>                                      | Nine Months Ended September 30, 2007 |  |                                |   |                              |                       |
|--|--------------------------------------|--|--------------------------------|---|------------------------------|-----------------------|
|  | Nabors<br>(Parent/<br>Guarantor)     | Nabors<br>Delaware<br>(Issuer/<br>Guarantor) | Nabors<br>Holdings<br>(Issuer) | Other<br>Subsidiaries<br>(Non-<br>Guarantors) | Consolidating<br>Adjustments | Consolidated<br>Total |
| Net cash (used for)<br>provided by operating<br>activities | \$ 2,388                             | \$ (3,182)                                   | \$ (10,972)                    | \$ 875,306                                    | \$ (5,484)                   | \$ 858,056            |
| Cash flows from investing<br>activities:                   |                                      |  |                                |   |                              |                       |
| Purchases of investments                                   |                                      |  |                                | (231,070)                                     |                              | (231,070)             |
| Sales and maturities of<br>investments                     |                                      | 656  |                                | 494,907                                       |                              | 495,563               |
| Cash paid for investments<br>in consolidated affiliates    |                                      | (5,484)                                      |                                | (10,968)                                      | 16,452                       |                       |
| Cash paid for acquisitions<br>of businesses, net           |                                      |  |                                | (8,391)                                       |                              | (8,391)               |
| Capital expenditures                                       |                                      |  |                                | (1,482,845)                                   |                              | (1,482,845)           |
| Investments in affiliates                                  |                                      |  |                                | (28,314)                                      |                              | (28,314)              |
| Proceeds from sales of<br>assets and insurance claims      |                                      |  |                                | 135,525                                       |                              | 135,525               |
| Proceeds from sale of Sea<br>Mar business                  |                                      |  |                                | 194,332                                       |                              | 194,332               |
| Net cash used for investing<br>activities                  |                                      | (4,828)                                      |                                | (936,824)                                     | 16,452                       | (925,200)             |
| Cash flows from financing<br>activities:                   |                                      |  |                                |   |                              |                       |
| Increase in cash overdrafts                                |                                      |  |                                | (15,337)                                      |                              | (15,337)              |
| Proceeds from issuance of<br>common shares                 | 60,362                               |  |                                |   |                              | 60,362                |
| Proceeds (payments) from<br>intercompany long-term<br>debt | (57,811)                             |  |                                | 57,811  |                              |                       |
| Purchase of restricted stock                               | (1,811)                              |  |                                |   |                              | (1,811)               |
| Tax benefit related to the<br>exercise of stock options    |                                      | 10,044                                       |                                |   |                              | 10,044                |
|  |                                      |  | 10,968                         | 5,484   | (16,452)                     |                       |

|  |           |          |        |            |          |            |
|--|-----------|----------|--------|------------|----------|------------|
| Proceeds from parent contributions                           |           |          |        |            |          |            |
| Cash dividends paid  |           |          |        | (5,484)    | 5,484    |            |
| Net cash provided by (used for) financing activities         | 740       | 10,044   | 10,968 | 42,474     | (10,968) | 53,258     |
| Effect of exchange rate changes on cash and cash equivalents |           |          |        | 7,114      |          | 7,114      |
| Net (decrease) increase in cash and cash equivalents         | 3,128     | 2,034    | (4)    | (11,930)   |          | (6,772)    |
| Cash and cash equivalents, beginning of period               | 14,874    | 2,394    | 8      | 683,273    |          | 700,549    |
| Cash and cash equivalents, end of period                     | \$ 18,002 | \$ 4,428 | \$ 4   | \$ 671,343 | \$       | \$ 693,777 |

**Table of Contents****NABORS INDUSTRIES LTD. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

| <i>(In thousands)</i>   | Nine Months Ended September 30, 2006 |  |                                |   |                              |                       |
|---|--------------------------------------|--|--------------------------------|---|------------------------------|-----------------------|
|   | Nabors<br>(Parent/<br>Guarantor)     | Nabors<br>Delaware<br>(Issuer/<br>Guarantor) | Nabors<br>Holdings<br>(Issuer) | Other<br>Subsidiaries<br>(Non-<br>Guarantors) | Consolidating<br>Adjustments | Consolidated<br>Total |
| Net cash provided by<br>(used for) operating<br>activities    | \$ 1,175,772                         | \$ (155,865)                                 | \$ (10,968)                    | \$ 2,872,939                                  | \$ (2,842,339)               | \$ 1,039,539          |
| Cash flows from<br>investing activities:                      |                                      |  |                                |   |                              |                       |
| Purchases of<br>investments                                   |                                      |  |                                | (1,087,987)                                   |                              | (1,087,987)           |
| Sales and maturities<br>of investments                        |                                      |  |                                | 799,713                                       |                              | 799,713               |
| Cash paid for<br>investments in<br>consolidated<br>affiliates | (977,927)                            | (487,275)                                    |                                | (1,189,056)                                   | 2,654,258                    |                       |
| Cash paid for<br>acquisitions of<br>businesses, net           |                                      |  |                                | (46,510)                                      |                              | (46,510)              |
| Proceeds from sale<br>of affiliate s stock                    |                                      |  |                                | 1,800,000                                     | (1,800,000)                  |                       |
| Investment in<br>affiliates                                   |                                      |  |                                | (2,433)                                       |                              | (2,433)               |
| Capital expenditures  |                                      |  |                                | (1,344,682)                                   |                              | (1,344,682)           |
| Proceeds from sales<br>of assets and<br>insurance claims      |                                      |  |                                | 10,322  |                              | 10,322                |
| Net cash provided by<br>(used for) investing<br>activities    | (977,927)                            | (487,275)                                    |                                | (1,060,633)                                   | 854,258                      | (1,671,577)           |
| Cash flows from<br>financing activities:                      |                                      |  |                                |   |                              |                       |
| Decrease in cash<br>overdrafts                                |                                      |  |                                | (15,845)                                      |                              | (15,845)              |
| Proceeds from sale<br>of warrants                             | 421,162                              | (583,550)                                    |                                |   |                              | 421,162<br>(583,550)  |



|  |           |             |        |             |             |             |
|--|-----------|-------------|--------|-------------|-------------|-------------|
| Purchase of exchangeable note hedge                          |           |             |        |             |             |             |
| Proceeds from long-term debt                                 |           | 2,750,000   |        |             |             | 2,750,000   |
| Reduction of long-term debt                                  |           | (769,789)   |        |             |             | (769,789)   |
| Debt issuance costs  |           | (27,972)    |        |             |             | (27,972)    |
| Proceeds from issuance of common shares                      | 21,925    |             |        |             |             | 21,925      |
| Repurchase and retirement of common shares                   | (627,357) |             |        | (2,545,977) | 1,800,000   | (1,373,334) |
| Tax benefit related to the exercise of stock options         |           | 4,315       |        |             |             | 4,315       |
| 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         | (184,270) | 680,150     | 10,968 | (2,068,017) | 1,988,081   | 426,912     |
| Effect of exchange rate changes on cash and cash equivalents |           |             |        | 331         |             | 331         |
| Net increase in cash and cash equivalents                    | 13,575    | 37,010      |        | (255,380)   |             | (204,795)   |
| Cash and cash equivalents, beginning of period               | 527       | 14          | 11     | 564,449     |             | 565,001     |
| Cash and cash equivalents, end of period                     | \$ 14,102 | \$ 37,024   | \$ 11  | \$ 309,069  | \$          | \$ 360,206  |

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**NABORS INDUSTRIES LTD. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**Note 13 Subsequent Events**

On October 3, 2007, we and one of our joint venture partners sold certain oil and gas holdings, included in our Oil and Gas operating segment, to an unrelated party. Related to the holdings, we collected \$208 million of outstanding receivables from production contracts and sold holdings with a net book value of approximately \$16 million of which these balances were classified in prior periods as other long term assets and plant, property and equipment, net, respectively. These balances have been reclassified to other current assets as of September 30, 2007. The Company received net proceeds of approximately \$297.5 million, which will result in a fourth quarter pre-tax gain of approximately \$70 million.

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

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

We have reviewed the accompanying consolidated balance sheet of Nabors Industries Ltd. and its subsidiaries as of September 30, 2007, and the related consolidated statements of income for each of the three-month and nine-month periods ended September 30, 2007 and 2006, and the consolidated statements of cash flows and of changes in shareholders' equity for the nine-month periods ended September 30, 2007 and 2006. This interim financial information is the responsibility of the Company's management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying consolidated interim financial information for it to be in conformity with accounting principles generally accepted in the United States of America.

We previously audited in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet as of December 31, 2006, and the related consolidated statements of income, of cash flows, and of changes in shareholders' equity for the year then ended, management's assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2006 and the effectiveness of the Company's internal control over financial reporting as of December 31, 2006; and in our report dated March 1, 2007 we expressed unqualified opinions thereon. The consolidated financial statements and management's assessment of the effectiveness of internal control over financial reporting referred to above are not presented herein. In our opinion, the information set forth in the accompanying consolidated balance sheet information as of December 31, 2006, is fairly stated in all material respects in relation to the consolidated balance sheet from which it has been derived.

/s/ PricewaterhouseCoopers LLP

Houston, Texas  
October 31, 2007

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**Item 2. *Management's Discussion and Analysis of Financial Condition and Results of Operations***

**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 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;
- 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.

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 refer to our Annual Report on Form 10-K for the year ended December 31, 2006 filed with the SEC on March 1, 2007, under Part 1, Item 1A, Risk Factors.

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

**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 and Central America, the Middle East, the Far East and Africa. Nabors is also 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, 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 and well-servicing operations in Canada using helicopter and fixed-winged aircraft. We manufacture and lease or sell top drives for a broad range of drilling

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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.

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.

Natural gas prices are the primary drivers of our U.S. Lower 48 Land Drilling, Canadian and U.S. Offshore (Gulf of Mexico) operations, while oil prices are the primary driver of our Alaskan, International and U.S. Land Well-servicing operations. The Henry Hub natural gas spot price (per Bloomberg) averaged \$6.88 per million cubic feet (mcf) during the period from October 1, 2006 through September 30, 2007, down from a \$8.05 per mcf average during the period from October 1, 2005 through September 30, 2006. West Texas intermediate spot oil prices (per Bloomberg) averaged \$64.63 per barrel during the period from October 1, 2006 through September 30, 2007, slightly down from a \$66.11 per barrel average during the period from October 1, 2005 through September 30, 2006.

Operating revenues and Earnings from unconsolidated affiliates for the three months ended September 30, 2007 totaled \$1.3 billion, representing an increase of \$34.0 million, or 3% as compared to the three months ended September 30, 2006 and \$3.6 billion for the nine months ended September 30, 2007, representing an increase of \$180.1 million, or 5% as compared to the nine months ended September 30, 2006. Adjusted income derived from operating activities and net income for the three months ended September 30, 2007 totaled \$287.3 million and \$218.0 million, (\$.76 per diluted share), respectively, representing decreases of 22% and 26%, respectively, compared to the three months ended September 30, 2006. Adjusted income derived from operating activities and net income for the nine months ended September 30, 2007 totaled \$907.9 million and \$708.5 million, (\$2.47 per diluted share), respectively, representing decreases of 15% and 10%, respectively, compared to the nine months ended September 30, 2006.

The decrease in our adjusted income derived from operating activities during the three and nine months ended September 30, 2007 as compared to the three and nine months ended September 30, 2006 related primarily to our U.S. Lower 48 Land Drilling, U.S. Land Well-servicing and Canada Drilling and Well-servicing operations, where activity levels decreased as a result of lower natural gas prices and inclement weather. Operating results were further impacted by higher levels of depreciation expense due to our capital expenditures and higher general and administrative expenses due to an increase in wages and burden for a majority of our operating segments and Corporate during the three and nine months ended September 30, 2007. 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, both driven from the continuing high oil prices. In addition, our net income for the three and nine months ended September 30, 2007 has decreased compared to the prior year periods primarily as a result of investment net losses only partially offset by a lower effective tax rate.

We anticipate that 2007 results for our U.S. Lower 48 Land Drilling, U.S. Land Well-servicing and Canadian drilling operations are likely to be significantly lower than 2006 with a slower market and an influx of new rig capacity in the U.S. Lower 48 market and more extensive market weakness in Canada. We expect increases in our International

operations followed to a lesser extent by our Alaskan businesses resulting from a full year's contribution of rig deployments in 2006 and further deployments in 2007, most of which are for multi-year contracts. Further income increments from our Alaskan and International operations are being realized from expected renewals of existing multi-year contracts to much higher current market rates.

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The following table sets forth certain information with respect to our reportable segments and rig activity:

|  | Three Months Ended    |                       | Increase    |       | Nine Months Ended     |                       | Increase     |       |  |
|--|-----------------------|-----------------------|-------------|-------|-----------------------|-----------------------|--------------|-------|--|
|  | September 30,<br>2007 | September 30,<br>2006 | (Decrease)  |       | September 30,<br>2007 | September 30,<br>2006 | (Decrease)   |       |  |
| <b>thousands, except percentages and rig activity)</b> |                       |                       |             |       |                       |                       |              |       |  |
| Reportable segments:                                   |                       |                       |             |       |                       |                       |              |       |  |
| Operating revenues and                                 |                       |                       |             |       |                       |                       |              |       |  |
| earnings from  |                       |                       |             |       |                       |                       |              |       |  |
| consolidated   |                       |                       |             |       |                       |                       |              |       |  |
| subsidiaries from                                      |                       |                       |             |       |                       |                       |              |       |  |
| continuing   |                       |                       |             |       |                       |                       |              |       |  |
| operations:(1)   |                       |                       |             |       |                       |                       |              |       |  |
| Contract Drilling:(2)                                  |                       |                       |             |       |                       |                       |              |       |  |
| Lower 48 Land  |                       |                       |             |       |                       |                       |              |       |  |
| Drilling   | \$ 416,525            | \$ 498,173            | \$ (81,648) | (16)% | \$ 1,295,908          | \$ 1,393,310          | \$ (97,402)  | (7)%  |  |
| Land   |                       |                       |             |       |                       |                       |              |       |  |
| Well-servicing   | 180,370               | 188,650               | (8,280)     | (4)%  | 544,998               | 518,224               | 26,774       | 5%    |  |
| Offshore   | 48,895                | 56,219                | (7,324)     | (13)% | 164,986               | 162,299               | 2,687        | 2%    |  |
| Canada   | 30,854                | 24,098                | 6,756       | 28%   | 115,467               | 75,816                | 39,651       | 52%   |  |
| International  | 132,434               | 167,705               | (35,271)    | (21)% | 400,802               | 514,849               | (114,047)    | (22)% |  |
| Total Contract   | 296,219               | 195,445               | 100,774     | 52%   | 781,963               | 511,487               | 270,476      | 53%   |  |
| Drilling(3)  | 1,105,297             | 1,130,290             | (24,993)    | (2)%  | 3,304,124             | 3,175,985             | 128,139      | 4%    |  |
| Land and Gas(4)(5)                                     | 35,770                | 9,268                 | 26,502      | 286%  | 67,009                | 48,808                | 18,201       | 37%   |  |
| Well Servicing   | 163,397               | 120,539               | 42,858      | 36%   | 433,771               | 366,416               | 67,355       | 18%   |  |
| Other reconciling                                      | (51,476)              | (41,139)              | (10,337)    | (25)% | (165,342)             | (131,745)             | (33,597)     | (26)% |  |
| Total  | \$ 1,252,988          | \$ 1,218,958          | \$ 34,030   | 3%    | \$ 3,639,562          | \$ 3,459,464          | \$ 180,098   | 5%    |  |
| Adjusted income (loss)                                 |                       |                       |             |       |                       |                       |              |       |  |
| derived from operating                                 |                       |                       |             |       |                       |                       |              |       |  |
| activities from  |                       |                       |             |       |                       |                       |              |       |  |
| continuing   |                       |                       |             |       |                       |                       |              |       |  |
| operations:(1)(9)                                      |                       |                       |             |       |                       |                       |              |       |  |
| Contract Drilling:                                     |                       |                       |             |       |                       |                       |              |       |  |
| Lower 48 Land  |                       |                       |             |       |                       |                       |              |       |  |
| Drilling   | \$ 130,761            | \$ 219,485            | \$ (88,724) | (40)% | \$ 458,354            | \$ 611,912            | \$ (153,558) | (25)% |  |
| Land   |                       |                       |             |       |                       |                       |              |       |  |
| Well-servicing   | 42,291                | 54,495                | (12,204)    | (22)% | 125,752               | 148,000               | (22,248)     | (15)% |  |
| Offshore   | 9,245                 | 17,492                | (8,247)     | (47)% | 43,500                | 51,613                | (8,113)      | (16)% |  |
| Canada   | 4,214                 | 2,123                 | 2,091       | 98%   | 29,006                | 9,749                 | 19,257       | 198%  |  |
| International  | 16,920                | 42,549                | (25,629)    | (60)% | 62,056                | 145,524               | (83,468)     | (57)% |  |
| Total  | 88,574                | 58,145                | 30,429      | 52%   | 240,001               | 146,142               | 93,859       | 64%   |  |



|                     |            |            |              |        |            |              |              |       |
|---------------------|------------|------------|--------------|--------|------------|--------------|--------------|-------|
| total Contract      |            |            |              |        |            |              |              |       |
| ing(3)              | 292,005    | 394,289    | (102,284)    | (26)%  | 958,669    | 1,112,940    | (154,271)    | (14)  |
| and Gas             | 17,868     | (5,101)    | 22,969       | 450%   | 22,370     | 7,751        | 14,619       | 189   |
| er Operating        |            |            |              |        |            |              |              |       |
| ments               | 10,297     | 7,975      | 2,322        | 29%    | 28,630     | 24,345       | 4,285        | 18    |
| er reconciling      |            |            |              |        |            |              |              |       |
| s(10)               | (32,837)   | (28,921)   | (3,916)      | (14)%  | (101,777)  | (79,500)     | (22,277)     | (28)  |
| al                  | 287,333    | 368,242    | (80,909)     | (22)%  | 907,892    | 1,065,536    | (157,644)    | (15)  |
| rest expense        | (13,450)   | (13,744)   | 294          | 2%     | (40,235)   | (33,970)     | (6,265)      | (18)  |
| vestment (loss)     |            |            |              |        |            |              |              |       |
| ome                 | (27,466)   | 37,155     | (64,621)     | (174)% | (8,029)    | 67,753       | (75,782)     | (112) |
| ses on sales of     |            |            |              |        |            |              |              |       |
| g-lived assets,     |            |            |              |        |            |              |              |       |
| airment charges and |            |            |              |        |            |              |              |       |
| er income           |            |            |              |        |            |              |              |       |
| ense), net          | (30,524)   | (4,076)    | (26,448)     | (649)% | (4,775)    | (11,925)     | 7,150        | 60    |
| ome before income   |            |            |              |        |            |              |              |       |
| s from continuing   |            |            |              |        |            |              |              |       |
| rations             | \$ 215,893 | \$ 387,577 | \$ (171,684) | 44%    | \$ 854,853 | \$ 1,087,394 | \$ (232,541) | (21)  |
| activity:           |            |            |              |        |            |              |              |       |
| years: (11)         |            |            |              |        |            |              |              |       |
| . Lower 48 Land     |            |            |              |        |            |              |              |       |
| ing                 | 221.6      | 257.3      | (35.7)       | (14)%  | 231.0      | 255.3        | (24.3)       | (10)  |
| . Offshore          | 14.4       | 16.0       | (1.6)        | (10)%  | 16.4       | 16.3         | .1           | 1     |
| ska                 | 8.4        | 9.3        | (.9)         | (10)%  | 8.9        | 8.1          | .8           | 10    |
| ada                 | 37.0       | 52.9       | (15.9)       | (30)%  | 37.8       | 54.6         | (16.8)       | (31)  |
| ernational(12)      | 117.9      | 100.8      | 17.1         | 17%    | 115.6      | 93.5         | 22.1         | 24    |
| al rig years        | 399.3      | 436.3      | (37.0)       | (8)%   | 409.7      | 427.8        | (18.1)       | (4)   |
| hours: (13)         |            |            |              |        |            |              |              |       |
| . Land              |            |            |              |        |            |              |              |       |
| ll-servicing        | 274,084    | 322,445    | (48,361)     | (15)%  | 864,602    | 953,174      | (88,572)     | (9)   |
| ada Well-servicing  | 72,593     | 91,047     | (18,454)     | (20)%  | 211,794    | 273,919      | (62,125)     | (23)  |
| al rig hours        | 346,677    | 413,492    | (66,815)     | (16)%  | 1,076,396  | 1,227,093    | (150,697)    | (12)  |

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- (1) All segment 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 (loss), net from unconsolidated affiliates, accounted for by the equity method, of \$3.4 million and \$1.1 million for the three months ended September 30, 2007 and 2006, respectively, and \$5.9 million for the nine months ended September 30, 2007 and 2006, 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 (\$2.0) million and \$0 for the three months ended September 30, 2007 and 2006, respectively, and (\$2.8) million and \$0 for the nine months ended September 30, 2007 and 2006, respectively.
- (6) Includes our drilling technology and top drive manufacturing, directional drilling, rig instrumentation and software, and construction and logistics operations.
- (7) Includes earnings (loss), net from unconsolidated affiliates, accounted for by the equity method, of \$1.3 million and \$4.6 million for the three months ended September 30, 2007 and 2006, respectively, and \$15.5 million and \$13.6 million for the nine months ended September 30, 2007 and 2006, 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, 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 before income taxes, which is a GAAP measure, is provided within the table above.
- (10) Represents the elimination of inter-segment transactions and unallocated corporate expenses.
- (11) 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.
- (12) International rig years include our equivalent percentage ownership of rigs owned by unconsolidated affiliates which totaled 4.0 years during the three and nine months ended September 30, 2007 and 2006, respectively.
- (13) Rig hours represents the number of hours that our well-servicing rig fleet operated during the period.

**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.

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

|  | Three Months<br>Ended September 30, |            |             |       | Nine Months<br>Ended September 30, |              |              |       |
|--|-------------------------------------|------------|-------------|-------|------------------------------------|--------------|--------------|-------|
|  | 2007                                | 2006       | (Decrease)  |       | 2007                               | 2006         | (Decrease)   |       |
| <b>(In thousands, except percentages and rig activity)</b>     |                                     |            |             |       |                                    |              |              |       |
| Operating revenues and Earnings from unconsolidated affiliates | \$ 416,525                          | \$ 498,173 | \$ (81,648) | (16)% | \$ 1,295,908                       | \$ 1,393,310 | \$ (97,402)  | (7)%  |
| Adjusted income derived from operating activities              | \$ 130,761                          | \$ 219,485 | \$ (88,724) | (40)% | \$ 458,354                         | \$ 611,912   | \$ (153,558) | (25)% |
| Rig years  | 221.6                               | 257.3      | (35.7)      | (14)% | 231.0                              | 255.3        | (24.3)       | (10)% |

The decrease in operating results during the three and nine months ended September 30, 2007 as compared to prior year periods is a result of decreased drilling activity, driven by lower natural gas prices. Additionally, the decrease in operating results is due to increased drilling rig operating costs, including depreciation expense related to capital expansion projects.

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

|  | Three Months<br>Ended September 30, |            |             |       | Nine Months<br>Ended September 30, |            | Increase<br>(Decrease) |       |
|--|-------------------------------------|------------|-------------|-------|------------------------------------|------------|------------------------|-------|
|  | 2007                                | 2006       | (Decrease)  |       | 2007                               | 2006       |                        |       |
| <b>(In thousands, except percentages and rig activity)</b>     |                                     |            |             |       |                                    |            |                        |       |
| Operating revenues and Earnings from unconsolidated affiliates | \$ 180,370                          | \$ 188,650 | \$ (8,280)  | (4)%  | \$ 544,998                         | \$ 518,224 | \$ 26,774              | 5%    |
| Adjusted income derived from operating activities              | \$ 42,291                           | \$ 54,495  | \$ (12,204) | (22)% | \$ 125,752                         | \$ 148,000 | \$ (22,248)            | (15)% |
| Rig hours  | 274,084                             | 322,445    | (48,361)    | (15)% | 864,602                            | 953,174    | (88,572)               | (9)%  |

Operating revenues and Earnings from unconsolidated affiliates decreased during the three months ended September 30, 2007 as compared to the prior year period as a result of lower utilization for our daylight rigs caused by inclement weather restricting asset mobility in most markets. The decrease in adjusted income derived from operating activities during the three months ended September 30, 2007 over the prior year period reflect lower rig utilization as well as higher depreciation expense related to capital expansion projects.

Operating revenues and Earnings from unconsolidated affiliates increased during the nine months ended September 30, 2007 over the prior year period as a result of higher average dayrates, driven by the sustained level of high oil prices partially offset by lower rig utilization. The decrease in adjusted income derived from operating activities during the nine months ended September 30, 2007 over the prior year period reflects lower rig utilization, higher operating costs and higher depreciation expense as discussed above.

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

|  | <b>Three Months<br/>Ended<br/>September 30,</b> |             |                   |       | <b>Nine Months<br/>Ended September 30,</b> |             | <b>Increase<br/>(Decrease)</b> |       |
|--|---|-------------|-------------------|-------|--|-------------|--------------------------------|-------|
|  | <b>2007</b>                                     | <b>2006</b> | <b>(Decrease)</b> |       | <b>2007</b>                                | <b>2006</b> |                                |       |
| <b>(In thousands, except percentages and rig activity)</b>     |   |             |                   |       |  |             |                                |       |
| Operating revenues and Earnings from unconsolidated affiliates | \$ 48,895                                       | \$ 56,219   | \$ (7,324)        | (13)% | \$ 164,986                                 | \$ 162,299  | \$ 2,687                       | 2%    |
| Adjusted income derived from operating activities              | \$ 9,245  | \$ 17,492   | \$ (8,247)        | (47)% | \$ 43,500                                  | \$ 51,613   | \$ (8,113)                     | (16)% |
| Rig years  | 14.4  | 16.0        | (1.6)             | (10)% | 16.4                                       | 16.3        | .1                             | 1%    |

The decrease in operating results during the three months ended September 30, 2007 as compared to the prior year period 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 new rigs added to the fleet.

Operating revenues and Earnings from unconsolidated affiliates increased slightly for the nine months ended September 30, 2007 as compared to the prior year period as a result of increased utilization from platform workover drilling and barge rigs added to the fleet, offsetting the lower average dayrates and lower utilization of jack-up rigs. Adjusted income derived from operating activities decreased for the nine months ended September 30, 2007 as compared to the prior year period due to higher operating costs and increased depreciation expense relating to new rigs added to the fleet.

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

|  | <b>Three Months<br/>Ended September 30,</b> |             |                                | <b>Nine Months<br/>Ended September 30,</b> |             |                 |           |      |
|--|---|-------------|--------------------------------|--|-------------|-----------------|-----------|------|
|  | <b>2007</b>                                 | <b>2006</b> | <b>Increase<br/>(Decrease)</b> | <b>2007</b>                                | <b>2006</b> | <b>Increase</b> |           |      |
| <b>(In thousands, except percentages and rig activity)</b>     |   |             |                                |  |             |                 |           |      |
| Operating revenues and Earnings from unconsolidated affiliates | \$ 30,854                                   | \$ 24,098   | \$ 6,756                       | 28%  | \$ 115,467  | \$ 75,816       | \$ 39,651 | 52%  |
| Adjusted income derived from operating                         | \$ 4,214                                    | \$ 2,123    | \$ 2,091                       | 98%  | \$ 29,006   | \$ 9,749        | \$ 19,257 | 198% |

|            |     |     |      |       |     |     |    |     |
|------------|-----|-----|------|-------|-----|-----|----|-----|
| activities |     |     |      |       |     |     |    |     |
| Rig years  | 8.4 | 9.3 | (.9) | (10)% | 8.9 | 8.1 | .8 | 10% |

The increase in operating results during the three and nine months ended September 30, 2007 as compared to prior year periods is primarily due to increases in average dayrates, driven by the sustained level of high oil prices.

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

|  | <b>Three Months<br/>Ended September 30,</b> |             |                   |       | <b>Nine Months<br/>Ended September 30,</b> |             |                   |       |
|--|---|-------------|-------------------|-------|--|-------------|-------------------|-------|
|  | <b>2007</b>                                 | <b>2006</b> | <b>(Decrease)</b> |       | <b>2007</b>                                | <b>2006</b> | <b>(Decrease)</b> |       |
| <b>(In thousands, except percentages and rig activity)</b>     |   |             |                   |       |  |             |                   |       |
| Operating revenues and Earnings from unconsolidated affiliates | \$ 132,434                                  | \$ 167,705  | \$ (35,271)       | (21)% | \$ 400,802                                 | \$ 514,849  | \$ (114,047)      | (22)% |
| Adjusted income derived from operating activities              | \$ 16,920                                   | \$ 42,549   | \$ (25,629)       | (60)% | \$ 62,056                                  | \$ 145,524  | \$ (83,468)       | (57)% |
| Rig years  | 37.0  | 52.9        | (15.9)            | (30)% | 37.8                                       | 54.6        | (16.8)            | (31)% |
| Rig hours  | 72,593                                      | 91,047      | (18,454)          | (20)% | 211,794                                    | 273,919     | (62,125)          | (23)% |

The decrease in operating results during the three and nine months ended September 30, 2007 resulted primarily from lower average dayrates and an overall decrease in drilling and well-servicing activity compared to the prior year periods. These decreases were driven by lower natural gas prices, which resulted in lower demand for our services in this market. Operating results were further negatively impacted by increased operating expenses, including depreciation expense related to capital expansion projects. Canadian drilling activity is subject to substantial levels of seasonality, as activity levels typically peak in the first quarter, decline substantially in the second quarter and then generally increase over the last half of the year.

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

|  | <b>Three Months<br/>Ended September 30,</b> |             |                 |     | <b>Nine Months<br/>Ended September 30,</b> |             |                 |     |
|--|---|-------------|-----------------|-----|--|-------------|-----------------|-----|
|  | <b>2007</b>                                 | <b>2006</b> | <b>Increase</b> |     | <b>2007</b>                                | <b>2006</b> | <b>Increase</b> |     |
| <b>(In thousands, except percentages and rig activity)</b>     |   |             |                 |     |  |             |                 |     |
| Operating revenues and Earnings from unconsolidated affiliates | \$ 296,219                                  | \$ 195,445  | \$ 100,774      | 52% | \$ 781,963                                 | \$ 511,487  | \$ 270,476      | 53% |
| Adjusted income derived from operating activities              | \$ 88,574                                   | \$ 58,145   | \$ 30,429       | 52% | \$ 240,001                                 | \$ 146,142  | \$ 93,859       | 64% |
| Rig years  | 117.9                                       | 100.8       | 17.1            | 17% | 115.6                                      | 93.5        | 22.1            | 24% |

The increase in operating results during the three and nine months ended September 30, 2007 as compared to the prior year periods primarily resulted from higher average dayrates and an increase in drilling activities, driven by the



sustained level of high oil prices and from an expansion of the rig fleet and renewal of existing multi-year contracts at higher average dayrates.

**Table of Contents****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:

|  | <b>Three Months<br/>Ended September 30,</b> |             | <b>Increase</b> |      | <b>Nine Months<br/>Ended September 30,</b> |             | <b>Increase</b> |      |
|--|---|-------------|-----------------|------|--|-------------|-----------------|------|
|  | <b>2007</b>                                 | <b>2006</b> |                 |      | <b>2007</b>                                | <b>2006</b> |                 |      |
| <b>(In thousands, except percentages)</b>                      |   |             |                 |      |  |             |                 |      |
| Operating revenues and Earnings from unconsolidated affiliates | \$ 35,770                                   | \$ 9,268    | \$ 26,502       | 286% | \$ 67,009                                  | \$ 48,808   | \$ 18,201       | 37%  |
| Adjusted income derived from operating activities              | \$ 17,868                                   | \$ (5,101)  | \$ 22,969       | 450% | \$ 22,370                                  | \$ 7,751    | \$ 14,619       | 189% |

The increase in operating results during the three and nine months ended September 30, 2007 as compared to the prior year periods is primarily a result of the increase in income attributable to production payment contracts and a \$15 million gain recognized on the sale of property during the current quarter. Additionally, operating results were higher due to an increase in volumes and an increase in oil and natural gas liquid prices only partially offset by lower natural gas prices.

For the three months ended September 30, 2006, adjusted income derived from operating activities was a net loss as a result of lower production payment contracts and higher costs. Operating results during the nine months ended September 30, 2006 were positively impacted by a \$20.7 million gain recognized on the sale of certain leasehold interests in early 2006, partially offset by impairment charges in the first quarter of 2006 to certain oil and gas properties.

**Other Operating Segments**

These operations include 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:

|   | <b>Three Months<br/>Ended September 30,</b> |             | <b>Increase</b> |     | <b>Nine Months<br/>Ended September 30,</b> |             | <b>Increase</b> |     |
|---|---|-------------|-----------------|-----|--|-------------|-----------------|-----|
|   | <b>2007</b>                                 | <b>2006</b> |                 |     | <b>2007</b>                                | <b>2006</b> |                 |     |
| <b>(In thousands, except percentages)</b>           |   |             |                 |     |  |             |                 |     |
| Operating revenues and Earnings from unconsolidated | \$ 163,397                                  | \$ 120,539  | \$ 42,858       | 36% | \$ 433,771                                 | \$ 366,416  | \$ 67,355       | 18% |

|                |           |          |          |     |           |           |          |     |  |
|----------------|-----------|----------|----------|-----|-----------|-----------|----------|-----|--|
| affiliates     |           |          |          |     |           |           |          |     |  |
| Adjusted       |           |          |          |     |           |           |          |     |  |
| income derived |           |          |          |     |           |           |          |     |  |
| from operating |           |          |          |     |           |           |          |     |  |
| activities     | \$ 10,297 | \$ 7,975 | \$ 2,322 | 29% | \$ 28,630 | \$ 24,345 | \$ 4,285 | 18% |  |

The increase in our operating results during the three and nine months ended September 30, 2007 as compared to the prior year periods primarily resulted from (i) increased sales of top drives driven by the strengthened oil market and increased equipment sales from the acquisition of Pragma in the second quarter of 2006 and (ii) increased demand for the directional drilling market in the U.S. and increased market share in Canada. These increases were partially offset by a decreased demand for construction and logistics services.

**Table of Contents****Other Financial Information***General and administrative expenses*

|   | Three Months<br>Ended September 30, |           | Increase  |     | Nine Months<br>Ended September 30, |            | Increase  |     |
|---|-------------------------------------|-----------|-----------|-----|------------------------------------|------------|-----------|-----|
|   | 2007                                | 2006      |           |     | 2007                               | 2006       |           |     |
| <b>(In thousands, except percentages)</b>                                 |                                     |           |           |     |                                    |            |           |     |
| General and administrative expenses                                       | \$ 105,975                          | \$ 92,783 | \$ 13,192 | 14% | \$ 319,824                         | \$ 267,709 | \$ 52,115 | 19% |
| General and administrative expenses as a percentage of operating revenues | 8.5%                                | 7.6%      | .9%       | 12% | 8.8%                               | 7.8%       | 1.0%      | 13% |

General and administrative expenses increased during the three and nine months ended September 30, 2007 as compared to the prior year periods as a result of increases in wages and burden for a majority of our operating segments and Corporate, which primarily resulted from an increase in the number of employees. Additionally, during the three and nine months ended September 30, 2007, corporate compensation expense increased due to non-cash compensation expense recorded for restricted stock grants, partially offset by a decrease in stock option expense as a result of completion of the amortization of certain past awards.

*Depreciation and amortization, and depletion expense*

|   | Three Months<br>Ended September 30, |           | Increase  |     | Nine Months<br>Ended September 30, |            | Increase (Decrease) |      |
|---|-------------------------------------|-----------|-----------|-----|------------------------------------|------------|---------------------|------|
|   | 2007                                | 2006      |           |     | 2007                               | 2006       |                     |      |
| <b>(In thousands, except percentages)</b> |                                     |           |           |     |                                    |            |                     |      |
| Depreciation and amortization expense     | \$ 125,089                          | \$ 95,937 | \$ 29,152 | 30% | \$ 340,069                         | \$ 262,035 | \$ 78,034           | 30%  |
| Depletion expense                         | \$ 12,533                           | \$ 7,731  | \$ 4,802  | 62% | \$ 28,318                          | \$ 28,661  | \$ (343)            | (1)% |

*Depreciation and amortization expense.* Depreciation and amortization expense increased during the three and nine months ended September 30, 2007 compared to the prior year periods as a result of depreciation on capital expenditures for capital expansion projects made throughout 2006 and 2007.

*Depletion expense.* Depletion expense increased during the three months ended September 30, 2007 compared to the prior year period as a result of higher unit-of-production depletion from higher oil and gas volumes. Depletion expense decreased slightly during the nine months ended September 30, 2007 compared to the prior year period due to an impairment charge recorded during the first quarter of 2006 and is only partially offset by higher unit-of-production depletion from higher oil and gas production volumes from new wells coming on line in 2007.

*Interest expense*

|   | Three Months                |           | (Decrease) |      | Nine Months |           | Increase |     |
|---|-----------------------------|-----------|------------|------|-------------|-----------|----------|-----|
|   | Ended September 30,<br>2007 | 2006      |            |      | 2007        | 2006      |          |     |
| <b>(In thousands, except percentages)</b> |                             |           |            |      |             |           |          |     |
| Interest expense                          | \$ 13,450                   | \$ 13,744 | \$ (294)   | (2)% | \$ 40,235   | \$ 33,970 | \$ 6,265 | 18% |

Interest expense increased during the nine months ended September 30, 2007 compared to the prior year period primarily 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.

**Table of Contents*****Investment (loss) income***

|   | Three Months<br>Ended September 30, |           | (Decrease)  | Nine Months<br>Ended September 30, |            | (Decrease) |             |        |
|---|-------------------------------------|-----------|-------------|------------------------------------|------------|------------|-------------|--------|
|   | 2007                                | 2006      |             | 2007                               | 2006       |            |             |        |
| <b>(In thousands, except percentages)</b> |                                     |           |             |                                    |            |            |             |        |
| Investment<br>(loss)<br>income            | \$ (27,466)                         | \$ 37,155 | \$ (64,621) | (174)%                             | \$ (8,029) | \$ 67,753  | \$ (75,782) | (112)% |

Investment income for the three months ended September 30, 2007 was a net loss of \$27.5 million compared to income of \$37.2 million during the prior year quarter. The loss during the current quarter reflected a net loss of \$37.7 million from the portion of our investment portfolio that is comprised of our actively managed funds that are classified as long-term investments. Investment income for the nine months ended September 30, 2007 was a net loss of \$8.0 million compared to income of \$67.8 million during the prior year period. The loss for the nine months ended September 30, 2007 included a net loss of \$40.7 million from our long-term investments described above inclusive of substantial gains recorded in the second quarter of 2007 from sales of short-term investments of marketable equity securities.

***Losses (gains) on sales of long-lived assets, impairment charges and other income (expense), net***

|  | Three Months<br>Ended September 30, |          | Increase  | Nine Months<br>Ended September 30, |          | (Decrease) |            |       |
|--|-------------------------------------|----------|-----------|------------------------------------|----------|------------|------------|-------|
|  | 2007                                | 2006     |           | 2007                               | 2006     |            |            |       |
| <b>(In thousands, except percentages)</b>  |                                     |          |           |                                    |          |            |            |       |
| Losses (gains) on<br>sales of<br>long-lived assets,<br>impairment<br>charges and other<br>income<br>(expense), net | \$ 30,524                           | \$ 4,076 | \$ 26,448 | 649%                               | \$ 4,775 | \$ 11,925  | \$ (7,150) | (60)% |

The amount of losses (gains) on sales of long-lived assets, impairment charges and other income (expense), net for the three months ended September 30, 2007 include impairment charges on long-lived assets of approximately \$29 million of which \$20.6 million relate to certain rig components in our U.S. Lower 48 Land Drilling operating segment. For the nine months ended September 30, 2007, net losses on sales and impairment charges on long-lived assets of approximately \$37.3 million and increases to litigation reserves of \$8.0 million were partially offset by the \$38 million gain on the sale of three accommodation jackups 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 the three and nine months ended September 30, 2006, included losses on long-lived assets of approximately \$1.2 million and \$9.3 million, respectively.

***Income tax rate***

|  | <b>Three Months</b>  |             |             |                   | <b>Nine Months</b>   |             |             |                   |
|--|----------------------|-------------|-------------|-------------------|----------------------|-------------|-------------|-------------------|
|  | <b>Ended</b>         |             |             |                   | <b>Ended</b>         |             |             |                   |
|  | <b>September 30,</b> | <b>2007</b> | <b>2006</b> | <b>(Decrease)</b> | <b>September 30,</b> | <b>2007</b> | <b>2006</b> | <b>(Decrease)</b> |
| <b>(In thousands, except percentages)</b>            |                      |             |             |                   |                      |             |             |                   |
| Effective income tax rate from continuing operations | 9.3%                 | 26.5%       | (17.2)%     | (65)%             | 21.2%                | 30.1%       | (8.9)%      | (29.6)%           |

The substantial decrease in our effective income tax rate in the current quarter is a direct result of the release of certain tax reserves in the amount of \$38.6 million. The effective tax rate is also being reduced as a result of a decrease in the proportion of income generated in the U.S. versus the international jurisdictions in which we operate during the three and nine months ended September 30, 2007 compared to the prior year periods. Income generated in the U.S. is generally taxed at a higher rate than in the international jurisdictions in which we operate. Additionally, during the three months ended June 30, 2006, we recorded a \$36.2 million current tax expense relating to the redemption of common shares held by a foreign parent of a U.S. based Nabors subsidiary. This income tax expense was partially offset by an approximate \$20.5 million deferred tax benefit recorded as a result of

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changes in Canadian laws that incrementally reduce statutory tax rates for both federal and provincial taxes over the next three years.

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 reserves 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 2007 to be in the 22-24% range. We are subject to income taxes in 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.

### ***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 unaudited consolidated statements of income, including a gain, net of tax of \$19.6 million recorded in the current quarter.

## **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 nine months ended September 30, 2007 and 2006.

*Operating Activities.* Net cash provided by operating activities totaled \$858.1 million during the nine months ended September 30, 2007, compared to net cash provided by operating activities of \$1.04 billion during the prior year period. During the nine months ended September 30, 2007 and 2006, net income was increased for non-cash items such as depreciation and amortization, and depletion, and was reduced for changes in our working capital and other balance sheet accounts as well as the gain of \$49.5 million recognized on the sale of our Sea Mar business.

*Investing Activities.* Net cash used for investing activities totaled \$925.2 million during the nine months ended September 30, 2007, compared to net cash used for investing activities of \$1.67 billion during the prior year period.



During the nine months ended September 30, 2007, cash was used for capital expenditures totaling \$1.48 billion. During the nine months ended September 30, 2007, cash was provided by sales of investments, net of purchases, totaling \$264.5 million, proceeds from sales of assets and insurance claims totaled \$135.5 million primarily from the sale of three accommodation jackups, and proceeds totaling \$194.3 million from the sale of our Sea Mar business. During the nine months ended September 30, 2006, cash was used for capital expenditures totaling \$1.34 billion and purchases, net of sales, of investments totaling \$288.3 million.

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*Financing Activities.* Net cash provided by financing activities totaled \$53.3 million during the nine months ended September 30, 2007, compared to net cash provided by financing activities of \$426.9 million during the prior year period. During the nine months ended September 30, 2007, cash was provided by our receipt of proceeds totaling \$60.4 million from the exercise of options to acquire our common shares by our employees. During the nine months ended September 30, 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 and by approximately \$421.2 million from the sale of warrants. During this same period, 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 \$1.37 billion.

***Future Cash Requirements***

As of September 30, 2007, we had long-term debt, including current maturities, of approximately \$4.0 billion and cash and cash equivalents and investments of approximately \$1.3 billion, including \$383.3 million of long-term investments and \$43.6 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 October.

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 for 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.

As of September 30, 2007, we had outstanding purchase commitments of approximately \$373.9 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 \$.8 - 1.0 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 will result in an expansion in the number of drilling and well-servicing rigs that we own and operate and will consist primarily of land drilling and well-servicing rigs.

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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 common shares. Such capital expenditures and acquisitions will depend on our view of market conditions and other factors.

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. For the nine months ended September 30, 2007, there were no repurchases of our common stock relating to this program. As of September 30, 2007, we had \$406.3 million of shares that still may be purchased under this share repurchase program.

In connection with the adoption of FIN 48 on January 1, 2007, we have recorded an increase of \$45 million to our reserve for uncertain tax positions. As of September 30, 2007, the Company had approximately \$74.1 million of unrecognized tax benefits recorded as other long-term liabilities. Other than the impact of the adoption of FIN 48, there have been no significant changes to our contractual cash obligations table which was included in our Annual Report on Form 10-K for the year ended December 31, 2006. As a result, it is reasonably possible that the amount of the unrecognized benefits with respect to certain of our unrecognized tax positions will significantly increase or decrease within the next 12 months. Because of the difficulty in making reasonably reliable estimates of the timing of cash settlements to taxing authorities, our contractual cash obligations table is not updated herein.

See Note 7 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 September 30, 2007, we had cash and cash equivalents and investments of \$1.3 billion (including \$383.3 million of long-term investments and \$43.6 million in cash proceeds receivable from the sale of certain non-marketable securities that is included in other current assets) and working capital of \$988.9 million. The cash proceeds were received during October. 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 0.45:1 as of September 30, 2007 and 0.50:1 as of December 31, 2006. Our net funded debt to capital ratio was 0.35:1 as of September 30, 2007 and 0.37:1 as of December 31, 2006. 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 was 32.2:1 as of September 30, 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.

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We have four letter of credit facilities with various banks as of September 30, 2007. Availability and borrowings under our credit facilities as of September 30, 2007 are as follows:

**(In thousands)**

|                               |            |
|-------------------------------|------------|
| Credit available              | \$ 211,165 |
| Letters of credit outstanding | 158,629    |
| Remaining availability        | \$ 52,536  |

On October 3, 2007, we and one of our joint venture partners sold certain oil and gas holdings, included in our Oil and Gas operating segment, to an unrelated party and received net proceeds of approximately \$297.5 million.

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, short-term and long-term 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 period 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 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 October 26, 2007, the market price for our shares closed at \$27.56. If the market price threshold of \$59.57 or \$42.06 was exceeded and the notes were exchanged or if the holders of the \$700 million 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 we have the ability to access capital markets or otherwise obtain financing in order to satisfy any payment obligations that might arise upon exchange or purchase 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 AL, A-, A3, A-, A-, respectively, and our historical ability to access those markets as needed.

See our discussion of the impact of changes in market conditions on our derivative financial instruments discussed under *Item 3. Quantitative and Qualitative Disclosures About Market Risk* below.

**Other Matters*****Critical Accounting Estimates***

We disclosed our critical accounting estimates in our Annual Report on Form 10-K for the year ended December 31, 2006. No significant changes have occurred to those policies except for our adoption of FIN 48 effective January 1, 2007. FIN 48 prescribes a comprehensive model for how a company should recognize, measure, present and disclose in its financial statements uncertain tax positions that the company has taken or expects to take on a tax return. Under FIN 48, the financial statements reflect the expected future tax consequences of such positions presuming the taxing authorities' full knowledge of the position and relevant facts, but without considering time values. For a discussion of the impact of our adoption of FIN 48, see Note 5 to our accompanying unaudited financial statements.

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**Item 3. *Quantitative and Qualitative Disclosures About Market Risk***

We may be exposed to market risk through changes in interest rates and foreign currency risk arising from our operations in international markets as discussed in our Annual Report on Form 10-K for the year ended December 31, 2006. There have been no material changes in our exposure to market risk from that disclosed in our Annual Report on Form 10-K for the year ended December 31, 2006.

**Item 4. *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 has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

**PART II OTHER INFORMATION**

**Item 1. *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.

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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 alleges that stock options were priced retroactively and were improperly accounted for, and alleges various causes of action based on that assertion. The complaint seeks, 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 makes substantially the same allegations against the same defendants and seeks the same elements of damages. The two derivative actions have been consolidated into one proceeding. The ultimate outcome of this matter cannot be determined at this time.

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. We are reviewing certain transactions with this vendor, which provides freight forwarding and customs clearance services, and intend to cooperate 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, in consideration of which, 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 1A. Risk Factors**

***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 market 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.

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**Item 6. Exhibits**

- 15 Awareness Letter of Independent Accountants.
- 31.1 Certification of Chairman and Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of Vice President and Chief Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification of Chairman and Chief Executive Officer, and Vice President and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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**SIGNATURES**

Pursuant to the requirements 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.

Date: October 31, 2007 /s/ Eugene M. Isenberg  
Eugene M. Isenberg  
Chairman and Chief Executive Officer

Date: October 31, 2007 /s/ Bruce P. Koch  
Bruce P. Koch  
Vice President and Chief Financial Officer  
(Principal Financial and Accounting Officer)

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**Index to Exhibits**

- 15 Awareness Letter of Independent Accountants.
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