

NABORS INDUSTRIES LTD

Form 10-Q

August 01, 2008

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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 June 30, 2008**

**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, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐ Smaller reporting company ☐

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 July 25, 2008 was 280,153,619. In addition, our subsidiary, Nabors Exchangeco (Canada) Inc., had 105,322 exchangeable shares outstanding as of July 25, 2008 that are exchangeable for Nabors common shares on a one-for-one basis, and have essentially identical rights as Nabors Industries Ltd. common shares, including but not limited to voting rights and the right to receive dividends, if any.

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**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>June 30,<br/>2008</b> | <b>December 31,<br/>2007</b> |
|-------------------------------------------------|--------------------------|------------------------------|
| <b>ASSETS</b>                                   |                          |                              |
| Current assets:                                 |                          |                              |
| Cash and cash equivalents                       | \$ 903,821               | \$ 531,306                   |
| Short-term investments                          | 332,726                  | 235,745                      |
| Accounts receivable, net                        | 1,083,748                | 1,039,238                    |
| Inventory                                       | 128,893                  | 133,786                      |
| Deferred income taxes                           | 16,687                   | 12,757                       |
| Other current assets                            | 264,471                  | 252,280                      |
| Total current assets                            | 2,730,346                | 2,205,112                    |
| Long-term investments and other receivables     | 239,866                  | 359,534                      |
| Property, plant and equipment, net              | 7,020,941                | 6,632,612                    |
| Goodwill                                        | 363,158                  | 368,432                      |
| Other long-term assets                          | 550,333                  | 537,692                      |
| Total assets                                    | \$ 10,904,644            | \$ 10,103,382                |

**LIABILITIES AND SHAREHOLDERS EQUITY**

|                                   |            |            |
|-----------------------------------|------------|------------|
| Current liabilities:              |            |            |
| Current portion of long-term debt | \$ 588,847 | \$ 700,000 |
| Trade accounts payable            | 317,802    | 348,524    |
| Accrued liabilities               | 324,027    | 348,515    |
| Income taxes payable              | 135,004    | 97,093     |
| Total current liabilities         | 1,365,680  | 1,494,132  |
| Long-term debt                    | 3,822,285  | 3,306,433  |
| Other long-term liabilities       | 270,060    | 246,714    |
| Deferred income taxes             | 512,960    | 541,982    |
| Total liabilities                 | 5,970,985  | 5,589,261  |

Commitments and contingencies (Note 8)

Shareholders equity:

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|                                                                               |               |               |
|-------------------------------------------------------------------------------|---------------|---------------|
| Common shares, par value \$.001 per share:                                    |               |               |
| Authorized common shares 800,000; issued 309,396 and 305,458, respectively    | 309           | 305           |
| Capital in excess of par value                                                | 1,761,594     | 1,710,036     |
| Accumulated other comprehensive income                                        | 399,712       | 322,635       |
| Retained earnings                                                             | 3,783,947     | 3,359,080     |
| Less: treasury shares, at cost, 29,304 and 26,122 common shares, respectively | (1,011,903)   | (877,935)     |
| Total shareholders' equity                                                    | 4,933,659     | 4,514,121     |
| Total liabilities and shareholders' equity                                    | \$ 10,904,644 | \$ 10,103,382 |

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/>June 30,</b> |              | <b>Six Months Ended<br/>June 30,</b> |              |
|--------------------------------------------------------------------------------------------------------|----------------------------------------|--------------|--------------------------------------|--------------|
|                                                                                                        | <b>2008</b>                            | <b>2007</b>  | <b>2008</b>                          | <b>2007</b>  |
| Revenues and other income:                                                                             |                                        |              |                                      |              |
| Operating revenues                                                                                     | \$ 1,282,400                           | \$ 1,134,684 | \$ 2,582,258                         | \$ 2,370,697 |
| Earnings (losses) from unconsolidated affiliates                                                       | (4,033)                                | 3,436        | (8,484)                              | 15,877       |
| Investment income (loss)                                                                               | 25,057                                 | (9,272)      | 51,239                               | 19,437       |
| Total revenues and other income                                                                        | 1,303,424                              | 1,128,848    | 2,625,013                            | 2,406,011    |
| Costs and other deductions:                                                                            |                                        |              |                                      |              |
| Direct costs                                                                                           | 740,178                                | 637,104      | 1,487,948                            | 1,321,401    |
| General and administrative expenses                                                                    | 116,914                                | 99,952       | 228,235                              | 213,849      |
| Depreciation and amortization                                                                          | 148,023                                | 111,372      | 283,501                              | 214,980      |
| Depletion                                                                                              | 7,343                                  | 9,160        | 21,028                               | 15,785       |
| Interest expense                                                                                       | 21,676                                 | 13,733       | 39,785                               | 26,785       |
| Losses (gains) on sales of long-lived assets,<br>impairment charges and other expense (income),<br>net | 3,158                                  | (39,634)     | 11,255                               | (25,749)     |
| Total costs and other deductions                                                                       | 1,037,292                              | 831,687      | 2,071,752                            | 1,767,051    |
| Income from continuing operations before income<br>taxes                                               | 266,132                                | 297,161      | 553,261                              | 638,960      |
| Income tax (benefit) expense:                                                                          |                                        |              |                                      |              |
| Current                                                                                                | 39,759                                 | 53,973       | 139,052                              | 159,827      |
| Deferred                                                                                               | 32,012                                 | 22,326       | (10,658)                             | 1,381        |
| Total income tax expense                                                                               | 71,771                                 | 76,299       | 128,394                              | 161,208      |
| Income from continuing operations, net of tax                                                          | 194,361                                | 220,862      | 424,867                              | 477,752      |
| Income from discontinued operations, net of tax                                                        |                                        | 7,487        |                                      | 12,759       |
| Net income                                                                                             | \$ 194,361                             | \$ 228,349   | \$ 424,867                           | \$ 490,511   |
| Earnings per share:                                                                                    |                                        |              |                                      |              |
| Basic from continuing operations                                                                       | \$ .70                                 | \$ .79       | \$ 1.53                              | \$ 1.72      |
| Basic from discontinued operations                                                                     |                                        | .03          |                                      | .04          |
| Total Basic                                                                                            | \$ .70                                 | \$ .82       | \$ 1.53                              | \$ 1.76      |

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|                                                       |    |         |    |         |    |         |    |         |
|-------------------------------------------------------|----|---------|----|---------|----|---------|----|---------|
| Diluted from continuing operations                    | \$ | .67     | \$ | .77     | \$ | 1.48    | \$ | 1.67    |
| Diluted from discontinued operations                  |    |         |    | .02     |    |         |    | .04     |
| Total Diluted                                         | \$ | .67     | \$ | .79     | \$ | 1.48    | \$ | 1.71    |
| Weighted-average number of common shares outstanding: |    |         |    |         |    |         |    |         |
| Basic                                                 |    | 277,719 |    | 279,253 |    | 277,651 |    | 278,098 |
| Diluted                                               |    | 291,454 |    | 287,898 |    | 287,407 |    | 286,356 |

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>Six Months Ended June 30,</b> |             |
|--------------------------------------------------------------------------------|----------------------------------|-------------|
|                                                                                | <b>2008</b>                      | <b>2007</b> |
| Cash flows from operating activities:                                          |                                  |             |
| Net income                                                                     | \$ 424,867                       | \$ 490,511  |
| Adjustments to net income:                                                     |                                  |             |
| Depreciation and amortization                                                  | 283,501                          | 218,216     |
| Depletion                                                                      | 21,028                           | 15,785      |
| Deferred income tax (benefit) expense                                          | (10,658)                         | 780         |
| Deferred financing costs amortization                                          | 4,356                            | 4,176       |
| Pension liability amortization and adjustments                                 | 142                              | 240         |
| Discount amortization on long-term debt                                        | 1,009                            | 974         |
| Amortization of loss on hedges                                                 | 263                              | 276         |
| Losses (gains) on long-lived assets, net                                       | 10,407                           | (29,547)    |
| Losses (gains) on investments, net                                             | (28,203)                         | 2,665       |
| Losses (gains) on derivative instruments                                       | (157)                            | (979)       |
| Share-based compensation                                                       | 19,904                           | 16,285      |
| Foreign currency transaction gains, net                                        | (725)                            | (3,290)     |
| Equity in losses (earnings) of unconsolidated affiliates, net of dividends     | 15,232                           | (4,291)     |
| Changes in operating assets and liabilities, net of effects from acquisitions: |                                  |             |
| Accounts receivable                                                            | (59,492)                         | 88,267      |
| Inventory                                                                      | 6,152                            | (24,213)    |
| Other current assets                                                           | (43,555)                         | (56,644)    |
| Other long-term assets                                                         | (14,020)                         | (127,262)   |
| Trade accounts payable and accrued liabilities                                 | (55,954)                         | 37,710      |
| Income taxes payable                                                           | 38,961                           | (24,811)    |
| Other long-term liabilities                                                    | 10,472                           | 50,537      |
| Net cash provided by operating activities                                      | 623,530                          | 655,385     |
| Cash flows from investing activities:                                          |                                  |             |
| Purchases of investments                                                       | (190,509)                        | (203,222)   |
| Sales and maturities of investments                                            | 399,669                          | 366,239     |
| Cash paid for acquisitions of businesses, net                                  |                                  | (8,391)     |
| Investment in unconsolidated affiliates                                        | (47,452)                         | (8,433)     |
| Capital expenditures                                                           | (743,360)                        | (1,095,496) |
| Proceeds from sales of assets and insurance claims                             | 16,998                           | 119,447     |
| Net cash used for investing activities                                         | (564,654)                        | (829,856)   |
| Cash flows from financing activities:                                          |                                  |             |
| Increase in cash overdrafts                                                    | 15,771                           | 12,042      |
| Proceeds from long-term debt                                                   | 575,219                          |             |

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|                                                              |            |            |
|--------------------------------------------------------------|------------|------------|
| Debt issuance costs                                          | (4,460)    |            |
| Proceeds from issuance of common shares                      | 53,587     | 67,824     |
| Reduction in long-term debt                                  | (171,788)  |            |
| Repurchase of common shares                                  | (150,114)  |            |
| Purchase of restricted stock                                 | (11,667)   | (1,811)    |
| Tax benefit related to the exercise of stock options         | 4,771      | 784        |
| Net cash provided by financing activities                    | 311,319    | 78,839     |
| Effect of exchange rate changes on cash and cash equivalents | 2,320      | 3,822      |
| Net increase (decrease) in cash and cash equivalents         | 372,515    | (91,810)   |
| Cash and cash equivalents, beginning of period               | 531,306    | 700,549    |
| Cash and cash equivalents, end of period                     | \$ 903,821 | \$ 608,739 |

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



|                |         |        |              |            |            |            |              |                |      |           |
|----------------|---------|--------|--------------|------------|------------|------------|--------------|----------------|------|-----------|
| of 3,650       |         |        |              |            |            |            |              |                |      |           |
| ares           |         |        |              |            |            |            |              |                |      | (150,114) |
| of exercised   |         |        |              |            |            |            |              |                |      |           |
| n deductions   |         |        |              |            |            |            |              |                |      | 5,884     |
| stock awards,  |         |        |              |            |            |            |              |                |      |           |
|                | 1,583   | 2      |              | (11,669)   |            |            |              |                |      |           |
| d compensation |         |        |              | 19,904     |            |            |              |                |      |           |
|                | 3,938   | 4      |              | 51,558     |            |            |              |                |      | (133,968) |
| June 30, 2008  | 309,396 | \$ 309 | \$ 1,761,594 | \$ 106,748 | \$ 294,693 | \$ (1,729) | \$ 3,783,947 | \$ (1,011,903) | \$ 4 |           |

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

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IN SHAREHOLDERS' EQUITY (Continued)  
(Unaudited)**

|                           |               |        |              | Accumulated Other<br>Comprehensive Income (Loss) |             |            |              |              |              |
|---------------------------|---------------|--------|--------------|--------------------------------------------------|-------------|------------|--------------|--------------|--------------|
|                           |               |        |              | Unrealized                                       | Cumulative  |            | Retained     | Treasury     | T            |
|                           |               |        |              | Gains                                            | Translation |            | Earnings     | Shares       | Share        |
|                           |               |        |              | (Losses)                                         |             |            |              |              |              |
|                           | Common Shares | Par    | Capital in   | on                                               | Adjustment  | Other      |              |              |              |
| (Dollars in millions)     | Shares        | Value  | Excess of    | Marketable                                       |             |            |              |              |              |
|                           |               |        | Par Value    | Securities                                       |             |            |              |              |              |
| December 31,              | 299,333       | \$ 299 | \$ 1,637,204 | \$ 33,400                                        | \$ 171,160  | \$ (3,299) | \$ 2,473,373 | \$ (775,484) | \$ 3,726,153 |
| Comprehensive income      |               |        |              |                                                  |             |            |              |              |              |
| Net income                |               |        |              |                                                  |             |            | 490,511      |              |              |
| Translation adjustment    |               |        |              |                                                  | 89,780      |            |              |              |              |
| Unrealized gains on       |               |        |              |                                                  |             |            |              |              |              |
| Available securities, net |               |        |              |                                                  |             |            |              |              |              |
| of taxes of \$452         |               |        |              | 13,476                                           |             |            |              |              |              |
| Classification            |               |        |              |                                                  |             |            |              |              |              |
| Adjustment for gains      |               |        |              |                                                  |             |            |              |              |              |
| on net income, net        |               |        |              |                                                  |             |            |              |              |              |
| of tax benefit of         |               |        |              | (47,048)                                         |             |            |              |              |              |
| Availability              |               |        |              |                                                  |             |            |              |              |              |
| ation, net of income      |               |        |              |                                                  |             |            |              |              |              |
| 89                        |               |        |              |                                                  |             | 151        |              |              |              |
| ation of loss on          |               |        |              |                                                  |             |            |              |              |              |
| hedges                    |               |        |              |                                                  |             | 75         |              |              |              |
| Comprehensive             |               |        |              |                                                  |             |            |              |              |              |
| loss)                     |               |        |              | (33,572)                                         | 89,780      | 226        | 490,511      |              |              |
| Net effect of             |               |        |              |                                                  |             |            |              |              |              |
| of FIN 48                 |               |        |              |                                                  |             |            |              |              |              |
| January 1, 2007           |               |        |              |                                                  |             |            | (44,984)     |              |              |
| of common shares          |               |        |              |                                                  |             |            |              |              |              |
| options exercised         | 2,982         | 3      | 67,821       |                                                  |             |            |              |              |              |
| exchangeable shares       |               |        |              |                                                  |             |            |              |              |              |
| and                       | 36            |        |              |                                                  |             |            |              |              |              |
|                           |               |        | 1,703        |                                                  |             |            |              |              |              |

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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 548 actively marketed land drilling rigs. We conduct oil, gas and geothermal land drilling operations in the U.S. Lower 48 states, Alaska, Canada, South America, Mexico, the Caribbean, the Middle East, the Far East, Russia and Africa. We are also one of the largest land well-servicing and workover contractors in the United States and Canada. We actively market approximately 577 land workover and well-servicing rigs in the United States, primarily in the southwestern and western United States, and actively market approximately 172 land workover and well-servicing rigs in Canada. Nabors is a leading provider of offshore platform workover and drilling rigs, and actively markets 36 platform rigs, 13 jack-up units and 4 barge rigs in the United States and multiple international markets. These rigs provide well-servicing, workover and drilling services. We have a 51% ownership interest in a joint venture in Saudi Arabia, which owns and actively markets 9 rigs in addition to the rigs we lease to the joint venture. We also offer a wide range of ancillary well-site services, including engineering, transportation, construction, maintenance, well logging, directional drilling, rig instrumentation, data collection and other support services in selected domestic and international markets. We provide logistics services for onshore drilling in Canada using helicopters and fixed-winged aircraft. We manufacture and lease or sell top drives for a broad range of drilling applications, directional drilling systems, rig instrumentation and data collection equipment, pipeline handling equipment and rig reporting software. We also invest in oil and gas exploration, development and production activities and have 49% ownership interests in joint ventures in the U.S., Canada and International areas.

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

During the third quarter of 2007 we sold our Sea Mar business to an unrelated third party. Accordingly, the accompanying consolidated statements of income, and certain accompanying notes to the consolidated financial statements, have been updated to retroactively reclassify the operating results of this Sea Mar business, previously included in Other Operating Segments, as a discontinued operation for all periods presented. See Note 11 Discontinued Operation for additional discussion.

As used in the 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, 2007. In our management's opinion, the consolidated financial statements contain all adjustments necessary to present fairly our financial position as of June 30, 2008 and the results of our operations for the three and six months ended June 30, 2008 and 2007, and our cash flows for the six months ended June 30, 2008 and 2007, in accordance with GAAP. Interim results for the three and six months ended June 30, 2008 may not be indicative of results that will be realized for the full year ending December 31, 2008.

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**NABORS INDUSTRIES LTD. AND SUBSIDIARIES**

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

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 Accounting Oversight Board ( PCAOB ). 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 and 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 ). Our consolidated financial statements exclude majority-owned entities for which we do not have either (1) the ability to control the operating and financial decisions and policies of that entity or (2) a controlling financial interest in a variable interest entity ( VIE ). All significant intercompany accounts and transactions are eliminated in consolidation.

Investments in operating entities where we have the ability to exert significant influence, but where we do not control their operating and financial policies, are accounted for using the equity method. Our share of the net income of these entities is recorded as Earnings from unconsolidated affiliates in our consolidated statements of income, and our investment in these entities is included in other long-term assets as a single amount in our consolidated balance sheets. Investments in net assets of unconsolidated affiliates accounted for using the equity method totaled \$415.5 million and \$383.4 million as of June 30, 2008 and December 31, 2007, respectively. Similarly, investments in certain offshore funds classified as non-marketable are accounted for using the equity method of accounting based on our ownership interest in each fund. Our share of the gains and losses of these funds is recorded in investment income in our consolidated statements of income, and our investments in these funds are included in long-term investments in our consolidated balance sheets.

***Recent Accounting Pronouncements***

In September 2006 the FASB issued SFAS No. 157, Fair Value Measurements. This statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements for financial assets and liabilities, as well as for any other assets and liabilities that are carried at fair value on a recurring basis in financial statements. SFAS No. 157 is effective with respect to financial assets and liabilities for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. SFAS No. 157 applies prospectively to financial assets and liabilities. There is a one-year deferral for the implementation of SFAS No. 157 for nonfinancial assets and liabilities measured on a nonrecurring basis. Effective January 1, 2008, we adopted the provisions of SFAS No. 157 relating to financial assets and liabilities. The new disclosures regarding the level of pricing observability associated with financial instruments carried at fair value is provided in Note 3 to the accompanying unaudited consolidated financial statements. The adoption of SFAS No. 157 with respect to financial assets and liabilities did not have a material financial impact on our consolidated results of operations or financial condition. We are currently evaluating the impact of implementation with respect to nonfinancial assets and liabilities measured on a nonrecurring basis on our consolidated financial statements, which will be primarily limited to asset impairments including goodwill, intangible assets and other long-lived assets, assets acquired and liabilities assumed in a business combination and asset retirement obligations.

In February 2007 the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115. This statement permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value and establishes presentation and disclosure requirements designed to facilitate comparisons between entities that choose different measurement attributes for similar types of assets and liabilities. SFAS No. 159

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**NABORS INDUSTRIES LTD. AND SUBSIDIARIES**

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

is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007, provided the entity also elects to apply the provisions of SFAS No. 157. The adoption of SFAS No. 159 did not have a material impact on our consolidated results of operations or financial condition as we have not elected to apply the provisions to our financial instruments or other eligible items that are not required to be measured at fair value.

In March 2008 the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities, an Amendment to FASB Statement No. 133 ( SFAS No. 161 ). This statement is intended to improve financial reporting about derivative instruments and hedging activities by requiring enhanced qualitative and quantitative disclosures regarding derivative instruments, gains and losses on such instruments and their effects on an entity's financial position, financial performance and cash flows. SFAS No. 161 is effective for financial statements issued for fiscal years beginning after November 15, 2008, and interim periods within those fiscal years. We are currently evaluating the impact that this pronouncement may have on our consolidated financial statements.

In May 2008 the FASB issued Staff Position ( FSP ) APB No. 14-1, Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement) . The FSP clarifies that convertible debt instruments that may be settled in cash upon conversion (including partial cash settlement) are not addressed by paragraph 12 of APB Opinion No. 14, Accounting for Convertible Debt and Debt Issued with Stock Purchase Warrants . The FSP requires that convertible debt instruments be accounted for with a liability component based on the fair value of a similar nonconvertible debt instrument and an equity component based on the excess of the initial proceeds from the convertible debt instrument over the liability component. Such excess represents a debt discount which is then amortized as additional non-cash interest expense over the convertible debt instrument's expected life. The FSP will be effective for Nabors' financial statements issued for fiscal years and interim periods beginning after December 15, 2008, and will be applied retrospectively to all convertible debt instruments within its scope that are outstanding for any period presented in such financial statements. We intend to adopt the FSP on January 1, 2009 on a retrospective basis and apply it to our applicable convertible debt instruments. Although we are currently evaluating the impact that this FSP will have on our consolidated financial statements, we believe that the retrospective application of the FSP will have a significant effect in reducing reported net income and diluted earnings per share for the years ended December 31, 2007 and 2008. In addition, we believe net income and diluted earnings per share is expected to be materially reduced in future years in which our \$2.75 billion senior exchangeable notes due May 2011 are included in our consolidated financial statements. After adopting this FSP, we currently estimate that we will record additional non-cash interest expense, net of capitalized interest, which will reduce our pre-tax income by approximately \$100-110 million and reduce net income by approximately \$60-70 million for the year ended December 31, 2009.

**Note 3 Financial Instruments**

Effective January 1, 2008, we adopted the provisions of SFAS No. 157, Fair Value Measurements , which among other things, requires enhanced disclosures about assets and liabilities carried at fair value.

As defined in SFAS No. 157, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price). We utilize market data or assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated, or generally unobservable. We primarily apply the market approach for recurring fair value

measurements and endeavor to utilize the best information available. Accordingly, we utilize valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. The use of unobservable inputs is intended to allow for fair value determinations in situations in which there is little, if any, market activity for the asset or liability at the measurement date. We are able to classify fair value balances based on the observability of those inputs. SFAS No. 157 establishes a fair value hierarchy such that Level 1 measurements include unadjusted quoted market prices for identical assets or liabilities in an active market, Level 2 measurements include quoted market prices for identical assets or liabilities in an active market which have been adjusted for items

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such as effects of restrictions for transferability and those that are not quoted but are observable through corroboration with observable market data, including quoted market prices for similar assets, and Level 3 measurements include those that are unobservable and of a highly subjective measure.

The following table sets forth, by level within the fair value hierarchy, our financial assets and liabilities that are accounted for at fair value on a recurring basis as of June 30, 2008. As required by SFAS No. 157, financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

**Recurring Fair Value Measurements**

| <i>(In thousands)</i>                | <b>At Fair Value as of June 30, 2008</b> |                |                |              |
|--------------------------------------|------------------------------------------|----------------|----------------|--------------|
|                                      | <b>Level 1</b>                           | <b>Level 2</b> | <b>Level 3</b> | <b>Total</b> |
| Assets:                              |                                          |                |                |              |
| Short-term investments:              |                                          |                |                |              |
| Available-for-sale equity securities | \$ 37,983                                | \$ 138,035(1)  | \$             | \$ 176,018   |
| Available-for-sale debt securities   | 60,900                                   | 45,528         |                | 106,428      |
| Trading securities                   |                                          | 50,280(1)      |                | 50,280       |
| Total investments                    | 98,883                                   | 233,843        |                | 332,726      |
| Derivative asset contract            |                                          | 152            |                | 152          |

(1) Represents our investment in a public company traded on the Hong Kong Stock Exchange for which there is a period of restriction for transferability. After the restriction period has lapsed in September 2008, the investment will be measured using Level 1 inputs.

**Note 4 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, 2007.

Total share-based compensation expense, which includes both stock options and restricted stock, totaled \$10.9 million and \$8.4 million for the three months ended June 30, 2008 and 2007, respectively, and \$19.9 million and \$16.3 million for the six months ended June 30, 2008 and 2007, respectively. Share-based compensation expense has been allocated to our various operating segments (Note 12).

During the six months ended June 30, 2008, the Company awarded 1,997,015 shares of restricted stock to its employees, directors and executive officers. These awards had an aggregate value at their date of grant of \$62.3 million and vest over a period of three to five years.

**Note 5 Debt**

In May 2008 Nabors Industries, Inc. ( Nabors Delaware ), our wholly-owned subsidiary, called for redemption all of its \$700 million zero coupon senior exchangeable notes due 2023 and paid cash of \$171.8 million and \$528.2 million to the noteholders in June 2008 and July 2008, respectively. The total amount paid to effect the redemption and related exchange was \$700 million in cash and an issue of approximately 5.25 million of our common shares with a fair value of \$249.8 million, the price equal to the principal amount of the notes plus the excess of the exchange value of the notes over their principal amount. Nabors Delaware was required to pay noteholders cash up to the principal amount of the notes, and at its 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 applicable indenture. The number of common shares issued was equal to the amount due in excess of the principal amount of the notes divided by the average of the volume weighted average price of our common shares for the five or ten trading day period beginning on the second business day following the day the notes were

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

surrendered for exchange. The notes were exchangeable into the equivalent value of 28.5306 common shares per \$1,000 principal amount of the notes. As our \$700 million zero coupon senior exchangeable notes due 2023 could be put to us on June 15, 2008, the outstanding principal amount of \$700 million was included in current liabilities in our balance sheet as of June 30, 2007. The redemption of the notes did not result in any gain or loss as the amount of cash paid for redemption of the notes was equal to their carrying amount. The excess of the exchange value of the notes over the carrying amount was recorded as a reduction to capital in excess of par value in our consolidated statement of changes in shareholders' equity.

In June 2008 Nabors Delaware called for redemption the full \$82.8 million aggregate principal amount at maturity of its zero coupon senior convertible debentures due 2021 and in July 2008, paid cash of \$60.6 million; equal to the issue price of \$50.4 million plus accrued original issue discount of \$10.2 million. The redemption of the debentures did not result in any gain or loss as the debentures were redeemed at a price equal to their carrying value on July 7, 2008.

On February 20, 2008, Nabors Delaware completed a private placement of \$575 million aggregate principal amount of 6.15% senior notes due 2018 with registration rights, which are unsecured and are fully and unconditionally guaranteed by us. The issue of senior notes was resold by the initial purchasers to qualified institutional buyers under Rule 144A and Regulation S of the Securities Act outside of the United States. The senior notes bear interest at a rate of 6.15% per year, payable semiannually on February 15 and August 15 of each year, beginning August 15, 2008. The senior notes will mature on February 15, 2018.

The senior notes are unsecured and are effectively junior in right of payment to any of Nabors Delaware's future secured debt. The senior notes rank equally with any of Nabors Delaware's other existing and future unsubordinated debt and are senior in right of payment to any of Nabors Delaware's future senior subordinated debt. Our guarantee of the senior notes is unsecured and ranks equal in right of payments to all of our unsecured and unsubordinated indebtedness from time to time outstanding. The senior notes are subject to redemption by Nabors Delaware, in whole or in part, at any time at a redemption price equal to the greater of (i) 100% of the principal amount of the senior notes then outstanding to be redeemed; or (ii) the sum of the present values of the remaining scheduled payments of principal and interest, determined in the manner set forth in the indenture. In the event of a change in control, as defined in the indenture, the holders of senior notes may require Nabors Delaware to purchase all or any part of each senior note in cash equal to 101% of the principal amount plus accrued and unpaid interest, if any, to the date of purchase, except to the extent Nabors Delaware have exercised its right to redeem the senior notes.

Nabors Delaware intends to use the proceeds of the offering of the senior notes for general corporate purposes, including the repayment of debt.

On May 20, 2008, Nabors and Nabors Delaware filed a registration statement on Form S-4 under the Securities Act. The registration statement relates to the exchange offer to noteholders required under the related registration rights agreement. The registration statement has not been declared effective by the Securities and Exchange Commission. Nabors and Nabors Delaware will file a registration statement on Form S-4 under the Securities Act covering both the 6.15% Notes due 2018 issued in the February 2008 offering and the 6.15% Notes due 2018 issued in the July 2008 offering, which is described in more detail in Note 14 - Subsequent Event.

**Note 6 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 to its tax reserves for uncertain tax positions and interest and penalties which was accounted for as an increase to other long-term liabilities and as a reduction to retained earnings at January 1, 2007. We recognize interest and penalties related to income tax matters in the income tax expense line item in our consolidated statements of income.

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

We are subject to income taxes in the United States and numerous foreign jurisdictions. Internationally, income tax returns from 1995 through 2005 are currently under examination. The Company anticipates that several of these audits could be finalized within 12 months. It is reasonably possible that the amount of the unrecognized benefits with respect to certain of our unrecognized tax positions could significantly increase or decrease within 12 months. However, based on the current status of examinations, and the protocol for finalizing audits with the relevant tax authorities, which could include formal legal proceedings, it is not possible to estimate the future impact of the amount of changes, if any, to recorded uncertain tax positions at June 30, 2008.

The Company has recorded a deferred tax asset of approximately \$98.5 million as of June 30, 2008 relating to net operating loss carryforwards that have an indefinite life in one foreign jurisdiction. A valuation allowance of approximately \$94.4 million has been recognized because the Company believes it is more likely than not that substantially all of the deferred tax asset will not be realized.

**Note 7 Common Shares**

During the six months ended June 30, 2008 and 2007, our employees exercised vested options to acquire 2.3 million and 3.0 million of our common shares, respectively, resulting in proceeds of \$53.6 million and \$67.8 million, respectively.

During the six months ended June 30, 2008, we repurchased 3.7 million of our common shares in the open market for \$150.1 million. During the six months ended June 30, 2007, there were no repurchases of common shares in the open market. From time to time, treasury shares may be reissued. When shares are reissued, we use the weighted average cost method for determining cost. The difference between the cost of the shares and the issuance price is added or deducted from capital in excess of par value on our consolidated statement of changes in shareholders' equity.

In June 2008 in connection with the redemption of Nabors Delaware's \$700 million zero coupon senior exchangeable notes due 2023, we issued 0.5 million of our treasury shares with a fair value of \$21.2 million, representing a portion of the shares issued to satisfy the obligation to pay the excess over the principal amount of such notes that were exchanged. In July 2008 we issued an additional 4.8 million of our treasury shares with a fair value of \$228.6 million to satisfy the obligation to the remaining noteholders to pay the excess over the principal amount of such notes that were exchanged. See Note 5 for additional discussion.

**Note 8 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 creditors committee in 1987 in connection with the reorganization proceedings of Anglo Energy, Inc., which subsequently changed its name to Nabors. These

contractual arrangements subsequently were approved by the various constituencies in those reorganization proceedings, including equity and debt holders, and confirmed by the United States Bankruptcy Court.

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

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

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

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

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

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 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 the expiration date of the contract or three times his then current base salary, whichever is greater; plus (b) the greater of (i) all annual cash bonuses which would have been payable through the expiration date; (ii) three times the highest bonus (including the imputed value of grants of stock awards and stock options), paid during the last three fiscal years prior to termination; or (iii) three times the highest annual cash bonus payable for each of the three previous fiscal years prior to termination, regardless of whether the amount was paid. In computing any amount due under (b)(i) and (iii) above, the calculation is made without regard to the 2006 Amendment reducing Mr. Isenberg's bonus percentage

as described above. If, by way of example, these provisions had applied at June 30, 2008, Mr. Isenberg would have been entitled to a payment of approximately \$264 million, subject to a true-up equal to the amount of cash bonus he would have earned under the formula during the remaining term of the agreement, based upon actual results, but the payment would not be less than approximately \$264 million. Similarly, with respect to Mr. Petrello, had these provisions applied at June 30, 2008, Mr. Petrello would have been entitled to a payment of approximately \$103 million, subject to a true-up equal to the amount of cash bonus he would have earned under the formula during the remaining term of the agreement, based upon actual results, but the payment would not be less than approximately \$103 million. These

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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 and the Company has not recorded an expense or accrued a liability relating to these potential obligations. In addition, the affected individual is entitled to receive (a) any unvested restricted stock outstanding, which shall immediately and fully vest; (b) any unvested outstanding stock options, which shall immediately and fully vest; (c) any amounts earned, accrued or owing to the executive but not yet paid (including executive benefits, life insurance, disability benefits and reimbursement of expenses and perquisites), which shall be continued through the later of the expiration date or three years after the termination date; (d) continued participation in medical, dental and life insurance coverage until the executive receives equivalent benefits or coverage through a subsequent employer or until the death of the executive or his spouse, whichever is later; and (e) any other or additional benefits in accordance with applicable plans and programs of Nabors. For Messrs. Isenberg and Petrello, the value of unvested restricted stock was approximately \$64 million and \$33 million, respectively, as of June 30, 2008. Neither Messrs. Isenberg nor Petrello had unvested stock options as of June 30, 2008. Estimates of the cash value of Nabors' obligations to Messrs. Isenberg and Petrello under (c), (d) and (e) above are included in the payment amounts above.

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

*Termination in the event of a Change in Control.* In the event that Messrs. Isenberg's or Petrello's termination of employment is related to a Change in Control (as defined in their respective employment agreements), they would be entitled to receive a cash amount equal to the greater of (a) one dollar less than the amount that would constitute an excess parachute payment as defined in Section 280G of the Internal Revenue Code, or (b) the cash amount that would be due in the event of a termination without cause, as described above. If, by way of example, there was a change of control event that applied on June 30, 2008, then the payments to Messrs. Isenberg and Petrello would be approximately \$264 million and \$103 million, respectively. These payment amounts are based on historical data and are not intended to be estimates of future payments required under the agreements. Depending upon future operating results, the true-up could result in the payment of amounts which are significantly higher but the payment would not be less than \$264 million and \$103 million, respectively. In addition, they would receive (a) any unvested restricted stock outstanding, which shall immediately and fully vest; (b) any unvested outstanding stock options, which shall immediately and fully vest; (c) any amounts earned, accrued or owing to the executive but not yet paid (including executive benefits, life insurance, disability benefits and reimbursement of expenses and perquisites), which shall be continued through the later of the expiration date or three years after the termination date; (d) continued participation in medical, dental and life insurance coverage until the executive receives equivalent benefits or coverage through a subsequent employer or until the death of the executive or his spouse, whichever is later; and (e) any other or additional benefits in accordance with applicable plans and programs of Nabors. For Messrs. Isenberg and Petrello, the value of unvested restricted stock was approximately \$64 million and \$33 million, respectively, as of June 30, 2008. Neither Messrs. Isenberg nor Petrello had unvested stock options as of June 30, 2008. The cash value of Nabors' obligations to Messrs. Isenberg and Petrello under (c), (d) and (e) above are included in the payment amounts above.

Also, they would receive additional stock options immediately exercisable for five years to acquire a number of shares of common stock equal to the highest number of options granted during any fiscal year in the previous three fiscal years, at an option exercise price equal to the average closing price during the 20 trading days prior to the event which resulted in the change of control. If, by way of example, there was a change of control event that applied at June 30, 2008, Mr. Isenberg would have received 3,366,666 options valued at approximately \$52 million and Mr. Petrello would have received 1,683,332 options

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

valued at approximately \$26 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 June 30, 2008, 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 \$117 million and \$48 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***

**Oil and Gas Joint Ventures**

On September 22, 2006, we entered into an agreement with First Reserve Corporation to form a new joint venture, NFR Energy LLC ( NFR ), to invest in oil and gas exploration opportunities worldwide. First Reserve Corporation is a private equity firm specializing in the energy industry. Each party initially made a non-binding commitment to fund its proportionate share of \$1.0 billion in equity. During 2007, joint venture operations in the U.S., Canada and International areas, were divided among three separate joint venture entities, including NFR, Stone Mountain Ventures Partnership ( Stone Mountain ) and Remora Energy International LP ( Remora ), respectively. We hold a 49% ownership interest in these joint ventures. Each joint venture pursues development and exploration projects with both existing customers of ours and with other operators in a variety of forms including operated and non-operated working interests, joint ventures, farm-outs and acquisitions. As of June 30, 2008, we had made capital contributions of approximately \$320.3 million to our joint venture operations with First Reserve.

**Income Tax Contingencies**

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

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

On September 14, 2006, Nabors Drilling International Limited ( NDIL ), a wholly-owned Bermuda subsidiary of Nabors, received a Notice of Assessment (the Notice ) from the Mexican Servicio de Administracion Tributaria (the

SAT ) in connection with the audit of NDIL 's Mexican branch for tax year 2003. The Notice proposes to deny a depreciation expense deduction that relates to drilling rigs operating in Mexico in 2003, as well as a deduction for payments made to an affiliated company for the provision of labor services in Mexico. The amount assessed by the SAT is approximately \$19.8 million (including interest and penalties). Nabors and its tax advisors previously concluded that the deduction of said amounts was appropriate and more recently that the position of the SAT lacks merit. NDIL 's Mexican branch took similar deductions for depreciation and labor

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expenses in 2004, 2005, 2006, 2007 and 2008. It is likely that the SAT will propose the disallowance of these deductions upon audit of NDIL's Mexican branch's 2004, 2005, 2006, 2007 and 2008 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, 2008, with our insurance renewal, certain changes have been made to our self-insured retentions. Automobile liability is subject to a \$1.0 million per occurrence deductible. Our hurricane coverage for U.S. Gulf of Mexico exposures is subject to a \$10.0 million deductible. We are insured for \$55.0 million over the deductible at 85.5%. Accordingly, we are self-insuring 14.5% of this exposure.

**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 February 6, 2007, a purported shareholder derivative action entitled *Kenneth H. Karstedt v. Eugene M. Isenberg, et al* was filed in the United States District Court for the Southern District of Texas against the Company's officers and directors, and against the Company as a nominal defendant. The complaint alleged that stock options were priced retroactively and were improperly accounted for, and alleged various causes of action based on that assertion. The complaint sought, among other things, payment by the defendants to the Company of damages allegedly suffered by it and disgorgement of profits. On March 5, 2007, another purported shareholder derivative action entitled *Gail McKinney v. Eugene M. Isenberg, et al* was also filed in the United States District Court for the Southern District of Texas. The complaint made substantially the same allegations against the same defendants and sought the same elements of damages. The two purported derivative actions were consolidated into one proceeding. On December 31, 2007, the Company and the individual defendants agreed with the plaintiffs-shareholders to settle the derivative action. Under the terms of the proposed settlement, the Company and the individual defendants have implemented or will implement certain corporate governance reforms and adopt certain modifications to our equity award policy with no financial accounting impact and our Compensation Committee charter. The Company and its insurers have agreed to pay up to \$2.85 million to plaintiffs' counsel for their attorneys' fees and the reimbursement of their expenses and costs. The Court granted preliminary approval of the settlement on March 13, 2008. On May 14, 2008, following shareholder notification, the Court granted final approval of the proposed settlement.

On July 5, 2007, we received an inquiry from the U.S. Department of Justice relating to its investigation of one of our vendors and compliance with the Foreign Corrupt Practices Act. Our Audit Committee of the Board of Directors has engaged outside counsel to review certain transactions with this vendor, which provides freight forwarding and

customs clearance services. Both the U.S. Securities and Exchange Commission and the U.S. Department of Justice have been advised of the Company's investigation. The ultimate outcome of this review or the effect of implementing any further measures which may be necessary to ensure full compliance with the applicable laws cannot be determined at this time.

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

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

| <i>(In thousands)</i>                                                         | <b>Maximum Amount</b>        |             |             |                   |              |
|-------------------------------------------------------------------------------|------------------------------|-------------|-------------|-------------------|--------------|
|                                                                               | <b>Remainder<br/>of 2008</b> | <b>2009</b> | <b>2010</b> | <b>Thereafter</b> | <b>Total</b> |
| Financial standby letters of credit and other<br>financial surety instruments | \$ 97,228                    | \$ 106,425  | \$ 2,028    | \$                | \$ 205,681   |
| Contingent consideration in acquisition                                       |                              | 1,417       | 1,417       | 1,416             | 4,250        |
| Total                                                                         | \$ 97,228                    | \$ 107,842  | \$ 3,445    | \$ 1,416          | \$ 209,931   |

Table of Contents**NABORS INDUSTRIES LTD. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Note 9 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/>June 30,</b> |             | <b>Six Months Ended<br/>June 30,</b> |             |
|-----------------------------------------------------------------------------------------------------------------------------|----------------------------------------|-------------|--------------------------------------|-------------|
|                                                                                                                             | <b>2008</b>                            | <b>2007</b> | <b>2008</b>                          | <b>2007</b> |
| Net income (numerator):                                                                                                     |                                        |             |                                      |             |
| Income from continuing operations, net of tax basic                                                                         | \$ 194,361                             | \$ 220,862  | \$ 424,867                           | \$ 477,752  |
| 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                                                              | 194,361                                | 220,862     | 424,867                              | 477,752     |
| Income from discontinued operations, net of tax                                                                             |                                        | 7,487       |                                      | 12,759      |
| Total adjusted net income                                                                                                   | \$ 194,361                             | \$ 228,349  | \$ 424,867                           | \$ 490,511  |
| Earnings per share:                                                                                                         |                                        |             |                                      |             |
| Basic from continuing operations                                                                                            | \$ .70                                 | \$ .79      | \$ 1.53                              | \$ 1.72     |
| Basic from discontinued operations                                                                                          |                                        | .03         |                                      | .04         |
| Total Basic                                                                                                                 | \$ .70                                 | \$ .82      | \$ 1.53                              | \$ 1.76     |
| Diluted from continuing operations                                                                                          | \$ .67                                 | \$ .77      | \$ 1.48                              | \$ 1.67     |
| Diluted from discontinued operations                                                                                        |                                        | .02         |                                      | .04         |
| Total Diluted                                                                                                               | \$ .67                                 | \$ .79      | \$ 1.48                              | \$ 1.71     |
| Shares (denominator):                                                                                                       |                                        |             |                                      |             |
| Weighted-average number of shares outstanding basic(4)                                                                      | 277,719                                | 279,253     | 277,651                              | 278,098     |
| Net effect of dilutive stock options, warrants and restricted stock awards based on the treasury stock method               | 8,606                                  | 8,645       | 7,191                                | 8,258       |

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) | 5,129 | 2,565 |
|---------------------------|-------|-------|

|                                               |         |         |         |         |         |
|-----------------------------------------------|---------|---------|---------|---------|---------|
| Weighted-average number of shares outstanding | diluted | 291,454 | 287,898 | 287,407 | 286,356 |
|-----------------------------------------------|---------|---------|---------|---------|---------|

- (1) Diluted earnings per share for the three and six months ended June 30, 2008 and 2007 do not include any incremental shares issuable upon exchange of the \$2.75 billion 0.94% senior exchangeable notes due 2011. 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

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**NABORS INDUSTRIES LTD. AND SUBSIDIARIES**

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

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 our stock price exceeds \$45.83 as of the last trading day of the quarter and the average price of our shares for the ten consecutive trading days beginning on the third business day after the last trading day of the quarter exceeds \$45.83, which did not occur for the three and six months ended June 30, 2008 and 2007.

- (2) Diluted earnings per share for the three and six months ended June 30, 2008 and 2007 excludes approximately 1.2 million potentially dilutive shares initially issuable upon the conversion of the \$82.8 million aggregate principal amount at maturity for the zero coupon convertible senior debentures due 2021. The maximum number of shares required to be issued upon conversion would equate to the excess of the conversion value of the debentures over their principal amount. 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 \$52. In June 2008 Nabors Delaware called for redemption of the full \$82.8 million aggregate principal amount at maturity of its zero coupon senior convertible debentures due 2021 and in July 2008, paid cash of \$60.6 million; an amount equal to the issue price of \$50.4 million plus accrued original issue discount of \$10.2 million.
- (3) Diluted earnings per share for the three and six months ended June 30, 2008 reflect the conversion of the \$700 million zero coupon senior exchangeable notes due 2023 resulting in the inclusion of the incremental number of shares that were required to be issued upon the exchange of these notes. The number of shares issued upon exchange equated to the excess of the exchange value of the notes over their principal amount, as Nabors Delaware was required to pay cash up to the principal amount of the notes exchanged. Because the conversion was partially completed in June 2008, only .5 million of our treasury shares actually issued in June 2008 were included in the calculation of the weighted-average basic shares outstanding for the three and six months ended June 30, 2008, resulting in an incremental .121 million weighted-average basic shares outstanding. For the remaining shares that were issued in July 2008 we included the dilutive effect that, when added to the shares included in basic shares outstanding, gives effect to the entire 5.25 million shares to be issued related to the conversion of the \$700 million zero coupon senior exchangeable notes due 2023 in diluted shares outstanding. Diluted earnings per share for the three and six months ended June 30, 2007 does not include any incremental shares issuable upon exchange of the \$700 million zero coupon senior exchangeable notes as the price of our shares did not exceed \$35.05 on June 30, 2007.
- (4) Includes the following weighted-average number of common shares of Nabors and weighted-average number of exchangeable shares of Nabors (Canada) Exchangeco Inc., respectively: 277.6 million and .1 million shares for the three months ended June 30, 2008; 279.2 million and .1 million shares for the three months ended June 30, 2007; 277.6 million and .1 million shares for the six months ended June 30, 2008; and 277.9 million and .2 million shares for the six months ended June 30, 2007. 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 1,000,750 and 4,322,513 shares during the three months ended June 30, 2008 and 2007, respectively, and 3,352,153 and 4,642,775 shares during the six months ended June 30, 2008 and 2007, 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

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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.

**Note 10 Supplemental Balance Sheet and Income Statement Information**

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

| <i>(In thousands)</i>                       | <b>June 30,<br/>2008</b> | <b>December 31,<br/>2007</b> |
|---------------------------------------------|--------------------------|------------------------------|
| Cash and cash equivalents                   | \$ 903,821               | \$ 531,306                   |
| Short-term investments                      | 332,726                  | 235,745                      |
| Long-term investments and other receivables | 239,866                  | 359,534                      |
| Other current assets                        | 34,429                   | 53,054                       |
| Total                                       | \$ 1,510,842             | \$ 1,179,639                 |

As of June 30, 2008, our short-term investments consist of investments in available-for-sale marketable debt and equity securities of \$282.4 million and trading securities of \$50.3 million and our long-term investments consist of investments in non-marketable securities accounted for by the equity method and oil and gas financing receivables. Earnings associated with our oil and gas financing receivables are recognized as operating revenues. The June 30, 2008 other current assets amount represents \$34.4 million in cash proceeds receivable from brokers from the sale of certain investment securities. During the three months ended June 30, 2008, we recognized investment income of \$13.3 million in unrealized gains on our trading securities held at June 30, 2008. As of December 31, 2007, our short-term investments consist entirely of investments in available-for-sale marketable debt securities while our long-term investments consist of investments in non-marketable securities and oil and gas financing receivables. The December 31, 2007 other current assets amount represents \$53.1 million in cash proceeds receivable from brokers from the sale of certain investment securities.

In March 2008 our investment in a privately-held company became a marketable equity security subsequent to a public offering on the Hong Kong Stock Exchange. Accordingly, we have accounted for the marketable equity security in accordance with the provisions of SFAS No. 115, Accounting for Certain Investments in Debt and Equity Securities. We have classified \$50.3 million of these securities as trading securities and \$138.0 million of these securities as available-for-sale based on our investment strategy.

Accrued liabilities include the following:

| <i>(In thousands)</i> | <b>June 30,<br/>2008</b> | <b>December 31,<br/>2007</b> |
|-----------------------|--------------------------|------------------------------|
| Accrued compensation  | \$ 131,557               | \$ 141,473                   |

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|                                   |            |            |
|-----------------------------------|------------|------------|
| Deferred revenue                  | 73,403     | 91,071     |
| Other taxes payable               | 25,009     | 32,539     |
| Workers' compensation liabilities | 31,427     | 31,427     |
| Interest payable                  | 26,706     | 13,165     |
| Warranty accrual                  | 8,057      | 8,602      |
| Litigation reserves               | 4,034      | 5,083      |
| Other accrued liabilities         | 23,834     | 25,155     |
|                                   | \$ 324,027 | \$ 348,515 |

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

Investment income (loss) includes the following:

| <i>(In thousands)</i>                                           | <b>Six Months Ended<br/>June 30,</b> |                  |
|-----------------------------------------------------------------|--------------------------------------|------------------|
|                                                                 | <b>2008</b>                          | <b>2007</b>      |
| Interest income                                                 | \$ 23,036                            | \$ 22,417        |
| Gains (losses) on marketable and non-marketable securities, net | 28,203                               | (2,980)          |
|                                                                 | <b>\$ 51,239</b>                     | <b>\$ 19,437</b> |

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

| <i>(In thousands)</i>                                                                 | <b>Six Months Ended<br/>June 30,</b> |                    |
|---------------------------------------------------------------------------------------|--------------------------------------|--------------------|
|                                                                                       | <b>2008</b>                          | <b>2007</b>        |
| Losses (gains) on sales, retirements and involuntary conversions of long-lived assets | \$ 10,535                            | \$ (29,830)        |
| Litigation reserves                                                                   | 1,715                                | 7,963              |
| Foreign currency transaction losses (gains)                                           | (725)                                | (3,289)            |
| (Gains) losses on derivative instruments                                              | (157)                                | (977)              |
| Other                                                                                 | (113)                                | 384                |
|                                                                                       | <b>\$ 11,255</b>                     | <b>\$ (25,749)</b> |

Comprehensive income for the three and six months ended June 30, 2008 totaled \$231.0 million and \$501.9 million, respectively, while comprehensive income for the three and six months ended June 30, 2007 totaled \$273.0 million and \$546.9 million, respectively.

**Note 11 Discontinued Operation**

In August 2007, we sold our Sea Mar business which had previously been included in Other Operating Segments to an unrelated third party for a cash purchase price of \$194.3 million, resulting in a pre-tax gain of \$49.5 million. The assets included 20 offshore supply vessels and certain related assets, including its right under a vessel construction contract. The operating results of this business for all periods presented are reported as discontinued operations in the accompanying unaudited consolidated statements of income and the respective accompanying notes to the consolidated financial statements. Our condensed statements of income from discontinued operations related to the Sea Mar business for the three and six months ended June 30, 2008 and 2007 were as follows:

## Condensed Statements of Income

| <i>(In thousands)</i>                           | <b>Three Months Ended<br/>June 30,</b> |             | <b>Six Months Ended<br/>June 30,</b> |             |
|-------------------------------------------------|----------------------------------------|-------------|--------------------------------------|-------------|
|                                                 | <b>2008</b>                            | <b>2007</b> | <b>2008</b>                          | <b>2007</b> |
| Revenues from discontinued operations           | \$                                     | \$ 28,089   | \$                                   | \$ 52,719   |
| Income from discontinued operations             | \$                                     | \$ 12,464   | \$                                   | \$ 21,240   |
| Income tax expense                              |                                        | 4,977       |                                      | 8,481       |
| Income from discontinued operations, net of tax | \$                                     | \$ 7,487    | \$                                   | \$ 12,759   |

**Table of Contents****NABORS INDUSTRIES LTD. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Note 12 Segment Information**

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

| <i>(In thousands)</i>                                                                         | <b>Three Months Ended<br/>June 30,</b> |              | <b>Six Months Ended<br/>June 30,</b> |              |
|-----------------------------------------------------------------------------------------------|----------------------------------------|--------------|--------------------------------------|--------------|
|                                                                                               | <b>2008</b>                            | <b>2007</b>  | <b>2008</b>                          | <b>2007</b>  |
| Operating revenues and Earnings from unconsolidated affiliates from continuing operations(1): |                                        |              |                                      |              |
| Contract Drilling(2):                                                                         |                                        |              |                                      |              |
| U.S. Lower 48 Land Drilling                                                                   | \$ 438,848                             | \$ 426,787   | \$ 845,909                           | \$ 879,383   |
| U.S. Land Well-servicing                                                                      | 182,222                                | 182,410      | 353,363                              | 364,628      |
| U.S. Offshore                                                                                 | 65,723                                 | 60,316       | 117,178                              | 116,091      |
| Alaska                                                                                        | 45,114                                 | 36,777       | 99,483                               | 84,613       |
| Canada                                                                                        | 67,782                                 | 75,088       | 246,634                              | 268,368      |
| International                                                                                 | 342,892                                | 261,262      | 646,464                              | 485,744      |
| Subtotal Contract Drilling(3)                                                                 | 1,142,581                              | 1,042,640    | 2,309,031                            | 2,198,827    |
| Oil and Gas(4)(5)                                                                             | 11,352                                 | 18,110       | 25,392                               | 31,239       |
| Other Operating Segments(6)(7)                                                                | 172,865                                | 140,024      | 338,647                              | 270,374      |
| Other reconciling items(8)                                                                    | (48,431)                               | (62,654)     | (99,296)                             | (113,866)    |
| Total                                                                                         | \$ 1,278,367                           | \$ 1,138,120 | \$ 2,573,774                         | \$ 2,386,574 |
| Adjusted income (loss) derived from operating activities from continuing operations(1)(9):    |                                        |              |                                      |              |
| Contract Drilling:                                                                            |                                        |              |                                      |              |
| U.S. Lower 48 Land Drilling                                                                   | \$ 134,322                             | \$ 154,667   | \$ 261,193                           | \$ 327,593   |
| U.S. Land Well-servicing                                                                      | 31,468                                 | 40,105       | 61,854                               | 83,461       |
| U.S. Offshore                                                                                 | 17,983                                 | 19,206       | 24,441                               | 34,255       |
| Alaska                                                                                        | 13,466                                 | 8,225        | 31,249                               | 24,792       |
| Canada                                                                                        | (14,326)                               | (7,992)      | 27,647                               | 45,136       |
| International                                                                                 | 101,752                                | 85,409       | 192,402                              | 151,427      |
| Subtotal Contract Drilling(3)                                                                 | 284,665                                | 299,620      | 598,786                              | 666,664      |
| Oil and Gas(4)(5)                                                                             | (1,645)                                | 3,374        | (6,497)                              | 4,502        |
| Other Operating Segments(6)                                                                   | 19,006                                 | 6,739        | 31,440                               | 18,333       |
| Total segment adjusted income derived from operating activities                               | 302,026                                | 309,733      | 623,729                              | 689,499      |
| Other reconciling items(10)                                                                   | (36,117)                               | (29,201)     | (70,667)                             | (68,940)     |

|                                                                                                  |            |            |            |            |
|--------------------------------------------------------------------------------------------------|------------|------------|------------|------------|
| Adjusted income (loss) derived from operating activities from continuing operations              | 265,909    | 280,532    | 553,062    | 620,559    |
| Interest expense                                                                                 | (21,676)   | (13,733)   | (39,785)   | (26,785)   |
| Investment income (loss)                                                                         | 25,057     | (9,272)    | 51,239     | 19,437     |
| (Losses) gains on sales of long-lived assets, impairment charges and other income (expense), net | (3,158)    | 39,634     | (11,255)   | 25,749     |
| Income from continuing operations before income taxes(1)                                         | \$ 266,132 | \$ 297,161 | \$ 553,261 | \$ 638,960 |

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

| <i>(In thousands)</i>        | <b>June 30,<br/>2008</b> | <b>December 31,<br/>2007</b> |
|------------------------------|--------------------------|------------------------------|
| Total assets:                |                          |                              |
| Contract Drilling:(11)       |                          |                              |
| U.S. Lower 48 Land Drilling  | \$ 2,597,019             | \$ 2,544,629                 |
| U.S. Land Well-servicing     | 736,681                  | 725,845                      |
| U.S. Offshore                | 479,563                  | 452,505                      |
| Alaska                       | 314,865                  | 283,121                      |
| Canada                       | 1,273,307                | 1,398,363                    |
| International                | 2,947,148                | 2,577,057                    |
| Subtotal Contract Drilling   | 8,348,583                | 7,981,520                    |
| Oil and Gas(12)              | 844,049                  | 646,837                      |
| Other Operating Segments(13) | 584,871                  | 610,041                      |
| Other reconciling items(10)  | 1,127,141                | 864,984                      |
| Total assets                 | \$ 10,904,644            | \$ 10,103,382                |

- (1) All segment information excludes the Sea Mar business, which has been reclassified as a discontinued operation.
- (2) These segments include our drilling, workover and well-servicing operations, on land and offshore.
- (3) Includes earnings (losses), net from unconsolidated affiliates, accounted for by the equity method, of \$2.8 million and \$.7 million for the three months ended June 30, 2008 and 2007, respectively, and \$9.6 million and \$2.5 million for the six months ended June 30, 2008 and 2007, 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 \$(6.7) million and \$(.8) million for the three months ended June 30, 2008 and 2007, respectively, and \$(24.6) million and \$(.8) million for the six months ended June 30, 2008 and 2007, respectively.
- (6) Includes our drilling technology and top drive manufacturing, directional drilling, rig instrumentation and software, and construction and logistics operations.
- (7) Includes earnings (losses), net from unconsolidated affiliates, accounted for by the equity method, of \$(.1) million and \$3.5 million for the three months ended June 30, 2008 and 2007, respectively, and \$6.6 million and \$14.2 million for the six months ended June 30, 2008 and 2007, respectively.
- (8) Represents the elimination of inter-segment transactions.

- (9) Adjusted income derived from operating activities is computed by: subtracting direct costs, general and administrative expenses, and depreciation and amortization, and depletion expense from Operating revenues and then adding Earnings from unconsolidated affiliates. Such amounts should not be used as a substitute to those amounts reported under accounting principles generally accepted in the United States (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 from continuing operations, which is a GAAP measure, is provided within the above table.
- (10) Represents the elimination of inter-segment transactions and unallocated corporate expenses, assets and capital expenditures.

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**NABORS INDUSTRIES LTD. AND SUBSIDIARIES**

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

- (11) Includes \$59.3 million and \$47.3 million of investments in unconsolidated affiliates accounted for by the equity method as of June 30, 2008 and December 31, 2007, respectively, and \$21.4 million of investments in unconsolidated affiliates accounted for by the cost method as of December 31, 2007.
- (12) Includes \$292.1 million and \$274.1 million of investments in unconsolidated affiliates accounted for by the equity method as of June 30, 2008 and December 31, 2007, respectively.
- (13) Includes \$64.1 million and \$62.0 million of investments in unconsolidated affiliates accounted for by the equity method as of June 30, 2008 and December 31, 2007, respectively.

**Note 13 Condensed Consolidating Financial Information**

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

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

The following condensed consolidating financial information presents: condensed consolidating balance sheets as of June 30, 2008 and December 31, 2007, statements of income for each of the three and six month periods ended June 30, 2008 and 2007, and the consolidating statements of cash flows for the six month periods ended June 30, 2008 and 2007 of (a) Nabors, parent/guarantor, (b) Nabors Delaware, issuer of public debt securities guaranteed by Nabors and guarantor of the \$225 million 4.875% senior notes issued by Nabors Holdings, (c) Nabors Holdings, issuer of the \$225 million 4.875% senior notes, (d) the non-guarantor subsidiaries, (e) consolidating adjustments necessary to consolidate Nabors and its subsidiaries and (f) Nabors on a consolidated basis.

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

| <i>(In thousands)</i>                          | June 30, 2008                             |                                                        |                                         |                                                         |                                      |                               |
|------------------------------------------------|-------------------------------------------|--------------------------------------------------------|-----------------------------------------|---------------------------------------------------------|--------------------------------------|-------------------------------|
|                                                | <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> |
| <b>ASSETS</b>                                  |                                           |                                                        |                                         |                                                         |                                      |                               |
| Current assets:                                |                                           |                                                        |                                         |                                                         |                                      |                               |
| Cash and cash equivalents                      | \$ 18,850                                 | \$ 2                                                   | \$ 22                                   | \$ 884,947                                              | \$                                   | \$ 903,821                    |
| Short-term investments                         |                                           |                                                        |                                         | 332,726                                                 |                                      | 332,726                       |
| Accounts receivable, net                       |                                           |                                                        |                                         | 1,083,748                                               |                                      | 1,083,748                     |
| Inventory                                      |                                           |                                                        |                                         | 128,893                                                 |                                      | 128,893                       |
| Deferred income taxes                          |                                           |                                                        |                                         | 16,687                                                  |                                      | 16,687                        |
| Other current assets                           | 174                                       | 1,058                                                  | 376                                     | 262,863                                                 |                                      | 264,471                       |
| Total current assets                           | 19,024                                    | 1,060                                                  | 398                                     | 2,709,864                                               |                                      | 2,730,346                     |
| Long-term investments<br>and other receivables |                                           |                                                        |                                         | 239,866                                                 |                                      | 239,866                       |
| Property, plant and<br>equipment, net          |                                           |                                                        |                                         | 7,020,941                                               |                                      | 7,020,941                     |
| Goodwill                                       |                                           |                                                        |                                         | 363,158                                                 |                                      | 363,158                       |
| Intercompany receivables                       | 405,039                                   | 1,572,190                                              |                                         | 19,918                                                  | (1,997,147)                          |                               |
| Investments in affiliates                      | 4,513,456                                 | 4,645,402                                              | 370,883                                 | 2,681,132                                               | (11,795,357)                         | 415,516                       |
| Other long-term assets                         |                                           | 22,562                                                 | 447                                     | 111,808                                                 |                                      | 134,817                       |
| Total assets                                   | \$ 4,937,519                              | \$ 6,241,214                                           | \$ 371,728                              | \$ 13,146,687                                           | \$ (13,792,504)                      | \$ 10,904,644                 |
| <b>LIABILITIES AND SHAREHOLDERS EQUITY</b>     |                                           |                                                        |                                         |                                                         |                                      |                               |
| Current liabilities:                           |                                           |                                                        |                                         |                                                         |                                      |                               |
| Current portion of<br>long-term debt           | \$                                        | \$ 588,733                                             | \$                                      | \$ 114                                                  | \$                                   | \$ 588,847                    |
| Trade accounts payable                         | 1                                         | 24                                                     |                                         | 317,777                                                 |                                      | 317,802                       |
| Accrued liabilities                            | 3,859                                     | 22,215                                                 | 4,150                                   | 293,803                                                 |                                      | 324,027                       |
| Income taxes payable                           |                                           | 81,385                                                 | 5,273                                   | 48,346                                                  |                                      | 135,004                       |
| Total current liabilities                      | 3,860                                     | 692,357                                                | 9,423                                   | 660,040                                                 |                                      | 1,365,680                     |
| Long-term debt                                 |                                           | 3,596,967                                              | 224,695                                 | 623                                                     |                                      | 3,822,285                     |
| Other long-term liabilities                    |                                           | 3,655                                                  |                                         | 266,405                                                 |                                      | 270,060                       |
| Deferred income taxes                          |                                           | 15,131                                                 | 73                                      | 497,756                                                 |                                      | 512,960                       |
| Intercompany payable                           |                                           |                                                        | (161,702)                               | 2,158,849                                               | (1,997,147)                          |                               |

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|                                            |              |              |            |               |                 |               |
|--------------------------------------------|--------------|--------------|------------|---------------|-----------------|---------------|
| Total liabilities                          | 3,860        | 4,308,110    | 72,489     | 3,583,673     | (1,997,147)     | 5,970,985     |
| Shareholders' equity                       | 4,933,659    | 1,933,104    | 299,239    | 9,563,014     | (11,795,357)    | 4,933,659     |
| Total liabilities and shareholders' equity | \$ 4,937,519 | \$ 6,241,214 | \$ 371,728 | \$ 13,146,687 | \$ (13,792,504) | \$ 10,904,644 |

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

| (In thousands)                                 | December 31, 2007                |                                              |                                |                                               |                 | 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) |                 |                              |                       |
| ASSETS                                         |                                  |                                              |                                |                                               |                 |                              |                       |
| Current assets:                                |                                  |                                              |                                |                                               |                 |                              |                       |
| Cash and cash equivalents                      | \$ 10,659                        | \$ 2,753                                     | \$ 4                           | \$ 517,890                                    | \$              | \$                           | 531,306               |
| Short-term investments                         |                                  |                                              |                                | 235,745                                       |                 |                              | 235,745               |
| Accounts receivable, net                       |                                  |                                              |                                | 1,039,238                                     |                 |                              | 1,039,238             |
| Inventory                                      |                                  |                                              |                                | 133,786                                       |                 |                              | 133,786               |
| Deferred income taxes                          |                                  |                                              |                                | 12,757                                        |                 |                              | 12,757                |
| Other current assets                           | 136                              | 1,039                                        | 376                            | 250,729                                       |                 |                              | 252,280               |
| Total current assets                           | 10,795                           | 3,792                                        | 380                            | 2,190,145                                     |                 |                              | 2,205,112             |
| Long-term investments<br>and other receivables |                                  |                                              |                                | 359,534                                       |                 |                              | 359,534               |
| Property, plant and<br>equipment, net          |                                  |                                              |                                | 6,632,612                                     |                 |                              | 6,632,612             |
| Goodwill                                       |                                  |                                              |                                | 368,432                                       |                 |                              | 368,432               |
| Intercompany receivables                       | 361,832                          | 1,224,222                                    |                                | 19,918                                        | (1,605,972)     |                              |                       |
| Investments in affiliates                      | 4,148,256                        | 4,429,139                                    | 304,450                        | 2,306,797                                     | (10,783,800)    |                              | 404,842               |
| Other long-term assets                         |                                  | 22,180                                       | 638                            | 110,032                                       |                 |                              | 132,850               |
| Total assets                                   | \$ 4,520,883                     | \$ 5,679,333                                 | \$ 305,468                     | \$ 11,987,470                                 | \$ (12,389,772) | \$                           | 10,103,382            |
| LIABILITIES AND SHAREHOLDERS EQUITY            |                                  |                                              |                                |                                               |                 |                              |                       |
| Current liabilities:                           |                                  |                                              |                                |                                               |                 |                              |                       |
| Current portion of<br>long-term debt           | \$                               | \$ 700,000                                   | \$                             | \$                                            | \$              | \$                           | 700,000               |
| Trade accounts payable                         | 2                                | 24                                           |                                | 348,498                                       |                 |                              | 348,524               |
| Accrued liabilities                            | 6,760                            | 8,877                                        | 4,151                          | 328,727                                       |                 |                              | 348,515               |
| Income taxes payable                           |                                  | 71,761                                       | 2,411                          | 22,921                                        |                 |                              | 97,093                |
| Total current liabilities                      | 6,762                            | 780,662                                      | 6,562                          | 700,146                                       |                 |                              | 1,494,132             |
| Long-term debt                                 |                                  | 3,081,871                                    | 224,562                        |                                               |                 |                              | 3,306,433             |
| Other long-term liabilities                    |                                  | 1,900                                        |                                | 244,814                                       |                 |                              | 246,714               |
| Deferred income taxes                          |                                  | 15,131                                       | 16                             | 526,835                                       |                 |                              | 541,982               |
| Intercompany payable                           |                                  |                                              | 193                            | 1,605,779                                     | (1,605,972)     |                              |                       |
| Total liabilities                              | 6,762                            | 3,879,564                                    | 231,333                        | 3,077,574                                     | (1,605,972)     |                              | 5,589,261             |

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|                                            |              |              |            |               |                 |               |
|--------------------------------------------|--------------|--------------|------------|---------------|-----------------|---------------|
| Shareholders' equity                       | 4,514,121    | 1,799,769    | 74,135     | 8,909,896     | (10,783,800)    | 4,514,121     |
| Total liabilities and shareholders' equity | \$ 4,520,883 | \$ 5,679,333 | \$ 305,468 | \$ 11,987,470 | \$ (12,389,772) | \$ 10,103,382 |

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 June 30, 2008</b>   |                                                        |                                         |                                                         |                                      | <b>Consolidated Total</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> |                           |
| Revenues and other income:                                                                       |                                           |                                                        |                                         |                                                         |                                      |                           |
| Operating revenues                                                                               | \$                                        | \$                                                     | \$                                      | \$ 1,282,400                                            | \$                                   | \$ 1,282,400              |
| Earnings (losses) from unconsolidated affiliates                                                 |                                           |                                                        |                                         | (4,033)                                                 |                                      | (4,033)                   |
| Earnings from consolidated affiliates                                                            | 198,280                                   | 105,611                                                | 3,637                                   | 111,066                                                 | (418,594)                            |                           |
| Investment income (loss)                                                                         | 52                                        |                                                        |                                         | 25,005                                                  |                                      | 25,057                    |
| Intercompany interest income                                                                     | 1,000                                     | 17,039                                                 |                                         |                                                         | (18,039)                             |                           |
| Total revenues and other income                                                                  | 199,332                                   | 122,650                                                | 3,637                                   | 1,414,438                                               | (436,633)                            | 1,303,424                 |
| Costs and other deductions:                                                                      |                                           |                                                        |                                         |                                                         |                                      |                           |
| Direct costs                                                                                     |                                           |                                                        |                                         | 740,178                                                 |                                      | 740,178                   |
| General and administrative expenses                                                              | 4,971                                     | 234                                                    |                                         | 111,995                                                 | (286)                                | 116,914                   |
| Depreciation and amortization                                                                    |                                           | 150                                                    |                                         | 147,873                                                 |                                      | 148,023                   |
| Depletion                                                                                        |                                           |                                                        |                                         | 7,343                                                   |                                      | 7,343                     |
| Interest expense                                                                                 |                                           | 21,621                                                 | 2,860                                   | (2,805)                                                 |                                      | 21,676                    |
| Intercompany interest expense                                                                    |                                           |                                                        | 2,234                                   | 15,805                                                  | (18,039)                             |                           |
| Losses (gains) on sales of long-lived assets, impairment charges and other expense (income), net |                                           | (1,544)                                                | (7,146)                                 | 11,562                                                  | 286                                  | 3,158                     |
| Total costs and other deductions                                                                 | 4,971                                     | 20,461                                                 | (2,052)                                 | 1,031,951                                               | (18,039)                             | 1,037,292                 |
| Income from continuing operations before income taxes                                            | 194,361                                   | 102,189                                                | 5,689                                   | 382,487                                                 | (418,594)                            | 266,132                   |

|                                                    |            |            |          |            |              |            |
|----------------------------------------------------|------------|------------|----------|------------|--------------|------------|
| Income tax (benefit)<br>expense                    |            | (1,266)    | 1,820    | 71,217     |              | 71,771     |
| Income from continuing<br>operations, net of tax   | 194,361    | 103,455    | 3,869    | 311,270    | (418,594)    | 194,361    |
| Income from discontinued<br>operations, net of tax |            |            |          |            |              |            |
| Net income                                         | \$ 194,361 | \$ 103,455 | \$ 3,869 | \$ 311,270 | \$ (418,594) | \$ 194,361 |

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

| <i>(In thousands)</i>                                                                                     | <b>Three Months Ended June 30, 2007</b>   |                                                        |                                         |                                                         |                                      | <b>Consolidated Total</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> |                           |
| Revenues and other income:                                                                                |                                           |                                                        |                                         |                                                         |                                      |                           |
| Operating revenues                                                                                        | \$                                        | \$                                                     | \$                                      | \$ 1,134,684                                            | \$                                   | \$ 1,134,684              |
| Earnings from<br>unconsolidated affiliates                                                                |                                           |                                                        |                                         | 3,436                                                   |                                      | 3,436                     |
| Earnings from consolidated<br>affiliates                                                                  | 223,955                                   | 52,162                                                 | 3,644                                   | 62,874                                                  | (342,635)                            |                           |
| Investment income (loss)                                                                                  | 107                                       | 36                                                     |                                         | (9,415)                                                 |                                      | (9,272)                   |
| Intercompany interest<br>income                                                                           | 667                                       | 21,263                                                 | 1                                       |                                                         | (21,931)                             |                           |
| Total revenues and other<br>income                                                                        | 224,729                                   | 73,461                                                 | 3,645                                   | 1,191,579                                               | (364,566)                            | 1,128,848                 |
| Costs and other deductions:                                                                               |                                           |                                                        |                                         |                                                         |                                      |                           |
| Direct costs                                                                                              |                                           |                                                        |                                         | 637,104                                                 |                                      | 637,104                   |
| General and administrative<br>expenses                                                                    | 3,867                                     | 133                                                    |                                         | 96,096                                                  | (144)                                | 99,952                    |
| Depreciation and<br>amortization                                                                          |                                           | 150                                                    |                                         | 111,222                                                 |                                      | 111,372                   |
| Depletion                                                                                                 |                                           |                                                        |                                         | 9,160                                                   |                                      | 9,160                     |
| Interest expense                                                                                          |                                           | 12,776                                                 | 2,872                                   | (1,915)                                                 |                                      | 13,733                    |
| Intercompany interest<br>expense                                                                          |                                           |                                                        |                                         | 21,931                                                  | (21,931)                             |                           |
| Losses (gains) on sales of<br>long-lived assets, impairment<br>charges and other expense<br>(income), net |                                           | (941)                                                  |                                         | (38,837)                                                | 144                                  | (39,634)                  |
| Total costs and other<br>deductions                                                                       | 3,867                                     | 12,118                                                 | 2,872                                   | 834,761                                                 | (21,931)                             | 831,687                   |
| Income from continuing<br>operations before income<br>taxes                                               | 220,862                                   | 61,343                                                 | 773                                     | 356,818                                                 | (342,635)                            | 297,161                   |
| Income tax (benefit) expense                                                                              |                                           | 3,397                                                  | 247                                     | 72,655                                                  |                                      | 76,299                    |
|                                                                                                           | 220,862                                   | 57,946                                                 | 526                                     | 284,163                                                 | (342,635)                            | 220,862                   |

|                                                 |            |           |        |            |              |            |  |
|-------------------------------------------------|------------|-----------|--------|------------|--------------|------------|--|
| Income from continuing operations, net of tax   |            |           |        |            |              |            |  |
| Income from discontinued operations, net of tax | 7,487      | 7,487     |        | 14,974     | (22,461)     | 7,487      |  |
| Net income                                      | \$ 228,349 | \$ 65,433 | \$ 526 | \$ 299,137 | \$ (365,096) | \$ 228,349 |  |

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

| <i>(In thousands)</i>                                                                            | Six Months Ended June 30, 2008   |                                              |                                |                                               |                              | 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) | Consolidating<br>Adjustments |                       |
| Revenues and other income:                                                                       |                                  |                                              |                                |                                               |                              |                       |
| Operating revenues                                                                               | \$                               | \$                                           | \$                             | \$ 2,582,258                                  | \$                           | \$ 2,582,258          |
| Earnings (losses) from unconsolidated affiliates                                                 |                                  |                                              |                                | (8,484)                                       |                              | (8,484)               |
| Earnings from consolidated affiliates                                                            | 432,054                          | 244,816                                      | 11,981                         | 254,743                                       | (943,594)                    |                       |
| Investment income (loss)                                                                         | 194                              | 127                                          |                                | 50,918                                        |                              | 51,239                |
| Intercompany interest income                                                                     | 2,000                            | 36,842                                       |                                |                                               | (38,842)                     |                       |
| Total revenues and other income                                                                  | 434,248                          | 281,785                                      | 11,981                         | 2,879,435                                     | (982,436)                    | 2,625,013             |
| Costs and other deductions:                                                                      |                                  |                                              |                                |                                               |                              |                       |
| Direct costs                                                                                     |                                  |                                              |                                | 1,487,948                                     |                              | 1,487,948             |
| General and administrative expenses                                                              | 9,381                            | 274                                          | 29                             | 219,008                                       | (457)                        | 228,235               |
| Depreciation and amortization                                                                    |                                  | 300                                          |                                | 283,201                                       |                              | 283,501               |
| Depletion                                                                                        |                                  |                                              |                                | 21,028                                        |                              | 21,028                |
| Interest expense                                                                                 |                                  | 38,883                                       | 5,720                          | (4,818)                                       |                              | 39,785                |
| Intercompany interest expense                                                                    |                                  |                                              |                                | 38,842                                        | (38,842)                     |                       |
| Losses (gains) on sales of long-lived assets, impairment charges and other expense (income), net |                                  | (132)                                        | (4,214)                        | 15,144                                        | 457                          | 11,255                |
| Total costs and other deductions                                                                 | 9,381                            | 39,325                                       | 1,535                          | 2,060,353                                     | (38,842)                     | 2,071,752             |
| Income from continuing operations before income taxes                                            | 424,867                          | 242,460                                      | 10,446                         | 819,082                                       | (943,594)                    | 553,261               |
| Income tax (benefit) expense                                                                     |                                  | (872)                                        | 3,342                          | 125,924                                       |                              | 128,394               |

|                                                 |            |            |          |            |              |            |
|-------------------------------------------------|------------|------------|----------|------------|--------------|------------|
| Income from continuing operations, net of tax   | 424,867    | 243,332    | 7,104    | 693,158    | (943,594)    | 424,867    |
| Income from discontinued operations, net of tax |            |            |          |            |              |            |
| Net income                                      | \$ 424,867 | \$ 243,332 | \$ 7,104 | \$ 693,158 | \$ (943,594) | \$ 424,867 |

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

| <i>(In thousands)</i>                                                                            | Six Months Ended June 30, 2007   |                                              |                                |                                               |                              | 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) | Consolidating<br>Adjustments |                       |
| Revenues and other income:                                                                       |                                  |                                              |                                |                                               |                              |                       |
| Operating revenues                                                                               | \$                               | \$                                           | \$                             | \$ 2,370,697                                  | \$                           | \$ 2,370,697          |
| Earnings from unconsolidated affiliates                                                          |                                  |                                              |                                | 15,877                                        |                              | 15,877                |
| Earnings from consolidated affiliates                                                            | 484,696                          | 204,587                                      | 10,265                         | 223,210                                       | (922,758)                    |                       |
| Investment income (loss)                                                                         | 334                              | 57                                           |                                | 19,046                                        |                              | 19,437                |
| Intercompany interest income                                                                     | 1,656                            | 40,664                                       | 1                              |                                               | (42,321)                     |                       |
| Total revenues and other income                                                                  | 486,686                          | 245,308                                      | 10,266                         | 2,628,830                                     | (965,079)                    | 2,406,011             |
| Costs and other deductions:                                                                      |                                  |                                              |                                |                                               |                              |                       |
| Direct costs                                                                                     |                                  |                                              |                                | 1,321,401                                     |                              | 1,321,401             |
| General and administrative expenses                                                              | 8,519                            | 13                                           | 2                              | 205,629                                       | (314)                        | 213,849               |
| Depreciation and amortization                                                                    |                                  | 300                                          |                                | 214,680                                       |                              | 214,980               |
| Depletion                                                                                        |                                  |                                              |                                | 15,785                                        |                              | 15,785                |
| Interest expense                                                                                 |                                  | 25,555                                       | 5,732                          | (4,502)                                       |                              | 26,785                |
| Intercompany interest expense                                                                    | 415                              |                                              |                                | 41,906                                        | (42,321)                     |                       |
| Losses (gains) on sales of long-lived assets, impairment charges and other expense (income), net |                                  | (966)                                        |                                | (25,097)                                      | 314                          | (25,749)              |
| Total costs and other deductions                                                                 | 8,934                            | 24,902                                       | 5,734                          | 1,769,802                                     | (42,321)                     | 1,767,051             |
| Income from continuing operations before income taxes                                            | 477,752                          | 220,406                                      | 4,532                          | 859,028                                       | (922,758)                    | 638,960               |
| Income tax (benefit) expense                                                                     |                                  | 5,853                                        | 1,450                          | 153,905                                       |                              | 161,208               |

|                                                 |            |            |          |            |              |            |
|-------------------------------------------------|------------|------------|----------|------------|--------------|------------|
| Income from continuing operations, net of tax   | 477,752    | 214,553    | 3,082    | 705,123    | (922,758)    | 477,752    |
| Income from discontinued operations, net of tax | 12,759     | 12,759     |          | 25,518     | (38,277)     | 12,759     |
| Net income                                      | \$ 490,511 | \$ 227,312 | \$ 3,082 | \$ 730,641 | \$ (961,035) | \$ 490,511 |

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

| <i>(In thousands)</i>                                      | Six Months Ended June 30, 2008   |                                              |                                |                                               |                              | 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) | Consolidating<br>Adjustments |                       |
| Net cash provided by<br>(used for) operating<br>activities | \$ (25,929)                      | \$ (168,066)                                 | \$ (163,530)                   | \$ 1,139,181                                  | \$ (158,126)                 | \$ 623,530            |
| Cash flows from investing<br>activities:                   |                                  |                                              |                                |                                               |                              |                       |
| Purchases of investments                                   |                                  |                                              |                                | (190,509)                                     |                              | (190,509)             |
| Sales and maturities of<br>investments                     |                                  |                                              |                                | 399,669                                       |                              | 399,669               |
| Investment in<br>unconsolidated affiliates                 |                                  |                                              |                                | (47,452)                                      |                              | (47,452)              |
| Capital expenditures                                       |                                  |                                              |                                | (743,360)                                     |                              | (743,360)             |
| Proceeds from sales of<br>assets and insurance<br>claims   |                                  |                                              |                                | 16,998                                        |                              | 16,998                |
| Cash paid for investments<br>in consolidated affiliates    | (7,800)                          | (150,626)                                    |                                | (163,548)                                     | 321,974                      |                       |
| Net cash provided by<br>(used for) investing<br>activities | (7,800)                          | (150,626)                                    |                                | (728,202)                                     | 321,974                      | (564,654)             |
| Cash flows from financing<br>activities:                   |                                  |                                              |                                |                                               |                              |                       |
| Increase in cash overdrafts                                |                                  |                                              |                                | 15,771                                        |                              | 15,771                |
| Proceeds from long-term<br>debt                            |                                  | 575,219                                      |                                |                                               |                              | 575,219               |
| Debt issuance costs                                        |                                  | (4,460)                                      |                                |                                               |                              | (4,460)               |
| Proceeds from issuance of<br>common shares                 | 53,587                           |                                              |                                |                                               |                              | 53,587                |
| Reduction in long-term<br>debt                             |                                  | (171,788)                                    |                                |                                               |                              | (171,788)             |
| Repurchase of common<br>shares                             |                                  | (87,800)                                     |                                | (62,314)                                      |                              | (150,114)             |
|                                                            | (11,667)                         |                                              |                                |                                               |                              | (11,667)              |

|                                                              |           |         |         |            |           |            |
|--------------------------------------------------------------|-----------|---------|---------|------------|-----------|------------|
| Purchase of restricted stock                                 |           |         |         |            |           |            |
| Tax benefit related to the exercise of stock options         |           | 4,771   |         |            |           | 4,771      |
| Proceeds from parent contributions                           |           |         | 163,548 | 158,426    | (321,974) |            |
| Cash dividends paid                                          |           |         |         | (158,126)  | 158,126   |            |
| Net cash (used for) provided by financing activities         | 41,920    | 315,942 | 163,548 | (46,243)   | (163,848) | 311,319    |
| Effect of exchange rate changes on cash and cash equivalents |           |         |         | 2,320      |           | 2,320      |
| Net (decrease) increase in cash and cash equivalents         | 8,191     | (2,750) | 18      | 367,056    |           | 372,515    |
| Cash and cash equivalents, beginning of period               | 10,659    | 2,753   | 4       | 517,890    |           | 531,306    |
| Cash and cash equivalents, end of period                     | \$ 18,850 | \$ 3    | \$ 22   | \$ 884,946 | \$        | \$ 903,821 |

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

| <i>(In thousands)</i>                                | Six Months Ended June 30, 2007            |                                                        |                                         |                                                         |                                      |                               |
|------------------------------------------------------|-------------------------------------------|--------------------------------------------------------|-----------------------------------------|---------------------------------------------------------|--------------------------------------|-------------------------------|
|                                                      | <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> |
| Net cash provided by (used for) operating activities | \$ (68,675)                               | \$ 4,553                                               | \$ (5,484)                              | \$ 730,475                                              | \$ (5,484)                           | \$ 655,385                    |
| Cash flows from investing activities:                |                                           |                                                        |                                         |                                                         |                                      |                               |
| Purchases of investments                             |                                           |                                                        |                                         | (203,222)                                               |                                      | (203,222)                     |
| Sales and maturities of investments                  |                                           | 436                                                    |                                         | 365,803                                                 |                                      | 366,239                       |
| Cash paid for acquisitions of businesses, net        |                                           |                                                        |                                         | (8,391)                                                 |                                      | (8,391)                       |
| Investment in unconsolidated affiliates              |                                           |                                                        |                                         | (8,433)                                                 |                                      | (8,433)                       |
| Capital expenditures                                 |                                           |                                                        |                                         | (1,095,496)                                             |                                      | (1,095,496)                   |
| Proceeds from sales of assets and insurance claims   |                                           |                                                        |                                         | 119,447                                                 |                                      | 119,447                       |
| Cash paid for investments in consolidated affiliates |                                           | (5,484)                                                |                                         | (5,484)                                                 | 10,968                               |                               |
| Net cash provided by (used for) investing activities |                                           | (5,048)                                                |                                         | (835,776)                                               | 10,968                               | (829,856)                     |
| Cash flows from financing activities:                |                                           |                                                        |                                         |                                                         |                                      |                               |
| Increase in cash overdrafts                          |                                           |                                                        |                                         | 12,042                                                  |                                      | 12,042                        |
| Proceeds from issuance of common shares              | 67,824                                    |                                                        |                                         |                                                         |                                      | 67,824                        |
| Purchase of restricted stock                         | (1,811)                                   |                                                        |                                         |                                                         |                                      | (1,811)                       |
| Tax benefit related to the exercise of stock options |                                           | 784                                                    |                                         |                                                         |                                      | 784                           |
| Proceeds from parent contributions                   |                                           |                                                        | 5,484                                   | 5,484                                                   | (10,968)                             |                               |
| Cash dividends paid                                  |                                           |                                                        |                                         | (5,484)                                                 | 5,484                                |                               |
| Net cash (used for) provided by financing activities | 66,013                                    | 784                                                    | 5,484                                   | 12,042                                                  | (5,484)                              | 78,839                        |
|                                                      |                                           |                                                        |                                         | 3,822                                                   |                                      | 3,822                         |

Effect of exchange rate  
changes on cash and cash  
equivalents

|                                                         |           |          |      |            |    |            |
|---------------------------------------------------------|-----------|----------|------|------------|----|------------|
| Net (decrease) increase in<br>cash and cash equivalents | (2,662)   | 289      |      | (89,437)   |    | (91,810)   |
| Cash and cash equivalents,<br>beginning of period       | 14,874    | 2,394    | 8    | 683,273    |    | 700,549    |
| Cash and cash equivalents,<br>end of period             | \$ 12,212 | \$ 2,683 | \$ 8 | \$ 593,836 | \$ | \$ 608,739 |

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**NABORS INDUSTRIES LTD. AND SUBSIDIARIES**

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

**Note 14 Subsequent Event**

On July 17, 2008, Nabors Delaware completed a private placement of \$400 million aggregate principal amount of 6.15% senior notes due 2018 with registration rights, which are unsecured and are fully and unconditionally guaranteed by us. These new senior notes were an additional issuance under the indenture pursuant to which Nabors Delaware issued \$575 million 6.15% senior notes due 2018 on February 20, 2008 and are subject to the same rates, terms and conditions and together will be treated as a single class of debt securities under the indenture. The \$400 million aggregate principal amount of 6.15% senior notes due 2018 was resold by the initial purchasers to qualified institutional buyers under Rule 144A of the Securities Act. The senior notes bear interest at a rate of 6.15% per year, payable semiannually on February 15 and August 15 of each year, beginning August 15, 2008. The senior notes will mature on February 15, 2018. We intend to use the proceeds of the offering for general corporate purposes.

We and Nabors Delaware intend to file a registration statement with the SEC with respect to an offer to exchange the notes for other notes which will be registered and have terms substantially identical in all material respects to these notes pursuant to the applicable registration rights agreement, within 50 days following the original issue date of the notes.

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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 June 30, 2008, and the related consolidated statements of income for each of the three-month and six-month periods ended June 30, 2008 and 2007, and the consolidated statements of cash flows and of changes in shareholders' equity for the six-month periods ended June 30, 2008 and 2007. 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, 2007, and the related consolidated statements of income, of cash flows, and of changes in shareholders' equity for the year then ended (not presented herein), and in our report dated February 28, 2008, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying consolidated balance sheet information as of December 31, 2007, is fairly stated in all material respects in relation to the consolidated balance sheet from which it has been derived.

Houston, Texas  
July 31, 2008

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

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

- fluctuations in worldwide prices of and demand for natural gas and oil;
- fluctuations in levels of natural gas and oil exploration and development activities;
- fluctuations in the demand for our services;
- 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, 2007 filed with the SEC on February 28, 2008, 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, with approximately 548 actively marketed land drilling rigs. We conduct oil, gas and geothermal land drilling operations in the U.S. Lower 48 states, Alaska, Canada, South America, Mexico, the Caribbean, the Middle East, the Far East, Russia and Africa. We are also one of the largest land well-servicing and workover contractors in the United States and Canada. We actively market approximately 577 land workover and well-servicing rigs in the United States, primarily in the southwestern and western United States, and actively market approximately 172 land workover and well-servicing rigs in Canada. Nabors is a leading provider of offshore platform workover and drilling rigs, and actively markets 36 platform rigs, 13 jack-up units and 4 barge rigs in the United States and multiple international markets. These rigs provide well-servicing, workover and drilling services. We have a 51% ownership interest in a joint venture in Saudi Arabia, which owns and actively markets 9 rigs in addition to the rigs we lease to the joint venture. We also offer a wide

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range of ancillary well-site services, including engineering, transportation, construction, maintenance, well logging, directional drilling, rig instrumentation, data collection and other support services in selected domestic and international markets. We provide logistics services for onshore drilling in Canada using helicopters and fixed-winged aircraft. We manufacture and lease or sell top drives for a broad range of drilling applications, directional drilling systems, rig instrumentation and data collection equipment, pipeline handling equipment and rig reporting software. We also invest in oil and gas exploration, development and production activities and have 49% ownership interests in joint ventures in the U.S., Canada and International areas.

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

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 and Canadian drilling operations, while oil prices are the primary driver of our Alaskan, International, U.S. Offshore (Gulf of Mexico), Canadian Well-servicing and U.S. Land Well-servicing operations. The Henry Hub natural gas spot price (per Bloomberg) averaged \$8.31 per million cubic feet (mcf) during the period from July 1, 2007 through June 30, 2008, up from a \$6.87 per mcf average during the period from July 1, 2006 through June 30, 2007. West Texas intermediate spot oil prices (per Bloomberg) averaged \$96.97 per barrel during the period from July 1, 2007 through June 30, 2008, up from a \$63.40 per barrel average during the period from July 1, 2006 through June 30, 2007.

Operating revenues and earnings from unconsolidated affiliates for the three months ended June 30, 2008 totaled \$1.3 billion, representing an increase of \$140.2 million, or 12% as compared to the three months ended June 30, 2007 and \$2.6 billion for the six months ended June 30, 2008, representing an increase of \$187.2 million, or 8% as compared to the six months ended June 30, 2007. Adjusted income derived from operating activities and net income for the three months ended June 30, 2008 totaled \$265.9 million and \$194.4 million (\$.67 per diluted share), respectively, representing decreases of 5% and 15%, respectively, compared to the three months ended June 30, 2007. Adjusted income derived from operating activities and net income for the six months ended June 30, 2008 totaled \$553.1 million and \$424.9 million (\$1.48 per diluted share), respectively, representing decreases of 11% and 13%, respectively, compared to the six months ended June 30, 2007.

The decrease in our adjusted income derived from operating activities during the three and six months ended June 30, 2008 as compared to the three and six months ended June 30, 2007 related primarily to our U.S. Lower 48 Land Drilling, Canada Drilling and Well-servicing, U.S. Offshore and our U.S. Land Well-servicing operations, where activity levels have decreased despite higher natural gas prices and higher oil prices. Operating results were further negatively impacted by higher levels of depreciation expense due to our capital expenditures. Partially offsetting the decreases in our adjusted income derived from operating activities were the increases in operating results from our International operations, driven by continuing high oil prices.

Our operating results for 2008 are expected to approximate the levels realized during 2007. We expect our International operations to show substantial increases resulting from the deployment of additional rigs under long-term contracts and the renewal of existing contracts at higher current market rates. However, our North American

natural gas driven operations are expected to decrease. In our U.S. Lower 48 Land Drilling operations, we expect a significant number of expiring term contracts for older rigs to rollover in 2008 at lower margins. These decreases should be partially offset by the remaining new rig deployments at higher margins and improved margins of the previously deployed new rigs. We expect our Canadian operations to decrease as a result of the depressed market conditions there.

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

| cept percentages and rig activity)    | Three Months Ended<br>June 30, |              | Increase<br>(Decrease) |        | Six Months Ended<br>June 30, |              |             |
|---------------------------------------|--------------------------------|--------------|------------------------|--------|------------------------------|--------------|-------------|
|                                       | 2008                           | 2007         |                        |        | 2008                         | 2007         |             |
| ts:                                   |                                |              |                        |        |                              |              |             |
| s and Earnings from unconsolidated    |                                |              |                        |        |                              |              |             |
| tinuing operations(1) :               |                                |              |                        |        |                              |              |             |
| 2)                                    |                                |              |                        |        |                              |              |             |
| nd Drilling                           | \$ 438,848                     | \$ 426,787   | \$ 12,061              | 3%     | \$ 845,909                   | \$ 879,383   | \$ (33,474) |
| rvicing                               | 182,222                        | 182,410      | (188)                  | (0)%   | 353,363                      | 364,628      | (11,265)    |
|                                       | 65,723                         | 60,316       | 5,407                  | 9%     | 117,178                      | 116,091      | 1,087       |
|                                       | 45,114                         | 36,777       | 8,337                  | 23%    | 99,483                       | 84,613       | 14,870      |
|                                       | 67,782                         | 75,088       | (7,306)                | (10)%  | 246,634                      | 268,368      | (21,734)    |
|                                       | 342,892                        | 261,262      | 81,630                 | 31%    | 646,464                      | 485,744      | 160,720     |
| Drilling(3)                           | 1,142,581                      | 1,042,640    | 99,941                 | 10%    | 2,309,031                    | 2,198,827    | 110,204     |
|                                       | 11,352                         | 18,110       | (6,758)                | (37)%  | 25,392                       | 31,239       | (5,847)     |
| egments(6)(7)                         | 172,865                        | 140,024      | 32,841                 | 23%    | 338,647                      | 270,374      | 68,273      |
| tems(8)                               | (48,431)                       | (62,654)     | 14,223                 | 23%    | (99,296)                     | (113,866)    | 14,570      |
|                                       | \$ 1,278,367                   | \$ 1,138,120 | \$ 140,247             | 12%    | \$ 2,573,774                 | \$ 2,386,574 | \$ 187,200  |
| ross) derived from operating          |                                |              |                        |        |                              |              |             |
| tinuing operations(1)(9):             |                                |              |                        |        |                              |              |             |
| nd Drilling                           | \$ 134,322                     | \$ 154,667   | \$ (20,345)            | (13)%  | \$ 261,193                   | \$ 327,593   | \$ (66,400) |
| rvicing                               | 31,468                         | 40,105       | (8,637)                | (22)%  | 61,854                       | 83,461       | (21,607)    |
|                                       | 17,983                         | 19,206       | (1,223)                | (6)%   | 24,441                       | 34,255       | (9,814)     |
|                                       | 13,466                         | 8,225        | 5,241                  | 64%    | 31,249                       | 24,792       | 6,457       |
|                                       | (14,326)                       | (7,992)      | (6,334)                | (79)%  | 27,647                       | 45,136       | (17,489)    |
|                                       | 101,752                        | 85,409       | 16,343                 | 19%    | 192,402                      | 151,427      | 40,975      |
| Drilling(3)                           | 284,665                        | 299,620      | (14,955)               | (5)%   | 598,786                      | 666,664      | (67,878)    |
|                                       | (1,645)                        | 3,374        | (5,019)                | (149)% | (6,497)                      | 4,502        | (11,001)    |
| egments(6)                            | 19,006                         | 6,739        | 12,267                 | 182%   | 31,440                       | 18,333       | 13,107      |
| tems(10)                              | (36,117)                       | (29,201)     | (6,916)                | (24)%  | (70,667)                     | (68,940)     | (1,727)     |
|                                       | 265,909                        | 280,532      | (14,623)               | (5)%   | 553,062                      | 620,559      | (67,497)    |
|                                       | (21,676)                       | (13,733)     | (7,943)                | (58)%  | (39,785)                     | (26,785)     | (13,000)    |
| (loss)                                | 25,057                         | (9,272)      | 34,329                 | 370%   | 51,239                       | 19,437       | 31,802      |
| ales of long-lived assets, impairment |                                |              |                        |        |                              |              |             |
| ncome (expense), net                  | (3,158)                        | 39,634       | (42,792)               | (108)% | (11,255)                     | 25,749       | (37,004)    |
| tinuing operations before income      | \$ 266,132                     | \$ 297,161   | \$ (31,029)            | (10)%  | \$ 553,261                   | \$ 638,960   | \$ (85,699) |

|                |         |         |          |      |         |         |
|----------------|---------|---------|----------|------|---------|---------|
| Land Drilling  | 242.3   | 228.5   | 13.8     | 6%   | 234.0   | 235.7   |
|                | 17.1    | 17.6    | (0.5)    | (3)% | 16.6    | 17.4    |
|                | 10.4    | 8.8     | 1.6      | 18%  | 10.5    | 9.1     |
|                | 16.9    | 18.5    | (1.6)    | (9)% | 33.1    | 38.2    |
|                | 121.5   | 117.1   | 4.4      | 4%   | 119.6   | 114.4   |
|                | 408.2   | 390.5   | 17.7     | 5%   | 413.8   | 414.8   |
| Well Servicing | 272,101 | 291,430 | (19,329) | (7)% | 531,578 | 590,518 |
|                | 40,257  | 41,613  | (1,356)  | (3)% | 119,394 | 139,201 |
|                | 312,358 | 333,043 | (20,685) | (6)% | 650,972 | 729,719 |

(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.

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- (3) Includes earnings (losses), net from unconsolidated affiliates, accounted for by the equity method, of \$2.8 million and \$.7 million for the three months ended June 30, 2008 and 2007, respectively, and \$9.6 million and \$2.5 million for the six months ended June 30, 2008 and 2007, 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 \$(6.7) million and \$(.8) million for the three months ended June 30, 2008 and 2007, respectively, and \$(24.6) million and \$(.8) million for the six months ended June 30, 2008 and 2007, respectively.
- (6) Includes our drilling technology and top drive manufacturing, directional drilling, rig instrumentation and software, and construction and logistics operations.
- (7) Includes earnings (losses), net from unconsolidated affiliates, accounted for by the equity method, of \$(.1) million and \$3.5 million for the three months ended June 30, 2008 and 2007, respectively, and \$6.6 million and \$14.2 million for the six months ended June 30, 2008 and 2007, respectively.
- (8) Represents the elimination of inter-segment transactions.
- (9) Adjusted income derived from operating activities is computed by: subtracting direct costs, general and administrative expenses, and depreciation and amortization, and depletion expense from Operating revenues and then adding Earnings from unconsolidated affiliates. Such amounts should not be used as a substitute to those amounts reported under accounting principles generally accepted in the United States of America (GAAP). However, management evaluates the performance of our business units and the consolidated company based on several criteria, including adjusted income derived from operating activities, because it believes that this financial measure is an accurate reflection of the ongoing profitability of our Company. A reconciliation of this non-GAAP measure to income from continuing operations before income taxes, which is a GAAP measure, is provided within the above table.
- (10) 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 six months ended June 30, 2008 and 2007.
- (13) Rig hours represents the number of hours that our well-servicing rig fleet operated during the year.

## **Segment Results of Operations**

### ***Contract Drilling***

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

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

|                                          | Three Months Ended<br>June 30, |            | Increase<br>(Decrease) |       | Six Months Ended<br>June 30, |            | Incr<br>(Decr |
|------------------------------------------|--------------------------------|------------|------------------------|-------|------------------------------|------------|---------------|
| ls, except percentages and rig activity) | 2008                           | 2007       |                        |       | 2008                         | 2007       | (Decr         |
| venues and Earnings from unconsolidated  | \$ 438,848                     | \$ 426,787 | \$ 12,061              | 3%    | \$ 845,909                   | \$ 879,383 | \$ (33,474    |
| ome derived from operating activities    | \$ 134,322                     | \$ 154,667 | \$ (20,345)            | (13)% | \$ 261,193                   | \$ 327,593 | \$ (66,400    |
|                                          | 242.3                          | 228.5      | 13.8                   | 6%    | 234.0                        | 235.7      | (1.7          |

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The decrease in operating results during the three months ended June 30, 2008 compared to the prior year period is due to higher drilling rig operating costs and an increase in depreciation expense related to capital expansion projects. The decrease is only partially offset by increases in drilling activity and slightly higher average dayrates due to rising natural gas prices.

The decrease in operating results during the six months ended June 30, 2008 compared to the prior year period is due to higher drilling rig operating costs, as discussed above, and slightly lower drilling activity and lower average dayrates.

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

|                                                                                                   | <b>Three Months Ended</b> |             | <b>June 30,</b> |          | <b>Increase</b>   | <b>Six Months Ended</b> |             | <b>June 30,</b> | <b>Increase</b>   |
|---------------------------------------------------------------------------------------------------|---------------------------|-------------|-----------------|----------|-------------------|-------------------------|-------------|-----------------|-------------------|
|                                                                                                   | <b>2008</b>               | <b>2007</b> |                 |          | <b>(Decrease)</b> | <b>2008</b>             | <b>2007</b> |                 | <b>(Decrease)</b> |
| <b>Revenues and Earnings from unconsolidated affiliates, except percentages and rig activity)</b> |                           |             |                 |          |                   |                         |             |                 |                   |
| Operating revenues and Earnings from unconsolidated                                               | \$ 182,222                | \$ 182,410  | \$              | (188)    | (0)%              | \$ 353,363              | \$ 364,628  | \$              | (11,265)          |
| Adjusted income derived from operating activities                                                 | \$ 31,468                 | \$ 40,105   | \$              | (8,637)  | (22)%             | \$ 61,854               | \$ 83,461   | \$              | (21,607)          |
|                                                                                                   | 272,101                   | 291,430     |                 | (19,329) | (7)%              | 531,578                 | 590,518     |                 | (58,940)          |

Operating results decreased during the three and six months ended June 30, 2008 over the prior year periods due to lower rig utilization, higher operating costs and higher depreciation expense related to capital expansion projects completed during 2007. These decreases were partially offset by slightly higher dayrates and improved earnings derived from our fluid transportation and rental and fishing services.

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

|                                                                                            | Three Months Ended<br>June 30, |           |                        |      | Six Months Ended<br>June 30, |            |                        |  |
|--------------------------------------------------------------------------------------------|--------------------------------|-----------|------------------------|------|------------------------------|------------|------------------------|--|
|                                                                                            | 2008                           | 2007      | Increase<br>(Decrease) |      | 2008                         | 2007       | Increase<br>(Decrease) |  |
| Revenues and Earnings from unconsolidated affiliates, except percentages and rig activity) |                                |           |                        |      |                              |            |                        |  |
| Operating revenues and Earnings from unconsolidated                                        | \$ 65,723                      | \$ 60,316 | \$ 5,407               | 9%   | \$ 117,178                   | \$ 116,091 | \$ 1,087               |  |
| Adjusted income derived from operating activities                                          | \$ 17,983                      | \$ 19,206 | \$ (1,223)             | (6)% | \$ 24,441                    | \$ 34,255  | \$ (9,814)             |  |
|                                                                                            | 17.1                           | 17.6      | (0.5)                  | (3)% | 16.6                         | 17.4       | (0.8)                  |  |

Operating revenues and Earnings from unconsolidated affiliates increased during the three and six months ended June 30, 2008 as compared to the prior year periods as a result of sustained higher oil prices and increased utilization for our MASE and Platform Workover Drilling rigs partially offset by lower average dayrates and utilization of our jackup and barge rigs.

Adjusted income derived from operating activities decreased during the three and six months ended June 30, 2008 as compared to the prior year periods primarily as a result of increased depreciation expense relating to new rigs added to the fleet in early 2007.



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

|                                                                | Three Months Ended<br>June 30, |           |                        |     | Six Months Ended<br>June 30, |           |                        |  |
|----------------------------------------------------------------|--------------------------------|-----------|------------------------|-----|------------------------------|-----------|------------------------|--|
|                                                                | 2008                           | 2007      | Increase<br>(Decrease) |     | 2008                         | 2007      | Increase<br>(Decrease) |  |
| (Thousands, except percentages and rig activity)               |                                |           |                        |     |                              |           |                        |  |
| Operating revenues and Earnings from unconsolidated operations | \$ 45,114                      | \$ 36,777 | \$ 8,337               | 23% | \$ 99,483                    | \$ 84,613 | \$ 14,870              |  |
| Operating income derived from operating activities             | \$ 13,466                      | \$ 8,225  | \$ 5,241               | 64% | \$ 31,249                    | \$ 24,792 | \$ 6,457               |  |
| Operating margin                                               | 10.4                           | 8.8       | 1.6                    | 18% | 10.5                         | 9.1       | 1.4                    |  |

The increase in operating results during the three and six months ended June 30, 2008 as compared to the prior year periods is primarily due to increases in average dayrates, driven by higher oil prices. Drilling activity levels have increased as a result of increased customer demand and the deployment and utilization of additional rigs added in late 2007.

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

|                                                                | Three Months Ended |            |            |       | Six Months Ended |            |             |       |
|----------------------------------------------------------------|--------------------|------------|------------|-------|------------------|------------|-------------|-------|
|                                                                | June 30,           |            | Increase   |       | June 30,         |            | Increase    |       |
|                                                                | 2008               | 2007       | (Decrease) |       | 2008             | 2007       | (Decrease)  |       |
| Thousands, except percentages and rig activity)                |                    |            |            |       |                  |            |             |       |
| Operating revenues and Earnings from unconsolidated operations | \$ 67,782          | \$ 75,088  | \$ (7,306) | (10)% | \$ 246,634       | \$ 268,368 | \$ (21,734) | (8)%  |
| Operating (loss) income derived from operating activities      | \$ (14,326)        | \$ (7,992) | \$ (6,334) | (79)% | \$ 27,647        | \$ 45,136  | \$ (17,489) | (63)% |
| Operating margin                                               | 16.9               | 18.5       | (1.6)      | (9)%  | 33.1             | 38.2       | (5.1)       | (13)% |
| Operating margin                                               | 40,257             | 41,613     | (1,356)    | (3)%  | 119,394          | 139,201    | (19,807)    | (14)% |

The decrease in operating results during the three and six months ended June 30, 2008 as compared to the prior year periods resulted from an overall decrease in drilling and well-servicing dayrates and activity due to lower customer demand for drilling and well-servicing operations. Our operating results for the three and six months ended June 30, 2008 were further negatively impacted by proposed changes to the Alberta royalty and tax regime causing customers to assess the impact of such changes. The continued strengthening of the Canadian dollar versus the U.S. dollar positively impacted operating results in both current and prior year quarter when translated to U.S. dollar equivalents, but negatively impacted demand for our services as much of our customers revenue is denominated in U.S. dollars while their costs are denominated in Canadian dollars. Additionally, operating results were negatively impacted by increased depreciation expense related to capital expansion projects completed during 2007.

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

|                                                       | <b>Three Months Ended</b> |             | <b>June 30,</b> |     | <b>Increase</b>   | <b>Six Months Ended</b> |             | <b>June 30,</b> | <b>Increase</b>   |
|-------------------------------------------------------|---------------------------|-------------|-----------------|-----|-------------------|-------------------------|-------------|-----------------|-------------------|
|                                                       | <b>2008</b>               | <b>2007</b> |                 |     | <b>(Decrease)</b> | <b>2008</b>             | <b>2007</b> |                 | <b>(Decrease)</b> |
| <b>(Dollars, except percentages and rig activity)</b> |                           |             |                 |     |                   |                         |             |                 |                   |
| Revenues and Earnings from unconsolidated             |                           |             |                 |     |                   |                         |             |                 |                   |
|                                                       | \$ 342,892                | \$ 261,262  | \$ 81,630       | 31% |                   | \$ 646,464              | \$ 485,744  | \$ 160,720      |                   |
| Income derived from operating activities              | \$ 101,752                | \$ 85,409   | \$ 16,343       | 19% |                   | \$ 192,402              | \$ 151,427  | \$ 40,975       |                   |
|                                                       | 121.5                     | 117.1       | 4.4             | 4%  |                   | 119.6                   | 114.4       | 5.2             |                   |

The increase in operating results during the three and six months ended June 30, 2008 as compared to the prior year periods resulted from increases in average dayrates and drilling activities, reflecting strong customer demand for drilling services, stemming from higher oil prices. The increases in operating results were also positively impacted from an expansion of our rig fleet and continuing renewal of existing multi-year contracts at higher average dayrates.

***Oil and Gas***

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

|                                                       | <b>Three Months Ended</b> |             | <b>June 30,</b> |        | <b>Increase</b>   | <b>Six Months Ended</b> |             | <b>June 30,</b> | <b>Increase</b>   |
|-------------------------------------------------------|---------------------------|-------------|-----------------|--------|-------------------|-------------------------|-------------|-----------------|-------------------|
|                                                       | <b>2008</b>               | <b>2007</b> |                 |        | <b>(Decrease)</b> | <b>2008</b>             | <b>2007</b> |                 | <b>(Decrease)</b> |
| <b>(Dollars, except percentages and rig activity)</b> |                           |             |                 |        |                   |                         |             |                 |                   |
| Revenues and Earnings from unconsolidated             |                           |             |                 |        |                   |                         |             |                 |                   |
|                                                       | \$ 11,352                 | \$ 18,110   | \$ (6,758)      | (37)%  |                   | \$ 25,392               | \$ 31,239   | \$ (5,847)      |                   |
| (Loss) income derived from operating                  | \$ (1,645)                | \$ 3,374    | \$ (5,019)      | (149)% |                   | \$ (6,497)              | \$ 4,502    | \$ (10,999)     |                   |

Our operating results decreased during the three and six months ended June 30, 2008 as compared to the prior year periods as a result of losses of \$6.7 million and \$24.6 million for each period, respectively, from the joint ventures which commenced operations in mid-2007. These losses resulted from accelerated depletion charges that were recorded by our joint ventures resulting from lower than expected performance of certain oil and gas developmental wells and mark-to-market unrealized losses from derivative instruments representing forward gas sales through swaps and price floor guarantees utilizing puts. Effective May 2008 our joint ventures apply hedge accounting to their subsequent forward contracts to minimize the volatility in unrealized earnings caused by market price fluctuations of the underlying hedged commodities. Partially offsetting these losses was a \$12.3 million gain on the sale of certain leasehold interests in the first quarter of 2008 and increases in production volumes and from oil and gas production sales due to higher oil and gas prices.

**Table of Contents*****Other Operating Segments***

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

|                                                       | <b>Three Months Ended</b> |             | <b>June 30,</b> |      | <b>Increase</b>   | <b>Six Months Ended</b> |             | <b>June 30,</b> | <b>Increase</b>   |
|-------------------------------------------------------|---------------------------|-------------|-----------------|------|-------------------|-------------------------|-------------|-----------------|-------------------|
|                                                       | <b>2008</b>               | <b>2007</b> |                 |      | <b>(Decrease)</b> | <b>2008</b>             | <b>2007</b> |                 | <b>(Decrease)</b> |
| <b>Revenues, except percentages and rig activity)</b> |                           |             |                 |      |                   |                         |             |                 |                   |
| Revenues and Earnings from unconsolidated             | \$ 172,865                | \$ 140,024  | \$ 32,841       | 23%  |                   | \$ 338,647              | \$ 270,374  | \$ 68,273       |                   |
| Income derived from operating activities              | \$ 19,006                 | \$ 6,739    | \$ 12,267       | 182% |                   | \$ 31,440               | \$ 18,333   | \$ 13,107       |                   |

The increase in operating results during the three and six months ended June 30, 2008 as compared to the prior year periods resulted from (i) increased third party sales and higher margins of top drives driven by the strengthening of the oil drilling market and increased equipment sales; (ii) increased market share in the Canadian directional drilling market partially offset by slightly lower demand in the U.S. directional drilling market and (iii) increases in customer demand for our construction and logistics services in Alaska.

***Discontinued Operations***

During the third quarter of 2007 we sold our Sea Mar business which had previously been included in Other Operating Segments to an unrelated third party. 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 retroactively presented and accounted for as discontinued operations in the accompanying unaudited consolidated statements of income. Our condensed statements of income from discontinued operations related to the Sea Mar business for the three and six months ended June 30, 2008 and 2007 were as follows:

***Condensed Statements of Income***

|                                                 | <b>Three Months Ended</b> |             | <b>Six Months Ended</b> |             |
|-------------------------------------------------|---------------------------|-------------|-------------------------|-------------|
|                                                 | <b>June 30,</b>           |             | <b>June 30,</b>         |             |
|                                                 | <b>2008</b>               | <b>2007</b> | <b>2008</b>             | <b>2007</b> |
| <b>(In thousands)</b>                           |                           |             |                         |             |
| Revenues from discontinued operations           | \$                        | \$ 28,089   | \$                      | \$ 52,719   |
| Income from discontinued operations             | \$                        | \$ 12,464   | \$                      | \$ 21,240   |
| Income tax expense                              |                           | 4,977       |                         | 8,481       |
| Income from discontinued operations, net of tax | \$                        | \$ 7,487    | \$                      | \$ 12,759   |



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

|                                                                           | <b>Three Months Ended</b> |             | <b>June 30,</b> |      | <b>Increase</b>   | <b>Six Months Ended</b> |             | <b>June 30,</b> | <b>Increase</b>   |
|---------------------------------------------------------------------------|---------------------------|-------------|-----------------|------|-------------------|-------------------------|-------------|-----------------|-------------------|
|                                                                           | <b>2008</b>               | <b>2007</b> |                 |      | <b>(Decrease)</b> | <b>2008</b>             | <b>2007</b> |                 | <b>(Decrease)</b> |
| <b>(in thousands, except percentages)</b>                                 |                           |             |                 |      |                   |                         |             |                 |                   |
| General and administrative expenses                                       | \$ 116,914                | \$ 99,952   | \$ 16,962       | 17%  |                   | \$ 228,235              | \$ 213,849  | \$ 14,386       |                   |
| General and administrative expenses as a percentage of operating revenues | 9.1%                      | 8.8%        | .3%             | 3.4% |                   | 8.8%                    | 9.0%        | (0.2)%          |                   |

General and administrative expenses increased during the three months ended June 30, 2008 as compared to the prior year period primarily as a result of increases of \$13.4 million in wages and burden for a majority of our operating segments, including a \$5.1 million increase in corporate compensation expense, which primarily resulted from higher bonus accruals and non-cash compensation expenses recorded for restricted stock awards during 2008.

General and administrative expenses increased during the six months ended June 30, 2008 as compared to the prior year period as a result of increases in wages and burden of \$20.1 million for a majority of our operating segments including an increase of \$7.1 million in corporate compensation expenses as discussed above. These increases were partially offset by decreases in professional fees of \$5.2 million and employee related taxes of \$3.6 million incurred in the first quarter of 2007 in connection with the 2006 review of the Company's employee stock option granting practices.

***Depreciation and amortization, and depletion expense***

|                                           | <b>Three Months Ended</b> |             | <b>June 30,</b> |       | <b>Increase</b>   | <b>Six Months Ended</b> |             | <b>June 30,</b> | <b>Increase</b>   |
|-------------------------------------------|---------------------------|-------------|-----------------|-------|-------------------|-------------------------|-------------|-----------------|-------------------|
|                                           | <b>2008</b>               | <b>2007</b> |                 |       | <b>(Decrease)</b> | <b>2008</b>             | <b>2007</b> |                 | <b>(Decrease)</b> |
| <b>(in thousands, except percentages)</b> |                           |             |                 |       |                   |                         |             |                 |                   |
| Depreciation and amortization expense     | \$ 148,023                | \$ 111,372  | \$ 36,651       | 33%   |                   | \$ 283,501              | \$ 214,980  | \$ 68,521       | 32%               |
| Depletion expense                         | \$ 7,343                  | \$ 9,160    | \$ (1,817)      | (20)% |                   | \$ 21,028               | \$ 15,785   | \$ 5,243        | 33%               |

***Depreciation and amortization expense.*** Depreciation and amortization expense increased during the three and six months ended June 30, 2008 compared to the prior year periods as a result of capital expenditures made throughout 2007 and 2008.

***Depletion expense.*** Depletion expense increased during the six months ended June 30, 2008 compared to the prior year period as a result from higher costs and increased units-of-production depletion.

***Interest expense*****Six Months Ended**

**Three Months  
Ended  
June 30,  
2008      2007**

**Increase  
(Decrease)**

**June 30,  
2008      2007**

**Increase  
(Decrease)**

**(In thousands, except percentages)**

|                  |           |           |          |     |           |           |           |     |
|------------------|-----------|-----------|----------|-----|-----------|-----------|-----------|-----|
| Interest expense | \$ 21,676 | \$ 13,733 | \$ 7,943 | 58% | \$ 39,785 | \$ 26,785 | \$ 13,000 | 49% |
|------------------|-----------|-----------|----------|-----|-----------|-----------|-----------|-----|

Interest expense increased during the three and six months ended June 30, 2008 compared to the prior year periods as a result of the additional interest expense related to our February 2008 issuance of \$575 million 6.15% senior notes due 2018.

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

|                                           | <b>Three Months<br/>Ended June 30,</b> |             | <b>Increase</b>   |      | <b>Six Months Ended<br/>June 30,</b> |             | <b>Increase</b>   |      |
|-------------------------------------------|----------------------------------------|-------------|-------------------|------|--------------------------------------|-------------|-------------------|------|
|                                           | <b>2008</b>                            | <b>2007</b> | <b>(Decrease)</b> |      | <b>2008</b>                          | <b>2007</b> | <b>(Decrease)</b> |      |
| <b>(In thousands, except percentages)</b> |                                        |             |                   |      |                                      |             |                   |      |
| Investment income (loss)                  | \$ 25,057                              | \$ (9,272)  | \$ 34,329         | 370% | \$ 51,239                            | \$ 19,437   | \$ 31,802         | 164% |

Investment income (loss) for the three months ended June 30, 2008 included interest income of \$11.6 million, gains of \$13.3 million from our trading securities and income of \$.1 million from our other short-term and long-term investments. Investment income (loss) for the six months ended June 30, 2008 totaled \$51.2 million and included a gain of \$44.6 million from our trading securities partially offset by a loss from our short-term and long-term investments. Investment income (loss) during the three months ended June 30, 2007 was a net loss of \$9.3 million which reflected a net loss of \$19 million from the portion of our investment portfolio that was comprised of marketable equity securities classified as short-term investments and actively managed funds classified as long-term investments. Investment income for the six months ended June 30, 2007 totaled \$19.4 million and included a \$3.0 million net loss from the investment portfolio described above.

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

|                                           | <b>Three Months<br/>Ended June 30,</b> |             | <b>Increase</b>   |        | <b>Six Months<br/>Ended June 30,</b> |             | <b>Increase</b>   |        |
|-------------------------------------------|----------------------------------------|-------------|-------------------|--------|--------------------------------------|-------------|-------------------|--------|
|                                           | <b>2008</b>                            | <b>2007</b> | <b>(Decrease)</b> |        | <b>2008</b>                          | <b>2007</b> | <b>(Decrease)</b> |        |
| <b>(In thousands, except percentages)</b> |                                        |             |                   |        |                                      |             |                   |        |
| (Losses)                                  |                                        |             |                   |        |                                      |             |                   |        |
| gains on sales                            |                                        |             |                   |        |                                      |             |                   |        |
| of long-lived                             |                                        |             |                   |        |                                      |             |                   |        |
| assets,                                   |                                        |             |                   |        |                                      |             |                   |        |
| impairment                                |                                        |             |                   |        |                                      |             |                   |        |
| charges and                               |                                        |             |                   |        |                                      |             |                   |        |
| other income                              |                                        |             |                   |        |                                      |             |                   |        |
| (expense), net                            | \$ (3,158)                             | \$ 39,634   | \$ (42,792)       | (108)% | \$ (11,255)                          | \$ 25,749   | \$ (37,004)       | (144)% |

The amount of gains (losses) on sales of long-lived assets, impairment charges and other income (expense), net for the three months ended June 30, 2008 includes losses on retirements and impairment charges on long-lived assets of approximately \$6.1 million partially offset by a gain of \$1.5 million on a derivative contract related to an interest rate swap. For the six months ended June 30, 2008, the amount of gains (losses) on sales of long-lived assets, impairment charges and other income (expense), net included losses on retirements and impairment charges on long-lived assets of approximately \$10.5 million and increases to litigation reserves of \$1.7 million. The amount of gains (losses) on sales of long-lived assets, impairment charges and other income (expense), net for the three and six months ended June 30, 2007 included a \$38 million gain on the sale of three accommodation jackups. Additionally for the six months ended June 30, 2007, the Company recorded losses on long-lived assets of approximately \$8 million and increases to litigation reserves of \$7.9 million.

*Income tax rate*

|                                               | <b>Three Months<br/>Ended June 30,</b> |             | <b>Increase<br/>(Decrease)</b> |      | <b>Six Months<br/>Ended June 30,</b> |             | <b>Increase<br/>(Decrease)</b> |        |
|-----------------------------------------------|----------------------------------------|-------------|--------------------------------|------|--------------------------------------|-------------|--------------------------------|--------|
|                                               | <b>2008</b>                            | <b>2007</b> |                                |      | <b>2008</b>                          | <b>2007</b> |                                |        |
| Effective Tax Rate from continuing operations | 27.0%                                  | 25.7%       | 1.3%                           | 5.1% | 23.2%                                | 25.2%       | (2.0)%                         | (7.9)% |

The increase in our effective income tax rate during the three months ended June 30, 2008 is a result from a higher proportion of our taxable income being generated in the U.S. The decrease in our effective income tax rate during the six months ended June 30, 2008 compared to the prior year period is a result of reductions to certain foreign tax accruals and a decrease in the proportion of income generated in the U.S. versus the international jurisdictions in which we operate. Income generated in the U.S. is generally taxed at a higher rate than international jurisdictions.

Significant judgment is required in determining our worldwide provision for income taxes. In the ordinary course of our business, there are many transactions and calculations where the ultimate tax determination is uncertain. We are regularly under audit by tax authorities. Although we believe our tax estimates are reasonable, the

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final determination of tax audits and any related litigation could be materially different than that which is reflected in our income tax provisions and accruals. Based on the results of an audit or litigation, a material effect on our financial position, income tax provision, net income, or cash flows in the period or periods for which that determination is made could result.

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

We expect our effective tax rate during 2008 to be in the 24-26% range. We are subject to income taxes in both the U.S. and numerous foreign jurisdictions. One of the most volatile factors in this determination is the relative proportion of our income being recognized in high versus low tax jurisdictions.

## **Liquidity and Capital Resources**

### ***Cash Flows***

Our cash flows depend, to a large degree, on the level of spending by oil and gas companies for exploration, development and production activities. Sustained increases or decreases in the price of natural gas or oil could have a material impact on these activities, and could also materially affect our cash flows. Certain sources and uses of cash, such as the level of discretionary capital expenditures, purchases and sales of investments, issuances and repurchases of debt and of our common shares are within our control and are adjusted as necessary based on market conditions. The following is a discussion of our cash flows for the six months ended June 30, 2008 and 2007.

*Operating Activities* Net cash provided by operating activities totaled \$623.5 million during the six months ended June 30, 2008 compared to net cash provided by operating activities of \$655.4 million during the prior year period. During the six months ended June 30, 2008 and 2007, 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.

*Investing Activities* Net cash used for investing activities totaled \$564.7 million during the six months ended June 30, 2008 compared to net cash used for investing activities of \$829.9 million during the prior year period. During the six months ended June 30, 2008 and 2007, cash was primarily used for capital expenditures totaling \$.7 billion and \$1.1 billion, respectively. During the six months ended June 30, 2008 and 2007, cash was provided by sales of investments, net of purchases, totaling \$209.2 million and \$163.0 million, respectively.

*Financing Activities* Net cash provided by financing activities totaled \$311.3 million during the six months ended June 30, 2008 while net cash provided by financing activities totaled \$78.8 million during the prior year period. During the six months ended June 30, 2008, cash was used to redeem a portion of our \$700 million zero coupon senior exchangeable notes due 2023 totaling \$171.8 million and for repurchases of our common shares in the open market for \$150.1 million and cash was provided by approximately \$570.8 million in net proceeds from the issuance of our \$575 million 6.15% senior notes due 2018, net of debt issuance costs. During the six months ended June 30, 2008 and 2007, cash was provided by our receipt of proceeds totaling \$53.6 million and \$67.8 million, respectively, from the exercise of options to acquire our common shares by our employees.

### ***Future Cash Requirements***

As of June 30, 2008, we had long-term debt, including current maturities, of \$4.4 billion and cash and cash equivalents and investments of \$1.5 billion, including \$239.9 million of long-term investments and other receivables and \$34.4 million in cash proceeds receivable from the sale of certain investment securities that is included in other current assets.

In May 2008 Nabors Delaware called for redemption all of its \$700 million zero coupon senior exchangeable notes due 2023 and paid cash of \$171.8 million and \$528.2 million to the noteholders in June 2008 and July 2008, respectively. The total amount paid to effect the redemption and related exchange was \$700 million in cash and an

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issue of approximately 5.25 million of our treasury shares with a fair value of \$249.8 million, the price equal to the principal amount of the notes plus the excess of the exchange value of the notes over their principal amount.

In June 2008 Nabors Delaware called for redemption the full \$82.8 million aggregate principal amount at maturity of its zero coupon senior convertible debentures due 2021 and in July 2008, paid cash of \$60.6 million; equal to the issue price of \$50.4 million plus accrued original issue discount of \$10.2 million.

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 cash up to the principal amount of the notes and our common shares for any amount that the exchange value of the notes exceeds the principal amount of the notes. 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 for the notes; or upon the occurrence of specified corporate transactions set forth in the indenture.

As of June 30, 2008, we had outstanding purchase commitments of approximately \$410.8 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 \$1.8-2.0 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 have resulted in an expansion in the number of drilling and well-servicing rigs that we own and operate and consist primarily of land drilling and well-servicing rigs. Our continued expansion of our capital expenditure programs to build new state-of-the-art drilling rigs is expected to impact a majority of our operating segments, most significantly within our U.S. Lower 48 Land Drilling, Alaska, Canada and International operations.

On September 22, 2006, we entered into an agreement with First Reserve Corporation to form a new joint venture, NFR Energy LLC ( "NFR" ), to invest in oil and gas exploration opportunities worldwide. First Reserve Corporation is a private equity firm specializing in the energy industry. Each party initially made a non-binding commitment to fund its proportionate share of \$1.0 billion in equity. During 2007, joint venture operations in the U.S., Canada and International areas, were divided among three separate joint venture entities, including NFR, Stone Mountain Ventures Partnership ( "Stone Mountain" ) and Remora Energy International LP ( "Remora" ), respectively. We hold a 49% ownership interest in these joint ventures. Each joint venture pursues development and exploration projects with both existing customers of ours and with other operators in a variety of forms including operated and non-operated working interests, joint ventures, farm-outs and acquisitions. As of June 30, 2008, we had made capital contributions of approximately \$320.3 million to our joint venture operations with First Reserve.

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

In July 2006 our Board of Directors authorized a share repurchase program under which we may repurchase up to \$500 million of our common shares in the open market or in privately negotiated transactions. This program supersedes and cancels our previous share repurchase program. Through June 30, 2008, approximately \$346.3 million of our common shares had been repurchased under this program. As of June 30, 2008, we had \$153.7 million of

shares that still may be purchased under the July 2006 share repurchase program.

Our 2007 Annual Report on Form 10-K includes our contractual cash obligations table as of December 31, 2007. As a result of the issuance of Nabors Delaware's \$575 million 6.15% senior notes due 2018 (see Note 5) on February 20, 2008 and the redemptions settled in July 2008 of Nabors Delaware's \$700 million zero coupon senior exchangeable notes due 2023 and \$82.8 million aggregate principal amount at maturity of its zero coupon senior

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convertible debentures due 2021 (see Note 5), we are presenting the following table in this Report which summarizes our remaining contractual cash obligations related to commitments as of June 30, 2008:

| (In thousands)                     | Total        | Payments due by Period    |                             |                           |                           |
|------------------------------------|--------------|---------------------------|-----------------------------|---------------------------|---------------------------|
|                                    |              | < 1 Year                  | 1-3 Years                   | 3-5 Years                 | Thereafter                |
| Contractual cash obligations:      |              |                           |                             |                           |                           |
| Long-term debt:                    |              |                           |                             |                           |                           |
| Principal                          | \$ 4,413,767 | \$ 588,767 <sup>(1)</sup> | \$ 2,975,000 <sup>(2)</sup> | \$ 275,000 <sup>(3)</sup> | \$ 575,000 <sup>(4)</sup> |
| Interest                           | 514,144      | 86,963                    | 157,472                     | 92,897                    | 176,812                   |
| Total contractual cash obligations | \$ 4,927,911 | \$ 675,730                | \$ 3,132,472                | \$ 367,897                | \$ 751,812                |

(1) Represents the remaining portion of Nabors Delaware's \$700 million zero coupon senior exchangeable notes as of June 30, 2008 and Nabors Delaware's \$82.8 million aggregate principal amount at maturity of its zero coupon senior debentures due 2021. In May 2008 Nabors Delaware called for redemption all of its \$700 million zero coupon senior exchangeable notes due 2023 and paid cash of \$171.8 million and \$528.2 million to the noteholders in June 2008 and July 2008, respectively. In June 2008 Nabors Delaware called for redemption the full \$82.8 million aggregate principal amount at maturity of its zero coupon senior convertible debentures due 2021 and in July 2008, paid cash of \$60.6 million, an amount equal to the carrying value.

(2) Represents Nabors Delaware's \$225 million 4.875% senior notes due August 2009 and Nabors Delaware's \$2.75 billion 0.94% senior exchangeable notes due 2011.

(3) Represents Nabors Delaware's \$275 million 5.375% senior notes due 2012.

(4) Represents Nabors Delaware's \$575 million 6.15% senior notes due February 2018.

On July 17, 2008, Nabors Delaware completed a private placement of \$400 million aggregate principal amount of 6.15% senior notes due 2018 with registration rights, which are unsecured and are fully and unconditionally guaranteed by us. These notes are not included in the above contractual obligations table as the notes were issued subsequent to June 30, 2008. Other than our debt transactions included in the contractual obligations table and our transaction in July 2008, there have been no other significant changes to the contractual cash obligations information disclosed in our Annual Report on Form 10-K for the year ended December 31, 2007.

See Note 8 to our Annual Report on Form 10-K for the year ended December 31, 2007 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 June 30, 2008, we had cash and cash equivalents and investments of \$1.5 billion (including \$239.9 million of long-term investments and other receivables and \$34.4 million in cash proceeds

receivable from the sale of certain investment securities that is included in other current assets) and working capital of \$1.4 billion. This compares to cash and cash equivalents and investments of \$1.2 billion (including \$359.5 million of long-term investments and other receivables and \$53.1 million in cash proceeds receivable) and working capital of \$711.0 million as of December 31, 2007.

Our gross funded debt to capital ratio was 0.45:1 as of June 30, 2008 and 0.44:1 as of December 31, 2007. Our net funded debt to capital ratio was 0.35:1 as of June 30, 2008 and 0.36:1 as of December 31, 2007. 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

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(3) long-term debt reduced by the sum of cash and cash equivalents and short-term and long-term investments and other receivables. 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. The net funded debt to capital ratio is not a measure of operating performance or liquidity defined by accounting principles generally accepted in the United States of America and may not be comparable to similarly titled measures presented by other companies.

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 other receivables classified as long-term investments include our financing agreements for production payments contracts. Our interest coverage ratio from continuing operations was 25.7:1 as of June 30, 2008, compared to 32.5:1 as of December 31, 2007. 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. The interest coverage ratio from continuing operations is not a measure of operating performance or liquidity defined by accounting principles generally accepted in the United States of America and may not be comparable to similarly titled measures presented by other companies.

We have four letter of credit facilities with various banks as of June 30, 2008. Availability and borrowings under our credit facilities as of June 30, 2008 are as follows:

**(In thousands)**

|                               |            |
|-------------------------------|------------|
| Credit available              | \$ 267,045 |
| Letters of credit outstanding | 236,298    |
| Remaining availability        | \$ 30,747  |

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

Our current cash and cash equivalents, investments and projected cash flows generated from current operations are expected to more than adequately finance our purchase commitments, our debt service requirements, and all other expected cash requirements for the next twelve months. However, as discussed under *Future Cash Requirements* above, the \$2.75 billion 0.94% senior exchangeable notes due 2011 can be exchanged when the price of our shares exceeds \$59.57 for the required period of time, resulting in our payment of the principal amount of the notes, or \$2.75 billion in cash.

On July 25, 2008, the market price for our shares closed at \$39.63. If the market price threshold of \$59.57 for Nabors Delaware's our \$2.75 billion 0.94% senior exchangeable notes due 2011 was exceeded and the notes were exchanged at a purchase price equal to 100% of the principal amount of the notes, the required cash payment could have a significant impact on our level of cash and cash equivalents and investments available to meet our other cash obligations. Management believes that the holders of these notes would not be likely to exchange the notes as it would be more economically beneficial to them if they sold the notes on the open market. However, there can be no

assurance that the holders would not exchange the notes. If the notes were exchanged, management believes, in addition to our current cash and cash equivalents and investments, that we have the ability to access capital markets or otherwise obtain financing in order to satisfy any payment obligations that might arise upon exchange of these notes and that any cash payment due of this magnitude, in addition to our other cash obligations, will not ultimately have a material adverse impact on our liquidity or financial position. Our ability to access capital markets or to otherwise obtain sufficient financing is enhanced by our senior unsecured debt ratings as provided by Dominion Bond Rating Service ( DBRS ), Fitch Ratings, Moody's Investor Service and Standard & Poor's, which are currently BBB+ , A- , and BBB+ , respectively, and our historical ability to access those markets as needed.

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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*.

## **Other Matters**

### ***Recent Accounting Pronouncements***

In September 2006 the FASB issued SFAS No. 157, Fair Value Measurements. This statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements for financial assets and liabilities, as well as for any other assets and liabilities that are carried at fair value on a recurring basis in financial statements. SFAS No. 157 is effective with respect to financial assets and liabilities for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. SFAS No. 157 applies prospectively to financial assets and liabilities. There is a one year deferral for the implementation of SFAS No. 157 for nonfinancial assets and liabilities measured on a nonrecurring basis. Effective January 1, 2008, we adopted the provisions of SFAS No. 157 relating to financial assets and liabilities. The new disclosures regarding the level of pricing observability associated with financial instruments carried at fair value is provided in Note 3 to the accompanying unaudited consolidated financial statements. The adoption of SFAS No. 157 with respect to financial assets and liabilities did not have a material financial impact on our consolidated results of operations or financial condition. We are currently evaluating the impact of implementation with respect to nonfinancial assets and liabilities measured on a nonrecurring basis on our consolidated financial statements, which will be primarily limited to asset impairments including goodwill, intangible assets and other long-lived assets, assets acquired and liabilities assumed in a business combination and asset retirement obligations.

In February 2007 the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115. This statement permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value and establishes presentation and disclosure requirements designed to facilitate comparisons between entities that choose different measurement attributes for similar types of assets and liabilities. SFAS No. 159 is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007, provided the entity also elects to apply the provisions of SFAS No. 157. The adoption of SFAS No. 159 did not have a material impact on our consolidated results of operations or financial condition as we have not elected to apply the provisions to our financial instruments or other eligible items that are not currently required to be measured at fair value.

In March 2008 the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities, an Amendment to FASB Statement No. 133 ( SFAS No. 161 ). This statement is intended to improve financial reporting about derivative instruments and hedging activities by requiring enhanced qualitative and quantitative disclosures regarding derivative instruments, gains and losses on such instruments and their effects on an entity's financial position, financial performance and cash flows. SFAS No. 161 is effective for financial statements issued for fiscal years beginning after November 15, 2008, and interim periods within those fiscal years. We are currently evaluating the impact that this pronouncement may have on our consolidated financial statements.

In May 2008 the Financial Accounting Standards Board issued Staff Position ( FSP ) APB No. 14-1, Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement) . The FSP clarifies that convertible debt instruments that may be settled in cash upon conversion (including partial cash settlement) are not addressed by paragraph 12 of APB Opinion No. 14, Accounting for Convertible Debt and Debt Issued with Stock Purchase Warrants . The FSP requires that convertible debt instruments be accounted for with a liability component based on the fair value of a similar nonconvertible debt instrument and an equity component based on the excess of the initial proceeds from the convertible debt instrument over the liability component. Such excess

represents a debt discount which is then amortized as additional non-cash interest expense over the convertible debt instrument's expected life. The FSP will be effective for Nabors' financial statements issued for fiscal years and interim periods beginning after December 15, 2008, and will be applied retrospectively to all convertible debt instruments within its scope that are outstanding for any period presented in such financial statements. We intend to adopt the FSP on January 1, 2009 on a retrospective basis and apply it to our applicable convertible debt instruments. Although we are currently evaluating the impact that this FSP will have on our consolidated financial statements, we believe that the retrospective application of the FSP will have a significant

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effect in reducing reported net income and diluted earnings per share for the years ended December 31, 2007 and 2008. In addition, we believe net income and diluted earnings per share is expected to be materially reduced in future years in which our \$2.75 billion senior exchangeable notes due May 2011 are included in our consolidated financial statements. After adopting this FSP, we currently estimate that we will record additional non-cash interest expense, net of capitalized interest, which will reduce our pre-tax income by approximately \$100-110 million and reduce net income by approximately \$60-70 million for the year ended December 31, 2009.

### ***Critical Accounting Estimates***

We disclosed our critical accounting estimates in our Annual Report on Form 10-K for the year ended December 31, 2007. No significant changes have occurred to those policies except our adoption of SFAS No. 157 effective January 1, 2008. SFAS No. 157, requires enhanced disclosures about assets and liabilities carried at fair value. The following financial assets and liabilities are recorded at fair value as of June 30, 2008: (1) short-term investments and (2) derivative contracts.

As defined in SFAS No. 157, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price). We utilize market data or assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated, or generally unobservable. We primarily apply the market approach for recurring fair value measurements and endeavor to utilize the best information available. Accordingly, we utilize valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. The use of unobservable inputs is intended to allow for fair value determinations in situations in which there is little, if any, market activity for the asset or liability at the measurement date. We are able to classify fair value balances based on the observability of those inputs. SFAS No. 157 establishes a fair value hierarchy such that Level 1 measurements include unadjusted quoted market prices for identical assets or liabilities in an active market, Level 2 measurements include quoted market prices for identical assets or liabilities in an active market which have been adjusted for effects of restrictions and those that are not quoted but are observable through corroboration with observable market data, including quoted market prices for similar assets, and Level 3 measurements include those that are unobservable and of a highly subjective measure.

As part of adopting SFAS No. 157, we did not have a transition adjustment to our retained earnings. Our enhanced disclosures are included in Note 3 of the accompanying unaudited consolidated financial statements.

### ***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, 2007. 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, 2007.

### ***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

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that, as of the end of such period, the Company's disclosure controls and procedures are effective, at the reasonable assurance level, in recording, processing, summarizing and reporting, on a timely basis, information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act and are effective, at the reasonable assurance level, in ensuring that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the Company's management, including the Company's Chairman and Chief Executive Officer and Vice President and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

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

## **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 February 6, 2007, a purported shareholder derivative action entitled *Kenneth H. Karstedt v. Eugene M. Isenberg, et al* was filed in the United States District Court for the Southern District of Texas against the Company's officers and directors, and against the Company as a nominal defendant. The complaint alleged that stock options were priced retroactively and were improperly accounted for, and alleged various causes of action based on that assertion. The complaint sought, among other things, payment by the defendants to the Company of damages allegedly suffered by it and disgorgement of profits. On March 5, 2007, another purported shareholder derivative action entitled *Gail McKinney v. Eugene M. Isenberg, et al* was also filed in the United States District Court for the Southern District of Texas. The complaint made substantially the same allegations against the same defendants and sought the same elements of damages. The two derivative actions were consolidated into one proceeding. On December 31, 2007, the Company and the individual defendants agreed with the plaintiffs-shareholders to settle the derivative action. Under the terms of the proposed settlement, the Company and the individual defendants have implemented or will implement certain corporate governance reforms and adopt certain modifications to our equity award policy and our Compensation Committee charter. The Company and its insurers have agreed to pay up to \$2.85 million to plaintiffs' counsel for their attorneys' fees and the reimbursement of their expenses and costs. The Court granted preliminary approval of the settlement on March 13, 2008. On May 14, 2008, following shareholder notification, the Court granted final approval of the proposed settlement.

On July 5, 2007, we received an inquiry from the U.S. Department of Justice relating to its investigation of one of our vendors and compliance with the Foreign Corrupt Practices Act. Our Audit Committee of the Board of Directors has engaged outside counsel to review certain transactions with this vendor, which provides freight forwarding and

customs clearance services. Both the U.S. Securities and Exchange Commission and the U.S. Department of Justice have been advised of the Company's investigation. The ultimate outcome of this review or the effect of implementing any further measures which may be necessary to ensure full compliance with the applicable laws cannot be determined at this time.

**Table of Contents****Item 1A. Risk Factors**

There have been no material changes during the three and six months ended June 30, 2008 in our Risk Factors as discussed in our Annual Report on Form 10-K for the year ended December 31, 2007.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

On July 17, 2008, Nabors Delaware completed a private placement of \$400 million aggregate principal amount of 6.15% senior notes due 2018 with registration rights, which are unsecured and are fully and unconditionally guaranteed by us. These new senior notes were an additional issuance under the indenture pursuant to which Nabors Delaware issued \$575 million 6.15% senior notes due 2018 on February 20, 2008 and are subject to the same rates, terms and conditions and together will be treated as a single class of debt securities under the indenture. The issue of senior notes was reoffered by Citigroup Global Markets Inc. and UBS Securities LLC (collectively, the initial purchasers), to qualified institutional buyers under Rule 144A of the Securities Act. The notes bear interest at a rate of 6.15% per year, payable semiannually on February 15 and August 15 of each year, beginning August 15, 2008. Nabors and Nabors Delaware will file a registration statement on Form S-4 under the Securities Act covering both the 6.15% Notes due 2018 issued in the February 2008 offering and the 6.15% Notes due 2018 issued in the July 2008 offering. We intend to use the proceeds of the offering for general corporate purposes. See Note 14 to our accompanying unaudited consolidated financial statements for discussion of this transaction.

Copies of the Indenture and Registration Rights Agreement relating to the notes are included as exhibits to this Quarterly Report on Form 10-Q. We intend to (1) file a registration statement or amendment to the registration statement on Form S-4 filed on May 20, 2008 relating to Nabors Delaware's \$575 million 6.15% senior notes due 2018 with the SEC with respect to an offer to exchange the notes for other notes which will be registered and have terms substantially identical in all material respects to these notes, except that the exchange notes will not contain terms with respect to transfer restrictions or payment of additional interest, within 50 days after July 17, 2008, (2) use our reasonable best efforts to cause the exchange offer registration statement to become effective under the Securities Act by September 10, 2008 and (3) commence and complete the exchange offer by October 20, 2008.

The following table provides information relating to Nabors' repurchase of common shares during the three months ended June 30, 2008 (in thousands, except average price paid per share):

|              |               | Total     |            | Total Number of  | Approximate Dollar |
|--------------|---------------|-----------|------------|------------------|--------------------|
|              |               | Number of | Average    | Shares Purchased | Value of Shares    |
|              |               | Shares    | Price Paid | as               | that May Yet Be    |
|              |               |           |            | Part of Publicly | Purchased Under    |
|              |               |           |            | Announced        | the                |
| Period       |               | Purchased | per Share  | Program          | Program(1)         |
| May 1, 2008  | May 31, 2008  | 1,994     | \$ 41.77   | 1,994            | \$ 216,352         |
| June 1, 2008 | June 30, 2008 | 1,506     | \$ 41.60   | 1,506            | \$ 153,696         |

- (1) Our Board of Directors in July 2006 authorized a share repurchase program under which we may repurchase up to \$500 million of our common shares in the open market or in privately negotiated transactions. This program supersedes and cancels our previous share repurchase program. Through June 30, 2008, approximately

\$346.3 million of our common shares have been repurchased under this program. As of June 30, 2008, we had \$153.7 million of shares that still may be purchased under the July 2006 share repurchase program.

No shares were purchased during the period of April 1 to April 30, 2008.

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**Item 4. Submission of Matters to a Vote of Security Holders**

At the 2008 Annual General Meeting of Shareholders of Nabors Industries Ltd. held June 3, 2008, holders of 267,404,003 shares were present in person or by proxy, constituting 86.97% of the outstanding shares of Nabors entitled to vote as of the Record Date for the Annual Meeting, which includes both common shares and the preferred share voting on behalf of holders of common shares of Nabors Exchangeco (Canada) Inc. The matters voted upon at the annual meeting were:

*Election of three Class II Directors.* The shareholders elected three Class II Directors to serve for three year terms, expiring in 2011:

|                      |             |
|----------------------|-------------|
| Anthony G. Petrello  |             |
| Votes cast in favor: | 262,741,833 |
| Votes withheld:      | 4,662,170   |
| Myron M. Sheinfeld   |             |
| Votes cast in favor: | 248,868,931 |
| Votes withheld:      | 18,535,072  |
| Martin J. Whitman    |             |
| Votes cast in favor: | 248,217,373 |
| Votes withheld:      | 19,186,630  |

Class III Directors, Eugene M. Isenberg and William T. Comfort, continued in office with a term expiring in 2009. Class I Directors, Alexander M. Knaster, James L. Payne and Hans W. Schmidt continued in office with terms expiring in 2010.

*Appointment of Independent Auditors:* The shareholders appointed PricewaterhouseCoopers LLP as independent auditors of Nabors, and authorized the Audit Committee of the Board of Directors to set the auditors' remuneration:

|                                                               |             |
|---------------------------------------------------------------|-------------|
| Appointment of PricewaterhouseCoopers as Independent Auditors |             |
| Votes cast in favor:                                          | 264,267,417 |
| Votes cast against:                                           | 920,077     |
| Votes abstaining:                                             | 2,216,509   |

*Shareholder Proposal:* The shareholders requested that the Board of Directors Executive Compensation Committee establish a Pay for Superior Performance principle in the Company's executive compensation plan for senior executives.

|                      |             |
|----------------------|-------------|
| Votes cast in favor: | 68,369,732  |
| Votes cast against:  | 153,567,888 |
| Votes abstaining:    | 2,614,281   |

*Shareholder Proposal:* The shareholders requested that the Board of Directors Executive Compensation Committee establish a policy that the Company will not make or promise to make its senior executives any tax gross-up payment, except as provided pursuant to a benefit plan or existing contractual obligation of the Company.

|                      |             |
|----------------------|-------------|
| Votes cast in favor: | 77,131,927  |
| Votes cast against:  | 104,194,933 |
| Votes abstaining:    | 43,104,414  |

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**Item 6. *Exhibits***

**Exhibit Index**

- 4.20 Purchase Agreement, dated July 17, 2008, among Nabors Industries, Inc., Nabors Industries Ltd., Citigroup Global Markets Inc. and UBS Securities LLC (incorporated by reference to Exhibit 4.1 to Nabors Industries Ltd. Form 8-K (File No. 000-49887) filed July 1, 2008).
- 4.21 Registration Rights Agreement, dated July 22, 2008, among Nabors Industries, Inc., Nabors Industries Ltd., Citigroup Global Markets Inc. and UBS Securities LLC (incorporated by reference to Exhibit 4.2 to Nabors Industries Ltd. Form 8-K (File No. 000-49887) filed July 1, 2008).
- 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.

Eugene M. Isenberg  
Chairman and Chief Executive Officer

By: /s/ Eugene M. Isenberg

Bruce P. Koch  
Vice President and Chief Financial Officer  
(Principal Financial and Accounting Officer)

By: /s/ Bruce P. Koch

Date: August 1, 2008

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