

NABORS INDUSTRIES LTD  
Form 10-Q  
November 02, 2016  
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended September 30, 2016

Commission File Number: 001-32657

NABORS INDUSTRIES LTD.

(Exact name of registrant as specified in its charter)

Bermuda  
(State or other jurisdiction of incorporation or organization)

98-0363970  
(I.R.S. Employer Identification No.)

Crown House

Second Floor

4 Par-la-Ville Road

Hamilton, HM08

Bermuda

(441) 292-1510

(Address of principal executive office)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

YES NO

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

|                         |                           |
|-------------------------|---------------------------|
| Large Accelerated Filer | Accelerated Filer         |
| Non-accelerated Filer   | Smaller Reporting Company |

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

YES NO

The number of common shares, par value \$.001 per share, outstanding as of October 31, 2016 was 283,428,125, excluding 49,672,636 common shares held by our subsidiaries, or 333,100,761 in the aggregate.



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NABORS INDUSTRIES LTD. AND SUBSIDIARIES

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## NABORS INDUSTRIES LTD. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

|   | September 30,<br>2016                       | December 31,<br>2015 |
|---|---|----------------------|
|   | (In thousands, except per<br>share amounts) |                      |
| <b>ASSETS</b>   |   |                      |
| Current assets:   |   |                      |
| Cash and cash equivalents   | \$ 177,043                                  | \$ 254,530           |
| Short-term investments  | 23,607                                      | 20,059               |
| Assets held for sale  | 69,436                                      | 75,678               |
| Accounts receivable, net  | 503,966                                     | 784,671              |
| Inventory   | 141,934                                     | 153,824              |
| Other current assets  | 156,094                                     | 187,135              |
| Total current assets  | 1,072,080                                   | 1,475,897            |
| Property, plant and equipment, net  | 6,616,711                                   | 7,027,802            |
| Goodwill  | 167,131                                     | 166,659              |
| Investment in unconsolidated affiliates                                       | 889   | 415,177              |
| Other long-term assets  | 567,693                                     | 452,305              |
| Total assets  | \$ 8,424,504                                | \$ 9,537,840         |
| <b>LIABILITIES AND EQUITY</b>   |   |                      |
| Current liabilities:  |   |                      |
| Current portion of debt   | \$ 120                                      | \$ 6,508             |
| Trade accounts payable  | 215,627                                     | 271,984              |
| Accrued liabilities   | 548,337                                     | 686,613              |
| Income taxes payable  | 23,778                                      | 41,394               |
| Total current liabilities   | 787,862                                     | 1,006,499            |
| Long-term debt  | 3,475,978                                   | 3,655,200            |
| Other long-term liabilities   | 551,004                                     | 552,947              |
| Deferred income taxes   | 10,966                                      | 29,326               |
| Total liabilities   | 4,825,810                                   | 5,243,972            |
| Commitments and contingencies (Note 7)  |   |                      |
| Equity:   |   |                      |
| Shareholders' equity:   |   |                      |
| Common shares, par value \$0.001 per share:                                   |   |                      |
| Authorized common shares 800,000; issued 333,007 and 330,526, respectively    | 333   | 331                  |
| Capital in excess of par value  | 2,513,417                                   | 2,493,100            |
| Accumulated other comprehensive income (loss)                                 | (11,925)                                    | (47,593)             |
| Retained earnings   | 2,386,053                                   | 3,131,134            |
| Less: treasury shares, at cost, 49,673 and 49,342 common shares, respectively | (1,295,949)                                 | (1,294,262)          |

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|                              |              |              |
|------------------------------|--------------|--------------|
| Total shareholders' equity   | 3,591,929    | 4,282,710    |
| Noncontrolling interest      | 6,765        | 11,158       |
| Total equity                 | 3,598,694    | 4,293,868    |
| Total liabilities and equity | \$ 8,424,504 | \$ 9,537,840 |

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

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## NABORS INDUSTRIES LTD. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF INCOME (LOSS)

(Unaudited)

|   | Three Months Ended<br>September 30,      |              | Nine Months Ended<br>September 30, |              |
|---|--|--------------|------------------------------------|--------------|
|   | 2016                                     | 2015         | 2016                               | 2015         |
|   | (In thousands, except per share amounts) |              |                                    |              |
| Revenues and other income:                                      |  |              |                                    |              |
| Operating revenues  | \$ 519,729                               | \$ 847,553   | \$ 1,688,891                       | \$ 3,125,565 |
| Earnings (losses) from unconsolidated affiliates                | 2  | (35,100)     | (221,918)                          | (29,714)     |
| Investment income (loss)  | 310                                      | (22)         | 923                                | 2,128        |
| Total revenues and other income                                 | 520,041                                  | 812,431      | 1,467,896                          | 3,097,979    |
| Costs and other deductions:                                     |  |              |                                    |              |
| Direct costs  | 306,436                                  | 518,174      | 1,012,738                          | 1,926,306    |
| General and administrative expenses                             | 56,078                                   | 72,032       | 175,036                            | 263,272      |
| Research and engineering  | 8,476                                    | 9,716        | 24,818                             | 31,899       |
| Depreciation and amortization                                   | 220,713                                  | 240,107      | 655,444                            | 739,322      |
| Interest expense  | 46,836                                   | 44,448       | 137,803                            | 135,518      |
| Other, net  | 10,392                                   | 259,731      | 267,403                            | 205,227      |
| Total costs and other deductions                                | 648,931                                  | 1,144,208    | 2,273,242                          | 3,301,544    |
| Income (loss) from continuing operations before income taxes    | (128,890)                                | (331,777)    | (805,346)                          | (203,565)    |
| Income tax expense (benefit):                                   |  |              |                                    |              |
| Current   | 8,600                                    | 13,735       | 39,323                             | 46,682       |
| Deferred  | (39,651)                                 | (94,633)     | (163,621)                          | (81,840)     |
| Total income tax expense (benefit)                              | (31,051)                                 | (80,898)     | (124,298)                          | (35,158)     |
| Income (loss) from continuing operations, net of tax            | (97,839)                                 | (250,879)    | (681,048)                          | (168,407)    |
| Income (loss) from discontinued operations, net of tax          | (12,187)                                 | (45,275)     | (14,097)                           | (41,067)     |
| Net income (loss)   | (110,026)                                | (296,154)    | (695,145)                          | (209,474)    |
| Less: Net (income) loss attributable to noncontrolling interest | (1,185)                                  | 320          | 990                                | 453          |
| Net income (loss) attributable to Nabors                        | \$ (111,211)                             | \$ (295,834) | \$ (694,155)                       | \$ (209,021) |
| Amounts attributable to Nabors:                                 |  |              |                                    |              |
| Net income (loss) from continuing operations                    | \$ (99,024)                              | \$ (250,559) | \$ (680,058)                       | \$ (167,954) |
| Net income (loss) from discontinued operations                  | (12,187)                                 | (45,275)     | (14,097)                           | (41,067)     |
| Net income (loss) attributable to Nabors                        | \$ (111,211)                             | \$ (295,834) | \$ (694,155)                       | \$ (209,021) |
| Earnings (losses) per share:                                    |  |              |                                    |              |
| Basic from continuing operations                                | \$ (0.35)                                | \$ (0.86)    | \$ (2.41)                          | \$ (0.57)    |



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|  |           |           |           |           |
|--|-----------|-----------|-----------|-----------|
| Basic from discontinued operations                       | (0.04)    | (0.16)    | (0.05)    | (0.15)    |
| Total Basic  | \$ (0.39) | \$ (1.02) | \$ (2.46) | \$ (0.72) |
| Diluted from continuing operations                       | \$ (0.35) | \$ (0.86) | \$ (2.41) | \$ (0.57) |
| Diluted from discontinued operations                     | (0.04)    | (0.16)    | (0.05)    | (0.15)    |
| Total Diluted  | \$ (0.39) | \$ (1.02) | \$ (2.46) | \$ (0.72) |
| Weighted-average number of common shares<br>outstanding: |           |           |           |           |
| Basic  | 276,707   | 284,112   | 276,369   | 285,186   |
| Diluted  | 276,707   | 284,112   | 276,369   | 285,186   |

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

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## NABORS INDUSTRIES LTD. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(Unaudited)

|  | Three Months Ended<br>September 30, |              | Nine Months Ended<br>September 30, |              |
|--|-------------------------------------|--------------|------------------------------------|--------------|
|  | 2016                                | 2015         | 2016                               | 2015         |
|  | (In thousands)                      |              |                                    |              |
| Net income (loss) attributable to Nabors   | \$ (111,211)                        | \$ (295,834) | \$ (694,155)                       | \$ (209,021) |
| Other comprehensive income (loss), before tax:                                     |                                     |              |                                    |              |
| Translation adjustment attributable to Nabors                                      |                                     |              |                                    |              |
| Unrealized gain (loss) on translation adjustment                                   | (8,950)                             | (38,859)     | 27,870                             | (95,125)     |
| Less: reclassification adjustment for realized loss on translation adjustment      | —                                   | —            | —                                  | 5,365        |
| Translation adjustment attributable to Nabors                                      | (8,950)                             | (38,859)     | 27,870                             | (89,760)     |
| Unrealized gains (losses) on marketable securities:                                |                                     |              |                                    |              |
| Unrealized gains (losses) on marketable securities                                 | 1,502                               | (8,127)      | 3,551                              | (10,127)     |
| Less: reclassification adjustment for (gains) losses included in net income (loss) | 3,495                               | —            | 3,495                              | —            |
| Unrealized gains (losses) on marketable securities                                 | 4,997                               | (8,127)      | 7,046                              | (10,127)     |
| Pension liability amortization and adjustment                                      | 297                                 | 276          | 765                                | 828          |
| Unrealized gains (losses) and amortization on cash flow hedges                     | 153                                 | 153          | 459                                | 459          |
| Other comprehensive income (loss), before tax                                      | (3,503)                             | (46,557)     | 36,140                             | (98,600)     |
| Income tax expense (benefit) related to items of other comprehensive income (loss) | 172                                 | 162          | 472                                | 485          |
| Other comprehensive income (loss), net of tax                                      | (3,675)                             | (46,719)     | 35,668                             | (99,085)     |
| Comprehensive income (loss) attributable to Nabors                                 | (114,886)                           | (342,553)    | (658,487)                          | (308,106)    |
| Net income (loss) attributable to noncontrolling interest                          | 1,185                               | (320)        | (990)                              | (453)        |
| Translation adjustment attributable to noncontrolling interest                     | (90)                                | (476)        | 371                                | (1,194)      |
| Comprehensive income (loss) attributable to noncontrolling interest                | 1,095                               | (796)        | (619)                              | (1,647)      |
| Comprehensive income (loss)  | \$ (113,791)                        | \$ (343,349) | \$ (659,106)                       | \$ (309,753) |

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



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## NABORS INDUSTRIES LTD. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

|  | Nine Months Ended<br>September 30, |              |
|--|------------------------------------|--------------|
|  | 2016                               | 2015         |
|  | (In thousands)                     |              |
| Cash flows from operating activities:  |                                    |              |
| Net income (loss)  | \$ (695,145)                       | \$ (209,474) |
| Adjustments to net income (loss):  |                                    |              |
| Depreciation and amortization  | 657,541                            | 741,919      |
| Deferred income tax expense (benefit)  | (168,413)                          | (100,751)    |
| Impairments and other charges  | 45,809                             | 62,838       |
| Losses (gains) on debt buyback   | (6,707)                            | —            |
| Losses (gains) on long-lived assets, net                                       | 13,608                             | 13,202       |
| Impairments on equity method holdings  | 216,242                            | 180,591      |
| Share-based compensation   | 24,070                             | 39,024       |
| Foreign currency transaction losses (gains), net                               | 5,916                              | 7,443        |
| Gain on merger transaction, net  | —                                  | (47,074)     |
| Gain on acquisitions   | —                                  | (2,308)      |
| Equity in losses of unconsolidated affiliates, net of dividends                | 221,918                            | 38,909       |
| Other  | 6,957                              | 7,259        |
| Changes in operating assets and liabilities, net of effects from acquisitions: |                                    |              |
| Accounts receivable  | 255,455                            | 449,847      |
| Inventory  | 14,660                             | 9,483        |
| Other current assets   | 30,192                             | 146,123      |
| Other long-term assets   | (377)                              | 263,582      |
| Trade accounts payable and accrued liabilities                                 | (187,771)                          | (699,765)    |
| Income taxes payable   | (22,496)                           | (40,756)     |
| Other long-term liabilities  | (6,691)                            | (255,081)    |
| Net cash provided by operating activities                                      | 404,768                            | 605,011      |
| Cash flows from investing activities:  |                                    |              |
| Purchases of investments   | (24)                               | (8)          |
| Sales and maturities of investments  | 643                                | 859          |
| Cash paid for acquisition of businesses, net                                   | —                                  | (57,909)     |
| Investment in unconsolidated affiliates  | —                                  | (445)        |
| Capital expenditures   | (284,950)                          | (744,047)    |
| Proceeds from sales of assets and insurance claims                             | 26,597                             | 30,164       |
| Proceeds from merger transaction   | —                                  | 650,050      |
| Other  | (19)                               | 1,700        |
| Net cash (used for) provided by investing activities                           | (257,753)                          | (119,636)    |

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|  |            |            |
|--|------------|------------|
| Cash flows from financing activities:                        |            |            |
| Increase (decrease) in cash overdrafts                       | 5          | 363        |
| Proceeds from revolving credit facilities                    | 560,000    | —          |
| Reduction in revolving credit facilities                     | (260,000)  | (450,000)  |
| Proceeds from (payments for) issuance of common shares       | 562        | 1,198      |
| Repurchase of common shares                                  | (1,687)    | (44,978)   |
| Reduction in long-term debt                                  | (492,625)  | —          |
| Dividends to shareholders                                    | (33,927)   | (52,489)   |
| Proceeds from (payment for) commercial paper, net            | 15,000     | (162,544)  |
| Proceeds from term loan                                      | —          | 300,000    |
| Payments on term loan  | —          | (300,000)  |
| Proceeds from (payments for) short-term borrowings           | (6,388)    | 2,792      |
| Other  | (4,313)    | (7,534)    |
| Net cash (used for) provided by financing activities         | (223,373)  | (713,192)  |
| Effect of exchange rate changes on cash and cash equivalents | (1,129)    | (21,966)   |
| Net increase (decrease) in cash and cash equivalents         | (77,487)   | (249,783)  |
| Cash and cash equivalents, beginning of period               | 254,530    | 501,149    |
| Cash and cash equivalents, end of period                     | \$ 177,043 | \$ 251,366 |

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

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## NABORS INDUSTRIES LTD. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(Unaudited)

| (In thousands)  | Common Shares<br>Shares | Shares<br>Par<br>Value | Capital<br>in Excess<br>of Par<br>Value | Accumulated<br>Other<br>Comprehensive<br>Income | Retained<br>Earnings | Treasury<br>Shares | Non-<br>controlling<br>Interest | Total<br>Equity |
|---|-------------------------|------------------------|---|---|----------------------|--------------------|---------------------------------|-----------------|
| As of<br>December 31,<br>2014   | 328,196                 | \$ 328                 | \$ 2,452,261                            | \$ 77,522                                       | \$ 3,573,172         | \$ (1,194,664)     | \$ 10,170                       | \$ 4,918,401    |
| Net income<br>(loss)  | —                       | —                      | —                                       | —   | (209,021)            | —                  | (453)                           | (209,474)       |
| Dividends to<br>shareholders<br>(\$0.06 per<br>share)   | —                       | —                      | —                                       | —   | (52,489)             | —                  | —                               | (52,489)        |
| Repurchase of<br>treasury shares  | —                       | —                      | —                                       | —   | —                    | (78,399)           | —                               | (78,399)        |
| Other<br>comprehensive<br>income (loss),<br>net of tax  | —                       | —                      | —                                       | (99,085)  | —                    | —                  | (1,194)                         | (100,279)       |
| Issuance of<br>common shares<br>for stock<br>options<br>exercised, net<br>of surrender of<br>unexercised<br>stock options | 130                     | —                      | 1,198                                   | —   | —                    | —                  | —                               | 1,198           |
| Share-based<br>compensation   | —                       | —                      | 39,024                                  | —   | —                    | —                  | —                               | 39,024          |
| Other   | 2,269                   | 3                      | (7,537)                                 | —   | —                    | —                  | 563                             | (6,971)         |
| As of<br>September 30,<br>2015  | 330,595                 | \$ 331                 | \$ 2,484,946                            | \$ (21,563)                                     | \$ 3,311,662         | \$ (1,273,063)     | \$ 9,086                        | \$ 4,511,501    |
| As of<br>December 31,<br>2015   | 330,526                 | \$ 331                 | \$ 2,493,100                            | \$ (47,593)                                     | \$ 3,131,134         | \$ (1,294,262)     | \$ 11,158                       | \$ 4,293,433    |
| Net income<br>(loss)  | —                       | —                      | —                                       | —   | (694,155)            | —                  | (990)                           | (695,145)       |
| Dividends to<br>shareholders<br>(\$0.06 per   | —                       | —                      | —                                       | —   | (50,926)             | —                  | —                               | (50,926)        |

|  |         |        |              |             |              |                |          |              |  |
|--|---------|--------|--------------|-------------|--------------|----------------|----------|--------------|--|
| share)   |         |        |              |             |              |                |          |              |  |
| Repurchase of common shares  | —       | —      | —            | —           | —            | (1,687)        | —        | (1,687)      |  |
| Other comprehensive income (loss), net of tax  | —       | —      | —            | 35,668      | —            | —              | 371      | 36,039       |  |
| Issuance of common shares for stock options exercised, net of surrender of unexercised stock options | 57      | —      | 562          | —           | —            | —              | —        | 562          |  |
| Share-based compensation   | —       | —      | 24,070       | —           | —            | —              | —        | 24,070       |  |
| Other  | 2,424   | 2      | (4,315)      | —           | —            | —              | (3,774)  | (8,083)      |  |
| As of September 30, 2016   | 333,007 | \$ 333 | \$ 2,513,417 | \$ (11,925) | \$ 2,386,053 | \$ (1,295,949) | \$ 6,765 | \$ 3,598,378 |  |

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

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Nabors Industries Ltd. and Subsidiaries

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1 Nature of Operations

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

We own and operate the world’s largest land-based drilling rig fleet and are a leading provider of offshore platform, workover and drilling rigs in the United States and numerous international markets. As a global provider of services for land-based and offshore oil and natural gas wells, our fleet of rigs and drilling-related equipment as of September 30, 2016 includes:

- 430 actively marketed rigs for land-based drilling operations in the United States, Canada and approximately 20 other countries throughout the world; and
- 42 actively marketed rigs for offshore drilling operations in the United States and multiple international markets.

We also provide innovative drilling technology and equipment and comprehensive well-site services including engineering, transportation and disposal, construction, maintenance, well logging, directional drilling, rig instrumentation, data collection and other support services in many of the most significant oil and gas markets in the world. In addition, we manufacture and lease or sell top drives and other rig equipment.

Our Drilling & Rig Services business is comprised of our global land-based and offshore drilling rig operations and other rig services, consisting of equipment manufacturing, rig instrumentation, optimization software and directional drilling services. Our Drilling & Rig Services business consists of four reportable operating segments: U.S., Canada, International and Rig Services.

On March 24, 2015, we completed the merger (the “Merger”) of our Completion & Production Services business with C&J Energy Services, Inc. (“C&J Energy”). In the Merger and related transactions, our wholly-owned interest in our Completion & Production Services business was exchanged for cash and an equity interest in the combined entity,



C&J Energy Services Ltd. (“CJES”), and was accounted for as an unconsolidated affiliate as of the acquisition date through June 30, 2016. As a result of the Merger, we reported our share of the earnings (losses) of CJES through earnings (losses) from unconsolidated affiliates in our condensed consolidated statements of income (loss). Prior to the Merger, our Completion & Production Services business conducted our operations involved in the completion, life-of-well maintenance and plugging and abandonment of wells in the United States and Canada. These services included stimulation, coiled-tubing, cementing, wireline, workover, well-servicing and fluids management. As we no longer consolidate the results of operations from our historical Completion & Production Services business, our results of operations for the nine months ended September 30, 2015 are not directly comparable to the nine months ended September 30, 2016.

On July 20, 2016, CJES voluntarily filed for protection under Chapter 11 of the U.S. Bankruptcy Code. Based on the current reorganization plans, we no longer expect to maintain any significant influence over CJES. As a result, beginning in the third quarter of 2016, we ceased accounting for our investment in CJES as an equity method investment and now report this investment at our estimate of fair value. Due to the uncertainties around the eventual outcome of the bankruptcy process, we have reduced the carrying value of our currently held shares of CJES to zero. We continue to monitor the voluntary reorganization process and defend our interests in the bankruptcy proceedings. See further discussion in Note 3 — Investments in Unconsolidated Affiliates.

On May 24, 2015, we paid \$106.0 million in cash to acquire the remaining 49% equity interest in Nabors Arabia Company Limited (“Nabors Arabia”), our former joint venture in Saudi Arabia, making it a wholly owned subsidiary. The effects of the acquisition and the operating results of Nabors Arabia are included in the accompanying unaudited condensed consolidated financial statements beginning on the acquisition date, and are reflected in our International drilling segment.

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### Note 2 Summary of Significant Accounting Policies

### Interim Financial Information

The accompanying unaudited consolidated condensed financial statements of Nabors have been prepared in conformity with the generally accepted accounting principles in the United States (“GAAP”). Pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”), certain information and footnote disclosures normally included in annual financial statements prepared in accordance with GAAP have been omitted. Therefore, these financial statements should be read together with our annual report on Form 10-K for the year ended December 31, 2015, as amended (“2015 Annual Report”). In management’s opinion, the unaudited condensed consolidated financial statements contain all adjustments necessary to state fairly our financial position as of September 30, 2016 and the results of operations, comprehensive income (loss), cash flows and changes in equity for the periods presented herein. Interim results for the nine months ended September 30, 2016 may not be indicative of results that will be realized for the full year ending December 31, 2016.

### Principles of Consolidation

Our condensed consolidated financial statements include the accounts of Nabors, as well as all majority owned and non-majority owned subsidiaries required to be consolidated under GAAP. All significant intercompany accounts and transactions are eliminated in consolidation.

Investments in operating entities where we have the ability to exert significant influence, but where we do not control operating and financial policies, are accounted for using the equity method. Our share of the net income (loss) of these entities is recorded as earnings (losses) from unconsolidated affiliates in our condensed consolidated statements of income (loss). The investments in these entities are included in investment in unconsolidated affiliates in our condensed consolidated balance sheets. We have historically recorded our share of the net income (loss) of our equity method investment in CJES on a one-quarter lag, as we are not able to obtain the financial information of CJES on a timely basis. During the third quarter of 2016, CJES filed for bankruptcy, at which time we ceased accounting for our investment in CJES as an equity method investment and now report this investment at our estimate of fair value. See Note 3 — Investments in Unconsolidated Affiliates.

### Revenue Recognition

We recognize revenues and costs on daywork contracts daily as the work progresses. For certain contracts, we receive lump-sum payments for the mobilization of rigs and other drilling equipment. We defer revenue related to

mobilization periods and recognize the revenue over the term of the related drilling contract. At September 30, 2016 and December 31, 2015, our deferred revenues classified as other long-term liabilities were \$342.5 million and \$324.3 million, respectively. At September 30, 2016 and December 31, 2015, our deferred revenues classified as accrued liabilities were \$269.6 million and \$340.5 million, respectively.

Costs incurred related to a mobilization period for which a contract is secured are deferred and recognized over the term of the related drilling contract. Costs incurred to relocate rigs and other drilling equipment to areas in which a contract has not been secured are expensed as incurred. We defer recognition of revenue on amounts received from customers for prepayment of services until those services are provided. At September 30, 2016 and December 31, 2015, our deferred expenses classified as other current assets were \$57.5 million and \$79.6 million, respectively. At September 30, 2016 and December 31, 2015, our deferred expenses classified as other long-term assets were \$77.7 million and \$68.9 million, respectively.

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

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 expense (income), net in the period that the applicable proof of loss documentation is received. Proceeds from casualty insurance settlements that are expected to be less than the

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carrying value of damaged assets are recognized at the time the loss is incurred and recorded in other expense (income), net.

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

## Inventory

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

|                  | September 30,<br>2016 | December 31,<br>2015 |
|------------------|-----------------------|----------------------|
|                  | (In thousands)        |                      |
| Raw materials    | \$ 98,072             | \$ 105,217           |
| Work-in-progress | 26,057                | 29,710               |
| Finished goods   | 17,805                | 18,897               |
|                  | \$ 141,934            | \$ 153,824           |

## Property, Plant and Equipment

We review our assets for impairment when events or changes in circumstances indicate that their carrying amounts may not be recoverable. If the estimated undiscounted future cash flows are not sufficient to support the asset's recorded value, an impairment charge is recognized to reduce the carrying amount of the long-lived asset to its estimated fair value. The determination of future cash flows requires the estimation of dayrates and utilization, and such estimates can change based on market conditions, technological advances in the industry or changes in regulations governing the industry.

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

Significant and unanticipated changes to the assumptions could result in future impairments. A continuation of the lower oil and natural gas prices experienced over the last two years could continue to adversely affect the demand for and prices of our services. As such, we will continue to assess our asset fleet, particularly our legacy and undersized rigs. Should we continue experiencing weakening in the market for a prolonged period for any specific rig class, this could result in future impairment charges or retirements of assets. As the determination of whether impairment charges should be recorded on our long-lived assets is subject to significant management judgment, and an impairment of these assets could result in a material charge on our condensed consolidated statements of income (loss), management believes that accounting estimates related to impairment of long-lived assets are critical.

## Goodwill

We review goodwill for impairment annually during the second quarter of each fiscal year or more frequently if events or changes in circumstances indicate that the carrying amount of such goodwill and intangible assets exceed their fair value. We initially assess goodwill for impairment based on qualitative factors to determine whether to perform the two-step annual goodwill impairment test, a Level 3 fair value measurement. After our qualitative assessment, step one of the impairment test compares the estimated fair value of the reporting unit to its carrying amount. If the carrying amount exceeds the fair value, a second step is required to measure the goodwill impairment loss. The second step compares the implied fair value of the reporting unit's goodwill to its carrying amount. If the carrying amount exceeds the implied fair value, an impairment loss is recognized in an amount equal to the excess.

Our estimated fair values of our reporting units incorporate judgment and the use of estimates by management. Potential factors requiring assessment include a further or sustained decline in our stock price, declines in oil and natural gas prices, a variance in results of operations from forecasts, a change in operating strategy of assets and additional transactions in the oil and gas industry. Another factor in determining whether impairment has occurred is the relationship between our market capitalization and our book value. As part of our annual review, we compare the sum of our reporting units' estimated fair value, which includes the estimated fair value of non-operating assets and liabilities,

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less debt, to our market capitalization and assess the reasonableness of our estimated fair value. Any of the above-mentioned factors may cause us to re-evaluate goodwill during any quarter throughout the year.

Based on our annual review during the second quarter of 2016, we did not record a goodwill impairment. No events were noted in the current quarter that would cause us to revise our previous assessment. However, a continuation of the lower natural gas or oil prices experienced over the last two years could continue to adversely affect demand for and prices of our services. This could result in future impairment charges, particularly in our U.S. Drilling and Rig Services segments.

## Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2014-09, Revenue from Contracts with Customers, relating to the revenue recognition from contracts with customers that creates a common revenue standard for GAAP and IFRS. The core principle will require recognition of revenue to represent the transfer of promised goods or services to customers in an amount that reflects the consideration, including costs incurred, to which the entity expects to be entitled in exchange for those goods or services. In July 2015, the FASB approved a one year deferral of this standard, with a new effective date for fiscal years beginning after December 15, 2017. We are currently evaluating the impact this will have on our condensed consolidated financial statements and have not made any decision on the method of adoption.

In January 2016, the FASB issued ASU No. 2016-01, Financial Instruments—Overall, relating to the recognition and measurement of financial assets and liabilities. This standard enhances the reporting model for financial instruments, which includes amendments to address aspects of recognition, measurement, presentation and disclosure. This guidance is effective for public companies for fiscal years beginning after December 15, 2017. Early application is permitted. We are currently evaluating the impact this will have on our condensed consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, Leases, relating to leases to increase transparency and comparability among companies. This standard requires all leases with an initial term greater than one year be recorded on the balance sheet as an asset and a lease liability. Additionally, this standard will require disclosures designed to give financial statement users information on the amount, timing, and uncertainty of cash flows arising from leases. This guidance is effective for public companies for fiscal years beginning after December 15, 2018. Early application is permitted. This standard requires an entity to separate lease components from nonlease components within a contract. While the lease components would be accounted for under ASU No. 2016-02, nonlease components would be accounted for under ASU No. 2014-09. Therefore, we are evaluating ASU No. 2016-02 concurrently with the provisions of ASU No. 2014-09 and the impact this will have on our condensed consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-07, Investments—Equity Method and Joint Ventures, to simplify the transition to the equity method of accounting. This standard eliminates the requirement to retroactively adopt the equity method of accounting as a result of an increase in the level of ownership interest or degree of influence. Instead, the equity method investor should add the cost of acquiring the additional interest in the investee to the current basis of the investor's previously held interest and adopt the equity method of accounting as of the date the investment qualifies for the equity method of accounting. This guidance is effective for public companies for fiscal years beginning after December 15, 2016. Early application is permitted. We are currently evaluating the impact this will have on our condensed consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-09, Compensation—Stock Compensation, to simplify the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities and classification on the statement of cash flows. This guidance is effective for public companies for fiscal years beginning after December 15, 2016. Early application is permitted. We are currently evaluating the impact this will have on our condensed consolidated financial statements.

In August 2016, the FASB issued ASU No. 2016-15, Statement of Cash Flows, to reduce the diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. This guidance is effective for public companies for fiscal years beginning after December 15, 2017. Early application is permitted. We are currently evaluating the impact this will have on our condensed consolidated financial statements.

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## Note 3 Investments in Unconsolidated Affiliates

On March 24, 2015, we completed the Merger of our Completion & Production Services business with C&J Energy. We received total consideration comprised of approximately \$693.5 million in cash (\$650.1 million after settlement of working capital requirements) and approximately 62.5 million common shares in the combined company, CJES, representing approximately 53% of the outstanding and issued common shares of CJES as of the closing date.

On July 20, 2016, CJES voluntarily filed for protection under Chapter 11 of the U.S. Bankruptcy Code. Prior to the bankruptcy reorganization, we had significant influence over CJES, but not a controlling financial interest, and accounted for our investment in CJES under the equity method of accounting. Based on the current reorganization plans, we no longer expect to maintain any significant influence over CJES. Accordingly, beginning in the third quarter of 2016, we ceased accounting for our investment in CJES as an equity method investment and now report this investment at our estimated fair value. Due to the uncertainties around the eventual outcome of the bankruptcy process, we wrote off the remaining carrying value of our investment in CJES during the second quarter of 2016, and as such, there is no impact to our condensed consolidated financial statements during the third quarter as a result of the change in accounting.

## Historical Treatment of the Completion &amp; Production Services business and our investment in CJES

Prior to the Merger, we consolidated the results of our Completion & Production Services business into our operating results. As a result of the Merger, CJES became an unconsolidated affiliate and we ceased consolidating the operating results of our Completion & Production Services business. Therefore, subsequent to the closing date of the Merger, our share of the net income (loss), as adjusted for our basis difference, of our equity method investment in CJES was recorded as earnings (losses) from unconsolidated affiliates in our condensed consolidated statements of income (loss) through June 30, 2016. Our policy was to record our share of the net income (loss) of CJES on a one-quarter lag as we are not able to obtain the financial information of CJES on a timely basis. The equity in earnings from CJES, which is reflected in earnings (losses) from unconsolidated affiliates in our condensed consolidated statement of income (loss) was as follows for the periods noted below:

|  | Three Months Ended |             | Nine Months Ended |             |
|--|--------------------|-------------|-------------------|-------------|
|  | September 30,      |             | September 30,     |             |
|  | 2016               | 2015        | 2016              | 2015        |
|  | (In thousands)     |             |                   |             |
| Nabors' share of equity method earnings (losses) | \$ —(1)            | \$ (35,100) | \$ (221,933)      | \$ (35,900) |

(1) As we wrote off the remaining carrying value of our investment in CJES during the second quarter of 2016, we did not record our share of the earnings (losses) of CJES for the three months ended June 30, 2016 as we are not



contractually responsible for losses beyond our investment.

During the first quarter of 2015, we recognized an estimated gross gain of \$102.2 million in connection with the Merger based on the difference between the consideration received and the carrying value of the assets and liabilities of our Completion & Production Services business. This gain was partially offset by \$49.6 million in transaction costs related to the Merger.

We recorded our investment in the equity of CJES in the investment in unconsolidated affiliates line in our condensed consolidated balance sheet. Our policy is to review our equity method investments for impairment whenever certain impairment indicators exist including the absence of an ability to recover the carrying amount of the investment or inability of the investee to sustain an earnings capacity which would justify the carrying amount of the investment. A loss in value of an investment that is other than a temporary decline should be recognized. As a result of this review, during the first quarter of 2016, we determined the carrying value of our investment was other than temporarily impaired, which resulted in an impairment charge of \$153.4 million to reduce our carrying value to its estimated fair value of \$93.8 million, determined principally based on the average share price over a specified period. Additionally, we recognized a \$23.8 million charge to reserve certain other amounts associated with our CJES holdings including affiliate receivables.

As a result of CJES's Chapter 11 filing on July 20, 2016, we determined our investment was other than temporarily impaired and recorded a charge of \$39.0 million to write off substantially all of the remaining net book value of our investment. We also recognized an additional \$3.9 million in professional fees incurred in connection with our efforts to

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preserve the value of our CJES holdings in anticipation of the bankruptcy filing. These charges are reflected in other expense (income), net in our condensed consolidated statement of income (loss) for the nine months ended September 30, 2016. See Note 9 – Supplemental Balance Sheet, Income Statement and Cash Flow Information.

The following table presents summarized income statement (loss) information for CJES for each of the three months ended December 31, 2015, March 31, 2016 and June 30, 2016 and for the six months ended June 30, 2015, which is reflected in earnings (losses) from unconsolidated affiliates in our condensed consolidated statement of income (loss) for the nine months ended September 30, 2016 and 2015, respectively. As we wrote off the remaining carrying value of our investment in CJES during the second quarter of 2016, we did not record our share of the earnings (losses) of CJES for the three months ended June 30, 2016 in our condensed consolidated statement of income (loss) during the three months ended September 30, 2016 as we are not contractually responsible for losses beyond our investment.

|  | Three Months Ended |                   |                         | Six<br>Months<br>Ended |
|--|--------------------|-------------------|-------------------------|------------------------|
|  | June 30,<br>2016   | March 31,<br>2016 | December<br>31,<br>2015 | June 30,<br>2015       |
|  | (In thousands)     |                   |                         |                        |
| Gross revenues                                   | \$ 225,168         | \$ 269,615        | \$ 409,011              | \$ 912,381             |
| Gross margin                                     | (4,603)            | 7,849             | 37,417                  | 146,772                |
| Net income (loss)                                | (291,116)          | (428,412)         | (321,742)               | (95,784)               |
| Nabors' share of equity method earnings (losses) | —                  | (54,788)          | (167,145)               | (35,900)               |

## Note 4 Fair Value Measurements

Our financial assets and liabilities that are accounted for at fair value on a recurring basis as of September 30, 2016 consist of available-for-sale equity and debt securities. Our debt securities could transfer into or out of a Level 1 or 2 measure depending on the availability of independent and current pricing at the end of each quarter. During the three and nine months ended September 30, 2016, there were no transfers of our financial assets between Level 1 and Level 2 measures. Our financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The majority of our short-term investments are categorized as Level 1 and had a fair value of \$23.6 million as of September 30, 2016.

## Nonrecurring Fair Value Measurements

We applied fair value measurements to our nonfinancial assets and liabilities measured on a nonrecurring basis, which consist of measurements primarily to assets held for sale, goodwill, equity method investments, intangible assets and other long-lived assets, assets acquired and liabilities assumed in a business combination and our pipeline contractual commitment.

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## Fair Value of Financial Instruments

We estimate the fair value of our financial instruments in accordance with GAAP. The fair value of our long-term debt, revolving credit facility and commercial paper is estimated based on quoted market prices or prices quoted from third-party financial institutions. The fair value of our debt instruments is determined using Level 2 measurements. The carrying and fair values of these liabilities were as follows:

|  | September 30, 2016               |            | December 31, 2015                |            |
|--|----------------------------------|------------|----------------------------------|------------|
|  | Carrying Value<br>(In thousands) | Fair Value | Carrying Value<br>(In thousands) | Fair Value |
| 2.35% senior notes due September 2016  | \$ —                             | \$ —       | \$ 347,955                       | \$ 347,708 |
| 6.15% senior notes due February 2018   | 828,176                          | 864,452    | 921,162                          | 935,962    |
| 9.25% senior notes due January 2019    | 303,489                          | 334,217    | 339,607                          | 342,575    |
| 5.00% senior notes due September 2020  | 669,463                          | 662,714    | 683,839                          | 617,409    |
| 4.625% senior notes due September 2021 | 694,808                          | 656,850    | 698,628                          | 581,630    |
| 5.10% senior notes due September 2023  | 346,416                          | 336,447    | 349,021                          | 280,907    |
| Term loan facility                     | 325,000                          | 325,000    | 325,000                          | 325,000    |
| Revolving credit facility              | 300,000                          | 300,000    | —                                | —          |
| Commercial paper                       | 23,000                           | 23,000     | 8,000                            | 8,000      |
| Other                                  | 120                              | 120        | 6,508                            | 6,508      |
|  | 3,490,472                        | 3,502,800  | 3,679,720                        | 3,445,699  |
| Less: Deferred financing costs         | 14,374                           |            | 18,012                           |            |
|  | \$ 3,476,098                     |            | \$ 3,661,708                     |            |

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.

## Note 5 Debt

Debt consisted of the following:

|               |              |
|---------------|--------------|
| September 30, | December 31, |
| 2016          | 2015         |

|   | (In thousands) |              |
|---|----------------|--------------|
| 2.35% senior notes due September 2016 (1) | \$ —           | \$ 347,955   |
| 6.15% senior notes due February 2018      | 828,176        | 921,162      |
| 9.25% senior notes due January 2019       | 303,489        | 339,607      |
| 5.00% senior notes due September 2020     | 669,463        | 683,839      |
| 4.625% senior notes due September 2021    | 694,808        | 698,628      |
| 5.10% senior notes due September 2023     | 346,416        | 349,021      |
| Term loan facility                        | 325,000        | 325,000      |
| Revolving credit facility                 | 300,000        | —            |
| Commercial paper                          | 23,000         | 8,000        |
| Other                                     | 120            | 6,508        |
|   | 3,490,472      | 3,679,720    |
| Less: current portion                     | 120            | 6,508        |
| Less: deferred financing costs            | 14,374         | 18,012       |
|   | \$ 3,475,978   | \$ 3,655,200 |

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(2) The 2.35% senior notes were repaid in September 2016, primarily utilizing borrowings under our revolving credit facility, as well as cash on hand.

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During the nine months ended September 30, 2016, we repurchased \$160.8 million aggregate principal amount of our senior notes (all of which is now held by a consolidated affiliate) at various maturities for approximately \$156.5 million in cash, reflecting principal and approximately \$3.0 million of accrued and unpaid interest. The discount represents the gain on the debt buybacks and is included in other expense (income), net in our condensed consolidated statement of income (loss) for the nine months ended September 30, 2016.

### Commercial Paper Program

As of September 30, 2016, we had approximately \$23.0 million of commercial paper outstanding. The weighted average interest rate on borrowings at September 30, 2016 was 1.14%. Our commercial paper borrowings are classified as long-term debt because the borrowings are fully supported by availability under our revolving credit facility, which matures as currently structured in July 2020, more than one year from now.

### Revolving Credit Facility

As of September 30, 2016, we had approximately \$300.0 million in borrowings outstanding and the ability to borrow up to an additional \$1.9 billion from time-to-time under this facility. The revolving credit facility matures in July 2020. The weighted average interest rate on borrowings at September 30, 2016 was 1.82%. The revolving credit facility contains various covenants and restrictive provisions that limit our ability to incur additional indebtedness, make investments or loans and create liens and require us to maintain a net funded indebtedness to total capitalization ratio, as defined in the agreement. We were in compliance with all covenants under the agreement at September 30, 2016. If we fail to perform our obligations under the covenants, the revolving credit commitment could be terminated, and any outstanding borrowings under the facility could be declared immediately due and payable.

### Term Loan Facility

On February 6, 2015, Nabors Delaware entered into an unsecured term loan facility for \$300.0 million with a three-year maturity, which was fully and unconditionally guaranteed by us. Under the new term loan facility, we were required to prepay the loan upon the closing of the Merger, or if we otherwise disposed of assets, issued term debt, or issued equity with net proceeds of more than \$70.0 million, subject to certain exceptions. The term loan agreement contained customary representations and warranties, covenants and events of default for loan facilities of this type. On March 27, 2015, we repaid the \$300.0 million term loan according to the terms of the agreement, using a portion of the cash consideration received in connection with the Merger and the facility was terminated.

On September 29, 2015, Nabors Delaware entered into a new five-year unsecured term loan facility for \$325.0 million, which is fully and unconditionally guaranteed by us. The term loan facility contains a mandatory prepayment of \$162.5 million due in September 2018. As of September 30, 2016, we had \$325.0 million of borrowings outstanding under this facility. The term loan facility matures in September 2020. The weighted average interest rate on borrowings at September 30, 2016 was 1.73%. Borrowings under this facility will bear interest for periods of one, two, three or six months, at an annual rate equal to LIBOR, plus the applicable interest margin. The interest margin is based on our long-term unsecured credit rating for debt as in effect from time to time.

#### Note 6 Common Shares

During the nine months ended September 30, 2016, we repurchased 0.3 million of our common shares in the open market for \$1.7 million, all of which are held in treasury.

On July 29, 2016, a cash dividend of \$0.06 per share was declared for shareholders of record on September 13, 2016. The dividend was paid on October 4, 2016 in the amount of \$17.0 million and was charged to retained earnings in our condensed consolidated statement of changes in equity for the nine months ended September 30, 2016.

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Note 7 Commitments and Contingencies

Contingencies

Income Tax

We operate in a number of countries throughout the world and our tax returns filed in those jurisdictions are subject to review and examination by tax authorities within those jurisdictions. We do not recognize the benefit of income tax positions we believe are more likely than not to be disallowed upon challenge by a tax authority. If any tax authority successfully challenges our operational structure, intercompany pricing policies or the taxable presence of our subsidiaries in certain countries, if the terms of certain income tax treaties are interpreted in a manner that is adverse to our structure, or if we lose a material tax dispute in any country, our effective tax rate on our worldwide earnings could change substantially.

We have received an assessment from a tax authority in Latin America in connection with a 2007 income tax return. The assessment relates to the denial of depreciation expense deductions related to drilling rigs. Similar deductions were taken for tax years 2009 and 2010. Although Nabors and its tax advisors believe these deductions are appropriate and intend to continue to defend our position, we have recorded a partial reserve to account for this contingency. If we ultimately do not prevail, we estimate that we would be required to recognize additional tax expense in the range of \$3 million to \$8 million.

Self-Insurance

We estimate the level of our liability related to insurance and record reserves for these amounts in our condensed consolidated financial statements. Our estimates are based on the facts and circumstances specific to existing claims and our past experience with similar claims. These loss estimates and accruals recorded in our financial statements for claims have historically been reasonable in light of the actual amount of claims paid and are actuarially supported. Although we believe our insurance coverage and reserve estimates are reasonable, a significant accident or other event that is not fully covered by insurance or contractual indemnity could occur and could materially affect our financial position and results of operations for a particular period.

We self-insure for certain losses relating to workers' compensation, employers' liability, general liability, automobile liability and property damage. Effective April 1, 2016, some of our workers' compensation claims, employers' liability and marine employers' liability claims are subject to a \$3.0 million per-occurrence deductible; additionally, some of our automobile liability claims are subject to a \$2.5 million deductible. General liability claims remain subject to a



\$5.0 million per-occurrence deductible.

In addition, we are subject to a \$5.0 million deductible for land rigs and for offshore rigs. This applies to all kinds of risks of physical damage except for named windstorms in the U.S. Gulf of Mexico for which we are self-insured.

## Litigation

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

In 2009, the Court of Ouargla entered a judgment of approximately \$13.1 million (at September 30, 2016 exchange rates) against us relating to alleged customs infractions in Algeria. We believe we did not receive proper notice of the

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judicial proceedings, and that the amount of the judgment was excessive in any case. We asserted the lack of legally required notice as a basis for challenging the judgment on appeal to the Algeria Supreme Court (the “Supreme Court”). In May 2012, that court reversed the lower court and remanded the case to the Ouargla Court of Appeals for treatment consistent with the Supreme Court’s ruling. In January 2013, the Ouargla Court of Appeals reinstated the judgment. We again lodged an appeal to the Supreme Court, asserting the same challenges as before. While the appeal was pending, the Hassi Messaoud customs office initiated efforts to collect the judgment prior to the Supreme Court’s decision in the case. As a result, we paid approximately \$3.1 million and posted security of approximately \$1.33 million to suspend those collection efforts and to enter into a formal negotiations process with the customs authority. The customs authority demanded 50% of the total fine as a final settlement and seized additional funds of approximately \$3.6 million. We have recorded a reserve in the amount of the posted security. The matter was heard by the Supreme Court on February 26, 2015, and on March 26, 2015, that court set aside the judgment of the Ouargla Court of Appeals and remanded the case to that court for further proceedings. A hearing was held on October 28, 2015 in the Ouargla Court of Appeals and on November 4, 2015, the court affirmed the Supreme Court’s decision that we were not guilty. We have filed an application to the Conseil d’Etat in an effort to recover amounts previously paid by us. A portion of those amounts has been returned, and our efforts to recover the additional \$4.4 million continue.

In March 2011, the Court of Ouargla entered a judgment of approximately \$25.8 million (at September 30, 2016 exchange rates) against us relating to alleged violations of Algeria’s foreign currency exchange controls, which require that goods and services provided locally be invoiced and paid in local currency. The case relates to certain foreign currency payments made to us by CEPESA, a Spanish operator, for wells drilled in 2006. Approximately \$7.5 million of the total contract amount was paid offshore in foreign currency, and approximately \$3.2 million was paid in local currency. The judgment includes fines and penalties of approximately four times the amount at issue. We have appealed the ruling based on our understanding that the law in question applies only to resident entities incorporated under Algerian law. An intermediate court of appeals upheld the lower court’s ruling, and we appealed the matter to the Supreme Court. On September 25, 2014, the Supreme Court overturned the verdict against us, and the case was reheard by the Ouargla Court of Appeals on March 22, 2015 in light of the Supreme Court’s opinion. On March 29, 2015, the Ouargla Court of Appeals reinstated the initial judgment against us. We have appealed this decision again to the Supreme Court. While our payments were consistent with our historical operations in the country, and, we believe, those of other multinational corporations there, as well as interpretations of the law by the Central Bank of Algeria, the ultimate resolution of this matter could result in a loss of up to \$17.8 million in excess of amounts accrued.

In 2012, Nabors Global Holdings II Limited (“NGH2L”) signed a contract with ERG Resources, LLC (“ERG”) relating to the sale of all of the Class A shares of NGH2L’s wholly owned subsidiary, Ramshorn International Limited, an oil and gas exploration company. When ERG failed to meet its closing obligations, NGH2L terminated the transaction on March 19, 2012 and, as contemplated in the agreement, retained ERG’s \$3.0 million escrow deposit. ERG filed suit the following day in the 61st Judicial District Court of Harris County, Texas, in a case styled ERG Resources, LLC v. Nabors Global Holdings II Limited, Ramshorn International Limited, and Parex Resources, Inc.; Cause No. 2012-16446, seeking injunctive relief to halt any sale of the shares to a third party, specifically naming as defendant Parex Resources, Inc. (“Parex”). The lawsuit also seeks monetary damages of up to \$750.0 million based on an alleged breach of contract by NGH2L and alleged tortious interference with contractual relations by Parex. We successfully defeated ERG’s effort to obtain a temporary restraining order from the Texas court on March 20, 2012. We completed the sale of Ramshorn’s Class A shares to a Parex affiliate in April 2012, which mooted ERG’s application for a temporary injunction. The defendants made numerous jurisdictional challenges and on April 30, 2015, ERG filed for bankruptcy under Chapter 11 of the United States Bankruptcy Code. Accordingly, the civil actions are currently subject to the bankruptcy stay and the claims in the suit are assets of the estate. Nabors is monitoring the bankruptcy

proceeding closely to determine how it will affect the pending litigation. The lawsuit was stayed, pending further court actions, including appeals of the jurisdictional decisions. On June 17, 2016, the Texas Supreme Court issued its opinion on the jurisdictional appeal holding that jurisdiction exists in Texas for Ramshorn, but not for Parex Bermuda or Parex Canada. ERG retains its causes of action for monetary damages, but we believe the claims are foreclosed by the terms of the agreement and are without factual or legal merit. Although we are vigorously defending the lawsuit, its ultimate outcome cannot be determined at this time.

On July 30, 2014, we and Red Lion, along with C&J Energy and its board of directors, were sued in a putative shareholder class action filed in the Court of Chancery of the State of Delaware (the “Court of Chancery”). The plaintiff alleges that the members of the C&J Energy board of directors breached their fiduciary duties in connection with the Merger, and that Red Lion and C&J Energy aided and abetted these alleged breaches. The plaintiff sought to enjoin the defendants from proceeding with or consummating the Merger and the C&J Energy stockholder meeting for approval of

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the Merger and, to the extent that the Merger was completed before any relief was granted, to have the Merger rescinded. On November 10, 2014, the plaintiff filed a motion for a preliminary injunction, and, on November 24, 2014, the Court of Chancery entered a bench ruling, followed by a written order on November 25, 2014, that (i) ordered certain members of the C&J Energy board of directors to solicit for a 30 day period alternative proposals to purchase C&J Energy (or a controlling stake in C&J Energy) that were superior to the Merger, and (ii) preliminarily enjoined C&J Energy from holding its stockholder meeting until it complied with the foregoing. C&J Energy complied with the order while it simultaneously pursued an expedited appeal of the Court of Chancery's order to the Supreme Court of the State of Delaware (the "Delaware Supreme Court"). On December 19, 2014, the Delaware Supreme Court overturned the Court of Chancery's judgment and vacated the order. Nabors and the C&J Energy defendants filed a motion to dismiss that was granted by the Chancellor on August 24, 2016, including a ruling that C&J Energy could recover on the bond that was posted to support the temporary restraining order. The plaintiffs filed a Notice of Appeal on September 22, 2016 and their opening brief is due November 7, 2016.

## Off-Balance Sheet Arrangements (Including Guarantees)

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

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

|  | Maximum Amount |         |      |            | Total      |
|--|----------------|---------|------|------------|------------|
|  | 2016           | 2017    | 2018 | Thereafter |            |
| Financial standby letters of credit and other financial surety instruments | \$ 84,167      | 166,330 | —    | —          | \$ 250,497 |



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## Note 8 Earnings (Losses) Per Share

ASC 260, Earnings per Share, requires companies to treat unvested share-based payment awards that have nonforfeitable rights to dividends or dividend equivalents as a separate class of securities in calculating earnings (losses) per share. We have granted and expect to continue to grant to employees restricted stock grants that contain nonforfeitable rights to dividends. Such grants are considered participating securities under ASC 260. As such, we are required to include these grants in the calculation of our basic earnings (losses) per share and calculate basic earnings (losses) per share using the two-class method. The two-class method of computing earnings per share is an earnings allocation formula that determines earnings per share for each class of common stock and participating security according to dividends declared and participation rights in undistributed earnings.

Basic earnings (losses) per share is computed utilizing the two-class method and is calculated based on the weighted-average number of common shares outstanding during the periods presented.

Diluted earnings (losses) per share is computed using the weighted-average number of common and common equivalent shares outstanding during the periods utilizing the two-class method for stock options and unvested restricted stock.

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

|   | Three Months Ended<br>September 30,      |              | Nine Months Ended<br>September 30, |              |
|---|--|--------------|------------------------------------|--------------|
|   | 2016                                     | 2015         | 2016                               | 2015         |
|   | (In thousands, except per share amounts) |              |                                    |              |
| <b>BASIC EPS:</b>   |  |              |                                    |              |
| Net income (loss) (numerator):  |  |              |                                    |              |
| Income (loss) from continuing operations, net of tax                  | \$ (97,839)                              | \$ (250,879) | \$ (681,048)                       | \$ (168,407) |
| Less: net (income) loss attributable to noncontrolling interest       | (1,185)                                  | 320          | 990                                | 453          |
| Less: (earnings) losses allocated to unvested shareholders            | 2,698                                    | 5,834        | 14,683                             | 4,523        |
| Numerator for basic earnings per share:                               |  |              |                                    |              |
| Adjusted income (loss) from continuing operations, net of tax - basic | \$ (96,326)                              | \$ (244,725) | \$ (665,375)                       | \$ (163,431) |
| Income (loss) from discontinued operations, net of tax                | \$ (12,187)                              | \$ (45,275)  | \$ (14,097)                        | \$ (41,067)  |
| Weighted-average number of shares outstanding - basic                 | 276,707                                  | 284,112      | 276,369                            | 285,186      |

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|   |             |              |              |              |
|---|-------------|--------------|--------------|--------------|
| Earnings (losses) per share:  |             |              |              |              |
| Basic from continuing operations  | \$ (0.35)   | \$ (0.86)    | \$ (2.41)    | \$ (0.57)    |
| Basic from discontinued operations  | (0.04)      | (0.16)       | (0.05)       | (0.15)       |
| Total Basic   | \$ (0.39)   | \$ (1.02)    | \$ (2.46)    | \$ (0.72)    |
| DILUTED EPS:  |             |              |              |              |
| Adjusted income (loss) from continuing operations, net of tax - basic       | \$ (96,326) | \$ (244,725) | \$ (665,375) | \$ (163,431) |
| Add: effect of reallocating undistributed earnings of unvested shareholders | —           | —            | —            | —            |
| Adjusted income (loss) from continuing operations, net of tax - diluted     | \$ (96,326) | \$ (244,725) | \$ (665,375) | \$ (163,431) |
| Income (loss) from discontinued operations, net of tax                      | \$ (12,187) | \$ (45,275)  | \$ (14,097)  | \$ (41,067)  |
| Weighted-average number of shares outstanding - basic                       | 276,707     | 284,112      | 276,369      | 285,186      |
| Add: dilutive effect of potential common shares                             | —           | —            | —            | —            |
| Weighted-average number of shares outstanding - diluted                     | 276,707     | 284,112      | 276,369      | 285,186      |
| Earnings (losses) per share:  |             |              |              |              |
| Diluted from continuing operations  | \$ (0.35)   | \$ (0.86)    | \$ (2.41)    | \$ (0.57)    |
| Diluted from discontinued operations  | (0.04)      | (0.16)       | (0.05)       | (0.15)       |
| Total Diluted   | \$ (0.39)   | \$ (1.02)    | \$ (2.46)    | \$ (0.72)    |

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For all periods presented, the computation of diluted earnings (losses) per share excludes outstanding stock options with exercise prices greater than the average market price of Nabors' common shares, because their inclusion would be anti-dilutive and because they are not considered participating securities. For periods in which we experience a net loss from continuing operations, all potential common shares have been excluded from the calculation of weighted-average shares outstanding, because their inclusion would be anti-dilutive. The average number of options that were excluded from diluted earnings (losses) per share that would potentially dilute earnings per share in the future were as follows:

|   | Three Months Ended    |           | Nine Months Ended     |           |
|---|-----------------------|-----------|-----------------------|-----------|
|   | September 30,<br>2016 | 2015      | September 30,<br>2016 | 2015      |
| Potentially dilutive securities excluded as anti-dilutive | 5,368,596             | 9,416,647 | 5,387,577             | 9,910,476 |

In any period during which the average market price of Nabors' common shares exceeds the exercise prices of these stock options, such stock options will be included in our diluted earnings (losses) per share computation using the if-converted method of accounting. Restricted stock is included in our basic and diluted earnings (losses) per share computation using the two-class method of accounting in all periods because such stock is considered participating securities.

## Note 9 Supplemental Balance Sheet and Income Statement Information

Accrued liabilities included the following:

|  | September 30,  | December 31, |
|--|----------------|--------------|
|  | 2016           | 2015         |
|  | (In thousands) |              |
| Accrued compensation                         | \$ 106,864     | \$ 120,204   |
| Deferred revenue                             | 269,601        | 340,472      |
| Other taxes payable                          | 28,218         | 39,850       |
| Workers' compensation liabilities            | 37,459         | 37,459       |
| Interest payable                             | 15,372         | 62,776       |
| Litigation reserves                          | 25,776         | 27,097       |
| Current liability to discontinued operations | 5,539          | 5,197        |
| Current liability to acquisition of KVS      | 22,278         | 22,278       |
| Other accrued liabilities                    | 37,230         | 31,280       |
|  | \$ 548,337     | \$ 686,613   |





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Other expense (income), net included the following:

|   | Three Months Ended<br>September 30,<br>2016 |            | Nine Months Ended<br>September 30,<br>2016 |            |
|---|---|------------|--|------------|
|   | 2015  | 2015       | 2015                                       | 2015       |
|   | (In thousands)                              |            |  |            |
| Losses (gains) on sales, disposals and involuntary conversions of long-lived assets | \$ 6,546                                    | \$ 20,984  | \$ 40,527 (1)                              | \$ 23,709  |
| Other-than-temporary impairment of equity security (2)                              | 3,495                                       | —          | 3,495                                      | —          |
| Impairment of our CJES holdings (3)   | —   | 180,591    | 220,117                                    | 180,591    |
| Merger transaction (4)  | —   | 5,500      | —  | (47,074)   |
| Provision for International operations (5)  | 1,128                                       | 48,279     | 1,128                                      | 48,279     |
| Litigation expenses   | 2,327                                       | 5,522      | 2,651                                      | 3,578      |
| Foreign currency transaction losses (gains)   | (1,102)                                     | (1,496)    | 5,916                                      | (2,044)    |
| Gain on debt buyback  | (680)                                       | —          | (6,707)                                    | —          |
| Other losses (gains)  | (1,322)                                     | 351        | 276  | (1,812)    |
|   | \$ 10,392                                   | \$ 259,731 | \$ 267,403                                 | \$ 205,227 |

- (1) Includes charges of \$22.4 million for nine months ended September 30, 2016 related to a reserve for amounts associated with our retained interest in the oil and gas properties located on the North Slope of Alaska and a \$3.8 million charge to reduce the carrying value of one of our jack-up rigs, which was re-classified as held for sale at June 30, 2016, to its estimated fair value based on expected sales price.
- (2) Represents an other-than-temporary impairment charge related to an equity security. Because the trading price of this security remained below our cost basis for an extended period, we determined the investment was other than temporarily impaired and it was appropriate to write down the investment's carrying value to its current estimated fair value.
- (3) Represents impairment charges related to our CJES holdings. See Note 3 — Investments in Unconsolidated Affiliates.
- (4) Includes the gain and transaction costs associated with the Merger. See Note 3 — Investments in Unconsolidated Affiliates.
- (5) Includes \$25.4 million related to assets and receivables impacted by the degradation of the overall economy and financial situation in Venezuela, which was adversely affected by the downturn in oil prices, primarily comprised of a loss of \$10.0 million related to the remeasurement of our net monetary assets denominated in local currency from the official exchange rate of 6.3 Bolivares per US dollar to the SIMADI exchange rate of 199 Bolivares per US dollar as of September 30, 2015 and \$15.4 million related to the write-off of a receivable balance. The balance of this provision represents an obligation associated with the decision to exit a non-core business line in the region

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of \$1.1 million for each of the three and nine months ended September 30, 2016 and \$22.9 million for each of the three and nine months ended September 30, 2015.

The changes in accumulated other comprehensive income (loss), by component, included the following:

|   | Gains<br>(losses) on<br>cash flow<br>hedges<br>(In thousands (1) ) | Unrealized<br>gains (losses)<br>on available-<br>for-sale<br>securities | Defined<br>benefit<br>pension plan<br>items | Foreign<br>currency<br>items | Total       |
|---|--|---|---|------------------------------|-------------|
| As of January 1, 2015   | \$ (2,044)   | \$ 14,996   | \$ (7,263)                                  | \$ 71,833                    | \$ 77,522   |
| Other comprehensive income (loss)<br>before reclassifications                 | —  | (10,127)  | —   | (95,125)                     | (105,252)   |
| Amounts reclassified from<br>accumulated other comprehensive<br>income (loss) | 280  | —   | 522   | 5,365                        | 6,167       |
| Net other comprehensive income<br>(loss)                                      | 280  | (10,127)  | 522   | (89,760)                     | (99,085)    |
| As of September 30, 2015  | \$ (1,764)   | \$ 4,869  | \$ (6,741)                                  | \$ (17,927)                  | \$ (21,563) |

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(1) All amounts are net of tax.

|  | Gains<br>(losses)<br>on<br>cash flow<br>hedges<br>(In thousands (1) ) | Unrealized<br>gains (losses)<br>on available-<br>for-sale<br>securities | Defined<br>benefit<br>pension plan<br>items | Foreign<br>currency<br>items | Total       |
|--|---|---|---|------------------------------|-------------|
| As of January 1, 2016  | \$ (1,670)  | \$ (314)  | \$ (6,568)                                  | \$ (39,041)                  | \$ (47,593) |
| Other comprehensive income (loss)<br>before reclassifications              | —   | 3,551   | —   | 27,870                       | 31,421      |
| Amounts reclassified from accumulated<br>other comprehensive income (loss) | 472   | 3,495   | 280   | —                            | 4,247       |
| Net other comprehensive income (loss)                                      | 472   | 7,046   | 280   | 27,870                       | 35,668      |
| As of September 30, 2016   | \$ (1,198)  | \$ 6,732  | \$ (6,288)                                  | \$ (11,171)                  | \$ (11,925) |

(1) All amounts are net of tax.

The line items that were reclassified to net income included the following:

|  | Three Months Ended<br>September 30, |          | Nine Months Ended<br>September 30, |            |
|--|-------------------------------------|----------|------------------------------------|------------|
|  | 2016                                | 2015     | 2016                               | 2015       |
|  | (In thousands)                      |          |                                    |            |
| Interest expense   | \$ 153                              | \$ 153   | 459                                | 459        |
| General and administrative expenses  | 297                                 | 276      | 765                                | 828        |
| Other expense (income), net  | 3,495                               | —        | 3,495                              | 5,365      |
| Total income (loss) from continuing operations before income<br>tax              | (3,945)                             | (429)    | (4,719)                            | (6,652)    |
| Tax expense (benefit)  | (172)                               | (162)    | (472)                              | (485)      |
| Reclassification adjustment for (gains)/ losses included in net<br>income (loss) | \$ (3,773)                          | \$ (267) | \$ (4,247)                         | \$ (6,167) |

Note 10 Assets Held for Sale and Discontinued Operations

Assets Held for Sale

Assets held for sale as of September 30, 2016 and December 31, 2015 was \$69.4 million and \$75.7 million, respectively. These assets consisted primarily of our oil and gas holdings which are mainly in the Horn River basin in western Canada of \$62.0 million and \$73.6 million, respectively, as of the periods noted above and the operating results have been reflected in discontinued operations. The remainder represents assets that meet the criteria to be classified as assets held for sale, but do not represent a disposal of a component of an entity or a group of components of an entity representing a strategic shift that has or will have a major effect on the entity's operations and financial results.

We have contracts with pipeline companies to pay specified fees based on committed volumes for gas transport and processing with respect to our oil and gas properties classified as discontinued operations. At September 30, 2016, our undiscounted contractual commitments for these contracts approximated \$19.4 million and we had liabilities of \$13.9 million, \$5.5 million of which were classified as current and were included in accrued liabilities. At December 31, 2015, our undiscounted contractual commitments for these contracts approximated \$23.3 million and we had liabilities of \$16.1 million, \$5.2 million of which were classified as current and were included in accrued liabilities. These amounts represent our best estimate of the fair value of the excess capacity of the pipeline commitments calculated using a discounted cash flow model, when considering our disposal plan, current production levels, natural gas prices and expected utilization of the pipeline over the remaining contractual term. Decreases in actual production or natural gas prices could result in future charges related to excess pipeline commitments.

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## Discontinued Operations

Our condensed statements of income (loss) from discontinued operations were as follows:

|   | Three Months Ended<br>September 30, |             | Nine Months Ended<br>September 30, |             |
|---|-------------------------------------|-------------|------------------------------------|-------------|
|   | 2016                                | 2015        | 2016                               | 2015        |
|   | (In thousands)                      |             |                                    |             |
| Operating revenues (1)  | \$ 688                              | \$ 432      | \$ 1,449                           | \$ 2,737    |
| Income (loss) from Oil & Gas discontinued operations:                                   |                                     |             |                                    |             |
| Income (loss) from discontinued operations  | \$ (836)                            | \$ (1,388)  | \$ (3,501)                         | \$ (3,903)  |
| Less: Impairment charges or other (gains) and losses on sale of wholly owned assets (2) | 15,392                              | 55,044      | 15,388                             | 56,075      |
| Less: Income tax expense (benefit)  | (4,041)                             | (11,157)    | (4,792)                            | (18,911)    |
| Income (loss) from Oil and Gas discontinued operations, net of tax                      | \$ (12,187)                         | \$ (45,275) | \$ (14,097)                        | \$ (41,067) |

(1) Reflects operating revenues of our historical oil and gas operating segment.

(2) Reflects impairment charges of \$15.4 million and \$51.0 million during each of the three and nine months ended September 30, 2016 and 2015, respectively, due to the deterioration of economic conditions in the dry gas market in western Canada as well as an impairment charge for a note receivable of \$4.0 million remaining from the sale of one of our former Canada subsidiaries that provided logistics services during the three and nine-months ended September 30, 2015.

## Note 11 Segment Information

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

|                          | Three Months Ended<br>September 30, |      | Nine Months Ended<br>September 30, |      |
|--------------------------|-------------------------------------|------|------------------------------------|------|
|                          | 2016                                | 2015 | 2016                               | 2015 |
|                          | (In thousands)                      |      |                                    |      |
| Operating revenues: (1)  |                                     |      |                                    |      |
| Drilling & Rig Services: |                                     |      |                                    |      |

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|   |            |            |              |              |
|---|------------|------------|--------------|--------------|
| U.S.                                      | \$ 116,095 | \$ 259,939 | \$ 405,113   | \$ 1,034,929 |
| Canada                                    | 10,444     | 29,929     | 34,555       | 109,182      |
| International                             | 363,552    | 516,180    | 1,165,631    | 1,413,886    |
| Rig Services (2)                          | 58,950     | 73,521     | 152,051      | 318,204      |
| Subtotal Drilling & Rig Services          | 549,041    | 879,569    | 1,757,350    | 2,876,201    |
| Completion & Production Services:         |            |            |              |              |
| Completion Services                       | —          | —          | —            | 207,860      |
| Production Services                       | —          | —          | —            | 158,512      |
| Subtotal Completion & Production Services | —          | —          | —            | 366,372      |
| Other reconciling items (3)               | (29,312)   | (32,016)   | (68,459)     | (117,008)    |
| Total                                     | \$ 519,729 | \$ 847,553 | \$ 1,688,891 | \$ 3,125,565 |





(In thousands)

|   |              |              |
|---|--------------|--------------|
| Total assets:                               |              |              |
| Drilling & Rig Services:                    |              |              |
| U.S.  | \$ 3,391,585 | \$ 3,654,216 |
| Canada                                      | 352,771      | 371,151      |
| International                               | 3,694,029    | 4,108,416    |
| Rig Services                                | 380,241      | 430,319      |
| Subtotal Drilling & Rig Services            | 7,818,626    | 8,564,102    |
| Investment in unconsolidated affiliates (7) | 889          | 415,177      |
| Other reconciling items (5)                 | 604,989      | 558,561      |
| Total                                       | \$ 8,424,504 | \$ 9,537,840 |

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- (1) All periods present the operating activities of most of our wholly owned oil and gas businesses as discontinued operations.
- (2) Includes our other services comprised of our drilling technology and top drive manufacturing, directional drilling, rig instrumentation and software services.
- (3) Represents the elimination of inter-segment transactions.

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- (4) Adjusted operating income (loss) is computed by subtracting the sum of direct costs, general and administrative expenses, research and engineering expenses and depreciation and amortization from operating revenues. Adjusted operating income (loss) is a non-GAAP financial measure and should not be used in isolation or as a substitute for the amounts reported in accordance with GAAP. However, management evaluates the performance of our operating segments and the company's consolidated results based on several criteria, including adjusted operating income (loss) and adjusted EBITDA, because it believes that these financial measures reflect our ongoing profitability and performance. In addition, securities analysts and investors use this measure as one of the metrics on which they analyze our performance. Other companies in our industry may compute these measures differently. A reconciliation of this non-GAAP measure to income (loss) from continuing operations before income taxes, which is the most closely comparable GAAP measure, is provided in the above table.
- (5) Represents the elimination of inter-segment transactions and unallocated corporate expenses, assets and capital expenditures
- (6) Represents our share of the net income (loss), as adjusted for our basis difference, of our unconsolidated affiliates accounted for by the equity method including a loss of \$221.9 million for the nine months ended September 30, 2016, and losses of \$35.1 million and \$35.9 million for the three and nine months ended September 30, 2015, respectively, related to our share of the net loss of CJES, which we reported on a one-quarter lag through June 30, 2016. Beginning in the third quarter of 2016, we ceased accounting for our investment in CJES under the equity method of accounting.
- (7) Represents our investments in unconsolidated affiliates accounted for using the equity method as of September 30, 2016 and December 31, 2015, respectively.

Note 12 Condensed Consolidating Financial Information

Nabors has fully and unconditionally guaranteed all of the issued public debt securities of Nabors Delaware, a wholly owned subsidiary. The following condensed consolidating financial information is included so that separate financial statements of Nabors Delaware are not required to be filed with the SEC. The condensed consolidating financial statements present investments in both consolidated and unconsolidated affiliates using the equity method of accounting.

The following condensed consolidating financial information presents condensed consolidating balance sheets as of September 30, 2016 and December 31, 2015, statements of income (loss) and statements of other comprehensive income (loss) for the three and nine months ended September 30, 2016 and 2015, and statements of cash flows for the nine months ended September 30, 2016 and 2015 of (a) Nabors, parent/guarantor, (b) Nabors Delaware, issuer of public debt securities guaranteed by Nabors, (c) the non-guarantor subsidiaries, (d) consolidating adjustments

necessary to consolidate Nabors and its subsidiaries and (e) Nabors on a consolidated basis.

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## Condensed Consolidating Balance Sheets

|  | September 30, 2016                                 |                                |   |                              |              |
|--|--|--------------------------------|---|------------------------------|--------------|
|  | Nabors<br>(Parent/<br>Guarantor)<br>(In thousands) | Nabors<br>Delaware<br>(Issuer) | Other<br>Subsidiaries<br>(Non-<br>Guarantors) | Consolidating<br>Adjustments | Total        |
| <b>ASSETS</b>                              |  |                                |   |                              |              |
| Current assets:                            |  |                                |   |                              |              |
| Cash and cash equivalents                  | \$ 1,055   | \$ 8                           | \$ 175,980                                    | \$ —                         | \$ 177,043   |
| Short-term investments                     | —  | —                              | 23,607  | —                            | 23,607       |
| Assets held for sale                       | —  | —                              | 69,436  | —                            | 69,436       |
| Accounts receivable, net                   | —  | —                              | 503,966                                       | —                            | 503,966      |
| Inventory                                  | —  | —                              | 141,934                                       | —                            | 141,934      |
| Other current assets                       | 50   | 6,694                          | 149,350                                       | —                            | 156,094      |
| Total current assets                       | 1,105  | 6,702                          | 1,064,273                                     | —                            | 1,072,080    |
| Property, plant and equipment,<br>net      | —  | —                              | 6,616,711                                     | —                            | 6,616,711    |
| Goodwill                                   | —  | —                              | 167,131                                       | —                            | 167,131      |
| Intercompany receivables                   | 136,195  | 11,000                         | 1,442,201                                     | (1,589,396)                  | —            |
| Investment in consolidated<br>affiliates   | 3,541,138  | 4,891,538                      | 1,178,531                                     | (9,611,207)                  | —            |
| Investment in unconsolidated<br>affiliates | —  | —                              | 889   | —                            | 889          |
| Deferred tax assets                        | —  | 423,166                        | —   | (423,166)                    | —            |
| Other long-term assets                     | —  | 413                            | 784,550                                       | (217,270)                    | 567,693      |
| Total assets                               | \$ 3,678,438                                       | \$ 5,332,819                   | \$ 11,254,286                                 | \$ (11,841,039)              | \$ 8,424,504 |
| <b>LIABILITIES AND EQUITY</b>              |  |                                |   |                              |              |
| Current liabilities:                       |  |                                |   |                              |              |
| Current debt                               | \$ —   | \$ —                           | \$ 120  | \$ —                         | \$ 120       |
| Trade accounts payable                     | 110  | 114                            | 215,403                                       | —                            | 215,627      |
| Accrued liabilities                        | 20,399   | 18,239                         | 509,699                                       | —                            | 548,337      |
| Income taxes payable                       | —  | —                              | 23,778  | —                            | 23,778       |
| Total current liabilities                  | 20,509   | 18,353                         | 749,000                                       | —                            | 787,862      |
| Long-term debt                             | —  | 3,693,248                      | —   | (217,270)                    | 3,475,978    |
| Other long-term liabilities                | —  | 22,606                         | 528,398                                       | —                            | 551,004      |
| Deferred income taxes                      | —  | —                              | 434,132                                       | (423,166)                    | 10,966       |
| Intercompany payable                       | 66,000   | 1,523,396                      | —   | (1,589,396)                  | —            |
| Total liabilities                          | 86,509   | 5,257,603                      | 1,711,530                                     | (2,229,832)                  | 4,825,810    |
| Shareholders' equity                       | 3,591,929  | 75,216                         | 9,535,991                                     | (9,611,207)                  | 3,591,929    |
| Noncontrolling interest                    | —  | —                              | 6,765   | —                            | 6,765        |
| Total equity                               | 3,591,929  | 75,216                         | 9,542,756                                     | (9,611,207)                  | 3,598,694    |
| Total liabilities and equity               | \$ 3,678,438                                       | \$ 5,332,819                   | \$ 11,254,286                                 | \$ (11,841,039)              | \$ 8,424,504 |



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## Condensed Consolidating Balance Sheets

|  | December 31, 2015                                  |                                |   |                              |              |
|--|--|--------------------------------|---|------------------------------|--------------|
|  | Nabors<br>(Parent/<br>Guarantor)<br>(In thousands) | Nabors<br>Delaware<br>(Issuer) | Other<br>Subsidiaries<br>(Non-<br>Guarantors) | Consolidating<br>Adjustments | Total        |
| <b>ASSETS</b>                              |  |                                |   |                              |              |
| Current assets:                            |  |                                |   |                              |              |
| Cash and cash equivalents                  | \$ 873   | \$ 10                          | \$ 253,647                                    | \$ —                         | \$ 254,530   |
| Short-term investments                     | —  | —                              | 20,059  | —                            | 20,059       |
| Assets held for sale                       | —  | —                              | 75,678  | —                            | 75,678       |
| Accounts receivable, net                   | —  | —                              | 784,671                                       | —                            | 784,671      |
| Inventory                                  | —  | —                              | 153,824                                       | —                            | 153,824      |
| Other current assets                       | 50   | 9,016                          | 178,069                                       | —                            | 187,135      |
| Total current assets                       | 923  | 9,026                          | 1,465,948                                     | —                            | 1,475,897    |
| Property, plant and equipment,<br>net      | —  | —                              | 7,027,802                                     | —                            | 7,027,802    |
| Goodwill                                   | —  | —                              | 166,659                                       | —                            | 166,659      |
| Intercompany receivables                   | 139,366  | 11,000                         | 1,260,310                                     | (1,410,676)                  | —            |
| Investment in consolidated<br>affiliates   | 4,183,362  | 4,973,327                      | 1,284,225                                     | (10,440,914)                 | —            |
| Investment in unconsolidated<br>affiliates | —  | —                              | 415,177                                       | —                            | 415,177      |
| Deferred tax assets                        | —  | 366,818                        | —   | (366,818)                    | —            |
| Other long-term assets                     | —  | 12,907                         | 507,336                                       | (67,938)                     | 452,305      |
| Total assets                               | \$ 4,323,651                                       | \$ 5,373,078                   | \$ 12,127,457                                 | \$ (12,286,346)              | \$ 9,537,840 |
| <b>LIABILITIES AND EQUITY</b>              |  |                                |   |                              |              |
| Current liabilities:                       |  |                                |   |                              |              |
| Current debt                               | \$ —   | \$ —                           | \$ 6,508                                      | \$ —                         | \$ 6,508     |
| Trade accounts payable                     | 71   | 3                              | 271,910                                       | —                            | 271,984      |
| Accrued liabilities                        | 370  | 64,550                         | 621,693                                       | —                            | 686,613      |
| Income taxes payable                       | —  | —                              | 41,394  | —                            | 41,394       |
| Total current liabilities                  | 441  | 64,553                         | 941,505                                       | —                            | 1,006,499    |
| Long-term debt                             | —  | 3,723,138                      | —   | (67,938)                     | 3,655,200    |
| Other long-term liabilities                | —  | 35,086                         | 517,861                                       | —                            | 552,947      |
| Deferred income taxes                      | —  | —                              | 396,144                                       | (366,818)                    | 29,326       |
| Intercompany payable                       | 40,500   | 1,370,176                      | —   | (1,410,676)                  | —            |
| Total liabilities                          | 40,941   | 5,192,953                      | 1,855,510                                     | (1,845,432)                  | 5,243,972    |
| Shareholders' equity                       | 4,282,710  | 180,125                        | 10,260,789                                    | (10,440,914)                 | 4,282,710    |
| Noncontrolling interest                    | —  | —                              | 11,158  | —                            | 11,158       |
| Total equity                               | 4,282,710  | 180,125                        | 10,271,947                                    | (10,440,914)                 | 4,293,868    |

|                              |              |              |               |                 |              |
|------------------------------|--------------|--------------|---------------|-----------------|--------------|
| Total liabilities and equity | \$ 4,323,651 | \$ 5,373,078 | \$ 12,127,457 | \$ (12,286,346) | \$ 9,537,840 |
|------------------------------|--------------|--------------|---------------|-----------------|--------------|

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## Condensed Consolidating Statements of Income (Loss)

|   | Three Months Ended September 30, 2016              |  |   |                              | Total        |
|---|--|--|---|------------------------------|--------------|
|   | Nabors<br>(Parent/<br>Guarantor)<br>(In thousands) | Nabors<br>Delaware<br>(Issuer/<br>Guarantor) | Other<br>Subsidiaries<br>(Non-<br>Guarantors) | Consolidating<br>Adjustments |              |
| Revenues and other income:  |  |  |   |                              |              |
| Operating revenues  | \$ —   | \$ —   | \$ 519,729                                    | \$ —                         | \$ 519,729   |
| Earnings (losses) from<br>unconsolidated affiliates                   | —  | —  | 2   | —                            | 2            |
| Earnings (losses) from<br>consolidated affiliates                     | (107,229)  | (45,527)                                     | (77,423)                                      | 230,179                      | —            |
| Investment income (loss)  | —  | —  | 3,291   | (2,981)                      | 310          |
| Intercompany interest income  | (9)  | 162  | —   | (153)                        | —            |
| Total revenues and other income                                       | (107,238)  | (45,365)                                     | 445,599                                       | 227,045                      | 520,041      |
| Costs and other deductions:   |  |  |   |                              |              |
| Direct costs  | —  | —  | 306,436                                       | —                            | 306,436      |
| General and administrative<br>expenses                                | 3,053  | 182  | 53,010  | (167)                        | 56,078       |
| Research and engineering  | —  | —  | 8,476   | —                            | 8,476        |
| Depreciation and amortization   | —  | 31   | 220,682                                       | —                            | 220,713      |
| Interest expense  | —  | 50,595                                       | (3,759)                                       | —                            | 46,836       |
| Other, net  | 929  | (18)   | 9,314   | 167                          | 10,392       |
| Intercompany interest expense   | (9)  | —  | 162   | (153)                        | —            |
| Total costs and other deductions                                      | 3,973  | 50,790                                       | 594,321                                       | (153)                        | 648,931      |
| Income (loss) from continuing<br>operations before income taxes       | (111,211)  | (96,155)                                     | (148,722)                                     | 227,198                      | (128,890)    |
| Income tax expense (benefit)  | —  | (18,732)                                     | (12,319)                                      | —                            | (31,051)     |
| Income (loss) from continuing<br>operations, net of tax               | (111,211)  | (77,423)                                     | (136,403)                                     | 227,198                      | (97,839)     |
| Income (loss) from discontinued<br>operations, net of tax             | —  | —  | (12,187)                                      | —                            | (12,187)     |
| Net income (loss)   | (111,211)  | (77,423)                                     | (148,590)                                     | 227,198                      | (110,026)    |
| Less: Net (income) loss<br>attributable to noncontrolling<br>interest | —  | —  | (1,185)                                       | —                            | (1,185)      |
| Net income (loss) attributable to<br>Nabors                           | \$ (111,211)                                       | \$ (77,423)                                  | \$ (149,775)                                  | \$ 227,198                   | \$ (111,211) |





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## Condensed Consolidating Statements of Income (Loss)

|   | Three Months Ended September 30, 2015              |  |   |                              | Total        |
|---|--|--|---|------------------------------|--------------|
|   | Nabors<br>(Parent/<br>Guarantor)<br>(In thousands) | Nabors<br>Delaware<br>(Issuer/<br>Guarantor) | Other<br>Subsidiaries<br>(Non-<br>Guarantors) | Consolidating<br>Adjustments |              |
| Revenues and other income:                                      |  |  |   |                              |              |
| Operating revenues  | \$ —   | \$ —   | \$ 847,553                                    | \$ —                         | \$ 847,553   |
| Earnings from unconsolidated affiliates                         | —  | —  | (35,100)                                      | —                            | (35,100)     |
| Earnings (losses) from consolidated affiliates                  | (293,510)  | (47,522)                                     | (78,151)                                      | 419,183                      | —            |
| Investment income (loss)  | —  | —  | 2,305   | (2,327)                      | (22)         |
| Intercompany interest income                                    | —  | 913  | —   | (913)                        | —            |
| Total revenues and other income                                 | (293,510)  | (46,609)                                     | 736,607                                       | 415,943                      | 812,431      |
| Costs and other deductions:                                     |  |  |   |                              |              |
| Direct costs  | —  | —  | 518,174                                       | —                            | 518,174      |
| General and administrative expenses                             | 2,216  | 180  | 69,771  | (135)                        | 72,032       |
| Research and engineering  | —  | —  | 9,716   | —                            | 9,716        |
| Depreciation and amortization                                   | —  | 31   | 240,076                                       | —                            | 240,107      |
| Interest expense  | —  | 49,320                                       | (4,872)                                       | —                            | 44,448       |
| Other, net  | 109  | —  | 259,487                                       | 135                          | 259,731      |
| Intercompany interest expense                                   | (1)  | —  | 914   | (913)                        | —            |
| Total costs and other deductions                                | 2,324  | 49,531                                       | 1,093,266                                     | (913)                        | 1,144,208    |
| Income (loss) from continuing operations before income taxes    | (295,834)  | (96,140)                                     | (356,659)                                     | 416,856                      | (331,777)    |
| Income tax expense (benefit)                                    | —  | (17,989)                                     | (62,909)                                      | —                            | (80,898)     |
| Income (loss) from continuing operations, net of tax            | (295,834)  | (78,151)                                     | (293,750)                                     | 416,856                      | (250,879)    |
| Income (loss) from discontinued operations, net of tax          | —  | —  | (45,275)                                      | —                            | (45,275)     |
| Net income (loss)   | (295,834)  | (78,151)                                     | (339,025)                                     | 416,856                      | (296,154)    |
| Less: Net (income) loss attributable to noncontrolling interest | —  | —  | 320   | —                            | 320          |
| Net income (loss) attributable to Nabors                        | \$ (295,834)                                       | \$ (78,151)                                  | \$ (338,705)                                  | \$ 416,856                   | \$ (295,834) |

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## Condensed Consolidating Statements of Income (Loss)

|   | Nine Months Ended September 30, 2016               |  |   |                              |              |
|---|--|--|---|------------------------------|--------------|
|   | Nabors<br>(Parent/<br>Guarantor)<br>(In thousands) | Nabors<br>Delaware<br>(Issuer/<br>Guarantor) | Other<br>Subsidiaries<br>(Non-<br>Guarantors) | Consolidating<br>Adjustments | Total        |
| Revenues and other income:  |  |  |   |                              |              |
| Operating revenues  | \$ —   | \$ —   | \$ 1,688,891                                  | \$ —                         | \$ 1,688,891 |
| Earnings (losses) from<br>unconsolidated affiliates                   | —  | —  | (221,918)                                     | —                            | (221,918)    |
| Earnings (losses) from<br>consolidated affiliates                     | (685,148)  | (168,639)                                    | (264,583)                                     | 1,118,370                    | —            |
| Investment income (loss)  | 1  | 132  | 9,733   | (8,943)                      | 923          |
| Intercompany interest income  | —  | 417  | —   | (417)                        | —            |
| Total revenues and other income                                       | (685,147)  | (168,090)                                    | 1,212,123                                     | 1,109,010                    | 1,467,896    |
| Costs and other deductions:   |  |  |   |                              |              |
| Direct costs  | —  | —  | 1,012,738                                     | —                            | 1,012,738    |
| General and administrative<br>expenses                                | 7,767  | 448  | 167,302                                       | (481)                        | 175,036      |
| Research and engineering  | —  | —  | 24,818  | —                            | 24,818       |
| Depreciation and amortization   | —  | 93   | 655,351                                       | —                            | 655,444      |
| Interest expense  | —  | 152,318                                      | (14,515)                                      | —                            | 137,803      |
| Other, net  | 1,245  | (18)   | 265,695                                       | 481                          | 267,403      |
| Intercompany interest expense   | (4)  | —  | 421   | (417)                        | —            |
| Total costs and other deductions                                      | 9,008  | 152,841                                      | 2,111,810                                     | (417)                        | 2,273,242    |
| Income (loss) from continuing<br>operations before income taxes       | (694,155)  | (320,931)                                    | (899,687)                                     | 1,109,427                    | (805,346)    |
| Income tax expense (benefit)  | —  | (56,348)                                     | (67,950)                                      | —                            | (124,298)    |
| Income (loss) from continuing<br>operations, net of tax               | (694,155)  | (264,583)                                    | (831,737)                                     | 1,109,427                    | (681,048)    |
| Income (loss) from discontinued<br>operations, net of tax             | —  | —  | (14,097)                                      | —                            | (14,097)     |
| Net income (loss)   | (694,155)  | (264,583)                                    | (845,834)                                     | 1,109,427                    | (695,145)    |
| Less: Net (income) loss<br>attributable to noncontrolling<br>interest | —  | —  | 990   | —                            | 990          |
| Net income (loss) attributable to<br>Nabors                           | \$ (694,155)                                       | \$ (264,583)                                 | \$ (844,844)                                  | \$ 1,109,427                 | \$ (694,155) |



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## Condensed Consolidating Statements of Income (Loss)

|   | Nine Months Ended September 30, 2015               |                                  |   |                              |              |
|---|--|----------------------------------|---|------------------------------|--------------|
|   | Nabors<br>(Parent/<br>Guarantor)<br>(In thousands) | Nabors<br>Delaware<br>Guarantor) | Other<br>Subsidiaries<br>(Non-<br>Guarantors) | Consolidating<br>Adjustments | Total        |
| Revenues and other income:                                      |  |                                  |   |                              |              |
| Operating revenues  | \$ —   | \$ —                             | \$ 3,125,565                                  | \$ —                         | \$ 3,125,565 |
| Earnings from unconsolidated affiliates                         | —  | —                                | (29,714)                                      | —                            | (29,714)     |
| Earnings (losses) from consolidated affiliates                  | (189,624)  | (40,029)                         | (131,838)                                     | 361,491                      | —            |
| Investment income (loss)  | —  | 560                              | 8,549   | (6,981)                      | 2,128        |
| Intercompany interest income                                    | —  | 5,539                            | —   | (5,539)                      | —            |
| Total revenues and other income                                 | (189,624)  | (33,930)                         | 2,972,562                                     | 348,971                      | 3,097,979    |
| Costs and other deductions:                                     |  |                                  |   |                              |              |
| Direct costs  | —  | —                                | 1,926,306                                     | —                            | 1,926,306    |
| General and administrative expenses                             | 7,047  | (143)                            | 256,787                                       | (419)                        | 263,272      |
| Research and engineering  | —  | —                                | 31,899  | —                            | 31,899       |
| Depreciation and amortization                                   | —  | 674                              | 738,648                                       | —                            | 739,322      |
| Interest expense  | (1)  | 151,297                          | (15,778)                                      | —                            | 135,518      |
| Other, net  | 12,328   | —                                | 192,480                                       | 419                          | 205,227      |
| Intercompany interest expense                                   | 23   | —                                | 5,516   | (5,539)                      | —            |
| Total costs and other deductions                                | 19,397   | 151,828                          | 3,135,858                                     | (5,539)                      | 3,301,544    |
| Income (loss) from continuing operations before income taxes    | (209,021)  | (185,758)                        | (163,296)                                     | 354,510                      | (203,565)    |
| Income tax expense (benefit)                                    | —  | (53,920)                         | 18,762  | —                            | (35,158)     |
| Income (loss) from continuing operations, net of tax            | (209,021)  | (131,838)                        | (182,058)                                     | 354,510                      | (168,407)    |
| Income (loss) from discontinued operations, net of tax          | —  | —                                | (41,067)                                      | —                            | (41,067)     |
| Net income (loss)   | (209,021)  | (131,838)                        | (223,125)                                     | 354,510                      | (209,474)    |
| Less: Net (income) loss attributable to noncontrolling interest | —  | —                                | 453   | —                            | 453          |
| Net income (loss) attributable to Nabors                        | \$ (209,021)                                       | \$ (131,838)                     | \$ (222,672)                                  | \$ 354,510                   | \$ (209,021) |



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## Condensed Consolidating Statements of Comprehensive Income (Loss)

|  | Three Months Ended September 30, 2016              |  |   |                              | Total        |
|--|--|--|---|------------------------------|--------------|
|  | Nabors<br>(Parent/<br>Guarantor)<br>(In thousands) | Nabors<br>Delaware<br>(Issuer/<br>Guarantor) | Other<br>Subsidiaries<br>(Non-<br>Guarantors) | Consolidating<br>Adjustments |              |
| Net income (loss) attributable to Nabors   | \$ (111,211)                                       | \$ (77,423)                                  | \$ (149,775)                                  | \$ 227,198                   | \$ (111,211) |
| Other comprehensive income (loss) before tax:                                      |  |  |   |                              |              |
| Translation adjustment attributable to Nabors                                      |  |  |   |                              |              |
| Unrealized loss on translation adjustment  | (8,950)  | 12   | (8,938)                                       | 8,926                        | (8,950)      |
| Less: reclassification adjustment for realized loss on translation adjustment      | —  | —  | —   | —                            | —            |
| Translation adjustment attributable to Nabors                                      | (8,950)  | 12   | (8,938)                                       | 8,926                        | (8,950)      |
| Unrealized gains (losses) on marketable securities:                                |  |  |   |                              |              |
| Unrealized gains (losses) on marketable securities                                 | 1,502  | —  | 2,782   | (2,782)                      | 1,502        |
| Less: reclassification adjustment for (gains) losses included in net income (loss) | 3,495  | —  | 3,495   | (3,495)                      | 3,495        |
| Unrealized gains (losses) on marketable securities                                 | 4,997  | —  | 6,277   | (6,277)                      | 4,997        |
| Pension liability amortization and adjustment                                      | 297  | 297  | 594   | (891)                        | 297          |
| Unrealized gains (losses) and amortization on cash flow hedges                     | 153  | 153  | 153   | (306)                        | 153          |
| Other comprehensive income (loss) before tax                                       | (3,503)  | 462  | (1,914)                                       | 1,452                        | (3,503)      |
| Income tax expense (benefit) related to items of other comprehensive income (loss) | 172  | 172  | 284   | (456)                        | 172          |
| Other comprehensive income (loss), net of tax                                      | (3,675)  | 290  | (2,198)                                       | 1,908                        | (3,675)      |
| Comprehensive income (loss) attributable to Nabors                                 | (114,886)  | (77,133)                                     | (151,973)                                     | 229,106                      | (114,886)    |
| Net income (loss) attributable to noncontrolling interest                          | —  | —  | 1,185   | —                            | 1,185        |
|  | —  | —  | (90)  | —                            | (90)         |

Translation adjustment attributable  
to noncontrolling interest

Comprehensive income (loss)  
attributable to noncontrolling  
interest

|                             |              |             |              |            |              |
|-----------------------------|--------------|-------------|--------------|------------|--------------|
|                             | —            | —           | 1,095        | —          | 1,095        |
| Comprehensive income (loss) | \$ (114,886) | \$ (77,133) | \$ (150,878) | \$ 229,106 | \$ (113,791) |

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## Condensed Consolidating Statements of Comprehensive Income (Loss)

|  | Three Months Ended September 30, 2015              |  |   |                              | Total        |
|--|--|--|---|------------------------------|--------------|
|  | Nabors<br>(Parent/<br>Guarantor)<br>(In thousands) | Nabors<br>Delaware<br>(Issuer/<br>Guarantor) | Other<br>Subsidiaries<br>(Non-<br>Guarantors) | Consolidating<br>Adjustments |              |
| Net income (loss) attributable to Nabors   | \$ (295,834)                                       | \$ (78,151)                                  | \$ (338,705)                                  | \$ 416,856                   | \$ (295,834) |
| Other comprehensive income (loss) before tax:                                      |  |  |   |                              |              |
| Translation adjustment attributable to Nabors                                      |  |  |   |                              |              |
| Unrealized loss on translation adjustment  | (38,859)   | —  | (38,859)                                      | 38,859                       | (38,859)     |
| Less: reclassification adjustment for realized loss on translation adjustment      | —  | —  | —   | —                            | —            |
| Translation adjustment attributable to Nabors                                      | (38,859)   | —  | (38,859)                                      | 38,859                       | (38,859)     |
| Unrealized gains (losses) on marketable securities:                                |  |  |   |                              |              |
| Unrealized gains (losses) on marketable securities                                 | (8,127)  | —  | (8,127)                                       | 8,127                        | (8,127)      |
| Less: reclassification adjustment for (gains) losses included in net income (loss) | —  | —  | —   | —                            | —            |
| Unrealized gains (losses) on marketable securities                                 | (8,127)  | —  | (8,127)                                       | 8,127                        | (8,127)      |
| Pension liability amortization and adjustment                                      | 276  | 276  | 552   | (828)                        | 276          |
| Unrealized gains (losses) and amortization on cash flow hedges                     | 153  | 153  | 153   | (306)                        | 153          |
| Other comprehensive income (loss) before tax                                       | (46,557)   | 429  | (46,281)                                      | 45,852                       | (46,557)     |
| Income tax expense (benefit) related to items of other comprehensive income (loss) | 162  | 162  | 264   | (426)                        | 162          |
| Other comprehensive income (loss), net of tax                                      | (46,719)   | 267  | (46,545)                                      | 46,278                       | (46,719)     |
| Comprehensive income (loss) attributable to Nabors                                 | (342,553)  | (77,884)                                     | (385,250)                                     | 463,134                      | (342,553)    |
|  | —  | —  | (320)   | —                            | (320)        |

|   |              |             |              |            |              |
|---|--------------|-------------|--------------|------------|--------------|
| Net income (loss) attributable to noncontrolling interest           |              |             |              |            |              |
| Translation adjustment attributable to noncontrolling interest      | —            | —           | (476)        | —          | (476)        |
| Comprehensive income (loss) attributable to noncontrolling interest | —            | —           | (796)        | —          | (796)        |
| Comprehensive income (loss)   | \$ (342,553) | \$ (77,884) | \$ (386,046) | \$ 463,134 | \$ (343,349) |

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## Condensed Consolidating Statements of Comprehensive Income (Loss)

|  | Nine Months Ended September 30, 2016               |  |   |                              | Total        |
|--|--|--|---|------------------------------|--------------|
|  | Nabors<br>(Parent/<br>Guarantor)<br>(In thousands) | Nabors<br>Delaware<br>(Issuer/<br>Guarantor) | Other<br>Subsidiaries<br>(Non-<br>Guarantors) | Consolidating<br>Adjustments |              |
| Net income (loss) attributable to Nabors   | \$ (694,155)                                       | \$ (264,583)                                 | \$ (844,844)                                  | \$ 1,109,427                 | \$ (694,155) |
| Other comprehensive income (loss) before tax                                       |  |  |   |                              |              |
| Translation adjustment attributable to Nabors:                                     |  |  |   |                              |              |
| Unrealized loss on translation adjustment  | 27,870   | (39)   | 27,870  | (27,831)                     | 27,870       |
| Less: reclassification adjustment for realized loss on translation adjustment      | —  | —  | —   | —                            | —            |
| Translation adjustment attributable to Nabors                                      | 27,870   | (39)   | 27,870  | (27,831)                     | 27,870       |
| Unrealized gains (losses) on marketable securities:                                |  |  |   |                              |              |
| Unrealized gains (losses) on marketable securities                                 | 3,551  | —  | 3,551   | (3,551)                      | 3,551        |
| Less: reclassification adjustment for (gains) losses included in net income (loss) | 3,495  | —  | 3,495   | (3,495)                      | 3,495        |
| Unrealized gains (losses) on marketable securities                                 | 7,046  | —  | 7,046   | (7,046)                      | 7,046        |
| Pension liability amortization and adjustment                                      | 765  | 765  | 1,530   | (2,295)                      | 765          |
| Unrealized gains (losses) and amortization on cash flow hedges                     | 459  | 459  | 459   | (918)                        | 459          |
| Other comprehensive income (loss) before tax                                       | 36,140   | 1,185  | 36,905  | (38,090)                     | 36,140       |
| Income tax expense (benefit) related to items of other comprehensive income (loss) | 472  | 472  | 765   | (1,237)                      | 472          |
| Other comprehensive income (loss), net of tax                                      | 35,668   | 713  | 36,140  | (36,853)                     | 35,668       |
| Comprehensive income (loss) attributable to Nabors                                 | (658,487)  | (263,870)                                    | (808,704)                                     | 1,072,574                    | (658,487)    |
| Net income (loss) attributable to noncontrolling interest                          | —  | —  | (990)   | —                            | (990)        |
|  | —  | —  | 371   | —                            | 371          |

|   |              |              |              |              |              |
|---|--------------|--------------|--------------|--------------|--------------|
| Translation adjustment<br>attributable to noncontrolling<br>interest      |              |              |              |              |              |
| Comprehensive income (loss)<br>attributable to noncontrolling<br>interest | —            | —            | (619)        | —            | (619)        |
| Comprehensive income (loss)   | \$ (658,487) | \$ (263,870) | \$ (809,323) | \$ 1,072,574 | \$ (659,106) |

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## Condensed Consolidating Statements of Comprehensive Income (Loss)

|  | Nine Months Ended September 30, 2015               |  |   |                              | Total        |
|--|--|--|---|------------------------------|--------------|
|  | Nabors<br>(Parent/<br>Guarantor)<br>(In thousands) | Nabors<br>Delaware<br>(Issuer/<br>Guarantor) | Other<br>Subsidiaries<br>(Non-<br>Guarantors) | Consolidating<br>Adjustments |              |
| Net income (loss) attributable to Nabors   | \$ (209,021)                                       | \$ (131,838)                                 | \$ (222,672)                                  | \$ 354,510                   | \$ (209,021) |
| Other comprehensive income (loss) before tax                                       |  |  |   |                              |              |
| Translation adjustment attributable to Nabors:                                     |  |  |   |                              |              |
| Unrealized loss on translation adjustment  | (95,125)   | 51   | (95,074)                                      | 95,023                       | (95,125)     |
| Less: reclassification adjustment for realized loss on translation adjustment      | 5,365  | —  | 5,365   | (5,365)                      | 5,365        |
| Translation adjustment attributable to Nabors                                      | (89,760)   | 51   | (89,709)                                      | 89,658                       | (89,760)     |
| Unrealized gains (losses) on marketable securities:                                |  |  |   |                              |              |
| Unrealized gains (losses) on marketable securities                                 | (10,127)   | —  | (10,127)                                      | 10,127                       | (10,127)     |
| Less: reclassification adjustment for (gains) losses included in net income (loss) | —  | —  | —   | —                            | —            |
| Unrealized gains (losses) on marketable securities                                 | (10,127)   | —  | (10,127)                                      | 10,127                       | (10,127)     |
| Pension liability amortization and adjustment                                      | 828  | 828  | 1,656   | (2,484)                      | 828          |
| Unrealized gains (losses) and amortization on cash flow hedges                     | 459  | 459  | 459   | (918)                        | 459          |
| Other comprehensive income (loss) before tax                                       | (98,600)   | 1,338  | (97,721)                                      | 96,383                       | (98,600)     |
| Income tax expense (benefit) related to items of other comprehensive income (loss) | 485  | 485  | 791   | (1,276)                      | 485          |
| Other comprehensive income (loss), net of tax                                      | (99,085)   | 853  | (98,512)                                      | 97,659                       | (99,085)     |
| Comprehensive income (loss) attributable to Nabors                                 | (308,106)  | (130,985)                                    | (321,184)                                     | 452,169                      | (308,106)    |
| Net income (loss) attributable to noncontrolling interest                          | —  | —  | (453)   | —                            | (453)        |
|  | —  | —  | (1,194)                                       | —                            | (1,194)      |

|   |              |              |              |            |              |
|---|--------------|--------------|--------------|------------|--------------|
| Translation adjustment<br>attributable to noncontrolling<br>interest      |              |              |              |            |              |
| Comprehensive income (loss)<br>attributable to noncontrolling<br>interest | —            | —            | (1,647)      | —          | (1,647)      |
| Comprehensive income (loss)   | \$ (308,106) | \$ (130,985) | \$ (322,831) | \$ 452,169 | \$ (309,753) |

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## Condensed Consolidating Statements Cash Flows

|  | Nine Months Ended September 30, 2016 |                                    |                                      |               |            |
|--|--------------------------------------|------------------------------------|--------------------------------------|---------------|------------|
|  | Nabors                               | Nabors                             | Other                                | Consolidating | Total      |
|  | (Parent/<br>Guarantor)               | Delaware<br>(Issuer/<br>Guarantor) | Subsidiaries<br>(Non-<br>Guarantors) |               |            |
| (In thousands)   |                                      |                                    |                                      |               |            |
| Net cash provided by (used for) operating activities   | \$ 18,320                            | \$ (276,655)                       | \$ 669,063                           | \$ (5,960)    | \$ 404,768 |
| Cash flows from investing activities:                  |                                      |                                    |                                      |               |            |
| Purchases of investments                               | —                                    | —                                  | (24)                                 | —             | (24)       |
| Sales and maturities of investments                    | —                                    | —                                  | 643                                  | —             | 643        |
| Cash paid for investments in consolidated affiliates   | —                                    | (86,459)                           | (159,000)                            | 245,459       | —          |
| Capital expenditures                                   | —                                    | —                                  | (284,950)                            | —             | (284,950)  |
| Proceeds from sales of assets and insurance claims     | —                                    | —                                  | 26,597                               | —             | 26,597     |
| Change in intercompany balances                        | —                                    | 239,112                            | (239,112)                            | —             | —          |
| Other  | —                                    | —                                  | (19)                                 | —             | (19)       |
| Net cash provided by (used for) investing activities   | —                                    | 152,653                            | (655,865)                            | 245,459       | (257,753)  |
| Cash flows from financing activities:                  |                                      |                                    |                                      |               |            |
| Increase (decrease) in cash overdrafts                 | —                                    | —                                  | 5                                    | —             | 5          |
| Proceeds from revolving credit facilities              | —                                    | 560,000                            | —                                    | —             | 560,000    |
| Reduction in revolving credit facilities               | —                                    | (260,000)                          | —                                    | —             | (260,000)  |
| Proceeds from (payments for) issuance of common shares | 562                                  | —                                  | —                                    | —             | 562        |
| Repurchase of common shares                            | —                                    | —                                  | (1,687)                              | —             | (1,687)    |
| Reduction in long-term debt                            | —                                    | (350,000)                          | (142,625)                            | —             | (492,625)  |
| Dividends to shareholders                              | (39,887)                             | —                                  | —                                    | 5,960         | (33,927)   |
| Proceeds from (payments for) commercial paper, net     | —                                    | 15,000                             | —                                    | —             | 15,000     |
| Proceeds from parent contributions                     | —                                    | 159,000                            | 86,459                               | (245,459)     | —          |
| Proceeds from (payments for) short-term borrowings     | —                                    | —                                  | (6,388)                              | —             | (6,388)    |
| Proceeds from issuance of intercompany debt            | 25,500                               | —                                  | (25,500)                             | —             | —          |
| Other  | (4,313)                              | —                                  | —                                    | —             | (4,313)    |

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|  |          |         |            |           |            |
|--|----------|---------|------------|-----------|------------|
| Net cash (used for) provided by financing activities         | (18,138) | 124,000 | (89,736)   | (239,499) | (223,373)  |
| Effect of exchange rate changes on cash and cash equivalents | —        | —       | (1,129)    | —         | (1,129)    |
| Net increase (decrease) in cash and cash equivalents         | 182      | (2)     | (77,667)   | —         | (77,487)   |
| Cash and cash equivalents, beginning of period               | 873      | 10      | 253,647    | —         | 254,530    |
| Cash and cash equivalents, end of period                     | \$ 1,055 | \$ 8    | \$ 175,980 | \$ —      | \$ 177,043 |



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## Condensed Consolidating Statements Cash Flows

|   | Nine Months Ended September 30, 2015               |  |   |                              | Total     |
|---|--|--|---|------------------------------|-----------|
|   | Nabors<br>(Parent/<br>Guarantor)<br>(In thousands) | Nabors<br>Delaware<br>(Issuer/<br>Guarantor) | Other<br>Subsidiaries<br>(Non-<br>Guarantors) | Consolidating<br>Adjustments |           |
| Net cash provided by (used for) operating activities                        | \$ 39,956  | (188,781)                                    | 782,139                                       | (28,303)                     | 605,011   |
| Cash flows from investing activities:                                       |  |  |   |                              |           |
| Purchases of investments  | —  | —  | (8)   | —                            | (8)       |
| Sales and maturities of investments   | —  | —  | 859   | —                            | 859       |
| Cash paid for acquisitions of businesses, net                               | —  | —  | (57,909)                                      | —                            | (57,909)  |
| Investments in unconsolidated affiliates                                    | —  | —  | (445)   | —                            | (445)     |
| Proceeds from merger transaction  | 5,500  | 646,078                                      | (1,528)                                       | —                            | 650,050   |
| Capital expenditures  | —  | —  | (744,047)                                     | —                            | (744,047) |
| Proceeds from sale of assets and insurance claims                           | —  | —  | 30,164  | —                            | 30,164    |
| Other   | —  | —  | 1,700   | —                            | 1,700     |
| Change in intercompany balances   | —  | 67,194                                       | (67,194)                                      | —                            | —         |
| Net cash provided by (used for) investing activities                        | 5,500  | 713,272                                      | (838,408)                                     | —                            | (119,636) |
| Cash flows from financing activities:                                       |  |  |   |                              |           |
| Increase (decrease) in cash overdrafts                                      | —  | —  | 363   | —                            | 363       |
| Proceeds from (payments for) issuance of parent common shares to affiliates | 1,198  | —  | —   | —                            | 1,198     |
| Dividends to shareholders   | (59,470)   | —  | —   | 6,981                        | (52,489)  |
| Proceeds from (payments for) commercial paper, net                          | —  | (162,544)                                    | —   | —                            | (162,544) |
| Proceeds from issuance of intercompany debt                                 | 47,000   | 88,058                                       | (135,058)                                     | —                            | —         |
| Reduction in revolving credit facilities                                    | —  | (450,000)                                    | —   | —                            | (450,000) |
| Proceeds from term loan   | —  | 300,000                                      | —   | —                            | 300,000   |
| Payments on term loan   | —  | (300,000)                                    | —   | —                            | (300,000) |
| Purchase of treasury stock  | —  | —  | (44,978)                                      | —                            | (44,978)  |
| Proceeds from short-term borrowings   | —  | —  | 2,792   | —                            | 2,792     |
| Paydown of intercompany debt  | (27,000)   | —  | 27,000  | —                            | —         |

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|  |          |           |            |        |            |
|--|----------|-----------|------------|--------|------------|
| Payments on parent (Equity or N/P)                           | —        | —         | (21,322)   | 21,322 | —          |
| Other  | (7,534)  | —         | —          | —      | (7,534)    |
| Net cash (used for) provided by financing activities         | (45,806) | (524,486) | (171,203)  | 28,303 | (713,192)  |
| Effect of exchange rate changes on cash and cash equivalents | —        | —         | (21,966)   | —      | (21,966)   |
| Net increase (decrease) in cash and cash equivalents         | (350)    | 5         | (249,438)  | —      | (249,783)  |
| Cash and cash equivalents, beginning of period               | 1,170    | 7         | 499,972    | —      | 501,149    |
| Cash and cash equivalents, end of period                     | \$ 820   | \$ 12     | \$ 250,534 | \$ —   | \$ 251,366 |

Note 13 Subsequent Events

On October 28, 2016, our Board of Directors declared a cash dividend of \$0.06 per common share, which will be paid on January 4, 2017 to shareholders of record at the close of business on December 14, 2016.

On October 31, 2016, we entered into an agreement with Saudi Arabian Development Company (“Saudi Aramco”), a wholly-owned subsidiary of Saudi Arabian Oil Company, to form a new joint venture to own, manage and operate onshore drilling rigs in The Kingdom of Saudi Arabia. The total initial value of the investment through January 2019 of each party in the joint venture is expected to approach \$500.0 million in exchange for an equal interest.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

We often discuss expectations regarding our the performance of our industry, our future markets, demand for our products and services, and our performance in our annual, quarterly and current reports, press releases, and other written and oral statements. Statements relating to matters that are not historical facts are "forward-looking statements" within the meaning of the safe harbor provisions of Section 27A of the Securities Act and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). These "forward-looking statements" are based on an analysis of currently available competitive, financial and economic data and our operating plans. They are inherently uncertain and investors should recognize that events and actual results could turn out to be significantly different from our expectations. By way of illustration, when used in this document, words such as "anticipate," "believe," "expect," "plan," "intend," "estimate," "project," "will," "should," "could," "may," "predict" and similar expressions are intended to identify forward-looking statements.

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

- fluctuations and volatility in worldwide prices of and demand for oil and natural gas;
- fluctuations in levels of oil and natural gas exploration and development activities;
- fluctuations in the demand for our services;
- competitive and technological changes and other developments in the oil and gas and oilfield services industries;
- changes in the market value of and other events affecting our investments accounted for using the equity method of accounting;
- our ability to complete, and realize the expected benefits of, strategic transactions;
- the existence of operating risks inherent in the oil and gas and oilfield services industries;
- the possibility of changes in tax and other laws and regulations;
- the possibility of political or economic instability, civil disturbance, war or acts of terrorism in any of the countries in which we do business; and

- general economic conditions, including the capital and credit markets.

The above description of risks and uncertainties is not all-inclusive, but highlights certain factors that we believe are important for your consideration. For a more detailed description of risk factors that may affect us or our industry, please refer to Part I, Item 1A. — Risk Factors in our 2015 Annual Report on Form 10-K.

## Management Overview

This section is intended to help you understand our results of operations and our financial condition. This information is provided as a supplement to, and should be read in conjunction with, our condensed consolidated financial statements and the accompanying notes thereto.

We own and operate the world's largest land-based drilling rig fleet and are a leading provider of offshore platform, workover and drilling rigs in the United States and multiple international markets. Our Drilling & Rig Services business is comprised of our global land-based and offshore drilling rig operations and other rig services, consisting of equipment manufacturing, rig instrumentation, optimization software and directional drilling services. Our Drilling & Rig Services business consists of four reportable operating segments: U.S., Canada, International and Rig Services.

On March 24, 2015, we completed the Merger of our Completion & Production Services business with C&J Energy. In the Merger and related transactions, our wholly-owned interest in our Completion & Production Service business was

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exchanged for cash and an equity interest in the combined entity, CJES, and was accounted for as an unconsolidated affiliate as of the acquisition date through June 30, 2016. CJES provides well construction, well completions, well support and other complementary oilfield services to oil and gas exploration and production companies primarily in North America. As we no longer consolidate the results of operations from our historical Completion & Production Services business, our results of operations for the nine months ended September 30, 2015 are not directly comparable to the nine months ended September 30, 2016.

As a result of the Merger, we had reported our share of the earnings (losses) of CJES through earnings (losses) from unconsolidated affiliates in our condensed consolidated statements of income (loss) until June 30, 2016. On July 20, 2016, CJES filed voluntary petitions for reorganization under Chapter 11 of the United States Bankruptcy Code in the United States Bankruptcy Court for the Southern District of Texas, Houston Division, under the caption In re CJ Holdings Co., et al., Case No. 16-33590 (DRJ). Based on the current reorganization plans, we no longer expect to maintain any significant influence over CJES. As a result, beginning in the third quarter of 2016, we ceased accounting for our investment in CJES as an equity method investment and now report this investment at our estimated fair value. Due to the uncertainties around the eventual outcome of the bankruptcy process, we wrote off the remaining carrying value of our investment in CJES during the second quarter of 2016, and as such, there is no impact to our condensed consolidated financial statements during the third quarter as a result of the change in accounting. We continue to monitor the voluntary reorganization process and defend our interests in the bankruptcy proceedings, and we cannot predict what recovery, if any, we will receive upon CJES' emergence from bankruptcy. See further discussion in Note 3—Investments in Unconsolidated Affiliates.

On May 24, 2015, we paid \$106.0 million in cash to acquire the remaining 49% equity interest in Nabors Arabia, our joint venture in Saudi Arabia, making it a wholly owned subsidiary. The effects of the acquisition and the operating results of Nabors Arabia are included in the accompanying unaudited condensed consolidated financial statements beginning on the acquisition date, and are reflected in our International drilling segment.

## Financial Results

Operating revenues for the three months ended September 30, 2016 totaled \$519.7 million, a decrease of \$327.8 million, or 39%, as compared to the three months ended September 30, 2015. Operating revenues totaled \$1.7 billion for the nine months ended September 30, 2016, a decrease of \$1.4 billion, or 46%, as compared to the nine months ended September 30, 2015. Net loss from continuing operations for the three months ended September 30, 2016 totaled \$97.8 million (\$0.35 per diluted share), an increase of \$153.0 million compared to the three months ended September 30, 2015. Net loss from continuing operations for the nine months ended September 30, 2016 totaled \$681.0 million (\$2.41 per diluted share), a decrease of \$512.6 million compared to the nine months ended September 30, 2015.

Persistently low oil and gas prices have had a significant impact on the number of rigs working, particularly in our U.S. and Canada segments although our International Drilling segment has also felt the effect. The decline in global

oil prices, and the extended duration of lower prices for both oil and gas, have resulted in dramatic reductions in capital spending on the part of our customers. Together, these trends led to continued reductions in the level of drilling activity in the oil and gas industries on a worldwide basis and had a corresponding adverse impact on our results of operations. In the U.S., our customers' reaction to the decrease in commodity prices resulted in significant decreases in both the number of rigs that are working and the dayrates that we can obtain. We believe the U.S. market has started to stabilize, as evidenced by a slight uptick in rig counts during the third quarter of 2016 as a result of the relative stability in oil prices. However, we believe our customers will continue to react cautiously to the environment throughout the remainder of 2016 and into early 2017. Internationally, spending cuts have resulted in lower activity levels, as reflected by a reduction in the number of rigs working and resulted in lower operating results for the quarter when compared to the same quarter last year. We anticipate International markets to remain challenged by the current environment throughout the remainder of 2016, however we are seeing early signs of activity increases. Demand for certain of our asset classes may differ coming out of this downturn, compared to leading into the downturn. As such, we will continue to assess our asset fleet, particularly our legacy and undersized rigs. Should we continue experiencing weakening in the market for a prolonged period for any specific rig class, this could result in future impairment charges or retirements of assets.

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

|   | Three Months Ended<br>September 30,<br>2016 |                     |              |       | Nine Months Ended<br>September 30,<br>2016 |                     |                |        |
|---|---|---------------------|--------------|-------|--|---------------------|----------------|--------|
|   | 2015  | Increase/(Decrease) |              |       | 2015                                       | Increase/(Decrease) |                |        |
|   | (In thousands, except percentages)          |                     |              |       |  |                     |                |        |
| Operating revenues: (1)                   |   |                     |              |       |  |                     |                |        |
| Drilling & Rig Services:                  |   |                     |              |       |  |                     |                |        |
| U.S.                                      | \$ 116,095                                  | \$ 259,939          | \$ (143,844) | (55)% | \$ 405,113                                 | \$ 1,034,929        | \$ (629,816)   | (61)%  |
| Canada                                    | 10,444                                      | 29,929              | (19,485)     | (65)% | 34,555                                     | 109,182             | (74,627)       | (68)%  |
| International                             | 363,552                                     | 516,180             | (152,628)    | (30)% | 1,165,631                                  | 1,413,886           | (248,255)      | (18)%  |
| Rig Services (2)                          | 58,950                                      | 73,521              | (14,571)     | (20)% | 152,051                                    | 318,204             | (166,153)      | (52)%  |
| Subtotal Drilling & Rig Services          | 549,041                                     | 879,569             | (330,528)    | (38)% | 1,757,350                                  | 2,876,201           | (1,118,851)    | (39)%  |
| Completion & Production Services:         |   |                     |              |       |  |                     |                |        |
| Completion Services                       | —   | —                   | —            | — %   | —  | 207,860             | (207,860)      | (100)% |
| Production Services                       | —   | —                   | —            | — %   | —  | 158,512             | (158,512)      | (100)% |
| Subtotal Completion & Production Services | —   | —                   | —            | — %   | —  | 366,372             | (366,372)      | (100)% |
| Other reconciling items (3)               | (29,312)                                    | (32,016)            | 2,704        | 8 %   | (68,459)                                   | (117,008)           | 48,549         | 41 %   |
| Total                                     | \$ 519,729                                  | \$ 847,553          | \$ (327,824) | (39)% | \$ 1,688,891                               | \$ 3,125,565        | \$ (1,436,674) | (46)%  |

|                  | Three Months Ended<br>September 30,<br>2016 |                     |  |  | Nine Months Ended<br>September 30,<br>2016 |                     |  |  |
|------------------|---|---------------------|--|--|--|---------------------|--|--|
|                  | 2015  | Increase/(Decrease) |  |  | 2015                                       | Increase/(Decrease) |  |  |
|                  | (In thousands, except percentages)          |                     |  |  |  |                     |  |  |
| Adjusted EBITDA: |   |                     |  |  |  |                     |  |  |

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|                                   |            |            |             |       |            |            |              |        |  |
|-----------------------------------|------------|------------|-------------|-------|------------|------------|--------------|--------|--|
| (1) (4)                           |            |            |             |       |            |            |              |        |  |
| Drilling & Rig Services:          |            |            |             |       |            |            |              |        |  |
| U.S.                              | \$ 37,299  | \$ 94,505  | \$ (57,206) | (61)% | \$ 141,412 | \$ 418,749 | \$ (277,337) | (66)%  |  |
| Canada                            | 196        | 7,516      | (7,320)     | (97)% | 2,678      | 29,716     | (27,038)     | (91)%  |  |
| International                     | 148,833    | 186,451    | (37,618)    | (20)% | 447,760    | 558,550    | (110,790)    | (20)%  |  |
| Rig Services                      |            |            |             |       |            |            |              |        |  |
| (2)                               | (4,334)    | (2,455)    | (1,879)     | (77)% | (16,248)   | 25,469     | (41,717)     | (164)% |  |
| Subtotal                          |            |            |             |       |            |            |              |        |  |
| Drilling & Rig Services           | 181,994    | 286,017    | (104,023)   | (36)% | 575,602    | 1,032,484  | (456,882)    | (44)%  |  |
| Completion & Production Services: |            |            |             |       |            |            |              |        |  |
| Completion Services               | —          | —          | —           | — %   | —          | (28,110)   | 28,110       | 100 %  |  |
| Production Services               | —          | —          | —           | — %   | —          | 23,043     | (23,043)     | (100)% |  |
| Subtotal                          |            |            |             |       |            |            |              |        |  |
| Completion & Production Services  | —          | —          | —           | — %   | —          | (5,067)    | 5,067        | 100 %  |  |
| Other reconciling items (5)       | (33,255)   | (38,386)   | 5,131       | 13 %  | (99,303)   | (123,329)  | 24,026       | 19 %   |  |
| Total                             | \$ 148,739 | \$ 247,631 | \$ (98,892) | (40)% | \$ 476,299 | \$ 904,088 | \$ (427,789) | (47)%  |  |



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|  | Three Months Ended<br>September 30, |             |                     |          | Nine Months Ended<br>September 30, |             |                     |      |
|--|-------------------------------------|-------------|---------------------|----------|------------------------------------|-------------|---------------------|------|
|  | 2016                                | 2015        | Increase/(Decrease) |          | 2016                               | 2015        | Increase/(Decrease) |      |
|  | (In thousands, except percentages)  |             |                     |          |                                    |             |                     |      |
| Adjusted operating income (loss):                    |                                     |             |                     |          |                                    |             |                     |      |
| (1) (6)  |                                     |             |                     |          |                                    |             |                     |      |
| Drilling & Rig Services:                             |                                     |             |                     |          |                                    |             |                     |      |
| U.S.   | \$ (58,876)                         | \$ (14,034) | \$ (44,842)         | n/m (10) | \$ (154,763)                       | \$ 94,449   | \$ (249,212)        | n/m  |
| Canada   | (10,156)                            | (4,085)     | (6,071)             | (149) %  | (28,265)                           | (5,995)     | (22,270)            | n/m  |
| International  | 43,595                              | 74,039      | (30,444)            | (41) %   | 144,326                            | 256,412     | (112,086)           | (44) |
| Rig Services   |                                     |             |                     |          |                                    |             |                     |      |
| (2)  | (12,937)                            | (10,434)    | (2,503)             | (24) %   | (43,238)                           | 864         | (44,102)            | n/m  |
| Subtotal   |                                     |             |                     |          |                                    |             |                     |      |
| Drilling & Rig Services                              | (38,374)                            | 45,486      | (83,860)            | (184) %  | (81,940)                           | 345,730     | (427,670)           | (12) |
| Completion & Production Services:                    |                                     |             |                     |          |                                    |             |                     |      |
| Completion Services                                  | —                                   | —           | —                   | — %      | —                                  | (55,243)    | 55,243              | 100  |
| Production Services                                  | —                                   | —           | —                   | — %      | —                                  | (3,559)     | 3,559               | 100  |
| Subtotal   |                                     |             |                     |          |                                    |             |                     |      |
| Completion & Production Services                     | —                                   | —           | —                   | — %      | —                                  | (58,802)    | 58,802              | 100  |
| Other reconciling items (5)                          | (33,600)                            | (37,962)    | 4,362               | 11 %     | (97,205)                           | (122,162)   | 24,957              | 20   |
| Total  | \$ (71,974)                         | \$ 7,524    | \$ (79,498)         | n/m (10) | \$ (179,145)                       | \$ 164,766  | \$ (343,911)        | (20) |
| Earnings (losses) from unconsolidated affiliates (7) | \$ 2                                | \$ (35,100) | \$ 35,102           | n/m (10) | \$ (221,918)                       | \$ (29,714) | \$ (192,204)        | n/m  |



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|                 |       |       |        |        |       |         |           |
|-----------------|-------|-------|--------|--------|-------|---------|-----------|
| Canada          | 8.8   | 17.2  | (8.4)  | (49) % | 8.5   | 17.5    | (9.0)     |
| International   | 97.4  | 121.3 | (23.9) | (20) % | 103.0 | 126.1   | (23.1)    |
| Total rig years | 163.5 | 241.5 | (78.0) | (32) % | 170.1 | 273.4   | (103.3)   |
| Rig hours: (9)  |       |       |        |        |       |         |           |
| U.S.            |       |       |        |        |       |         |           |
| Production      |       |       |        |        |       |         |           |
| Services        | —     | —     | —      | — %    | —     | 129,652 | (129,652) |
| Canada          |       |       |        |        |       |         |           |
| Production      |       |       |        |        |       |         |           |
| Services        | —     | —     | —      | — %    | —     | 23,947  | (23,947)  |
| Total rig hours | —     | —     | —      | — %    | —     | 153,599 | (153,599) |

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- (1) All periods present the operating activities of most of our wholly owned oil and gas businesses as discontinued operations.
- (2) Includes our other services comprised of our drilling technology and top drive manufacturing, directional drilling, rig instrumentation and software services.
- (3) Represents the elimination of inter-segment transactions.
- (4) Adjusted EBITDA is computed by subtracting the sum of direct costs, general and administrative expenses and research and engineering expenses from operating revenues. Adjusted EBITDA is a non-GAAP financial measure and should not be used in isolation or as a substitute for the amounts reported in accordance with GAAP. However, management evaluates the performance of our operating segments and the company's consolidated results based on several criteria, including adjusted EBITDA and adjusted operating income (loss), because it believes that these financial measures reflect our ongoing profitability and performance. In addition, securities analysts and investors use this measure as one of the metrics on which they analyze our performance. Other companies in our industry may compute these measures differently. A reconciliation of adjusted EBITDA to income (loss) from continuing operations before income taxes, which is the most closely comparable GAAP measure, is provided in the table above.
- (5) Represents the elimination of inter-segment transactions and unallocated corporate expenses.
- (6) Adjusted operating income (loss) is computed by subtracting the sum of direct costs, general and administrative expenses, research and engineering expenses and depreciation and amortization from operating revenues. Adjusted operating income (loss) is a non-GAAP financial measure and should not be used in isolation or as a substitute for the amounts reported in accordance with GAAP. However, management evaluates the performance of our operating segments and the company's consolidated results based on several criteria, including adjusted EBITDA and adjusted operating income (loss), because it believes that these financial measures reflect our ongoing profitability and performance. In addition, securities analysts and investors use this measure as one of the metrics on which they analyze our performance. Other companies in our industry may compute these measures differently. A reconciliation of adjusted operating income (loss) to income (loss) from continuing operations before income taxes, which is the most closely comparable GAAP measure, is provided in the table above.
- (7) Represents our share of the net income (loss), as adjusted for our basis difference, of our unconsolidated affiliates accounted for by the equity method, including a loss of \$221.9 million for the nine months ended September 30, 2016, and losses of \$35.1 million and \$35.9 million for the three and nine months ended September 30, 2015, respectively, related to our share of the net loss of CJES, which we reported on a one-quarter lag through June 30, 2016. Beginning in the third quarter of 2016, we ceased accounting for our investment in CJES under the equity method of accounting.
- (8)

Excludes well-servicing rigs, which are measured in rig hours. Includes our equivalent percentage ownership of rigs owned by unconsolidated affiliates. Rig years represent a measure of the number of equivalent rigs operating during a given period. For example, one rig operating 45 days during a quarterly period represents 0.5 rig years.

(9) Rig hours represents the number of hours that our well-servicing rig fleet operated during the year. This fleet was included in the Completion & Production Services business that was merged with C&J Energy in March 2015 and we will therefore no longer report this performance metric.

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

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## Segment Results of Operations

## Drilling &amp; Rig Services

Our Drilling & Rig Services business line is comprised of four operating segments: U.S., Canada, International and Rig Services. For a description of this business line, see Management Overview above. The following table presents our revenues, adjusted EBITDA, adjusted income (loss) and rig years by operating segment, as applicable, for the three and nine months ended September 30, 2016 and 2015.

|                                  | Three Months Ended<br>September 30,<br>2016         |                     |              |         | Nine Months Ended<br>September 30,<br>2015 |                     |              |      |
|----------------------------------|---|---------------------|--------------|---------|--|---------------------|--------------|------|
|                                  | 2015  | Increase/(Decrease) |              |         | 2016                                       | Increase/(Decrease) |              |      |
|                                  | (In thousands, except percentages and rig activity) |                     |              |         |  |                     |              |      |
| <b>U.S.</b>                      |   |                     |              |         |  |                     |              |      |
| Operating revenues               | \$ 116,095  | \$ 259,939          | \$ (143,844) | (55) %  | \$ 405,113                                 | \$ 1,034,929        | \$ (629,816) | (61) |
| Adjusted EBITDA                  | \$ 37,299   | \$ 94,505           | \$ (57,206)  | (61) %  | \$ 141,412                                 | \$ 418,749          | \$ (277,337) | (66) |
| Adjusted operating income (loss) | \$ (58,876)   | \$ (14,034)         | \$ (44,842)  | n/m (1) | \$ (154,763)                               | \$ 94,449           | \$ (249,212) | n/m  |
| Rig years                        | 57.3  | 103.0               | (45.7)       | (44) %  | 58.6                                       | 129.8               | (71.2)       | (55) |
| <b>Canada</b>                    |   |                     |              |         |  |                     |              |      |
| Operating revenues               | \$ 10,444   | \$ 29,929           | \$ (19,485)  | (65) %  | \$ 34,555                                  | \$ 109,182          | \$ (74,627)  | (68) |
| Adjusted EBITDA                  | \$ 196  | \$ 7,516            | \$ (7,320)   | (97) %  | \$ 2,678                                   | \$ 29,716           | \$ (27,038)  | (91) |
| Adjusted operating income (loss) | \$ (10,156)   | \$ (4,085)          | \$ (6,071)   | (149) % | \$ (28,265)                                | \$ (5,995)          | \$ (22,270)  | n/m  |
| Rig years                        | 8.8   | 17.2                | (8.4)        | (49) %  | 8.5  | 17.5                | (9.0)        | (51) |
| <b>International</b>             |   |                     |              |         |  |                     |              |      |
| Operating revenues               | \$ 363,552  | \$ 516,180          | \$ (152,628) | (30) %  | \$ 1,165,631                               | \$ 1,413,886        | \$ (248,255) | (18) |
| Adjusted EBITDA                  | \$ 148,833  | \$ 186,451          | \$ (37,618)  | (20) %  | \$ 447,760                                 | \$ 558,550          | \$ (110,790) | (20) |
| Adjusted operating               | \$ 43,595   | \$ 74,039           | \$ (30,444)  | (41) %  | \$ 144,326                                 | \$ 256,412          | \$ (112,086) | (44) |

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|                                  |             |             |             |        |             |            |              |       |  |
|----------------------------------|-------------|-------------|-------------|--------|-------------|------------|--------------|-------|--|
| income (loss)                    |             |             |             |        |             |            |              |       |  |
| Rig years                        | 97.4        | 121.3       | (23.9)      | (20) % | 103.0       | 126.1      | (23.1)       | (18)  |  |
| Rig Services                     |             |             |             |        |             |            |              |       |  |
| Operating revenues               | \$ 58,950   | \$ 73,521   | \$ (14,571) | (20) % | \$ 152,051  | \$ 318,204 | \$ (166,153) | (52)  |  |
| Adjusted EBITDA                  | \$ (4,334)  | \$ (2,455)  | \$ (1,879)  | (77) % | \$ (16,248) | \$ 25,469  | \$ (41,717)  | (164) |  |
| Adjusted operating income (loss) | \$ (12,937) | \$ (10,434) | \$ (2,503)  | (24) % | \$ (43,238) | \$ 864     | \$ (44,102)  | n/m   |  |

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

U.S.

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

Operating results decreased during the three and nine months ended September 30, 2016 compared to the corresponding 2015 periods primarily due to the continued decline in drilling activity in the lower 48 states, reflected by a 44% and 55% reduction in the average number of rigs working during the third quarter and first nine months of 2016 compared to 2015, respectively. The decline in drilling activity is the result of lower customer demand for drilling rigs due to the currently depressed oil price environment. This lower demand also resulted in lower dayrates for rigs. The decrease in our operating results was driven by both the lower activity and the lower dayrates. Partially offsetting the decrease in drilling activity for the three and nine months ended September 30, 2016 was a favorable resolution of negotiations for one of our rigs in the Gulf of Mexico, which resulted in partial recovery of standby revenues for past quarters.

Canada

Operating results decreased during the three and nine months ended September 30, 2016 compared to the corresponding 2015 periods due to a decline in both drilling rig activity and dayrates. These declines were the direct result of lower industry activity and pricing pressure from customers resulting from the decline in oil and gas prices. The lower activity is evidenced by a 49% reduction in rig years during the third quarter of 2016 compared to 2015.

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## International

Operating results decreased during the three and nine months ended September 30, 2016 compared to the corresponding 2015 periods primarily due to a decline in drilling activity, reflected by a 20% reduction in rig years during the second and third quarters of 2016 compared to 2015. The decrease in our operating results was also adversely affected by pricing pressure and diminished demand as customers released rigs in response to the significant drop in oil prices. Partially offsetting the decrease in activity for the nine months ended September 30, 2016 was an early termination payment received on a drilling contract in Kazakhstan.

## Rig Services

Operating results decreased during the three and nine months ended September 30, 2016 compared to the corresponding 2015 periods primarily due to a broad-based decline in revenue-producing activities, including lower top drive and catwalk unit sales as well as the continued decline in our directional drilling businesses due to generally lower drilling activity and intense competition, all of which is driven by the current low prices of oil and gas.

## OTHER FINANCIAL INFORMATION

|  | Three Months Ended<br>September 30, |           |                     |        | Nine Months Ended<br>September 30, |            |                     |
|--|-------------------------------------|-----------|---------------------|--------|------------------------------------|------------|---------------------|
|  | 2016                                | 2015      | Increase/(Decrease) |        | 2016                               | 2015       | Increase/(Decrease) |
|  | (In thousands, except percentages)  |           |                     |        |                                    |            |                     |
| General and administrative expenses              | \$ 56,078                           | \$ 72,032 | \$ (15,954)         | (22) % | \$ 175,036                         | \$ 263,272 | \$ (88,236)         |
| As a percentage of operating revenue             | 10.8%                               | 8.5%      | 2.3%                | 27 %   | 10.4 %                             | 8.4%       | 2.0%                |
| Research and engineering                         | 8,476                               | 9,716     | (1,240)             | (13) % | 24,818                             | 31,899     | (7,081)             |
| Depreciation and amortization                    | 220,713                             | 240,107   | (19,394)            | (8) %  | 655,444                            | 739,322    | (83,878)            |
| Earnings (losses) from unconsolidated affiliates | 2                                   | (35,100)  | 35,102              | 100 %  | (221,918)                          | (29,714)   | (192,204)           |
| Interest expense                                 | 46,836                              | 44,448    | 2,388               | 5 %    | 137,803                            | 135,518    | 2,285               |



|                                |        |         |           |         |         |         |         |
|--------------------------------|--------|---------|-----------|---------|---------|---------|---------|
| Investment income (loss)       | 310    | (22)    | 332       | n/m (1) | 923     | 2,128   | (1,205) |
| Other expense (income),<br>net | 10,392 | 259,731 | (249,339) | (96) %  | 267,403 | 205,227 | 62,176  |

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

#### General and administrative expenses

General and administrative expenses decreased during the three and nine months ended September 30, 2016 as compared to the corresponding 2015 periods. The decrease for the nine months ended September 30, 2016 was partially attributable to the fact that we no longer consolidate the expenses from our Completion & Production Services business as a result of the Merger, which accounted for approximately \$27.9 million of the decrease. The decrease for the three months ended September 30, 2016 and the balance of the decrease for the nine months ended September 30, 2016 was attributable to our recent efforts to achieve reductions in workforce as well as the continued cost-reduction efforts across our remaining operating units and our corporate offices. As a percentage of operating revenues, general and administrative expenses are slightly higher in 2016 due to the reductions in revenues across all of our various operating units.

#### Research and engineering

Research and engineering expenses decreased during the three and nine months ended September 30, 2016 as compared to the corresponding 2015 periods. The decrease was primarily attributable to a reduction in workforce and general cost-reduction efforts across the various operating units. Also contributing to the decrease was the reduction in drilling related projects as a result of the decline in overall activity.

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Depreciation and amortization

Depreciation and amortization expense decreased during the three and nine months ended September 30, 2016 compared to the corresponding 2015 periods. The decrease for the nine months ended September 30, 2016 was due largely to the fact that we no longer consolidate the expenses from our Completion & Production Services business as a result of the Merger, which accounted for \$53.7 million of the decrease. The decrease for the three months ended September 30, 2016 and the remainder of the decrease for the nine months ended September 30, 2016 primarily relates to an increased number of rigs that were not working during the period, which results in a lower inactive depreciation rate.

Earnings (losses) from unconsolidated affiliates

Earnings (losses) from unconsolidated affiliates represents our share of the net income (loss), as adjusted for our basis differences, of our equity method investments, primarily composed of our investment in CJES. We accounted for our investment in CJES on a one-quarter lag through June 30, 2016. On July 20, 2016, CJES voluntarily filed for protection under Chapter 11 of the Bankruptcy Code. As a result, beginning in the third quarter of 2016, we no longer account for our investment under the equity method of accounting. Accordingly, the nine months ended September 30, 2016 includes our share of the net income (loss) of CJES from October 1, 2015 through March 31, 2016, resulting in a loss of \$221.9 million, inclusive of charges of \$138.5 million representing our share of CJES's fixed asset impairment charges for the period. The operating losses of CJES for each of the three months ended December 31, 2015 and March 31, 2016 are primarily due to reduced activity levels resulting from the extended downturn in oil prices.

Interest expense

Interest expense was essentially flat during the three and nine months ended September 30, 2016 compared to the corresponding 2015 periods as our average outstanding debt balances remained consistent during each of these periods. In addition, we have curtailed spending on major projects, which resulted in a reduction in the amount of capitalized interest recognized during the period.

Investment income

Investment income for the three and nine months ended September 30, 2016 included realized gains of \$0.3 million and \$0.9 million, respectively, attributable to interest and dividend income.

Investment income for the nine months ended September 30, 2015 included realized gains of \$1.6 million attributable to interest and dividend income.

Other expense (income), net

Other expense (income), net for the three months ended September 30, 2016 was \$10.4 million of expense, which included net losses on sales and disposals of assets of approximately \$6.5 million, an other-than-temporary impairment to an equity security of \$3.5 million and increases to our litigation reserves of \$2.3 million. These losses were partially offset by foreign currency exchange gains of \$1.1 million.

Other expense (income), net for the nine months ended September 30, 2016 was \$267.4 million of expense. This was primarily composed of impairments associated with our CJES holdings in the amount of \$220.1 million resulting from declines in the fair value of our investment including other than temporary impairment charges of \$192.4 million and other charges related to litigation expenses incurred in connection with the CJES bankruptcy proceedings and the reserve of certain other amounts associated with our CJES holdings, including affiliate receivables of \$27.7 million. Further contributing to the expense for the period were net losses on sales and disposals of assets of approximately \$40.5 million, inclusive of \$22.4 million in write downs to our oil and gas properties located on the North Slope of Alaska, and foreign currency exchange losses of approximately \$5.9 million, partially offset by a net gain on debt buybacks of approximately \$6.7 million.

Other expense (income), net for the three months ended September 30, 2015 was \$259.7 million of expense, and was composed primarily of an other-than temporary impairment of \$180.6 million related to our investment in CJES, which was accounted for under the equity method. We also recorded various provisions related to our International operations resulting in a loss of \$48.3 million. Just over half of those provisions, \$25.4 million, related to assets and

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receivables impacted by the degradation of the overall economy and financial situation in Venezuela, primarily comprised of a loss of \$10.0 million related to the remeasurement of our net monetary assets denominated in local currency from the official exchange rate of 6.3 Bolivares per US dollar to the new SIMADI exchange rate of 199 Bolivares per US dollar as of September 30, 2015 and \$15.4 million related to the write-off of a receivable balance. The balance of this provision represents an obligation associated with the decision to exit a non-core business line in the region of \$22.9 million. Further contributing to the expense for the quarter were a net loss on the sales and disposals of assets and other charges of \$21.0 million, a post-closing adjustment of \$5.5 million attributable to the settlement of certain working capital requirements related to the Merger and increases to our litigation reserves of \$5.5 million.

Other expense (income), net for the nine months ended September 30, 2015 was \$205.2 million of expense, which was composed primarily of an other-than temporary impairment of \$180.6 million related to our investment in CJES, which is accounted for under the equity method. We also recorded various provisions related to our International operations resulting in a loss of \$48.3 million as described above as well as a net loss on the sales and disposals of assets and other charges of \$23.7 million. These losses were partially offset by a net gain of \$47.1 million related to the Merger.

## Income tax rate

|  | Three Months<br>Ended<br>September 30, |           | Increase/(Decrease) |      | Nine Months<br>Ended<br>September 30, |       | Increase/(Decrease) |       |
|--|--|-----------|---------------------|------|---------------------------------------|-------|---------------------|-------|
|  | 2016                                   | 2015      |                     |      | 2016                                  | 2015  |                     |       |
| Effective income tax rate<br>from continuing<br>operations | 24.1<br>%                              | 24.4<br>% | (0.3)%              | (1)% | 15.4<br>%                             | 17.3% | (1.9)%              | (11)% |

The change in our worldwide effective tax rate during the three and nine months ended September 30, 2016 compared to the corresponding 2015 period was attributable to the effect of the geographic mix of pre-tax earnings (losses), including greater losses in high-tax jurisdictions. Further contributing to the change was an impairment to our CJES holdings as well as our share of the net loss of CJES during the nine months ended September 30, 2016.

## Assets Held for Sale

Assets held for sale as of September 30, 2016 and December 31, 2015 was \$69.4 million and \$75.7 million, respectively. These assets consisted primarily of our oil and gas holdings which are mainly in the Horn River basin in western Canada of \$62.0 million and \$73.6 million, respectively, as of the periods noted above and the operating

results have been reflected in discontinued operations. The remainder represents assets that meet the criteria to be classified as assets held for sale, but do not represent a disposal of a component of an entity or a group of components of an entity representing a strategic shift that has or will have a major effect on the entity's operations and financial results.

We have contracts with pipeline companies to pay specified fees based on committed volumes for gas transport and processing regarding our oil and gas properties classified as discontinued operations. At September 30, 2016, our undiscounted contractual commitments for these contracts approximated \$19.4 million and we had liabilities of \$13.9 million, \$5.5 million of which were classified as current and were included in accrued liabilities. At December 31, 2015, our undiscounted contractual commitments for these contracts approximated \$23.3 million and we had liabilities of \$16.1 million, \$5.2 million of which were classified as current and were included in accrued liabilities. These amounts represent our best estimate of the fair value of the excess capacity of the pipeline commitments calculated using a discounted cash flow model, when considering our disposal plan, current production levels, natural gas prices and expected utilization of the pipeline over the remaining contractual term. Decreases in actual production or natural gas prices could result in future charges related to excess pipeline commitments.

The amounts at each balance sheet date represented our best estimate of the fair value of the excess capacity of the pipeline commitments calculated using a discounted cash flow model, when considering our disposal plan, current production levels, natural gas prices and expected utilization of the pipeline over the remaining contractual term. Decreases in actual production or natural gas prices could result in future charges related to excess pipeline commitments.

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## Discontinued Operations

Our condensed statements of income (loss) from discontinued operations were as follows:

|  | Three Months Ended<br>September 30, |             |                     | Nine Months Ended<br>September 30, |             |                     |            |        |
|--|-------------------------------------|-------------|---------------------|------------------------------------|-------------|---------------------|------------|--------|
|  | 2016                                | 2015        | Increase/(Decrease) | 2016                               | 2015        | Increase/(Decrease) |            |        |
|  | (In thousands, except percentages)  |             |                     |                                    |             |                     |            |        |
| Operating revenues (1)                                 | \$ 688                              | \$ 432      | \$ 256              | 59 %                               | \$ 1,449    | \$ 2,737            | \$ (1,288) | (47) % |
| Income (loss) from discontinued operations, net of tax | \$ (12,187)                         | \$ (45,275) | \$ 33,088           | 73 %                               | \$ (14,097) | \$ (41,067)         | \$ 26,970  | 66 %   |

(1) Reflects operating revenues of our historical oil and gas operating segment.

## Liquidity and Capital Resources

## Cash Flows

Certain sources and uses of cash, such as the level of discretionary capital expenditures or acquisitions, purchases and sales of investments, as well as issuances and repurchases of debt and of our common shares are within our control and are adjusted as necessary based on market conditions. We discuss our cash flows for the nine months ended September 30, 2016 and 2015 below.

**Operating Activities.** Net cash provided by operating activities totaled \$404.8 million during the nine months ended September 30, 2016, compared to \$605.0 million during the corresponding 2015 period. Operating cash flows are our primary source of capital and liquidity. The decrease in our operating cash flows was largely due to the decrease in net income (loss) as a direct result of continued reductions in the level of drilling activity in the U.S., Canada and International drilling segments. Certain non-cash expenses such as depreciation and amortization, impairments, share-based compensation, deferred income taxes and our proportionate share of earnings or losses from unconsolidated affiliates also contributed to the change. Additionally, changes in working capital items such as collection of receivables, other deferred revenue arrangements and payments of operating payables are significant factors affecting operating cash flows. Changes in working capital items provided \$83.0 million and used \$126.6

million in cash during the nine months ended September 30, 2016 and 2015, respectively.

**Investing Activities.** Net cash used for investing activities totaled \$257.8 million during the nine months ended September 30, 2016 compared to \$119.6 million during the corresponding 2015 period. Our primary use of cash for investing activities is for capital expenditures related to rig-related enhancements, new construction and equipment, as well as sustaining capital expenditures. During the nine months ended September 30, 2016 and 2015, we used cash for capital expenditures totaling \$285.0 million and \$744.0 million, respectively. During the nine months ended September 30, 2015, we received net proceeds related to the Merger of \$650.1 million.

**Financing Activities.** Net cash used for financing activities totaled \$223.4 million during the nine months ended September 30, 2016 compared to \$713.2 million during the corresponding 2015 period. This was primarily due to the reduction of long-term debt coupled with the payment of \$33.9 million in dividends to shareholders.

#### Future Cash Requirements

We expect capital expenditures over the next 12 months to be less than \$0.65 billion, unless the current oil price environment improves. Purchase commitments outstanding at September 30, 2016 totaled approximately \$160.2 million, primarily for rig-related enhancements, new construction and equipment, as well as sustaining capital expenditures, other operating expenses and purchases of inventory. We can reduce planned expenditures if necessary or increase them if market conditions and new business opportunities warrant it. The level of our outstanding purchase commitments and our expected level of capital expenditures over the next 12 months represent a number of capital programs that are

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currently underway or planned. We believe these programs will result in an expansion in the number of land drilling rigs, and the enhancement of a significant number of rigs in our existing Lower 48 fleet. When the programs are completed, we expect to have a larger fleet of high-specification land rigs deployed in the Lower 48. We believe the capabilities of these high-specification rigs will meet or exceed requirements from customers. In light of the prolonged decline in crude oil prices, we have already undertaken many cost cutting initiatives in an effort to minimize the negative impact to our business. We have undertaken efforts to reduce capital expenditures, operating costs and administrative expenses. Since the last downturn in 2009, we have strengthened our financial flexibility by streamlining operations, shedding non-core businesses and reducing net debt and interest expense.

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

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

There have been no material changes to the contractual cash obligations table that was included in our 2015 Annual Report.

On August 25, 2015, our Board of Directors authorized a share repurchase program (the “program”) under which we may repurchase, from time to time, up to \$400 million of our common shares by various means, including in the open market or in privately negotiated transactions. This authorization does not have an expiration date and does not obligate us to repurchase any of our common shares. Through September 30, 2016, we repurchased 10.9 million of our common shares for approximately \$101.3 million under this program. As of September 30, 2016, the remaining amount authorized under the program that may be used to purchase shares was \$298.7 million.

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

Financial Condition and Sources of Liquidity



Our primary sources of liquidity are cash and investments, availability under our revolving credit facility and commercial paper program, and cash generated from operations. As of September 30, 2016, we had cash and short-term investments of \$200.7 million and working capital of \$0.3 billion. As of December 31, 2015, we had cash and short-term investments of \$274.6 million and working capital of \$0.5 billion. At September 30, 2016, we had \$1.93 billion of availability remaining under our \$2.25 billion revolving credit facility and commercial paper program.

We had 11 letter-of-credit facilities with various banks as of September 30, 2016. Availability under these facilities as of September 30, 2016 was as follows:

|  | September 30,<br>2016<br>(In thousands) |
|--|---|
| Credit available   | \$ 687,239                              |
| Less: Letters of credit outstanding, inclusive of financial and performance guarantees | 135,599                                 |
| Remaining availability   | \$ 551,640                              |

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

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ratings downgrade could adversely impact our ability to access debt markets in the future, increase the cost of future debt, and potentially require us to post letters of credit for certain obligations.

Our gross debt to capital ratio was 0.49:1 as of September 30, 2016 and 0.46:1 as of December 31, 2015. Our net debt to capital ratio was 0.48:1 as of September 30, 2016 and 0.44:1 as of December 31, 2015. The gross debt to capital ratio is calculated by dividing (x) total debt by (y) total capital. Total capital is defined as total debt plus shareholders' equity. Net debt is defined as total debt minus the sum of cash and cash equivalents and short-term investments. Neither the gross debt to capital ratio nor the net debt to capital ratio is a measure of operating performance or liquidity defined by GAAP and may not be comparable to similarly titled measures presented by other companies.

Our interest coverage ratio was 3.8:1 as of September 30, 2016 and 6.2:1 as of December 31, 2015. The interest coverage ratio is a trailing 12-month quotient of the sum of (x) adjusted EBITDA divided by (y) interest expense. The interest coverage ratio is not a measure of operating performance or liquidity defined by GAAP and may not be comparable to similarly titled measures presented by other companies. See “-Financial Results” for a discussion of adjusted EBITDA and reconciliation to the most closely comparable GAAP measure.

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

## Other Matters

### Recent Accounting Pronouncements

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers, relating to the revenue recognition from contracts with customers that creates a common revenue standard for GAAP and IFRS. The core principle will require recognition of revenue to represent the transfer of promised goods or services to customers in an amount that reflects the consideration, including costs incurred, to which the entity expects to be entitled in exchange for those goods or services. In July 2015, the FASB approved a one year deferral of this standard, with a new effective date for fiscal years beginning after December 15, 2017. We are currently evaluating the impact this will have on our condensed consolidated financial statements and have not made any decision on the method of adoption.

In January 2016, the FASB issued ASU No. 2016-01, Financial Instruments—Overall, relating to the recognition and measurement of financial assets and liabilities. This standard enhances the reporting model for financial instruments,

which includes amendments to address aspects of recognition, measurement, presentation and disclosure. This guidance is effective for public companies for fiscal years beginning after December 15, 2017. Early application is permitted. We are currently evaluating the impact this will have on our condensed consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, Leases, relating to leases to increase transparency and comparability among companies. This standard requires all leases with an initial term greater than one year be recorded on the balance sheet as an asset and a lease liability. Additionally, this standard will require disclosures designed to give financial statement users information on the amount, timing, and uncertainty of cash flows arising from leases. This guidance is effective for public companies for fiscal years beginning after December 15, 2018. Early application is permitted. This standard requires an entity to separate lease components from nonlease components within a contract. While the lease components would be accounted for under ASU No. 2016-02, nonlease components would be accounted for under ASU No. 2014-09. Therefore, we are evaluating ASU No. 2016-02 concurrently with the provisions of ASU No. 2014-09 and the impact this will have on our condensed consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-07, Investments—Equity Method and Joint Ventures, to simplify the transition to the equity method of accounting. This standard eliminates the requirement to retroactively adopt the equity method of accounting as a result of an increase in the level of ownership interest or degree of influence. Instead, the equity method investor should add the cost of acquiring the additional interest in the investee to the current basis of the investor's previously held interest and adopt the equity method of accounting as of the date the investment qualifies for the equity method of accounting. This guidance is effective for public companies for fiscal years beginning after December 15, 2016. Early application is permitted. We are currently evaluating the impact this will have on our condensed consolidated financial statements.

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In March 2016, the FASB issued ASU No. 2016-09, Compensation—Stock Compensation, to simplify the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities and classification on the statement of cash flows. This guidance is effective for public companies for fiscal years beginning after December 15, 2016. Early application is permitted. We are currently evaluating the impact this will have on our condensed consolidated financial statements.

In August 2016, the FASB issued ASU No. 2016-15, Statement of Cash Flows, to reduce the diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. This guidance is effective for public companies for fiscal years beginning after December 15, 2017. Early application is permitted. We are currently evaluating the impact this will have on our condensed consolidated financial statements.

## Off-Balance Sheet Arrangements (Including Guarantees)

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

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

|  | Maximum Amount |         |      |            | Total      |
|--|----------------|---------|------|------------|------------|
|  | 2016           | 2017    | 2018 | Thereafter |            |
|  | (In thousands) |         |      |            |            |
| Financial standby letters of credit and other financial surety instruments | \$ 84,167      | 166,330 | —    | —          | \$ 250,497 |

## ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We may be exposed to market risks arising from the use of financial instruments in the ordinary course of business as discussed in our 2015 Annual Report.

#### ITEM 4. CONTROLS AND PROCEDURES

We maintain a set of disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) designed to provide reasonable assurance that information required to be disclosed in our reports filed under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to management as appropriate to allow timely decisions regarding required disclosure. We have investments in certain unconsolidated entities that we do not control or manage. Because we do not control or manage these entities, our disclosure controls and procedures with respect to these entities are necessarily more limited than those we maintain with respect to our consolidated subsidiaries.

The Company's management, with the participation of the Chief Executive Officer and the Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures as of the end of the period covered by this report. Based on this evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that the Company's disclosure controls and procedures were effective as of the end of the period covered by this report

There were no changes in our internal control over financial reporting during the quarter ended September 30, 2016 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Nabors and its subsidiaries are defendants or otherwise involved in a number of lawsuits in the ordinary course of business. We estimate the range of our liability related to pending litigation when we believe the amount and range of loss can be estimated. We record our best estimate of a loss when the loss is considered probable. When a liability is probable and there is a range of estimated loss with no best estimate in the range, we record the minimum estimated liability related to the lawsuits or claims. As additional information becomes available, we assess the potential liability related to our pending litigation and claims and revise our estimates. Due to uncertainties related to the resolution of lawsuits and claims, the ultimate outcome may differ from our estimates. For matters where an unfavorable outcome is reasonably possible and significant, we disclose the nature of the matter and a range of potential exposure, unless an estimate cannot be made at the time of disclosure. In the opinion of management and based on liability accruals provided, our ultimate exposure with respect to these pending lawsuits and claims is not expected to have a material adverse effect on our condensed consolidated financial position or cash flows, although they could have a material adverse effect on our results of operations for a particular reporting period. See Note 7 — Commitments and Contingencies for a description of such proceedings.

ITEM 1A. RISK FACTORS

In addition to the information set forth elsewhere in this report, the risk factors set forth in Item 1A. Risk Factors in our 2015 Annual Report should be carefully considered when evaluating us. These risks are not the only ones we face. Additional risks not presently known to us or that we currently deem immaterial may also impair our business.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

We withheld the following shares of our common stock to satisfy tax withholding obligations in connection with grants of stock awards during the three months ended September 30, 2016 from the distributions described below. These shares may be deemed to be “issuer purchases” of shares that are required to be disclosed pursuant to this Item, but were not purchased as part of a publicly announced program to purchase common shares:

| Total Number<br>of Shares | Approximated<br>Dollar Value of<br>Shares that May |
|---------------------------|--|
|---------------------------|--|

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| Period<br>(In thousands, except per share amounts) | Total<br>Number of<br>Shares<br>Repurchased | Average<br>Price<br>Paid per<br>Share (1) | Purchased as<br>Part of Publicly<br>Announced<br>Program | Yet Be<br>Purchased<br>Under the<br>Program (2) |
|--|---|---|--|---|
| July 1 - July 31, 2016                             | <1  | \$ 9.40                                   | —  | 298,716   |
| August 1 - August 31, 2016                         | 1   | \$ 10.13                                  | —  | 298,716   |
| September 1 - September 30, 2016                   | 2   | \$ 9.92                                   | —  | 298,716   |

(1) Shares were withheld from employees and directors to satisfy certain tax withholding obligations due in connection with grants of stock under our 2003 Employee Stock Plan and 2013 Stock Plan. The 2013 Stock Plan, 2003 Employee Stock Plan and 1999 Stock Option Plan for Non-Employee Directors provide for the withholding of shares to satisfy tax obligations, but do not specify a maximum number of shares that can be withheld for this purpose. These shares were not purchased as part of a publicly announced program to purchase common shares.

(2) In August 2015, our Board of Directors authorized a share repurchase program under which we may repurchase up to \$400 million of our common shares in the open market or in privately negotiated transactions. Through September 30, 2016, we repurchased 10.9 million of our common shares for approximately \$101.3 million under this program. As of September 30, 2016, we had \$298.7 million that remained authorized under the program that may be used to purchase shares.

### ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

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ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

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ITEM 6. EXHIBITS

| Exhibit No. | Description   |
|-------------|---|
| 31.1        | Rule 13a-14(a)/15d-14(a) Certification of Anthony G. Petrello, Chairman, President and Chief Executive Officer*   |
| 31.2        | Rule 13a-14(a)/15d-14(a) Certification of William Restrepo, Chief Financial Officer*  |
| 32.1        | Certifications required by Rule 13a-14(b) or Rule 15d-14(b) and Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. 1350), executed by Anthony G. Petrello, Chairman, President and Chief Executive Officer and William Restrepo, Chief Financial Officer.* |
| 101.INS     | XBRL Instance Document*   |
| 101.SCH     | XBRL Schema Document*   |
| 101.CAL     | XBRL Calculation Linkbase Document*   |
| 101.LAB     | XBRL Label Linkbase Document*   |
| 101.PRE     | XBRL Presentation Linkbase Document*  |
| 101.DEF     | XBRL Definition Linkbase Document*  |

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\*Filed herewith.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

NABORS INDUSTRIES LTD.

By: /s/ ANTHONY G. PETRELLO  
Anthony G. Petrello  
Chairman, President and  
Chief Executive Officer  
(Principal Executive Officer)

By: /s/ WILLIAM RESTREPO  
William Restrepo  
Chief Financial Officer  
  
(Principal Financial Officer and Accounting Officer)

Date: November 2, 2016

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\*Filed herewith.