

NABORS INDUSTRIES LTD

Form 10-Q

May 09, 2007

Table of Contents

**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 March 31, 2007

Commission file number: 001-32657

Nabors Industries Ltd.

**Incorporated in Bermuda
Mintflower Place
8 Par-La-Ville Road
Hamilton, HM08
Bermuda
(441) 292-1510**

98-0363970

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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

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

The number of common shares, par value \$.001 per share, outstanding as of April 30, 2007 was 281,382,360. In addition, our subsidiary, Nabors Exchangeco (Canada) Inc., has 135,828 exchangeable shares outstanding as of April 30, 2007 that are exchangeable for Nabors common shares on a one-for-one basis, and have essentially identical rights as Nabors Industries Ltd. common shares, including but not limited to voting rights and the right to receive dividends, if any.

NABORS INDUSTRIES LTD. AND SUBSIDIARIES

INDEX

| | Page No. |
|---|-----------------|
| <u>PART I FINANCIAL INFORMATION</u> | |
| <u>Item 1.</u> | |
| <u>Financial Statements (Unaudited)</u> | |
| <u>Consolidated Balance Sheets as of March 31, 2007 and December 31, 2006</u> | 2 |
| <u>Consolidated Statements of Income for the Quarter Ended March 31, 2007 and 2006</u> | 3 |
| <u>Consolidated Statements of Cash Flows for the Quarter Ended March 31, 2007 and 2006</u> | 4 |
| <u>Consolidated Statements of Changes in Shareholders' Equity for the Quarter Ended March 31, 2007 and 2006</u> | 5 |
| <u>Notes to Consolidated Financial Statements</u> | 7 |
| <u>Report of Independent Registered Public Accounting Firm</u> | 26 |
| <u>Item 2.</u> | |
| <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> | 27 |
| <u>Item 3.</u> | |
| <u>Quantitative and Qualitative Disclosures About Market Risk</u> | 37 |
| <u>Item 4.</u> | |
| <u>Controls and Procedures</u> | 38 |
| <u>PART II OTHER INFORMATION</u> | |
| <u>Item 1.</u> | |
| <u>Legal Proceedings</u> | 38 |
| <u>Item 1A.</u> | |
| <u>Risk Factors</u> | 39 |
| <u>Item 6.</u> | |
| <u>Exhibits</u> | 39 |
| <u>Signatures</u> | 40 |
| <u>Awareness Letter of Independent Accountants</u> | |
| <u>Certification Pursuant to Rule 13a-14(a)</u> | |
| <u>Certification Pursuant to rule 13a-14(a)</u> | |
| <u>Certifications Pursuant to Section 1350</u> | |

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

| (In thousands, except per share amounts) | March 31, 2007 | December 31, 2006 |
|---|---------------------------|------------------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 461,227 | \$ 700,549 |
| Short-term investments | 489,785 | 439,467 |
| Accounts receivable, net | 1,130,614 | 1,109,738 |
| Inventory | 114,366 | 100,487 |
| Deferred income taxes | 37,790 | 38,081 |
| Other current assets | 180,417 | 116,534 |
| Total current assets | 2,414,199 | 2,504,856 |
| Long-term investments | 549,773 | 513,269 |
| Property, plant and equipment, net | 5,810,745 | 5,410,101 |
| Goodwill, net | 372,596 | 362,269 |
| Other long-term assets | 433,093 | 351,808 |
| Total assets | \$ 9,580,406 | \$ 9,142,303 |

LIABILITIES AND SHAREHOLDERS EQUITY

| | | |
|-----------------------------|------------|------------|
| Current liabilities: | | |
| Trade accounts payable | \$ 492,085 | \$ 459,179 |
| Accrued liabilities | 290,322 | 294,958 |
| Income taxes payable | 160,242 | 100,223 |
| Total current liabilities | 942,649 | 854,360 |
| Long-term debt | 4,004,660 | 4,004,074 |
| Other long-term liabilities | 272,111 | 208,553 |
| Deferred income taxes | 529,471 | 538,663 |
| Total liabilities | 5,748,891 | 5,605,650 |

Commitments and contingencies (Note 6)

Shareholders equity:

Edgar Filing: NABORS INDUSTRIES LTD - Form 10-Q

| | | |
|--|--------------|--------------|
| Common shares, par value \$.001 per share: | | |
| Authorized common shares 800,000; issued 303,526 and 299,333, respectively | 304 | 299 |
| Capital in excess of par value | 1,703,099 | 1,637,204 |
| Accumulated other comprehensive income | 213,045 | 201,261 |
| Retained earnings | 2,690,551 | 2,473,373 |
| Less: treasury shares, at cost, 22,340 common shares | (775,484) | (775,484) |
| Total shareholders' equity | 3,831,515 | 3,536,653 |
| Total liabilities and shareholders' equity | \$ 9,580,406 | \$ 9,142,303 |

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

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

| (In thousands, except per share amounts) | Quarter Ended March 31, | |
|--|--------------------------------|--------------|
| | 2007 | 2006 |
| Revenues and other income: | | |
| Operating revenues | \$ 1,260,643 | \$ 1,163,926 |
| Earnings from unconsolidated affiliates | 12,441 | 4,399 |
| Investment income | 28,709 | 13,870 |
| Total revenues and other income | 1,301,793 | 1,182,195 |
| Costs and other deductions: | | |
| Direct costs | 697,304 | 614,617 |
| General and administrative expenses | 114,974 | 88,797 |
| Depreciation and amortization | 105,228 | 81,389 |
| Depletion | 6,625 | 13,017 |
| Interest expense | 13,049 | 8,055 |
| Losses (gains) on sales of long-lived assets, impairment charges and other expense (income), net | 14,038 | 4,029 |
| Total costs and other deductions | 951,218 | 809,904 |
| Income before income taxes | 350,575 | 372,291 |
| Income tax (benefit) expense: | | |
| Current | 110,081 | 61,425 |
| Deferred | (21,668) | 54,103 |
| Total income tax expense | 88,413 | 115,528 |
| Net income | \$ 262,162 | \$ 256,763 |
| Earnings per share: | | |
| Basic | \$.95 | \$.82 |
| Diluted | \$.92 | \$.79 |
| Weighted-average number of common shares outstanding: | | |
| Basic | 276,942 | 312,990 |
| Diluted | 284,814 | 324,536 |

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

Table of Contents

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

| (In thousands) | Quarter Ended March 31, | |
|--|--------------------------------|-------------|
| | 2007 | 2006 |
| Cash flows from operating activities: | | |
| Net income | \$ 262,162 | \$ 256,763 |
| Adjustments to net income: | | |
| Depreciation and amortization | 105,228 | 81,389 |
| Depletion | 6,625 | 13,017 |
| Deferred income tax (benefit) expense | (21,668) | 54,103 |
| Deferred financing costs amortization | 2,088 | 867 |
| Pension liability amortization | 120 | 105 |
| Discount amortization on long-term debt | 486 | 2,409 |
| Amortization of loss on hedges | 137 | 139 |
| Losses on long-lived assets, net | 6,227 | 3,173 |
| Gains on investments, net | (16,668) | (5,700) |
| Gains on derivative instruments | (35) | (959) |
| Share-based compensation | 7,852 | 7,700 |
| Foreign currency transaction losses (gains) | (1,119) | (219) |
| Equity in earnings of unconsolidated affiliates, net of dividends | (6,855) | (4,399) |
| Changes in operating assets and liabilities, net of effects from acquisitions: | | |
| Accounts receivable | (21,457) | (121,111) |
| Inventory | (13,535) | (7,016) |
| Other current assets | (106) | 13,272 |
| Other long-term assets | (73,494) | 7,617 |
| Trade accounts payable and accrued liabilities | 31,823 | 40,520 |
| Income taxes payable | 59,016 | 46,187 |
| Other long-term liabilities | 29,312 | 8,109 |
| Net cash provided by operating activities | 356,139 | 395,966 |
| Cash flows from investing activities: | | |
| Purchases of investments | (157,878) | (38,769) |
| Sales and maturities of investments | 89,713 | 701,158 |
| Cash paid for acquisitions of businesses, net | (8,391) | (49,309) |
| Deposits released for acquisitions | | 35,844 |
| Capital expenditures | (583,211) | (346,211) |
| Investment in affiliates | (4,644) | |
| Proceeds from sales of assets and insurance claims | 8,535 | 2,416 |
| Net cash (used for) provided by investing activities | (655,876) | 305,129 |
| Cash flows from financing activities: | | |
| Increase in cash overdrafts | 699 | 9,898 |

Edgar Filing: NABORS INDUSTRIES LTD - Form 10-Q

| | | |
|--|------------|------------|
| Reduction of long-term debt | | (769,789) |
| Proceeds from issuance of common shares | 58,975 | 8,263 |
| Repurchase and retirement of common shares | (1,698) | (222,384) |
| Tax benefit related to the exercise of stock options | 771 | 1,815 |
| Net cash provided by (used for) financing activities | 58,747 | (972,197) |
| Effect of exchange rate changes on cash and cash equivalents | 1,668 | (597) |
| Net (decrease) in cash and cash equivalents | (239,322) | (271,699) |
| Cash and cash equivalents, beginning of period | 700,549 | 565,001 |
| Cash and cash equivalents, end of period | \$ 461,227 | \$ 293,302 |

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

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

| | Common Shares | Par Value | Capital in Excess of Par Value | Accumulated Other Comprehensive Income (Loss) Unrealized Gains (Losses) on Marketable Securities | Cumulative Translation Adjustment | Other | Retained Earnings | Treasury Shares | Total Shareholders' Equity |
|---|---------------|-----------|--------------------------------|--|-----------------------------------|------------|-------------------|-----------------|----------------------------|
| (in thousands) | | | | | | | | | |
| December 31, | 299,333 | \$ 299 | \$ 1,637,204 | \$ 33,400 | \$ 171,160 | \$ (3,299) | \$ 2,473,373 | \$ (775,484) | \$ 3,308,064 |
| Comprehensive income | | | | | | | 262,162 | | |
| Translation Adjustment | | | | | 9,784 | | | | |
| Unrealized gains on securities, net of taxes of \$60 classification | | | | 1,929 | | | | | |
| Provision for gains on net income, net of tax benefit of \$2 million, net of income tax | | | | (42) | | | | | |
| Other | | | | | | 76 | | | |
| Provision of loss on hedges | | | | | | 37 | | | |
| Comprehensive income (loss) | | | | 1,887 | 9,784 | 113 | 262,162 | | |
| Reverse effect of adoption of FIN 48 | | | | | | | (44,984) | | |
| Balance at January 1, 2007 | | | | | | | | | |
| Issuance of common shares | | | | | | | | | |
| Options exercised | 2,580 | 3 | 58,972 | | | | | | |
| Exchange of shares | | | | | | | | | |
| Repurchase of shares | 3 | | | | | | | | |
| Retirement of exercised options | | | | | | | | | |
| Share repurchase deductions | | | 771 | | | | | | |

Edgar Filing: NABORS INDUSTRIES LTD - Form 10-Q

| | | | | | | | | | | |
|-------------------|---------|--------|--------------|-----------|------------|------------|--------------|--------------|-------|--|
| Stock awards, net | 1,610 | 2 | (1,700) | | | | | | | |
| ed Compensation | | | 7,852 | | | | | | | |
| | 4,193 | 5 | 65,895 | | | | (44,984) | | | |
| March 31, 2007 | 303,526 | \$ 304 | \$ 1,703,099 | \$ 35,287 | \$ 180,944 | \$ (3,186) | \$ 2,690,551 | \$ (775,484) | \$ 3, | |

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

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

| | Common Shares | Par Value | Capital in Excess of Par Value | Unearned Compensation | Accumulated Other Comprehensive Income (Loss) Unrealized Gains (Losses) on Marketable Securities | Cumulative Translation Adjustment | Other | Retained Earnings | Total Shareholders' Equity |
|--|---------------|-----------|--------------------------------|-----------------------|--|-----------------------------------|------------|-------------------|----------------------------|
| (in thousands) | | | | | | | | | |
| December 31, | 315,393 | \$ 315 | \$ 1,590,968 | \$ (15,649) | \$ 18,865 | \$ 178,109 | \$ (3,994) | \$ 1,989,526 | \$ 3,770,000 |
| Comprehensive Income | | | | | | | | | |
| Net income | | | | | | | | 256,763 | 256,763 |
| Translation adjustment | | | | | | (4,093) | | | |
| Unrealized gains on available securities, net of taxes of \$406 | | | | | 6,042 | | | | |
| Classification adjustment for gains in net income, net of tax expense of \$800 | | | | | 800 | | | | |
| Liability adjustment, net of income taxes of \$39 | | | | | | | 66 | | |
| Recognition of loss on foreign currency hedges | | | | | | | 38 | | |
| Comprehensive income (loss) | | | | | 6,842 | (4,093) | 104 | 256,763 | 256,763 |
| Impact of SFAS 123-R on common shares | | | (15,649) | 15,649 | | | | | |
| Options exercised | 405 | | 8,263 | | | | | | |
| Exchangeable shares issued | 29 | | | | | | | | |
| Purchase and retirement of shares | (6,400) | (6) | (32,152) | | | | | (190,226) | (190,226) |

| | | | | | | | | | |
|----------------------------|---------|--------|--------------|--------|-----------|------------|------------|--------------|----------|
| Amount of exercised | | | | | | | | | |
| Option deductions | | | 1,815 | | | | | | |
| and stock awards, net | 620 | | | | | | | | |
| of Restricted Compensation | | | 7,700 | | | | | | |
| | (5,346) | (6) | (30,023) | 15,649 | | | | (190,226) | (2,000) |
| As of March 31, 2006 | 310,047 | \$ 309 | \$ 1,560,945 | \$ | \$ 25,707 | \$ 174,016 | \$ (3,890) | \$ 2,056,063 | \$ 3,890 |

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

Table of Contents

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 640 land drilling rigs. We conduct oil, gas and geothermal land drilling operations in the U.S. Lower 48 states, Alaska, Canada, South and Central America, the Middle East, the Far East and Africa. We are also one of the largest land well-servicing and workover contractors in the United States and Canada. We own approximately 605 land workover and well-servicing rigs in the United States, primarily in the southwestern and western United States, and approximately 190 land workover and well-servicing rigs in Canada. Nabors is a leading provider of offshore platform workover and drilling rigs, and actively markets 41 platform, 14 jack-up units and 4 barge rigs in the United States and multiple international markets. These rigs provide well-servicing, workover and drilling services. We have a 50% ownership interest in a joint venture in Saudi Arabia, which owns 18 rigs. We also offer a wide range of ancillary well-site services, including engineering, transportation, construction, maintenance, well logging, directional drilling, rig instrumentation, data collection and other support services in selected domestic and international markets. We market 25 marine transportation and supply vessels, which provide transportation of drilling materials, supplies and crews for offshore operations. We provide logistics services for onshore drilling and well-servicing operations in Canada using helicopters and fixed-winged aircraft. We manufacture and lease or sell top drives for a broad range of drilling applications, directional drilling systems, rig instrumentation and data collection equipment, and rig reporting software. We also invest in oil and gas exploration, development and production activities.

The majority of our business is conducted through our various Contract Drilling operating segments, which include our drilling, workover and well-servicing operations, on land and offshore. Our oil and gas exploration, development and production operations are included in a category labeled Oil and Gas for segment reporting purposes. Our operating segments engaged in marine transportation and supply services, 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 Sea Mar division time charters supply vessels to offshore operators in U.S. waters. The vessels are owned by one of our financing company subsidiaries, but are operated and managed by a U.S. citizen-controlled company pursuant to long-term bareboat charters. As a result of recent legislation, beginning in August 2007, Sea Mar will no longer be able to use this arrangement to qualify vessels for employment in the U.S. coastwise trade. Accordingly, we will be required to redeploy the vessels outside the U.S. or sell the vessels by no later than such time. The net assets of Sea Mar totaled approximately \$156.9 million at March 31, 2007.

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

Note 2 Summary of Significant Accounting Policies

Interim Financial Information

The unaudited consolidated financial statements of Nabors are prepared in conformity with accounting principles generally accepted in the United States of America (GAAP). Certain reclassifications have been made to the prior period to conform to the current period presentation, with no effect on our consolidated financial position, results of operations or cash flows. Pursuant to the rules and regulations of the U.S. Securities and Exchange Commission (SEC), certain information and footnote disclosures normally included in annual financial statements prepared in

accordance with GAAP have been omitted. Therefore, these financial statements should be read along with our Annual Report on Form 10-K for the year ended December 31, 2006. In our management's opinion, the consolidated financial statements contain all adjustments necessary to present fairly our financial position as of March 31, 2007 and the results of our operations and our cash flows for the quarters ended March 31, 2007 and 2006, in accordance with GAAP. Interim results for the first quarter ended March 31, 2007 may not be indicative of results that will be realized for the full year ending December 31, 2007.

Table of Contents

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

Principles of Consolidation

Our consolidated financial statements include the accounts of Nabors, all majority-owned subsidiaries, and all non-majority owned subsidiaries required to be consolidated under Financial Accounting Standards Board (FASB) Interpretation No. 46(R), Consolidation of Variable Interest Entities, an interpretation of ARB No. 51 FIN 46R). All significant intercompany accounts and transactions are eliminated in consolidation.

Investments in operating entities where we have the ability to exert significant influence, but where we do not control their operating and financial policies, are accounted for using the equity method. Our share of the net income of these entities is recorded as Earnings from unconsolidated affiliates in our consolidated statements of income and our investment in these entities is carried as a single amount in our consolidated balance sheets. Investments in net assets of unconsolidated affiliates accounted for using the equity method totaled \$109.9 million and \$98.0 million as of March 31, 2007 and December 31, 2006, respectively, and are included in other long-term assets in our consolidated balance sheets. Similarly, investments in certain offshore funds classified as non-marketable are accounted for using the equity method of accounting based on our ownership interest in each fund. Our share of the gains and losses of these funds is recorded in investment income in our consolidated statements of income and our investments in these funds are included in long-term investments in our consolidated balance sheets.

Note 3 Share-Based Compensation

The Company has several stock-based employee compensation plans, which are more fully described in Note 3 of our 2006 Annual Report on Form 10-K. Effective January 1, 2006, we adopted the fair value recognition provisions of SFAS No. 123(R), Share-Based Payment, (SFAS 123-R), using the modified prospective application method.

For the quarters ended March 31, 2007 and 2006, total stock-based compensation expense, which includes both stock options and restricted stock, totaled \$7.9 million and \$7.7 million, respectively. Stock-based compensation expense has been allocated to our various operating segments (Note 9).

During the first quarter of 2007, the Company awarded 1,738,039 shares of restricted stock to its employees, directors and executive officers. These awards had an aggregate value at their date of grant of \$52.4 million and vest over a period of three to four years.

Note 4 Income Taxes

Effective January 1, 2007, we adopted the provisions of the FASB issued Interpretation No. 48 (FIN 48), Accounting for Uncertainty in Income Taxes. In connection with the adoption of FIN 48, the Company recognized increases of \$24 million and \$21 million to its tax reserves for uncertain tax positions and interest and penalties, respectively. These increases were accounted for as an increase to other long-term liabilities and as a reduction to retained earnings at January 1, 2007. As of January 1, 2007, the Company had approximately \$114.1 million of total gross unrecognized

tax benefits, including \$29.8 million of interest and penalties, which also represents the amount of unrecognized tax benefits that, if recognized, would favorably impact the effective income tax rate in future periods. As of March 31, 2007, the Company had approximately \$116.4 million of total gross unrecognized tax benefits, including interest and penalties. During the quarter ended March 31, 2007, the Company accrued and recognized estimated interest and penalties of approximately \$1.6 million.

We are subject to income taxes in the United States and numerous foreign jurisdictions. U.S. federal income tax returns for 2002 through 2005 are currently under examination. Internationally, income tax returns from 1995

Table of Contents

NABORS INDUSTRIES LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

through 2005 are currently under examination. Based on the number of tax years currently under audit by relevant Federal and foreign tax authorities, the Company anticipates that several of these audits could be finalized within 12 months. However, based on the current status of these 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 impact of the amount of such changes, if any, to previously recorded uncertain tax positions.

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

Note 5 Common Shares

During the first quarter of 2007 and 2006, our employees exercised vested options to acquire 2.6 million and .4 million of our common shares, respectively. During the first quarter of 2006 we repurchased and retired 6.4 million of our common shares in the open market for \$222.4 million.

Note 6 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.

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

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

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

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

lower than the amount provided for under his employment agreement) in light of his overall compensation package in 14 of the last 17 years.

Mr. Isenberg voluntarily agreed to amend his employment agreement in March 2006 (the 2006 Amendment). Under the 2006 Amendment, Mr. Isenberg agreed to reduce the annual cash bonus to an amount equal to 3% of Nabors' net cash flow (as defined in his employment agreement) in excess of 15% of the average shareholders' equity for 2006. For the first quarter of 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). For the remainder of 2007 through the expiration date of the employment agreement, the annual cash bonus will return to 6% and 2%, respectively, for Messrs. Isenberg and Petrello of Nabors' net cash flow in excess of 15% of the average shareholders' equity for each fiscal year.

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

Termination in the event of death, disability, or termination without cause. In the event that either Mr. Isenberg's or Mr. Petrello's employment agreement is terminated (i) upon death or disability (as defined in the respective employment agreements), (ii) by Nabors prior to the expiration date of the employment agreement for any reason other than for Cause (as defined in the respective employment agreements) or (iii) by either individual for Constructive Termination Without Cause (as defined in the respective employment agreements), each would be entitled to receive within 30 days of the triggering event (a) all base salary which would have been payable through 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 March 31, 2007, Mr. Isenberg would have been entitled to a payment of approximately \$329 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 would not be less than approximately \$264 million. Similarly, with respect to Mr. Petrello, had these provisions applied at March 31, 2007, Mr. Petrello would have been entitled to a payment of approximately \$111 million, subject to a true-up equal to the amount of cash bonus he would have earned under the formula during the remaining term of the agreement, based upon actual results, but would not be less than approximately \$103 million. These payment amounts are based on historical data and are not intended to be estimates of future payments required under the agreements. Depending upon future operating results, the true-up could result in the payment of amounts which are significantly higher. In addition, the affected individual is entitled to receive (a) any unvested restricted stock outstanding, which shall immediately and fully vest; (b) any unvested outstanding stock options, which shall immediately and fully vest; (c) any amounts earned, accrued or owing to the executive but not yet paid (including executive benefits, life insurance, disability benefits and reimbursement of expenses and perquisites), which shall be continued through the later of the expiration date or three years after the termination date; (d) continued participation in medical, dental and life insurance coverage until the executive receives equivalent benefits or coverage through a subsequent employer or until the death of the executive or his spouse, whichever is later; and (e) any other or additional benefits in accordance with applicable plans and programs of Nabors. For Messrs. Isenberg and Petrello, the values of unvested restricted stock were approximately \$26.7 million and \$16.7 million, respectively, as of

March 31, 2007. Neither Messrs. Isenberg nor Petrello had unvested stock options as of March 31, 2007. Estimates of the cash value of Nabors obligations to Messrs. Isenberg and Petrello under (c), (d) and (e) above are included in the payment amounts above.

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

In March 2006 the Board of Directors exercised its election to fix the expiration date of the employment agreements for Messrs. Isenberg and Petrello. 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 March 31, 2007, then the payments to Messrs. Isenberg and Petrello would be approximately \$329 million and \$111 million, respectively. These payment amounts are based on historical data and are not intended to be estimates of future payments required under the agreements. Depending upon future operating results, the true-up could result in the payment of amounts which are significantly higher. 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 values of unvested restricted stock were approximately \$26.7 million and \$16.7 million, respectively, as of March 31, 2007. Neither Messrs. Isenberg nor Petrello had unvested stock options as of March 31, 2007. The cash value of Nabors' obligations to Messrs. Isenberg and Petrello under (c), (d) and (e) above are included in the payment amounts above. Also, they would receive additional stock options immediately exercisable for 5 years to acquire a number of shares of common stock equal to the highest number of options granted during any fiscal year in the previous three fiscal years, at an option exercise price equal to the average closing price during the 20 trading days prior to the event which resulted in the change of control. If, by way of example, there was a change of control event that applied at March 31, 2007, Mr. Isenberg would have received 3,666,666 options valued at approximately \$36 million and Mr. Petrello would have received 1,683,332 options valued at approximately \$18 million, in each case based upon a Black-Scholes analysis. Finally, in the event that an excise tax was applicable, they would receive a gross-up payment to make them whole with respect to any excise taxes imposed by Section 4999 of the Internal Revenue Code. With respect to the preceding sentence, by way of example, if there was a change of control event that applied on March 31, 2007, and assuming that the excise tax were applicable to the transaction, then the additional payments to Messrs. Isenberg and Petrello for the gross-up would be up to approximately \$146 million and \$51 million, respectively.

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

Contingencies

Income Tax Contingencies

We are subject to income taxes in both the United States and numerous foreign jurisdictions. Significant judgment is required in determining our worldwide provision for income taxes. In the ordinary course of our business, there are many transactions and calculations where the ultimate tax determination is uncertain. We are

Table of Contents

NABORS INDUSTRIES LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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

On May 31, 2006, Nabors International Finance Inc. (NIFI), a wholly-owned U.S. subsidiary of Nabors, received from the U.S. Internal Revenue Service (the IRS) two Notices of Proposed Adjustment (NOPA) in connection with an audit of NIFI for tax years 2002 and 2003. One NOPA proposes to deny a deduction of \$85.1 million in interest expense in our 2002 tax year relating to intercompany indebtedness incurred in connection with our June 2002 transaction, whereby we reorganized as a Bermuda company. The second NOPA proposes to deny a deduction of \$207.6 million in the same item of interest expense in our 2003 tax year. On August 9, 2006, NIFI received a Revenue Agent Report, asserting the adjustments relating to the two NOPAs referred to above. On September 18, 2006, NIFI filed a protest with the IRS related to the two adjustments. We intend to contest the IRS position vigorously. We previously had obtained advice from our tax advisors that the deduction of such amounts was appropriate, and more recently that the position of the IRS lacks merit. At the end of 2003, the Company paid off approximately one-half of the intercompany indebtedness incurred in connection with the inversion. It is likely that the IRS will propose the disallowance of the deductions that relate to the remaining inversion debt upon audit of NIFI 's 2004, 2005, 2006 and 2007 tax years. We currently have not recorded any reserves for such proposed adjustments.

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

Self-Insurance Accruals

We are self-insured for certain losses relating to workers' compensation, employers' liability, general liability, automobile liability and property damage. Effective April 1, 2007, hurricane coverage for Gulf of Mexico exposures is subject to a \$10 million deductible. We are insured for \$25 million over the deductible at 100%, and have added a second insured layer for \$30 million at 60%. We are self-insuring 40% of the second layer.

Litigation

Nabors and its subsidiaries are defendants or otherwise involved in a number of lawsuits in the ordinary course of business. We estimate the range of our liability related to pending litigation when we believe the amount and range of

loss can be estimated. We record our best estimate of a loss when the loss is considered probable. When a liability is probable and there is a range of estimated loss with no best estimate in the range, we record the minimum estimated liability related to the lawsuits or claims. As additional information becomes available, we assess the potential liability related to our pending litigation and claims and revise our estimates. Due to uncertainties related to the resolution of lawsuits and claims, the ultimate outcome may differ from our estimates. In the opinion of

Table of Contents

NABORS INDUSTRIES LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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.

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

On February 6, 2007, a purported shareholder derivative action entitled *Kenneth H. Karstedt v. Eugene M. Isenberg, et al* was filed in the United States District Court for the Southern District of Texas against the Company's officers and directors, and against the Company as a nominal defendant. The complaint alleges that stock options were priced retroactively and were improperly accounted for, and alleges various causes of action based on that assertion. The complaint seeks, among other things, payment by the defendants to the Company of damages allegedly suffered by it and disgorgement of profits. On March 5, 2007, another purported shareholder derivative action entitled *Gail McKinney v. Eugene M. Isenberg, et al* was also filed in the United States District Court for the Southern District of Texas. The complaint makes substantially the same allegations against the same defendants and seeks the same elements of damages. The two purported derivative actions have been consolidated into one proceeding. The ultimate outcome of this matter cannot be determined at this time.

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

In a letter dated December 28, 2006, the SEC staff advised us that it had commenced an informal inquiry regarding our stock option grants and related practices, procedures and accounting. We have cooperated with this inquiry. The staff of the Securities and Exchange Commission has informed us that they intend to close the informal inquiry regarding our historical stock option granting practices and related accounting without recommending any enforcement action at this time.

Off-Balance Sheet Arrangements (Including Guarantees)

We are a party to certain transactions, agreements or other contractual arrangements defined as off-balance sheet arrangements that could have a material future effect on our financial position, results of operations, liquidity and capital resources. The most significant of these off-balance sheet arrangements involve agreements and obligations in which we provide financial or performance assurance to third parties. Certain of these agreements serve as guarantees, including standby letters of credit issued on behalf of insurance carriers in conjunction with our workers' compensation insurance program and other financial surety instruments such as bonds. We have also guaranteed payment of contingent consideration in conjunction with certain acquisitions in 2005. Potential contingent consideration is based on future operating results of those businesses. In addition, we have provided indemnifications to certain third parties which serve as guarantees. These guarantees include indemnification provided by Nabors to our share transfer agent and our insurance carriers. We are not able to estimate the potential future maximum payments that might be due under our indemnification guarantees.

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

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

| (In thousands) | Remainder of 2007 | Maximum Amount | | | Total |
|--|----------------------|----------------|----------|------------|------------|
| | | 2008 | 2009 | Thereafter | |
| Financial standby letters of credit and other financial surety instruments | \$ 97,269 | \$ 27,826 | \$ 100 | \$ 25 | \$ 125,220 |
| Contingent consideration in acquisition | | 1,063 | 1,063 | 2,124 | 4,250 |
| Total | \$ 97,269 | \$ 28,889 | \$ 1,163 | \$ 2,149 | \$ 129,470 |

Note 7 Earnings Per Share

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

| (In thousands, except per share amounts) | Quarter Ended March 31, | |
|---|----------------------------|------------|
| | 2007 | 2006 |
| Net income (numerator): | | |
| Net income basic | \$ 262,162 | \$ 256,763 |
| Add interest expense on assumed conversion of our zero coupon senior convertible/exchangeable debentures/notes, net of tax: | | |
| \$2.75 billion due 2011(1) | | |
| \$82.8 million due 2021(2) | | |
| \$700 million due 2023(3) | | |
| Adjusted net income diluted | \$ 262,162 | \$ 256,763 |
| Earnings per share: | | |
| Basic | \$.95 | \$.82 |
| Diluted | \$.92 | \$.79 |
| Shares (denominator): | | |
| Weighted-average number of shares outstanding - basic(4) | 276,942 | 312,990 |
| | 7,872 | 10,986 |

Net effect of dilutive stock options, warrants and restricted stock awards based on the treasury stock method

Assumed conversion of our zero coupon senior convertible/exchangeable debentures/notes:

\$2.75 billion due 2011(1)

\$82.8 million due 2021(2)

\$700 million due 2023(3)

560

Weighted-average number of shares outstanding - diluted

284,814

324,536

(1) Diluted earnings per share for the quarter ended March 31, 2007 does not include any incremental shares issuable upon the exchange of the \$2.75 billion 0.94% senior exchangeable notes. The number of shares that we would be required to issue upon exchange consists of only the incremental shares that would be issued above the

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

principal amount of the notes, as we are required to pay cash up to the principal amount of the notes exchanged. We would only issue an incremental number of shares upon exchange of these notes, and such shares are only included in the calculation of the weighted-average number of shares outstanding in our diluted earnings per share calculation, when the price of our shares exceeds \$45.83 on the last trading day of the quarter, which did not occur during the first quarter ended March 31, 2007. The \$2.75 billion notes were issued during the quarter ended June 30, 2006 and had no effect on first quarter's 2006 earnings per share calculation.

- (2) Diluted earnings per share for the quarters ended March 31, 2007 and 2006 excludes approximately 1.2 million potentially dilutive shares initially issuable upon the conversion of the \$82.8 million zero coupon convertible senior debentures. We would only issue an incremental number of shares upon conversion of these debentures, and such shares would only be included in the calculation of the weighted-average number of shares outstanding in our diluted earnings per share calculation if the price of our shares exceeded approximately \$50.
- (3) Diluted earnings per share for the quarter ended March 31, 2007, does not include any incremental shares issuable upon the exchange of the \$700 million zero coupon senior exchangeable notes. The number of shares that we would be required to issue upon exchange consists of only the incremental shares that would be issued above the principal amount of the notes, as we are required to pay cash up to the principal amount of the notes exchanged. We would only issue an incremental number of shares upon exchange of these notes, and such shares are only included in the calculation of the weighted-average number of shares outstanding in our diluted earnings per share calculation, when the price of our shares exceeds \$35.05 on the last trading day of the quarter. This was the case for the quarter ended March 31, 2006, and is, therefore, included in the weighted-average number of shares outstanding in our diluted earnings per share calculation for the quarter ended March 31, 2006.
- (4) Includes the following weighted-average number of common shares of Nabors and weighted-average number of exchangeable shares of our subsidiary, Nabors (Canada) Exchangeco Inc., respectively: 276.8 million and .2 million shares for the quarter ended March 31, 2007, and 312.8 million and .2 million shares for the quarter ended March 31, 2006. The exchangeable shares of Nabors Exchangeco are exchangeable for Nabors' common shares on a one-for-one basis, and have essentially identical rights as Nabors Industries Ltd. common shares, including, but not limited to, voting rights and the right to receive dividends, if any.

For all periods presented, the computation of diluted earnings per share excludes outstanding stock options and warrants with exercise prices greater than the average market price of Nabors' common shares, because the inclusion of such options and warrants would be anti-dilutive. The average number of options and warrants that were excluded from diluted earnings per share that would potentially dilute earnings per share in the future were 4,963,038 shares during the quarter ended March 31, 2007 and 1,000,750 shares during the quarter ended March 31, 2006. In any period during which the average market price of Nabors' common shares exceeds the exercise prices of these stock options and warrants, such stock options and warrants will be included in our diluted earnings per share computation using the treasury stock method of accounting. Restricted stock will similarly be included in our diluted earnings per share computation using the treasury stock method of accounting in any period where the amount of restricted stock exceeds the number of shares assumed repurchased in those periods based upon future unearned compensation.

Table of Contents**NABORS INDUSTRIES LTD. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Note 8 Supplemental Balance Sheet Information**

Accrued liabilities include the following:

| (In thousands) | March 31, 2007 | December 31, 2006 |
|----------------------------------|---------------------------|------------------------------|
| Accrued compensation | \$ 101,975 | \$ 136,276 |
| Deferred revenue | 68,533 | 65,747 |
| Workers compensation liabilities | 28,032 | 28,032 |
| Interest payable | 13,049 | 13,024 |
| Litigation reserves | 12,484 | 4,536 |
| Other taxes payable | 20,428 | 19,906 |
| Other accrued liabilities | 45,821 | 27,437 |
| | \$ 290,322 | \$ 294,958 |

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

| (In thousands) | March 31, 2007 | December 31, 2006 |
|---------------------------|---------------------------|------------------------------|
| Cash and cash equivalents | \$ 461,227 | \$ 700,549 |
| Short-term investments | 489,785 | 439,467 |
| Long-term investments | 549,773 | 513,269 |
| Total | \$ 1,500,785 | \$ 1,653,285 |

As of March 31, 2007 and December 31, 2006, our short-term investments consist entirely of investments in available-for-sale marketable debt and equity securities while our long-term investments consist entirely of investments in nonmarketable securities.

On March 31, 2007, the Company determined that the plan of sale criteria in SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, had been met. Accordingly, the carrying value of certain accommodation units, included in our International operating segment, is reflected in Other current assets in the amount of \$65.8 million at March 31, 2007.

Table of Contents**NABORS INDUSTRIES LTD. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Note 9 Segment Information**

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

| | Quarter Ended March 31, | |
|---|------------------------------------|--------------|
| | 2007 | 2006 |
| (In thousands) | | |
| Operating revenues and Earnings from unconsolidated affiliates: | | |
| Contract Drilling:(1) | | |
| U.S. Lower 48 Land Drilling | \$ 452,596 | \$ 426,350 |
| U.S. Land Well-servicing | 182,218 | 160,733 |
| U.S. Offshore | 55,775 | 43,526 |
| Alaska | 47,836 | 26,806 |
| Canada | 193,280 | 226,557 |
| International | 224,482 | 146,895 |
| Subtotal Contract Drilling(2) | 1,156,187 | 1,030,867 |
| Oil and Gas | 13,129 | 29,837 |
| Other Operating Segments(3)(4) | 156,920 | 151,703 |
| Other reconciling items(5) | (53,152) | (44,082) |
| Total | \$ 1,273,084 | \$ 1,168,325 |
| Adjusted income (loss) derived from operating activities:(6) | | |
| Contract Drilling: | | |
| U.S. Lower 48 Land Drilling | \$ 172,926 | \$ 179,731 |
| U.S. Land Well-servicing | 43,356 | 46,070 |
| U.S. Offshore | 15,049 | 10,454 |
| Alaska | 16,567 | 4,242 |
| Canada | 53,128 | 83,102 |
| International | 66,018 | 37,497 |
| Subtotal Contract Drilling | 367,044 | 361,096 |
| Oil and Gas | 1,128 | 13,436 |
| Other Operating Segments | 20,808 | 20,567 |
| Total segment adjusted income derived from operating activities | \$ 388,980 | \$ 395,099 |
| Other reconciling items(7) | (40,027) | (24,594) |
| Interest expense | (13,049) | (8,055) |
| Investment income | 28,709 | 13,870 |
| | (14,038) | (4,029) |

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

| | | |
|----------------------------|------------|------------|
| Income before income taxes | \$ 350,575 | \$ 372,291 |
|----------------------------|------------|------------|

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

| (In thousands) | March 31, 2007 | December 31, 2006 |
|-------------------------------|---------------------------|------------------------------|
| Total assets: | | |
| Contract Drilling: | | |
| U.S. Lower 48 Land Drilling | \$ 2,352,606 | \$ 2,210,070 |
| U.S. Land Well-servicing | 664,088 | 597,082 |
| U.S. Offshore | 454,729 | 456,889 |
| Alaska | 242,293 | 221,927 |
| Canada | 1,118,844 | 1,059,243 |
| International | 2,170,353 | 2,006,941 |
| Subtotal Contract Drilling(8) | 7,002,913 | 6,552,152 |
| Oil and Gas | 432,764 | 328,114 |
| Other Operating Segments(9) | 679,111 | 638,600 |
| Other reconciling items(7) | 1,465,618 | 1,623,437 |
| Total assets | \$ 9,580,406 | \$ 9,142,303 |

- (1) These segments include our drilling, workover and well-servicing operations, on land and offshore.
- (2) Includes earnings (losses), net from unconsolidated affiliates, accounted for by the equity method, of \$1.7 million and \$.7 million for the quarters ended March 31, 2007 and 2006, respectively.
- (3) Includes our marine transportation and supply services, drilling technology and top drive manufacturing, directional drilling, rig instrumentation and software, and construction and logistics operations.
- (4) Includes earnings (losses), net from unconsolidated affiliates, accounted for by the equity method, of \$10.7 million and \$3.7 million for the quarters ended March 31, 2007 and 2006, respectively.
- (5) Represents the elimination of inter-segment transactions.
- (6) Adjusted income (loss) derived from operating activities is computed by: subtracting direct costs, general and administrative expenses, and depreciation and amortization, and depletion expense from operating revenues and then adding earnings from unconsolidated affiliates. Such amounts should not be used as a substitute to those amounts reported under GAAP. However, management evaluates the performance of our business units and the consolidated company based on several criteria, including adjusted income (loss) derived from operating activities, because it believes that this financial measure is an accurate reflection of the ongoing profitability of our company. A reconciliation of this non-GAAP measure to income before income taxes, which is a GAAP measure, is provided within the above table.

- (7) Represents the elimination of inter-segment transactions and unallocated corporate expenses and assets.
- (8) Includes \$42.8 million and \$39.6 million of investments in unconsolidated affiliates accounted for by the equity method as of March 31, 2007 and December 31, 2006, respectively.
- (9) Includes \$63.7 million and \$58.5 million of investments in unconsolidated affiliates accounted for by the equity method as of March 31, 2007 and December 31, 2006, respectively.

Table of Contents

NABORS INDUSTRIES LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 10 Condensed Consolidating Financial Information

Nabors has fully and unconditionally guaranteed all of the issued public debt securities of Nabors Delaware, 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 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 March 31, 2007 and December 31, 2006, statements of income and cash flows for each quarter ended March 31, 2007 and 2006 of (a) Nabors, parent/guarantor, (b) Nabors Delaware, issuer of public debt securities guaranteed by Nabors and guarantor of the \$225 million 4.875% senior notes issued by Nabors Holdings, (c) Nabors Holdings, issuer of the \$225 million 4.875% senior notes, (d) the non-guarantor subsidiaries, (e) consolidating adjustments necessary to consolidate Nabors and its subsidiaries and (f) Nabors on a consolidated basis.

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

| | March 31, 2007 | | | | | |
|--|---|--|---|---|--------------------------------------|-------------------------------|
| | Nabors (Parent/ Guarantor) | Nabors Delaware (Issuer/ Guarantor) | Nabors Holdings (Issuer) | Other Subsidiaries (Non- Guarantors) | Consolidating Adjustments | Consolidated Total |
| (In thousands) | | | | | | |
| ASSETS | | | | | | |
| Current assets: | | | | | | |
| Cash and cash equivalents | \$ 12,889 | \$ 2,638 | \$ 8 | \$ 445,692 | \$ | \$ 461,227 |
| Short-term investments | | | | 489,785 | | 489,785 |
| Accounts receivable, net | | | | 1,130,614 | | 1,130,614 |
| Inventory | | | | 114,366 | | 114,366 |
| Deferred income taxes | | | | 37,790 | | 37,790 |
| Other current assets | 162 | 1,097 | 376 | 178,782 | | 180,417 |
| Total current assets | 13,051 | 3,735 | 384 | 2,397,029 | | 2,414,199 |
| Long-term investments | | | | 549,773 | | 549,773 |
| Property, plant and equipment, net | | | | 5,810,745 | | 5,810,745 |
| Goodwill, net | | | | 372,596 | | 372,596 |
| Intercompany receivables | 402,268 | 1,351,272 | | 19,944 | (1,773,484) | |
| Investments in affiliates | 3,417,886 | 3,895,022 | 293,439 | 1,482,073 | (8,978,487) | 109,933 |
| Other long-term assets | | 30,756 | 568 | 291,836 | | 323,160 |
| Total assets | \$ 3,833,205 | \$ 5,280,785 | \$ 294,391 | \$ 10,923,996 | \$ (10,751,971) | \$ 9,580,406 |
| LIABILITIES AND SHAREHOLDERS EQUITY | | | | | | |
| Current liabilities: | | | | | | |
| Trade accounts payable | \$ 9 | \$ 24 | \$ | \$ 492,052 | \$ | \$ 492,085 |
| Accrued liabilities | 1,681 | 11,634 | 1,409 | 275,598 | | 290,322 |
| Income taxes payable | | 81,070 | 2,728 | 76,444 | | 160,242 |
| Total current liabilities | 1,690 | 92,728 | 4,137 | 844,094 | | 942,649 |
| Long-term debt | | 3,780,298 | 224,362 | | | 4,004,660 |
| Other long-term liabilities | | | | 272,111 | | 272,111 |
| Deferred income taxes | | 25,543 | 1 | 503,927 | | 529,471 |
| Intercompany payable | | | 4,013 | 1,769,471 | (1,773,484) | |
| Total liabilities | 1,690 | 3,898,569 | 232,513 | 3,389,603 | (1,773,484) | 5,748,891 |

Edgar Filing: NABORS INDUSTRIES LTD - Form 10-Q

| | | | | | | |
|--|--------------|--------------|------------|---------------|-----------------|--------------|
| Shareholders equity | 3,831,515 | 1,382,216 | 61,878 | 7,534,393 | (8,978,487) | 3,831,515 |
| Total liabilities and shareholders equity | \$ 3,833,205 | \$ 5,280,785 | \$ 294,391 | \$ 10,923,996 | \$ (10,751,971) | \$ 9,580,406 |

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

| (In thousands) | December 31, 2006 | | | | | |
|--|----------------------------------|--|--------------------------------|---|------------------------------|-----------------------|
| | Nabors (Parent/ Guarantor) | Nabors Delaware (Issuer/ Guarantor) | Nabors Holdings (Issuer) | Other Subsidiaries (Non- Guarantors) | Consolidating Adjustments | Consolidated Total |
| ASSETS | | | | | | |
| Current assets: | | | | | | |
| Cash and cash equivalents | \$ 14,874 | \$ 2,394 | \$ 8 | \$ 683,273 | \$ | \$ 700,549 |
| Short-term investments | | | | 439,467 | | 439,467 |
| Accounts receivable, net | | | | 1,109,738 | | 1,109,738 |
| Inventory | | | | 100,487 | | 100,487 |
| Deferred income taxes | | | | 38,081 | | 38,081 |
| Other current assets | 162 | 1,103 | 376 | 114,893 | | 116,534 |
| Total current assets | 15,036 | 3,497 | 384 | 2,485,939 | | 2,504,856 |
| Long-term investments | | | | 513,269 | | 513,269 |
| Property, plant and equipment, net | | | | 5,410,101 | | 5,410,101 |
| Goodwill, net | | | | 362,269 | | 362,269 |
| Intercompany receivables | 343,644 | 1,151,556 | | 19,944 | (1,515,144) | |
| Investments in affiliates | 3,184,303 | 3,748,626 | 286,818 | 1,318,478 | (8,440,176) | 98,049 |
| Other long-term assets | | 249,040 | 608 | 220,025 | (215,914) | 253,759 |
| Total assets | \$ 3,542,983 | \$ 5,152,719 | \$ 287,810 | \$ 10,330,025 | \$ (10,171,234) | \$ 9,142,303 |
| LIABILITIES AND SHAREHOLDERS EQUITY | | | | | | |
| Current liabilities: | | | | | | |
| Trade accounts payable | \$ 35 | \$ 22 | \$ | \$ 459,122 | \$ | \$ 459,179 |
| Accrued liabilities | 6,295 | 8,870 | 4,151 | 275,642 | | 294,958 |
| Income taxes payable | | 81,429 | 1,792 | 17,002 | | 100,223 |
| Total current liabilities | 6,330 | 90,321 | 5,943 | 751,766 | | 854,360 |
| Long-term debt | | 3,779,778 | 224,296 | | | 4,004,074 |
| Other long-term liabilities | | | | 208,553 | | 208,553 |
| Deferred income taxes | | 50,696 | | 703,881 | (215,914) | 538,663 |
| Intercompany payable | | | 3,733 | 1,511,411 | (1,515,144) | |
| Total liabilities | 6,330 | 3,920,795 | 233,972 | 3,175,611 | (1,731,058) | 5,605,650 |
| Shareholders equity | 3,536,653 | 1,231,924 | 53,838 | 7,154,414 | (8,440,176) | 3,536,653 |

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

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

| | Quarter Ended March 31, 2007 | | | | | Consolidated Total |
|--|----------------------------------|--|--------------------------------|---|------------------------------|-----------------------|
| | Nabors (Parent/ Guarantor) | Nabors Delaware (Issuer/ Guarantor) | Nabors Holdings (Issuer) | Other Subsidiaries (Non- Guarantors) | Consolidating Adjustments | |
| (In thousands) | | | | | | |
| Revenues and other income: | | | | | | |
| Operating revenues | \$ | \$ | \$ | \$ 1,260,643 | \$ | \$ 1,260,643 |
| Earnings from unconsolidated affiliates | | | | 12,441 | | 12,441 |
| Earnings from consolidated affiliates | 266,013 | 157,697 | 6,621 | 165,608 | (595,939) | |
| Investment income | 227 | 21 | | 28,461 | | 28,709 |
| Intercompany interest income | 989 | 19,401 | | | (20,390) | |
| Total revenues and other income | 267,229 | 177,119 | 6,621 | 1,467,153 | (616,329) | 1,301,793 |
| Costs and other deductions: | | | | | | |
| Direct costs | | | | 697,304 | | 697,304 |
| General and administrative expenses | 4,652 | (120) | 2 | 110,610 | (170) | 114,974 |
| Depreciation and amortization | | 150 | | 105,078 | | 105,228 |
| Depletion | | | | 6,625 | | 6,625 |
| Interest expense | | 12,779 | 2,860 | (2,590) | | 13,049 |
| Intercompany interest expense | 415 | | | 19,975 | (20,390) | |
| Losses (gains) on sales of long-lived assets, impairment charges and other expense (income), net | | (25) | | 13,893 | 170 | 14,038 |
| Total costs and other deductions | 5,067 | 12,784 | 2,862 | 950,895 | (20,390) | 951,218 |
| | 262,162 | 164,335 | 3,759 | 516,258 | (595,939) | 350,575 |

Income before income
taxes

| | | | | | | |
|--------------------|------------|------------|----------|------------|--------------|------------|
| Income tax expense | | 2,456 | 1,203 | 84,754 | | 88,413 |
| Net income | \$ 262,162 | \$ 161,879 | \$ 2,556 | \$ 431,504 | \$ (595,939) | \$ 262,162 |

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

| | Quarter Ended March 31, 2006 | | | | | |
|--|----------------------------------|--|--------------------------------|---|------------------------------|-----------------------|
| | Nabors (Parent/ Guarantor) | Nabors Delaware (Issuer/ Guarantor) | Nabors Holdings (Issuer) | Other Subsidiaries (Non- Guarantors) | Consolidating Adjustments | Consolidated Total |
| (In thousands) | | | | | | |
| Revenues and other income: | | | | | | |
| Operating revenues | \$ | \$ | \$ | \$ 1,163,926 | \$ | \$ 1,163,926 |
| Earnings from unconsolidated affiliates | | | | 4,399 | | 4,399 |
| Earnings from consolidated affiliates | 259,952 | 200,708 | 5,346 | 208,962 | (674,968) | |
| Investment income | 76 | 127 | | 13,667 | | 13,870 |
| Intercompany interest income | 986 | 15,792 | | | (16,778) | |
| Total revenues and other income | 261,014 | 216,627 | 5,346 | 1,390,954 | (691,746) | 1,182,195 |
| Costs and other deductions: | | | | | | |
| Direct costs | | | | 614,617 | | 614,617 |
| General and administrative expenses | 4,032 | 25 | 2 | 84,783 | (45) | 88,797 |
| Depreciation and amortization | | 150 | | 81,239 | | 81,389 |
| Depletion | | | | 13,017 | | 13,017 |
| Interest expense | | 6,992 | 2,860 | (1,797) | | 8,055 |
| Intercompany interest expense | 219 | | | 16,559 | (16,778) | |
| Losses (gains) on sales of long-lived assets, impairment charges and other expense (income), net | | (959) | | 4,943 | 45 | 4,029 |
| Total costs and other deductions | 4,251 | 6,208 | 2,862 | 813,361 | (16,778) | 809,904 |
| Income before income taxes | 256,763 | 210,419 | 2,484 | 577,593 | (674,968) | 372,291 |

Edgar Filing: NABORS INDUSTRIES LTD - Form 10-Q

| | | | | | | |
|--------------------|------------|------------|----------|------------|--------------|------------|
| Income tax expense | | 3,593 | 845 | 111,090 | | 115,528 |
| Net income | \$ 256,763 | \$ 206,826 | \$ 1,639 | \$ 466,503 | \$ (674,968) | \$ 256,763 |

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

| | Quarter Ended March 31, 2007 | | | | | Consolidated Total |
|--|----------------------------------|--|--------------------------------|---|------------------------------|-----------------------|
| | Nabors (Parent/ Guarantor) | Nabors Delaware (Issuer/ Guarantor) | Nabors Holdings (Issuer) | Other Subsidiaries (Non- Guarantors) | Consolidating Adjustments | |
| (In thousands) | | | | | | |
| Net cash provided by (used for) operating activities | \$ (59,262) | \$ 4,957 | \$ (5,484) | \$ 421,412 | \$ (5,484) | \$ 356,139 |
| Cash flows from investing activities: | | | | | | |
| Purchases of investments | | | | (157,878) | | (157,878) |
| Sales and maturities of investments | | | | 89,713 | | 89,713 |
| Cash paid for acquisitions of businesses, net | | | | (8,391) | | (8,391) |
| Capital expenditures | | | | (583,211) | | (583,211) |
| Proceeds from sales of assets and insurance claims | | | | 8,535 | | 8,535 |
| Cash paid for investments in affiliates | | | | (4,644) | | (4,644) |
| Cash paid for investments in consolidated affiliates | | (5,484) | | (5,484) | 10,968 | |
| Net cash provided by (used for) investing activities | | (5,484) | | (661,360) | 10,968 | (655,876) |
| Cash flows from financing activities: | | | | | | |
| Increase in cash overdrafts | | | | 699 | | 699 |
| Proceeds from issuance of common shares | 58,975 | | | | | 58,975 |
| Tax benefit related to the exercise of stock options | | 771 | | | | 771 |
| Proceeds from parent contributions | | | 5,484 | 5,484 | (10,968) | |
| Cash dividends paid | | | | (5,484) | 5,484 | |
| Repurchase and retirement of common shares | (1,698) | | | | | (1,698) |

| | | | | | | |
|--|-----------|----------|-------|------------|---------|------------|
| Net cash provided by (used for) financing activities | 57,277 | 771 | 5,484 | 699 | (5,484) | 58,747 |
| Effect of exchange rate changes on cash and cash equivalents | | | | 1,668 | | 1,668 |
| Net (decrease) increase in cash and cash equivalents | (1,985) | 244 | | (237,581) | | (239,322) |
| Cash and cash equivalents, beginning of period | 14,874 | 2,394 | 8 | 683,273 | | 700,549 |
| Cash and cash equivalents, end of period | \$ 12,889 | \$ 2,638 | \$ 8 | \$ 445,692 | \$ | \$ 461,227 |

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

| | Quarter Ended March 31, 2006 | | | | | |
|--|----------------------------------|--|--------------------------------|---|------------------------------|-----------------------|
| | Nabors (Parent/ Guarantor) | Nabors Delaware (Issuer/ Guarantor) | Nabors Holdings (Issuer) | Other Subsidiaries (Non- Guarantors) | Consolidating Adjustments | Consolidated Total |
| (In thousands) | | | | | | |
| Net cash provided by (used for) operating activities | \$ 1,197,034 | \$ 23,447 | \$ (5,484) | \$ 53,601 | \$ (872,632) | \$ 395,966 |
| Cash flows from investing activities: | | | | | | |
| Purchases of investments | | | | (38,769) | | (38,769) |
| Sales and maturities of investments | | | | 701,158 | | 701,158 |
| Cash paid for acquisitions of businesses, net | | | | (49,309) | | (49,309) |
| Deposits released for acquisitions | | | | 35,844 | | 35,844 |
| Capital expenditures | | | | (346,211) | | (346,211) |
| Proceeds from sales of assets and insurance claims | | | | 2,416 | | 2,416 |
| Cash paid for investments in consolidated affiliates | (977,927) | (328,566) | | (1,083,572) | 2,390,065 | |
| Net cash provided by (used for) investing activities | (977,927) | (328,566) | | (778,443) | 2,390,065 | 305,129 |
| Cash flows from financing activities: | | | | | | |
| Increase in cash overdrafts | | | | 9,898 | | 9,898 |
| Reduction of long-term debt | | (769,789) | | | | (769,789) |
| Proceeds from issuance of common shares | 8,263 | | | | | 8,263 |
| Repurchase and retirement of common | (222,384) | | | | | (222,384) |

| | | | | | | |
|--|-----------|-----------|-------|------------|-------------|------------|
| shares | | | | | | |
| Tax benefit related to the exercise of stock options | | 1,815 | | | | 1,815 |
| Proceeds from parent contributions | | 1,078,088 | 5,484 | 1,306,493 | (2,390,065) | |
| Cash dividends paid | | (4,966) | | (867,666) | 872,632 | |
| Net cash (used for) provided by financing activities | (214,121) | 305,148 | 5,484 | 448,725 | (1,517,433) | (972,197) |
| Effect of exchange rate changes on cash and cash equivalents | | | | (597) | | (597) |
| Net (decrease) increase in cash and cash equivalents | 4,986 | 29 | | (276,714) | | (271,699) |
| Cash and cash equivalents, beginning of period | 527 | 14 | 11 | 564,449 | | 565,001 |
| Cash and cash equivalents, end of period | \$ 5,513 | \$ 43 | \$ 11 | \$ 287,735 | \$ | \$ 293,302 |

Table of Contents

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 March 31, 2007, and the related consolidated statements of income, of cash flows and of changes in shareholders equity for the three-month periods ended March 31, 2007 and 2006. This interim financial information is the responsibility of the Company's management.

We conducted our review in accordance with 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, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

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

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

/s/ PricewaterhouseCoopers LLP

Houston, Texas
May 9, 2007

Table of Contents

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 Securities Exchange Act of 1934, as amended (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, predict, should, could, may, and similar expressions are intended to identify forward-looking statements.

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

- fluctuations in worldwide prices of and demand for natural gas and oil;
- fluctuations in levels of natural gas and oil exploration and development activities;
- fluctuations in the demand for our services;
- the existence of competitors, technological changes and developments in the oilfield services industry;
- the existence of operating risks inherent in the oilfield services industry;
- the existence of regulatory and legislative uncertainties;
- the possibility of changes in tax laws;
- the possibility of political instability, war or acts of terrorism in any of the countries in which we do business; and
- general economic conditions.

The above description of risks and uncertainties is by no means all-inclusive, but is designed to highlight what we believe are important factors to consider. For a more detailed description of risk factors, please refer to our Annual Report on Form 10-K for the year ended December 31, 2006 filed with the SEC on March 1, 2007, under Part 1, Item 1A, Risk Factors. Unless the context requires otherwise, references in this Quarterly Report on Form 10-Q to we, us, our, or Nabors means Nabors Industries Ltd. and, where the context requires, includes our subsidiaries.

Management Overview

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

Nabors is the largest land drilling contractor in the world. We conduct oil, gas and geothermal land drilling operations in the U.S. Lower 48 states, Alaska, Canada, South and Central America, the Middle East, the Far East and Africa. Nabors also is one of the largest land well-servicing and workover contractors in the United States and Canada and is a leading provider of offshore platform workover and drilling rigs in the United States and multiple international markets. To further supplement and complement our primary business, we offer a wide range of ancillary well-site services, including engineering, transportation, construction, maintenance, well logging, directional drilling, rig instrumentation, data collection and other support services, in selected domestic and international markets. We provide subcontracted logistics services for onshore drilling and well-servicing operations in Canada using helicopter and fixed-winged aircraft. We also invest in oil and gas exploration, development and production activities.

Table of Contents

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 marine transportation and supply services, drilling technology and top drive manufacturing, directional drilling, rig instrumentation and software, and construction and logistics operations are aggregated in a category labeled Other Operating Segments for segment reporting purposes.

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

The magnitude of customer spending on new and existing wells is the primary driver of our business. The primary determinant of customer spending is the degree of their cash flow and earnings which are largely determined by natural gas prices in our U.S. Lower 48 Land Drilling, Canadian and U.S. Offshore (Gulf of Mexico) operations, while oil prices are the primary determinate in our Alaskan, International and U.S. Land Well-servicing operations. The Henry Hub natural gas spot price (per Bloomberg) averaged \$6.61 per million cubic feet (mcf) during the period from April 1, 2006 through March 31, 2007, down from a \$9.19 per mcf average during the period from April 1, 2005 through March 31, 2006. West Texas intermediate spot oil prices (per Bloomberg) averaged \$64.81 per barrel during the period from April 1, 2006 through March 31, 2007, up from a \$59.89 per barrel average during the period from April 1, 2005 through March 31, 2006.

Operating revenues and Earnings from unconsolidated affiliates for the first quarter ended March 31, 2007 totaled \$1.3 billion, representing an increase of \$104.8 million, or 9%, compared to the prior year quarter. Revenues have increased as a result of higher average dayrates, driven by sustained higher oil prices and continuing high natural gas prices. Adjusted income derived from operating activities and net income for the first quarter ended March 31, 2007 totaled \$349.0 million and \$262.2 million (\$.92 per diluted share), respectively, representing a decrease of 6% and an increase of 2%, respectively, compared to the prior year quarter.

The decrease in our adjusted income derived from operating activities during the first quarter ended March 31, 2007 as compared to the prior year quarter related primarily to our U.S. Lower 48, U.S. Land Well-Servicing and Canada Drilling operations, where activity levels decreased as a result of lower natural gas prices and inclement weather. Operating results were further impacted by higher levels of depreciation expense due to our capital expenditures and higher general and administrative expenses due to an increase in wages and burden for a majority of our operating segments during the first quarter of 2007.

Our operating results for 2007 are expected to remain relatively flat compared to levels realized during 2006, due to a moderating outlook for our North American natural gas related businesses, as a result of lower returns for our customers from lower average commodity price expectations in the face of higher costs and an influx of rig capacity additions to these markets.

We anticipate that 2007 results for our U.S. Lower 48 Land Drilling and Canadian drilling operations are likely to be significantly lower than 2006 with a slower market and an influx of rig capacity in the U.S. Lower 48 market and more extensive market weakness in Canada. We expect increases in our International operations followed by our Alaskan and U.S. Offshore businesses resulting from incremental income yet to be realized from 2006 and 2007 rig deployments most of which are for multi-year contracts and further income increments from the expected renewals of existing multi-year contracts to much higher current market rates.

Table of Contents

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

| | Quarter Ended March 31, | | Increase | |
|--|--------------------------------|--------------|-------------------|--------|
| | 2007 | 2006 | (Decrease) | |
| (In thousands, except percentages and rig activity) | | | | |
| Reportable segments: | | | | |
| Operating revenues and Earnings from unconsolidated affiliates: | | | | |
| Contract Drilling:(1) | | | | |
| U.S. Lower 48 Land Drilling | \$ 452,596 | \$ 426,350 | \$ 26,246 | 6% |
| U.S. Land Well-servicing | 182,218 | 160,733 | 21,485 | 13% |
| U.S. Offshore | 55,775 | 43,526 | 12,249 | 28% |
| Alaska | 47,836 | 26,806 | 21,030 | 78% |
| Canada | 193,280 | 226,557 | (33,277) | (15)% |
| International | 224,482 | 146,895 | 77,587 | 53% |
| Subtotal Contract Drilling(2) | 1,156,187 | 1,030,867 | 125,320 | 12% |
| Oil and Gas | 13,129 | 29,837 | (16,708) | (56)% |
| Other Operating Segments(3)(4) | 156,920 | 151,703 | 5,217 | 3% |
| Other reconciling items(5) | (53,152) | (44,082) | (9,070) | (21)% |
| Total | \$ 1,273,084 | \$ 1,168,325 | \$ 104,759 | 9% |
| Adjusted income (loss) derived from operating activities:(6) | | | | |
| Contract Drilling: | | | | |
| U.S. Lower 48 Land Drilling | \$ 172,926 | \$ 179,731 | \$ (6,805) | (4)% |
| U.S. Land Well-servicing | 43,356 | 46,070 | (2,714) | (6)% |
| U.S. Offshore | 15,049 | 10,454 | 4,595 | 44% |
| Alaska | 16,567 | 4,242 | 12,325 | 291% |
| Canada | 53,128 | 83,102 | (29,974) | (36)% |
| International | 66,018 | 37,497 | 28,521 | 76% |
| Subtotal Contract Drilling | 367,044 | 361,096 | 5,948 | 2% |
| Oil and Gas | 1,128 | 13,436 | (12,308) | (92)% |
| Other Operating Segments | 20,808 | 20,567 | 241 | 1% |
| Other reconciling items(7) | (40,027) | (24,594) | (15,433) | (63)% |
| Total | \$ 348,953 | \$ 370,505 | \$ (21,552) | (6)% |
| Interest expense | (13,049) | (8,055) | (4,994) | (62)% |
| Investment income | 28,709 | 13,870 | 14,839 | 107% |
| Gains (Losses) on sales of long-lived assets, impairment charges and other income (expense), net | (14,038) | (4,029) | (10,009) | (248)% |
| Income before income taxes | \$ 350,575 | \$ 372,291 | \$ (21,716) | (6)% |

| | | | | |
|-----------------------------|---------|---------|----------|-------|
| Rig activity: | | | | |
| Rig years:(8) | | | | |
| U.S. Lower 48 Land Drilling | 243.0 | 253.4 | (10.4) | (4)% |
| U.S. Offshore | 17.2 | 14.9 | 2.3 | 15% |
| Alaska | 9.5 | 7.2 | 2.3 | 32% |
| Canada | 58.1 | 73.3 | (15.2) | (21)% |
| International(9) | 111.6 | 86.3 | 25.3 | 29% |
| | | | | |
| Total rig years | 439.4 | 435.1 | 4.3 | 1% |
| | | | | |
| Rig hours: (10) | | | | |
| U.S. Land Well-servicing | 299,088 | 311,768 | (12,680) | (4)% |
| Canadian Well-servicing | 97,588 | 121,224 | (23,636) | (19)% |
| | | | | |
| Total rig hours | 396,676 | 432,992 | (36,316) | (8)% |

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

(2) Includes earnings (loss), net from unconsolidated affiliates, accounted for by the equity method, of \$1.7 million and \$.7 million for the quarters ended March 31, 2007 and 2006, respectively.

Table of Contents

- (3) Includes our marine transportation and supply services, drilling technology and top drive manufacturing, directional drilling, rig instrumentation and software, and construction and logistics operations.
- (4) Includes earnings (loss), net from unconsolidated affiliates, accounted for by the equity method, of \$10.7 million and \$3.7 million for the quarters ended March 31, 2007 and 2006, respectively.
- (5) Represents the elimination of inter-segment transactions.
- (6) Adjusted income (loss) derived from operating activities is computed by: subtracting direct costs, general and administrative expenses, and depreciation and amortization, and depletion expense from Operating revenues and then adding Earnings from unconsolidated affiliates. Such amounts should not be used as a substitute to those amounts reported under GAAP. However, management evaluates the performance of our business units and the consolidated company based on several criteria, including adjusted income (loss) derived from operating activities, because it believes that this financial measure is an accurate reflection of the ongoing profitability of our company. A reconciliation of this non-GAAP measure to income before income taxes, which is a GAAP measure, is provided within the table above.
- (7) Represents the elimination of inter-segment transactions and unallocated corporate expenses.
- (8) Excludes well-servicing rigs, which are measured in rig hours. 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.
- (9) International rig years include our equivalent percentage ownership of rigs owned by unconsolidated affiliates which totaled 4.0 years during the quarters ended March 31, 2007 and 2006, respectively.
- (10) Rig hours represents the number of hours that our well-servicing rig fleet operated during the quarter.

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:

| | Quarter Ended March 31, | | Increase (Decrease) | |
|--|------------------------------------|-------------|--------------------------------|------|
| | 2007 | 2006 | | |
| (In thousands, except percentages and rig activity) | | | | |
| Operating revenues and Earnings from unconsolidated affiliates | \$ 452,596 | \$ 426,350 | \$ 26,246 | 6% |
| Adjusted income derived from operating activities | \$ 172,926 | \$ 179,731 | \$ (6,805) | (4)% |
| Rig years | 243.0 | 253.4 | (10.4) | (4)% |

Operating revenues and Earnings from unconsolidated affiliates during the first quarter ended March 31, 2007 increased slightly from the prior year quarter due to an increase in average dayrates, which is driven by the sustained historical level of natural gas prices. The decrease in operating results primarily resulted from increased drilling rig operating costs, including depreciation expense related to capital expansion projects, and a decrease in rig years.

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

| | Quarter Ended March 31, | | | |
|--|------------------------------------|-------------|------------|------|
| | 2007 | 2006 | | |
| (In thousands, except percentages and rig activity) | | | | |
| Operating revenues and Earnings from unconsolidated affiliates | \$ 182,218 | \$ 160,733 | \$ 21,485 | 13% |
| Adjusted income derived from operating activities | \$ 43,356 | \$ 46,070 | \$ (2,714) | (6)% |
| Rig hours | 299,088 | 311,768 | (12,680) | (4)% |

Operating revenues and Earnings from unconsolidated affiliates increased during the first quarter ended March 31, 2007 over the prior year quarter due to higher average dayrates, driven by a sustained level of higher oil prices. The decrease in operating results reflects lower utilization caused in part by inclement weather conditions in Texas, Oklahoma and California as well as higher depreciation expense related to capital expansion projects.

Table of Contents

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

| | Quarter Ended March 31, | | | |
|--|------------------------------------|-------------|-----------|-----|
| | 2007 | 2006 | | |
| (In thousands, except percentages and rig activity) | | | | |
| Operating revenues and Earnings from unconsolidated affiliates | \$ 55,775 | \$ 43,526 | \$ 12,249 | 28% |
| Adjusted income derived from operating activities | \$ 15,049 | \$ 10,454 | \$ 4,595 | 44% |
| Rig years | 17.2 | 14.9 | 2.3 | 15% |

The increase in operating results during the first quarter ended March 31, 2007 as compared to the prior year quarter primarily resulted from increases in average dayrates for the entire rig fleet and increased activity. We experienced an improvement in demand for our drilling services in this market due to the sustained historical higher level of natural gas prices.

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

| | Quarter Ended March 31, | | | |
|--|------------------------------------|-------------|-----------|------|
| | 2007 | 2006 | | |
| (In thousands, except percentages and rig activity) | | | | |
| Operating revenues and Earnings from unconsolidated affiliates | \$ 47,836 | \$ 26,806 | \$ 21,030 | 78% |
| Adjusted income derived from operating activities | \$ 16,567 | \$ 4,242 | \$ 12,325 | 291% |
| Rig years | 9.5 | 7.2 | 2.3 | 32% |

The increase in operating results during the first quarter ended March 31, 2007 is primarily due to increases in average dayrates and drilling activity levels as compared to the prior year quarter. Average dayrates and drilling activity improved as a result of higher customer demand resulting from continuing higher oil prices.

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

| | Quarter Ended March 31, | | | |
|--|--------------------------------|-------------|-------------|-------|
| | 2007 | 2006 | | |
| (In thousands, except percentages and rig activity) | | | | |
| Operating revenues and Earnings from unconsolidated affiliates | \$ 193,280 | \$ 226,557 | \$ (33,277) | (15)% |
| Adjusted income derived from operating activities | \$ 53,128 | \$ 83,102 | \$ (29,974) | (36)% |
| Rig years | 58.1 | 73.3 | (15.2) | (21)% |
| Rig hours | 97,588 | 121,224 | (23,636) | (19)% |

The decrease in operating results during the first quarter ended March 31, 2007 resulted primarily from an overall decrease in drilling and well-servicing activity and a decrease in average dayrates for drilling and well-servicing operations compared to the prior year quarter. These decreases were driven by lower commodity prices, which resulted in lower demand for our services in this market. Operating results were further impacted by increased operating expenses, including depreciation due to capital expansion projects.

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

| (In thousands, except percentages and rig activity) | Quarter Ended March 31, | | Increase | |
|--|-------------------------|------------|-----------|-----|
| | 2007 | 2006 | | |
| Operating revenues and Earnings from unconsolidated affiliates | \$ 224,482 | \$ 146,895 | \$ 77,587 | 53% |
| Adjusted income derived from operating activities | \$ 66,018 | \$ 37,497 | \$ 28,521 | 76% |
| Rig years | 111.6 | 86.3 | 25.3 | 29% |

The increase in operating results during the first quarter ended March 31, 2007 as compared to the prior year quarter primarily resulted from an increase in drilling activity and improved average dayrates. Driven by the higher prices of oil, the increases reflect strong customer demand in the South and Central America as well as our Middle East and African markets.

Table of Contents***Oil and Gas***

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

| (In thousands, except percentages) | Quarter Ended March 31, | | (Decrease) | |
|--|-------------------------|-----------|-------------|-------|
| | 2007 | 2006 | | |
| Operating revenues and Earnings from unconsolidated affiliates | \$ 13,129 | \$ 29,837 | \$ (16,708) | (56)% |
| Adjusted income derived from operating activities | \$ 1,128 | \$ 13,436 | \$ (12,308) | (92)% |

The decrease in operating results during the first quarter ended March 31, 2007 as compared to the prior year quarter resulted primarily from the \$20.7 million gain on the sale of certain leasehold interests in the first quarter of 2006, partially offset by impairment charges in the first quarter of 2006 to certain oil and gas properties due to lower gas prices and lower than expected performance of certain asset groups. Excluding these events, operating results were marginally lower due to overall lower commodity prices partially offset by higher volumes during the first quarter of 2007 compared to the prior year quarter and continuing higher seismic costs and higher general and administrative costs, including costs related to oil and gas leasing projects during the current quarter.

Other Operating Segments

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

| (In thousands, except percentages) | Quarter Ended March 31, | | Increase | |
|--|-------------------------|------------|----------|----|
| | 2007 | 2006 | | |
| Operating revenues and Earnings from unconsolidated affiliates | \$ 156,920 | \$ 151,703 | \$ 5,217 | 3% |
| Adjusted income derived from operating activities | \$ 20,808 | \$ 20,567 | \$ 241 | 1% |

The slight increase in our operating results during the first quarter ended March 31, 2007 as compared to the prior year quarter primarily resulted from (i) increased sales of top drives driven by the strengthened oil market, and increased equipment sales from the acquisition of Pragma in the second quarter of 2006 and (ii) increased demand for the directional drilling market in the U.S., partially offset by a slowing Canadian directional drilling market. These increases were partially offset by (iii) decreased margins for our marine transportation and supply services driven by the lower utilization of our smaller vessels partially offset by the increased customer demand for the larger class vessels and (iv) decreased demand for construction and logistics services.

Other Financial Information***General and administrative expenses***

| | Quarter Ended | | Increase | |
|---|----------------------|-------------|-----------------|-----|
| | March 31, | | | |
| (In thousands, except percentages) | 2007 | 2006 | | |
| General and administrative expenses | \$ 114,974 | \$ 88,797 | \$ 26,177 | 29% |
| General and administrative expenses as a percentage of operating revenues | 9.1% | 7.6% | 2% | 20% |

General and administrative expenses increased during the first quarter ended March 31, 2007 as compared to the first quarter ended March 31, 2006 primarily as a result of increases in wages and burden for a majority of our operating segments, which primarily resulted from an increase in the number of employees and higher wages, and professional fees and employee related taxes in connection with the review of the Company's stock option granting practices.

Table of Contents***Depreciation and amortization, and depletion expense***

| | Quarter Ended March 31, | | Increase (Decrease) | |
|---|------------------------------------|-------------|--------------------------------|-------|
| | 2007 | 2006 | | |
| (In thousands, except percentages) | | | | |
| Depreciation and amortization expense | \$ 105,228 | \$ 81,389 | \$ 23,839 | 29% |
| Depletion expense | \$ 6,625 | \$ 13,017 | \$ (6,392) | (49)% |

Depreciation and amortization expense. Depreciation and amortization expense increased during the first quarter ended March 31, 2007 compared to the prior year quarter as a result of depreciation on increased capital expenditures made throughout 2006 and in the first quarter of 2007.

Depletion expense. Depletion expense decreased during the first quarter ended March 31, 2007 compared to the prior year quarter due to an impairment charge recorded during the quarter ended March 31, 2006. The decrease in depletion expense during the first quarter ended March 31, 2007 was partially offset by higher unit-of-production depletion from higher oil and gas production volumes from new wells coming on line in 2007.

Interest expense

| | Quarter Ended March 31, | | Increase | |
|---|------------------------------------|-------------|-----------------|-----|
| | 2007 | 2006 | | |
| (In thousands, except percentages) | | | | |
| Interest expense | \$ 13,049 | \$ 8,055 | \$ 4,994 | 62% |

Interest expense increased during the first quarter ended March 31, 2007 compared to the prior year quarter as a result of the additional interest expense related to the issuance of the \$2.75 billion 0.94% senior exchangeable notes due 2011. This increase was partially offset by interest expense reductions resulting from the redemption of 93% or \$769.8 million of our zero coupon convertible senior debentures due 2021 on February 6, 2006.

Investment income

| | Quarter Ended March 31, | | Increase | |
|---|--------------------------------|-------------|-----------------|------|
| | 2007 | 2006 | | |
| (In thousands, except percentages) | | | | |
| Investment income | \$ 28,709 | \$ 13,870 | \$ 14,839 | 107% |

Investment income increased during the first quarter ended March 31, 2007 compared to the prior year quarter as a result of higher interest income earned on investments in cash and short-term and long-term investments due to rising interest rates and a higher average investment balance related to the proceeds from the issuance of the \$2.75 billion 0.94% senior exchangeable notes due 2011 received in May 2006. The proceeds from the note issuance were reduced

by approximately \$1.2 billion, which represents the cost of the purchase of the call options and the buy back of our stock, net of the sale of warrants during 2006.

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

| | Quarter Ended | | | |
|--|----------------------|-------------|-----------|------|
| | 2007 | 2006 | | |
| (In thousands, except percentages) | | | | |
| Gains (Losses) on sales of long-lived assets, impairment charges and other income (expense), net | \$ (14,038) | \$ (4,029) | \$ 10,009 | 248% |

The amount of gains (losses) on sales of long-lived assets, impairment charges and other income (expense), net for the first quarter ended March 31, 2007, includes increases to our litigation reserves of approximately \$8.3 million and losses on long-lived assets of approximately \$6.2 million. The amount of gains (losses) on sales of long-lived assets, impairment charges and other income (expense), net for the quarter ended March 31, 2006, included losses on long-term assets of approximately \$3.2 million.

Table of Contents***Income tax rate***

| | Quarter Ended March 31, | | (Decrease) | |
|---|------------------------------------|-------------|-------------------|-------|
| | 2007 | 2006 | | |
| (In thousands, except percentages) | | | | |
| Effective income tax rate | 25.2% | 31.0% | (6)% | (19)% |

Our effective income tax rate was 25.2% for the first quarter ended March 31, 2007, compared to 31.0% during the prior year quarter. The decrease in our effective income tax rate resulted from a lower proportion of our taxable income being generated in the U.S. during the first quarter ended March 31, 2007, compared to the prior year quarter. Income generated in the U.S. is generally taxed at a higher rate than in the international jurisdictions in which we operate.

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

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

We expect our effective tax rate during 2007 to be in the 25-28% range. We are subject to income taxes in the U.S. and numerous foreign jurisdictions. Significant judgment is required in determining our worldwide provision for income tax. One of the most volatile factors in this determination is the relative proportion of our income being recognized in high versus low tax jurisdictions.

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 quarters ended March 31, 2007 and 2006.

Operating Activities. Net cash provided by operating activities totaled \$356.1 million during the first quarter ended March 31, 2007, compared to net cash provided by operating activities of \$396.0 million during the prior year quarter.

During the quarters ended March 31, 2007 and 2006, net income was increased for non-cash items such as depreciation and amortization, and depletion, and was reduced for changes in our working capital and other balance sheet accounts.

Investing Activities. Net cash used for investing activities totaled \$655.9 million during the first quarter ended March 31, 2007, compared to net cash provided by investing activities of \$305.1 million during the prior year quarter. During the first quarter ended March 31, 2007, cash was used for capital expenditures totaling \$583.2 million and purchases of investments, net of sales, totaling \$68.2 million. During the quarter ended March 31, 2006, cash was used for capital expenditures totaling \$346.2 million, which was offset by sales, net of purchases, of investments totaling \$662.4 million.

Financing Activities. Net cash provided by financing activities totaled \$58.7 million during the first quarter ended March 31, 2007, compared to net cash used for financing activities of \$972.2 million during the prior year

Table of Contents

quarter. During the first quarter ended March 31, 2007, cash was provided by our receipt of proceeds totaling \$59.0 million from the exercise of options to acquire our common shares by our employees. During the quarter ended March 31, 2006, cash was used for the redemption of 93% of our zero coupon senior convertible debentures due 2021 for a total redemption price of \$769.8 million and for repurchases of our common shares in the open market for \$222.4 million, and was provided by our receipt of proceeds totaling \$8.3 million from the exercise of options to acquire our common shares by our employees. We treat the redemption price, including accrued original discount, on our convertible debt instruments as a financing activity for purposes of reporting cash flows in our consolidated statements of cash flows.

Future Cash Requirements

As of March 31, 2007, we had long-term debt of \$4.0 billion and cash and cash equivalents and investments of \$1.5 billion.

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

The \$700 million zero coupon senior exchangeable notes provide that upon an exchange of these notes, we will be required to pay holders of the notes, in lieu of common shares, cash up to the principal amount of the notes and, at our option, consideration in the form of either cash or our common shares for any amount above the principal amount of the notes required to be paid pursuant to the terms of the note indentures. The notes cannot be exchanged until the price for our shares exceeds \$42.06 for at least 20 trading days during the period of 30 consecutive trading days ending on the last trading day of the previous calendar quarter, or with respect to all calendar quarters beginning on or after July 1, 2008, \$38.56 on such last trading day, or subject to certain exceptions, during the five business day period after any ten consecutive trading day period in which the trading price per note for each day of that period was less than 95% of the product of the sale price of Nabors' common shares and the then applicable exchange rate; or if Nabors Delaware calls the notes for redemption; or upon the occurrence of specified corporate transactions described in the note indenture. The holders of the notes have the right to require us to repurchase the notes at a purchase price equal to 100% of the principal amount of the notes on June 15, 2008, and therefore, the notes will be classified in current liabilities in our balance sheet as of June 30, 2007.

As of March 31, 2007, we had outstanding purchase commitments of approximately \$574.4 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 will result in an expansion in the number of drilling and well-servicing rigs that we own and operate and will consist primarily of land drilling and well-servicing rigs. Land drilling rigs are expected to be in place by the end of the current fiscal year while well-servicing rigs are expected to be in place by the first quarter of 2009. The increase in capital expenditures is expected across a majority of our operating segments, most significantly within our U.S. Lower 48 Land Drilling,

U.S. Land Well-servicing, Canadian and International operations.

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

Table of Contents

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

During 2002, our Board of Directors authorized the continuation of a share repurchase program under which we may repurchase our common shares in the open market. Under this program we were authorized to purchase up to \$400 million of our common shares. During the first quarter of 2006 we repurchased and retired 6.4 million of our common shares under this program for \$222.4 million. In July 2006, our Board of Directors authorized a share repurchase program under which we may repurchase up to \$500 million of our common shares in the open market or in privately negotiated transactions. This program supersedes and cancels our previous share repurchase program. For the quarter ended March 31, 2007, there were no repurchases of our common stock relating to this program. As of March 31, 2007, we had \$406.3 million of shares that still may be purchased under this share repurchase program.

In connection with the adoption of FIN 48 on January 1, 2007, we have recorded an increase of \$45 million to our reserves for uncertain tax positions. As of March 31, 2007, the Company had approximately \$116.4 million of unrecognized tax benefits recorded as other long-term liabilities. Other than the adoption of FIN 48, there have been no significant changes to our contractual cash obligations table which was included in our 2006 Annual Report on Form 10-K. Because of the difficulty in making reasonably reliable estimates of the timing of cash settlements to taxing authorities, our contractual cash obligations table is not presented.

See Note 6 to our accompanying consolidated financial statements for discussion of commitments and contingencies that could have a potential impact on our financial position, results of operations or cash flows in future periods.

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 March 31, 2007, we had cash and cash equivalents and investments of \$1.5 billion (including \$549.8 million of long-term investments) and working capital of \$1.5 billion. This compares to cash and cash equivalents and investments of \$1.7 billion (including \$513.3 million of long-term investments) and working capital of \$1.7 billion as of December 31, 2006.

Our gross funded debt to capital ratio was 0.48:1 as of March 31, 2007 and 0.50:1 as of December 31, 2006. Our net funded debt to capital ratio was 0.37:1 as of March 31, 2007 and 0.37:1 as of December 31, 2006. The gross funded debt to capital ratio is calculated by dividing funded debt by funded debt plus deferred tax liabilities net of deferred tax assets plus capital. Funded debt is defined as the sum of (1) short-term borrowings, (2) current portion of long-term debt and (3) long-term debt. Capital is defined as shareholders' equity. The net funded debt to capital ratio is calculated by dividing net funded debt by net funded debt plus deferred tax liabilities net of deferred tax assets plus capital. Net funded debt is defined as the sum of (1) short-term borrowings, (2) current portion of long-term debt and (3) long-term debt reduced by the sum of cash and cash equivalents and short-term and long-term investments. Capital is defined as shareholders' equity.

Both of these ratios are a method for calculating the amount of leverage a company has in relation to its capital. Long-term investments consist of investments in overseas funds investing primarily in a variety of public and private U.S. and non-U.S. securities (including asset-backed securities and mortgage-backed securities, global structured asset securitizations, whole loan mortgages, and participations in whole loans and whole loan mortgages). These investments are classified as nonmarketable because they do not have published fair values. Our interest coverage ratio was 35.1:1 as of March 31, 2007, compared to 39.2:1 as of December 31, 2006. The interest coverage ratio is a trailing twelve-month computation of the sum of income 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.

Table of Contents

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

(In thousands)

| | |
|-------------------------------|------------|
| Credit available | \$ 197,545 |
| Letters of credit outstanding | 157,808 |
| Remaining availability | \$ 39,737 |

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

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

On April 30, 2007, the market price for our shares closed at \$32.12. If the market price threshold of \$59.57 or \$42.06 was exceeded and the notes were exchanged or if the holders of the \$700 million notes require us to repurchase the notes at a purchase price equal to 100% of the principal amount of the notes on June 15, 2008, the required cash payment could have a significant impact on our level of cash and cash equivalents and investments available to meet our other cash obligations. Management believes that we have the ability to access capital markets or otherwise obtain financing in order to satisfy any payment obligations that might arise upon exchange or purchase of these notes and that any cash payment due of this magnitude, in addition to our other cash obligations, will not ultimately have a material adverse impact on our liquidity or financial position. Our ability to access capital markets or to otherwise obtain sufficient financing is enhanced by our senior unsecured debt ratings as provided by Moody's Investor Service and Fitch Ratings, which are currently A3 and A-, respectively, and our historical ability to access those markets as needed.

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

Other Matters***Critical Accounting Estimates***

We disclosed our critical accounting estimates in our 2006 Annual Report on Form 10-K. No significant changes have occurred to those policies except for our adoption of FIN 48 effective January 1, 2007. FIN 48 prescribes a comprehensive model for how a company should recognize, measure, present and disclose in its financial statements uncertain tax positions that the company has taken or expects to take on a tax return. Under FIN 48, the financial statements reflect the expected future tax consequences of such positions presuming the taxing authorities' full

knowledge of the position and relevant facts, but without considering time values. For a discussion of the impact of our adoption of FIN 48, see Note 4 to our accompanying unaudited 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 2006 Annual Report on Form 10-K. There have been no material changes in our exposure to market risk from that disclosed in our 2006 Annual Report on Form 10-K.

Table of Contents

Item 4. *Controls and Procedures*

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

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

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

PART II OTHER INFORMATION

Item 1. *Legal Proceedings*

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

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

On February 6, 2007, a purported shareholder derivative action entitled *Kenneth H. Karstedt v. Eugene M. Isenberg, et al* was filed in the United States District Court for the Southern District of Texas against the Company's officers and directors, and against the Company as a nominal defendant. The complaint alleges that stock options were priced retroactively and were improperly accounted for, and alleges various causes of action based on that assertion. The complaint seeks, among other things, payment by the defendants to the Company of damages allegedly suffered by it and disgorgement of profits. On March 5, 2007, another purported shareholder derivative action entitled *Gail McKinney v. Eugene M. Isenberg, et al* was also filed in the United States District Court for the

Table of Contents

Southern District of Texas. The complaint makes substantially the same allegations against the same defendants and seeks the same elements of damages. The two derivative actions have been consolidated into one proceeding. The ultimate outcome of this matter cannot be determined at this time.

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

In a letter dated December 28, 2006, the SEC staff advised us that it had commenced an informal inquiry regarding our stock option grants and related practices, procedures and accounting. We have cooperated with this inquiry. The staff of the Securities and Exchange Commission has informed us that they intend to close the informal inquiry regarding our historical stock option granting practices and related accounting without recommending any enforcement action at this time.

Item 1A. Risk Factors

There have been no material changes during the quarter ended March 31, 2007 in our Risk Factors as discussed in our 2006 Annual Report on Form 10-K.

Item 6. Exhibits

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

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

NABORS INDUSTRIES LTD.

Date: May 9, 2007
Eugene M. Isenberg
Chairman and Chief Executive Officer

/s/ Eugene M. Isenberg

Date: May 9, 2007
Bruce P. Koch
Vice President and Chief Financial Officer
(Principal Financial and Accounting Officer)

/s/ Bruce P. Koch

Table of Contents

Index to Exhibits

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