1 Corporate Reorganization

Effective June 24, 2002, Nabors Industries Ltd., a Bermuda-exempt company (Nabors), became the successor to Nabors Industries, Inc., a Delaware corporation (Nabors Delaware), following a corporate reorganization. The reorganization was accomplished through the merger of an indirect, newly formed Delaware subsidiary owned by Nabors, into Nabors Delaware. Nabors Delaware was the surviving company in the merger and became a wholly-owned, indirect subsidiary of Nabors. Upon consummation of the merger, all outstanding shares of Nabors Delaware common stock automatically converted into the right to receive Nabors common shares, with the result that the shareholders of Nabors Delaware on the date of the merger became the shareholders of Nabors. Nabors and its subsidiaries continue to conduct the businesses previously conducted by Nabors Delaware and its subsidiaries. The reorganization was accounted for as a reorganization of entities under common control and accordingly, it did not result in any changes to the consolidated amounts of assets, liabilities and stockholders' equity.

2 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 and Africa. Nabors also is one of the largest land well-servicing and workover contractors in the United States and Canada. We own over 900 land workover and well-servicing rigs in the United States, primarily in the southwestern and western United States, and over 200 land workover and well-servicing rigs in Canada. Nabors is a leading provider of offshore platform workover and drilling rigs, and owns 43 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 have a 50% ownership interest in a joint venture in Saudi Arabia, which owns 18 rigs.

To further supplement and complement our primary business, we offer a wide range of ancillary well-site services, including oilfield management, 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 240 rig and oilfield equipment hauling tractor-trailers and a number of cranes, loaders and light-duty vehicles. We maintain over 290 fluid hauling trucks, approximately 700 fluid storage tanks, eight saltwater disposal wells and other auxiliary equipment used in domestic drilling, workover and well-servicing operations. In addition, we own a fleet of 30 marine transportation and supply vessels, primarily in the Gulf of Mexico, which provide transportation of drilling materials, supplies and crews for offshore operations. 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.

Our businesses depend to a large degree on the level of capital 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.

3 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.

Although Nabors had a majority voting interest (51%) in an Argentine entity prior to January 1, 2001, Nabors' ability to control the entity's operations was restricted by certain substantive participating rights granted to the minority shareholder. These rights included the unanimous approval of operating and capital budgets by the Board of Directors, which included two representatives of the minority shareholder. Additionally, the general manager of the entity was subject to approval by the minority shareholder. Accordingly, we accounted for this entity using the equity method of accounting prior to January 1, 2001, since such participating rights allowed the minority shareholder to effectively participate in decisions made in the ordinary course of business. On January 1, 2001, we acquired the remaining 49% of this Argentine operation, and therefore we have consolidated these operations from that date (Note 4).

Investments in net assets of affiliated entities accounted for using the equity method totaled $58.6 million and $55.1 million as of December 31, 2002 and 2001, 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 (see *Recent Accounting Pronouncements*).

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 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 stockholders' 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.

Inventory and Supplies

Inventory and supplies are composed of replacement parts and supplies held for use in our drilling operations and 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 $19.7 million ($.13 per diluted share) and $5.5 million ($.03 per diluted share) for 2002 and 2001, respectively.

Depreciation on 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 – 15 to 25 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 values of equipment may not be recovered over their remaining service lives. Provisions for asset impairment are charged to income when the sum of estimated future cash flows, on an undiscounted basis, is less than the asset's net book value. Impairment charges are recorded using discounted cash flows which requires the estimation of dayrates and utilization, and such estimates can change based on market conditions, technological advances in the industry or changes in regulations governing the industry. There were no impairment charges related to assets held for use recorded by Nabors in 2002, 2001 and 2000. In 2002 we reclassified four supply vessels to available-for-sale as we intend 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.

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. 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.

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:

	Year Ended December 31,	
(In thousands, except per share amounts)	2001	2000
Reported net income	$ 357,450	$ 137,356
Add back: goodwill amortization, net of related income tax benefit of $2,572 and $2,360, respectively	4,573	3,540
Adjusted net income	$ 362,023	$ 140,896
Earnings per share:		
Basic:		
Reported	$ 2.48	$ .95
Goodwill amortization	.03	.03
Adjusted	$ 2.51	$ .98
Diluted:		
Reported	$ 2.24	$ .90
Goodwill amortization	.02	.02
Adjusted	$ 2.26	$ .92

The change in the carrying amount of goodwill for each of Nabors' reportable segments for the years ended December 31, 2002 and 2001 is as follows:

(In thousands)	Contract Drilling	Manufacturing and Logistics	Total
Balance as of January 1, 2001	$ 154,302	$ 37,879	$ 192,181
Acquisitions	12,909	–	12,909
Purchase price adjustments	(6,461)	7,564	1,103
Amortization	(5,292)	(1,853)	(7,145)
Balance as of December 31, 2001	155,458	43,590	199,048
Acquisitions	107,419	3,217	110,636
Cumulative translation adjustment	(2,922)	–	(2,922)
Balance as of December 31, 2002	$ 259,955	$ 46,807	$ 306,762

Goodwill totaling approximately $4.7 million is expected to be deductible for tax purposes.

Derivative Financial Instruments

We account for derivative financial instruments in accordance with SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," and SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities, an Amendment of FASB Statement No. 133." These statements establish accounting and reporting standards requiring that derivative instruments (including certain derivative instruments embedded in other contracts) be recorded on the balance sheet at fair value as either assets or liabilities. The accounting for changes in the fair value of a derivative instrument depends on the intended use of the derivative and the resulting designation, which is established at the inception of a derivative. Accounting for derivatives qualifying as fair value hedges allows a derivative's gains and losses to offset related results on the hedged item in the statement of income. For derivative instruments designated as cash flow hedges, changes in fair value, to the extent the hedge is effective, are recognized in other comprehensive income until the hedged item is recognized in earnings. Hedge effectiveness is measured quarterly based on the relative cumulative changes in fair value between the derivative contract and the hedged item over time. Any change in fair value resulting from ineffectiveness is recognized immediately in earnings. Any change in fair value of derivative financial instruments that are speculative in nature and do not qualify for hedge accounting treatment is also recognized immediately in earnings.

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 supported accruals on our consolidated balance sheets to cover self-insurance retentions (Note 15).

Revenue Recognition

Revenues and costs on daywork contracts are recognized daily as the work progresses, and revenues and costs applicable to footage and turnkey contracts are recognized when the well is completed (completed contract method). 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 those top drives and instrumentation systems we manufacture for third parties when the earnings process is complete. This generally occurs when products have been shipped or factory acceptance testing on our products has been completed and the products are made available to our customers in accordance with the terms of the agreement, 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.

In accordance with Emerging Issues Task Force (EITF) No. 00-14, we recognize reimbursements received for out-of-pocket expenses incurred as revenues and account for out-of-pocket expenses as direct costs (see discussion in *Recent Accounting Pronouncements* below).

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.

We do not provide U.S. income and foreign withholding taxes on unremitted earnings of our international subsidiaries, as these earnings are considered permanently reinvested. Unremitted earnings totaled approximately $377.2 million and $212.0 million as of December 31, 2002 and 2001, respectively. It is not practicable to estimate the amount of deferred income taxes associated with these unremitted earnings. Deferred taxes have been provided for foreign taxes related to assets which are expected to reside in certain foreign locations long enough to give rise to future tax consequences.

Nabors realizes an income tax benefit associated with certain stock options issued under its stock option plans. This benefit 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 stockholders' equity. For our other international subsidiaries, the U.S. dollar is the functional currency, and therefore local currency transaction gains and losses are included in our results of operations.

Stock-Based Compensation

We account for stock-based compensation using the intrinsic value method prescribed by APB No. 25, "Accounting for Stock Issued to Employees." Accordingly, compensation cost for stock options is measured as the excess, if any, of the quoted market price of Nabors common stock at the date of grant over the amount an employee must pay to acquire the common stock. We grant options at prices equal to the market price of our stock on the date of grant and therefore do not record compensation costs related to these grants. The following table illustrates the effect on net income and earnings per share if we had applied the fair value recognition provisions of SFAS No. 123, "Accounting for Stock-Based Compensation," to our stock-based employee compensation:

	Year Ended December 31,		
(In thousands, except per share amounts)	2002	2001	2000
Net income, as reported	$ 121,489	$ 357,450	$ 137,356
Deduct: Total stock-based employee compensation expense determined under fair value method for all awards, net of related tax effects	(31,047)	(8,350)	(68,956)
Pro forma net income	$ 90,442	$ 349,100	$ 68,400
Earnings per share:			
Basic – as reported	$ .85	$ 2.48	$ .95
Basic – pro forma	$ .63	$ 2.42	$ .47
Diluted – as reported	$ .81	$ 2.24	$ .90
Diluted – pro forma	$ .60	$ 2.19	$ .45

The pro forma amounts above were estimated using the Black-Scholes option-pricing model with the following weighted average assumptions for grants during 2002, 2001 and 2000, respectively: risk-free interest rates of 3.79%, 4.74% and 6.01%; volatility of 48.19%, 50.42% and 42.38%; 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 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. Key estimates used by management include:

· allowance for doubtful accounts;
· depreciation and amortization;
· tax estimates;
· litigation and insurance reserves; and
· fair values of assets acquired and liabilities assumed.

Recent Accounting Pronouncements

SFAS No. 142, "Goodwill and Other Intangible Assets," addresses the accounting for goodwill and other intangible assets after an acquisition. The most significant changes made by SFAS 142 are: (1) goodwill and intangible assets with indefinite lives no longer will be amortized; (2) goodwill and intangible assets with indefinite lives must be tested for impairment at least annually; and (3) the amortization period for those intangible assets with finite lives no longer will be limited to 40 years. We adopted SFAS 142 effective January 1, 2002, and accordingly we no longer record goodwill amortization expense.

We adopted SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," effective January 1, 2002. This statement addresses financial accounting and reporting for the impairment or disposal of long-lived assets. Upon adoption, this new accounting pronouncement had no impact on our reported results of operations or financial position.

We adopted SFAS No. 145, "Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections," effective April 1, 2002. Due to the nature of our business, Financial Accounting Standards Board (FASB) 44, 64 and Amendment of FASB 13 are not applicable. SFAS 145 eliminates SFAS No. 4, "Reporting Gains and Losses from Extinguishment of Debt" and states that gains and losses from the extinguishment of debt should be classified as extraordinary items only if they meet the criteria in APB No. 30, "Reporting the Results of Operations-Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions." APB 30 defines extraordinary items as events and transactions that are distinguished by their unusual nature and by the infrequency of their occurrence. Accordingly, we no longer classify gains and losses from extinguishment of debt that are usual and frequent as extraordinary items, and we reclassified to other income all similar debt extinguishment items that had been reported as extraordinary items in prior accounting periods. In conjunction with adopting SFAS 145 we reclassified, for fiscal years 2002, 2001 and 2000, the following extraordinary (losses) gains to other income with the related income tax component reclassified to income tax expense, respectively: $(.13 million), net of tax benefit of $.08 million; $9.6 million, net of taxes of $5.7 million, and $1.9 million, net of taxes of $1.1 million. These reclassifications had no impact on net income.

In July 2002 the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." This statement will require us to recognize costs associated with exit or disposal activities when they are incurred rather than when we commit to an exit or disposal plan. Examples of costs covered by this guidance include lease termination costs, employee severance costs that are associated with a restructuring, discontinued operations, plant closings or other exit or disposal activities. This statement is effective for fiscal years beginning after December 31, 2002 and will impact any exit or disposal activities initiated after January 1, 2003. This statement does not currently impact Nabors.

We adopted EITF No. 01-14, "Income Statement Characterization of Reimbursements Received for Out-of-Pocket Expenses Incurred," in the second quarter of 2002. Previously, we recognized reimbursements received as a reduction to the related direct costs. EITF 01-14 requires that reimbursements received be included in operating revenues and out-of-pocket expenses be included in direct costs. Accordingly, reimbursements received from our customers have been reclassified to revenues for all periods presented. The effect of adopting EITF 01-14 resulted in the following reclassifications to the annual results for 2001 and 2000: operating revenues and direct costs were increased from previously reported amounts by $70.0 million and $50.3 million, respectively. These reclassifications had no impact on net income.

In November 2002 the 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 a third party. The initial recognition and measurement provisions of FIN 45 should be applied on a prospective basis for guarantees issued or modified after December 31, 2002. The disclosure requirements of FIN 45 are effective for financial statements of both interim and annual periods ending after December 15, 2002. The adoption of the recognition and measurement provisions of FIN 45 is not expected to have a material impact on our consolidated financial position, results of operations or cash flows. The disclosures required by FIN 45 are included in Note 15.

On December 31, 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation — an Amendment of FAS 123." This statement amends FASB Statement No. 123, "Accounting for Stock-Based Compensation," to provide alternative methods of transition for an entity that voluntarily changes to the fair value based method of accounting for stock-based employee compensation. It also amends the disclosure provisions of that statement to require prominent disclosure about the effects on reported net income of an entity's accounting policy decisions with respect to stock-based employee compensation. This statement is effective for financial statements for fiscal years ending after December 15, 2002. SFAS 148 does not change the provisions of SFAS 123 that permit entities to continue to apply the intrinsic value method of APB No. 25, "Accounting for Stock Issued to Employees." However, those companies that continue to account for awards of stock-based employee compensation under the intrinsic value method of APB 25 are required to disclose certain information using a tabular presentation mandated by SFAS 148. At the present time, we plan to continue accounting for stock-based compensation using the intrinsic value method under APB 25 and have presented the disclosures required by SFAS 148 in *Stock-Based Compensation* above.

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. The consolidation requirements of FIN 46 apply immediately to VIEs created after January 31, 2003. For VIEs created at an earlier date, the consolidation requirements apply in the first fiscal year or interim period beginning after June 15, 2003. Certain disclosure requirements apply in all financial statements issued after January 31, 2003, regardless of when the VIE was established. Based on current information, Nabors believes it has no material interests in VIEs that will require disclosure or consolidation under FIN 46.

4 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 has been allocated based on preliminary estimates of the fair market value of assets acquired and liabilities assumed as of the acquisition date and resulted in goodwill of approximately Cdn $5.1 million (U.S. $3.2 million). The purchase price allocation for the Ryan acquisition is subject to adjustment as additional information becomes available and will be finalized by September 30, 2003.

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 Delaware common stock in accordance with the instructions of the holders of those shares. 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 has been 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. $158.7 million (U.S. $101.3 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. $13.1 million (U.S. $8.2 million).

On January 1, 2001, we purchased our partner's 49% interest in our Argentina operation for U.S. $4.5 million and we now own 100% of the operation. The 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 U.S. $4.7 million.

5 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, 2002		
(In thousands)	Fair Value	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses
Cash and cash equivalents	$ 414,051	$ –	$ –
Equity securities:			
Trading	4,260	1,138	–
Available-for-sale	45,574	4,733	(2,844)
Total equity securities	49,834	5,871	(2,844)
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 debt securities	866,914	7,921	–
	$ 1,330,799	$ 13,792	$ (2,844)

	December 31, 2001		
(In thousands)	Fair Value	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses
Cash and cash equivalents	$ 198,443	$ –	$ –
Equity securities:			
Trading	4,826	1,704	–
Available-for-sale	51,727	6,805	(734)
Total equity securities	56,553	8,509	(734)
Debt securities:			
Corporate debt securities	276,097	6,977	–
U.S. Government debt securities	20,263	323	–
Government agencies debt securities	91,727	1,795	–
Foreign government debt securities	15,895	427	–
Mortgage-backed debt securities	1,772	28	–
Mortgage-CMO debt securities	3,620	88	–
Asset-backed debt securities	254,267	4,018	–
Total debt securities	663,641	13,656	–
	$ 918,637	$ 22,165	$ (734)

The estimated fair values of our corporate, U.S. Government, Government agencies, foreign government, mortgage-backed and asset-backed debt securities at December 31, 2002, 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 2002
Debt securities:	
Due in one year or less	$ 407,766
Due after one year through five years	459,148
	$ 866,914

Certain information regarding our equity securities is presented below:

	Year Ended December 31,		
(In thousands)	2002	2001	2000
Equity securities:			
Trading:			
Unrealized holding (losses) gains	$ (565)	$ (674)	$ 2,700
Proceeds	–	–	401
Realized gains, net of taxes	–	–	200
Available-for-sale:			
Proceeds	542,133	431,498	42,500
Realized gains, net of taxes	3,442	200	15,900

6 Property, Plant and Equipment

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

(In thousands)	December 31, 2002	2001
Land	$ 15,203	$ 14,756
Buildings	30,177	25,541
Drilling, workover and well-servicing rigs, and related equipment	3,307,504	2,820,274
Marine transportation and supply vessels	156,212	161,390
Oilfield hauling and mobile equipment	96,540	78,069
Other machinery and equipment	31,319	36,692
	3,636,955	3,136,722
Less: accumulated depreciation and amortization	855,905	703,475
	$ 2,781,050	$ 2,433,247

Repair and maintenance expense included in direct costs in our consolidated statements of income totaled $138.5 million, $223.8 million and $149.6 million for 2002, 2001 and 2000, respectively.

Interest costs of $1.1 million, $1.6 million and $2.0 million were capitalized during 2002, 2001 and 2000, respectively.

Certain of our marine vessels have been leased under a Bareboat Charter arrangement to Sea Mar Management LLC (Note 14). Future minimum payments due to us under this arrangement are as follows:

(In thousands)	
2003	$ 29,537
2004	29,537
2005	29,537
2006	29,537
2007	12,786
Thereafter	–
	$ 130,934

Payments received under this Bareboat Charter arrangement amounted to $18.0 million in 2002.

7 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%). See Note 14 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, 2002	2001
Current assets	$ 104,265	$ 73,037
Long-term assets	122,682	111,854
Current liabilities	63,366	33,142
Long-term liabilities	40,761	40,722

(In thousands)	Year Ended December 31, 2002	2001	2000
Gross revenues	$ 334,000	$ 285,505	$ 292,472
Gross margin	52,861	73,532	82,273
Net income	29,400	51,421	53,272
Nabors' Earnings from unconsolidated affiliates	14,775	26,334	26,283

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 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.

We have an operation in Argentina that is not significant to our overall profitability. Our Argentina operation contributed approximately 1% of our revenues and adjusted income derived from operating activities in 2002. As a result of the financial crisis in Argentina, the Argentine government allowed their currency, the peso, to float beginning in January 2002. The peso, which had been pegged to the U.S. dollar for several years, has devalued approximately 68%. Changes in the valuation of the peso in 2002 resulted in a translation gain of approximately $1.1 million, recorded to accumulated other comprehensive income in our consolidated balance sheet.

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 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 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 Security Price Risk

Our financial instruments that are potentially sensitive to changes in interest rates include our $825 million and $1.381 billion zero coupon convertible senior debentures, our 6.8%, 4.875% and 5.375% senior notes, our 8.625% senior subordinated notes, our interest rate swap and range cap and floor transactions, and our investments in debt securities, including corporate, asset-backed, U.S. Government, Government agencies, foreign government and mortgage-backed debt 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.

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. The purpose of this transaction was to convert future interest due on $200 million of the senior notes to a lower variable rate in an attempt to realize savings on our future interest payments. We have designated this swap agreement as a fair value hedge. The swap agreement has a notional amount of $200 million and matures in August 2012 to match the maturity of the senior notes. Under the agreement, we pay on a quarterly basis a floating rate based on a three-month U.S. dollar LIBOR rate, plus a spread of 62.625 basis points, and receive a fixed rate of interest of 5.375% semi-annually. During 2002 we recorded interest savings related to this interest rate swap of $1.2 million which served to reduce interest expense. The change in cumulative fair value of this derivative instrument resulted in the recording of a derivative asset, included in other long-term assets, of $10.1 million as of December 31, 2002. The carrying value of our 5.375% senior notes was increased by the same amount.

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 which we had executed the interest rate swap. This transaction is intended to mitigate and manage our exposure to changes in the three-month U.S. dollar LIBOR rate and does not qualify for hedge accounting treatment under SFAS 133. Any change in the cumulative fair value of the range cap and the floor will be reflected as a gain or loss in our consolidated statement of income. The range cap and the floor are effective August 15, 2003 and expire on August 15, 2012. The range cap will be triggered when the three-month U.S. dollar LIBOR rate is at or above 4.50%, and below 6.50%, such that the counterparty will pay us any difference between the actual LIBOR rate and the 4.50% strike rate on a notional amount of $200 million. No payment will be due to us if the three-month U.S. dollar LIBOR rate is below 4.5% or at or above 6.50%. The floor is triggered when the three-month U.S. dollar LIBOR rate is at or below 2.665% such that we will pay the counterparty any difference between the actual LIBOR rate and the 2.665% floor rate on a notional amount of $200 million. We recorded a loss of $3.8 million during 2002 related to the change in cumulative fair value of this derivative instrument. This loss is included in other income in our consolidated statement of income for the year ended December 31, 2002 and has been accrued in other long-term liabilities on our consolidated balance sheet as of December 31, 2002.

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 10 below.

On March 26, 2002, in anticipation of closing the Enserco acquisition discussed in Note 4, 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. 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 fixed rate long-term debt is estimated based on quoted market prices or price quotes from third-party financial institutions. The carrying and fair values of our long-term debt, including the current portion, are as follows:

	December 31,			
(In thousands)	2002		2001	
	Carrying Value	Fair Value	Carrying Value	Fair Value
4.875% senior notes due August 2009	$ 223,234	$ 231,854	$ –	$ –
5.375% senior notes due August 2012	282,901[1]	293,478[1]	–	–
$825 million zero coupon convertible senior debentures due June 2020	489,126	494,081	477,132	474,669
$1.381 billion zero coupon convertible senior debentures due February 2021	765,549	756,733	746,783	668,151
6.8% senior notes due April 2004	295,237	310,068	300,000	315,150
Other long-term debt	9,101	9,101	4,046	4,046
8.625% senior subordinated notes due April 2008	42,493	43,930	42,165	45,391
	$ 2,107,641	$ 2,139,245	$ 1,570,126	$ 1,507,407

(1) Includes $10.1 million 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 debt and equity securities that exposes us to price risk. The marketable securities are carried at fair market value and include $4.3 million in securities classified as trading and $912.5 million in securities classified as available-for-sale as of December 31, 2002.

9 Short-term Borrowings and Credit Facilities

We have two letter of credit facilities and a Canadian line of credit facility with various banks as of December 31, 2002. Additionally, we also have letters of credit outstanding under an expired $30 million letter of credit facility.

We did not have any short-term borrowings outstanding at December 31, 2002 and 2001. Availability and borrowings under our credit facilities are as follows:

	December 31,	
(In thousands)	2002	2001
Credit available	$ 79,745	$ 259,813
Letters of credit outstanding	(56,267)	(34,315)
Remaining availability	$ 23,478	$ 225,498

We had a $200 million unsecured committed revolving credit facility with a syndicate of banks, with an original term of five years, that was scheduled to mature on September 5, 2002. As a result of the corporate reorganization, discussed in Note 1, we may have failed to comply with a covenant contained in the credit facility agreement and a related $30 million letter of credit facility agreement. At the time of the potential default, there were no outstanding borrowings on the credit facility and $23 million outstanding on the related letter of credit facility. The bank provided a waiver on the letter of credit facility and the letter of credit facility has since expired. Because we had cash and marketable securities balances totaling approximately $800 million at the time of the potential default, and because the credit facility was scheduled to mature on September 5, 2002, we terminated the revolving credit facility.

10 Long-term Debt

Long-term debt consists of the following:

	December 31,	
(In thousands)	2002	2001
4.875% senior notes due August 2009	$ 223,234	$ –
5.375% senior notes due August 2012	282,901[1]	–
$825 million zero coupon convertible senior debentures due June 2020	489,126	477,132
$1.381 billion zero coupon convertible senior debentures due February 2021	765,549	746,783
6.8% senior notes due April 2004	295,237	300,000
Other long-term debt	9,101	4,046
8.625% senior subordinated notes due April 2008	42,493	42,165
	2,107,641	1,570,126
Less: current portion	492,985	2,510
	$ 1,614,656	$ 1,567,616

(1) Includes $10.1 million related to the fair value of the interest rate swap executed on October 21, 2002 (Note 8).

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 1, 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 unsubordinated 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. On October 28, 2002, Nabors' registration statements with respect to resales of these senior notes became effective.

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.

During June 2000 we completed a private placement of zero coupon convertible senior debentures due 2020. The original aggregate principal amount of the debentures at maturity totaled $825 million. The debentures were issued at a discount with net proceeds to Nabors, after expenses, totaling approximately $495.0 million.

Our $825 million debentures can be put to us on June 20, 2003, June 20, 2008 and June 20, 2013 and 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 dates of repurchase. Based on the ability of the debenture holders to exercise their put option on June 20, 2003, the outstanding principal amount on the $825 million debentures of $489.1 million is classified in current liabilities in our consolidated balance sheet as of December 31, 2002.

The original issue price of both issues of 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 $825 million and $1.381 billion debentures can be converted, at any time prior to maturity or their earlier redemption, into Nabors common stock, at conversion rates of 10.738 shares and 7.0745 shares, respectively, per $1,000 principal amount at maturity. The conversion rates are subject to adjustment under formulae as set forth in the indentures (the agreements governing the terms of the debt) in certain events, including: (1) the issuance of Nabors common stock as a dividend or distribution on the common stock; (2) certain subdivisions and combinations of the common stock; (3) the issuance to all holders of common stock of certain rights or warrants to purchase common stock; (4) the distribution of capital stock, other than Nabors common stock to Nabors' stockholders, or evidences of Nabors' indebtedness or of assets; and (5) distribution consisting of cash, excluding any quarterly cash dividend on the common stock to the extent that the aggregate cash dividend per share of common stock in any quarter does not exceed certain amounts. Instead of delivering shares of common stock 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 stock instead of cash, depending upon our cash balances and cash requirements at that time. We do not presently anticipate using stock to satisfy any such future purchase obligations. In accordance with the indentures with respect to the debt securities, we cannot redeem the $825 million and $1.381 billion debentures before June 20, 2003 and February 5, 2006, respectively, 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 debentures 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.

During December 2000 we purchased $25.0 million of our 6.8% senior notes in the open market at 99.85%. Upon settlement of this transaction, we recognized an insignificant gain resulting from the repurchases of these notes at prices lower than their carrying value.

Prior to its acquisition by Nabors in November 1999, Pool Energy Services Co. had issued 8.625% senior subordinated notes in the aggregate principal amount of $150.0 million. As a result of the Pool acquisition, Nabors Holding Company, the successor by merger to Pool, completed a mandatory change of control cash tender offer to purchase the notes due 2008 at a redemption price of 101% in February 2000. When we made the change of control offer, we also solicited the consent of the remaining holders of the notes to amend the terms of the indenture governing the notes to generally conform to the covenants contained in Nabors' 6.8% senior notes and to add Nabors as a guarantor of the obligations thereunder. Holders of over 75% of the principal amount of the notes consented, the amendments were adopted and the full and unconditional guarantee was entered into as of February 14, 2000. In addition, during 2000 Nabors Holding Company purchased additional notes in the open market at prices ranging from 100.5% to 102.0%. During 2000, a total of $107.8 million of the notes were acquired as a result of these transactions, leaving $42.5 million outstanding as of December 31, 2002. Upon settlement of these transactions, we recognized a $3.0 million pretax gain, resulting from repurchases of these notes at prices lower than their carrying value. Subsequent to December 31, 2002, we issued a Notice of Redemption to the holders of these notes for a redemption of the notes and all associated guarantees on April 1, 2003 (see Note 21).

As of December 31, 2002, the maturities of our long-term debt for each of the five years after 2002 and thereafter are as follows:

	Assuming Zero Coupon Convertible Debentures are	
(In thousands)	Paid at Maturity	Paid at First Put Date
2003	$ 3,801	$ 498,701[1]
2004	300,575	300,375
2005	–	–
2006	–	826,800[2]
2007	–	–
Thereafter	2,496,765[3]	541,565
	$ 2,801,141	$ 2,167,441

[1] Includes $494.9 million related to our $825 million zero coupon convertible senior debentures which can be put to us on June 20, 2003.

[2] Represents our $1.381 billion zero coupon convertible senior debentures which can be put to us on February 5, 2006.

[3] Includes $41.6 million of our 8.625% senior subordinated notes due 2008, $755 million and $1.2 billion of our zero coupon convertible senior debentures due 2020 and 2021, respectively, and $225 million and $275 million of our senior notes due 2009 and 2012, respectively.

11 Income Taxes

Income before income taxes was comprised of the following:

	Year Ended December 31,		
(In thousands)	2002	2001	2000
United States	$ (28,157)	$ 461,042	$ 175,527
Foreign	168,931	96,570	54,216
Income before income taxes	$ 140,774	$ 557,612	$ 229,743

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 expense consisted of the following:

	Year Ended December 31,		
(In thousands)	2002	2001	2000
Current:			
U.S. federal	$ 4,458	$ 60,783	$ 1,176
Foreign	5,113	17,078	17,574
State	614	5,857	844
	10,185	83,718	19,594
Deferred:			
U.S. federal	4,669	114,465	69,427
Foreign	2,274	(1,091)	1,013
State	2,157	3,070	2,353
	9,100	116,444	72,793
Income tax expense	$ 19,285	$ 200,162	$ 92,387

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:

	Year Ended December 31,		
(In thousands)	2002	2001	2000
Income tax provision at statutory rate (Bermuda rate of 0% in 2002 and U.S. rate of 35% in 2001 and 2000)	$ –	$ 195,164	$ 80,410
Taxes on U.S. and foreign earnings at greater than the Bermuda rate	10,944	–	–
Increase in valuation allowance	6,540	–	–
Taxes on foreign earnings at (less) greater than the U.S. rate and other	–	(805)	9,899
State income taxes	1,801	5,803	2,078
Income tax expense	$ 19,285	$ 200,162	$ 92,387
Effective tax rate	14%	36%	40%

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

	December 31,	
(In thousands)	2002	2001
Deferred tax assets:		
Net operating loss carryforwards	$ 116,664	$ 45,039
Tax credit carryforwards	22,871	18,952
Accrued expenses not currently deductible and other	35,496	71,152
Less: valuation allowance	(6,540)	–
Deferred tax assets, net of valuation allowance	168,491	135,143
Deferred tax liabilities:		
Depreciation for tax in excess of book expense	(534,383)	(385,111)
Unrealized gain on marketable securities	(3,316)	(7,288)
Total deferred tax liabilities	(537,699)	(392,399)
Net deferred tax liabilities	(369,208)	(257,256)
Less: net current asset portion	32,846	28,145
Net long-term deferred tax liability	$ (402,054)	$ (285,401)

In conjunction with the 2002 acquisitions of Enserco and Ryan, and the 2001 acquisition of Command, deferred tax liabilities of $52.8 million, $4.2 million and $20.2 million, respectively, were recorded in the year of acquisition.

For U.S. federal income tax purposes, we have net operating loss carryforwards of approximately $249.5 million that, if not utilized, will expire from 2003 to 2023. The net operating loss carryforwards for alternative minimum tax purposes are approximately $145.6 million. There are alternative minimum tax credit carryforwards of $22.8 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
2003	$ 11,308	$ 6,289	$ 5,019
2004	5,144	–	5,144
2005	1,295	–	1,295
2006	7,807	–	7,807
2007	3,438	–	3,438
2009	779	779	–
2010 and thereafter	242,460	242,460	–
Total	$ 272,231	$ 249,528	$ 22,703

In addition, we have approximately $9.2 million of non-expiring net operating loss carryforwards in various other foreign jurisdictions.

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.

12 Capital Stock and Stock Options

Capital Stock

In conjunction with our October 2002 acquisition of Ryan and our April 2002 acquisition of Enserco (Note 4), 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.

Subsequent to these acquisitions, 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.

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.

As a result of the corporate reorganization (Note 1), 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 144,964,668 at $.001 par value at December 31, 2002 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 on 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 the third quarter of 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.

As of December 31, 2002, there were warrants outstanding to purchase 318,850 shares of Nabors common stock at prices ranging from $6.08 per share to $30.00 per share. The remaining warrants expire April 30, 2003 and November 12, 2003.

Stock Option Plans

As of December 31, 2002, we have several stock option plans under which options to purchase shares of Nabors common stock 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 stock on the date of the grant. Options granted under the plans generally are exercisable in varying cumulative periodic installments after one year. In the case of certain key executives, options granted under the plans are subject to accelerated vesting related to targeted common stock 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 5.0 million and 6.9 million shares of Nabors common stock remained available for grant as of December 31, 2002 and 2001, respectively.

A summary of stock option transactions is as follows:

(In thousands, except exercise price)	Shares	Weighted Average Exercise Price
Options outstanding as of December 31, 1999	22,678	$ 14.13
Granted	6,199	45.63
Exercised	(9,664)	11.54
Forfeited	(142)	18.45
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

Of the options outstanding, 20.6 million, 17.2 million and 16.8 million were exercisable at weighted average exercise prices of $27.13, $26.46 and $26.28, as of December 31, 2002, 2001 and 2000, respectively.

A summary of stock options outstanding as of December 31, 2002 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:			
$ 4.77 – 7.16	100	0.8	$ 5.20
7.87 – 11.81	512	5.8	11.31
12.20 – 18.30	7,393	4.8	12.57
18.94 – 28.41	8,457	8.2	26.17
28.44 – 42.66	561	8.3	35.32
42.94 – 67.26	6,646	5.8	47.28
	23,669	6.4	$ 27.66

A summary of stock options exercisable as of December 31, 2002 is as follows:

	Options Exercisable	
(In thousands, except exercise price)	Number Exercisable	Weighted Average Exercise Price
Range of exercise prices:		
$ 4.77 – 7.16	100	$ 5.20
7.87 – 11.81	311	11.19
12.20 – 18.30	7,339	12.55
18.94 – 28.41	6,497	25.98
28.44 – 42.66	262	37.22
42.94 – 67.26	6,084	46.67
	20,593	$ 27.13

The weighted average fair value of options granted during 2002, 2001 and 2000 was $10.69, $22.22 and $17.37, respectively.

13 Pension, Postretirement and Postemployment Benefits

Pension Plans

In conjunction with the November 1999 Pool acquisition, Nabors 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 (In thousands)	Year Ended December 31, 2002	2001
Change in benefit obligation:		
Benefit obligation at beginning of year	$ 13,542	$ 13,395
Interest cost	868	844
Actuarial loss	(27)	(129)
Benefit payments	(752)	(568)
Benefit obligation at end of year	13,631	13,542
Change in plan assets:		
Fair value of plan assets at beginning of year	10,596	11,655
Actual return on plan assets	(1,009)	(491)
Benefit payments	(752)	(568)
Fair value of plan assets at end of year	8,835	10,596
Funded status:		
Funded status at end of year	(4,796)	(2,946)
Unrecognized net actuarial loss	3,549	1,935
Net liability recognized	$ (1,247)	$ (1,011)
Amounts recognized in consolidated balance sheets:		
Accrued benefit liability	3,500	–
Accumulated other comprehensive income	2,205	–
Weighted average assumptions:		
Weighted average discount rate	6.50%	6.50%
Expected long-term rate of return on plan assets	6.50%	6.50%
Components of net periodic benefit cost:		
Interest cost	$ 868	$ 844
Expected return on plan assets	(677)	(739)
Recognized net actuarial loss	45	–
Net periodic benefit cost	$ 236	$ 105

Certain of Nabors' employees are covered by defined contribution plans. Our contributions to the plans are based on employee contributions and totaled $9.0 million, $11.0 million and $7.9 million for 2002, 2001 and 2000, respectively. Nabors does not provide postemployment benefits to its employees.

Postretirement Benefits Other Than Pensions

Prior to the date of the 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 $.8 million is recorded on our balance sheet at December 31, 2002 to cover the estimated costs of beneficiaries covered by the plan at the date of acquisition.

14 Related Party Transactions

Pursuant to his employment agreement, we provided an unsecured, non-interest bearing loan of approximately $2.9 million to Nabors' 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, President and Chief Operating Officer, its former Vice Chairman 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 values 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 sheet. We have made premium payments to date totaling $12.8 million related to these policies. The cash surrender value of these policies of approximately $8.7 million is included in other long-term assets in our consolidated balance sheet as of December 31, 2002.

Under the recently enacted Sarbanes-Oxley Act of 2002, the future payment of premiums by Nabors under these agreements may be deemed to be prohibited loans by us to these individuals. We have paid no premiums related to these agreements since the adoption of the

Sarbanes-Oxley Act, and have postponed premium payments related to these agreements pending clarification of the Act's application to these insurance agreements.

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 $65.7 million, $26.9 million and $27.6 million in 2002, 2001 and 2000, respectively. Expenses from these business transactions totaled $32.1 million, $4.8 million and $4.9 million in 2002, 2001 and 2000, respectively. Additionally, we had amounts receivable from these affiliated entities of $53.3 million and $24.4 million as of December 31, 2002 and 2001, respectively. We had accounts payable to these affiliated entities of $1.1 million and $3.3 million as of December 31, 2002 and 2001, respectively.

15 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, 2002, are as follows:

(In thousands)	
2003	$ 16,632
2004	13,346
2005	7,699
2006	1,663
2007	771
Thereafter	2,174
	$ 42,285

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 $21.8 million, $20.3 million and $15.2 million for 2002, 2001 and 2000, respectively.

In addition, we have an obligation under the time charter agreement with Sea Mar Management. The minimum commitments under this agreement subsequent to December 31, 2002 are as follows:

(In thousands)	
2003	$ 26,863
2004	26,863
2005	26,863
2006	26,863
2007	11,628
	$ 119,080

Payments under this time charter agreement amounted to $16.5 million in 2002.

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, 2002 are as follows:

(In thousands)	
2003	$ 2,413
2004	1,815
2005	1,725
2006	1,575
2007	1,181
	$ 8,709

Capital Expenditures

As of December 31, 2002, we had outstanding capital expenditure purchase commitments of approximately $42.8 million, primarily for rig-related enhancing and sustaining capital expenditures.

Contingencies

Self-Insurance Accruals We are self-insured for certain losses relating to workers' compensation, employers' liability, general liability, automobile liability and property damage. Effective for the period from April 1, 2002 to March 31, 2003, our exposure (that is, our deductible) per occurrence is $1.0 million for workers' compensation and employers' liability, $2.0 million for 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 supported accruals in our consolidated balance sheet 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, 2002, our per occurrence self-insured retentions are $10.0 million for rig physical damage and business interruption. However, our rigs, equipment and property in Canada and Saudi Arabia are subject to $1.0 million self-insurance retentions. We have purchased stop-loss coverage in order to limit our aggregate exposure to certain physical damage claims for insured rigs (that is, those rigs with replacement values in excess of $10.0 million). The effect of this coverage is that our maximum physical damage loss on insured rigs would be $20.0 million plus $1.0 million per occurrence.

Political risk, war and terrorism insurance is procured for our operations in Mexico, the Caribbean, South America, Africa, the Middle East and Asia. Through December 31, 2002, political and war risk losses were subject to $10.0 million per occurrence deductibles while terrorism was subject to a $1.0 million per occurrence deductible. On January 1, 2003, we purchased additional insurance to reduce these self-insurance retentions to $0.25 million per occurrence, except for Colombia which remains at $10.0 million and $1.0 million for political risk and terrorism, respectively.

As of December 31, 2002 and 2001, our self-insurance accruals totaled $117.3 million and $104.2 million, respectively, and our related insurance recoveries/receivables were $47.6 million and $27.9 million, respectively.

Litigation On May 23, 2002, Steve Rosenberg, an individual shareholder of Nabors, filed a complaint against Nabors and its directors in the United States District Court for the Southern District of Texas (Civil Action No. 02-1942), alleging that Nabors' May 10, 2002 proxy statement/prospectus contained certain material misstatements and omissions in violation of federal securities laws and state law. Nabors' May 10, 2002 proxy statement/prospectus was sent to shareholders in connection with the special meeting to consider and vote on Nabors' proposed reorganization and effective reorganization in Bermuda. The AFL-CIO moved to intervene in Civil Action No. 02-1942 and filed a complaint containing similar allegations. On June 5, 2002, Marilyn Irey, an individual shareholder of Nabors, filed a complaint in the United States District Court for the Southern District of Texas (Civil Action No. 02-2108) that is nearly identical to Steve Rosenberg's complaint. The three shareholders requested that the Court either enjoin the closing of the shareholder vote on the scheduled date or the effectuation of the reorganization. In addition, two of the shareholders (Steve Rosenberg and Marilyn Irey) purported to bring a class action on behalf of all shareholders, alleging that Nabors and its directors violated their state law fiduciary duties by making these alleged misstatements and omissions. These two shareholders, on behalf of their purported class, seek monetary damages for their state law claims. Since the beginning of the litigation, two of the shareholders (Steve Rosenberg and the AFL-CIO) have amended their complaints, but have not added any substantive allegations.

On June 13, 2002, the Court granted the AFL-CIO's motion to intervene. On June 15, 2002, the Court denied a motion for temporary restraining order brought by two of the shareholders (Steve Rosenberg and the AFL-CIO) in their attempts to prevent the closing of Nabors' reorganization and its effective reorganization in Bermuda. On July 2, 2002, the Court granted an agreed motion to consolidate Civil Action No. 02-2108 into Civil Action No. 02-1942. Nabors and its directors moved to dismiss the lawsuits of all three shareholders. Subsequent to December 31, 2002, the Court granted the motion and dismissed all claims with prejudice (Note 21).

Nabors and its subsidiaries are defendants or otherwise involved in a number of other 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 act 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.

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. We are not able to estimate the potential future maximum payments that might be due under our indemnification guarantees. The following table summarizes the total maximum amount of financial and performance guarantees issued by Nabors:

	Maximum Amount				
(In thousands)	2003	2004	2005	Thereafter	Total
Financial standby letters of credit	$ 34,436	$ –	$ –	$ –	$ 34,436
Guarantee of residual value in lease agreements	542	418	694	–	1,654
Contingent consideration in acquisition	769	769	769	193	2,500
Total	$ 35,747	$ 1,187	$ 1,463	$ 193	$ 38,590

16 Earnings Per Share

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

	Year Ended December 31,		
(In thousands, except per share amounts)	2002	2001	2000
Net income (numerator):			
Net income – basic	$ 121,489	$ 357,450	$ 137,356
Add interest expense on assumed conversion of our zero coupon convertible senior debentures, net of tax:			
$825 million due 2020[(1)]	–	8,060	–
$1.381 billion due 2021[(2)]	–	11,995	–
Adjusted net income – diluted	$ 121,489	$ 377,505	$ 137,356
Earnings per share:			
Basic	$ .85	$ 2.48	$ .95
Diluted	$ .81	$ 2.24	$ .90
Shares (denominator):			
Weighted average number of shares outstanding – basic[(3)]	143,655	144,430	144,344
Net effect of dilutive stock options and warrants based on the treasury stock method	6,342	6,697	8,073
Assumed conversion of our zero coupon convertible senior debentures:			
$825 million due 2020[(1)]	–	8,852	–
$1.381 billion due 2021[(2)]	–	8,811	–
Weighted average number of shares outstanding – diluted	149,997	168,790	152,417

(1) Diluted earnings per share for 2002 and 2000 excludes 8,107,190 and 4,453,630 potentially dilutive shares issuable upon conversion of the $825 million zero coupon convertible senior debentures, respectively, because the inclusion of such shares would have been anti-dilutive, given the level of net income for those years. Net income for these years also excludes the related add back of interest expense for these debentures.

(2) Diluted earnings per share for 2002 excludes 8,490,815 potentially dilutive shares issuable upon conversion of the $1.381 billion zero coupon convertible senior debentures, because inclusion of such shares would have been anti-dilutive, given the level of net income for 2002. Net income for this year also excludes the related add back of interest expense for these debentures.

(3) Includes the weighted average number of common shares of Nabors and the weighted average number of exchangeable shares of Nabors Exchangeco.

For all periods presented, the computations of diluted earnings per share excludes outstanding stock options and warrants with exercise prices greater than the average market price of the Nabors' common stock, 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 could potentially dilute earnings per share in the future were 890,959 shares in 2002, 919,478 shares in 2001 and 73,250 shares in 2000.

As discussed in Note 10, holders of the $825 million and $1.381 billion zero coupon convertible senior debentures have the right to require Nabors to repurchase the debentures at various dates commencing June 20, 2003 and February 5, 2006, respectively. Nabors may pay the redemption price with either cash or stock or a combination thereof. We do not presently anticipate using stock to satisfy any such future purchase obligation.

17 Supplemental Balance Sheet, Income Statement and Cash Flow Information

Accounts receivable is net of an allowance for doubtful accounts of $13.8 million and $22.4 million as of December 31, 2002 and 2001, respectively.

Accrued liabilities include the following:

	December 31,	
(In thousands)	2002	2001
Accrued compensation	$ 40,761	$ 49,287
Deferred revenue	33,157	42,157
Workers' compensation liabilities	16,926	17,650
Interest payable	16,431	6,911
Other accrued liabilities	26,131	52,017
	$ 133,406	$ 168,022

Other income includes the following:

	Year Ended December 31,		
(In thousands)	2002	2001	2000
Gains on marketable securities and warrants	$ 2,877	$ 989	$ 18,800
Gains on long-term assets, net	4,570	10,246	1,713
Foreign currency transaction gains	486	419	1,441
(Loss) gain on extinguishment of debt	(202)	15,330	3,036
Corporate reorganization expense	(3,769)	–	–
Loss on derivative instruments	(1,983)	–	–
Other	1,729	1,666	2,167
	$ 3,708	$ 28,650	$ 27,157

Supplemental cash flow information for 2002, 2001 and 2000 is as follows:

	Year Ended December 31,		
(In thousands)	2002	2001	2000
Cash paid for income taxes	$ 22,831	$ 82,831	$ 10,619
Cash paid for interest, net of capitalized interest	22,653	24,614	32,796
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	$ –

18 Unaudited Quarterly Financial Information

(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[1]	$ 386,837	$ 356,518	$ 355,078	$ 382,785
Gross margin[2]	131,766	113,957	119,256	127,554
Net income	41,942	25,420	26,922	27,205
Earnings per share:[3]				
Basic	$ .30	$ .18	$ .19	$ .19
Diluted	$ .28	$ .17	$ .18	$ .18

(In thousands, except per share amounts)	Year Ended December 31, 2001			
	Quarter Ended			
	March 31,	June 30,	September 30,	December 31,
Operating revenues and Earnings from unconsolidated affiliates[4]	$ 541,167	$ 611,480	$ 622,417	$ 453,006
Gross margin[2]	192,806	237,743	248,083	156,137
Net income	83,138	104,015	108,241	62,056
Earnings per share:[3]				
Basic	$ .57	$ .71	$ .75	$ .44
Diluted	$ .51	$ .63	$ .68	$ .41

[1] 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.

[2] Gross margin represents Operating revenues minus direct costs.

[3] Earnings per share are 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.

[4] Includes Earnings from unconsolidated affiliates, accounted for by the equity method, of $8.0 million, $7.7 million, $6.1 million and $4.5 million, respectively.

19 Segment Information

As of December 31, 2002, Nabors' 12 business units have been aggregated into two reportable segments, specifically (1) contract drilling, including drilling, workover and well-servicing, and (2) manufacturing and logistics, based on the nature of the services provided, the class of customers, the methods used to provide services and other economic characteristics. The contract drilling segment consists of our Alaska, U.S. Lower 48, U.S. Land well-servicing, U.S. Offshore, Canada and International operations. These units include our drilling, workover and well-servicing operations, on land and offshore. The manufacturing and logistics segment consists of our Canrig, Epoch, Peak Oilfield Service Company, Peak USA, Ryan and Sea Mar operating units. These units manufacture top drives, manufacture drilling instrumentation systems, provide construction and logistics services, provide trucking and logistics services, manufacture and sell directional drilling and rig instrumentation systems, provide directional drilling, rig instrumentation and data collection services, and provide marine transportation and supply services, respectively.

The accounting policies of the segments are the same as those described in the Summary of Significant Accounting Policies (Note 3). Inter-segment sales are recorded at cost or cost plus a profit margin. Nabors evaluates the performance of its segments based on adjusted income derived from operating activities.

The following table sets forth financial information with respect to our reportable segments:

(In thousands)	Year Ended December 31, 2002	2001	2000
Reportable segments:			
Operating revenues and Earnings from unconsolidated affiliates:			
Contract drilling[1]	$ 1,360,223	$ 2,087,040	$ 1,316,153
Manufacturing and logistics[2]	174,775	259,298	176,775
Other[3]	(53,780)	(118,268)	(77,985)
Total revenues	$ 1,481,218	$ 2,228,070	$ 1,414,943
Depreciation and amortization:			
Contract drilling	$ 179,043	$ 173,922	$ 138,772
Manufacturing and logistics	18,045	17,923	14,904
Other[4]	(1,723)	(1,949)	(1,263)
Total depreciation and amortization	$ 195,365	$ 189,896	$ 152,413
Adjusted income derived from operating activities:[5]			
Contract drilling[1]	$ 182,853	$ 500,555	$ 203,950
Manufacturing and logistics[2]	24,660	87,849	48,522
Other[4]	(37,465)	(52,693)	(35,097)
Total adjusted income derived from operating activities	$ 170,048	$ 535,711	$ 217,375
Interest expense	(67,068)	(60,722)	(35,370)
Interest income	34,086	53,973	20,581
Other income, net	3,708	28,650	27,157
Income before income taxes	$ 140,774	$ 557,612	$ 229,743
Total assets:			
Contract drilling[6]	$ 3,266,292	$ 2,872,534	
Manufacturing and logistics[7]	343,365	311,629	
Other[4]	1,454,215	967,752	
Total assets	$ 5,063,872	$ 4,151,915	
Capital expenditures and acquisition of businesses:			
Contract drilling	$ 554,897	$ 764,869	$ 234,368
Manufacturing and logistics	28,859	26,885	70,348
Other[4]	(1,197)	(6,829)	(4,079)
Total capital expenditures	$ 582,559	$ 784,925	$ 300,637

(1) Includes Earnings from unconsolidated affiliates, accounted for by the equity method, of $3.9 million, $9.0 million and $6.8 million for 2002, 2001 and 2000, respectively.

(2) Includes Earnings from unconsolidated affiliates, accounted for by the equity method, of $10.9 million, $17.3 million and $19.5 million for 2002, 2001 and 2000, respectively.

(3) Includes the elimination of inter-segment manufacturing and logistics sales.

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

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

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

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

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

	Year Ended December 31,		
(In thousands)	2002	2001	2000
Operating revenues and Earnings from unconsolidated affiliates:			
United States	$ 1,012,503	$ 1,859,356	$ 1,115,899
Foreign	468,715	368,714	299,044
	$ 1,481,218	$ 2,228,070	$ 1,414,943
Property, plant and equipment, net:			
United States	$ 1,739,182	$ 1,816,409	
Foreign	1,041,868	616,838	
	$ 2,781,050	$ 2,433,247	
Goodwill, net:			
United States	$ 165,609	$ 165,694	
Foreign	141,153	33,354	
	$ 306,762	$ 199,048	

20 Condensed Consolidating Financial Information

In connection with the corporate reorganization as discussed in Note 1, Nabors fully and unconditionally guaranteed all of the issued public debt securities of Nabors Delaware at the effective time of the merger. As discussed in Note 10, Nabors also fully and unconditionally guaranteed the senior notes issued by Nabors Delaware, and Nabors and Nabors Delaware fully and unconditionally guaranteed the senior notes issued by Nabors Holdings in August 2002.

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 Nabors' and Nabors Delaware's investments in their subsidiaries using the equity method of accounting. Nabors and Nabors Holdings were formed on December 11, 2001 and December 28, 2001, respectively, and as such are not presented for the periods ending prior to those dates.

The following condensed consolidating financial information presents: condensed consolidating balance sheets as of December 31, 2002 and 2001 and statements of income and cash flows for each of the three years ended December 31, 2002 of (a) Nabors, Parent-Guarantor after June 24, 2002 and Non-Parent/Non-Guarantor prior to June 24, 2002, (b) Nabors Delaware, issuer of existing debt and the 5.375% senior notes due 2012 and guarantor of the 4.875% senior notes due 2009 issued by Nabors Holdings, (c) Nabors Holdings, issuer of the 4.875% senior notes due 2009, (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, 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	–	–	–	277,735	–	277,735
Inventory and supplies	–	–	–	20,524	–	20,524
Prepaid expenses and other current assets	–	2,607	–	197,391	–	199,998
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	–	–	–	2,781,050	–	2,781,050
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	66,995	–	88,365
Total assets	**$ 2,159,785**	**$ 3,954,952**	**$ 223,072**	**$ 7,007,988**	**$ (8,281,925)**	**$ 5,063,872**
Liabilities and Stockholders' 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	–	133,490	–	137,253
Deferred income taxes	152	72,258	(1,560)	331,204	–	402,054
Intercompany payables	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**
Stockholders' equity	**2,158,455**	**2,036,117**	**(2,532)**	**2,080,004**	**(4,113,589)**	**2,158,455**
Total liabilities and stockholders' equity	**$ 2,159,785**	**$ 3,954,952**	**$ 223,072**	**$ 7,007,988**	**$ (8,281,925)**	**$ 5,063,872**

(In thousands)	Nabors (Parent/ Guarantor)	Nabors Delaware (Issuer/Guarantor)	Nabors Holdings (Issuer)	Other Subsidiaries (Non-Guarantors)	Consolidating Adjustments	Consolidated Total
			December 31, 2001			
Assets						
Current assets:						
Cash and cash equivalents	$ –	$ 2,201	$ –	$ 196,242	$ –	$ 198,443
Marketable securities	–	–	–	343,169	–	343,169
Accounts receivable, net	–	–	–	361,086	–	361,086
Inventory and supplies	–	–	–	18,515	–	18,515
Prepaid expenses and other current assets	–	417	–	109,316	–	109,733
Total current assets	**–**	**2,618**	**–**	**1,028,328**	**–**	**1,030,946**
Marketable securities	–	–	–	377,025	–	377,025
Property, plant and equipment, net	–	–	–	2,433,247	–	2,433,247
Goodwill, net	–	–	–	199,048	–	199,048
Intercompany receivables	–	1,931,893	12	–	(1,931,905)	–
Investments in affiliates	13	1,467,127	–	55,141	(1,467,140)	55,141
Other long-term assets	–	13,574	–	42,934	–	56,508
Total assets	**$ 13**	**$ 3,415,212**	**$ 12**	**$ 4,135,723**	**$ (3,399,045)**	**$ 4,151,915**
Liabilities and Stockholders' Equity						
Current liabilities:						
Current portion of long-term debt	$ –	$ –	$ –	$ 2,510	$ –	$ 2,510
Trade accounts payable	–	23	–	131,798	–	131,821
Accrued liabilities	–	4,372	–	163,650	–	168,022
Income taxes payable	–	(189)	–	27,966	–	27,777
Total current liabilities	**–**	**4,206**	**–**	**325,924**	**–**	**330,130**
Long-term debt	–	1,523,915	–	43,701	–	1,567,616
Other long-term liabilities	–	–	–	110,902	–	110,902
Deferred income taxes	–	29,225	–	256,176	–	285,401
Intercompany payables	1	–	–	1,931,904	(1,931,905)	–
Total liabilities	**1**	**1,557,346**	**–**	**2,668,607**	**(1,931,905)**	**2,294,049**
Stockholders' equity	**12**	**1,857,866**	**12**	**1,467,116**	**(1,467,140)**	**1,857,866**
Total liabilities and stockholders' equity	**$ 13**	**$ 3,415,212**	**$ 12**	**$ 4,135,723**	**$ (3,399,045)**	**$ 4,151,915**

Condensed Consolidating Statements of Income

(In thousands)	Nabors (Parent/ Guarantor)	Nabors Delaware (Issuer/Guarantor)	Nabors Holdings (Issuer)	Other Subsidiaries (Non-Guarantors)	Consolidating Adjustments	Consolidated Total
	Year Ended December 31, 2002					
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 (expense) income, 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	–	–	–	195,365	–	195,365
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**

(In thousands)	Nabors (Parent/ Guarantor)	Nabors Delaware (Issuer/Guarantor)	Nabors Holdings (Issuer)	Other Subsidiaries (Non-Guarantors)	Consolidating Adjustments	Consolidated Total
	Year Ended December 31, 2001					
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	–	–	–	189,896	–	189,896
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**

(In thousands)	Nabors Delaware (Issuer/Guarantor)	Other Subsidiaries (Non-Guarantors)	Consolidating Adjustments	Consolidated Total
	Year Ended December 31, 2000			
Revenues and other income:				
Operating revenues	$ –	$ 1,388,660	$ –	$ 1,388,660
Earnings from unconsolidated affiliates	–	26,283	–	26,283
Earnings from consolidated affiliates	115,908	–	(115,908)	–
Interest income	87	20,494	–	20,581
Intercompany interest income	64,618	–	(64,618)	–
Other income, net	69	27,088	–	27,157
Total revenues and other income	180,682	1,462,525	(180,526)	1,462,681
Costs and other deductions:				
Direct costs	–	938,651	–	938,651
General and administrative expenses	493	106,011	–	106,504
Depreciation and amortization	–	152,413	–	152,413
Interest expense	30,236	5,134	–	35,370
Intercompany interest expense	–	64,618	(64,618)	–
Total costs and other deductions	30,729	1,266,827	(64,618)	1,232,938
Income before income taxes	149,953	195,698	(115,908)	229,743
Income tax expense	12,597	79,790	–	92,387
Net income	**$ 137,356**	**$ 115,908**	**$ (115,908)**	**$ 137,356**

Condensed Consolidating Statements of Cash Flows

(In thousands)	Nabors (Parent/ Guarantor)	Nabors Delaware (Issuer/Guarantor)	Nabors Holdings (Issuer)	Other Subsidiaries (Non-Guarantors)	Consolidating Adjustments	Consolidated Total
	Year Ended December 31, 2002					
Net cash provided by (used for) operating activities	**$ 78,235**	**$ (193,818)**	**$ (128)**	**$ 569,419**	**$ (81,263)**	**$ 372,445**
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
Investments in consolidated affiliates	(15,089)	–	(221,484)	(24)	236,597	–
Cash paid for acquisitions of businesses, net	–	–	–	(135,652)	–	(135,652)
Capital expenditures	–	–	–	(316,763)	–	(316,763)
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)**	**(604,461)**	**236,597**	**(629,513)**
Cash flows from financing activities:						
Decrease in restricted cash	–	–	–	210	–	210
Decrease in short-term borrowings	–	–	–	(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)
Payments related to cash flow hedges	–	(1,494)	–	–	–	(1,494)
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)
Dividends paid	–	(81,263)	–	–	81,263	–
Net cash provided by financing activities	**2,036**	**191,655**	**221,840**	**210,167**	**(155,334)**	**470,364**
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**

(In thousands)	Nabors (Parent/ Guarantor)	Nabors Delaware (Issuer/Guarantor)	Nabors Holdings (Issuer)	Other Subsidiaries (Non-Guarantors)	Consolidating Adjustments	Consolidated Total
	Year Ended December 31, 2001					
Net cash (used for) provided by operating activities	**$ –**	**$ (447,834)**	**$ –**	**$ 1,142,919**	**$ –**	**$ 695,085**
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	–	–	–	(701,156)	–	(701,156)
Proceeds from sales of assets and insurance claims	–	–	–	15,067	–	15,067
Net cash used for investing activities	**–**	**–**	**–**	**(1,125,010)**	**–**	**(1,125,010)**
Cash flows from financing activities:						
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**	**–**	**(15,511)**	**–**	**432,406**
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**

(In thousands)	Year Ended December 31, 2000 Nabors Delaware (Issuer/Guarantor)	Other Subsidiaries (Non-Guarantors)	Consolidating Adjustments	Consolidated Total
Net cash (used for) provided by operating activities	**$ (597,524)**	**$ 816,972**	**$ –**	**$ 219,448**
Cash flows from investing activities:				
Purchases of marketable securities, available-for-sale	–	(325,286)	–	(325,286)
Sales of marketable securities, available-for-sale	–	42,450	–	42,450
Capital expenditures	–	(300,637)	–	(300,637)
Proceeds from sales of assets and insurance claims	–	7,523	–	7,523
Net cash used for investing activities	**–**	**(575,950)**	**–**	**(575,950)**
Cash flows from financing activities:				
Decrease in restricted cash	–	1,634	–	1,634
Proceeds from long-term debt	501,941	–	–	501,941
Reduction of long-term debt	(25,625)	(110,809)	–	(136,434)
Debt issuance costs	(6,810)	–	–	(6,810)
Proceeds from issuance of common shares	112,979	–	–	112,979
Net cash provided by (used for) financing activities	**582,485**	**(109,175)**	**–**	**473,310**
Effect of exchange rate changes on cash and cash equivalents	**–**	**(76)**	**–**	**(76)**
Net (decrease) increase in cash and cash equivalents	**(15,039)**	**131,771**	**–**	**116,732**
Cash and cash equivalents, beginning of period	**17,157**	**63,423**	**–**	**80,580**
Cash and cash equivalents, end of period	**$ 2,118**	**$ 195,194**	**$ –**	**$ 197,312**

21 Subsequent Events

On February 21, 2003, we issued a Notice of Redemption to the holders of our 8.625% senior subordinated notes due April 2008 for redemption of the notes and all associated guarantees on April 1, 2003. The redemption price will be $1,043.13 per $1,000 principal amount of the notes together with accrued and unpaid interest to the date of redemption. We estimate that the total redemption price will be $45.2 million and will require 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.

On March 18, 2003, the United States District Court for the Southern District of Texas granted our motion to dismiss complaints filed by three of our shareholders (Note 15) and dismissed all claims with prejudice. We are unable to predict whether an appeal will be filed.

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 Contact

Dennis A. Smith
Director of Corporate Development

Independent Accountants

PricewaterhouseCoopers LLP
Houston, Texas

Price of Common Stock

As of December 31, 2002, there were 144,964,668 shares of common stock outstanding held by 2,340 holders of record.

The common stock is 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 stock on the Composite Tape for the calendar quarters indicated.

		Stock Price	
Calendar Year		High	Low
2000	First quarter	$ 40.56	$ 28.13
	Second quarter	44.25	34.00
	Third quarter	53.81	38.56
	Fourth quarter	60.47	40.50
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