

NABORS INDUSTRIES LTD

Form 10-Q

August 03, 2006

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

**Form 10-Q
QUARTERLY REPORT
PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the Quarterly Period Ended June 30, 2006
Commission file number: 001-32657**

**Nabors Industries Ltd.
Incorporated in Bermuda
Mintflower Place
8 Par-La-Ville Road
Hamilton, HM08
Bermuda
(441) 292-1510
98-0363970**

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

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

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

Large Accelerated Filer Accelerated Filer Non-accelerated Filer

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

The number of common shares, par value \$.001 per share, outstanding as of July 27, 2006 was 299,083,627. In addition, our subsidiary, Nabors Exchangeco (Canada) Inc., has 175,360 exchangeable shares outstanding as of July 27, 2006 that are exchangeable for Nabors common shares on a one-for-one basis, and have essentially identical rights as Nabors Industries Ltd. common shares, including but not limited to voting rights and the right to receive dividends, if any.

NABORS INDUSTRIES LTD. AND SUBSIDIARIES
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**NABORS INDUSTRIES LTD. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Unaudited)**

	June 30, 2006	December 31, 2005
(In thousands, except per share amounts)		
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,419,260	\$ 565,001
Short-term investments	239,828	858,524
Accounts receivable, net	1,007,878	822,104
Inventory	70,756	51,292
Deferred income taxes	199,276	199,196
Other current assets	100,703	121,191
Total current assets	3,037,701	2,617,308
Long-term investments	349,406	222,802
Property, plant and equipment, net	4,563,893	3,886,924
Goodwill, net	370,310	341,939
Other long-term assets	269,825	161,434
Total assets	\$ 8,591,135	\$ 7,230,407
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Current portion of long-term debt	\$	\$ 767,912
Trade accounts payable	386,052	336,589
Accrued liabilities	238,693	224,336
Income taxes payable	84,761	23,619
Total current liabilities	709,506	1,352,456
Long-term debt	4,002,963	1,251,751
Other long-term liabilities	168,771	151,415
Deferred income taxes	634,036	716,645
Total liabilities	5,515,276	3,472,267
Commitments and contingencies (Note 8)		
Shareholders' equity:		
Common shares, par value \$.001 per share:		
Authorized common shares 800,000; issued and outstanding 299,026 and 315,393, respectively	298	315
Capital in excess of par value	1,572,589	1,590,968

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Unearned compensation		(15,649)
Accumulated other comprehensive income	241,884	192,980
Retained earnings	1,942,833	1,989,526
Less treasury shares, at cost, 19,440 common shares	(681,745)	
Total shareholders equity	3,075,859	3,758,140
Total liabilities and shareholders equity	\$ 8,591,135	\$ 7,230,407

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

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

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2006	2005	2006	2005
(In thousands, except per share amounts)				
Revenues and other income:				
Operating revenues	\$ 1,118,000	\$ 765,337	\$ 2,281,926	\$ 1,549,065
Earnings from unconsolidated affiliates	9,370	5,204	13,769	7,207
Investment income	16,728	15,578	30,598	27,366
Total revenues and other income	1,144,098	786,119	2,326,293	1,583,638
Costs and other deductions:				
Direct costs	594,226	454,584	1,208,843	929,210
General and administrative expenses	87,830	59,805	176,627	118,446
Depreciation and amortization	87,946	70,982	169,335	139,170
Depletion	7,913	11,343	20,930	23,696
Interest expense	12,168	11,333	20,223	22,070
Losses (Gains) on sales of long-lived assets, impairment charges and other expense (income), net	4,216	4,223	8,245	8,094
Total costs and other deductions	794,299	612,270	1,604,203	1,240,686
Income before income taxes	349,799	173,849	722,090	342,952
Income tax expense:				
Current	58,549	1,903	119,974	14,118
Deferred	57,817	40,141	111,920	69,615
Total income tax expense	116,366	42,044	231,894	83,733
Net income	\$ 233,433	\$ 131,805	\$ 490,196	\$ 259,219
Earnings per share:				
Basic	\$.79	\$.42	\$ 1.61	\$.84
Diluted	\$.77	\$.41	\$ 1.56	\$.81
Weighted-average number of common shares outstanding:				
Basic	294,419	314,881	303,704	309,606
Diluted	304,394	322,425	314,608	319,992

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

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

Six Months Ended June 30,

2006

2005

(In thousands)

Cash flows from operating activities:		
Net income	\$ 490,196	\$ 259,219
Adjustments to net income:		
Depreciation and amortization	169,335	139,170
Depletion	20,930	23,696
Deferred income tax expense	111,920	69,615
Deferred financing costs amortization	2,104	2,441
Pension liability amortization	210	240
Discount amortization on long-term debt	2,888	10,301
Amortization of loss on hedges	277	76
Losses on long-lived assets, net	8,111	3,952
Gains on investments, net	(7,696)	(7,319)
Gains (losses) on derivative instruments	(1,642)	158
Stock based compensation	15,150	1,821
Foreign currency transaction (gains) losses	(7)	1,268
Equity in earnings from unconsolidated affiliates, net of dividends	(11,336)	(5,707)
Increase (decrease) from changes in:		
Accounts receivable	(163,397)	(83,143)
Inventory	(18,028)	(7,326)
Other current assets	(13,249)	(8,871)
Other long-term assets	(24,271)	7,862
Trade accounts payable and accrued liabilities	82,107	15,138
Income taxes payable	57,446	6,895
Other long-term liabilities	20,513	2,508
Net cash provided by operating activities	741,561	431,994
Cash flows from investing activities:		
Purchases of investments	(212,682)	(249,708)
Sales and maturities of investments	727,741	281,523
Cash paid for acquisitions of businesses, net	(46,392)	(43,005)
Investment in affiliates	(2,433)	
Capital expenditures	(840,006)	(347,124)
Proceeds from sales of assets and insurance claims	7,794	16,262
Net cash used for investing activities	(365,978)	(342,052)
Cash flows from financing activities:		
Proceeds from sale of warrants	421,162	
Purchase of exchangeable note hedge	(583,550)	

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(Decrease) increase in cash overdrafts	(26,322)	14,530
Proceeds from long-term debt	2,750,000	
Reduction of long-term debt	(769,789)	
Debt issuance costs	(27,500)	
Proceeds from issuance of common shares	19,173	160,584
Repurchase of common shares	(1,309,097)	(80,572)
Tax benefit related to the exercise of stock options	3,954	
Net cash provided by financing activities	478,031	94,542
Effect of exchange rate changes on cash and cash equivalents	645	(1,244)
Net increase in cash and cash equivalents	854,259	183,240
Cash and cash equivalents, beginning of period	565,001	384,709
Cash and cash equivalents, end of period	\$ 1,419,260	\$ 567,949

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

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

	Common Shares		Capital in Excess of Par Value		Unrealized Gains (Losses) on Marketable Securities	Cumulative Translation Adjustment	Other	Retained Earnings	Treasury Shares	Total Shareholders' Equity
	Shares	Par Value	Par Value	Compensation	Securities	Adjustment	Other	Earnings	Shares	Equity
(In thousands)										
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:										
Net income								490,196		490,196
Translation adjustment						34,353				34,353
Unrealized gains on marketable securities, net of income taxes of \$667					15,752					15,752
Less:										
reclassification adjustment for (gains) losses included in net income, net of income tax benefit of \$17					(1,408)					(1,408)
Pension liability amortization, net of income taxes of \$78							132			132
Amortization of loss on cash flow hedges							75			75
Total comprehensive income					14,344	34,353	207	490,196		539,100

Adoption of SFAS 123-R			(15,649)	15,649						
Issuance of common shares for stock options exercised	913	1	19,172						19,173	
Nabors Exchangeco shares exchanged	42									
Purchase of call options			(583,550)						(583,550)	
Sale of warrants			421,162						421,162	
Tax benefit from the purchase of call options			211,832						211,832	
Repurchase and retirement of common shares	(17,935)	(18)	(90,450)				(536,889)		(627,357)	
Repurchase of 19,440 treasury shares								(681,745)	(681,745)	
Tax effect of exercised stock option deductions			3,954						3,954	
Grants of restricted stock awards	648									
Forfeitures of restricted stock awards	(35)									
Stock based compensation			15,150						15,150	
Subtotal	(16,367)	(17)	(18,379)	15,649			(536,889)	(681,745)	(1,221,381)	
Balances, June 30, 2006	299,026	\$ 298	\$ 1,572,589	\$	\$ 33,209	\$ 212,462	\$ (3,787)	\$ 1,942,833	\$ (681,745)	\$ 3,075,859

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

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NABORS INDUSTRIES LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY (Continued)
(Unaudited)

	Common Shares		Capital in		Unrealized Gains (Losses) on	Cumulative	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total Shareholders Equity
	Shares	Par Value	Excess of Par Value	Unearned Compensation	Marketable Securities	Translation Adjustment	Other		
(In thousands)									
Balances, December 31, 2004	299,722	\$ 300	\$ 1,358,224	\$	\$ 271	\$ 151,520	\$(3,562)	\$ 1,422,640	\$ 2,929,393
Comprehensive income:									
Net income								259,219	259,219
Translation adjustment						(16,532)			(16,532)
Unrealized gains on marketable securities, net of income taxes of \$772					13,830				13,830
Less:									
reclassification adjustment for gains included in net income, net of income taxes of \$392					(4,150)				(4,150)
Pension liability amortization, net of income taxes of \$89							151		151
Amortization of loss on cash flow hedges							76		76
Total comprehensive income					9,680	(16,532)	227	259,219	252,594

Issuance of common shares for stock options exercised	16,672	16	160,568						160,584
Nabors Exchangeco shares exchanged	66								
Repurchase of common shares	(3,000)	(2)	(14,761)				(65,809)		(80,572)
Tax effect of exercised stock option deductions			26,789						26,789
Grants of restricted stock awards	730		20,999	(20,999)					
Forfeitures of restricted shares	(12)		(323)	323					
Amortization of unearned compensation							1,821		1,821
Subtotal	14,456	14	193,272	(18,855)			(65,809)		108,622
Balances, June 30, 2005	314,178	\$ 314	\$ 1,551,496	\$ (18,855)	\$ 9,951	\$ 134,988	\$ (3,335)	\$ 1,616,050	\$ 3,290,609

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

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**NABORS INDUSTRIES LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Note 1 Nature of Operations

Nabors is the largest land drilling contractor in the world, with almost 600 land drilling rigs. We conduct oil, gas and geothermal land drilling operations in the U.S. Lower 48 states, Alaska, Canada, South and Central America, the Middle East, the Far East and Africa. We are also one of the largest land well-servicing and workover contractors in the United States and Canada. We own approximately 585 land workover and well-servicing rigs in the United States, primarily in the southwestern and western United States, and approximately 215 land workover and well-servicing rigs in Canada. Nabors is a leading provider of offshore platform workover and drilling rigs, and owns 43 platform, 21 jack-up units and 3 barge rigs in the United States and multiple international markets. These rigs provide well-servicing, workover and drilling services. We have a 50% ownership interest in a joint venture in Saudi Arabia, which owns 18 rigs. We also offer a wide range of ancillary well-site services, including engineering, transportation, construction, maintenance, well logging, directional drilling, rig instrumentation, data collection and other support services in selected domestic and international markets. We time charter a fleet of 29 marine transportation and supply vessels, which provide transportation of drilling materials, supplies and crews for offshore operations. During the first quarter of 2006 we began to offer logistics services for onshore drilling and well-servicing operations in Canada using helicopters and fixed-winged aircraft purchased from Airborne Energy Solutions Ltd. on January 3, 2006 (Note 4). 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 have made selective investments in oil and gas exploration, development and production activities.

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

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

Note 2 Summary of Significant Accounting Policies

Interim Financial Information

The unaudited consolidated financial statements of Nabors are prepared in conformity with accounting principles generally accepted in the United States of America (GAAP). Certain reclassifications have been made to the prior period to conform to the current period presentation, with no effect on our consolidated financial position, results of operations or cash flows. Pursuant to the rules and regulations of the U.S. Securities and Exchange Commission, certain information and footnote disclosures normally included in annual financial statements prepared in accordance with GAAP have been omitted. Therefore, these financial statements should be read along with our Annual Report on Form 10-K for the year ended December 31, 2005. In our management's opinion, the consolidated financial statements contain all adjustments necessary to present fairly our financial position as of June 30, 2006 and the results of our operations and our cash flows for the three and six months ended June 30, 2006 and 2005, in accordance with GAAP. Interim results for the three and six months ended June 30, 2006 may not be indicative of results that will be realized for the full year ending December 31, 2006.

On December 13, 2005, our Board of Directors approved a two-for-one stock split on our common shares to be effectuated in the form of a stock dividend. The stock dividend was distributed on April 17, 2006 to

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NABORS INDUSTRIES LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

shareholders of record on March 31, 2006 (see Note 7). 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.

Our independent registered public accounting firm has performed a review of, and issued a report on, these consolidated interim financial statements in accordance with standards established by the Public Company Accounting Oversight Board. Pursuant to Rule 436(c) under the Securities Act of 1933, this report should not be considered a part of any registration statement prepared or certified within the meanings of Sections 7 and 11 of the Securities Act.

Principles of Consolidation

Our consolidated financial statements include the accounts of Nabors, all majority-owned subsidiaries, and all non-majority owned subsidiaries required to be consolidated under Financial Accounting Standards Board (FASB) Interpretation No. 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 carried as a single amount in our consolidated balance sheets. Investments in net assets of unconsolidated affiliates accounted for using the equity method totaled \$85.0 million and \$71.2 million as of June 30, 2006 and December 31, 2005, respectively, and are included in other long-term assets in our consolidated balance sheets. Similarly, investments in certain offshore funds classified as non-marketable are accounted for using the equity method of accounting based on our ownership interest in each fund. Our share of the gains and losses of these funds is recorded in investment income in our consolidated statements of income and our investments in these funds are included in long-term investments in our consolidated balance sheets.

Recent Accounting Pronouncements

In June 2006 the FASB issued Interpretation No. 48 (FIN 48), Accounting for Uncertainty in Income Taxes, which prescribes a comprehensive model for how a company should recognize, measure, present and disclose in its financial statements uncertain tax positions that the company has taken or expects to take on a tax return. Under FIN 48, the financial statements will reflect expected future tax consequences of such positions presuming the taxing authorities full knowledge of the position and all relevant facts, but without considering time values. FIN 48 is likely to cause greater volatility in income statements as more items are recognized discretely within income tax expense. Application of FIN 48 is required in financial statements effective for periods ending after December 15, 2006. FIN 48 revises disclosure requirements and will require an annual tabular roll-forward of unrecognized tax benefits. We expect to adopt FIN 48 beginning January 1, 2007. We are currently evaluating the impact that this interpretation may have on our consolidated financial statements. Any adjustment required as a result of the adoption of FIN 48 will be recorded to retained earnings.

Note 3 Share-Based Compensation

The Company has several stock-based employee compensation plans, which are more fully described in Note 9 in the Company's 2005 Annual Report on Form 10-K. Prior to January 1, 2006, we accounted for awards granted under those plans following the recognition and measurement principles of Accounting Principles Bulletin (APB) Opinion No. 25, Accounting for Stock Issued to Employees, (APB 25) and related interpretations. Under APB 25, no compensation expense was reflected in net income for the Company's stock options, as all options granted under those plans had an exercise price equal to the market

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NABORS INDUSTRIES LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

value of the underlying common shares on the date of grant. 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 grants over the vesting period of the award.

Effective January 1, 2006, we adopted the fair value recognition provisions of FASB Statement of Financial Accounting Standard No. 123(R), Share-Based Payments, (SFAS 123-R), using the modified prospective application method. Under this transition method, the Company will record 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 was based on the grant-date fair value estimated in accordance with the original provisions of SFAS No. 123. Results for prior periods have not been restated.

As a result of adopting SFAS 123-R on January 1, 2006, Nabors' income before income taxes and net income for the three months ended June 30, 2006 were \$4.3 million and \$3.3 million lower, respectively and \$9.8 million and \$7.5 million lower for the six months ended June 30, 2006, respectively, than if the Company had continued to account for share-based compensation under APB 25. Basic and diluted earnings per share for the three months ended June 30, 2006 would have been \$.80 and \$.78, respectively and \$1.64 and \$1.58, respectively, for the six months ended June 30, 2006, if the Company had continued to account for share-based compensation under APB 25, compared to reported basic and diluted earnings per share of \$.79 and \$.77, respectively, for the three months ended June 30, 2006 and \$1.61 and \$1.56, respectively, for the six months ended June 30, 2006.

Compensation expense related to awards of restricted stock was recognized before the adoption of SFAS 123-R. Compensation expense for restricted stock totaled \$3.2 million and \$1.3 million for the three months ended June 30, 2006 and 2005, respectively, and \$5.4 million and \$1.8 million for the six months ended June 30, 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 \$7.4 million and \$15.1 million for the three and six months ended June 30, 2006, respectively. Stock-based compensation expense has been allocated to the various operating segments (Note 11).

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 in the six months ended June 30, 2006 was \$4.0 million.

Under the provisions of SFAS 123-R, the recognition of unearned compensation, a contra-equity account representing the amount of unrecognized restricted stock 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.

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NABORS INDUSTRIES LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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 if we had applied the provisions of SFAS 123-R beginning on January 1, 2005:

	Three Months Ended June 30, 2005	Six Months Ended June 30, 2005
(In thousands, except per share amounts)		
Net income, as reported	\$ 131,805	\$ 259,219
Add: Stock-based compensation expense, relating to restricted stock awards, included in reported net income, net of related tax effects	843	1,147
Deduct: Total stock-based employee compensation expense determined under the fair value method for all awards, net of related tax effects	(13,012)	(22,089)
Pro forma net income-basic	119,636	238,277
Add: Interest expense on assumed conversion of our zero coupon convertible/exchangeable senior debentures/notes, net of tax		
Adjusted pro forma net income-diluted	\$ 119,636	\$ 238,277
Earnings per share:		
Basic-as reported	\$.42	\$.84
Basic-pro forma	\$.38	\$.77
Diluted-as reported	\$.41	\$.81
Diluted-pro forma	\$.37	\$.74

Stock Option Plans

Stock option awards under the Company's various stock-based employee compensation plans are granted at prices equal to the fair market value of the shares on the date of the grant. Options granted under the plan generally vest in varying periodic installments after one year. In the case of certain key executives, options granted under the plans may vest immediately on the grant date. Options granted under the plan expire ten years from the date of grant.

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 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 when determining the fair value of each award, 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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

rate for the first quarter of 2006 is based on historical experience. Estimated forfeitures will be adjusted to reflect actual forfeitures in future periods.

There were no stock options granted, and as a result, no fair value determinations were made during the six months ended June 30, 2006. Stock option transactions under the Company's various stock-based employee compensation plans during the six months ended June 30, 2006, is 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, 2005	38,559	\$ 21.87		
Granted		\$		
Exercised	(913)	\$ 20.99		
Forfeited	(100)	\$ 23.11		
Options outstanding as of June 30, 2006	37,546	\$ 21.88	5.5 years	\$ 455,096
Options exercisable as of June 30, 2006	34,429	\$ 21.85	5.3 years	\$ 419,105

The total intrinsic value of options exercised during the three and six months ended June 30, 2006 was \$14.2 million.

As of June 30, 2006, there was \$15.9 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.

Restricted Stock

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 vest in varying periodic installments ranging up to 3 to 4 years.

A summary of our restricted stock as of June 30, 2006, and the changes during the six months then ended is presented below:

Restricted Stock	Outstanding	Weighted Average Grant- Date Fair Value
(In thousands, except fair values)		
Nonvested as of December 31, 2005	710	\$ 28.78
Granted	748	32.36
Vested	(141)	28.71
Forfeited	(35)	29.44
Nonvested as of June 30, 2006	1,282	\$ 30.86

As of June 30, 2006, there is \$33.3 million of unrecognized compensation expense related to nonvested restricted stock awards. That cost is expected to be recognized over a weighted average period of 1.4 years.

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Note 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 preliminary estimates of the fair market value of assets acquired and liabilities assumed as of the acquisition date and resulted in goodwill of approximately U.S. \$18.8 million. The purchase price allocation is subject to adjustment as additional information becomes available and will be finalized by December 31, 2006.

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. \$36.3 million (U.S. \$32.9 million). Additional cash purchase consideration, up to a maximum of Cdn. \$12 million (U.S. \$10.8 million), will be due if certain specified financial performance targets are achieved over a one-year period commencing on June 30, 2006. The purchase price has been allocated based on preliminary estimates of the fair market value of assets acquired and liabilities assumed as of the acquisition date and resulted in goodwill of approximately U.S. \$1.9 million. The purchase price allocation is subject to adjustments as additional information becomes available and will be finalized by December 31, 2006. Any contingent consideration payable in the future will be recorded as goodwill.

Note 5 Debt

On May 23, 2006, Nabors Industries, Inc. (Nabors Delaware), our wholly-owned subsidiary, completed a private placement of \$2.5 billion aggregate principal amount of 0.94% senior exchangeable notes (the Notes) due 2011 that are fully and unconditionally guaranteed by us. On June 8, 2006, the initial purchasers exercised their option to purchase an additional \$250 million of the 0.94% senior exchangeable notes due 2011, increasing the aggregate issuance of such notes to \$2.75 billion. Nabors Delaware sold the notes to the initial purchasers in reliance on the exemption from registration provided by Section 4(2) of the Securities Act of 1933, as amended (the Securities Act). The notes were reoffered by the initial purchaser of the notes to qualified institutional buyers under Rule 144A of the Securities Act. The notes bear interest at a rate of 0.94% per year payable semiannually on May 15 and November 15 of each year, beginning on November 15, 2006. Debt issuance costs of \$28.3 million were capitalized in other long-term assets in our consolidated balance sheet and are being amortized through May 2011.

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

The Notes are unsecured and are effectively junior in right of payment to any of Nabors Delaware's future secured debt. The Notes will rank equally with any of Nabors Delaware's other existing and future unsubordinated debt and will be senior in right of payment to any of Nabors Delaware's future subordinated

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

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

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

The purchased call options and sold warrants are separate contracts entered into by Nabors with two financial institutions, and are not part of the terms of the notes and will not affect the holders' rights under the notes. The purchased call options are expected to offset the potential dilution upon exchange of the notes in the event that the market value per share of our common shares at the time of exercise is greater than the strike price of the purchased call options, which corresponds to the initial exchange price of the notes and is simultaneously subject to certain customary adjustments. The warrants will effectively increase the exchange price of the notes to \$54.64 per share of our common shares, from the perspective of Nabors, representing a 55% premium based on the last reported bid price of \$35.25 per share on May 17, 2006. In accordance with Emerging Issues Task Force Issue No. 00-19, *Accounting for Derivative Financial Instruments Indexed To and Potentially Settled In, a Company's Own Stock* and SFAS No. 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity*, we have recorded the exchangeable note hedge and warrants in capital in excess of par as of June 30, 2006, and will not recognize subsequent changes in fair value. We also recognized a deferred tax asset of \$211.8 million in the second quarter of 2006 for the effect of the future tax benefits related to the exchangeable note hedge.

We intend to use the remaining proceeds of the offering for general corporate purposes, which may include capital expenditures, acquisitions, retirement of other indebtedness and additional repurchases of Nabors common shares.

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

On February 6, 2006, we redeemed 93% of our \$1.2 billion zero coupon senior convertible debentures due 2021 for a total redemption price of \$769.8 million; an amount equal to the issue price plus accrued original issue discount to the date of repurchase. The principal amount of these debentures outstanding subsequent to

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this redemption totaled \$57.0 million. The original principal amount of these debentures upon issuance was \$1.381 billion, of which \$180.8 million had been redeemed prior to 2005.

Note 6 Income Taxes

Our effective income tax rate was 33.3% and 32.1% during the three and six months ended June 30, 2006, respectively, compared to 24.2% and 24.4% during the three and six months prior year periods. The increase in our effective income tax rate resulted from a higher proportion of our taxable income being generated in the U.S. during the three and six months ended June 30, 2006 compared to the prior year quarter. Income generated in the U.S. is generally taxed at a higher rate than in international jurisdictions in which we operate. Additionally, during the three months ended June 30, 2006, we recorded a \$36.2 million current tax expense relating to the redemption of common shares held by a foreign parent of a U.S. based Nabors subsidiary. This income tax expense was partially offset by an approximate \$20.5 million deferred tax benefit recorded as a result of changes in Canadian laws that incrementally reduce statutory tax rates for both federal and provincial taxes over the next four years.

Note 7 Common Shares

During the six months ended June 30, 2006, we repurchased 37.4 million of our common shares in the open market for \$1.31 billion. We retired 17.9 million shares during the six months ended June 30, 2006 and held 19.4 million of these shares in treasury. During the second quarter of 2005, we repurchased and retired 3.0 million of our common shares in the open market for \$80.6 million.

On December 13, 2005, our Board of Directors approved a two-for-one stock split on our common shares to be effectuated in the form of a stock dividend. The stock split was subject to the approval by our shareholders of a proposal to amend our Amended and Restated Bye-Laws to increase the authorized share capital of Nabors by the creation of additional common shares. This proposal was approved by our shareholders in a Special Meeting of Shareholders on March 30, 2006. 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.

Note 8 Commitments and Contingencies***Commitments******Employment Contracts***

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

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

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

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

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

In addition to a base salary, the employment agreements provide for annual cash bonuses in an amount equal to 6% and 2%, for Messrs. Isenberg and Petrello, respectively, of Nabors net cash flow (as defined in the respective employment agreements) in excess of 15% of the average shareholders equity for each fiscal year. (Mr. Isenberg's cash bonus formula originally was set at 10% in excess of a 10% return on shareholders equity and he has voluntarily reduced it over time to its 6% in excess of 15% level.) Mr. Petrello's bonus is subject to a minimum of \$700,000 per year. In 15 of the last 16 years, Mr. Isenberg has agreed voluntarily to accept a lower annual cash bonus (i.e., an amount lower than the amount provided for under his employment agreement) in light of his overall compensation package. Mr. Petrello has agreed voluntarily to accept a lower annual cash bonus (i.e., an amount lower than the amount provided for under his employment agreement) in light of his overall compensation package in 13 of the last 15 years. For 2005, the annual cash bonuses for Messrs. Isenberg and Petrello pursuant to the formula described in their employment agreements were \$41.2 million and \$13.7 million, respectively; but in light of their overall compensation package (including significant stock option grants and restricted stock awards), they agreed to accept cash bonuses in the amounts of \$3 million and \$1.5 million, respectively.

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

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

Termination in the event of death, disability, or termination without cause. In the event that either Mr. Isenberg's or Mr. Petrello's employment agreement is terminated (i) upon death or disability (as defined in the respective employment agreements), (ii) by Nabors prior to the expiration date of the employment agreement for any reason other than for Cause (as defined in the respective employment agreements) or (iii) by either individual for Constructive Termination Without Cause (as defined in the respective employment agreements), each would be entitled to receive within 30 days of the triggering event (a) all base salary which would have been payable through the expiration date of the contract or three times his then current base salary, whichever is greater; plus (b) the greater of (i) all annual cash bonuses which would have been payable through the expiration date; (ii) three times the highest bonus (including the imputed value of grants of stock awards and stock options), paid during the last three fiscal years prior to termination; or (iii) three times the highest annual cash bonus payable for each of the three previous fiscal years, regardless of whether the amount was paid. In computing any amount due under (b)(i) and (iii) above, the calculation is made without regard to the 2006 Amendment reducing Mr. Isenberg's bonus percentage as described above. If, by way of example, these provisions had applied at June 30, 2006, Mr. Isenberg would have been entitled to a payment of approximately \$204 million, subject to a true-up equal to the amount of cash bonus he would have earned under the formula during the remaining term of the agreement, based upon actual results, but

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would not be less than approximately \$204 million. Similarly, with respect to Mr. Petrello, had these provisions applied at June 30, 2006, Mr. Petrello would have been entitled to a payment of approximately \$104 million, subject to a true-up equal to the amount of cash bonus he would have earned under the formula during the remaining term of the agreement, based upon actual results, but would not be less than approximately \$104 million. These payment amounts are based on historical data and are not intended to be estimates of future payments required under the agreements. Depending upon future operating results, the true-up could result in the payment of amounts which are significantly higher. In addition, the affected individual is entitled to receive (a) any unvested restricted stock outstanding, which shall immediately and fully vest; (b) any unvested outstanding stock options, which shall immediately and fully vest; (c) any amounts earned, accrued or owing to the executive but not yet paid (including executive benefits, life insurance, disability benefits and reimbursement of expenses and perquisites), which shall be continued through the later of the expiration date or three years after the termination date; (d) continued participation in medical, dental and life insurance coverage until the executive receives equivalent benefits or coverage through a subsequent employer or until the death of the executive or his spouse, whichever is later; and (e) any other or additional benefits in accordance with applicable plans and programs of Nabors. For Mr. Isenberg, as of June 30, 2006, the value of unvested restricted stock was approximately \$11.3 million and the value of in-the-money unvested stock options was approximately \$6.9 million. For Mr. Petrello, as of June 30, 2006, the value of unvested restricted stock was approximately \$5.6 million and the value of in-the-money unvested stock options was approximately \$3.4 million. Estimates of the cash value of Nabors' obligations to Messrs. Isenberg and Petrello under (c), (d) and (e) above are included in the payment amounts above.

The Board of Directors in March 2006 exercised its election to fix the expiration date of the employment agreements for Messrs. Isenberg and Petrello. Messrs. Isenberg and Petrello have informed the Board of Directors that they have reserved their rights under their employment agreements with respect to the notice setting the expiration dates of their employment agreements, including whether such notice could trigger an acceleration of certain payments pursuant to their employment agreements.

Termination in the event of a Change in Control. In the event that Messrs. Isenberg's or Petrello's termination of employment is related to a Change in Control (as defined in their respective employment agreements), they would be entitled to receive a cash amount equal to the greater of (a) one dollar less than the amount that would constitute an excess parachute payment as defined in Section 280G of the Internal Revenue Code, or (b) the cash amount that would be due in the event of a termination without cause, as described above. If, by way of example, there was a change of control event that applied on June 30, 2006, then the payments to Messrs. Isenberg and Petrello would be approximately \$204 million and \$104 million, respectively. These payment amounts are based on historical data and are not intended to be estimates of future payments required under the agreements. Depending upon future operating results, the true-up could result in the payment of amounts which are significantly higher. In addition, they would receive (a) any unvested restricted stock outstanding, which shall immediately and fully vest; (b) any unvested outstanding stock options, which shall immediately and fully vest; (c) any amounts earned, accrued or owing to the executive but not yet paid (including executive benefits, life insurance, disability benefits and reimbursement of expenses and perquisites), which shall be continued through the later of the expiration date or three years after the termination date; (d) continued participation in medical, dental and life insurance coverage until the executive receives equivalent benefits or coverage through a subsequent employer or until the death of the executive or his spouse, whichever is later; and (e) any other or additional benefits in accordance with applicable plans and programs of Nabors. For Mr. Isenberg, as of June 30, 2006, the value of unvested restricted stock was approximately \$11.3 million and the value of in-the-money unvested stock options was approximately \$6.9 million. For Mr. Petrello, as of June 30, 2006, the value of unvested restricted stock was approximately \$5.6 million and the value of in-the-money unvested stock options was approximately \$3.4 million. The cash value of Nabors' obligations to Messrs. Isenberg and Petrello under (c), (d) and

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(e) above are included in the payment amounts above. Also, they would receive additional stock options immediately exercisable for 5 years to acquire a number of shares of common stock equal to the highest number of options granted during any fiscal year in the previous three fiscal years, at an option exercise price equal to the average closing price during the 20 trading days prior to the event which resulted in the change of control. If, by way of example, there was a change of control event that applied at June 30, 2006, Mr. Isenberg would have received 3,366,666 options valued at approximately \$42 million and Mr. Petrello would have received 1,683,332 options valued at approximately \$21 million, in each case based upon a Black Scholes analysis. Finally, in the event that an excise tax was applicable, they would receive a gross-up payment to make them whole with respect to any excise taxes imposed by Section 4999 of the Internal Revenue Code. With respect to the preceding sentence, by way of example, if there was a change of control event that applied on June 30, 2006, and assuming that the excise tax were applicable to the transaction, then the additional payments to Messrs. Isenberg and Petrello for the gross-up would be up to approximately \$92 million and \$49 million, respectively.

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

Contingencies***Income Tax Contingencies***

On May 31, 2006, Nabors International Finance Inc. (NIFI), a wholly-owned U.S. subsidiary of Nabors, received from the U.S. Internal Revenue Service (the IRS) two Notices of Proposed Adjustment (NOPA) in connection with an audit of NIFI for tax years 2002 and 2003. One NOPA proposes to deny a deduction of \$85.1 million in interest expense in our 2002 tax year relating to intercompany indebtedness incurred in connection with our inversion transaction in June 2002 whereby we were reorganized as a Bermuda company. The second NOPA proposes to deny a deduction of \$207.6 million in the same item of interest expense in our 2003 tax year. We previously had obtained advice from our tax advisors that the deduction of such amounts was appropriate and more recently that the position of the IRS lacks merit. The Company paid off approximately one-half of the intercompany indebtedness incurred in connection with the inversion. We currently have not booked any reserves for such proposed adjustments as we believe that the claims by the IRS lack merit and we intend to contest the IRS position.

Self-Insurance Accruals

We are self-insured for certain losses relating to workers compensation, employers liability, general liability, automobile liability and property damage. Effective April 1, 2006, with our insurance renewal, certain changes have been made to our insurance coverage increasing our self-insured retentions. Our domestic workers compensation program continues to be subject to a \$1.0 million per occurrence deductible. Employers liability and Jones Act cases are subject to a \$2.0 million deductible. Automobile liability continues at a \$.5 million deductible. We are assuming an additional \$3.0 million corridor deductible for domestic workers compensation claims. General liability claims continue to be subject to a \$5.0 million deductible. However, as a result of insurance market conditions following hurricanes Katrina and Rita, we are now subject to higher deductibles for removal of wreckage and debris and collision liability claims depending on the insured value of the individual rigs.

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

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named windstorms in the U.S. Gulf of Mexico. The deductible for named windstorms in the U.S. Gulf of Mexico is \$25.0 million per occurrence. Also, the maximum coverage for named windstorms in the U.S. Gulf of Mexico is \$50.0 million in this policy year.

Litigation

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

During the quarter ended June 30, 2006, we settled a lawsuit involving wage and hour claims relating primarily to meal periods and travel time of current and former rig-based employees in our California well-servicing business. Those claims were heard by an arbitrator during the fourth quarter of 2005. On February 6, 2006, we received an interim judgment against us in the amount of \$25.6 million (plus attorney's fees and costs), which was accrued for in our consolidated statements of income for the year ended December 31, 2005.

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

Guarantees

We enter into various agreements and obligations providing financial or performance assurance to third parties. Certain of these agreements serve as guarantees, including standby letters of credit issued on behalf of insurance carriers in conjunction with our workers' compensation insurance program and other financial surety instruments such as bonds. We have also guaranteed payment of contingent consideration in conjunction with a minor acquisition completed during the first quarter of 2005 and in conjunction with the acquisition of Pragma Drilling Equipment Ltd., completed in May of 2006, which are both based on future operating results of those businesses. In addition, we have provided indemnifications to certain third parties which serve as guarantees. These guarantees include indemnification provided by Nabors to our stock 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.

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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				
	Remainder of 2006	2007	2008	Thereafter	Total
(In thousands)					
Financial standby letters of credit and other financial surety instruments	\$ 2,670	\$ 100,040	\$ 1,195	\$ 125	\$ 104,030
Contingent consideration in acquisition		11,622	850	2,550	15,022
Total	\$ 2,670	\$ 111,662	\$ 2,045	\$ 2,675	\$ 119,052

Note 9 Earnings Per Share

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
(In thousands, except per share amounts)				
Net income (numerator):				
Net income basic	\$ 233,433	\$ 131,805	\$ 490,196	\$ 259,219
Add interest expense on assumed conversion of our zero coupon convertible/exchangeable senior debentures/notes, net of tax:				
\$2.75 billion due 2011(1)				
\$82 million due 2021(2)				
\$700 million due 2023(3)				
Adjusted net income diluted	\$ 233,433	\$ 131,805	\$ 490,196	\$ 259,219
Earnings per share:				
Basic	\$.79	\$.42	\$ 1.61	\$.84
Diluted	\$.77	\$.41	\$ 1.56	\$.81
Shares (denominator):				
Weighted-average number of shares outstanding-basic(4)	294,419	314,881	303,704	309,606
Net effect of dilutive stock options and warrants based on the treasury stock method	9,975	7,544	10,344	10,386
Assumed conversion of our zero coupon convertible/exchangeable senior debentures/notes:				

\$2.75 billion due 2011(1)				
\$82 million due 2021(2)				
\$700 million due 2023(3)			560	
Weighted-average number of shares outstanding-diluted	304,394	322,425	314,608	319,992

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- (1) Diluted earnings per share for the three and six months ended June 30, 2006 do not include any incremental shares issuable upon the exchange of our \$2.75 billion 0.94% senior exchangeable notes. The number of shares that we would be required to issue upon exchange consists of only the incremental shares that would be issued above the principal amount of the notes, as we are required to pay cash up to the principal amount of the notes exchanged. We would only issue an incremental number of shares upon exchange of these notes, and such shares are only included in the calculation of the weighted-average number of shares outstanding in our diluted earnings per share calculation, when the price of our shares exceeds \$45.83, which did not occur during the quarter ending June 30, 2006. The \$2.75 billion notes were issued during the quarter ended June 30, 2006 and had no effect on prior period's earnings per share calculation.
- (2) Diluted earnings per share for the three and six months ended June 30, 2006 excludes approximately 1.2 million potentially dilutive shares initially issuable upon the conversion of our \$82 million zero coupon convertible senior debentures. Diluted earnings per share for the three and six months ended June 30, 2005 excludes approximately 17.0 million potentially dilutive shares initially issuable upon the conversion of these debentures. Such shares did not impact our calculation of dilutive earnings per share for those quarters as we are required to pay cash up to the principal amount of any debentures converted. We would only issue an incremental number of shares upon conversion of these debentures, and such shares would only be included in the calculation of the weighted-average number of shares outstanding in our diluted earnings per share calculation if the price of our shares exceeded approximately \$49.
- (3) Diluted earnings per share for the three months ended June 30, 2006 and 2005 and the six months ended June 30, 2005 do not include any incremental shares issuable upon the exchange of our \$700 million zero coupon senior exchangeable notes. The number of shares that we would be required to issue upon exchange consists of only the incremental shares that would be issued above the principal amount of the notes, as we are required to pay cash up to the principal amount of the notes exchanged. We would only issue an incremental number of shares upon exchange of these notes, and such shares are only included in the calculation of the weighted-average number of shares outstanding in our diluted earnings per share calculation, when the price of our shares exceeds \$35.05 on the last trading day of the quarter, which was the case for the six months ended June 30, 2006.
- (4) Includes the following weighted average number of common shares of Nabors and weighted average number of exchangeable shares of Nabors Exchangeco, respectively: 294.2 million and .2 million shares for the three months ended June 30, 2006; 314.5 million and .4 million shares for the three months ended June 30, 2005; 303.5 million and .2 million shares for the six months ended June 30, 2006; and 309.2 million and .4 million shares for the six months ended June 30, 2005. The exchangeable shares of Nabors Exchangeco are exchangeable for Nabors common shares on a one-for-one basis, and have essentially identical rights as Nabors Industries Ltd. common shares, including but not limited to voting rights and the right to receive dividends, if any.

For all periods presented, the computation of diluted earnings per share excludes outstanding stock options and warrants with exercise prices greater than the average market price of Nabors' common shares, because the inclusion of such options and warrants would be anti-dilutive. The number of options and warrants that were excluded from diluted earnings per share that would potentially dilute earnings per share in the future were 2,001,500 and 1,501,125 shares during the three and six months ended June 30, 2006 and 1,756,514 and 1,520,508 shares during the three and six months ended June 30, 2005. In any period during which the average market price of Nabors' common shares exceeds the exercise prices of these stock options and warrants, such stock options and warrants will be included in our diluted earnings per share computation using the treasury stock method of accounting. Restricted stock will similarly be included in our diluted earnings per share computation using the treasury stock method of accounting.

in any period where the amount

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NABORS INDUSTRIES LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

of restricted stock exceeds the number of shares assumed repurchased in those periods based upon future unearned compensation.

Note 10 Supplemental Balance Sheet Information

Accrued liabilities include the following:

	June 30, 2006	December 31, 2005
(In thousands)		
Accrued compensation	\$ 103,053	\$ 88,071
Deferred revenue	39,112	19,542
Workers compensation liabilities	37,458	37,458
Interest payable	12,450	9,728
Litigation reserves	5,068	30,182
Other accrued liabilities	41,552	39,355
	\$ 238,693	\$ 224,336

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

	June 30, 2006	December 31, 2005
(In thousands)		
Cash and cash equivalents	\$ 1,419,260	\$ 565,001
Short-term investments	239,828	858,524
Long-term investments	349,406	222,802
Total	\$ 2,008,494	\$ 1,646,327

As of June 30, 2006 and December 31, 2005, our short-term investments consist entirely of investments in available-for-sale marketable debt and equity securities while our long-term investments consist entirely of investments in non-marketable securities. Non-marketable securities consist of 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.

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NABORS INDUSTRIES LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 11 Segment Information

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

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2006	2005	2006	2005
(In thousands)				
Operating revenues and Earnings from unconsolidated affiliates:				
Contract Drilling:(1)				
U.S. Lower 48 Land Drilling	\$ 468,787	\$ 300,700	\$ 895,137	\$ 559,690
U.S. Land Well-servicing	168,841	118,776	329,574	224,889
U.S. Offshore	62,554	45,130	106,080	83,197
Alaska	24,912	21,955	51,718	46,723
Canada	120,587	73,530	347,144	239,857
International	169,147	135,168	316,042	259,198
Subtotal Contract Drilling(2)	1,014,828	695,259	2,045,695	1,413,554
Oil and Gas(3)	9,703	15,218	39,540	30,517
Other Operating Segments(4)(5)	153,593	81,919	305,296	157,910
Other reconciling items(6)	(50,754)	(21,855)	(94,836)	(45,709)
Total	\$ 1,127,370	\$ 770,541	\$ 2,295,695	\$ 1,556,272

Adjusted income (loss) derived from operating activities:(7)

Contract Drilling:				
U.S. Lower 48 Land Drilling	\$ 212,696	\$ 101,813	\$ 392,427	\$ 175,272
U.S. Land Well-servicing	47,435	26,401	93,505	45,829
U.S. Offshore	23,667	12,498	34,121	19,509
Alaska	3,384	4,159	7,626	10,131
Canada	19,873	470	102,975	46,238
International	50,500	32,558	87,997	62,325
Subtotal Contract Drilling	357,555	177,899	718,651	359,304
Oil and Gas	(584)	2,869	12,852	3,743
Other Operating Segments	18,469	7,569	39,036	12,631
Total segment adjusted income derived from operating activities	375,440	188,337	770,539	375,678
Other reconciling items(8)	(25,985)	(14,510)	(50,579)	(29,928)
Interest expense	(12,168)	(11,333)	(20,223)	(22,070)
Investment income	16,728	15,578	30,598	27,366
	(4,216)	(4,223)	(8,245)	(8,094)

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

Income before income taxes	\$ 349,799	\$ 173,849	\$ 722,090	\$ 342,952
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NABORS INDUSTRIES LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	June 30, 2006	December 31, 2005
(In thousands)		
Total assets:		
Contract Drilling:		
U.S. Lower 48 Land Drilling	\$ 1,846,024	\$ 1,513,618
U.S. Land Well-servicing	467,769	389,002
U.S. Offshore	419,634	366,354
Alaska	203,155	202,315
Canada	1,033,482	1,109,627
International	1,815,729	1,436,234
Subtotal Contract Drilling(9)	5,785,793	5,017,150
Oil and Gas	173,193	127,834
Other Operating Segments(10)	582,731	387,422
Other reconciling items(8)	2,049,418	1,698,001
Total assets	\$ 8,591,135	\$ 7,230,407

- (1) These segments include our drilling, workover and well-servicing operations, on land and offshore.
- (2) Includes Earnings from unconsolidated affiliates, accounted for by the equity method of \$4.1 million and \$1.2 million for the three months ended June 30, 2006 and 2005, respectively, and \$4.8 million and \$1.9 million for the six months ended June 30, 2006 and 2005, respectively.
- (3) Represents our oil and gas exploration, development and production operations.
- (4) Includes our marine transportation and supply services, drilling technology and top drive manufacturing, directional drilling, rig instrumentation and software, and construction and logistics operations.
- (5) Includes Earnings from unconsolidated affiliates, accounted for by the equity method of \$5.3 million and \$4.0 million for the three months ended June 30, 2006 and 2005, respectively, and \$9.0 million and \$5.3 million for the six months ended June 30, 2006 and 2005, respectively.
- (6) Represents the elimination of inter-segment transactions.
- (7) Adjusted income (loss) derived from operating activities is computed by: subtracting direct costs, general and administrative expenses, and depreciation and amortization, and depletion expense from Operating revenues and then adding Earnings from unconsolidated affiliates. Such amounts should not be used as a substitute to those amounts reported under GAAP. However, management evaluates the performance of our business units and the consolidated company based on several criteria, including adjusted income (loss) derived from operating activities, because it believes that this financial measure is an accurate reflection of the ongoing profitability of

our company. A reconciliation of this non-GAAP measure to income before income taxes, which is a GAAP measure, is provided within the table above.

- (8) Represents the elimination of inter-segment transactions and unallocated corporate expenses and assets.
- (9) Includes \$40.2 million and \$35.3 million of investments in unconsolidated affiliates accounted for by the equity method as of June 30, 2006 and December 31, 2005, respectively.
- (10) Includes \$44.8 million and \$35.9 million of investments in unconsolidated affiliates accounted for by the equity method as of June 30, 2006 and December 31, 2005, respectively.

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

Note 12 Condensed Consolidating Financial Information

Nabors has fully and unconditionally guaranteed all of the issued public debt securities and the \$2.75 billion 0.94% senior exchangeable notes of Nabors Delaware, and Nabors and Nabors Delaware have fully and unconditionally guaranteed the \$225 million 4.875% senior notes due 2009 issued by Nabors Holdings 1, ULC, our indirect subsidiary.

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

The following condensed consolidating financial information presents: condensed consolidating balance sheets as of June 30, 2006 and December 31, 2005, statements of income for each of the three and six month periods ended June 30, 2006 and 2005, and the consolidating statements of cash flows for the six-month periods ended June 30, 2006 and 2005 of (a) Nabors, parent/guarantor, (b) Nabors Delaware, issuer of public debt securities and the \$2.75 billion 0.94% senior exchangeable notes guaranteed by Nabors and guarantor of the \$225 million 4.875% senior notes issued by Nabors Holdings, (c) Nabors Holdings, issuer of the \$225 million 4.875% senior notes, (d) the non-guarantor subsidiaries, (e) consolidating adjustments necessary to consolidate Nabors and its subsidiaries and (f) Nabors on a consolidated basis.

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

June 30, 2006

	Nabors (Parent/ Guarantor)	Nabors Delaware (Issuer/ Guarantor)	Nabors Holdings (Issuer)	Other Subsidiaries (Non- Guarantors)	Consolidating Adjustments	Consolidated Total
(In thousands)						
ASSETS						
Current assets:						
Cash and cash equivalents	\$ 5,992	\$ 127,346	\$ 11	\$ 1,285,911	\$	\$ 1,419,260
Short-term investments				239,828		239,828
Accounts receivable, net				1,007,878		1,007,878
Inventory				70,756		70,756
Deferred income taxes				199,276		199,276
Other current assets	162	1,077	376	99,088		100,703
Total current assets	6,154	128,423	387	2,902,737		3,037,701
Long-term investments				349,406		349,406
Property, plant and equipment, net				4,563,893		4,563,893
Goodwill, net				370,310		370,310
Intercompany receivables	284,669	888,160		19,944	(1,192,773)	
Investments in affiliates	2,787,575	3,345,424	279,450	863,703	(7,191,128)	85,024
Other long-term assets		249,597	728	146,308	(211,832)	184,801
Total assets	\$ 3,078,398	\$ 4,611,604	\$ 280,565	\$ 9,216,301	\$ (8,595,733)	\$ 8,591,135
LIABILITIES AND SHAREHOLDERS EQUITY						
Current liabilities:						
Current portion of long-term debt	\$	\$	\$	\$	\$	\$
Trade accounts payable	23	23		386,006		386,052
Accrued liabilities	2,516	9,074	4,151	222,952		238,693
Income taxes payable		18,559	1,730	64,472		84,761
Total current liabilities	2,539	27,656	5,881	673,430		709,506
Long-term debt		3,778,800	224,163			4,002,963

Other long-term liabilities				168,771		168,771
Deferred income taxes	15,742	4		830,122	(211,832)	634,036
Intercompany payable		3,283		1,189,490	(1,192,773)	
Total liabilities	2,539	3,822,198	233,331	2,861,813	(1,404,605)	5,515,276
Shareholders equity	3,075,859	789,406	47,234	6,354,488	(7,191,128)	3,075,859
Total liabilities and shareholders equity	\$ 3,078,398	\$ 4,611,604	\$ 280,565	\$ 9,216,301	\$ (8,595,733)	\$ 8,591,135

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NABORS INDUSTRIES LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2005

	Nabors (Parent/ Guarantor)	Nabors Delaware (Issuer/ Guarantor)	Nabors Holdings (Issuer)	Other Subsidiaries (Non- Guarantors)	Consolidating Adjustments	Consolidated Total
(In thousands)						
ASSETS						
Current assets:						
Cash and cash equivalents	\$ 527	\$ 14	\$ 11	\$ 564,449	\$	\$ 565,001
Short-term investments				858,524		858,524
Accounts receivable, net				822,104		822,104
Inventory				51,292		51,292
Deferred income taxes				199,196		199,196
Other current assets	163	959	376	119,693		121,191
Total current assets	690	973	387	2,615,258		2,617,308
Long-term investments				222,802		222,802
Property, plant and equipment, net				3,886,924		3,886,924
Goodwill, net				341,939		341,939
Intercompany receivables	545,099	766,079		522	(1,311,700)	
Investments in affiliates	3,212,605	2,539,283	270,461	1,544,222	(7,495,407)	71,164
Other long-term assets		10,295	826	79,149		90,270
Total assets	\$ 3,758,394	\$ 3,316,630	\$ 271,674	\$ 8,690,816	\$ (8,807,107)	\$ 7,230,407

LIABILITIES AND SHAREHOLDERS EQUITY						
Current liabilities:						
Current portion of long-term debt	\$	\$ 767,912	\$	\$	\$	\$ 767,912
Trade accounts payable		23		336,566		336,589
Accrued liabilities	254	5,582	4,151	214,349		224,336
Income taxes payable		6,696	1,380	15,543		23,619
Total current liabilities	254	780,213	5,531	566,458		1,352,456
Long-term debt		1,027,721	224,030			1,251,751
				151,415		151,415

Other long-term liabilities						
Deferred income taxes		26,246		690,399		716,645
Intercompany payable			2,534	1,309,166	(1,311,700)	
Total liabilities	254	1,834,180	232,095	2,717,438	(1,311,700)	3,472,267
Shareholders equity	3,758,140	1,482,450	39,579	5,973,378	(7,495,407)	3,758,140
Total liabilities and shareholders equity	\$ 3,758,394	\$ 3,316,630	\$ 271,674	\$ 8,690,816	\$ (8,807,107)	\$ 7,230,407

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

Three Months Ended June 30, 2006

	Nabors (Parent/ Guarantor)	Nabors Delaware (Issuer/ Guarantor)	Nabors Holdings (Issuer)	Other Subsidiaries (Non- Guarantors)	Consolidating Adjustments	Consolidated Total
(In thousands)						
Revenues and other income:						
Operating revenues	\$	\$	\$	\$ 1,118,000	\$	\$ 1,118,000
Earnings from unconsolidated affiliates				9,370		9,370
Earnings from consolidated affiliates	237,356	211,843	3,643	226,137	(678,978)	
Investment income	35	9,533		7,160		16,728
Intercompany interest income	998	15,588			(16,586)	
Total revenues and other income	238,389	236,964	3,643	1,390,667	(695,564)	1,144,098
Costs and other deductions:						
Direct costs				594,226		594,226
General and administrative expenses	4,517	54		83,304	(45)	87,830
Depreciation and amortization		150		87,796		87,946
Depletion				7,913		7,913
Interest expense		8,057	2,860	1,251		12,168
Intercompany interest expense	439			16,147	(16,586)	
Losses (gains) on sales of long-lived assets, impairment charges and other expense (income), net		(682)		4,853	45	4,216
Total costs and other deductions	4,956	7,579	2,860	795,490	(16,586)	794,299
Income before income taxes	233,433	229,385	783	565,177	(678,978)	349,799
Income tax expense		6,491	251	109,624		116,366
Net income	\$ 233,433	\$ 222,894	\$ 532	\$ 455,553	\$ (678,978)	\$ 233,433

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NABORS INDUSTRIES LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Three Months Ended June 30, 2005

	Nabors (Parent/ Guarantor)	Nabors Delaware (Issuer/ Guarantor)	Nabors Holdings (Issuer)	Other Subsidiaries (Non- Guarantors)	Consolidating Adjustments	Consolidated Total
(In thousands)						
Revenues and other income:						
Operating revenues	\$	\$	\$	\$ 765,337	\$	\$ 765,337
Earnings from unconsolidated affiliates				5,204		5,204
Earnings from consolidated affiliates	131,442	74,004	3,643	78,891	(287,980)	
Investment income	757			14,821		15,578
Intercompany interest income	998	18,506			(19,504)	
Total revenues and other income	133,197	92,510	3,643	864,253	(307,484)	786,119
Costs and other deductions:						
Direct costs				454,584		454,584
General and administrative expenses	1,388	979	3	57,547	(112)	59,805
Depreciation and amortization		150		70,832		70,982
Depletion				11,343		11,343
Interest expense		9,163	2,860	(690)		11,333
Intercompany interest expense				19,504	(19,504)	
Losses (gains) on sales of long-lived assets, impairment charges and other expense (income), net		1,086		3,025	112	4,223
Total costs and other deductions	1,388	11,378	2,863	616,145	(19,504)	612,270
Income before income taxes	131,809	81,132	780	248,108	(287,980)	173,849
Income tax expense	4	2,637	265	39,138		42,044
Net income	\$ 131,805	\$ 78,495	\$ 515	\$ 208,970	\$ (287,980)	\$ 131,805

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NABORS INDUSTRIES LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Six Months Ended June 30, 2006

	Nabors (Parent/ Guarantor)	Nabors Delaware (Issuer/ Guarantor)	Nabors Holdings (Issuer)	Other Subsidiaries (Non- Guarantors)	Consolidating Adjustments	Consolidated Total
(In thousands)						
Revenues and other income:						
Operating revenues	\$	\$	\$	\$ 2,281,926	\$	\$ 2,281,926
Earnings from unconsolidated affiliates				13,769		13,769
Earnings from consolidated affiliates	497,308	412,551	8,989	435,099	(1,353,946)	
Investment income	111	9,660		20,827		30,598
Intercompany interest income	1,984	31,380			(33,364)	
Total revenues and other income	499,403	453,591	8,989	2,751,621	(1,387,310)	2,326,293
Costs and other deductions:						
Direct costs				1,208,843		1,208,843
General and administrative expenses	8,549	79	2	168,087	(90)	176,627
Depreciation and amortization		300		169,035		169,335
Depletion				20,930		20,930
Interest expense		15,049	5,720	(546)		20,223
Intercompany interest expense	658			32,706	(33,364)	
Losses (gains) on sales of long-lived assets, impairment charges and other expense (income), net		(1,641)		9,796	90	8,245
Total costs and other deductions	9,207	13,787	5,722	1,608,851	(33,364)	1,604,203
Income before income taxes	490,196	439,804	3,267	1,142,770	(1,353,946)	722,090
Income tax expense		10,084	1,096	220,714		231,894
Net income	\$ 490,196	\$ 429,720	\$ 2,171	\$ 922,056	\$ (1,353,946)	\$ 490,196

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NABORS INDUSTRIES LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Six Months Ended June 30, 2005

	Nabors (Parent/ Guarantor)	Nabors Delaware (Issuer/ Guarantor)	Nabors Holdings (Issuer)	Other Subsidiaries (Non- Guarantors)	Consolidating Adjustments	Consolidated Total
(In thousands)						
Revenues and other income:						
Operating revenues	\$	\$	\$	\$ 1,549,065	\$	\$ 1,549,065
Earnings from unconsolidated affiliates				7,207		7,207
Earnings from consolidated affiliates	255,750	145,779	8,120	157,386	(567,035)	
Investment income	5,583			21,783		27,366
Intercompany interest income	1,984	37,201			(39,185)	
Total revenues and other income	263,317	182,980	8,120	1,735,441	(606,220)	1,583,638
Costs and other deductions:						
Direct costs				929,210		929,210
General and administrative expenses	3,719	1,100	3	114,420	(796)	118,446
Depreciation and amortization		300		138,870		139,170
Depletion				23,696		23,696
Interest expense		18,028	5,720	(1,678)		22,070
Intercompany interest expense				39,185	(39,185)	
Losses (gains) on sales of long-lived assets, impairment charges and other expense (income), net	344	157		6,797	796	8,094
Total costs and other deductions	4,063	19,585	5,723	1,250,500	(39,185)	1,240,686
Income before income taxes	259,254	163,395	2,397	484,941	(567,035)	342,952
Income tax expense	35	6,518	815	76,365		83,733
Net income	\$ 259,219	\$ 156,877	\$ 1,582	\$ 408,576	\$ (567,035)	\$ 259,219

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

Six Months Ended June 30, 2006

	Nabors (Parent/ Guarantor)	Nabors Delaware (Issuer/ Guarantor)	Nabors Holdings (Issuer)	Other Subsidiaries (Non- Guarantors)	Consolidating Adjustments	Consolidated Total
(In thousands)						
Net cash (used for) provided by operating activities	\$ 1,170,409	\$ (42,507)	\$ (5,484)	\$ 2,444,379	\$ (2,825,236)	\$ 741,561
Cash flows from investing activities:						
Purchases of investments				(212,682)		(212,682)
Sales and maturities of investments				727,741		727,741
Cash paid for investments in consolidated affiliates	(977,927)	(410,791)		(1,083,572)	2,472,290	
Proceeds from sale of affiliate s stock				1,800,000	(1,800,000)	
Investment in affiliates				(2,433)		(2,433)
Cash paid for acquisitions of businesses, net				(46,392)		(46,392)
Capital expenditures				(840,006)		(840,006)
Proceeds from sales of assets and insurance claims				7,794		7,794
Net cash provided by (used for) investing activities	(977,927)	(410,791)		350,450	672,290	(365,978)
Cash flows from financing activities:						
(Decrease) increase in cash overdrafts				(26,322)		(26,322)
Proceeds from sale of warrants	421,162					421,162
Purchase of exchangeable note hedge		(583,550)				(583,550)

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Proceeds from long-term debt		2,750,000				2,750,000
Reduction of long-term debt		(769,789)				(769,789)
Proceeds from issuance of common shares	19,173					19,173
Debt issuance costs		(27,500)				(27,500)
Proceeds from parent contributions		1,078,088	5,484	1,388,718	(2,472,290)	
Repurchase of common shares	(627,352)			(2,481,745)	1,800,000	(1,309,097)
Tax benefit related to the exercise of stock options		3,954				3,954
Cash dividends paid		(1,870,573)		(954,663)	2,825,236	
Net cash provided by (used for) financing activities	(187,017)	580,630	5,484	(2,074,012)	2,152,946	478,031
Effect of exchange rate changes on cash and cash equivalents				645		645
Net (decrease) increase in cash and cash equivalents	5,465	127,332		721,462		854,259
Cash and cash equivalents, beginning of period	527	14	11	564,449		565,001
Cash and cash equivalents, end of period	\$ 5,992	\$ 127,346	\$ 11	\$ 1,285,911	\$	\$ 1,419,260

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NABORS INDUSTRIES LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Six Months Ended June 30, 2005

	Nabors (Parent/ Guarantor)	Nabors Delaware (Issuer/ Guarantor)	Nabors Holdings (Issuer)	Other Subsidiaries (Non- Guarantors)	Consolidating Adjustments	Consolidated Total
(In thousands)						
Net cash (used for) provided by operating activities	\$ 135,811	\$ 55,749	\$ (5,487)	\$ 301,655	\$ (55,734)	\$ 431,994
Cash flows from investing activities:						
Purchases of investments	(117,623)			(132,085)		(249,708)
Sales and maturities of investments	73,112			208,411		281,523
Cash paid for investments in consolidated affiliates	(85,386)	(5,484)		(5,484)	96,354	
Cash paid for acquisitions of businesses, net				(43,005)		(43,005)
Capital expenditures				(347,124)		(347,124)
Proceeds from sales of assets and insurance claims				16,262		16,262
Net cash provided by (used for) investing activities	(129,897)	(5,484)		(303,025)	96,354	(342,052)
Cash flows from financing activities:						
Increase in cash overdrafts				14,530		14,530
Proceeds from issuance of common shares	7,126			153,458		160,584
Repurchase of common shares	(80,572)					(80,572)
Proceeds from parent contributions			5,484	90,870	(96,354)	
Cash dividends paid		(50,250)		(5,484)	55,734	
Net cash provided by (used for) financing activities	(73,446)	(50,250)	5,484	253,374	(40,620)	94,542
Effect of exchange rate changes on cash and cash equivalents				(1,244)		(1,244)
	(67,532)	15	(3)	250,760		183,240

Net (decrease) increase in
cash and cash equivalents

Cash and cash equivalents, beginning of period	67,584		18	317,107		384,709
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Cash and cash equivalents,
end of period

\$ 52	\$ 15	\$ 15	\$ 567,867	\$ 567,949
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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have reviewed the accompanying consolidated balance sheet of Nabors Industries Ltd. and its subsidiaries as of June 30, 2006, and the related consolidated statements of income for each of the three-month and six-month periods ended June 30, 2006 and 2005, and the consolidated statements of cash flows and of changes in shareholders' equity for the six-month periods ended June 30, 2006 and 2005. This interim financial information is the responsibility of the Company's management.

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

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

We previously audited in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet as of December 31, 2005, and the related consolidated statements of income, of cash flows, and of changes in shareholders' equity for the year then ended, management's assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2005 and the effectiveness of the Company's internal control over financial reporting as of December 31, 2005; and in our report dated March 16, 2006, we expressed unqualified opinions thereon. The consolidated financial statements and management's assessment of the effectiveness of internal control over financial reporting referred to above are not presented herein. In our opinion, the information set forth in the accompanying consolidated balance sheet information as of December 31, 2005, is fairly stated in all material respects in relation to the consolidated balance sheet from which it has been derived.

/s/ PRICEWATERHOUSECOOPERS LLP

Houston, Texas
August 3, 2006

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Item 2. *Management's Discussion and Analysis of Financial Condition and Results of Operations*
Forward-looking Statements

We often discuss expectations regarding our future markets, demand for our products and services, and our performance in our annual and quarterly reports, press releases, and other written and oral statements. Statements that relate to matters that are not historical facts are forward-looking statements within the meaning of the safe harbor provisions of Section 27A of the Securities Act of 1933 and Section 21E of the Exchange Act. These forward-looking statements are based on an analysis of currently available competitive, financial and economic data and our operating plans. They are inherently uncertain and investors should recognize that events and actual results could turn out to be significantly different from our expectations. By way of illustration, when used in this document, words such as anticipate, believe, expect, plan, intend, estimate, project, will, should, could, may, predict intended to identify forward-looking statements.

You should consider the following key factors when evaluating these forward-looking statements:
fluctuations in worldwide prices of and demand for natural gas and oil;

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

fluctuations in the demand for our services;

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

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

the existence of regulatory and legislative uncertainties;

the possibility of changes in tax laws;

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

general economic conditions.

The above description of risks and uncertainties is by no means all-inclusive, but is designed to highlight what we believe are important factors to consider. For a more detailed description of risk factors, please refer to our Annual Report on Form 10-K for the year ended December 31, 2005 filed with the Securities and Exchange Commission under Part 1, Item 1A, Risk Factors.

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

Management Overview

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

Nabors is the largest land drilling contractor in the world. We conduct oil, gas and geothermal land drilling operations in the U.S. Lower 48 states, Alaska, Canada, South and Central America, the Middle East, the Far East and Africa. Nabors also is one of the largest land well-servicing and workover contractors in the United States and Canada and is a leading provider of offshore platform workover and drilling rigs in the United States and multiple international markets. To further supplement and complement our primary business, we offer a wide range of ancillary well-site services, including engineering, transportation, construction, maintenance, well logging, directional drilling, rig instrumentation, data collection and other support services, in selected domestic and international markets. During the first quarter of 2006, we began to offer logistics services for onshore drilling and well-servicing operations in

Canada using helicopter and fixed-

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winged aircraft purchased from Airborne Energy Solutions Ltd. on January 3, 2006 (see Note 4 to our accompanying consolidated financial statements). We have also made selective investments in oil and gas exploration, development and production activities.

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

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

Natural gas prices are the primary driver of our U.S. Lower 48 Land Drilling, Canadian and U.S. Offshore (Gulf of Mexico) operations, while oil prices are the primary driver of our Alaskan, International and U.S. Land Well-servicing operations. The Henry Hub natural gas spot price (per Bloomberg) averaged \$8.90 per million cubic feet (mcf) during the period from July 1, 2005 through June 30, 2006, up from \$6.32 per mcf average during the period from July 1, 2004 through June 30, 2005. West Texas intermediate spot oil prices (per Bloomberg) averaged \$64.29 per barrel during the period from July 1, 2005 through June 30, 2006, up from a \$48.78 per barrel average during the period from July 1, 2004 through June 30, 2005.

Operating revenues and Earnings from unconsolidated affiliates for the three months ended June 30, 2006 totaled \$1.1 billion, representing an increase of \$356.8 million, or 46% as compared to the three months ended June 30, 2005 and \$2.3 billion for the six months ended June 30, 2006, representing an increase of \$739.4 million, or 48% as compared to the six months ended June 30, 2005. Adjusted income derived from operating activities and net income for the three months ended June 30, 2006 totaled \$349.5 million and \$233.4 million, (\$.77 per diluted share), respectively, representing increases of 101% and 77%, respectively, compared to the three months ended June 30, 2005. Adjusted income derived from operating activities and net income for the six months ended June 30, 2006 totaled \$720.0 million and \$490.2 million (\$1.56 per diluted share), respectively, representing increases of 108% and 89% respectively, compared to the six months ended June 30, 2005.

The increase in our operating results during the three and six months ended June 30, 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 the three and six months ended June 30, 2006 compared to the prior year periods. This increase in average dayrates and activity reflects an increase in demand for our services in these markets during the three and six months ended June 30, 2006, which resulted from strong capital spending by our customers as supply challenges persist and cash flows remain adequate and confidence in the long-term outlook of higher price levels for natural gas and oil regardless of short-term price volatility.

Our operating results for 2006 are expected to increase from levels realized during 2005 as a result of:

Our current expectation of the continuation of historically high commodity prices during 2006 and the related impact on drilling and well-servicing activity, dayrates for drilling services and hourly well-servicing rates, and

Our current expectation of the impact on our overall level of drilling and well-servicing activity resulting from new or substantially new rigs to be added as part of our expanded capital program and planned reactivations of and enhancements to existing rigs.

The expansion of our rig fleet through our expanded capital program is expected to most significantly impact the results of our U.S. Lower 48 Land Drilling, U.S. Land Well-servicing, Canadian and International

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operations. For our existing rigs, we expect the largest increase in drilling activity and dayrates to exist in our U.S. Lower 48 Land Drilling operations as a result of strong demand for drilling services in that market driven by the sustained level of higher natural gas prices. We also expect strong demand for our drilling and well-servicing services across a number of our other markets, resulting from higher commodity prices, to improve our results of operations from existing rigs for our U.S. Land Well-servicing, Canadian, International and U.S. Offshore operations. Canadian drilling activity is subject to substantial levels of seasonality, as activity levels typically peak in the first quarter, decline substantially in the second quarter, and then generally increase over the last half of the year. We expect that the improvement in our International operations will also be driven by multiple rig contract re-pricings, which should begin to impact our results in the second half of 2006. We expect that the improvement in our U.S. Offshore operations will also be driven by a continuing improvement in the utilization of and pricing for our workover jack-up rigs. We expect results from our operations in Alaska to be substantially unchanged during 2006 when compared to 2005, as the improvement in commodity prices has yet to result in an improvement in demand for drilling services in that market.

During the second quarter of 2006, we placed \$2.75 billion in five-year convertible notes with a 0.94% coupon interest rate and an original exchange premium of 30%. In order to offset the potential dilution to our shares, we entered into a series of hedge transactions which effectively increased the exchange premium to 55%. In connection with the hedge transactions, we purchased call options which will cover the net shares of our common shares that would be deliverable to the noteholders upon exchange of the notes. In order to partially offset the cost of the purchased call options (but which also limits the anti-dilutive effect of the call options), we sold warrants to acquire approximately 60.0 million of our common shares at a strike price of \$54.64. The net cost of these hedge transactions was approximately \$162.4 million. These costs were accounted for as a reduction to shareholders' equity. A portion of the proceeds from the notes were also used to repurchase approximately 28.5 million shares of our common stock for approximately \$1.0 billion, which further reduced shareholders' equity. These decreases to equity as a result of these transactions were partially offset by a \$215.9 million increase to equity related to a deferred tax asset representing the tax benefits of the cost of the purchased call option, which was also accounted for through shareholders' equity. We expect this transaction to be accretive to our results by roughly \$.26 per share in 2006 and \$.56 per share in 2007. All of this leaves us with over \$2 billion in cash and investments after the consummation of this transaction, which we believe puts us in even better position to capitalize on future opportunities.

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

	Three Months Ended June 30,			Six Months Ended June 30,				
	2006	2005	Increase (Decrease)	2006	2005	Increase (Decrease)		
(In thousands, except percentages and rig activity)								
Reportable segments:								
Operating revenues and Earnings from unconsolidated affiliates:								
Contract Drilling:(1)								
U.S. Lower 48 Land Drilling	\$ 468,787	\$ 300,700	\$ 168,087	56%	\$ 895,137	\$ 559,690	\$ 335,447	60%

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U.S. Land									
Well-servicing	168,841	118,776	50,065	42%	329,574	224,889	104,685	47%	
U.S. Offshore	62,554	45,130	17,424	39%	106,080	83,197	22,883	28%	
Alaska	24,912	21,955	2,957	13%	51,718	46,723	4,995	11%	
Canada	120,587	73,530	47,057	64%	347,144	239,857	107,287	45%	
International	169,147	135,168	33,979	25%	316,042	259,198	56,844	22%	
Subtotal									
Contract									
Drilling(2)	1,014,828	695,259	319,569	46%	2,045,695	1,413,554	632,141	45%	
Oil and Gas(3)	9,703	15,218	(5,515)	(36)%	39,540	30,517	9,023	30%	
Other Operating									
Segments(4)(5)	153,593	81,919	71,674	87%	305,296	157,910	147,386	93%	
Other reconciling									
items(6)	(50,754)	(21,855)	(28,899)	(132)%	(94,836)	(45,709)	(49,127)	(107)%	
Total	\$ 1,127,370	\$ 770,541	\$ 356,829	46%	\$ 2,295,695	\$ 1,556,272	\$ 739,423	48%	

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	Three Months Ended June 30,				Six Months Ended June 30,			
	2006	2005	Increase (Decrease)		2006	2005	Increase (Decrease)	
(In thousands, except percentages and rig activity)								
Adjusted income (loss) derived from operating activities:(7)								
Contract Drilling:								
U.S. Lower 48 Land Drilling	\$ 212,696	\$ 101,813	\$ 110,883	109%	\$ 392,427	\$ 175,272	\$ 217,155	124%
U.S. Land Well-servicing	47,435	26,401	21,034	80%	93,505	45,829	47,676	104%
U.S. Offshore	23,667	12,498	11,169	89%	34,121	19,509	14,612	75%
Alaska	3,384	4,159	(775)	(19)%	7,626	10,131	(2,505)	(25)%
Canada	19,873	470	19,403	N/M(8)	102,975	46,238	56,737	123%
International	50,500	32,558	17,942	55%	87,997	62,325	25,672	41%
Subtotal Contract Drilling	357,555	177,899	179,656	101%	718,651	359,304	359,347	100%
Oil and Gas	(584)	2,869	(3,453)	(120)%	12,852	3,743	9,109	243%
Other Operating Segments	18,469	7,569	10,900	144%	39,036	12,631	26,405	209%
Other reconciling items(9)	(25,985)	(14,510)	(11,475)	(79)%	(50,579)	(29,928)	(20,651)	(69)%
Total	349,455	173,827	175,628	101%	719,960	345,750	374,210	108%
Interest expense	(12,168)	(11,333)	(835)	(7)%	(20,223)	(22,070)	1,847	8%
Investment income	16,728	15,578	1,150	7%	30,598	27,366	3,232	12%
Losses on sales of long-lived assets, impairment charges and other income (expense), net	(4,216)	(4,223)	7	0%	(8,245)	(8,094)	(151)	(2)%
Income before income taxes	\$ 349,799	\$ 173,849	\$ 175,950	101%	\$ 722,090	\$ 342,952	\$ 379,138	111%

	Three Months Ended June 30,			Six Months Ended June 30,		
	2006	2005	Increase	2006	2005	Increase

Rig activity:

Rig years:(10)								
U.S. Lower 48 Land								
Drilling	255.2	229.3	25.9	11%	254.3	225.9	28.4	13%
U.S. Offshore	18.0	17.2	0.8	5%	16.5	16.4	0.1	1%
Alaska	7.8	6.8	1.0	15%	7.5	6.7	0.8	12%
Canada	37.9	26.2	11.7	45%	55.5	46.1	9.4	20%
International(11)	93.2	83.4	9.8	12%	89.7	79.3	10.4	13%
Total rig years	412.1	362.9	49.2	14%	423.5	374.4	49.1	13%

Rig hours:(12)								
U.S. Land								
Well-servicing	318,961	308,718	10,243	3%	630,729	605,329	25,400	4%
Canada Well-servicing	61,648	60,297	1,351	2%	182,872	174,633	8,239	5%
Total rig hours	380,609	369,015	11,594	3%	813,601	779,962	33,639	4%

- (1) These segments include our drilling, workover and well-servicing operations, on land and offshore.
- (2) Includes Earnings from unconsolidated affiliates, accounted for by the equity method, of \$4.1 million and \$1.2 million for the three months ended June 30, 2006 and 2005, respectively, and \$4.8 million and \$1.9 million for the six months ended June 30, 2006 and 2005, respectively.
- (3) Represents our oil and gas exploration, development and production operations.
- (4) Includes our marine transportation and supply services, drilling technology and top drive manufacturing, directional drilling, rig instrumentation and software, and construction and logistics operations.
- (5) Includes Earnings from unconsolidated affiliates, accounted for by the equity method, of \$5.3 million and \$4.0 million for the three months ended June 30, 2006 and 2005, respectively, and \$9.0 million and \$5.3 million for the six months ended June 30, 2006 and 2005, respectively.
- (6) Represents the elimination of inter-segment transactions.

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- (7) Adjusted income (loss) derived from operating activities is computed by: subtracting direct costs, general and administrative expenses, and depreciation and amortization, and depletion expense from Operating revenues and then adding Earnings from unconsolidated affiliates. Such amounts should not be used as a substitute to those amounts reported under 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 (loss) derived from operating activities, because it believes that this financial measure is an accurate reflection of the ongoing profitability of our company. A reconciliation of this non-GAAP measure to income before income taxes, which is a GAAP measure, is provided within the table above.
- (8) The percentage is so large that it is not meaningful.
- (9) Represents the elimination of inter-segment transactions and unallocated corporate expenses.
- (10) Excludes well-servicing rigs, which are measured in rig hours. Rig years represent a measure of the number of equivalent rigs operating during a given period. For example, one rig operating 182.5 days during a 365-day period represents 0.5 rig years.
- (11) International rig years include our equivalent percentage ownership of rigs owned by unconsolidated affiliates which totaled 4.0 years during the three months ended June 30, 2006 and 2005, respectively, and 4.0 years and 3.9 years during the six months ended June 30, 2006 and 2005, respectively.
- (12) Rig hours represents the number of hours that our well-servicing rig fleet operated during the quarter.

Segment Results of Operations**Contract Drilling**

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

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

	Three Months Ended June 30,			Six Months Ended June 30,				
	2006	2005	Increase	2006	2005	Increase		
(in thousands, except percentages and rig activity)								
Operating revenues and Earnings from unconsolidated affiliates	\$ 468,787	\$ 300,700	\$ 168,087	56%	\$ 895,137	\$ 559,690	\$ 335,447	60%
Adjusted income derived from operating activities	\$ 212,696	\$ 101,813	\$ 110,883	109%	\$ 392,427	\$ 175,272	\$ 217,155	124%
Rig years	255.2	229.3	25.9	11%	254.3	225.9	28.4	13%

The increase in operating results during the three and six months ended June 30, 2006 primarily resulted from an increase in average dayrates and in drilling activity, which were driven by higher natural gas prices. The increase in drilling activity is reflected in the increase in rig years during the three and six months ended June 30, 2006 compared to the prior year periods.

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

	Three Months Ended June 30,	Six Months Ended June 30,
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	2006	2005	Increase		2006	2005	Increase	
(In thousands, except percentages and rig activity)								
Operating revenues and Earnings from unconsolidated affiliates	\$ 168,841	\$ 118,776	\$ 50,065	42%	\$ 329,574	\$ 224,889	\$ 104,685	47%
Adjusted income derived from operating activities	\$ 47,435	\$ 26,401	\$ 21,034	80%	\$ 93,505	\$ 45,829	\$ 47,676	104%
Rig hours	318,961	308,718	10,243	3%	630,729	605,329	25,400	4%

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The increase in operating results during the three and six months ended June 30, 2006 primarily resulted from an increase in average dayrates and from higher well-servicing hours compared to the prior year periods. This increase in dayrates and well-servicing activity 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:

	Three Months Ended June 30,			Six Months Ended June 30,				
	2006	2005	Increase	2006	2005	Increase		
(In thousands, except percentages and rig activity)								
Operating revenues and Earnings from unconsolidated affiliates	\$ 62,554	\$ 45,130	\$ 17,424	39%	\$ 106,080	\$ 83,197	\$ 22,883	28%
Adjusted income derived from operating activities	\$ 23,667	\$ 12,498	\$ 11,169	89%	\$ 34,121	\$ 19,509	\$ 14,612	75%
Rig years	18.0	17.2	0.8	5%	16.5	16.4	0.1	1%

The increase in operating results during the three and six months ended June 30, 2006 primarily resulted from an increase in dayrates for our jack-up rigs as compared to the prior year periods.

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

	Three Months Ended June 30,				Six Months Ended June 30,			
	2006	2005	Increase/(Decrease)		2006	2005	Increase/(Decrease)	
(In thousands, except percentages and rig activity)								
Operating revenues and Earnings from unconsolidated affiliates	\$ 24,912	\$ 21,955	\$ 2,957	13%	\$ 51,718	\$ 46,723	\$ 4,995	11%
Adjusted income derived from operating activities	\$ 3,384	\$ 4,159	\$ (775)	(19)%	\$ 7,626	\$ 10,131	\$ (2,505)	(25)%
Rig years	7.8	6.8	1.0	15%	7.5	6.7	0.8	12%

The increase in operating revenues and Earnings from unconsolidated affiliates during the three and six months ended June 30, 2006 is primarily due to increases in average dayrates and drilling activity levels as compared to prior year periods. The decrease in overall operating results during the three and six months ended June 30, 2006 as compared to prior year periods relate to increased labor and repairs and maintenance costs.

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

	Three Months Ended June 30,			Six Months Ended June 30,				
	2006	2005	Increase	2006	2005	Increase		
(In thousands, except percentages and rig activity)								
	\$ 120,587	\$ 73,530	\$ 47,057	64%	\$ 347,144	\$ 239,857	\$ 107,287	45%

Operating revenues and Earnings
from unconsolidated affiliates

Adjusted income derived from

operating activities	\$ 19,873	\$ 470	\$ 19,403	N/M ⁽¹⁾	\$ 102,975	\$ 46,238	\$ 56,737	123%
Rig years	37.9	26.2	11.7	45%	55.5	46.1	9.4	20%
Rig hours	61,648	60,297	1,351	2%	182,872	174,633	8,239	5%

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

The increase in operating results during the three and six months ended June 30, 2006 primarily resulted from an overall increase in drilling and well-servicing activity and an increase in average dayrates and hourly rates for drilling and well-servicing operations compared to the prior year periods. These increases were driven by increased commodity prices, which resulted in improved demand for our services in this market. Further

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increases in operating results were due to foreign exchange increases as a result of the Canadian dollar strengthening during these periods.

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

	Three Months Ended June 30,			Six Months Ended June 30,		
	2006	2005	Increase	2006	2005	Increase

(In thousands, except percentages and rig activity)

Operating revenues and Earnings from unconsolidated affiliates	\$ 169,147	\$ 135,168	\$ 33,979	25%	\$ 316,042	\$ 259,198	\$ 56,844	22%
Adjusted income derived from operating activities	\$ 50,500	\$ 32,558	\$ 17,942	55%	\$ 87,997	\$ 62,325	\$ 25,672	41%
Rig years	93.2	83.4	9.8	12%	89.7	79.3	10.4	13%

The increase in operating results during the three and six months ended June 30, 2006 primarily resulted from an increase in operations in Africa (primarily Angola and Gabon), The Middle East (primarily India and Saudi Arabia), New Zealand and South America (primarily Argentina, Colombia, and Trinidad), resulting from improved demand for our services and improved dayrates in these markets, partially offset by decreased operations in Indonesia during the three and six months ended June 30, 2006 compared to the prior year periods.

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:

	Three Months Ended June 30,			Six Months Ended June 30,		
	2006	2005	(Decrease)	2006	2005	Increase

(In thousands, except percentages)

Operating revenues and Earnings from unconsolidated affiliates	\$ 9,703	\$ 15,218	\$ (5,515)	(36)%	\$ 39,540	\$ 30,517	\$ 9,023	30%
Adjusted income derived from operating activities	\$ (584)	\$ 2,869	\$ (3,453)	(120)%	\$ 12,852	\$ 3,743	\$ 9,109	243%

The decrease in operating results during the three months ended June 30, 2006, as compared to the prior year period, related primarily from the expected decline in production from our investments with El Paso Corporation and higher work-over expenses and higher unit of production depletion rates incurred. The increase in operating results during the six months ended June 30, 2006 primarily resulted from the sale of certain leasehold interests. Such sale resulted in additional operating revenue totaling \$20.7 million during the six months ended June 30, 2006 and was partially offset by lower production resulting from the expected decline in production from our investments with El Paso Corporation. During the six months ended June 30, 2006, we also recorded an impairment of oil and gas properties totaling approximately \$7.5 million that was recorded as depletion expense. This impairment resulted from lower than expected performance of certain asset groups.

Table of Contents**Other Operating Segments**

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

	Three Months Ended June 30,			Six Months Ended June 30,				
	2006	2005	Increase	2006	2005	Increase		
(In thousands, except percentages)								
Operating revenues and Earnings from unconsolidated affiliates	\$ 153,593	\$ 81,919	\$ 71,674	87%	\$ 305,296	\$ 157,910	\$ 147,386	93%
Adjusted income derived from operating activities	\$ 18,469	\$ 7,569	\$ 10,900	144%	\$ 39,036	\$ 12,631	\$ 26,405	209%

The increase in our operating results during the three and six months ended June 30, 2006 primarily resulted from (i) increased sales of top drives driven by the strengthening of the oil and gas drilling market, (ii) increased demand for directional drilling, rig instrumentation and data collection services, primarily driven by a strong U.S. and Canadian market for directional drilling services as the number of horizontal and directional wells drilled increased substantially, (iii) 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, and (iv) increased demand for construction and logistics services.

Other Financial Information**General and administrative expenses**

	Three Months Ended June 30,			Six Months Ended June 30,				
	2006	2005	Increase	2006	2005	Increase		
(In thousands, except percentages)								
General and administrative expenses	\$ 87,830	\$ 59,805	\$ 28,025	47%	\$ 176,627	\$ 118,446	\$ 58,181	49%
General and administrative expenses as a percentage of Operating revenues	7.9%	7.8%	0.1%	1%	7.7%	7.6%	0.1%	1%

General and administrative expenses increased during the three and six months ended June 30, 2006 primarily as a result of increases in wages and burden for a majority of our operating segments compared to the prior year quarter, 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 bonus accruals and non-cash compensation expenses recorded for stock options and restricted stock grants during the three and six months ended June 30, 2006 compared to the prior year periods. For the three and six months ended June 30, 2006, general and administrative expenses, as a percentage of Operating revenues, remained comparable to the prior year periods.

Depreciation and amortization, and depletion expense

	Three Months Ended June 30,		Six Months Ended June 30,		Increase/ (Decrease)	
	2006	2005	Increase/(Decrease)	2006		2005
(In thousands, except percentages)						
Depreciation and amortization expense	\$ 87,946	\$ 70,982	\$ 16,964 24%	\$ 169,335	\$ 139,170	\$ 30,165 22%
Depletion expense	\$ 7,913	\$ 11,343	\$ (3,430) (30)%	\$ 20,930	\$ 23,696	\$ (2,766) (12)%

Depreciation and amortization expense. Depreciation and amortization expense increased during the three months and six months ended June 30, 2006 compared to the prior year periods as a result of

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depreciation on capital expenditures made during the last half of 2005 and the first half of 2006 and increases in average rig years for our U.S. Lower 48 Land Drilling, Canadian land drilling and International operations.

Depletion expense. Depletion expense decreased during the three and six month periods ended June 30, 2006 compared to the prior year periods due to lower oil and gas production due to the payout of the El Paso Red River program in late 2005. During the six months ended June 30, 2006, depletion expense was impacted by an impairment of \$7.5 million. The impairment resulted from lower than expected performance of certain asset groups. These decreases were offset in part by unit of production rate increases incurred during the quarter ended June 30, 2006.

Interest expense

	Three Months Ended June 30,			Six Months Ended June 30,				
	2006	2005	Increase	2006	2005	(Decrease)		
(In thousands, except percentages)								
Interest expense	\$ 12,168	\$ 11,333	\$ 835	7%	\$ 20,223	\$ 22,070	\$ (1,847)	(8)%

Interest expense increased during the three months ended June 30, 2006 compared to the prior year period as a result of the additional interest expense related to the issuance of the \$2.75 billion 0.94% senior exchangeable notes due 2011. Interest expense decreased during the six months ended June 30, 2006 compared to the prior year period due to the savings from the redemption of 93% of our zero coupon convertible senior debentures due 2021 on February 6, 2006, which was partially offset by the increase from the issuance of the \$2.75 billion 0.94% senior exchangeable notes. See further discussion of these transactions in Note 5 to our accompanying consolidated financial statements.

Investment income

	Three Months Ended June 30,			Six Months Ended June 30,				
	2006	2005	Increase	2006	2005	Increase		
(In thousands, except percentages)								
Investment income	\$ 16,728	\$ 15,578	\$ 1,150	7%	\$ 30,598	\$ 27,366	\$ 3,232	12%

Investment income increased during the three and six months ended June 30, 2006 compared to the prior year periods primarily as a result of higher interest income earned on investments in cash and marketable securities 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. This increase was partially offset in the three month period ended June 30, 2006 compared to the prior year period due to reduced earnings on our non-marketable securities. The increase was partially reduced in the six month period ended June 30, 2006 compared to the prior year period by reduced gains realized from the sale of equity securities.

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

Three Months Ended June 30,	Six Months Ended June 30,
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	2006	2005	(Decrease)		2006	2005	Increase	
(In thousands, except percentages)								
Losses (Gains) on sales of long-lived assets, impairment charges and other (income) expense, net	\$ 4,216	\$ 4,223	\$ (7)	0%	\$ 8,245	\$ 8,094	\$ 151	2%

The amount of losses (gains) on sales of long-lived assets, impairment charges and other (income) expense, net for the three and six months ended June 30, 2006 include losses on long-term assets of approximately \$4.9 million and \$8.1 million, respectively, and minority interest of approximately \$.4 million and \$1.8 million, respectively, related to non-majority owned subsidiaries required to be consolidated under Financial Accounting Standards Board (FASB) Interpretation No. 46R (FIN 46R). The amount of losses (gains) on sales of long-lived assets, impairment charges and other (income) expense, net for the three months ended June 30, 2005 include losses on long-term assets of approximately \$2.1 million, mark-to-market

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losses on our range cap and floor derivative instrument of approximately \$1.1 million, and foreign currency transaction losses of approximately \$1.0 million. Losses (gains) on sales of long-lived assets, impairment charges and other (income) expense, during the six months ended June 30, 2005, include losses on long-lived assets of approximately \$3.2 million, foreign currency transaction losses of approximately \$1.3 million, and minority interest of approximately \$1.2 million related to non-majority owned subsidiaries.

Income tax rate

	Three Months Ended June 30,			Six Months Ended June 30,				
	2006	2005	Increase	2006	2005	Increase		
Effective income tax rate	33.3%	24.2%	9.1%	38%	32.1%	24.4%	7.7%	32%

The increase in our effective income tax rate resulted from a higher proportion of our taxable income being generated in the U.S. during the three and six months ended June 30, 2006 compared to the prior year periods. Income generated in the U.S. is generally taxed at a higher rate than in international jurisdictions in which we operate. Additionally, during the three months ended June 30, 2006, we recorded a \$36.2 million current tax expense relating to the redemption of common shares held by a foreign parent of a U.S. based Nabors subsidiary. This income tax expense was partially offset by an approximate \$20.5 million deferred tax benefit recorded as a result of changes in Canadian laws that incrementally reduce statutory tax rates for both federal and provincial taxes over the next four years. We expect our effective tax rate during 2006 to be in the 29%-32% range because we expect a higher proportion of our income to be generated in the U.S.

In October 2004 the U.S. Congress passed and the President signed into law the American Jobs Creation Act of 2004. The Act did not impact the corporate reorganization completed by Nabors effective June 24, 2002, that made us a foreign entity. Various bills have been introduced in Congress that could mitigate or eliminate the tax benefits associated with our reorganization as a Bermuda company. Because we cannot predict whether legislation ultimately will be adopted, no assurances can be given that the tax benefits associated with our reorganization ultimately will accrue to the benefit of the Company and its shareholders. 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.

Liquidity and Capital Resources**Cash Flows**

Our cash flows depend, to a large degree, on the level of spending by oil and gas companies for exploration, development and production activities. Sustained increases or decreases in the price of natural gas or oil could have a material impact on these activities, and could also materially affect our cash flows. Certain sources and uses of cash, such as the level of discretionary capital expenditures, purchases and sales of investments, issuances and repurchases of debt and of our common shares are within our control and are adjusted as necessary based on market conditions. The following is a discussion of our cash flows for the six months ended June 30, 2006 and 2005.

Operating Activities. Net cash provided by operating activities totaled \$741.6 million during the six months ended June 30, 2006, compared to net cash provided by operating activities of \$432.0 million during the prior year period. During the six months ended June 30, 2006 and 2005, net income was increased for non-cash items such as depreciation and amortization, and depletion, and was reduced for changes in our working capital (primarily accounts receivable) and other balance sheet accounts.

Investing Activities. Net cash used for investing activities totaled \$366.0 million during the six months ended June 30, 2006, compared to net cash used for investing activities of \$342.1 million during the prior year period. During the six months ended June 30, 2006 and 2005, cash was used for capital expenditures, which was partially

offset by sales, net of purchases, of investments.

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Financing Activities. Net cash provided by financing activities totaled \$478.0 million during the six months ended June 30, 2006 compared to net cash provided by financing activities of \$94.5 million during the prior year period. During the six months ended June 30, 2006, cash was provided by approximately \$2.72 billion in net proceeds from the issuance of the \$2.75 billion 0.94% senior exchangeable notes due 2011 by Nabors Delaware and by approximately \$421.2 million from the sale of the warrants. During this same period, cash was used for the purchase of call options in the amount of \$583.6 million, the redemption of 93% of our zero coupon senior convertible debentures due 2021 for a total redemption price of \$769.8 million and for repurchases of our common shares in the open market for \$1.31 billion. During the six months ended June 30, 2005, cash was provided by our receipt of proceeds totaling \$160.6 million from the exercise of options to acquire our common shares by our employees and was used for the repurchase of our common shares in the open market totaling \$80.6 million.

Future Cash Requirements

As of June 30, 2006, we had long-term debt, including current maturities, of \$4.0 billion and cash and cash equivalents and investments of \$2.0 billion.

Our \$2.75 billion 0.94% senior exchangeable notes due 2011 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 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. Our \$700 million zero coupon senior exchangeable notes provide that upon an exchange of these notes, we will be required to pay holders of the notes, in lieu of common shares, cash up to the principal amount of the notes and, at our option, consideration in the form of either cash or our common shares for any amount above the principal amount of the notes required to be paid pursuant to the terms of the note indentures. The \$2.75 billion 0.94% senior exchangeable 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 cannot be exchanged until the price for our shares exceeds \$42.06 for at least 20 trading days during the period of 30 consecutive trading days ending on the last trading day of the previous calendar quarter, or with respect to all calendar quarters beginning on or after July 1, 2008, \$38.56 of the applicable exchange price per share of Nabors common shares 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.

As of June 30, 2006, we had outstanding purchase commitments of approximately \$879.4 million, primarily for rig-related enhancing, construction and sustaining capital expenditures. Total capital expenditures over the next twelve months, including these outstanding purchase commitments, are currently expected to be at least \$2.0 billion, including currently planned rig-related enhancing, construction and sustaining capital expenditures. This amount could change significantly based on market conditions and new business opportunities. The level of our outstanding purchase commitments and our expected level of capital expenditures over the next twelve months represent a number of capital programs that are currently underway or planned. These programs will result in an expansion in the number of drilling and well-servicing rigs that we own and operate and will consist primarily of land drilling and well-servicing rigs. The increase in capital expenditures is expected across a majority of our operating segments, most significantly within our U.S. Lower 48 Land Drilling, U.S. Land Well-servicing, Canadian, and International operations.

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Our 2005 Annual Report on Form 10-K includes our contractual cash obligations table as of December 31, 2005. As a result of the increase in our outstanding purchase commitments discussed above, and as a result of the issuance of Nabors Delaware's \$2.75 billion 0.94% senior exchangeable notes due 2011 (see Note 5), we are presenting the following table in this Report which summarizes our remaining contractual cash obligations related to purchase commitments as of June 30, 2006:

Payment Due by Period

	Total	<1 Year	1-3 Years	3-5 Years	More Than 5 Years
(In thousands)					
Long-term debt obligations:					
Principal	\$ 4,014,557	\$	\$ 700,000 ⁽²⁾	\$ 3,039,557 ⁽³⁾	\$ 275,000
Interest	\$ 254,064	\$ 51,600	\$ 103,201	\$ 82,634	\$ 16,629
Purchase commitments ⁽¹⁾	\$ 879,428	\$ 877,917	\$ 1,511	\$	\$
Total contractual cash obligations	\$ 5,148,049	\$ 929,517	\$ 804,712	\$ 3,122,191	\$ 291,629

- (1) 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.
- (2) Represents our \$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.
- (3) Includes our \$2.75 billion senior exchangeable notes due 2011, \$225 million senior notes due 2009 and the remainder of our \$82 million zero coupon senior debentures due 2021, which can be put to us on February 5, 2011.

No other significant changes have occurred to the contractual cash obligations information disclosed in our 2005 Annual Report on Form 10-K.

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.

Our Board of Directors in July 2006 authorized a share repurchase program under which we may repurchase up to \$500 million of our common shares in the open market or in privately negotiated transactions. This program supersedes and cancels our previous share repurchase program. Through June 30, 2006, including both shares purchased under our previous share repurchase program and shares purchased in connection with a portion of the proceeds from the issuance of our \$2.75 billion 0.94% senior exchangeable notes due 2011, we repurchased 41.1 million shares for \$1.4 billion (of which we retired 21.7 million shares and hold 19.4 million shares in treasury).

See Note 8 to our accompanying consolidated financial statements for discussion of commitments and contingencies that could have a potential impact on our financial position, results of operations or cash flows in future periods.

Financial Condition and Sources of Liquidity

Our primary sources of liquidity are cash and cash equivalents, marketable and non-marketable securities and cash generated from operations. As of June 30, 2006, we had cash and cash equivalents and investments of \$2.0 billion (including \$349.4 million of long-term investments) and working capital of \$2.3 billion. This compares to cash and cash equivalents and investments of \$1.6 billion (including \$222.8 million of long-term investments) and working capital of \$1.3 billion as of December 31, 2005.

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The increase in cash and cash equivalents and investments in marketable securities relates primarily to the proceeds from the issuance of our \$2.75 billion 0.94% senior exchangeable notes due 2011 during the current quarter, which resulted in net proceeds of \$2.72 billion and the proceeds of approximately \$421.2 million from the sale of the warrants, partially offset by the purchase of call options on our common shares for approximately \$583.6 million, the redemption of 93% of our \$1.2 billion zero coupon senior convertible debentures due 2021 during the first quarter of 2006 for a total redemption price of \$769.8 million (leaving approximately \$82 million) and the \$1.31 billion repurchase of our common shares. The increase in working capital relates primarily to the increase in cash and cash equivalents and short-term marketable securities explained above.

Our gross funded debt to capital ratio was 0.57:1 as of June 30, 2006 and 0.35:1 as of December 31, 2005. Our net funded debt to capital ratio was 0.39:1 as of June 30, 2006 and 0.09:1 as of December 31, 2005. The funded debt to capital ratio is calculated by dividing funded debt by funded debt 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 nets cash and cash equivalents and marketable and non-marketable securities against funded debt. This ratio is calculated by dividing net funded debt by net funded debt plus capital. Both of these ratios are a method for calculating the amount of leverage a company has in relation to its capital. Non-marketable securities consist of investments in overseas funds investing primarily in a variety of public and private U.S. and non-U.S. securities (including asset-backed securities and mortgage-backed securities, global structured asset securitizations, whole loan mortgages, and participations in whole loans and whole loan mortgages). These investments are classified as non-marketable, because they do not have published fair values. Our interest coverage ratio was 38.7:1 as of June 30, 2006, compared to 28.0:1 as of December 31, 2005. The interest coverage ratio is computed by calculating the sum of income before income taxes, interest expense, depreciation and amortization, and depletion expense and then dividing by interest expense. This ratio is a method for calculating the amount of cash flows available to cover interest expense.

We have three letter of credit facilities with various banks as of June 30, 2006. Availability and borrowings under our credit facilities as of June 30, 2006 are as follows:

(In thousands)

Credit available	\$ 132,542
Letters of credit outstanding	103,137
Remaining availability	\$ 29,405

We have a shelf registration statement on file with the Securities and Exchange Commission 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 in marketable and non-marketable securities 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, our \$2.75 billion, 0.94% senior exchangeable notes and \$700 million zero coupon senior exchangeable notes can be exchanged when the price for our shares exceeds \$59.57 and \$42.06, respectively, for the required period of time, resulting in our payment of the principal amount of the notes, or \$2.75 billion and \$700 million, respectively, in cash.

On July 27, 2006, the market price for our shares closed at \$33.60. If the market price threshold of \$59.57 or \$42.06 was exceeded and the notes were exchanged, 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. Nabors' 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. Further, management believes that we have the ability to access capital markets or otherwise obtain financing in order to satisfy any payment obligations that might arise upon exchange of these notes and that any cash payment due of this magnitude, in addition to

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our other cash obligations, will not ultimately have a material adverse impact on our liquidity or financial position. Our ability to access capital markets or to otherwise obtain sufficient financing is enhanced by our senior unsecured debt ratings as provided by Moody's Investor Service and Standard & Poor's, which are currently A3 and A-, respectively, and our historical ability to access those markets as needed.

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

Other Matters***Recent Accounting Pronouncements***

In June 2006 the FASB issued Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes*, which prescribes a comprehensive model for how a company should recognize, measure, present and disclose in its financial statements uncertain tax positions that the company has taken or expects to take on a tax return. Under FIN 48, the financial statements will reflect expected future tax consequences of such positions presuming the taxing authorities full knowledge of the position and all relevant facts, but without considering time values. FIN 48 is likely to cause greater volatility in income statements as more items are recognized discretely within income tax expense. Application of FIN 48 is required in financial statements effective for periods ending after December 15, 2006. FIN 48 revises disclosure requirements and will require an annual tabular roll-forward of unrecognized tax benefits. We expect to adopt FIN 48 beginning January 1, 2007. We are currently evaluating the impact that this interpretation may have on our consolidated financial statements. Any adjustment required as a result of the adoption of FIN 48 will be recorded to retained earnings.

The Company has several stock-based employee compensation plans, which are more fully described in Note 9 in the Company's 2005 Annual Report on Form 10-K. Prior to January 1, 2006, we accounted for awards granted under those plans following the recognition and measurement principles of Accounting Principles Bulletin (APB) Opinion No. 25, *Accounting for Stock Issued to Employees*, (APB 25) and related interpretations. Under APB 25, no compensation expense was reflected in net income for the Company's stock options, as all options granted under those plans had an exercise price equal to the market value of the underlying common shares on the date of grant. 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 grants over the vesting period of the award.

Effective January 1, 2006, we adopted the fair value recognition provisions of FASB Statement of Financial Accounting Standard No. 123(R), *Share-Based Payments*, (SFAS 123-R), using the modified prospective application method. Under this transition method, the Company will record 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 was based on the grant-date fair value estimated in accordance with the original provisions of SFAS No. 123. Results for prior periods have not been restated.

As a result of adopting SFAS 123-R on January 1, 2006, Nabors' income before income taxes and net income for the three months ended June 30, 2006 were \$4.3 million, and \$3.3 million lower, respectively, and \$9.8 million and \$7.5 million lower for the six months ended June 30, 2006, respectively, than if the Company had continued to account for share-based compensation under APB 25. Basic and diluted earnings per share for the three months ended June 30, 2006 would have been \$.80 and \$.78, respectively, and \$1.64 and \$1.58, respectively, for the six months ended June 30, 2006, if the Company had continued to account for share-based compensation under APB 25, compared to reported basic and diluted earnings per share of \$.79 and \$.77, respectively, for the three months ended June 30, 2006 and \$1.61 and \$1.56, respectively, for the six months ended June 30, 2006. See the disclosures required upon adoption of SFAS 123-R in Note 3 to our accompanying consolidated financial statements.

Table of Contents***Critical Accounting Estimates***

We disclosed our critical accounting estimates in our 2005 Annual Report on Form 10-K. No significant changes have occurred to those policies.

Self-Insurance Accruals

We are self-insured for certain losses relating to workers' compensation, employers' liability, general liability, automobile liability and property damage. Effective April 1, 2006, with our insurance renewal, certain changes have been made to our insurance coverage increasing our self-insured retentions. Our domestic workers' compensation program continues to be subject to a \$1.0 million per occurrence deductible. Employers' liability and Jones Act cases are subject to a \$2.0 million deductible. Automobile liability continues at a \$.5 million deductible. We are assuming an additional \$3.0 million corridor deductible for domestic workers' compensation claims. General liability claims continue to be subject to a \$5.0 million deductible. However, as a result of insurance market conditions following hurricanes Katrina and Rita, we are now subject to higher deductibles for removal of wreckage and debris and collision liability claims depending on the insured value of the individual rigs.

In addition, we are subject to a \$1.0 million deductible for all land rigs except for those located in Alaska, and a \$5.0 million deductible for all our Alaska and offshore rigs with the exception of the Pool Arabia rig, which is subject to a \$2.5 million deductible. This applies to all kinds of risks of physical damage except for named windstorms in the U.S. Gulf of Mexico. The deductible for named windstorms in the U.S. Gulf of Mexico is \$25.0 million per occurrence. Also, the maximum coverage for named windstorms in the U.S. Gulf of Mexico is \$50.0 million in this policy year.

Income Tax Contingencies

On May 31, 2006, NIFI, a wholly-owned subsidiary of Nabors, received from the U.S. Internal Revenue Service (the IRS) two Notices of Proposed Adjustment (NOPA) in connection with an audit of NIFI for tax years 2002 and 2003. One NOPA proposes to deny a deduction of \$85.1 million in interest expense in our 2002 tax year relating to intercompany indebtedness incurred in connection with our inversion transaction in June 2002 whereby we were reorganized as a Bermuda company. The second NOPA proposes to deny a deduction of \$207.6 million in the same item of interest expense in our 2003 tax year. We previously had obtained advice from our tax advisors that the deduction of such amounts was appropriate and more recently that the position of the IRS lacks merit. The Company paid off approximately one-half of the intercompany indebtedness incurred in connection with the inversion. We currently have not booked any reserves for such proposed adjustments as we believe that the claims by the IRS lack merit and we intend to contest the IRS position.

Off-Balance Sheet Arrangements (Including Guarantees)

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

Table of Contents**Item 3. *Quantitative and Qualitative Disclosures About Market Risk***

We may be exposed to market risk through changes in interest rates and foreign currency risk due to our operations in international markets as discussed in our 2005 Annual Report on Form 10-K. Material changes in our exposure to market risk from that disclosed in our 2005 Annual Report on Form 10-K are discussed below.

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 No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended by SFAS 149. 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 by SFAS 149, 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.

The fair value of our range cap and floor transaction recorded as a derivative asset and included in other long-term assets totaled approximately \$3.0 million and \$1.5 million as of June 30, 2006 and December 31, 2005, respectively. We recorded mark-to-market gains, included in losses (gains) on sales of long-lived assets, impairment charges and other expense (income), net of approximately \$.7 million and \$1.6 million during the three and six months ended June 30, 2006, respectively, and mark-to-market losses of \$1.1 million and \$.2 million during the three and six months ended June 30, 2005, respectively, resulting from the change in cumulative fair value of this derivative instrument during those periods.

Item 4. *Controls and Procedures*

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

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

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

Table of Contents**PART II OTHER INFORMATION****Item 1. *Legal Proceedings***

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

During the quarter ended June 30, 2006, we settled a lawsuit involving wage and hour claims relating primarily to meal periods and travel time of current and former rig-based employees in our California well-servicing business. Those claims were heard by an arbitrator during the fourth quarter of 2005. On February 6, 2006, we received an interim judgment against us in the amount of \$25.6 million (plus attorneys' fees and costs), which was accrued for in our consolidated statements of income for the year ended December 31, 2005.

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

Item 1A. *Risk Factors****We have a substantial amount of debt outstanding***

We had approximately \$2.0 billion in debt outstanding as of December 31, 2005 resulting in a gross funded debt to capital ratio of 0.35:1 and a net funded debt to capital ratio of 0.09:1. Both of these ratios are a method for calculating the amount of leverage a company has in relation to its capital. As a result of the completion of the private placement of \$2.75 billion 0.94% senior exchangeable notes due 2011 and the redemption of 93% of our \$1.2 billion zero coupon senior convertible debentures due 2021 we had approximately \$4.0 billion in debt outstanding, resulting in a gross funded debt to capital ratio of 0.57:1 and a net funded debt to capital ratio of 0.39:1. As a result of these transactions, we have increased our indebtedness by approximately \$2.0 billion, which could adversely affect our senior unsecured debt rating, the ratings of our outstanding indebtedness and the value of our notes.

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 mitigate or eliminate the tax benefits associated with our reorganization as a Bermuda company. Because we cannot predict whether legislation ultimately will be adopted, no assurances can be given that the tax benefits associated with our reorganization ultimately will accrue to the benefit of the Company and its shareholders. It is possible that further 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 reorganization, depending upon any responsive action taken by Nabors.

There have been no other material changes during the three months ended June 30, 2006 in our Risk Factors as discussed in our Form 10-K for the fiscal year ended December 31, 2005.

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

On May 23, 2006, Nabors Delaware, our wholly-owned subsidiary, completed a private placement of \$2.5 billion aggregate principal amount of 0.94% senior exchangeable notes due 2011 that are fully and unconditionally guaranteed by us. On June 8, 2006, Citigroup Global Markets Inc. and Lehman Brothers Inc., the initial purchasers, exercised their option to purchase an additional \$250 million of the 0.94% senior exchangeable notes due 2011, increasing the aggregate issuance of such notes to \$2.75 billion. Nabors Delaware sold the notes to the initial purchasers in reliance on the exemption from registration provided by Section 4(2) of the Securities Act. The notes were reoffered by Citigroup Global Markets Inc. and Lehman Brothers Inc., the initial purchasers of the notes, to qualified institutional buyers under Rule 144A of the Securities Act. See Note 5 to our accompanying consolidated financial statements for discussion of this transaction.

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

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

We intend to use the remaining of the proceeds of the offering for general corporate purposes, which may include capital expenditures, acquisitions, retirement of other indebtedness and additional repurchases of Nabors common shares.

Copies of the Indenture and Registration Rights Agreement relating to the notes are included as exhibits to this Quarterly Report on Form 10-Q. Neither the senior exchangeable notes, the sold warrants nor the underlying common shares issuable upon exchange of the notes nor sold warrants have been registered under the Securities Act and may not be offered or sold in the United States absent registration or an applicable exemption from registration requirements under the Securities Act. This discussion is not, and is not to be deemed, an offer to sell the 0.94% senior exchangeable notes, the sold warrants nor the common shares of Nabors underlying such securities to any person.

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

The following table provides information relating to Nabors repurchase of common shares during the three months ended June 30, 2006 (in thousands, except average price paid per share):

Period		Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Program	Approximate Dollar Value of Shares that May Yet be Purchased Under the Program ⁽¹⁾
May 1, 2006	May 31, 2006	28,975	\$ 35.31	28,975	
June 1, 2006	June 30, 2006	2,000	\$ 31.74	2,000	\$ 500,000

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

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purchased in connection with a portion of the proceeds from the issuance of our \$2.75 billion 0.94% senior exchangeable notes due 2011, we repurchased 41.1 million shares for \$1.4 billion (of which we retired 21.7 million shares and hold 19.4 million shares in treasury).

No shares were purchased during the period of April 1, 2006 – April 30, 2006.

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

At the 2006 Annual General Meeting of Shareholders of Nabors Industries Ltd. held June 6, 2006, 129,095,669 shares were present in person or by proxy, constituting 83.27% of the outstanding shares of Nabors entitled to vote, which includes both common shares and the preferred share voting on behalf of holders of common shares of Nabors Exchangeco (Canada) Inc. The matters voted upon at the annual meeting were:

Election of one Class III Director: The shareholders elected one Class III director to serve for a three-year term, until 2009:

Eugene M. Isenberg	
Votes cast in favor:	125,354,326
Votes withheld:	3,741,343

Class II Directors, Anthony G. Petrello, Myron M. Sheinfeld and Martin J. Whitman continued in office with terms expiring in 2008. Class I Directors James L. Payne, Hans W. Schmidt, and Alexander M. Knaster continued in office with terms expiring in 2007.

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

Appointment of PricewaterhouseCoopers as Independent Auditors	
Votes cast in favor:	127,886,451
Votes cast against:	392,465
Votes abstaining:	816,753

Approval of an amendment to the Company's 2003 Employee Stock Plan: The shareholders approved the amendments to the Company's Amended and Restated 2003 Employee Stock Plan to increase the number of shares available for issuance under that plan:

Management Proposal	
Votes cast in favor:	50,418,460
Votes cast against:	49,295,472
Votes abstaining:	1,029,076

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Item 6. Exhibits

- 3.2 Amendment to the Amended and Restated Bye-Laws of Nabors Industries Ltd. (incorporated by reference to Exhibit A of Nabors Industries Ltd. Notice of Special General Meeting of Shareholder and Proxy Statement, File No. 001-32657, filed February 24, 2006).
- 4.1 Purchase Agreement, dated May 18, 2006, among Nabors Industries, Inc., Nabors Industries Ltd., Citigroup Global Markets Inc. and Lehman Brothers Inc. (incorporated by reference to Exhibit 4.1 to Nabors Industries Ltd. Form 8-K, File No. 000-49887, filed with the Commission on May 24, 2006).
- 4.2 Indenture related to the Senior Exchangeable Notes, due 2011, dated as of May 23, 2006, among Nabors Industries, Inc., Nabors Industries Ltd. and Wells Fargo Bank, National Association, as trustee (including form of 0.94% Senior Exchangeable Note due 2011) (incorporated by reference to Exhibit 4.2 to Nabors Industries Ltd. Form 8-K, File No. 000-49887, filed with the Commission on May 24, 2006).
- 4.3 Registration Rights Agreement, dated as of May 23, 2006, among Nabors Industries, Inc., Nabors Industries Ltd., Citigroup Global Markets Inc. and Lehman Brothers Inc. (incorporated by reference to Exhibit 4.3 to Nabors Industries Ltd. Form 8-K, File No. 000-49887, filed with the Commission on May 24, 2006).
- 4.4 Amended and Restated 2003 Employee Stock Plan (incorporated by reference to Exhibit A of Nabors Industries Ltd. Notice of 2006 Annual General Meeting of Shareholder and Proxy Statement, File No. 001-32657, filed May 4, 2006).
- 15 Awareness Letter of Independent Accountants.
- 31.1 Certification of Chairman and Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of Vice President and Chief Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification of Chairman and Chief Executive Officer, and Vice President and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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SIGNATURES

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

NABORS INDUSTRIES LTD.

Date: August 3, 2006

/s/ Eugene M. Isenberg

Eugene M. Isenberg
Chairman and Chief Executive Officer

Date: August 3, 2006

/s/ Bruce P. Koch

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

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