NABORS INDUSTRIES LTD
Form 10-K
March 03, 2014

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# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

# FORM 10-K

**(Mark One)**

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

**For the fiscal year ended December 31, 2013**

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

**For the transition period from to**
**Commission File Number 001-32657**

# NABORS INDUSTRIES LTD.

(Exact name of registrant as specified in its charter)

| | |
|---|---|
| **Bermuda** | **980363970** |
| | (I.R.S. Employer Identification No.) |
| **Crown House Second Floor**<br>**4 Par-la-Ville Road** | **N/A** |
| **Hamilton, HM08** | (Zip Code) |
| **Bermuda** | |
| (State or Other Jurisdiction of Incorporation or Organization) | |
| (Address of principal executive offices) | |

**(441) 292-1510**
(Registrant's telephone number, including area code)

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

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

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

**None.**

Indicate by check mark whether the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

YES ý NO o

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

YES o NO ý

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 ý NO o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to file such reports).

YES ý NO o

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer ý Accelerated Filer o Non-accelerated Filer o Smaller Reporting Company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

YES o NO ý

The aggregate market value of the 253,104,759 common shares held by non-affiliates of the registrant outstanding as of the last business day of our most recently completed second fiscal quarter, June 28, 2013, based on the closing price of our common shares as of such date of $15.31 per share as reported on the New York Stock Exchange, was $3,875,033,860. Common shares held by each officer and director and by each person who owns 5% or more of the outstanding common shares have been excluded in that such persons may be deemed affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

The number of common shares outstanding as of February 24, 2014 was 296,508,410.

**DOCUMENTS INCORPORATED BY REFERENCE (to the extent indicated herein)**

Specified portions of the definitive Proxy
Statement to be distributed in connection with our 2014 Annual General Meeting of Shareholders (Part III).

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**NABORS INDUSTRIES LTD.**
**Form 10-K Annual Report**
**For the Year Ended December 31, 2013**

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Our internet address is *www.nabors.com*. We make available free of charge through our website our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission (the "SEC"). In addition, a glossary of drilling terms used in this document and documents relating to our corporate governance (such as committee charters, governance guidelines and other internal policies) can be found on our website. In addition, the public may read and copy any material that we file with the SEC at the SEC's Public Reference Room at 100 F Street, NE., Washington, DC 20549 and may obtain information the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. Reference in this document to our website address does not constitute incorporation by reference of the information contained on the website into this Annual Report on Form 10-K. The SEC maintains an internet site (*www.sec.gov*) that contains reports, proxy and information statements and other information regarding issuers that file electronically with the SEC.

**FORWARD-LOOKING STATEMENTS**

We often discuss expectations regarding our future markets, demand for our products and services, and our performance in our annual, quarterly and current reports, press releases, and other written and oral statements. Statements relating 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, as amended (the "Securities Act"), and Section 21E of the Exchange Act. These "forward-looking statements" are based on an analysis of currently available competitive, financial and economic data and our operating plans. They are inherently uncertain and investors should recognize that events and actual results could turn out to be significantly different from our expectations. By way of illustration, when used in this document, words such as "anticipate," "believe," "expect," "plan," "intend," "estimate," "project," "will," "should," "could," "may," "predict" and similar expressions are intended to identify forward-looking statements.

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

- fluctuations in worldwide prices of and demand for oil and natural gas;
- fluctuations in levels of oil and natural gas 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 possibility of changes in tax and other laws and regulations;
- the possibility of political instability, war or acts of terrorism; and
- general economic conditions including the capital and credit markets.

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 oil or natural gas that has a material impact on exploration, development or production activities could also materially affect our financial position, results of operations and cash flows.

The above description of risks and uncertainties is not all-inclusive, but highlights certain factors that we believe are important for your consideration. For a more detailed description of risk factors, please refer to Part I, Item 1A. *Risk Factors.*

Unless the context requires otherwise, references in this report to "we," "us," "our," "the Company," or "Nabors" mean Nabors Industries Ltd., together with our subsidiaries where the context requires, including Nabors Industries, Inc., a Delaware corporation ("Nabors Delaware"), our wholly owned subsidiary.

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## PART I

### ITEM 1. *BUSINESS*

**Introduction**

Nabors has grown from a land drilling business centered in the United States and Canada to a global business aimed at optimizing the entire well life cycle, with operations on land and offshore in most of the major oil and gas markets in the world. The majority of our business is conducted through two business lines:

***Drilling & Rig Services***

This business line is comprised of our global drilling rig operations and drilling-related services, consisting of equipment manufacturing, instrumentation optimization software and directional drilling services.

***Completion & Production Services***

This business line is comprised of our operations involved in the completion, life-of-well maintenance and eventual plugging and abandonment of a well. These services include stimulation, coiled-tubing, cementing, wireline, workover, well-servicing and fluids management.

As a global provider of services for land-based and offshore oil and natural gas wells, on land and offshore, Nabors' fleet of rigs and equipment includes:

485 actively marketed land drilling rigs for oil and gas land drilling operations in the United States, Canada and over 20 other countries throughout the world.

445 actively marketed rigs for land well-servicing and workover services in the United States and approximately 104 rigs for land well-servicing and workover services in Canada.

38 platform, 8 jackup and 4 barge rigs actively marketed in the United States and multiple international markets.

Approximately 800,000 hydraulic horsepower for hydraulic fracturing, cementing, nitrogen and acid pressure pumping services in key basins throughout the United States and Canada.

In addition:

We offer a wide range of ancillary well-site services, including engineering, transportation and disposal, construction, maintenance, well logging, directional drilling, rig instrumentation, data collection and other support services in select U.S. and international markets.

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 have a 51% ownership interest in a joint venture in Saudi Arabia, which owns and actively markets 5 rigs in addition to the rigs we lease to the joint venture.

Nabors was formed as a Bermuda exempted company on December 11, 2001. Through predecessors and acquired entities, Nabors has been continuously operating in the drilling sector since the early 1900s. Our principal executive offices are located at Crown House, 4 Par-la-Ville

Road, Second Floor, Hamilton, HM08, Bermuda, and our phone number there is (441) 292-1510.

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**Our Rig Fleet**

*Land Rigs.* A land-based drilling rig generally consists of engines, a drawworks, a mast (or derrick), pumps to circulate drilling fluid under various pressures, blowout preventers, drill string and related equipment. The engines power the different pieces of equipment, including a rotary table or top drive that turns the drill string, causing the drill bit to bore through the subsurface rock layers. Rock cuttings are carried to the surface by the circulating drilling fluid. The intended well depth, bore hole diameter and drilling site conditions are the principal factors that determine the size and type of rig most suitable for a particular drilling job.

Special-purpose drilling rigs used to perform workover services consist of a mobile carrier, which includes an engine, drawworks and a mast, together with other standard drilling accessories and specialized equipment for servicing wells. These rigs are specially designed for major repairs and modifications of oil and gas wells, including standard drilling functions. A well-servicing rig is specially designed for periodic maintenance of oil and gas wells for which service is required to maximize the productive life of the wells. The primary function of a well-servicing rig is to act as a hoist so that pipe, sucker rods and down-hole equipment can be run into and out of a well, although they also can perform standard drilling functions. Because of size and cost considerations, these specially designed rigs are used for these workover services rather than larger drilling rigs typically used for initial drilling.

Land-based drilling rigs are moved between well sites and among geographic areas using our fleet of cranes, loaders and transport vehicles or those of third-party service providers. Well-servicing rigs are typically self-propelled, while heavier capacity workover rigs are either self-propelled or trailer-mounted and include auxiliary equipment, which is either transported on trailers or moved with trucks.

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

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

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

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Additional information regarding the geographic markets in which we operate and our business segments can be found in Note 23 Segment Information in Part II, Item 8. Financial Statements and Supplementary Data.

**Types of Drilling Contracts**

Our contracts for land-based drilling generally have terms with durations ranging from one to five years. Under these contracts, our rigs are committed to one customer. Offshore workover projects are often contracted on a single-well basis. We generally receive drilling contracts through competitive bidding, although we occasionally enter into contracts by direct negotiation. Most of our single-well contracts are subject to termination by the customer on short notice, but some can be firm for a number of wells or a period of time, and may provide for early termination compensation in certain circumstances. Contract terms and rates differ depending on a variety of factors, including competitive conditions, the geographical area, the geological formation to be drilled, the equipment and services to be supplied, the on-site drilling conditions and the anticipated duration of the work to be performed.

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

**Completion Services**

We provide a wide range of wellsite solutions to oil and natural gas companies, consisting primarily of technical pumping services, including hydraulic fracturing, a process sometimes used in the completion of oil and gas wells whereby water, sand and chemicals are injected under pressure into subsurface formations to stimulate gas and oil production, and down-hole surveying services. The completion process may involve selectively perforating the well casing at the depth of discrete producing zones, stimulating and testing these zones and installing down-hole equipment. The completion process may take a few days to several weeks. We are paid an hourly rate and work is generally performed seven days a week, 24 hours a day.

Other technical services include completion, production and rental tool services. Additionally, we provide fluid logistics services, including those related to the transportation, storage and disposal of fluids that are used in the drilling, development and production of hydrocarbons.

**Production Services**

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

*Well-servicing/Maintenance Services.* We provide maintenance services on the mechanical apparatus used to pump or lift oil from producing wells. These services include, among other activities, repairing and replacing pumps, sucker rods and tubing. They also occasionally include drilling services. We provide the rigs, equipment and crews for these tasks, which are performed on both oil and natural gas wells, but which are more commonly required on oil wells. Maintenance services typically take less than 48 hours to complete. Rigs generally are provided to customers on a call-out

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basis. We are paid an hourly rate, and work typically is performed five days a week during daylight hours.

*Workover Services.* Producing oil and natural gas wells occasionally require major repairs or modifications, called "workovers." Workovers may be required to remedy failures, modify well depth and formation penetration to capture hydrocarbons from alternative formations, clean out and recomplete a well when production has declined, repair leaks or convert a depleted well to an injection well for secondary or enhanced recovery projects. Workovers normally are carried out with a rig that includes standard drilling accessories such as rotary drilling equipment, pumps and tanks for drilling fluids, blowout preventers and other specialized equipment for servicing rigs. A workover may last anywhere from a few days to several weeks. We are paid a daily rate and work is generally performed seven days a week, 24 hours a day.

*Production and Other Specialized Services.* We also provide other specialized services, including onsite temporary fluid storage; the supply, removal and disposal of specialized fluids used during certain completion and workover operations; and the removal and disposal of salt water that often accompanies the production of oil and natural gas. We also provide plugging services for wells where the oil and natural gas has been depleted or further production has become uneconomical. We are paid an hourly or a per-unit rate, as applicable, for these services.

**Other Services**

Through various subsidiaries, we manufacture top drives and catwalks, which are installed on both onshore and offshore drilling rigs. We provide heavy equipment to move drilling rigs, water, other fluids and construction materials as well as the means to move such equipment. We offer specialized drilling technologies, including patented steering systems and rig instrumentation software systems including:

ROCKIT™ directional drilling system, which is used to provide data collection services to oil and gas exploration and service companies, and

RIGWATCH™ software, which is computerized software and equipment that monitors a rig's real-time performance and daily reporting for drilling operations, making this data available through the internet.

**Our Customers**

Our customers include major, national and independent oil and gas companies. No customer accounted for more than 10% of our consolidated revenues in 2013 or 2012.

**Our Employees**

As of December 31, 2013, we employed approximately 29,000 people, of whom approximately 3,150 were employed by unconsolidated affiliates. We believe our relationship with our employees is generally good.

Some rig employees in Alaska, Argentina and Australia are represented by collective bargaining units.

**Seasonality**

Our Canada and Alaska drilling and workover operations are subject to seasonal variations as a result of weather conditions and generally experience reduced levels of activity and financial results during the second quarter of each year. In addition, our pressure pumping operations located in the Appalachian, Mid-Continent, and Rocky Mountain regions of the United States can be adversely

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affected by seasonal weather conditions, primarily in the spring, as many municipalities impose weight restrictions on the paved roads leading to our jobsites due to the muddy conditions caused by spring thaws. Global warming could lengthen these periods of reduced activity, but we cannot currently estimate to what degree. Our overall financial results reflect the seasonal variations experienced in these operations, but seasonality does not materially impact the remaining portions of our business.

**Research and Development**

Research and development continues to be a growing part of our overall business. The effective use of technology is critical to maintaining our competitive position within the drilling industry. We expect to continue developing technology internally and acquiring technology through strategic acquisitions.

**Industry/Competitive Conditions**

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

Our industry remains competitive. The number of available rigs exceeds demand in many of our markets, resulting in strong price competition. Many rigs can be readily moved from one region to another in response to changes in levels of activity, which may result in an oversupply of rigs in an area. Many of the total available contracts are currently awarded on a bid basis, which further increases competition based on price. The land drilling, workover, pressure pumping and well-servicing market is generally more competitive than the offshore market due to the larger number of rigs and market participants.

In all of our geographic markets the ability to deliver rigs with new technology and features is the most significant factor in determining which drilling contractor is awarded a job. In recent years, rigs equipped with moving systems and configured to accommodate the drilling of multiple wells on a single site have offered a competitive advantage. In international markets, experience in operating in certain environments, as well as customer alliances, have been significant factors in the selection of Nabors. Other factors include the overall quality of service and safety record, price and the availability and condition of equipment; and the availability of trained personnel possessing specialized skills; and the ability to offer ancillary services.

Certain competitors are present in more than one of our operating regions, although no one competitor operates in all of these areas. In the United States we compete with Helmerich and Payne, Inc. and Patterson-UTI Energy, Inc., and several hundred other competitors with national, regional or local rig operations. In our U.S. Production Services operating segment, we compete with Basic Energy Services, Inc., Key Energy Services, Inc., Superior Energy Services, Inc., Forbes Energy Services Ltd. and numerous other competitors having smaller regional or local rig operations. In Canada and the United States, we compete with many firms of varying size, several of which have more significant operations in those areas than Nabors. Elsewhere, we compete directly with various contractors at each location where we operate. Our Completion Services operating segment competes with large operators such as Halliburton, Baker Hughes, Weatherford International Ltd., Schlumberger Limited, and FTS International Services LLC. as well as, smaller companies such as C&J Energy Services, Inc., RPC, Inc., and other small and mid-sized independent contractors, as well as major oilfield services companies with operations outside of the United States. We believe that the market for

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land drilling, well-servicing and workover and pressure pumping contracts will continue to be competitive.

Our other operating segments represent a relatively smaller part of our business, and we have numerous competitors in each area.

**Our Business Strategy**

Our strategy is to position Nabors to grow and prosper when market conditions are good and to mitigate adverse effects when market conditions are bad. During 2012 and 2013, we continued to strengthen our balance sheet, which enhanced stability, reduced our borrowing costs and allowed us to better navigate challenges and capitalize on market opportunities. The principal elements of our strategy to build shareholder value during 2013 were to:

Leverage our global infrastructure to enhance revenue and profitability growth;

Achieve superior health, safety and environmental performance;

Achieve superior operational performance;

Focus on delivering value-added services to our customers;

Enhance and leverage our technology position; and

Achieve returns well above our cost of capital.

We operate from two business lines to provide a solid foundation for sustained long-term growth, leveraging the benefits of our size and becoming a more customer-focused organization. We believe the deployment of our newer and higher-margin rigs under long-term contracts will also enhance our competitive position.

Our current focus is to continue improving flexibility in our balance sheet, optimize capital deployment and continue to incorporate value enhancing technology and innovation. In addition, we continue to:

Emphasize execution and operational excellence in our core businesses;

Impose more stringent investment criteria for new projects;

Optimize intra-company synergies and technological advancements; and

Monetize nonperforming and nonstrategic assets.

**Acquisitions and Divestitures**

We have grown from a land drilling business centered in the U.S. lower 48 states, Canada and Alaska to an international business with operations on land and offshore in most of the major oil and gas markets in the world. At the beginning of 1990, our fleet consisted of 44 actively marketed land drilling rigs in Canada, Alaska and in various international markets. Today, our worldwide fleet of actively marketed rigs consists of 490 land drilling rigs, 549 rigs for land well-servicing and workover work in the United States and Canada, offshore platform rigs, jackup units, barge rigs and a large component of trucks and fluid hauling vehicles. This growth was fueled in part by strategic acquisitions. Although Nabors continues to examine opportunities, there can be no assurance that attractive rigs or other acquisition opportunities will

continue to be available, that the pricing will be economical or that we will be successful in making such acquisitions in the future.

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

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*Acquisitions*

In September 2010, we acquired Superior Well Services, Inc. ("Superior") at a cash purchase price of $22.12 per share, or approximately $681.3 million in the aggregate. The purchase price was allocated to the net tangible and intangible assets acquired and liabilities assumed based on their fair value at the acquisition date. The excess of the purchase price over such fair values was $335.0 million and was recorded as goodwill. The acquisition added a number of services to our portfolio, including a wide range of wellsite solutions to oil and natural gas companies, primarily technical pumping services and down-hole surveying services. During 2012, we ceased using the Superior trade name.

In December 2010, we purchased the business of Energy Contractors LLC ("Energy Contractors") for a total cash purchase price of $53.4 million. The assets were comprised of vehicles and rig equipment and are included in our Production Services operating segment. The purchase price was allocated to the net tangible and intangible assets acquired based on their preliminary fair value estimates as of December 31, 2010. The excess of the purchase price over the fair value of the assets acquired was recorded as goodwill in the amount of $4.2 million.

In July 2011, we paid $65 million in cash to acquire the remaining 50% equity interest of Peak Oilfield Service Company, making it a wholly owned subsidiary. Previously, we held a 50% equity interest with a carrying value of $38.1 million that we had accounted for as an equity method investment. As a result of the acquisition, we consolidated the assets and liabilities of Peak during the third quarter of 2011 based on their respective fair values. The excess of the estimated fair value of the assets and liabilities over the net carrying value of our previously held equity interest resulted in a gain of $13.1 million and was reflected in losses (gains) on sales and disposals of long-lived assets and other expense (income) for 2011. The excess of the purchase price over the fair value was $8.0 million and was recorded as goodwill. In October 2013, we sold Peak (as described below).

In January 2013, we purchased the business of Navigate Energy Services, Inc. ("NES") for a total cash price of approximately $37.5 million. This acquisition expands our technology and development capability for drilling and measurement tools and services, and is included in our Rig Services operating segment. The purchase price was allocated to the net tangible and intangible assets acquired based on fair value. The excess of the purchase price over the fair values of the assets acquired was recorded as goodwill in the amount of $15.8 million.

In October 2013, we purchased KVS Transportation, Inc. and D&D Equipment Investments, LLC, (collectively, "KVS") for total consideration of $149.0 million, $66.8 million of which is payable in three equal annual installments through 2016. KVS provided various logistics and support services operating in the oilfield and well-servicing industry. Services are provided by tractor trucks, bobtail trucks, winch trucks, other truck types, trailers, container bins, eyewash stations, various types of tanks, shop equipment and other related support equipment. This acquisition expands our truck fleet, vacuum truck services, and tank and related equipment services, and is included in our Production Services operating segment.

*Divestitures*

In 2011, we sold some of our wholly owned oil and gas assets in Colombia and our 25% working interest in the Cat Canyon and West Cat Canyon fields in Santa Barbara County, California. Additionally in 2011, Remora Energy International LP ("Remora"), a former unconsolidated oil and gas joint venture of ours, completed sales of its oil and gas assets in Colombia. During 2011, we received gross cash proceeds of $303.8 million from sales of oil and gas assets.

In 2012, we sold our remaining wholly owned oil and gas business in Colombia and sold additional wholly owned oil and gas assets in the United States. In December 2012, we sold our 49.7% ownership interest in NFR Energy LLC, the U.S. unconsolidated oil and gas joint venture, to the remaining equity

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owners. Subsequent to this transaction, NFR Energy LLC changed its name to Sabine Oil & Gas LLC ("Sabine"). During 2012, we received cumulative gross cash proceeds of $254.5 million from sales of oil and gas assets.

In 2013, we sold the assets of one of our former Canadian subsidiaries that provided logistics services for proceeds of $9.3 million. In addition, we sold Peak, one of our businesses in Alaska, for gross cash proceeds of $135.5 million. The accompanying consolidated statements of income (loss) and notes to the consolidated financial statements have been updated to retroactively reclassify the operating results of these divested assets as discontinued operations for all periods presented. We also sold some of our oil and gas assets and received proceeds of approximately $90.0 million, which were reclassified to discontinued operations in the prior year.

See Note 5 Assets Held for Sale and Discontinued Operations for additional discussion in Part II, Item 8. Financial Statements and Supplementary Data.

**Environmental Compliance**

We do not anticipate that compliance with currently applicable environmental regulations and controls will significantly change our competitive position, capital spending or earnings during 2014. We believe we are in material compliance with applicable environmental rules and regulations, and the cost of such compliance is not material to our business or financial condition. For a more detailed description of the environmental laws and regulations applicable to our operations, see Part I, Item 1A. Risk Factors *Changes to or noncompliance with governmental regulation or exposure to environmental liabilities could adversely affect our results of operations.*

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**ITEM 1A.** ***RISK FACTORS***

In addition to the other information set forth elsewhere in this report, the following factors should be carefully considered when evaluating Nabors. The risks described below are not the only ones we face. Additional risks not presently known to us or that we currently deem immaterial may also impair our business operations.

Our business, financial condition or results of operations could be materially adversely affected by any of these risks.

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

Our operations depend on the level of spending by oil and gas companies for exploration, development and production activities. Both short-term and long-term trends in oil and natural gas prices affect these levels. Oil and natural gas prices, as well as the level of drilling, exploration and production activity, can be highly volatile. Worldwide military, political and economic events, including initiatives by the Organization of Petroleum Exporting Countries, affect both the demand for, and the supply of, oil and natural gas. Weather conditions, governmental regulation (both in the United States and elsewhere), levels of consumer demand, the availability of pipeline capacity, and other factors beyond our control may also affect the supply of and demand for oil and natural gas. Lower oil and natural gas prices have caused some of our customers to terminate, seek to renegotiate or fail to honor our drilling contracts and affected the fair market value of our rig fleet, which in turn has resulted in impairments of our assets. A sustained or further decline in oil and natural gas prices could adversely impact our cash forecast models used to determine whether the carrying value of our long-lived assets exceed our future cash flows, which could result in future impairment to our long-lived assets. A prolonged period of lower oil and natural gas prices could affect our ability to retain skilled rig personnel and affect our ability to access capital to finance and grow our business. There can be no assurances as to the future level of demand for our services or future conditions in the oil and natural gas and oilfield services industries.

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

The oilfield services industry is very competitive. Contract drilling companies compete primarily on a regional basis, and competition may vary significantly from region to region at any particular time. Many drilling, workover and well-servicing rigs can be moved from one region to another in response to changes in levels of activity and market conditions, which may result in an oversupply of rigs in an area. In many markets where we operate, the number of rigs available for use exceeds the demand for rigs, resulting in price competition. In recent years the ability to deliver rigs with new technology and features can determine which drilling contractor is awarded a job, which requires continued technology advancement. The land drilling market generally is more competitive than the offshore drilling market because there are a greater number of rigs and competitors.

***The nature of our operations presents inherent risks of loss that could adversely affect our results of operations***

Our operations are subject to many hazards inherent in the drilling, workover and well-servicing and pressure pumping industries, including blowouts, cratering, explosions, fires, loss of well control, loss of or damage to the wellbore or underground reservoir, damaged or lost drilling equipment and damage or loss from inclement weather or natural disasters. Any of these hazards could result in personal injury or death, damage to or destruction of equipment and facilities, suspension of operations, environmental and natural resources damage and damage to the property of others. Our

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offshore operations involve the additional hazards of marine operations including capsizing, grounding, collision, damage from hurricanes and heavy weather or sea conditions and unsound ocean bottom conditions. Our operations are also subject to risks of war, civil disturbances or other political events.

Accidents may occur, we may be unable to obtain desired contractual indemnities, and our insurance may prove inadequate in certain cases. The occurrence of an event not fully insured or indemnified against, or the failure or inability of a customer or insurer to meet its indemnification or insurance obligations, could result in substantial losses. In addition, insurance may not be available to cover any or all of these risks. Even if available, insurance may be inadequate or insurance premiums or other costs may rise significantly in the future making insurance prohibitively expensive. We expect to continue facing upward pressure in our insurance renewals; our premiums and deductibles may be higher, and some insurance coverage may either be unavailable or more expensive than it has been in the past. Moreover, our insurance coverage generally provides that we assume a portion of the risk in the form of a deductible or self-insured retention. We may choose to increase the levels of deductibles (and thus assume a greater degree of risk) from time to time in order to minimize our overall costs.

***The profitability of our operations could be adversely affected by war, civil disturbance, terrorist activity or other political or economic turmoil, fluctuation in currency exchange rates and local import and export controls***

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

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

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

***Our financial and operating flexibility could be affected by our long-term debt and other financial commitments***

As of December 31, 2013, we had approximately $3.9 billion in outstanding long-term debt. We also have various commitments for leases, firm transportation and processing, and purchase commitments. Our ability to service our debt and other obligations depends in large part upon the level of cash flows generated by our subsidiaries' operations, possible dispositions of non-core assets, availability under our unsecured revolving credit facility and our ability to access the capital markets.

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***A downgrade in our credit rating could negatively impact our cost of and ability to access capital***

Our ability to access capital markets or to otherwise obtain sufficient financing is enhanced by our senior unsecured debt ratings as provided by the major credit rating agencies in the United States and our historical ability to access those markets as needed. Factors that may impact our credit ratings include debt levels, planned asset purchases or sales, and near-term and long-term production growth opportunities. Liquidity, asset quality, cost structure, product mix, and commodity pricing levels and others are also considered by the rating agencies. A ratings downgrade could adversely impact our ability to access debt markets in the future, increase the cost of future debt, and potentially require us to post letters of credit for certain obligations.

***The loss of key executives or difficulty attracting and retaining experienced technical personnel could reduce our competitiveness and prospects for future success***

The successful execution of the strategies central to our future success will depend, in part, on a few of our key executive officers. We have employment agreements with some of our key personnel within the company. We do not carry significant amounts of key man insurance. Our operations depend, in part, on our ability to attract and retain experienced technical professionals. Competition for such professionals is intense. The loss of key executive officers, or our inability to retain or attract experienced technical personnel, could harm our ability to compete.

***Noncompliance with governmental regulation or exposure to environmental liabilities could adversely affect our results of operations***

Drilling of oil and gas wells is subject to various laws, rules and regulations in the jurisdictions where we operate. Our cost of compliance with these laws may be substantial. For example, the U.S. Environmental Protection Agency ("EPA") has promulgated rules requiring the reporting of greenhouse gas emissions applicable to certain offshore oil and natural gas production and onshore oil and natural gas production, processing, transmission, storage and distribution facilities. In addition, U.S. federal law strictly regulates the prevention of oil spills, release of hazardous substances, and imposes liability for removal costs and natural resource, real or personal property and certain economic damages arising from any spills. Some of these laws may impose strict and/or joint and several liability for clean-up costs and damages without regard to the conduct of the parties. As an owner and operator of onshore and offshore rigs and other equipment, we may be deemed to be a responsible party under federal law. In addition, our completion and production services operations routinely involve the handling of significant amounts of materials, some of which are classified as solid or hazardous wastes or hazardous substances. We are subject to various laws governing the containment and disposal of hazardous substances, oilfield waste and other waste materials, the use of underground storage tanks and the use of underground injection wells. We employ personnel responsible for monitoring environmental compliance and arranging for remedial actions that may be required from time to time and also use consultants to advise on and assist with our environmental compliance efforts. Liabilities are recorded when the need for environmental assessments and/or remedial efforts become known or probable and the cost can be reasonably estimated.

Changes in environmental laws may also negatively impact the operations of oil and natural gas exploration and production companies, which in turn could have an adverse effect on us. For example, legislation has been proposed from time to time in the U.S. Congress that would reclassify some oil and natural gas production wastes as hazardous wastes under the Resources Conservation and Recovery Act, which would make the reclassified wastes subject to more stringent and costly handling, disposal and clean-up requirements. In addition, the Outer Continental Shelf Lands Act provides the federal government with broad discretion in regulating the leasing of offshore oil and gas production sites. Legislators and regulators in the United States and other jurisdictions where we operate also focus increasingly on restricting the emission of carbon dioxide, methane and other greenhouse gases that

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may contribute to warming of the Earth's atmosphere, and other climatic changes. The U.S. Congress has considered legislation designed to reduce emission of greenhouse gases, and some states in which we operate have passed legislation or adopted initiatives, such as the Regional Greenhouse Gas Initiative in the northeastern United States and the Western Regional Climate Action Initiative, which establish greenhouse gas inventories and/or cap-and-trade programs. Some international initiatives have also been adopted, which could result in increased costs of operations in covered jurisdictions. In addition, the EPA has published findings that emissions of greenhouse gases present an endangerment to public health and the environment, paving the way for further regulations that could restrict emissions of greenhouse gases under existing provisions of the Clean Air Act. The EPA has already issued rules requiring monitoring and reporting of greenhouse gas emissions from oil and gas systems. Future or more stringent regulation could dramatically increase operating costs for oil and natural gas companies and could reduce the market for our services by making wells and/or oilfields uneconomical to operate.

***Changes in environmental laws related to hydraulic fracturing or other operations could result in increased costs of compliance and reductions or delays in drilling and completing new oil and natural gas wells, which could adversely impact the demand for fracturing and other services or our results of operations***

Operations in our Completion Services operating segment include hydraulic fracturing, a process sometimes used in the completion of oil and gas wells whereby water, sand and chemicals are injected under pressure into subsurface formations to stimulate gas and, to a lesser extent, oil production. Hydraulic fracturing activities are currently exempt under the federal Safe Drinking Water Act, except for those using diesel fuel, for which the EPA has asserted regulatory authority and is drafting guidance documents. The EPA is also conducting a study of the potential environmental impacts from hydraulic fracturing on drinking water resources. In addition, the federal Bureau of Land Management has imposed new requirements on hydraulic fracturing conducted on federal lands, including the disclosure of chemical additives used. In 2011, the U.S. Department of Energy released a report on hydraulic fracturing, recommending the implementation of a variety of measures to reduce the environmental impacts from shale-gas production. In addition, there has been public opposition to hydraulic fracturing. As a result, there have been legislative initiatives to regulate hydraulic fracturing under the Safe Drinking Water Act or under newly established legislation. Legislation has also been introduced in the U.S. Congress and adopted or introduced in some states requiring disclosure of chemicals used in the fracturing process. If enacted, the legislation could require fracturing activities to meet permitting and financial assurance requirements, adhere to certain construction specifications, fulfill monitoring, reporting and recordkeeping requirements and meet plugging and abandonment requirements. The EPA has indicated an intent to regulate wastewater discharges under the Federal Clean Water Act from hydraulic fracturing and other natural gas production. In 2012, the EPA also promulgated new rules establishing new air emission controls for oil and gas production and natural gas processing operations. These rules require, among other things, controlling emissions through flaring until 2015 and thereafter through reduced emissions completions, as well as imposing new requirements on emissions from tanks and other equipment. These rules and any other new laws regulating exploration, production and completion activities could cause operational delays, increased costs of compliance or increased costs in exploration and production, which could adversely affect our business and the demand for fracturing services.

***Significant exercises of stock options could adversely affect the market price of our common shares***

As of February 24, 2014, we had 800,000,000 authorized common shares, of which 324,921,245 shares were outstanding. In addition, 29,004,477 common shares were reserved for issuance pursuant to stock option and employee benefit plans. The sale, or availability for sale, of substantial amounts of our common shares in the public market, whether directly by us or resulting from the exercise of options (and, where applicable, sales pursuant to Rule 144 under the Securities Act), would be dilutive to

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existing security holders, could adversely affect the prevailing market price of our common shares and could impair our ability to raise additional capital through the sale of equity securities.

***Provisions in our organizational documents may be insufficient to thwart a coercive hostile takeover attempt; conversely, they may deter a change of control transaction and decrease the likelihood of a shareholder receiving a change of control premium***

Companies generally seek to prevent coercive takeovers by parties unwilling to pay fair value for the enterprise they acquire. Historically, we have sought to avoid a coercive takeover by:

Classifying our Board of Directors so that all the directors could not be replaced at a single meeting.

Authorizing the Board to issue a significant number of common shares and up to 25,000,000 preferred shares, as well as to determine the price, rights (including voting rights), conversion ratios, preferences and privileges of the preferred shares, in each case without any vote or action by the holders of our common shares.

Adopting a shareholder rights plan that limits the number of shares of our common stock a potential acquiror can purchase without either securing the approval of our Board of Directors or having their voting interest severely diluted. The plan is scheduled to expire in July 2016 unless it is extended.

Limiting the ability of our shareholders to call or bring business before special meetings.

Prohibiting our shareholders from taking action by written consent in lieu of a meeting unless the consent is signed by all the shareholders then entitled to vote.

Requiring advance notice of shareholder proposals for business to be conducted at general meetings and for nomination of candidates for election to our Board of Directors; and

Reserving to our Board of Directors the ability to determine the number of directors comprising the full Board and to fill vacancies or newly created seats on the Board.

At the request of shareholders, we declassified the Board, which makes it easier for another party to acquire control of the Company. The remaining provisions designed to avoid a coercive takeover might not be fully effective so a party might still be able to acquire the Company without paying what the Board considers to be fair value, including a control premium.

On the other hand, some shareholders view the foregoing provisions as too likely to discourage a would-be acquiror and thus to reduce the likelihood that shareholders would receive a premium for their shares in a takeover.

***We may have additional tax liabilities***

We are subject to income taxes in numerous other jurisdictions, including the United States. Significant judgment is required in determining our worldwide provision for income taxes. In the ordinary course of our business, there are many transactions and calculations where the ultimate tax determination is uncertain. We are regularly audited by tax authorities. Although we believe our tax estimates are reasonable, the final determination of tax audits and any related litigation could be materially different than what is reflected in income tax provisions and accruals. An audit or litigation could materially affect our financial position, income tax provision, net income, or cash flows in the period or periods challenged. It is also possible that future changes to tax laws (including tax treaties) could impact our ability to realize the tax savings recorded to date.

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***Legal proceedings could affect our financial condition and results of operations***

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

***The profitability of our operations could be adversely affected by turmoil in the global financial markets***

The changes in general financial and political conditions, including the U.S. government budget, the downgrade by Standard & Poor's of the credit rating of U.S. government securities and concerns over the European sovereign debt crisis and banking industry has created a great deal of uncertainty in the recovery of the world economy. If global economic uncertainties continue over a prolonged period of time or develop adversely, there could be a material adverse impact on our credit ratings and liquidity and those of our customers and other worldwide business partners. If global oil and gas prices were to decline rapidly, it could lead our customers to curtail their operations or expansion and cause difficulties for us and our customers to forecast future capital expenditures, which in turn could negatively impact the worldwide rig count and our future financial results.

## ITEM 1B. *UNRESOLVED STAFF COMMENTS*

Not applicable.

## ITEM 2. *PROPERTIES*

Nabors' principal executive offices are located in Hamilton, Bermuda. We own or lease executive and administrative office space in Dubai in the United Arab Emirates; Anchorage, Alaska; Calgary, Canada and Houston, Texas.

Many of the international drilling rigs and some of the Alaska rigs in our fleet are supported by mobile camps which house the drilling crews and a significant inventory of spare parts and supplies. In addition, we own various trucks, forklifts, cranes, earth-moving and other construction and transportation equipment, which are used to support our operations. We also own or lease a number of facilities and storage yards used in support of operations in each of our geographic markets.

We own certain mineral interests in connection with our investment in development and production of natural gas, oil and natural gas liquids in the United States and the Canadian provinces of Alberta and British Columbia.

Beginning in 2010 and in accordance with the SEC's Final Rule, Modernization of Oil and Gas Reporting, our operating results from wholly owned oil and gas activities and from our U.S. unconsolidated oil and gas joint venture were deemed significant, and we provided the oil and gas disclosure required by the SEC's Industry Guide. In December 2012, we sold our U.S. unconsolidated oil and gas joint venture, which was the only remaining oil and gas investment classified as continuing operations. During 2013, we determined that the criteria for disclosing significant oil and gas activities was not met. Accordingly, we present below for 2011 and 2012, our oil and gas activities, during which time these investments were deemed significant.

The estimates of net proved oil and gas reserves as of December 31, 2012 were based on reserve reports prepared by independent petroleum engineers. AJM Deloitte prepared reports of estimated proved oil and gas reserves for our wholly owned assets in Canada. Cawley, Gillespie & Associates, Inc. prepared reports of estimated proved oil reserves for our wholly owned assets located in the Eagle

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Ford Shale, Texas. DeGolyer and MacNaughton Corp. prepared reports of estimated proved oil and gas reserves for our wholly owned assets in Alaska.

The estimates of net proved oil and gas reserves as of December 31, 2011 were based on reserve reports prepared by independent petroleum engineers. AJM Deloitte prepared reports of estimated proved oil and gas reserves for our wholly owned assets in Canada. Miller and Lents, Ltd. prepared reports of estimated proved oil and gas reserves for our wholly owned assets and interests in oil and natural gas properties located in the United States. Cawley, Gillespie & Associates, Inc. prepared reports of estimated proved oil reserves for our wholly owned assets located in the Eagle Ford Shale and Giddings field in Grimes County, Texas.

***Summary of Oil and Gas Reserves***

The table below summarizes the proved reserves in each geographic area and by product type for our wholly owned subsidiaries and our proportionate interests in our equity companies during the applicable reporting period presented. We report proved reserves on the basis of the average of the first-day-of-the-month price for each month during the last 12-month period. Estimates of volumes of proved reserves of natural gas at year end are expressed in billions of cubic feet of natural gas ("Bcf") at a pressure base of 14.73 pounds per square inch for natural gas and in millions of barrels ("MMBbls") for oil and natural gas liquids.

| | Proved Developed | | Undeveloped | | Total | |
|---|---|---|---|---|---|---|
| **Reserve Category** | **Liquids (MMBbls)** | **Natural Gas (Bcf)** | **Liquids (MMBbls)** | **Natural Gas (Bcf)** | **Liquids (MMBbls)** | **Natural Gas (Bcf)** |
| **For the year ended December 31, 2012:** | | | | | | |
| **Consolidated subsidiaries** | | | | | | |
| United States | 1.1 | 0.4 | 14.3 | 0.7 | 15.4 | 1.1 |
| Canada | | 7.7 | | | | 7.7 |
| Colombia | | | | | | |
| Total consolidated | 1.1 | 8.1 | 14.3 | 0.7 | 15.4 | 8.8 |
| **Total(1)** | 1.1 | 8.1 | 14.3 | 0.7 | 15.4 | 8.8 |
| **For the year ended December 31, 2011:** | | | | | | |
| **Consolidated subsidiaries** | | | | | | |
| United States | 0.9 | 13.6 | 0.9 | 3.3 | 1.8 | 16.9 |
| Canada | | 8.2 | | | | 8.2 |
| Colombia | | | | | | |
| Total consolidated | 0.9 | 21.8 | 0.9 | 3.3 | 1.8 | 25.1 |
| **Equity companies(2)** | | | | | | |
| United States | 6.3 | 256.4 | 9.6 | 326.1 | 15.9 | 582.5 |
| Canada | | | | | | |
| Colombia | | | | | | |
| Total equity companies | 6.3 | 256.4 | 9.6 | 326.1 | 15.9 | 582.5 |
| **Total** | 7.2 | 278.2 | 10.5 | 329.4 | 17.7 | 607.6 |

(1) We held no interests in equity companies at December 31, 2012.

(2) Represents our proportionate interests in our equity companies for the applicable period.

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**Oil and Gas Production, Production Prices and Production Costs**

***Oil and Gas Production***

The table below summarizes production by final product sold, average production sales price and average production cost, each by geographic area for 2012 and 2011. Production costs are costs to operate and maintain our wells and related equipment and include the cost of labor, well-service and repair, location maintenance, power and fuel, transportation, cost of product, property taxes and production-related general and administrative costs.

| | United States | | Canada | | Colombia | | Total | |
|---|---|---|---|---|---|---|---|---|
| | Liquids (MMBbls) | Natural Gas (Bcf) | Liquids (MMBbls) | Natural Gas (Bcf) | Liquids (MMBbls) | Natural Gas (Bcf) | Liquids (MMBbls) | Natural Gas (Bcf) |
| **As of December 31, 2012:** | | | | | | | | |
| **Oil and natural gas liquids production** | | | | | | | | |
| Consolidated subsidiaries | 0.268 | 0.938 | | 2.00 | 0.003 | | 0.271 | 2.938 |
| Equity companies(1) | 0.545 | 19.01 | | | | | 0.545 | 19.010 |
| **Average production sales prices:** | | | | | | | | |
| Consolidated subsidiaries | $ 76.74 | $ 3.04 | $ | $ 2.36 | $ 130.04 | $ | $ 77.33 | $ 2.58 |
| Equity companies(1) | $ 53.94 | $ 2.70 | $ | $ | $ | $ | $ | $ |
| **Average production costs ($/bce):** | | | | | | | | |
| Consolidated subsidiaries | | $ 3.52/Mcfe(2) | | $ 2.91/Mcfe | $ 31.75/Boe | | | |
| Equity companies(1) | | $ 1.47/Mcfe | | $ | $ | | | |
| **As of December 31, 2011:** | | | | | | | | |
| **Oil and natural gas liquids production** | | | | | | | | |
| Consolidated subsidiaries | 0.140 | 2.944 | | 2.117 | 0.111 | 0.011 | 0.251 | 5.072 |
| Equity companies(1) | 0.409 | 18.634 | | 0.380 | 0.316 | | 0.725 | 19.014 |
| **Average production sales prices:** | | | | | | | | |
| Consolidated subsidiaries | $ 88.94 | $ 4.09 | $ | $ 3.33 | $ 111.57 | $ 5.00 | $ 98.91 | $ 3.77 |
| Equity companies(1) | $ 58.16 | $ 4.03 | $ | $ 3.48 | $ 84.47 | $ | $ 69.63 | $ 4.02 |
| **Average production costs ($/bce):** | | | | | | | | |
| Consolidated subsidiaries | | $ 3.35/Mcfe(2) | | $ 12.96/Mcfe | $ 32.98/Boe(2) | | | |
| Equity companies(1) | | $ 1.32/Mcfe | | $ 11.99/Mcfe | $ 33.49/Boe | | | |

(1) Represents our proportionate interests in our equity companies for the applicable period.

(2) Reflects the thousand cubic feet ("Mcf") equivalent, determined using the ratio of six Mcf of natural gas to one barrel of crude oil or natural gas liquids, or as "Mcfe" and reflects the barrel of oil equivalent or as "Boe".

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**Drilling and Other Exploratory and Development Activities**

During 2012 and 2011, our drilling program focused on proven and emerging oil and natural gas basins in the United States. The following tables provide the number of oil and gas wells completed during 2012 and 2011.

**Number of Net Productive and Exploratory Wells Drilled**

| | Net Productive Exploratory Wells Drilled | Net Dry Exploratory Wells Drilled | Net Productive Development Wells Drilled | Net Dry Development Wells Drilled |
|---|---|---|---|---|
| **For the year ended December 31, 2012:** | | | | |
| **Consolidated subsidiaries** | | | | |
| United States | 2.40 | | 6.50 | |
| Canada | | | | |
| Colombia | 1.15 | | | |
| Total consolidated | 3.55 | | 6.50 | |
| **Equity companies**(1) | | | | |
| United States | 1.49 | | 3.48 | |
| Total equity companies | 1.49 | | 3.48 | |
| **For the year ended December 31, 2011:** | | | | |
| **Consolidated subsidiaries** | | | | |
| United States | 5.14 | 3.63 | 2.04 | 3.28 |
| Canada | 3.00 | 4.00 | | |
| Colombia | | | 2.00 | 1.40 |
| Total consolidated | 8.14 | 7.63 | 4.04 | 4.68 |
| **Equity companies**(1) | | | | |
| United States | | | 10.45 | |
| Total equity companies | | | 10.45 | |

(1) Represents our proportionate interests in our equity companies for the applicable period.

Additional information about our oil and gas properties can be found in Note 19 Commitments and Contingencies (under the caption Minimum volume commitment) and our Schedule of Supplemental Information on Oil and Gas Exploration and Production Activities (Unaudited) in Part II, Item 8. Financial Statements and Supplementary Data.

Our revenues and property, plant and equipment by geographic area can be found in Note 23 Segment Information in Part I, Item 8. Financial Statements and Supplementary Data. A description of our rig fleet is included under the caption Introduction in Part II,

Item 1. Business.

Management believes that our existing equipment and facilities are adequate to support our current level of operations as well as an expansion of drilling operations in those geographical areas where we may expand.

**ITEM 3.** ***LEGAL PROCEEDINGS***

Nabors and its subsidiaries are defendants or otherwise involved in a number of lawsuits in the ordinary course of business. We estimate the range of our liability related to pending litigation when we believe the amount and range of loss can be estimated. We record our best estimate of a loss when the loss is considered probable. When a liability is probable and there is a range of estimated loss with no

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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. For matters where an unfavorable outcome is reasonably possible and significant, we disclose the nature of the matter and a range of potential exposure, unless an estimate cannot be made at the time of disclosure. 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.

In 2009, the Court of Ouargla entered a judgment of approximately $17.7 million (at current exchange rates) against us relating to alleged customs infractions in Algeria. We believe we did not receive proper notice of the judicial proceedings, and that the amount of the judgment was excessive in any case. We asserted the lack of legally required notice as a basis for challenging the judgment on appeal to the Algeria Supreme Court. In May 2012, that court reversed the lower court and remanded the case to the Ouargla Court of Appeals for treatment consistent with the Supreme Court's ruling. In January 2013, the Ouargla Court of Appeals reinstated the judgment. We have again lodged an appeal to the Algeria Supreme Court, asserting the same challenges as before. Based upon our understanding of applicable law and precedent, we continue to believe that we will prevail. Although the appeal remains ongoing at this time, the Hassi Messaoud customs office recently initiated efforts to collect the judgment prior to the Supreme Court's decision in the case. As a result, we paid approximately $3.1 million and posted security of approximately $1.33 million to suspend those collection efforts and to enter into a formal negotiations process with the customs authority. We have recorded a reserve in the amount of the posted security. If we are ultimately required to pay a fine or judgment related to this matter, the resulting loss could be up to $13.3 million in excess of amounts accrued.

In March 2011, the Court of Ouargla entered a judgment of approximately $34.8 million (at current exchange rates) against us relating to alleged violations of Algeria's foreign currency exchange controls, which require that goods and services provided locally be invoiced and paid in local currency. The case relates to certain foreign currency payments made to us by CEPSA, a Spanish operator, for wells drilled in 2006. Approximately $7.5 million of the total contract amount was paid offshore in foreign currency, and approximately $3.2 million was paid in local currency. The judgment includes fines and penalties of approximately four times the amount at issue. We have appealed the ruling based on our understanding that the law in question applies only to resident entities incorporated under Algerian law. An intermediate court of appeals has upheld the lower court's ruling, and we have appealed the matter to the Algeria Supreme Court. While our payments were consistent with our historical operations in the country, and, we believe, those of other multinational corporations there, as well as interpretations of the law by the Central Bank of Algeria, the ultimate resolution of this matter could result in a loss of up to $26.8 million in excess of amounts accrued.

In March 2012, Nabors Global Holdings II Limited ("NGH2L") signed a contract with ERG Resources, LLC ("ERG") relating to the sale of all of the Class A shares of NGH2L's wholly owned subsidiary, Ramshorn International Limited, an oil and gas exploration company. When ERG failed to meet its closing obligations, NGH2L terminated the transaction on March 19, 2012 and, as contemplated in the agreement, retained ERG's $3.0 million escrow deposit. ERG filed suit the following day in the 61st Judicial District Court of Harris County, Texas, in a case styled ERG Resources, LLC v. Nabors Global Holdings II Limited, Ramshorn International Limited, and Parex Resources, Inc.; Cause No. 2012-16446, seeking injunctive relief to halt any sale of the shares to a third party, specifically naming as defendant Parex Resources, Inc. ("Parex"). The lawsuit also seeks monetary damages of up to $750.0 million based on an alleged breach of contract by NGH2L and alleged tortious interference with contractual relations by Parex. Nabors successfully defeated ERG's

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effort to obtain a temporary restraining order from the Texas court on March 20, 2012. Nabors completed the sale of Ramshorn's Class A shares to a Parex affiliate in April 2012, which mooted ERG's application for a temporary injunction. The lawsuit is staid, pending further court actions. ERG retains its causes of action for monetary damages, but Nabors believes the claims are foreclosed by the terms of the agreement and are without factual or legal merit. Although we are vigorously defending the lawsuit, its ultimate outcome cannot be determined at this time.

**ITEM 4.** ***MINE SAFETY DISCLOSURES***

Not applicable.

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## PART II

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

### STOCK PERFORMANCE GRAPH

The following graph illustrates comparisons of five-year cumulative total returns among Nabors, the S&P 500 Index and the Dow Jones Oil Equipment and Services Index. Total return assumes $100 invested on December 31, 2008 in shares of Nabors, the S&P 500 Index, and the Dow Jones Oil Equipment and Services Index. It also assumes reinvestment of dividends and is calculated at the end of each calendar year, December 31, 2009 - 2013.

| | 2009 | 2010 | 2011 | 2012 | 2013 |
|---|---|---|---|---|---|
| **Nabors Industries Ltd.** | 183 | 196 | 145 | 121 | 143 |
| S&P Index | 126 | 146 | 149 | 172 | 228 |
| Dow Jones Oil Equipment and Services Index | 165 | 210 | 184 | 185 | 237 |

This graph shall not be deemed "soliciting" material or to be "filed" with the SEC.

**Market and Share Prices**

Our common shares are traded on the New York Stock Exchange under the symbol "NBR". At February 24, 2014, there were approximately 1,857 shareholders of record.

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

| | | Share Price | |
|---|---|---|---|
| **Calendar Year** | | **High** | **Low** |
| 2012 | First Quarter | $ 22.73 | $ 16.36 |
| | Second Quarter | $ 17.84 | $ 12.40 |
| | Third Quarter | $ 16.83 | $ 12.77 |
| | Fourth Quarter | $ 15.50 | $ 12.75 |
| 2013 | First Quarter | $ 18.24 | $ 14.35 |
| | Second Quarter | $ 17.35 | $ 14.34 |
| | Third Quarter | $ 16.72 | $ 14.50 |
| | Fourth Quarter | $ 18.33 | $ 15.32 |

The following table provides information relating to Nabors' repurchase of common shares during the three months ended December 31, 2013:

| **Period (In thousands, except per share amounts)** | **Total Number of Shares Repurchased** | **Average Price Paid per Share(1)** | **Total Number of Shares Purchased as Part of Publicly Announced Program** | **Approximated Dollar Value of Shares that May Yet Be Purchased Under the Program(2)** |
|---|---|---|---|---|
| October 1 - October 31 | 11 | $ 17.39 | | |
| November 1 - November 30 | <1 | $ 17.74 | | |
| December 1 - December 31 | <1 | $ 15.45 | | |

(1) Shares were withheld from employees and directors to satisfy certain tax withholding obligations due in connection with grants of stock under our 2003 Employee Stock Plan. The 2003 Employee Stock Plan, 1998 Employee Stock Plan, 1999 Stock Option Plan for Non-employee Directors and 1996 Employee Stock Plan provide for the withholding of shares to satisfy tax obligations, but do not specify a maximum number of shares that can be withheld for this purpose. These shares were not purchased as part of a publicly announced program to purchase common shares.

(2) We do not have a current share repurchase program authorized by the Board of Directors.

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

**Dividend Policy**

On February 21, 2014, our Board of Directors declared a cash dividend of $0.04 per share to the holders of our common shares as of March 10, 2014 to be paid on March 31, 2014.

In 2013, our Board of Directors approved the payment of cash dividends on our common stock. Dividends in the amount of $0.04 per share were paid in March, June, September and December of 2013. There were no dividends paid in 2012 or 2011. The Board of Directors intends to continue paying quarterly dividends in the future. However, the declaration and payment of future dividends will be at the discretion of the Board of Directors and will depend, among other things, on future earnings, general financial condition and liquidity, success in business activities, capital requirements, and general business conditions.

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**Shareholder Matters**

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

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

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**ITEM 6.** ***SELECTED FINANCIAL DATA***

| Operating Data(1)(2) | Year Ended December 31, 2013 | 2012 | 2011 | 2010 | 2009 |
|---|---|---|---|---|---|
| | (In thousands, except per share amounts and ratio data) | | | | |
| | | Revised | Revised | Revised | Revised |
| Revenues and other income: | | | | | |
| Operating revenues | $ 6,152,015 | $ 6,843,051 | $ 6,013,480 | $ 4,134,483 | $ 3,662,220 |
| Earnings (losses) from unconsolidated affiliates | 39 | (288,718) | 85,448 | 58,641 | (211,961) |
| Investment income | 96,577 | 63,137 | 19,939 | 7,263 | 25,522 |
| Total revenues and other income | 6,248,631 | 6,617,470 | 6,118,867 | 4,200,387 | 3,475,781 |
| Costs and other deductions: | | | | | |
| Direct costs | 3,981,828 | 4,367,106 | 3,738,506 | 2,397,061 | 1,971,711 |
| General and administrative expenses | 525,330 | 527,953 | 487,808 | 338,720 | 421,462 |
| Depreciation and amortization | 1,086,677 | 1,039,923 | 918,122 | 760,962 | 663,958 |
| Interest expense | 223,418 | 251,904 | 256,632 | 272,712 | 266,047 |
| Losses (gains) on sales and disposals of long-lived assets and other expense (income), net | 37,977 | (136,636) | 4,474 | 45,334 | 6,665 |
| Impairments and other charges | 287,241 | 290,260 | 198,072 | 61,292 | 118,543 |
| Total costs and other deductions | 6,142,471 | 6,340,510 | 5,603,614 | 3,876,081 | 3,448,386 |
| Income (loss) from continuing operations before income taxes | 106,160 | 276,960 | 515,253 | 324,306 | 27,395 |
| Income tax expense (benefit) | (55,181) | 40,986 | 165,083 | 49,190 | (91,380) |
| Subsidiary preferred stock dividend | 3,000 | 3,000 | 3,000 | 750 | |
| Income (loss) from continuing operations, net of tax | 158,341 | 232,974 | 347,170 | 274,366 | 118,775 |
| Income (loss) from discontinued operations, net of tax | (11,179) | (67,526) | (97,601) | (161,090) | (218,609) |
| Net income (loss) | 147,162 | 165,448 | 249,569 | 113,276 | (99,834) |
| Less: Net (income) loss attributable to noncontrolling interest | (7,180) | (621) | (1,045) | (85) | 342 |
| Net income (loss) attributable to Nabors | $ 139,982 | $ 164,827 | $ 248,524 | $ 113,191 | $ (99,492) |
| Earnings (losses) per share: | | | | | |
| Basic from continuing operations | $ 0.51 | $ 0.80 | $ 1.21 | $ 0.96 | $ 0.42 |
| Basic from discontinued operations | (0.04) | (0.23) | (0.34) | (0.56) | (0.77) |
| Total Basic | $ 0.47 | $ 0.57 | $ 0.87 | $ 0.40 | $ (0.35) |
| Diluted from continuing operations | $ 0.51 | $ 0.79 | $ 1.18 | $ 0.95 | $ 0.42 |
| Diluted from discontinued operations | (0.04) | (0.23) | (0.33) | (0.56) | (0.77) |

| | | | | | |
|---|---|---|---|---|---|
| Total Diluted | $ 0.47 | $ 0.56 | $ 0.85 | $ 0.39 | $ (0.35) |
| | | | | | |
| Weighted-average number of common shares outstanding: | | | | | |
| Basic | 294,182 | 289,965 | 287,118 | 285,145 | 283,326 |
| Diluted | 296,592 | 292,323 | 292,484 | 289,996 | 286,502 |
| | | | | | |
| Capital expenditures and acquisitions of businesses(3) | $ 1,365,994 | $ 1,433,586 | $ 2,247,735 | $ 1,878,063 | $ 990,287 |
| Interest coverage ratio(4) | 7.4:1 | 7.7:1 | 7.0:1 | 5.2:1 | 4.9:1 |

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| Balance Sheet Data(1)(2) | Year Ended December 31, 2013 | 2012 | 2011 | 2010 | 2009 |
|---|---|---|---|---|---|
| | (In thousands, except per share amounts and ratio data) | | | | |
| | | | Revised | Revised | Revised |
| Cash, cash equivalents and short-term investments | $ 507,133 | $ 778,204 | $ 539,489 | $ 801,190 | $ 1,090,851 |
| Working capital | 1,442,406 | 2,000,475 | 1,285,752 | 458,550 | 1,568,042 |
| Property, plant and equipment, net | 8,597,813 | 8,712,088 | 8,629,946 | 7,815,419 | 7,646,050 |
| Total assets | 12,159,811 | 12,656,022 | 12,899,538 | 11,605,166 | 10,577,913 |
| Long-term debt | 3,904,117 | 4,379,336 | 4,348,490 | 3,064,126 | 3,940,605 |
| Shareholders' equity | 5,969,086 | 5,944,929 | 5,587,022 | 5,322,524 | 5,143,523 |
| Debt to capital ratio: | | | | | |
| Gross(5) | 0.40:1 | 0.42:1 | 0.45:1 | 0.45:1 | 0.43:1 |
| Net(6) | 0.36:1 | 0.38:1 | 0.42:1 | 0.41:1 | 0.36:1 |

(1) All periods present the operating activities of our wholly owned oil and gas businesses, our previously held equity interests in oil and gas joint ventures in Canada and Colombia, aircraft logistics operations and construction services as discontinued operations.

(2) Our acquisitions' results of operations and financial position have been included beginning on the respective dates of acquisition and include KVS (October 2013), Navigate Energy Services, Inc. (January 2013), Peak (July 2011), Stone Mountain Venture Partnership (June 2011), Energy Contractors (December 2010) and Superior (September 2010).

(3) Represents capital expenditures and the total purchase price of acquisitions.

(4) The interest coverage ratio is a trailing 12-month quotient of the sum of (x) operating revenues and earnings (losses) from unconsolidated affiliates, direct costs and general administrative expenses *less* earnings (losses) from the U.S. unconsolidated oil and gas joint venture *divided* by (y) interest expense. The interest coverage ratio is not a measure of operating performance or liquidity defined by accounting principles generally accepted in the United States of America ("GAAP") and may not be comparable to similarly titled measures presented by other companies.

(5) The gross debt to capital ratio is calculated by dividing (x) total debt by (y) total capital. Total capital is defined as total debt *plus* shareholders' equity. The gross debt to capital ratio is not a measure of operating performance or liquidity defined by GAAP and may not be comparable to similarly titled measures presented by other companies.

(6) The net debt to capital ratio is calculated by dividing (x) net debt by (y) net capital. Net debt is total debt *minus* the sum of cash and cash equivalents and short-term investments. Net capital is the sum of net debt *plus* shareholders' equity. The net debt to capital ratio is not a measure of operating performance or liquidity defined by GAAP and may not be comparable to similarly titled measures presented by other companies.

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

**Management Overview**

This section is intended to help you understand our results of 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 thereto.

Nabors has grown from a land drilling business centered in the United States and Canada to a global business aimed at optimizing the entire well life cycle, with operations on land and offshore in most of the major oil and gas markets in the world. The majority of our business is conducted through two business lines:

*Drilling & Rig Services*

This business line is comprised of our global drilling rig operations and drilling-related services, consisting of equipment manufacturing, instrumentation optimization software and directional drilling services.

*Completion & Production Services*

This business line is comprised of our operations involved in the completion, life-of-well maintenance and eventual plugging and abandonment of a well. These product lines include stimulation, coiled-tubing, cementing, wireline, workover, well-servicing and fluids management.

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

The magnitude of customer spending on new and existing wells is the primary driver of our business. Our customers' spending is determined principally by their internally generated cash flow and to a lesser extent by joint venture arrangements and funding from the capital markets. In our Drilling & Rig Services business line, operations have traditionally been driven by natural gas prices, but the majority of current activity is driven by the price of oil and to a lesser extent natural gas liquids from unconventional reservoirs (shales). Activity in our international markets is increasingly driven by the development of natural gas reserves. In our Completion & Production Services business line, operations are primarily driven by oil prices.

During 2013, the West Texas Intermediate crude oil spot price averaged $98.02 per barrel, up from $94.10 in 2012 and $95.05 in 2011. The Henry Hub natural gas spot price averaged $3.72 per mcf versus $2.75 in 2012 and $4.00 in 2011. While the commodity price environment has impacted demand for drilling, the technologies used to gain drilling efficiencies have increased. Two factors that have contributed to this increase are the high-performance capabilities of modern A/C rigs, which address the more complex horizontal drilling requirements of the unconventional reservoirs, and the shift by exploration and production operators toward pad drilling.

Crude oil pricing remains volatile and potentially vulnerable, which keeps our customers' forward-spending plans in check. For 2014, we believe natural gas and liquids prices, as well as crude oil prices, are likely to remain in the same range as 2013. With that outlook, it is likely that continuing additions of new rig capacity and improving rig efficiency will result in a continued oversupply of rigs for most, if not all, of the year in our U.S. markets.

Until recently, our international markets have been generally slower to respond to the improving oil prices of the last three years. During 2013, we signed several multiyear contracts for new rigs and

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rig renewals with revenue expected to commence during 2014. Those contracts are consistent with a general tightening of the international rig market. Many of those rigs are likely to deploy on large-scale natural gas projects. For 2014, we expect the international rig market to remain tight, and we anticipate additional opportunities to contract rigs at rates commensurate with this market.

The following table sets forth oil and natural gas price data per Bloomberg for the last three years:

| | Year Ended December 31, | | | Increase/(Decrease) | | | |
|---|---|---|---|---|---|---|---|
| | 2013 | 2012 | 2011 | 2013 to 2012 | | 2012 to 2011 | |
| Commodity prices: | | | | | | | |
| Average Henry Hub natural gas spot price ($/mcf) | $ 3.72 | $ 2.75 | $ 4.00 | $ 0.97 | 35% | $ (1.25) | (31)% |
| Average West Texas intermediate crude oil spot price ($/barrel) | $ 98.02 | $ 94.10 | $ 95.05 | $ 3.92 | 4% | $ (0.95) | (1)% |

Operating revenues and Earnings (losses) from unconsolidated affiliates in 2013 totaled $6.2 billion, representing a decrease of $402.3 million, or 6%, over 2012. Adjusted income derived from operating activities and net income (loss) from continuing operations for 2013 totaled $558.2 million and $158.3 million ($0.51/per diluted share), respectively, representing decreases of 39% and 32% when compared to 2012.

Operating revenues and Earnings (losses) from unconsolidated affiliates for 2012 totaled $6.6 billion, representing an increase of $455.4 million, or 7%, over 2011. Adjusted income derived from operating activities for 2012 totaled $908.6 million, representing an increase of 5% over 2011, while net income (loss) from continuing operations for 2012 totaled $233.0 million ($0.79/per diluted share), representing a decrease of 33% over 2011.

During 2013, our income (loss) from continuing operations was negatively impacted primarily by the $208.2 million loss recognized when we repurchased $785.4 million aggregate principal amount of the 9.25% senior notes in September. Excluding this, our operating results in North American drilling and completion operations decreased due to the industry-wide decrease in land drilling activity and overcapacity in the pressure pumping markets. Our International operations increased significantly resulting from the deployment of additional rigs under long-term contracts and the renewal of existing contracts at current market rates.

During 2012, our income (loss) from continuing operations was negatively impacted by impairments and other charges, including full-cost ceiling test writedowns from Sabine totaling $283.4 million, representing our proportionate share of the writedowns, a $75.0 million impairment of an intangible asset related to the Superior trade name, a provision for the retirement of long-lived assets totaling $138.7 million in multiple operating segments, a $50.4 million impairment of some coil-tubing rigs and a goodwill impairment totaling $26.3 million. Partially offsetting these charges were $160 million of asset gains, primarily relating to selling our interest in Sabine at the end of 2012. Excluding these items, our operating results improved as a result of increased demand for our services and products due to increased drilling activity in oil- and liquids-rich shale plays and increased well-servicing activity in the U.S. and Canada. This increase in activity has more than offset the drop in demand from gas-related plays.

During 2011, operating results improved as compared to 2010 primarily due to the incremental revenue and positive operating results from the addition of our Completion Services operating segment beginning in September 2010, increased drilling activity in oil- and liquids-rich shale plays in our drilling operations in both our U.S. lower 48 states and Canada drilling operations and increased well-servicing activity in the U.S. and Canada. However, our operating results and activity levels were negatively impacted in our U.S. offshore operations in response to uncertainty in the regulatory

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environment in the Gulf of Mexico, our Alaskan operations due to key customers' spending constraints, and in Saudi Arabia due to downtime and reduced rates on several jackup rigs.

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

| | Year Ended December 31, | | | Increase/(Decrease) | | | |
|---|---|---|---|---|---|---|---|
| | 2013 | 2012 | 2011 | 2013 to 2012 | | 2012 to 2011 | |
| | (In thousands, except percentages and rig activity) | | | | | | |
| | | Revised | Revised | | | Revised | |
| Reportable segments: | | | | | | | |
| Operating revenues and Earnings (losses) from unconsolidated affiliates | | | | | | | |
| Drilling & Rig Services: | | | | | | | |
| U.S. | $ 1,914,786 | $ 2,276,808 | $ 1,999,241 | $ (362,022) | (16)% | $ 277,567 | 14% |
| Canada | 361,676 | 429,411 | 426,455 | (67,735) | (16)% | 2,956 | 1% |
| International | 1,464,264 | 1,265,060 | 1,104,461 | 199,204 | 16% | 160,599 | 15% |
| Rig Services(2) | 516,004 | 688,310 | 626,169 | (172,306) | (25)% | 62,141 | 10% |
| Subtotal Drilling & Rig Services(3) | 4,256,730 | 4,659,589 | 4,156,326 | (402,859) | (9)% | 503,263 | 12% |
| Completion & Production Services: | | | | | | | |
| Completion Services | 1,074,713 | 1,462,767 | 1,237,306 | (388,054) | (27)% | 225,461 | 18% |
| Production Services | 1,009,214 | 1,000,873 | 849,522 | 8,341 | 1% | 151,351 | 18% |
| Subtotal Completion & Production Services(4) | 2,083,927 | 2,463,640 | 2,086,828 | (379,713) | (15)% | 376,812 | 18% |
| Other reconciling items(5)(7) | (188,603) | (568,896) | (144,226) | 380,293 | 67% | (424,670) | (294)% |
| Total | $ 6,152,054 | $ 6,554,333 | $ 6,098,928 | $ (402,279) | (6)% | $ 455,405 | 7% |

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| | Year Ended December 31, | | | Increase/(Decrease) | | | |
|---|---|---|---|---|---|---|---|
| | 2013 | 2012 | 2011 | 2013 to 2012 | | 2012 to 2011 | |
| | (In thousands, except percentages and rig activity) | | | | | | |
| | | Revised | Revised | | | | Revised |
| Adjusted income (loss) derived from operating activities(1)(6) | | | | | | | |
| Drilling & Rig Services: | | | | | | | |
| U.S. | $ 315,496 | $ 509,894 | $ 442,831 | $ (194,398) | (38)% | $ 67,063 | 15% |
| Canada | 61,193 | 91,360 | 89,344 | (30,167) | (33)% | 2,016 | 2% |
| International | 177,833 | 91,226 | 123,813 | 86,607 | 95% | (32,587) | (26)% |
| Rig Services(2) | (3,918) | 67,366 | 55,856 | (71,284) | (106)% | 11,510 | 21% |
| Subtotal Drilling & Rig Services(3) | 550,604 | 759,846 | 711,844 | (209,242) | (28)% | 48,002 | 7% |
| Completion & Production Services: | | | | | | | |
| Completion Services | 51,722 | 188,518 | 229,125 | (136,796) | (73)% | (40,607) | (18)% |
| Production Services | 102,130 | 108,835 | 80,018 | (6,705) | (6)% | 28,817 | 36% |
| Subtotal Completion & Production Services(4) | 153,852 | 297,353 | 309,143 | (143,501) | (48)% | (11,790) | (4)% |
| Other reconciling items(7) | (146,237) | (148,649) | (154,981) | 2,412 | 2% | 6,332 | 4% |
| Total adjusted income (loss) derived from operating activities | $ 558,219 | $ 908,550 | $ 866,006 | $ (350,331) | (39)% | $ 42,544 | 5% |
| U.S. oil and gas joint venture earnings (losses) | | (289,199) | 88,486 | 289,199 | 100% | (377,685) | (427)% |
| Interest expense | (223,418) | (251,904) | (256,632) | 28,486 | 11% | 4,728 | 2% |
| Investment income (loss) | 96,577 | 63,137 | 19,939 | 33,440 | 53% | 43,198 | 217% |
| Gains (losses) on sales and disposals of long-lived assets and other income (expense), net | (37,977) | 136,636 | (4,474) | (174,613) | (128)% | 141,110 | n/m(8) |
| Impairments and other charges | (287,241) | (290,260) | (198,072) | 3,019 | 1% | (92,188) | (47)% |
| Income (loss) from continuing operations before income taxes | 106,160 | 276,960 | 515,253 | (170,800) | (62)% | (238,293) | (46)% |
| Income tax expense (benefit) | (55,181) | 40,986 | 165,083 | (96,167) | (235)% | (124,097) | (75)% |
| Subsidiary preferred stock dividend | 3,000 | 3,000 | 3,000 | | | | |
| Income (loss) from continuing operations, net of tax | 158,341 | 232,974 | 347,170 | (74,633) | (32)% | (114,196) | (33)% |
| Income (loss) from discontinued operations, net of tax | (11,179) | (67,526) | (97,601) | 56,347 | 83% | 30,075 | 31% |
| Net income (loss) | 147,162 | 165,448 | 249,569 | (18,286) | (11)% | (84,121) | (34)% |
| Less: Net (income) loss attributable to noncontrolling interest | (7,180) | (621) | (1,045) | (6,559) | n/m(8) | 424 | 41% |
| Net income (loss) attributable to Nabors | $ 139,982 | $ 164,827 | $ 248,524 | $ (24,845) | (15)% | $ (83,697) | (34)% |
| Rig activity: | | | | | | | |
| Rig years:(9) | | | | | | | |
| U.S. | 195.0 | 219.1 | 214.7 | (24.1) | (11)% | 4.4 | 2% |
| Canada | 29.9 | 34.8 | 39.8 | (4.9) | (14)% | (5.0) | (13)% |
| International(10) | 124.2 | 119.3 | 105.3 | 4.9 | 4% | 14.0 | 13% |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Total rig years | 349.1 | 373.2 | 359.8 | (24.1) | (6)% | 13.4 | 4% |
| | | | | | | | |
| Rig hours:(11) | | | | | | | |
| Production Services | 865,939 | 853,373 | 791,956 | 12,566 | 1% | 61,417 | 8% |
| Canada Production Services | 152,747 | 181,185 | 184,908 | (28,438) | (16)% | (3,723) | (2)% |
| | | | | | | | |
| Total rig hours | 1,018,686 | 1,034,558 | 976,864 | (15,872) | (2)% | 57,694 | 6% |

(1) All periods present the operating activities of our wholly owned oil and gas businesses, our previously held equity interests in oil and gas joint ventures in Canada and Colombia and aircraft logistics operations and construction services as discontinued operations.

(2) Includes our drilling technology and top drive manufacturing, directional drilling, rig instrumentation and software services. These services represent our other companies that are not aggregated into a reportable operating segment.

(3) Includes earnings (losses), net from unconsolidated affiliates, accounted for using the equity method, of ($0.4) million and ($3.1) million for the years ended December 31, 2013 and 2011, respectively.

(4) Includes earnings (losses), net from unconsolidated affiliates, accounted for using the equity method, of $0.4 million and $0.5 million for the years ended December 31, 2013 and 2012, respectively.

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(5) Represents the elimination of inter-segment transactions and earnings (losses), net from the U.S. unconsolidated oil and gas joint venture, accounted for using the equity method until sold in December 2012, of ($289.2) million and $88.5 million for the years ended December 31, 2012 and 2011, respectively.

(6) Adjusted income (loss) derived from operating activities is computed by subtracting the sum of direct costs, general and administrative expenses, depreciation and amortization and earnings (losses) from the U.S. oil and gas joint venture from the sum of Operating revenues and Earnings (losses) from unconsolidated affiliates. These amounts should not be used as a substitute for the amounts reported in accordance with 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 these financial measures accurately reflect our ongoing profitability. A reconciliation of this non-GAAP measure to income (loss) from continuing operations before income taxes, which is a GAAP measure, is provided in the above table.

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

(8) Number is so large that it is not meaningful.

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

(10) International rig years includes our equivalent percentage ownership of rigs owned by unconsolidated affiliates, which totaled 2.5 years in years 2013 and 2012 and 2.1 years in 2011.

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

**Segment Results of Operations**

**Drilling & Rig Services**

Our Drilling & Rig Services business line is comprised of drilling on land and offshore, by geographic region. This business line also includes our drilling technology, top drive manufacturing, directional drilling, construction services and rig instrumentation and software businesses.

| | Years Ended December 31, | | | Increase/(Decrease) | | | |
|---|---|---|---|---|---|---|---|
| | 2013 | 2012 | 2011 | 2013 to 2012 | | 2012 to 2011 | |
| | (In thousands, except percentages and rig activity) | | | | | | |
| **U.S.** | | | | | | | |
| Revenues | $ 1,914,786 | $ 2,276,808 | $ 1,999,241 | $ (362,022) | (16)% | $ 277,567 | 14% |
| Adjusted income | $ 315,496 | $ 509,894 | $ 442,831 | $ (194,398) | (38)% | $ 67,063 | 15% |
| Rig years | 195.0 | 219.1 | 214.7 | (24.1) | (11)% | 4.4 | 2% |
| **Canada** | | | | | | | |
| Revenues | $ 361,676 | $ 429,411 | $ 426,455 | $ (67,735) | (16)% | $ 2,956 | 1% |
| Adjusted income | $ 61,193 | $ 91,360 | $ 89,344 | $ (30,167) | (33)% | $ 2,016 | 2% |
| Rig years | 29.9 | 34.8 | 39.8 | (4.9) | (14)% | (5.0) | (13)% |
| **International** | | | | | | | |
| Revenues | $ 1,464,264 | $ 1,265,060 | $ 1,104,461 | $ 199,204 | 16% | $ 160,599 | 15% |
| Adjusted income | $ 177,833 | $ 91,226 | $ 123,813 | $ 86,607 | 95% | $ (32,587) | (26)% |
| Rig years | 124.2 | 119.3 | 105.3 | 4.9 | 4% | 14.0 | 13% |
| **Rig Services** | | | | | | | |
| Revenues | $ 516,004 | $ 688,310 | $ 626,169 | $ (172,306) | (25)% | $ 62,141 | 10% |
| Adjusted income (loss) | $ (3,918) | $ 67,366 | $ 55,856 | $ (71,284) | (106)% | $ 11,510 | 21% |

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**U.S.**

Our U.S. drilling segment includes land drilling activities in the lower 48 states, Alaska and offshore operations in the Gulf of Mexico.

Operating results decreased from 2012 to 2013 primarily as a result of an industry-wide decrease in land drilling activity over the latter part of 2012 in response to declines in commodity prices. Throughout 2013, this resulted in both reduced drilling activity and lower dayrates for our lower 48 fleet. Expiring term contracts also contributed to the decrease as contracts were renewed at the lower market prices. These decreases were partially offset by slight improvements in margins and costs for our offshore fleet operating in the Gulf of Mexico.

Operating results increased from 2011 to 2012 primarily due to higher average dayrates and a slight increase in drilling activity, as well as $39.6 million in revenues recognized that were related to early contract terminations. These increases were partially offset by higher depreciation expense related to new rigs placed into service during 2012.

**Canada**

Operating results decreased from 2012 to 2013 also as a result of the industry-wide decrease in land drilling activity, similar to the United States. Strong oil prices and oil-related drilling activities have partially mitigated the impact of the overall natural gas oversupply in North America and the resulting reductions in customer demand for gas drilling.

Operating results increased slightly from 2011 to 2012 primarily due to higher average dayrates, which offset the decreases in drilling and well-servicing activities. The natural gas oversupply in North America and resulting low natural gas prices decreased customer demand for gas drilling and well-servicing activity in 2012. Reduced natural gas drilling activity was largely offset by increased demand in oil exploration. Strong oil prices increased in oil drilling activity and drilling dayrates, with more demand for larger rigs required to drill long-reach horizontal wells in the shale plays and oil sands.

**International**

Operating results increased from 2012 to 2013 primarily as a result of increases in the utilization of our overall rig fleet and higher average margins from recent rig deployments in Papua New Guinea, Northern Iraq and Abu Dhabi. Results were also impacted by favorable moves on the land rigs, favorable activity on the offshore rigs in Saudi Arabia and overall improvements in operational efficiencies.

Operating revenues and Earnings from unconsolidated affiliates increased from 2011 to 2012 as a result of increases in utilization of our overall rig fleet albeit at lower margins. Adjusted income derived from operating activities decreased from 2011 to 2012 primarily from the decreases in average dayrates and lower utilization of our jackup rigs in Saudi Arabia and lower offshore activity in Congo. These decreases were partially offset by new activity in Papua New Guinea and increased utilization of rigs in Mexico.

**Rig Services**

The decrease in operating results from 2012 to 2013 primarily resulted from reductions to our Canrig activities during 2013 compared to 2012 due to lower demand in the United States and Canada drilling markets for top drives, rig instrumentation and data collection services from oil and gas exploration companies, along with lower third-party rental and RigWatchTM units, which generate higher margins.

The increase in operating results from 2011 to 2012 primarily resulted from higher demand in the United States and Canada drilling markets for top drives, rig instrumentation and data collection

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services from oil and gas exploration companies and higher third-party rental and rigwatch units, which generate higher margins, partially offset by a continued decline in customer demand for our construction services in Alaska.

**Completion & Production Services**

Our Completion & Production Services business line includes well-servicing, fluid logistics, workover operations and stimulation services in the U.S. and Canada.

| | Year Ended December 31, | | | Increase/(Decrease) | | | |
|---|---|---|---|---|---|---|---|
| | 2013 | 2012 | 2011 | 2013 to 2012 | | 2012 to 2011 | |
| | (In thousands, except percentages and rig activity) | | | | | | |
| **Completion Services** | | | | | | | |
| Revenues | $ 1,074,713 | $ 1,462,767 | $ 1,237,306 | $ (388,054) | (27)% | $ 225,461 | 18% |
| Adjusted income | $ 51,722 | $ 188,518 | $ 229,125 | $ (136,796) | (73)% | $ (40,607) | (18)% |
| **Production Services** | | | | | | | |
| Revenues | $ 1,009,214 | $ 1,000,873 | $ 849,522 | $ 8,341 | 1% | $ 151,351 | 18% |
| Adjusted income | $ 102,130 | $ 108,835 | $ 80,018 | $ (6,705) | (6)% | $ 28,817 | 36% |
| Rig hours | | | | | | | |
| U.S. | 865,939 | 853,373 | 791,956 | 12,566 | 1% | 61,417 | 8% |
| Canada | 152,747 | 181,185 | 184,908 | (28,438) | (16)% | (3,723) | (2)% |
| | 1,018,686 | 1,034,558 | 976,864 | (15,872) | (2)% | 57,694 | 6% |

**Completion Services**

Operating results decreased from 2012 to 2013 primarily due to downward pricing pressure across all regions due to continued overcapacity in the pressure pumping market and reduced customer activity in part caused by severe weather in our northern operating areas. During 2013, we suspended some of our stimulation operations in Canada and some of our coil-tubing operations in the United States. We relocated the Canadian assets to the United States.

Operating revenues increased from 2011 to 2012 primarily due to the increased levels of fracturing activity and associated increase in our assets deployed in the major producing areas in the United States. Adjusted income derived from operating activities decreased from 2011 to 2012 due to lower margins on product sales as a result of higher commodity prices.

**Production Services**

Operating revenues increased from 2012 to 2013 primarily due to our acquisition of KVS. From 2011 to 2012, operating revenues increased primarily due to the mix of higher and lower rate rigs working in our U.S. markets, partially offset by weaker Canada markets. Our U.S. markets have had higher utilization and increases in rig and truck fleets as well as frac tank counts, despite continued pricing challenges. The decrease in adjusted income from 2012 to 2013 reflect the costs that have increased in rig and truck fleets as a result of capital invested over the past few years to increase those fleets.

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**OTHER FINANCIAL INFORMATION**

| | Year Ended December 31, | | | Increase/(Decrease) | | | |
|---|---|---|---|---|---|---|---|
| | 2013 | 2012 | 2011 | 2013 to 2012 | | 2012 to 2011 | |
| | (In thousands, except percentages) | | | | | | |
| General and administrative expenses | $ 525,330 | $ 527,953 | $ 487,808 | $ (2,623) | | $ 40,145 | 8% |
| Depreciation and amortization | 1,086,677 | 1,039,923 | 918,122 | 46,754 | 4% | 121,801 | 13% |
| Interest expense | 223,418 | 251,904 | 256,632 | (28,486) | (11)% | (4,728) | (2)% |
| Investment income | 96,577 | 63,137 | 19,939 | 33,440 | 53% | 43,198 | 217% |
| Losses (gains) on sales and disposals of long-lived assets and other expense (income), net | (37,977) | 136,636 | (4,474) | (174,613) | (128)% | 141,110 | n/m(1) |

(1) Number is so large that it is not meaningful.

**General and administrative expenses**

General and administrative expenses decreased slightly from 2012 to 2013 primarily as a result of lower activities and cost-reduction efforts across all business units. As a percentage of operating revenues, general and administrative expenses have increased primarily as a result of the similar drop in operating revenues during 2013.

General and administrative expenses increased from 2011 to 2012 primarily as a result of increases in wages to support a higher headcount as a result of increased operations for a majority of our operating segments. As a percentage of operating revenues, general and administrative expenses decreased from 2011 to 2012.

**Depreciation and amortization**

Depreciation and amortization expense increased from 2012 to 2013 and from 2011 to 2012 as a result of the incremental depreciation expense from 41 newly constructed rigs placed into service during 2012 and 2013 and rig upgrades and other capital expenditures made since 2012.

**Interest expense**

Interest expense decreased from 2012 to 2013 primarily as a result of the redemptions of some of our 9.25% senior notes in September 2013 and our 5.375% senior notes in August 2012. During 2013, our overall debt was lower and average interest rates were lower on our outstanding senior notes, revolving credit facility and commercial paper balances as compared to 2012. These reductions were partially offset by the September 2013 issuance of $700 million aggregate principal amount of 2.35% and 5.10% senior notes.

Interest expense decreased from 2011 to 2012 primarily as a result of the redemption in May 2011 of our remaining 0.94% senior exchangeable notes, aggregate principal amount $1.4 billion, and the redemption in August 2012 of our 5.375% senior notes, aggregate principal amount $275 million. The decrease was partially offset by interest expense increases related to our August 2011 issuance of 4.625% senior notes due September 2021 and interest on larger amounts outstanding on our revolving credit facilities.

**Investment income**

Investment income during 2013 was $96.6 million and included $89.0 million related to realized gains from short-term and other long-term investments and net gains of $2.5 million from our trading

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securities. The balance was attributable to $5.1 million in interest and dividend income and $2.5 million in realized gains on the trading securities.

Investment income during 2012 was $63.1 million and included (i) $41.1 million net realized gains from our trading securities, (ii) $14.5 million realized gains from short-term and other long-term investments and (iii) $7.5 million interest and dividend income from our cash, other short-term and long-term investments.

Investment income during 2011 was $19.9 million and included (i) a $12.9 million realized gain relating to one of our overseas fund investments classified as long-term investments, (ii) $5.1 million realized gains from short-term and other long-term investments and (iii) $9.9 million interest and dividend income from our cash, other short-term and long-term investments. Investment income was partially offset by net unrealized losses of $8.0 million from our trading securities.

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

The amount of gains (losses) on sales and disposals of long-lived assets and other income (expense), net for 2013 was a net loss of $38.0 million, which was primarily comprised of (i) net losses on sales and disposals of assets of approximately $13.6 million, (ii) increases to litigation reserves of $11.7 million and (iii) foreign currency exchange losses of $6.2 million.

The amount of gains (losses) on sales and disposals of long-lived assets and other income (expense), net for 2012 was a net gain of $136.6 million, which included net gains on sales and disposals of long-lived assets of approximately $147.5 million, primarily as result of the gain from the sale of our equity interest in Sabine. These gains were partially offset by (i) increases to our litigation reserves of $5.4 million and (ii) foreign currency exchange losses of approximately $4.8 million.

The amount of gains (losses) on sales and disposals of long-lived assets and other income (expense), net for 2011 was a net loss of $4.5 million and was comprised of (i) increases to our litigation reserves of $11.3 million, (ii) foreign currency exchange losses of approximately $5.5 million and (iii) a net loss on sales and disposals of long-lived assets of approximately $1.9 million. The net loss was partially offset by a $13.1 million gain recognized in connection with our acquisition of the remaining 50% equity interest of Peak.

**Impairments and Other Charges**

| | Year Ended December 31, | | | Increase/(Decrease) | | | |
|---|---|---|---|---|---|---|---|
| | 2013 | 2012 | 2011 | 2013 to 2012 | | 2012 to 2011 | |
| | (In thousands, except percentages) | | | | | | |
| Loss on tendered notes | $ 208,197 | $ | $ | $ 208,197 | 100% | $ | |
| Provision for retirement of assets | 14,044 | 138,666 | 98,072 | (124,622) | (90)% | 40,594 | 41% |
| Impairment of long-lived assets | 20,000 | 50,355 | | (30,355) | (60)% | 50,355 | 100% |
| Termination of employment contract | 45,000 | | 100,000 | 45,000 | 100% | (100,000) | (100)% |
| Intangible asset impairment | | 74,960 | | (74,960) | (100)% | 74,960 | 100% |
| Goodwill impairment | | 26,279 | | (26,279) | (100)% | 26,279 | 100% |
| Total | $ 287,241 | $ 290,260 | $ 198,072 | $ (3,019) | (1)% | $ 92,188 | 47% |

**Loss on tendered notes**

During 2013, we recognized a loss related to the extinguishment of debt in connection with the tender offer for our 9.25% senior notes. See Note 13 Debt in Part II, Item 8 Financial Statements and Supplementary Data for additional discussion. In 2013, we completed a cash tender offer for these

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notes and repurchased $785.4 million aggregate principal amount. We paid the holders an aggregate of approximately $1.0 billion in cash, reflecting principal, accrued and unpaid interest and recognized a loss as part of the debt extinguishment.

**Provision for retirement of assets**

During 2013, we recorded a provision for retirement of long-lived assets in multiple operating segments totaling $14.0 million, which reduced the carrying value of some assets to their salvage value. The retirements related to assets in Saudi Arabia and included obsolete top-drives, nonworking trucks, generators, engines and other miscellaneous equipment. The retirements in our Canada operations included functionally inoperable rigs and other drilling equipment. In our Completion & Production operations, the retirements related to rigs and vehicles that would require significant repair to return to work and other non-core assets.

During 2012, we recorded a provision for retirement of long-lived assets in multiple operating segments, including $37.1 million in U.S., $33.7 million in Canada, $16.5 million in International and $2.0 million in Rig Services, all from our Drilling & Rig Services business line. The retirements in this business line included mechanical rigs, a jackup rig and other assets that have become inoperable or functionally obsolete and that we do not believe could be returned to service without significant costs to refurbish.

Additionally in 2012, we recorded similar provisions for retirement of long-lived assets of $49.4 million in our Completion & Production Services business line. During 2012, we streamlined our operations and consolidated our Completion Services and Production Services into this business line, and retired some non-core assets. As we continue to streamline our lines of business, there could be future retirement or impairment charges, which could have a potential impact on our future operating results.

During 2011, we recorded a provision for retirement of long-lived assets totaling $98.1 million in multiple operating segments. This related to the decommissioning and retirement of one jackup rig, 116 land rigs, and a number of rigs and trucks. Our U.S., International and Production Services operations recorded $63.2 million, $26.1 million and $8.9 million, respectively. These assets were deemed to be functionally or economically non-competitive for today's market and are being dismantled for parts and scrap.

A continued period of lower oil and natural gas prices and their potential impact on our utilization and dayrates could result in the recognition of future impairment charges to additional assets if future cash flow estimates, based upon information then available to management, indicate that the carrying value of those assets may not be recoverable.

**Impairment of long-lived assets**

During 2013, we recognized an impairment of $20.0 million to our fleet of coil-tubing units in our Completion & Production Services business line. Intense competition and oversupply of equipment has led to lower utilization and margins for this product line. When these factors were considered as part of our annual impairment tests on long-lived assets, the sum of the estimated future cash flows, on an undiscounted basis, was less than the carrying amount of these assets. The estimated fair values of these assets were calculated using discounted cash flow models involving assumptions based on our utilization of the assets, revenues and direct costs, capital expenditures and working capital requirements. We believe the fair value estimated for purposes of these tests represents a Level 3 fair value measurement. In 2013, we suspended our coil-tubing operations in the United States. A prolonged period of slow economic recovery could continue to adversely affect the demand for and prices of our services, which could result in future impairment charges for other reporting units due to the potential impact on our estimate of our future operating results.

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During the fourth quarter of 2012, we determined that some of our coil-tubing rigs would not be fully utilized as forecasted, which resulted in a triggering event and required a year-end long-lived asset impairment test. Our year-end impairment test resulted in impairment charges of $17.4 million in our U.S. and $32.9 million in our Canada operations.

We did not record any impairment of long-lived assets in 2011.

**Termination of employment contract**

During 2013, we recognized a one-time stock grant valued at $27.0 million, which vested immediately, and $18.0 million in cash awarded and paid to Mr. Petrello in connection with the termination of his prior employment agreement. See Note 19 Commitments and Contingencies in Part II, Item 8 Financial Statements and Supplementary Data for additional discussion.

During the fourth quarter of 2011, we recorded a provision for a contingent liability that existed on December 31, 2011 related to the change of our Chief Executive Officer that occurred in October 2011. This charge resulted from a potential termination payment to our former Chief Executive Officer, Eugene Isenberg, under the terms of his employment contract. Subsequent to December 31, 2011, Mr. Isenberg elected to forego triggering that payment, and as a result, we did not owe or make the termination payment. During 2012, we made charitable contributions to benefit the needs of our employees and other community-based causes. We contributed one million Nabors' common shares previously held by an affiliate to the Nabors Charitable Foundation, a 501(c)(3) organization, in support of this objective. The election of Mr. Isenberg to forego triggering the potential payment, offset by the charitable contributions described above, was recorded as a capital contribution during the first quarter of 2012.

**Intangible asset impairment**

During 2012, we recorded impairment of the Superior trade name totaling $75.0 million. The Superior trade name was initially classified as a ten-year intangible asset at the date of acquisition in September 2010. The impairment is a result of the decision to cease using the Superior trade name to reduce confusion in the marketplace and enhance the Nabors brand.

There were no intangible asset impairment in 2013 or 2011.

**Goodwill impairment**

During 2012, we recognized the impairment of goodwill associated with our operations in the U.S. and International drilling operations. The impairments were deemed necessary due to the prolonged uncertainty of utilization of some of our rigs as a result of changes in our customers' plans for future drilling operations in the Gulf of Mexico and our international markets. A prolonged period of lower natural gas prices or changes in laws and regulations could continue to adversely affect the demand for and prices of our services, which could result in future goodwill impairment charges for other reporting units due to the potential impact on our estimate of future operating results.

There were no goodwill impairment in 2013 or 2011.

**Income tax rate**

| | Year Ended December 31, | | | Increase/(Decrease) | | | |
|---|---|---|---|---|---|---|---|
| | 2013 | 2012 Revised | 2011 Revised | 2013 to 2012 Revised | | 2012 to 2011 Revised | |
| Effective income tax rate from continuing operations | (52.0)% | 14.8% | 32.0% | (67)% | (451)% | (17)% | (54)% |

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The changes in our effective tax rate from 2012 to 2013 resulted mainly from the proportion of income generated in the United States versus other countries where we operate and settlements of tax disputes. In general, the effective tax rate reflects the proportion of income generated in the United States versus other countries where we operate. Income generated in the United States is generally taxed at a higher rate than other jurisdictions.

The changes in our effective tax rate from 2011 to 2012 resulted mainly from the proportion of income generated in the United States versus other countries where we operate. Income generated in the United States is generally taxed at a higher rate than other jurisdictions.

We are subject to income taxes in the United States and numerous other jurisdictions. Significant judgment is required in determining our worldwide provision for income taxes. One of the most volatile factors in this determination is the relative proportion of our income or loss being recognized in high-versus low-tax jurisdictions. In the ordinary course of our business, there are many transactions and calculations for which the ultimate tax determination is uncertain. We are regularly audited by tax authorities. Although we believe our tax estimates are reasonable, the final outcome of tax audits and any related litigation could be materially different than what is reflected in our income tax provisions and accruals. The results of an audit or litigation could materially affect our financial position, income tax provision, net income, or cash flows.

Various bills have been introduced in Congress that could reduce or eliminate the tax benefits associated with our 2002 reorganization as a Bermuda company. Legislation enacted by the U.S. Congress in 2004 provides that a corporation reorganizing in a foreign jurisdiction on or after March 4, 2003 be treated as a domestic corporation for U.S. federal income tax purposes. There has been and we expect that there may continue to be legislation proposed by Congress from time to time which, if enacted, could limit or eliminate the tax benefits associated with our reorganization.

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

**Assets Held-for-Sale**

| | December 31, | |
|---|---|---|
| | **2013** | **2012** |
| | **(In thousands)** | |
| Oil and Gas | $ 239,936 | $ 377,625 |
| Rig Services | 3,328 | 6,232 |
| | $ 243,264 | $ 383,857 |

***Oil and Gas Properties***

The carrying value of our assets held for sale represents the lower of carrying value or fair value less costs to sell. We continue to market these properties at prices that are reasonable compared to current fair value.

We have contracts with pipeline companies to pay specified fees based on committed volumes for gas transport and processing. In December 2013 we entered into agreements to restructure these contracts, assigning a portion of the obligation to third parties and reducing our future payment commitments. At December 31, 2013, our undiscounted contractual commitments for these contracts

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approximated $171.2 million, and we had liabilities of $113.6 million, $64.4 million of which were classified as current and are included in accrued liabilities.

At December 31, 2012, we had liabilities of $206 million, $69 million of which were classified as current and included in accrued liabilities. The amounts at December 31, 2012 represented our best estimate of the fair value of the excess capacity of the pipeline commitments calculated using a discounted cash flow model, when considering our disposal plan, current production levels, natural gas prices and expected utilization of the pipeline over the remaining contractual term.

**Discontinued Operations**

Our condensed statements of income (loss) from discontinued operations for each operating segment were as follows:

| | Year Ended December 31, | | | Increase/(Decrease) | | | |
|---|---|---|---|---|---|---|---|
| | 2013 | 2012 | 2011 | 2013 to 2012 | | 2012 to 2011 | |
| | (In thousands, except percentages) | | | | | | |
| **Operating revenues** | | | | | | | |
| Oil and Gas | $ 25,327 | $ 27,363 | $ 125,654(1) | $ (2,036) | (7)% | $ (98,291) | (78)% |
| Rig Services | $ 127,154 | $ 172,335 | $ 76,584 | $ (45,181) | (26)% | $ 95,751 | 125% |
| **Income (loss) from discontinued operations:** | | | | | | | |
| Oil and Gas | $ (27,396)(2) | $ (66,033)(3) | (91,394)(4) | $ 38,637 | 59% | $ 25,361 | 28% |
| Rig Services | $ 16,217 | $ (1,493)(5) | (6,207)(5) | $ 17,710 | n/m(6) | $ 4,714 | 76% |

**Oil and Gas**

(1) Includes approximately $83 million of equity in earnings during 2011 for our proportionate share of Remora's net income, inclusive of the gains recognized for asset sales during 2011.

(2) Includes impairments during 2013 of $61.5 million to write down the carrying value of some of our wholly owned oil and gas-centered assets, partially offset by a gain related to our restructure of our future pipeline obligations.

(3) Includes adjustments during 2012 to increase our pipeline contractual commitments by $128.1 million and other gains and losses related to the sale of our wholly owned oil and gas-centered assets.

(4) Includes impairments during 2011 of $255.0 million to write down the carrying value of our wholly owned oil and gas-centered assets.

**Rig Services**

(5) Includes $7.8 million and $7.9 million, respectively, of impairment (a Level 3 measurement) in 2012 and 2011 to our aircraft and logistics assets as a result of the continued downturn in the oil and gas industry in Canada.

(6) Number is so large that it is not meaningful.

Additional discussion of our policy pertaining to the calculations of our annual impairment tests, including any impairment of goodwill, is set forth in Critical Accounting Estimates below in this section and in Note 3 Summary of Significant Accounting Policies in Part II, Item 8. Financial Statements and Supplementary Data. Additional information relating to discontinued operations is provided in Note 5 Assets Held for Sale and Discontinued Operations and our Schedule of Supplemental Information on Oil and Gas Exploration and Production Activities in Part II, Item 8. Financial Statements and Supplementary Data. A further protraction of lower commodity prices or an inability to sell these assets in a timely manner could result in recognition of future impairment charges.

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**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 oil or natural gas 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 or acquisitions, 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. We discuss our 2013 and 2012 cash flows below.

*Operating Activities.* Net cash provided by operating activities totaled $1.4 billion during 2013, compared to net cash provided by operating activities of $1.6 billion during 2012. Net cash provided by operating activities ("operating cash flows") is our primary source of capital and liquidity. Factors affecting changes in operating cash flows are largely the same as those that impact net earnings, with the exception of non-cash expenses such as depreciation and amortization, depletion, impairments, share-based compensation, deferred income taxes and our proportionate share of earnings or losses from unconsolidated affiliates. Net income (loss) adjusted for non-cash components was approximately $1.4 billion and $1.6 billion in 2013 and 2012, respectively. Additionally, changes in working capital items such as collection of receivables can be a significant component of operating cash flows. Changes in working capital items provided $2.9 million and used $61.1 million, respectively, in cash flows during 2013 and 2012.

*Investing Activities.* Net cash used for investing activities totaled $815.5 million during 2013 compared to net cash used for investing activities of $1.2 billion in 2012. Our primary use of cash for investing activities is for capital expenditures related to rig-related enhancements, new construction and equipment, as well as sustaining capital expenditures. During 2013 and 2012, we used cash for capital expenditures totaling $1.2 billion and $1.5 billion, respectively.

In 2013, cash of $318.9 million was provided in proceeds from sales of our oil and gas assets and other non-core operations.

In 2013, we used cash of $79.5 million to purchase KVS and $37.5 million to purchase NES. We also sold our trading equity securities and some of our available-for-sale debt and equity securities, providing $164.5 million in cash.

In 2012, cash of $254.5 million was provided in proceeds from sales of our oil and gas assets and equity interests in unconsolidated oil and gas joint ventures.

*Financing Activities.* Net cash used for financing activities totaled $729.6 million during 2013. In 2013 we issued $329.8 million, net in commercial paper. Additionally, in 2013, we received proceeds of $694.3 million (net of financing costs) from the issuance of 2.35% senior notes and 5.10% senior notes and used these proceeds (plus proceeds from our commercial paper and cash on hand) to repurchase $785.4 million aggregate principal amount of our 9.25% senior notes due 2019 for $991.3 million. We also repaid borrowings under our revolving credit facility of $720.0 million during 2013. During 2013, we paid cash dividends of $47.2 million.

Net cash used for financing activities totaled $254.1 million during 2012, including repayment of $282.4 million, representing principal and accrued interest, of our $275 million 5.375% senior notes. Of that amount $30 million, net, of the required cash came from our revolving credit facilities.

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**Future Cash Requirements**

We expect capital expenditures over the next 12 months to approximate $1.6 $1.8 billion. Purchase commitments outstanding at December 31, 2013 totaled approximately $788 million, primarily for rig-related enhancements, new construction and equipment, as well as sustaining capital expenditures, other operating expenses and purchases of inventory. 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 12 months reflect a number of capital programs that are currently underway or planned. These programs will result in an expansion in the number of land drilling and offshore rigs and the amount of well-servicing equipment and technology assets that we own and operate. We expect to be able to reduce the planned expenditures if necessary or increase them if market conditions and new business opportunities warrant it.

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 debt or our common shares. Future acquisitions may be funded using existing cash or by issuing debt or additional shares of our stock. Such capital expenditures and acquisitions will depend on our view of market conditions and other factors.

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

The following table summarizes our contractual cash obligations as of December 31, 2013:

| | Payments due by Period | | | | |
|---|---|---|---|---|---|
| | Total | < 1 Year | 1 - 3 Years | 3 - 5 Years | Thereafter |
| | (In thousands) | | | | |
| Contractual cash obligations: | | | | | |
| Long-term debt:(1) | | | | | |
| Principal | $ 3,914,451 | $ | $ 350,000(2) | $ 1,474,844(3) | $ 2,089,607(4) |
| Interest | 1,149,950 | 184,858 | 369,763 | 323,247 | 272,082 |
| Operating leases(5) | 58,750 | 24,689 | 19,661 | 6,474 | 7,926 |
| Purchase commitments(6) | 787,821 | 766,537 | 21,284 | | |
| Employment contracts(5) | 24,341 | 6,984 | 12,217 | 4,840 | 300 |
| Pension funding obligations | 1,400 | 1,400 | | | |
| Transportation and processing contracts(5)(7) | 171,150 | 44,365 | 44,807 | 28,024 | 53,954 |

The table above excludes liabilities for unrecognized tax benefits totaling $68.2 million as of December 31, 2013 because we are unable to make reasonably reliable estimates of the timing of cash settlements with the respective taxing authorities. Further details on the unrecognized tax benefits can be found in Note 14 Income Taxes in Part II, Item 8 Financial Statements and Supplementary Data.

(1) See Note 13 Debt in part II, Item 8 Financial Statements and Supplementary Data.

(2) Represents Nabors Delaware's aggregate 2.35% senior notes due September 2016.

(3) Represents Nabors Delaware's aggregate 6.15% senior notes due February 2018, commercial paper and amounts drawn on our revolving credit facility which expires November 2017.

(4) Represents Nabors Delaware's aggregate 9.25% senior notes due January 2019, 5.0% senior notes due September 2020, 4.625% senior notes due September 2021 and 5.10% senior notes due September 2023.

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(5) See Note 19 Commitments and Contingencies in Part II, Item 8. Financial Statements and Supplementary Data.

(6) 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.

(7) We have contracts with pipeline companies to pay specified fees based on committed volumes for gas transport and processing, as calculated on a monthly basis. See Notes 5 Assets Held for Sale and Discontinued Operations and 19 Commitments and Contingencies in Part II, Item 8. Financial Statements and Supplementary Data.

During the three months ended December 31, 2013, our Board declared a cash dividend of $0.04 per common share to our shareholders. This quarterly cash dividend was paid on December 31, 2013 to shareholders of record on December 10, 2013. During the year ended December 31, 2013, we paid cash dividends totaling $47.2 million.

We may from time to time seek to retire or purchase our outstanding debt through cash purchases and/or exchanges for equity securities, in open-market purchases, privately negotiated transactions or otherwise. Such repurchases or exchanges, if any, will depend on prevailing market conditions, our liquidity requirements, contractual restrictions and other factors. The amounts involved may be material.

***Financial Condition and Sources of Liquidity***

Our primary sources of liquidity are cash and investments, availability under our revolving credit facility, our commercial paper program, and cash generated from operations. As of December 31, 2013, we had cash and short-term investments of $507.1 million and working capital of $1.4 billion. As of December 31, 2012, we had cash and short-term investments of $778.2 million and working capital of $2.0 billion. At December 31, 2013, we had $1.0 billion of availability remaining under our $1.5 billion revolving credit facility and commercial paper program.

In September 2013, Nabors Delaware completed a private placement of $700 million aggregate principal amount of senior notes, comprised of $350 million principal amount of 2.35% senior notes due 2016 and $350 million principal amount of 5.10% senior notes due 2023, which are unsecured and fully and unconditionally guaranteed by us. The notes are subject to registration rights. The indenture governing the notes includes covenants customary for transactions of this type that, subject to significant exceptions, limit our ability and that of our subsidiaries to incur certain liens or enter into sale and leaseback transactions. Nabors Delaware used the proceeds of these senior notes, borrowings under its commercial paper program and cash on hand to redeem $785.4 billion, including accrued and unpaid interest, of its 9.25% senior notes due 2019 for approximately $1.0 billion.

During 2013, we sold Peak, one of our businesses in Alaska, for gross cash proceeds of $135.5 million. We also sold logistic assets from one of our Canadian subsidiaries for proceeds of $9.3 million. In addition, we sold some of our oil and gas assets to an unrelated party and received proceeds of $90 million.

In 2013, we sold our trading equity securities and some of our available-for-sale debt and equity securities for $164.5 million. During 2013, Nabors established a commercial paper program, allowing for the issuance of up to $1.5 billion in commercial paper with a maturity of no more than 397 days. As of December 31, 2013, we had approximately $329.8 million of borrowings from commercial paper outstanding.

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We had 10 letter-of-credit facilities with various banks as of December 31, 2013. Availability under these facilities as of December 31, 2013 was as follows:

| | | (In thousands) |
|---|---|---|
| Credit available | $ | 523,204 |
| Letters of credit outstanding, inclusive of financial and performance guarantees | | 321,818 |
| Remaining availability | $ | 201,386 |

Our ability to access capital markets or to otherwise obtain sufficient financing is enhanced by our senior unsecured debt ratings as provided by the major credit rating agencies in the United States and our historical ability to access these markets as needed. While there can be no assurances that we will be able to access these markets in the future, we believe that we will be able to access capital markets or otherwise obtain financing in order to satisfy any payment obligation that might arise upon exchange or purchase of our notes and that any cash payment due, in addition to our other cash obligations, would not ultimately have a material adverse impact on our liquidity or financial position. A ratings downgrade could adversely impact our ability to access debt markets in the future, increase the cost of future debt, and potentially require us to post letters of credit for certain obligations.

Our gross debt to capital ratio was 0.40:1 as of December 31, 2013 and 0.42:1 as of December 31, 2012, respectively. Our net debt to capital ratio was 0.36:1 as of December 31, 2013 and 0.38:1 as of December 31, 2012. The gross debt to capital ratio is calculated by dividing (x) total debt by (y) total capital. Total capital is defined as total debt *plus* shareholders' equity. Net debt is total debt *minus* the sum of cash and cash equivalents and short-term investments. Neither the gross debt to capital ratio nor the net debt to capital ratio is a measure of operating performance or liquidity defined by GAAP and may not be comparable to similarly titled measures presented by other companies.

Our interest coverage ratio was 7.4:1 as of December 31, 2013 and 7.7:1 as of December 31, 2012. The interest coverage ratio is a trailing 12-month quotient of the sum of (x) operating revenues and earnings (losses) from unconsolidated affiliates, direct costs and general administrative expenses *less* earnings (losses) from the U.S. unconsolidated oil and gas joint venture *divided* by (y) interest expense. The interest coverage ratio is not a measure of operating performance or liquidity defined by GAAP and may not be comparable to similarly titled measures presented by other companies.

Our current cash and investments, projected cash flows from operations, possible dispositions of non-core assets and our revolving credit facility are expected to adequately finance our purchase commitments, capital expenditures, acquisitions, scheduled debt service requirements, and all other expected cash requirements for the next 12 months.

**Off-Balance Sheet Arrangements (Including Guarantees)**

We are a party to some 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 under which we provide financial or performance assurance to third parties. Certain of these agreements serve as guarantees, including standby letters of credit issued on behalf of insurance carriers in conjunction with our workers' compensation insurance program and other financial surety instruments such as bonds. In addition, we have provided indemnifications, which serve as guarantees, to some third parties. These guarantees include indemnification provided by Nabors to our share transfer agent and our insurance carriers. We are not able to estimate the potential future maximum payments that might be due under our indemnification guarantees. Management believes the likelihood that we would be required to perform or otherwise incur any material losses associated with any of these guarantees is remote.

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The following table summarizes the total maximum amount of financial guarantees issued by Nabors:

| | Maximum Amount | | | | |
|---|---|---|---|---|---|
| | 2014 | 2015 | 2016 | Thereafter | Total |
| | (In thousands) | | | | |
| Financial standby letters of credit and other financial surety instruments | $ 70,144 | 34 | | 11,933 | $ 82,111 |

***Other Matters***

Our Investments in Unconsolidated Affiliates (Note 11 in Part II, Item 8. Financial Statements and Supplementary Data) included our equity interest in Sabine through the third quarter of 2012. We disposed of our entire interest during the fourth quarter of 2012.

We were recently informed by Sabine that it is restating its previously issued financial statements to correct errors identified with respect to the accounting for certain derivative financial transactions previously accounted for as cash flow hedges. These errors affect our historical earnings (losses) from unconsolidated affiliates and related income tax expense (benefit) recorded during certain periods in 2012 and earlier. These errors have no effect on our consolidated financial statements for 2013. They also have no effect on our balance sheet or shareholders' equity as of December 31, 2012 or subsequent periods, our income statement for the year ended December 31, 2013 or our cash flows from operating, investing or financing activities for any historical period.

We assessed the materiality of these errors in accordance with the SEC's Staff Accounting Bulletin 99 and concluded that the previously issued annual financial statements were not materially misstated. However, the impact is material to the quarters ended March 31, 2012 and June 30, 2012. Accordingly, we have corrected these errors in the quarters and annual periods by revising our consolidated financial statements for the years 2012 and prior and restating the unaudited quarterly financial information (Note 22 Unaudited Quarterly Financial Information in Part II, Item 8. Financial Statements and Supplementary Data) for quarters ended March 31, 2012 and June 30, 2012. In addition, as a result of revising our prior years' consolidated financial statements, we have also corrected certain other immaterial items that had been previously recorded during the period identified, to reflect such items in the proper period. The effect of the adjustments was to increase our net income for the years ended December 31, 2012 and 2011 by $0.8 million and $4.8 million, respectively. The effect of these adjustments for periods prior to January 1, 2011 have been reflected as revisions to retained earnings as of December 31, 2010 in our consolidated statements of changes in equity.

The tables below present the financial statement line items impacted by the revisions to our consolidated financial statements for the years ended December 31, 2012 and 2011.

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The effect on our consolidated statements of income (loss) is as follows:

| | Year Ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2012 | | | 2011 | | |
| (In thousands, except per share amounts) | As Reported(1) | Adjustment | Revised | As Reported(1) | Adjustment | Revised |
| Earnings (losses) from unconsolidated affiliates | $ (301,320) | $ 12,602 | $ (288,718) | $ 56,647 | $ 28,801 | $ 85,448 |
| Total revenues and other income | 6,604,868 | 12,602 | 6,617,470 | 6,090,066 | 28,801 | 6,118,867 |
| Direct costs | 4,368,702 | (1,596) | 4,367,106 | 3,736,910 | 1,596 | 3,738,506 |
| Total costs and other deductions | 6,342,106 | (1,596) | 6,340,510 | 5,602,018 | 1,596 | 5,603,614 |
| Income (loss) from continuing operations before income taxes | 262,762 | 14,198 | 276,960 | 488,048 | 27,205 | 515,253 |
| Deferred income tax expense (benefit) | (115,413) | 13,405 | (102,008) | 33,021 | 22,360 | 55,381 |
| Income tax expense (benefit) | 27,581 | 13,405 | 40,986 | 142,723 | 22,360 | 165,083 |
| Income (loss) from continuing operations, net of tax | 232,181 | 793 | 232,974 | 342,325 | 4,845 | 347,170 |
| Net income (loss) | 164,655 | 793 | 165,448 | 244,724 | 4,845 | 249,569 |
| Net income (loss) attributable to Nabors | 164,034 | 793 | 164,827 | 243,679 | 4,845 | 248,524 |
| Earnings (losses) per share:(2) | | | | | | |
| Basic from continuing operations | $ 0.80 | $ | $ 0.80 | $ 1.19 | $ 0.02 | $ 1.21 |
| Total Basic | $ 0.57 | $ | $ 0.57 | $ 0.85 | $ 0.02 | $ 0.87 |
| Diluted from continuing operations | $ 0.79 | $ | $ 0.79 | $ 1.17 | $ 0.02 | $ 1.18 |
| Total Diluted | $ 0.56 | $ | $ 0.56 | $ 0.83 | $ 0.02 | $ 0.85 |

(1) Amounts reflect the retrospective of the results of Peak as discontinued operations in the third quarter of 2013. Refer to Note 5 Assets Held for Sale and Discontinued Operations in Part II, Item 8. Financial Statements and Supplementary Data for additional information.

(2) Earnings per share is computed independently for each of the columns presented. Therefore, the sum of the earnings per share may not equal the total revised.

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The effect on our consolidated statements of other comprehensive income (loss) is as follows:

| | Year Ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2012 | | | 2011 | | |
| (In thousands) | As Reported | Adjustment | Revised | As Reported | Adjustment | Revised |
| Net income (loss) attributable to Nabors | $ 164,034 | $ 793 | $ 164,827 | $ 243,679 | $ 4,845 | $ 248,524 |
| Comprehensive income (loss) attributable to Nabors | 274,365 | 793 | 275,158 | 222,891 | 4,845 | 227,736 |
| Comprehensive income (loss) | 275,297 | 793 | 276,090 | 223,751 | 4,845 | 228,596 |

While these adjustments had no impact on our overall cash flows from operating, investing or financing activities for any period, the presentation of certain line items within our operating activities on our consolidated statements of cash flow were revised and are presented as follows:

| | Year Ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2012 | | | 2011 | | |
| (In thousands) | As Reported | Adjustment | Revised | As Reported | Adjustment | Revised |
| Net income (loss) attributable to Nabors | $ 164,034 | $ 793 | $ 164,827 | $ 243,679 | $ 4,845 | $ 248,524 |
| Deferred income tax expense (benefit) | (145,147) | 13,405 | (131,742) | (34,739) | 22,360 | (12,379) |
| Equity in (earnings) losses of unconsolidated affiliates, net of dividends | 312,319 | (12,602) | 299,717 | (132,388) | (28,801) | (161,189) |
| Trade accounts payable and accrued liabilities | (223,199) | (1,596) | (224,795) | 517,615 | 1,596 | 519,211 |
| Net cash provided by operating activities | 1,562,705 | | 1,562,705 | 1,456,487 | | 1,456,487 |

The effect on our consolidated statements of changes in equity is as follows:

| | Year Ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2011 | | | 2010 | | |
| (In thousands) | As Reported | Adjustment | Revised | As Reported | Adjustment | Revised |
| Retained earnings | 3,956,364 | (793) | 3,955,571 | 3,707,881 | (5,638) | 3,702,243 |
| Total equity | 5,601,217 | (793) | 5,600,424 | 5,342,863 | (5,638) | 5,337,225 |

***Critical Accounting Estimates***

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

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following is a discussion of our critical accounting estimates. Management considers an accounting estimate to be critical if:

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

For a summary of all of our significant accounting policies, see Note 3 Summary of Significant Accounting Policies in Part II, Item 8. Financial Statements and Supplementary Data.

**Financial Instruments.** Fair value is the price that would be received upon a sale of an asset or paid upon a transfer of a liability in an orderly transaction between market participants at the measurement date (exit price). We utilize market data or assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market-corroborated, or generally unobservable. We primarily apply the market approach for recurring fair value measurements and endeavor to utilize the best information available. Accordingly, we employ valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. The use of unobservable inputs is intended to allow for fair value determinations in situations where there is little, if any, market activity for the asset or liability at the measurement date. We are able to classify fair value balances utilizing a fair-value hierarchy based on the observability of those inputs. Under the fair-value hierarchy:

- Level 1 measurements include unadjusted quoted market prices for identical assets or liabilities in an active market;
- Level 2 measurements include quoted market prices for identical assets or liabilities in an active market that have been adjusted for items such as effects of restrictions for transferability and those that are not quoted but are observable through corroboration with observable market data, including quoted market prices for similar assets; and
- Level 3 measurements include those that are unobservable and of a highly subjective nature.

**Depreciation of Property, Plant and Equipment.** The drilling, workover and well-servicing and pressure pumping industries are very capital intensive. Property, plant and equipment represented 71.0% of our total assets as of December 31, 2013, and depreciation constituted 18.0% of our total costs and other deductions in 2013.

Depreciation for our primary operating assets, drilling and workover rigs, is calculated based on the units-of-production method. For each day a rig is operating, we depreciate it over an approximate 4,927-day period, with the exception of our jackup rigs which are depreciated over an 8,030-day period, after provision for salvage value. For each day a rig asset is not operating, it is depreciated over an assumed depreciable life of 20 years, with the exception of our jackup rigs, where a 30-year depreciable life is typically used, after provision for salvage value.

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

These depreciation periods and the salvage values of our property, plant and equipment were determined through an analysis of the useful lives of our assets and based on our experience with the salvage values of these assets. Periodically, we review our depreciation periods and salvage values for

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reasonableness given current conditions. Depreciation of property, plant and equipment is therefore based upon estimates of the useful lives and salvage value of those assets. Estimation of these items requires significant management judgment. Accordingly, management believes that accounting estimates related to depreciation expense recorded on property, plant and equipment are critical.

There have been no factors related to the performance of our portfolio of assets, changes in technology or other factors indicating that these estimates do not continue to be appropriate. Accordingly, for the years ended December 31, 2013, 2012 and 2011, no significant changes have been made to the depreciation rates applied to property, plant and equipment, the underlying assumptions related to estimates of depreciation, or the methodology applied. However, certain events could occur that would materially affect our estimates and assumptions related to depreciation. Unforeseen changes in operations or technology could substantially alter management's assumptions regarding our ability to realize the return on our investment in operating assets and therefore affect the useful lives and salvage values of our assets.

**Impairment of Long-Lived Assets.** As discussed above, the drilling, workover and well-servicing and pressure pumping industry is very capital intensive. We review our assets for impairment annually or when events or changes in circumstances indicate that their carrying amounts may not be recoverable. An impairment loss is recorded in the period in which it is determined that the sum of estimated future cash flows, on an undiscounted basis, is less than the carrying amount of the long-lived asset. Impairment charges are recorded using discounted cash flows, which requires the estimation of dayrates and utilization, and such estimates can change based on market conditions, technological advances in the industry or changes in regulations governing the industry. Significant and unanticipated changes to the assumptions could result in future impairments. As the determination of whether impairment charges should be recorded on our long-lived assets is subject to significant management judgment, and an impairment of these assets could result in a material charge on our consolidated statements of income (loss), management believes that accounting estimates related to impairment of long-lived assets are critical.

Assumptions made in the determination of future cash flows are made with the involvement of management personnel at the operational level where the most specific knowledge of market conditions and other operating factors exists. For 2013, 2012 and 2011, no significant changes have been made to the methodology utilized to determine future cash flows.

For an asset classified as held for sale, we consider the asset impaired when its carrying amount exceeds fair value less its cost to sell. Fair value is determined in the same manner as an impaired long-lived asset that is held and used.

Given the nature of the evaluation of future cash flows and the application to specific assets and specific times, it is not possible to reasonably quantify the impact of changes in these assumptions. A significantly prolonged period of lower oil and natural gas prices could adversely affect the demand for and prices of our services, which could result in future impairment charges.

**Impairment of Goodwill and Intangible Assets.** We review goodwill and intangible assets with indefinite lives for impairment annually or more frequently if events or changes in circumstances indicate that the carrying amount of such goodwill and intangible assets exceed their fair value. During the second quarter of 2013, we assessed qualitative factors and determined it was necessary to perform the two-step annual goodwill impairment test for all of our reporting units within our operating segments. Our Drilling & Rig Services business line consists of U.S., Canada, International and Rig Services operating segments. Our Rig Services operating segment includes Canrig Drilling Technology Ltd. and Ryan Directional Services Inc. Our Completion & Production Services business line consists of Completion & Production Services operating segments. The impairment test involves comparing the estimated fair value of the reporting unit to its carrying amount. If the carrying amount of the reporting unit exceeds its fair value, a second step is required to measure the goodwill

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impairment loss. This second step compares the implied fair value of the reporting unit's goodwill to the carrying amount of that goodwill. If the carrying amount of the reporting unit's goodwill exceeds the implied fair value of the goodwill, an impairment loss is recognized in an amount equal to the excess. During 2013, we concluded that all our operating segments' fair values were substantially in excess of their carrying value.

The fair values calculated in these impairment tests are determined using discounted cash flow models involving assumptions based on our utilization of rigs or other oil and gas service equipment, revenues and earnings from affiliates, as well as direct costs, general and administrative costs, depreciation, applicable income taxes, capital expenditures and working capital requirements. Our discounted cash flow projections for each reporting unit were based on financial forecasts. The future cash flows were discounted to present value using discount rates that are determined to be appropriate for each reporting unit. Terminal values for each reporting unit were calculated using a Gordon Growth methodology with a long-term growth rate of 3%. We believe the fair value estimated for purposes of these tests represent a Level 3 fair value measurement.

A significantly prolonged period of lower oil and natural gas prices or changes in laws and regulations could continue to adversely affect the demand for and prices of our services, which could result in future goodwill impairment charges for other reporting units due to the potential impact on our estimate of our future operating results.

**Income Taxes.** Deferred taxes represent a substantial liability for Nabors. For financial reporting purposes, management determines our current tax liability as well as those taxes incurred as a result of current operations yet deferred until future periods. In accordance with the liability method of accounting for income taxes as specified in the Income Taxes Topic of the ASC, the provision for income taxes is the sum of income taxes both currently payable and deferred. Currently payable taxes represent the liability related to our income tax return for the current year, while the net deferred tax expense or benefit represents the change in the balance of deferred tax assets or liabilities reported on our consolidated balance sheets. The tax effects of unrealized gains and losses on investments and derivative financial instruments are recorded through accumulated other comprehensive income (loss) within equity. The changes in deferred tax assets or liabilities are determined based upon changes in differences between the basis of assets and liabilities for financial reporting purposes and the basis of assets and liabilities for tax purposes as measured by the enacted tax rates that management estimates will be in effect when these differences reverse. Management must make certain assumptions regarding whether tax differences are permanent or temporary and must estimate the timing of their reversal, and whether taxable operating income in future periods will be sufficient to fully recognize any gross deferred tax assets. Valuation allowances are established to reduce deferred tax assets when it is more likely than not that some portion or all of the deferred tax assets will not be realized. In determining the need for valuation allowances, management has considered and made judgments and estimates regarding estimated future taxable income and ongoing prudent and feasible tax planning strategies. These judgments and estimates are made for each tax jurisdiction where we operate as the calculation of deferred taxes is completed at that level. Under U.S. federal tax law, the amount and availability of loss carryforwards (and certain other tax attributes) are subject to a variety of interpretations and restrictive tests applicable to Nabors and our subsidiaries. The utilization of these carryforwards could be limited or effectively lost upon certain changes in ownership. Accordingly, although we believe substantial loss carryforwards are available to us, no assurance can be given concerning their realization or whether or not they will be available in the future. These loss carryforwards are also considered in our calculation of taxes for each jurisdiction in which we operate. Additionally, we record reserves for uncertain tax positions that are subject to a significant level of management judgment related to the ultimate resolution of those tax positions. Accordingly, management believes that the estimate related to the provision for income taxes is critical to our results of operations. See Part I, Item 1A. Risk

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Factors *We may have additional tax liabilities* and Note 14 Income Taxes in Part II, Item 8. Financial Statements and Supplementary Data for additional discussion.

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

Our 2013 provision for income taxes from continuing operations was $55.2 million tax benefit, consisting of $39.8 million of current tax expense and $95.0 million of deferred tax benefit. Changes in management's estimates and assumptions regarding the tax rate applied to deferred tax assets and liabilities, the ability to realize the value of deferred tax assets, or the timing of the reversal of tax basis differences could potentially impact the provision for income taxes and could potentially change the effective tax rate. A 1% change in the effective tax rate from (51.9%) to (50.9%) would decrease the current year income tax benefit by approximately $1.1 million.

**Litigation and Self-Insurance Reserves.** Our operations are subject to many hazards inherent in the drilling, workover and well-servicing and pressure pumping industries, including blowouts, cratering, explosions, fires, loss of well control, loss of or damage to the wellbore or underground reservoir, damaged or lost drilling equipment and damage or loss from inclement weather or natural disasters. Any of these hazards could result in personal injury or death, damage to or destruction of equipment and facilities, suspension of operations, environmental and natural resources damage and damage to the property of others. Our offshore operations are also subject to the hazards of marine operations including capsizing, grounding, collision and other damage from hurricanes and heavy weather or sea conditions and unsound ocean bottom conditions. Our operations are subject to risks of war, civil disturbances and other political events.

Accidents may occur, we may be unable to obtain desired contractual indemnities, and our insurance may prove inadequate in certain cases. There is no assurance that our insurance or indemnification agreements will adequately protect us against liability from all of the consequences of the hazards described above. Moreover, our insurance coverage generally provides that we assume a portion of the risk in the form of a deductible or self-insured retention.

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

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recorded in our financial statements for claims have historically been reasonable in light of the actual amount of claims paid.

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

During 2013, 2012 and 2011, no significant changes were made to the methodology used to estimate insurance reserves. For purposes of earnings sensitivity analysis, if the December 31, 2013 reserves were adjusted by 10%, total costs and other deductions would change by $18.2 million, or 0.3%.

**Fair Value of Assets Acquired and Liabilities Assumed.** We have completed a number of acquisitions in recent years as discussed in Note 8 Fair Value Measurements in Part II, Item 8. Financial Statements and Supplementary Data. In conjunction with our accounting for these acquisitions, it was necessary for us to estimate the values of the assets acquired and liabilities assumed in the various business combinations using various assumptions. These estimates may be affected by such factors as changing market conditions, technological advances in the industry or changes in regulations governing the industry. The most significant assumptions, and the ones requiring the most judgment, involve the estimated fair values of property, plant and equipment, and the resulting amount of goodwill, if any. Unforeseen changes in operations or technology could substantially alter management's assumptions and could result in lower estimates of values of acquired assets or of future cash flows. This could result in impairment charges being recorded in our consolidated statements of income (loss). As the determination of the fair value of assets acquired and liabilities assumed is subject to significant management judgment and a change in purchase price allocations could result in a material difference in amounts recorded in our consolidated financial statements, management believes that accounting estimates related to the valuation of assets acquired and liabilities assumed are critical.

The determination of the fair value of assets and liabilities is based on the market for the assets and the settlement value of the liabilities. These estimates are made by management based on our experience with similar assets and liabilities. During 2013, 2012 and 2011, no significant changes were made to the methodology utilized to value assets acquired or liabilities assumed. Our estimates of the fair values of assets acquired and liabilities assumed have proved to be reliable in the past.

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

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**ITEM 7A.** ***QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK***

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

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

At various times, we utilize local currency borrowings (foreign-currency-denominated debt), the payment structure of customer contracts and foreign exchange contracts to selectively hedge our exposure to exchange rate fluctuations in connection with monetary assets, liabilities, cash flows and commitments denominated in certain foreign currencies. A foreign exchange contract is a foreign currency transaction, defined as an agreement to exchange different currencies at a given future date and at a specified rate. A hypothetical 10% decrease in the value of all our foreign currencies relative to the U.S. dollar as of December 31, 2013 would result in a $13.3 million decrease in the fair value of our net monetary assets denominated in currencies other than U.S. dollars.

**Credit Risk.** Our financial instruments that potentially subject us to concentrations of credit risk consist primarily of cash equivalents, short-term and long-term investments and accounts receivable. Cash equivalents such as deposits and temporary cash investments are held by major banks or investment firms. Our short-term and long-term investments are managed within established guidelines that limit the amounts that may be invested with any one issuer and provide guidance as to issuer credit quality. We believe that the credit risk in our cash and investment portfolio is minimized as a result of the mix of our investments. In addition, our trade receivables are with a variety of U.S., international and foreign-country national oil and gas companies. Management considers this credit risk to be limited due to the financial resources of these companies. We perform ongoing credit evaluations of our customers, and we generally do not require material collateral. We do occasionally require prepayment of amounts from customers whose creditworthiness is in question prior to providing services to them. We maintain reserves for potential credit losses, and these losses historically have been within management's expectations.

**Interest Rate, and Marketable and Non-marketable Security Price Risk.** Our financial instruments that are potentially sensitive to changes in interest rates include our 2.35%, 5.10%, 6.15%, 9.25%, 5.0% and 4.625% senior notes, our investments in debt securities (including corporate, asset-backed, mortgage-backed debt and mortgage-CMO debt securities) and our investments in overseas funds that invest primarily in a variety of public and private U.S. and non-U.S. securities (including asset-backed and mortgage-backed securities, global structured-asset securitizations, whole-loan mortgages, and participations in whole loans and whole-loan mortgages), which are classified as long-term investments.

We may utilize derivative financial instruments that are intended to manage our exposure to interest rate risks. We account for derivative financial instruments under the Derivatives Topic of the ASC. The use of derivative financial instruments could expose us to further credit risk and market risk. Credit risk in this context is the failure of a counterparty to perform under the terms of the derivative contract. When the fair value of a derivative contract is positive, the counterparty would owe us, which can create credit risk for us. When the fair value of a derivative contract is negative, we would owe the counterparty, and therefore, we would not be exposed to credit risk. We attempt to minimize credit risk in derivative instruments by entering into transactions with major financial institutions that have a significant asset base. Market risk related to derivatives is the adverse effect on the value of a financial

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

**Fair Value of Financial Instruments.** The fair value of our fixed rate long-term debt, revolving credit facility, commercial paper and subsidiary preferred stock is estimated based on quoted market prices or prices quoted from third-party financial institutions. The carrying and fair values of these liabilities were as follows:

| | December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2013 | | | 2012 | | |
| | Effective Interest Rate | Carrying Value | Fair Value | Effective Interest Rate | Carrying Value | Fair Value |
| | (In thousands) | | | | | |
| 2.35% senior notes due September 2016 | 2.56% | $ 349,820 | $ 354,694 | 6.42% | $ | $ |
| 6.15% senior notes due February 2018 | 6.42% | 969,928 | 1,097,480 | 6.42% | 968,708 | 1,164,813 |
| 9.25% senior notes due January 2019 | 9.33% | 339,607 | 428,733 | 9.33% | 1,125,000 | 1,492,819 |
| 5.00% senior notes due September 2020 | 5.20% | 697,947 | 731,955 | 5.20% | 697,648 | 770,707 |
| 4.625% senior notes due September 2021 | 4.75% | 698,148 | 709,793 | 4.75% | 697,907 | 755,517 |
| 5.10% senior notes due September 2023 | 5.26% | 348,765 | 349,731 | 0.00% | | |
| Subsidiary preferred stock | 4.00% | 69,188 | 69,000 | 4.00% | 69,188 | 68,625 |
| Revolving credit facilities | 2.28% | 170,000 | 170,000 | 2.17% | 890,000 | 890,000 |
| Commercial paper | 0.45% | 329,844 | 329,844 | 0.00% | | |
| Other | 0.00% | 10,243 | 10,243 | 0.00% | 437 | 437 |
| Total | | $ 3,983,490 | $ 4,251,473 | | $ 4,448,888 | $ 5,142,918 |

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

| | December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2013 | | | 2012 | | |
| | Fair Value | Interest Rates | Weighted-Average Life (Years) | Fair Value | Interest Rates | Weighted-Average Life (Years) |
| | (In thousands, except rates) | | | | | |
| Cash and cash equivalents | $ 389,915 | 0 - .25% | | $ 524,922 | 0 - .22% | |
| Short-term investments: | | | | | | |
| Trading equity securities | | | | 52,705 | | |
| Available-for-sale equity securities | 96,942 | | | 174,610 | | |
| Available-for-sale debt securities: | | | | | | |
| Commercial paper and CDs | | | | 206 | 1.0% | 0.6 |
| Corporate debt securities | 19,388 | 10.0 - 11.52% | 6.2 | 23,399 | 10.0 - 14.0% | 4.3 |
| Mortgage-backed debt securities | 210 | 2.39% | 11.8 | 244 | 2.75% | 0.7 |
| Mortgage-CMO debt securities | 20 | 2.41 - 2.58% | 4.9 | 523 | .32 - 4.09% | 0.3 |
| Asset-backed debt securities | 658 | 0.67 - 4.81% | 4.8 | 1,595 | .71 - 4.81% | 3.8 |
| Total available-for-sale debt securities | 20,276 | | | 25,967 | | |
| Total available-for-sale securities | 117,218 | | | 200,577 | | |
| Total short-term investments | 117,218 | | | 253,282 | | |
| Long-term investments | 3,236 | N/A | | 4,269 | N/A | |

| | | |
|---|---|---|
| Total cash, cash equivalents, short-term and long-term investments | $ 510,369 | $ 782,473 |

Our investments in debt securities listed in the above table and a portion of our long-term investments are sensitive to changes in interest rates. Additionally, our investment portfolio of debt and equity securities, which are carried at fair value, exposes us to price risk. A hypothetical 10% decrease in the market prices for all securities as of December 31, 2013 would decrease the fair value of our available-for-sale securities by $11.7 million.

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**ITEM 8.** ***FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA***

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**Report of Independent Registered Public Accounting Firm**

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

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income (loss), other comprehensive income (loss), changes in equity, and cash flows present fairly, in all material respects, the financial position of Nabors Industries Ltd. and its subsidiaries (the "Company") at December 31, 2013 and December 31, 2012, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2013 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the index appearing under Item 15(a)(2) presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on criteria established in *Internal Control  Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements and financial statement schedule, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on these financial statements, on the financial statement schedule, and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

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

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

/s/ PricewaterhouseCoopers LLP

Houston, TX
March 3, 2014

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**NABORS INDUSTRIES LTD. AND SUBSIDIARIES**

**CONSOLIDATED BALANCE SHEETS**

| | December 31, | |
|---|---|---|
| | 2013 | 2012 |
| | (In thousands, except per share amounts) | |
| **ASSETS** | | |
| Current assets: | | |
| Cash | $ 389,915 | $ 524,922 |
| Short-term investments | 117,218 | 253,282 |
| Assets held for sale | 243,264 | 383,857 |
| Accounts receivable, net | 1,399,543 | 1,382,623 |
| Inventory | 209,793 | 251,133 |
| Deferred income taxes | 121,316 | 110,480 |
| Other current assets | 272,781 | 226,560 |
| Total current assets | 2,753,830 | 3,132,857 |
| Long-term investments | 3,236 | 4,269 |
| Property, plant and equipment, net | 8,597,813 | 8,712,088 |
| Goodwill | 512,964 | 472,326 |
| Investment in unconsolidated affiliates | 64,260 | 61,690 |
| Other long-term assets | 227,708 | 272,792 |
| Total assets | $ 12,159,811 | $ 12,656,022 |
| **LIABILITIES AND EQUITY** | | |
| Current liabilities: | | |
| Current debt | $ 10,185 | $ 364 |
| Trade accounts payable | 545,512 | 499,010 |
| Accrued liabilities | 697,093 | 599,380 |
| Income taxes payable | 58,634 | 33,628 |
| Total current liabilities | 1,311,424 | 1,132,382 |
| Long-term debt | 3,904,117 | 4,379,336 |
| Other long-term liabilities | 377,744 | 518,664 |
| Deferred income taxes | 516,161 | 599,335 |
| Total liabilities | 6,109,446 | 6,629,717 |
| Commitments and contingencies (Note 19) | | |
| Subsidiary preferred stock (Note 16) | 69,188 | 69,188 |
| Equity: | | |
| Shareholders' equity: | | |
| Common shares, par value $0.001 per share: | | |
| Authorized common shares 800,000; issued 323,711 and 318,813, respectively | 324 | 319 |
| Capital in excess of par value | 2,392,585 | 2,337,244 |

| | | |
|---|---|---|
| Accumulated other comprehensive income | 307,592 | 431,595 |
| Retained earnings | 4,213,212 | 4,120,398 |
| Less: treasury shares, at cost, 28,414 common shares | (944,627) | (944,627) |
| Total shareholders' equity | 5,969,086 | 5,944,929 |
| Noncontrolling interest | 12,091 | 12,188 |
| Total equity | 5,981,177 | 5,957,117 |
| Total liabilities and equity | $ 12,159,811 | $ 12,656,022 |

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 (LOSS)**

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2013 | 2012 | 2011 |
| | (In thousands, except per share amounts) | | |
| Revenues and other income: | | | |
| Operating revenues | $ 6,152,015 | $ 6,843,051 | $ 6,013,480 |
| Earnings (losses) from unconsolidated affiliates | 39 | (288,718) | 85,448 |
| Investment income (loss) | 96,577 | 63,137 | 19,939 |
| Total revenues and other income | 6,248,631 | 6,617,470 | 6,118,867 |
| Costs and other deductions: | | | |
| Direct costs | 3,981,828 | 4,367,106 | 3,738,506 |
| General and administrative expenses | 525,330 | 527,953 | 487,808 |
| Depreciation and amortization | 1,086,677 | 1,039,923 | 918,122 |
| Interest expense | 223,418 | 251,904 | 256,632 |
| Losses (gains) on sales and disposals of long-lived assets and other expense (income), net | 37,977 | (136,636) | 4,474 |
| Impairments and other charges | 287,241 | 290,260 | 198,072 |
| Total costs and other deductions | 6,142,471 | 6,340,510 | 5,603,614 |
| Income (loss) from continuing operations before income taxes | 106,160 | 276,960 | 515,253 |
| Income tax expense (benefit): | | | |
| Current | 39,865 | 142,994 | 109,702 |
| Deferred | (95,046) | (102,008) | 55,381 |
| Total income tax expense (benefit) | (55,181) | 40,986 | 165,083 |
| Subsidiary preferred stock dividend | 3,000 | 3,000 | 3,000 |
| Income (loss) from continuing operations, net of tax | 158,341 | 232,974 | 347,170 |
| Income (loss) from discontinued operations, net of tax | (11,179) | (67,526) | (97,601) |
| Net income (loss) | 147,162 | 165,448 | 249,569 |
| Less: Net (income) loss attributable to noncontrolling interest | (7,180) | (621) | (1,045) |
| Net income (loss) attributable to Nabors | $ 139,982 | $ 164,827 | $ 248,524 |
| Earnings (losses) per share: | | | |
| Basic from continuing operations | $ 0.51 | $ 0.80 | $ 1.21 |
| Basic from discontinued operations | (0.04) | (0.23) | (0.34) |
| Total Basic | $ 0.47 | $ 0.57 | $ 0.87 |

| | | | |
|---|---|---|---|
| Diluted from continuing operations | $ 0.51 | $ 0.79 | $ 1.18 |
| Diluted from discontinued operations | (0.04) | (0.23) | (0.33) |
| Total Diluted | $ 0.47 | $ 0.56 | $ 0.85 |
| Weighted-average number of common shares outstanding: | | | |
| Basic | 294,182 | 289,965 | 287,118 |
| Diluted | 296,592 | 292,323 | 292,484 |

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

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**NABORS INDUSTRIES LTD. AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF OTHER COMPREHENSIVE INCOME (LOSS)**

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2013 | 2012 | 2011 |
| | (In thousands) | | |
| Net income (loss) attributable to Nabors | $ 139,982 | $ 164,827 | $ 248,524 |
| Other comprehensive income (loss), before tax: | | | |
| Translation adjustment attributable to Nabors | (65,447) | 21,073 | (20,257) |
| Unrealized gains/(losses) on marketable securities: | | | |
| Unrealized gains/(losses) on marketable securities | 23,007 | 98,138 | 5,356 |
| Less: reclassification adjustment for (gains)/losses included in net income (loss) | (88,158) | (13,405) | (3,036) |
| Unrealized gains/(losses) on marketable securities | (65,151) | 84,733 | 2,320 |
| Pension plan | 5,916 | (324) | (5,391) |
| Unrealized gains/(losses) on cash flow hedges | 613 | 702 | 763 |
| Other comprehensive income (loss), before tax | (124,069) | 106,184 | (22,565) |
| Income tax expense (benefit) related to items of other comprehensive income (loss) | (66) | (4,147) | (1,777) |
| Other comprehensive income (loss), net of tax | (124,003) | 110,331 | (20,788) |
| Comprehensive income (loss) attributable to Nabors | 15,979 | 275,158 | 227,736 |
| Net income (loss) attributable to noncontrolling interest | 7,180 | 621 | 1,045 |
| Translation adjustment attributable to noncontrolling interest | (932) | 311 | (185) |
| Comprehensive income (loss) attributable to noncontrolling interest | 6,248 | 932 | 860 |
| Comprehensive income (loss) | $ 22,227 | $ 276,090 | $ 228,596 |

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**

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2013 | 2012 | 2011 |
| | (In thousands) | | |
| Cash flows from operating activities: | | | |
| Net income (loss) attributable to Nabors | $ 139,982 | $ 164,827 | $ 248,524 |
| Adjustments to net income (loss): | | | |
| Depreciation and amortization | 1,099,741 | 1,055,757 | 927,460 |
| Depletion and other exploratory expenses | 22,270 | 2,573 | 44,551 |
| Deferred income tax expense (benefit) | (103,277) | (131,742) | (12,379) |
| Deferred financing costs amortization | 4,255 | 4,294 | 5,107 |
| Discount amortization on long-term debt | 2,137 | 1,908 | 27,042 |
| Impairments and other charges | 53,905 | 311,541 | 460,971 |
| Losses on debt extinguishment | 211,981 | | |
| Losses (gains) on long-lived assets, net | 18,060 | (51,585) | (51,945) |
| Losses (gains) on investments, net | (91,480) | (56,925) | (12,486) |
| Share-based compensation | 53,255 | 18,312 | 21,244 |
| Foreign currency transaction losses (gains), net | 6,225 | 4,819 | 5,725 |
| Equity in (earnings) losses of unconsolidated affiliates, net of dividends | 800 | 299,717 | (161,189) |
| Other | (2,550) | 1,862 | (11,077) |
| Changes in operating assets and liabilities, net of effects from acquisitions: | | | |
| Accounts receivable | (44,561) | 200,537 | (459,455) |
| Inventory | 39,412 | 14,447 | (114,896) |
| Other current assets | (6,943) | (42,743) | (24,820) |
| Other long-term assets | 42,298 | (38,468) | 71,867 |
| Trade accounts payable and accrued liabilities | 113,550 | (224,795) | 519,211 |
| Income taxes payable | (31,752) | (1,488) | 999 |
| Other long-term liabilities | (109,085) | 29,857 | (27,967) |
| Net cash provided by operating activities | 1,418,223 | 1,562,705 | 1,456,487 |
| Cash flows from investing activities: | | | |
| Purchases of investments | | (949) | (11,746) |
| Sales and maturities of investments | 164,510 | 31,944 | 39,063 |
| Proceeds from sale of unconsolidated affiliates | 12,640 | 159,529 | 142,984 |
| Cash paid for acquisition of businesses, net | (116,971) | | (55,459) |
| Investment in unconsolidated affiliates | (5,967) | (1,325) | (112,262) |
| Capital expenditures | (1,178,205) | (1,518,628) | (2,042,617) |
| Proceeds from sales of assets and insurance claims | 308,538 | 149,801 | 180,558 |
| Other | (13) | | |
| Net cash used for investing activities | (815,468) | (1,179,628) | (1,859,479) |
| Cash flows from financing activities: | | | |
| Increase (decrease) in cash overdrafts | (4,421) | 1,612 | 6,375 |
| Proceeds from issuance of long-term debt | 698,753 | | 697,578 |
| Debt issuance costs | (4,500) | (3,433) | (7,141) |
| Proceeds from revolving credit facilities | | 710,000 | 1,560,000 |
| Proceeds from (payments for) issuance of common shares | 5,383 | (3,625) | 11,605 |
| Reduction in long-term debt | (994,181) | (276,258) | (1,404,281) |
| Dividends to shareholders | (47,168) | | |
| Proceeds from (payment for) commercial paper, net | 329,844 | | |

| | | | |
|---|---|---|---|
| Reduction in revolving credit facilities | (720,000) | (680,000) | (700,000) |
| Other | 6,704 | (2,423) | (891) |
| Net cash (used for) provided by financing activities | (729,586) | (254,127) | 163,245 |
| Effect of exchange rate changes on cash and cash equivalents | (8,176) | (2,603) | (3,380) |
| Net increase (decrease) in cash and cash equivalents | (135,007) | 126,347 | (243,127) |
| Cash and cash equivalents, beginning of period | 524,922 | 398,575 | 641,702 |
| Cash and cash equivalents, end of period | $ 389,915 | $ 524,922 | $ 398,575 |

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 EQUITY**

| (In thousands) | Common Shares Shares | Common Shares Par Value | Capital in Excess of Par Value | Accumulated Other Comprehensive Income | Retained Earnings | Treasury Shares | Non-controlling Interest | Total Equity |
|---|---|---|---|---|---|---|---|---|
| As of December 31, 2010 | 315,034 | $ 315 | $ 2,255,787 | $ 342,052 | $ 3,702,243 | $ (977,873) | $ 14,701 | $ 5,337,225 |
| Net income (loss) | | | | | 248,524 | | 1,045 | 249,569 |
| Other comprehensive income (loss), net of tax | | | | (20,788) | | | (185) | (20,973) |
| Issuance of common shares for stock options exercised, net of surrender of unexercised stock options | 1,116 | 1 | 11,604 | | | | | 11,605 |
| Share-based compensation | | | 21,244 | | | | | 21,244 |
| Other | 892 | 1 | (892) | | 4,804 | | (2,159) | 1,754 |
| As of December 31, 2011 | 317,042 | $ 317 | $ 2,287,743 | $ 321,264 | $ 3,955,571 | $ (977,873) | $ 13,402 | $ 5,600,424 |
| Net income (loss) | | | | | 164,827 | | 621 | 165,448 |
| Other comprehensive income (loss), net of tax | | | | 110,331 | | | 311 | 110,642 |
| Issuance of common shares for stock options exercised, net of surrender of unexercised stock options | 1,152 | 1 | (3,626) | | | | | (3,625) |
| Capital contribution from forgiveness of liability, net of tax | | | 62,734 | | | | | 62,734 |
| Issuance of treasury shares, net of tax | | | (25,496) | | | 33,246 | | 7,750 |
| Share-based compensation | | | 18,312 | | | | | 18,312 |
| Other | 619 | 1 | (2,423) | | | | (2,146) | (4,568) |
| As of December 31, 2012 | 318,813 | $ 319 | $ 2,337,244 | $ 431,595 | $ 4,120,398 | $ (944,627) | $ 12,188 | $ 5,957,117 |
| Net income (loss) | | | | | 139,982 | | 7,180 | 147,162 |
| Dividends to shareholders | | | | | (47,168) | | | (47,168) |
| Other comprehensive income (loss), net of tax | | | | (124,003) | | | (932) | (124,935) |
| Issuance of common shares for stock options exercised, net of surrender of unexercised stock options | 577 | 1 | 5,382 | | | | | 5,383 |
| Share-based compensation | | | 53,255 | | | | | 53,255 |
| Other | 4,321 | 4 | (3,296) | | | | (6,345) | (9,637) |
| As of December 31, 2013 | 323,711 | $ 324 | $ 2,392,585 | $ 307,592 | $ 4,213,212 | $ (944,627) | $ 12,091 | $ 5,981,177 |

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 has grown from a land drilling business centered in the United States and Canada to a global business aimed at optimizing the entire well life cycle, with operations on land and offshore in most of the major oil and gas markets in the world. The majority of our business is conducted through two business lines:

***Drilling & Rig Services***

This business line is comprised of our global drilling rig operations and drilling-related services, consisting of equipment manufacturing, instrumentation optimization software and directional drilling services.

***Completion & Production Services***

This business line is comprised of our operations involved in the completion, life-of-well maintenance and eventual plugging and abandonment of a well. These services include stimulation, coiled-tubing, cementing, wireline, workover, well-servicing and fluids management.

As a global provider of services for land-based and offshore oil and natural gas wells, on land and offshore, Nabors' fleet of rigs and equipment includes:

485 actively marketed land drilling rigs for oil and gas land drilling operations in the United States, Canada and over 20 other countries throughout the world.

445 actively marketed rigs for land well-servicing and workover services in the United States and approximately 104 rigs for land well-servicing and workover services in Canada.

38 platform, 8 jackup and 4 barge rigs actively marketed in the United States and multiple international markets.

Approximately 800,000 hydraulic horsepower for hydraulic fracturing, cementing, nitrogen and acid pressure pumping services in key basins throughout the United States and Canada.

In addition:

We offer a wide range of ancillary well-site services, including engineering, transportation and disposal, construction, maintenance, well logging, directional drilling, rig instrumentation, data collection and other support services in select U.S. and international markets.

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 have a 51% ownership interest in a joint venture in Saudi Arabia, which owns and actively markets 5 rigs in addition to the rigs we lease to the joint venture.

The consolidated financial statements and related footnotes are presented in accordance with GAAP.

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**Nabors Industries Ltd. and Subsidiaries**

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

**Note 2 Revision of Prior Period Financial Statements**

Our Investments in Unconsolidated Affiliates (Note 11) included our equity interest in NFR Energy LLC, now known as Sabine Oil & Gas LLC ("Sabine") through the third quarter of 2012. We disposed of our entire interest during the fourth quarter of 2012.

We were recently informed by Sabine that it is restating its previously issued financial statements to correct errors identified with respect to the accounting for certain derivative financial transactions previously accounted for as cash flow hedges. These errors affect our historical earnings (losses) from unconsolidated affiliates and related income tax expense (benefit) recorded during certain periods in 2012 and earlier. These errors have no effect on our consolidated financial statements for 2013. They also have no effect on our balance sheet or shareholders' equity as of December 31, 2012 or subsequent periods, our income statement for the year ended December 31, 2013 or our cash flows from operating, investing or financing activities for any historical period.

We assessed the materiality of these errors in accordance with the SEC's Staff Accounting Bulletin 99 and concluded that the previously issued annual financial statements were not materially misstated. However, the impact is material to the quarters ended March 31, 2012 and June 30, 2012. Accordingly, we have corrected these errors in the quarters and annual periods by revising our consolidated financial statements for the years 2012 and prior and restating the unaudited quarterly financial information (Note 22) for quarters ended March 31, 2012 and June 30, 2012. In addition, as a result of revising our prior years' consolidated financial statements, we have also corrected certain other immaterial items that had been previously recorded during the period identified, to reflect such items in the proper period. The effect of the adjustments was to increase our net income for the years ended December 31, 2012 and 2011 by $0.8 million and $4.8 million, respectively. The effect of these adjustments for periods prior to January 1, 2011 have been reflected as revisions to retained earnings as of December 31, 2010 in our consolidated statements of changes in equity.

The tables below present the financial statement line items impacted by the revisions to our consolidated financial statements for the years ended December 31, 2012 and 2011.

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**Nabors Industries Ltd. and Subsidiaries**

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

**Note 2 Revision of Prior Period Financial Statements (Continued)**

The effect on our consolidated statements of income (loss) is as follows:

| | Year Ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2012 | | | 2011 | | |
| (In thousands, except per share amounts) | As Reported(1) | Adjustment | Revised | As Reported(1) | Adjustment | Revised |
| Earnings (losses) from unconsolidated affiliates | $ (301,320) | $ 12,602 | $ (288,718) | $ 56,647 | $ 28,801 | $ 85,448 |
| Total revenues and other income | 6,604,868 | 12,602 | 6,617,470 | 6,090,066 | 28,801 | 6,118,867 |
| Direct costs | 4,368,702 | (1,596) | 4,367,106 | 3,736,910 | 1,596 | 3,738,506 |
| Total costs and other deductions | 6,342,106 | (1,596) | 6,340,510 | 5,602,018 | 1,596 | 5,603,614 |
| Income (loss) from continuing operations before income taxes | 262,762 | 14,198 | 276,960 | 488,048 | 27,205 | 515,253 |
| Deferred income tax expense (benefit) | (115,413) | 13,405 | (102,008) | 33,021 | 22,360 | 55,381 |
| Income tax expense (benefit) | 27,581 | 13,405 | 40,986 | 142,723 | 22,360 | 165,083 |
| Income (loss) from continuing operations, net of tax | 232,181 | 793 | 232,974 | 342,325 | 4,845 | 347,170 |
| Net income (loss) | 164,655 | 793 | 165,448 | 244,724 | 4,845 | 249,569 |
| Net income (loss) attributable to Nabors | 164,034 | 793 | 164,827 | 243,679 | 4,845 | 248,524 |
| Earnings (losses) per share:(2) | | | | | | |
| Basic from continuing operations | $ 0.80 | $ | $ 0.80 | $ 1.19 | $ 0.02 | $ 1.21 |
| Total Basic | $ 0.57 | $ | $ 0.57 | $ 0.85 | $ 0.02 | $ 0.87 |
| Diluted from continuing operations | $ 0.79 | $ | $ 0.79 | $ 1.17 | $ 0.02 | $ 1.18 |
| Total Diluted | $ 0.56 | $ | $ 0.56 | $ 0.83 | $ 0.02 | $ 0.85 |

(1) Amounts reflect the retrospective reclassification of the results of Peak as discontinued operations. Refer to Note 5 Assets Held for Sale and Discontinued Operations for additional information.

(2) Earnings per share is computed independently for each of the columns presented. Therefore, the sum of the earnings per share may not equal the total revised.

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**Nabors Industries Ltd. and Subsidiaries**

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

**Note 2 Revision of Prior Period Financial Statements (Continued)**

The effect on our consolidated statements of other comprehensive income (loss) is as follows:

| | Year Ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2012 | | | 2011 | | |
| (In thousands) | As Reported | Adjustment | Revised | As Reported | Adjustment | Revised |
| Net income (loss) attributable to Nabors | $ 164,034 | $ 793 | $ 164,827 | $ 243,679 | $ 4,845 | $ 248,524 |
| Comprehensive income (loss) attributable to Nabors | 274,365 | 793 | 275,158 | 222,891 | 4,845 | 227,736 |
| Comprehensive income (loss) | 275,297 | 793 | 276,090 | 223,751 | 4,845 | 228,596 |

While these adjustments had no impact on our overall cash flows from operating, investing or financing activities for any period, the presentation of certain line items within our operating activities in our consolidated statements of cash flow was revised and is as follows:

| | Year Ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2012 | | | 2011 | | |
| (In thousands) | As Reported | Adjustment | Revised | As Reported | Adjustment | Revised |
| Net income (loss) attributable to Nabors | $ 164,034 | $ 793 | $ 164,827 | $ 243,679 | $ 4,845 | $ 248,524 |
| Deferred income tax expense (benefit) | (145,147) | 13,405 | (131,742) | (34,739) | 22,360 | (12,379) |
| Equity in (earnings) losses of unconsolidated affiliates, net of dividends | 312,319 | (12,602) | 299,717 | (132,388) | (28,801) | (161,189) |
| Trade accounts payable and accrued liabilities | (223,199) | (1,596) | (224,795) | 517,615 | 1,596 | 519,211 |
| | | | | | | |
| Net cash provided by operating activities | 1,562,705 | | 1,562,705 | 1,456,487 | | 1,456,487 |

The effect on our consolidated statements of changes in equity is as follows:

| | Year Ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2011 | | | 2010 | | |
| (In thousands) | As Reported | Adjustment | Revised | As Reported | Adjustment | Revised |
| Retained earnings | $ 3,956,364 | $ (793) | $ 3,955,571 | $ 3,707,881 | $ (5,638) | $ 3,702,243 |
| Total equity | 5,601,217 | (793) | 5,600,424 | 5,342,863 | (5,638) | 5,337,225 |

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**Nabors Industries Ltd. and Subsidiaries**

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

**Note 3 Summary of Significant Accounting Policies**

***Principles of Consolidation***

Our consolidated financial statements include the accounts of Nabors, as well as all majority owned and non-majority owned subsidiaries required to be consolidated under GAAP. 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 operating and financial policies, are accounted for using the equity method. Our share of the net income (loss) of these entities is recorded as earnings (losses) from unconsolidated affiliates in our consolidated statements of income (loss). The investments in these entities are included in investment in unconsolidated affiliates in our consolidated balance sheets.

***Cash and Cash Equivalents***

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

***Investments***

*Short-term investments*

Short-term investments consist of equity securities, corporate debt securities, mortgage-backed debt securities and asset-backed debt securities. Securities classified as available-for-sale are stated at fair value. Unrealized holding gains and temporary losses for available-for-sale securities are excluded from earnings and, until realized, are presented in the statement of other comprehensive income (loss). Unrealized holding losses are included in earnings during the period for which the loss is determined to be other-than-temporary.

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

*Long-term investments and other receivables*

We have investments in overseas funds that invest primarily in a variety of public and private U.S. and non-U.S. securities (including asset-backed and mortgage-backed securities, global structured-asset securitizations, whole-loan mortgages, and participations in whole loans and whole-loan mortgages). These investments are non-marketable and do not have published fair values. The fair value of these investments approximates their carrying value and totaled $3.2 million and $4.3 million as of December 31, 2013 and 2012, respectively.

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**Nabors Industries Ltd. and Subsidiaries**

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

**Note 3 Summary of Significant Accounting Policies (Continued)**

***Inventory***

Inventory is stated at the lower of cost or market. Cost is determined using the first-in, first-out or weighted-average costs methods and includes the cost of materials, labor and manufacturing overhead. Inventory included the following:

| | December 31, | |
|---|---|---|
| | 2013 | 2012 |
| | (In thousands) | |
| Raw materials | $ 128,606 | $ 148,822 |
| Work-in-progress | 26,762 | 45,733 |
| Finished goods | 54,425 | 56,578 |
| | $ 209,793 | $ 251,133 |

***Property, Plant and Equipment***

Property, plant and equipment, including renewals and betterments, are stated at cost, while maintenance and repairs are expensed currently. Interest costs applicable to the construction of qualifying assets are capitalized as a component of the cost of such assets. We provide for the depreciation of our drilling and workover rigs using the units-of-production method. For each day a rig is operating, we depreciate it over an approximate 4,927-day period, with the exception of our jackup rigs which are depreciated over an 8,030-day period, after provision for salvage value. For each day a rig asset is not operating, it is depreciated over an assumed depreciable life of 20 years, with the exception of our jackup rigs, where a 30-year depreciable life is used, after provision for salvage value.

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

We review our assets for impairment annually or when events or changes in circumstances indicate that their carrying amounts may not be recoverable. An impairment loss is recorded in the period in which it is determined that the sum of estimated future cash flows, on an undiscounted basis, is less than the carrying amount of the long-lived asset. Impairment charges are recorded using discounted cash flows which requires the estimation of dayrates and utilization, and such estimates can change based on market conditions, technological advances in the industry or changes in regulations governing the industry.

For an asset classified as held for sale, we consider the asset impaired when its carrying amount exceeds fair value less its cost to sell. Fair value is determined in the same manner as an impaired long-lived asset that is held and used.

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**Nabors Industries Ltd. and Subsidiaries**

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

**Note 3 Summary of Significant Accounting Policies (Continued)**

Significant and unanticipated changes to the assumptions could result in future impairments. A significantly prolonged period of lower oil and natural gas prices could adversely affect the demand for and prices of our services, which could result in future impairment charges. As the determination of whether impairment charges should be recorded on our long-lived assets is subject to significant management judgment, and an impairment of these assets could result in a material charge on our consolidated statements of income (loss), management believes that accounting estimates related to impairment of long-lived assets are critical.

***Goodwill***

We initially assess goodwill for impairment based on qualitative factors to determine whether to perform the two-step annual goodwill impairment test, a Level 3 fair value measurement. After qualitative assessment, step one of the impairment test compares the estimated fair value of the reporting unit to its carrying amount. If the carrying amount exceeds the fair value, a second step is required to measure the goodwill impairment loss. The second step compares the implied fair value of the reporting unit's goodwill to its carrying amount. If the carrying amount exceeds the implied fair value, an impairment loss is recognized in an amount equal to the excess.

The fair values calculated in these impairment tests were determined using discounted cash flow models involving assumptions based on our utilization of rigs or other oil and gas service equipment, revenues and earnings from affiliates, as well as direct costs, general and administrative costs, depreciation, applicable income taxes, capital expenditures and working capital requirements. Our discounted cash flow projections for each reporting unit were based on financial forecasts. The future cash flows were discounted to present value using discount rates determined to be appropriate for each reporting unit. Terminal values for each reporting unit were calculated using a Gordon Growth methodology with a long-term growth rate of 3%.

Our estimated fair values of our reporting units incorporate judgment and the use of estimates by management. Potential factors requiring assessment include a further or sustained decline in our stock price, declines in oil and natural gas prices, a variance in results of operations from forecasts, and additional transactions in the oil and gas industry. Another factor in determining whether impairment has occurred is the relationship between our market capitalization and our book value. As part of our annual review, we compared the sum of our reporting units' estimated fair value, which included the estimated fair value of non-operating assets and liabilities, less debt, to our market capitalization and assessed the reasonableness of our estimated fair value. Any of the above-mentioned factors may cause us to re-evaluate goodwill during any quarter throughout the year.

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**Nabors Industries Ltd. and Subsidiaries**

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

**Note 3 Summary of Significant Accounting Policies (Continued)**

The change in the carrying amount of goodwill for our business lines for the years ended December 31, 2012 and 2013 was as follows:

| | Balance at December 31, 2011 | Acquisitions and Purchase Price Adjustments | Disposals and Impairments | Cumulative Translation Adjustment | Balance at December 31, 2012 |
|---|---|---|---|---|---|
| | | | (In thousands) | | |
| **Drilling & Rig Services:** | | | | | |
| U.S. | $ 57,445 | $ | $ (7,296)(1) | $ | $ 50,149 |
| International | 18,983 | | (18,983)(1) | | |
| Rig Services | 34,766 | | (3,035)(2) | 382 | 32,113 |
| Subtotal Drilling & Rig Services | 111,194 | | (29,314) | 382 | 82,262 |
| **Completion & Production Services** | | | | | |
| Completion | 334,992 | | | | 334,992 |
| Production | 55,072 | | | | 55,072 |
| Subtotal Completion & Production Services | 390,064 | | | | 390,064 |
| **Total** | $ 501,258 | $ | $ (29,314) | $ 382 | $ 472,326 |

| | Balance at December 31, 2012 | Acquisitions and Purchase Price Adjustments | Disposals and Impairments | Cumulative Translation Adjustment | Balance at December 31, 2013 |
|---|---|---|---|---|---|
| | | | (In thousands) | | |
| **Drilling & Rig Services:** | | | | | |
| U.S. | $ 50,149 | $ | $ | $ | $ 50,149 |
| Rig Services | 32,113 | 15,828(3) | (9,631)(4) | (1,049) | 37,261 |
| Subtotal Drilling & Rig Services | 82,262 | 15,828 | (9,631) | (1,049) | 87,410 |
| **Completion & Production Services** | | | | | |
| Completion | 334,992 | | | | 334,992 |
| Production | 55,072 | 35,490(5) | | | 90,562 |

| | | | | | |
|---|---|---|---|---|---|
| Subtotal Completion & Production Services | 390,064 | 35,490 | | | 425,554 |
| **Total** | $ 472,326 | $ 51,318 | $ (9,631) | $ (1,049) | $ 512,964 |

(1) Represents the impairment of goodwill associated with our operations in our U.S. and International drilling operating segments. As of December 31, 2012, our International operating segment had no recorded goodwill.

(2) Represents the removal of goodwill in connection with our sale of a subsidiary that provided trucking and logistics services.

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**Nabors Industries Ltd. and Subsidiaries**

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

**Note 3 Summary of Significant Accounting Policies (Continued)**

(3) Represents the goodwill recorded in connection with our acquisition of NES. See Note 6 Acquisitions for additional discussion.

(4) Represents the removal of goodwill in connection with our sale of Peak and the logistic assets from one of our Canada subsidiaries.

(5) Represents the goodwill recorded in connection with our acquisition of KVS. See Note 6 Acquisitions for additional discussion.

Goodwill for the consolidated company, totaling approximately $76.7 million, is expected to be deductible for tax purposes.

***Litigation and Insurance Reserves***

We estimate our reserves related to litigation and insurance based on the facts and circumstances specific to the litigation and insurance claims and our past experience with similar claims. We maintain actuarially determined accruals in our consolidated balance sheets to cover self-insurance retentions. See Note 19 Commitments and Contingencies regarding self-insurance accruals. We estimate the range of our liability related to pending litigation when we believe the amount and range of loss can reasonably 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. For matters where an unfavorable outcome is reasonably possible and significant, we disclose the nature of the matter and a range of potential exposure, unless an estimate cannot be made at the time of disclosure.

***Revenue Recognition***

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

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

In connection with the performance of our cementing services, we recognize product and service revenue when the products are delivered or services are provided to the customer and collectability is reasonably assured. Product sale prices are determined by published price lists provided to our customers.

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**Nabors Industries Ltd. and Subsidiaries**

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

**Note 3 Summary of Significant Accounting Policies (Continued)**

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

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

***Income Taxes***

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

We recognize increases to our tax reserves for uncertain tax positions along with interest and penalties as an increase to other long-term liabilities.

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

Nabors realizes an income tax benefit associated with certain awards issued under our stock plans. We recognize the benefits related to tax deductions up to the amount of the compensation expense recorded for the award in the consolidated statements of income (loss). Any excess tax benefit (i.e., tax deduction in excess of compensation expense) is reflected as an increase in capital in excess of par. Any shortfall is recorded as a reduction to capital in excess of par to the extent of our aggregate accumulated pool of windfall benefits, beyond which the shortfall would be recognized in the consolidated statements of income (loss).

***Foreign Currency Translation***

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

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**Nabors Industries Ltd. and Subsidiaries**

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

**Note 3 Summary of Significant Accounting Policies (Continued)**

***Cash Flows***

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

***Use of Estimates***

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

depreciation of property, plant and equipment;

impairment of long-lived assets;

impairment of goodwill and intangible assets;

income taxes;

litigation and self-insurance reserves; and

fair value of assets acquired and liabilities assumed.

**Note 4 Impairments and Other Charges**

The components of impairments and other charges is provided below:

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2013 | 2012 | 2011 |
| | (In thousands) | | |
| Loss on tendered notes | $ 208,197 | $ | $ |
| Provision for retirement of assets | 14,044 | 138,666 | 98,072 |
| Impairment of long-lived assets | 20,000 | 50,355 | |
| Termination of employment contract | 45,000 | | 100,000 |
| Intangible asset impairment | | 74,960 | |
| Goodwill impairment | | 26,279 | |
| Total | $ 287,241 | $ 290,260 | $ 198,072 |

***Loss on tendered notes***

During 2013, we recognized a loss related to the extinguishment of debt in connection with the tender offer on our 9.25% senior notes. See Note 13 Debt for additional discussion. In 2013, we completed a cash tender offer for these notes and repurchased $785.4 million aggregate principal amount. We paid the holders an aggregate of approximately $1.0 billion in cash, reflecting principal and accrued and unpaid interest and recognized a loss as part of the debt extinguishment.

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**Nabors Industries Ltd. and Subsidiaries**

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

**Note 4 Impairments and Other Charges (Continued)**

***Provision for retirement of long-lived assets***

During 2013, we recorded a provision for retirement of long-lived assets in multiple operating segments totaling $14.0 million, which reduced the carrying value of some assets to their salvage value. The retirements related to assets in Saudi Arabia and included obsolete top-drives, nonworking trucks, generators, engines and other miscellaneous equipment. The retirements in our Canada operations included functionally inoperable rigs and other drilling equipment. In our Completion & Production operations, the retirements related to rigs and vehicles that would require significant repair to return to work and other non-core assets.

During 2012, we recorded a provision for retirement of long-lived assets in multiple operating segments, including $37.1 million in U.S., $33.7 million in Canada, $16.5 million in International and $2.0 million in Rig Services, all from our Drilling & Rig Services business line. The retirements in this business line included mechanical rigs, a jackup rig and other assets that have become inoperable or functionally obsolete and that we do not believe could be returned to service without significant costs to refurbish.

Additionally in 2012, we recorded similar provisions for retirement of long-lived assets of $49.4 million in our Completion & Production Services business line. During 2012, we streamlined our operations and consolidated our Completion & Production Services into this business line, and retired some non-core assets. As we continue to streamline our lines of business, there could be future retirement or impairment charges, which could have a potential impact on our future operating results.

During 2011, we recorded a provision for retirement of long-lived assets totaling $98.1 million in multiple operating segments. This related to the decommissioning and retirement of one jackup rig, 116 land rigs, and a number of rigs and trucks. Our U.S., International and Production Services operations recorded $63.2 million, $26.1 million and $8.9 million, respectively. These assets were deemed to be functionally or economically non-competitive for today's market and are being dismantled for parts and scrap.

A continued period of lower oil and natural gas prices and their potential impact on our utilization and dayrates could result in the recognition of future impairment charges to additional assets if future cash flow estimates, based upon information then available to management, indicate that the carrying value of those assets may not be recoverable.

***Impairments of long-lived assets***

During 2013, we recognized an impairment of $20.0 million to our fleet of coil-tubing units in our Completion & Production Services business line. Intense competition and oversupply of equipment has led to lower utilization and margins for this product line. When these factors were considered as part of our annual impairment tests on long-lived assets, the sum of the estimated future cash flows, on an undiscounted basis, was less than the carrying amount of these assets. The estimated fair values of these assets were calculated using discounted cash flow models involving assumptions based on our utilization of the assets, revenues and direct costs, capital expenditures and working capital requirements. We believe the fair value estimated for purposes of these tests represents a Level 3 fair value measurement. In 2013, we suspended our coil-tubing operations in the United States. A prolonged period of slow economic recovery could continue to adversely affect the demand for and

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**Nabors Industries Ltd. and Subsidiaries**

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

**Note 4 Impairments and Other Charges (Continued)**

prices of our services, which could result in future impairment charges for other reporting units due to the potential impact on our estimate of our future operating results.

During the fourth quarter of 2012, we determined that some of our coil-tubing rigs would not be fully utilized as forecasted, which resulted in a triggering event and required a year-end long-lived asset impairment test. Our year-end impairment test resulted in impairment charges of $17.4 million in our U.S. and $32.9 million in our Canada operations.

We did not record any impairment of long-lived assets in 2011.

***Provision for termination of employment contract***

During 2013, we recognized a one-time stock grant valued at $27.0 million, which vested immediately, and $18.0 million in cash awarded and paid to Mr. Petrello in connection with the termination of his prior employment agreement. See Note 19 Commitments and Contingencies for additional discussion.

During 2011, we recorded a provision for a contingent liability that existed on December 31, 2011 related to the change of our Chief Executive Officer that occurred in October 2011. This charge resulted from a potential termination payment to our former Chief Executive Officer, Eugene Isenberg, under the terms of his employment contract. Subsequent to December 31, 2011, Mr. Isenberg elected to forego triggering that payment and as a result, we did not owe or make the termination payment. During 2012, we made charitable contributions to benefit the needs of our employees and other community-based causes. We contributed one million Nabors' common shares previously held by an affiliate to the Nabors Charitable Foundation, a 501(c)(3) organization, in support of this objective. We consider our former Chief Executive Officer to be a significant shareholder of the Company and, therefore, recorded these transactions as equity. During 2012, we recorded the release of the contingent liability, net of tax, through capital in excess of par as a forgiveness of liability from a beneficial owner. We recorded the donation of the treasury shares at their weighted-average cost, net of tax, through capital in excess of par.

***Intangible asset impairment***

During 2012, we recorded an impairment of the Superior trade name totaling $75.0 million. The Superior trade name was initially classified as a ten-year intangible asset at the date of acquisition in September 2010. The impairment is a result of the decision to cease using the Superior trade name to reduce confusion in the marketplace and enhance the Nabors brand.

There were no intangible asset impairments in 2013 or 2011.

***Goodwill impairments***

During 2012, we recognized the impairment of goodwill associated with our operations in the U.S. and International drilling operations. The impairments were deemed necessary due to the prolonged uncertainty of utilization of some of our rigs as a result of changes in our customers' plans for future drilling operations in the Gulf of Mexico as well as our international markets. A prolonged period of lower natural gas prices or changes in laws and regulations could continue to adversely affect the demand for and prices of our services, which could result in future goodwill impairment charges for other reporting units due to the potential impact on our estimate of future operating results.

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**Nabors Industries Ltd. and Subsidiaries**

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

**Note 4 Impairments and Other Charges (Continued)**

There were no goodwill impairments in 2013 or 2011.

**Note 5 Assets Held for Sale and Discontinued Operations**

**Assets Held for Sale**

Assets held for sale included the following:

| | December 31, | |
|---|---|---|
| | 2013 | 2012 |
| | (In thousands) | |
| Oil and Gas | $ 239,936 | $ 377,625 |
| Rig Services | 3,328 | 6,232 |
| | $ 243,264 | $ 383,857 |

***Oil and Gas Properties***

The carrying value of our assets held for sale represents the lower of carrying value or fair value less costs to sell. We continue to market these properties at prices that are reasonable compared to current fair value. Also, we have deferred tax assets of approximately $15.0 million, which are included in long-term deferred income taxes in our consolidated balance sheet, associated with our oil and gas operations in Canada.

We have contracts with pipeline companies to pay specified fees based on committed volumes for gas transport and processing. In December 2013, we entered into agreements to restructure these contracts, assigning a portion of the obligation to third parties and reducing our future payment commitments. At December 31, 2013, our undiscounted contractual commitments for these contracts approximated $171.2 million, and we had liabilities of $113.6 million, $64.4 million of which were classified as current and are included in accrued liabilities.

At December 31, 2012, we had liabilities of $206 million, $69 million of which were classified as current and included in accrued liabilities. The amounts at December 31, 2013, and 2012 represented our best estimate of the fair value of the excess capacity of the pipeline commitments calculated using a discounted cash flow model, when considering our disposal plan, current production levels, natural gas prices and expected utilization of the pipeline over the remaining contractual term

**Discontinued Operations**

The operating results from the assets discussed above for all periods presented are retroactively presented and accounted for as discontinued operations in the accompanying audited consolidated statements of income (loss) and the respective accompanying notes to the consolidated financial

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**Nabors Industries Ltd. and Subsidiaries**

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

**Note 5 Assets Held for Sale and Discontinued Operations (Continued)**

statements. Our condensed statements of income (loss) from discontinued operations for each operating segment were as follows:

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2013 | 2012 | 2011 |
| | (In thousands, except percentages) | | |
| **Operating revenues** | | | |
| Oil and Gas | $ 25,327 | $ 27,363 | $ 125,654(1) |
| Rig Services | $ 127,154 | $ 172,335 | $ 76,584 |
| **Income (loss) from Oil & Gas discontinued operations:** | | | |
| Income (loss) from discontinued operations | (17,371) | (3,958) | 18,880 |
| Less: Impairment charges or other (gains) and losses on sale of wholly owned assets | 24,087(2) | 106,096(3) | 208,455(4) |
| Less: Income tax expense (benefit) | (14,062) | (44,021) | (98,181) |
| **Income (loss) from Oil and Gas discontinued operations, net of tax** | (27,396) | (66,033) | (91,394) |
| **Income (loss) from Rig Services discontinued operations:** | | | |
| Income (loss) from discontinued operations | 17,680 | 9,846 | 458 |
| Less: Impairment charges or other (gains) and losses on sale of wholly owned assets | (4,368)(5) | 9,087(6) | 8,800(6) |
| Less: Income tax expense (benefit) | 5,831 | 2,252 | (2,135) |
| **Income (loss) from Rig Services discontinued operations, net of tax** | 16,217 | (1,493) | (6,207) |

***Oil and Gas***

(1) Includes approximately $83 million of equity in earnings during 2011 for our proportionate share of Remora's net income, inclusive of the gains recognized for asset sales during 2011.

(2) Includes impairments during 2013 of $61.5 million to write down the carrying value of some of our wholly owned oil and gas-centered assets, partially offset by a gain related to our restructure of our future pipeline obligations.

(3) Includes adjustments during 2012 to increase our pipeline contractual commitments by $128.1 million and other gains and losses related to the sale of our wholly owned oil and gas-centered assets.

(4) Includes impairments during 2011 of $255.0 million to write down the carrying value of our wholly owned oil and gas-centered assets.

In 2013, we sold some of our wholly owned oil and gas assets and received proceeds of $90.0 million.

In 2012, we sold our remaining wholly owned oil and gas business in Colombia and sold additional wholly owned assets in the United States. In December 2012, we sold our 49.7% ownership interest in the U.S. unconsolidated oil and gas joint venture, to the remaining equity owners. During 2012, we received cumulative gross cash proceeds of $254.5 million from sales of oil and gas assets.

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**Nabors Industries Ltd. and Subsidiaries**

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

**Note 5 Assets Held for Sale and Discontinued Operations (Continued)**

In 2011, we sold some of our wholly owned oil and gas assets in Colombia and the United States. Additionally in 2011, Remora, a former unconsolidated oil and gas joint venture, completed sales of its oil and gas assets in Colombia. During 2011, we received gross cash proceeds of $303.8 million from sales of oil and gas assets.

***Rig Services***

(5) Represents the gains recognized from our sale of our logistics services and construction services. In April 2013, we sold the assets of one of our former Canadian subsidiaries that provided logistics services for proceeds of $9.3 million. In October 2013, we sold Peak, one of our businesses in Alaska, for which we received cash proceeds of $135.5 million.

(6) Includes $7.8 million and $7.9 million, respectively, of impairment (a Level 3 measurement) in 2012 and 2011 to our aircraft and logistics assets as a result of the continued downturn in the oil and gas industry in Canada.

Additional discussion of our policy pertaining to the calculations of our annual impairment tests, including any impairment to goodwill, is set forth in Note 2 Summary of Significant Accounting Policies. A further protraction of lower commodity prices or an inability to sell these assets in a timely manner could result in recognition of future impairment charges.

The revised consolidated statements of income in Note 2 Revisions of Prior Period Financial Statements were updated to retroactively reclassify the results of Peak as discontinued operations. The table below sets forth a reconciliation between such presentation and the consolidated statements of income (loss) as they were previously filed for the years ended December 31, 2012 and 2011. In addition, the consolidated statements of income (loss) for the quarters ended March 31, 2013 and

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**Nabors Industries Ltd. and Subsidiaries**

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

**Note 5 Assets Held for Sale and Discontinued Operations (Continued)**

June 30, 2013 are presented within. There was no effect to our consolidated statements of other comprehensive income or cash flows for such periods.

| | Year Ended | | | | | |
|---|---|---|---|---|---|---|
| | December 31, 2012 | | | December 31, 2011 | | |
| (In thousands, except per share amounts) | As Previously Filed | Discontinued Operations(1) | As Reported(2) | As Previously Filed | Discontinued Operations(1) | As Reported(2) |
| Revenues and other income: | | | | | | |
| Operating Revenues | $ 6,989,573 | $ (146,522) | $ 6,843,051 | $ 6,060,351 | $ (46,871) | $ 6,013,480 |
| Earnings from affiliates | (301,320) | | (301,320) | 56,647 | 0 | 56,647 |
| Investment income | 63,137 | | 63,137 | 19,940 | (1) | 19,939 |
| Total revenues and other income | 6,751,390 | (146,522) | 6,604,868 | 6,136,938 | (46,872) | 6,090,066 |
| Costs and other deductions: | | | | | | |
| Direct Costs | 4,483,320 | (114,618) | 4,368,702 | 3,775,964 | (39,054) | 3,736,910 |
| General and administrative expenses | 532,568 | (4,615) | 527,953 | 489,892 | (2,084) | 487,808 |
| Depreciation and amortization | 1,055,517 | (15,594) | 1,039,923 | 924,094 | (5,972) | 918,122 |
| Interest Expense | 251,552 | 352 | 251,904 | 256,633 | (1) | 256,632 |
| Losses (gains) on sales and disposals of long-lived assets and other expense (income), net | (136,510) | (126) | (136,636) | 4,514 | (40) | 4,474 |
| Impairments and other charges | 290,260 | | 290,260 | 198,072 | | 198,072 |
| Total costs and other deductions | 6,476,707 | (134,601) | 6,342,106 | 5,649,169 | (47,151) | 5,602,018 |
| Income before income taxes | 274,683 | (11,921) | 262,762 | 487,769 | 279 | 488,048 |
| Income tax expense: | | | | | | |
| Current | 142,994 | | 142,994 | 109,702 | | 109,702 |
| Deferred | (110,366) | (5,047) | (115,413) | 32,903 | 118 | 33,021 |
| Total income tax expense | 32,628 | (5,047) | 27,581 | 142,605 | 118 | 142,723 |
| Subsidiary preferred stock dividend | 3,000 | | 3,000 | 3,000 | | 3,000 |
| Income (loss) from continuing operations, net of tax | 239,055 | (6,874) | 232,181 | 342,164 | 161 | 342,325 |
| Income from discontinued operations, net of tax | (74,400) | 6,874 | (67,526) | (97,440) | (161) | (97,601) |
| Net income (loss) | 164,655 | | 164,655 | 244,724 | | 244,724 |
| Less: Net (income) loss attributable to noncontrolling interest | (621) | | (621) | (1,045) | | (1,045) |
| Net income (loss) attributable to Nabors | $ 164,034 | $ | $ 164,034 | $ 243,679 | $ | $ 243,679 |
| Earnings per share:(3) | | | | | | |
| Basic from continuing operations | $ 0.82 | $ (0.02) | $ 0.80 | $ 1.19 | $ | $ 1.19 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Basic from discontinued operations | (0.25) | 0.02 | (0.23) | (0.34) | | (0.34) |
| Total Basic | $ 0.57 | $ | $ 0.57 | $ 0.85 | $ | $ 0.85 |
| Diluted from continuing operations | $ 0.82 | $ (0.02) | $ 0.79 | $ 1.17 | $ | $ 1.17 |
| Diluted from discontinued operations | (0.26) | 0.02 | (0.23) | (0.34) | | (0.34) |
| Total Diluted | $ 0.56 | $ | $ 0.56 | $ 0.83 | $ | $ 0.83 |

(1) Amounts represents the operating results from Peak, as discussed above.

(2) Amounts reflect discontinued operations presentation for Peak prior to adjustments required as a result of our revisions to our consolidated statements of income (loss) for the years ended December 31, 2012 and 2011.

(3) Earnings per share is computed independently for each of the columns presented. Therefore, the sum of the earnings per share may not equal the total revised.

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**Nabors Industries Ltd. and Subsidiaries**

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

**Note 5 Assets Held for Sale and Discontinued Operations (Continued)**

| | Quarter Ended | | | | | |
|---|---|---|---|---|---|---|
| | March 31, 2012 | | | June 30, 2012 | | |
| (In thousands, except per share amounts) | As Previously Filed | Discontinued Operations(1) | As Reported(2) | As Previously Filed | Discontinued Operations(1) | As Reported(2) |
| Revenues and other income: | | | | | | |
| Operating Revenues | $ 1,890,426 | $ (45,738) | $ 1,844,688 | $ 1,737,114 | $ (39,210) | $ 1,697,904 |
| Earnings from affiliates | (68,669) | | (68,669) | (134,317) | | (134,317) |
| Investment income | 20,252 | | 20,252 | 5,368 | | 5,368 |
| Total revenues and other income | 1,842,009 | (45,738) | 1,796,271 | 1,608,165 | (39,210) | 1,568,955 |
| Costs and other deductions: | | | | | | |
| Direct Costs | 1,184,816 | (30,703) | 1,154,113 | 1,123,256 | (30,881) | 1,092,375 |
| General and administrative expenses | 136,346 | (878) | 135,468 | 133,612 | (1,227) | 132,385 |
| Depreciation and amortization | 247,621 | (4,074) | 243,547 | 261,016 | (3,759) | 257,257 |
| Interest Expense | 62,654 | 11 | 62,665 | 63,459 | 168 | 63,627 |
| Losses (gains) on sales and disposals of long-lived assets and other expense (income), net | (1,840) | (5) | (1,845) | 13,414 | (8) | 13,406 |
| Impairments and other charges | | | | 147,503 | | 147,503 |
| Total costs and other deductions | 1,629,597 | (35,649) | 1,593,948 | 1,742,260 | (35,707) | 1,706,553 |
| Income before income taxes | 212,412 | (10,089) | 202,323 | (134,095) | (3,503) | (137,598) |
| Income tax expense: | | | | | | |
| Current | 26,006 | | 26,006 | 34,698 | | 34,698 |
| Deferred | 43,038 | (4,271) | 38,767 | (70,890) | (1,483) | (72,373) |
| Total income tax expense | 69,044 | (4,271) | 64,773 | (36,192) | (1,483) | (37,675) |
| Subsidiary preferred stock dividend | 750 | | 750 | 750 | | 750 |
| Income (loss) from continuing operations, net of tax | 142,618 | (5,818) | 136,800 | (98,653) | (2,020) | (100,673) |
| Income from discontinued operations, net of tax | (8,795) | 5,818 | (2,977) | 24,690 | 2,020 | 26,710 |
| Net income (loss) | 133,823 | | 133,823 | (73,963) | | (73,963) |
| Less: Net (income) loss attributable to noncontrolling interest | 267 | | 267 | 1,174 | | 1,174 |
| Net income (loss) attributable to Nabors | $ 134,090 | $ | $ 134,090 | $ (72,789) | $ | $ (72,789) |
| Earnings per share:(3) | | | | | | |
| Basic from continuing operations | $ 0.50 | $ (0.02) | $ 0.48 | $ (0.34) | $ | $ (0.34) |
| Basic from discontinued operations | (0.04) | 0.02 | (0.02) | 0.09 | | 0.09 |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Total Basic | $ | 0.46 | $ | | $ | 0.46 | $ | (0.25) | $ | $ (0.25) |
| Diluted from continuing operations | $ | 0.49 | $ | (0.02) | $ | 0.47 | $ | (0.34) | $ | $ (0.34) |
| Diluted from discontinued operations | | (0.03) | | 0.02 | | (0.01) | | 0.09 | | 0.09 |
| Total Diluted | $ | 0.46 | $ | | $ | 0.46 | $ | (0.25) | $ | $ (0.25) |

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**Nabors Industries Ltd. and Subsidiaries**

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

**Note 5 Assets Held for Sale and Discontinued Operations (Continued)**

| | Six Months Ended June 30, 2012 | | |
|---|---|---|---|
| **(In thousands, except per share amounts)** | **As Previously Filed** | **Discontinued Operations(1)** | **As Reported(2)** |
| Revenues and other income: | | | |
| Operating Revenues | $ 3,627,540 | (84,948) | $ 3,542,592 |
| Earnings from affiliates | (202,986) | | (202,986) |
| Investment income | 25,620 | | 25,620 |
| Total revenues and other income | 3,450,174 | (84,948) | 3,365,226 |
| Costs and other deductions: | | | |
| Direct Costs | 2,308,072 | (61,584) | 2,246,488 |
| General and administrative expenses | 269,958 | (2,105) | 267,853 |
| Depreciation and amortization | 508,637 | (7,833) | 500,804 |
| Interest Expense | 126,113 | 179 | 126,292 |
| Losses (gains) on sales and disposals of long-lived assets and other expense (income), net | 11,574 | (13) | 11,561 |
| Impairments and other charges | 147,503 | | 147,503 |
| Total costs and other deductions | 3,371,857 | (71,356) | 3,300,501 |
| Income before income taxes | 78,317 | (13,592) | 64,725 |
| Income tax expense: | | | |
| Current | 60,704 | | 60,704 |
| Deferred | (27,852) | (5,754) | (33,606) |
| Total income tax expense | 32,852 | (5,754) | 27,098 |
| Subsidiary preferred stock dividend | 1,500 | | 1,500 |
| Income (loss) from continuing operations, net of tax | 43,965 | (7,838) | 36,127 |
| Income from discontinued operations, net of tax | 15,895 | 7,838 | 23,733 |
| Net income (loss) | 59,860 | | 59,860 |
| Less: Net (income) loss attributable to noncontrolling interest | 1,441 | | 1,441 |
| Net income (loss) attributable to Nabors | $ 61,301 | $ | $ 61,301 |
| Earnings per share:(3) | | | |

| | | | |
|---|---|---|---|
| Basic from continuing operations | $ 0.16 | $ (0.03) | $ 0.13 |
| Basic from discontinued operations | 0.05 | 0.03 | 0.08 |
| Total Basic | $ 0.21 | $ | $ 0.21 |
| Diluted from continuing operations | $ 0.16 | $ (0.03) | $ 0.13 |
| Diluted from discontinued operations | 0.05 | 0.03 | 0.08 |
| Total Diluted | $ 0.21 | $ | $ 0.21 |

(1) Amounts represents the operating results from Peak, as discussed above.

(2) Amounts reflect discontinued operations presentation for Peak prior to adjustments required as a result of our revisions to our consolidated statements of income (loss) for the quarters ended March 31, 2012 and June 30, 2012 and the six months ended June 30, 2012.

(3) Earnings per share is computed independently for each of the columns presented. Therefore, the sum of the earnings per share may not equal the total revised

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**Nabors Industries Ltd. and Subsidiaries**

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

**Note 6 Acquisitions**

***2013 Acquisitions***

In January 2013, we purchased the business of NES for a total cash price of approximately $37.5 million. NES operates primarily in Texas, Louisiana and North Dakota as a provider of drift-while drilling and measure-while-drilling services and technology. Their business was focused on directional drilling by oil and gas exploration and development companies. This acquisition expands our technology and development capability for drilling and measurement tools and services, and is included in our Rig Services operating segment. The purchase price was allocated to the net tangible and intangible assets acquired based on their fair value. The excess of the purchase price over the fair values of the assets acquired was recorded as goodwill in the amount of $15.8 million.

In October 2013, we purchased for total consideration of $149.0 million, $66.8 million of which is payable in three equal annual installments through 2016. KVS provided various logistics and support services operating in the oilfield and well-servicing industry. Services are provided by tractor trucks, bobtail trucks, winch trucks, other truck types, trailers, container bins, eyewash stations, various types of tanks, shop equipment and other related support equipment. This acquisition expands our truck fleet, vacuum truck services, and tank and related equipment services, and is included in our Production Services operating segment.

***2011 Acquisitions***

In 2011, we paid $65 million in cash to acquire the remaining 50 percent equity interest of Peak, making it a wholly owned subsidiary on this date. Peak provided construction and rig moving services in icy conditions as well as light and heavy-duty moving, hauling and maintenance services. Previously, we held a 50 percent equity interest with a carrying value of $38.1 million that we had accounted for as an equity method investment. In 2013, we sold Peak. See Note 4 Assets Held For Sale and Discontinued Operations.

**Note 7 Cash and Cash Equivalents and Short-term Investments**

Our cash and cash equivalents and short-term investments consisted of the following:

| | December 31, | |
|---|---|---|
| | 2013 | 2012 |
| | (In thousands) | |
| Cash and cash equivalents | $ 389,915 | $ 524,922 |
| Short-term investments: | | |
| Trading equity securities | | 52,705 |
| Available-for-sale equity securities | 96,942 | 174,610 |
| Available-for-sale debt securities | 20,276 | 25,967 |
| Total short-term investments | $ 117,218 | $ 253,282 |

We sold our trading equity securities during the first quarter of 2013.

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**Nabors Industries Ltd. and Subsidiaries**

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

**Note 7 Cash and Cash Equivalents and Short-term Investments (Continued)**

Certain information related to our cash and cash equivalents and short-term investments follows:

| | December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2013 | | | 2012 | | |
| | Fair Value | Gross Unrealized Holding Gains | Gross Unrealized Holding Losses | Fair Value | Gross Unrealized Holding Gains | Gross Unrealized Holding Losses |
| | (In thousands) | | | | | |
| Cash and cash equivalents | $ 389,915 | $ | $ | $ 524,922 | $ | $ |
| Short-term investments: | | | | | | |
| Trading equity securities | | | | 52,705 | 46,981 | |
| Available-for-sale equity securities | 96,942 | 68,395 | | 174,610 | 137,282 | (1,030) |
| Available-for-sale debt securities: | | | | | | |
| Commercial paper and CDs | | | | 206 | | |
| Corporate debt securities | 19,388 | 4,122 | | 23,399 | 1,870 | |
| Mortgage-backed debt securities | 210 | 11 | | 244 | 15 | |
| Mortgage-CMO debt securities | 20 | | (2) | 523 | 10 | (3) |
| Asset-backed debt securities | 658 | 2 | (54) | 1,595 | 28 | (192) |
| Total available-for-sale debt securities | 20,276 | 4,135 | (56) | 25,967 | 1,923 | (195) |
| Total available-for-sale securities | 117,218 | 72,530 | (56) | 200,577 | 139,205 | (1,225) |
| Total short-term investments | 117,218 | 72,530 | (56) | 253,282 | 186,186 | (1,225) |
| Total cash, cash equivalents and short-term investments | $ 507,133 | $ 72,530 | $ (56) | $ 778,204 | $ 186,186 | $ (1,225) |

Certain information related to the gross unrealized losses of our cash and cash equivalents and short-term investments follows:

| | As of December 31, 2013 | | | |
|---|---|---|---|---|
| | Less Than 12 Months | | More Than 12 Months | |
| | Fair Value | Gross Unrealized Losses | Fair Value | Gross Unrealized Losses |
| | (In thousands) | | | |
| Available-for-sale equity securities | $ | $ | $ | $ |
| Available-for-sale debt securities:(1) | | | | |
| Mortgage-CMO debt securities | | | 20 | 2 |
| Asset-backed debt securities | 395 | 54 | | |
| Total available-for-sale debt securities | 395 | 54 | 20 | 2 |

| | | | | |
|---|---|---|---|---|
| Total | $ 395 | $ 54 | $ 20 | $ 2 |
| | | 82 | | |

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**Nabors Industries Ltd. and Subsidiaries**

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

**Note 7 Cash and Cash Equivalents and Short-term Investments (Continued)**

The estimated fair values of our corporate, mortgage-backed, mortgage-CMO and asset-backed debt securities at December 31, 2013, classified by time to contractual maturity, are shown below. Expected maturities differ from contractual maturities because the issuers of the securities may have the right to repay obligations without prepayment penalties and we may elect to sell the securities prior to the contractual maturity date.

| | Estimated Fair Value December 31, 2013 |
|---|---|
| | (In thousands) |
| Debt securities: | |
| Due in one year or less | $ |
| Due after one year through five years | 15,600 |
| Due in more than five years | 4,676 |
| Total debt securities | $ 20,276 |

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

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2013 | 2012 | 2011 |
| | (In thousands) | | |
| Available-for-sale | | | |
| Proceeds from sales and maturities | $ 107,586 | $ 24,010 | $ 12,672 |
| Realized gains (losses), net | $ 88,158 | $ 13,405 | $ 3,036 |

**Note 8 Fair Value Measurements**

Fair value is the price that would be received upon sale of an asset or paid upon transfer of a liability in an orderly transaction between market participants at the measurement date (exit price). We utilize market data or assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market-corroborated, or generally unobservable. We primarily apply the market approach for recurring fair value measurements and endeavor to utilize the best information available. Accordingly, we employ valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. The use of unobservable inputs is intended to allow for fair value determinations in situations where there is little, if any, market activity for the asset or liability at the measurement date. We are able to classify fair value balances utilizing a fair value hierarchy based on the observability of those inputs. Under the fair value hierarchy:

Level 1 measurements include unadjusted quoted market prices for identical assets or liabilities in an active market;

Level 2 measurements include quoted market prices for identical assets or liabilities in an active market that have been adjusted for items such as effects of restrictions for transferability and those that are not quoted but are observable through corroboration with observable market data, including quoted market prices for similar assets; and

Level 3 measurements include those that are unobservable and of a subjective nature.

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**Nabors Industries Ltd. and Subsidiaries**

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

**Note 8 Fair Value Measurements (Continued)**

The following table sets forth, by level within the fair value hierarchy, our financial assets and liabilities that are accounted for at fair value on a recurring basis as of December 31, 2013. Our debt securities could transfer into or out of a Level 1 or 2 measure depending on the availability of independent and current pricing at the end of each quarter. During 2013, there were no transfers of our financial assets between Level 1 and Level 2 measures. Our financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

| | Fair Value as of December 31, 2013 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| | (In thousands) | | | |
| Assets: | | | | |
| Short-term investments: | | | | |
| Available-for-sale equity securities from energy industry | $ 96,080 | $ 862 | $ | $ 96,942 |
| Available-for-sale debt securities: | | | | |
| Corporate debt securities | | 19,388 | | 19,388 |
| Mortgage-backed debt securities | | 210 | | 210 |
| Mortgage-CMO debt securities | | 20 | | 20 |
| Asset-backed debt securities | 658 | | | 658 |
| Total short-term investments | $ 96,738 | $ 20,480 | $ | $ 117,218 |

***Nonrecurring Fair Value Measurements***

Fair value measurements were applied with respect to our nonfinancial assets and liabilities measured on a nonrecurring basis, which would consist of measurements primarily to assets held for sale, goodwill, intangible assets and other long-lived assets, assets acquired and liabilities assumed in a business combination, asset retirement obligations and our pipeline contractual commitment.

***Fair Value of Financial Instruments***

The fair value of our financial instruments has been estimated in accordance with GAAP. The fair value of our long-term debt, revolving credit facility, commercial paper and subsidiary preferred stock is

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**Nabors Industries Ltd. and Subsidiaries**

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

**Note 8 Fair Value Measurements (Continued)**

estimated based on quoted market prices or prices quoted from third-party financial institutions. The carrying and fair values of these liabilities were as follows:

| | December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2013 | | | 2012 | | |
| | Effective Interest Rate | Carrying Value | Fair Value | Effective Interest Rate | Carrying Value | Fair Value |
| | (In thousands) | | | | | |
| 2.35% senior notes due September 2016 | 2.56% | $ 349,820 | $ 354,694 | 6.42% | $ | $ |
| 6.15% senior notes due February 2018 | 6.42% | 969,928 | 1,097,480 | 6.42% | 968,708 | 1,164,813 |
| 9.25% senior notes due January 2019 | 9.33% | 339,607 | 428,733 | 9.33% | 1,125,000 | 1,492,819 |
| 5.00% senior notes due September 2020 | 5.20% | 697,947 | 731,955 | 5.20% | 697,648 | 770,707 |
| 4.625% senior notes due September 2021 | 4.75% | 698,148 | 709,793 | 4.75% | 697,907 | 755,517 |
| 5.10% senior notes due September 2023 | 5.26% | 348,765 | 349,731 | 0.00% | | |
| Subsidiary preferred stock | 4.00% | 69,188 | 69,000 | 4.00% | 69,188 | 68,625 |
| Revolving credit facilities | 2.28% | 170,000 | 170,000 | 2.17% | 890,000 | 890,000 |
| Commercial paper | 0.45% | 329,844 | 329,844 | 0.00% | | |
| Other | 0.00% | 10,243 | 10,243 | 0.00% | 437 | 437 |
| Total | | $ 3,983,490 | $ 4,251,473 | | $ 4,448,888 | $ 5,142,918 |

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

As of December 31, 2013, our short-term investments were carried at fair market value and included $117.2 million in securities classified as available-for-sale. As of December 31, 2012, our short-term investments were carried at fair market value and included $200.6 million and $52.7 million in securities classified as available-for-sale and trading, respectively.

**Note 9 Share-Based Compensation**

Total share-based compensation expense, which includes both stock options and restricted stock, totaled $53.3 million, $18.3 million and $21.2 million for 2013, 2012 and 2011, respectively. Compensation expense related to awards of restricted stock totaled $51.1 million, $14.1 million and $13.4 million for 2013, 2012 and 2011, respectively, and is included in direct costs and general and administrative expenses in our consolidated statements of income (loss). Share-based compensation expense has been allocated to our various operating segments. See Note 23 Segment Information.

Our restricted stock share-based awards also includes two types of performance share awards: the first, based on our performance measured against pre-determined performance metrics and the second

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**Nabors Industries Ltd. and Subsidiaries**

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

**Note 9 Share-Based Compensation (Continued)**

based on market conditions measured against a predetermined peer group. The performance period for the awards granted in 2013 commenced on January 1, 2013 and ended December 31, 2013.

***Stock Option Plans***

As of December 31, 2013, we had several stock plans under which options to purchase our common shares could be granted to key officers, directors and managerial employees of Nabors and its subsidiaries. Options granted under the plans generally are at prices equal to the fair market value of the shares on the date of the grant. Options granted under the plans generally are exercisable in varying cumulative periodic installments after one year. In the case of certain key executives, options granted may vest immediately on the grant date. Options granted under the plans cannot be exercised more than ten years from the date of grant. Options to purchase 7.8 million and 14.3 million Nabors common shares remained available for grant as of December 31, 2013 and 2012, respectively. Of the common shares available for grant as of December 31, 2013, approximately 6.8 million of these shares are also available for issuance in the form of restricted shares.

The fair value of each option award is estimated on the date of grant using the Black-Scholes option-pricing model which uses 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 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 for these option awards, and we recognize compensation cost only 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 five years. The forfeiture rate is based on historical experience. Estimated forfeitures have been adjusted to reflect actual forfeitures during 2013.

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**Nabors Industries Ltd. and Subsidiaries**

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

**Note 9 Share-Based Compensation (Continued)**

Stock option transactions under our various stock-based employee compensation plans are presented below:

| Options | Shares | Weighted-Average Exercise Price | Weighted-Average Remaining Contractual Term | Aggregate Intrinsic Value |
|---|---|---|---|---|
| | (In thousands, except exercise price) | | | |
| Options outstanding as of December 31, 2012 | 22,464 | $ 20.53 | | |
| Granted | 63 | 16.06 | | |
| Exercised | (577) | 9.34 | | |
| Surrendered(1) | | 9.18 | | |
| Forfeited | (3,564) | 19.36 | | |
| Options outstanding as of December 31, 2013 | 18,386 | $ 21.10 | 3.22 years | $ 51,136 |
| Options exercisable as of December 31, 2013 | 17,837 | $ 21.10 | 3.06 years | $ 50,818 |

(1) Represents unexercised vested stock options that were surrendered by employees, to satisfy the option exercise price and related income taxes. See related discussion at Note 15 Common Shares.

Of the options outstanding, 17.8 million, 20.8 million and 24.9 million were exercisable at weighted-average exercise prices of $21.10, $20.99 and $19.83, as of December 31, 2013, 2012 and 2011, respectively.

During 2013, 2012 and 2011, respectively, we awarded options vesting over periods up to four years to purchase 63,368, 658,061 and 930,753 of our common shares to our employees, executive officers and directors.

The fair value of stock options granted during 2013, 2012 and 2011 was calculated using the Black-Scholes option pricing model and the following weighted-average assumptions:

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2013 | 2012 | 2011 |
| Weighted average fair value of options granted | $6.05 | $9.40 | $6.24 |
| Weighted average risk free interest rate | 0.79% | 0.63% | 0.65% |
| Dividend yield | 0.84% | 0% | 0% |
| Volatility(1) | 51.01% | 55.74% | 51.09% |
| Expected life | 4.0 years | 4.0 years | 4.0 years |

(1) Expected volatilities are based on implied volatilities from publicly traded options to purchase Nabors' common shares, historical volatility of Nabors' common shares and other factors.

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**Nabors Industries Ltd. and Subsidiaries**

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

**Note 9 Share-Based Compensation (Continued)**

A summary of our unvested stock options as of December 31, 2013, and the changes during the year then ended is presented below:

| Unvested Stock Options | Outstanding | Weighted-Average Grant-Date Fair Value |
|---|---|---|
| | (In thousands, except fair value) | |
| Unvested as of December 31, 2012 | 1,626 | $ 5.62 |
| Granted | 63 | 6.05 |
| Vested | (1,075) | 3.97 |
| Forfeited | (65) | 5.47 |
| Unvested as of December 31, 2013 | 549 | $ 8.88 |

The total intrinsic value of options exercised during 2013, 2012 and 2011 was $4.1 million, $23.7 million and $18.3 million, respectively. The total fair value of options that vested during the years ended December 31, 2013, 2012 and 2011 was $4.3 million, $7.9 million and $5.2 million, respectively.

As of December 31, 2013, there was $3.8 million of total future compensation cost related to unvested options that are expected to vest. That cost is expected to be recognized over a weighted-average period of approximately one year.

***Restricted Stock***

Our stock plans allow grants of restricted stock. Restricted stock is issued on the grant date, but cannot be sold or transferred. Restricted stock vests in varying periodic installments ranging up to five years.

A summary of our restricted stock as of December 31, 2013, and the changes during the year then ended, is presented below:

| Restricted stock | Outstanding | Weighted-Average Grant-Date Fair Value |
|---|---|---|
| | (In thousands, except fair value) | |
| Unvested as of December 31, 2012 | 1,781 | $ 23.42 |
| Granted | 4,493 | 16.43 |
| Vested | (2,262) | 18.48 |
| Forfeited | (248) | 20.07 |
| Unvested as of December 31, 2013 | 3,764 | $ 18.26 |

During 2013 and 2012, we awarded 4,493,443 and 944,015 shares of restricted stock, respectively, to our employees and directors. These awards had an aggregate value at their date of grant of $73.8 million and $19.5 million, respectively, and were scheduled to vest over a period of up to four years. The fair value of restricted stock that vested during 2013, 2012 and 2011 was $37.5 million, $9.7 million and $21.4 million, respectively.

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**Nabors Industries Ltd. and Subsidiaries**

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

**Note 9 Share-Based Compensation (Continued)**

As of December 31, 2013, there was $48.8 million of total future compensation cost related to unvested restricted stock awards that are expected to vest. That cost is expected to be recognized over a weighted-average period of approximately one year.

***Restricted Stock Based on Performance Conditions***

During the first quarter of 2014, we granted 362,311 restricted stock performance-based awards for fiscal year 2013 to some of our executives. These awards vest over a period up to three years. The performance awards granted are based upon achievement of specific financial or operational objectives. The number of shares granted was determined by the number of performance goals achieved. Our performance shares based on performance conditions are liability-classified awards, of which our accrued liabilities included $1.8 million at December 31, 2013. The fair value of these awards was estimated at each reporting period during 2013, based on internal metrics and marked to market at December 31, 2013.

***Restricted Stock Based on Market Conditions***

During 2013, we began granting restricted stock awards based on market conditions to some of our executives. We granted 353,933 such awards with an aggregate fair value of $3.7 million. These shares were granted based on the comparative performance of our Total Shareholder Return ("TSR") relative to a peer group over a three-year period.

The grant date fair value of these awards was based on a Monte Carlo model, using the following assumptions during 2013:

| | |
|---|---|
| Risk free interest rate | 0.41% |
| Expected volatility | 46.00% |
| Closing stock price | $ 16.53 |
| Expected term (in years) | 2.82 |

The following table sets forth information regarding outstanding restricted stock based on market conditions as of December 31, 2013:

| Market based restricted stock | Outstanding | Weighted-Average Grant-Date Fair Value |
|---|---|---|
| | (In thousands, except fair value) | |
| Outstanding as of December 31, 2012 | | $ |
| Granted | 354 | 10.42 |
| Vested | | |
| Forfeited | | |
| Outstanding as of December 31, 2013 | 354 | $ 10.42 |

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**Nabors Industries Ltd. and Subsidiaries**

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

**Note 10 Property, Plant and Equipment**

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

| | December 31, | |
|---|---|---|
| | 2013 | 2012 |
| | (In thousands) | |
| Land | $ 63,733 | $ 49,965 |
| Buildings | 163,962 | 154,878 |
| Drilling, workover and well-servicing rigs, and related equipment | 12,818,136 | 12,364,021 |
| Marine transportation and supply vessels | 14,062 | 14,054 |
| Oilfield hauling and mobile equipment | 1,322,798 | 1,313,339 |
| Other machinery and equipment | 168,465 | 176,468 |
| Construction-in-process(1) | 693,475 | 363,537 |
| | $ 15,244,631 | $ 14,436,262 |
| Less: accumulated depreciation and amortization | (6,646,818) | (5,724,174) |
| | $ 8,597,813 | $ 8,712,088 |

(1) Relates primarily to amounts capitalized for new or substantially new drilling, workover and well-servicing rigs that were under construction and had not yet been placed in service as of December 31, 2013 or 2012.

Repair and maintenance expense included in direct costs in our consolidated statements of income (loss) totaled $510.8 million, $563.5 million and $586.4 million during 2013, 2012 and 2011, respectively.

Interest costs of $13.0 million, $19.4 million and $24.0 million were capitalized during 2013, 2012 and 2011, respectively.

**Note 11 Investments in Unconsolidated Affiliates**

Our principal investment in unconsolidated affiliates accounted for using the equity method include drilling and workover operations located in Saudi Arabia (51% ownership). This unconsolidated affiliate is integral to our operations. See Note 18 Related-Party Transactions for additional information. During 2011 and 2012, we sold our equity interests in unconsolidated oil and gas joint ventures.

Combined condensed financial data for investments in unconsolidated affiliates, including assets classified as held for sale, are summarized as follows:

| | December 31, | |
|---|---|---|
| | 2013 | 2012 |
| | (In thousands) | |
| Current assets | $ 442,703 | $ 174,977 |
| Long-term assets | $ 138,222 | $ 161,207 |
| Current liabilities | $ 440,585 | $ 194,504 |

| | | |
|---|---|---|
| Long-term liabilities | $ 4,169 | $ 3,389 |

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**Nabors Industries Ltd. and Subsidiaries**

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

**Note 11 Investments in Unconsolidated Affiliates (Continued)**

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2013 | 2012 Revised | 2011 Revised |
| | (In thousands) | | |
| Gross revenues | $ 562,101 | $ 657,362 | $ 760,257 |
| Gross margin | $ 46,446 | $ 107,035 | $ 205,502 |
| Net income (loss) | $ 1,088 | $ (624,172) | $ 327,760 |
| Nabors' earnings (losses) from unconsolidated affiliates(1)(2) | $ 39 | $ (288,718) | $ 85,448 |

(1) Nabors' earnings (losses) from unconsolidated affiliates included in discontinued operations, net of tax was $76.5 million for the year ended December 31, 2011.

(2) As more fully described in Note 2, our earnings (losses) from affiliates was revised by $12.6 million and $28.8 million, respectively, for the years ended December 31, 2012 and 2011.

**Note 12 Financial Instruments and Risk Concentration**

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

***Foreign Currency Risk***

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

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

***Credit Risk***

Our financial instruments that potentially subject us to concentrations of credit risk consist primarily of cash equivalents, short-term and long-term investments and accounts receivable. Cash equivalents such as deposits and temporary cash investments are held by major banks or investment firms. Our short-term and long-term investments are managed within established guidelines that limit the amounts that may be invested with any one issuer and provide guidance as to issuer credit quality. We believe that the credit risk in our cash and investment portfolio is minimized as a result of the mix of our investments. In addition, our trade receivables are with a variety of U.S., international and foreign-country national oil and gas companies. Management considers this credit risk to be limited due

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**Nabors Industries Ltd. and Subsidiaries**

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

**Note 12 Financial Instruments and Risk Concentration (Continued)**

to the financial resources of these companies. We perform ongoing credit evaluations of our customers, and we generally do not require material collateral. We do occasionally require prepayment of amounts from customers whose creditworthiness is in question prior to providing services to them. We maintain reserves for potential credit losses, and these losses historically have been within management's expectations.

***Interest Rate and Marketable and Non-marketable Security Price Risk***

Our financial instruments that are potentially sensitive to changes in interest rates include our 2.35%, 5.10%, 6.15%, 9.25%, 5.0% and 4.625% senior notes, our investments in debt securities (including corporate, asset-backed, mortgage-backed debt and mortgage-CMO debt securities) and our investments in overseas funds that invest primarily in a variety of public and private U.S. and non-U.S. securities (including asset-backed and mortgage-backed securities, global structured-asset securitizations, whole-loan mortgages, and participations in whole loans and whole-loan mortgages), which are classified as long-term investments.

We may utilize derivative financial instruments that are intended to manage our exposure to interest rate risks. The use of derivative financial instruments could expose us to further credit risk and market risk. Credit risk in this context is the failure of a counterparty to perform under the terms of the derivative contract. When the fair value of a derivative contract is positive, the counterparty would owe us, which can create credit risk for us. When the fair value of a derivative contract is negative, we would owe the counterparty, and therefore, we would not be exposed to credit risk. We attempt to minimize credit risk in derivative instruments by entering into transactions with major financial institutions that have a significant asset base. Market risk related to derivatives is the adverse effect on the value of a financial instrument that results from changes in interest rates. We try to manage market risk associated with interest-rate contracts by establishing and monitoring parameters that limit the type and degree of market risk that we undertake.

**Note 13 Debt**

Debt consisted of the following:

| | As of December 31, | |
|---|---|---|
| | 2013 | 2012 |
| | (In thousands) | |
| 2.35% senior notes due September 2016 | $ 349,820 | $ |
| 6.15% senior notes due February 2018 | 969,928 | 968,708 |
| 9.25% senior notes due January 2019 | 339,607 | 1,125,000 |
| 5.00% senior notes due September 2020 | 697,947 | 697,648 |
| 4.625% senior notes due September 2021 | 698,148 | 697,907 |
| 5.10% senior notes due September 2023 | 348,765 | |
| Revolving credit facilities | 170,000 | 890,000 |
| Commercial paper | 329,844 | |
| Other | 10,243 | 437 |
| | $ 3,914,302 | $ 4,379,700 |
| Less: current portion | 10,185 | 364 |
| | $ 3,904,117 | $ 4,379,336 |

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**Nabors Industries Ltd. and Subsidiaries**

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

**Note 13 Debt (Continued)**

As of December 31, 2013, the maturities of our primary debt for each of the five years after 2013 and thereafter are as follows:

| | Paid at Maturity (In thousands) |
|---|---|
| 2014 | $ |
| 2015 | |
| 2016 | 350,000(1) |
| 2017 | 499,844(2) |
| 2018 | 975,000(3) |
| Thereafter | 2,089,607(4) |
| | $ 3,914,451 |

(1) Represents our 2.35% senior notes due September 2016.

(2) Represents amounts drawn on our revolving credit facility and commercial paper, which expires November 2017

(3) Represents our 6.15% senior notes due February 2018

(4) Represents our 9.25% senior notes due January 2019, 5.0% senior notes due September 2020, 4.625% senior notes due September 2021 and 5.10% senior notes due September 2023

***2.35% and 5.10% Senior Notes Due September 2016 and September 2023***

In September 2013, Nabors Delaware completed a private placement of $700 million aggregate principal amount of senior notes, comprised of $350 million aggregate principal amount of 2.35% senior notes due 2016 and $350 million aggregate principal amount of 5.10% senior notes due 2023. The notes are unsecured and fully and unconditionally guaranteed by us. The notes are subject to registration rights. The notes were sold by the initial purchasers to qualified institutional buyers pursuant to Rule 144A and to certain investors outside of the United States under Regulation S under the Securities Act. The notes pay interest semiannually on March 15 and September 15, beginning on March 15, 2014. The 2.35% senior notes will mature on September 15, 2016, and the 5.10% senior notes will mature on September 15, 2023.

The notes rank equal in right of payment to all of Nabors Delaware's existing and future senior unsubordinated debt. The notes rank senior in right of payment to all of our existing and future senior subordinated and subordinated debt. Our guarantee of the notes is unsecured and ranks equal in right of payment to all of our unsecured and unsubordinated indebtedness from time to time outstanding. The indenture includes covenants customary for transactions of this type that, subject to significant exceptions, limit our subsidiaries' ability to, among other things, incur certain liens or enter into sale and leaseback transactions. In the event of a Change of Control Trigger Event, as defined in the indenture, with respect to a series of the notes, the holders of that series of notes may require Nabors Delaware to purchase all or a portion of each senior note in cash equal to 101% of the principal amount thereof, plus accrued and unpaid interest, if any. The notes are redeemable in whole or in part at any time at the option of Nabors Delaware at the redemption prices specified in the indenture, plus

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**Nabors Industries Ltd. and Subsidiaries**

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

**Note 13 Debt (Continued)**

accrued and unpaid interest. Nabors Delaware used the proceeds from the issuance of the notes, together with cash on hand to redeem a portion of its 9.25% senior notes due 2019.

***6.15% Senior Notes Due February 2018***

In February 2008, Nabors Delaware completed a private placement of $575 million aggregate principal amount of 6.15% senior notes due 2018 with registration rights, which are unsecured and are fully and unconditionally guaranteed by us. On July 22, 2008, Nabors Delaware completed an additional private placement under the same indenture of $400 million aggregate principal amount of 6.15% senior notes due 2018, also with registration rights and fully and unconditionally guaranteed by us. These new notes are subject to the same rates, terms and conditions and together will be treated as a single class of debt securities under the indenture (together $975 million 6.15% senior notes due 2018). The issue of notes was resold by the initial purchasers to qualified institutional buyers pursuant to Rule 144A under the Securities Act and to certain investors outside of the United States pursuant to Regulation S under the Securities Act. The notes bear interest at a rate of 6.15% per year, payable semi-annually on February 15 and August 15 and will mature on February 15, 2018.

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

***9.25% Senior Notes Due January 2019***

In September 2013, Nabors Delaware commenced a cash tender offer for any and all of its outstanding 9.25% senior notes due 2019, which expired on September 11, 2013. On September 12, 2013, Nabors Delaware accepted for repurchase all of the notes that were validly tendered and not validly withdrawn prior to the expiration of the tender offer, totaling $785.4 million aggregate principal amount of the notes (including $14 million held by a consolidated affiliate) in principal amount. Nabors Delaware paid the holders an aggregate of approximately $1.0 billion in cash, reflecting principal, accrued and unpaid interest and a premium of $211.9 million (including related fees), from the proceeds of the 2.35% senior notes due 2016 and 5.10% senior notes due 2023 issued in September 2013, discussed above, borrowings under its commercial paper program and cash on hand. Following the repurchase, $339.6 million aggregate principal amount of the 9.25% senior notes remains outstanding. The 9.25% senior notes due 2019 have similar rankings, covenants and change of control provisions as Nabors Delaware's other series of senior notes. The premium represents the loss on the debt extinguishment and is included in the impairments and other charges line of our consolidated statement of income (loss) for the year ended December 31, 2013.

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**Nabors Industries Ltd. and Subsidiaries**

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

**Note 13 Debt (Continued)**

***5.0% Senior Notes Due September 2020***

In September 2010, Nabors Delaware completed a private placement of $700 million aggregate principal amount of 5.0% senior notes due 2020, which are unsecured and fully and unconditionally guaranteed by us. The notes are subject to registration rights. The notes were resold by the initial purchasers to qualified institutional buyers under Rule 144A and to certain investors outside of the United States under Regulation S. The notes pay interest semi-annually on March 15 and September 15 and will mature on September 15, 2020.

The notes rank equal in right of payment to all of Nabors Delaware's existing and future unsubordinated indebtedness, and senior in right of payment to all of Nabors Delaware's existing and future senior subordinated and subordinated indebtedness. Our guarantee of the notes is unsecured and an unsubordinated obligation and ranks equal in right of payments to all of our unsecured and unsubordinated indebtedness from time to time outstanding. In the event of a change of control triggering event, as defined in the indenture, the holders of the notes may require Nabors Delaware to purchase all or a portion of the notes at a purchase price equal to 101% of their principal amount, plus accrued and unpaid interest, if any. The notes are redeemable in whole or in part at any time at the option of Nabors Delaware at a redemption price, plus accrued and unpaid interest, as specified in the indenture. Nabors Delaware used a portion of the proceeds to repay the borrowing under a revolving credit facility incurred to fund our acquisition in September 2010.

***4.625% Senior Notes Due September 2021***

In August 2011, Nabors Delaware completed a private placement of $700 million aggregate principal amount of 4.625% senior notes due 2021, which are unsecured and fully and unconditionally guaranteed by us. The notes have registration rights. The notes were resold by the initial purchasers to qualified institutional buyers under Rule 144A and to certain investors outside of the United States under Regulation S. The notes pay interest semi-annually on March 15 and September 15 and will mature on September 15, 2021.

The notes rank equal in right of payment to all of Nabors Delaware's existing and future unsubordinated indebtedness, and senior in right of payment to all of Nabors Delaware's existing and future senior subordinated and subordinated indebtedness. Our guarantee of the notes is unsecured and an unsubordinated obligation and ranks equal in right of payments to all of our unsecured and unsubordinated indebtedness from time to time outstanding. In the event of a change of control triggering event, as defined in the indenture, the holders of the notes may require Nabors Delaware to purchase all or a portion of the notes at a purchase price equal to 101% of their principal amount, plus accrued and unpaid interest, if any. The notes are redeemable in whole or in part at any time at the option of Nabors Delaware at a redemption price, plus accrued and unpaid interest, as specified in the indenture. Nabors Delaware used a portion of the proceeds to pay back borrowings on our revolving credit facilities and for other general corporate purposes.

***5.375% Senior Notes Due August 2012***

In August 2012, we paid $282.4 million to holders of Nabors Delaware's 5.375% senior notes representing principal of $275.0 million and accrued interest of $7.4 million. We used cash on hand and $270 million from revolving credit facilities to pay this obligation.

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**Nabors Industries Ltd. and Subsidiaries**

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

**Note 13 Debt (Continued)**

***Senior Exchangeable Notes***

In May 2011, the remaining $1.4 billion aggregate principal amount of our 0.94% senior exchangeable notes matured, and we redeemed them with $1.2 billion of borrowings under our revolving credit facilities and available cash.

***Commercial Paper Program***

In April 2013, Nabors Delaware established a commercial paper program. This program allows for the issuance from time to time of up to an aggregate amount of $1.5 billion in commercial paper with a maturity of no more than 397 days. Our commercial paper borrowings are classified as long-term debt because the borrowings are fully supported by availability under our revolving credit facility, which matures as currently structured in November 2017, more than one year from now. As of December 31, 2013, we had approximately $329.8 million of commercial paper outstanding; we used the proceeds to reduce borrowings under our revolving credit facility and redeem debt. The weighted average interest rate on borrowings at December 31, 2013 was 0.446%.

***Revolving Credit Facility***

At December 31, 2013, we had $1.3 billion of remaining availability under our $1.5 billion revolving credit facility. The weighted average interest rate on borrowings at December 31, 2013 was 1.49%. The revolving credit facility contains various covenants and restrictive provisions that limit our ability to incur additional indebtedness, make investments or loans and create liens and require us to maintain a net funded indebtedness to total capitalization ratio, as defined in each agreement. We were in compliance with all covenants under the agreement at December 31, 2013. If we fail to perform our obligations under the covenants, the revolving credit commitment could be terminated, and any outstanding borrowings under the facility could be declared immediately due and payable.

***Short-Term Borrowings***

We had 10 letter-of-credit facilities with various banks as of December 31, 2013. Availability and borrowings under our letter-of-credit facilities are as follows:

| | December 31, 2013 |
|---|---|
| | (In thousands) |
| Credit available | $ 523,204 |
| Less: Letters of credit outstanding, inclusive of financial and performance guarantees | 321,818 |
| Remaining availability | $ 201,386 |

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**Nabors Industries Ltd. and Subsidiaries**

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

**Note 14 Income Taxes**

The change in our unrecognized tax benefits during 2013, 2012 and 2011 were as follows:

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2013 | 2012 | 2011 |
| | (In thousands) | | |
| Balance as of January 1 | $ 83,950 | $ 68,848 | $ 81,174 |
| Additions based on tax positions related to the current year | 145 | 922 | 1,850 |
| Additions for tax positions of prior years | 3,360 | 16,372(2) | 11,748 |
| Reductions for tax positions for prior years | (30,320)(1) | (1,174) | (11,082) |
| Settlements | (9,583) | (1,018) | (14,842) |
| Balance as of December 31 | $ 47,552 | $ 83,950 | $ 68,848 |

(1) Includes $21.6 million related to settlements in Mexico, Canada and Algeria and $8.7 million due to the expiration of statutes.

(2) Includes an unrecognized tax benefit of $10.4 million related to a Mexico audit assessment.

The balance also represents the amount of unrecognized tax benefits that, if recognized, would favorably impact the effective income tax rate in future periods. As of December 31, 2013, 2012 and 2011, we had approximately $20.6 million, $42.8 million and $28.2 million, respectively, of interest and penalties related to our total gross unrecognized tax benefits. During 2013, 2012 and 2011 we accrued and recognized estimated interest related to unrecognized tax benefits and penalties of approximately $5.2 million, $2.7 million and $4.6 million, respectively. We recognize interest and penalties related to income tax matters in the income tax expense (benefit) line item in our consolidated statements of income (loss).

We are subject to income taxes in the United States and numerous other jurisdictions. A number of our United States and non-United States income tax returns from 1998 through 2012 are currently under audit examination. We anticipate that several of these audits could be finalized within the next 12 months. It is possible that the benefit relating to our unrecognized tax positions could significantly increase or decrease within the next 12 months. However, based on the current status of examinations, and the protocol for finalizing audits with the relevant tax authorities, which could include formal legal proceedings, it is not possible to estimate the future impact of the amount of changes, if any, to recorded uncertain tax positions at December 31, 2013.

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**Nabors Industries Ltd. and Subsidiaries**

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

**Note 14 Income Taxes (Continued)**

Income (loss) from continuing operations before income taxes was comprised of the following:

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2013 | 2012 Revised | 2011 Revised |
| | (In thousands) | | |
| **United States and Other Jurisdictions** | | | |
| United States | $ (84,032) | $ 193,125 | $ 205,754 |
| Other jurisdictions | 190,192 | 83,835 | 309,499 |
| Income (loss) before income taxes from continuing operations | $ 106,160 | $ 276,960 | $ 515,253 |

Income taxes have been provided based upon the tax laws and rates in the countries where we operate. We are a Bermuda exempted company. Bermuda does not impose corporate income taxes. Our U.S. subsidiaries are subject to a U.S. federal tax rate of 35%.

Income tax expense (benefit) from continuing operations consisted of the following:

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2013 | 2012 Revised | 2011 Revised |
| | (In thousands) | | |
| Current: | | | |
| U.S. federal | $ (16,934) | $ 25,802 | $ 27,649 |
| Outside the U.S. | 50,866 | 82,950 | 43,732 |
| State | 5,933 | 34,242 | 38,321 |
| | $ 39,865 | $ 142,994 | $ 109,702 |
| Deferred: | | | |
| U.S. federal | $ (71,251) | $ (79,193) | $ 51,739 |
| Outside the U.S. | (10,288) | (9,484) | 16,692 |
| State | (13,507) | (13,331) | (13,050) |
| | $ (95,046) | $ (102,008) | $ 55,381 |
| Income tax expense (benefit) | $ (55,181) | $ 40,986 | $ 165,083 |

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**Nabors Industries Ltd. and Subsidiaries**

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

**Note 14 Income Taxes (Continued)**

Nabors is not subject to tax in Bermuda. A reconciliation of the differences between taxes on income (loss) before income taxes computed at the appropriate statutory rate and our reported provision for income taxes follows:

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2013 | 2012 Revised | 2011 Revised |
| | | (In thousands) | |
| Income tax provision at statutory (Bermuda rate of 0%) | $ | $ | $ |
| Taxes on U.S. and other international earnings (losses) at greater than the Bermuda rate | (33,277) | (39,830) | 122,292 |
| Increase (decrease) in valuation allowance | 25,592 | 33,730 | 4,785 |
| Effect of change in tax rate | | | (258) |
| Tax reserves and interest | (39,921) | 26,176 | 12,993 |
| State income taxes | (7,575) | 20,910 | 25,271 |
| Income tax expense (benefit) | $ (55,181) | $ 40,986 | $ 165,083 |
| Effective tax rate | (52.0)% | 14.8% | 32.0% |

The changes in our effective tax rate from 2012 to 2013 and from 2011 to 2012 resulted mainly from the proportion of income generated in the United States versus other countries where we operate and settlements of tax disputes. Included in tax reserves and interest for 2013 is $10.2 million of additional interest expense for uncertain tax positions related to prior years which also impacted our effective tax rate for 2013 as compared to 2012. The Company determined these amounts were not material to any of the periods presented. In general, the effective tax rate reflects the proportion of income generated in the United States versus other countries where we operate. Income generated in the United States is generally taxed at a higher rate than other jurisdictions.

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**Nabors Industries Ltd. and Subsidiaries**

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

**Note 14 Income Taxes (Continued)**

The significant components of our deferred tax assets and liabilities were as follows:

| | December 31, | |
|---|---|---|
| | 2013 | 2012 |
| | (In thousands) | |
| Deferred tax assets: | | |
| Net operating loss carryforwards | $ 1,658,084 | $ 1,826,597 |
| Equity compensation | 32,219 | 29,337 |
| Deferred revenue | 35,689 | 33,523 |
| Tax credit and other attribute carryforwards | 109,294 | 110,563 |
| Insurance loss reserves | 4,645 | 10,873 |
| Accrued interest | 224,959 | 55,143 |
| Other | 162,678 | 49,556 |
| Subtotal | 2,227,568 | 2,115,592 |
| Valuation allowance | (1,547,441) | (1,520,852) |
| Deferred tax assets: | $ 680,127 | $ 594,740 |
| Deferred tax liabilities: | | |
| Depreciation and amortization for tax in excess of book expense | $ 967,689 | $ 945,888 |
| Variable interest investments | 85,979 | 144,020 |
| Other | 17,890 | |
| Deferred tax liability | $ 1,071,558 | $ 1,089,908 |
| Net deferred assets (liabilities) | $ (391,431) | $ (495,168) |
| Balance Sheet Summary: | | |
| Net current deferred asset | $ 121,316 | $ 110,480 |
| Net noncurrent deferred asset(1) | 6,491 | 4,408 |
| Net current deferred liability(2) | (3,075) | (10,721) |
| Net noncurrent deferred liability | (516,161) | (599,335) |
| Net deferred asset (liability) | $ (391,429) | $ (495,168) |

(1) This amount is included in other long-term assets.

(2) This amount is included in accrued liabilities.

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**Nabors Industries Ltd. and Subsidiaries**

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

**Note 14 Income Taxes (Continued)**

For U.S. federal income tax purposes, we have net operating loss ("NOL") carryforwards of approximately $213.0 million that, if not utilized, will expire between 2018 and 2033. The NOL carryforwards for alternative minimum tax purposes are approximately $132.0 million. Additionally, we have NOL carryforwards in other jurisdictions of approximately $5.4 billion of which $492.0 million that, if not utilized, will expire at various times from 2014 to 2033. We provide a valuation allowance against NOL carryforwards in various tax jurisdictions based on our consideration of existing temporary differences and expected future earning levels in those jurisdictions. We have recorded a deferred tax asset of approximately $1.44 billion as of December 31, 2013 relating to NOL carryforwards that have an indefinite life in several non-U.S. jurisdictions. A valuation allowance of approximately $1.43 billion has been recognized because we believe it is more likely than not that substantially all of the deferred tax asset will not be realized.

The NOL carryforwards by year of expiration:

| | Total | U.S. Federal | Non-U.S. |
|---|---|---|---|
| | | (In thousands) | |
| **Year Ended December 31,** | | | |
| 2014 | $ 14,538 | $ | $ 14,538 |
| 2015 | 12,052 | | 12,052 |
| 2016 | 37,089 | | 37,089 |
| 2017 | 46,234 | | 46,234 |
| 2018 | 55,688 | 999 | 54,689 |
| 2019 | 27,418 | 17,722 | 9,696 |
| 2020 | 17,065 | | 17,065 |
| 2021 | 24,020 | | 24,020 |
| 2022 | 475 | | 475 |
| 2023 | 5,673 | | 5,673 |
| 2030 | 28,173 | | 28,173 |
| 2031 | 259,630 | 189,444 | 70,186 |
| 2032 | 82,328 | | 82,328 |
| 2033 | 94,533 | 4,778 | 89,755 |
| Subtotal: expiring NOLs | $ 704,916 | $ 212,943 | $ 491,973 |
| Non-expiring NOLs | 4,924,153 | | 4,924,153 |
| Total | $ 5,629,069 | $ 212,943 | $ 5,416,126 |

In addition, for state income tax purposes, we have net operating loss carryforwards of approximately $304.0 million that, if not utilized, will expire at various times from 2014 to 2033.

Under U.S. federal tax law, the amount and availability of loss carryforwards (and certain other tax attributes) are subject to a variety of interpretations and restrictive tests applicable to Nabors and our subsidiaries. The utilization of these carryforwards could be limited or effectively lost upon certain changes in our shareholder base. Accordingly, although we believe substantial loss carryforwards are available to us, no assurance can be given that they will be available in the future.

Various bills have been introduced in the U.S. Congress that could reduce or eliminate the U.S. tax benefits associated with our 2002 reorganization as a Bermuda company. Legislation enacted by

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**Nabors Industries Ltd. and Subsidiaries**

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

**Note 14 Income Taxes (Continued)**

Congress in 2004 provides that a corporation that reorganized in a foreign jurisdiction on or after March 4, 2003 be treated as a domestic corporation for United States federal income tax purposes. There has been and we expect that there may continue to be legislation proposed in Congress from time to time which, if enacted, could limit or eliminate the tax benefits associated with our reorganization.

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

**Note 15 Common Shares**

Our authorized share capital consists of 800 million common shares, par value $.001 per share, and 25 million preferred shares, par value $.001 per share. Common shares issued were 323,710,583 and 318,813,500 at $.001 par value as of December 31, 2013 and 2012, respectively. No preferred shares have been issued. The preferred stock is issuable in one or more classes or series, full, limited or no voting rights, designations, preferences, special rights, qualifications, limitations and restrictions as may be determined by Nabors Industries Ltd.'s board.

From time to time, treasury shares may be reissued. When shares are reissued, we use the weighted-average-cost method for determining cost. The difference between the cost of the shares and the issuance price is added to or deducted from our capital in excess of par value account. No shares have been purchased during 2013, 2012 and 2011.

During 2012 and 2011, our outstanding shares increased by 807,142 and 82,138 shares, respectively, pursuant to a share settlement of stock options exercised by employees. As part of these transactions, these individuals surrendered unexercised vested stock options to the Company with a value of approximately $79.6 million and $7.6 million, respectively, to satisfy the option exercise price and related income taxes for 2012 and 2011. During 2013, our outstanding shares increased slightly by 1,284 shares pursuant to share settlements. These transactions also included surrendered unexercised vested stock options of a nominal value.

In 2013, 2012 and 2011, the Compensation Committee of our Board of Directors granted restricted stock awards to some of our executive officers, other key employees, and independent directors. We awarded 4,847,376, 944,015 and 1,096,379 restricted shares at an average market price of $16.28, $20.69 and $27.32 to these individuals for 2013, 2012 and 2011, respectively. See Note 8 Share-Based Compensation for a summary of our restricted stock and option awards as of December 31, 2013.

During 2013, 2012 and 2011 our employees exercised vested options to acquire 0.6 million, 1.1 million and 1.1 million of our common shares, respectively. During 2013, 2012 and 2011, we received $5.4 million, $17.4 million and $11.6 million, respectively, relating to exercised vested options. During 2012, we paid $21 million to repurchase surrendered unexercised vested options to satisfy related tax withholdings pursuant to stock option share settlements and exercises by employees.

In 2013, our Board of Directors declared cash dividends of $0.04 per outstanding common share, which were paid in March, June, September and December an aggregated $47.2 million.

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**Nabors Industries Ltd. and Subsidiaries**

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

**Note 15 Common Shares (Continued)**

*Shareholder Rights Plan*

On July 16, 2012, the Board of Directors declared the issuance of one preferred share purchase right (a "Right") for each Common Share issued and outstanding on July 27, 2012 (the "Record Date") to the shareholders of record on that date. The Rights are not exercisable until the Distribution Date, as defined below. On July 15, 2013, the Rights expiration was extended to July 16, 2016 (the "Final Expiration Date"); the Final Expiration Date may be extended or the Rights earlier redeemed by the Company.

Each Right entitles the registered holder to purchase from the Company one one-thousandth of a Series A Junior Participating Preferred Share, par value US$0.001 per share (the "Preferred Shares"), of the Company, at a price of $80.00 per one one-thousandth of a Preferred Share (the "Purchase Price"), subject to adjustment.

Until the Distribution Date, the Rights will be evidenced, with respect to any Common Share certificates issued and outstanding as of the Record Date, by such Common Share certificate together with a copy of a summary of rights. The Distribution Date is defined as the earlier to occur of:

(i) 10 days following a public announcement that a person or group of affiliated or associated persons (an "Acquiring Person") has acquired beneficial ownership (including derivative positions) of 10% or more of the issued and outstanding Common Shares (or, in the event an exchange is effected in accordance with Section 24 of the Rights Agreement and the Board of Directors determines that a later date is advisable, then such later date that is not more than 20 days after such public announcement); or

(ii) 10 business days (or such later date as may be determined by action of the Board of Directors prior to such time as any Person becomes an Acquiring Person) following the commencement of, or announcement of an intention to make, a tender offer or exchange offer the consummation of which would result in the beneficial ownership by a person or group of 10% or more of the issued and outstanding Common Shares.

**Note 16 Subsidiary Preferred Stock**

NCPS, a wholly owned subsidiary, had 75,000 shares of Series A Preferred Stock ("preferred stock"), $0.01 par value per share, outstanding at December 31, 2013. There are 10,000,000 shares authorized. The preferred stock is issuable in series with such voting rights, if any, designations, powers, preferences and other rights and such qualifications, limitations and restrictions as may be determined by its board; the board may also fix the number of shares constituting each series and increase or decrease the number of shares of any series.

The preferred stock is perpetual and ranks senior to the subsidiary's common stock with respect to payment of dividends, and amounts upon liquidation, dissolution or winding up.

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**Nabors Industries Ltd. and Subsidiaries**

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

**Note 16 Subsidiary Preferred Stock (Continued)**

***Dividends***

Holders of the preferred stock are entitled to receive, when and if declared by its board, out of assets legally available therefor, cumulative cash dividends at the rate per annum of $40.00 per share of preferred stock. Dividends on the preferred stock are payable quarterly in arrears on December 1, March 1, June 1 and September 1 of each year (and, in the case of any undeclared and unpaid dividends, at such additional times and for such interim periods, if any, as determined by its board), at such annual rate. Dividends are cumulative from the date of the original issuance of the preferred stock, whether or not in any dividend period or periods we have assets legally available for the payment of such dividends.

As of December 31, 2013, dividends on outstanding shares of preferred stock had been declared and paid in full with respect to each quarter since its issuance.

***Liquidation Preference***

Holders of preferred stock are entitled to receive, in the event that NCPS is liquidated, dissolved or wound up, whether voluntarily or involuntarily, $1,000 per share (the "Liquidation Value") plus an amount per share equal to all dividends undeclared and unpaid thereon to the date of final distribution (the "Liquidation Preference"), and no more. Until the holders of preferred stock have been paid the Liquidation Preference in full, NCPS may not make any payment to any holder of stock that ranks junior to the preferred stock upon liquidation, dissolution or winding up. As of December 31, 2013, the preferred stock had a total Liquidation Preference of $75.0 million.

***Redemption***

The preferred stock is redeemable, in whole or in part, and at NCPS's option, at any time on or after November 18, 2013, for a redemption price of 101% of the Liquidation Value, plus all accrued dividends. The redemption price is payable in cash.

As a result of the acquisition in 2010, each share of preferred stock is convertible, at the option of the holder thereof, into $22.12 for each share of NCPS common stock into which the preferred share would have been convertible prior to the acquisition (a "deemed common share"). The preferred shares had a conversion price of $25.00 per deemed common share prior to the acquisition (equivalent to a conversion rate of 40 deemed common shares for each share of preferred stock), representing 3,000,000 deemed common shares. This results in a redemption value of $75.8 million at December 31, 2013, payable in cash. The right to convert shares of preferred stock that may be called for redemption will terminate at the close of business on the day preceding a redemption date.

***Voting Rights***

Except as otherwise required from time to time by applicable law or upon certain events of default, the holders of preferred stock have no voting rights, and their consent is not required for taking any corporate action. When and if the holders of the preferred stock are entitled to vote, each holder will be entitled to one vote per share.

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**Nabors Industries Ltd. and Subsidiaries**

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

**Note 17 Pension, Postretirement and Postemployment Benefits**

***Pension Plans***

In conjunction with our acquisition of Pool Energy Services Co. ("Pool") in November 1999, we acquired the assets and liabilities of a defined benefit pension plan, the Pool Company Retirement Income Plan (the "Pool Pension Plan"). Benefits under the Pool Pension Plan are frozen and participants were fully vested in their accrued retirement benefit on December 31, 1998.

Summarized information on the Pool Pension Plan is as follows:

| | Pension Benefits | |
|---|---|---|
| | 2013 | 2012 |
| | (In thousands) | |
| **Change in benefit obligation:** | | |
| Benefit obligation at beginning of year | $ 29,205 | $ 26,659 |
| Remeasurement | | |
| Interest cost | 1,078 | 1,116 |
| Actuarial loss (gain) | (3,360) | 2,107 |
| Benefit payments | (730) | (677) |
| Benefit obligation at end of year(1) | $ 26,193 | $ 29,205 |
| **Change in plan assets:** | | |
| Fair value of plan assets at beginning of year | $ 18,780 | $ 16,352 |
| Actual (loss) returns on plan assets | 2,736 | 1,598 |
| Employer contributions | 598 | 1,507 |
| Benefit payments | (730) | (677) |
| Fair value of plan assets at end of year | $ 21,384 | $ 18,780 |
| **Funded status:** | | |
| Underfunded status at end of year | $ (4,809) | $ (10,425) |
| **Amounts recognized in consolidated balance sheets:** | | |
| Other long-term liabilities | $ (4,809) | $ (10,425) |

(1) As of December 31, 2013 and 2012, the accumulated benefit obligation was the same as the projected benefit obligation.

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2013 | 2012 | 2011 |
| | (In thousands) | | |
| **Components of net periodic benefit cost (recognized in our consolidated statements of income):** | | | |

| | | | |
|---|---|---|---|
| Interest cost | $ 1,078 | $ 1,116 | $ 1,198 |
| Expected return on plan assets | (1,210) | (1,086) | (1,008) |
| Recognized net actuarial loss | 1,123 | 1,034 | 628 |
| Net periodic benefit cost | $ 991 | $ 1,064 | $ 818 |
| **Weighted-average assumptions:** | | | |
| Weighted-average discount rates | 4.75% | 3.75% | 4.25% |
| Expected long-term rate of return on plan assets | 6.50% | 6.50% | 6.50% |

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**Nabors Industries Ltd. and Subsidiaries**

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

**Note 17 Pension, Postretirement and Postemployment Benefits (Continued)**

For the years ended December 31, 2013, 2012 and 2011, the net actuarial loss amounts included in other comprehensive income (loss) were approximately ($6.6) million, ($12.7) million and ($12.1) million, respectively.

The amount included in other comprehensive income (loss) that is expected to be recognized as a component of net periodic benefit cost during 2014 is approximately $0.5 million.

We analyze the historical performance of investments in equity and debt securities, together with current market factors such as inflation and interest rates to help us make assumptions necessary to estimate a long-term rate of return on plan assets. Once this estimate is made, we review the portfolio of plan assets and make adjustments thereto that we believe are necessary to reflect a diversified blend of investments in equity and debt securities that is capable of achieving the estimated long-term rate of return without assuming an unreasonable level of investment risk.

The following table sets forth, by level within the fair value hierarchy, the investments in the Pool Pension Plan as of December 31, 2013. The investments' fair value measurement level within the fair value hierarchy is classified in its entirety based on the lowest level of input that is significant to the measurement.

| | Fair Value as of December 31, 2013 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| | | (In thousands) | | |
| Assets:(1) | | | | |
| Cash | $ | $ 558 | $ | $ 558 |
| Short-term investments: | | | | |
| Available-for-sale equity securities(2) | | 11,988 | | 11,988 |
| Available-for-sale debt securities(3) | | 8,838 | | 8,838 |
| Total investments | | 20,826 | | 20,826 |
| Total | $ | $ 21,384 | $ | $ 21,384 |

(1) Includes investments in collective trust funds that are valued based on the fair value of the underlying investments using quoted prices in active markets or other significant inputs that are deemed observable.

(2) Includes funds that invest primarily in U.S. common stocks and foreign equity securities.

(3) Includes funds that invest primarily in investment grade debt.

The measurement date used to determine pension measurements for the plan is December 31.

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**Nabors Industries Ltd. and Subsidiaries**

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

**Note 17 Pension, Postretirement and Postemployment Benefits (Continued)**

Our weighted-average asset allocations as of December 31, 2013 and 2012 by asset category are as follows:

| | Pension Benefits | |
|---|---|---|
| | 2013 | 2012 |
| Cash | 3% | 3% |
| Equity securities | 56% | 55% |
| Debt securities | 41% | 42% |
| Total | 100% | 100% |

We invest plan assets based on a total return on investment approach, pursuant to which the plan assets include a diversified blend of investments in equity and debt securities toward a goal of maximizing the long-term rate of return without assuming an unreasonable level of investment risk. We determine the level of risk based on an analysis of plan liabilities, the extent to which the value of the plan assets satisfies the plan liabilities and our financial condition. Our investment policy includes target allocations approximating 55% investment in equity securities and 45% investment in debt securities. The equity portion of the plan assets represents growth and value stocks of small, medium and large companies. We measure and monitor the investment risk of the plan assets both on a quarterly basis and annually when we assess plan liabilities.

We expect to contribute approximately $1.4 million to the Pool Pension Plan in 2014. This is based on the sum of (1) the minimum contribution for the 2013 plan year that will be made in 2014 and (2) the estimated minimum required quarterly contributions for the 2014 plan year. We made contributions to the Pool Pension Plan in 2013 and 2012 totaling $0.6 million and $1.5 million, respectively.

As of December 31, 2013, we expect that benefits to be paid in each of the next five years after 2013 and in the aggregate for the five years thereafter will be as follows:

| | (In thousands) |
|---|---|
| 2014 | $ 1,060 |
| 2015 | 1,171 |
| 2016 | 1,258 |
| 2017 | 1,370 |
| 2018 | 1,476 |
| 2019 - 2023 | 8,602 |
| | $ 14,937 |

Some of our employees are covered by defined contribution plans. Our contributions to the plans totaled $23.1 million and $19.0 million during 2013 and 2012, respectively. Nabors does not provide post-employment benefits to its employees, except for employees covered under the Pool Pension Plan.

**Note 18 Related-Party Transactions**

Nabors and certain current and former key employees, including Mr. Petrello, entered into split-dollar life insurance agreements, pursuant to which we pay a portion of the premiums under life

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**Nabors Industries Ltd. and Subsidiaries**

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

**Note 18 Related-Party Transactions (Continued)**

insurance policies with respect to these individuals and, in some instances, members of their families. These agreements provide that we are reimbursed for the premium payments upon the occurrence of specified events, including the death of an insured individual. Any recovery of premiums paid by Nabors could be limited to the cash surrender value of the policies under certain circumstances. As such, the values of these policies are recorded at their respective cash surrender values in our consolidated balance sheets. We have made premium payments to date totaling $6.5 million related to these policies. The cash surrender value of these policies of approximately $5.9 million and $5.8 million is included in other long-term assets in our consolidated balance sheets as of December 31, 2013 and 2012, respectively.

Under the Sarbanes-Oxley Act of 2002, the payment of premiums by Nabors under the agreements could be deemed to be prohibited loans by us to these individuals. Consequently, we have paid no premiums related to our agreements with these individuals since the adoption of the Sarbanes-Oxley Act.

In the ordinary course of business, we enter into various rig leases, rig transportation and related oilfield services agreements with our unconsolidated affiliates at market prices. Revenues from business transactions with these affiliated entities totaled $190.6 million, $164.0 million and $218.4 million for 2013, 2012 and 2011, respectively. Expenses from business transactions with these affiliated entities totaled $0.1 million, $0.1 million and $0.9 million for 2013, 2012 and 2011, respectively. Additionally, we had accounts receivable from these affiliated entities of $87.1 million and $68.7 million as of December 31, 2013 and 2012, respectively. We had accounts payable to these affiliated entities of $6.4 million and $3.2 million as of December 31, 2013 and 2012, respectively, and long-term payables with these affiliated entities of $0.8 million as of those dates, which are included in other long-term liabilities.

In the ordinary course of business, we also provide drilling, well-servicing and other services to LINN Operating, Inc. ("LINN"), a company of which Mr. Linn, an independent member of our Board of Directors, is a Director. Revenues from business transactions with LINN totaled $3.2 million and $12.5 million during 2013 and 2012, respectively. We had accounts receivable from LINN of $0.2 million and $1.9 million as of December 31, 2013 and 2012, respectively.

In addition, Mr. Crane, an independent director, is Chairman and Chief Executive Officer of Crane Capital Group Inc. ("CCG"), an investment company that indirectly owns a majority interest in several operating companies, some of which have provided services to us in the ordinary course of business, including international logistics and electricity. During 2013 and 2012, we made payments for these services of $39.4 million and $42.0 million, respectively. We had accounts payable to these CCG-related companies of $1.4 million and $1.4 million as of December 31, 2013 and 2012, respectively.

**Note 19 Commitments and Contingencies**

***Commitments***

*Leases*

Nabors and its subsidiaries occupy various facilities and lease certain equipment under various lease agreements.

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**Nabors Industries Ltd. and Subsidiaries**

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

**Note 19 Commitments and Contingencies (Continued)**

The minimum rental commitments under non-cancelable operating leases, with lease terms in excess of one year subsequent to December 31, 2013, were as follows:

| | (In thousands) |
|---|---|
| 2014 | $ 24,689 |
| 2015 | 11,660 |
| 2016 | 8,001 |
| 2017 | 4,896 |
| 2018 | 1,578 |
| Thereafter | 7,926 |
| | $ 58,750 |

The above amounts do not include property taxes, insurance or normal maintenance that the lessees are required to pay. Rental expense relating to operating leases with terms greater than 30 days amounted to $40.5 million, $35.5 million and $36.3 million for the years ended December 31, 2013, 2012 and 2011, respectively.

*Minimum Volume Commitment*

We have contracts with pipeline companies to pay specified fees based on committed volumes for gas transport and processing. Our pipeline contractual commitments as of December 31, 2013 were as follows:

| | (In thousands) |
|---|---|
| 2014 | $ 44,365 |
| 2015 | 29,285 |
| 2016 | 15,522 |
| 2017 | 14,195 |
| 2018 | 13,829 |
| Thereafter(1) | 53,954 |
| | $ 171,150 |

(1) Final commitment period is for the period ending October 2029. See Note 5 Assets Held for Sale and Discontinued Operations for additional discussion.

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**Nabors Industries Ltd. and Subsidiaries**

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

**Note 19 Commitments and Contingencies (Continued)**

*Employment Contracts*

We have entered into employment contracts with certain of our employees. Our minimum salary and bonus obligations under these contracts as of December 31, 2013 were as follows:

| | (In thousands) |
|---|---|
| 2014 | $ 6,984 |
| 2015 | 6,443 |
| 2016 | 5,774 |
| 2017 | 3,640 |
| 2018 | 1,200 |
| Thereafter | 300 |
| | $ 24,341 |

During the first quarter of 2013, the Compensation Committee authorized a new employment agreement for Mr. Petrello effective January 1, 2013 that significantly restructured his compensation arrangements. The new employment agreement provides for an initial term of five years, with automatic one-year extensions at the end of each term, subject to a 90-day notice of termination provided within the agreement.

The new employment agreement provides for an annual cash bonus targeted at base salary, with a cap of twice that amount, based on the achievement of certain financial and operational performance metrics and defined performance criteria.

The new employment agreement provides for long-term equity incentive awards. Mr. Petrello may receive restricted stock that may or may not vest depending upon the Company's performance relative to a Performance Peer Group (as defined) over a three-year period ("TSR Shares"). The agreement provides that the target number of TSR Shares that will vest is valued at 150% of base salary, with a maximum number of TSR Shares valued at twice that amount.

The employment agreement provides for long-term equity incentive awards in the form of restricted stock based upon the achievement of specific financial or operational objectives ("Performance Shares"). Once earned, Performance Shares are then subject to three-year vesting requirements. Performance Shares are targeted at 200% of base salary, with a maximum award of twice that amount, and are also subject to a minimum threshold before any amount can be earned.

In the event of Mr. Petrello's Termination Without Cause (including in the event of a change of control), or his death or disability, either he or his estate would be entitled to receive, within 30 days thereafter, 2.99 times the average of his base salary and annual cash bonus during the three fiscal years preceding the termination.

During 2013, Mr. Petrello's annual compensation package pursuant to his employment agreement included $1.7 million in base salary and $1.5 million in cash bonus. The employment agreement also provides a quarterly deferred bonus of $0.3 million to his account under Nabors' executive deferred compensation plan.

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**Nabors Industries Ltd. and Subsidiaries**

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

**Note 19 Commitments and Contingencies (Continued)**

Mr. Petrello is also eligible for awards under Nabors' equity plans, 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 of Directors.

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

***Contingencies***

*Income Tax Contingencies*

We are subject to income taxes in the United States and numerous other jurisdictions. Significant judgment is required in determining our worldwide provision for income taxes. In the ordinary course of our business, there are many transactions and calculations where the ultimate tax determination is uncertain. We are regularly audited by tax authorities. Although we believe our tax estimates are reasonable, the final determination of tax audits and any related litigation could be materially different than what is reflected in income tax provisions and accruals. An audit or litigation could materially affect our financial position, income tax provision, net income, or cash flows in the period or periods challenged.

It is possible that future changes to tax laws (including tax treaties) could impact our ability to realize the tax savings recorded to date as well as future tax savings, resulting from our 2002 corporate reorganization. See Note 14 Income Taxes for additional discussion.

In 2006, Nabors Drilling International Limited, one of our wholly owned Bermuda subsidiaries ("NDIL"), received a Notice of Assessment from Mexico's federal tax authorities in connection with the audit of NDIL's Mexico branch for 2003. The notice proposed to deny depreciation expense deductions relating to drilling rigs operating in Mexico in 2003. The notice also proposed to deny a deduction for payments made to an affiliated company for the procurement of labor services in Mexico. NDIL's Mexico branch took similar deductions for depreciation and labor expenses from 2004 to 2008. In 2009, the government proposed similar assessments against the Mexico branch of another wholly owned Bermuda subsidiary, Nabors Drilling International II Ltd. ("NDIL II") for 2006. We anticipate that a similar assessment will eventually be proposed against NDIL through 2008 and against NDIL II for 2007 to 2010. Although Nabors and its tax advisors previously concluded that the deductions were appropriate for each of the years, a reserve has been recorded in accordance with GAAP. During 2013, we reached a negotiated settlement for NDIL's 2003, 2005 and 2006 tax years (the statute of limitations had previously expired on the 2004 tax year) and NDIL II's 2006 tax year. Accordingly, the corresponding reserves were reduced by approximately $20 million during the first quarter of 2013. After this settlement, the remaining amounts assessed or expected to be assessed in the aggregate, range from $30 million to $35 million, for which reserves are recorded in accordance with GAAP. If we ultimately do not prevail, we would be required to recognize additional tax for any amount in excess of the current reserve.

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**Nabors Industries Ltd. and Subsidiaries**

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

**Note 19 Commitments and Contingencies (Continued)**

*Self-Insurance*

We estimate the level of our liability related to insurance and record reserves for these amounts in our consolidated financial statements. Our estimates are based on the facts and circumstances specific to existing claims and our past experience with similar claims. These loss estimates and accruals recorded in our financial statements for claims have historically been reasonable in light of the actual amount of claims paid and are actuarily supported. Although we believe our insurance coverage and reserve estimates are reasonable, a significant accident or other event that is not fully covered by insurance or contractual indemnity could occur and could materially affect our financial position and results of operations for a particular period.

We self-insure for certain losses relating to workers' compensation, employers' liability, general liability, automobile liability and property damage. Some workers' compensation claims, employers' liability and marine employers' liability claims are subject to a $2.0 million per-occurrence deductible. Some automobile liability is subject to a $1.0 million deductible. General liability claims are subject to a $5.0 million per-occurrence deductible.

In addition, we are subject to a $5.0 million deductible for land rigs and for offshore rigs. This applies to all kinds of risks of physical damage except for named windstorms in the U.S. Gulf of Mexico for which we are self-insured.

Political risk insurance is procured for select operations in South America, Africa, the Middle East and Asia. Losses are subject to a $0.25 million deductible, except for Colombia, which is subject to a $0.5 million deductible. There is no assurance that such coverage will adequately protect Nabors against liability from all potential consequences.

As of December 31, 2013 and 2012, our self-insurance accruals totaled $181.7 million and $171.2 million, respectively, and our related insurance recoveries/receivables were $44.7 million and $24.6 million, respectively.

*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. For matters where an unfavorable outcome is reasonably possible and significant, we disclose the nature of the matter and a range of potential exposure, unless an estimate cannot be made at the time of disclosure. 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.

In 2009, the Court of Ouargla entered a judgment of approximately $17.7 million (at current exchange rates) against us relating to alleged customs infractions in Algeria. We believe we did not

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**Nabors Industries Ltd. and Subsidiaries**

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

**Note 19 Commitments and Contingencies (Continued)**

receive proper notice of the judicial proceedings, and that the amount of the judgment was excessive in any case. We asserted the lack of legally required notice as a basis for challenging the judgment on appeal to the Algeria Supreme Court. In May 2012, that court reversed the lower court and remanded the case to the Ouargla Court of Appeals for treatment consistent with the Supreme Court's ruling. In January 2013, the Ouargla Court of Appeals reinstated the judgment. We have again lodged an appeal to the Algeria Supreme Court, asserting the same challenges as before. Based upon our understanding of applicable law and precedent, we continue to believe that we will prevail. Although the appeal remains ongoing at this time, the Hassi Messaoud customs office recently initiated efforts to collect the judgment prior to the Supreme Court's decision in the case. As a result, we paid approximately $3.1 million and posted security of approximately $1.33 million to suspend those collection efforts and to enter into a formal negotiations process with the customs authority. We have recorded a reserve in the amount of the posted security. If we are ultimately required to pay a fine or judgment related to this matter, the resulting loss could be up to $13.3 million in excess of amounts accrued.

In March 2011, the Court of Ouargla entered a judgment of approximately $34.8 million (at current exchange rates) against us relating to alleged violations of Algeria's foreign currency exchange controls, which require that goods and services provided locally be invoiced and paid in local currency. The case relates to certain foreign currency payments made to us by CEPSA, a Spanish operator, for wells drilled in 2006. Approximately $7.5 million of the total contract amount was paid offshore in foreign currency, and approximately $3.2 million was paid in local currency. The judgment includes fines and penalties of approximately four times the amount at issue. We have appealed the ruling based on our understanding that the law in question applies only to resident entities incorporated under Algerian law. An intermediate court of appeals has upheld the lower court's ruling, and we have appealed the matter to the Algeria Supreme Court. While our payments were consistent with our historical operations in the country, and, we believe, those of other multinational corporations there, as well as interpretations of the law by the Central Bank of Algeria, the ultimate resolution of this matter could result in a loss of up to $26.8 million in excess of amounts accrued.

In 2012, Nabors Global Holdings II Limited ("NGH2L") signed a contract with ERG Resources, LLC ("ERG") relating to the sale of all of the Class A shares of NGH2L's wholly owned subsidiary, Ramshorn International Limited, an oil and gas exploration company. When ERG failed to meet its closing obligations, NGH2L terminated the transaction on March 19, 2012 and, as contemplated in the agreement, retained ERG's $3.0 million escrow deposit. ERG filed suit the following day in the 61st Judicial District Court of Harris County, Texas, in a case styled ERG Resources, LLC v. Nabors Global Holdings II Limited, Ramshorn International Limited, and Parex Resources, Inc.; Cause No. 2012-16446, seeking injunctive relief to halt any sale of the shares to a third party, specifically naming as defendant Parex Resources, Inc. ("Parex"). The lawsuit also seeks monetary damages of up to $750.0 million based on an alleged breach of contract by NGH2L and alleged tortious interference with contractual relations by Parex. Nabors successfully defeated ERG's effort to obtain a temporary restraining order from the Texas court on March 20, 2012. Nabors completed the sale of Ramshorn's Class A shares to a Parex affiliate in April 2012, which mooted ERG's application for a temporary injunction. The lawsuit is staid, pending further court actions. ERG retains its causes of action for monetary damages, but Nabors believes the claims are foreclosed by the terms of the agreement and are without factual or legal merit. Although we are vigorously defending the lawsuit, its ultimate outcome cannot be determined at this time.

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**Nabors Industries Ltd. and Subsidiaries**

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

**Note 19 Commitments and Contingencies (Continued)**

*Off-Balance Sheet Arrangements (Including Guarantees)*

We are a party to some 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 under which we provide financial or performance assurance to third parties. Certain of these agreements serve as guarantees, including standby letters of credit issued on behalf of insurance carriers in conjunction with our workers' compensation insurance program and other financial surety instruments such as bonds. In addition, we have provided indemnifications, which serve as guarantees, to some third parties. These guarantees include indemnification provided by Nabors to our share transfer agent and our insurance carriers. We are not able to estimate the potential future maximum payments that might be due under our indemnification guarantees.

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

| | Maximum Amount | | | | |
|---|---|---|---|---|---|
| | 2014 | 2015 | 2016 | Thereafter | Total |
| | (In thousands) | | | | |
| Financial standby letters of credit and other financial surety instruments | $ 70,144 | 34 | | 11,933 | $ 82,111 |

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**Nabors Industries Ltd. and Subsidiaries**

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

**Note 20 Earnings (Losses) Per Share**

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

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2013 | 2012 Revised | 2011 Revised |
| | (In thousands, except per share amounts) | | |
| Net income (loss) (numerator): | | | |
| Income (loss) from continuing operations, net of tax | $ 158,341 | $ 232,974 | $ 347,170 |
| Less: net (income) loss attributable noncontrolling interest | (7,180) | (621) | (1,045) |
| Less: net (income) loss allocated to unvested shareholders | (1,277) | | |
| Adjusted income (loss) from continuing operations basic and diluted | 149,884 | 232,353 | 346,125 |
| Income (loss) from discontinued operations, net of tax | (11,179) | (67,526) | (97,601) |
| Adjusted net income (loss) attributable to Nabors | $ 138,705 | $ 164,827 | $ 248,524 |
| Earnings (losses) per share: | | | |
| Basic from continuing operations | $ 0.51 | $ 0.80 | $ 1.21 |
| Basic from discontinued operations | (0.04) | (0.23) | (0.34) |
| Total Basic | $ 0.47 | $ 0.57 | $ 0.87 |
| Diluted from continuing operations | $ 0.51 | $ 0.79 | $ 1.18 |
| Diluted from discontinued operations | (0.04) | (0.23) | (0.33) |
| Total Diluted | $ 0.47 | $ 0.56 | $ 0.85 |
| Shares (denominator): | | | |
| Weighted-average number of shares outstanding basic | 294,182 | 289,965 | 287,118 |
| Net effect of dilutive stock options, warrants and restricted stock awards based on the if-converted method | 2,410 | 2,358 | 5,366 |
| Weighted-average number of shares outstanding diluted | 296,592 | 292,323 | 292,484 |

For all periods presented, the computation of diluted earnings (losses) per Nabors' share excludes outstanding stock options and warrants with exercise prices greater than the average market price of Nabors' common shares, because their inclusion would be anti-dilutive and because they are not considered participating securities. The average number of options and warrants that were excluded from diluted earnings (losses)

per share that would potentially dilute earnings per share in the future was 11,642,417, 14,200,915 and 9,241,543 shares during 2013, 2012 and 2011, respectively. In any period during which the average market price of Nabors' common shares exceeds the exercise prices of these stock options and warrants, such stock options and warrants will be included in our diluted earnings (losses) per share computation using the if-converted method of accounting. Restricted stock is included in our basic and diluted earnings (losses) per share computation using the two-class method of accounting in all periods because such stock is considered participating securities.

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**Nabors Industries Ltd. and Subsidiaries**

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

**Note 21 Supplemental Balance Sheet, Income Statement and Cash Flow Information**

Accrued liabilities include the following:

| | December 31, | |
|---|---|---|
| | 2013 | 2012 |
| | (In thousands) | |
| Accrued compensation | $ 172,803 | $ 158,095 |
| Deferred revenue | 202,918 | 148,165 |
| Other taxes payable | 76,781 | 58,590 |
| Workers' compensation liabilities | 29,459 | 22,645 |
| Interest payable | 64,728 | 90,878 |
| Warranty accrual | 4,653 | 6,436 |
| Litigation reserves | 30,784 | 26,782 |
| Current liability to discontinued operations | 64,404 | 68,961 |
| Professional fees | 2,971 | 2,989 |
| Current deferred tax liability | 3,075 | 10,721 |
| Current liability to acquisition of KVS | 22,033 | |
| Other accrued liabilities | 22,484 | 5,118 |
| | $ 697,093 | $ 599,380 |

Investment income (loss) includes the following:

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2013 | 2012 | 2011 |
| | (In thousands) | | |
| Interest and dividend income | $ 5,120 | $ 7,536 | $ 9,929 |
| Gains (losses) on investments, net | 91,457(1) | 55,601(2) | 10,010(3) |
| | $ 96,577 | $ 63,137 | $ 19,939 |

(1) Includes net gains of $2.5 million from our trading securities and $89.0 million realized gains from short-term and other long-term investments.

(2) Includes net unrealized gains of $41.1 million from our trading securities and $14.5 million realized gains from short-term and other long-term investments.

(3) Reflects gain (loss) on sale of debt securities and gains (losses) from our long-term investments of $18.0 million, partially offset by net unrealized losses of $8.0 million from our trading securities.

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**Nabors Industries Ltd. and Subsidiaries**

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

**Note 21 Supplemental Balance Sheet, Income Statement and Cash Flow Information (Continued)**

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

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2013 | 2012 | 2011 |
| | (In thousands) | | |
| Losses (gains) on sales, disposals and involuntary conversions of long-lived assets | $ 13,624 | $ (147,522)(1) | $ (11,196)(2) |
| Litigation expenses | 11,684 | 5,382 | 11,301 |
| Foreign currency transaction losses (gains) | 6,219 | 4,787 | 5,499 |
| Losses (gains) on derivative instruments | | (1,281) | (2,159) |
| Other losses (gains) | 6,450 | 1,998 | 1,029 |
| | $ 37,977 | $ (136,636) | $ 4,474 |

(1) Includes a $160 million gain from the sale of our equity interest in Sabine.

(2) Includes a $13.1 million pre-tax gain from our acquisition of Peak during 2011 representing the excess of the estimated fair value of the assets and liabilities over the net carrying value of our previously held equity interest. See Note 6 Acquisitions for additional discussion.

The changes in accumulated other comprehensive income (loss), by component, include the following:

| | Gains (losses) on cash flow hedges | Unrealized gains (losses) on available-for-sale securities | Defined benefit pension plan items | Foreign currency items | Total |
|---|---|---|---|---|---|
| | | | (In thousands(a)) | | |
| As of January 1, 2013 | $ (2,793) | $ 134,229 | $ (7,632) | $ 307,791 | $ 431,595 |
| Other comprehensive income (loss) before reclassifications | | 22,968 | | (65,447) | (42,479) |
| Amounts reclassified from accumulated other comprehensive income (loss) | 374 | (85,455) | 3,557 | | (81,524) |
| Net other comprehensive income (loss) | 374 | (62,487) | 3,557 | (65,447) | (124,003) |
| As of December 31, 2013 | $ (2,419) | $ 71,742 | $ (4,075) | $ 242,344 | $ 307,592 |

(a) All amounts are net of tax. Amounts in parentheses indicate debits.

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**Nabors Industries Ltd. and Subsidiaries**

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

**Note 21 Supplemental Balance Sheet, Income Statement and Cash Flow Information (Continued)**

The line items that were reclassified from net income include the following:

**Line item in consolidated statement of income (loss)**

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2013 | 2012 | 2011 |
| | (In thousands) | | |
| Investment income (loss), net of income taxes of $2,664, $4,316 and $86 | $ 88,158 | $ 13,405 | $ 3,036 |
| Interest expense, net of income taxes of ($239), ($239) and ($239) | 613 | 702 | 763 |
| General and administrative expenses, net of incomes taxes of ($2,359), $70 and $2,102 | 5,916 | (324) | (5,391) |
| Total before tax | 81,629 | 13,027 | 7,664 |
| Tax expense (benefit) | 66 | 4,147 | 1,777 |
| Reclassification adjustment for (gains)/losses included in net income (loss) | $ 81,563 | $ 8,880 | $ 5,887 |

Supplemental cash flow information includes the following:

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2013 | 2012 | 2011 |
| | (In thousands) | | |
| Cash paid for income taxes | $ 100,749 | $ 85,044 | $ 53,759 |
| Cash paid for interest, net of capitalized interest | $ 239,637 | $ 250,045 | $ 208,212 |
| Acquisitions of businesses: | | | |
| Fair value of assets acquired | $ 140,740 | $ | $ 80,585 |
| Goodwill | 51,318 | | 8,000 |
| Liabilities assumed | (8,232) | | (10,471) |
| Gain on acquisition | | | (13,114) |
| Future consideration payments (fair value) | (64,174) | | |
| Cash paid for acquisitions of businesses | 119,652 | | 65,000 |
| Cash acquired in acquisitions of businesses | (2,681) | | (9,541) |
| Cash paid for acquisitions of businesses, net | $ 116,971 | $ | $ 55,459 |

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**Nabors Industries Ltd. and Subsidiaries**

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

**Note 22 Unaudited Quarterly Financial Information**

| | Year Ended December 31, 2013 | | | |
|---|---|---|---|---|
| | Quarter Ended | | | |
| | March 31 | June 30 | September 30 | December 31 |
| | (In thousands, except per share amounts) | | | |
| Operating revenues and Earnings (losses) from unconsolidated affiliates from continuing operations(1) | $ 1,538,373 | $ 1,459,326 | $ 1,548,965 | $ 1,605,390 |
| Income (loss) from continuing operations, net of tax | $ 92,207 | $ 28,128 | $ (90,510) | $ 128,516 |
| Income (loss) from discontinued operations, net of tax | 7,011 | (26,873) | (14,430) | 23,113 |
| Less: Net (income) loss attributable to noncontrolling interest | (97) | (5,616) | (441) | (1,026) |
| Net income (loss) attributable to Nabors | $ 99,121 | $ (4,361) | $ (105,381) | $ 150,603 |
| Earnings (losses) per share:(2) | | | | |
| Basic from continuing operations | $ 0.31 | $ 0.08 | $ (0.30) | $ 0.43 |
| Basic from discontinued operations | 0.03 | (0.09) | (0.05) | 0.07 |
| Total Basic | $ 0.34 | $ (0.01) | $ (0.35) | $ 0.50 |
| Diluted from continuing operations | $ 0.31 | $ 0.08 | $ (0.30) | $ 0.42 |
| Diluted from discontinued operations | 0.02 | (0.09) | (0.05) | 0.08 |
| Total Diluted | $ 0.33 | $ (0.01) | $ (0.35) | $ 0.50 |

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**Nabors Industries Ltd. and Subsidiaries**

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

**Note 22 Unaudited Quarterly Financial Information (Continued)**

| | Year Ended December 31, 2012 | | | |
|---|---|---|---|---|
| | Quarter Ended | | | |
| | March 31 Restated | June 30 Restated | September 30 | December 31 |
| | (In thousands, except per share amounts) | | | |
| Operating revenues and Earnings (losses) from unconsolidated affiliates from continuing operations(3) | $ 1,810,367 | $ 1,541,841 | $ 1,630,380 | $ 1,571,745 |
| Income (loss) from continuing operations, net of tax | $ 158,546 | $ (121,626) | $ 64,489 | $ 131,565 |
| Income (loss) from discontinued operations, net of tax | (2,977) | 26,710 | 12,155 | (103,414) |
| Less: Net (income) loss attributable to noncontrolling interest | 267 | 1,174 | (988) | (1,074) |
| Net income (loss) attributable to Nabors | $ 155,836 | $ (93,742) | $ 75,656 | $ 27,077 |
| Earnings (losses) per share:(2) | | | | |
| Basic from continuing operations | $ 0.55 | $ (0.41) | $ 0.22 | $ 0.45 |
| Basic from discontinued operations | (0.01) | 0.09 | 0.04 | (0.36) |
| Total Basic | $ 0.54 | $ (0.32) | $ 0.26 | $ 0.09 |
| Diluted from continuing operations | $ 0.54 | $ (0.41) | $ 0.22 | $ 0.45 |
| Diluted from discontinued operations | (0.01) | 0.09 | 0.04 | (0.36) |
| Total Diluted | $ 0.53 | $ (0.32) | $ 0.26 | $ 0.09 |

(1) Includes earnings (losses) from unconsolidated affiliates, net, accounted for by the equity method, of $2.9 million, $1.4 million, ($2.6) million and ($1.6) million, respectively.

(2) Earnings per share is computed independently for each of the quarters presented. Therefore, the sum of the quarterly earnings per share may not equal the total computed for the year.

(3) Includes earnings (losses) from unconsolidated affiliates, net, accounted for by the equity method, of ($34.3) million, ($156.1) million, ($99.5) million and $1.2 million, respectively.

As described in Note 2 Revisions of Prior Period Financial Statements, we have revised our consolidated financial statements for the years 2012 and prior for Sabine errors and certain unrelated immaterial items. The effect of these errors on quarters ended March 31, 2012 and June 30, 2012 is material and accordingly, we are restating these quarters. The table below presents the line items impacted by the restatement for such quarters. See Note 5 Assets Held for Sale and Discontinued Operations for additional information.

Set forth below is a summary of the effect on our previously reported quarterly reports.

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**Nabors Industries Ltd. and Subsidiaries**

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

**Note 22 Unaudited Quarterly Financial Information (Continued)**

The effect on our consolidated balance sheet at March 31, 2012 is as follows:

| | 2012 | | |
|---|---|---|---|
| | | March 31 | |
| (In thousands) | As Reported | Adjustment | Restated |
| Inventory | $ 265,787 | $ (3,200) | $ 262,587 |
| Total current assets | 3,129,224 | (3,200) | 3,126,024 |
| Investment in unconsolidated affiliates | 303,103 | 21,746 | 324,849 |
| Total assets | 13,148,194 | 18,546 | 13,166,740 |
| Deferred income taxes | 855,057 | (2,407) | 852,650 |
| Total liabilities | 7,255,826 | (2,407) | 7,253,419 |
| Retained earnings | 4,090,454 | 20,953 | 4,111,407 |
| Total shareholders' equity | 5,810,923 | 20,953 | 5,831,876 |
| Total equity | 5,823,180 | 20,953 | 5,844,133 |
| Total liabilities and equity | 13,148,194 | 20,953 | 13,169,147 |

There was no effect at June 30, 2012.

The effect on our consolidated statements of income (loss) is as follows:

| | Quarter Ended | | | | | |
|---|---|---|---|---|---|---|
| | March 31, 2012 | | | June 30, 2012 | | |
| (In thousands, except per share amounts) | As Reported(1) | Adjustment | Restated | As Reported(1) | Adjustment | Restated |
| Earnings (losses) from unconsolidated affiliates | $ (68,669) | $ 34,348 | $ (34,321) | $ (134,317) | $ (21,746) | $ (156,063) |
| Total revenues and other income | 1,796,271 | 34,348 | 1,830,619 | 1,568,955 | (21,746) | 1,547,209 |
| Direct costs | 1,154,113 | 1,604 | 1,155,717 | 1,092,375 | (3,200) | 1,089,175 |
| Total costs and other deductions | 1,593,948 | 1,604 | 1,595,552 | 1,706,553 | (3,200) | 1,703,353 |
| Income (loss) from continuing operations before income taxes | 202,323 | 32,744 | 235,067 | (137,598) | (18,546) | (156,144) |
| Deferred income tax expense (benefit) | 38,767 | 10,998 | 49,765 | (72,373) | 2,407 | (69,966) |
| Income tax expense (benefit) | 64,773 | 10,998 | 75,771 | (37,675) | 2,407 | (35,268) |
| Income (loss) from continuing operations, net of tax | 136,800 | 21,746 | 158,546 | (100,673) | (20,953) | (121,626) |
| Net income (loss) | 133,823 | 21,746 | 155,569 | (73,963) | (20,953) | (94,916) |
| Net income (loss) attributable to Nabors | 134,090 | 21,746 | 155,836 | (72,789) | (20,953) | (93,742) |
| Earnings (losses) per share:(2) | | | | | | |
| Basic from continuing operations | $ 0.48 | $ 0.08 | $ 0.55 | $ (0.34) | $ (0.07) | $ (0.41) |
| Total Basic | $ 0.46 | $ 0.08 | $ 0.54 | $ (0.25) | $ (0.07) | $ (0.32) |
| Diluted from continuing operations | $ 0.47 | $ 0.07 | $ 0.54 | $ (0.34) | $ (0.07) | $ (0.41) |
| Total Diluted | $ 0.46 | $ 0.07 | $ 0.53 | $ (0.25) | $ (0.07) | $ (0.32) |

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**Nabors Industries Ltd. and Subsidiaries**

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

**Note 22 Unaudited Quarterly Financial Information (Continued)**

| | Six Months Ended June 30, 2012 | | |
|---|---|---|---|
| **(In thousands, except per share amounts)** | **As Reported(1)** | **Adjustment** | **Restated** |
| Earnings (losses) from unconsolidated affiliates | $ (202,986) | $ 12,602 | $ (190,384) |
| Total revenues and other income | 3,365,226 | 12,602 | 3,377,828 |
| Direct costs | 2,246,488 | (1,596) | 2,244,892 |
| Total costs and other deductions | 3,300,501 | (1,596) | 3,298,905 |
| Income (loss) from continuing operations before income taxes | 64,725 | 14,198 | 78,923 |
| Deferred income tax expense (benefit) | (33,606) | 13,405 | (20,201) |
| Income tax expense (benefit) | 27,098 | 13,405 | 40,503 |
| Income (loss) from continuing operations, net of tax | 36,127 | 793 | 36,920 |
| Net income (loss) | 59,860 | 793 | 60,653 |
| Net income (loss) attributable to Nabors | 61,301 | 793 | 62,094 |
| Earnings (losses) per share:(2) | | | |
| Basic from continuing operations | $ 0.13 | | $ 0.13 |
| Total Basic | $ 0.21 | | $ 0.21 |
| Diluted from continuing operations | $ 0.13 | | $ 0.13 |
| Total Diluted | $ 0.21 | | $ 0.21 |

(1) Amounts reflect the retrospective reclassification of the results of Peak as discontinued operations. Refer to Note 5 Assets Held for Sale and Discontinued Operations for additional information.

(2) Earnings per share is computed independently for each of the columns presented. Therefore, the sum of the earnings per share may not equal the total revised.

The effect on our consolidated statements of other comprehensive income (loss) is as follows:

| | Quarter Ended | | | | | |
|---|---|---|---|---|---|---|
| | March 31, 2012 | | | June 30, 2012 | | |
| **(In thousands)** | **As Reported** | **Adjustment** | **Restated** | **As Reported** | **Adjustment** | **Restated** |
| Net income (loss) attributable to Nabors | $ 134,090 | $ 21,746 | $ 155,836 | $ (72,789) | $ (20,953) | $ (93,742) |
| Comprehensive income (loss) attributable to Nabors | 155,289 | 21,746 | 177,035 | (97,164) | (20,953) | (118,117) |

| | | | | | | |
|---|---|---|---|---|---|---|
| Comprehensive income (loss) | 155,265 | 21,746 | 177,011 | (98,554) | (20,953) | (119,507) |

| | Six Months Ended June 30, 2012 | | |
|---|---|---|---|
| **(In thousands)** | **As Reported** | **Adjustment** | **Restated** |
| Net income (loss) attributable to Nabors | $ 61,301 | $ 793 | $ 62,094 |
| Comprehensive income (loss) attributable to Nabors | $ 58,125 | $ 793 | $ 58,918 |
| Comprehensive income (loss) | $ 56,711 | $ 793 | $ 57,504 |

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**Nabors Industries Ltd. and Subsidiaries**

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

**Note 22 Unaudited Quarterly Financial Information (Continued)**

While these adjustments had no impact on our overall cash flows from operating, investing or financing activities for any period, the presentation of certain line items within our operating activities in our consolidated statements of cash flow was revised and is as follows:

| | Three Months Ended March 31, 2012 | | | Six Months Ended June 30, 2012 | | |
|---|---|---|---|---|---|---|
| (In thousands) | As Reported | Adjustment | Restated | As Reported | Adjustment | Restated |
| Net income (loss) attributable to Nabors | $ 134,090 | $ 21,746 | $ 155,836 | $ 61,301 | $ 793 | $ 62,094 |
| Deferred income tax expense (benefit) | 38,802 | 10,998 | 49,800 | (15,404) | 13,405 | (1,999) |
| Equity in (earnings) losses of unconsolidated affiliates, net of dividends | 68,668 | (34,348) | 34,320 | 202,985 | (12,602) | 190,383 |
| Inventory | 7,883 | 3,200 | 11,083 | | | |
| Trade accounts payable and accrued liabilities | (119,195) | (1,596) | (120,791) | (94,423) | (1,596) | (96,019) |
| Net cash provided by operating activities | $ 244,183 | $ | $ 244,183 | $ 711,937 | $ | $ 711,937 |

The effect on our consolidated statements of changes in equity is as follows:

| | March 31, 2012 | | |
|---|---|---|---|
| (In thousands) | As Reported | Adjustment | Revised |
| Retained earnings | $ 4,090,454 | $ 20,953 | $ 4,111,407 |
| Total equity | 5,823,180 | 20,953 | 5,844,133 |

**Note 23 Segment Information**

At December 31, 2013, we conducted our operations through two business lines:

*Drilling & Rig Services*
This business line is comprised of our global drilling rig operations and drilling-related services, consisting of equipment manufacturing, instrumentation optimization software and directional drilling services.

*Completion & Production Services*

This business line is comprised of our operations involved in the completion, life-of-well maintenance and eventual plugging and abandonment of a well. These services include stimulation, coiled-tubing, cementing, wireline, workover, well-servicing and fluids management.

The accounting policies of the segments are the same as those described in Note 3 Summary of Significant Accounting Policies. Inter-segment sales are recorded at cost or cost plus a profit margin. We evaluate the performance of our segments based on several criteria, including adjusted income (loss) derived from operating activities.

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**Nabors Industries Ltd. and Subsidiaries**

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

**Note 23 Segment Information (Continued)**

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

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2013 | 2012 Revised | 2011 Revised |
| | | (In thousands) | |
| Operating revenues and Earnings (losses) from unconsolidated affiliates:(1) | | | |
| Drilling & Rig Services: | | | |
| U.S. | $ 1,914,786 | $ 2,276,808 | $ 1,999,241 |
| Canada | 361,676 | 429,411 | 426,455 |
| International | 1,464,264 | 1,265,060 | 1,104,461 |
| Rig Services(2) | 516,004 | 688,310 | 626,169 |
| Subtotal drilling and rig services(3) | 4,256,730 | 4,659,589 | 4,156,326 |
| Completion & Production Services: | | | |
| Completion Services | 1,074,713 | 1,462,767 | 1,237,306 |
| Production Services | 1,009,214 | 1,000,873 | 849,522 |
| Subtotal completion and production services(4) | 2,083,927 | 2,463,640 | 2,086,828 |
| Other reconciling items(5) | (188,603) | (568,896) | (144,226) |
| Total | $ 6,152,054 | $ 6,554,333 | $ 6,098,928 |

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**Nabors Industries Ltd. and Subsidiaries**

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

**Note 23 Segment Information (Continued)**

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2013 | 2012 Revised | 2011 Revised |
| | | (In thousands) | |
| Adjusted income (loss) derived from operating activities:(1)(6) | | | |
| Drilling & Rig Services: | | | |
| U.S. | $ 315,496 | $ 509,894 | $ 442,831 |
| Canada | 61,193 | 91,360 | 89,344 |
| International | 177,833 | 91,226 | 123,813 |
| Rig Services(2) | (3,918) | 67,366 | 55,856 |
| Subtotal drilling and rig services(3) | 550,604 | 759,846 | 711,844 |
| Completion & Production Services: | | | |
| Completion Services | 51,722 | 188,518 | 229,125 |
| Production Services | 102,130 | 108,835 | 80,018 |
| Subtotal completion and production services(4) | 153,852 | 297,353 | 309,143 |
| Other reconciling items(7) | (146,237) | (148,649) | (154,981) |
| Total adjusted income (loss) derived from operating activities | $ 558,219 | $ 908,550 | $ 866,006 |
| U.S. oil and gas joint venture earnings (losses) | | (289,199) | 88,486 |
| Interest expense | (223,418) | (251,904) | (256,632) |
| Investment income (loss) | 96,577 | 63,137 | 19,939 |
| Gains (losses) on sales and disposals of long-lived assets and other income (expense), net | (37,977) | 136,636 | (4,474) |
| Impairments and other charges | (287,241) | (290,260) | (198,072) |
| Income (loss) from continuing operations before income taxes | 106,160 | 276,960 | 515,253 |
| Income tax expense (benefit) | (55,181) | 40,986 | 165,083 |
| Subsidiary preferred stock dividend | 3,000 | 3,000 | 3,000 |
| Income (loss) from continuing operations, net of tax | 158,341 | 232,974 | 347,170 |
| Income (loss) from discontinued operations, net of tax | (11,179) | (67,526) | (97,601) |
| Net income (loss) | 147,162 | 165,448 | 249,569 |
| Less: Net (income) loss attributable to noncontrolling interest | (7,180) | (621) | (1,045) |

| | | | |
|---|---|---|---|
| Net income (loss) attributable to Nabors | $ 139,982 | $ 164,827 | $ 248,524 |

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**Nabors Industries Ltd. and Subsidiaries**

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

**Note 23 Segment Information (Continued)**

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2013 | 2012 | 2011 |
| | (In thousands) | | |
| Depreciation and amortization(1) | | | |
| Drilling & Rig Services: | | | |
| U.S. | $ 440,210 | $ 406,740 | $ 360,604 |
| Canada | 57,796 | 59,191 | 57,382 |
| International | 346,659 | 330,388 | 273,315 |
| Rig Services(2) | 32,029 | 29,617 | 28,192 |
| Subtotal drilling and rig services | 876,694 | 825,936 | 719,493 |
| Completion & Production Services: | | | |
| Completion Services | 109,242 | 112,401 | 102,009 |
| Production Services | 103,502 | 104,201 | 96,885 |
| Subtotal completion and production services | 212,744 | 216,602 | 198,894 |
| Other reconciling items(7) | (2,761) | (2,615) | (265) |
| Total depreciation and amortization | $ 1,086,677 | $ 1,039,923 | $ 918,122 |

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2013 | 2012 | 2011 |
| | (In thousands) | | |
| Capital expenditures and acquisitions of businesses:(9) | | | |
| Drilling & Rig Services: | | | |
| U.S. | $ 644,792 | $ 758,555 | $ 719,741 |
| Canada | 59,386 | 78,729 | 58,134 |
| International | 248,980 | 265,249 | 653,759 |
| Rig Services(2) | 70,831 | 39,923 | 136,739 |
| Subtotal drilling and rig services | 1,023,989 | 1,142,456 | 1,568,373 |
| Completion & Production Services(8) | 325,449 | 238,300 | 487,900 |
| Other reconciling items(7) | 16,556 | 52,830 | 191,462 |

| | | | |
|---|---|---|---|
| Total capital expenditures and acquisitions of businesses | $ 1,365,994 | $ 1,433,586 | $ 2,247,735 |

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**Nabors Industries Ltd. and Subsidiaries**

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

**Note 23 Segment Information (Continued)**

| | Year Ended December 31, | |
|---|---|---|
| | 2013 | 2012 |
| | (In thousands) | |
| Total assets: | | |
| Drilling & Rig Services: | | |
| U.S. | $ 4,248,630 | $ 4,157,470 |
| Canada | 608,018 | 699,698 |
| International | 3,584,339 | 3,626,307 |
| Rig Services | 474,275 | 644,350 |
| Subtotal drilling and rig services(10) | 8,915,262 | 9,127,825 |
| Completion & Production Services(8)(11) | 2,394,865 | 2,301,803 |
| Other reconciling items(7)(12) | 849,684 | 1,226,394 |
| Total assets | $ 12,159,811 | $ 12,656,022 |

(1) All periods present the operating activities of our wholly owned oil and gas businesses, our previously held equity interests in oil and gas joint ventures in Canada and Colombia, aircraft logistics operations and construction services as discontinued operations.

(2) Includes our drilling technology and top drive manufacturing, directional drilling, rig instrumentation and software services. These services represent our other companies that are not aggregated into a reportable operating segment.

(3) Includes earnings (losses), net from unconsolidated affiliates, accounted for using the equity method, of ($0.4) and ($3.1) million for the years ended December 31, 2013 and 2011, respectively.

(4) Includes earnings (losses), net from unconsolidated affiliates, accounted for using the equity method, of $0.4 million and $0.5 million for the years ended December 31, 2013 and 2012, respectively.

(5) Represents the elimination of inter-segment transactions and earnings (losses), net from the U.S. unconsolidated oil and gas joint venture, accounted for using the equity method until sold in December 2012, of ($289.2) million and $88.5 million for the years ended December 31, 2012 and 2011, respectively.

(6) Adjusted income (loss) derived from operating activities is computed by subtracting the sum of direct costs, general and administrative expenses, depreciation and amortization and earnings (losses) from the U.S. oil and gas joint venture from the sum of Operating revenues and Earnings (losses) from unconsolidated affiliates. These amounts should not be used as a substitute for the amounts reported in accordance with 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 these financial measures accurately reflect our ongoing profitability. A reconciliation of this non-GAAP measure to income (loss) from continuing operations before income taxes, which is a GAAP measure, is provided in the above table.

(7)

Represents the elimination of inter-segment transactions and unallocated corporate expenses, assets and capital expenditures.

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**Nabors Industries Ltd. and Subsidiaries**

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

**Note 23 Segment Information (Continued)**

(8) Reflects assets allocated to the line of business to conduct its operations. Further allocation to individual operating segments of Completion & Production Services is not available.

(9) Includes the portion of the purchase price of acquisitions allocated to fixed assets and goodwill based on their fair market value.

(10) Includes $57.0 million and $59.9 million of investments in unconsolidated affiliates accounted for using the equity method as of December 31, 2013 and 2012, respectively.

(11) Includes $7.4 million and $1.8 million of investments in unconsolidated affiliates accounted for using the equity method as of December 31, 2013 and 2012, respectively.

(12) Includes assets of $239.9 million and $377.6 million from oil and gas businesses classified as assets held-for-sale as of December 31, 2013 and 2012, respectively.

The following table sets forth financial information with respect to Nabors' operations by geographic area:

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2013 | 2012 Revised | 2011 Revised |
| | | (In thousands) | |
| Operating revenues and Earnings (losses) from unconsolidated affiliates: | | | |
| U.S. | $ 4,146,125 | $ 4,625,614 | $ 4,311,009 |
| Outside the U.S. | 2,005,929 | 1,928,719 | 1,787,919 |
| | $ 6,152,054 | $ 6,554,333 | $ 6,098,928 |
| Property, plant and equipment, net: | | | |
| U.S. | $ 5,474,746 | $ 5,179,578 | $ 4,974,239 |
| Outside the U.S. | 3,123,067 | 3,532,510 | 3,655,707 |
| | $ 8,597,813 | $ 8,712,088 | $ 8,629,946 |
| Goodwill: | | | |
| U.S. | $ 498,149 | $ 456,463 | $ 466,794 |
| Outside the U.S. | 14,815 | 15,863 | 34,464 |
| | $ 512,964 | $ 472,326 | $ 501,258 |

**Note 24 Condensed Consolidating Financial Information**

Nabors has fully and unconditionally guaranteed all of the issued public debt securities of Nabors Delaware. The following condensed consolidating financial information is included so that separate financial statements of Nabors Delaware is not required to be filed with the SEC. The condensed consolidating financial statements present investments in both consolidated and unconsolidated affiliates using the equity method of accounting.

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**Nabors Industries Ltd. and Subsidiaries**

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

**Note 24 Condensed Consolidating Financial Information (Continued)**

The following condensed consolidating financial information presents condensed consolidating balance sheets as of December 31, 2013 and 2012,and statements of income (loss), statements of other comprehensive income (loss) and the statements of cash flows for the years ended December 31, 2013, 2012 and 2011 of (a) Nabors, parent/guarantor, (b) Nabors Delaware, issuer of public debt securities guaranteed by Nabors, (c) the non-guarantor subsidiaries, (d) consolidating adjustments necessary to consolidate Nabors and its subsidiaries and (e) Nabors on a consolidated basis.

We corrected our 2011 condensed consolidating statement of cash flows for classification of changes in intercompany balances between Nabors Delaware (Issuer/Guarantor) and Other Subsidiaries (Non-Guarantors) to present them as cash flows from investing activities rather than cash flows from operating activities. For Nabors Delaware (Issuer / Guarantor), cash used for operating activities increased $78 million and cash provided by investing activities increased by the same amount for the year ended December 31, 2011. For Other Subsidiaries (Non-Guarantors), cash provided by operating activities increased $78 million and cash used for investing activities increased by the same amount for the year ended December 31, 2011. The impact of these revisions is not material to the related financial statements taken as a whole.

The revision adjustments described in Note 2, are reflected in the condensed consolidating statements of income (loss) and other comprehensive income (loss) for the years ended December 31, 2012 and 2011.

Certain reclassifications to intercompany payable and receivable balances in the condensed consolidating balance sheet have been made to the prior period to conform to current period presentation, with no effect on our consolidated financial position, results of operations or cash flows.

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**Nabors Industries Ltd. and Subsidiaries**

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

**Note 24 Condensed Consolidating Financial Information (Continued)**

**Condensed Consolidating Balance Sheets**

| | Nabors (Parent/ Guarantor) | Nabors Delaware (Issuer/ Guarantor) | December 31, 2013 Other Subsidiaries (Non-Guarantors) | Consolidating Adjustments | Total |
|---|---|---|---|---|---|
| | | | (In thousands) | | |
| | | | **ASSETS** | | |
| Current assets: | | | | | |
| Cash | $ 730 | $ 7,029 | $ 382,156 | $ | $ 389,915 |
| Short-term investments | | | 117,218 | | 117,218 |
| Assets held for sale | | | 243,264 | | 243,264 |
| Accounts receivable, net | 27 | | 1,399,516 | | 1,399,543 |
| Inventory | | | 209,793 | | 209,793 |
| Deferred income taxes | | | 121,316 | | 121,316 |
| Other current assets | 50 | 26,378 | 246,353 | | 272,781 |
| Total current assets | 807 | 33,407 | 2,719,616 | | 2,753,830 |
| Long-term investments | | | 3,236 | | 3,236 |
| Property, plant and equipment, net | | 33,815 | 8,563,998 | | 8,597,813 |
| Goodwill | | | 512,964 | | 512,964 |
| Intercompany receivables | 160,136 | 3,891 | 1,583,539 | (1,747,566) | |
| Investment in unconsolidated affiliates | 5,808,606 | 6,097,337 | 1,854,111 | (13,695,794) | 64,260 |
| Other long-term assets | | 34,487 | 193,221 | | 227,708 |
| Total assets | $ 5,969,549 | $ 6,202,937 | $ 15,430,685 | $ (15,443,360) | $ 12,159,811 |
| | | | **LIABILITIES AND EQUITY** | | |
| Current liabilities: | | | | | |
| Current debt | $ | $ | $ 10,185 | $ | $ 10,185 |
| Trade accounts payable | 86 | 25 | 545,401 | | 545,512 |
| Accrued liabilities | 378 | 65,947 | 630,768 | | 697,093 |
| Income taxes payable | | | 58,634 | | 58,634 |
| Total current liabilities | 464 | 65,972 | 1,244,988 | | 1,311,424 |
| Long-term debt | | 3,904,059 | 58 | | 3,904,117 |
| Other long-term liabilities | | 31,071 | 346,673 | | 377,744 |
| Deferred income taxes | | (213,233) | 729,394 | | 516,161 |
| Intercompany payable | | 1,747,566 | | (1,747,566) | |
| Total liabilities | 464 | 5,535,435 | 2,321,113 | (1,747,566) | 6,109,446 |
| Subsidiary preferred stock | | | 69,188 | | 69,188 |

| | | | | | |
|---|---|---|---|---|---|
| Shareholders' equity | 5,969,085 | 667,502 | 13,028,293 | (13,695,794) | 5,969,086 |
| Noncontrolling interest | | | 12,091 | | 12,091 |
| Total equity | 5,969,085 | 667,502 | 13,040,384 | (13,695,794) | 5,981,177 |
| Total liabilities and equity | $ 5,969,549 | $ 6,202,937 | $ 15,430,685 | $ (15,443,360) | $ 12,159,811 |

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**Nabors Industries Ltd. and Subsidiaries**

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

**Note 24 Condensed Consolidating Financial Information (Continued)**

**Condensed Consolidating Balance Sheets**

| | Nabors (Parent/ Guarantor) | Nabors Delaware (Issuer/ Guarantor) | December 31, 2012 Other Subsidiaries (Non-Guarantors) | Consolidating Adjustments | Total |
|---|---|---|---|---|---|
| | | | (In thousands) | | |
| | | | **ASSETS** | | |
| Current assets: | | | | | |
| Cash | $ 1,639 | $ 106,778 | $ 416,505 | $ | $ 524,922 |
| Short-term investments | | | 253,282 | | 253,282 |
| Assets held for sale | | | 383,857 | | 383,857 |
| Accounts receivable, net | | | 1,382,623 | | 1,382,623 |
| Inventory | | | 251,133 | | 251,133 |
| Deferred income taxes | | | 110,480 | | 110,480 |
| Other current assets | 50 | | 226,510 | | 226,560 |
| Total current assets | 1,689 | 106,778 | 3,024,390 | | 3,132,857 |
| Long-term investments | | | 4,269 | | 4,269 |
| Property, plant and equipment, net | | 37,300 | 8,674,788 | | 8,712,088 |
| Goodwill | | | 472,326 | | 472,326 |
| Intercompany receivables | 174,948 | 1,690,636 | 670,404 | (2,535,988) | |
| Investment in unconsolidated affiliates | 5,769,518 | 5,129,458 | 395,246 | (11,232,532) | 61,690 |
| Other long-term assets | | 31,904 | 240,888 | | 272,792 |
| Total assets | $ 5,946,155 | $ 6,996,076 | $ 13,482,311 | $ (13,768,520) | $ 12,656,022 |
| | | | **LIABILITIES AND EQUITY** | | |
| Current liabilities: | | | | | |
| Current debt | $ | $ | $ 364 | $ | $ 364 |
| Trade accounts payable | 116 | 23 | 498,871 | | 499,010 |
| Accrued liabilities | 1,110 | 91,520 | 506,750 | | 599,380 |
| Income taxes payable | | | 33,628 | | 33,628 |
| Total current liabilities | 1,226 | 91,543 | 1,039,613 | | 1,132,382 |
| Long-term debt | | 4,379,263 | 73 | | 4,379,336 |
| Other long-term liabilities | | 30,983 | 487,681 | | 518,664 |
| Deferred income taxes | | (24,906) | 624,241 | | 599,335 |
| Intercompany payable | | 2,535,988 | | (2,535,988) | |
| Total liabilities | 1,226 | 7,012,871 | 2,151,608 | (2,535,988) | 6,629,717 |

| | | | | | |
|---|---|---|---|---|---|
| Subsidiary preferred stock | | | 69,188 | | 69,188 |
| Shareholders' equity | 5,944,929 | (16,795) | 11,249,327 | (11,232,532) | 5,944,929 |
| Noncontrolling interest | | | 12,188 | | 12,188 |
| Total equity | 5,944,929 | (16,795) | 11,261,515 | (11,232,532) | 5,957,117 |
| Total liabilities and equity | $ 5,946,155 | $ 6,996,076 | $ 13,482,311 | $ (13,768,520) | $ 12,656,022 |

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**Nabors Industries Ltd. and Subsidiaries**

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

**Note 24 Condensed Consolidating Financial Information (Continued)**

**Condensed Consolidating Statements of Income (Loss)**

| | Year Ended December 31, 2013 | | | | |
|---|---|---|---|---|---|
| | Nabors (Parent/ Guarantor) | Nabors Delaware (Issuer/ Guarantor) | Other Subsidiaries (Non-Guarantors) | Consolidating Adjustments | Total |
| | | | (In thousands) | | |
| Revenues and other income: | | | | | |
| Operating revenues | $ | $ | $ 6,152,015 | $ | $ 6,152,015 |
| Earnings from unconsolidated affiliates | | | 39 | | 39 |
| Earnings (losses) from consolidated affiliates | 158,445 | 191,821 | (92,137) | (258,129) | |
| Investment income (loss) | 1 | 75 | 101,047 | (4,546) | 96,577 |
| Intercompany interest income | | 92 | | (92) | |
| Total revenues and other income | 158,446 | 191,988 | 6,160,964 | (262,767) | 6,248,631 |
| Costs and other deductions: | | | | | |
| Direct costs | | | 3,981,828 | | 3,981,828 |
| General and administrative expenses | 11,111 | 796 | 514,000 | (577) | 525,330 |
| Depreciation and amortization | | 3,610 | 1,083,067 | | 1,086,677 |
| Interest expense | | 234,512 | (11,094) | | 223,418 |
| Losses (gains) on sales and disposals of long-lived assets and other expense (income), net | 7,353 | 211,976 | (181,929) | 577 | 37,977 |
| Impairments and other charges | | | 287,241 | | 287,241 |
| Intercompany interest espense | | | 92 | (92) | |
| Total costs and other deductions | 18,464 | 450,894 | 5,673,205 | (92) | 6,142,471 |
| Income from continuing operations before income taxes | 139,982 | (258,906) | 487,759 | (262,675) | 106,160 |
| Income tax expense (benefit) | | (166,769) | 111,588 | | (55,181) |
| Subsidiary preferred stock dividend | | | 3,000 | | 3,000 |
| Income (loss) from continuing operations, net of tax | 139,982 | (92,137) | 373,171 | (262,675) | 158,341 |
| Income (loss) from discontinued operations, net of tax | | | (11,179) | | (11,179) |
| Net income (loss) | 139,982 | (92,137) | 361,992 | (262,675) | 147,162 |
| Less: Net (income) loss attributable to noncontrolling interest | | | (7,180) | | (7,180) |
| Net income (loss) attributable to Nabors | $ 139,982 | $ (92,137) | $ 354,812 | $ (262,675) | $ 139,982 |

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**Nabors Industries Ltd. and Subsidiaries**

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

**Note 24 Condensed Consolidating Financial Information (Continued)**

**Condensed Consolidating Statements of Income (Loss)**

| | Year Ended December 31, 2012 | | | | |
|---|---|---|---|---|---|
| | Nabors (Parent/ Guarantor) Revised | Nabors Delaware (Issuer/ Guarantor) Revised | Other Subsidiaries (Non-Guarantors) Revised | Consolidating Adjustments Revised | Total Revised |
| | | | (In thousands) | | |
| Revenues and other income: | | | | | |
| Operating revenues | $ | $ | $ 6,843,051 | $ | $ 6,843,051 |
| Earnings from unconsolidated affiliates | | | (288,718) | | (288,718) |
| Earnings (losses) from consolidated affiliates | 173,199 | (99,048) | (206,413) | 132,262 | |
| Investment income (loss) | | 43 | 63,094 | | 63,137 |
| Intercompany interest income | | 69,145 | | (69,145) | |
| Total revenues and other income | 173,199 | (29,860) | 6,411,014 | 63,117 | 6,617,470 |
| Costs and other deductions: | | | | | |
| Direct costs | | | 4,367,106 | | 4,367,106 |
| General and administrative expenses | 7,141 | 458 | 521,962 | (1,608) | 527,953 |
| Depreciation and amortization | | 3,610 | 1,036,313 | | 1,039,923 |
| Interest expense | | 268,904 | (17,000) | | 251,904 |
| Losses (gains) on sales and disposals of long-lived assets and other expense (income), net | 1,231 | (2,451) | (137,024) | 1,608 | (136,636) |
| Impairments and other charges | | | 290,260 | | 290,260 |
| Intercompany interest expense | | | 69,145 | (69,145) | |
| Total costs and other deductions | 8,372 | 270,521 | 6,130,762 | (69,145) | 6,340,510 |
| Income from continuing operations before income taxes | 164,827 | (300,381) | 280,252 | 132,262 | 276,960 |
| Income tax expense (benefit) | | (74,493) | 115,479 | | 40,986 |
| Subsidiary preferred stock dividend | | | 3,000 | | 3,000 |
| Income (loss) from continuing operations, net of tax | 164,827 | (225,888) | 161,773 | 132,262 | 232,974 |
| Income (loss) from discontinued operations, net of tax | | | (67,526) | | (67,526) |
| Net income (loss) | 164,827 | (225,888) | 94,247 | 132,262 | 165,448 |
| Less: Net (income) loss attributable to noncontrolling interest | | | (621) | | (621) |
| Net income (loss) attributable to Nabors | $ 164,827 | $ (225,888) | $ 93,626 | $ 132,262 | $ 164,827 |

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**Nabors Industries Ltd. and Subsidiaries**

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

**Note 24 Condensed Consolidating Financial Information (Continued)**

**Condensed Consolidating Statements of Income (Loss)**

| | Year Ended December 31, 2011 | | | | |
|---|---|---|---|---|---|
| | Nabors (Parent/ Guarantor) Revised | Nabors Delaware (Issuer/ Guarantor) Revised | Other Subsidiaries (Non-Guarantors) Revised | Consolidating Adjustments Revised | Total Revised |
| | | | (In thousands) | | |
| Revenues and other income: | | | | | |
| Operating revenues | $ | $ | $ 6,013,480 | $ | $ 6,013,480 |
| Earnings from unconsolidated affiliates | | | 85,448 | | 85,448 |
| Earnings (losses) from consolidated affiliates | 261,090 | 233,028 | 126,256 | (620,374) | |
| Investment income (loss) | 4 | 68 | 19,867 | | 19,939 |
| Intercompany interest income | | 69,437 | | (69,437) | |
| Total revenues and other income | 261,094 | 302,533 | 6,245,051 | (689,811) | 6,118,867 |
| Costs and other deductions: | | | | | |
| Direct costs | | | 3,738,506 | | 3,738,506 |
| General and administrative expenses | 11,970 | 348 | 476,090 | (600) | 487,808 |
| Depreciation and amortization | | 3,532 | 914,590 | | 918,122 |
| Interest expense | | 278,657 | (22,025) | | 256,632 |
| Losses (gains) on sales and disposals of long-lived assets and other expense (income), net | 600 | (1,904) | 5,178 | 600 | 4,474 |
| Impairments and other charges | | | 198,072 | | 198,072 |
| Intercompany interest expense | | | 69,437 | (69,437) | |
| Total costs and other deductions | 12,570 | 280,633 | 5,379,848 | (69,437) | 5,603,614 |
| Income from continuing operations before income taxes | 248,524 | 21,900 | 865,203 | (620,374) | 515,253 |
| Income tax expense (benefit) | | (78,118) | 243,201 | | 165,083 |
| Subsidiary preferred stock dividend | | | 3,000 | | 3,000 |
| Income (loss) from continuing operations, net of tax | 248,524 | 100,018 | 619,002 | (620,374) | 347,170 |
| Income (loss) from discontinued operations, net of tax | | | (97,601) | | (97,601) |
| Net income (loss) | 248,524 | 100,018 | 521,401 | (620,374) | 249,569 |
| Less: Net (income) loss attributable to noncontrolling interest | | | (1,045) | | (1,045) |
| Net income (loss) attributable to Nabors | 248,524 | 100,018 | 520,356 | (620,374) | 248,524 |

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**Nabors Industries Ltd. and Subsidiaries**

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

**Note 24 Condensed Consolidating Financial Information (Continued)**

**Condensed Consolidating Statements of Other Comprehensive Income (Loss)**

| | Year Ended December 31, 2013 | | | | |
|---|---|---|---|---|---|
| | Nabors (Parent/ Guarantor) | Nabors Delaware (Issuer/ Guarantor) | Other Subsidiaries (Non-Guarantors) | Consolidating Adjustments | Total |
| | (In thousands) | | | | |
| Net income (loss) attributable to Nabors | $ 139,982 | $ (92,137) | $ 354,812 | $ (262,675) | $ 139,982 |
| Other comprehensive income (loss) before tax | | | | | |
| Translation adjustment attributable to Nabors | (65,447) | 87 | (65,357) | 65,270 | (65,447) |
| Unrealized gains/(losses) on marketable securities: | | | | | |
| Unrealized gains/(losses) on marketable securities | 23,007 | 98 | 23,105 | (23,203) | 23,007 |
| Less: reclassification adjustment for (gains)/losses on marketable securities | (88,158) | (7,114) | (95,272) | 102,386 | (88,158) |
| Unrealized gains/(losses) on marketable securities | (65,151) | (7,016) | (72,167) | 79,183 | (65,151) |
| Pension plan | 5,916 | 5,916 | 11,832 | (17,748) | 5,916 |
| Unrealized gains/(losses) on cash flow hedges | 613 | 613 | 613 | (1,226) | 613 |
| Other comprehensive income (loss) before tax | (124,069) | (400) | (125,079) | 125,479 | (124,069) |
| Income tax expense (benefit) related to items of other comprehensive income (loss) | (66) | (66) | (370) | 436 | (66) |
| Other comprehensive income (loss), net of tax | (124,003) | (334) | (124,709) | 125,043 | (124,003) |
| Comprehensive income (loss) attributable to Nabors | 15,979 | (92,471) | 230,103 | (137,632) | 15,979 |
| Net income (loss) attributable to noncontrolling interest | 7,180 | | 7,180 | (7,180) | 7,180 |
| Translation adjustment to noncontrolling interest | (932) | | (932) | 932 | (932) |
| Comprehensive income (loss) attributable to noncontrolling interest | 6,248 | | 6,248 | (6,248) | 6,248 |
| Comprehensive income (loss) | $ 22,227 | $ (92,471) | $ 236,351 | $ (143,880) | $ 22,227 |

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**Nabors Industries Ltd. and Subsidiaries**

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

**Note 24 Condensed Consolidating Financial Information (Continued)**

**Condensed Consolidating Statements of Other Comprehensive Income (Loss)**

| | Year Ended December 31, 2012 | | | | |
|---|---|---|---|---|---|
| | Nabors (Parent/ Guarantor) Revised | Nabors Delaware (Issuer/ Guarantor) Revised | Other Subsidiaries (Non-Guarantors) Revised | Consolidating Adjustments Revised | Total Revised |
| | (In thousands) | | | | |
| Net income (loss) attributable to Nabors | $ 164,827 | $ (225,888) | $ 93,626 | $ 132,262 | $ 164,827 |
| Other comprehensive income (loss) before tax | | | | | |
| Translation adjustment attributable to Nabors | 21,073 | (88) | 20,987 | (20,899) | 21,073 |
| Unrealized gains/(losses) on marketable securities: | | | | | |
| Unrealized gains/(losses) on marketable securities | 98,138 | 133 | 98,271 | (98,404) | 98,138 |
| Less: reclassification adjustment for (gains)/losses on marketable securities | (13,405) | (11,488) | (24,893) | 36,381 | (13,405) |
| Unrealized gains/(losses) on marketable securities | 84,733 | (11,355) | 73,378 | (62,023) | 84,733 |
| Pension plan | (324) | (324) | (648) | 972 | (324) |
| Unrealized gains/(losses) on cash flow hedges | 702 | 702 | 702 | (1,404) | 702 |
| Other comprehensive income (loss) before tax | 106,184 | (11,065) | 94,419 | (83,354) | 106,184 |
| Income tax expense (benefit) related to items of other comprehensive income (loss) | (4,147) | (4,147) | (8,533) | 12,680 | (4,147) |
| Other comprehensive income (loss), net of tax | 110,331 | (6,918) | 102,952 | (96,034) | 110,331 |
| Comprehensive income (loss) attributable to Nabors | 275,158 | (232,806) | 196,578 | 36,228 | 275,158 |
| Net income (loss) attributable to noncontrolling interest | 621 | | 621 | (621) | 621 |
| Translation adjustment to noncontrolling interest | 311 | | 311 | (311) | 311 |
| Comprehensive income (loss) attributable to noncontrolling interest | 932 | | 932 | (932) | 932 |
| Comprehensive income (loss) | $ 276,090 | $ (232,806) | $ 197,510 | $ 35,296 | $ 276,090 |

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**Nabors Industries Ltd. and Subsidiaries**

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

**Note 24 Condensed Consolidating Financial Information (Continued)**

**Condensed Consolidating Statements of Other Comprehensive Income (Loss)**

| | Year Ended December 31, 2011 | | | | |
|---|---|---|---|---|---|
| | Nabors (Parent/ Guarantor) Revised | Nabors Delaware (Issuer/ Guarantor) Revised | Other Subsidiaries (Non-Guarantors) Revised | Consolidating Adjustments Revised | Total Revised |
| | (In thousands) | | | | |
| Net income (loss) attributable to Nabors | $ 248,524 | $ 100,018 | $ 520,356 | $ (620,374) | $ 248,524 |
| Other comprehensive income (loss) before tax | | | | | |
| Translation adjustment attributable to Nabors | (20,257) | (5,511) | (25,768) | 31,279 | (20,257) |
| Unrealized gains/(losses) on marketable securities: | | | | | |
| Unrealized gains/(losses) on marketable securities | 5,356 | 226 | 5,582 | (5,808) | 5,356 |
| Less: reclassification adjustment for (gains)/losses on marketable securities | (3,036) | | (3,036) | 3,036 | (3,036) |
| Unrealized gains/(losses) on marketable securities | 2,320 | 226 | 2,546 | (2,772) | 2,320 |
| Pension plan | (5,391) | (5,391) | (10,782) | 16,173 | (5,391) |
| Unrealized gains/(losses) and amortization of (gains)/losses on cash flow hedges | 763 | 763 | 763 | (1,526) | 763 |
| Other comprehensive income (loss) before tax | (22,565) | (9,913) | (33,241) | 43,154 | (22,565) |
| Income tax expense (benefit) related to items of other comprehensive income (loss) | (1,777) | (1,777) | (3,793) | 5,570 | (1,777) |
| Other comprehensive income (loss), net of tax | (20,788) | (8,136) | (29,448) | 37,584 | (20,788) |
| Comprehensive income (loss) attributable to Nabors | 227,736 | 91,882 | 490,908 | (582,790) | 227,736 |
| Net income (loss) attributable to noncontrolling interest | 1,045 | | 1,045 | (1,045) | 1,045 |
| Translation adjustment to noncontrolling interest | (185) | | (185) | 185 | (185) |
| Comprehensive income (loss) attributable to noncontrolling interest | 860 | | 860 | (860) | 860 |
| Comprehensive income (loss) | $ 228,596 | $ 91,882 | $ 491,768 | $ (583,650) | $ 228,596 |

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**Nabors Industries Ltd. and Subsidiaries**

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

**Note 24 Condensed Consolidating Financial Information (Continued)**

**Condensed Consolidating Statements of Cash Flows**

| | Year Ended December 31, 2013 | | | | |
|---|---|---|---|---|---|
| | Nabors (Parent/ Guarantor) | Nabors Delaware (Issuer/ Guarantor) | Other Subsidiaries (Non-Guarantors) | Consolidating Adjustments | Total |
| | | | (In thousands) | | |
| Net cash provided by (used for) operating activities | $ 16,746 | $ (157,952) | $ 1,531,902 | $ 27,527 | $ 1,418,223 |
| Cash flows from investing activities: | | | | | |
| Purchases of investments | | | | | |
| Sales and maturities of investments | | | 164,510 | | 164,510 |
| Proceeds from sale of unconsolidated affiliates | | | 12,640 | | 12,640 |
| Cash paid for acquisition of businesses, net | | | (116,971) | | (116,971) |
| Investment in unconsolidated affiliates | | | (5,967) | | (5,967) |
| Capital expenditures | | | (1,178,205) | | (1,178,205) |
| Proceeds from sales of assets and insurance claims | | | 308,538 | | 308,538 |
| Cash paid for investments in consolidated affiliates | (100) | (772,000) | (1,544,000) | 2,316,100 | |
| Other | | | (13) | | (13) |
| Changes in intercompany balances | | 748,537 | (748,537) | | |
| Net cash provided by (used for) investing activities | (100) | (23,463) | (3,108,005) | 2,316,100 | (815,468) |
| Cash flows from financing activities: | | | | | |
| Increase (decrease) in cash overdrafts | | | (4,421) | | (4,421) |
| Proceeds from issuance of long-term debt | | 698,434 | 319 | | 698,753 |
| Debt issuance costs | | (4,500) | | | (4,500) |
| Proceeds from (payments for) issuance of common shares | 37,455 | | | (32,072) | 5,383 |
| Reduction in long-term debt | | (994,112) | (69) | | (994,181) |
| Dividends to shareholders | (51,713) | | | 4,545 | (47,168) |
| Proceeds (reductions) in commercial paper, net | | 329,844 | | | 329,844 |
| Reduction in revolving credit facilities | | (720,000) | | | (720,000) |
| Proceeds from parent contributions | | 772,000 | 1,544,100 | (2,316,100) | |
| Other | (3,296) | | 10,000 | | 6,704 |
| Net cash (used for) provided by financing activities | (17,554) | 81,666 | 1,549,929 | (2,343,627) | (729,586) |
| Effect of exchange rate changes on cash and cash equivalents | | | (8,176) | | (8,176) |

| | | | | | |
|---|---|---|---|---|---|
| Net increase (decrease) in cash and cash equivalents | (908) | (99,749) | (34,350) | | (135,007) |
| Cash and cash equivalents, beginning of period | 1,639 | 106,778 | 416,505 | | 524,922 |
| Cash and cash equivalents, end of period | $ 731 | $ 7,029 | $ 382,155 | $ | $ 389,915 |

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**Nabors Industries Ltd. and Subsidiaries**

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

**Note 24 Condensed Consolidating Financial Information (Continued)**

**Condensed Consolidating Statements of Cash Flows**

| | Year Ended December 31, 2012 | | | | |
|---|---|---|---|---|---|
| | Nabors (Parent/ Guarantor) | Nabors Delaware (Issuer/ Guarantor) | Other Subsidiaries (Non-Guarantors) | Consolidating Adjustments | Total |
| | | | (In thousands) | | |
| Net cash provided by (used for) operating activities | $ 7,253 | $ 39,708 | $ 1,546,250 | $ (30,506) | $ 1,562,705 |
| Cash flows from investing activities: | | | | | |
| Purchases of investments | | | (949) | | (949) |
| Sales and maturities of investments | | | 31,944 | | 31,944 |
| Proceeds from sale of unconsolidated affiliates | | | 159,529 | | 159,529 |
| Cash paid for acquisition of businesses, net | (35) | | | 35 | |
| Investment in unconsolidated affiliates | | | (1,325) | | (1,325) |
| Capital expenditures | | | (1,518,628) | | (1,518,628) |
| Proceeds from sales of assets and insurance claims | | | 149,801 | | 149,801 |
| Changes in intercompany balances | | 274,482 | (274,482) | | |
| Net cash provided by (used for) investing activities | (35) | 274,482 | (1,454,110) | 35 | (1,179,628) |
| Cash flows from financing activities: | | | | | |
| Increase (decrease) in cash overdrafts | | | 1,612 | | 1,612 |
| Debt issuance costs | | (3,433) | | | (3,433) |
| Proceeds from revolving credit facilities | | 710,000 | | | 710,000 |
| Proceeds from (payments for) issuance of common shares | (3,622) | | (3) | | (3,625) |
| Reduction in long-term debt | | (224,997) | (51,261) | | (276,258) |
| Reduction in revolving credit facilities | | (680,000) | | | (680,000) |
| Other | (2,160) | | (263) | | (2,423) |
| Proceeds from parent contributions | | | 35 | (35) | |
| Cash dividends paid | | (9,003) | (21,503) | 30,506 | |
| Net cash (used for) provided by financing activities | (5,782) | (207,433) | (71,383) | 30,471 | (254,127) |
| Effect of exchange rate changes on cash and cash equivalents | | | (2,603) | | (2,603) |
| Net increase (decrease) in cash and cash equivalents | 1,436 | 106,757 | 18,154 | | 126,347 |
| Cash and cash equivalents, beginning of period | 203 | 21 | 398,351 | | 398,575 |
| Cash and cash equivalents, end of period | $ 1,639 | $ 106,778 | $ 416,505 | $ | $ 524,922 |

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**Nabors Industries Ltd. and Subsidiaries**

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

**Note 24 Condensed Consolidating Financial Information (Continued)**

**Condensed Consolidating Statements of Cash Flows**

| | Year Ended December 31, 2011 | | | | |
|---|---|---|---|---|---|
| | Nabors (Parent/ Guarantor) | Nabors Delaware (Issuer/ Guarantor) | Other Subsidiaries (Non-Guarantors) | Consolidating Adjustments | Total |
| | | | (In thousands) | | |
| Net cash provided by (used for) operating activities | $ 6,612 | $ (109,125) | $ 1,559,000 | $ | $ 1,456,487 |
| Cash flows from investing activities: | | | | | |
| Purchases of investments | | | (11,746) | | (11,746) |
| Sales and maturities of investments | | | 39,063 | | 39,063 |
| Proceeds from sale of unconsolidated affiliate | | | 142,984 | | 142,984 |
| Cash paid for acquisition of businesses, net | | | (55,459) | | (55,459) |
| Investment in unconsolidated affiliates | | | (112,262) | | (112,262) |
| Capital expenditures | | | (2,042,617) | | (2,042,617) |
| Proceeds from sales of assets and insurance claims | | | 180,558 | | 180,558 |
| Cash paid for investments in consolidated affiliates | (26,235) | (65,000) | | 91,235 | |
| Changes in intercompany balances | | 77,947 | (77,947) | | |
| Net cash provided by (used for) investing activities | (26,235) | 12,947 | (1,937,426) | 91,235 | (1,859,479) |
| Cash flows from financing activities: | | | | | |
| Increase (decrease) in cash overdrafts | | | 6,375 | | 6,375 |
| Proceeds from issuance of long-term debt | | 697,578 | | | 697,578 |
| Debt issuance costs | | (7,141) | | | (7,141) |
| Proceeds from revolving credit facilities | | 1,510,000 | 50,000 | | 1,560,000 |
| Proceeds from (payments for) issuance of common shares | 11,605 | | | | 11,605 |
| Reduction in long-term debt | | (1,404,246) | (35) | | (1,404,281) |
| Reduction in revolving credit facilities | | (700,000) | | | (700,000) |
| Proceeds from parent contributions | | | 91,235 | (91,235) | |
| Other | (2,626) | (12) | 1,747 | | (891) |
| Net cash (used for) provided by financing activities | 8,979 | 96,179 | 149,322 | (91,235) | 163,245 |
| Effect of exchange rate changes on cash and cash equivalents | | | (3,380) | | (3,380) |
| Net increase (decrease) in cash and cash equivalents | (10,644) | 1 | (232,484) | | (243,127) |
| Cash and cash equivalents, beginning of period | 10,847 | 20 | 630,835 | | 641,702 |

| | | | | | |
|---|---|---|---|---|---|
| Cash and cash equivalents, end of period | $ 203 | $ 21 | $ 398,351 | $ | $ 398,575 |

**Note 25 Subsequent Events**

On February 21, 2014, our Board of Directors declared a cash dividend of $0.04 per share to the holders of record of our common shares as of March 10, 2014 to be paid on March 31, 2014.

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**Supplemental Information on Oil and Gas Exploration and Production Activities (unaudited)**

We own certain mineral interests in connection with our investment in development and production of natural gas, oil and natural gas liquids in the United States and the Canadian provinces of Alberta and British Columbia.

Beginning in 2010 and in accordance with the SEC's Final Rule, Modernization of Oil and Gas Reporting, our operating results from wholly owned oil and gas activities and from our U.S. unconsolidated oil and gas joint venture were deemed significant, and we provided the oil and gas disclosure required by the SEC's Industry Guide. In December 2012, we sold our U.S. unconsolidated oil and gas joint venture, which was the only remaining oil and gas investment classified as continuing operations. During 2013, we determined that the criteria for disclosing significant oil and gas activities was not met. Accordingly, we present below for 2011 and 2012, our oil and gas activities, during which time these investments were deemed significant.

The estimates of net proved oil and gas reserves as of December 31, 2012 were based on reserve reports prepared by independent petroleum engineers. AJM Deloitte prepared reports of estimated proved oil and gas reserves for our wholly owned assets in Canada. Cawley, Gillespie & Associates, Inc. prepared reports of estimated proved oil reserves for our wholly owned assets located in the Eagle Ford Shale, Texas. DeGolyer and MacNaughton Corp. prepared reports of estimated proved oil and gas reserves for our wholly owned assets in Alaska.

The estimates of net proved oil and gas reserves as of December 31, 2011 were based on reserve reports prepared by independent petroleum engineers. AJM Deloitte prepared reports of estimated proved oil and gas reserves for our wholly owned assets in Canada. Miller and Lents, Ltd. prepared reports of estimated proved oil and gas reserves for our wholly owned assets and interests in oil and natural gas properties located in the United States. Cawley, Gillespie & Associates, Inc. prepared reports of estimated proved oil reserves for our wholly owned assets located in the Eagle Ford Shale and Giddings field in Grimes County, Texas.

The following supplementary information includes our results of operations for oil and gas production activities; capitalized costs related to oil and gas producing activities; and costs incurred in oil and gas property acquisition, exploration and development. Supplemental information is also provided for the estimated quantities of proved oil and gas reserves; the standardized measure of discounted future net cash flows associated with proved oil and gas reserves; and a summary of the changes in the standardized measure of discounted future net cash flows associated with proved oil and gas reserves.

***Results of Operations***

Results of operations of oil and gas activities are included in discontinued operations, except those of our former unconsolidated U.S. oil and gas joint venture. Net revenues from production include only the revenues from the production and sale of natural gas, oil, and natural gas liquids. Production costs are those incurred to operate and maintain wells and related equipment and facilities used in oil and gas operations. Exploration expenses include dry-hole costs, geological and geophysical expenses, and the costs of retaining undeveloped leaseholds. Income tax expense is calculated by applying the current statutory tax rates to the revenues after deducting costs, which include depreciation, depletion and

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amortization ("DD&A") allowances, after giving effect to permanent differences. The results of operations exclude general office overhead and interest expense attributable to oil and gas activities.

| | United States | Canada | Colombia | Total |
|---|---|---|---|---|
| | (In thousands) | | | |
| **Results of Operations** | | | | |
| **For the year ended December 31, 2011:** | | | | |
| **Consolidated Subsidiaries** | | | | |
| Revenue | $ 25,684 | $ 7,046 | $ 12,378 | $ 45,108 |
| Production costs | 12,682 | 27,432(3) | 3,704 | 43,818 |
| Exploration expenses | 23,768 | 3,324 | 122 | 27,214 |
| Depreciation and depletion | 22,350 | 104 | 949 | 23,403 |
| Impairment of oil and gas properties | 71,392 | 183,654 | | 255,046 |
| Loss (gain) on disposition | (6,642) | | (39,599) | (46,241) |
| Related income tax expense (benefit) | (38,707) | (54,979) | 15,577 | (78,109) |
| Results of producing activities for consolidated subsidiaries | $ (59,159) | $ (152,489) | $ 31,625 | $ (180,023) |

| | Revised | | | Revised |
|---|---|---|---|---|
| **Equity Companies(1)** | | | | |
| Revenue | $ 102,149 | $ 1,335 | $ 26,730 | $ 130,214 |
| Production costs | 28,639 | 4,600 | 10,598 | 43,837 |
| Depreciation and depletion | 37,874 | 1,032 | 9,806 | 48,712 |
| Impairment of oil and gas properties | 2,088 | | | 2,088 |
| Realized gain on derivative instrument | | (84) | | (84) |
| Loss (gain) on acquisitions/dispositions | (49,575) | | (95,301) | (144,876) |
| Related income tax expense (benefit)(2) | | | 6,055 | 6,055 |
| Results of producing activities for equity subsidiaries | $ 83,123 | $ (4,213) | $ 95,572 | $ 174,482 |
| **Total results of operations** | $ 23,964 | $ (156,702) | $ 127,197 | $ (5,541) |

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| | United States | Canada | Colombia | Total |
|---|---|---|---|---|
| | | (In thousands) | | |
| **Results of Operations** | | | | |
| **For the year ended December 31, 2012:** | | | | |
| **Consolidated Subsidiaries** | | | | |
| Revenue | $ 24,805 | $ 4,741 | $ 435 | $ 29,981 |
| Production costs | 8,959 | 5,842 | 106 | 14,907 |
| Exploration expenses | 1,245 | 160 | 2,343 | 3,748 |
| Depreciation and depletion | 89 | 2,308 | 13 | 2,410 |
| Impairment of oil and gas properties | 29,314 | 127,766 | | 157,080 |
| Loss (gain) on disposition | (2,302) | | (47,060)(5) | (49,362) |
| Related income tax expense (benefit) | (8,092) | (32,834) | | (40,926) |
| Results of producing activities for consolidated subsidiaries | $ (4,408) | $ (98,501) | $ 45,033 | $ (57,876) |

| | Revised | | | Revised |
|---|---|---|---|---|
| **Equity Companies(1)** | | | | |
| Revenue | $ 80,607 | $ | $ | $ 80,607 |
| Production costs | 32,192 | | | 32,192 |
| Depreciation and depletion | 39,502 | | | 39,502 |
| Impairment of oil and gas properties | 305,151(4) | | | 305,151 |
| Realized gain on derivative instrument | | | | |
| Related income tax expense (benefit)(2) | | | | |
| Results of producing activities for equity subsidiaries | $ (296,238) | $ | $ | $ (296,238) |
| **Total results of operations** | $ (300,646) | $ (98,501) | $ 45,033 | $ (354,114) |

(1) Represents our proportionate share of interests in our equity companies for the applicable year.

(2) Equity companies are pass-through entities for tax purposes.

(3) Includes $24.2 million of transportation costs from pipeline commitments during 2011.

(4) Includes our proportionate share of full-cost ceiling test writedowns.

(5) Includes our gain on disposition of Colombia properties in April 2012.

***Capitalized Cost***

Capitalized costs include the cost of properties, equipment and facilities for oil and gas-producing activities. Capitalized costs for proved properties include costs for oil and gas leaseholds where proved reserves have been identified, development wells, and related equipment and facilities, including development wells in progress. Capitalized costs for unproved properties include costs for acquiring oil and gas leaseholds where no proved reserves have been identified, including costs of exploratory wells

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that are in the process of drilling or for active completion, and costs of exploratory wells suspended or waiting for completion.

| | United States | Canada | Colombia | Total |
|---|---|---|---|---|
| | | (In thousands) | | |
| **Capitalized Costs** | | | | |
| **For the year ended December 31, 2011:** | | | | |
| **Consolidated Subsidiaries** | | | | |
| Property acquisition costs, proved | $ 587,385 | $ 101,402 | $ | $ 688,787 |
| Property acquisition costs, unproved | 101,611 | 92,750 | 23,767 | 218,128 |
| Total acquisition costs | 688,996 | 194,152 | 23,767 | 906,915 |
| Accumulated depreciation and amortization | (539,380) | (28,838) | (741) | (568,959) |
| Net capitalized costs for consolidated subsidiaries | $ 149,616 | $ 165,314 | $ 23,026 | $ 337,956 |
| **Equity Companies(1)** | | | | |
| Property acquisition costs, proved | $ 1,141,393 | $ | $ | $ 1,141,393 |
| Property acquisition costs, unproved | 103,657 | | | 103,657 |
| Total acquisition costs | 1,245,050 | | | 1,245,050 |
| Accumulated depreciation and amortization | (512,503) | | | (512,503) |
| Net capitalized costs for equity companies | $ 732,547 | $ | $ | $ 732,547 |

| | United States | Canada | Colombia | Total |
|---|---|---|---|---|
| | | (In thousands) | | |
| **Capitalized Costs** | | | | |
| **For the year ended December 31, 2012:** | | | | |
| **Consolidated Subsidiaries** | | | | |
| Property acquisition costs, proved | $ 114,427 | $ 62,048 | $ | $ 176,475 |
| Property acquisition costs, unproved | 91,219 | 83,455 | | 174,674 |
| Total acquisition costs | 205,646 | 145,503 | | 351,149 |
| Accumulated depreciation and amortization | (23,949) | (29,560) | | (53,509) |
| Net capitalized costs for consolidated subsidiaries | $ 181,697 | $ 115,943 | $ | $ 297,640 |
| **Equity Companies(2)** | | | | |

(1)

Represents our proportionate share of interests in our equity companies for the applicable year.

(2) As of December 31, 2012, we had no equity companies with oil and gas assets.

***Costs Incurred in Oil and Gas Property Acquisitions, Exploration and Development***

Amounts reported as costs incurred include both capitalized costs and costs charged to expense during 2012 and 2011, respectively, for oil and gas property acquisition, exploration and development activities. Costs incurred also include new asset retirement obligations established in the current year, as well as increases or decreases to the asset retirement obligations resulting from changes to cost estimates during the year. Exploration costs include the costs of drilling and equipping successful exploration wells, as well as dry-hole costs, geological and geophysical expenses, and the costs of

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retaining undeveloped leaseholds. Development costs include the costs of drilling and equipping development wells, and construction of related production facilities.

| | United States | Canada | Colombia | Total |
|---|---|---|---|---|
| | (In thousands) | | | |
| **Costs incurred in property acquisitions, exploration and development activities** | | | | |
| **For the year ended December 31, 2011:** | | | | |
| **Consolidated Subsidiaries** | | | | |
| Property acquisition costs, proved | $ 23,051 | $ 7,748 | $ | $ 30,799 |
| Property acquisition costs, unproved | 37,272 | 26,099 | | 63,371 |
| Exploration costs | 49,156 | | 122 | 49,278 |
| Development costs | 43,780 | 184 | 19,605 | 63,569 |
| Asset retirement costs | 496 | 750 | 254 | 1,500 |
| Total costs incurred for consolidated subsidiaries | $ 153,755 | $ 34,781 | $ 19,981 | $ 208,517 |
| **Equity Companies(1)** | | | | |
| Property acquisition costs, proved | $ 232,410 | $ | $ | $ 232,410 |
| Property acquisition costs, unproved | 14,268 | | 4,395 | 18,663 |
| Exploration costs | 252 | | | 252 |
| Development costs | 136,711 | | | 136,711 |
| Asset retirement costs | 2,834 | | | 2,834 |
| Total costs incurred for equity companies | $ 386,475 | $ | $ 4,395 | $ 390,870 |

| | United States | Canada | Colombia | Total |
|---|---|---|---|---|
| | (In thousands) | | | |
| **Costs incurred in property acquisitions, exploration and development activities** | | | | |
| **For the year ended December 31, 2012:** | | | | |
| **Consolidated Subsidiaries** | | | | |
| Property acquisition costs, proved | $ | $ | $ | $ |
| Property acquisition costs, unproved | | | | |
| Exploration costs | 27,994 | 190 | 13,181 | 41,365 |
| Development costs | 64,805 | 623 | | 65,428 |
| Asset retirement costs | 89 | 162 | 13 | 264 |
| Total costs incurred for consolidated subsidiaries | $ 92,888 | $ 975 | $ 13,194 | $ 107,057 |
| **Equity Companies(1)** | | | | |
| Property acquisition costs, proved | $ 1,420 | $ | $ | $ 1,420 |
| Property acquisition costs, unproved | | | | |
| Exploration costs | 31,411 | | | 31,411 |
| Development costs | 24,355 | | | 24,355 |
| Asset retirement costs | 127 | | | 127 |

| | | | | |
|---|---|---|---|---|
| Total costs incurred for equity companies | $ 57,313 | $ | $ | $ 57,313 |

(1) Represents our proportionate share of interests in equity companies for the applicable year.

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**Oil and Gas Reserves**

The reserve disclosures that follow reflect estimates of proved reserves for our consolidated subsidiaries and equity companies of natural gas, oil, and natural gas liquids owned at December 31, 2012 and 2011 and changes in proved reserves during 2012 and 2011. Our year-end reserve volumes in the following tables were calculated using average prices during the 12-month period prior to the ending date of the period covered by the report, determined as an unweighted arithmetic average of the first-day-of-the-month price for each month within such period. These reserve quantities are also used in calculating unit-of-production depreciation rates and in calculating the standardized measure of discounted net cash flow. Estimates of volumes of proved reserves of natural gas at year end are expressed in billions of cubic feet of natural gas ("Bcf") at a pressure base of 14.73 pounds per square inch for natural gas and in millions of barrels ("MMBbls") for oil and natural gas liquids.

For our wholly owned properties in the United States, the prices used in our reserve reports were $2.75 per mcf for the 12-month average of natural gas, $33.74 per barrel for natural gas liquids and $94.71 per barrel for oil at December 31, 2012. For our wholly owned properties in Canada, the price used in our reserve reports was $1.05 per mcf for the 12-month average of natural gas at December 31, 2012.

Proved oil and gas reserves are those quantities of oil and gas, which, by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be economically producible from a given date forward, from known reservoirs, and under existing economic conditions, operating methods and government regulations prior to the time at which contracts providing the right to operate expire, unless evidence indicates that renewal is reasonably certain.

Revisions can include upward or downward changes in previously estimated volumes of proved reserves for existing fields due to the evaluation or re-evaluation of (1) already available geologic, reservoir or production data, (2) new geologic, reservoir or production data or (3) changes in average prices and year-end costs that are used in the estimation of reserves. This category can also include significant changes in either development strategy or production equipment/facility capacity.

Proved reserves include 100 percent of each majority-owned affiliate's participation in proved reserves and our ownership percentage of the proved reserves of equity companies, but exclude royalties and quantities due others.

In the proved reserves tables, consolidated reserves and equity company reserves are reported separately. However, we do not view equity company reserves any differently than those of our consolidated subsidiaries.

Net proved developed reserves are those volumes that are expected to be recovered through existing wells with existing equipment and operating methods or in which the cost of the required equipment is relatively minor compared to the cost of a new well. Net proved undeveloped reserves are

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those volumes that are expected to be recovered from new wells on undrilled acreage, or from existing wells where a relatively major expenditure is required for recompletion.

| | United States | | Canada | | Colombia | | Total | |
|---|---|---|---|---|---|---|---|---|
| Reserves | Liquids (MMBbls) | Natural Gas (Bcf) | Liquids (MMBbls) | Natural Gas (Bcf) | Liquids (MMBbls) | Natural Gas (Bcf) | Liquids (MMBbls) | Natural Gas (Bcf) |
| **Net proved reserves of consolidated subsidiaries** | | | | | | | | |
| January 1, 2011 | 21.2 | 19.8 | | 5.5 | 2.0 | | 23.2 | 25.3 |
| Revisions | 0.1 | (3.9) | | 0.9 | | | 0.1 | (3.0) |
| Extensions, additions and discoveries | 1.6 | 4.0 | | | | | 1.6 | 4.0 |
| Production | (0.2) | (3.0) | | (2.1) | (0.1) | | (0.3) | (5.1) |
| Purchases in place | | | | 3.9 | | | | 3.9 |
| Sales in place | (20.9)(2) | | | | (1.9) | | (22.8) | |
| December 31, 2011 | 1.8 | 16.9 | | 8.2 | | | 1.8 | 25.1 |
| Revisions | (0.2) | 0.6 | | 1.5 | | | (0.2) | 2.1 |
| Extensions, additions and discoveries | 14.8(3) | 0.9 | | | | | 14.8 | 0.9 |
| Production | (0.2) | (0.8) | | (2.0) | | | (0.2) | (2.8) |
| Purchases in place | | | | | | | | |
| Sales in place | (0.8) | (16.5)(4) | | | | | (0.8) | (16.5) |
| December 31, 2012 | 15.4 | 1.1 | | 7.7 | | | 15.4 | 8.8 |

| | United States | | Canada | | Colombia | | Total | |
|---|---|---|---|---|---|---|---|---|
| Reserves | Liquids (MMBbls) | Natural Gas (Bcf) | Liquids (MMBbls) | Natural Gas (Bcf) | Liquids (MMBbls) | Natural Gas (Bcf) | Liquids (MMBbls) | Natural Gas (Bcf) |
| **Proportional interest in proved reserves of equity companies** | | | | | | | | |
| January 1, 2011 | 7.9 | 552.8 | | 5.2 | 1.9 | | 9.8 | 558.0 |
| Revisions | (4.2) | (359.0) | | | | | (4.2) | (359.0) |
| Extensions, additions and discoveries | 3.2 | 103.1 | | | | | 3.2 | 103.1 |
| Production | (0.4) | (18.6) | | (0.4) | (0.3) | | (0.7) | (19.0) |
| Purchases in place | 9.4 | 304.2(5) | | | | | 9.4 | 304.2 |
| Sales in place | | | | (4.8)(6) | (1.6)(7) | | (1.6) | (4.8) |
| December 31, 2011 | 15.9 | 582.5 | | | | | 15.9 | 582.5 |
| Revisions | (1.5) | (22.6) | | | | | (1.5) | (22.6) |
| Extensions, additions and discoveries | 1.4 | 8.9 | | | | | 1.4 | 8.9 |
| Production | (0.5) | (19.0) | | | | | (0.5) | (19.0) |
| Purchases in place | | | | | | | | |
| Sales in place(8) | (15.3) | (549.8) | | | | | (15.3) | (549.8) |

December 31, 2012

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| | United States | | Canada | | Colombia | | Total | |
|---|---|---|---|---|---|---|---|---|
| Reserves | Liquids (MMBbls) | Natural Gas (Bcf) | Liquids (MMBbls) | Natural Gas (Bcf) | Liquids (MMBbls) | Natural Gas (Bcf) | Liquids (MMBbls) | Natural Gas (Bcf) |
| **Total proved reserves at December 31, 2011** | 17.7 | 599.4 | | 8.2 | | | 17.7 | 607.6 |
| **Total proved reserves at December 31, 2012** | 15.4 | 1.1 | | 7.7 | | | 15.4 | 8.8 |
| **Proved Developed Reserves at December 31, 2011** | | | | | | | | |
| Consolidated subsidiaries | 0.9 | 13.6 | | 8.2 | | | 0.9 | 21.8 |
| Equity companies(1) | 6.3 | 256.4 | | | | | 6.3 | 256.4 |
| **Proved Developed Reserves at December 31, 2012** | | | | | | | | |
| Consolidated subsidiaries | 1.1 | 0.4 | | 7.7 | | | 1.1 | 8.1 |
| **Proved Undeveloped Reserves at December 31, 2011** | | | | | | | | |
| Consolidated subsidiaries | 0.9 | 3.3 | | | | | 0.9 | 3.3 |
| Equity companies(1) | 9.6 | 326.1 | | | | | 9.6 | 326.1 |
| **Proved Undeveloped Reserves at December 31, 2012** | | | | | | | | |
| Consolidated subsidiaries | 14.3 | 0.7 | | | | | 14.3 | 0.7 |

(1) Represents our proportionate share of interests in equity companies for the applicable year. As of December 31, 2012, we had no equity companies with oil and gas assets.

(2) On December 14, 2011, we sold our 25% working interest in the Cat Canyon and West Cat Canyon fields in Santa Barbara County, California. We received approximately $71.6 million in cash from the sale.

(3) Relates primarily to the discovery of proved undeveloped reserves in our North Slope, Alaska field.

(4) Relates to the divestitures during 2012 of substantially all of our U.S. wholly owned gas properties.

(5) Relates to acquisitions of properties with 360.4 Bcfe and drilling of non-proved properties of 122.2 Bcfe. In addition, negative revisions of 384 Bcfe were noted primarily resulting from proved undeveloped reserves being reclassified to non-proved status in accordance with the SEC five-year guidance for recording proved reserves.

(6) Relates to the proved reserves of 4.8 Bcfe that were exchanged for our ownership interest when the Canada unconsolidated oil & gas joint venture was dissolved in June 2011.

(7) Relates to the sale of Remora's assets which resulted in a decrease in proved reserves of 9.5 Bcfe.

(8) Relates to our sale of Sabine in December 2012, which included 15.1 MMBbls and 531.9 Bcf, respectively, of oil and natural gas.

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***Standardized Measure of Discounted Future Cash Flows***

For the years ended December 31, 2012 and 2011, the standardized measure of discounted future net cash flow was computed by applying first-day-of-the-month average prices, year-end costs and legislated tax rates and a discount factor of 10 percent to proved reserves. Estimated future net cash flows for all periods presented are reduced by estimated future development, production, abandonment and dismantlement costs based on existing costs, assuming continuation of existing economic conditions, and by estimated future income tax expense. These estimates also include assumptions about the timing of future production of proved reserves, and timing of future development, production costs, and abandonment and dismantlement. Income tax expense, both U.S. and global, is calculated by applying the existing statutory tax rates, including any known future changes, to the pretax net cash flows giving effect to any permanent differences and reduced by the applicable tax basis. The 10-percent discount factor is prescribed by GAAP.

The present value of future net cash flows does not purport to be an estimate of the fair market value of our consolidated subsidiaries and equity companies' proved reserves. An estimate of fair value would also take into account, among other things, anticipated changes in future prices and costs, the expected recovery of reserves in excess of proved reserves and a discount factor more representative of the time value of money and the risks inherent in producing oil and gas. Significant changes in

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estimated reserve volumes or commodity prices could have a material effect on our consolidated financial statements.

| | United States | Canada | Colombia | Total |
|---|---|---|---|---|
| | | (In thousands) | | |
| **Standardized Measure of Discounted Future Cash Flows** | | | | |
| **For the year ended December 31, 2011:** | | | | |
| **Consolidated Subsidiaries** | | | | |
| Future cash flows from sales of oil and gas | $ 225,141 | $ 20,906 | $ | $ 246,047 |
| Future production costs | (66,448) | (5,761) | | (72,209) |
| Future development costs | (45,505) | (1,607) | | (47,112) |
| Future income tax expense(2) | | | | |
| Future net cash inflows | 113,188 | 13,538 | | 126,726 |
| Effect of discounting net cash flows at 10% | (55,886) | (2,527) | | (58,413) |
| Discounted future net cash flows | $ 57,302 | $ 11,011 | $ | $ 68,313 |
| **Equity Companies(1)** | | | | |
| Future cash flows from sales of oil and gas | $ 3,347,348 | $ | $ | $ 3,347,348 |
| Future production costs | (1,005,922) | | | (1,005,922) |
| Future development costs | (660,509) | | | (660,509) |
| Future income tax expense(3) | | | | |
| Future net cash inflows | 1,680,917 | | | 1,680,917 |
| Effect of discounting net cash flows at 10% | (1,098,854) | | | (1,098,854) |
| Discounted future net cash flows | $ 582,063 | $ | $ | $ 582,063 |
| **Total consolidated and equity interests in standardized measure of discounted future net cash flows** | $ 639,365 | $ 11,011 | $ | $ 650,376 |
| **For the year ended December 31, 2012:** | | | | |
| **Consolidated Subsidiaries** | | | | |
| Future cash flows from sales of oil and gas | $ 1,633,946 | $ 8,101 | $ | $ 1,642,047 |
| Future production costs | (427,971) | (5,060) | | (433,031) |
| Future development costs | (402,392) | (376) | | (402,768) |
| Future income tax expense(2) | (305,215) | | | (305,215) |
| Future net cash inflows | 498,368 | 2,665 | | 501,033 |
| Effect of discounting net cash flows at 10% | (218,139) | (268) | | (218,407) |
| Discounted future net cash flows | $ 280,229 | $ 2,397 | $ | $ 282,626 |
| **Total consolidated and equity interests in standardized measure of discounted future net cash flows(4)** | $ 280,229 | $ 2,397 | $ | $ 282,626 |

(1) Represents our proportionate share of interests in equity companies for the applicable year.

(2) For Canada and Colombia, there are net operating loss carryforwards that are expected to offset any future taxable earnings.

(3) Equity companies are pass-through entities for tax purposes.

(4) As of December 31, 2012, we had no equity companies with oil and gas assets.

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***Change in Standardized Measure of Discounted Future Net Cash Flows Relating to Proved Oil and Gas Reserves***

The following table reflects the estimate of changes in the standardized measure of discounted future net cash flows from proved reserves:

| | United States | Canada | Colombia | Total |
|---|---|---|---|---|
| | | (In thousands) | | |
| **Change in Standardized Measure of Discounted Future Net Cash Flows Relating to Proved Oil and Gas Reserves** | | | | |
| **Consolidated Subsidiaries** | | | | |
| Discounted future net cash flows as of December 31, 2011 | $ 57,302 | $ 11,011 | $ | $ 68,313 |
| Value of reserves added during the year due to extensions, discoveries and net purchases less related costs | 454,913 | | | 454,913 |
| Changes in value of previous-year reserves due to: | | | | |
| Sales of oil and gas produced, net of production costs | (14,958) | 1,101 | | (13,857) |
| Development costs incurred during the year | 11,343 | 623 | | 11,966 |
| Net change in prices and production costs | 13,174 | (11,659) | | 1,515 |
| Net change in future development costs | 1,164 | 4 | | 1,168 |
| Revisions of previous reserve estimates | (894) | 427 | | (467) |
| Purchases of reserves | | | | |
| Divestiture of reserves | (33,082) | | | (33,082) |
| Accretion of discount | 5,730 | 1,101 | | 6,831 |
| Other | (25,922) | (211) | | (26,133) |
| Net change in income taxes(2) | (188,541) | | | (188,541) |
| Total change in the standardized measure for consolidated subsidiaries | $ 222,927 | $ (8,614) | $ | $ 214,313 |
| Discounted future net cash flows as of December 31, 2012 | $ 280,229 | $ 2,397 | $ | $ 282,626 |

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| | United States | Canada | Colombia | Total |
|---|---|---|---|---|
| | | (In thousands) | | |
| **Change in Standardized Measure of Discounted Future Net Cash Flows Relating to Proved Oil and Gas Reserves** | | | | |
| **Equity Companies(1)** | | | | |
| Discounted future net cash flows as of December 31, 2011 | $ 582,063 | $ | $ | $ 582,063 |
| Value of reserves added during the year due to extensions, discoveries and net purchases less related costs | 16,926 | | | 16,926 |
| Changes in value of previous-year reserves due to: | | | | |
| Sales of oil and gas produced, net of production costs | (48,432) | | | (48,432) |
| Development costs incurred during the year | 24,356 | | | 24,356 |
| Net change in prices and production costs | | | | |
| Net change in future development costs | | | | |
| Revisions of previous reserve estimates | (377,184) | | | (377,184) |
| Purchases of reserves | | | | |
| Divestiture of reserves(4) | (246,093) | | | (246,093) |
| Accretion of discount | 58,206 | | | 58,206 |
| Other | (9,842) | | | (9,842) |
| Net change in income taxes(3) | | | | |
| Total change in the standardized measure for equity companies | $ (582,063) | $ | $ | $ (582,063) |
| Discounted future net cash flows as of December 31, 2012 | $ | $ | $ | $ |

(1) Represents our proportionate share of interests in equity companies for the applicable year.

(2) For Canada and Colombia, there are net operating loss carryforwards that are expected to offset any future taxable earnings.

(3) Equity companies are pass-through entities for tax purposes. On December 14, 2011, we sold our 25% working interest in the Cat Canyon and West Cat Canyon fields in Santa Barbara County, California. We received approximately $71.6 million in cash from the sale.

(4) Includes $233 million, representing our divestiture of Sabine in December 2012.

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**ITEM 9.** ***CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE***

Not applicable.

**ITEM 9A.** ***CONTROLS AND PROCEDURES***

(a)

Disclosure Controls and Procedures. We maintain a set of disclosure controls and procedures designed to provide reasonable assurance that information required to be disclosed in our reports filed under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. We have investments in certain unconsolidated entities that we do not control or manage. Because we do not control or manage these entities, our disclosure controls and procedures with respect to these 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, President and Chief Executive Officer and its Principal Accounting and 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 this evaluation, the Company's Chairman, President and Chief Executive Officer and its Principal Accounting and Financial Officer have concluded that, as of the end of the 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 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, President and Chief Executive Officer and its Principal Accounting and Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

(b)

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

**Management's Report on Internal Control Over Financial Reporting**

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

Internal control over financial reporting cannot provide absolute assurance of achieving financial reporting objectives because of its inherent limitations. Internal control over financial reporting is a process that involves human diligence and compliance and is subject to lapses in judgment and

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breakdowns resulting from human failures. Internal control over financial reporting also can be circumvented by collusion or improper management override. Because of these limitations, there is a risk that material misstatements may not be prevented or detected on a timely basis by internal control over financial reporting. However, these inherent limitations are known features of the financial reporting process. Therefore, it is possible to design into the process safeguards to reduce, though not eliminate, this risk.

Management conducted an evaluation of the effectiveness of the Company's internal control over financial reporting based on the criteria set forth in the Internal Control  Integrated Framework issued in 1992 by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this evaluation, management concluded that the Company's internal control over financial reporting was effective as of December 31, 2013. PricewaterhouseCoopers LLP has issued a report on the effectiveness of internal control over financial reporting, which is included in Part II, Item 8 of this report.

**ITEM 9B.** ***OTHER INFORMATION***

Not applicable.

**PART III**

**ITEM 10.** ***DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE***

The information called for by this item will be contained in the definitive Proxy Statement to be distributed in connection with our 2014 annual general meeting of shareholders under the captions "*Election of Directors*", "*Other Executive Officers*" and "*Section 16(a) Beneficial Ownership Reporting Compliance*" and is incorporated into this document by reference.

We have adopted a Code of Business Conduct that applies to all directors, employees, including our principal executive officer and principal financial and accounting officer. The Code of Ethics satisfies the SEC's definition of a "Code of Ethics" and is posted on our website at *www.nabors.com*. We intend to disclose on our website any amendments to the Code and any waivers of the Code that apply to our principal executive officer, principal financial officer, or principal accounting officer.

On June 14, 2013, we filed with the New York Stock Exchange the Annual CEO Certification regarding our compliance with the Exchange's Corporate Governance listing standards as required by Section 303A-12(a) of the Exchange's Listed Company Manual.

**ITEM 11.** ***EXECUTIVE COMPENSATION***

The information called for by this item will be contained in our definitive Proxy Statement to be distributed in connection with our 2014 annual general meeting of shareholders under the caption "*Management Compensation*" and except as specified in the following sentence, is incorporated into this document by reference. Information in Nabors' 2014 Proxy Statement not deemed to be "soliciting material" or "filed" with the Commission under its rules, including the Compensation Committee Report, is not deemed to be incorporated by reference.

**ITEM 12.** ***SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED SHAREHOLDER MATTERS***

We maintain five different equity compensation plans: 1996 Employee Stock Plan, 1998 Employee Stock Plan, 1999 Stock Option Plan for Non-Employee Directors, 2003 Employee Stock Plan and 2013 Stock Plan pursuant to which we may grant equity awards to eligible persons. The terms of our equity compensation plans are described more fully below.

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The following table gives information about these equity compensation plans as of December 31, 2013:

| Plan category | (a) Number of securities to be issued upon exercise of outstanding options, warrants and rights | (b) Weighted-average exercise price of outstanding options, warrants and rights | (c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column(a)) |
|---|---|---|---|
| Equity compensation plans approved by security holders | 15,521,493 | $ 20.3156 | 6,840,094 |
| Equity compensation plans not approved by security holders | 2,764,867 | $ 25.4706 | 1,007,584 |
| Total | 18,286,360 | | 7,847,678 |

(1) The 1996 Employee Stock Plan incorporated an evergreen formula pursuant to which on each January 1, the aggregate number of shares reserved for issuance under the plan were increased by an amount equal to 1.5% of the common shares outstanding on September 30 of the immediately preceding fiscal year. Effective January 1, 2006, no new awards could be granted under this plan, but there are outstanding awards that were granted before this date.

(2) The 2003 Employee Stock Plan provided, commencing on June 1, 2006 and expiring January 1, 2011, on each January 1 for an automatic increase in the number of shares reserved and available for issuance under the Plan by an amount equal to two percent (2%) of the Company's outstanding common shares as of each June 1 or January 1. Effective June 3, 2013, no new awards could be granted under this plan, but there are outstanding awards that were granted before this date.

Following is a brief summary of the material terms of the plans that have not been approved by our shareholders. Unless otherwise indicated, (1) each plan is administered by an independent committee appointed by the Company's Board of Directors; (2) the exercise price of options granted under each plan must be no less than 100% of the fair market value per common share on the date of the grant of the option; (3) the term of an award granted under each plan may not exceed 10 years; (4) options granted under the plan are nonstatutory options ("NSOs") not intended to qualify under Section 422 of the Internal Revenue Code of 1986, as amended (the "IRC"); and (5) unless otherwise determined by the committee in its discretion, options may not be exercised after the optionee has ceased to be employed by the Company.

**1998 Employee Stock Plan**

The plan reserved for issuance up to 35,000,000 common shares of the Company pursuant to the exercise of options granted under the plan. The persons eligible to participate in the plan were employees and consultants of the Company. Options granted to employees were either awards of shares, non-qualified stock options (each, an "NQSO"), incentive stock options (each, an "ISO") or stock appreciation rights (each, an "SAR"). An optionee may reduce the option exercise price by paying the Company in cash, shares, options, or the equivalent, an amount equal to the difference between the exercise price and the reduced exercise price of the option. The administrative committee established performance goals for stock awards in writing and not later than the date required for compliance under Section 162(m) of the IRC, and vesting of these shares was contingent upon the attainment of such performance goals. Stock awards vest over a period determined by the committee. The plan expired on January 8, 2008 and effective that date, no new awards could be granted even

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though there are outstanding awards that were granted before this date. The committee could grant ISOs of not less than 100% of the fair market value per common share on the date of grant; except that in the event the optionee owns on the date of grant, securities possessing more than 10% of the total combined voting power of all classes of securities of the Company or of any subsidiary of the Company, the price per share must not have been less than 110% of the fair market value per common share on the date of the grant. The option must expire five years from the date it is granted. SARs may be granted in conjunction with all or part of any option granted under the plan, in which case the exercise of the SAR must require the cancellation of a corresponding portion of the option; conversely, the exercise of the option will result in cancellation of a corresponding portion of the SAR. In the case of a NQSO, SARs may be granted either at or after the time of grant of the option. In the case of an ISO, SARs may be granted only at the time of grant of the option. A SAR may also be granted on a stand-alone basis. The term of a SAR must be established by the committee. The exercise price of a SAR cannot be less than 100% of the fair market value per common share on the date of grant. The committee has the authority to make provisions in its award and grant agreements to address vesting and other issues arising in connection with a change of control.

**1999 Stock Option Plan for Non-Employee Directors**

The plan reserves for issuance up to 3,000,000 common shares of the Company pursuant to the exercise of options granted under the plan. The plan is administered by the Board of Directors or a committee appointed by the Board. Eligible directors may not consider or vote on the administration of the plan or serve as a member of the committee. Options may be granted under the plan to non-employee directors of the Company. Options vest and become non-forfeitable on the first anniversary of the option grant if the optionee has continued to serve as a director until that day, unless otherwise provided. In the event of termination of an optionee's service as a director by reason of voluntary retirement, declining to stand for re-election or becoming a full-time employee of the Company or a subsidiary of the Company, all unvested options granted under the plan automatically expire and are not exercisable, and all unexercised options continue to be exercisable until their stated expiration date. In the event of death or disability of an optionee while the optionee is a director, the then-outstanding options of such optionee become exercisable for two years from the date of the death or disability. All unvested options automatically vest and become non-forfeitable as of the date of death or disability and become exercisable for two years from the date of the death of the optionee or until the stated expiration date, whichever is earlier. In the event of the termination of an optionee's service as a director by the Board of Directors for cause or the failure of such director to be re-elected, the administrator of the plan in its sole discretion can cancel the then-outstanding options of the optionee, including options that have vested, and those options automatically expire and become non-exercisable on the effective date of the termination.

The remainder of the information called for by this item will be contained in our definitive Proxy Statement to be distributed in connection with our 2014 annual general meeting of shareholders under the caption "*Share Ownership of Management and Principal Shareholders*" and is incorporated into this document by reference.

**ITEM 13.** ***CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE***

The information called for by this item will be contained in our definitive Proxy Statement to be distributed in connection with our 2014 annual general meeting of shareholders under the caption "*Certain Relationships and Related Transactions*" and is incorporated into this document by reference.

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**ITEM 14.** ***PRINCIPAL ACCOUNTING FEES AND SERVICES***

The information called for by this item will be contained in our definitive Proxy Statement to be distributed in connection with our 2014 annual general meeting of shareholders under the caption *"Independent Auditor Fees"* and is incorporated into this document by reference.

**PART IV**

**ITEM 15.** ***EXHIBITS, FINANCIAL STATEMENT SCHEDULE***

**(a) The following documents are filed as part of this report:**

(1) Financial Statements


| | Page No. |
|---|---|
| Consolidated Balance Sheets as of December 31, 2013 and 2012 | 57 |
| Consolidated Statement of Income (Loss) for the Years Ended December 31, 2013, 2012 and 2011 | 58 |
| Consolidated Statement of Other Comprehensive Income (Loss) for the Years Ended December 31, 2013, 2012 and 2011 | 59 |
| Consolidated Statement of Cash Flows for the Years Ended December 31, 2013, 2012 and 2011 | 60 |
| Consolidated Statement of Changes in Equity for the Years Ended December 31, 2013, 2012 and 2011 | 61 |


(2) Financial Statement Schedule


| | Page No. |
|---|---|
| Schedule II Valuation and Qualifying Accounts | 164 |


All other supplemental schedules are omitted because of the absence of the conditions under which they would be required or because the required information is included in the financial statements or related notes.

**(b) Exhibit Index**

See the Exhibit Index for a list of those exhibits filed herewith, which Exhibit Index also includes and identifies management contracts or compensatory plans or arrangements required to be filed as exhibits to this Form 10-K by Item 601 of Regulation S-K.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

By: /s/ ANTHONY G. PETRELLO

Anthony G. Petrello
Chairman, President and Chief Executive Officer (Principal Executive Officer)

By: /s/ R. CLARK WOOD

R. Clark Wood
Principal Accounting and Financial Officer

Date: March 3, 2014

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

| Signature | Title | Date |
|---|---|---|
| /s/ ANTHONY G. PETRELLO<br>Anthony G. Petrello | Chairman, President and Chief Executive Officer | March 3, 2014 |
| /s/ R. CLARK WOOD<br>R. Clark Wood | Principal Accounting and Financial Officer | March 3, 2014 |
| *<br>James R. Crane | Director | March 3, 2014 |
| *<br>Michael C. Linn | Director | March 3, 2014 |
| *<br>John V. Lombardi | Director | March 3, 2014 |

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| Signature | Title | Date |
|---|---|---|
| * | | |
| John P. Kotts | Director | March 3, 2014 |
| * | | |
| Myron M. Sheinfeld | Director | March 3, 2014 |
| * | | |
| John Yearwood | Director | March 3, 2014 |
| * | | |
| W. Howard Wolf | Director | March 3, 2014 |

*By: /s/ LAURA DOERRE

Laura Doerre
*Attorney-in-Fact*

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**Exhibit Index**

| Exhibit No. | Description |
|---|---|
| 2.1 | Agreement and Plan of Merger among Nabors Industries, Inc., Nabors Acquisition Corp. VIII, Nabors Industries Ltd. and Nabors US Holdings Inc. (incorporated by reference to Annex I to the proxy statement/prospectus included in our Registration Statement on Form S-4 (File No. 333-76198) filed with the SEC on May 10, 2002, as amended). |
| 3.2 | Amended and Restated Bye-Laws of Nabors Industries Ltd. (incorporated by reference to Exhibit 3.2 to our Form 10-Q (File No. 001-32657) filed with the SEC on August 3, 2012). |
| 4.1 | Indenture, dated February 20, 2008, among Nabors Industries, Inc., Nabors Industries Ltd. and Wells Fargo Bank, National Association, as trustee, with respect to Nabors Industries, Inc.'s 6.15% Senior Notes due 2018 (including form of 6.15% Senior Note due 2018) (incorporated by reference to Exhibit 4.2 to our Form 8-K (File No. 001-32657) filed with the SEC on February 25, 2008). |
| 4.2 | Indenture related to the Senior Notes due 2019, dated as of January 12, 2009, among Nabors Industries, Inc., Nabors Industries Ltd. and Wells Fargo Bank, National Association, as trustee, with respect to Nabors Industries, Inc.'s 9.25% Senior Notes due 2019 (including form of 9.25% Senior Note due 2019) (incorporated by reference to Exhibit 4.2 to our Form 8-K (File No. 001-32657) filed with the SEC on January 14, 2009). |
| 4.3 | Indenture, dated as of September 14, 2010, among Nabors Industries, Inc., Nabors Industries Ltd., Wilmington Trust Company, as trustee and Citibank, N.A. as securities administrator, with respect to Nabors Industries, Inc.'s 5.0% Senior Notes due 2020 (including form of 5.0% Senior Note due 2020) (incorporated by reference to Exhibit 4.2 to our Form 8-K (File No. 001-32657) filed with the SEC on September 15, 2010). |
| 4.4 | Indenture, dated as of August 23, 2011, among Nabors Industries, Inc., Nabors Industries Ltd., Wilmington Trust, National Association, as trustee and Citibank, N.A. as securities administrator, with respect to Nabors Industries, Inc.'s 4.625% Senior Notes due 2021 (including form of 4.625% Senior Note due 2021) (incorporated by reference to Exhibit 4.1 to our Form 8-K (File No. 001-32657) filed with the SEC on August 24, 2011). |
| 4.5 | Rights Agreement, dated July 16, 2012, between Nabors Industries Ltd. and Computershare Trust Company, N.A., as Rights Agent, including the Form of Certificate of Designations of Series A Junior Participating Preferred Shares, the Form of Right Certificate, and the Summary of Rights to Purchase Preferred Shares, respectively attached thereto as Exhibits A, B and C ("Rights Agreement") (incorporated by reference to Exhibit 4.1 to Nabors Industries Ltd.'s Form 8-K (File No. 001-32657) filed with the Commission on July 17, 2012). |
| 4.5(a) | Amendment No. 1, dated as of April 4, 2013, to the Rights Agreement (incorporated by reference to Exhibit 4.2 to Amendment No. 1 to the Registration Statement on Form 8-A (File No. 001-32657) filed with the Commission on April 4, 2013). |
| 4.5(b) | Amendment No. 2, dated as of July 15, 2013, to the Rights Agreement (incorporated by reference to Exhibit 4.3 to Amendment No. 2 to the Registration Statement on Form 8-A/A (File No. 001-32657) filed with the Commission on July 15, 2013). |

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| Exhibit No. | Description |
|---|---|
| 4.6 | Purchase Agreement, dated September 4, 2013, among Nabors Industries, Inc., Nabors Industries Ltd., Citigroup Global Markets Inc. and HSBC Securities (USA) Inc., Mizuho Securities USA Inc., Morgan Stanley & Co. LLC, Merrill Lynch Pierce Fenner & Smith Incorporated, Mitsubishi UFJ Securities (USA), Inc., PNC Capital Markets LLC, BBVA Securities Inc., Wells Fargo Securities, LLC, SMBC Nikko Securities America, Inc. and U.S. Bancorp Investments, Inc., with respect to Nabors Industries, Inc.'s 2.35% Senior Notes due 2016 and 5.1% Senior Notes due 2023 (incorporated by reference to Exhibit 10.1 to our Form 8-K (File No. 001-32657) filed with the SEC on September 5, 2013). |
| 4.6(a) | Indenture related to the 2.35% Senior Notes due 2016 and 5.10% Senior Notes due 2023, dated as of September 12, 2013, among Nabors Industries, Inc. as Issuer, Nabors Industries Ltd. as Guarantor, Wilmington Trust, National Association as Trustee and Citibank, N.A. as Securities Administrator (including form of 2.35% Senior Note due 2016 and form of 5.10% Senior Note due 2023) (incorporated by reference to Exhibit 4.1 to Nabors Industries Ltd. Form 8-K (File No. 001-32657) filed with the Commission on September 13, 2013). |
| 4.6(b) | Registration Rights Agreement related to the 2.35% senior notes due 2016, dated as of September 12, 2013, among Nabors Industries, Inc. as Issuer, Nabors Industries Ltd. as Guarantor and Citigroup Global Markets Inc., HSBC Securities (USA) Inc. and Mizuho Securities USA Inc. as Representatives of the Initial Purchasers (incorporated by reference to Exhibit 4.2 to Nabors Industries Ltd. Form 8-K (File No. 001-32657) filed with the Commission on September 13, 2013). |
| 4.6(c) | Registration Rights Agreement related to the 5.10% senior note due 2023, dated as of September 12, 2013, among Nabors Industries, Inc. as Issuer, Nabors Industries Ltd. as Guarantor, and Citigroup Global Markets Inc., HSBC Securities (USA) Inc. and Mizuho Securities USA Inc. as Representatives of the Initial Purchasers (incorporated by reference to Exhibit 4.1 to Nabors Industries Ltd. Form 8-K (File No. 001-32657) filed with the Commission on September 13, 2013). |
| 10.1(+) | Termination Agreement by and among Nabors Industries Ltd., Nabors Industries, Inc. and Anthony G. Petrello effective December 31, 2012 and relating to Mr. Petrello's Employment Agreement dated effective as of April 1, 2009 (incorporated by reference to Exhibit 99.2 to Nabors Industries Ltd.'s Form 8-K (File No. 001-32657) filed with the Commission on March 11, 2013). |
| 10.1(a)(+) | Stock Bonus Agreement dated March 7, 2013 among Nabors Industries Ltd., Nabors Industries, Inc. and Anthony G. Petrello (incorporated by reference to Exhibit 99.3 to Nabors Industries Ltd.'s Form 8-K (File No. 001-32657) filed with the Commission on March 11, 2013). |
| 10.2(+) | Nabors Industries Ltd. Amended and Restated 2003 Employee Stock Plan (incorporated by reference to Exhibit A of our Revised Definitive Proxy Statement on Schedule 14A (File No. 001-32657) filed with the SEC on May 4, 2006) (incorporated by reference to Exhibit 99.1 to our Form S-8 filed with the SEC on November 12, 2008). |
| 10.2(a)(+) | Form of Stock Option Agreement Others, pursuant to the 2003 Employee Stock Plan (incorporated by reference to Exhibit 10.6(d) to our Form 10-K (File No. 001-32657) filed with the SEC on March 1, 2013)(+). |

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| Exhibit No. | Description |
|---|---|
| 10.2(b)(+) | Form of Restricted Stock Agreement Others, pursuant to the 2003 Employee Stock Plan (incorporated by reference to Exhibit 10.6(d) to our Form 10-K (File No. 001-32657) filed with the SEC on March 1, 2013)(+). |
| 10.3 | Form of Indemnification Agreement entered into between Nabors Industries Ltd. and the directors and executive officers (incorporated by reference to Exhibit 10.28 to our Form 10-K (File No. 000-49887) filed with the SEC on March 31, 2003). |
| 10.4(+) | Nabors Industries Ltd. Amended and Restated 2003 Employee Stock Plan (incorporated by reference to Exhibit A of our Revised Definitive Proxy Statement on Schedule 14A (File No. 001-32657) filed with the SEC on May 4, 2006) (incorporated by reference to Exhibit 99.1 to our Form S-8 filed with the SEC on November 12, 2008). |
| 10.4(a)(+) | Form of Stock Option Agreement Others, pursuant to the 2003 Employee Stock Plan (incorporated by reference to Exhibit 10.6(d) to Nabors Industries Ltd.'s Form 10-K (File No. 001-32657) filed with the Commission on March 1, 2013). |
| 10.4(b)(+) | Form of Restricted Stock Agreement Others, pursuant to the 2003 Employee Stock Plan (incorporated by reference to Exhibit 10.6(e) to Nabors Industries Ltd.'s Form 10-K (File No. 001-32657) filed with the Commission on March 1, 2013). |
| 10.5(+) | 1996 Employee Stock Plan (incorporated by reference to Nabors Industries, Inc.'s Registration Statement on Form S-8 (File No. 333-11313) filed with the SEC on September 3, 1996). |
| 10.6(+) | Nabors Industries, Inc. 1998 Employee Stock Plan (incorporated by reference to Exhibit 10.19 to Nabors Industries, Inc.'s Form 10-K (File No. 1-9245) filed with the SEC on March 31, 1999). |
| 10.7(+) | Amended and Restated 1999 Stock Option Plan for Non-Employee Directors (amended on May 2, 2003) (incorporated by reference to Exhibit 10.29 to our Form 10-Q (File No. 000-49887) filed with the SEC on May 12, 2003). |
| 10.8(+) | Nabors Industries Ltd. 2013 Stock Plan (incorporated by reference to Appendix B of Nabors Industries Ltd.'s Definitive Proxy Statement on Schedule 14A (File No. 001-32657) filed with the Commission on April 30, 2013). |
| 10.8(a)(+)* | Form of Stock Option Agreement Others, pursuant to the 2013 Stock Plan(+).* |
| 10.8(b)(+)* | Form of Restricted Stock Agreement Others, pursuant to the 2013 Stock Plan(+).* |
| 10.8(c)(+)* | Form of Restricted Stock Agreement Directors, pursuant to the 2013 Stock Plan(+).* |
| 10.8(d)(+)* | Form of TSR Stock Grant Agreement Anthony G. Petrello, pursuant to the 2013 Stock Plan(+).* |
| 10.8(e)(+)* | Form of Nabors Industries Ltd. Restricted Stock Agreement Anthony G. Petrello, pursuant to the 2013 Stock Plan(+).* |
| 10.8(f)(+)* | Form of Nabors Corporate Services, Inc. Restricted Stock Agreement Anthony G. Petrello, pursuant to the 2013 Stock Plan(+).* |

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| Exhibit No. | Description |
|---|---|
| 10.9 | Credit Agreement, dated as of November 29, 2012, among Nabors Industries, Inc. as US borrower, Nabors Canada as Canadian borrower, Nabors Industries Ltd. as guarantor, HSBC Bank Canada as Canadian lender, the other lenders party thereto, Mizuho Corporate Bank, Ltd. and HSBC Bank USA, N.A. as documentation agents, HSBC Bank USA, N.A. as syndication agent and Citibank, N.A. as administrative agent for the US lenders (incorporated by reference to Exhibit 10.1 to our Form 8-K (File No. 001-32657) filed with the SEC on November 30, 2012). |
| 10.10 | Agreement, dated as of April 4, 2013, by and between Nabors Industries Ltd. and PHM Investment (USD) 1 S.à.r.l. (incorporated by reference to Exhibit 10.1 to the Form 8-K (File No. 001-32657) filed with the Commission on April 4, 2013). |
| 12 | Computation of Ratios.* |
| 14 | Code of Business Conduct (incorporated by reference to Exhibit 14 to our Form 10-K (File No. 000-49887) filed with the SEC on March 15, 2004). |
| 21 | Significant Subsidiaries*. |
| 23.1 | Consent of Independent Registered Public Accounting Firm PricewaterhouseCoopers LLP Houston.* |
| 31.1 | Rule 13a-14(a)/15d-14(a) Certification of Anthony G. Petrello, Chairman, President and Chief Executive Officer* |
| 31.2 | Rule 13a-14(a)/15d-14(a) Certification of R. Clark Wood, Principal Accounting and Financial Officer* |
| 32.1 | Certifications required by Rule 13a-14(b) or Rule 15d-14(b) and Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. 1350), executed by Anthony G. Petrello, Deputy Chairman, President and Chief Executive Officer and R. Clark Wood, Principal Accounting and Financial Officer (furnished herewith).* |
| 101.INS | XBRL Instance Document* |
| 101.SCH | XBRL Schema Document* |
| 101.CAL | XBRL Calculation Linkbase Document* |
| 101.LAB | XBRL Label Linkbase Document* |
| 101.PRE | XBRL Presentation Linkbase Document* |
| 101.DEF | XBRL Definition Linkbase Document* |

* Filed herewith.

(+) Management contract or compensatory plan or arrangement.

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**SCHEDULE II VALUATION AND QUALIFYING ACCOUNTS**

Years Ended December 31, 2013, 2012 and 2011

| | Balance at Beginnning of Period | Charged to Costs and Expenses | Charged to Other Accounts | Deductions | Balance at End of Period |
|---|---|---|---|---|---|
| | | | (In thousands) | | |
| **2013** | | | | | |
| Allowance for doubtful accounts | $ 32,847 | (1,880) | (294) | (3,539) | $ 27,134 |
| Inventory reserve | $ 6,645 | 18,469 | (366) | (2,748) | $ 22,000 |
| Valuation allowance on deferred tax assets | $ 1,520,852 | | 26,589 | | $ 1,547,441 |
| **2012** | | | | | |
| Allowance for doubtful accounts | $ 41,703 | (5,979) | 179 | (3,056) | $ 32,847 |
| Inventory reserve | $ 6,984 | (3,141) | 9 | 2,793 | $ 6,645 |
| Valuation allowance on deferred tax assets | $ 1,485,540 | | 35,312 | | $ 1,520,852 |
| **2011** | | | | | |
| Allowance for doubtful accounts | $ 22,507 | 5,352 | (29) | 13,873 | $ 41,703 |
| Inventory reserve | $ 6,784 | (1,185) | 1,889 | (504) | $ 6,984 |
| Valuation allowance on deferred tax assets | $ 1,514,153 | | | (28,613) | $ 1,485,540 |