

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

{Nabors Industries Ltd. and Subsidiaries}

1 NATURE OF OPERATIONS

Nabors is the largest land drilling contractor in the world, with almost 600 land drilling rigs. We conduct oil, gas and geothermal land drilling operations in the U.S. Lower 48 states, Alaska, Canada, South and Central America, the Middle East, the Far East and Africa. Nabors also is one of the largest land well-servicing and workover contractors in the United States and Canada. We own approximately 750 land workover and well-servicing rigs in the United States, primarily in the southwestern and western United States, and approximately 200 land workover and well-servicing rigs in Canada. Nabors is a leading provider of offshore platform workover and drilling rigs, and owns 45 platform, 16 jack-up and three barge rigs in the Gulf of Mexico and international markets. These rigs provide well-servicing, workover and drilling services. We also have a 50% ownership interest in a joint venture in Saudi Arabia, which owns 17 rigs.

To further supplement and complement our primary business, we offer a wide range of ancillary well-site services, including engineering, transportation, construction, maintenance, well logging, directional drilling, rig instrumentation, data collection and other support services, in selected domestic and international markets. Our land transportation and hauling fleet includes approximately 240 rig and oil-field equipment hauling tractor-trailers and a number of cranes, loaders and light-duty vehicles. We maintain approximately 300 fluid hauling trucks, approximately 800 fluid storage tanks, ten saltwater disposal wells and other auxiliary equipment used in drilling, workover and well-servicing operations in the United States. In addition, we time charter a fleet of 31 marine transportation and supply vessels, which provide transportation of drilling materials, supplies and crews for offshore operations primarily in the Gulf of Mexico. We manufacture and lease or sell top drives for a broad range of drilling applications, directional drilling systems, rig instrumentation and data collection equipment and rig reporting software. We have also made selective investments in oil and gas exploration, development and production activities, most recently with El Paso Corporation (see discussion included in Note 13).

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

Our consolidated financial statements include the accounts of Nabors and all majority-owned subsidiaries. All significant intercompany accounts and transactions are eliminated in consolidation.

Investments in entities where we have the ability to exert significant influence, but where we do not control their operating and financial policies, are accounted for using the equity method. Our share of the net income of these entities is recorded as Earnings from unconsolidated affiliates in our consolidated statements of income, and our investment in these entities is carried as a single amount in our consolidated balance sheets. Investments in net assets of unconsolidated affiliates accounted for using the equity method totaled \$58.1 million and \$58.6 million as of December 31,

2003 and 2002, respectively, and are included in other long-term assets in our consolidated balance sheets.

Reclassifications

Certain reclassifications have been made to prior periods to conform to the current period presentation, with no effect on our consolidated financial position, results of operations or cash flows.

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.

Marketable and Non-Marketable Securities

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

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

We are also invested in overseas funds investing primarily in a variety of public and private U.S. and non-U.S. securities (including asset-backed securities and mortgage-backed securities, global structured asset securitizations, whole loan mortgages, and participations in whole loans and whole loan mortgages). These investments are classified as non-marketable, because they do not have published fair values, and are recorded at cost in our consolidated balance sheets as a component of other current assets. Gains or losses are realized, as other income, when distributions are made from the funds.

Inventory and Supplies

Inventory and supplies are composed of top drives and drilling instrumentation systems manufactured by our subsidiaries for resale. Inventory and supplies are valued at the lower of weighted-average cost or market value.

Property, Plant and Equipment

Property, plant and equipment, including renewals and betterments, are stated at cost, while maintenance and repairs are expensed currently. Interest costs applicable to the construction of qualifying assets are capitalized as a component of the cost of such assets. We provide for the depreciation of our drilling and workover rigs using the units-of-production method over an approximate 4,900-day period, with the exception of our jack-up rigs which are depreciated over an 8,030-day period, after provision for salvage value. When our drilling and workover rigs are not operating, a depreciation charge is provided using the straight-line method over an assumed depreciable life of 20 years, with the exception of our jack-up rigs, where a 30-year depreciable life is used. Effective October 1, 2001, we changed the depreciable lives of our drilling and workover rigs from 4,200 to 4,900 active days, our jack-up rigs from 4,200 to 8,030 active days and certain other drilling equipment lives, to better reflect the estimated useful lives of these assets. The effect of this change in accounting estimate was accounted for on a prospective basis beginning October 1, 2001 and increased net income by approximately \$14.7 million (\$.09 per diluted share), \$19.7 million (\$.13 per diluted share) and \$5.5 million (\$.03 per diluted share) for the years ended December 31, 2003, 2002 and 2001, respectively.

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 – 15 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 accounts and any gains or losses are included in our results of operations.

We review our assets for impairment when events or changes in circumstances indicate that the net book value of property, plant and equipment may not be recovered over its remaining service life. Provisions for asset impairment are charged to income when the sum of estimated future cash flows, on an undiscounted basis, is less than the asset's net book value. Actual impairment charges are recorded using an estimate of discounted future cash flows. The determination of future cash flows requires us to estimate dayrates and utilization in future periods, and such estimates can change based on market conditions, technological advances in the industry or changes in regulations governing the industry. There were no impairment charges related to assets held for use recorded by Nabors in 2003, 2002 or 2001. In 2002 we reclassified four supply vessels to available-for-sale as we intended to sell these vessels in 2003. Accordingly, we reduced the carrying values of these assets to levels approximating their respective fair values, resulting in a charge to other income of \$3.7 million in 2002. Three of these supply vessels were sold in 2003 for amounts approximating their current carrying values, resulting in a gain of \$.2 million recorded in other income for the year ended December 31, 2003. The fourth supply vessel was sold in January 2004 for an amount that approximated its carrying value.

Oil and Gas Properties

We follow the successful efforts method of accounting for our oil and gas activities. Under the successful efforts method, lease acquisition costs and all development costs are capitalized. Proved oil and gas properties are reviewed when circumstances suggest the need for such a review and, if required, the proved properties are written down to their estimated fair value. Unproved properties are reviewed quarterly to determine if there has been impairment of the carrying value, with any such impairment charged to expense in that period. Estimated fair value includes the estimated present value of all reasonably expected future production, prices and costs. Exploratory drilling costs are capitalized until the results are determined. If proved reserves are not discovered, the exploratory drilling costs are expensed. Interest costs related to financing major oil and gas projects in progress are capitalized until the projects are evaluated or until the projects are substantially complete and ready for their intended

use if the projects are evaluated as successful. Other exploratory costs are expensed as incurred. Our provision for depletion is based on the capitalized costs as determined above and is determined on a property-by-property basis using the units-of-production method, with costs being amortized over proved developed reserves.

Goodwill

Goodwill represents the cost in excess of fair value of the net assets of companies acquired. Prior to January 1, 2002, goodwill was amortized using the straight-line method over 30 years and was recorded net of accumulated amortization of \$16.1 million as of December 31, 2001. Effective January 1, 2002, we adopted Statement of Financial Accounting Standards (SFAS) No. 142, "Goodwill and Other Intangible Assets." SFAS 142 supersedes Accounting Principles Board (APB) Opinion No. 17, which stated that goodwill acquired as a result of a purchase method business combination and all other intangible assets were subject to amortization. APB 17 also mandated a maximum period of 40 years for that amortization. SFAS 142 presumes that all goodwill and intangible assets that have indefinite useful lives will not be subject to amortization, but rather will be tested at least annually for impairment. In addition, the standard provides specific guidance on how to determine and measure goodwill impairment. Intangible assets that have finite useful lives will continue to be amortized over their useful lives, but without the constraint of a 40-year maximum amortization period.

During the second quarter of 2002 we performed our initial goodwill impairment assessment as required by SFAS 142. As part of that assessment, we determined that our 11 business units, as of January 1, 2002, represented our reporting units as defined by SFAS 142. We determined the aggregate carrying values and fair values of all such reporting units, which were measured as of the January 1, 2002 adoption date. We calculated the fair value of each reporting unit based on discounted cash flows and determined there was no goodwill impairment. In instances where assets acquired and liabilities assumed in a business combination are assigned solely to one of our business units, the amount of goodwill resulting from that acquisition is assigned in full to

that business unit. In instances where assets and liabilities are split between more than one business unit, we assign goodwill to our business units based on the respective fair values of the fixed assets assigned to each business unit. In the second quarter of 2003 we performed our annual assessment of goodwill impairment and determined there was no goodwill impairment.

If the provisions of SFAS 142 had been in effect during the periods prior to January 1, 2002, goodwill amortization would not have been recorded, increasing net income and earnings per share as follows:

(In thousands, except per share amounts)	2001
Reported net income	\$ 357,450
Add back: goodwill amortization, net of related income tax benefit of \$2,572	4,573
Adjusted net income	\$ 362,023
Earnings per share:	
Basic:	
Reported	\$ 2.48
Goodwill amortization	.03
Adjusted	\$ 2.51
Diluted:	
Reported	\$ 2.24
Goodwill amortization	.02
Adjusted	\$ 2.26

The change in the carrying amount of goodwill for our various Contract Drilling segments and our Other Operating Segments for the years ended December 31, 2003 and 2002 is as follows:

(In thousands)	Balance as of December 31, 2001	Acquisitions and Purchase Price Adjustments	Cumulative Translation Adjustment	Other	Balance as of December 31, 2002
Contract Drilling:					
U.S. Lower 48 Land Drilling	\$ 28,785	\$ -	\$ -	\$ (85)	\$ 28,700
U.S. Land Well-servicing	43,741	-	-	-	43,741
U.S. Offshore	29,583	-	-	-	29,583
Alaska	19,995	-	-	-	19,995
Canada	8,209	107,419	(2,837)	-	112,791
International	25,145	-	-	-	25,145
Subtotal Contract Drilling	155,458	107,419	(2,837)	(85)	259,955
Other Operating Segments	43,590	3,217	-	-	46,807
Total	\$ 199,048	\$ 110,636	\$ (2,837)	\$ (85)	\$ 306,762

(In thousands)	Balance as of December 31, 2002	Acquisitions and Purchase Price Adjustments	Cumulative Translation Adjustment	Other	Balance as of December 31, 2003
Contract Drilling:					
U.S. Lower 48 Land Drilling	\$ 28,700	\$ -	\$ -	\$ 1,276	\$ 29,976
U.S. Land Well-servicing	43,741	-	-	-	43,741
U.S. Offshore	29,583	-	-	(11,580)	18,003
Alaska	19,995	-	-	-	19,995
Canada	112,791	1,378	24,398	-	138,567
International	25,145	-	-	11,580	36,725
Subtotal Contract Drilling	259,955	1,378	24,398	1,276	287,007
Other Operating Segments	46,807	1,601	612	-	49,020
Total	\$ 306,762	\$ 2,979	\$ 25,010	\$ 1,276	\$ 336,027

Our Oil and Gas segment does not have any goodwill. Goodwill totaling approximately \$7.3 million is expected to be deductible for tax purposes.

Derivative Financial Instruments

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

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 (Note 13).

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. Mobilization revenues earned and the related direct costs incurred for the mobilization 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 recognize revenue for top drives and instrumentation systems we manufacture when the earnings process is complete. This generally occurs when products have been shipped, title and risk of loss have been transferred, collectibility is probable, and pricing is fixed and determinable.

We recognize, as operating revenue, proceeds from business interruption insurance claims in the period that the applicable proof of loss documentation is received. Proceeds from casualty insurance settlements in excess of the carrying value of damaged assets are recognized in other income in the period that the applicable proof of loss documentation is received.

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

We recognize revenue on our interests in oil and gas properties as production occurs and title passes.

Income Taxes

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

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

We do not provide for U.S. income and foreign withholding taxes on unremitted earnings of our international subsidiaries, as these earnings are considered permanently reinvested. Unremitted earnings, representing tax basis accumulated earnings and profits, totaled approximately \$453.2 million, \$377.2 million and \$212.0 million as of December 31, 2003, 2002 and 2001, respectively. It is not practicable to estimate the amount of deferred income taxes associated with these unremitted earnings.

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

Nabors realizes an income tax benefit associated with certain stock options issued under its stock option plans. This benefit, which is not reflected in our consolidated income statements, results in a reduction in income taxes payable and an increase in capital in excess of par value.

Foreign Currency Translation

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

Stock-Based Compensation

We account for stock-based compensation using the intrinsic value method prescribed by APB Opinion No. 25, "Accounting for Stock Issued to Employees." Accordingly, compensation expense for stock options is measured as the excess, if any, of the quoted market price of Nabors common shares at the date of grant

over the amount an employee must pay to acquire the common shares. We grant options at prices equal to the market price of our shares on the date of grant and therefore do not record compensation expense related to these grants. SFAS No. 148, "Accounting for Stock-Based Compensation – an Amendment to FAS 123," requires companies that continue to account for stock-based compensation in accordance with APB 25 to disclose certain information using a tabular presentation. The table presented below illustrates the effect on our net income and earnings per share as if we had applied the fair value recognition provisions of SFAS No. 123, "Accounting for Stock-Based Compensation," to our stock-based employee compensation. Under the provisions of SFAS 123, compensation cost for stock-based compensation is determined based on fair values as of the dates of grant estimated using an option pricing model such as the Black-Scholes option-pricing model, and compensation cost is amortized over the applicable option vesting period.

	Year Ended December 31,		
(In thousands, except per share amounts)	2003	2002	2001
Net income, as reported	\$ 192,228	\$ 121,489	\$ 357,450
Deduct: Total stock-based employee compensation expense determined under fair value method for all awards, net of related tax effects	(13,565)	(31,047)	(8,350)
Pro forma net income	\$ 178,663	\$ 90,442	\$ 349,100
Earnings per share:			
Basic – as reported	\$ 1.31	\$.85	\$ 2.48
Basic – pro forma	\$ 1.22	\$.63	\$ 2.42
Diluted – as reported	\$ 1.25	\$.81	\$ 2.24
Diluted – pro forma	\$ 1.16	\$.60	\$ 2.19

The pro forma amounts above were estimated using the Black-Scholes option-pricing model with the following weighted-average assumptions for grants during 2003, 2002 and 2001, respectively: risk-free interest rates of 2.23%, 3.79% and 4.74%; volatility of 47.58%, 48.19% and 50.42%; dividend yield of 0.0% for all periods; and expected life of 3.5 years for all periods.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make certain estimates and assumptions. These estimates and assumptions affect the reported

amounts of assets and liabilities, the disclosures of contingent assets and liabilities at the balance sheet date and the amounts of revenues and expenses recognized during the reporting period. Actual results could differ from such estimates. Areas where critical accounting estimates are made by management include:

- depreciation and amortization of property, plant and equipment and intangible assets
- impairment of property, plant and equipment
- income taxes
- allowance for doubtful accounts
- litigation and insurance reserves
- fair value of assets acquired and liabilities assumed
- cash flow estimates
- stock-based compensation

Recent Accounting Pronouncements

In November 2002 the Financial Accounting Standards Board (FASB) issued Interpretation No. 45 (FIN 45), "Guarantor's Accounting and Disclosure Requirements, Including Guarantees of Indebtedness of Others." FIN 45 requires that upon issuance of certain types of guarantees, a guarantor recognize and account for the fair value of the guarantee as a liability. FIN 45 contains exclusions to this requirement, including the exclusion of a parent's guarantee of its subsidiaries' debt to third parties. The initial recognition and measurement provisions of FIN 45 have been applied on a prospective basis for guarantees issued or modified after December 31, 2002. During 2003 we issued new standby letters of credit which serve as guarantees under the provisions of FIN 45. The application of the recognition and measurement provisions of FIN 45 to these guarantees was insignificant. The disclosure requirements of FIN 45 are effective for financial statements of both interim and annual periods ending after December 15, 2002 and are included in Note 13.

In January 2003 the FASB issued Interpretation No. 46 (FIN 46), "Consolidation of Variable Interest Entities," which addresses the consolidation of variable interest entities (VIEs) by business enterprises that are the primary beneficiaries. A VIE is an entity that does not have sufficient equity investment at risk to permit it to finance its activities without additional subordinated financial support, or whose equity investors lack the characteristics of a controlling financial interest. The primary beneficiary of a VIE is the enterprise that has the majority of the risks or rewards associated with the VIE. In December 2003 the FASB issued a revision to FIN 46, Interpretation No. 46R (FIN 46R), to clarify some of the provisions of FIN 46, and to exempt certain entities from its requirements. Application of FIN 46R is required in financial statements of public entities that have interests in structures that are commonly referred to as special-purpose entities for periods ending after December 15, 2003. Application for all other types of VIEs is required in financial statements for periods ending after March 15, 2004. We have no interests in structures that are commonly referred to as special-purpose entities and therefore have not adopted FIN 46R as of December 31, 2003. We do not expect our adoption of FIN 46R to materially affect our financial position, results of operations or cash flows.

In May 2003 the FASB issued SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities." SFAS 149 amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS 149 is effective in relation to certain issues for fiscal quarters that began prior to June 15, 2003 and for certain contracts entered into after June 30, 2003. The adoption of SFAS 149 had no impact on our financial position, results of operations or cash flows as of and for the year ended December 31, 2003.

In May 2003 the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." SFAS 150 establishes standards for how an issuer classifies and measures in its statement of financial position certain financial instruments with characteristics of both liabilities and equity. In accordance with the standard, financial instruments that embody obligations for the issuer are required to be classified as liabilities. SFAS 150 is effective for such financial instruments, except for those that apply to mandatorily redeemable noncontrolling interests, entered into or modified after May 31, 2003, and otherwise was effective for such financial instruments, except for those that apply to mandatorily redeemable noncontrolling interests, at the beginning of the third quarter of 2003. The adoption of SFAS 150 had no initial impact on our financial position, results of operations or cash flows as of and for the year ended December 31, 2003.

In December 2003 the FASB issued SFAS No. 132 (revised 2003), "Employers' Disclosures about Pensions and Other Postretirement Benefits," that replaces existing FASB disclosure requirements for pensions. The revised SFAS 132 is effective for fiscal years ending after December 15, 2003, and for quarters beginning after December 15, 2003. The disclosures related to our pension plan included in Note 11 include all relevant disclosures required by the revised SFAS 132.

3 ACQUISITIONS

On August 12, 2002, Nabors entered into an arrangement agreement to acquire Ryan Energy Technologies, Inc., a corporation incorporated under the laws of Alberta, Canada. Nabors' acquisition of Ryan was completed on October 9, 2002, and became effective pursuant to a plan of arrangement approved by the securityholders of Ryan and the Court of Queen's Bench of Alberta.

Pursuant to the arrangement, Nabors Exchangeco (Canada) Inc., an indirect wholly-owned Canadian subsidiary of Nabors, acquired all of the issued and outstanding common shares of Ryan in exchange for approximately Cdn. \$22.6 million (U.S. \$14.2 million) in cash and 380,264 exchangeable shares of Nabors Exchangeco, of which 219,493 exchangeable shares were immediately exchanged for common shares of Nabors in accordance with the instructions of the holders of those shares. The Nabors Exchangeco shares are exchangeable for Nabors common shares, at each holder's option, on a one-for-one basis and are listed on the Toronto Stock Exchange. Additionally, these exchangeable shares have essentially identical rights as Nabors common shares, including but not limited to voting rights and the right to receive dividends, if any, and will be automatically exchanged upon the occurrence of certain events. The value of the Nabors Exchangeco shares issued totaled Cdn. \$18.5 million (U.S. \$11.6 million). In addition, we assumed Ryan debt totaling Cdn. \$14.5 million (U.S. \$9.1 million). Ryan's results of operations were consolidated into ours commencing on October 9, 2002. The Ryan purchase price was allocated based on estimates of the fair market value of assets acquired and liabilities assumed as of the acquisition date and resulted in goodwill of approximately Cdn. \$7.2 million (U.S. \$4.8 million). Ryan manufactures and sells directional drilling and rig instrumentation systems and provides directional drilling, rig instrumentation and data collection services to oil and gas exploration and service companies in the United States, Canada and Venezuela.

On March 18, 2002, we acquired, for cash, 20.5% of the issued and outstanding shares of Enserco Energy Service Company Inc., a Canadian publicly-held corporation, for Cdn. \$15.50 per share for a total price of Cdn. \$83.2 million (U.S. \$52.6 million). On April 26, 2002, Nabors Exchangeco acquired all of the remaining issued and outstanding common shares of Enserco in exchange for approximately Cdn. \$100.1 million (U.S. \$64.1 million) in cash and 3,549,082 exchangeable shares of Nabors Exchangeco, of which 2,638,526 exchangeable shares were immediately exchanged for Nabors Industries, Inc. (Nabors Delaware) common stock in accordance with the instructions of the holders of those shares (which common stock was converted into our common shares pursuant to our corporate reorganization on June 24, 2002). The value of the Nabors Exchangeco shares issued totaled Cdn. \$254.2 million (U.S. \$162.8 million). In addition, we assumed Enserco debt totaling Cdn. \$33.4 million (U.S. \$21.4 million). Enserco's results of operations were consolidated into ours commencing on April 26, 2002. The Enserco purchase price was allocated based on estimates of the fair market value of assets acquired and liabilities assumed as of the acquisition date and resulted in goodwill of approximately Cdn. \$164.7 million (U.S. \$105.2 million). Enserco provided land drilling, well-servicing and workover services in Canada and operated a fleet of 193 well-servicing rigs and 30 drilling rigs as of our acquisition date.

On November 13, 2001, we completed our acquisition of Command Drilling Corporation in which we purchased all of Command's common stock at \$3.35 per share for a total purchase price of Cdn. \$102.3 million (U.S. \$65.1 million). Command owned 15 rigs operating in the Canadian Rockies. The Command purchase price was allocated based on estimates of the fair market value of assets acquired and liabilities assumed as of the acquisition date and resulted in goodwill of approximately Cdn. \$15.3 million (U.S. \$9.7 million).

4 CASH AND CASH EQUIVALENTS AND MARKETABLE SECURITIES

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

December 31,			
(In thousands)	2003		
	Fair Value	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses
Cash and cash equivalents	\$ 579,737	\$ -	\$ -
Marketable equity securities:			
Trading	-	-	-
Available-for-sale	48,843	9,379	(2,016)
Total marketable equity securities	48,843	9,379	(2,016)
Marketable debt securities:			
Commercial paper and CDs	50,743	-	-
Corporate debt securities	319,327	2,392	-
U.S. Government debt securities	7,103	-	-
Government agencies debt securities	285,358	-	(677)
Mortgage-backed debt securities	119	-	-
Mortgage-CMO debt securities	29,275	31	-
Asset-backed debt securities	211,585	767	-
Total marketable debt securities	903,510	3,190	(677)
	\$ 1,532,090	\$ 12,569	\$ (2,693)

December 31,			
(In thousands)	2002		
	Fair Value	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses
Cash and cash equivalents	\$ 414,051	\$ -	\$ -
Marketable equity securities:			
Trading	4,260	1,138	-
Available-for-sale	45,574	4,733	(2,844)
Total marketable equity securities	49,834	5,871	(2,844)
Marketable debt securities:			
Commercial paper and CDs	76,548	57	-
Corporate debt securities	204,084	4,063	-
U.S. Government debt securities	42,675	401	-
Government agencies debt securities	386,096	1,564	-
Foreign government debt securities	15,213	121	-
Mortgage-backed debt securities	355	5	-
Asset-backed debt securities	141,943	1,710	-
Total marketable debt securities	866,914	7,921	-
	\$ 1,330,799	\$ 13,792	\$ (2,844)

The estimated fair values of our marketable debt securities as of December 31, 2003, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because the issuers of the securities may have the right to repay obligations without prepayment penalties and we may elect to sell the securities prior to the maturity date.

(In thousands)	Estimated Fair Value
Marketable debt securities:	
Due in one year or less	\$ 291,093
Due after one year through five years	612,417
	\$ 903,510

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

(In thousands)	Year Ended December 31,		
	2003	2002	2001
Available-for-sale:			
Proceeds from sales and maturities	\$ 1,393,638	\$ 542,133	\$ 431,498
Realized gains, net of realized losses	3,417	2,310	200

5 PROPERTY, PLANT AND EQUIPMENT

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

(In thousands)	December 31,	
	2003	2002
Land	\$ 12,037	\$ 15,203
Buildings	26,703	30,177
Drilling, workover and well-servicing rigs, and related equipment	3,637,296	3,307,504
Marine transportation and supply vessels	159,530	156,212
Oilfield hauling and mobile equipment	143,279	96,540
Other machinery and equipment	33,358	31,319
Net profits interests in oil and gas properties	84,807	35,881
	4,097,010	3,672,836
Less: accumulated depreciation and amortization	(1,081,826)	(855,905)
accumulated depletion on oil and gas properties	(24,392)	(15,864)
	\$ 2,990,792	\$ 2,801,067

Repair and maintenance expense included in direct costs in our consolidated statements of income totaled \$195.7 million, \$138.5 million and \$223.8 million for the years ended December 31, 2003, 2002 and 2001, respectively.

Interest costs of \$.9 million, \$1.1 million and \$1.6 million were capitalized during the years ended December 31, 2003, 2002 and 2001, respectively.

Certain of our marine vessels have been leased under a bareboat charter arrangement to Sea Mar Management LLC (Notes 12 and 13). Future minimum payments due to us under this arrangement are as follows:

(In thousands)	
2004	\$ 29,618
2005	29,537
2006	29,537
2007	12,705
2008	–
Thereafter	–
	\$ 101,397

Payments received under this bareboat charter arrangement amounted to \$29.5 million and \$18.0 million in 2003 and 2002, respectively.

6 INVESTMENTS IN UNCONSOLIDATED AFFILIATES

Our principal operations accounted for using the equity method include a construction operation (40%) and a logistics operation (50%) in Alaska, drilling and workover operations located in Saudi Arabia (50%), and a supply and marine transportation operation in the Gulf of Mexico (25%). These unconsolidated affiliates are integral to our operations in those locations. See Note 12 for a discussion of transactions with these related parties.

Combined condensed financial data for investments in unconsolidated affiliates accounted for using the equity method of accounting is summarized as follows:

(In thousands)	December 31,	
	2003	2002
Current assets	\$ 78,020	\$ 104,265
Long-term assets	135,073	122,682
Current liabilities	48,312	63,366
Long-term liabilities	40,201	40,761

(In thousands)	Year Ended December 31,		
	2003	2002	2001
Gross revenues	\$ 312,008	\$ 334,000	\$ 285,505
Gross margin	41,809	52,861	73,532
Net income	21,689	29,400	51,421
Nabors' Earnings from unconsolidated affiliates	10,183	14,775	26,334

Cumulative undistributed earnings of our unconsolidated affiliates included in retained earnings as of December 31, 2003 totaled approximately \$42.0 million.

7 FINANCIAL INSTRUMENTS AND RISK CONCENTRATION

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

Foreign Currency Risk

We operate in a number of international areas and are involved in transactions denominated in currencies other than U.S. dollars, which exposes us to foreign exchange rate risk. The most significant exposures arise in connection with our operations in Canada and Saudi Arabia, which usually are substantially unhedged. For our unconsolidated affiliate in Saudi Arabia, upon renewal of our contracts, we have been converting Saudi riyal-denominated contracts to U.S. dollar-denominated contracts in order to reduce our exposure to the Saudi riyal, even though that currency has been pegged to the U.S. dollar at a rate of 3.745 Saudi riyals to 1.00 U.S. dollar since 1986. We cannot guarantee that we will be able to convert future Saudi riyal-denominated contracts to U.S. dollar-denominated contracts or that the Saudi riyal exchange rate will continue in effect as in the past.

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

Credit Risk

Our financial instruments that potentially subject us to concentrations of credit risk consist primarily of cash equivalents, investments in marketable and non-marketable securities, accounts receivable, and our interest rate swap and range cap and floor transactions. Cash equivalents such as deposits and temporary cash investments are held by major banks or investment firms. Our investments in marketable and non-marketable securities are managed within established guidelines which limit the amounts that may be

invested with any one issuer and which provide guidance as to issuer credit quality. We believe that the credit risk in such instruments is minimal. 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 maintain reserves for potential credit losses, and such losses have been within management's expectations.

Interest Rate, and Marketable and Non-Marketable Security Price Risk

Our financial instruments that are potentially sensitive to changes in interest rates include our \$1.381 billion zero coupon convertible senior debentures, our \$700 million zero coupon exchangeable senior notes, our 6.8%, 4.875% and 5.375% senior notes, our interest rate swap and range cap and floor transactions, our investments in debt securities (including corporate, asset-backed, U.S. Government, Government agencies, foreign government, mortgage-backed debt and mortgage-CMO debt securities) and our investments in overseas funds investing primarily in a variety of public and private U.S. and non-U.S. securities (including asset-backed securities and mortgage-backed securities, global structured asset securitizations, whole loan mortgages, and participations in whole loans and whole loan mortgages), which are classified as non-marketable securities.

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

Our \$700 million zero coupon senior exchangeable notes include a contingent interest provision, discussed in Note 8 below, which qualifies as an embedded derivative under SFAS 133, as amended by SFAS 149. This embedded derivative is required to be separated from the notes and valued at its fair value at the inception of the note indenture. Any subsequent change in fair value of this embedded derivative will be recorded in our consolidated statements of income. The fair value of the contingent interest provision at inception of the note indenture was nominal. In addition, there was no significant change in the fair value of this embedded derivative through December 31, 2003, resulting in no impact on our consolidated statement of income for the year ended December 31, 2003.

On October 21, 2002, we entered into an interest rate swap transaction with a third-party financial institution to hedge our exposure to changes in the fair value of \$200 million of our fixed rate 5.375% senior notes due 2012, which has been designated as a fair value hedge under SFAS 133, as amended by SFAS 149. Additionally, on October 21, 2002, we purchased a LIBOR range cap and sold a LIBOR floor, in the form of a cashless collar, with the same third-party financial institution with the intention of mitigating and managing our exposure to changes in the three-month U.S. dollar LIBOR rate. This transaction does not qualify for hedge accounting treatment under SFAS 133, as amended by SFAS 149, and any change in the cumulative fair value of this transaction will be reflected as a gain or loss in our consolidated statements of income.

During the years ended December 31, 2003 and 2002, we recorded interest savings related to our interest rate swap agreement accounted for as a fair value hedge of \$6.8 million and \$1.2 million, respectively, which served to reduce interest expense. The fair value of our interest rate swap agreement is recorded as a derivative asset, included in other long-term assets, and totaled approximately \$4.2 million and \$10.1 million as of December 31, 2003 and 2002, respectively. The carrying value of our 5.375% senior notes has been increased by the same amount as of December 31, 2003 and 2002.

The fair value of our range cap and floor transaction is recorded as a derivative liability, included in other long-term liabilities, and totaled approximately \$3.7 million and \$3.8 million as of December 31, 2003 and 2002, respectively. We recorded losses of approximately \$1.1 million and \$3.8 million for the years ended December 31, 2003 and 2002, respectively, related to this derivative instrument; such amounts are included in other income in our consolidated

statements of income. The loss in the current year is comprised of the recognition of approximately \$1.2 million of expense in 2003 related to the settlement of amounts due to the counterparty on our range cap and floor derivative instrument discussed below, which were partially offset by a gain of approximately \$.1 million resulting from the change in cumulative fair value of this derivative instrument during 2003. As a result of the three-month U.S. dollar LIBOR rate being below our 2.665% floor on August 15, 2003 (such rate was 1.13%), we paid approximately \$.8 million to the counterparty on November 15, 2003 as settlement for the three-month period from August 15 to November 15, 2003. As a result of the three-month U.S. Dollar LIBOR rate being below our 2.665% floor on November 15, 2003 (such rate was 1.18%), we are obligated to pay, on February 15, 2004, approximately \$.8 million to the counterparty as settlement for amounts due for the three-month period from November 15, 2003 to February 15, 2004. We recorded the payment of approximately \$.8 million made on November 15, 2003 and approximately \$.4 million of the obligation due on February 15, 2004 as expense in other income in 2003 and will record the remaining amount of approximately \$.4 million due on February 15, 2004 in the first quarter of 2004.

On July 25, 2002, we entered into an interest rate hedge transaction with a third-party financial institution to manage and mitigate interest rate risk exposure relative to our August 2002 debt financing. Under the agreement, we agreed to receive (pay) cash from (to) the counterparty based on the difference between 4.43% and the ten-year Treasury rate on August 23, 2002, assuming a \$100.0 million notional amount with semi-annual interest payments over a ten-year maturity. We accounted for this transaction as a cash flow hedge. During August 2002 we paid approximately \$1.5 million related to the termination of this agreement. This payment was recorded as a reduction to accumulated other comprehensive income in our consolidated balance sheet and will be amortized into earnings as additional interest expense, using the effective interest method, over the term of the 5.375% senior notes due 2012 as discussed in Note 8 below.

On March 26, 2002, in anticipation of closing the Enserco acquisition discussed in Note 3, we entered into two foreign exchange contracts with a total notional value of Cdn. \$115.9 million and maturity dates of April 29, 2002. Additionally, on April 9, 2002, we entered into a third foreign exchange contract with a notional value of Cdn. \$50.0 million maturing April 29, 2002. The notional amounts

of these contracts were used to fund the cash portion of the Enserco acquisition purchase price. The notional amounts of these contracts represented the amount of foreign currency purchased at maturity and did not represent our exposure under these contracts. Although such contracts served as an economic hedge against our foreign currency risk related to the cash portion of the acquisition cost, these contracts did not qualify for hedge accounting treatment under SFAS 133, as amended by SFAS 149. We recognized a gain

on these foreign exchange contracts of approximately U.S. \$1.78 million included in other income in our consolidated statement of income for the year ended December 31, 2002.

Fair Value of Financial Instruments

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

(In thousands)	December 31,			
	2003		2002	
	Carrying Value	Fair Value	Carrying Value	Fair Value
4.875% senior notes due August 2009	\$ 223,499	\$ 234,585	\$ 223,234	\$ 231,854
5.375% senior notes due August 2012	277,248 ⁽¹⁾	290,813 ⁽¹⁾	282,901 ⁽¹⁾	293,478 ⁽¹⁾
\$700 million zero coupon senior exchangeable notes due June 2023	700,000	643,651	—	—
\$825 million zero coupon convertible senior debentures due June 2020	—	—	489,126	494,081
\$1.381 billion zero coupon convertible senior debentures due February 2021	784,807	780,880	765,549	756,733
6.8% senior notes due April 2004	295,267	299,681	295,237	310,068
Other long-term debt	4,117	4,117	9,101	9,101
8.625% senior subordinated notes due April 2008	—	—	42,493	43,930
	\$ 2,284,938	\$ 2,253,727	\$ 2,107,641	\$ 2,139,245

⁽¹⁾ The amounts presented for the years ended December 31, 2003 and 2002 include \$4.2 million and \$10.1 million, respectively, related to the fair value of the interest rate swap executed on October 21, 2002.

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

We maintain an investment portfolio of marketable and non-marketable debt and equity securities that exposes us to price risk (Note 4). The marketable and non-marketable securities are carried at fair market value and include \$952.4 million in securities classified as available-for-sale as of December 31, 2003. We had no securities classified as trading as of December 31, 2003.

8 DEBT

Long-term debt consists of the following:

(In thousands)	December 31,	
	2003	2002
4.875% senior notes due August 2009	\$ 223,499	\$ 223,234
5.375% senior notes due August 2012	277,248 ⁽¹⁾	282,901 ⁽¹⁾
\$700 million zero coupon senior exchangeable notes due June 2023	700,000	—
\$825 million zero coupon convertible senior debentures due June 2020	—	489,126
\$1.381 billion zero coupon convertible senior debentures due February 2021	784,807	765,549
6.8% senior notes due April 2004	295,267	295,237
Other long-term debt	4,117	9,101
8.625% senior subordinated notes due April 2008	—	42,493
	2,284,938	2,107,641
Less: current portion	299,385	492,985
	\$ 1,985,553	\$ 1,614,656

⁽¹⁾ The amounts presented for the years ended December 31, 2003 and 2002 include \$4.2 million and \$10.1 million, respectively, related to the fair value of the interest rate swap executed on October 21, 2002 (Note 7).

The carrying amount of our \$1.381 billion zero coupon convertible senior debentures, 4.875% senior notes and 5.375% senior notes as of December 31, 2003, included in the table above, are net of unamortized discounts of approximately \$415.4 million, \$1.5 million and \$1.9 million, respectively.

On June 10, 2003, Nabors Delaware, our wholly-owned subsidiary, completed a private placement of \$700 million aggregate principal amount of zero coupon senior exchangeable notes due 2023 that are fully and unconditionally guaranteed by us. The notes were reoffered by the initial purchaser of the notes to qualified institutional buyers under Rule 144A of the Securities Act of 1933, as amended, and outside the United States in accordance with Regulation S under the Securities Act. Nabors and Nabors Delaware filed a registration statement on Form S-3 pursuant to the Securities Act with respect to the notes on August 8, 2003. The notes do not bear interest, do not accrete and have a zero yield to maturity, unless Nabors Delaware becomes obligated to pay contingent interest as defined in the note indenture and described below.

The notes are exchangeable at the option of the holders into 14.2653 common shares of Nabors per \$1,000 principal amount of notes (subject to adjustment for certain events) if any of the following circumstances occur: (1) if in any calendar quarter beginning after the quarter ending September 30, 2003, the closing sale price per share of Nabors' common shares for at least 20 trading days during the period of 30 consecutive trading days ending on the last trading day of the previous calendar quarter is greater than or equal to 120%, or with respect to all calendar quarters beginning on or after July 1, 2008, 110%, of the applicable exchange price per share of the Nabors' common shares on such last trading day (the initial exchange price per share is \$70.10 and is subject to adjustment for certain events detailed in the note indenture; 120% of this initial price per share is \$84.12 and 110% of this initial price per share is \$77.11), (2) subject to certain exceptions, during the five business day period after any ten consecutive trading day period in which the trading price per \$1,000 principal amount of notes for each day of such ten trading day period was less than 95% of the product of the closing sale price of Nabors' common shares and the exchange rate of such note, (3) if Nabors Delaware calls the notes for redemption, or (4) upon the occurrence of specified corporate transactions described in the note indenture.

The notes are unsecured and are effectively junior in right of payment to any of Nabors Delaware's future secured debt. The notes will rank equally with any of

Nabors Delaware's other existing and future unsecured and unsubordinated debt and will be senior in right of payment to any of Nabors Delaware's subordinated debt. The guarantee of Nabors will be similarly unsecured and have a similar ranking to the notes so guaranteed. Holders of the notes have the right to require Nabors Delaware to repurchase the notes at a purchase price equal to 100% of the principal amount of the notes plus contingent interest and additional amounts, if any, on June 15, 2008, June 15, 2013 and June 15, 2018 or upon a fundamental change as described in the note indenture. If Nabors Delaware is required to repurchase the notes, Nabors Delaware will have the right to deliver, in lieu of cash, our common shares or a combination of cash and common shares. If Nabors Delaware elects to pay all or a portion of the purchase price in our common shares, the number of common shares we will issue will be equal to the purchase price divided by the market price of our common shares. For these purposes, the market price means the average of the sale prices of our common shares for the five trading day period ending on the third business day prior to the applicable purchase date. We do not presently anticipate using shares to satisfy any such future purchase obligations.

Nabors Delaware will be obligated to pay contingent interest during any six-month period from June 15 to December 14 or from December 15 to June 14 commencing on or after June 15, 2008 for which the average trading price of the notes for each day of the applicable five trading day reference period equals or exceeds 120% of the principal amount of the notes as of the day immediately preceding the first day of the applicable six-month interest period. The amount of contingent interest payable per note in respect to any six-month period will equal 0.185% of the principal amount of a note. The five day trading reference period means the five trading days ending on the second trading day immediately preceding the relevant six-month interest period.

We used a portion of the net proceeds from the issuance of the notes to redeem the remaining outstanding principal amount of Nabors Delaware's \$825 million zero coupon convertible senior debentures due 2020 on June 20, 2003 and our associated guarantees. The redemption price was \$655.50 per \$1,000 principal amount of the debentures for an aggregate redemption price paid of approximately \$494.9 million. The redemption of the debentures did not result in any gain or loss as the debentures were redeemed at prices equal to their carrying value on June 20, 2003. The remainder of the proceeds of the notes were invested in cash and marketable securities.

On April 1, 2003, we redeemed our 8.625% senior subordinated notes due April 2008 and all associated guarantees at a redemption price of \$1,043.13 per \$1,000 principal amount of the notes together with accrued and unpaid interest to the date of redemption. The aggregate redemption price was \$45.2 million and resulted in the recognition of a pretax loss of approximately \$.9 million, resulting from the redemption of the notes at prices higher than their carrying value on April 1, 2003. This loss was recorded in other income in our consolidated statements of income during 2003.

During 2002 we purchased \$.6 million face value of our 8.625% senior subordinated notes due April 2008 in the open market at a price of 108%. In addition, we purchased \$4.7 million face value of our 6.8% senior notes due April 2004 in the open market at a price of 104%. Upon settlement of these transactions, we paid \$5.7 million and recognized a pretax loss of approximately \$.2 million, resulting from the repurchases of these notes at prices higher than their carrying value. Additionally, we repaid Cdn. \$12.9 million (U.S. \$8.3 million) and Cdn. \$22.3 million (U.S. \$14.3 million) of the debt assumed in the Ryan and Enserco acquisitions, respectively. We also made a \$2.5 million scheduled principal payment relating to certain of our medium-term notes.

On August 22, 2002, Nabors Holdings I, ULC, one of our indirect, wholly-owned subsidiaries, issued \$225 million aggregate principal amount of 4.875% senior notes due 2009 that are fully and unconditionally guaranteed by Nabors and Nabors Delaware. Concurrently with this offering by Nabors Holdings, Nabors Delaware issued \$275 million aggregate principal amount of 5.375% senior notes due 2012, which are fully and unconditionally guaranteed by Nabors. Both issues of senior notes were resold by a placement agent to qualified institutional buyers under Rule 144A of the Securities Act of 1933, as amended. Interest on each issue of senior notes is payable semi-annually on February 15 and August 15 of each year, beginning on February 15, 2003.

Both issues are unsecured and are effectively junior in right of payment to any of their respective issuers' future secured debt. The senior notes will rank equally in right of payment with any of their respective issuers' future unsecured debt and will be senior in right of payment to any of such issuers' subordinated debt. The guarantees of Nabors Delaware and Nabors with respect to the senior notes issued by Nabors Holdings, and the guarantee of Nabors with respect to the senior

notes issued by Nabors Delaware, are similarly unsecured and have a similar ranking to the series of senior notes so guaranteed.

Subject to certain qualifications and limitations, the indentures governing the senior notes issued by Nabors Holdings and Nabors Delaware limit the ability of Nabors and its subsidiaries to incur liens and to enter into sale and lease-back transactions. In addition, such indentures limit the ability of Nabors, Nabors Delaware and Nabors Holdings to enter into mergers, consolidations or transfers of all or substantially all of such entity's assets unless the successor company assumes the obligations of such entity under the applicable indenture.

During February 2001 we completed a private placement of zero coupon convertible senior debentures due 2021. The original aggregate principal amount of the debentures at maturity totaled \$1.381 billion. The debentures were issued at a discount with net proceeds to Nabors, after expenses, totaling approximately \$828.0 million. Our \$1.381 billion debentures can be put to us on February 5, 2006, February 5, 2011 and February 5, 2016, for a purchase price equal to the issue price plus accrued original issue discount to the date of repurchase.

The original issue price of the debentures was \$608.41 per \$1,000 principal amount at maturity. The yield to maturity of the debentures is 2.5% compounded semi-annually with no periodic cash payments of interest. At the holder's option, the \$1.381 billion debentures can be converted, at any time prior to maturity or their earlier redemption, into our common shares, at a conversion rate of 7.0745 shares per \$1,000 principal amount at maturity. The conversion rate is subject to adjustment under formulae as set forth in the indenture (the agreement governing the terms of the debt) in certain events, including: (1) the issuance of Nabors common shares as a dividend or distribution on the common shares; (2) certain subdivisions and combinations of the common shares; (3) the issuance to all holders of common shares of certain rights or warrants to purchase common shares; (4) the distribution of capital stock, other than Nabors common shares to Nabors' shareholders, or evidences of Nabors' indebtedness or of assets; and (5) distribution consisting of cash, excluding any quarterly cash dividend on the common shares to the extent that the aggregate cash dividend per share of common shares in any quarter does not exceed certain amounts. Instead of delivering common shares upon conversion of any debentures, we may elect to pay the holder cash for all or a portion of the debentures.

We may elect to pay all or a portion of the purchase price of the debentures in common shares instead of cash, depending upon our cash balances and cash requirements at that time. We do not presently anticipate using common shares to satisfy any such future purchase obligations. In accordance with the indenture with respect to the debentures, we cannot redeem the \$1.381 billion debentures before February 5, 2006, after which time we may redeem all or a portion of the debentures for cash at any time at their accreted value.

During 2001 we entered into several private transactions with a counterparty to purchase \$70 million face value of our \$825 million zero coupon convertible senior debentures due 2020 at an average price of \$606.07 for each \$1,000 face amount of debentures and \$181 million face value of our \$1.381 billion debentures at an average price of \$528.30 for each \$1,000 face amount of debentures. Upon settlement of these transactions in December 2001 we paid \$139.8 million to the counterparty and recognized a pretax gain of \$15.3 million resulting from the repayment of the debentures at prices lower than their carrying value. The gain was recorded as other income in our consolidated statements of income.

As of December 31, 2003, the maturities of our long-term debt for each of the five years after 2003 and thereafter are as follows:

(In thousands)	Assuming Zero Coupon Convertible Debentures are	
	Paid at Maturity	Paid at First Put Date
2004	\$ 299,392	\$ 299,392
2005	—	—
2006	—	826,800 ⁽¹⁾
2007	—	—
2008	—	700,000 ⁽²⁾
Thereafter	2,400,200 ⁽³⁾	500,000
	\$ 2,699,592	\$ 2,326,192

⁽¹⁾ Represents our \$1.381 billion zero coupon convertible senior debentures due 2021 which can be put to us on February 5, 2006.

⁽²⁾ Represents our \$700 million zero coupon senior exchangeable notes due 2023 which can be put to us on June 15, 2008.

⁽³⁾ Includes \$1.2 billion, representing the portion of our \$1.381 billion zero coupon convertible senior debentures due 2021 that have not been redeemed, \$700 million of our zero coupon senior exchangeable notes due 2023, and \$225 million and \$275 million of our senior notes due 2009 and 2012, respectively.

We have three letter of credit facilities and a Canadian line of credit facility with various banks as of December 31, 2003. We did not have any short-term

borrowings outstanding at December 31, 2003 and 2002. Availability and borrowings under our credit facilities are as follows:

(In thousands)	December 31,	
	2003	2002
Credit available	\$ 96,825	\$ 79,745
Letters of credit outstanding	(56,288)	(56,267)
Remaining availability	\$ 40,537	\$ 23,478

9 INCOME TAXES

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

(In thousands)	Year Ended December 31,		
	2003	2002	2001
United States	\$ (192,405)	\$ (28,157)	\$ 461,042
Foreign	367,028	168,931	96,570
Income before income taxes	\$ 174,623	\$ 140,774	\$ 557,612

Income taxes have been provided based upon the tax laws and rates in the countries in which operations are conducted and income is earned. We are a Bermuda-exempt 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 (benefit) expense consisted of the following:

(In thousands)	Year Ended December 31,		
	2003	2002	2001
Current:			
U.S. federal	\$ 9,085	\$ 4,458	\$ 60,783
Foreign	(680)	5,113	17,078
State	89	614	5,857
	8,494	10,185	83,718
Deferred:			
U.S. federal	(53,121)	4,669	114,935
Foreign	29,051	2,274	(1,091)
State	(2,029)	2,157	2,600
	(26,099)	9,100	116,444
Income tax (benefit) expense	\$ (17,605)	\$ 19,285	\$ 200,162

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

(In thousands)	Year Ended December 31,		
	2003	2002	2001
Income tax provision at statutory rate (Bermuda rate of 0% in 2003 and 2002 and U.S. rate of 35% in 2001)	\$ –	\$ –	\$ 195,164
Taxes (benefit) on U.S. and foreign (losses) earnings at greater than the Bermuda rate	(17,281)	10,944	–
Increase in valuation allowance	5,163	6,540	–
Taxes on foreign earnings at less than the Bermuda rate in 2003 and 2002 and the U.S. rate in 2001 and other	–	–	(805)
Effect of change in tax rate (Canada)	(4,226)	–	–
State income taxes (benefit)	(1,261)	1,801	5,803
Income tax (benefit) expense	\$ (17,605)	\$ 19,285	\$ 200,162
Effective tax rate	(10)%	14%	36%

In both 2002 and 2003 we provided a valuation allowance against net operating loss carryforwards in various foreign tax jurisdictions based on our consideration of existing temporary differences and expected future earnings levels in those jurisdictions.

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

(In thousands)	December 31,	
	2003	2002
Deferred tax assets:		
Net operating loss carryforwards	\$ 239,291	\$ 85,012
Tax credit carryforwards	5,796	22,871
Accrued expenses not currently deductible and other	27,737	35,496
Less: valuation allowance	(11,703)	(6,540)
Deferred tax assets, net of valuation allowance	261,121	136,839
Deferred tax liabilities:		
Depreciation for tax in excess of book expense	(594,589)	(478,231)
Unrealized gain on marketable securities	(2,914)	(3,316)
Total deferred tax liabilities	(597,503)	(481,547)
Net deferred tax liabilities	(336,382)	(344,708)
Less: net current asset portion	36,442	32,846
Net long-term deferred tax liability	\$ (372,824)	\$ (377,554)

In conjunction with our acquisitions of Enserco and Ryan in 2002, deferred tax liabilities of \$52.8 million and \$4.2 million, respectively, were recorded in the year of acquisition.

For U.S. federal income tax purposes, we have net operating loss carryforwards of approximately \$671.9 million that, if not utilized, will expire at various times from 2009 to 2023. The net operating loss carryforwards for alternative minimum tax purposes are approximately \$535.6 million. There are alternative minimum tax credit carryforwards of \$5.5 million available to offset future regular tax liabilities.

The NOL carryforwards subject to expiration expire as follows:

(In thousands)	Year Ended December 31,		
	Total	U.S. Federal	Foreign
2004	\$ 6,246	\$ –	\$ 6,246
2005	5,152	–	5,152
2006	14,876	–	14,876
2007	3,082	–	3,082
2008	4,162	–	4,162
2009	779	779	–
2010	482	482	–
2011	11,598	11,598	–
2017	38,751	38,751	–
2018	23,119	23,119	–
2019	737	737	–
2020	737	737	–
2021	738	738	–
2022	225,842	225,842	–
2023	369,107	369,107	–
Indefinite	26,070	–	26,070
Total	\$ 731,478	\$ 671,890	\$ 59,588

In addition, for state income tax purposes, we have net operating loss carryforwards of approximately \$415.8 million that, if not utilized, will expire at various times from 2005 to 2023.

Under U.S. federal tax law, the amount and availability of loss carryforwards (and certain other tax attributes) are subject to a variety of interpretations and restrictive tests applicable to Nabors and our subsidiaries. The utilization of such carryforwards could be limited or effectively lost upon certain changes in ownership. Accordingly, although we believe substantial loss carryforwards are available to us, no assurance can be given concerning such loss carryforwards, or whether or not such loss carryforwards will be available in the future.

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

10 COMMON SHARES AND STOCK OPTIONS

Common Shares

During 2003 warrants issued in conjunction with our acquisitions of Enserco (April 2002) and New Prospect Drilling Company (May 1998) were exercised, resulting in the issuance of 49,000 and 200,000 of our common shares, respectively.

In conjunction with our acquisition of Ryan in October 2002 and our acquisition of Enserco in April 2002, we issued 380,264 and 3,549,082 exchangeable shares of Nabors Exchangeco, respectively, of which 219,493 and 2,638,526 exchangeable shares were immediately exchanged for our common shares, respectively.

The exchangeable shares of Nabors Exchangeco are exchangeable for Nabors common shares on a one-for-one basis. The exchangeable shares are included in capital in excess of par value.

Subsequent to these acquisitions, during 2002, an additional 484,756 exchangeable shares were exchanged for our common shares leaving a total of 586,571 exchangeable shares outstanding as of December 31, 2002. During 2003 an additional 208,315 exchangeable shares were exchanged for our common shares leaving a total of 378,256 exchangeable shares outstanding as of December 31, 2003.

During 2002 warrants issued in conjunction with our acquisition of Bayard Drilling Technologies, Inc. (April 1999) were exercised, resulting in the issuance of 18,000 of our common shares.

As a result of our corporate reorganization on June 24, 2002, the authorized share capital of Nabors consists of 400 million common shares, par value \$.001 per share, and 25 million preferred shares, par value \$.001 per share. Common shares issued were 146,656,432 and 144,964,668 at \$.001 par value as of December 31, 2003 and 2002, respectively, compared to 144,368,390 at \$.10 par value immediately preceding the reorganization. The decrease in par value of common stock from \$.10 to \$.001 was recorded as an increase to capital in excess of par value and a decrease in common shares in our consolidated financial statements. In conjunction with the reorganization, 6.8 million shares of outstanding treasury stock were retired, as Bermuda law does not recognize the concept of treasury stock. The effect of this retirement reduced common shares by \$.7 million, capital in excess of par value by \$59.2 million and retained earnings by \$192.9 million.

On July 23, 2002, we entered into a private transaction with a counterparty in which we sold 1.0 million European-style put options for \$2.6 million with a maturity date of October 23, 2002. Under the arrangement, if the price of our common shares was less than \$26.5698 on the maturity date, the counterparty could have exercised the put option resulting in, at our option (1) our purchase of 1.0 million of our common shares at a price of \$26.5698 per share or (2) our payment, in cash or Nabors common shares, of an amount equal to the difference between \$26.5698 and our stock price on October 23, 2002 multiplied by 1.0 million. These put options expired on October 23, 2002 and we retained the \$2.6 million in proceeds, which was recorded as an increase in capital in excess of par value in our consolidated balance sheet.

On July 17, 2002, the Board of Directors of Nabors authorized the continuation of the share repurchase program that had begun under Nabors Delaware, and provided that the amount of Nabors common shares authorized for purchase by Nabors going forward be increased to \$400 million. Under the Nabors Delaware program, Nabors Delaware had acquired an aggregate of approximately \$248.0 million of Nabors Delaware common stock, or 6.2 million shares, during 2001. During 2002 Nabors also acquired, through a subsidiary, 91,000 of its common shares in the open market for \$27.30 per share for an aggregate price of

\$2.5 million. Immediately thereafter these shares were transferred to Nabors. Pursuant to Bermuda law, any shares, when purchased, will be treated as cancelled. Therefore, a repurchase of shares will not have the effect of reducing the amount of Nabors' authorized share capital. Additionally, the Board approved the repurchase of up to \$400 million of outstanding debt securities of Nabors and its subsidiaries. These amounts may be increased or decreased at the discretion of the Board, depending upon market conditions and consideration of the best interest of shareholder value. Repurchases may be conducted on the open market, through negotiated transactions or by other means, from time to time, depending upon market conditions and other factors.

Stock Option Plans

As of December 31, 2003, we have several stock option plans under which options to purchase Nabors common shares may be granted to key officers, directors and managerial employees of Nabors and its subsidiaries. Options granted under the plans are at prices equal to the fair market value of the shares on the date of the grant. Options granted under the plans generally vest and are exercisable in varying cumulative periodic installments after one year. In the case of certain key executives, options granted under the plans are subject to accelerated vesting related to targeted common share prices, or may vest immediately on the grant date. Options granted under the plans cannot be exercised more than ten years from the date of grant. Options to purchase 8.1 million and 5.0 million Nabors common shares remained available for grant as of December 31, 2003 and 2002, respectively.

A summary of stock option transactions is as follows:

(In thousands, except exercise price)	Weighted-Average Exercise Price	
	Shares	Price
Options outstanding as of December 31, 2000	19,071	\$ 25.65
Granted	881	53.52
Exercised	(556)	14.26
Forfeited	(139)	32.56
Options outstanding as of December 31, 2001	19,257	\$ 27.21
Granted	5,495	27.35
Exercised	(806)	12.68
Forfeited	(277)	33.81
Options outstanding as of December 31, 2002	23,669	\$ 27.66
Granted	2,969	38.68
Exercised	(1,234)	16.48
Forfeited	(450)	41.45
Options outstanding as of December 31, 2003	24,954	\$ 29.27

Of the options outstanding, 20.7 million, 20.6 million and 17.2 million were exercisable at weighted-average exercise prices of \$27.65, \$27.13 and \$26.46, as of December 31, 2003, 2002 and 2001, respectively.

A summary of stock options outstanding as of December 31, 2003 is as follows:

Options Outstanding			
(In thousands, except contractual life and exercise price)	Number Outstanding	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price
Range of exercise prices:			
\$ 6.88 – 10.32	14	1.6	\$ 7.28
10.38 – 15.57	7,133	3.8	12.47
15.75 – 23.63	28	5.0	19.19
24.13 – 36.19	8,214	7.2	26.36
36.35 – 54.53	9,544	6.2	44.34
55.30 – 82.95	21	7.1	56.69
	24,954	5.8	\$ 29.27

A summary of stock options exercisable as of December 31, 2003 is as follows:

Options Exercisable		
(In thousands, except exercise price)	Number Exercisable	Weighted-Average Exercise Price
Range of exercise prices:		
\$ 6.88 – 10.32	14	\$ 7.28
10.38 – 15.57	7,133	12.47
15.75 – 23.63	25	19.10
24.13 – 36.19	7,059	26.10
36.35 – 54.53	6,413	46.28
55.30 – 82.95	10	56.69
	20,654	\$ 27.65

The weighted-average fair value of options granted during the years ended December 31, 2003, 2002 and 2001 was \$14.29, \$10.69 and \$22.22, respectively.

11 PENSION, POSTRETIREMENT AND POSTEMPLOYMENT BENEFITS

Pension Plans

In conjunction with our acquisition of Pool Energy Services Co. in November 1999, we acquired the assets and liabilities of a defined benefit pension plan, the Pool Company Retirement Income Plan. Benefits under the 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	Year Ended December 31,	
	2003	2002
(In thousands)		
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 13,631	\$ 13,542
Interest cost	891	868
Actuarial gain (loss)	1,417	(27)
Benefit payments	(538)	(752)
Benefit obligation at end of year	15,401	13,631
Change in plan assets:		
Fair value of plan assets at beginning of year	8,835	10,596
Actual return on plan assets	1,389	(1,009)
Benefit payments	(538)	(752)
Fair value of plan assets at end of year	9,686	8,835
Funded status:		
Funded status at end of year	(5,715)	(4,796)
Unrecognized net actuarial loss	3,942	3,549
Net liability recognized	\$ (1,773)	\$ (1,247)
Amounts recognized in consolidated balance sheets:		
Accrued benefit liability	5,715	4,381
Accumulated other comprehensive income	2,815	2,205
Components of net periodic benefit cost:		
Interest cost	\$ 891	\$ 868
Expected return on plan assets	(563)	(677)
Recognized net actuarial loss	198	45
Net periodic benefit cost	\$ 526	\$ 236
Additional information:		
Increase in minimum pension liability included in other comprehensive income	\$ 610	\$ 2,205
Weighted-average assumptions:		
Weighted-average discount rate	6.00%	6.50%
Expected long-term rate of return on plan assets	6.50%	6.50%

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 the 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 which is capable of achieving the estimated long-term rate of return without assuming an unreasonable level of investment risk.

Our weighted-average asset allocations as of December 31, 2003 and 2002, by asset category are as follows:

Pension Benefits	2003	2002
(In thousands)		
Equity securities	56%	54%
Debt securities	43%	44%
Other	1%	2%
Total	100%	100%

We invest plan assets based on a total return on investment approach, pursuant to which our plan assets include a diversified blend of investments in equity and debt securities towards a goal of maximizing the long-term rate of return without undertaking an unreasonable level of investment risk. We determine our acceptable 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 our plan assets on both a quarterly and annual basis when we assess plan liabilities.

We expect to contribute approximately \$1.5 million to the Pool pension plan in 2004. This funding is based on the sum of (1) the minimum contribution for the 2003 plan year that will be made in 2004, and (2) the estimated minimum required quarterly contributions for the 2004 plan year. There were no contributions made to the Pool pension plan in 2003.

Certain of Nabors' employees are covered by defined contribution plans. Our contributions to the plans are based on employee contributions and totaled \$13.1 million, \$9.0 million and \$11.0 million for the years ended December 31, 2003, 2002 and 2001, respectively. Nabors does not provide postemployment benefits to its employees.

Postretirement Benefits Other Than Pensions

Prior to the date of our acquisition, Pool provided certain postretirement healthcare and life insurance benefits to eligible retirees who had attained specific age and years of service requirements. Nabors terminated this plan at the date of acquisition (November 24, 1999). A liability of approximately \$.5 million and \$.8 million is recorded in our consolidated balance sheets as of December 31, 2003 and 2002, respectively, to cover the estimated costs of beneficiaries covered by the plan at the date of acquisition.

12 RELATED PARTY TRANSACTIONS

Pursuant to his employment agreement entered into in October 1996, we provided an unsecured, non-interest bearing loan of approximately \$2.9 million to Nabors' Deputy Chairman, President and Chief Operating Officer. This loan is due on September 30, 2006.

Pursuant to their employment agreements, Nabors and its Chairman and Chief Executive Officer, Deputy Chairman, President and Chief Operating Officer, and certain other key employees entered into split-dollar life insurance agreements pursuant to which we pay a portion of the premiums under life insurance policies with respect to these individuals and, in certain instances, members of their families. Under these agreements, we are reimbursed for such premiums upon the occurrence of specified events, including the death of an insured individual. Any recovery of premiums paid by Nabors could potentially be limited to the cash surrender value of these policies under certain circumstances. As such, the values of these policies are recorded at their respective cash surrender values in our consolidated balance sheets. We have made premium payments to date totaling \$12.4 million related to these policies. The cash surrender value of these policies of approximately \$11.4 million and \$8.7 million is included in other long-term assets in our consolidated balance sheets as of December 31, 2003 and 2002, respectively.

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

In the ordinary course of business, we enter into various rig leases, rig transportation and related oilfield services agreements with our Alaskan and Saudi Arabian unconsolidated affiliates at market prices. Additionally, we own certain marine vessels that are chartered under a bareboat charter arrangement to Sea Mar Management, which is wholly-owned by Sea Mar Investco LLC, an entity in which we own a 25% interest. Sea Mar Management has entered into a time charter of these vessels with a subsidiary of ours, which then time charters the vessels to various third-party customers. Revenues from these business transactions totaled \$81.6 million, \$65.7 million and \$26.9 million for the years ended December 31, 2003, 2002 and 2001, respectively.

Expenses from these business transactions totaled \$52.0 million, \$32.1 million and \$4.8 million for the years ended December 31, 2003, 2002 and 2001, respectively. Additionally, we had accounts receivable from these affiliated entities of \$24.0 million and \$53.3 million as of December 31, 2003 and 2002, respectively. We had accounts payable to these affiliated entities of \$3.7 million and \$1.1 million as of December 31, 2003 and 2002, respectively.

13 COMMITMENTS AND CONTINGENCIES

Operating Leases

Nabors and its subsidiaries occupy various facilities and lease certain equipment under various lease agreements. The minimum rental commitments under non-cancelable operating leases, with lease terms in excess of one year subsequent to December 31, 2003, are as follows:

(In thousands)	
2004	\$ 10,096
2005	7,710
2006	2,173
2007	1,470
2008	1,091
Thereafter	2,264
	<hr/>
	\$ 24,804

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 \$22.4 million, \$21.8 million and \$20.3 million for the years ended December 31, 2003, 2002 and 2001, respectively.

In addition, we have an obligation under our time charter agreement with Sea Mar Management (Note 12). The minimum commitments under this agreement subsequent to December 31, 2003 are as follows:

(In thousands)	
2004	\$ 27,056
2005	26,982
2006	26,982
2007	11,606
2008	—
	<hr/>
	\$ 92,626

Payments under this time charter agreement amounted to \$26.9 million and \$16.5 million for the years ended December 31, 2003 and 2002, respectively.

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, 2003 are as follows:

(In thousands)	
2004	\$ 1,808
2005	1,637
2006	1,424
2007	1,099
2008	123
Thereafter	1,851
	\$ 7,942

Capital Expenditures

As of December 31, 2003, we had outstanding capital expenditure purchase commitments of approximately \$26.1 million, primarily for rig-related enhancing and sustaining capital expenditures. On October 8, 2003, we entered into two separate agreements with wholly-owned subsidiaries of El Paso Corporation under which a subsidiary of Nabors will contribute 20% of an estimated \$400 million total cost to develop approximately 110 wells in exchange for a 20% net profits interest in such wells (cash proceeds available from production after royalties and operating costs have been paid). We expect that contributions due from Nabors to develop these wells will be paid out over a period extending from October 2003 to December 2004.

The wells included in these agreements include a combination of proved undeveloped, probable and possible reserves located primarily in South Texas, North Louisiana and Offshore Gulf of Mexico. In the event that cash proceeds totaling 117.5% of our total investment have been received from the wells subject to the applicable agreement, our net profits interest in those wells will convert to an overriding royalty interest of 0.4% in the wells for the remainder of the wells' productive lives. Under the terms of each of the agreements, either party may terminate the agreement upon 30 days notice. El Paso will serve as operator of all the wells covered in this development program.

On November 6, 2003, we entered into two additional agreements with El Paso to drill up to a total of 12 exploratory wells in South Texas and South Louisiana. Through these agreements and a subsequent election under one of the agreements, we have committed to contribute 25% of El Paso's share of the cost of drilling and completing eight of the wells; 25% of El Paso's share of the cost of drilling to casing point for three of the wells; and 20% of El Paso's share of the cost of drilling to casing point for one of the wells. We are also committed to contribute 12.5% of El Paso's share of any other costs of the exploratory wells and of all costs of any development wells in which we elect to participate on those prospects. In exchange, we receive a 12.5% interest in El Paso's share in the prospect leases where the exploratory wells are drilled, subject to certain penalty deductions in the event we elect to participate in less than all development wells drilled. As of December 31, 2003, three wells had commenced drilling under these agreements with one being declared a dry hole, which resulted in a charge to direct costs of \$1.4 million recorded during the fourth quarter of 2003. We expect that contributions due from Nabors for these agreements will be paid out over a period extending from November 2003 to June 2005.

We estimate that we will contribute approximately \$57.1 million and \$2.5 million in conjunction with our agreements with El Paso during 2004 and 2005, respectively. Through December 31, 2003, we have contributed approximately \$41.4 million in conjunction with these agreements.

Contingencies

Proposed Coast Guard Regulations and Actions

Our Sea Mar division time charters supply vessels to offshore operators in U.S. waters. On February 4, 2004, the United States Coast Guard took several actions which could adversely affect our ability to do so.

The vessels are owned by one of our financing company subsidiaries, but are operated and managed by a U.S. citizen-controlled company pursuant to long-term bareboat charters (Note 12). Our Sea Mar division time charters the vessels from this U.S. operating company in connection with our own offshore activities in the Gulf of Mexico and in support of other offshore operators.

On February 4, 2004, the United States Coast Guard adopted final regulations which could cause arrangements like that utilized by Sea Mar to no longer qualify vessels for employment in the U.S. coastwise trades. However, the final regulations contain grandfathering provisions which could permit us to continue coastwise marketing of the vessels until the present bareboat charters terminate. The original term of most of these bareboat charters ends in June 2007, but the charter provides for one or more renewal terms of three to five years. We believe the grandfathering provisions in these final regulations would apply to these renewal terms.

Also, on February 4, 2004, the United States Coast Guard proposed a rule which, if finally adopted, would end the grandfathering provision on February 4, 2007. In these same proposed regulations, the United States Coast Guard is proposing a rule under which time charters from a U.S. citizen bareboat charterer like the charter to Sea Mar would no longer be permitted. However, we believe that if this rule is adopted, the grandfathering provision would apply to the preexisting Sea Mar arrangement.

Additionally, on February 4, 2004, the United States Coast Guard notified us that it is considering an appeal of the United States Coast Guard's original issuance in June 2002 of the coastwise trade endorsements for the vessels bareboat chartered to the U.S. citizen qualified company. The coastwise trade endorsements on the documents of the vessels issued by the United States Coast Guard authorize the vessels to engage in the U.S. coastwise trade. If the appeal is decided against us, we could lose the ability to market the vessels for use in U.S. waters.

During 2003 adjusted income derived from operating activities for our Sea Mar division represented approximately 3.8% of our consolidated adjusted income derived from operating activities.

Self-Insurance Accruals We are self-insured for certain losses relating to workers' compensation, employers' liability, general liability, automobile liability and property damage. Effective April 1, 2003, with our insurance renewal, certain changes have been made to our insurance coverage. Effective for the period from April 1, 2003 to March 31, 2004, our exposure (that is, our deductible) per occurrence is \$1.0 million for workers' compensation, \$2.0 million for employers' liability and marine employers' liability (Jones Act) and \$5.0 million for general liability losses. Our self-insurance for automobile liability loss is \$0.5 million per occurrence. We maintain actuarially-determined accruals in our consolidated balance sheets to cover the self-insurance retentions.

We are self-insured for certain other losses relating to rig, equipment, property, business interruption and political, war and terrorism risks. Effective April 1, 2003, our per occurrence self-insurance retentions are \$10.0 million for rig physical damage and business interruption for 29 specific high-value rigs. The remainder of the fleet is subject to a \$5.0 million self-insurance retention. However, our rigs, equipment and property in Canada and Saudi Arabia are subject to \$1.0 million self-insurance retentions.

Political violence (war and terrorism) insurance is procured for our operations in Mexico, the Caribbean, South America, Africa, the Middle East and Asia. Political violence losses are subject to \$0.25 million per occurrence deductibles, except for Colombia which is subject to deductibles of \$10.0 million and \$1.0 million for political violence and terrorism, respectively. There is no assurance that such coverage will adequately protect Nabors against liability from all potential consequences.

As of December 31, 2003 and 2002, our self-insurance accruals totaled \$106.2 million and \$117.3 million, respectively, and our related insurance recoveries/receivables were \$31.8 million and \$47.6 million, respectively.

Litigation Nabors and its subsidiaries are defendants or otherwise involved in a number of lawsuits in the ordinary course of their business. In the opinion of management, our ultimate liability with respect to these pending lawsuits is not expected to have a significant or material adverse effect on our consolidated financial position, results of operations or cash flows.

Guarantees We enter into various agreements providing financial or performance assurance to third parties. Certain of these agreements serve as guarantees, including standby letters of credit issued on behalf of insurance carriers in conjunction with our workers' compensation insurance program and guarantees of residual value in certain of our operating lease agreements. We have also guaranteed payment of contingent consideration in conjunction with an acquisition in 2002, which is based on future operating results of that business. In addition, we have provided indemnifications to certain third parties which serve as guarantees. These guarantees include indemnification provided by Nabors to our stock transfer agent and our insurance carriers. We are not able to estimate the potential future maximum payments that might be due under our indemnification guarantees.

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

(In thousands)	Maximum Amount				
	2004	2005	2006	Thereafter	Total
Financial standby letters of credit	\$ 34,186	\$ –	\$ –	\$ –	\$ 34,186
Guarantee of residual value in lease agreements	347	684	65	–	1,096
Contingent consideration in acquisition	1,111	1,111	278	–	2,500
Total	\$ 35,644	\$ 1,795	\$ 343	\$ –	\$ 37,782

14 EARNINGS PER SHARE

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

(In thousands, except per share amounts)	Year Ended December 31,		
	2003	2002	2001
Net income (numerator):			
Net income – basic	\$ 192,228	\$ 121,489	\$ 357,450
Add interest expense on assumed conversion of our zero coupon convertible/exchangeable senior debentures/notes, net of tax:			
\$825 million due 2020 ⁽¹⁾	3,639	–	8,060
\$1.381 billion due 2021 ⁽²⁾	–	–	11,995
\$700 million due 2023 ⁽³⁾	–	–	–
Adjusted net income – diluted	\$ 195,867	\$ 121,489	\$ 377,505
Earnings per share:			
Basic	\$ 1.31	\$.85	\$ 2.48
Diluted	\$ 1.25	\$.81	\$ 2.24
Shares (denominator):			
Weighted-average number of shares outstanding – basic ⁽⁴⁾	146,495	143,655	144,430
Net effect of dilutive stock options and warrants based on the treasury stock method	6,604	6,342	6,697
Assumed conversion of our zero coupon convertible/exchangeable senior debentures/notes:			
\$825 million due 2020 ⁽¹⁾	3,798	–	8,852
\$1.381 billion due 2021 ⁽²⁾	–	–	8,811
\$700 million due 2023 ⁽³⁾	–	–	–
Weighted-average number of shares outstanding – diluted	156,897	149,997	168,790

⁽¹⁾ Diluted earnings per share for the years ended December 31, 2003 and 2001 reflects the assumed conversion of our \$825 million zero coupon convertible senior debentures, as the conversion in those years would have been dilutive. For the year ended December 31, 2002, the weighted-average number of shares outstanding-diluted excludes 8.1 million potentially dilutive shares issuable upon the conversion of our \$825 million zero coupon convertible senior debentures because the inclusion of such shares would have been anti-dilutive, given the level of net income for that year. Net income for the year ended December 31, 2002 also excludes the related add-back of interest expense, net of tax, of \$7.6 million for these debentures. These shares would have been dilutive and therefore included in the calculation of the weighted-average number of shares outstanding-diluted had diluted earnings per share been at or above \$.93 for the year ended December 31, 2002.

⁽²⁾ Diluted earnings per share for the year ended December 31, 2001 reflects the assumed conversion of our \$1.381 billion zero coupon convertible senior debentures, as the conversion in that year would have been dilutive. For the years ended December 31, 2003 and 2002, the weighted-average number of shares outstanding-diluted excludes 8.5 million potentially dilutive shares issuable upon the conversion of our \$1.381 billion zero coupon convertible senior debentures because the inclusion of such shares would have been anti-dilutive, given the level of net income for those years. Net income for the years ended December 31, 2003 and 2002, excludes the related add-back of interest expense, net of tax, of \$12.1 million and \$11.8 million, respectively, for these debentures. These shares would have been dilutive and therefore included in the calculation of the weighted-average number of shares outstanding-diluted had diluted earnings per share been at or above \$1.43 and \$1.39 for the years ended December 31, 2003 and 2002, respectively.

⁽³⁾ Diluted earnings per share for the year ended December 31, 2003 excludes approximately 10.0 million potentially dilutive shares initially issuable upon the exchange of our \$700 million zero coupon exchangeable senior notes due 2023. Such shares are contingently exchangeable under certain circumstances discussed in Note 8 and would only be included in the calculation of the weighted-average number of shares outstanding-diluted if any of those criteria were met. Such criteria were not met during the year ended December 31, 2003. These notes were issued in June 2003 and therefore did not impact the calculation of diluted earnings per share for the years ended December 31, 2002 and 2001.

⁽⁴⁾ Includes the following weighted-average number of common shares of Nabors and weighted-average number of exchangeable shares of Nabors Exchangeco, respectively: 146.0 million and .5 million shares for the year ended December 31, 2003; 143.2 million and .4 million shares for the year ended December 31, 2002; and 144.4 million and no shares for the year ended December 31, 2001. The exchangeable shares of Nabors Exchangeco are exchangeable for Nabors common shares on a one-for-one basis, and have essentially identical rights as Nabors Industries Ltd. common shares, including but not limited to voting rights and the right to receive dividends, if any.

For all periods presented, the computation of diluted earnings per share excludes outstanding stock options and warrants with exercise prices greater than the average market price of Nabors' common shares, because the inclusion of such options and warrants would be anti-dilutive. The number of options and warrants that were excluded from diluted earnings per share that would potentially dilute earnings per share in the future were 724,917 shares in 2003, 890,959 shares in 2002 and 919,478 shares in 2001.

As discussed in Note 8, holders of our \$1.381 billion zero coupon convertible senior debentures and our \$700 million zero coupon senior exchangeable notes have the right to require us to repurchase the debentures/notes at various dates commencing February 5, 2006 and June 15, 2008, respectively. We may pay the redemption prices with either cash or shares or a combination thereof. We do not presently anticipate using shares to satisfy any such future purchase obligations.

15 SUPPLEMENTAL BALANCE SHEET, INCOME STATEMENT AND CASH FLOW INFORMATION

Accounts receivable is net of an allowance for doubtful accounts of \$11.0 million and \$13.8 million as of December 31, 2003 and 2002, respectively. Other current assets include an investment in overseas funds of \$47.0 million and \$15.0 million as of December 31, 2003 and 2002, respectively.

Accrued liabilities include the following:

	December 31,	
(In thousands)	2003	2002
Accrued compensation	\$ 55,137	\$ 40,761
Deferred revenue	26,611	33,157
Workers' compensation liabilities	30,180	16,926
Interest payable	15,888	16,431
Other accrued liabilities	32,929	26,131
	\$ 160,745	\$ 133,406

Other income includes the following:

	Year Ended December 31,		
(In thousands)	2003	2002	2001
Gains on marketable and non-marketable securities, net	\$ 6,145	\$ 2,877	\$ 989
Gains on long-term assets, net	2,476	4,570	10,246
Foreign currency transaction gains	830	486	419
Corporate reorganization expense	–	(3,769)	–
Losses on derivative instruments	(1,140)	(1,983)	–
(Loss) gain on extinguishment of debt	(908)	(202)	15,330
Other	(2,495)	1,729	1,666
	\$ 4,908	\$ 3,708	\$ 28,650

Supplemental cash flow information for the years ended December 31, 2003, 2002 and 2001 is as follows:

	Year Ended December 31,		
(In thousands)	2003	2002	2001
Cash paid for income taxes	\$ 16,542	\$ 22,831	\$ 82,831
Cash paid for interest, net of capitalized interest	41,033	22,653	24,614
Acquisitions of businesses:			
Fair value of assets acquired	–	305,399	111,034
Goodwill	–	110,636	12,909
Liabilities assumed or created	–	(105,986)	(54,372)
Common stock of acquired company previously owned	–	(282)	–
Equity consideration issued	–	(174,115)	–
Cash paid for acquisitions of businesses	–	135,652	69,571
Cash acquired in acquisitions of businesses	–	–	(3,219)
Cash paid for acquisitions of businesses, net	\$ –	\$ 135,652	\$ 66,352

16 UNAUDITED QUARTERLY FINANCIAL INFORMATION

(In thousands, except per share amounts)	Year Ended December 31, 2003			
	Quarter Ended			
	March 31,	June 30,	September 30,	December 31,
Operating revenues and Earnings from unconsolidated affiliates ⁽¹⁾	\$ 455,740	\$ 433,911	\$ 475,979	\$ 524,556
Net income	48,057	29,019	50,281	64,871
Earnings per share: ⁽²⁾				
Basic	\$.33	\$.20	\$.34	\$.44
Diluted	\$.31	\$.19	\$.33	\$.42

(In thousands, except per share amounts)	Year Ended December 31, 2002			
	Quarter Ended			
	March 31,	June 30,	September 30,	December 31,
Operating revenues and Earnings from unconsolidated affiliates ⁽³⁾	\$ 386,837	\$ 356,518	\$ 355,078	\$ 382,785
Net income	41,942	25,420	26,922	27,205
Earnings per share: ⁽²⁾				
Basic	\$.30	\$.18	\$.19	\$.19
Diluted	\$.28	\$.17	\$.18	\$.18

⁽¹⁾ Includes Earnings from unconsolidated affiliates, accounted for by the equity method, of \$5.9 million, \$1.4 million, \$2.5 million and \$4.4 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 from unconsolidated affiliates, accounted for by the equity method, of \$5.6 million, \$4.4 million, \$1.9 million and \$2.8 million, respectively.

17 SEGMENT INFORMATION

As of December 31, 2003, we operate our business out of 13 operating segments. Our six Contract Drilling operating segments are engaged in drilling, workover and well-servicing operations, on land and offshore, and represent reportable segments. These operating segments consist of our Alaska, U.S. Lower 48 Land Drilling, U.S. Land Well-servicing, U.S. Offshore, Canada and International business units. Our oil and gas operating segment, Ramshorn Investments, Inc., is engaged in the exploration for, development of and production of oil and gas and is included in our Oil and Gas reportable segment. Our Other Operating Segments, consisting of Canrig Drilling Technology Ltd., Epoch Well Services, Inc., Peak Oilfield Service Company, Peak USA Energy Services, Ltd., Ryan Energy Technologies and Sea Mar, a division of Pool Well Services Co., are engaged in the manufacturing of top drives, manufacturing of drilling instrumentation

systems, construction and logistics services, trucking and logistics services, manufacturing and marketing of directional drilling and rig instrumentation systems, directional drilling, rig instrumentation and data collection services, and marine transportation and supply services, respectively. These Other Operating Segments do not meet the criteria included in SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information" for disclosure, individually or in the aggregate, as reportable segments. Our segment information as of and for the years ended December 31, 2002 and 2001 has been revised to conform to the current period presentation.

The accounting policies of the segments are the same as those described in the Summary of Significant Accounting Policies (Note 2). Inter-segment sales are recorded at cost or cost plus a profit margin. We evaluate the performance of our segments based on adjusted income derived from operating activities.

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

	Year Ended December 31,		
(In thousands)	2003	2002	2001
Operating revenues and Earnings from unconsolidated affiliates:			
Contract Drilling:			
U.S. Lower 48 Land Drilling	\$ 476,258	\$ 374,659	\$ 1,007,300
U.S. Land Well-servicing	312,279	294,428	345,785
U.S. Offshore	101,566	105,717	226,078
Alaska	112,092	118,199	133,634
Canada	322,303	141,497	86,310
International	396,884	320,160	282,404
Subtotal Contract Drilling ⁽¹⁾	1,721,382	1,354,660	2,081,511
Oil and Gas	16,919	7,223	5,529
Other Operating Segments ⁽²⁾	201,660	174,775	259,298
Other reconciling items ⁽³⁾	(49,775)	(55,440)	(118,268)
Total	\$ 1,890,186	\$ 1,481,218	\$ 2,228,070
Depreciation and amortization, and depletion:			
Contract Drilling:			
U.S. Lower 48 Land Drilling	\$ 69,190	\$ 61,022	\$ 72,954
U.S. Land Well-servicing	22,163	19,600	17,957
U.S. Offshore	19,794	20,491	25,231
Alaska	11,969	12,000	14,459
Canada	29,840	20,713	6,502
International	53,374	37,521	31,045
Subtotal Contract Drilling	206,330	171,347	168,148
Oil and Gas	8,599	7,700	5,777
Other Operating Segments	21,597	18,044	17,923
Other reconciling items ⁽³⁾	(1,399)	(1,726)	(1,952)
Total depreciation and amortization, and depletion	\$ 235,127	\$ 195,365	\$ 189,896
Adjusted income (loss) derived from operating activities:⁽⁴⁾			
Contract Drilling:			
U.S. Lower 48 Land Drilling	\$ 16,800	\$ 23,415	\$ 286,856
U.S. Land Well-servicing	47,082	38,631	64,446
U.S. Offshore	1,649	(1,397)	29,874
Alaska	37,847	31,387	30,445
Canada	59,856	17,413	30,971
International	77,964	76,121	58,549
Subtotal Contract Drilling	241,198	185,570	501,141
Oil and Gas	5,850	(1,058)	(737)
Other Operating Segments ⁽²⁾	3,266	24,660	87,847
Other reconciling items ⁽⁵⁾	(37,611)	(39,124)	(52,540)
Total adjusted income derived from operating activities	\$ 212,703	\$ 170,048	\$ 535,711
Interest expense	(70,740)	(67,068)	(60,722)
Interest income	27,752	34,086	53,973
Other income, net	4,908	3,708	28,650
Income before income taxes	\$ 174,623	\$ 140,774	\$ 557,612

Year Ended December 31,

(In thousands)	2003	2002	2001
Capital expenditures and acquisition of businesses:			
Contract Drilling:			
U.S. Lower 48 Land Drilling	\$ 72,528	\$ 7,488	\$ 330,684
U.S. Land Well-servicing	25,052	35,901	43,591
U.S. Offshore	36,785	32,585	77,850
Alaska	3,940	21,018	21,458
Canada	31,068	370,500	111,811
International	128,247	194,739	180,225
Subtotal Contract Drilling	297,620	662,231	765,619
Oil and Gas	53,716	9,733	11,449
Other Operating Segments	5,827	32,076	33,002
Other reconciling items ⁽⁵⁾	230	(1,197)	(6,829)
Total capital expenditures	\$ 357,393	\$ 702,843	\$ 803,241
Total assets:			
Contract Drilling: ⁽⁶⁾			
U.S. Lower 48 Land Drilling	\$ 987,903	\$ 972,495	\$ 1,106,953
U.S. Land Well-servicing	246,312	237,594	231,955
U.S. Offshore	386,196	368,267	398,516
Alaska	218,222	215,706	229,360
Canada	767,400	565,458	185,995
International	1,001,058	883,255	699,590
Subtotal Contract Drilling	3,607,091	3,242,775	2,852,369
Oil and Gas	67,898	23,517	20,165
Other Operating Segments ⁽⁷⁾	337,622	343,365	311,629
Other reconciling items ⁽⁵⁾	1,590,081	1,454,215	967,752
Total assets	\$ 5,602,692	\$ 5,063,872	\$ 4,151,915

⁽¹⁾ Includes Earnings from unconsolidated affiliates, accounted for by the equity method, of \$2.8 million, \$3.9 million and \$9.0 million for the years ended December 31, 2003, 2002 and 2001, respectively.

⁽²⁾ Includes Earnings from unconsolidated affiliates, accounted for by the equity method, of \$7.4 million, \$10.9 million and \$17.3 million for the years ended December 31, 2003, 2002 and 2001, respectively.

⁽³⁾ Represents the elimination of inter-segment transactions.

⁽⁴⁾ Adjusted income (loss) derived from operating activities is computed by: subtracting direct costs, general and administrative expenses, and depreciation and amortization, and depletion expense from Operating revenues and then adding Earnings from unconsolidated affiliates. Such amounts should not be used as a substitute to those amounts reported under GAAP. However, management evaluates the performance of our business units and the consolidated company based on several criteria, including adjusted income (loss) derived from operating activities, because it believes that this financial measure is an accurate reflection of the ongoing profitability of our company. A reconciliation of this non-GAAP measure to income before income taxes, which is a GAAP measure, is provided within the table above.

⁽⁵⁾ Represents the elimination of inter-segment transactions and unallocated corporate expenses, assets and capital expenditures.

⁽⁶⁾ Includes \$26.5 million, \$25.3 million and \$22.3 million of investments in unconsolidated affiliates accounted for by the equity method as of December 31, 2003, 2002 and 2001, respectively.

⁽⁷⁾ Includes \$31.6 million, \$33.3 million and \$32.8 million of investments in unconsolidated affiliates accounted for by the equity method as of December 31, 2003, 2002 and 2001, respectively.

The following table sets forth certain financial information with respect to Nabors operations by geographic area:

(In thousands)	2003	2002	2001
Operating revenues and Earnings from unconsolidated affiliates:			
United States	\$ 1,152,272	\$ 1,012,503	\$ 1,859,356
Foreign	737,914	468,715	368,714
	\$ 1,890,186	\$ 1,481,218	\$ 2,228,070
Property, plant and equipment, net:			
United States	\$ 1,823,281	\$ 1,759,199	\$ 1,834,548
Foreign	1,167,511	1,041,868	616,838
	\$ 2,990,792	\$ 2,801,067	\$ 2,451,386
Goodwill, net:			
United States	\$ 157,873	\$ 165,609	\$ 165,694
Foreign	178,154	141,153	33,354
	\$ 336,027	\$ 306,762	\$ 199,048

18 CONDENSED CONSOLIDATING
FINANCIAL INFORMATION

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

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

The following condensed consolidating financial information presents: condensed consolidating balance sheets as of December 31, 2003 and 2002, statements of income and cash flows for each of the three years in the period ended December 31, 2003 of (a) Nabors, parent/guarantor, (b) Nabors Delaware, issuer of public debt securities guaranteed by Nabors and guarantor of the \$225 million 4.875% senior notes issued by Nabors Holdings, (c) Nabors Holdings, issuer of the \$225 million 4.875% senior notes, (d) the non-guarantor subsidiaries, (e) consolidating adjustments necessary to consolidate Nabors and its subsidiaries and (f) Nabors on a consolidated basis.

CONDENSED CONSOLIDATING BALANCE SHEETS

	December 31, 2003					
(In thousands)	Nabors (Parent/ Guarantor)	Nabors Delaware (Issuer/Guarantor)	Nabors Holdings (Issuer)	Other Subsidiaries (Non-Guarantors)	Consolidating Adjustments	Consolidated Total
ASSETS						
Current assets:						
Cash and cash equivalents	\$ 403,693	\$ 1	\$ 17	\$ 176,026	\$ -	\$ 579,737
Marketable securities	285,353	-	-	54,583	-	339,936
Accounts receivable, net	-	-	-	410,487	-	410,487
Inventory and supplies	-	-	-	23,289	-	23,289
Other current assets	6,806	4,229	-	151,163	-	162,198
Total current assets	695,852	4,230	17	815,548	-	1,515,647
Marketable securities	571,327	-	-	41,090	-	612,417
Property, plant and equipment, net	-	-	-	2,990,792	-	2,990,792
Goodwill, net	-	-	-	336,027	-	336,027
Intercompany receivables	1,057,260	1,085,944	202	-	(2,143,406)	-
Investments in affiliates	170,089	2,065,230	236,829	1,095,882	(3,509,930)	58,100
Other long-term assets	-	20,359	966	68,384	-	89,709
Total assets	\$ 2,494,528	\$ 3,175,763	\$ 238,014	\$ 5,347,723	\$ (5,653,336)	\$ 5,602,692
LIABILITIES AND SHAREHOLDERS' EQUITY						
Current liabilities:						
Current portion of long-term debt	\$ -	\$ 295,267	\$ -	\$ 4,118	\$ -	\$ 299,385
Trade accounts payable	1	23	-	128,816	-	128,840
Accrued liabilities	960	10,766	3,901	145,118	-	160,745
Income taxes payable	1,164	(190)	(111)	8,540	-	9,403
Total current liabilities	2,125	305,866	3,790	286,592	-	598,373
Long-term debt	-	1,762,054	223,499	-	-	1,985,553
Other long-term liabilities	-	3,738	-	151,929	-	155,667
Deferred income taxes	79	61,623	82	311,040	-	372,824
Intercompany payable	2,049	-	-	2,141,357	(2,143,406)	-
Total liabilities	4,253	2,133,281	227,371	2,890,918	(2,143,406)	3,112,417
Shareholders' equity	2,490,275	1,042,482	10,643	2,456,805	(3,509,930)	2,490,275
Total liabilities and shareholders' equity	\$ 2,494,528	\$ 3,175,763	\$ 238,014	\$ 5,347,723	\$ (5,653,336)	\$ 5,602,692

December 31, 2002

(In thousands)	Nabors (Parent/ Guarantor)	Nabors Delaware (Issuer/Guarantor)	Nabors Holdings (Issuer)	Other Subsidiaries (Non-Guarantors)	Consolidating Adjustments	Consolidated Total
ASSETS						
Current assets:						
Cash and cash equivalents	\$ 40,127	\$ 38	\$ 207	\$ 373,679	\$ -	\$ 414,051
Marketable securities	5,721	-	21	451,858	-	457,600
Accounts receivable, net	-	-	-	320,299	-	320,299
Inventory and supplies	-	-	-	20,524	-	20,524
Other current assets	-	2,607	-	154,827	-	157,434
Total current assets	45,848	2,645	228	1,321,187	-	1,369,908
Marketable securities	19,378	-	-	439,770	-	459,148
Property, plant and equipment, net	-	-	-	2,801,067	-	2,801,067
Goodwill, net	-	-	-	306,762	-	306,762
Intercompany receivables	2,009,672	2,158,524	140	-	(4,168,336)	-
Investments in affiliates	84,887	1,773,633	221,484	2,092,224	(4,113,589)	58,639
Other long-term assets	-	20,150	1,220	46,978	-	68,348
Total assets	\$ 2,159,785	\$ 3,954,952	\$ 223,072	\$ 7,007,988	\$ (8,281,925)	\$ 5,063,872
LIABILITIES AND SHAREHOLDERS' EQUITY						
Current liabilities:						
Current portion of long-term debt	\$ -	\$ 489,126	\$ -	\$ 3,859	\$ -	\$ 492,985
Trade accounts payable	4	23	-	109,136	-	109,163
Accrued liabilities	217	10,168	3,930	119,091	-	133,406
Income taxes payable	892	(189)	-	15,197	-	15,900
Total current liabilities	1,113	499,128	3,930	247,283	-	751,454
Long-term debt	-	1,343,686	223,234	47,736	-	1,614,656
Other long-term liabilities	-	3,763	-	157,990	-	161,753
Deferred income taxes	152	72,258	(1,560)	306,704	-	377,554
Intercompany payable	65	-	-	4,168,271	(4,168,336)	-
Total liabilities	1,330	1,918,835	225,604	4,927,984	(4,168,336)	2,905,417
Shareholders' equity	2,158,455	2,036,117	(2,532)	2,080,004	(4,113,589)	2,158,455
Total liabilities and shareholders' equity	\$ 2,159,785	\$ 3,954,952	\$ 223,072	\$ 7,007,988	\$ (8,281,925)	\$ 5,063,872

CONDENSED CONSOLIDATING STATEMENTS OF INCOME

Year Ended December 31, 2003

(In thousands)	Nabors (Parent/ Guarantor)	Nabors Delaware (Issuer/Guarantor)	Nabors Holdings (Issuer)	Other Subsidiaries (Non-Guarantors)	Consolidating Adjustments	Consolidated Total
Revenues and other income:						
Operating revenues	\$ -	\$ -	\$ -	\$ 1,880,003	\$ -	\$ 1,880,003
Earnings from unconsolidated affiliates	-	-	-	10,183	-	10,183
Earnings from consolidated affiliates	6,314	133,011	15,345	119,736	(274,406)	-
Interest income	1,775	34	11	25,932	-	27,752
Intercompany interest income	207,615	59,276	-	-	(266,891)	-
Other income (expense), net	(3,890)	(1,140)	15	9,923	-	4,908
Total revenues and other income	211,814	191,181	15,371	2,045,777	(541,297)	1,922,846
Costs and other deductions:						
Direct costs	-	-	-	1,276,953	-	1,276,953
General and administrative expenses	3,298	(48)	8	162,145	-	165,403
Depreciation and amortization	-	-	-	226,528	-	226,528
Depletion	-	-	-	8,599	-	8,599
Interest expense	-	58,785	11,448	507	-	70,740
Intercompany interest expense	-	-	-	266,891	(266,891)	-
Total costs and other deductions	3,298	58,737	11,456	1,941,623	(266,891)	1,748,223
Income before income taxes	208,516	132,444	3,915	104,154	(274,406)	174,623
Income tax expense (benefit)	16,288	(210)	1,488	(35,171)	-	(17,605)
Net income	\$ 192,228	\$ 132,654	\$ 2,427	\$ 139,325	\$ (274,406)	\$ 192,228

Year Ended December 31, 2002

(In thousands)	Nabors (Parent/ Guarantor)	Nabors Delaware (Issuer/Guarantor)	Nabors Holdings (Issuer)	Other Subsidiaries (Non-Guarantors)	Consolidating Adjustments	Consolidated Total
Revenues and other income:						
Operating revenues	\$ -	\$ -	\$ -	\$ 1,466,443	\$ -	\$ 1,466,443
Earnings from unconsolidated affiliates	-	-	-	14,775	-	14,775
Earnings from consolidated affiliates	18,159	89,947	-	79,525	(187,631)	-
Interest income	48	49	-	33,989	-	34,086
Intercompany interest income	101,436	54,326	-	-	(155,762)	-
Other income (expense), net	3,469	(6,191)	-	6,430	-	3,708
Total revenues and other income	123,112	138,131	-	1,601,162	(343,393)	1,519,012
Costs and other deductions:						
Direct costs	-	-	-	973,910	-	973,910
General and administrative expenses	579	483	2	140,831	-	141,895
Depreciation and amortization	-	-	-	187,665	-	187,665
Depletion	-	-	-	7,700	-	7,700
Interest expense	-	60,206	4,102	2,760	-	67,068
Intercompany interest expense	-	-	-	155,762	(155,762)	-
Total costs and other deductions	579	60,689	4,104	1,468,628	(155,762)	1,378,238
Income (loss) before income taxes	122,533	77,442	(4,104)	132,534	(187,631)	140,774
Income tax expense (benefit)	1,044	(4,627)	(1,560)	24,428	-	19,285
Net income (loss)	\$ 121,489	\$ 82,069	\$ (2,544)	\$ 108,106	\$ (187,631)	\$ 121,489

Year Ended December 31, 2001

(In thousands)	Nabors (Parent/ Guarantor)	Nabors Delaware (Issuer/Guarantor)	Nabors Holdings (Issuer)	Other Subsidiaries (Non-Guarantors)	Consolidating Adjustments	Consolidated Total
Revenues and other income:						
Operating revenues	\$ -	\$ -	\$ -	\$ 2,201,736	\$ -	\$ 2,201,736
Earnings from unconsolidated affiliates	-	-	-	26,334	-	26,334
Earnings from consolidated affiliates	-	336,851	-	-	(336,851)	-
Interest income	-	53	-	53,920	-	53,973
Intercompany interest income	-	77,211	-	-	(77,211)	-
Other income, net	-	14,301	-	14,349	-	28,650
Total revenues and other income	-	428,416	-	2,296,339	(414,062)	2,310,693
Costs and other deductions:						
Direct costs	-	-	-	1,366,967	-	1,366,967
General and administrative expenses	-	482	-	135,014	-	135,496
Depreciation and amortization	-	-	-	184,119	-	184,119
Depletion	-	-	-	5,777	-	5,777
Interest expense	-	58,386	-	2,336	-	60,722
Intercompany interest expense	-	-	-	77,211	(77,211)	-
Total costs and other deductions	-	58,868	-	1,771,424	(77,211)	1,753,081
Income before income taxes	-	369,548	-	524,915	(336,851)	557,612
Income tax expense	-	12,098	-	188,064	-	200,162
Net income	\$ -	\$ 357,450	\$ -	\$ 336,851	\$ (336,851)	\$ 357,450

CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS

Year Ended December 31, 2003

(In thousands)	Nabors (Parent/ Guarantor)	Nabors Delaware (Issuer/Guarantor)	Nabors Holdings (Issuer)	Other Subsidiaries (Non-Guarantors)	Consolidating Adjustments	Consolidated Total
Net cash provided by (used for) operating activities	\$ 169,665	\$ 641,821	\$ (10,786)	\$ 408,517	\$ (813,386)	\$ 395,831
Cash flows from investing activities:						
Purchases of marketable securities, available-for-sale	(908,529)	-	-	(1,202,798)	681,782	(1,429,545)
Sales of marketable securities, available-for-sale	77,640	-	-	1,997,780	(681,782)	1,393,638
Purchases of non-marketable securities, net	-	-	-	(29,496)	-	(29,496)
Cash paid for investments in consolidated affiliates	-	(700,484)	-	(236)	700,720	-
Capital expenditures	-	-	-	(353,406)	-	(353,406)
Proceeds from sales of assets and insurance claims	-	-	-	10,476	-	10,476
Net cash (used for) provided by investing activities	(830,889)	(700,484)	-	422,320	700,720	(408,333)
Cash flows from financing activities:						
Decrease in cash overdrafts	-	-	-	(778)	-	(778)
Decrease in restricted cash	-	-	-	1,925	-	1,925
Proceeds from long-term debt	-	700,000	-	-	-	700,000
Retirement of intercompany loan	998,675	-	-	(998,675)	-	-
Reduction in long-term debt	-	(494,903)	-	(49,576)	-	(544,479)
Debt issuance costs	-	(11,366)	(159)	-	-	(11,525)
Proceeds from issuance of common shares	26,115	-	-	226	-	26,341
Proceeds from parent contributions	-	-	10,755	689,965	(700,720)	-
Cash dividends paid	-	(135,105)	-	(678,281)	813,386	-
Net cash provided by (used for) financing activities	1,024,790	58,626	10,596	(1,035,194)	112,666	171,484
Effect of exchange rate changes on cash and cash equivalents						
	-	-	-	6,704	-	6,704
Net increase (decrease) in cash and cash equivalents	363,566	(37)	(190)	(197,653)	-	165,686
Cash and cash equivalents, beginning of period	40,127	38	207	373,679	-	414,051
Cash and cash equivalents, end of period	\$ 403,693	\$ 1	\$ 17	\$ 176,026	\$ -	\$ 579,737

Year Ended December 31, 2002

(In thousands)	Nabors (Parent/ Guarantor)	Nabors Delaware (Issuer/Guarantor)	Nabors Holdings (Issuer)	Other Subsidiaries (Non-Guarantors)	Consolidating Adjustments	Consolidated Total
Net cash provided by (used for) operating activities	\$ 78,235	\$ (193,818)	\$ (128)	\$ 597,850	\$ (81,263)	\$ 400,876
Cash flows from investing activities:						
Purchases of marketable securities, available-for-sale	(25,055)	-	(21)	(720,307)	-	(745,383)
Sales of marketable securities, available-for-sale	-	-	-	542,133	-	542,133
Purchases of non-marketable securities	-	-	-	(15,000)	-	(15,000)
Investments in unconsolidated affiliates	(15,089)	-	(221,484)	(24)	236,597	-
Cash paid for acquisitions of businesses, net	-	-	-	(135,652)	-	(135,652)
Capital expenditures	-	-	-	(326,536)	-	(326,536)
Cash paid for other current assets	-	-	-	(8,725)	-	(8,725)
Proceeds from sales of assets and insurance claims	-	-	-	34,877	-	34,877
Net cash used for investing activities	(40,144)	-	(221,505)	(629,234)	236,597	(654,286)
Cash flows from financing activities:						
Decrease in cash overdrafts	-	-	-	(3,658)	-	(3,658)
Decrease in restricted cash	-	-	-	210	-	210
Decrease in short-term borrowings, net	-	-	-	(844)	-	(844)
Proceeds from long-term debt	-	272,765	223,139	-	-	495,904
Reduction of long-term debt	-	(5,047)	-	(25,784)	-	(30,831)
Debt issuance costs	-	(1,634)	(1,311)	-	-	(2,945)
Proceeds from issuance of common shares	4,522	8,328	-	-	-	12,850
Proceeds from parent contributions	-	-	12	236,585	(236,597)	-
Repurchase of common shares	(2,486)	-	-	-	-	(2,486)
Cash Dividends paid	-	(81,263)	-	-	81,263	-
Payments related to cash flow hedges	-	(1,494)	-	-	-	(1,494)
Net cash provided by financing activities	2,036	191,655	221,840	206,509	(155,334)	466,706
Effect of exchange rate changes on cash and cash equivalents	-	-	-	2,312	-	2,312
Net increase (decrease) in cash and cash equivalents	40,127	(2,163)	207	177,437	-	215,608
Cash and cash equivalents, beginning of period	-	2,201	-	196,242	-	198,443
Cash and cash equivalents, end of period	\$ 40,127	\$ 38	\$ 207	\$ 373,679	\$ -	\$ 414,051

Year Ended December 31, 2001

(In thousands)	Nabors (Parent/ Guarantor)	Nabors Delaware (Issuer/Guarantor)	Nabors Holdings (Issuer)	Other Subsidiaries (Non-Guarantors)	Consolidating Adjustments	Consolidated Total
Net cash (used for) provided by operating activities	\$ -	\$ (447,834)	\$ -	\$ 1,151,973	\$ -	\$ 704,139
Cash flows from investing activities:						
Purchases of marketable securities, available-for-sale	-	-	-	(804,067)	-	(804,067)
Sales of marketable securities, available-for-sale	-	-	-	431,498	-	431,498
Cash paid for acquisition of businesses, net	-	-	-	(66,352)	-	(66,352)
Capital expenditures	-	-	-	(712,605)	-	(712,605)
Proceeds from sales of assets and insurance claims	-	-	-	15,067	-	15,067
Net cash used for investing activities	-	-	-	(1,136,459)	-	(1,136,459)
Cash flows from financing activities:						
Increase in cash overdrafts	-	-	-	2,395	-	2,395
Decrease in restricted cash	-	-	-	692	-	692
Proceeds from long-term debt	-	840,338	-	-	-	840,338
Reduction of long-term debt	-	(139,798)	-	(16,203)	-	(156,001)
Debt issuance costs	-	(12,879)	-	-	-	(12,879)
Proceeds from issuance of common shares	-	8,219	-	-	-	8,219
Repurchase of common shares	-	(247,963)	-	-	-	(247,963)
Net cash provided by (used for) financing activities	-	447,917	-	(13,116)	-	434,801
Effect of exchange rate changes on cash and cash equivalents	-	-	-	(1,350)	-	(1,350)
Net increase in cash and cash equivalents	-	83	-	1,048	-	1,131
Cash and cash equivalents, beginning of period	-	2,118	-	195,194	-	197,312
Cash and cash equivalents, end of period	\$ -	\$ 2,201	\$ -	\$ 196,242	\$ -	\$ 198,443

CORPORATE INFORMATION

{Nabors Industries Ltd. and Subsidiaries}

Corporate Address

Nabors Industries Ltd.
2nd Floor International Trading Center
Warrens
P.O. Box 905E
St. Michaels, Barbados
Telephone: (246) 421-9471
Fax: (246) 421-9472

Form 10-K

Copies may be obtained at no charge by writing to our Corporate Secretary at Nabors' corporate office.

Transfer Agent

EquiServe
P.O. Box 43069
Providence, Rhode Island 02940-3069

Investor Relations

Dennis A. Smith
Director of Corporate Development

Independent Auditors

PricewaterhouseCoopers LLP
Houston, Texas

Price of Common Shares

As of December 31, 2003, there were 146,656,432 shares of common shares outstanding held by 2,241 holders of record.

The common shares are listed on the American Stock Exchange under the symbol "NBR." The following table sets forth the reported high and low sales prices of the common shares on the Composite Tape for the calendar quarters indicated.

Calendar Year	Stock Price		
	High	Low	
2001	First quarter	\$ 62.51	\$ 51.00
	Second quarter	60.41	37.20
	Third quarter	36.65	18.66
	Fourth quarter	35.73	20.66
2002	First quarter	42.88	27.05
	Second quarter	48.70	35.30
	Third quarter	36.50	26.52
	Fourth quarter	38.86	30.60
2003	First quarter	42.60	32.20
	Second quarter	45.85	37.65
	Third quarter	40.50	33.87
	Fourth quarter	42.52	35.76