NABORS INDUSTRIES LTD
Form 10-K
February 28, 2008

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K
ANNUAL REPORT
Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the Fiscal Year Ended December 31, 2007
Commission File Number: 000-49887
NABORS INDUSTRIES LTD.
Incorporated in Bermuda
Mintflower Place
8 Par-La-Ville Road
Hamilton, HM08
Bermuda
(441) 292-1510
98-0363970
(I.R.S. Employer Identification No.)

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

Title of each class	Name of each exchange on which registered
Common shares, $.001 par value per share	The New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Securities Exchange Act of 1934:
None.

Indicate by check mark whether the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
YES þ NO o

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
YES o NO þ

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 þ NO o

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

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

Large accelerated filer þ	Accelerated filer o	Non-accelerated filer o	Smaller reporting company o

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

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

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

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

DOCUMENTS INCORPORATED BY REFERENCE (to the extent indicated herein)

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

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Computation of Ratios
Subsidiaries
Consent of Independent Registered Public Accounting Firm
Certification of Chairman & CEO Pursuant to Rule 13a-14(a)
Certification of VP & CFO Pursuant to Rule 13a-14(a)
Certifications Pursuant to Section 1350

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

FORWARD-LOOKING STATEMENTS

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

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

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

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

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

fluctuations in the demand for our services;

- the existence of competitors, technological changes and developments in the oilfield services industry;
- the existence of operating risks inherent in the oilfield services industry;
- the existence of regulatory and legislative uncertainties;
- the possibility of changes in tax laws;
- the possibility of political instability, war or acts of terrorism in any of the countries in which we do business; and
- general economic conditions.

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

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

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

PART I

ITEM 1. BUSINESS

Introduction.

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

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

Our Fleet of Rigs.

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

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

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

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

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

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

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

Customers: Types of Drilling Contracts.

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

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

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

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

Well-Servicing and Workover Services.

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

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

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

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

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

Oil and Gas Investments.

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

Other Services.

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

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

Our Employees.

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

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

Seasonality.

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

Research and Development.

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

Industry/Competitive Conditions.

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

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

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

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

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

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

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

Our Business Strategy.

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

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

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

Acquisitions and Divestitures.

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

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

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

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

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

Environmental Compliance.

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

ITEM 1A. RISK FACTORS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

We do not currently intend to pay dividends

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

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

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

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

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

We have a substantial amount of debt outstanding

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

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

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

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

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

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

We may have additional tax liabilities

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

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

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

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

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

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

Legal proceedings could affect our financial condition and results of operations

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

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

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

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

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

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 2. PROPERTIES

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

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

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

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

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

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ITEM 3. LEGAL PROCEEDINGS

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

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

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

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

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

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

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

Not applicable.

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PART II

ITEM 5. MARKET FOR REGISTRANT S COMMON EQUITY, RELATED SHAREHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

STOCK PERFORMANCE GRAPH

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

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

I. Market and Share Prices.

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

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

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

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

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

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

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

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

No common shares were repurchased during October 2007.

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

II. Dividend Policy.

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

III. Shareholder Matters.

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

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

ITEM 6. SELECTED FINANCIAL DATA

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

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

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

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

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

(3) Represents capital expenditures and the portion of the purchase price of acquisitions allocated to fixed assets and goodwill based on their fair market value.

(4) The interest coverage ratio from continuing operations is computed by calculating the sum of income from continuing operations before income taxes, interest expense, depreciation and amortization, and depletion expense less investment income (loss) and then dividing by interest expense. This ratio is a method for calculating the amount of operating cash flows available to cover interest expense. The interest coverage ratio from continuing

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

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

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

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

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

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

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

MANAGEMENT OVERVIEW

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(6) Includes our drilling technology and top drive manufacturing, directional drilling, rig instrumentation and software, and construction and logistics operations.

(7) Includes earnings from unconsolidated affiliates, accounted for

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

(8) Represents the elimination of inter-segment transactions.

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

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

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

(11) Represents the elimination of inter-segment transactions and unallocated corporate expenses.

(12) Excludes well-servicing rigs, which are

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

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

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

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SEGMENT RESULTS OF OPERATIONS

Contract Drilling

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Oil and Gas

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

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

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

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

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

Other Operating Segments

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

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

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

Discontinued Operations

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

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

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

OTHER FINANCIAL INFORMATION

General and administrative expenses

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

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

Depreciation and amortization, and depletion expense

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

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

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

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

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

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Interest expense

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

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

Investment (loss) income

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

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

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

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

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

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

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

Income tax rate

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

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

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

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

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

LIQUIDITY AND CAPITAL RESOURCES

Cash Flows

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

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

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

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

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

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

Future Cash Requirements

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

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

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

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

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

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

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

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

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

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

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

approximately $42.06 for the required period of time.

(2) Represents our $225 million 4.875% senior notes due August 2009.

(3) Includes our $2.75 billion 0.94% senior exchangeable notes due 2011, the remainder of our $82 million zero coupon senior debentures due 2021, which can be put to us on February 5, 2011 and the $275 million 5.375% senior notes due 2012.

(4) See Note 14 to our accompanying consolidated financial statements.

(5) Purchase commitments include agreements to purchase goods or services that are enforceable and legally binding and that specify all significant terms, including: fixed or minimum quantities to be

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

(6) See Note 12 to our accompanying consolidated financial statements.

(7) Tax reserves are included in Other due to the difficulty in making reasonably reliable estimates of the timing of cash settlements to taxing authorities.

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

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

Financial Condition and Sources of Liquidity

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

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

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

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

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

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

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

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

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

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

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

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

OFF-BALANCE SHEET ARRANGEMENTS (INCLUDING GUARANTEES)

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

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

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

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OTHER MATTERS

Recent Legislation and Actions

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

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

Recent Accounting Pronouncements

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

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

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

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

many financial

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

Related Party Transactions

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

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

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

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

Critical Accounting Estimates

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

- it requires assumptions to be made that were uncertain at the time the estimate was made; and
- changes in the estimate or different estimates that could have been selected could have a material impact on our consolidated financial position or results of operations.

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

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

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

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

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

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

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

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

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

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

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

Effective January 1, 2007, we adopted the provisions of the FASB issued Interpretation No. 48 (FIN 48), Accounting for Uncertainty in Income Taxes. In connection with the adoption of FIN 48, we recognized increases of $24 million and $21 million to our tax reserves for uncertain tax positions and interest and penalties, respectively. See *Note 10 under Item 8. Financial Statements and Supplementary Data* for additional discussion.

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

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

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

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

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

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

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

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

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

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

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

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

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

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

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

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

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

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

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

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

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

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

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

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

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

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

(1) Includes the effect of interest savings realized from the interest rate swap executed on October 21, 2002.

(2) Includes $1.9 million and $2.3 million as of December 31, 2007 and 2006, respectively, related to the unamortized loss on the interest rate swap that was unwound during the fourth quarter of 2005.

(3) Represents the rate at which accretion of the original discount at issuance of these debentures is charged to interest expense.

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

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

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

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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Report of Independent Registered Public Accounting Firm

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

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

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

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

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

/s/ PricewaterhouseCoopers LLP
Houston, Texas
February 28, 2008

CONSOLIDATED BALANCE SHEETS
Nabors Industries Ltd. and Subsidiaries

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

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

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CONSOLIDATED STATEMENTS OF INCOME
Nabors Industries Ltd. and Subsidiaries

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

Weighted-average number of common shares outstanding:			
Basic	279,026	290,241	312,134
Diluted	286,606	299,827	324,378

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

CONSOLIDATED STATEMENTS OF CASH FLOWS
Nabors Industries Ltd. and Subsidiaries

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

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

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

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

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

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

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

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

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

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

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Nabors Industries Ltd. and Subsidiaries

1. NATURE OF OPERATIONS AND BASIS OF PRESENTATION

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

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

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

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

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

Cash and Cash Equivalents

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

Investments

Short-term investments

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

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

Long-term investments

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

Inventory

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

Property, Plant and Equipment

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

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

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

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

Oil and Gas Properties

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

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

Goodwill

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

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

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

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

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

Derivative Financial Instruments

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

Litigation and Insurance Reserves

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

Revenue Recognition

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

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

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

charges and other expense (income), net.

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

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

Share-Based Compensation

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

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

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Income Taxes

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

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

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

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

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

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

Foreign Currency Translation

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

Cash Flows

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

Use of Estimates

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

- depreciation and amortization of property, plant and equipment
- impairment of long-lived assets
- income taxes
- litigation and insurance reserves
- fair value of assets acquired and liabilities assumed
- share-based compensation

Recent Accounting Pronouncements

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

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

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

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

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

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3. SHARE-BASED COMPENSATION

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

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

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

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

Prior Period Pro Forma Presentation

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

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

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

Stock Option Plans

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

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

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

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

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

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

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

Options exercisable as of December 31, 2007	27,752	$ 22.03	5.10	$ 189,322

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

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

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

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

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

Restricted Stock and Restricted Stock Units

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

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

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

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

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

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

4. ACQUISITIONS

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

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

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

5. CASH AND CASH EQUIVALENTS AND INVESTMENTS

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

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

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

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

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

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

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

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

6. PROPERTY, PLANT AND EQUIPMENT

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

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

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

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

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

7. INVESTMENTS IN UNCONSOLIDATED AFFILIATES

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

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

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

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

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

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

8. FINANCIAL INSTRUMENTS AND RISK CONCENTRATION

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

Foreign Currency Risk

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

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

Credit Risk

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

Interest Rate and Marketable and Non-marketable Security Price Risk

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

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

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

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

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

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

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

Fair Value of Financial Instruments

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

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

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

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

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

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9. DEBT

Long-term debt consists of the following:

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