NABORS INDUSTRIES LTD
Form 10-K
March 02, 2015

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2014

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

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

NABORS INDUSTRIES LTD.

(Exact name of registrant as specified in its charter)

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

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

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

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

Securities registered pursuant to Section 12(g) of the Securities Exchange Act of 1934: **None.**

Indicate by check mark whether the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES ý NO o

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES o NO ý

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to file such reports). YES ý NO o

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

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

Large Accelerated Filer ý	Accelerated Filer o	Non-accelerated Filer o (Do not check if a smaller reporting company)	Smaller Reporting Company o

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

The aggregate market value of the 276,503,079 common shares held by non-affiliates of the registrant outstanding as of the last business day of our most recently completed second fiscal quarter, June 30, 2014, based on the closing price of our common shares as of such date of $29.37 per share as reported on the New York Stock Exchange, was $8,120,895,430. Common shares held by each officer and director and by each person who owns 5% or more of the outstanding common shares have been excluded in that such persons may be deemed affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

The number of common shares outstanding as of February 26, 2015 was 329,376,998.

DOCUMENTS INCORPORATED BY REFERENCE

Specified portions of the definitive Proxy Statement to be distributed in connection with our 2015 Annual General Meeting of Shareholders (Part III).

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NABORS INDUSTRIES LTD.
Form 10-K Annual Report
For the Year Ended December 31, 2014

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

FORWARD-LOOKING STATEMENTS

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

Factors to consider when evaluating these forward-looking statements include, but are not limited to:

- fluctuations in worldwide prices of and demand for oil and natural gas;
- fluctuations in levels of oil and natural gas exploration and development activities;
- fluctuations in the demand for our services;
- the existence of competitors, technological changes and developments in the oilfield services industry;
- our ability to complete, and realize the expected benefits of, strategic transactions, including the proposed transaction with C&J Energy Services, Inc.;
- the existence of operating risks inherent in the oilfield services industry;
- the possibility of changes in tax and other laws and regulations;
- the possibility of political instability, war or acts of terrorism; and
- general economic conditions including the capital and credit markets.

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

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

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

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PART I

ITEM 1. *BUSINESS*

Overview

We own and operate the world's largest land-based drilling rig fleet and have one of the largest completion services and well-servicing and workover rig fleets in North America. We are a leading provider of offshore platform workover and drilling rigs in the United States and multiple 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 December 31, 2014 includes:

- 466 actively marketed rigs for land-based drilling operations in the United States, Canada and over 20 other countries throughout the world;

- 445 actively marketed rigs for land well-servicing and workover services in the United States and 98 actively marketed rigs for land well-servicing and workover services in Canada;

- 42 actively marketed rigs for offshore drilling operations in the United States and multiple international markets; and

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

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

We are a Bermuda exempted company formed on December 11, 2001, which has been continuously operating in the drilling sector through predecessors and acquired entities since the early 1900s.

The majority of our business is conducted through two business lines: Drilling & Rig Services and Completion & Production Services. Additional information regarding our business segments can be found in Note 23 Segment Information in Part II, Item 8. Financial Statements and Supplementary Data.

In June 2014, we and certain of our wholly owned subsidiaries entered into definitive agreements to merge our Completion & Production Services business line with C&J Energy Services, Inc. ("CJES"), an independent oilfield services and manufacturing company (the "Merger"). Under the amended terms of the Merger and related transactions, we will receive total consideration comprised of approximately $688 million in cash and approximately 62.5 million common shares in the combined company. CJES has obtained commitments from certain financial institutions to provide debt financing to the combined company in an amount sufficient to fund the payment to us of the cash consideration at closing. Immediately following the closing of the Merger, we will own approximately 53% of the issued and outstanding common shares of the combined company with the other CJES shareholders owning the remainder of the outstanding common shares. The combined company will be renamed C&J Energy Services, Ltd. and is expected to be listed on the NYSE under the ticker symbol CJES.

We expect to account for our investment in the combined company using the equity method of accounting. Closing of the Merger is subject to customary approvals and conditions, including, among others, approval of the Merger by the holders of a majority of outstanding CJES common stock and the availability of the proceeds of the debt financing to effect the cash payment to Nabors in connection with the closing. We expect that the closing of the Merger will occur in March 2015 following the special meeting of CJES stockholders to be held on March 20, 2015. See Part 1A. Risk Factors Risks Related to the Merger.

Drilling & Rig Services

General

The Drilling & Rig Services business line 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 contributed 67% of our Operating revenues for the year ended December 31, 2014. This business line consists of four operating segments: U.S., Canada, International and Rig Services.

U.S. Drilling

We operate one of the largest land-based drilling rig fleets in the United States, consisting of 170 AC rigs and 100 SCR rigs as of December 31, 2014. Our new PACE®-X rig is the latest generation AC rig designed specifically for multi-well drilling on a single pad. As of December 31, 2014, we have placed 32 PACE®-X rigs into service.

We also operate 16 platform rigs in the U.S. Gulf of Mexico. In 2014, we delivered two new 4600 horsepower deepwater platform rigs, which will be among the largest and most sophisticated rigs in this category.

Our U.S. drilling operations contributed 32% of our Operating revenues for the year ended December 31, 2014.

Canada Drilling

We operate 57 land-based drilling rigs in Canada. Our Canadian drilling operations contributed 5% of our Operating revenues for the year ended December 31, 2014.

International Drilling

We operate 138 land-based drilling rigs in more than 20 countries as of December 31, 2014. We also operate 19 platforms and 6 jack-up rigs in the international offshore drilling markets. We have a 51% ownership interest in a joint venture in Saudi Arabia, which owns and actively markets 5 rigs in addition to the rigs we lease to the joint venture. Many of our rigs in our international drilling markets were designed to address the challenges inherent in specific drilling applications such as those required in the desert, remote/environmentally sensitive locations and the various shale plays. We continue to upgrade and deploy high-specification desert rigs specifically for gas drilling in the Middle East.

Our International drilling operations contributed 24% of our Operating revenues for the year ended December 31, 2014.

Rig Services

Through various subsidiaries, we manufacture and sell top drives, catwalks, wrenches, drawworks and other drilling related equipment which are installed on both onshore and offshore drilling rigs. We offer specialized drilling technologies, including patented steering systems and rig instrumentation software systems including:

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

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

We have engaged in specific acquisitions in order to develop projects to enhance our drilling related service offerings. See Acquisitions and Divestitures.

Our Rig Services operations contributed 6% of our Operating revenues for the year ended December 31, 2014.

Drilling Contracts

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

Our drilling contracts are typically daywork contracts. A daywork contract generally provides for a basic rate per day when drilling (the dayrate for our providing a rig and crew) and for lower rates when the rig is moving between drilling locations, or when drilling operations are interrupted or restricted by equipment breakdowns, adverse weather conditions or other conditions beyond our control. In addition, daywork contracts may provide for a lump-sum fee for the mobilization and demobilization of the rig, which in most cases approximates our anticipated costs. A daywork contract differs from a footage contract (in which the drilling contractor is paid on the basis of a rate per foot drilled) and a turnkey contract (in which the drilling contractor is paid for drilling a well to a specified depth for a fixed price). See Part 1A. Risk Factors *Our drilling contracts may in certain instances be renegotiated or terminated without an early termination payment.*

Completion & Production Services

Our Completion & Production Services business line is comprised of our operations involved in the completion, life-of-well maintenance and plugging and abandonment of a well in the United States and Canada. These services include stimulation, coiled-tubing, cementing, wireline, workover, well-servicing and fluids management. Our Completion & Production Services business contributed 33% of our Operating revenues for the year ended December 31, 2014. This business line consists of two operating segments: Completion Services and Production Services. In connection with the Merger, this business line will be merged with CJES and we will own 53% of the combined company.

Completion Services

We provide a wide range of wellsite solutions to oil and natural gas companies, consisting primarily of technical pumping services, including hydraulic fracturing, a process sometimes used in the completion of oil and gas wells whereby water, sand and chemicals are injected under pressure into subsurface formations to stimulate gas and oil production, and down-hole surveying services. The completion process may involve selectively perforating the well casing at the depth of discrete producing zones, stimulating and testing these zones and installing down-hole equipment. The completion process may take a few days to several weeks. Our Completion Services operations contributed 18% of our Operating revenues for the year ended December 31, 2014.

Production Services

We operate a fleet of 543 land workover and well-servicing rigs in the U.S. and Canada as of December 31, 2014, which are utilized to perform well maintenance and workover services during the production phase of an oil or natural gas well. Well maintenance services are generally performed on a call-out basis and can usually be completed within 48 hours. The services include the repair and replacement of pumps, sucker rods, tubing and other mechanical apparatuses at the wellsite that are used to pump or lift hydrocarbons from producing wells. We also utilize our well service rigs to perform plugging services for wells in which the oil and natural gas has been depleted or further production has become uneconomical. Workover services can be utilized to remedy failures, modify well depth and formation penetration to capture hydrocarbons from alternative formations, clean out and recomplete a well when production has declined, repair leaks, or convert a depleted well to an injection well for secondary or enhanced recovery projects. Workovers are typically carried out with a rig that includes standard drilling accessories such as rotary drilling equipment, pumps and tanks for drilling fluids, blowout preventers and other specialized equipment for servicing rigs. We also provide equipment, including fluid service trucks, frac tanks and salt water disposal wells, to supply, store, remove and dispose of specialized fluids utilized in the completion and workover operations used in daily operations for producing wells.

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

Our Production Services operations contributed 15% of our Operating revenues for the year ended December 31, 2014.

Our Customers

Our customers include major, national and independent oil and gas companies. No customer accounted for more than 10% of our consolidated revenues in 2014.

Our Employees

As of December 31, 2014, we employed approximately 29,000 people, of whom approximately 4,300 were employed by unconsolidated affiliates. Our number of employees fluctuates depending on the current and expected demand for our services. We believe our relationship with our employees is generally good. We employed approximately 1,400 unionized employees internationally.

Seasonality

Our operations are subject to seasonal factors. Specifically, our drilling and workover operations in Canada and Alaska generally experience reduced levels of activity and financial results during the second quarter of each year, due to the annual spring thaw. Our pressure pumping operations located in the Appalachian, Mid-Continent, and Rocky Mountain regions of the United States can be adversely affected by seasonal weather conditions, primarily in the spring, as many municipalities impose weight restrictions on the paved roads leading to our jobsites due to the muddy conditions and during winter months due to inclement weather. In addition, our U.S. offshore market can be impacted during summer months by tropical weather systems in the Gulf of Mexico. Global warming could lengthen these periods of reduced activity, but we cannot currently estimate to what degree. Our well-servicing and pressure pumping operations may also experience lower activity at the end of the year due to holidays and shorter daylight hours. Our overall financial results reflect the seasonal variations experienced in these operations, but seasonality does not materially impact the remaining portions of our business.

Research and Development

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

Industry/Competitive Conditions

To a large degree, our businesses depend on the level of capital spending by oil and gas companies for exploration, development and production activities. During recent months, there has been substantial volatility in oil prices due to increases in global oil production with stagnant demand. For example, within the past year, oil prices have been as high as $107 per barrel and have recently been as low as $44 per barrel in 2015. Currently, based on the average crude oil price in January 2015, prices have declined approximately 49% from the average of the preceding twelve months and the decline has caused a reduction in the level of capital spending by oil companies. A prolonged period of these lower oil prices could continue to depress the level of exploration, development and production activities and result in a corresponding decline in the demand for our services and/or a reduction in dayrates and utilization, which could have an adverse effect on our financial position, results of operations and cash flows. See Part I, Item 1A. Risk Factors *Fluctuations in oil and natural gas prices could adversely affect drilling activity and our revenues, cash flows and profitability*.

The markets in which we provide our services are highly competitive. We provide our drilling and rig services in the United States, Canada and over 20 countries throughout the world. We provide our completion and production services in the United States and Canada. We believe that competitive pricing is a significant factor in determining which service provider is awarded a job in these markets. Historically, the number of available rigs and drilling-related equipment has exceeded demand in many of the markets in which we operate, resulting in strong price competition. This is due in part to the fact that most rigs and drilling-related equipment can be readily moved from one region to another in response to changes in the levels of exploration, development and production activities and market conditions, which may result in an oversupply of rigs and drilling-related equipment in certain areas. Most available contracts for our services are currently awarded on a bid basis, which further increases competition based on price.

In addition to price, other competitive factors in the markets we serve are the overall quality of service and safety record, the technical specification and condition of equipment, the availability of skilled personnel and the ability to offer ancillary services. Our drilling business is subject to certain additional competitive factors. For example, our ability to deliver rigs with new technology and features and, in certain international markets, our experience operating in certain environments and strong customer relationships have been significant factors in the selection of Nabors for the provision of drilling services. We expect that the market for our drilling and completion and production services will continue to be highly competitive.

Certain competitors are present in more than one of the markets in which we operate, although no one competitor operates in all such markets. In our drilling services business, we compete with (1) Helmerich & Payne, Inc., Patterson-UTI Energy, Inc. and several other competitors with national, regional or local rig operations in the United States, (2) Saipem S.p.A, KCA Deutag, and Weatherford International Ltd. and others in our international markets and (3) Precision Drilling, Ensign Energy Services, and others in Canada. In our completion and production services business, we compete with (1) completion services providers in the United States and Canada, such as Halliburton, Schlumberger Limited, Baker Hughes, FTS International Services LLC., and Weatherford International Ltd. as well as other small and mid-sized independent contractors, and (2) production services providers such as Basic Energy Services, Inc., Key Energy Services, Inc., Superior Energy Services, Inc., Forbes Energy

Services Ltd. and numerous other competitors having smaller regional or local well servicing and/or fluids management operations in the United States and Precision, Ensign, and Savanna Well Servicing in Canada.

Our Business Strategy

Our business strategy is to build shareholder value and enhance our competitive position by:

- leveraging our existing global infrastructure and operating reputation to capitalize on growth opportunities;
- achieving superior operational and health, safety and environmental performance;
- continuing to develop our existing portfolio of value-added services to our customers;
- enhancing our technology position and advancing drilling technology both on the rig and downhole; and
- achieving returns above our cost of capital.

In 2014, we focused on initiatives aimed at strengthening our drilling and rig services business services, including the pending merger of our Completion & Production Services business line with CJES and completion of the sale of a significant portion of our oil and gas proved properties in Alaska in July 2014. In addition, as our customers are forced to reduce spending due to the decline in crude oil prices, we believe they will be more likely to embrace the full breadth of our services and technologies. As such, we continue to enhance our engineering and technological position in drilling and rig services, as evidenced by the acquisition in October 2014 of 2TD Drilling AS ("2TD"), a Norwegian drilling technology company developing a rotary steerable platform for directional drilling. Further, we continued our newbuild program with the delivery of 16 PACE®-X rigs during 2014, which are our latest generation rigs designed specifically for multi-well drilling on a single pad. We also completed and delivered 10 newbuild rigs in Saudi Arabia and 5 newbuild rigs in Argentina.

As we move into 2015, we continue to actively pursue international prospects for these PACE®-X rigs. Our global scale and international presence provides us with a unique balance compared to other drilling contractors. Although activity in the lower 48 has been decreasing rapidly in response to the recent decline in crude oil prices, we should continue to benefit from the recent upside in international markets, such as the continued deployment of new and substantially-upgraded rig awards in Saudi Arabia, Kazakhstan and offshore Mexico. We also focused on enhancing our financial flexibility by streamlining operations, shedding non-core businesses and reducing net debt and interest expense.

Acquisitions and Divestitures

We have grown from a land drilling business centered in the U.S. lower 48 states, Canada and Alaska to an international business with operations on land and offshore in most of the major oil and gas markets in the world. At the beginning of 1990, our fleet consisted of 44 actively marketed land drilling rigs in Canada, Alaska and in various international markets. Today, our worldwide fleet of actively marketed rigs consists of 466 land drilling rigs, 543 rigs for land well-servicing and workover work in the United States and Canada, 36 offshore platform rigs, 7 jackup units and a large component of trucks and fluid hauling vehicles. This growth was fueled in part by strategic acquisitions. Although we continue to examine opportunities, including acquisitions, divestitures and other strategic transactions, there can be no assurance that such opportunities will continue to be available, that the pricing will be economical or that we will be successful in making such acquisitions in the future.

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

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In addition to the proposed Merger, we undertook the following transactions over the last three years.

Acquisitions

In January 2013, we purchased the business of Navigate Energy Services, Inc. ("NES") for a total cash price of approximately $37.5 million. This acquisition expanded our technology and development capability for drilling and measurement tools and services, and is included in our Rig Services operating segment.

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

In October 2014, we purchased the outstanding shares of 2TD. 2TD is in the process of developing a rotary steerable system for directional drilling which, once developed, will be included in our Rig Services segment. Under the terms of the transaction, we paid an initial amount of $40.3 million for the purchase of the shares. We may also be required to make future payments of up to an additional $40.0 million, contingent on the achievement of various milestone objectives.

Divestitures

In 2012, we sold our remaining wholly owned oil and gas business in Colombia and sold some of our wholly owned oil and gas assets in the United States. In December 2012, we sold our 49.7% ownership interest in NFR Energy LLC, ("NFR Energy"), a U.S. unconsolidated oil and gas joint venture, to the remaining equity owners. Subsequent to this transaction, NFR Energy changed its name to Sabine Oil & Gas LLC ("Sabine"). During 2012, we received cumulative gross cash proceeds of $254.5 million from these sales of oil and gas assets.

In 2013, we sold the assets of one of our former Canadian subsidiaries that provided logistics services for proceeds of $9.3 million. In addition, we sold Peak Oilfield Service Company ("Peak"), one of our businesses in Alaska, for gross cash proceeds of $135.5 million. We also sold some of our oil and gas assets and received proceeds of approximately $90.0 million.

In July 2014, we sold a large portion of our interest in our oil and gas proved properties located on the North Slope of Alaska. Under the terms of the agreement, we received $35.1 million at closing and expect to receive additional payments of $27.0 million upon certain future dates or the properties achieving certain production targets. We retained a working interest at various interests and an overriding royalty interest in the properties at various interests. The working interest is fully carried up to $600 million of total project costs. The transaction generally remains subject to the approval of local Alaska regulatory authorities, among other usual and customary conditions.

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

Environmental Compliance

We do not anticipate that compliance with currently applicable environmental regulations and controls will significantly change our competitive position, capital spending or earnings during 2015. We believe we are in material compliance with applicable environmental rules and regulations and that the cost of such compliance is not material to our business or financial condition. For a more detailed description of the environmental laws and regulations applicable to our operations, see Part I, Item 1A. Risk Factors *Changes to or noncompliance with governmental regulation or exposure to environmental liabilities could adversely affect our results of operations.*

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ITEM 1A. *RISK FACTORS*

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

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

Risks Related to the Business

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

Our operations depend on the level of spending by oil and gas companies for exploration, development and production activities. Both short-term and long-term trends in oil and natural gas prices affect these levels. Oil and natural gas prices, as well as the level of drilling, exploration and production activity, can be highly volatile. For example, within the past year, oil prices have been as high as $107 per barrel and have recently been as low as $44 per barrel in 2015. Worldwide military, political and economic events, including initiatives by the Organization of Petroleum Exporting Countries, affect both the demand for, and the supply of, oil and natural gas. Weather conditions, governmental regulation (both in the United States and elsewhere), levels of consumer demand, the availability of pipeline capacity, and other factors beyond our control may also affect the supply of and demand for oil and natural gas. A prolonged period of lower oil and natural gas prices could depress the level of drilling, exploration and production activity and result in a corresponding decline in the demand for our services and/or a reduction in dayrates and utilization, which could have an adverse effect on our revenues, cash flows and profitability. Lower oil and natural gas prices have caused some of our customers to terminate, seek to renegotiate or fail to honor our drilling contracts and affected the fair market value of our rig fleet, which in turn has resulted in impairments of our assets. For the year ended December 31, 2014, we recorded impairment charges of approximately $1.0 billion, reflecting the effect of the recent decline in oil prices on our assets. If there is a prolonged period of lower oil and natural gas prices, it could adversely impact our cash forecast models used to determine whether the carrying value of our long-lived assets exceed our future cash flows, which could result in future impairment to our long-lived assets. A prolonged period of lower oil and natural gas prices could also affect our ability to retain skilled rig personnel and affect our ability to access capital to finance and grow our business. There can be no assurances as to the future level of demand for our services or future conditions in the oil and natural gas and oilfield services industries.

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

The oilfield services industry is very competitive. Contract drilling companies compete primarily on a regional basis, and competition may vary significantly from region to region at any particular time. Most rigs and drilling-related equipment can be moved from one region to another in response to changes in levels of activity and market conditions, which may result in an oversupply of such rigs and drilling-related equipment in certain areas, and accordingly, significant price competition. In addition, in recent years, the ability to deliver rigs with new technology and features has become an important factor in determining job awards. Our customers are increasingly demanding the services of newer, higher specification drilling rigs, which requires continued technological developments and increased capital expenditures, and our competitors may be able to respond more quickly to new or emerging technologies and services and changes in customer requirements for equipment. As a result of these and other competitive factors, we may be unable to maintain or increase our market share, utilization

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rates and/or prices for our services, which could adversely affect our business, financial condition and results of operations.

Our drilling contracts may in certain instances be renegotiated or terminated without an early termination payment

Most of our drilling contracts require that an early termination payment be made to us if a contract is terminated by the customer prior to its expiration. Such payments may not fully compensate us for the loss of a contract, and in certain circumstances, such as, but not limited to, destruction of a drilling rig that is not replaced within a specified period of time or other breach of our contractual obligations, the customer may not be obligated to make an early termination payment to us. During depressed market conditions or otherwise, customers may seek to terminate, renegotiate or fail to honor their contractual obligations for various reasons, including those described above. The renegotiation or termination of such contracts without an adequate early termination payment could adversely affect our business, financial condition, cash flows and results of operations.

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

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

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

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

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

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

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

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

As of December 31, 2014, we had approximately $4.4 billion in outstanding debt. We also have various financial commitments, such as leases, firm transportation and processing, contracts and purchase commitments. Our ability to service our debt and other financial obligations depends in large part upon the level of cash flows generated by our subsidiaries' operations, our ability to monetize and/or divest non-core assets, availability under our unsecured revolving credit facility and our ability to access the capital markets.

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

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

The loss of key executives or inability to attract and retain experienced technical personnel could reduce our competitiveness and harm prospects for future success

The successful execution of our business strategies will depend, in part, on the continued service of certain key executive officers. We have employment agreements with some of our key personnel within the company. We do not carry significant amounts of key man insurance. In addition, our operations depend, in part, on our ability to attract and retain experienced technical professionals. Competition for such professionals is intense. The loss of key executive officers and/or our inability to retain or attract experienced technical personnel, could reduce our competitiveness and harm prospects for future success, which may adversely affect our business, financial condition and results of operations.

Changes to or noncompliance with governmental regulation or exposure to environmental liabilities could adversely affect our results of operations

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

Changes in environmental laws may also negatively impact the operations of oil and natural gas exploration and production companies, which in turn could have an adverse effect on us. For example, legislation has been proposed from time to time in the U.S. Congress that would reclassify some oil and natural gas production wastes as hazardous wastes under the Resources Conservation and Recovery Act, which would make the reclassified wastes subject to more stringent and costly handling, disposal and clean-up requirements. In addition, the Outer Continental Shelf Lands Act provides the federal government with broad discretion in regulating the leasing of offshore oil and gas production sites. Legislators and regulators in the United States and other jurisdictions where we operate also focus increasingly on restricting the emission of carbon dioxide, methane and other greenhouse gases that may contribute to warming of the Earth's atmosphere, and other climatic changes. The U.S. Congress has considered legislation designed to reduce emission of greenhouse gases, and some states in which we operate have passed legislation or adopted initiatives, such as the Regional Greenhouse Gas Initiative in the northeastern United States and the Western Regional Climate Action Initiative, which establish greenhouse gas inventories and/or cap-and-trade programs. Some international initiatives have also been adopted, which could result in increased costs of operations in covered jurisdictions. In addition, the EPA has published findings that emissions of greenhouse gases present an endangerment to public health and the environment, paving the way for further regulations that could restrict emissions of greenhouse gases under existing provisions of the Clean Air Act. The EPA has already issued rules requiring monitoring and reporting of greenhouse gas emissions from oil and natural gas systems. Future or more stringent regulation could dramatically increase operating costs for oil and natural gas companies and could reduce the market for our services by making wells and/or oilfields uneconomical to operate.

The expansion of the scope of laws protecting the environment has accelerated in recent years, particularly outside the United States, and we expect this trend to continue. The violation of environmental laws can lead to the imposition of administrative, civil or criminal penalties, remedial obligations, and in some cases injunctive relief. Violations may also result in liabilities for personal injuries, property and natural resource damage and other costs and claims. We are not always successful in allocating all risks of these environmental liabilities to customers, and it is possible that customers who assume the risks will be financially unable to bear any resulting costs.

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

Operations in our Completion Services operating segment include hydraulic fracturing, a process sometimes used in the completion of oil and gas wells whereby water, sand and chemicals are injected under pressure into subsurface formations to stimulate gas and, to a lesser extent, oil production. Hydraulic fracturing activities are currently exempt under the Safe Drinking Water Act ("SDWA"), except for such activities that use diesel fuel, for which the EPA has asserted federal regulatory authority over and issued permitting guidance on in February 2014. In 2012, the EPA promulgated new rules establishing new air emission controls for oil and gas production and natural gas processing operations. More recently, in May 2014, the EPA issued an advanced notice of proposed rulemaking regarding the agency's intent to develop regulations under the Toxic Substances and Control Act related to the disclosure of chemicals used in hydraulic fracturing. The EPA is also conducting a study of the potential environmental impacts from hydraulic fracturing on drinking water resources and developing rules on effluent limitations for the treatment and discharge of wastewater resulting from hydraulic fracturing activities, both which are expected for publication in early 2015. In addition, the federal Bureau of Land Management has proposed new requirements on hydraulic fracturing conducted on federal lands, including the disclosure of chemical additives used. In 2011, the U.S. Department of Energy released a report on hydraulic fracturing, recommending the implementation of a variety of measures to reduce the environmental impacts from shale-gas production. In addition, there has been public opposition to hydraulic fracturing. As a result, there have been legislative initiatives to regulate hydraulic fracturing under the Safe Drinking Water Act or under newly established legislation. From time to time, legislation has also been introduced in the U.S. Congress to provide for federal regulation of hydraulic fracturing under the SDWA and to require the disclosure of chemicals used in the hydraulic fracturing process. In addition, various states and local governments have implemented, or are considering, increased regulatory oversight of hydraulic fracturing through additional permit requirements, operational restrictions, disclosure requirements and temporary or permanent bans. For example, Texas has adopted legislation that requires the public disclosure of information regarding the substances used in the hydraulic fracturing process, and, on December 17, 2014, the State of New York announced a ban on hydraulic fracturing due to public health and environmental concerns identified in its several years study. In addition, municipalities in Colorado and several other states have adopted or are in the process of adopting ordinances restricting or prohibiting hydraulic fracturing within their jurisdictions. New or further changes in laws and regulations imposing reporting obligations on, or otherwise banning or limiting, the hydraulic fracturing process could make it more difficult to complete oil and natural gas wells in shale formations, cause operational delays, increase costs of regulatory compliance or in exploration and production, which could adversely affect our business and the demand for fracturing services.

Any violation of the Foreign Corrupt Practices Act or any other similar anti-corruption laws could have a negative impact on us

A significant portion of our revenue is derived from operations outside the United States, which exposes us to complex foreign and U.S. regulations inherent in doing cross-border business and in each of the countries in which we transact business. We are subject to compliance with the United States Foreign Corrupt Practices Act ("FCPA") and other similar anti-corruption laws, which generally prohibit companies and their intermediaries from making improper payments to foreign government officials for the purpose of obtaining or retaining business. While our employees and agents are required to comply with these laws, we cannot be sure that our internal policies and procedures will always protect us from violations of these laws, despite our commitment to legal compliance and corporate ethics. Violations of these laws may result in severe criminal and civil sanctions as well as other penalties, and the SEC and U.S. Department of Justice have increased their enforcement activities with respect to the FCPA. The occurrence or allegation of these types of risks may adversely affect our business, performance, prospects, value, financial condition, and results of operations.

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

As of February 26, 2015, we had 800,000,000 authorized common shares, of which 329,376,998 shares were outstanding. In addition, 19,449,499 common shares were reserved for issuance pursuant to stock option and employee benefit plans. The sale, or availability for sale, of substantial amounts of our common shares in the public market, whether directly by us or resulting from the exercise of options (and, where applicable, sales pursuant to Rule 144 under the Securities Act), would be dilutive to existing security holders, could adversely affect the prevailing market price of our common shares and could impair our ability to raise additional capital through the sale of equity securities.

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

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

- Classifying our Board of Directors ("Board") so that all the directors could not be replaced at a single meeting;

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

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

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

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

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

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

At the request of shareholders, we declassified the Board, which makes it easier for another party to acquire control of the Company. The remaining provisions designed to avoid a coercive takeover may not be fully effective so that a party may still be able to acquire the Company without paying what the Board considers to be fair value, including a control premium. Conversely, such provisions could discourage a would-be acquiror and thus reduce the likelihood that shareholders would receive a premium for their shares in a takeover.

We may have additional tax liabilities

Income tax returns that we file will be subject to review and examination. We will 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 increase substantially and result in a material adverse effect on our financial condition.

Legal proceedings could affect our financial condition and results of operations

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

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

Changes in general financial and political conditions may negatively impact our business, financial condition, results of operations and cash flows in ways that we cannot predict. If global financial and commodity markets and economic conditions deteriorate in the future, there could be a material adverse impact on our liquidity and those of our customers and other worldwide business partners. For example, as a result of a dramatic decline in oil prices in the fourth quarter of 2014 which remained suppressed into 2015, our customers have reduced or curtailed their capital spending and drilling activities. As a result, we and our customers may experience difficulties forecasting future capital expenditures, which in turn could negatively impact the worldwide rig count and our future financial results.

We previously identified a material weakness in our internal control over financial reporting, and our business and stock price may be adversely affected if our internal control over financial reporting is not effective

Under Section 404 of the Sarbanes-Oxley Act of 2002 and rules promulgated by the SEC, companies are required to conduct a comprehensive evaluation of their internal control over financial reporting. As part of this process, we are required to document and test our internal control over financial reporting; management is required to assess and issue a report concerning our internal control over financial reporting; and our independent registered public accounting firm is required to attest to the effectiveness of our internal control over financial reporting. Our internal control over financial reporting may not prevent or detect misstatements because of its inherent limitations, including the possibility of human error, the circumvention or overriding of controls, or fraud. Even effective internal controls can provide only reasonable assurance with respect to the preparation and fair presentation of financial statements.

We have identified a material weakness in our controls over the accounting for and disclosures related to a non-routine complex legal entity restructuring in the interim consolidated financial statements. A more complete description of this material weakness is included in Item 9A, "Controls and Procedures" in this Form 10-K, together with our remediation plan.

The existence of a material weakness could result in errors in our financial statements that could result in a restatement of financial statements, which could cause us to fail to meet our reporting obligations, lead to a loss of investor confidence and have a negative impact on the trading price of our common stock.

Failure to realize the anticipated benefits of acquisitions, divestitures and other strategic transactions may adversely affect our business, results of operations and financial position

We undertake from time to time acquisitions, divestitures and other strategic transactions, such as the proposed Merger with CJES, that we expect to further our business objectives. The anticipated benefits of such transactions may not be realized, or may be realized more slowly than expected, and may result in operational and financial consequences, including, but not limited to, the loss of key customers, suppliers or employees and significant transactional expenses, which may have an adverse effect on our business, results of operations and financial position.

Our business is subject to cybersecurity risks

Threats to information technology systems associated with cybersecurity risks and cyber incidents or attacks continue to grow. Risks associated with these threats include, among other things, loss of intellectual property, disruption of our and customers' business operations and safety procedures, loss or damage to our worksite data delivery systems, and increased costs to prevent, respond to or mitigate cybersecurity events. Although we utilize various procedures and controls to mitigate our exposure to such risk, cybersecurity attacks are evolving and unpredictable. The occurrence of such an attack could go unnoticed for a period time and could have a material adverse effect on our business, financial condition and results of operations.

Risks Related to the Merger

The Merger is subject to customary approvals and conditions which may adversely impact the timing of the transaction and our ability to consummate the transaction

In June 2014, we and certain of our wholly owned subsidiaries, including Nabors Red Lion Limited ("Red Lion"), agreed to the proposed Merger with CJES. Under the amended terms of the Merger and related transactions, we expect to receive total consideration comprised of approximately $688 million in cash and approximately 62.5 million common shares in the combined company upon the closing of the Merger. The Merger is subject to customary approvals and conditions, many of which are outside of our control, including, among others, the approval of the Merger by the holders of a majority of outstanding CJES common stock and the availability of the proceeds of CJES's debt financing to effect the cash payment to us at closing. Although we expect the Merger to be completed in March of 2015 following the special meeting of CJES stockholders on March 20, 2015, we cannot assure you that the Merger will be consummated within the anticipated time period or at all, including as the result of regulatory, market or other factors. Further, any delay in the consummation of the Merger could result in additional transaction costs or other effects associated with uncertainty about the Merger, which may adversely impact our ability to realize the anticipated benefits of the transaction.

In addition, failure to consummate the Merger could have an adverse effect on our business for a number of reasons, including that we will have incurred significant transaction costs without achieving the anticipated benefits from the transaction, including the expected cash payment from CJES, and will have lost the opportunity to pursue other strategic transactions. In addition, the market and price for our common stock could be adversely impacted from such delay or failure.

Following completion of the Merger, we will not be able to exert complete control over New C&J

Following the completion of the Merger, we will own 53% of the outstanding and issued common shares of the newly combined company. While we will have the ability to exert a significant degree of influence as a substantial shareholder, we will not be able to directly manage the daily operations of the newly combined company, including our Completion & Production Services business line, and will not be able to exert complete control over the decision-making of the board of directors of the newly combined company, including with respect to cash distributions to shareholders or the transfer of assets, under normal circumstances.

ITEM 1B. *UNRESOLVED STAFF COMMENTS*

Not applicable.

ITEM 2. *PROPERTIES*

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

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

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

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

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

Summary of Oil and Gas Reserves

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

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Reserve Category

	Proved Developed		Undeveloped		Total	
	Liquids (MMBbls)	Natural Gas (Bcf)	Liquids (MMBbls)	Natural Gas (Bcf)	Liquids (MMBbls)	Natural Gas (Bcf)
As of December 31, 2012:						
Consolidated subsidiaries						
United States	1.1	0.4	14.3	0.7	15.4	1.1
Canada		7.7				7.7
Colombia						
Total consolidated(1)	1.1	8.1	14.3	0.7	15.4	8.8

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

Oil and Gas Production, Production Prices and Production Costs

Oil and Gas Production

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

	United States		Canada		Colombia		Total	
	Liquids (MMBbls)	Natural Gas (Bcf)	Liquids (MMBbls)	Natural Gas (Bcf)	Liquids (MMBbls)	Natural Gas (Bcf)	Liquids (MMBbls)	Natural Gas (Bcf)
For the year ended December 31, 2012:								
Oil and natural gas liquids production								
Consolidated subsidiaries	0.268	0.938		2.00	0.003		0.271	2.938
Equity companies(1)	0.545	19.01					0.545	19.010
Average production sales prices:								
Consolidated subsidiaries	$ 76.74	$ 3.04	$	$ 2.36	$ 130.04	$	$ 77.33	$ 2.58
Equity companies(1)	$ 53.94	$ 2.70	$	$	$	$	$ 53.94	$ 2.70
Average production costs ($/boe):								
Consolidated subsidiaries		$ 3.52/Mcfe(2)		$ 2.91/Mcfe	$ 31.75/Boe(3)			
Equity companies(1)		$ 1.47/Mcfe		$	$			

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

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

(3) Reflects the barrel of oil equivalent or "Boe".

Drilling and Other Exploratory and Development Activities

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

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Number of Net Productive and Exploratory Wells Drilled

	Net Productive Exploratory Wells Drilled	Net Dry Exploratory Wells Drilled	Net Productive Development Wells Drilled	Net Dry Development Wells Drilled
For the year ended December 31, 2012:				
Consolidated subsidiaries				
United States	2.40		6.50	
Colombia	1.15			
Total consolidated	3.55		6.50	
Equity companies(1)				
United States	1.49		3.48	
Total equity companies	1.49		3.48	

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

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

Our revenues and property, plant and equipment by geographic area can be found in Note 23 Segment Information in Part II, Item 8. Financial Statements and Supplementary Data. Information about our rig fleet is included under the caption Overview in Part I, Item 1. Business.

ITEM 3. *LEGAL PROCEEDINGS*

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

In 2009, the Court of Ouargla entered a judgment of approximately $16.4 million (at December 31, 2014 exchange rates) against us relating to alleged customs infractions in Algeria. We believe we did not receive proper notice of the judicial proceedings, and that the amount of the judgment was excessive in any case. We asserted the lack of legally required notice as a basis for challenging the judgment on appeal to the Algeria Supreme Court. In May 2012, that court reversed the lower court and remanded the case to the Ouargla Court of Appeals for treatment consistent with the Supreme Court's ruling. In January 2013, the Ouargla Court of Appeals reinstated the judgment. We have again lodged an appeal to the Algeria Supreme Court, asserting the same challenges as before. Based upon our understanding of applicable law and precedent, we continue to believe that we will prevail. Although the appeal remains ongoing at this time, the Hassi Messaoud customs office recently initiated efforts to collect the judgment prior to the Supreme Court's decision in the case. As a result, we paid approximately $3.1 million and posted security of approximately $1.33 million to suspend those collection efforts and to enter into a formal negotiations process with the customs authority. We have recorded a reserve in the amount of the posted security. Algerian Customs have recently demanded 50% of the total fine as a final settlement which would require an additional payment of approximately $4.425 million. We have elected to await the ruling from the Supreme Court. The matter was heard on February 26, 2015, and a decision will be issued on March 26, 2015. If we are ultimately required to pay a fine or judgment related to this matter, the resulting loss could be up to $12.0 million in excess of amounts accrued.

In March 2011, the Court of Ouargla entered a judgment of approximately $32.2 million (at December 31, 2014 exchange rates) against us relating to alleged violations of Algeria's foreign currency exchange controls, which require that goods and services provided locally be invoiced and paid in local currency. The case relates to certain foreign currency payments made to us by CEPSA, a Spanish operator, for wells drilled in 2006. Approximately $7.5 million of the total contract amount was paid offshore in foreign currency, and approximately $3.2 million was paid in local currency. The judgment includes fines and penalties of approximately four times the amount at issue. We have appealed the ruling based on our understanding that the law in question applies only to resident entities incorporated under Algerian law. An intermediate court of appeals upheld the lower court's ruling, and we appealed the matter to the Algeria Supreme Court. On September 25, 2014, the Supreme Court of Algeria overturned the verdict against us, and the case will now be reheard by the Court of Appeal Ouargla in light of the Algeria Supreme Court's opinion. The rehearing has been set for March 8, 2015. 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 $24.2 million in excess of amounts accrued.

In March 2012, Nabors Global Holdings II Limited ("NGH2L") signed a contract with ERG Resources, LLC ("ERG") relating to the sale of all of the Class A shares of NGH2L's wholly owned subsidiary, Ramshorn International Limited, an oil and gas exploration company. When ERG failed to meet its closing obligations, NGH2L terminated the transaction on March 19, 2012 and, as contemplated in the agreement, retained ERG's $3.0 million escrow deposit. ERG filed suit the following day in the 61st Judicial District Court of Harris County, Texas, in a case styled ERG Resources, LLC v. Nabors Global Holdings II Limited, Ramshorn International Limited, and Parex Resources, Inc.; Cause No. 2012-16446, seeking injunctive relief to halt any sale of the shares to a third party, specifically naming as defendant Parex Resources, Inc. ("Parex"). The lawsuit also seeks monetary damages of up to $750.0 million based on an alleged breach of contract by NGH2L and alleged tortious interference with contractual relations by Parex. Nabors successfully defeated ERG's effort to obtain a temporary restraining order from the Texas court on March 20, 2012. Nabors completed the sale of Ramshorn's Class A shares to a Parex affiliate in April 2012, which mooted ERG's application for a temporary injunction. The lawsuit is staid, pending further court actions including appeals of the jurisdictional decisions. ERG retains its causes of action for monetary damages, but Nabors believes the claims are foreclosed by the terms of the agreement and are without factual or legal merit. Although we are vigorously defending the lawsuit, its ultimate outcome cannot be determined at this time.

On July 30, 2014, Nabors and Red Lion, along with CJES 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 CJES board of directors breached their fiduciary duties in connection with the Merger, and that Nabors Red Lion and CJES aided and abetted these alleged breaches. The plaintiff seeks to enjoin the defendants from proceeding with or

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consummating the Merger and the CJES stockholder meeting for approval of the Merger and, to the extent that the Merger is completed before any relief is 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 CJES board of directors to solicit for a 30 day period alternative proposals to purchase CJES (or a controlling stake in CJES) that are superior to the Merger, and (ii) preliminarily enjoined CJES from holding its stockholder meeting until it complied with the foregoing. CJES 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.

We cannot predict the outcome of this lawsuit or any others that might be filed in the future in connection with the Merger, nor can we predict the amount of time and expense that will be required to resolve such litigation. One of the conditions to the completion of the Merger is that no temporary restraining order, preliminary or permanent injunction or other order or judgment or any governmental authority of competent jurisdiction enjoining or prohibiting the consummation of the Merger be in effect and completion of the Merger is not illegal under any applicable law, rule, regulation or order of any governmental authority of competent jurisdiction, which condition, if not satisfied, could delay or jeopardize the consummation of the Merger. An adverse judgment granting permanent injunctive relief could indefinitely enjoin the Merger, and an adverse judgment for rescission or monetary damages could have a material adverse effect on us following the Merger.

ITEM 4. *MINE SAFETY DISCLOSURES*

Not applicable.

PART II

ITEM 5. *MARKET PRICE OF AND DIVIDENDS ON THE REGISTRANT'S COMMON EQUITY, RELATED SHAREHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES*

Market Information.

Our common shares, par value $0.001 per share, are publicly traded on the New York Stock Exchange under the symbol "NBR".

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

		Share Price	
Calendar Year		**High**	**Low**
2013	First Quarter	$ 18.24	$ 14.35
	Second Quarter	$ 17.35	$ 14.34
	Third Quarter	$ 16.72	$ 14.50
	Fourth Quarter	$ 18.33	$ 15.32
2014	First Quarter	$ 25.06	$ 16.43
	Second Quarter	$ 29.90	$ 23.36
	Third Quarter	$ 30.24	$ 22.51
	Fourth Quarter	$ 23.08	$ 9.91

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Holders.

At February 26, 2015, there were approximately 1,799 shareholders of record of our common shares.

Dividends.

On February 20, 2015, our Board declared a cash dividend of $0.06 per common share, which will be paid on March 31, 2015 to shareholders of record at the close of business on March 10, 2015.

In 2013, our Board approved the payment of cash dividends on our common stock. Dividends in the amount of $0.04 per share were paid in March, June, September and December of 2013 and March and June of 2014. The dividend was increased to $0.06 per share in July 2014 by our Board, and this new amount was paid in September and December 2014. There were no dividends paid in 2012. The declaration and payment of future dividends will be at the discretion of the Board and will depend, among other things, on future earnings, general financial condition and liquidity, success in business activities, capital requirements, and general business conditions.

Issuer Purchases of Equity Securities.

The following table provides information relating to our repurchase of common shares during the three months ended December 31, 2014:

Period (In thousands, except per share amounts)	Total Number of Shares Repurchased	Average Price Paid per Share(1)	Total Number of Shares Purchased as Part of Publicly Announced Program	Approximated Dollar Value of Shares that May Yet Be Purchased Under the Program(2)
October 1 - October 31	2	$ 21.51		
November 1 - November 30	7	$ 17.85		
December 1 - December 31	< 1	$ 11.97		

(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 2003 Employee Stock Plan, 2013 Stock Plan, 1998 Employee Stock Plan, 1999 Stock Option Plan for Non-employee Directors and 1996 Employee Stock Plan provide for the withholding of shares to satisfy tax obligations, but do not specify a maximum number of shares that can be withheld for this purpose. These shares were purchased in the open market.

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

During 2014, with approval of the Board, we purchased 10.375 million of our common shares, at $24.10 per share, for a total aggregate amount of approximately $250 million. This purchase was an isolated event and was not part of a broader Board approved repurchase program. The Board continuously seeks to increase returns to shareholders, and as a result, this could lead to additional repurchases in the future, although we do not have a plan in place to do so at this time.

For a description of securities authorized for issuance under equity compensation plans, see Part III, Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Shareholder Matters.

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Performance Graph

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

	2010	2011	2012	2013	2014
Nabors Industries Ltd.	107	79	66	78	61
S&P Index	115	117	136	180	205
Dow Jones Oil Equipment and Services Index	127	112	112	144	119

The foregoing graph is based on historical data and is not necessarily indicative of future performance. This graph shall not be deemed to be "soliciting material" or "filed" with the SEC or subject to Regulations 14A or 14C under the Exchange Act or to the liabilities of Section 18 under the Exchange Act.

Related Shareholder Matters

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

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

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ITEM 6. *SELECTED FINANCIAL DATA*

The following table summarizes selected financial information and should be read in conjunction with Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements and related notes thereto included under Part II, Item 8. Financial Statements and Supplementary Data.

	Year Ended December 31,				
Operating Data(1)(2)	**2014**	**2013**	**2012**	**2011**	**2010**
	(In thousands, except per share amounts and ratio data)				
Revenues and other income:					
Operating revenues	$ 6,804,197	$ 6,152,015	$ 6,843,051	$ 6,013,480	$ 4,134,483
Earnings (losses) from unconsolidated affiliates	(6,301)	39	(288,718)	85,448	58,641
Investment income	11,831	96,577	63,137	19,939	7,263
Total revenues and other income	6,809,727	6,248,631	6,617,470	6,118,867	4,200,387
Costs and other deductions:					
Direct costs	4,505,064	3,981,828	4,367,106	3,738,506	2,397,061
General and administrative expenses	549,734	525,330	527,953	487,808	338,720
Depreciation and amortization	1,145,100	1,086,677	1,039,923	918,122	760,962
Interest expense	177,948	223,418	251,904	256,632	272,712
Losses (gains) on sales and disposals of long-lived assets and other expense (income), net	9,073	37,977	(136,636)	4,474	45,334
Impairments and other charges	1,027,423	287,241	290,260	198,072	61,292
Total costs and other deductions	7,414,342	6,142,471	6,340,510	5,603,614	3,876,081
Income (loss) from continuing operations before income taxes	(604,615)	106,160	276,960	515,253	324,306
Income tax expense (benefit)	62,666	(55,181)	40,986	165,083	49,190
Subsidiary preferred stock dividend	1,984	3,000	3,000	3,000	750
Income (loss) from continuing operations, net of tax	(669,265)	158,341	232,974	347,170	274,366
Income (loss) from discontinued operations, net of tax	21	(11,179)	(67,526)	(97,601)	(161,090)
Net income (loss)	(669,244)	147,162	165,448	249,569	113,276
Less: Net (income) loss attributable to noncontrolling interest	(1,415)	(7,180)	(621)	(1,045)	(85)
Net income (loss) attributable to Nabors	$ (670,659)	$ 139,982	$ 164,827	$ 248,524	$ 113,191
Earnings (losses) per share:					
Basic from continuing operations	$ (2.28)	$ 0.51	$ 0.80	$ 1.21	$ 0.96
Basic from discontinued operations		(0.04)	(0.23)	(0.34)	(0.56)
Total Basic	$ (2.28)	$ 0.47	$ 0.57	$ 0.87	$ 0.40
Diluted from continuing operations	$ (2.28)	$ 0.51	$ 0.79	$ 1.18	$ 0.95
Diluted from discontinued operations		(0.04)	(0.23)	(0.33)	(0.56)
Total Diluted	$ (2.28)	$ 0.47	$ 0.56	$ 0.85	$ 0.39

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Operating Data(1)(2)	2014	2013	2012	2011	2010
	Year Ended December 31, (In thousands, except per share amounts and ratio data)				
Weighted-average number of common shares outstanding:					
Basic	290,694	294,182	289,965	287,118	285,145
Diluted	290,694	296,592	292,323	292,484	289,996
Capital expenditures and acquisitions of businesses(3)	$ 1,923,779	$ 1,365,994	$ 1,433,586	$ 2,247,735	$ 1,878,063
Interest coverage ratio(4)	9.8:1	7.4:1	7.7:1	7.0:1	5.2:1

Balance Sheet Data(1)(2)	2014	2013	2012	2011	2010
	As of December 31, (In thousands, except per share amounts and ratio data)				
Cash, cash equivalents and short-term investments	$ 536,169	$ 507,133	$ 778,204	$ 539,489	$ 801,190
Working capital	1,174,399	1,442,406	2,000,475	1,285,752	458,550
Property, plant and equipment, net	8,599,125	8,597,813	8,712,088	8,629,946	7,815,419
Total assets	11,879,942	12,159,811	12,656,022	12,899,538	11,605,166
Long-term debt	4,348,859	3,904,117	4,379,336	4,348,490	3,064,126
Shareholders' equity	4,908,619	5,969,086	5,944,929	5,587,022	5,322,524
Debt to capital ratio:					
Gross(5)	0.47:1	0.40:1	0.42:1	0.45:1	0.45:1
Net(6)	0.44:1	0.36:1	0.38:1	0.42:1	0.41:1

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

(2) Our acquisitions' results of operations and financial position have been included beginning on the respective dates of acquisition and include 2TD (October 2014), KVS (October 2013), Navigate Energy Services, Inc. (January 2013), Peak (July 2011), Stone Mountain Venture Partnership (June 2011), Energy Contractors (December 2010) and Superior Well Services, Inc. (September 2010).

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

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

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

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

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

The following discussion and analysis of our financial condition and results of operations is based on, and should be read in conjunction with, our consolidated financial statements and the related notes thereto included under Part II, Item 8. Financial Statements and Supplementary Data. This discussion and analysis contains forward-looking statements that involve risks and uncertainties. Actual results may differ materially from those anticipated in these forward-looking statements as a result of certain factors, including those set forth under Part 1A. Risk Factors and elsewhere in this annual report. See "Forward-Looking Statements."

Management Overview

We own and operate the world's largest land-based drilling rig fleet and have one of the largest completion services and well-servicing and workover rig fleets in North America. We are a leading provider of offshore platform workover and drilling rigs in the United States and multiple international markets. The majority of our business is conducted through two business lines:

Drilling & Rig Services

The Drilling & Rig Services business line 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. This business line consists of four operating segments: U.S., Canada, International and Rig Services.

Completion & Production Services

Our Completion & Production Services business line is comprised of our operations involved in the completion, life-of-well maintenance and plugging and abandonment of a well in the United States and Canada. These services include stimulation, coiled-tubing, cementing, wireline, workover, well-servicing and fluids management. This business line consists of two operating segments: Completion Services and Production Services. We expect to merge this business line with CJES by the end of the first quarter of 2015, as described under Part 1, Item 1. Business Overview.

Outlook

The demand for our services is a function of the level of spending by oil and gas companies for exploration, development and production activities. The primary driver of customer spending is their cash flow and earnings which are largely driven by oil and natural gas prices. The oil and natural gas markets have traditionally been volatile and tend to be highly sensitive to supply and demand cycles.

The following table sets forth the 12-month daily average of oil and natural gas prices according to Bloomberg for the last three fiscal years:

	Year Ended December 31,			Increase/(Decrease)			
	2014	2013	2012	2014 to 2013		2013 to 2012	
Commodity prices:							
Average Henry Hub natural gas spot price ($/mcf)	$ 4.35	$ 3.72	$ 2.75	$ 0.63	17%	$ 0.97	35%
Average West Texas intermediate crude oil spot price ($/barrel)	$ 93.03	$ 98.02	$ 94.10	$ (4.99)	(5)%	$ 3.92	4%

During the latter part of 2014, the markets experienced a dramatic decline in oil prices which have remained depressed into 2015 due, at least in part, to an increase in global crude supply with stagnant demand. While the average oil price for 2014 appears to have remained in line with that of 2013, a

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significant drop was experienced in the fourth quarter of 2014 reaching a low for 2014 of $53.27 per barrel in December. Oil prices remain depressed, averaging $47.61 per barrel during the month of January 2015. Natural gas prices, which averaged $4.35 per mcf during 2014, have also experienced a recent decline in early 2015, although less severe than oil prices. Natural gas prices averaged $2.97 per mcf during the month of January 2015, down 31% from the proceeding 12-month daily average and still significantly below the 2008 average price of $8.89 for an extended period of time.

As a result of the reduced price of oil, we have experienced a decline in the demand for drilling and completion services as customers have begun reducing or curtailing their capital spending and drilling activities. The reduction in demand for drilling services, coupled with the increased supply of newly built high specification rigs in the drilling market, has led to a highly competitive market for all rigs, including high specification rigs. This has accelerated the under-utilization of our legacy rig fleet (non AC rigs). We have also experienced downward pricing pressure for our services.

Due to the aforementioned factors, we have recently experienced a decline in our dayrates as well as the average number of rigs operating. While the recent decline in industry conditions, as a whole, did not materially impact our operating results for fiscal year 2014, we anticipate operating results for 2015 to decrease from levels realized in 2014 given our current expectation of the continuation of lower commodity prices and the related impact on drilling, completion and well-servicing activity and dayrates. The decrease in drilling activity and dayrates is expected to have a significant impact on our Drilling & Rig Services operating segment, most notably in the lower 48. We expect our International operations to remain steady during 2015, resulting from the recent deployment of additional new rigs, throughout 2014 and early 2015, all of which are under long-term contracts.

Financial Results

During 2014, our income (loss) from continuing operations was adversely affected by approximately $1.03 billion in impairments and other charges. Net loss from continuing operations totaled $669.3 million for 2014 ($2.28 per diluted share) compared to net income from continuing operations of $158.3 million ($0.51 per diluted share) in 2013.

The impairments and retirement provisions stemmed from the sharp decline in crude oil prices during the fourth quarter of 2014 and the resulting impact on our customers' spending programs and demand for our services. The impairments and retirement provisions were comprised of approximately $611.6 million in charges related to drilling rigs and rig equipment and $386.5 million in impairments to our goodwill and intangible assets. The goodwill and intangible assets were primarily attributable to our Completion Services operating segment from the acquisition of Superior Well Services, Inc. ("Superior") in 2010.

Of the $611.6 million in charges related to our drilling rigs and rig equipment, the majority is attributable to retirements and impairments to our lower 48 legacy rig fleet (non AC rigs), including the functional retirement of 25 mechanical rigs, an impairment to the SCR fleet and the resultant reduction in yard assets and spare rig components due to reduced operating fleet size. The balance is attributable to charges for the impairment or retirement of our jack-up rig fleet in the Gulf of Mexico, our coil tubing drilling rigs in Canada and various other under-performing rigs and related equipment in Canada and our international markets.

Excluding these items, our operating results increased in 2014 over 2013. Operating revenues and Earnings (losses) from unconsolidated affiliates in 2014 totaled $6.8 billion, representing an increase of $645.8 million, or 10%, over 2013. The increase in revenues was driven by increases from virtually all of our operating segments with the exception of Canada Drilling. Adjusted income derived from operating activities for 2014 totaled $598.0 million, representing an increase of $40.0 million, or 7%, over 2013. This increase was driven primarily by our U.S. and International Drilling and Rig Services segments, which more than offset declines in our Completion and Production Services and Canada Drilling

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segments. Operating revenues and Earnings (losses) from unconsolidated affiliates for 2013 totaled $6.2 billion, representing a decrease of $402.3 million, or 6%, from 2012. Adjusted income derived from operating activities for 2013 totaled $558.2 million, representing a decrease of 39% from 2012.

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

During 2012, our income (loss) from continuing operations was negatively impacted by impairments and other charges, including full-cost ceiling test writedowns from Sabine totaling $283.4 million, representing our proportionate share of the writedowns, a $75.0 million impairment of an intangible asset related to the Superior trade name, a provision for the retirement of long-lived assets totaling $138.7 million in multiple operating segments, a $50.4 million impairment of some coil-tubing rigs and a goodwill impairment totaling $26.3 million. Partially offsetting these charges were $160.0 million of asset gains, primarily relating to selling our interest in Sabine at the end of 2012. Excluding these items, our operating results improved as a result of increased demand for our services and products due to increased drilling activity in oil- and liquids-rich shale plays and increased well-servicing activity in the U.S. and Canada. This increase in activity has more than offset the drop in demand from gas-related plays.

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

	Year Ended December 31,			Increase/(Decrease)			
	2014	2013	2012	2014 to 2013		2013 to 2012	
	(In thousands, except percentages and rig activity)						
Reportable segments:							
Operating revenues and Earnings (losses) from unconsolidated affiliates							
Drilling & Rig Services:							
U.S.	$ 2,159,968	$ 1,914,786	$ 2,276,808	$ 245,182	13%	$ (362,022)	(16)%
Canada	335,192	361,676	429,411	(26,484)	(7)%	(67,735)	(16)%
International	1,623,102	1,464,264	1,265,060	158,838	11%	199,204	16%
Rig Services(2)	687,302	516,004	688,310	171,298	33%	(172,306)	(25)%
Subtotal Drilling & Rig Services(3)	4,805,564	4,256,730	4,659,589	548,834	13%	(402,859)	(9)%
Completion & Production Services:							
Completion Services	1,218,361	1,074,713	1,462,767	143,648	13%	(388,054)	(27)%
Production Services	1,033,538	1,009,214	1,000,873	24,324	2%	8,341	1%
Subtotal Completion & Production Services(4)	2,251,899	2,083,927	2,463,640	167,972	8%	(379,713)	(15)%
Other reconciling items(5)(7)	(259,567)	(188,603)	(568,896)	(70,964)	(38)%	380,293	67%
Total	$ 6,797,896	$ 6,152,054	$ 6,554,333	$ 645,842	10%	$ (402,279)	(6)%

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	Year Ended December 31,			Increase/(Decrease)			
	2014	2013	2012	2014 to 2013		2013 to 2012	
	(In thousands, except percentages and rig activity)						
Adjusted income (loss) derived from operating activities(1)(6)							
Drilling & Rig Services:							
U.S.	$ 370,173	$ 315,496	$ 509,894	$ 54,677	17%	$ (194,398)	(38)%
Canada	52,468	61,193	91,360	(8,725)	(14)%	(30,167)	(33)%
International	242,818	177,833	91,226	64,985	37%	86,607	95%
Rig Services(2)	47,768	(3,918)	67,366	51,686	n/m(8)	(71,284)	(106)%
Subtotal Drilling & Rig Services(3)	713,227	550,604	759,846	162,623	30%	(209,242)	(28)%
Completion & Production Services:							
Completion Services	(15,078)	51,722	188,518	(66,800)	(129)%	(136,796)	(73)%
Production Services	93,414	102,130	108,835	(8,716)	(9)%	(6,705)	(6)%
Subtotal Completion & Production Services(4)	78,336	153,852	297,353	(75,516)	(49)%	(143,501)	(48)%
Other reconciling items(7)	(193,565)	(146,237)	(148,649)	(47,328)	(32)%	2,412	2%
Total adjusted income (loss) derived from operating activities	$ 597,998	$ 558,219	$ 908,550	$ 39,779	7%	$ (350,331)	(39)%
U.S. oil and gas joint venture earnings (losses)			(289,199)			289,199	100%
Interest expense	(177,948)	(223,418)	(251,904)	45,470	20%	28,486	11%
Investment income (loss)	11,831	96,577	63,137	(84,746)	(88)%	33,440	53%
Gains (losses) on sales and disposals of long-lived assets and other income (expense), net	(9,073)	(37,977)	136,636	28,904	76%	(174,613)	(128)%
Impairments and other charges	(1,027,423)	(287,241)	(290,260)	(740,182)	(258)%	3,019	1%
Income (loss) from continuing operations before income taxes	(604,615)	106,160	276,960	(710,775)	(670)%	(170,800)	(62)%
Income tax expense (benefit)	62,666	(55,181)	40,986	117,847	214%	(96,167)	(235)%
Subsidiary preferred stock dividend	1,984	3,000	3,000	(1,016)	(34)%		
Income (loss) from continuing operations, net of tax	(669,265)	158,341	232,974	(827,606)	(523)%	(74,633)	(32)%
Income (loss) from discontinued operations, net of tax	21	(11,179)	(67,526)	11,200	100%	56,347	83%
Net income (loss)	(669,244)	147,162	165,448	(816,406)	(555)%	(18,286)	(11)%
Less: Net (income) loss attributable to noncontrolling interest	(1,415)	(7,180)	(621)	5,765	80%	(6,559)	n/m(8)
Net income (loss) attributable to Nabors	$ (670,659)	$ 139,982	$ 164,827	$ (810,641)	(579)%	$ (24,845)	(15)%
Rig activity:							
Rig years:(9)							
U.S.	212.5	195.0	219.1	17.5	9%	(24.1)	(11)%
Canada	34.1	29.9	34.8	4.2	14%	(4.9)	(14)%
International(10)	127.1	124.2	119.3	2.9	2%	4.9	4%
Total rig years	373.7	349.1	373.2	24.6	7%	(24.1)	(6)%
Rig hours:(11)							
Production Services	809,438	865,939	853,373	(56,501)	(7)%	12,566	1%
Canada Production Services	139,938	152,747	181,185	(12,809)	(8)%	(28,438)	(16)%
Total rig hours	949,376	1,018,686	1,034,558	(69,310)	(7)%	(15,872)	(2)%

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

(2) Includes our other services comprised of our drilling technology and top drive manufacturing, directional drilling, rig instrumentation and software services.

(3) Includes earnings (losses), net from unconsolidated affiliates, accounted for using the equity method, of ($6.8) million and ($0.4) million for the years ended December 31, 2014 and 2013, respectively.

(4) Includes earnings (losses), net from unconsolidated affiliates, accounted for using the equity method, of $0.5 million, $0.4 million, and $0.5 million for the years ended December 31, 2014, 2013 and 2012, respectively.

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

(6) Adjusted income (loss) derived from operating activities is computed by subtracting the sum of direct costs, general and administrative expenses, depreciation and amortization from the sum of Operating revenues and Earnings (losses) from unconsolidated affiliates. Adjusted income (loss) derived from operating activities is a non-GAAP measure and should not be used in isolation as a substitute for the amounts reported in accordance with GAAP. However, management evaluates the performance of our business units and the consolidated company based on several criteria, including adjusted income (loss) derived from operating activities, because it believes that these financial measures accurately reflect our ongoing profitability. A reconciliation of this non-GAAP measure to income (loss) from continuing operations before income taxes, which is a GAAP measure, is provided in the above table.

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

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

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

(10) International rig years include our equivalent percentage ownership of rigs owned by unconsolidated affiliates, which totaled 2.5 years in 2014, 2013 and 2012.

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

Segment Results of Operations

Drilling & Rig Services

Our Drilling & Rig Services business line is comprised of four operating segments: U.S., Canada, International and Rig Services. For a description of this business line and its operating segments, see Part I, Item 1. Business Drilling & Rig Services. The following table presents our revenues, adjusted income and rig years by operating segment, as applicable, for the years ended December 31, 2014, 2013 and 2012.

	Years Ended December 31,			Increase/(Decrease)			
	2014	2013	2012	2014 to 2013		2013 to 2012	
	(In thousands, except percentages and rig activity)						
U.S.							
Revenues	$ 2,159,968	$ 1,914,786	$ 2,276,808	$ 245,182	13%	$ (362,022)	(16)%
Adjusted income	$ 370,173	$ 315,496	$ 509,894	$ 54,677	17%	$ (194,398)	(38)%
Rig years	212.5	195.0	219.1	17.5	9%	(24.1)	(11)%
Canada							
Revenues	$ 335,192	$ 361,676	$ 429,411	$ (26,484)	(7)%	$ (67,735)	(16)%
Adjusted income	$ 52,468	$ 61,193	$ 91,360	$ (8,725)	(14)%	$ (30,167)	(33)%
Rig years	34.1	29.9	34.8	4.2	14%	(4.9)	(14)%
International							
Revenues	$ 1,623,102	$ 1,464,264	$ 1,265,060	$ 158,838	11%	$ 199,204	16%
Adjusted income	$ 242,818	$ 177,833	$ 91,226	$ 64,985	37%	$ 86,607	95%
Rig years	127.1	124.2	119.3	2.9	2%	4.9	4%
Rig Services							
Revenues	$ 687,302	$ 516,004	$ 688,310	$ 171,298	33%	$ (172,306)	(25)%
Adjusted income (loss)	$ 47,768	$ (3,918)	$ 67,366	$ 51,686	n/m(1)	$ (71,284)	(106)%

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

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U.S.

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

Operating results increased from 2013 to 2014 primarily due to an increase in drilling activity and dayrates in the lower 48 states. We deployed approximately 16 new PACE®-X rigs into service in 2014, bringing our total operating fleet of PACE®-X rigs to 32. The deployment of these newly built rigs was the primary factor for the increase in 2014 of rig years (a measure of activity and utilization), operating revenues and adjusted income.

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

Canada

Operating results decreased slightly from 2013 to 2014 primarily due to an unfavorable foreign exchange variance. The Canadian dollar weakened approximately 7% against the U.S. dollar. In addition, the Canadian operations were impacted by a decline in average drilling dayrates. These decreases were partially offset by streamlining activities and cost saving initiatives.

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

International

Operating results increased from 2013 to 2014 primarily as a result of higher dayrates from existing land rigs in Algeria, Colombia, Northern Iraq, Russia and Saudi Arabia and as well as newly built rig deployments in Saudi Arabia and Argentina. These increases were partially offset by decreased land drilling activity in Mexico.

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

Rig Services

Operating results increased from 2013 to 2014 primarily due to higher demand in the United States and Canada drilling markets for top drives, rig instrumentation and data collection services from oil and gas exploration companies, along with higher third-party rental and RIGWATCH® units, which generate higher margins. These increases were partially offset by the continued decline in financial results in our directional drilling businesses due to intense competition.

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

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Completion & Production Services

Our Completion & Production Services business line is comprised of two operating segments: Completion Services and Production Services. For a description of this business line and its operating segments, see Part I, Item 1. *Business Completion & Production Services*. The following table presents our revenues and adjusted income by operating segment, and rig hours by geographic region, for the years ended December 31, 2014, 2013 and 2012.

	Year Ended December 31,			Increase/(Decrease)			
	2014	2013	2012	2014 to 2013		2013 to 2012	
	(In thousands, except percentages and rig activity)						
Completion Services							
Revenues	$ 1,218,361	$ 1,074,713	$ 1,462,767	$ 143,648	13%	$ (388,054)	(27)%
Adjusted income	$ (15,078)	$ 51,722	$ 188,518	$ (66,800)	(129)%	$ (136,796)	(73)%
Production Services							
Revenues	$ 1,033,538	$ 1,009,214	$ 1,000,873	$ 24,324	2%	$ 8,341	1%
Adjusted income	$ 93,414	$ 102,130	$ 108,835	$ (8,716)	(9)%	$ (6,705)	(6)%
Rig hours							
U.S.	809,438	865,939	853,373	(56,501)	(7)%	12,566	1%
Canada	139,938	152,747	181,185	(12,809)	(8)%	(28,438)	(16)%
	949,376	1,018,686	1,034,558	(69,310)	(7)%	(15,872)	(2)%

Completion Services

Operating revenues increased by $143.6 million, or 13%, from 2013 to 2014 due to a significant increase in activity levels, due in part to a move toward 24 hour operations. However, adjusted income decreased from 2013 to 2014 due to lower prices for our services primarily caused by the expiration of several multi-year take-or-pay contracts and downward pricing pressure across all regions. Severe weather in our northern operating areas in the first half of the year also negatively affected operating results.

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

Production Services

Operating results decreased from 2013 to 2014 primarily due to reduced activity levels for workover rigs in California caused by reduced customer activity and in West Texas due to rain and wet conditions in the third quarter of the year. These decreases in activity were partially offset by incremental revenue and income associated with a full year's contribution from our acquisition of KVS during the fourth quarter of 2013.

Operating results were essentially flat to slightly down from 2012 to 2013 due to higher depreciation and other costs associated with our rig and truck fleet, as a result of capital invested over the past few years to increase those fleets. This was partially offset by the increase in revenue associated with our acquisition of KVS. Additionally, our U.S. markets have had higher utilization and increases in rig and truck fleets as well as frac tank counts, despite continued pricing challenges.

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OTHER FINANCIAL INFORMATION

	Year Ended December 31,			Increase/(Decrease)			
	2014	2013	2012	2014 to 2013		2013 to 2012	
	(In thousands, except percentages)						
General and administrative expenses	$ 549,734	$ 525,330	$ 527,953	$ 24,404	5%	$ (2,623)	(0)%
As a percentage of operating revenue	8.1%	8.5%	8.1%	(0.5)%	(5.3)%	0.5%	6.0%
Depreciation and amortization	1,145,100	1,086,677	1,039,923	58,423	5%	46,754	4%
Interest expense	177,948	223,418	251,904	(45,470)	(20)%	(28,486)	(11)%
Investment income	11,831	96,577	63,137	(84,746)	(88)%	33,440	53%
Losses (gains) on sales and disposals of long-lived assets and other expense (income), net	9,073	37,977	(136,636)	(28,904)	(76)%	174,613	128%

General and administrative expenses

General and administrative expenses increased slightly from 2013 to 2014 primarily as a result of increased activity across the operating units, particularly within our U.S. and International drilling segments. As a percentage of operating revenues, general and administrative expenses are comparable for each period relative to fluctuations in activity levels.

General and administrative expenses decreased slightly from 2012 to 2013 primarily as a result of lower activities and cost-reduction efforts across all business units. As a percentage of operating revenues, general and administrative expenses are comparable for each period relative to fluctuations in activity levels.

Depreciation and amortization

Depreciation and amortization expense increased from 2013 to 2014 and from 2012 to 2013 as a result of the incremental depreciation expense related to newly constructed rigs placed into service during 2013 and 2014, and to a lesser extent, rig upgrades and other capital expenditures.

Interest expense

Interest expense decreased from 2013 to 2014 primarily as a result of the redemptions of some of our 9.25% senior notes in September 2013. During 2014, our average outstanding debt balances were similar to the levels of debt outstanding during 2013. However, our average interest rates were lower on those outstanding balances, primarily due to replacing the high coupon 9.25% senior notes in September 2013, with the issuance of $700 million aggregate principal senior notes at lower coupon rates of 2.35% and 5.10%. Additionally, we expanded the use of our low cost commercial paper program during 2014, resulting in a favorable mix between balances outstanding on the revolving line of credit and commercial paper.

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

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Investment income

Investment income during 2014 was $11.8 million and included $5.6 million of realized gains from short-term and other long-term investments and $6.2 million in interest and dividend income.

Investment income during 2013 was $96.6 million and included $89.0 million of realized gains from short-term and other long-term investments and net gains of $2.5 million from our trading securities. The balance was attributable to $5.1 million in interest and dividend income.

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

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

The amount of gains (losses) on sales and disposals of long-lived assets and other income (expense), net for 2014 was a net loss of $9.1 million, which was primarily comprised of (i) increases to litigation reserves of $8.9 million, (ii) losses on debt buybacks of $5.6 million and (iii) foreign currency exchange losses of $1.0 million. These losses were partially offset by the net gain on sales and disposals of assets of approximately $8.8 million.

The amount of gains (losses) on sales and disposals of long-lived assets and other income (expense), net for 2013 was a net loss of $38.0 million, which was primarily comprised of (i) net losses on sales and disposals of assets of approximately $13.6 million, (ii) increases to litigation reserves of $11.7 million, (iii) foreign currency exchange losses of $6.2 million and (iv) losses on debt buybacks of $3.8 million.

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

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Impairments and Other Charges

	Year Ended December 31,			Increase/(Decrease)			
	2014	2013	2012	2014 to 2013		2013 to 2012	
	(In thousands, except percentages)						
Tangible Assets & Equipment:							
Provision for retirement of assets	$ 393,962	$ 14,044	$ 138,666	$ 379,918	n/m(1)	$ (124,622)	(90)%
Impairment of long-lived assets	217,627	20,000	50,355	197,627	n/m(1)	(30,355)	(60)%
Subtotal	611,589	34,044	189,021	577,545	n/m(1)	(154,977)	(82)%
Goodwill & Intangible Assets:							
Goodwill impairments	356,605		26,279	356,605	100%	(26,279)	(100)%
Intangible asset impairment	29,942		74,960	29,942	100%	(74,960)	(100)%
Subtotal	386,547		101,239	386,547	100%	(101,239)	(100)%
Other Charges:							
Transaction costs	22,313			22,313	100%		
Other-than-temporary impairment on equity security	6,974			6,974	100%		
Loss on tendered notes		208,197		(208,197)	(100)%	208,197	100%
Termination of employment contract		45,000		(45,000)	(100)%	45,000	100%
Total	$ 1,027,423	$ 287,241	$ 290,260	$ 740,182	258%	$ (3,019)	(1)%

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

For the year ended December 31, 2014

Tangible Assets and Equipment

The following table summarizes the 2014 retirement and impairment charges for tangible assets and equipment by operating segment:

	Provision for Retirements	Tangible Asset Impairments	Total
Drilling & Rig Services:			
U.S.	$ 271,141	$ 137,000	$ 408,141
Canada	24,211	10,176	34,387
International	56,472	70,451	126,923
Rig Services	42,138		42,138
Total	$ 393,962	$ 217,627	$ 611,589

Approximately two-thirds of the 2014 charges from drilling rigs and rig equipment is related to the U.S. lower 48 legacy rig fleet. Given the recent sharp decline in crude oil prices and the resultant impact on our customers' spending programs that we have experienced or are expecting for 2015, and the disproportionate impact of the reduced activity that we believe our legacy rig fleet will absorb, we have retired 25 mechanical rigs and impaired our fleet of SCR rigs, including the resultant retirement of and reduction in yard assets and spare rig components associated with a reduced overall size of our working rig fleet.

Also included in the 2014 charges for our U.S. drilling rigs and rig equipment is a retirement provision of approximately $54.4 million for our Gulf of Mexico jackup fleet. This market has been challenged for the past several years and we believe the drop in oil prices will exacerbate the lack of demand for these rigs. The majority of these rigs would require substantial amounts of capital in order for them to be operable again.

The balance of the drilling rigs and rig equipment charges relate to our coil tubing drilling rig fleet in Canada and various under-utilized or under-performing rigs or asset classes throughout our International and Canada drilling fleets.

Goodwill and Intangible Assets

During 2014, we recognized an impairment of goodwill totaling $356.6 million, the majority of which was for the remaining goodwill balance of $335.0 million in our Completion Services operating segment related to the acquisition of Superior in 2010. We expect to merge this operating segment with CJES, and the value attributable to the transaction has declined sharply beginning in the fourth quarter of 2014, with a drop in the market price of CJES's stock and the agreed upon reduction to the amount of cash we expect to receive from this transaction. The combination of these events and a sharp decline in the market price of our stock, led us to believe that a triggering event had occurred in the fourth quarter of 2014, and we performed an impairment test on our remaining goodwill balances. We determined that our Completion Services goodwill balances should be fully impaired. The balance of the impairment relates to $21.6 million in goodwill related to Ryan Directional Services, Inc. ("Ryan") our directional drilling operations included in our Rig Services operating segment. The recent decline in oil prices and the impact it is having on our businesses, along with the lack of certainty surrounding an eventual recovery, led us to impair these goodwill balances. A prolonged period of lower natural gas or oil prices could continue to adversely affect demand for our services and lead to further goodwill impairment charges for other operating units in the future.

Additionally, during 2014, we recognized an impairment of $29.9 million primarily related to various intangible assets, such as customer relationships within our Completion & Production Services and Rig Services operating segments related to previous acquisitions.

Transaction costs

During 2014, we incurred $22.3 million in transaction costs related to the Merger with CJES, including professional fees and other costs incurred to reorganize the business in contemplation of the Merger.

Other-than-temporary impairment

During 2014, we recorded an other-than-temporary impairment of $7.0 million 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.

For the years ended December 31, 2013 and 2012

Provision for retirement of long-lived assets

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

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

Additionally in 2012, we recorded similar provisions for retirement of long-lived assets of $49.4 million in our Completion & Production Services business line. During 2012, we streamlined our operations and retired some non-core assets.

Impairments of long-lived assets

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

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

Goodwill impairments

During 2012, we recognized the impairment of goodwill associated with our operations in the U.S. and International drilling operations. The impairments were deemed necessary due to the prolonged uncertainty of utilization of some of our rigs as a result of changes in our customers' plans for future drilling operations in the Gulf of Mexico and our international markets.

There were no goodwill impairments in 2013.

Intangible asset impairment

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

There were no intangible asset impairments in 2013.

Loss on tendered notes

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

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Provision for termination of employment contract

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

Income tax rate

	Year Ended December 31,			Increase/(Decrease)			
	2014	2013	2012	2014 to 2013		2013 to 2012	
Effective income tax rate from continuing operations	(10.4)%	(52.0)%	14.8%	(42)%	(80)%	(67)%	(451)%

The change in our worldwide effective tax rate from 2013 to 2014 is primarily attributable to the tax effect related to impairments and internal restructuring. The change in geographic mix of pre-tax earnings also contributed to the change.

The change in our worldwide effective tax rate from 2012 to 2013 resulted mainly from the geographic mix of pre-tax earnings and settlements of tax disputes.

Assets Held-for-Sale

	As of December 31,	
	2014	2013
	(In thousands)	
Oil and Gas	$ 146,467	$ 239,936
Other Rig Services		3,328
	$ 146,467	$ 243,264

Assets held for sale as of December 31, 2014 consisted solely of our oil and gas holdings in the Horn River basin in western Canada.

Oil and Gas Properties

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

We have contracts with pipeline companies to pay specified fees based on committed volumes for gas transport and processing. In December 2013, we entered into agreements to restructure these contracts, assigning a portion of the obligation to third parties and reducing our future payment commitments. At December 31, 2014, our undiscounted contractual commitments for these contracts approximated $84.6 million, and we had liabilities of $40.2 million, $19.6 million of which were classified as current and are included in accrued liabilities.

At December 31, 2013, our undiscounted contractual commitments for these contracts approximated $171.2 million, and we had liabilities of $113.6 million, $64.4 million of which were classified as current and are included in accrued liabilities.

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

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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.

Discontinued Operations

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

	Year Ended December 31,			Increase/(Decrease)			
	2014	2013	2012	2014 to 2013		2013 to 2012	
	(In thousands, except percentages)						
Operating revenues							
Oil and Gas	$ 13,143	$ 25,327	$ 27,363	$ (12,184)	(48)%	$ (2,036)	(7)%
Rig Services	$	$ 127,154	$ 172,335	$ (127,154)	(100)%	$ (45,181)	(26)%
Income (loss) from discontinued operations:							
Oil and Gas	$ 21	$ (27,396)(1)	(66,033)(2)	$ 27,417	100%	$ 38,637	59%
Rig Services	$	$ 16,217(3)	(1,493)(4)	$ (16,217)	(100)%	$ 17,710	n/m(5)

Oil and Gas

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

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

Rig Services

(3) Includes a gain recognized from the sale of Peak, one of our businesses in Alaska, for which we received cash proceeds of $135.5 million.

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

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

During 2014, we sold a large portion of our interest in oil and gas proved properties located on the North Slope of Alaska. Under the terms of the agreement, we received $35.1 million at closing and expect to receive additional payments of $27.0 million upon certain future dates or the properties achieving certain production targets. We retained a working interest at various interests and an overriding royalty interest in the properties at various interests. The working interest is fully carried up to $600 million of total project costs. The transaction generally remains subject to approval of local Alaska regulatory authorities, among other usual and customary conditions. The $22.2 million gain from the transaction is included in losses (gains) on sales and disposals of long-lived assets and other expense (income), net in our consolidated statements of income (loss) for the twelve months ended December 31, 2014. The retained interest, which is valued at approximately $26.2 million, is no longer classified as assets-held-for-sale and is included in other long-term assets. We have not recast prior period results as the balances are not material to our consolidated statements of income (loss) for any period

Additional discussion of our policy pertaining to the calculations of our annual impairment tests, including any impairment of goodwill, is set forth in Critical Accounting Estimates below in this section and in Note 3 Summary of Significant Accounting Policies in Part II, Item 8. Financial Statements and Supplementary Data. Additional information relating to discontinued operations is provided in Note 5 Assets Held for Sale and Discontinued Operations and our Schedule of Supplemental

Information on Oil and Gas Exploration and Production Activities in Part II, Item 8. Financial Statements and Supplementary Data. A further protraction of lower commodity prices or an inability to sell these assets in a timely manner could result in recognition of future impairment charges.

Liquidity and Capital Resources

Cash Flows

Our cash flows depend, to a large degree, on the level of spending by oil and gas companies for exploration, development and production activities. Sustained increases or decreases in the price of oil or natural gas could have a material impact on these activities, and could also materially affect our cash flows. Certain sources and uses of cash, such as the level of discretionary capital expenditures or acquisitions, purchases and sales of investments, issuances and repurchases of debt and of our common shares are within our control and are adjusted as necessary based on market conditions. We discuss our 2014 and 2013 cash flows below.

Operating Activities. Net cash provided by operating activities totaled $1.8 billion during 2014, compared to net cash provided by operating activities of $1.4 billion during 2013. Net cash provided by operating activities ("operating cash flows") is our primary source of capital and liquidity. Factors affecting changes in operating cash flows are largely the same as those that impact net earnings, with the exception of non-cash expenses such as depreciation and amortization, depletion, impairments, share-based compensation, deferred income taxes and our proportionate share of earnings or losses from unconsolidated affiliates. Net income (loss) adjusted for non-cash components was approximately $1.3 billion and $1.4 billion in 2014 and 2013, respectively. Additionally, changes in working capital items such as collection of receivables can be a significant component of operating cash flows. Changes in working capital items provided $487.8 million and $2.9 million, respectively, in cash flows during 2014 and 2013, respectively.

Investing Activities. Net cash used for investing activities totaled $1.7 billion during 2014 compared to net cash used for investing activities of $815.5 million in 2013. 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 2014 and 2013, we used cash for capital expenditures totaling $1.8 billion and $1.2 billion, respectively.

In 2014, we used cash of $40.3 million to purchase 2TD. We also received $156.8 million in proceeds from sales of our oil and gas assets, other non-core operations and insurance claims.

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

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

Financing Activities. Net cash provided by financing activities totaled $69.8 million during 2014. In 2014, we repaid net amounts of $27.7 million under our commercial paper program and revolving credit facility. During 2014, we paid cash dividends of $59.1 million.

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

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Future Cash Requirements

We expect capital expenditures over the next 12 months to approximate $1.0 $1.2 billion. Purchase commitments outstanding at December 31, 2014 totaled approximately $1.1 billion, primarily for rig-related enhancements, new construction and equipment, as well as sustaining capital expenditures, other operating expenses and purchases of inventory. This amount could change significantly based on market conditions and new business opportunities. The level of our outstanding purchase commitments and our expected level of capital expenditures over the next 12 months reflect a number of capital programs that are currently underway or planned. These programs will result in an expansion in the number of land drilling and offshore rigs and the amount of well-servicing equipment and technology assets that we own and operate. We have the ability to reduce the planned expenditures if necessary or increase them if market conditions and new business opportunities warrant it. In light of the recent 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.

During 2014, with approval of the Board, we purchased 10.375 million of our common shares, at $24.10 per share, for a total aggregate amount of approximately $250 million. This purchase was an isolated event and was not part of a broader Board approved repurchase program. The Board continuously seeks to increase returns to shareholders, and as a result, this could lead to additional repurchases in the future, although we do not have a plan in place to do so at this time.

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 and may involve material amounts.

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)".

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The following table summarizes our contractual cash obligations as of December 31, 2014:

	Payments due by Period				
	Total	< 1 Year	1 - 3 Years	3 - 5 Years	Thereafter
			(In thousands)		
Contractual cash obligations:					
Long-term debt:(1)					
Principal	$ 4,357,098	$	$ 1,333,119(2)	$ 1,273,979(3)	$ 1,750,000(4)
Interest	985,488	192,009	375,911	246,328	171,240
Operating leases(5)	96,364	22,740	23,508	10,107	40,009
Purchase commitments(6)	1,062,283	1,042,490	19,793		
Employment contracts(5)	19,114	6,887	10,727	1,500	
Pension funding obligations	886	886			
Transportation and processing contracts(5)(7)	84,580	21,938	21,743	16,815	24,084

The table above excludes liabilities for uncertain tax positions totaling $56.5 million as of December 31, 2014 because we are unable to make reasonably reliable estimates of the timing of cash settlements with the respective taxing authorities. Further details on the uncertain tax positions can be found in Note 14 Income Taxes in Part II, Item 8. Financial Statements and Supplementary Data.

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

(2) Represents Nabors Delaware's aggregate 2.35% senior notes due September 2016, commercial paper and amounts drawn on our revolving credit facility, which expires November 2017.

(3) Represents Nabors Delaware's aggregate 6.15% senior notes due February 2018 and 9.25% senior notes due January 2019.

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

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

(6) Purchase commitments include agreements to purchase goods or services that are enforceable and legally binding and that specify all significant terms, including fixed or minimum quantities to be purchased; fixed, minimum or variable pricing provisions; and the approximate timing of the transaction.

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

During the three months ended December 31, 2014, our Board declared a cash dividend of $0.06 per common share. This quarterly cash dividend was paid on December 31, 2014 to shareholders of record on December 10, 2014. During the year ended December 31, 2014, we paid cash dividends totaling $59.1 million. See Item 5. Market Price of and Dividends on the Registrant's Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Dividends.

Financial Condition and Sources of Liquidity

Our primary sources of liquidity are cash and investments, availability under our revolving credit facility, our commercial paper program, and cash generated from operations. As of December 31, 2014, we had cash and short-term investments of $536.2 million and working capital of $1.2 billion. As of

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December 31, 2013, we had cash and short-term investments of $507.1 million and working capital of $1.4 billion. At December 31, 2014, we had $516.9 million of availability remaining under our $1.5 billion revolving credit facility and commercial paper program.

In February 2015, we exercised an option under our revolving credit facility to increase the borrowing capacity by $225.0 million. In addition, Nabors Industries, Inc., our wholly owned subsidiary, entered into a new unsecured term loan facility for $300.0 million with a three-year maturity, which is fully and unconditionally guaranteed by us. As a result, our total available borrowing capacity increased by $525.0 million, effectively bringing our availability in excess of $1.0 billion as of the date of this report. Under the new term loan facility, we are required to prepay the loan upon the closing of the Merger, or if we otherwise dispose of assets, issue term debt, or issue equity with net proceeds of more than $70.0 million, subject to certain exceptions. The term loan agreement contains customary representations and warranties, covenants, and events of default for loan facilities of this type.

We had 11 letter-of-credit facilities with various banks as of December 31, 2014. Availability under these facilities as of December 31, 2014 was as follows:

		December 31, 2014
		(In thousands)
Credit available	$	650,204
Less: Letters of credit outstanding, inclusive of financial and performance guarantees		326,650
Remaining availability	$	323,554

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

Our gross debt to capital ratio was 0.47:1 as of December 31, 2014 and 0.40:1 as of December 31, 2013, respectively. Our net debt to capital ratio was 0.44:1 as of December 31, 2014 and 0.36:1 as of December 31, 2013. The gross debt to capital ratio is calculated by dividing (x) total debt by (y) total capital. Total capital is defined as total debt *plus* shareholders' equity. Net debt is total debt *minus* the sum of cash and cash equivalents and short-term investments. Neither the gross debt to capital ratio nor the net debt to capital ratio is a measure of operating performance or liquidity defined by GAAP and may not be comparable to similarly titled measures presented by other companies.

Our interest coverage ratio was 9.8:1 as of December 31, 2014 and 7.4:1 as of December 31, 2013. The interest coverage ratio is a trailing 12-month quotient of the sum of (x) operating revenues and earnings (losses) from unconsolidated affiliates, direct costs and general administrative expenses *less* earnings (losses) from the U.S. unconsolidated oil and gas joint venture *divided* by (y) interest expense. The interest coverage ratio is not a measure of operating performance or liquidity defined by GAAP and may not be comparable to similarly titled measures presented by other companies.

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

Off-Balance Sheet Arrangements (Including Guarantees)

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

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

	Maximum Amount				
	2015	2016	2017	Thereafter	Total
	(In thousands)				
Financial standby letters of credit and other financial surety instruments	$ 191,015	75	18		$ 191,108

Critical Accounting Estimates

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

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

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

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

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value balances utilizing a fair-value hierarchy based on the observability of those inputs. Under the fair-value hierarchy:

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

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

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

Depreciation of Property, Plant and Equipment. The drilling, workover and well-servicing and pressure pumping industries are very capital intensive. Property, plant and equipment represented 72% of our total assets as of December 31, 2014, and depreciation and amortization constituted 15% of our total costs and other deductions in 2014.

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

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

These depreciation periods and the salvage values of our property, plant and equipment were determined through an analysis of the useful lives of our assets and based on our experience with the salvage values of these assets. Periodically, we review our depreciation periods and salvage values for reasonableness given current conditions. Depreciation of property, plant and equipment is therefore based upon estimates of the useful lives and salvage value of those assets. Estimation of these items requires significant management judgment. Accordingly, management believes that accounting estimates related to depreciation expense recorded on property, plant and equipment are critical.

There have been no factors related to the performance of our portfolio of assets, changes in technology or other factors indicating that these estimates do not continue to be appropriate. Accordingly, for the years ended December 31, 2014, 2013 and 2012, no significant changes have been made to the depreciation rates applied to property, plant and equipment, the underlying assumptions related to estimates of depreciation, or the methodology applied. However, certain events could occur that would materially affect our estimates and assumptions related to depreciation. Unforeseen changes in operations or technology could substantially alter management's assumptions regarding our ability to realize the return on our investment in operating assets and therefore affect the useful lives and salvage values of our assets.

Impairment of Long-Lived Assets. As discussed above, the drilling, workover and well-servicing and pressure pumping industry is very capital intensive. We review our assets for impairment when events or changes in circumstances indicate that their carrying amounts may not be recoverable. An impairment loss is recorded in the period in which it is determined that the sum of estimated future cash flows, on an undiscounted basis, is less than the carrying amount of the long-lived asset.

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Impairment charges are recorded using discounted cash flows, which requires the estimation of dayrates and utilization, and such estimates can change based on market conditions, technological advances in the industry or changes in regulations governing the industry. Significant and unanticipated changes to the assumptions could result in future impairments. As the determination of whether impairment charges should be recorded on our long-lived assets is subject to significant management judgment, and an impairment of these assets could result in a material charge on our consolidated statements of income (loss), management believes that accounting estimates related to impairment of long-lived assets are critical.

Assumptions made in the determination of future cash flows are made with the involvement of management personnel at the operational level where the most specific knowledge of market conditions and other operating factors exists. For 2014, 2013 and 2012, no significant changes have been made to the methodology utilized to determine future cash flows.

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

Impairment of Goodwill and Intangible Assets. We review goodwill and intangible assets with indefinite lives for impairment annually or more frequently if events or changes in circumstances indicate that the carrying amount of such goodwill and intangible assets exceed their fair value. We perform our impairment tests for goodwill for all of our reporting units within our operating segments. Our Drilling & Rig Services business line consists of U.S., Canada, International and Rig Services operating segments. Our Rig Services operating segment includes Canrig Drilling Technology Ltd. and Ryan Directional Services Inc. Our Completion & Production Services business line consists of Completion & Production Services operating segments. The impairment test involves comparing the estimated fair value of the reporting unit to its carrying amount. If the carrying amount of the reporting unit exceeds its fair value, a second step is required to measure the goodwill impairment loss. This second step compares the implied fair value of the reporting unit's goodwill to the carrying amount of that goodwill. If the carrying amount of the reporting unit's goodwill exceeds the implied fair value of the goodwill, an impairment loss is recognized in an amount equal to the excess.

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

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

Income Taxes. 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 are currently contesting tax assessments throughout the world and may contest future assessments. We believe the ultimate resolution of the outstanding assessments, for which we have not made any accrual, will not have a material adverse effect on our consolidated financial statements. We recognize uncertain tax positions that we believe have a greater than 50 percent likelihood of being sustained. We cannot predict or provide assurance as to the ultimate outcome of any existing or future assessments.

Audit claims of approximately $209.5 million attributable to income, customs and other business taxes have been assessed against us. We have contested, or intend to contest, these assessments, including through litigation if necessary, and we believe the ultimate resolution, for which we have not made any accrual, will not have a material adverse effect on our consolidated financial statements. Tax authorities may issue additional assessments or pursue legal actions as a result of tax audits and we cannot predict or provide assurance as to the ultimate outcome of such assessments and legal actions.

Applicable income and withholding taxes have not been provided on undistributed earnings of our subsidiaries. We do not intend to repatriate such undistributed earnings except for distributions upon which incremental income and withholding taxes would not be material.

In certain jurisdictions we have recognized deferred tax assets and liabilities. Judgment and assumptions are required in determining whether deferred tax assets will be fully or partially utilized. When we estimate that all or some portion of certain deferred tax assets such as net operating loss carryforwards will not be utilized, we establish a valuation allowance for the amount ascertained to be unrealizable. We continually evaluate strategies that could allow for future utilization of our deferred assets. Any change in the ability to utilize such deferred assets will be accounted for in the period of the event affecting the valuation allowance. If facts and circumstances cause us to change our expectations regarding future tax consequences, the resulting adjustments could have a material effect on our financial results or cash flow.

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

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

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

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

During 2014, 2013 and 2012, no significant changes were made to the methodology used to estimate insurance reserves. For purposes of earnings sensitivity analysis, if the December 31, 2014 reserves were adjusted by 10%, total costs and other deductions would change by $16.1 million, or 0.2%.

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

The determination of the fair value of assets and liabilities is based on the market for the assets and the settlement value of the liabilities. These estimates are made by management based on our experience with similar assets and liabilities. During 2014, 2013 and 2012, no significant changes were made to the methodology utilized to value assets acquired or liabilities assumed. Our estimates of the fair values of assets acquired and liabilities assumed have proved to be reliable in the past.

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

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

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

At various times, we utilize local currency borrowings (foreign-currency-denominated debt), the payment structure of customer contracts and foreign exchange contracts to selectively hedge our exposure to exchange rate fluctuations in connection with monetary assets, liabilities, cash flows and commitments denominated in certain foreign currencies. A foreign exchange contract is a foreign currency transaction, defined as an agreement to exchange different currencies at a given future date and at a specified rate. A hypothetical 10% decrease in the value of all our foreign currencies relative to the U.S. dollar as of December 31, 2014 would result in a $12.2 million decrease in the fair value of our net monetary assets denominated in currencies other than U.S. dollars.

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

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

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

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interest-rate contracts by establishing and monitoring parameters that limit the type and degree of market risk that we undertake.

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

	December 31,					
	2014			2013		
	Effective Interest Rate	Carrying Value	Fair Value	Effective Interest Rate	Carrying Value	Fair Value
	(In thousands)					
2.35% senior notes due September 2016	2.56%	$ 349,887	$ 346,980	2.56%	$ 349,820	$ 354,694
6.15% senior notes due February 2018	6.42%	930,693	991,920	6.42%	969,928	1,097,480
9.25% senior notes due January 2019	9.33%	339,607	403,531	9.33%	339,607	428,733
5.00% senior notes due September 2020	5.20%	698,253	687,953	5.20%	697,947	731,955
4.625% senior notes due September 2021	4.75%	698,388	661,619	4.75%	698,148	709,793
5.10% senior notes due September 2023	5.26%	348,893	332,759	5.26%	348,765	349,731
Subsidiary preferred stock	0.00%			4.00%	69,188	69,000
Revolving credit facility	3.47%	450,000	450,000	2.28%	170,000	170,000
Commercial paper	0.59%	533,119	533,119	0.45%	329,844	329,844
Other	0.00%	6,209	6,209	0.00%	10,243	10,243
Total		$ 4,355,049	$ 4,414,090		$ 3,983,490	$ 4,251,473

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

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short-term and long-term investments and other receivables as of December 31, 2014 and 2013 are included in the table below:

	December 31,					
	2014			2013		
	Fair Value	Interest Rates	Weighted-Average Life (Years)	Fair Value	Interest Rates	Weighted-Average Life (Years)
	(In thousands, except rates)					
Cash and cash equivalents	$ 501,149	0.01 - 0.25%		$ 389,915	0 - .25%	
Short-term investments:						
Trading equity securities						
Available-for-sale equity securities	35,002			96,942		
Available-for-sale debt securities:						
Commercial paper and CDs						
Corporate debt securities		0.0 - 0.0%		19,388	10.0 - 11.52%	6.2
Mortgage-backed debt securities		0.00%		210	2.39%	11.8
Mortgage-CMO debt securities	18	2.39 - 2.73%	5.6	20	2.41 - 2.58%	4.9
Asset-backed debt securities		0.0 - 0.0%		658	0.67 - 4.81%	4.8
Total available-for-sale debt securities	18			20,276		
Total available-for-sale securities	35,020			117,218		
Total short-term investments	35,020			117,218		
Long-term investments	2,806	N/A		3,236	N/A	
Total cash, cash equivalents, short-term and long-term investments	$ 538,975			$ 510,369		

Our investments in debt securities listed in the above table and a portion of our long-term investments are sensitive to changes in interest rates. Additionally, our investment portfolio of debt and equity securities, which are carried at fair value, exposes us to price risk. A hypothetical 10% decrease in the market prices for all securities as of December 31, 2014 would decrease the fair value of our available-for-sale securities by $3.5 million.

ITEM 8. *FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA*

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Report of Independent Registered Public Accounting Firm

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

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income (loss), comprehensive income (loss), changes in equity, and cash flows present fairly, in all material respects, the financial position of Nabors Industries Ltd. and its subsidiaries at December 31, 2014 and 2013, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2014 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the index appearing under Item 15(a)(2) presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, the Company did not maintain, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on criteria established in *Internal Control Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) because a material weakness in internal control over financial reporting related to the accounting for income taxes existed as of that date. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the annual or interim financial statements will not be prevented or detected on a timely basis. The material weakness referred to above is described in Management's Report on Internal Control over Financial Reporting appearing under Item 9A. We considered this material weakness in determining the nature, timing, and extent of audit tests applied in our audit of the 2014 consolidated financial statements, and our opinion regarding the effectiveness of the Company's internal control over financial reporting does not affect our opinion on those consolidated financial statements. The Company's management is responsible for these financial statements and financial statement schedule, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in management's report referred to above. Our responsibility is to express opinions on these financial statements, on the financial statement schedule, and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

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

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reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

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

/s/ PricewaterhouseCoopers LLP

Houston, Texas
March 2, 2015

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NABORS INDUSTRIES LTD. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	December 31, 2014	December 31, 2013
	(In thousands, except per share amounts)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 501,149	$ 389,915
Short-term investments	35,020	117,218
Assets held for sale	146,467	243,264
Accounts receivable, net	1,517,503	1,399,543
Inventory	230,067	209,793
Deferred income taxes	118,230	121,316
Other current assets	193,438	272,781
Total current assets	2,741,874	2,753,830
Long-term investments	2,806	3,236
Property, plant and equipment, net	8,599,125	8,597,813
Goodwill	173,928	512,964
Investment in unconsolidated affiliates	58,251	64,260
Other long-term assets	303,958	227,708
Total assets	$ 11,879,942	$ 12,159,811
LIABILITIES AND EQUITY		
Current liabilities:		
Current debt	$ 6,190	$ 10,185
Trade accounts payable	780,060	545,512
Accrued liabilities	728,004	697,093
Income taxes payable	53,221	58,634
Total current liabilities	1,567,475	1,311,424
Long-term debt	4,348,859	3,904,117
Other long-term liabilities	601,816	377,744
Deferred income taxes	443,003	516,161
Total liabilities	6,961,153	6,109,446
Commitments and contingencies (Note 19)		
Subsidiary preferred stock (Note 16)		69,188
Equity:		
Shareholders' equity:		
Common shares, par value $0.001 per share:		
Authorized common shares 800,000; issued 328,196 and 323,711, respectively	328	324
Capital in excess of par value	2,452,261	2,392,585
Accumulated other comprehensive income	77,522	216,140
Retained earnings	3,573,172	4,304,664
Less: treasury shares, at cost, 38,788 and 28,414 common shares, respectively	(1,194,664)	(944,627)
Total shareholders' equity	4,908,619	5,969,086
Noncontrolling interest	10,170	12,091

Total equity	4,918,789	5,981,177
Total liabilities and equity	$ 11,879,942	$ 12,159,811

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

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NABORS INDUSTRIES LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME (LOSS)

	Year Ended December 31,		
	2014	**2013**	**2012**
	(In thousands, except per share amounts)		
Revenues and other income:			
Operating revenues	$ 6,804,197	$ 6,152,015	$ 6,843,051
Earnings (losses) from unconsolidated affiliates	(6,301)	39	(288,718)
Investment income (loss)	11,831	96,577	63,137
Total revenues and other income	6,809,727	6,248,631	6,617,470
Costs and other deductions:			
Direct costs	4,505,064	3,981,828	4,367,106
General and administrative expenses	549,734	525,330	527,953
Depreciation and amortization	1,145,100	1,086,677	1,039,923
Interest expense	177,948	223,418	251,904
Losses (gains) on sales and disposals of long-lived assets and other expense (income), net	9,073	37,977	(136,636)
Impairments and other charges	1,027,423	287,241	290,260
Total costs and other deductions	7,414,342	6,142,471	6,340,510
Income (loss) from continuing operations before income taxes	(604,615)	106,160	276,960
Income tax expense (benefit):			
Current	302,313	39,865	142,994
Deferred	(239,647)	(95,046)	(102,008)
Total income tax expense (benefit)	62,666	(55,181)	40,986
Subsidiary preferred stock dividend	1,984	3,000	3,000
Income (loss) from continuing operations, net of tax	(669,265)	158,341	232,974
Income (loss) from discontinued operations, net of tax	21	(11,179)	(67,526)
Net income (loss)	(669,244)	147,162	165,448
Less: Net (income) loss attributable to noncontrolling interest	(1,415)	(7,180)	(621)
Net income (loss) attributable to Nabors	$ (670,659)	$ 139,982	$ 164,827
Earnings (losses) per share:			
Basic from continuing operations	$ (2.28)	$ 0.51	$ 0.80
Basic from discontinued operations		(0.04)	(0.23)
Total Basic	$ (2.28)	$ 0.47	$ 0.57
Diluted from continuing operations	$ (2.28)	$ 0.51	$ 0.79
Diluted from discontinued operations		(0.04)	(0.23)
Total Diluted	$ (2.28)	$ 0.47	$ 0.56
Weighted-average number of common shares outstanding:			
Basic	290,694	294,182	289,965
Diluted	290,694	296,592	292,323

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

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NABORS INDUSTRIES LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

	Year Ended December 31,		
	2014	2013	2012
	(In thousands)		
Net income (loss) attributable to Nabors	$ (670,659)	$ 139,982	$ 164,827
Other comprehensive income (loss), before tax:			
Translation adjustment attributable to Nabors	(79,059)	(65,447)	21,073
Unrealized gains/(losses) on marketable securities:			
Unrealized gains/(losses) on marketable securities	(59,932)	23,007	98,138
Less: reclassification adjustment for (gains)/losses included in net income (loss)	2,337	(88,158)	(13,405)
Unrealized gains/(losses) on marketable securities	(57,595)	(65,151)	84,733
Pension plan	(5,050)	5,916	(324)
Unrealized gains/(losses) on cash flow hedges	612	613	702
Other comprehensive income (loss), before tax	(141,092)	(124,069)	106,184
Income tax expense (benefit) related to items of other comprehensive income (loss)	(2,474)	(66)	(4,147)
Other comprehensive income (loss), net of tax	(138,618)	(124,003)	110,331
Comprehensive income (loss) attributable to Nabors	(809,277)	15,979	275,158
Net income (loss) attributable to noncontrolling interest	1,415	7,180	621
Translation adjustment attributable to noncontrolling interest	(1,017)	(932)	311
Comprehensive income (loss) attributable to noncontrolling interest	398	6,248	932
Comprehensive income (loss)	$ (808,879)	$ 22,227	$ 276,090

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

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NABORS INDUSTRIES LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
	2014	2013	2012
		(In thousands)	
Cash flows from operating activities:			
Net income (loss)	$ (669,244)	$ 147,162	$ 165,448
Adjustments to net income (loss):			
Depreciation and amortization	1,145,328	1,099,741	1,055,757
Accretion, depletion and other exploratory expenses	2,981	22,270	2,573
Deferred income tax expense (benefit)	(240,195)	(103,277)	(131,742)
Deferred financing costs amortization	4,231	4,255	4,294
Discount amortization on long-term debt	3,131	2,137	1,908
Impairments and other charges	650,199	53,905	311,541
Losses on debt extinguishment	5,576	211,981	
Losses (gains) on long-lived assets, net	353,110	18,060	(51,585)
Losses (gains) on investments, net	(5,580)	(91,480)	(56,925)
Share-based compensation	37,190	53,255	18,312
Foreign currency transaction losses (gains), net	1,021	6,225	4,819
Equity in (earnings) losses of unconsolidated affiliates, net of dividends	7,102	800	299,717
Other	(762)	(9,730)	1,241
Changes in operating assets and liabilities, net of effects from acquisitions:			
Accounts receivable	(126,883)	(44,561)	200,537
Inventory	(65,398)	39,412	14,447
Other current assets	118,162	(6,943)	(42,743)
Other long-term assets	(30,475)	42,298	(38,468)
Trade accounts payable and accrued liabilities	267,907	113,550	(224,795)
Income taxes payable	(57,113)	(31,752)	(1,488)
Other long-term liabilities	381,623	(109,085)	29,857
Net cash provided by operating activities	1,781,911	1,418,223	1,562,705
Cash flows from investing activities:			
Purchases of investments	(319)		(949)
Sales and maturities of investments	23,992	164,510	31,944
Proceeds from sale of unconsolidated affiliates	750	12,640	159,529
Cash paid for acquisition of businesses, net	(72,534)	(116,971)	
Investment in unconsolidated affiliates	(2,365)	(5,967)	(1,325)
Capital expenditures	(1,821,315)	(1,178,205)	(1,518,628)
Proceeds from sales of assets and insurance claims	156,761	308,538	149,801
Other	(1,879)	(13)	
Net cash used for investing activities	(1,716,909)	(815,468)	(1,179,628)
Cash flows from financing activities:			
Increase (decrease) in cash overdrafts	(6,151)	(4,421)	1,612
Proceeds from issuance of long-term debt		698,753	
Debt issuance costs		(4,500)	(3,433)
Proceeds from revolving credit facilities	465,000		710,000
Proceeds from (payments for) issuance of common shares	30,263	5,383	(3,625)
Repurchase of common shares	(250,037)		
Purchase of preferred stock	(70,875)		
Reduction in long-term debt		(994,181)	(276,258)
Dividends to shareholders	(59,145)	(47,168)	
Proceeds from (payment for) commercial paper, net	203,275	329,844	
Reduction in revolving credit facilities	(230,932)	(720,000)	(680,000)
Other	(11,550)	6,704	(2,423)
Net cash (used for) provided by financing activities	69,848	(729,586)	(254,127)
Effect of exchange rate changes on cash and cash equivalents	(23,616)	(8,176)	(2,603)

Net increase (decrease) in cash and cash equivalents		111,234		(135,007)		126,347
Cash and cash equivalents, beginning of period		389,915		524,922		398,575
Cash and cash equivalents, end of period	$	501,149	$	389,915	$	524,922

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

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NABORS INDUSTRIES LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(In thousands)	Common Shares: Shares	Common Shares: Par Value	Capital in Excess of Par Value	Accumulated Other Comprehensive Income	Retained Earnings	Treasury Shares	Non-controlling Interest	Total Equity
As of December 31, 2011 (As previously reported)	317,042	$ 317	$ 2,287,743	$ 321,264	$ 3,955,571	$ (977,873)	$ 13,402	$ 5,600,424
Revision (Note 2)				(91,452)	91,452			
As of December 31, 2011 (Revised)	317,042	317	2,287,743	229,812	4,047,023	(977,873)	13,402	5,600,424
Net income (loss)					164,827		621	165,448
Other comprehensive income (loss), net of tax				110,331			311	110,642
Issuance of common shares for stock options exercised, net of surrender of unexercised stock options	1,152	1	(3,626)					(3,625)
Capital contribution from forgiveness of liability, net of tax			62,734					62,734
Issuance of treasury shares, net of tax			(25,496)			33,246		7,750
Share-based compensation			18,312					18,312
Other	619	1	(2,423)				(2,146)	(4,568)
As of December 31, 2012	318,813	319	2,337,244	340,143	4,211,850	(944,627)	12,188	5,957,117
Net income (loss)					139,982		7,180	147,162
Dividends to shareholders					(47,168)			(47,168)
Other comprehensive income (loss), net of tax				(124,003)			(932)	(124,935)
Issuance of common shares for stock options exercised, net of surrender of unexercised stock options	577	1	5,382					5,383
Share-based compensation			53,255					53,255
Other	4,321	4	(3,296)				(6,345)	(9,637)
As of December 31, 2013	323,711	$ 324	$ 2,392,585	$ 216,140	$ 4,304,664	$ (944,627)	$ 12,091	$ 5,981,177
Net income (loss)					(670,659)		1,415	(669,244)
Dividends to shareholders					(59,145)			(59,145)
Redemption of subsidiary preferred stock					(1,688)			(1,688)
Repurchase of treasury shares						(250,037)		(250,037)
Other comprehensive income (loss), net of tax				(138,618)			(1,017)	(139,635)
Issuance of common shares for stock options exercised, net of surrender of unexercised stock options	3,036	3	30,260					30,263
Share-based compensation			37,157					37,157
Other	1,449	1	(7,741)				(2,319)	(10,059)
As of December 31, 2014	328,196	$ 328	$ 2,452,261	$ 77,522	$ 3,573,172	$ (1,194,664)	$ 10,170	$ 4,918,789

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

Nabors Industries Ltd. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 Nature of Operations

We own and operate the world's largest land-based drilling rig fleet and have one of the largest completion services and well-servicing and workover rig fleets in North America. We are a leading provider of offshore platform workover and drilling rigs in the United States and multiple international markets.

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

The majority of our business is conducted through two business lines:

Drilling & Rig Services

The Drilling & Rig Services business line 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. This business line consists of four operating segments: U.S., Canada, International and Rig Services.

Completion & Production Services

Our Completion & Production Services business line is comprised of our operations involved in the completion, life-of-well maintenance and plugging and abandonment of a well in the United States and Canada. These services include stimulation, coiled-tubing, cementing, wireline, workover, well-servicing and fluids management. This business line consists of two operating segments: Completion Services and Production Services.

In June 2014, we and certain of our wholly owned subsidiaries entered into definitive agreements to merge our Completion & Production Services business line with CJES. Under the amended terms of the Merger and related transactions, we will receive total consideration comprised of approximately $688 million in cash and approximately 62.5 million common shares in the combined company. CJES has obtained commitments from certain financial institutions to provide debt financing to the combined company in an amount sufficient to fund the payment to us of the cash consideration at closing. Immediately following the closing of the Merger, we will own approximately 53% of the issued and outstanding common shares of the combined company with the other CJES shareholders owning the remainder of the outstanding common shares. The combined company will be renamed C&J Energy Services, Ltd. and is expected to be listed on the NYSE under the ticker symbol CJES.

We expect to account for our investment in the combined company using the equity method of accounting. Closing of the Merger is subject to customary approvals and conditions, including, among others, approval of the Merger by the holders of a majority of outstanding CJES common stock and the availability of the proceeds of the debt financing to effect the cash payment to Nabors in connection with the closing. We expect that the closing of the Merger will occur in March 2015 following the special meeting of CJES stockholders.

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

Nabors Industries Ltd. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 2 Revision of Prior Period Financial Statements

During the first quarter of 2014, we determined that we had incorrectly applied certain aspects of Accounting Standards Codification ("ASC") 830 Foreign Currency Matters with respect to the recording of foreign currency gains or losses on certain intercompany transactions. GAAP requires the recognition of foreign currency gains or losses on U.S. dollar denominated intercompany balances of our subsidiaries that have a functional currency other than the U.S. dollar. The primary years impacted were 2002 and 2009, which is the period over which a series of intercompany loans were outstanding between our Canadian subsidiary, whose functional currency is the Canadian dollar, and other subsidiaries whose functional currencies are the U.S. dollar.

The net effect understated net income for periods before 2009 by approximately $91.5 million, due to foreign currency gains that should have been recorded through net income, rather than through Cumulative Translation Adjustments (a component of Accumulated Other Comprehensive Income). The correction of this error resulted in a revision to increase the beginning Retained Earnings at January 1, 2010 by approximately $91.5 million with the offset being a decrease to Accumulated Other Comprehensive Income, both of which are components of Shareholders' Equity. There was no other material impact to our assets, liabilities, cash flows or profit and loss for any periods presented. We do not consider this revision material to any period.

Note 3 Summary of Significant Accounting Policies

Principles of Consolidation

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

Investments in operating entities where we have the ability to exert significant influence, but where we do not control operating and financial policies, are accounted for using the equity method. Our share of the net income (loss) of these entities is recorded as earnings (losses) from unconsolidated affiliates in our consolidated statements of income (loss). The investments in these entities are included in investment in unconsolidated affiliates in our consolidated balance sheets.

Cash and Cash Equivalents

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

Investments

Short-term investments

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

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Nabors Industries Ltd. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 3 Summary of Significant Accounting Policies (Continued)

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

Long-term investments and other receivables

We have investments in overseas funds that invest primarily in a variety of public and private U.S. and non-U.S. securities (including asset-backed and mortgage-backed securities, global structured-asset securitizations, whole-loan mortgages, and participations in whole loans and whole-loan mortgages). These investments are non-marketable and do not have published fair values. The fair value of these investments approximates their carrying value and totaled $2.8 million and $3.2 million as of December 31, 2014 and 2013, respectively.

Inventory

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

	December 31,	
	2014	2013
	(In thousands)	
Raw materials	$ 133,797	$ 128,606
Work-in-progress	39,617	26,762
Finished goods	56,653	54,425
	$ 230,067	$ 209,793

Property, Plant and Equipment

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

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

Nabors Industries Ltd. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 3 Summary of Significant Accounting Policies (Continued)

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

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

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

Goodwill

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

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

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

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Nabors Industries Ltd. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 3 Summary of Significant Accounting Policies (Continued)

The change in the carrying amount of goodwill for our business lines for the years ended December 31, 2013 and 2014 was as follows:

	Balance at December 31, 2012	Acquisitions and Purchase Price Adjustments	Disposals and Impairments	Cumulative Translation Adjustment	Balance at December 31, 2013
			(In thousands)		
Drilling & Rig Services:					
U.S.	$ 50,149	$	$	$	$ 50,149
Rig Services	32,113	15,828(1)	(9,631)(2)	(1,049)	37,261
Subtotal Drilling & Rig Services	82,262	15,828	(9,631)	(1,049)	87,410
Completion & Production Services					
Completion	334,992				334,992
Production	55,072	35,490(3)			90,562
Subtotal Completion & Production Services	390,064	35,490			425,554
Total	$ 472,326	$ 51,318	$ (9,631)	$ (1,049)	$ 512,964

	Balance at December 31, 2013	Acquisitions and Purchase Price Adjustments	Disposals and Impairments	Cumulative Translation Adjustment	Balance at December 31, 2014
			(In thousands)		
Drilling & Rig Services:					
U.S.	$ 50,149	$	$	$	$ 50,149
Rig Services	37,261	17,268(4)	(21,613)(5)	(1,249)	31,667
Subtotal Drilling & Rig Services	87,410	17,268	(21,613)	(1,249)	81,816
Completion & Production Services					
Completion	334,992		(334,992)(5)		
Production	90,562	1,550			92,112
Subtotal Completion & Production Services	425,554	1,550	(334,992)		92,112
Total	$ 512,964	$ 18,818	$ (356,605)	$ (1,249)	$ 173,928

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

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

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

Nabors Industries Ltd. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 3 Summary of Significant Accounting Policies (Continued)

(4) Represents the goodwill recorded in connection with our acquisition of 2TD. See Note 6 Acquisitions for additional discussion.

(5) Represents the goodwill impairment associated with our acquisitions of NES and Superior in prior years. These impairment charges were deemed necessary due to the continued deterioration of oil prices. See Note 4 Impairments and Other Charges.

Goodwill for the consolidated company, totaling approximately $75.6 million, is expected to be deductible for tax purposes.

Litigation and Insurance Reserves

We estimate our reserves related to litigation and insurance based on the facts and circumstances specific to the litigation and insurance claims and our past experience with similar claims. We maintain actuarially determined accruals in our consolidated balance sheets to cover self-insurance retentions. See Note 19 Commitments and Contingencies regarding self-insurance accruals. We estimate the range of our liability related to pending litigation when we believe the amount and range of loss can reasonably be estimated. We record our best estimate of a loss when the loss is considered probable. When a liability is probable and there is a range of estimated loss with no best estimate in the range, we record the minimum estimated liability related to the lawsuits or claims. As additional information becomes available, we assess the potential liability related to our pending litigation and claims and revise our estimates. Due to uncertainties related to the resolution of lawsuits and claims, the ultimate outcome may differ from our estimates. For matters where an unfavorable outcome is reasonably possible and significant, we disclose the nature of the matter and a range of potential exposure, unless an estimate cannot be made at the time of disclosure.

Revenue Recognition

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

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

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

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

Nabors Industries Ltd. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 3 Summary of Significant Accounting Policies (Continued)

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

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

Income Taxes

We are a Bermuda exempted company and are not subject to income taxes in Bermuda. Income taxes have been provided based on the tax laws and rates in effect in the countries where we operate and earn income. The income taxes in these jurisdictions vary substantially. Our worldwide effective tax rate for financial statement purposes will continue to fluctuate from year to year due to the change in the geographic mix of pre-tax earnings.

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

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

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

Foreign Currency Translation

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

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make certain estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosures of contingent assets and liabilities at the balance sheet date and

Nabors Industries Ltd. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 3 Summary of Significant Accounting Policies (Continued)

the amounts of revenues and expenses recognized during the reporting period. Actual results could differ from such estimates. Areas where critical accounting estimates are made by management include:

- depreciation of property, plant and equipment;
- impairment of long-lived assets;
- impairment of goodwill and intangible assets;
- income taxes;
- litigation and self-insurance reserves; and
- fair value of assets acquired and liabilities assumed.

Recent Accounting Pronouncements

In April 2014, the Financial Accounting Standards Board ("FASB") issued an Accounting Standards Update ("ASU") relating to the reporting of discontinued operations and the disclosures related to disposals of components of an entity. The core principles address the question around whether the disposal represents a strategic shift, if the operations and cash flows can be clearly distinguished and continuing involvement will no longer preclude a disposal from being presented as discontinued operations. These changes are effective for interim and annual periods that begin after December 15, 2014. Early application is permitted. We are currently evaluating the impact this will have on our consolidated financial statements.

In May 2014, the FASB issued an ASU 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. These changes are effective for interim and annual periods that begin after December 15, 2016. Early application is not permitted. We are currently evaluating the impact this will have on our consolidated financial statements.

In June 2014, the FASB issued an ASU relating to the accounting for share-based payments when the terms of an award provide that a performance target could be achieved after the requisite service period. The core principle will require the reporting entity to apply existing guidance in Topic 718-Compensation-Stock Compensation relating to awards with performance conditions that affect vesting to account for such awards. As such, the performance target should not be reflected in estimating the grant-date fair value of the award. Compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved and should represent the compensation cost attributable to the period(s) for which the requisite service has already been rendered. These changes are effective for interim and annual periods that begin after December 15, 2015. Early application is permitted. We are currently evaluating the impact this will have on our consolidated financial statements.

In February 2015, the FASB issued an ASU relating to consolidation, which eliminates the presumption that a general partner should consolidate a limited partnership. It also modifies the evaluation of whether limited partnerships are variable interest entities or voting interest entities and adds requirements that limited partnerships must meet to qualify as voting interest entities. This

Nabors Industries Ltd. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 3 Summary of Significant Accounting Policies (Continued)

guidance is effective for public companies for fiscal years beginning after December 15, 2015. We are currently evaluating the impact this will have on our consolidated financial statements.

Note 4 Impairments and Other Charges

The components of impairments and other charges are provided below:

	Year Ended December 31,		
	2014	2013	2012
	(In thousands)		
Tangible Assets & Equipment:			
Provision for retirement of assets	$ 393,962	$ 14,044	$ 138,666
Impairment of long-lived assets	217,627	20,000	50,355
Subtotal	611,589	34,044	189,021
Goodwill & Intangible Assets:			
Goodwill impairments	356,605		26,279
Intangible asset impairment	29,942		74,960
Subtotal	386,547		101,239
Other Charges:			
Transaction costs	22,313		
Other-than-temporary impairment on equity security	6,974		
Loss on tendered notes		208,197	
Termination of employment contract		45,000	
Total	$ 1,027,423	$ 287,241	$ 290,260

For the year ended December 31, 2014

During the latter part of 2014, oil prices fell sharply and have remained depressed into 2015. As a result of the reduced price of oil, we have experienced a decline in the demand for drilling and completion services as customers have begun reducing or curtailing their capital spending and drilling activities. The reduction in demand for drilling services, coupled with the increased supply of newly built high specification rigs in the drilling market, has led to a highly competitive market for all rigs, including high specification rigs. This has accelerated the under-utilization of our legacy rig fleet (non AC rigs). We have also experienced downward pricing pressure for our services.

Due to the aforementioned factors, we recorded impairments and retirement provisions of approximately $1 billion during 2014, as detailed in the table above. The impairments and retirement provision were comprised of approximately $611.6 million in charges related to drilling rigs and rig equipment and $386.5 million in impairments to our goodwill and intangible assets.

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Nabors Industries Ltd. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 4 Impairments and Other Charges (Continued)

Tangible Assets and Equipment

The following table summarizes the 2014 retirement and impairment charges for tangible assets and equipment by operating segment:

	Provision for Retirements	Tangible Asset Impairments	Total
Drilling & Rig Services:			
U.S.	$ 271,141	$ 137,000	$ 408,141
Canada	24,211	10,176	34,387
International	56,472	70,451	126,923
Rig Services	42,138		42,138
Total	$ 393,962	$ 217,627	$ 611,589

The majority of the 2014 charges from drilling rigs and rig equipment is due to the U.S. lower 48 legacy rig fleet. Given the recent sharp decline in crude oil prices and the resultant impact on our customers' spending programs that we have experienced or are expecting for 2015, and the disproportionate impact of the reduced activity that we believe our legacy rig fleet will absorb, we have retired approximately 25 mechanical rigs and impaired our fleet of SCR rigs, including retirements of rig related equipment associated with a reduced overall size of our working rig fleet.

Also included in the 2014 charges for our U.S. drilling rigs and rig equipment is a retirement provision of approximately $54.4 million for our Gulf of Mexico jackup fleet. This market has been challenged for the past several years and we believe the drop in oil prices will exacerbate the lack of demand for these rigs. The majority of these rigs would require substantial amounts of capital in order for them to be operable again.

The balance of the drilling rigs and rig equipment charges relate to our coil tubing drilling rig fleet in Canada and various under-utilized rigs or asset classes throughout our International and Canada drilling fleets.

Goodwill and Intangible Assets

During 2014, we recognized an impairment of goodwill totaling $356.6 million, the majority of which was for the remaining goodwill balance of $335.0 million in our Completion Services operating segment related to the acquisition of Superior in 2010. We expect to merge this operating segment with CJES, and the value attributable to the transaction has declined sharply beginning in the fourth quarter of 2014, with a drop in the market price of CJES's stock and the agreed upon reduction to the amount of cash we expect to receive from this transaction. The combination of these events and a sharp decline in the market price of our stock, led us to believe that a triggering event had occurred in the fourth quarter of 2014, and we performed an impairment test on our remaining goodwill balances. We determined that our Completion Services goodwill balances should be fully impaired. The balance of the impairment relates to $21.6 million in goodwill related to Ryan, our directional drilling operations included in our Rig Services operating segment. The recent decline in oil prices and the impact it is having on our businesses, along with the lack of certainty surrounding an eventual recovery, led us to impair these goodwill balances. A prolonged period of lower natural gas or oil prices could continue to

Nabors Industries Ltd. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 4 Impairments and Other Charges (Continued)

adversely affect demand for our services and lead to further goodwill impairment charges for other operating units in the future.

Additionally, during 2014, we recognized an impairment of $29.9 million primarily related to various customer relationships within our Completion & Production Services and Rig Services operating segments.

Transaction costs

During 2014, we incurred $22.3 million in transaction costs related to the Merger with CJES, including professional fees and other costs incurred to reorganize the business in contemplation of the Merger.

Other-than-temporary impairment

During 2014, we recorded an other-than-temporary impairment of $7.0 million 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.

For the years ended December 31, 2013 and 2012

Provision for retirement of long-lived assets

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

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

Additionally in 2012, we recorded similar provisions for retirement of long-lived assets of $49.4 million in our Completion & Production Services business line. During 2012, we streamlined our operations and retired some non-core assets.

Impairments of long-lived assets

During 2013, we recognized an impairment of $20.0 million to our fleet of coil-tubing units in our Completion & Production Services business line. Intense competition and oversupply of equipment has led to lower utilization and margins for this product line. When these factors were considered as part of our annual impairment tests on long-lived assets, the sum of the estimated future cash flows, on an

Nabors Industries Ltd. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 4 Impairments and Other Charges (Continued)

undiscounted basis, was less than the carrying amount of these assets. The estimated fair values of these assets were calculated using discounted cash flow models involving assumptions based on our utilization of the assets, revenues and direct costs, capital expenditures and working capital requirements. We believe the fair value estimated for purposes of these tests represents a Level 3 fair value measurement. In 2013, we suspended our coil-tubing operations in the United States. A prolonged period of slow economic recovery could continue to adversely affect the demand for and prices of our services, which could result in future impairment charges for other reporting units due to the potential impact on our estimate of our future operating results.

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

Goodwill impairments

During 2012, we recognized the impairment of goodwill associated with our operations in the U.S. and International drilling operations. The impairments were deemed necessary due to the prolonged uncertainty of utilization of some of our rigs as a result of changes in our customers' plans for future drilling operations in the Gulf of Mexico and our international markets.

There were no goodwill impairments in 2013.

Intangible asset impairment

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

There were no intangible asset impairments in 2013.

Loss on tendered notes

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

Provision for termination of employment contract

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

Nabors Industries Ltd. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 5 Assets Held for Sale and Discontinued Operations

Assets Held for Sale

Assets held for sale included the following:

	As of December 31,	
	2014	2013
	(In thousands)	
Oil and Gas	$ 146,467	$ 239,936
Rig Services		3,328
	$ 146,467	$ 243,264

Assets held for sale as of December 31, 2014 consisted solely of our oil and gas holdings in the Horn River basin in Western Canada.

Oil and Gas Properties

The carrying value of our assets held for sale represents the lower of carrying value or fair value less costs to sell. We continue to market these properties at prices that are reasonable compared to current fair value. Also, we have deferred tax liabilities of approximately $2.3 million, which are included in long-term deferred income taxes in our consolidated balance sheet, associated with our oil and gas operations in Canada.

We have contracts with pipeline companies to pay specified fees based on committed volumes for gas transport and processing. In December 2013, we entered into agreements to restructure these contracts, assigning a portion of the obligation to third parties and reducing our future payment commitments. At December 31, 2014, our undiscounted contractual commitments for these contracts approximated $84.6 million, and we had liabilities of $40.2 million, $19.6 million of which were classified as current and are included in accrued liabilities.

At December 31, 2013, our undiscounted contractual commitments for these contracts approximated $171.2 million, and we had liabilities of $113.6 million, $64.4 million of which were classified as current and are included in accrued liabilities.

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.

Discontinued Operations

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

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Nabors Industries Ltd. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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

	Year Ended December 31,		
	2014	2013	2012
	(In thousands, except percentages)		
Operating revenues			
Oil and Gas	$ 13,143	$ 25,327	$ 27,363
Rig Services	$	$ 127,154	$ 172,335
Income (loss) from Oil & Gas discontinued operations:			
Income (loss) from discontinued operations	$ (1,840)	$ (17,371)	$ (3,958)
Less: Impairment charges or other (gains) and losses on sale of wholly owned assets	(1,313)	24,087(1)	106,096(2)
Less: Income tax expense (benefit)	(548)	(14,062)	(44,021)
Income (loss) from Oil and Gas discontinued operations, net of tax	$ 21	$ (27,396)	$ (66,033)
Income (loss) from Rig Services discontinued operations:			
Income (loss) from discontinued operations	$	$ 17,680	$ 9,846
Less: Impairment charges or other (gains) and losses on sale of wholly owned assets		(4,368)(3)	9,087(4)
Less: Income tax expense (benefit)		5,831	2,252
Income (loss) from Rig Services discontinued operations, net of tax	$	$ 16,217	$ (1,493)
Income (loss) from discontinued operations, net of tax	$ 21	$ (11,179)	$ (67,526)

Oil and Gas

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

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

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

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

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Nabors Industries Ltd. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

Rig Services

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

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

During 2014, we sold a large portion of our interest in proved oil and gas properties located on the North Slope of Alaska. Under the terms of the agreement, we received $35.1 million at closing and expect to receive additional payments of $27.0 million upon certain future dates or the properties achieving certain production targets. We retained a working interest at various interests and an overriding royalty interest in the properties at various interests. The working interest is fully carried up to $600 million of total project costs. The transaction generally remains subject to approval of local Alaska regulatory authorities, among other usual and customary conditions. The $22.2 million gain from the transaction is included in losses (gains) on sales and disposals of long-lived assets and other expense (income), net in our consolidated statement of income (loss) for the year ended December 31, 2014. The retained interest, which is valued at approximately $26.2 million, is no longer classified as assets-held-for-sale and is included in other long-term assets. We have not recast prior period results as the balances are not material to our consolidated statements of income (loss) for any period.

Additional discussion of our policy pertaining to the calculations of our annual impairment tests, including any impairment to goodwill, is set forth in Note 3 Summary of Significant Accounting Policies. A further protraction of lower commodity prices or an inability to sell these assets in a timely manner could result in recognition of future impairment charges.

Note 6 Acquisitions

2014 Acquisitions

In October 2014, we purchased the outstanding shares of 2TD Drilling AS ("2TD"), a drilling technology company based out of Norway. 2TD is in the process of developing a rotary steerable system for directional drilling which, once developed will be included in our Rig Services segment. Under the terms of the transaction, we paid an initial amount of $40.3 million for the purchase of the shares. We may also be required to make future payments of up to an additional $40.0 million, contingent on the achievement of various milestone objectives. As part of our preliminary purchase price allocation, we have recorded intangible assets of $47.7 million (in process research and development), goodwill of $17.3 million and contingent consideration of $24.7 million. The proforma effect on revenue and net income have been determined to be immaterial to our financial statements.

2013 Acquisitions

In January 2013, we purchased the business of NES for a total cash price of approximately $37.5 million. NES operates primarily in Texas, Louisiana and North Dakota as a provider of drift-while-drilling and measure-while-drilling services and technology. Their business was focused on directional drilling by oil and gas exploration and development companies. This acquisition expands our technology and development capability for drilling and measurement tools and services, and is included

Nabors Industries Ltd. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 6 Acquisitions (Continued)

in our Rig Services operating segment. The purchase price was allocated to the net tangible and intangible assets acquired based on their fair value. The excess of the purchase price over the fair values of the assets acquired was recorded as goodwill in the amount of $15.8 million.

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

Note 7 Cash and Cash Equivalents and Short-term Investments

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

	As of December 31, 2014	2013
	(In thousands)	
Cash and cash equivalents	$ 501,149	$ 389,915
Short-term investments:		
Available-for-sale equity securities	$ 35,002	$ 96,942
Available-for-sale debt securities	18	20,276
Total short-term investments	$ 35,020	$ 117,218

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

	As of December 31, 2014			2013		
	Fair Value	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses
	(In thousands)					
Cash and cash equivalents	$ 501,149	$	$	$ 389,915	$	$
Short-term investments:						
Available-for-sale equity securities	35,002	14,648		96,942	68,395	
Available-for-sale debt securities:						
Corporate debt securities				19,388	4,122	
Mortgage-backed debt securities				210	11	
Mortgage-CMO debt securities	18		(1)	20		(2)
Asset-backed debt securities				658	2	(54)
Total available-for-sale debt securities	18		(1)	20,276	4,135	(56)
Total available-for-sale securities	35,020	14,648	(1)	117,218	72,530	(56)

Total short-term investments	35,020	14,648	(1)	117,218	72,530	(56)
Total cash, cash equivalents and short-term investments	$ 536,169	$ 14,648	$ (1)	$ 507,133	$ 72,530	$ (56)

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Nabors Industries Ltd. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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

	As of December 31, 2014			
	Less Than 12 Months		More Than 12 Months	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
	(In thousands)			
Available-for-sale equity securities	$	$	$	$
Available-for-sale debt securities:				
Mortgage-CMO debt securities			18	1
Total available-for-sale debt securities			18	1
Total	$	$	$ 18	$ 1

The estimated fair values of our corporate, mortgage-backed, mortgage-CMO and asset-backed debt securities at December 31, 2014, classified by time to contractual maturity, are shown below. Expected maturities differ from contractual maturities because the issuers of the securities may have the right to repay obligations without prepayment penalties and we may elect to sell the securities prior to the contractual maturity date.

	Estimated Fair Value As of December 31, 2014
	(In thousands)
Debt securities:	
Due in one year or less	$
Due after one year through five years	
Due in more than five years	18
Total debt securities	$ 18

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

	Year Ended December 31,		
	2014	2013	2012
	(In thousands)		
Available-for-sale			
Proceeds from sales and maturities	$ 22,313	$ 107,586	$ 24,010
Realized gains (losses), net	$ 4,638	$ 88,158	$ 13,405

Note 8 Fair Value Measurements

Fair value is the price that would be received upon sale of an asset or paid upon transfer of a liability in an orderly transaction between market participants at the measurement date (exit price). We utilize market data or assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market-corroborated, or generally unobservable. We primarily apply

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Nabors Industries Ltd. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 8 Fair Value Measurements (Continued)

the market approach for recurring fair value measurements and endeavor to utilize the best information available. Accordingly, we employ valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. The use of unobservable inputs is intended to allow for fair value determinations in situations where there is little, if any, market activity for the asset or liability at the measurement date. We are able to classify fair value balances utilizing a fair value hierarchy based on the observability of those inputs. Under the fair value hierarchy:

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

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

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

The following table sets forth, by level within the fair value hierarchy, our financial assets and liabilities that are accounted for at fair value on a recurring basis as of December 31, 2014. 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 2014, there were no transfers of our financial assets between Level 1 and Level 2 measures. Our financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

	Fair Value as of December 31, 2014			
	Level 1	Level 2	Level 3	Total
	(In thousands)			
Assets:				
Short-term investments:				
Available-for-sale equity securities from energy industry	$ 35,002	$	$	$ 35,002
Available-for-sale debt securities:				
Mortgage-CMO debt securities		18		18
Total short-term investments	$ 35,002	$ 18	$	$ 35,020

Nonrecurring Fair Value Measurements

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

Fair Value of Financial Instruments

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

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Nabors Industries Ltd. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 8 Fair Value Measurements (Continued)

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

	As of December 31,					
	2014			2013		
	Effective Interest Rate	Carrying Value	Fair Value	Effective Interest Rate	Carrying Value	Fair Value
	(In thousands, except interest rates)					
2.35% senior notes due September 2016	2.56%	$ 349,887	$ 346,980	2.56%	$ 349,820	$ 354,694
6.15% senior notes due February 2018	6.42%	930,693	991,920	6.42%	969,928	1,097,480
9.25% senior notes due January 2019	9.33%	339,607	403,531	9.33%	339,607	428,733
5.00% senior notes due September 2020	5.20%	698,253	687,953	5.20%	697,947	731,955
4.625% senior notes due September 2021	4.75%	698,388	661,619	4.75%	698,148	709,793
5.10% senior notes due September 2023	5.26%	348,893	332,759	5.26%	348,765	349,731
Subsidiary preferred stock	0.00%			4.00%	69,188	69,000
Revolving credit facility	3.47%	450,000	450,000	2.28%	170,000	170,000
Commercial paper	0.59%	533,119	533,119	0.45%	329,844	329,844
Other	0.00%	6,209	6,209	0.00%	10,243	10,243
		$ 4,355,049	$ 4,414,090		$ 3,983,490	$ 4,251,473

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

As of December 31, 2014, our short-term investments were carried at fair market value and included $35.0 million in securities classified as available-for-sale. As of December 31, 2013, our short-term investments were carried at fair market value and included $117.2 million in securities classified as available-for-sale.

Note 9 Share-Based Compensation

Total share-based compensation expense, which includes stock options and restricted stock, totaled $37.2 million, $53.3 million and $18.3 million for 2014, 2013 and 2012, respectively. Compensation expense related to awards of restricted stock totaled $35.0 million, $51.1 million and $14.1 million for 2014, 2013 and 2012, respectively, and is included in direct costs and general and administrative expenses in our consolidated statements of income (loss). Share-based compensation expense has been allocated to our various operating segments. See Note 23 Segment Information.

Our restricted stock share-based awards also include two types of performance share awards: the first, based on our performance measured against pre-determined performance metrics and the second, based on market conditions measured against a predetermined peer group. The performance period for the awards granted in 2014 commenced on January 1, 2013 and ended December 31, 2013.

Stock Option Plans

As of December 31, 2014, we had several stock plans under which options to purchase our common shares could be granted to key officers, directors and managerial employees of Nabors and its subsidiaries. Options granted under the plans generally are at prices equal to the fair market value of the shares on the date of the grant. Options granted under the plans generally are exercisable in varying cumulative periodic installments after one year. In the case of certain key executives, options granted may vest immediately on the grant date. Options granted under the plans cannot be exercised

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Nabors Industries Ltd. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 9 Share-Based Compensation (Continued)

more than ten years from the date of grant. Options to purchase 6.3 million and 7.8 million Nabors common shares remained available for grant as of December 31, 2014 and 2013, respectively. Of the common shares available for grant as of December 31, 2014, approximately 5.0 million of these shares are also available for issuance in the form of restricted shares.

The fair value of each option award is estimated on the date of grant using the Black-Scholes option-pricing model which uses assumptions for the risk-free interest rate, volatility, dividend yield and the expected term of the options. The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of grant for a period equal to the expected term of the option. Expected volatilities are based on implied volatilities from traded options on Nabors' common shares, historical volatility of Nabors' common shares, and other factors. We use historical data to estimate the expected term of the options and employee terminations within the option-pricing model; separate groups of employees that have similar historical exercise behavior are considered separately for valuation purposes. The expected term of the options represents the period of time that the options granted are expected to be outstanding.

We also consider an estimated forfeiture rate for these option awards, and we recognize compensation cost only for those shares that are expected to vest, on a straight-line basis over the requisite service period of the award, which is generally the vesting term of three to five years. The forfeiture rate is based on historical experience. Estimated forfeitures have been adjusted to reflect actual forfeitures during 2014.

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

Options	**2,187**	**1**	**53,262**	
State and municipal	**34,378**	**1,072**	**5**	**35,445**
Corporate bonds	**10,001**	**82**		**10,083**
CRA mutual fund	**1,044**	**14**		**1,058**
Stock in other banks	**627**	**208**		**835**
	$ 114,106	**$ 3,900**	**$ 6**	**$ 118,000**
December 31, 2013				
U.S. Government and agencies	$ 21,094	$ 557	$	$ 21,651
Mortgage-backed securities, residential	51,541	2,322	123	53,740
State and municipal	40,780	1,117	375	41,522
Corporate bonds	11,004	192	31	11,165
CRA mutual fund	1,044		11	1,033
Stock in other banks	627	245		872
	$ 126,090	$ 4,433	$ 540	$ 129,983
SECURITIES HELD TO MATURITY				
December 31, 2014				
U.S. Government and agencies	**$ 24,497**	**$ 11**	**$ 348**	**$ 24,160**
Mortgage-backed securities, residential	**48,849**	**305**	**257**	**48,897**
	$ 73,346	**$ 316**	**$ 605**	**$ 73,057**

December 31, 2013				
U.S. Government and agencies	$ 37,528	$ 142	$ 923	$ 36,747
Mortgage-backed securities, residential	$ 56,845	$ 40	$ 1,550	$ 55,335
	$ 94,373	$ 182	$ 2,473	$ 92,082

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NOTE C SECURITIES (Continued)

The following table shows the Corporation's investments' gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at December 31, 2014 and 2013:

In thousands	Less than 12 Months Fair Value	Less than 12 Months Unrealized Losses	12 Months or More Fair Value	12 Months or More Unrealized Losses	Total Fair Value	Total Unrealized Losses
SECURITIES AVAILABLE FOR SALE						
December 31, 2014						
Mortgage-backed securities, residential	**$ 2,038**	**$ 1**	**$**	**$**	**$ 2,038**	**$ 1**
State and municipal			**1,059**	**5**	**1,059**	**5**
	$ 2,038	**$ 1**	**$ 1,059**	**$ 5**	**$ 3,097**	**$ 6**
December 31, 2013						
Mortgage-backed securities, residential	$ 6,944	$ 123	$	$	$ 6,944	$ 123
State and municipal	11,107	340	1,070	35	12,177	375
Corporate bonds	4,969	31			4,969	31
CRA Mutual Fund	1,033	11			1,033	11
	$ 24,053	$ 505	$ 1,070	$ 35	$ 25,123	$ 540
SECURITIES HELD TO MATURITY						
December 31, 2014						
U.S. Government and agencies	**$**	**$**	**$ 21,149**	**$ 348**	**$ 21,149**	**$ 348**
Mortgage-backed securities, residential			**21,666**	**257**	**21,666**	**257**
	$	**$**	**$ 42,815**	**$ 605**	**$ 42,815**	**$ 605**
December 31, 2013						
U.S. Government and agencies	$ 22,710	$ 812	$ 2,889	$ 111	$ 25,599	$ 923
Mortgage-backed security, residential	45,891	1,446	1,755	104	47,646	1,550
	$ 68,601	$ 2,258	$ 4,644	$ 215	$ 73,245	$ 2,473

All mortgage-backed security investments are government sponsored enterprise (GSE) pass-through instruments issued by the Federal National Mortgage Association (FNMA), Government National Mortgage Association (GNMA) or Federal Home Loan Mortgage Corporation (FHLMC), which guarantee the timely payment of principal on these investments.

At December 31, 2014, one available for sale residential mortgage-backed securities had an unrealized loss that did not exceed 1% of amortized cost. This security has not been in a continuous loss position for 12 months or more. This unrealized loss relates principally to changes in interest rates subsequent to the acquisition of the security.

At December 31, 2014, three available for sale state and municipal securities had unrealized losses that individually did not exceed 1% of amortized cost. All of these securities have been in a continuous loss position for 12 months or more. These unrealized losses relate principally to changes in interest rates subsequent to the acquisition of the specific securities.

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NOTE C SECURITIES (Continued)

At December 31, 2014, fourteen held to maturity U.S. Government and agency securities had unrealized losses that individually did not exceed 4% of amortized cost. All of these securities have been in a continuous loss position for 12 months or more. These unrealized losses relate principally to changes in interest rates subsequent to the acquisition of the specific securities.

At December 31, 2014, sixteen held to maturity residential mortgage-backed securities had unrealized losses that individually did not exceed 2% of amortized cost. All of these securities have been in a continuous loss position for 12 months or more. These unrealized losses relate principally to changes in interest rates subsequent to the acquisition of the specific securities.

In analyzing the issuer's financial condition, management considers industry analysts' reports, financial performance, and projected target prices of investment analysts within a one-year time frame. Based on the above information, management has determined that none of these investments are other-than-temporarily impaired.

The fair values of securities available for sale (carried at fair value) and held to maturity (carried at amortized cost) are determined by obtaining quoted market prices on nationally recognized securities exchanges (Level 1), or matrix pricing (Level 2), which is a mathematical technique used widely in the industry to value debt securities without relying exclusively on quoted market prices for the specific securities but rather by relying on the security's relationship to other benchmark quoted prices. The Corporation uses independent service providers to provide matrix pricing.

Management routinely sells securities from its available for sale portfolio in an effort to manage and allocate the portfolio. At December 31, 2014, management had not identified any securities with an unrealized loss that it intends to sell or will be required to sell. In estimating other-than-temporary impairment losses on debt securities, management considers (1) whether management intends to sell the security, or (2) if it is more likely than not that management will be required to sell the security before recovery, or (3) if management does not expect to recover the entire amortized cost basis. In assessing potential other-than-temporary impairment for equity securities, consideration is given to management's intention and ability to hold the securities until recovery of unrealized losses.

Amortized cost and fair value at December 31, 2014, by contractual maturity, where applicable, are shown below. Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay with or without penalties.

	Available for Sale		Held to Maturity	
In thousands	**Amortized Cost**	**Fair Value**	**Amortized Cost**	**Fair Value**
1 year or less	$ 9,177	$ 9,274	$	$
Over 1 year through 5 years	27,875	28,732	19,045	18,787
Over 5 years through 10 years	22,094	22,545	5,452	5,373
Over 10 years	2,213	2,294		
Mortgage-backed securities, residential	51,076	53,262	48,849	48,897
CRA mutual fund	1,044	1,058		
Stock in other banks	627	835		
	$ 114,106	$ 118,000	$ 73,346	$ 73,057

The Corporation realized gross gains of $72,000 during 2014, and $0 during 2013 and 2012 and gross losses of $10,000 during 2014, and $0 during 2013 and 2012 on sales of securities available for sale. There was $7,000 of gross gains realized on calls of securities available for sale during 2012.

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NOTE C SECURITIES (Continued)

At December 31, 2014 and 2013, securities with a carrying value of $128,710,000 and $139,966,000, respectively, were pledged as collateral as required by law on public and trust deposits, repurchase agreements, and for other purposes.

NOTE D LOANS

The Corporation grants commercial, residential, and consumer loans to customers primarily within southcentral Pennsylvania and northern Maryland and the surrounding area. A large portion of the loan portfolio is secured by real estate. Although the Bank has a diversified loan portfolio, its debtors' ability to honor their contracts is influenced by the region's economy.

The following tables present the classes of the loan portfolio summarized by the aggregate pass rating and the classified ratings of special mention, substandard and doubtful within the Corporation's internal risk rating system as of December 31, 2014 and 2013:

In thousands	Pass	Special Mention	Substandard	Doubtful	Total
December 31, 2014					
Commercial and industrial	**$ 68,712**	**$ 2,412**	**$ 3,731**	**$**	**$ 74,855**
Commercial real estate	**238,820**	**26,214**	**16,548**		**281,582**
Commercial real estate construction	**8,714**	**2,917**	**579**		**12,210**
Residential mortgage	**352,283**	**4,507**	**2,585**		**359,375**
Home equity lines of credit	**55,254**	**650**	**69**		**55,973**
Consumer	**15,277**				**15,277**
Total	**$ 739,060**	**$ 36,700**	**$ 23,512**	**$**	**$ 799,272**

December 31, 2013					
Commercial and industrial	$ 53,316	$ 2,364	$ 3,537	$	$ 59,217
Commercial real estate	193,162	29,655	16,369		239,186
Commercial real estate construction	5,123	5,018	1,055		11,196
Residential mortgage	344,847	2,551	3,611		351,009
Home equity lines of credit	53,021	608	223		53,852
Consumer	14,188				14,188
Total	$ 663,657	$ 40,196	$ 24,795	$	$ 728,648

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NOTE D LOANS (Continued)

The following table summarizes information relative to impaired loans by loan portfolio class as of December 31, 2014 and 2013:

In thousands	Impaired Loans with Allowance Recorded Investment	Impaired Loans with Allowance Unpaid Principal Balance	Impaired Loans with Allowance Related Allowance	Impaired Loans with No Allowance Recorded Investment	Impaired Loans with No Allowance Unpaid Principal Balance
December 31, 2014					
Commercial and industrial	**$**	**$**	**$**	**$ 1,729**	**$ 2,844**
Commercial real estate				**9,999**	**10,209**
Commercial real estate construction				**368**	**642**
Residential mortgage	**694**	**694**	**302**	**826**	**1,052**
Total	**$ 694**	**$ 694**	**$ 302**	**$ 12,922**	**$ 14,747**
December 31, 2013					
Commercial and industrial	$	$	$	$ 1,574	$ 2,688
Commercial real estate				11,197	11,758
Commercial real estate construction				788	1,062
Residential mortgage	1,478	1,478	201	675	712
Total	$ 1,478	$ 1,478	$ 201	$ 14,234	$ 16,220

The following table summarizes information in regards to average of impaired loans and related interest income by loan portfolio class:

In thousands	Impaired Loans with Allowance Average Recorded Investment	Impaired Loans with Allowance Interest Income	Impaired Loans with No Allowance Average Recorded Investment	Impaired Loans with No Allowance Interest Income
December 31, 2014				
Commercial and industrial	**$**	**$**	**$ 1,351**	**$ 2**
Commercial real estate	**144**		**10,380**	**459**
Commercial real estate construction			**604**	
Residential mortgage	**1,027**	**9**	**576**	**16**
Total	**$ 1,171**	**$ 9**	**$ 12,911**	**$ 477**
December 31, 2013				
Commercial and industrial	$ 58	$	$ 466	$
Commercial real estate	95		11,237	529
Commercial real estate construction			3,558	209
Residential mortgage	833		1,119	10
Total	$ 986	$	$ 16,380	$ 748

December 31, 2012								
Commercial and industrial	$	431	$		$	223	$	
Commercial real estate		691				8,193		11
Commercial real estate construction		336				1,242		
Residential mortgage		18				1,390		
Total	$	1,476	$		$	11,048	$	11

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NOTE D LOANS (Continued)

No additional funds are committed to be advanced in connection with impaired loans.

If interest on all nonaccrual loans had been accrued at original contract rates, interest income would have increased by $570,000 in 2014, $704,000 in 2013, and $543,000 in 2012.

The following table presents nonaccrual loans by loan portfolio class as of December 31, 2014 and 2013:

In thousands	2014	2013
Commercial and industrial	**$ 1,729**	$ 1,574
Commercial real estate	**3,325**	4,363
Commercial real estate construction	**368**	788
Residential mortgage	**1,226**	1,848
Total	**$ 6,648**	$ 8,573

The following table summarizes information relative to troubled debt restructurings by loan portfolio class at December 31, 2014 and 2013:

In thousands	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Recorded Investment at period end
December 31, 2014			
Nonaccruing troubled debt restructurings:			
Commercial and industrial	**$ 490**	**$ 485**	**$ 46**
Commercial real estate	**1,021**	**1,021**	**546**
Commercial real estate construction	**1,548**	**1,541**	**274**
Total nonaccruing troubled debt restructurings	**3,059**	**3,047**	**866**
Accruing troubled debt restructurings:			
Commercial real estate	**7,118**	**7,170**	**6,674**
Residential mortgage	**336**	**336**	**294**
Total accruing troubled debt restructurings	**7,454**	**7,506**	**6,968**
Total Troubled Debt Restructurings	**$ 10,513**	**$ 10,553**	**$ 7,834**
December 31, 2013			
Nonaccruing troubled debt restructurings:			
Commercial and industrial	$ 490	$ 485	$ 142
Commercial real estate	1,021	1,021	634
Commercial real estate construction	1,548	1,541	694
Residential mortgage	566	566	566
Total nonaccruing troubled debt restructurings	3,625	3,613	2,036
Accruing troubled debt restructurings:			
Commercial real estate	7,118	7,170	6,834
Residential mortgage	336	336	305

Total accruing troubled debt restructurings	7,454	7,506	7,139
Total Troubled Debt Restructurings	$ 11,079	$ 11,119	$ 9,175

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NOTE D LOANS (Continued)

All of the Corporation's troubled debt restructured loans are also impaired loans, of which some have resulted in a specific allocation and, subsequently, a charge-off as appropriate. There were no defaulted troubled debt restructured loans as of December 31, 2014. One troubled debt restructured loan paid in full during the second quarter of 2014. During the third quarter of 2013, one troubled debt restructured loan defaulted in the amount of $237,000 and was transferred to foreclosed assets held for resale, and all other troubled debt restructured loans were current with respect to their associated forbearance agreement. During 2013, there were charge-offs associated with troubled debt restructured loans while under a forbearance agreement which totaled $353,000. One forbearance agreement was negotiated during 2009 and modified during 2011, two were negotiated during 2010 and modified during 2013, three were negotiated during 2012, while one was negotiated during 2013.

There are forbearance agreements on all loans currently classified as troubled debt restructurings, except for two loans in which the forbearance agreement has expired and one loan in which a modification took place, all of which remain classified as troubled debt restructured loans. All of these troubled debt restructured loans have resulted in additional principal repayment. The terms of these troubled debt restructured loans vary whereby principal payments have been decreased, interest rates have been reduced, and/or the loan will be repaid as collateral is sold.

The following table summarizes loans whose terms have been modified resulting in troubled debt restructurings during the years ended December 31, 2014 and 2013:

Dollars in thousands	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Recorded Investment at Period End
2014				
Troubled debt restructurings		$	$	$
2013				
Troubled debt restructurings:				
Commercial real estate	1	$ 2,541	$ 2,593	$ 2,542
Residential mortgage	1	566	566	566

The performance and credit quality of the loan portfolio is also monitored by analyzing the age of the loans receivable as determined by the length of time a recorded payment is past due.

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NOTE D LOANS (Continued)

The following table presents the classes of the loan portfolio summarized by the past due status as of December 31, 2014 and 2013:

In thousands	30-59 Days Past Due	60-89 Days Past Due	>90 Days Past Due	Total Past Due	Current	Total Loans Receivable	Loans Receivable >90 Days and Accruing
December 31, 2014							
Commercial and industrial	**$ 153**	**$**	**$ 1,729**	**$ 1,882**	**$ 72,973**	**$ 74,855**	**$**
Commercial real estate	**236**	**769**	**2,269**	**3,274**	**278,308**	**281,582**	**33**
Commercial real estate construction		**17**	**368**	**385**	**11,825**	**12,210**	
Residential mortgage	**2,664**	**1,332**	**2,704**	**6,700**	**352,675**	**359,375**	**1,502**
Home equity lines of credit	**169**		**101**	**270**	**55,703**	**55,973**	**101**
Consumer	**23**	**9**		**32**	**15,245**	**15,277**	
Total	**$ 3,245**	**$ 2,127**	**$ 7,171**	**$ 12,543**	**$ 786,729**	**$ 799,272**	**$ 1,636**
December 31, 2013							
Commercial and industrial	$ 55	$ 13	$ 152	$ 220	$ 58,997	$ 59,217	$ 3
Commercial real estate	857	552	1,964	3,373	235,813	239,186	
Commercial real estate construction			788	788	10,408	11,196	
Residential mortgage	4,728	795	3,148	8,671	342,338	351,009	1,900
Home equity lines of credit	260	36	14	310	53,542	53,852	14
Consumer	22	15	9	46	14,142	14,188	9
Total	$ 5,922	$ 1,411	$ 6,075	$ 13,408	$ 715,240	$ 728,648	$ 1,926

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NOTE D LOANS (Continued)

The following table summarizes the allowance for loan losses and recorded investment in loans:

In thousands	Commercial and Industrial	Commercial Real Estate	Commercial Real Estate Construction	Residential Mortgage	Home Equity Lines of Credit	Consumer	Unallocated	Total
December 31, 2014								
Allowance for loan losses								
Beginning balance-January 1, 2014	$ 1,915	$ 5,819	$ 247	$ 4,013	$ 537	$ 947	$ 2,613	$ 16,091
Charge-offs	(132)	(121)		(705)	(169)	(64)		(1,191)
Recoveries	15			97		10		122
Provisions	250	174	(53)	440	189	157	(1,007)	150
Ending balance-December 31, 2014	$ 2,048	$ 5,872	$ 194	$ 3,845	$ 557	$ 1,050	$ 1,606	$ 15,172
Ending balance: individually evaluated for impairment	$	$	$	$ 302	$	$	$	$ 302
Ending balance: collectively evaluated for impairment	$ 2,048	$ 5,872	$ 194	$ 3,543	$ 557	$ 1,050	$ 1,606	$ 14,870
Loans receivables								
Ending balance	$ 74,855	$ 281,582	$ 12,210	$ 359,375	$ 55,973	$ 15,277	$	$ 799,272
Ending balance: individually evaluated for impairment	$ 1,729	$ 9,999	$ 368	$ 1,520	$	$	$	$ 13,616
Ending balance: collectively evaluated for impairment	$ 73,126	$ 271,583	$ 11,842	$ 357,855	$ 55,973	$ 15,277	$	$ 785,656
December 31, 2013								
Allowance for loan losses								
Beginning balance-January 1, 2013	$ 1,507	$ 6,576	$ 518	$ 3,721	$ 517	$ 633	$ 3,353	$ 16,825
Charge-offs	(178)	(996)		(1,062)		(191)		(2,427)
Recoveries	235			4		4		243
Provisions	351	239	(271)	1,350	20	501	(740)	1,450
Ending balance-December 31, 2013	$ 1,915	$ 5,819	$ 247	$ 4,013	$ 537	$ 947	$ 2,613	$ 16,091
Ending balance: individually evaluated for impairment	$	$	$	$ 201	$	$	$	$ 201

Ending balance: collectively evaluated for impairment	$ 1,915	$ 5,819	$ 247	$ 3,812	$ 537	$ 947	$ 2,613	$ 15,890
Loans receivables								
Ending balance	$ 59,217	$ 239,186	$ 11,196	$ 351,009	$ 53,852	$ 14,188	$	$ 728,648
Ending balance: individually evaluated for impairment	$ 1,574	$ 11,197	$ 788	$ 2,153	$	$	$	$ 15,712
Ending balance: collectively evaluated for impairment	$ 57,643	$ 227,989	$ 10,408	$ 348,856	$ 53,852	$ 14,188	$	$ 712,936
December 31, 2012								
Allowance for loan losses								
Beginning balance-January 1, 2012	$ 2,582	$ 6,007	$ 548	$ 3,624	$ 507	$ 419	$ 1,795	$ 15,482
Charge-offs	(2,180)	(417)	(538)	(500)	(51)	(71)		(3,757)
Recoveries	22	250	149	1		3		425
Provisions	1,083	736	359	596	61	282	1,558	4,675
Ending balance-December 31, 2012	$ 1,507	$ 6,576	$ 518	$ 3,721	$ 517	$ 633	$ 3,353	$ 16,825
Ending balance: individually evaluated for impairment	$ 29	$ 7	$	$	$	$	$	$ 36
Ending balance: collectively evaluated for impairment	$ 1,478	$ 6,569	$ 518	$ 3,721	$ 517	$ 633	$ 3,353	$ 16,789
Loans receivables								
Ending balance	$ 49,004	$ 243,019	$ 19,154	$ 328,836	$ 53,130	$ 14,993	$	$ 708,136
Ending balance: individually evaluated for impairment	$ 341	$ 9,009	$ 854	$ 938	$	$	$	$ 11,142
Ending balance: collectively evaluated for impairment	$ 48,663	$ 234,010	$ 18,300	$ 327,898	$ 53,130	$ 14,993	$	$ 696,994

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NOTE D LOANS (Continued)

The Bank has granted loans to certain of its executive officers, directors and their related interests. These loans were made on substantially the same basis, including interest rates and collateral as those prevailing for comparable transactions with other borrowers at the same time. The aggregate amount of these loans was $5,331,000 and $14,969,000 at December 31, 2014 and 2013, respectively. During 2014, repayments totaled $9,638,000, and there were no new loans or advances extended. None of these loans were past due, in nonaccrual status, or restructured at December 31, 2014.

NOTE E PREMISES AND EQUIPMENT

Premises and equipment at December 31 were as follows:

In thousands	2014	2013
Land	**$ 2,591**	$ 2,591
Buildings and improvements	**19,492**	17,060
Furniture and equipment	**14,843**	12,946
Construction in process	**139**	1,959
	37,065	34,556
Accumulated depreciation	**(19,340)**	(18,565)
	$ 17,725	$ 15,991

Depreciation expense was $1,414,000, $1,352,000 and $1,401,000 for the years ended December 31, 2014, 2013 and 2012, respectively.

NOTE F INVESTMENTS IN LOW-INCOME HOUSING PARTNERSHIPS

ACNB Corporation is a limited partner in three partnerships, whose purpose is to develop, manage and operate residential low-income properties. At December 31, 2014 and 2013, the carrying value of these investments was approximately $3,793,000 and $4,687,000, respectively.

NOTE G DEPOSITS

Deposits were comprised of the following as of December 31:

In thousands	2014	2013
Non-interest bearing demand	**$ 144,987**	$ 128,011
Interest bearing demand	**115,587**	115,014
Savings	**332,375**	321,818
Time certificates of deposit less than $100,000	**162,246**	165,491
Time certificates of deposit greater than $100,000	**89,681**	70,309
	$ 844,876	$ 800,643

Scheduled maturities of time certificates of deposit at December 31, 2014, were as follows:

Years Ending	In thousands
2015	$ 156,329
2016	63,934
2017	24,689
2018	5,054

2019		1,921
	$	251,927

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NOTE H LEASE COMMITMENTS

Certain branch offices and equipment are leased under agreements which expire at varying dates through 2024. Most leases contain renewal provisions at the Corporation's option. The total rental expense for all operating leases was $498,000, $468,000 and $424,000 for the years ended December 31, 2014, 2013 and 2012, respectively.

The following is a schedule by year of future minimum rental payments required under operating leases that have initial or remaining non-cancelable lease terms in excess of one year as of December 31:

Years Ending	In thousands
2015	$ 381
2016	229
2017	174
2018	153
2019	126
Later years	317
	$ 1,380

ACNB leases space at several of its owned offices to other unrelated organizations under agreements that expired at varying dates in 2014. Total rental income for these properties was $132,000, $138,000 and $133,000 for the years ended December 31, 2014, 2013 and 2012, respectively.

NOTE I BORROWINGS

Short-term borrowings and weighted-average interest rates at December 31 are as follows:

	2014		2013	
Dollars in thousands	**Amount**	**Rate**	**Amount**	**Rate**
FHLB overnight advance	**$**	**%**	$ 6,800	0.25%
Securities sold under repurchase agreements	**45,699**	**0.14%**	42,252	0.12%
	$ 45,699	**0.14%**	$ 49,052	0.14%

Under an agreement with the FHLB, the Bank has short-term borrowing capacity included within its maximum borrowing capacity. All FHLB advances are collateralized by a security agreement covering qualifying loans and unpledged U.S. Treasury, agency and mortgage-backed securities. In addition, all FHLB advances are secured by the FHLB capital stock owned by the Bank having a par value of $3,917,500 at December 31, 2014. The Corporation also has lines of credit that total $15,000,000 with correspondent banks for overnight federal funds borrowings. There were no advances on these lines at December 31, 2014 and 2013.

The Corporation enters into agreements under which it sells securities subject to an obligation to repurchase the same or similar securities. Under these arrangements, the Corporation may transfer legal control over the assets but still retain effective control through an agreement that both entitles and obligates the Corporation to repurchase the assets. As a result, these repurchase agreements are accounted for as collateralized financing agreements (i.e., secured borrowings) and not as a sale and subsequent repurchase of securities. The obligation to repurchase the securities is reflected as a liability in the Corporation's consolidated statements of condition, while the securities underlying the repurchase agreements remain in the respective investment securities asset accounts. In other words, there is no offsetting or netting of the investment securities assets with the repurchase agreement

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NOTE I BORROWINGS (Continued)

liabilities. In addition, as the Corporation does not enter into reverse repurchase agreements, there is no such offsetting to be done with the repurchase agreements.

The right of setoff for a repurchase agreement resembles a secured borrowing, whereby the collateral would be used to settle the fair value of the repurchase agreement should the Corporation be in default (e.g., fails to make an interest payment to the counterparty). For private institution repurchase agreements, if the private institution counterparty were to default (e.g., declare bankruptcy), the Corporation could cancel the repurchase agreement (i.e., cease payment of principal and interest), and attempt collection on the amount of collateral value in excess of the repurchase agreement fair value. The collateral is held by a third-party financial institution in the counterparty's custodial account. The counterparty has the right to sell or repledge the investment securities. For government entity repurchase agreements, the collateral is held by the Corporation in a segregated custodial account under a tri-party agreement.

The following table presents the short-term borrowings subject to an enforceable master netting arrangement or repurchase agreement as of December 31, 2014 and 2013:

				Gross Amounts Not Offset in the Statements of Condition		
Dollars in thousands	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Statements of Condition	Net Amounts of Liabilities Presented in the Statements of Condition	Financial Instruments	Cash Collateral Pledged	Net Amount
December 31, 2014						
Repurchase agreements						
Commercial customers and government entities(a)	**$ 45,699**	**$**	**$ 45,699**	**$ (45,699)**	**$**	**$**
December 31, 2013						
Repurchase agreements						
Commercial customers and government entities(a)	$ 42,252	$	$ 42,252	$ (42,252)	$	$

(a) As of December 31, 2014 and 2013, the fair value of securities pledged in connection with repurchase agreements was $47,576,000 and $60,823,000, respectively.

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NOTE I BORROWINGS (Continued)

A summary of long-term debt as of December 31 is as follows:

	2014		2013	
Dollars in thousands	**Amount**	**Rate**	**Amount**	**Rate**
FHLB fixed-rate advances maturing:				
2014	$	%	$ 29,000	1.51%
2015	**21,000**	**2.50%**	21,000	2.50%
2016	**18,250**	**1.98%**	15,000	2.19%
2017	**14,250**	**2.30%**	6,000	3.76%
2018	**15,500**	**2.18%**	10,000	2.48%
2019	**10,500**	**1.90%**		%
Loan payable to local bank	**1,437**	**5.50%**	1,703	5.50%
	$ 80,937	**2.26%**	$ 82,703	2.26%

The FHLB advances are collateralized by the assets defined in security agreement and FHLB capital stock described previously. The Corporation can borrow a maximum of $456,258,000 from the FHLB, of which $376,758,000 was available at December 31, 2014.

The loan payable to a local bank is payable in monthly installments of $29,472 and matures in April 2016. The loan is unsecured.

NOTE J REGULATORY RESTRICTIONS ON DIVIDENDS

Dividend payments by the Bank to the Corporation are subject to the Pennsylvania Banking Code, the Federal Deposit Insurance Act, and the regulations of the FDIC. Under the Banking Code, no dividends may be paid except from "accumulated net earnings" (generally, retained earnings). The Federal Reserve Board and the FDIC have formal and informal policies which provide that insured banks and bank holding companies should generally pay dividends only out of current operating earnings, with some exceptions. As of December 31, 2014, $12,325,000 of undistributed earnings of the Bank, included in consolidated retained earnings, was available for distribution to the Corporation as dividends without prior regulatory approval. Additionally, dividends paid by the Bank to the Corporation would be prohibited if the effect thereof would cause the Bank's capital to be reduced below applicable minimum capital requirements.

NOTE K INCOME TAXES

The components of income tax expense for the years ended December 31, 2014, 2013 and 2012, are as follows:

In thousands	**2014**	**2013**	**2012**
Federal:			
Current	**$ 2,152**	$ 1,800	$ 2,163
Deferred	**875**	693	108
	3,027	2,493	2,271
State:			
Current	**53**	42	48
	$ 3,080	$ 2,535	$ 2,319

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NOTE K INCOME TAXES (Continued)

Reconciliations of the statutory federal income tax at a rate of 34% to the income tax expense reported in the consolidated statements of income for the years ended December 31, 2014, 2013 and 2012, are as follows:

	Percentage of Income before Income Taxes		
	2014	**2013**	**2012**
Federal income tax at statutory rate	**34.0%**	34.0%	34.0%
State income taxes, net of federal benefit	**0.3%**	0.2%	0.2%
Tax-exempt income	**(3.5)%**	(4.6)%	(5.9)%
Earnings on investment in bank-owned life insurance	**(2.8)%**	(2.8)%	(3.0)%
Rehabilitation and low-income housing credits	**(5.1)%**	(5.7)%	(4.9)%
Other	**0.1%**	0.3%	0.3%
	23.0%	21.4%	20.7%

The provision for federal income taxes includes $21,000, $0 and $2,000 of income taxes related to net gains on sales of securities in 2014, 2013 and 2012, respectively. Rehabilitation and low-income housing income tax credits were $678,000, $678,000, and $556,000 during 2014, 2013 and 2012, respectively. Projected credits are $299,000 in 2015, $287,000 in 2016, and $1,738,000 thereafter.

Components of deferred tax assets and liabilities at December 31 were as follows:

In thousands	**2014**	**2013**
Deferred tax assets:		
Allowance for loan losses	**$ 5,159**	$ 5,471
Accrued deferred compensation	**903**	806
Pension	**2,727**	1,269
Deferred loan fees	**67**	5
Other-than-temporary impairment	**178**	178
Low-income housing tax credit carryforward		287
Nonaccrual interest	**176**	191
Deferred director fees	**496**	419
Other	**695**	387
	10,401	9,013
Deferred tax liabilities:		
Available for sale securities	**1,324**	1,323
Prepaid pension benefit cost	**6,466**	5,488
Prepaid expenses	**168**	237
Accumulated depreciation	**188**	358
Goodwill/intangibles	**743**	677
	8,889	8,083
Net Deferred Tax Asset	**$ 1,512**	$ 930

The Corporation did not have any uncertain tax positions at December 31, 2014 and 2013. The Corporation's policy is to recognize interest and penalties on unrecognized tax benefits in income tax expense in the Consolidated Statements of Income.

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NOTE K INCOME TAXES (Continued)

Years that remain open for potential review by the Internal Revenue Service are 2011 through 2014.

NOTE L FAIR VALUE MEASUREMENTS

Management uses its best judgment in estimating the fair value of the Corporation's financial instruments; however, there are inherent weaknesses in any estimation technique. Therefore, for substantially all financial instruments, the fair value estimates herein are not necessarily indicative of the amounts the Corporation could have realized in a sales transaction on the dates indicated. The estimated fair value amounts have been measured as of their respective reporting dates and have not been reevaluated or updated for purposes of these consolidated financial statements subsequent to those respective dates. As such, the estimated fair values of these financial instruments subsequent to the respective reporting dates may be different than the amounts reported at each period end.

Fair value measurement and disclosure guidance defines fair value as the price that would be received to sell the asset or transfer the liability in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions.

Fair value measurement and disclosure guidance provides a list of factors that a reporting entity should evaluate to determine whether there has been a significant decrease in the volume and level of activity for the asset or liability in relation to normal market activity for the asset or liability. When the reporting entity concludes there has been a significant decrease in the volume and level of activity for the asset or liability, further analysis of the information from that market is needed and significant adjustments to the related prices may be necessary to estimate fair value in accordance with fair value measurement and disclosure guidance.

This guidance further clarifies that when there has been a significant decrease in the volume and level of activity for the asset or liability, some transactions may not be orderly. In those situations, the entity must evaluate the weight of the evidence to determine whether the transaction is orderly. The guidance provides a list of circumstances that may indicate that a transaction is not orderly. A transaction price that is not associated with an orderly transaction is given little, if any, weight when estimating fair value.

Fair value measurement and disclosure guidance establishes a fair value hierarchy that prioritizes the inputs to valuation methods used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

Level 1: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

Level 2: Quoted prices in markets that are not active, or inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liability.

Level 3: Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e., supported with little or no market activity).

An asset or liability's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

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NOTE L FAIR VALUE MEASUREMENTS (Continued)

For assets measured at fair value, the fair value measurements by level within the fair value hierarchy, and the basis of measurement used at December 31, 2014 and 2013, are as follows:

		Fair Value Measurements at December 31, 2014			
In thousands	**Basis**	**Total**	**Level 1**	**Level 2**	**Level 3**
U.S. Government and agencies		**$ 17,317**	**$**	**$ 17,317**	**$**
Mortgage-backed securities, residential		**53,262**		**53,262**	
State and municipal		**35,445**		**35,445**	
Corporate bonds		**10,083**		**10,083**	
CRA mutual fund		**1,058**	**1,058**		
Stock in other banks		**835**	**835**		
Total securities available for sale	**Recurring**	**$ 118,000**	**$ 1,893**	**$ 116,107**	**$**
Impaired loans	**Non-recurring**	**$ 5,785**	**$**	**$**	**$ 5,785**
Foreclosed assets held for resale	**Non-recurring**	**$ 383**	**$**	**$**	**$ 383**

		Fair Value Measurements at December 31, 2013			
In thousands	**Basis**	**Total**	**Level 1**	**Level 2**	**Level 3**
U.S. Government and agencies		$ 21,651	$	$ 21,651	$
Mortgage-backed securities, residential		53,740		53,740	
State and municipal		41,522		41,522	
Corporate bonds		11,165		11,165	
CRA mutual fund		1,033	1,033		
Stock in other banks		872	872		
Total securities available for sale	Recurring	$ 129,983	$ 1,905	$ 128,078	$
Impaired loans	Non-recurring	$ 6,887	$	$	$ 6,887
Foreclosed assets held for resale	Non-recurring	$ 413	$	$	$ 413

The following table presents additional quantitative information about assets measured at fair value on a nonrecurring basis for which the Corporation has utilized Level 3 inputs to determine fair value:

Quantitative Information about Level 3 Fair Value Measurements

Dollars in thousands	Fair Value Estimate	Valuation Technique	Unobservable Input	Range	Weighted Average
December 31, 2014					
Impaired loans	**$ 5,785**	**Appraisal of collateral(1)**	**Appraisal adjustments(2)**	**(10) - (50)%**	**(18)%**
Foreclosed assets held for resale	**$ 383**	**Appraisal of collateral(1)(3)**	**Appraisal adjustments(2)**	**(10) - (50)%**	**(44)%**
December 31, 2013					
Impaired loans	$ 6,887	Appraisal of collateral(1)	Appraisal adjustments(2)	(10) - (50)%	(19)%
Foreclosed assets held for resale	$ 413	Appraisal of collateral(1)(3)	Appraisal adjustments(2)	(10) - (50)%	(35)%

(1) Fair value is generally determined through independent third-party appraisals of the underlying collateral, which generally includes various Level 3 inputs which are not observable.

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NOTE L FAIR VALUE MEASUREMENTS (Continued)

(2) Appraisals may be adjusted by management for qualitative factors such as economic conditions and estimated liquidation expenses. The range of liquidation expenses and other appraisal adjustments are presented as a percentage of the appraisal. Higher downward adjustments are caused by negative changes to the collateral or conditions in the real estate market, actual offers or sales contracts received, or age of the appraisal.

(3) Includes qualitative adjustments by management and estimated liquidation expenses.

The following information should not be interpreted as an estimate of the fair value of the entire Corporation since a fair value calculation is only provided for a limited portion of the Corporation's assets and liabilities. Due to a wide range of valuation techniques and the degree of subjectivity used in making the estimates, comparisons between the Corporation's disclosures and those of other companies may not be meaningful. The following methods and assumptions were used to estimate the fair values of certain Corporation assets and liabilities at December 31, 2014 and 2013:

Cash and Cash Equivalents (Carried at Cost)

The carrying amounts reported in the consolidated statement of condition for cash and short-term instruments approximate those assets' fair value. U.S. currency is Level 1 and cash equivalents are Level 2.

Securities

The fair values of securities available for sale (carried at fair value) and held to maturity (carried at amortized cost) are determined by obtaining quoted market prices on nationally recognized securities exchanges (Level 1), or matrix pricing (Level 2), which is a mathematical technique used widely in the industry to value debt securities without relying exclusively on quoted market prices for the specific security but rather by relying on the security's relationship to other benchmark quoted prices. The Corporation uses an independent service provider to provide matrix pricing, and uses the valuation of another provider to compare for reasonableness.

Loans Held for Sale (Carried at Lower of Cost or Fair Value)

The fair values of mortgage loans held for sale are determined based on amounts to be received at settlement by establishing the respective buyer requirement or market interest rates.

Loans (Carried at Cost)

The fair values of loans are estimated using discounted cash flow analyses, as well as using market rates at the balance sheet date that reflect the credit and interest rate risk inherent in the loans. Projected future cash flows are calculated based upon contractual maturity or call dates, projected repayments, and prepayments of principal. Generally, for variable rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values.

Impaired Loans (Generally Carried at Fair Value)

Loans for which the Corporation has measured impairment are generally based on the fair value of the loan's collateral. Fair value is generally determined based upon independent third-party appraisals of the properties, or discounted cash flows based upon the expected proceeds. These assets are included as Level 3 fair values, based upon the lowest level of input that is significant to the fair value measurements. The fair value consists of the loan balances less the valuation allowance and/or charge-offs.

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NOTE L FAIR VALUE MEASUREMENTS (Continued)

Foreclosed Assets Held for Resale

The fair value of real estate acquired through foreclosure is based on independent third-party appraisals of the properties. These assets are included as Level 3 fair values, based upon appraisals that consider the sales prices of similar properties in the proximate vicinity.

It is the policy of the Corporation to have the initial market value of a foreclosed asset held for resale determined by an independent third-party valuation. If the Corporation already has a valid appraisal on file for the property and that appraisal has been completed within the previous 12 months, another appraisal shall not be required when the Corporation acquires ownership of that real estate. Further, the Corporation shall update the market value of each foreclosed asset with an independent third-party valuation at least every 18 months, or more frequently if management believes that there is an indication that the fair value has declined. These valuations may be adjusted downward to account for specialized use of the property, change in the condition of the real estate, change in local market and economic conditions, and other specific factors involving the collateral.

Restricted Investment in Bank Stock (Carried at Cost)

The carrying amount of required and restricted investment in correspondent bank stock approximates fair value, and considers the limited marketability of such securities.

Accrued Interest Receivable and Payable (Carried at Cost)

The carrying amounts of accrued interest receivable and accrued interest payable approximate their fair value.

Deposits (Carried at Cost)

The fair values disclosed for demand deposits (e.g., interest and non-interest checking, savings, and money market accounts) are, by definition, equal to the amount payable on demand at the reporting date (e.g., their carrying amounts). Fair values for fixed-rate certificates of deposit are estimated using a discounted cash flow calculation that applies market interest rates currently being offered in the market on certificates to a schedule of aggregated expected monthly maturities on time deposits.

Short-Term Borrowings (Carried at Cost)

The carrying amounts of short-term borrowings approximate their fair values.

Long-Term Borrowings (Carried at Cost)

The fair values of Federal Home Loan Bank (FHLB) advances are estimated using discounted cash flow analysis, based on quoted prices for new FHLB advances with similar credit risk characteristics, terms, and remaining maturity. The prices obtained from this active market represent a market value that is deemed to represent the transfer price if the liability were assumed by a third party.

Off-Balance Sheet Credit-Related Instruments

The fair values for the Corporation's off-balance sheet financial instruments (specifically, lending commitments and letters of credit) are based on fees currently charged in the market to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties' credit standing.

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NOTE L FAIR VALUE MEASUREMENTS (Continued)

The following presents the carrying amount, fair value, and placement in the fair value hierarchy of the Corporation's financial instruments at December 31, 2014 and 2013:

	December 31, 2014				
In thousands	**Carrying Amount**	**Fair Value**	**Level 1**	**Level 2**	**Level 3**
Financial assets:					
Cash and due from banks	**$ 13,502**	**$ 13,502**	**$ 7,200**	**$ 6,302**	**$**
Interest-bearing deposits in banks	**6,171**	**6,171**	**6,171**		
Investment securities available for sale	**118,000**	**118,000**	**1,893**	**116,107**	
Investment securities held to maturity	**73,346**	**73,057**		**73,057**	
Loans held for sale	**1,623**	**1,623**		**1,623**	
Loans, less allowance for loan losses	**784,100**	**795,117**			**795,117**
Accrued interest receivable	**2,950**	**2,950**		**2,950**	
Restricted investment in bank stocks	**4,216**	**4,216**		**4,216**	
Financial liabilities:					
Deposits	**844,876**	**845,565**		**845,565**	
Short-term borrowings	**45,699**	**45,699**		**45,699**	
Long-term borrowings	**80,937**	**82,478**		**82,478**	
Accrued interest payable	**773**	**773**		**773**	
Off-balance sheet financial instruments					

	December 31, 2013				
In thousands	**Carrying Amount**	**Fair Value**	**Level 1**	**Level 2**	**Level 3**
Financial assets:					
Cash and due from banks	$ 13,963	$ 13,963	$ 7,755	$ 6,208	$
Interest-bearing deposits in banks	4,153	4,153	4,153		
Investment securities available for sale	129,983	129,983	1,905	128,078	
Investment securities held to maturity	94,373	92,082		92,082	
Loans held for sale	496	496		496	
Loans, less allowance for loan losses	712,557	724,937			724,937
Accrued interest receivable	3,027	3,027		3,027	
Restricted investment in bank stocks	6,861	6,861		6,861	
Financial liabilities:					
Deposits	800,643	801,063		801,063	
Short-term borrowings	49,052	49,052		49,052	
Long-term borrowings	82,703	84,558		84,558	
Accrued interest payable	681	681		681	
Off-balance sheet financial instruments					

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NOTE M RETIREMENT PLANS

The Corporation's banking subsidiary has a non-contributory, defined benefit pension plan. Retirement benefits are a function of both years of service and compensation. The funding policy is to contribute annually the amount that is sufficient to meet the minimum funding requirements set forth in the Employee Retirement Income Security Act.

A measurement date of December 31 has been used for the fiscal year ending December 31, 2014 and 2013.

In thousands	2014	2013
Change in benefit obligation:		
Benefit obligation at beginning of year	**$ 22,303**	$ 24,297
Service cost	**689**	774
Interest cost	**1,035**	894
Change in assumptions	**4,087**	(2,725)
Benefits paid	**(949)**	(937)
Benefit obligation at end of year	**27,165**	22,303
Change in plan assets:		
Fair value of plan assets at beginning of year	**34,711**	29,418
Actual return on plan assets	**2,050**	3,631
Employer contribution	**2,351**	2,599
Benefits paid	**(949)**	(937)
Fair value of plan assets at end of year	**38,163**	34,711
Funded Status, included in other assets	**$ 10,998**	$ 12,408

Amounts recognized in accumulated other comprehensive income:		
Total net actuarial loss	**$ 7,995**	$ 3,667
Prior service cost	**25**	65
Total included in accumulated other comprehensive income (pretax)	**$ 8,020**	$ 3,732

The estimated costs that will be amortized from accumulated other comprehensive income into net periodic pension cost during the next fiscal year are as follows:

In thousands	
Net loss	$ 481
Prior service cost	24
	$ 505

The accumulated benefit obligation totaled $26,172,000 and $21,713,000 at December 31, 2014 and 2013, respectively.

For the year ended December 31, 2013, the mortality assumptions were derived using the IRS 2013 Prescribed Mortality Optional Combined Table for Small Plans, male and female. For the year ended December 31, 2014, the mortality assumptions were derived using the mortality rates as of 2007 from SOA RP-2014 study. The impact on the benefit obligation for the mortality assumption change in 2014 was an increase of $1,106,000.

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NOTE M RETIREMENT PLANS (Continued)

The components of net periodic benefit costs (income) related to the non-contributory, defined benefit pension plan for the years ended December 31 are as follows:

In thousands	2014	2013	2012
Components of net periodic benefit cost (income):			
Service cost	**$ 689**	$ 774	$ 651
Interest cost	**1,035**	894	925
Expected return on plan assets	**(2,311)**	(1,957)	(1,772)
Recognized net actuarial loss	**21**	652	611
Amortization of transition liability			10
Amortization of prior service cost	**40**	40	40
Net Periodic Benefit (Income) Cost	**(526)**	403	465
Net loss (gain)	**4,349**	(4,400)	1,393
Amortization of net loss	**(21)**	(652)	(611)
Amortization of transition liability			(10)
Amortization of prior service cost	**(40)**	(40)	(40)
Total recognized in other comprehensive loss (income)	**$ 4,288**	$ (5,092)	$ 732
Total recognized in net periodic benefit (income) cost and other comprehensive loss (income)	**$ 3,762**	$ (4,689)	$ 1,197

For the years ended December 31, 2014, 2013 and 2012, the assumptions used to determine the benefit obligation are as follows:

	2014	2013	2012
Discount rate	**3.90%**	4.75%	3.75%
Rate of compensation increase	**3.75%**	3.75%	3.75%

For the years ended December 31, 2014, 2013 and 2012, the assumptions used to determine the net periodic benefit cost (income) are as follows:

	2014	2013	2012
Discount rate	**4.75%**	3.75%	4.50%
Expected long-term rate of return on plan assets	**6.75%**	6.75%	7.00%
Rate of compensation increase	**3.75%**	3.75%	4.00%

The Corporation's pension plan weighted-average assets' allocations at December 31, 2014 and 2013, are as follows:

	2014	2013
Equity securities	**47%**	46%
Debt securities	**47%**	45%
Short-term fixed income	**1%**	4%
Real estate	**5%**	5%
	100%	100%

The Corporation's overall investment strategy is to achieve a mix of investments to meet the long-term rate of return assumption and near-term pension obligations with a diversification of assets types, fund strategies and fund managers. The mix of investments is adjusted periodically by retaining

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NOTE M RETIREMENT PLANS (Continued)

an advisory firm to recommend appropriate allocations after reviewing the Corporation's risk tolerance on contribution levels, funded status and plan expense, and any applicable regulatory requirements. The weighted-average assets' allocation in the above table represents the Corporation's conclusion on the appropriate mix of investments. The specific investment vehicles are institutional separate accounts from a variety of fund managers which are regularly reviewed by the Corporation for acceptable performance.

Equity securities included Corporation common stock in amounts of $1,412,000, or 4% of total plan assets, and $1,128,000, or 3% of total plan assets, at December 31, 2014 and 2013, respectively.

Fair value measurements at December 31, 2014, are as follows:

In thousands	Total	Level 1	Level 2	Level 3
Equity securities	**$ 18,511**	**$ 1,412**	**$ 17,099**	**$**
Debt securities	**17,821**		**17,821**	
Real estate	**1,831**		**1,831**	

Fair value measurements at December 31, 2013, are as follows:

In thousands	Total	Level 1	Level 2	Level 3
Equity securities	$ 17,385	$ 1,128	$ 16,257	$
Debt securities	15,754		15,754	
Real estate	1,572		1,572	

It has not yet been determined the amount that the Bank may contribute to the Plan in 2015. The Corporation reduced the future benefit accruals for the defined benefit pension plan effective January 1, 2010, in order to manage total benefit expense. The new formula is the earned benefit as of December 31, 2009, plus 0.75% of a participant's average monthly pay multiplied by years of benefit service earned on and after January 1, 2010, but not more than 25 years. The benefit formula percentage and maximum years of benefit service were both reduced. Effective April 1, 2012, no inactive or former participant in the Plan is eligible to again participate in the plan, and no employee hired after March 31, 2012, is eligible to participate in the Plan. As of the last annual census, ACNB Bank had a combined 379 active, vested terminated, and retired persons in the Plan.

Based on current data and assumptions, the following benefit payments, which reflect expected future service, as appropriate, are:

Years Ending	In thousands
2015	$ 1,020
2016	1,060
2017	1,170
2018	1,260
2019	1,360
2020-2024	8,070

The Corporation's banking subsidiary maintains a 401(k) plan for the benefit of eligible employees. Employees may contribute up to 100% of their compensation subject to certain limits based on federal tax laws. The Bank makes matching contributions up to 100% of the first 4% of an employee's compensation contributed to the plan. Matching contributions vest immediately to the employee. Bank contributions to and expenses for the plan were $526,000, $500,000 and $486,000 for 2014, 2013 and 2012, respectively.

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NOTE M RETIREMENT PLANS (Continued)

RIG has a similar but separate 401(k) plan with the match of 6% for non-highly compensated employees and 3% match for highly compensated employees. RIG's contributions to and expenses for the plan were $63,000, $66,000 and $72,000 for 2014, 2013 and 2012, respectively.

The Corporation's banking subsidiary maintains nonqualified compensation plans for selected senior officers. The estimated present value of future benefits is accrued over the period from the effective date of the agreements until the expected retirement dates of the individuals. The balance accrued for these plans included in other liabilities as of December 31, 2014 and 2013, totaled $1,987,000 and $1,744,000, respectively. The annual expense included in salaries and benefits expense totaled $339,000, $321,000 and $297,000 during the years ended December 31, 2014, 2013 and 2012, respectively. To fund the benefits under these plans, the Bank is the owner of single premium life insurance policies on participants in the nonqualified retirement plans. At December 31, 2014 and 2013, the cash surrender value of these policies was $4,725,000 and $4,616,000, respectively.

NOTE N REGULATORY MATTERS

The Corporation and the Bank are subject to various regulatory capital requirements administered by the federal banking regulators. Failure to meet the minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Corporation's consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Corporation and the Bank must meet specific capital guidelines that involve quantitative measures of their assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Corporation and the Bank to maintain minimum amounts and ratios (set forth below) of Tier 1 capital to average assets and of Tier 1 and total capital (as defined in the regulations) to risk weighted assets. Management believes, as of December 31, 2014, that the Corporation and the Bank meet all capital adequacy requirements to which they are subject.

As of December 31, 2014, the most recent notification from the federal banking regulators categorized the Bank as "well capitalized" under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the Bank's category.

On May 5, 2009, stockholders approved and ratified the ACNB Corporation 2009 Restricted Stock Plan, which awards shall not exceed, in the aggregate, 200,000 shares of common stock. As of December 31, 2014, no shares have been issued under the plan. In January 2011, the Corporation offered stockholders the opportunity to participate in the ACNB Corporation Dividend Reinvestment and Stock Purchase Plan. The plan allows registered stockholders who have a minimal number of shares to participate and also provides for voluntary cash purchases of ACNB Corporation common stock. During 2014, 2013, and 2012, 24,339, 25,943, and 19,559 shares of common stock, respectively, were issued within the plan.

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NOTE N REGULATORY MATTERS (Continued)

The actual and required capital amounts and ratios were as follows:

	Actual		For Capital Adequacy Purposes		To be Well Capitalized under Prompt Corrective Action Provisions	
Dollars in thousands	**Amount**	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
CORPORATION						
As of December 31, 2014						
Tier 1 leverage ratio (to average assets)	**$ 105,241**	**9.81%**	**$ ≥42,905**	**≥4.0%**	**N/A**	**N/A**
Tier 1 risk-based capital ratio (to risk-weighted assets)	**105,241**	**14.02**	**≥30,032**	**≥4.0**	**N/A**	**N/A**
Total risk-based capital ratio (to risk-weighted assets)	**114,798**	**15.29**	**≥60,064**	**≥8.0**	**N/A**	**N/A**
As of December 31, 2013						
Tier 1 leverage ratio (to average assets)	$ 98,704	9.54%	$ ≥41,367	≥4.0%	N/A	N/A
Tier 1 risk-based capital ratio (to risk-weighted assets)	98,704	14.09	≥28,014	≥4.0	N/A	N/A
Total risk-based capital ratio (to risk-weighted assets)	107,623	15.37	≥56,027	≥8.0	N/A	N/A
BANK						
As of December 31, 2014						
Tier 1 leverage ratio (to average assets)	**$ 95,028**	**8.86%**	**$ ≥42,912**	**≥4.0%**	**$ ≥53,640**	**≥5.0%**
Tier 1 risk-based capital ratio (to risk-weighted assets)	**95,028**	**12.75**	**≥29,817**	**≥4.0**	**≥44,725**	**≥6.0**
Total risk-based capital ratio (to risk-weighted assets)	**104,425**	**14.01**	**≥59,633**	**≥8.0**	**≥74,542**	**≥10.0**
As of December 31, 2013						
Tier 1 leverage ratio (to average assets)	$ 90,339	8.76%	$ ≥41,240	≥4.0%	$ ≥51,550	≥5.0%
Tier 1 risk-based capital ratio (to risk-weighted assets)	90,339	12.99	≥27,808	≥4.0	≥41,712	≥6.0
Total risk-based capital ratio (to risk-weighted assets)	99,121	14.26	≥55,616	≥8.0	≥69,520	≥10.0

NOTE O FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK

The Corporation is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments consist primarily of commitments to extend credit (typically mortgages and commercial loans) and, to a lesser extent, standby letters of credit. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized on the consolidated balance sheet.

The Corporation's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit is represented by the contractual amount of those instruments. The Corporation uses the same credit policies in making commitments and conditional obligations as it does for on balance sheet instruments. The Corporation does not anticipate any material losses from these commitments.

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NOTE O FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK (Continued)

Commitments to extend credit, including commitments to grant loans and unfunded commitments under lines of credit, are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Corporation evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Corporation upon extensions of credit, is based on management's credit evaluation of the customer. Collateral held varies but may include accounts receivable, inventory, property and equipment and income-producing commercial properties. On loans secured by real estate, the Corporation generally requires loan to value ratios of no greater than 80%.

Standby letters of credit are conditional commitments issued by the Corporation to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements and similar transactions. The terms of the letters of credit vary and may have renewal features. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loans to customers. The Corporation generally holds collateral and/or personal guarantees supporting those commitments for which collateral is deemed necessary. Management believes that the proceeds obtained through a liquidation of such collateral and the enforcement of guarantees would be sufficient to cover the maximum potential amount of future payments required under the corresponding guarantees. The current amount of the liability as of December 31, 2014 and 2013, for guarantees under standby letters of credit issued is not material.

In June 2013, ACNB Corporation executed a guaranty for a note related to a $500,000 commercial line of credit from an unaffiliated local bank, with normal terms and conditions for such a line, for Russell Insurance Group, Inc., the borrower and a wholly-owned subsidiary of ACNB Corporation. The commercial line of credit is for general working capital needs should they arise by the borrower. No liability is recorded for the guarantor's obligation as the guarantor would have full recourse from all assets of its wholly-owned subsidiary. No draws were taken on this commercial line of credit since its inception.

The Corporation has not been required to perform on any financial guarantees, and has not incurred any losses on its commitments, during the past three years.

A summary of the Corporation's commitments at December 31 were as follows:

In thousands	2014	2013
Commitments to extend credit	**$ 217,837**	$ 156,135
Standby letters of credit	**6,072**	4,176

NOTE P CONTINGENCIES

The Corporation is subject to claims and lawsuits which arise primarily in the ordinary course of business. Based on information presently available and advice received from legal counsel representing the Corporation in connection with any such claims and lawsuits, it is the opinion of management that the disposition or ultimate determination of any such claims and lawsuits will not have a material adverse effect on the consolidated financial position, consolidated results of operations or liquidity of the Corporation.

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NOTE Q ACNB CORPORATION (PARENT COMPANY ONLY) FINANCIAL INFORMATION

STATEMENTS OF CONDITION

In thousands	December 31, 2014	2013
ASSETS		
Cash	**$ 4,541**	$ 3,585
Investment in banking subsidiary	**92,168**	90,294
Investment in other subsidiaries	**9,291**	9,153
Investments in low-income housing partnerships	**1,659**	2,427
Securities and other assets	**1,228**	1,563
Receivable from banking subsidiary	**2,638**	1,828
Total Assets	**$ 111,525**	$ 108,850
LIABILITIES AND STOCKHOLDERS' EQUITY		
Long-term debt	**$ 1,437**	$ 1,703
Other liabilities	**66**	345
Stockholders' equity	**110,022**	106,802
Total Liabilities and Stockholders' Equity	**$ 111,525**	$ 108,850

STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

In thousands	Years Ended December 31, 2014	2013	2012
Dividends from banking subsidiary	**$ 4,801**	$ 4,781	$ 4,762
Other income	**310**	34	44
	5,111	4,815	4,806
Expenses	**697**	817	591
	4,414	3,998	4,215
Income tax benefit	**810**	944	736
	5,224	4,942	4,951
Equity in undistributed earnings of subsidiaries	**5,066**	4,373	3,935
Net Income	**$ 10,290**	$ 9,315	$ 8,886
Comprehensive Income	**$ 7,461**	$ 9,633	$ 8,019

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NOTE Q ACNB CORPORATION (PARENT COMPANY ONLY) FINANCIAL INFORMATION (Continued)

STATEMENTS OF CASH FLOWS

	Years Ended December 31,		
In thousands	**2014**	**2013**	**2012**
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	**$ 10,290**	$ 9,315	$ 8,886
Equity in undistributed earnings of subsidiaries	**(5,066)**	(4,373)	(3,935)
Increase in receivable from banking subsidiary	**(810)**	(843)	(261)
Other	**799**	695	671
Net Cash Provided by Operating Activities	**5,213**	4,794	5,361
CASH FLOWS FROM INVESTING ACTIVITIES			
Return of investment from subsidiary	**250**	1,500	
Proceeds from sale of low-income housing partnership		476	
Net Cash Provided by Investing Activities	**250**	1,976	
CASH FLOWS USED IN FINANCING ACTIVITIES			
Repayments on long-term debt	**(266)**	(251)	(237)
Proceeds from issuance of common stock	**381**	447	295
Dividends paid	**(4,622)**	(4,542)	(4,524)
Net Cash Used in Financing Activities	**(4,507)**	(4,346)	(4,466)
Net Increase in Cash and Cash Equivalents	**956**	2,424	895
CASH AND CASH EQUIVALENTS BEGINNING	**3,585**	1,161	266
CASH AND CASH EQUIVALENTS ENDING	**$ 4,541**	$ 3,585	$ 1,161

NOTE R ACQUISITIONS

On January 5, 2005, ACNB Corporation completed the acquisition of Russell Insurance Group, Inc. (RIG) and RIG began to operate as a separate subsidiary of ACNB Corporation. In accordance with the terms of the acquisition, there was contingent consideration associated with this transaction of up to $3,000,000, payable in 2008 subject to performance criteria for the three-year period subsequent to the acquisition. Due to performance at a higher level than the performance criteria, the liability for this consideration was recorded at December 31, 2006, with a related increase in goodwill. Payment was made in the second quarter of 2008 after it was ascertained that the performance criteria had been met for the full three-year period; after which, the total aggregate purchase price was $8,663,000.

In 2007, RIG acquired two additional books of business with an aggregate purchase price of $637,000. In 2008, RIG acquired an additional book of business with an aggregate purchase price of $1,165,000, all of which was classified as an intangible asset. Also, on December 31, 2008, RIG acquired Marks Insurance & Associates, Inc. with an aggregate purchase price of $1,853,000, of which $1,300,000 was recorded as an intangible asset and $553,000 was recorded as goodwill. The contingent consideration for both 2008 purchases was calculated based on 2011 results of operation. The contingent amount of $338,000 was recorded in December 2011 and is included in goodwill and the other liabilities section of the statement of condition, and was paid on January 13, 2012. The intangible assets (excluding goodwill) are being amortized over ten years on a straight line basis.

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NOTE R ACQUISITIONS (Continued)

In 2010, RIG acquired an additional book of business with an aggregate purchase price of $31,000, of which all was classified as an intangible asset.

In 2013, RIG acquired an additional book of business with an aggregate purchase price of $77,000, of which all was classified as an intangible asset.

The carrying value and accumulated amortization of the intangible assets (customer lists) as of December 31, 2014 and 2013, are as follows:

In thousands	2014 Gross Carrying Amount	2014 Accumulated Amortization	2013 Gross Carrying Amount	2013 Accumulated Amortization
Amortized intangible assets	**$ 6,494**	**$ 5,298**	$ 6,494	$ 4,649

Amortization of the intangible assets for the five years subsequent to December 31, 2014, is expected to be as follows:

Years Ending	In thousands
2015	$ 326
2016	326
2017	308
2018	223
2019	13
Thereafter	

NOTE S SEGMENT AND RELATED INFORMATION

The Corporation has two reporting segments, the Bank and RIG. RIG is managed separately from the banking segment, which includes the Bank and related financial services that the Corporation offers through its banking subsidiary. RIG offers a broad range of property and casualty, life and health insurance to both commercial and individual clients.

Segment information for 2014, 2013 and 2012 is as follows:

In thousands	Banking	Insurance	Total
2014			
Net interest income and other income from external customers	**$ 41,183**	**$ 4,601**	**$ 45,784**
Income before income taxes	**12,729**	**641**	**13,370**
Total assets	**1,078,546**	**11,262**	**1,089,808**
Capital expenditures	**2,141**	**1,007**	**3,148**
2013			
Net interest income and other income from external customers	$ 40,953	$ 4,362	$ 45,315
Income before income taxes	11,337	513	11,850
Total assets	1,035,597	10,450	1,046,047
Capital expenditures	2,205	7	2,212
2012			
Net interest income and other income from external customers	$ 41,525	$ 4,686	$ 46,211
Income before income taxes	10,628	577	11,205
Total assets	1,038,262	11,733	1,049,995
Capital expenditures	1,986	63	2,049

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QUARTERLY RESULTS OF OPERATIONS

Selected quarterly information for the years ended December 31, 2014 and 2013, is as follows:

Dollars in thousands, except per share data	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2014				
Interest income	**$ 9,319**	**$ 9,325**	**$ 9,376**	**$ 9,506**
Interest expense	**902**	**905**	**911**	**928**
Net interest income	**8,417**	**8,420**	**8,465**	**8,578**
Provision for loan losses	**150**			
Net interest income after provision for loan losses	**8,267**	**8,420**	**8,465**	**8,578**
Net gains on sales of securities		**52**	**2**	**8**
Other income	**2,602**	**3,340**	**2,928**	**2,972**
Other expenses and provision for income taxes	**8,397**	**9,081**	**8,771**	**9,095**
Net income	**$ 2,472**	**$ 2,731**	**$ 2,624**	**$ 2,463**
Basic earnings per share	**$ 0.41**	**$ 0.46**	**$ 0.44**	**$ 0.40**
Dividends per share	**$ 0.19**	**$ 0.19**	**$ 0.19**	**$ 0.20**
2013				
Interest income	$ 9,666	$ 9,356	$ 9,220	$ 9,359
Interest expense	1,132	1,018	936	903
Net interest income	8,534	8,338	8,284	8,456
Provision for loan losses	650	500	150	150
Net interest income after provision for loan losses	7,884	7,838	8,134	8,306
Other income	2,945	3,140	2,847	2,771
Other expenses and provision for income taxes	8,411	8,656	8,673	8,810
Net income	$ 2,418	$ 2,322	$ 2,308	$ 2,267
Basic earnings per share	$ 0.41	$ 0.38	$ 0.39	$ 0.38
Dividends per share	$ 0.19	$ 0.19	$ 0.19	$ 0.19

ITEM 9 CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A CONTROLS AND PROCEDURES

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

The Corporation carried out an evaluation, under the supervision and with the participation of its management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of its disclosure controls and procedures pursuant to Exchange Act Rule 13a-15. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Corporation's disclosure controls and procedures are effective in timely alerting them to material information relating to the Corporation (including its consolidated subsidiaries) required to be included in periodic SEC filings.

Based on the evaluation of the effectiveness of the design and operation of the disclosure controls and procedures, the Chief Executive Officer and Chief Financial Officer concluded that the Corporation's disclosure controls and procedures were effective as of December 31, 2014. The Corporation believes that the accompanying consolidated financial statements fairly present the financial condition and results of operations for the fiscal years presented in this report on Form 10-K.

CHANGES IN INTERNAL CONTROLS OVER FINANCIAL REPORTING

There were no changes made in the Corporation's internal control over financial reporting in connection with the fourth quarter evaluation that have materially affected, or are reasonably likely to materially affect, internal control over financial reporting.

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MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

ACNB Corporation (ACNB) is responsible for the preparation, integrity, and fair presentation of the consolidated financial statements included in this annual report. The consolidated financial statements and notes included in this annual report have been prepared in conformity with United States generally accepted accounting principles and, as such, include some amounts that are based on management's best estimates and judgments.

ACNB's management is responsible for establishing and maintaining effective internal control over financial reporting. The system of internal control over financial reporting, as it relates to the consolidated financial statements, is evaluated for effectiveness by management and tested for reliability through a program of internal audits and management testing and review. Actions are taken to correct potential deficiencies as they are identified. Any system of internal control, no matter how well designed, has inherent limitations, including the possibility that a control can be circumvented or overridden and misstatements due to error or fraud may occur and not be detected. Also, because of changes in conditions, internal control effectiveness may vary over time. Accordingly, even an effective system of internal control will provide only reasonable assurance with respect to financial statement preparation.

The Board of Directors of ACNB, through its Audit Committee, meets regularly with management, internal auditors, and the independent registered public accounting firm. The Audit Committee provides oversight to ACNB by reviewing audit plans and results, and evaluates management's actions for internal control, accounting and financial reporting matters. The internal auditors and independent registered public accounting firm have direct and confidential access to the Audit Committee to discuss the results of their examinations.

Management assessed the effectiveness of ACNB's internal control over financial reporting as of December 31, 2014. In making this assessment, it used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in its *Internal Control Integrated Framework (2013)*. Based on our assessment, management concluded that as of December 31, 2014, ACNB's internal control over financial reporting is effective and meets the criteria of the *Internal Control Integrated Framework (2013)*.

ACNB's independent registered public accounting firm, BDO USA, LLP, has issued an attestation report on ACNB's internal control over financial reporting. This report appears on the following page.

/s/ THOMAS A. RITTER	/s/ DAVID W. CATHELL
Thomas A. Ritter President & Chief Executive Officer	David W. Cathell Executive Vice President, Treasurer & Chief Financial Officer

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders
ACNB Corporation
Gettysburg, Pennsylvania

We have audited ACNB Corporation's internal control over financial reporting as of December 31, 2014, based on criteria established in *Internal Control Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). ACNB Corporation's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying "Item 9A, Management's Report on Internal Control over Financial Reporting." Our responsibility is to express an opinion on ACNB Corporation's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

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

In our opinion, ACNB Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated statements of condition as of December 31, 2014 and 2013, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows of ACNB Corporation for each of the two years in the period ended December 31, 2014, and our report dated March 6, 2015 expressed an unqualified opinion.

/s/ BDO USA, LLP

Harrisburg, Pennsylvania
March 6, 2015

ITEM 9B OTHER INFORMATION

None.

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PART III

ITEM 10 DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this Item 10, relating to directors, executive officers, and control persons, is set forth in sections "Information as to Nominees and Directors", "Executive Officers of ACNB Corporation", "Meetings and Committees of the Board of Directors", "Audit Committee Report" and "Section 16(a) Beneficial Ownership Reporting Compliance" of ACNB Corporation's definitive Proxy Statement to be used in connection with the 2015 Annual Meeting of Shareholders, which pages are incorporated herein by reference.

The Corporation first adopted a Code of Ethics that applies to directors, officers and employees of the Corporation and its subsidiaries in 2003. A copy of the Code of Ethics, as revised and approved by the Corporation's Board of Directors on February 26, 2013, and as reaffirmed on February 24, 2015, is available under the Corporate Governance Documents section of the ACNB Corporation page of ACNB Bank's website at www.acnb.com. A request for the Corporation's Code of Ethics can be made either in writing to Lynda L. Glass, Executive Vice President, Secretary & Chief Governance Officer, ACNB Corporation, 16 Lincoln Square, P.O. Box 3129, Gettysburg, Pennsylvania 17325 or by telephone at 717-334-3161.

There have been no material changes to the procedures by which stockholders may recommend nominees to the Corporation's Board of Directors.

ITEM 11 EXECUTIVE COMPENSATION

Incorporated by reference in response to this Item 11 is the information appearing under the headings "Compensation and Plan Information", "Potential Payments Upon Termination or Change In Control", "Compensation Committee Report" and "Compensation Committee Interlocks and Insider Participation" in ACNB Corporation's 2015 definitive Proxy Statement.

ITEM 12 SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Incorporated by reference in response to this Item 12 is the information appearing under the heading "Share Ownership" in ACNB Corporation's 2015 definitive Proxy Statement.

ITEM 13 CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

Incorporated by reference in response to this Item 13 is the information appearing under the headings "Transactions with Directors and Executive Officers" and "Governance of the Corporation" in ACNB Corporation's 2015 definitive Proxy Statement.

ITEM 14 PRINCIPAL ACCOUNTANT FEES AND SERVICES

Incorporated by reference in response to this Item 14 is the information appearing under the heading "Independent Auditors" in ACNB Corporation's 2015 definitive Proxy Statement.

PART IV

ITEM 15 EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a)

1. FINANCIAL STATEMENTS

The following financial statements are filed as part of this report:

Reports of Independent Registered Public Accounting Firms

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Consolidated Statements of Condition

Consolidated Statements of Income

Consolidated Statements of Comprehensive Income

Consolidated Statements of Changes in Stockholders' Equity

Consolidated Statements of Cash Flows

Notes to Consolidated Financial Statements

2.
FINANCIAL STATEMENT SCHEDULES

Financial statement schedules are omitted because the required information is either not applicable, not required, or is shown in the respective consolidated financial statements or in the notes thereto.

(b)
EXHIBITS

The following exhibits are included in this report:

Exhibit 3(i)	Articles of Incorporation of ACNB Corporation, as amended. (Incorporated by reference to Exhibit 3.1 of the Registrant's Current Report on Form 8-K, filed with the Commission on June 2, 2009.)
Exhibit 3(ii)	Bylaws of ACNB Corporation, as amended. (Incorporated by reference to Exhibit 3.2 of the Registrant's Current Report on Form 8-K, filed with the Commission on February 4, 2013.)
Exhibit 10.1	ACNB Corporation, ACNB Acquisition Subsidiary LLC, and Russell Insurance Group, Inc. Stock Purchase Agreement. (Incorporated by reference to Exhibit 10.2 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2004, filed with the Commission on March 15, 2005.)
Exhibit 10.2	Salary Continuation Agreement Applicable to Ronald L. Hankey. (Incorporated by reference to Exhibit 10.2 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2008, filed with the Commission on March 13, 2009.)
Exhibit 10.3	Amended and Restated Executive Supplemental Life Insurance Plan Applicable to Thomas A. Ritter, David W. Cathell, Lynda L. Glass and James P. Helt.
Exhibit 10.4	Amended and Restated Director Supplemental Life Insurance Plan Applicable to Frank Elsner III, Scott L. Kelley, James J. Lott, Robert W. Miller, Donna M. Newell, J. Emmett Patterson, Daniel W. Potts, Marian B. Schultz, David L. Sites, Alan J. Stock, Harry L. Wheeler and James E. Williams.
Exhibit 10.5	Amended and Restated Director Deferred Fee Plan Applicable to Frank Elsner III, Scott L. Kelley, James J. Lott, Robert W. Miller, Donna M. Newell, J. Emmett Patterson, Marian B. Schultz, David L. Sites, Alan J. Stock, Harry L. Wheeler and James E. Williams. (Incorporated by reference to Exhibit 99.1 of the Registrant's Current Report on Form 8-K, filed with the Commission on January 6, 2012.)
Exhibit 10.6	ACNB Bank Salary Savings Plan. (Incorporated by reference to Exhibit 10.6 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2009, filed with the Commission on March 12, 2010.)
Exhibit 10.7	Group Pension Plan for Employees of ACNB Bank. (Incorporated by reference to Exhibit 10.7 of the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2012, filed with the Commission on May 4, 2012.)

Exhibit 10.8	Complete Settlement Agreement and General Release made among ACNB Corporation, Adams County National Bank and John W. Krichten effective June 13, 2006. (Incorporated by reference to Exhibit 99.1 of the Registrant's Current Report on Form 8-K, filed with the Commission on June 15, 2006.)
Exhibit 10.9	Employment Agreement between ACNB Corporation, Adams County National Bank and Thomas A. Ritter dated as of December 31, 2008. (Incorporated by reference to Exhibit 10.9 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2008, filed with the Commission on March 13, 2009.)
Exhibit 10.10	Employment Agreement between ACNB Corporation, Adams County National Bank and Lynda L. Glass dated as of December 31, 2008. (Incorporated by reference to Exhibit 10.10 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2008, filed with the Commission on March 13, 2009.)
Exhibit 10.11	Employment Agreement between ACNB Corporation, Russell Insurance Group, Inc. and Frank C. Russell, Jr. dated as of January 13, 2011. (Incorporated by reference to Exhibit 99.1 of the Registrant's Current Report on Form 8-K, filed with the Commission on January 19, 2011.)
Exhibit 10.12	Employment Agreement between ACNB Corporation, Adams County National Bank and David W. Cathell dated as of April 17, 2009. (Incorporated by reference to Exhibit 99.1 of the Registrant's Current Report on Form 8-K, filed with the Commission on April 23, 2009.)
Exhibit 10.13	2009 Restricted Stock Plan. (Incorporated by reference to Appendix C of the Registrant's Proxy Statement on Schedule 14A, filed with the Commission on March 25, 2009.)
Exhibit 10.14	Salary Continuation Agreement by and between ACNB Bank and Thomas A. Ritter dated as of March 28, 2012. (Incorporated by reference to Exhibit 99.1 of the Registrant's Current Report on Form 8-K, filed with the Commission on April 3, 2012.)
Exhibit 10.15	Salary Continuation Agreement by and between ACNB Bank and Lynda L. Glass dated as of March 28, 2012. (Incorporated by reference to Exhibit 99.2 of the Registrant's Current Report on Form 8-K, filed with the Commission on April 3, 2012.)
Exhibit 10.16	Salary Continuation Agreement by and between ACNB Bank and David W. Cathell dated as of March 28, 2012. (Incorporated by reference to Exhibit 99.3 of the Registrant's Current Report on Form 8-K, filed with the Commission on April 3, 2012.)
Exhibit 10.17	Amended and Restated 2001 Salary Continuation Agreement by and between ACNB Bank and Thomas A. Ritter dated as of March 28, 2012. (Incorporated by reference to Exhibit 99.4 of the Registrant's Current Report on Form 8-K, filed with the Commission on April 3, 2012.)
Exhibit 10.18	Amended and Restated 1996 Salary Continuation Agreement by and between ACNB Bank and Lynda L. Glass dated as of March 28, 2012. (Incorporated by reference to Exhibit 99.5 of the Registrant's Current Report on Form 8-K, filed with the Commission on April 3, 2012.)
Exhibit 10.19	Employment Agreement between Adams County National Bank and James P. Helt dated as of April 15, 2009. (Incorporated by reference to Exhibit 10.19 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2013, filed with the Commission on March 7, 2014.)

Exhibit 10.20	Salary Continuation Agreement by and between ACNB Bank and James P. Helt dated as of March 28, 2012. (Incorporated by reference to Exhibit 10.20 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2013, filed with the Commission on March 7, 2014.)
Exhibit 11	Statement re Computation of Earnings. (Incorporated by reference to page 63 of this Form 10-K.)
Exhibit 14	Code of Ethics. (A copy of the Code of Ethics is available under the Corporate Governance Documents section of the Registrant's website at www.acnb.com.)
Exhibit 16.1	Correspondence from ParenteBeard LLC to the Securities and Exchange Commission dated July 11, 2013. (Incorporated by reference to Exhibit 16.1 of the Registrant's Current Report on Form 8-K, filed with the Commission on July 15, 2013.)
Exhibit 18	Preferability Letter from ParenteBeard LLC dated as of August 3, 2012. (Incorporated by reference to Exhibit 18 of the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2012, filed with the Commission on August 3, 2012.)
Exhibit 21	Subsidiaries of the Registrant.
Exhibit 23.1	Consent of BDO USA, LLP.
Exhibit 23.2	Consent of Baker Tilly Virchow Krause, LLP.
Exhibit 31.1	Chief Executive Officer Certification of Annual Report on Form 10-K.
Exhibit 31.2	Chief Financial Officer Certification of Annual Report on Form 10-K.
Exhibit 32.1	Chief Executive Officer Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
Exhibit 32.2	Chief Financial Officer Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
Exhibit 101.LAB	XBRL Taxonomy Extension Label Linkbase.
Exhibit 101.PRE	XBRL Taxonomy Extension Presentation Linkbase.
Exhibit 101.INS	XBRL Instance Document.
Exhibit 101.SCH	XBRL Taxonomy Extension Schema.
Exhibit 101.CAL	XBRL Taxonomy Extension Calculation Linkbase.
Exhibit 101.DEF	XBRL Taxonomy Extension Definition Linkbase.

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.

ACNB CORPORATION (Registrant)	March 6, 2015
	Date

By: /s/ THOMAS A. RITTER

Thomas A. Ritter
President & Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed on March 6, 2015, by the following persons in the capacities indicated.

/s/ DAVID W. CATHELL	/s/ THOMAS A. RITTER
David W. Cathell Executive Vice President, Treasurer & Chief Financial Officer (Principal Financial Officer)	Thomas A. Ritter Director and President & Chief Executive Officer
/s/ FRANK ELSNER, III	/s/ DANIEL W. POTTS
Frank Elsner, III Director and Chairman of the Board	Daniel W. Potts Director
/s/ SCOTT L. KELLEY	
Scott L. Kelley Director	Marian B. Schultz Director
/s/ JAMES J. LOTT	/s/ DAVID L. SITES
James J. Lott Director	David L. Sites Director
/s/ ROBERT W. MILLER	/s/ ALAN J. STOCK
Robert W. Miller Director	Alan J. Stock Director and Vice Chairman of the Board
/s/ DONNA M. NEWELL	/s/ HARRY L. WHEELER
Donna M. Newell Director	Harry L. Wheeler Director
/s/ J. EMMETT PATTERSON	/s/ JAMES E. WILLIAMS
J. Emmett Patterson Director	James E. Williams Director