Nabors Industries Ltd.

ISS QuickScore
GOVERNANCE
10

Scores indicate decile rank relative to index or region. A decile score of 1 indicates lower governance risk, while a 10 indicates higher governance risk.

Meeting Type: Annual
Meeting Date: 2 June 2015
Record Date: 6 April 2015
Meeting ID: 970579

New York Stock Exchange: NBR
Index: S&P 500
Sector: Oil & Gas Drilling
GICS: 10101010

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Key Takeaways

At last year's annual meeting, three directors received WITHHOLD votes from more than 50 percent of votes cast. The board has not sufficiently addressed the issues that led to this outcome.

Cautionary support for the say-on-pay proposal is advised this year. The company responded to shareholder feedback following its fourth failed vote in 2014, by increasing transparency around short- and long-term incentive program goals. Also, the CEO's pay package was at its lowest level since he assumed that post, consistent with the company's negative TSR for the year. However, questions remain with respect to both transparency and goal rigor under the equity incentive program, which may concern some shareholders and indicate a need for continued close monitoring of the program and related board decisions.

In light of the company's weak stock ownership guidelines and history of problematic compensation issues, support is warranted for non-binding shareholder proposals seeking a rigorous stock retention requirement and shareholder approval of specific performance metrics.

Support for the shareholder proposal seeking corporate sustainability reporting is warranted, as the information provided in a comprehensive sustainability report would aid shareholders in assessing the company's sustainability performance and its management of related risks and opportunities.

Support is warranted for proposals to adopt a majority vote standard for director elections, to enhance the company's proxy access policy, and to change the vote-counting methodology, as these steps would enhance director accountability and shareholder rights.

Agenda & Recommendations

Policy: United States

Incorporated: Bermuda

Item	Code	Proposal	Board Rec.	ISS Rec.
MANAGEMENT PROPOSALS				
1.1	M0201	Elect Director James R. Crane	FOR	WITHHOLD
1.2	M0201	Elect Director John P. Kotts	FOR	WITHHOLD
1.3	M0201	Elect Director Michael C. Linn	FOR	WITHHOLD
1.4	M0201	Elect Director Anthony G. Petrello	FOR	WITHHOLD
1.5	M0201	Elect Director Dag Skattum	FOR	FOR
1.6	M0201	Elect Director Howard Wolf	FOR	WITHHOLD
1.7	M0201	Elect Director John Yearwood	FOR	WITHHOLD
2	M0136	Approve PricewaterhouseCoopers LLP as Auditors and Authorize Board to Fix Their Remuneration Auditors	FOR	FOR
3	M0126	Approve Broker Non-Vote Bye-law Amendment	FOR	FOR

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▶4	M0550	Advisory Vote to Ratify Named Executive Officers' Compensation	FOR	FOR
SHAREHOLDER PROPOSALS				
5	S0500	Adopt Retention Ratio for Executives	AGAINST	FOR
6	S0511	Require Shareholder Approval of Specific Performance Metrics in Equity Compensation Plans	AGAINST	FOR
7	S0777	Report on Sustainability, Including Goals and ESG Link to Executive Compensation	AGAINST	FOR
8	S0221	Adopt Proxy Access Right	AGAINST	FOR
9	S0212	Require a Majority Vote for the Election of Directors	AGAINST	FOR

Shading indicates that ISS recommendation differs from Board recommendation
▶ Items deserving attention due to contentious issues or controversy

ISS-Company Dialogue

Dates	Topic	Initiated By	Notes
14 May 2015	Draft Review	ISS	The company was given the opportunity to review a draft of this analysis for fact-checking purposes.

Note: ISS engages in ongoing dialogue with issuers in order to ask for additional information or clarification, but not to engage on behalf of its clients. Any draft review which may occur as part of this process is done for purposes of data verification only. All ISS recommendations are based solely upon publicly disclosed information.

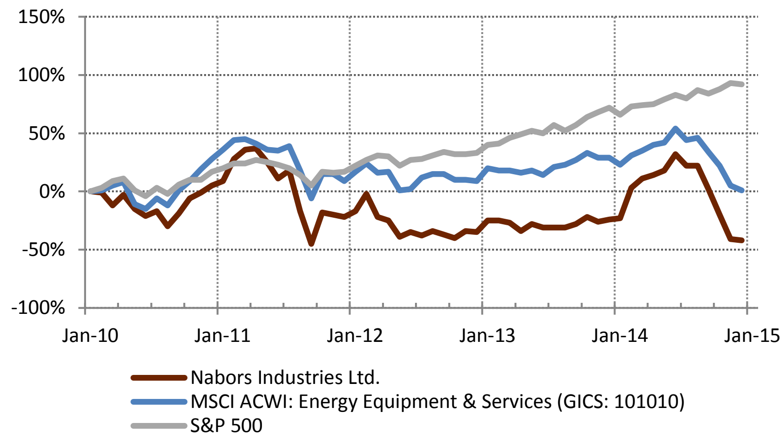
Material Company Updates

Item	Summary
Notable Vote Results	At the last annual meeting, Michael C. Linn, John V. Lombardi and John Yearwood received the support of less than a majority of votes cast. At the same meeting, two management proposals, the Advisory Vote to Ratify Named Executive Officers' Compensation and an advisory vote to Amend the Shareholder Rights Plan, failed to win majority support from shareholders. Furthermore, the following three shareholder proposals received the support of a majority of votes cast FOR and AGAINST the proposals: Adopt Proxy Access Right, Amend Vote-Counting Methodology to Treat Broker Non-Votes as Having No Impact and Require a Majority Vote for the Election of Directors. For further information, see the *Board Responsiveness* section of ***Elect Directors*** and the *Compensation Committee Communication & Responsiveness* section of ***Advisory Vote on Executive Compensation*** below.
Board Update	In June 2014, the board of directors expanded from seven members to eight, and appointed Dag Skattum to fill the newly created vacancy. Skattum was appointed to the audit committee and the risk oversight committee.
Merger	On March 24, 2015 the company completed the merger of its completion and production services business with C&J Energy Services, Inc. As consideration for assets contributed by Nabors, the company received $688 million in cash as well as shares equivalent to 53 percent of the combined company now known as C&J Energy Services Ltd. The "new C&J" is traded on the New York Stock Exchange.

Financial Highlights

Company Description: Nabors Industries Ltd., together with its subsidiaries, provides drilling and rig services. The company offers rig instrumentation, optimization software, and directional drilling services.

STOCK PRICE PERFORMANCE



TOTAL SHAREHOLDER RETURNS

	1 Yr	3 Yr	5 Yr
Company TSR (%)	-22.82	-8.59	-9.56
GICS 1010 TSR (%)	-26.17	-4.18	1.54
S&P500 TSR (%)	13.69	20.41	15.45

Source: Compustat. As of last day of company FY end month: 12/31/2014

COMPANY SNAPSHOT

Market Cap (M)	4,897.8
Closing Price	14.87
Annual Dividend	0.22
52-Week High	30.24
52-Week Low	9.91
Shares Outstanding (M)	329.38
Average daily trading volume (prior mo)*	11,347.02

As of April 6, 2015 (All currency in USD)
* Trading Volume in thousands of shares

FINANCIAL & OPERATIONAL PERFORMANCE

	Historical Performance (FY ending)					Compared to Peers (Compustat FY*) – **2014**				
All currency in USD	**12/2010**	**12/2011**	**12/2012**	**12/2013**	**12/2014**	**NE**	**OII**	**DO**	**SPN**	**PTEN**
Earnings						Noble Corporation plc	Oceaneering International, Inc.	Diamond Offshore Drilling, Inc.	Superior Energy Services, Inc.	Patterson-UTI Energy, Inc.
Revenue (M)	4,175	6,060	6,990	6,152	6,804	3,233	3,660	2,815	4,557	3,182
Net Income (M)	114	252	168	143	-669	8	428	387	258	163
EBITDA (M)	1,404	1,795	1,974	1,645	1,749	1,559	858	1,133	1,197	986
EPS (USD)	0.37	1.19	0.82	0.51	-2.28	-0.60	4.02	2.82	1.81	1.12
EPS Y/Y Growth (%)		222	-31	-38			17	-29		-13
Profitability										
Net Margin (%)	2	8	4	2	-9	1	17	18	10	8
EBITDA Margin (%)	34	30	28	27	26	48	23	40	26	31
Return on Equity (%)	2	6	4	3	-14	-2	26	9	7	6
Return on Assets (%)	1	3	2	1	-6	-1	12	5	4	3
ROIC (%)	1	3	2	2	-7	-1	18	6	5	4
Leverage										
Debt/Assets	38	36	35	32	37	37	21	28	22	18
Debt/Equity	82	82	73	65	89	74	45	50	40	34
Cash Flows										
Operating (M)	1,107	1,459	1,566	1,421	1,782	1,778	722	993	1,033	729
Investing (M)	-1,673	-1,859	-1,180	-815	-1,717	-2,109	-419	-280	-475	-1,195
Financing (M)	280	160	-257	-733	70	285	45	-826	-357	261
Net Change (M)	-286	-243	126	-135	111	-46	339	-113	197	-207
Valuation & Performance										
Price/Earnings	63.40	14.60	17.60	33.30			14.60	13.00	11.10	14.80
Annual TSR (%)	7.17	-26.09	-16.67	18.75	-22.82	-47.24	-24.32	-29.83	-23.41	-33.48

Source: Compustat. *Note: Compustat standardizes financial data and fiscal year designations to allow for accurate comparison across companies and industries. Compustat data may differ from companies' disclosed financials. See www.issgovernance.com/policy-gateway/company-financials-faq/ for more information.
Peers used in Financial Highlights represent closest industry peers drawn from those peers used in ISS' pay-for-performance analysis.

Corporate Governance Profile

BOARD & COMMITTEE SUMMARY

	Independence	Members	Meetings
Full Board	86%	7	8
Audit	100%	3	9
Compensation	100%	3	6
Nominating	100%	3	5

Chairman classification	Insider
Separate chair/CEO	No
Independent lead director	Yes
Voting standard	Plurality
Plurality carveout for contested elections	N/A
Resignation policy	Yes
Total director ownership (000 shares)	12,005
Total director ownership (%)	3.4
Percentage of directors owning stock	100%
Number of directors attending < 75% of meetings	0
Number of directors on excessive number of outside boards	0
Average director age	62 years
Average director tenure	5 years
Percentage of women on board	0%

SHAREHOLDER RIGHTS SUMMARY

Controlled company	No
Classified board	No
Dual-class stock	No
Vote standard for mergers/acquisitions	Majority
Vote standard for charter/bylaw amendment	Majority
Shareholder right to call special meetings	Yes, 10%
Material restrictions on right to call special meetings	No
Shareholder right to act by written consent	Unanimous
Cumulative voting	No
Board authorized to issue blank-check preferred stock	Yes
Poison pill	Yes

Board Profile

Director Independence & Affiliations

EXECUTIVE DIRECTORS

On Ballot	Name	Affiliation	Independence Classification		Attend <75%	Gen-der	Age	Tenure	Term Ends	Outside		Key Committees		
			Company	ISS						Boards	CEO	Audit	Comp	Nom/Gov
✓	**Anthony G. Petrello**	CEO/Chair	Non-Independent	Insider		M	60	24	2016	0				

NON-EXECUTIVE DIRECTORS

On Ballot	Name	Affiliation	Independence Classification		Attend <75%	Gen-der	Age	Tenure	Term Ends	Outside		Key Committees		
			Company	ISS						Boards	CEO	Audit	Comp	Nom/Gov
✓	**John Yearwood**	Lead Director	Independent	Independent Outsider		M	55	5	2016	1		**F**		**C**
✓	**James R. Crane**		Independent	Independent Outsider		M	61	3	2016	2			**M**	
✓	**John P. Kotts**		Independent	Independent Outsider		M	64	1	2016	1		**C F**	**M**	
✓	**Michael C. Linn**		Independent	Independent Outsider		M	63	3	2016	4			**C**	**M**
✓	**Dag Skattum**		Independent	Independent Outsider		M	54	1*	2016	0		**F**		
✓	**Howard Wolf**		Independent	Independent Outsider		M	80	2	2016	0				**M**

M = Member | C = Chair | F = Financial Expert

*Indicates director not previously submitted to shareholders for election.

Director Notes

James R. Crane	Crane Capital Group Inc. ("CCG") is an investment management company that indirectly owns a majority interest in several operating firms, some of which have provided services to the company, including logistics and electricity. For the year 2014, the company paid $89.1 million to CCG firms for such services. James R. Crane serves as chairman and CEO of CCG. (Source: DEF14A, 4/23/15, pp. 16, 19.)

Director Employment, Compensation & Ownership

Name	Primary Employment	Outside Boards	Total Compensation *	Shares Held	60-day Options	Total	Voting Power (%)
Anthony G. Petrello	CEO, Chairman, President - Nabors Industries Ltd.		**	7,616,127	3,783,487	11,399,614	3.42
John Yearwood	Retired	Sabine Oil & Gas Corporation	550,000	78,000	0	78,000	<1
James R. Crane	Financial Services	Cargojet Inc., Western Gas Partners LP	490,000	112,000	58,463	170,463	<1
John P. Kotts	Other	C&J Energy Services Ltd.	497,692	162,000	37,417	199,417	<1
Michael C. Linn	Financial Services	Linn Energy, LLC, Centrica plc, Western Refining Logistics, LP, C&J Energy Services Ltd.	490,000	54,000	0	54,000	<1
Dag Skattum	Vice Chairman, Europe, the Middle East and Africa and Chair, Global Strategic Advisory Group - JPMorgan Chase & Co.		787,922	27,000	16,603	43,603	<1
Howard Wolf	Attorney		445,000	60,000	0	60,000	<1

*Local market currency
**For executive director data, please refer to Executive Pay Overview.

Compensation Profile

EXECUTIVE PAY OVERVIEW

Executive	Title	Base Salary	Change in Pension, Deferred Comp, All Other Comp	Bonus & Non-equity Incentives	Restricted Stock	Option Grant	Total
A. Petrello	Chairman of the Board, President and CEO	1,750	1,564	1,664	10,308	0	15,286
W. Restrepo	CFO	650	1	618	6,016	0	7,286
R. Wood	Formerly Principal Accounting and Financial Officer	349	218	260	200	0	1,027
M. Andrews	Corporate Secretary	210	87	65	75	0	437
Median CEO Pay	ISS Selected Peer Group	1,025	389	1,889	6,479	0	11,698
	Company Defined Peers	1,237	1,831	1,904	6,108	2,310	**13,289**

Source: ISS. Pay in $thousands. Total pay is sum of all reported pay elements, using ISS' Black-Scholes estimate for option grant-date values. Note: Median total pay will not equal sum of pay elements medians. Company Defined Peers are as disclosed. More information on ISS' peer group methodology at www.issgovernance.com/policy-gateway/us-compensation-policy-guidance/.

OPTION VALUATION ASSUMPTIONS

For CEO's last FY Grant	Company	ISS
Volatility (%)*	N/A	N/A
Dividend Yield (%)*	N/A	N/A
Term (yrs)*	N/A	N/A
Risk-free Rate (%)*	N/A	N/A
Grant date fair value per option*	N/A	N/A
Grant Date Fair Value ($ in 000)**	N/A	N/A

*Source: Standard & Poor's Xpressfeed;**Source DEF14A (company value); ISS (ISS value). The CEO did not receive stock options in 2014.

CEO TALLY SHEET

CEO	A. Petrello
CEO tenure at FYE:	3.2 years
Present value of all accumulated pension:	N/A
Value of CEO stock owned (excluding options):	$113,251,808
Potential Termination Payments	
Involuntary termination without cause:	$48,917,967
Termination after a change in control:	$48,917,967

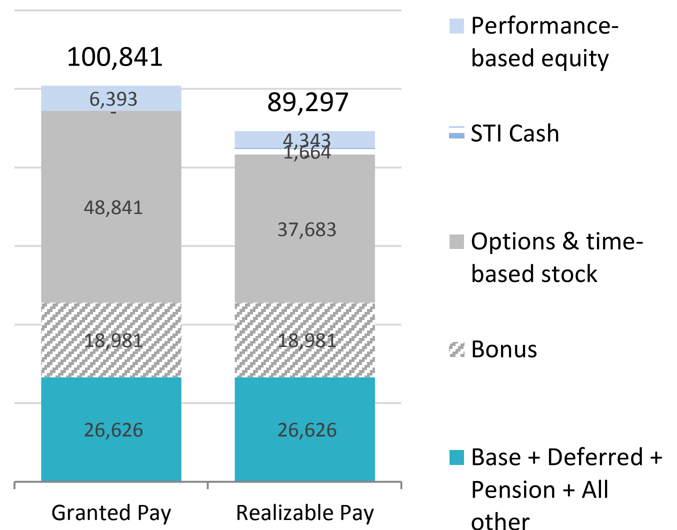
Source: DEF14A

CEO PAY MULTIPLES

Compared to	Multiple
2nd highest active executive	2.10
Average active NEO	5.24
ISS peer median	1.31
Company peer median	1.15

Source: ISS

3-YEAR GRANTED VS. REALIZABLE CEO PAY



Source: DEF14A and ISS ($ in thousands)

Granted pay equals the sum of, for all of the three prior fiscal years: (1) Salary, Change in Pension Value/Deferred Compensation and All Other Compensation as reported in the Summary Compensation Table (SCT), (2) paid Bonus, (3) target short-term cash incentives, (4) the target value of long-term cash incentives granted, and (5) the grant-date fair value of equity awards granted.

Realizable pay equals the sum of (1) and (2) above, (3) the sum of short-term cash incentives earned, (4) the earned (or target if not yet earned) value of any long-term cash awarded during the period, and (5) the fair value of all equity awarded (or earned, for performance shares where the performance period has ended) during the prior three fiscal years, all valued as of the most recent FY end date (end of the measurement period).

With the exception of exercised options, which are valued at intrinsic value at the date of exercise, all options are valued with the Black-Scholes model using assumptions as of the valuation date (grant date for grant pay, and most recent FY end date for realizable pay). More information at www.issgovernance.com/policy-gateway/us-compensation-policy-guidance/

Dilution & Burn Rate

DILUTION

	Dilution (%)
Nabors Industries Ltd.	6.40
Peer group median	6.85
Peer group weighted average	4.17
Peer group 75th percentile	10.69

Dilution is the sum of the total amount of shares available for grant and outstanding under options and other equity awards (vested and unvested) expressed as a percentage of total basic common shares outstanding as of the record date. The dilution figure typically excludes employee stock purchase plans (ESPPs) and 401(k) shares. The underlying information for the company is based on the company's equity compensation table in the most recent proxy statement or 10-K.

BURN RATE

	Non-Adjusted (%)	Adjusted (%)
1-year	0.42	0.83
3-year average	0.84	1.59

Burn rate equals the number of shares granted in each fiscal year, including stock options, restricted stock (units), actual performance shares delivered under the long-term incentive plan or earned deferred shares, to employees and directors divided by weighted average common shares outstanding. The adjusted burn rate places a premium on grants of full-value awards using a multiplier based on the company's annual volatility.

ISS QuickScore

As of May 18, 2015

ISS GOVERNANCE QUICKSCORE PILLARS

Board	8
Subcategory & Impact:	
	Board Composition
	Composition of Committees
	Board Practices
Flag	Board Policies
	Related Party Transactions
	Controversies

Compensation	10
Subcategory & Impact:	
Flag	Pay For Performance
Flag	Non-Performance Based Pay
Flag	Use Of Equity
Flag	Equity Pay Risk Mitigation
	Communications & Disclosure
Flag	Termination
	Controversies

Shareholder Rights	10
Subcategory & Impact:	
	One Share - One Vote
Flag	Takeover Defenses
Star	Meeting and Voting Related Issues

Audit	10
Subcategory & Impact:	
	External Auditor
Flag	Audit & Accounting Controversies
Star	Other Issues

Star: The total number of points in this subcategory is at the top of the possible range.
Flag: The total number of points in this subcategory is at the bottom of the possible range.
No Star or Flag: The total number of points in this subcategory is in the middle of the possible range.

ISS Governance QuickScore is derived from publicly disclosed data on the company's governance practices. Scores indicate decile rank relevant to index or region. While company practices that raise concerns in ISS Governance QuickScore are in many cases factors that weigh against the company in analyzing certain proposals, ISS recommendations are based on situational proposals and the related qualitative aspects of our review at a point in time

Scores on the proxy research report are "As of" the date indicated. QuickScore data and scores are dynamic and updated on a daily basis and available year round. Scores are calculated at each pillar by summing the factor scores in that pillar. Not all factors and not all subcategories have equal weight, and not all factors or subcategories apply to all markets. For more information on ISS Governance QuickScore, visit http://www.issgovernance.com/governance-solutions/investment-tools-data/quickscore/. For questions, please contact: Quickscore@issgovernance.com.

Vote Results

ANNUAL MEETING 3 JUNE 2014

Proposal	Board Rec	ISS Rec	Disclosed Result	Support Including Abstains (%)[1]	Support Excluding Abstains (%)[2]
1.1 Elect Director James R. Crane	For	Withhold	Majority	76.5	76.5
1.2 Elect Director John P. Kotts	For	For	Majority	98.3	98.3
1.3 Elect Director Michael C. Linn	For	Withhold	Majority	49.6	49.6
1.4 Elect Director John V. Lombardi	For	Withhold	Majority	46.4	46.4
1.5 Elect Director Anthony G. Petrello	For	Withhold	Majority	75.0	75.0
1.6 Elect Director Howard Wolf	For	Withhold	Majority	72.1	72.1
1.7 Elect Director John Yearwood	For	Withhold	Majority	46.4	46.4
2 Approve PricewaterhouseCoopers LLP as Auditors and Authorize Board to Fix Their Remuneration	For	For	Pass	98.5	98.6
3 Amend Shareholder Rights Plan (Poison Pill)	For	Against	Fail	37.6	37.7
4 Advisory Vote to Ratify Named Executive Officers' Compensation	For	Against	Fail	40.2	40.3
5 Require Shareholder Approval of Specific Performance Metrics in Equity Compensation Plans	Against	For	Fail	25.0	25.0
6 Adopt Retention Ratio for Executives	Against	For	Fail	23.9	24.0
7 Report on Sustainability	Against	For	Fail	39.5	43.5
8 Require a Majority Vote for the Election of Directors	Against	For	Pass	62.4	62.5
9 Adopt Proxy Access Right	Against	For	Fail	51.7	51.8
10 Amend Vote-Counting Methodology to Treat Broker Non-Votes as Having No Impact	Against	For	Pass	61.7	61.9

Shaded results reflect a majority of votes cast FOR shareholder proposal or AGAINST management proposal or director election
[1]Support Including Abstains is defined as %FOR/(For + Against + Abstain), as expressed as a percentage.
[2]Support Excluding Abstains is defined as %FOR/(For + Against), as expressed as a percentage, provided if different from For + Against + Abstain.

Meeting Agenda & Proposals

Items 1.1-1.7. Elect Directors — SPLIT

VOTE RECOMMENDATION

WITHHOLD votes are warranted for directors Crane, Kotts, Linn, Petrello, Wolf and Yearwood, due to the board's failure to fully implement shareholder proposals which received support from a majority of votes cast, and due to the board's renomination of directors Linn and Yearwood after they failed to receive majority support in 2014, while not fully addressing the underlying issues that led to the low support for these directors.

A vote FOR Dag Skattum is warranted, as he was appointed to the board in June 2014 and should not be held responsible for the board's history of poor responsiveness to shareholders.

BACKGROUND INFORMATION

Policies: Board Accountability | Board Responsiveness | Director Competence | Director Independence | Election of Directors | ISS Categorization of Directors | Vote No campaigns

Vote Requirement: The company has a plurality vote standard for the election of directors, and has a director resignation policy in its governance guidelines

Discussion

BOARD RESPONSIVENESS TO SHAREHOLDER CONCERNS

At the last annual meeting, Michael C. Linn, John V. Lombardi and John Yearwood each failed to win support from a majority of votes cast. Anthony G. Petrello, Howard Wolf and James R. Crane also received significant opposition, ranging from 23.5 percent to 27.9 percent of votes cast. ISS had recommended that shareholders WITHHOLD votes from all incumbent directors due to the board's failure to give shareholders a vote on the three-year extension of the poison pill, failure to fully implement two shareholder proposals which had received majority support, and renomination of directors Lombardi and Yearwood after those directors had failed to receive majority support the previous year, while not addressing the underlying issues which led to the low support for those directors.

In addition, the company's say-on-pay proposal failed to win majority support for a fourth straight year, a management proposal to extend the term of the company's poison pill for an additional year failed, and the following shareholder resolutions received support from a majority of votes cast FOR and AGAINST the proposals: Adopt Proxy Access Right, Amend Vote-Counting Methodology to Treat Broker Non-Votes as Having No Impact and Require a Majority Vote for the Election of Directors.

Nabors has taken several steps in response to these vote results. The board removed Yearwood and Lombardi from the compensation committee, while retaining Linn to "maintain some functional continuity in operations." (Lombardi is retiring from the board upon conclusion of this shareholder meeting.) The board has placed a bylaw amendment on the ballot at this meeting to exclude broker non-votes from the calculation of vote results. And the board has adopted a policy requiring public announcement of the board's reasoning if any resignation tendered pursuant to [the] director resignation policy is not accepted." The board also intends to allow the poison pill to expire "in the end of its current term" – i.e. without the further one-year extension sought at last year's meeting. However, the board has not adopted a true majority vote standard for director elections, nor has it adopted proxy access on the terms sought in last year's shareholder proposal. That proposal sought to grant access to the proxy, to nominate directors up to 25 percent of the number then serving, to a shareholder or group of shareholders owning 3 percent or more of the company's shares for at least three years. However, the company elected to retain its existing proxy access framework, which limits access to a single shareholder who has owned 5 percent or more of outstanding shares for at least three years commencing on or after June 3, 2014. The board justifies its

decision not to take action to change the current framework on the failure of the shareholder proposal to achieve majority support in 2014. However, that failure was solely due to the company's current policy of counting broker non-votes as votes against a proposal. Had broker non-votes been excluded, which is the practice at most US-listed companies, the shareholder proposal to lower the proxy access threshold would have received majority support.

The receipt of WITHHOLD votes from a majority of votes cast represents a clear message of dissatisfaction from shareholders. There are numerous reasons why Nabors shareholders have been dissatisfied. Shareholders have clearly expressed their preference for a true majority vote standard for director elections and for a more inclusive proxy access regime, and the board has failed to fully implement those proposals. Shareholders have repeatedly expressed concerns regarding Nabors' executive compensation program. Moreover, the company maintains a poison pill, the adoption of which was never approved by shareholders, and the extension of which was decisively rejected by shareholders. The board's renomination of two directors who failed to win majority support, and its failure to fully address the underlying issues causing the low support for directors, demonstrates a lack of responsiveness to shareholder concerns.

By way of explanation for not accepting the resignation of directors Linn, Lombardi and Yearwood, and for renominating Linn and Yearwood this year, the board states that "in consultation with shareholders, the company determined that the roles of these directors as members of the compensation committee were a primary reason for the withholding of votes," and that in response, the board removed Yearwood and Lombardi (but not Linn) from the committee. However, the company has not specified with how many shareholders it consulted, and in light of the other above-mentioned concerns, merely reconstituting the compensation committee is not sufficiently responsive to shareholders, and support for the incumbent directors is not warranted.

INEFFECTIVE INTERNAL CONTROL OVER FINANCIAL REPORTING

In the company's Form 10-K, 3/2/15, p. 142, for the year ended Dec. 31, 2014, management noted that the company did not maintain effective internal control over financial reporting. Specifically, the 10-K stated that: "We have concluded that, as of December 31, 2014, our controls over the accounting for and disclosures related to a non-routine complex legal entity restructuring in the interim consolidated financial statements did not operate effectively. Specifically, during the operation of a tax control, we failed to detect the use of inaccurate historical tax attributes. Accordingly, we initially did not appropriately record the tax impact related to the third quarter 2014 restructuring of our Completion and Production Services entities in preparation for the pending Merger. This control deficiency resulted in a material overstatement of the tax expense reflected in our initial third quarter 2014 earnings press release issued on October 21, 2014. This error was subsequently identified and corrected in the interim consolidated financial statements before filing our Form 10-Q for the third quarter of 2014. If not remediated, this control deficiency could result in material misstatements of our annual or interim consolidated financial statements that may not be prevented or detected. Accordingly, management has determined that this control deficiency constitutes a material weakness."

A material weakness in a company's system of internal controls indicates that there is a reasonable possibility that a material misstatement will not be prevented or detected on a timely basis. Material weaknesses should be corrected promptly after they are identified to ensure that the financial statements presented to investors portray an accurate picture of the company's financial position. The failure to remediate such a weakness within a reasonable time frame could indicate a failure of the Audit Committee to provide sufficient oversight over the financial reporting process at the company. However, given that the company may not yet have had time to fully remediate the control deficiency, no adverse recommendations are warranted at this time on this basis.

Item 2. Approve PricewaterhouseCoopers LLP as Auditors and Authorize Board to Fix Their Remuneration Auditors

FOR

VOTE RECOMMENDATION

A vote FOR this proposal to ratify the company's auditor is warranted.

Vote Requirement: Majority of votes present (abstentions count as votes against)

Discussion

The board recommends that PricewaterhouseCoopers LLP be approved as the company's independent accounting firm for the coming year.

Accountants	PricewaterhouseCoopers LLP
Auditor Tenure	28 years
Audit Fees	$9,652,339
Audit-Related Fees	$1,800
Tax Compliance/Preparation*	$0
Other Fees	$121,219
Percentage of total fees attributable to non-audit ("other") fees	1.24 %

*Only includes tax compliance/tax return preparation fees. If the proxy disclosure does not indicate the nature of the tax services and provides the fees associated with tax compliance/preparation, those fees will be categorized as "Other Fees."

Note that the auditor's report contained in the annual report is unqualified, meaning that in the opinion of the auditor, the company's financial statements are fairly presented in accordance with generally accepted accounting principles.

Analysis

This request to ratify the auditor does not raise any exceptional issues, as the auditor is independent, non-audit fees are reasonable relative to audit and audit-related fees, and there is no reason to believe the auditor has rendered an inaccurate opinion or engaged in poor accounting practices.

Item 3. Approve Broker Non-Vote Bye-law Amendment

FOR

VOTE RECOMMENDATION

A vote FOR this proposal is warranted, as it will bring the company's vote-counting methodology in line with standard practice at US-listed companies, and will increase the expectation that the board will take action in response to a shareholder proposal that is supported by a majority of shares actively voted.

Vote Requirement: Majority of shares outstanding (abstentions and broker non-votes count as votes against)

Discussion

The board seeks shareholder approval for an amendment to the company's bylaws to provide that, although broker non-votes are counted for purposes of establishing a quorum at shareholder meetings, broker non-votes will not be counted in determining the outcome on "non-discretionary" items such as shareholder proposals.

Under Nabors' current bylaws, broker non-votes have the same effect as votes against the proposal in question, because they are included in the denominator to determine if a proposal has received the requisite number of "FOR" votes. If this amendment is approved, broker non-votes would not be included in the denominator going forward, which will have the effect of lowering the number of "FOR" votes required to approve shareholder proposals and other non-discretionary items.

Analysis

This proposal has been placed on the ballot in response to a shareholder proposal on this topic which received majority support in 2014. That proposal, in turn, was motivated by the proponent's frustration that the company's existing vote-counting methodology is a "nontransparent method to adopt what is in effect a super-majority voting provision," and that by counting broker non-votes in the denominator, the company had understated the degree of support for two shareholder proposals the previous year and thus "did not properly represent the view of voting shareholders." The board in fact acted in a similar manner in 2014, with respect to a shareholder proposal to lower the threshold for proxy access, which received support from a majority of votes cast FOR and AGAINST, but fell short of a majority by the company's reckoning, due to the inclusion of broker non-votes in the denominator.

Although the board opposed this shareholder proposal in 2014, "following consultation with [the proponent] and further deliberation," it has now determined that adopting the vote-counting standard proposed in last year's shareholder proposal would be in the company's best interest, and the board has unanimously approved the bylaw amendment which is presented for a vote in this item.

Excluding broker non-votes from the denominator is consistent with the practice of the vast majority of US-listed companies as well as stock exchange guidance. It would also increase the expectation that the board will take action in response to a shareholder proposal that is supported by a majority of shares actively voted. As such, support for this proposal is warranted.

Item 4. Advisory Vote to Ratify Named Executive Officers' Compensation — FOR

VOTE RECOMMENDATION

Cautionary support FOR this proposal is warranted this year. With regular prodding from shareholders, the company has continued to improve its executive pay program, and the CEO's total pay for 2014 was at its lowest level since he assumed that position in 2011, in keeping with the company's lagging performance. The compensation committee demonstrated reasonable responsiveness to last year's fourth failed say-on-pay vote by engaging with shareholders and, among other things, improving transparency around short-term incentive goals. Concerns remain regarding goal rigor relative to potential awards, however, especially with respect to the TSR and strategic objectives used for equity awards, indicating a need for continued close monitoring of the program and board decisions.

BACKGROUND INFORMATION

Policies: Advisory Votes on Executive Compensation

Vote Requirement: Majority of votes cast (abstentions and broker non-votes count as votes against)

Executive Compensation Analysis

COMPONENTS OF PAY

($ in thousands)	CEO				CEO Peer Median	Other NEOS
	A. Petrello		A. Petrello	A. Petrello		
	2014	**Change**	**2013**	**2012**	**2014**	**2014**
Base salary	1,750	2.9%	1,700	1,100	1,025	1,209
Deferred comp & pension	132		32	23	16	11
All other comp	1,432	-92.6%	19,348	1,110	234	294
Bonus	0	-100.0%	1,479	17,502	0	65
Non-equity incentives	1,664		0	0	1,889	878
Restricted stock	10,308	-77.1%	44,925	0	6,479	6,291
Option grant	0		0	0	0	0
Total	**15,286**	**-77.3%**	**67,484**	**19,735**	**11,698**	**8,749**
% of Net Income	N/A					NA
% of Revenue	0.2%					0.1%

Non-Performance-Based Pay Elements (CEO)

Key perquisites ($)	Personal aircraft use: 193,617; Life Insurance: 7,420
Key tax gross-ups on perks ($)	None
Value of accumulated NQDC ($)*	7,044,405
Present value of all pensions ($)	N/A
Years of actual plan service	N/A
Additional years credited service	N/A

*Non-qualified Deferred Compensation

Disclosed Benchmarking Targets

Base salary	None Disclosed
Target short-term incentive	None Disclosed
Target long-term incentive (equity)	None Disclosed
Target total compensation	None Disclosed

Severance/Change-in-Control Arrangements (CEO unless noted)

Contractual severance arrangement	Individual Contract
Non-CIC estimated severance ($)	48,917,967

Change-in-Control Severance Arrangement

*Cash severance trigger**	Modified single trigger (legacy)
Cash severance multiple	2.99 times
Cash severance basis	Base Salary + Average Bonus
Treatment of equity	Vest only upon employment termination
*Excise tax gross-up**	No
Estimated CIC severance($)	48,917,967

*All NEOs considered

Compensation Committee Communication & Responsiveness

Disclosure of Metrics/Goals

Annual incentives	Yes
Long-term incentives	Yes

Pay Riskiness Discussion

Process discussed?	Yes
Material risks found?	No

Risk Mitigators

*Clawback policy**	No
CEO stock ownership guideline	5X
Stock holding period requirements	No stock holding period requirements disclosed

*Must apply to cash incentives and at least all NEOs.

Pledging/Hedging of Shares

Anti-hedging policy	The proxy statement does not disclose a robust policy
Anti-pledging policy	The proxy statement does not disclose a robust policy

Compensation Committee Responsiveness

MSOP vote results (F/F+A)	2014: 40.3%; 2013: 36.4%
Frequency approved by shareholders	Annual with 64.8% support
Frequency adopted by company	Annual (year of adoption: 2011)

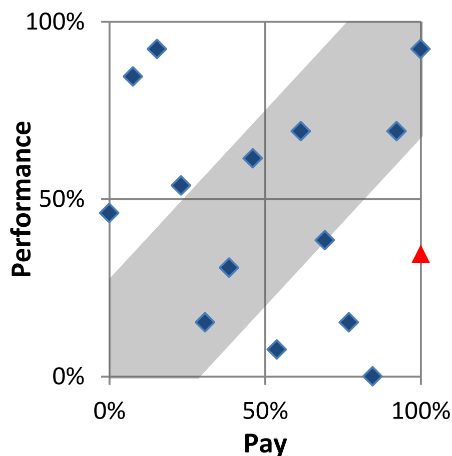
Repricing History

Repriced/exchanged underwater options last FY?	No

Pay for Performance Evaluation

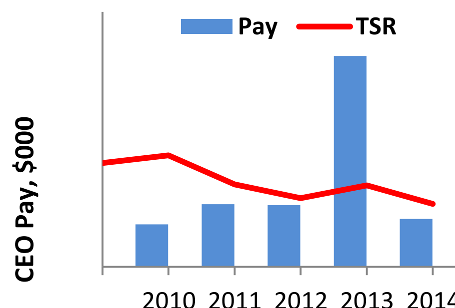
RELATIVE ALIGNMENT

The chart plots percentiles of the annualized 3-year performance and pay rankings for the company (▲) and ISS' derived peers (◆). The gray bar indicates pay and performance alignment.



ABSOLUTE ALIGNMENT

CEO granted pay trends versus value of a $100 investment made on the first day of the five-year period.

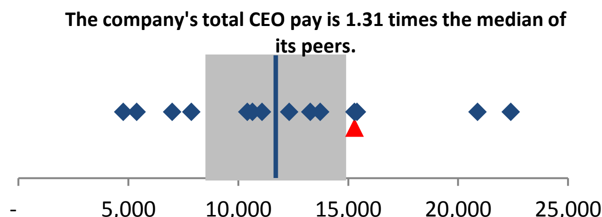


	2010	2011	2012	2013	2014
Pay($000)	13,537	20,038	19,735	67,484	15,286
Indexed TSR	107.17	79.21	66.01	78.39	60.50
CEO	Isenberg	Petrello	Petrello	Petrello	Petrello

MAGNITUDE OF PAY

Pay in $thousands. The gray band represents 25th to 75th percentile of CEO pay of ISS' selected peer group with the blue line representing the 50th percentile.

The company's total CEO pay is 1.31 times the median of its peers.



PAY-FOR-PERFORMANCE QUANTITATIVE SCREEN

Measure	Result	Level
Relative degree of alignment	**-64**	Better than **5%** of Companies*
Multiple of peer group median	**1.31**	Better than **30%** of Companies
Absolute alignment	**-24**	Better than **4%** of Companies
Initial Quantitative Screen	High Concern	

*Constituents of Russell 3000 index.

For more information on ISS' quantitative pay-for-performance measures, visit http://issgovernance.com/policy/USCompensation

Peer Groups

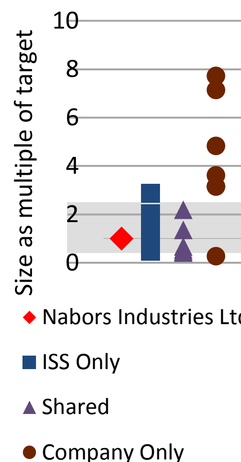
ISS AND COMPANY DISCLOSED PEER GROUPS

ISS-Selected Peers (8)	Apache Corporation Devon Energy Corporation Hess Corporation Patterson-UTI Energy, Inc.	Cameron International Corporation FMC Technologies, Inc. Oceaneering International, Inc. Superior Energy Services, Inc.
Shared Peers (6)	Diamond Offshore Drilling, Inc. Helmerich & Payne, Inc. Transocean Ltd.	Ensco plc Noble Corporation plc Weatherford International plc
Company-Disclosed Peers (7)	Baker Hughes Incorporated Freeport-McMoRan Inc. National Oilwell Varco, Inc. Schlumberger Limited	ConocoPhillips Halliburton Company Rowan Companies plc

The shaded area represents the overlap group of companies that are in both ISS' comparison group and the company's disclosed CEO compensation benchmarking peer group. Excludes company peers for which financial data is not available. More information on the ISS peer group methodology at www.issgovernance.com/policy/USCompensation

PEER GROUP SIZE ANALYSIS

Size (by revenue) of the ISS, company and overlap peer groups. Gray indicates 0.4- 2.5 times the company's revenue.



Short-Term Cash Incentives

CEO STI Opportunities	FY 2014 (A. Petrello)		FY 2013 (A. Petrello)	
	Target	**Maximum**	**Target**	**Maximum**
*STI targets ($)**	ND	ND	ND	N D
STI targets (calculated)	N/A	N/A	N/A	N/A
STI targets (as disclosed)	100% of base salary			
ISS peer median	118% of base salary			
Company peer median	120% of base salary			

*dollar value STI targets/maximums are not disclosed in the Grants of Plan-Based Awards table

Actual Payouts ($)	FY 2014 (A. Petrello)		FY 2013 (A. Petrello)	
	Amount	% of base salary	Amount	% of base salary
Bonus	0	0	1,479,000	87
Non-equity incentive	1,664,250	95	0	0
Total Bonus + Non-equity	1,664,250	95	1,479,000	87

STI performance metrics/goals

Metric	Form	Weight	Threshold	Target	Maximum	Actual
Adjusted EBITDA	Absolute	100%	70% of target	$1.833 billion	120% of target	$1.743 billion

Other Short-Term Incentive Factors

Performance results adjusted?	None disclosed
Discretionary component?	None disclosed
*Discretionary bonus paid?**	No
Future performance metrics	Adjusted EBITDA

*Based on the Bonus column in the SCT; per SEC rules, amounts disclosed in this column were not based on pre-set goals.

Long-Term Incentives

CEO's last FY LTI target (%)	150 of base salary			
NEOs' last FY award type(s)	Performance-based stock, Time-based stock			
Most recent performance metrics/goals	**Metric**	**Threshold**	**Target**	**Maximum**
	3-yr TSR vs. Performance Peer Group	Fourth quintile	Median	First quintile

Long-Term Equity Grants

CEO Equity Awards	FY 2014				FY 2013			
	Shares (#)	% shares*	Value ($)*	% value	Shares (#)	% shares*	Value($)*	% value
Time-based shares	362,311	70	6,841,037	66	2,540,835	93	42,000,003	93
Time-based options	0	0	0	0	0	0	0	0
Performance shares	157,602	30	3,467,244	34	176,967	7	2,925,265	7
Performance options	0	0	0	0	0	0	0	0
Total equity	519,913		10,308,281		2,717,802		44,925,268	

Option/restricted stock vesting	Restricted stock vests ratably annually over three years TSR Shares vest at end of three-year performance period
*CEO equity pay mix (by value)**	Performance-conditioned: 33.6%; Time-based: 66.4%

*Performance shares, if any, are counted and valued at target.

Other Long-Term Incentive Factors

Performance results adjusted?	No
Discretionary component?	Yes, performance shares are earned based on goals that include subjective assessments

Executive Summary

Evaluation Component	Level of Concern	Key Reason
Non-Performance-Based Pay Elements	**Low**	
Peer Group Benchmarking	**Medium**	Outsized Company-Selected Peers
Severance/CIC Arrangements	**Medium**	Modified Single-Trigger Severance (Legacy)
Comp Committee Communication/Responsiveness	**Low**	
Pay for Performance Evaluation	**Medium**	P4P Misalignment with Mitigating Factors
***ISS Recommendation:* FOR**		

Overview

The company's say on pay proposal has not garnered majority support in any year since the first vote in 2011. Among the major ongoing concerns cited in the past several years were excessive CEO pay, a flawed bonus design that provides for outsized awards, and problematic CIC and severance provisions. In 2014, ISS noted some positive changes to the program following the failed 2013 vote, including elimination of some problematic severance features, capping bonuses, and tying long-term incentives to performance measures. However, the company failed to disclose performance goals, or their rationale, for its short- and long-term awards; ISS also highlighted the fact that exorbitant payouts could be made with respect to awards linked to relative TSR, even if the company

experienced severe negative returns. Finally, concern was noted regarding the company's practice of targeting the 75th percentile of peers, and using many far larger companies in its benchmarking group. The analysis below addresses both the compensation committee's response to another failed say on pay proposal in 2014, as well as this year's pay-for-performance evaluation.

COMPENSATION COMMITTEE RESPONSIVENESS TO 2014 SHAREHOLDER VOTE

This year's proxy does not acknowledge the failed 2014 vote but states that the Lead Director, other directors, and certain members of management "engaged in dialogue with several of our significant shareholders" about the reason for their votes, and received "valuable feedback on other aspects of our executive compensation." A summary of the feedback and steps taken in response is below:

Shareholder Concern	Company Response
Disconnect between pay and shareholder value	• Tie all short- and long-term incentives to performance metrics • Tie STI to key drivers of market value • Tie >40% of LTI to TSR versus a peer group, with remainder tied to financial/operational targets with additional 3-year time vesting requirement
Rationale for dual peer group unclear	• Clarified justification for dual peer groups in proxy
Limited transparency of prior year performance metrics	• More detailed disclosure of 2014 performance goals in 2015 proxy statement, with clearer visibility to targets and thresholds • Clarified link between performance goals and long-term strategy in proxy
Size of CEO contract restructure payment	• Reduced total CEO pay by 78% from 2013 to 2014

In addition to the above, in 2014 the company also adopted a policy to limit severance payments to 2.99 times the sum of an executive's base salary and bonus; eliminated the CEO's car allowance; and rescheduled the annual grant of restricted shares to directors to shortly after the annual shareholder meeting, to ensure that only continuing directors would receive them (not those retiring or otherwise stepping off the board). The company again neglected to specify the number of shareholders that provided feedback, or their ownership stake; however, it has exhibited a reasonable level of responsiveness to the prior year's failed say on pay vote.

Pay for Performance Analysis

The company generates a High concern under ISS' quantitative pay-for-performance evaluation, due to 3-year average CEO pay outranking the company's annualized 3-year TSR relative to a group of similar sized industry peers. Additionally, CEO pay has increased faster, on average, than indexed TSR over the last 5-fiscal-year period. Both outcomes are substantially driven by the $60 million payment (in cash and stock) to the CEO in 2013 in connection with a contract termination.

Industry downturn impacted performance; CEO pay also declined. Nabors' TSR performance continued to decline in 2014, in line with the industry downturn. Nabors' 2014 TSR of negative 22.8 percent was somewhat better than its 4-digit GICS group's return of negative 26.2 percent. Over the prior 3- and 5-year periods, the company lagged both its GICS group and the S&P 500 Index. Revenue increased about 10.6 percent from 2013, but the company reported a net loss of $669 million from continuing operations, including impairment charges of more than $1 billion, about two-thirds related to drilling rigs and equipment (with the balance related to goodwill and intangible assets). GAAP EBITDA (on which the company bases some incentive pay) was up about 6.3 percent. The CEO's pay package declined 77 percent in 2014, to $15.3 million, following its extraordinary level in 2013.

ANNUAL COMPENSATION

- ✓ *CEO salary increase modest in 2014 and temporary salary cuts made in 2015*
- ✓ *Short-term incentive now tied to disclosed metric and goal*

- ✗ *STI goal rigor difficult to discern*

Base salary increases followed by temporary cuts in response to industry conditions. CEO Petrello's base salary was raised 3 percent to $1.75 million for 2014 (CFO Restrepo was hired in March 2014, with a $650,000 salary). Both officers, along with other executives, are currently participating in a salary reduction initiative that cut base salaries for the Jan. 1 to June 30, 2015 period (subject to renewal). Petrello's annual salary was decreased by $220,000 to $1.53 million, and Restrepo's by $65,000 to $585,000.

As noted above, the company clarified in this year's proxy that it does not specifically benchmark pay levels, including salary, but "takes into account" compensation of similarly situated industry executives when determining salary, as well as necessary levels to attract talented executives from outside the industry and, for new hires, their most recent salary level.

EBITDA goal disclosed, though rigor unclear. Per his contract, the CEO's bonus target is set at 100 percent of base salary, and capped at 2-times target. The proxy lists a number of performance metrics that may be used for annual bonus awards, and says that Petrello's 2014 bonus was based on a goal for "adjusted EBITDA" (defined as operating cash flow) of $1.833 million. Adjusted EBITDA was selected because it is a significant consideration for stock analysts and, therefore, a key driver of share price – it was also stated in last year's proxy as the performance metric for 2013 awards, although no goal was disclosed.

Actual adjusted EBITDA for 2014 was $1.743 billion, which represented 95.1 percent of the target goal; as a result, Petrello received a payout of 95.1 percent of salary, or $1.664 million. That was 12.5 percent higher than his 2013 award, which the proxy stated had represented only 87 percent of his 2013 target bonus (also 100 percent of salary), although neither the 2013 EBITDA goal nor actual result were disclosed. In both years, if adjusted EBITDA were less than 70 percent of the target, no award was payable; and the maximum payout of 2-times target would be earned for EBITDA at 120 percent of goal.

Notably, the CEO's 2014 STI award was disclosed as "Non-equity Incentive Compensation" in the Summary Compensation Table, rather than the "Bonus" column as in prior years (indicating it was not based on pre-set goals in those years). The proxy states that the board may adjust goals to account for "significant events," but no adjustments were made to the CEO's targets in 2014. Although most financial metrics declined in 2014, the company did post higher EBITDA and operating cash flow; it is difficult to gauge the rigor of the adjusted EBITDA goal, however, and shareholders will likely want to monitor that going forward.

CFO Restrepo's 2014 STI award was based on a combination of adjusted EBITDA (weighted 70 percent) and SG&A expense goals, detailed on page 35 of the proxy.

LONG-TERM COMPENSATION

- ✓ *All equity awards are conditioned on some performance criteria*

- ✗ *Target TSR shares are earned for median performance, which may include negative TSR*
- ✗ *Performance shares are tied to one-year strategic goals, and disclosed as time-based stock*

No significant changes to long-term incentives. As highlighted in last year's report, the company previously adopted an entirely performance-based approach to long-term incentives, which consist of two award types:

1. "TSR shares" vest based on Nabors' 3-year total returns relative to a peer group. The 14-company peer group differs somewhat from the company's compensation peer group, and includes seven drilling & rig services firms and seven completion & production services companies, reflecting Nabors' two lines of business. The TSR shares peer group is intended to be more closely aligned with direct competitors according to the proxy.

2. "Performance shares" constitute 3-year restricted stock awards, which are granted only if the executive and/or company achieve pre-set financial or operational goals. The "performance shares" granted in 2014 relate to 2013 performance and vest ratably annually over 4 years, whereas shares granted in 2015 relate to 2014 performance and vest over 3 years.

TSR shares earned for mediocre performance. TSR share awards follow a typical structure: 25 percent of target shares are earned for threshold performance (in this case a 3-year TSR ranking of 12 or 13 out of the 15-member peer group); 100 percent of target shares are earned for median TSR (ranking of 8 or 9); and 200 percent are earned if Nabors ranks in the top three, with no consideration for negative TSR performance. The target value for Petrello's TSR award is 150 percent of salary.

Performance shares based on strategic objectives. Petrello's target performance share award is equivalent to 200 percent of his base salary in value, with a maximum potential award of 2-times that amount. The performance criteria are set in relation to a maximum award payout; according to the proxy, Petrello achieved 66 percent of his 2014 performance criteria, and thereby received an award of 384,721 restricted shares valued at "1.33x target," or $4.7 million – i.e., 66 percent of the maximum. Those shares were granted in February 2015 and vest in three equal annual installments.

The company disclosed that Petrello achieved two of three performance goals by: (1) delivering over $150 million in net proceeds from non-core asset sales during the fiscal year, "surpassing his goal by over 50%," and (2) developing a strategy for the U.S. land drilling business to "enhance market share in the U.S. Lower 48." His remaining goal related to a specific transaction with C&J Energy, part of the company's strategic transformation into a pure-play drilling and rig services "global leader." According to the proxy, the transaction "exceeded the [company's] initial goal," and resulted in increased liquidity, with the company receiving $688 million in cash plus retaining a 53 percent equity interest in the combined company, C&J Energy Services Ltd., allowing continued participation in the completion and production services market. However, the transaction was not completed prior to the board's evaluation of Petrello's performance goals for 2014, so he did not receive any performance shares with respect to that goal.

The proxy states that the criteria associated with performance shares that Petrello can earn during 2015 are tied to initiatives related to streamlining and strengthening the company's business operations and organization (matching what they disclosed last year with respect to his 2014 goals), as well as enhancing its competitive market position.

Other Notable Factors

Outsized Company-Selected Peers for Pay Benchmarking

The company's "Compensation Peer Group," which is utilized for compensation analysis with respect to the CEO and CFO, consisted of several peers that are significantly larger in size, in terms of revenue, as compared to Nabors. The proxy states that the peer group was selected from significant competitors in Nabors' line of business and companies of comparable size/complexity or similar operations in the industry and market. Although the company does not target compensation at a certain percentile within the peer group (this differs from last year, when the proxy indicated that CEO total compensation was benchmarked at the 75th percentile of peers), the inclusion of significantly lager peers for compensation comparison purposes could have an escalating effect on executive pay without a sufficient link to performance.

Conclusion

With regular prodding from shareholders, the company has slowly improved its executive pay program over the years. No wildly disproportionate compensation has been awarded to top executives since the highly criticized "contract termination" payments were made to the current and former CEOs, the last one occurring in 2013. In response to year-after-year of failed say on pay votes, amidst high pay packages and often lagging performance, the company has:

- Replaced its original annual incentive approach of allocating a set percentage of net cash flow to each of the CEO and COO every year, with a plan that provides for capped incentives based on goal attainment;
- Improved transparency around goals set and results achieved;
- Somewhat restrained severance packages, and eliminated excessive death/disability benefits;
- Apparently stopped benchmarking CEO pay at the 75th percentile of peers; and
- Eliminated automatic equity vesting upon a change in control.

While company performance continues to be volatile – mostly recently weakened in the energy industry downturn – Petrello's total pay in 2014 was at its lowest level since he became CEO in 2011, and Nabors again sought and responded to shareholder feedback regarding its compensation program. We again highlight concerns about the rigor of performance goals relative to potential awards, which warrants continued close monitoring of the company's program and practices. In consideration of all factors, however, cautionary support for the proposal is recommended this year.

Item 5. Adopt Retention Ratio for Executives — FOR

VOTE RECOMMENDATION

A vote FOR this proposal is warranted as the more rigorous guidelines recommended by the proponent may better address concerns about creating a strong link between the interests of top executives and long-term shareholder value.

BACKGROUND INFORMATION

Policies: Hold Equity Past Retirement or for a Significant Period of Time

Vote Requirement: Majority of votes cast (abstentions and broker non-votes count as votes against)

Discussion

PROPOSAL

The Trowel Trades S&P 500 Index Fund, the beneficial owner of more than $2,000 in the company's stock, has re-submitted a proposal to adopt a requirement that senior executives retain 75 percent of shares. Specifically, the proposal states:

> **RESOLVED:** Shareholders of Nabors Industries Ltd. (the "Company") urge the Compensation Committee of the Board of Directors (the "Committee") to adopt a policy requiring that senior executives retain a significant percentage of shares acquired through equity compensation programs until reaching normal retirement age or terminating employment with the Company. For the purpose of this policy, normal retirement age shall be defined by the Company's qualified retirement plan that has the largest number of plan participants. The shareholders recommend that the Committee adopt a share retention percentage requirement of at least 75 percent of net after-tax shares. The policy should prohibit hedging transactions for shares subject to this policy which are not sales but reduce the risk of loss to the executive. This policy shall supplement any other share ownership requirements that have been established for senior executives, and should be implemented so as not to violate the Company's existing contractual obligations or the terms of any compensation or benefit plan currently in effect.

SHAREHOLDER'S SUPPORTING STATEMENT

While the proponent encourages the use of equity-based compensation for senior executives, it is concerned that senior executives are generally free to sell shares received from the company's equity compensation plans. In the proponent's opinion, the company's current share ownership guidelines for its senior executives do not go far

enough to ensure that the company's equity compensation plans continue to build stock ownership by senior executives over the long-term.

As an example, the proponent cites the company's share ownership guidelines, which require the Chair and CEO to hold an amount of shares equivalent to an acquisition-date value of five times his base salary. This represented approximately 682,730 shares, according to the proponent, while the 2014 proxy statement reported that the CEO owned 11,354,224 shares. The proposal seeks to better link executive compensation with long-term performance and shareholder interests, by requiring a meaningful share retention ratio for shares received by senior executives from the company's equity compensation plans until they reach retirement age. The proponent cites 2009 report by the Conference Board Task Force on Executive Compensation, which found that such hold-through-retirement requirements give executives "an ever growing incentive to focus on long-term stock price performance as the equity subject to the policy increases" (available at http://www.conference-board.org/pdf_free/ExecCompensation2009.pdf).

BOARD'S STATEMENT

The board notes that shareholders rejected this same proposal in 2013 and 2014, in part, the board believes, because the company already has a retention policy, noting that 2014 support was below that in 2013. The board agrees that requiring senior executive ownership of meaningful amounts of company shares creates a beneficial alignment between the long-term interests of shareholders and senior executives, and that it, therefore, imposes significant share ownership requirements for its senior executives and maintains other policies that also align those interests. In light of existing practices, a strong culture of share ownership that exists among the company's senior executives, and "numerous deficiencies and potential unintended negative consequences of this proposal," the board believes that implementation of the proposal is inappropriate for the company. Moreover, because the proposal states that its implementation should not violate current agreements, the board questions the rationale for adopting it now, when implementation would be delayed to a future time, "when best practices may have evolved in a different way than the proponent currently thinks appropriate."

The board states that multiple components of the company's pay program (as described in detail in the proxy statement), already encourage a focus on long-term performance through incentive awards that either vest or are awarded on the basis of performance metrics. They include share ownership requirements for senior executives; for example, the CEO and CFO are required to maintain equity ownership with a minimum acquisition value of 5x and 3x their respective base salaries throughout their term of service. Additionally, officers' employment agreements prohibit them from engaging in transactions that result in a material conflict of interest with the company, so prevent them from entering into any hedging transactions involving company's shares. The company also has long had "a strong culture of executive share ownership," the board argues, stating that executives have traditionally held significant equity stakes throughout the industry's cyclical ups and downs. The CEO's current share ownership is 22 times the requirement in his contract, and he beneficially owns 11,399,614 company shares, including fully vested stock options, which represents an ongoing investment value of over $107 million as of April 6, 2015. Likewise, the CFO owns 450 percent of the share value required by his contract. Finally, the board asserts that senior executives have historically retained a majority of all net after-tax shares received under company equity compensation programs.

Analysis

ISS is in agreement that significant stock ownership by company management aligns shareholder interests with that of management. However when evaluating stock retention/holding period proposals, ISS takes into account the following:

- Rigorous ownership guidelines (at least 10x base salary);
- Holding period requirements coupled with significant long-term ownership requirements;
- A meaningful retention ratio;
- Actual executive stock ownership compared to the ownership/holding requirements;
- Any post-termination holding requirement policies or policies aimed at mitigating risk taking; and
- Pay practices (past and present) that may promote short-term versus long-term focus.

In this case, the company has stock ownership guidelines of only five times of base salary for the CEO and three times salary for the CFO, but there are no holding or retention guidelines for other executives. Notably, the company measures stock ownership by the "acquisition value," which is "market closing pricing on the date of grant or purchase." With respect to stock options, acquisition value is the Black-Scholes value on their grant date. The company views acquisition value as appropriate due to volatility of stock prices in its industry and complications that may arise from the use of a fluctuating valuation method.

Most companies compute stock ownership by way of actual company stock owned and may consider the intrinsic value of outstanding stock options. It is unusual to value stock ownership as defined by Nabors, which is the grant date value of equity grants, because the executive may subsequently dispose part of or the entire equity award in the future. Further, valuing subsequently underwater stock options (i.e., exercise price greater than current stock prices) at their original grant date value does not appear to be meaningful, and counting stock options towards satisfaction of ownership guidelines is not common practice in any case.

The five times base salary stock ownership guideline for the CEO is currently equivalent to $8.75 million worth of equity grants. His stock ownership had increased dramatically in the past few years due to sizable equity awards made in connection with termination of his prior employment agreement but now has slowed: Based on the 2015 beneficial ownership table, the CEO owns approximately 11.4 million shares (including the value of 3.78 million options that are either vested or scheduled to vest within 60 days of April 6, 2015), up from 11.35 million in 2014. Hence, the CEO's actual stock ownership far exceeds the stated guidelines based on current stock price valuation. However, the company has no policy requiring him to hold any of those shares in excess of the current guideline.

CONCLUSION

The limited stock ownership requirements that the company maintains are not considered robust, as they count grants rather than retained shares and max out at five times the CEO's salary. Once the stock ownership requirement is met, executives are not required to hold vested shares or shares acquired through the exercise of options. The proposal that senior executives hold at least 75 percent of net shares received from equity grants is rigorous, but would create a more meaningful long-term link between the interests of top executives and shareholders. While the proposal requirement is stringent, given the company's history of making large equity grants to top executives, it appears appropriate. Further, the board has demonstrated willingness to engage with shareholders and respond to their feedback, so the company would have leeway in implementing this non-binding proposal, to arrive at a reasonable retention requirement with which its shareholders concur and which would strengthen alignment between investors' and executives' long-term interests. As such, support for this proposal is recommended.

Item 6. Require Shareholder Approval of Specific Performance Metrics in Equity Compensation Plans

FOR

VOTE RECOMMENDATION

A vote FOR is warranted. Notwithstanding additional improvements to disclosure following in a fourth year of low support for the say-on-pay proposal in 2014, questions remain about goal rigor under both the short- and long-term incentive programs. While boards should generally be afforded maximum flexibility to set performance goals, in light of the company's multi-year history of problematic compensation issues, and some continuing concern around the issue of goal rigor, shareholders would benefit from the proposal.

BACKGROUND INFORMATION

Policies: Adopt Anti-Hedging/Pledging/Speculative Investments Policy | Non-Deductible Compensation Shareholder Proposals | Prohibit CEOs from serving on Compensation Committees

Vote Requirement: Majority of votes cast (abstentions and broker non-votes count as votes against)

For the third consecutive year, a shareholder (in this instance, the AFL-CIO Equity Index Fund) has submitted a non-binding proposal asking the company to adopt a policy that all equity plans submitted for approval per Section 162(m) of the tax code specify the awards to senior executive officers that will result from performance. Specifically, the proposal states:

> **RESOLVED:** Shareholders of Nabors Industries Ltd. (the "Company") urge the Compensation Committee ("Committee") to adopt a policy that all equity compensation plans submitted to shareholders for approval under Section 162(m) of the Internal Revenue Code will specify the awards to senior executive officers only that will result from performance. This policy shall require shareholder approval of quantifiable performance metrics, numerical formulas and payout schedules ("performance standards") for at least a majority of awards to the senior executive officers. If the Committee wants to use performance standards containing confidential or proprietary information it believes should not be disclosed in advance, they can be used for the non-majority of awards to the senior executive officers. If changing conditions make previously approved performance standards inappropriate, the Committee may adjust the performance standards and resubmit them for shareholder ratification. This policy should be implemented so as not to violate existing contractual obligations or the terms of any compensation or benefit plan currently in effect.

PROPONENT'S STATEMENT

The proponent points out that the company's 2014 advisory vote on executive compensation received only 40 percent support from shareholders, highlighting a disconnect between executive pay and long-term company performance that warrants "dramatic change." The proponent believes that a major contributing factor to this pay for performance misalignment is that the recent plans submitted for shareholder approval have only cited general criteria too vague or multitudinous to be meaningful, and preventing shareholders from knowing what criteria would be used to assess performance and in what way. The proponent is also concerned that the compensation committee is free to pick performance standards each year "to maximize awards."

The current stock plan provides awards may be subject to "a potpourri of 33 metrics," according to the proponent, including: (i) income before federal taxes and net interest expense; (ii) specific and measureable operational objectives in the areas of rig operating costs, accident records, downtime and employee turnover, (iii) completion of one or more specifically designated tasks identified as being important to the company's strategy or success. Such broad discretion, the proponent argues, does not give shareholders confidence that executive pay will be properly aligned with company performance. This proposal would continue to give the committee complete discretion to select any number of metrics and to structure them as it feels appropriate, but would require the committee, when submitting a plan for shareholder approval, to specify the performance standards establishing

the link between Company performance and specific awards. This is a common practice in the United Kingdom, the proponent notes. The proponent also provides some examples that would satisfy the request (solely as illustration, not intended to limit the company's discretion), including:

• If the company's share price increases 10 percent over its Peer Group for a 36-month period, the CEO would receive a grant of 100,000 company shares.

• If the Company's operating income increases 10 percent over five years, the CEO would receive a grant of 100,000 company shares.

BOARD'S STATEMENT

In recommending against this proposal, the board first notes that the same proposal was rejected by shareholders in 2013 and 2014 [it received only about 20 percent support, by the company's count, but just over 25 percent support from votes cast for and against the proposal in each of those years]. The company also points out that its most recent stock plan (criticized by the proponent) was supported by a nearly 70 percent vote. The board further argues that the company has made "sweeping changes" to its executive compensation program in response to shareholders' concerns and that, under their employment agreements, all of the long-term equity awards granted to the CEO and CFO are tied to specific performance metrics, with nearly half tied specifically to TSR relative to the company's peer group over a three-year period. The remaining equity awards are based on other performance criteria "determined from time to time to provide flexibility to the Compensation Committee (composed exclusively of independent directors) to craft metrics that align executive incentives the specific strategic goals of the company most relevant at a given time." The compensation committee believes it needs flexibility to address specific concerns as the company executes on its strategic plan and in a cyclical industry, while the proposal seeks to "encumber the nimbleness typically entrusted to the Board for that very reason." The board believes that the proposal is unnecessary because the company's equity compensation plans already specify a discrete set of objective performance metrics that must be achieved. If shareholders oppose the scope of performance metrics, the board argues, they can vote against the plan. Imposing an artificial set of prerequisites would unduly restrict the board's exercise of its fiduciary duties and require the board to exercise "a near-prophetic prowess in designing a set of future incentives."

The board also believes that the proposal would impair the compensation committee's ability to hire, retain, and incentivize executive talent by unnecessarily limiting its discretion in a competitive marketplace for executive talent. In addition, the board argues that the policy is impractical because it would require the company either to commit to performance metrics for equity awards in advance or to hold a shareholder vote on equity compensation plans at least annually, and shareholder meetings do not coincide with decisions regarding equity awards to employees. Conversely, setting performance metrics too far in advance would remove the committee's ability to closely tie equity grants to the company's strategic goals. Additionally, the board points out that the proposal would have no impact on the CEO and CFO, as their employment agreements outline specific parameters for performance metrics, and the proposal states it should be implemented so as not to violate existing contractual obligations. Finally, the board argues that the proposal language is too vague and ambiguous to implement, since it fails to specify any of the assumptions necessary to determine whether the "majority of awards" have been awarded pursuant to the metrics requested by the proposal. As a result, neither shareholders nor the company can fairly determine with any certainty exactly what actions or measures the proposal would require, the board says. Finally, the concerns underlying the proposal have already been addressed, the board argues.

Analysis

Executive compensation, including its structure, magnitude and linkage to company performance and shareholder interests, has been a perennial concern of shareholders, in particular at Nabors. This proposal was seen for the first time in 2013, and received 25.3 percent of votes cast for and against at Nabors; in 2014, the same proposal garnered 25.0 percent of votes cast in 2014. ISS follows a case-by-case approach in compensation related shareholder proposals requesting specific designs in incentive programs, based on the facts and circumstances at the company. ISS believes that the board and compensation committee are generally best qualified to determine

the incentive plan metrics that will encourage executive decision-making that promotes long-term shareholder value creation.

However, in limited circumstances, shareholders may wish to have specific information about the tie between award sizes and the performance required to earn them when they vote on equity plans for purposes of compliance with Section 162(m). As discussed in Item 4, the company's past incentive policy for the CEO has delivered outsized payments despite the company's lagging stock and financial performance. The incentive design essentially guaranteed bonus payments to the CEO for a number of years. The CEO's current agreement specifies target and maximum bonus opportunities, which somewhat allays shareholders' concerns about potential outsized payments for underperformance. Also, this year the company has disclosed more detail about the performance measures and goals underlying executives' annual bonus awards, though it is still difficult to judge their rigor. On the long-term side, a portion of equity-based awards are now based on the company's TSR relative to a company-selected peer group over a 3-year period; while goals are disclosed, shareholders may note that the target number is earned for median level performance, even if TSR is negative, and up to half the target shares may be earned for significant underperformance. The other half are granted in the form of 3-year time-vesting shares, with a 1-year performance hurdle, where goals are more qualitative and not discussed until after the measurement period, again making it difficult for shareholders to judge their rigor relative to the resulting award.

CONCLUSION

This precatory proposal would continue to afford discretion to the company to determine performance metrics and to change them as warranted, subject to shareholders' approval of the potential awards tied to such goals. As noted in Item 4, the company has slowly responded to shareholder concerns about its executive pay practices, resulting in a recommendation of cautionary support for this year's say-on-pay proposal, although there remains some concern around goal rigor relative to rewards. This proposal would enhance shareholders' ability to evaluate the rigor of incentive goals relative to potential payouts before they are implemented. Given the company's history of problematic practices, including less than full responsiveness to shareholders' concerns on various matters for multiple years, as well as the continuing lack of full disclosure about the goals generating significant executive awards, support for the proposal is warranted.

Item 7. Report on Sustainability, Including Goals and ESG Link to Executive Compensation

FOR

VOTE RECOMMENDATION

A vote FOR this proposal is warranted, as shareholders would benefit from the information disclosed in a comprehensive sustainability report. Such information would allow shareholders to better evaluate the company's sustainability performance and its management of related risks and opportunities.

BACKGROUND INFORMATION

Policies: Sustainability Reporting

Vote Requirement: Majority of votes cast (abstentions and broker non-votes count against)

Discussion

PROPOSAL

Appleseed Fund has submitted a precatory proposal requesting that Nabors publish a sustainability report that includes reduction targets for greenhouse gas (GHG) emissions and water usage, and that discloses the relationship between executive compensation and the company's financial, environmental, and social performance.

The resolution specifically reads:

"**RESOLVED:** Shareholders request that the Board of Directors prepare a sustainability report describing the company's short- and long-term responses to ESG-related issues, including goals for the reduction of greenhouse gas (GHG) emissions, water usage, and adverse environmental impacts of operations, and any linkage made by the company between executive compensation, including departure arrangements, and the company's financial, environmental, and social performance. The report, prepared at reasonable cost and omitting proprietary information, should be published and made available to the public by November 2015."

PROPONENT'S STATEMENT

The proponent argues in its supporting statement that tracking and disclosing ESG business practices increases company responsiveness to the global business environment and helps companies integrate and realize strategic value from their existing sustainability initiatives. The filer contends that reporting on ESG business practices can help a company "identify gaps and opportunities in products and processes, publicize innovative practices, structure aligned and prudent executive compensation policies, and recruit and retain employees." The proponent notes that services have emerged to support the integration of ESG considerations into investment decisions, and that an increasing proportion of companies are reporting on their sustainability initiatives and performance. The filer reports that Nabors has been the subject of controversies regarding its executive compensation practices, and is concerned that the company is "falling behind its peers in the disclosure and management of [ESG] issues." The proponent recommends that the company use the GRI guidelines as a reference for the requested report.

BOARD'S STATEMENT

The board argues in its opposing response that current disclosures provide sufficient information about the company's ESG business practices, and that producing the requested report would be an inefficient use of corporate resources, and would not provide a meaningful benefit to shareholders. Nabors recognizes the importance of addressing corporate environmental and social impacts, and provides information about its ESG-related disclosures. The company contends that the GRI guidelines are inappropriate, as they would require "detailed scientific and technical analyses, substantial and unreasonable amounts of funds and personnel time, and most likely the employment of consultants with specialized expertise." Nabors also argues that it would be impossible to produce a report in GRI format in the requested time frame, and that such a report would "divert [its] valuable resources from the actual oversight of environmental, social and governance issues and, in turn, impair the Company's long-term success."

BACKGROUND AND RELATED SHAREHOLDER ACTIVISM

For more information on sustainability reporting, see ISS' Environmental and Social Background Report. For an update on the most recent shareholder activism around this issue, refer to the 2015 Proxy Season Preview - U.S. Environmental and Social Issues Report.

This is the second year that Nabors has received a resolution asking the company to publish a sustainability report including GHG reduction goals. Last year the proposal received 43.5 percent shareholder support.

Analysis

CORPORATE RESPONSIBILITY

Although Nabors does not publish a corporate sustainability report, the company provides information commonly found in such a report on its Corporate Responsibility page.

Sustainability Statement

Nabors' Sustainability Statement reads:

> "Sustainability is an essential part of the corporate culture at Nabors and an integral part of our strategic plans. We know that our success is directly linked to implementing and executing a broad range of sustainable practices. Through technological innovation, environmental impact planning, corporate safety initiatives and community relations activities, Nabors understands that how we conduct business is of equal importance to our results. Corporate responsibility guides every aspect of our daily activities and is the key to our continued success."

Environment, Health & Safety

Nabors' Environment, Health & Safety section discusses the company's environmentally conscious operations, resource management and conservation, emissions reduction initiatives, well control, remediation and response procedures, safe fluids management and transportation initiatives, safe fracturing processes, disclosure of chemical contents used in hydraulic fracturing, better well control measures, employee health initiatives, safety policies, and personnel security.

The company reports on its SUPER ChemDAT System created by Nabors for chemical disclosure. The company states, "The customized, comprehensive and integrated active database connects product information to well data to provide an all-encompassing view of fracturing operations." Furthermore, Nabors says, "This database is key to meeting state regulations regarding hydraulic fracturing chemical disclosures and ultimately providing consistent, reliable and defensible data to the public. With a complete product management system and secure environment, Nabors can manage confidential data for all products and more than 1,300 chemical ingredients."

Nabors also highlights its PACE-X Rig, which, according to the company, "addresses responsible energy production."

Competency & Reliability

Nabors' Competency & Reliability section discusses asset integrity and personnel training. The company states that "personnel safety and environmental protection depend on the competency of our people and the reliability of our equipment. Our training, processes, policies and procedures are dedicated to these ends." Nabors provides information about operational procedures, personal protective equipment, safety audits, safety meetings and analyses, dropped objects maintenance, change management, equipment standards, and the company's Safety Training Observation Program.

Stakeholder Engagement

Nabors' Stakeholder Engagement section discusses the company's community outreach and charitable initiatives. The company has established a scholarship program, coordinates participation in an annual bicycle race to raise funds for multiple sclerosis research, supports employee involvement in mentoring programs, sponsors youth sports teams, and has established a charitable foundation that provides assistance to employees impacted by natural and civil disasters.

Technology

Nabors' Technology section states that the company "continues to develop and implement technology that makes [its] operations safer and more efficient while simultaneously reducing [its] environmental footprint." The company highlights a number of technologies that it has implemented to improve safety, performance, automation, and the environment.

Ethics & Governance

Nabors' Ethics & Governance section provides information about the company's business ethics and corporate governance. All directors, officers, and employees are required to certify compliance with the company's Code of Business Conduct. The code contains EHS guidelines and discusses the company's fair employment practices.

TECHNICAL AND SAFETY COMMITTEE

The board's Technical and Safety Committee is responsible for "[providing] assistance to the Board in fulfilling its oversight responsibility for reviewing and monitoring the Company s compliance with health, safety, and environmental standards; reviewing the Company s safety performance; and reviewing the Company s strategic technology position."

TECHNOLOGY & INNOVATION

Nabors' Technology & Innovation page states that the company's goal is to "[automate] the drilling process in order to bring increased levels of safety to [its] customers." The company is also developing technology "designed

to shrink [its] environmental footprint during completion and production operations." Nabors discusses a number of its related programs and initiatives.

PEOPLE & COMMUNITY

Nabors' People & Community page provides information about the company's community outreach initiatives. The company supports the Susan G. Komen Race for the Cure, the National Multiple Sclerosis Society, Wounded War Heroes, and United Way, as well as various mentor programs and local causes.

CONCLUSION

The proponent is requesting that Nabors publish a GRI-format sustainability report that includes reduction targets for greenhouse gas (GHG) emissions and water usage, and that discloses the relationship between executive compensation and the company's financial, environmental, and social performance. Nabors argues that current disclosures provide sufficient information about the company's ESG business practices, and that producing the requested report would be an inefficient use of corporate resources, and would not provide a meaningful benefit to shareholders.

Nabors does not publish a corporate sustainability report, although the company does discuss a number of related policies and initiatives on its website. Nabors provides information about its EHS program, asset integrity and personnel training, and community outreach. Nabors also discusses technology development, and indicates that the board's Technical and Safety Committee is responsible for overseeing the company's EHS standards. Nabors could provide more detailed information about management processes and oversight mechanisms it may have implemented to oversee its comprehensive sustainability initiatives. The company could also disclose quantitative data commonly included in corporate sustainability reports, such as metrics and goals regarding water use and air emissions.

Although producing a corporate sustainability report requires an expenditure of company resources, the cost and burden may be outweighed by benefits that could be realized through the identification and evaluation of potential risks, liabilities, and opportunities. Such disclosure would also allow shareholders to better assess the company's sustainability performance and its related management mechanisms. The proposal therefore warrants shareholder support.

Item 8. Adopt Proxy Access Right — FOR

VOTE RECOMMENDATION

A vote FOR this non-binding proposal is warranted because the expansion of proxy access to shareholders or shareholder groups owning 3 percent or more of outstanding shares will enhance shareholder rights while providing necessary safeguards to the nomination process.

BACKGROUND INFORMATION

Policies: Proxy Access

Vote Requirement: Majority of votes cast (abstentions and broker non-votes count against)

Discussion

PROPOSAL

The New York City Funds have submitted a shareholder proposal calling for the company to adopt a proxy access right with an ownership threshold of 3 percent of outstanding common stock. The proposal reads as follows:

> RESOLVED: Shareholders of Nabors Industries Ltd. (the "Company") ask the board of directors (the "Board") to adopt, and present for shareholder approval, a "proxy access" bylaw. Such a bylaw shall

require the Company to include in proxy materials prepared for a shareholder meeting at which directors are to be elected the name, Disclosure and Statement (as defined herein) of any person nominated for election to the board by a shareholder or group (the "Nominator") that meets the criteria established below. The Company shall allow shareholders to vote on such nominee on the Company's proxy card.

The number of shareholder-nominated candidates appearing in proxy materials shall not exceed one quarter of the directors then serving. This bylaw, which shall supplement existing rights under Company bylaws, should provide that a Nominator must:

a) have beneficially owned 3% or more of the Company's outstanding common stock continuously for at least three years before submitting the nomination;

b) give the Company, within the time period identified in its bylaws, written notice of the information required by the bylaws and any Securities and Exchange Commission rules about (i) the nominee, including consent to being named in the proxy materials and to serving as director if elected; and (ii) the Nominator, including proof it owns the required shares (the "Disclosure"); and

c) certify that (i) it will assume liability stemming from any legal or regulatory violation arising out of the Nominator's communications with the Company shareholders, including the Disclosure and Statement; (ii) it will comply with all applicable laws and regulations if it uses soliciting material other than the Company's proxy materials; and (c) to the best of its knowledge, the required shares were acquired in the ordinary course of business and not to change or influence control at the Company.

The Nominator may submit with the Disclosure a statement not exceeding 500 words in support of the nominee (the "Statement"). The Board shall adopt procedures for promptly resolving disputes over whether notice of a nomination was timely, whether the Disclosure and Statement satisfy the bylaw and applicable federal regulations, and the priority to be given to multiple nominations exceeding the one-quarter limit.

PROPONENT'S STATEMENT

The proponent believes that proxy access is "a fundamental shareholder right that will make directors more accountable and contribute to increased shareholder value." The proponent notes a 2014 assessment of academic studies by the CFA Institute, concluding that proxy access would "benefit both the markets and corporate boardrooms, with little cost or disruption," and the fact that similar proxy access bylaws have been adopted by a variety of companies in different industries. The proponent argues further that "the case for reform at Nabors is compelling," due to the board's lack of responsiveness to shareholder concerns and because it "has repeatedly awarded excessive CEO compensation despite poor performance." Finally, the board points out that this proposal received the majority of votes cast at Nabors for the past three years.

BOARD'S STATEMENT

The board argues that an identical proposal "failed to receive the requisite shareholder vote for approval" in 2013. Nevertheless, the board adopted a proxy access policy after "extensive dialogue with one of the prior proponents of the proxy access proposal." In 2014, an identical shareholder proposal again failed to receive the requisite vote, which the board takes as confirmation that this proposal is "unnecessary." The board goes on to argue that its policy, under which a single shareholder may nominate a single director candidate through proxy access if that shareholder has owned 5 percent or more of the company's outstanding shares for at least three years, "tracks the proposal in all respects except for the threshold of share ownership required to obtain proxy access."

The board further argues that shareholders "also have other effective means of influencing the director nomination process," such as making recommendations to the Governance and Nominating Committee, and points out that two of its directors were "originally appointed at the suggestion of [Nabors'] then-largest shareholder." The board asserts that the company has "demonstrated its willingness to engage with shareholders

regarding proposed director nominees," and observes that "the proponents do not allege that any director candidate proposed by any shareholder has ever failed to receive due consideration."

The board goes on to characterize the proponent's charges of unresponsiveness as "stale," citing numerous steps the board has taken in 2014 and 2015 in response to shareholder concerns. These include "completely restructur[ing] our CEO's compensation," reconfiguring the compensation committee, appointing a new independent director suggested by the former largest shareholder, adopting a bylaw amendment to disregard broker non-votes in determining the results of matters submitted to a shareholder vote [see Item 3 above], adopting a policy to separate the roles of chairman and CEO following the tenure of the current chairman and CEO, strengthening the role of the lead director, transitioning to a fully declassified board, and adopting the aforementioned proxy access policy.

BACKGROUND ON PROXY ACCESS

Proxy access has been a topic of discussion for decades among the investor and issuer communities as well as the Securities and Exchange Commission, which has made several attempts to craft a marketwide proxy access rule. In 2010, the SEC proposed a measure which would have required an investor or group of investors to meet an ownership threshold of at least 3 percent of the company's shares continuously for at least the prior three years in order to nominate directors (up to 25 percent of the company's board) at public companies. Although this rule was ultimately struck down by the D.C. Circuit Court, the SEC lifted its stay on access proposals under Rule 14a-8, thereby allowing shareholders to submit proposals for proxy access procedures in company proxy materials.

Absent a uniform standard, shareholder proposals aimed at providing access have sometimes varied widely from the SEC-adopted standard, though resolutions mirroring the Commission’s rule have generally received the highest levels of support. In 2014, ten such shareholder proposals went to a vote and averaged support of 53.7 percent of votes cast.

In line with institutional investor feedback, ISS generally recommends a vote for management and shareholder proposals with the following provisions:

- **Ownership threshold**: maximum requirement not more than three percent (3%) of the voting power;

- **Ownership duration**: maximum requirement not longer than three (3) years of continuous ownership for each member of the nominating group;

- **Aggregation**: minimal or no limits on the number of shareholders permitted to form a nominating group;

- **Cap**: cap on nominees of generally twenty-five percent (25%) of the board.

ISS will consider the reasonableness of any other restrictions on the right of proxy access, but will generally recommend a vote against proposals that are more restrictive than these guidelines.

Analysis

Form of proposal	Non-binding
Ownership threshold	3 percent of shares outstanding
Duration threshold	Three years
Cap on shareholder nominees	25 percent of the board, or one director based on the current board size of seven
Current market capitalization	$4.63 billion as of May 13, 2015
Implied ownership threshold	$139 million
Investors currently meeting ownership threshold	Vanguard Group, SSgA Funds Management, WHV Investment Management, BlackRock Fund Advisors, Sasco Capital
Other provisions	None

ANALYSIS OF PROPOSED ACCESS RIGHT

Implementation of this proposal would enable an individual shareholder or group of shareholders that has held at least 3 percent of the company's voting rights for at least three years to include director candidates in the company's proxy materials. The proposal is non-binding, so support from holders of a majority of votes cast on this item would not automatically result in changes to the company's existing proxy access policy.

Although the board states that the existing policy "tracks the proposal in all respects except for the threshold of share ownership required to obtain proxy access," there are in fact two other notable differences. Nabors' existing policy provides that a single shareholder may nominate a single director candidate for inclusion in the company's proxy materials if that shareholder has continuously owned 5 percent or more of outstanding common shares for at least three years commencing on or after June 3, 2014. The proposal on the ballot at this meeting, and most other such proposals, would allow a group of shareholders to pool their holdings to reach the ownership threshold; and would allow the nominating shareholder or group of shareholders to nominate multiple candidates, as long as the "access nominees" would not exceed 25 percent of the board. At the current board size of seven members, the company's one-director limit equates in practice to the proposed 25 percent cap, but should the board size increase in the future, the number of "access nominees" could increase as well, should this proposal be enacted. At current ownership levels, there is only one shareholder (The Vanguard Group) who would qualify to use Nabors' current proxy access right, assuming the ownership duration requirements are met. Lowering the ownership threshold to 3 percent would allow an additional four shareholders to use proxy access on their own (assuming they have held their shares for three years or more), and allowing shareholders to pool their holdings would extend the right to a wide array of shareholders, assuming those shareholders could agree among themselves on a suitable candidate. However, proxy access merely allows shareholders to place nominees on the ballot. To be elected to the board, any candidate would have to win broad support from shareholders voting at the meeting.

Even if the board size increases in the future, the 25 percent cap would safeguard against a change in board control via proxy access. The board would adopt procedures for determining the priority to be given to multiple nominations exceeding the 25 percent limit. Each nominator would be required to give the company written notice within the time period identified in the company's bylaws of information that the bylaws and SEC rules require about the nominee and the nominator, including proof of ownership of the required shares. A nominator would be required to make certain certifications, including that the required shares were acquired in the course of business and not to change or influence control at the company. A nominating party would be entitled to submit a brief statement not exceeding 500 words. Further, the board would adopt procedures for resolving disputes over whether the notice of a nomination, Disclosure, and Statement satisfy the bylaw and any applicable federal regulations.

GOVERNANCE STRUCTURE AND PRACTICES

For investors who may choose to give higher weighting to the company's corporate governance structure and practices in determining a vote on this proposal, we acknowledge that the company has made some progress in modernizing its corporate governance, as detailed in the analyses of Items 1 and 3 above, but do not agree with the board's contention that concerns about board responsiveness are "stale." The board asserts that prior versions of this proxy access proposal "failed to receive the requisite shareholder vote for approval," but that is due to the company's practice of counting broker non-votes as votes against the proposal – an uncommon practice that the board has now admitted should be changed. Proposals to implement proxy access at a 3 percent threshold, and allow aggregation of ownership to reach that threshold, have received majorities of the votes cast "FOR" and "AGAINST" the proposals in each of the last three years, yet the board continues to resist fully implementing these proposals, as well as proposals to adopt a true majority vote standard. Moreover, the board has renominated directors who failed to receive majority support, without fully addressing the underlying issues which led to the low rates of support.

CONCLUSION

Proxy access, if structured properly, is an important shareholder right. Access complements other best-practice governance features and is standard practice in many markets. A well-crafted proxy access right can provide shareholders with a means of effecting change without incurring the expense of launching a proxy contest.

In this case, the proposed eligibility requirements to use proxy access are robust and the proposal includes safeguards to ensure that the proposed access right would not be used to effect a change of control. Further, the proposal would allow the board to adopt a process for determining which nominees appear on the ballot if numerous shareholders nominate board candidates. By contrast, the company's existing proxy access policy, which limits exercise of the right to 5 percent owners and does not allow groups of smaller shareholders to pool their holdings to reach this threshold, is unduly restrictive and the thresholds set forth in this proposal appear to be more appropriately aligned with the best interests of all shareholders. As such, this proposal warrants support.

Item 9. Require a Majority Vote for the Election of Directors — FOR

VOTE RECOMMENDATION

A vote FOR this proposal is warranted as it would give shareholders a more meaningful voice in the election of directors and enhance the company's corporate governance.

BACKGROUND INFORMATION

Policies: Majority Vote Standard for the Election of Directors

Vote Requirement: Majority of votes cast (abstentions and broker non-votes count as votes against)

Discussion

PROPOSAL

The Massachusetts Laborers' Pension Fund has submitted this shareholder proposal requesting the company take the necessary steps to provide for a majority vote standard for the election of directors. Specifically, the proposal reads:

"RESOLVED: That the shareholders of Nabors Industries Ltd. ("Company") hereby request that the Board of Directors take the necessary steps (excluding those steps that must be taken by shareholders) to provide that director nominees shall be elected by the affirmative vote of the majority of votes cast at an annual meeting of shareholders, with a plurality vote standard retained for contested director elections. For purposes of this proposal, a contested election is defined as an election in which the number of director nominees exceeds the number of available board seats."

SHAREHOLDER'S SUPPORTING STATEMENT

The proponent argues that a majority vote standard would "provide shareholders a meaningful role in director elections," and that establishing a "challenging vote standard for board nominees" would "improve the performance of individual directors and entire boards." The proponent notes that "in response to strong shareholder support for a majority vote standard, over 85 percent of companies in the S&P 500" have adopted majority voting; and that these companies have adopted director resignation policies to address issues related to the status of nominees who fail to win majority support, thus ensuring that the board retains a post-election role in determining the status of an unelected director. However, the proponent states that Nabors "has responded only partially to the call for change," by adopting a post-election director resignation policy while retaining the plurality vote standard.

BOARD'S STATEMENT

The board opposes this proposal, arguing that its director resignation policy, as enhanced by the new requirement that the board publicly disclose the reason for not accepting any resignation tendered under that policy, already "addresses the proponent's concern," and that the vote standard sought by the proponent represents "change for change's sake alone." The board believes that adopting this proposal "could disrupt orderly function of the board and increase the possibility of failed elections, which could annually create an additional, and potentially expensive, process of identifying and electing new directors to fill vacant board positions" and could increase the workload of the remaining directors and disrupt the normal functioning of board committees. And the board asserts that its decision to reject the resignation of the three directors who failed to receive majority support in 2014, and instead to reconstitute the compensation committee, "demonstrates the advantages in the company's current policy over the rigid structure in the proposal," because allowing the board to "use its discretion to analyze the needs of the board and the concerns of the shareholders and reach a resolution that avoids a 'failed' election" represents a "more nuanced approach," compared to the "blunt instrument" afforded by the proposed vote standard. Finally, the board faults the proponent for asserting that a true majority vote standard would improve the performance of the board, without articulating any performance deficiencies of Nabors' board or of any individual directors.

Analysis

Under most state corporate laws, a plurality vote is the default standard in the election of the board of directors. However, these laws typically provide shareholders with the ability to set a different threshold, and an increasing number of companies set a majority (of the shares cast or the shares outstanding) as the vote requirement in board elections.

Under a plurality system, a board-backed nominee in an uncontested election needs to receive only a single affirmative vote to claim his or her seat in the boardroom. Even if holders of a substantial majority of the votes cast "withhold" support, the director nominee "wins" the seat.

Under the majority vote standard advocated in this proposal, a director nominee must receive support from holders of a majority of the votes cast in order to be elected (or re-elected) to the board. The failure of a nominee to receive majority support would necessitate action by the board, and what action the board is compelled to take is the subject of debate. Companies are strongly encouraged to adopt a post-election policy (also known as a director resignation policy) that will provide guidelines so that the company will promptly address the situation of a "holdover" director.

The majority voting election standard (in uncontested situation) coupled with a post-election "director resignation policy" has emerged as the current state of the art: shareholders have a clear, legally significant vote, and the board retains the ability to address the situation of "holdover" directors to accommodate both shareholder concerns and the needs for stability and continuity of the board.

The basic premise of majority voting is simple and direct. The plurality board election system is undemocratic in uncontested elections. Directors who run unopposed keep their board seats even when they fail to win majority support. And while Nabors' board characterizes a majority vote standard as relatively novel, that characterization is out of date. In the U.S., most large corporate issuers now use a majority standard in boardroom elections, and most non-US markets require shareholders to ratify director nominees by a majority vote.

CONCLUSION

Director accountability is the hallmark of good governance. The board election process must ensure that shareholders' expressions of dissatisfaction with the performance of directors have meaningful consequences. A majority vote standard transforms the director election process from a symbolic gesture to a meaningful voice for shareholder. ISS believes that proposals seeking majority vote requirements in boardroom elections warrant shareholder support provided a majority vote requirement does not conflict with the state law where the company is incorporated. Further, ISS will not support any resolutions that do not allow for a carve-out for plurality elections when there are more nominees that board seats. ISS advocates that a majority vote standard coupled with a director resignation policy would give full effect to the shareholder franchise.

In this case, the shareholder proposal provides for a plurality carve-out, and the proponent's supporting statement makes it clear that the company would be expected to adopt a director resignation policy – or more precisely, adapt its existing director resignation policy to fit with the majority vote standard. Although the board's response to this proposal seems to conceive of a majority vote standard as requiring the immediate and permanent removal of a director who fails to receive majority support, the proponent makes clear that the board would retain the ability to reappoint such a director. In practice, the most significant difference between a "plurality plus" standard such as the company currently employs and a true majority vote standard is that in the latter case, there is a presumption that a director who fails to win a majority has not been validly elected, and the board would have a higher "burden of proof" should it choose to keep such a director after he or she has failed to win a majority. Accordingly, a true majority vote standard would be in shareholders' interest, and support for this proposal is warranted.

Equity Ownership Profile

Type	Votes per share	Issued
Common Shares	1.00	329,557,195

Ownership - Common Shares	Number of Shares	% of Class
The Vanguard Group, Inc.	25,260,112	7.67
SSgA Funds Management, Inc.	16,022,228	4.86
WHV Investment Management, Inc.	15,957,367	4.85
BlackRock Fund Advisors	13,625,468	4.14
Sasco Capital, Inc.	11,410,805	3.46
Invesco Advisers, Inc.	9,086,158	2.76
Van Eck Associates Corp.	8,597,227	2.61
PETRELLO ANTHONY G	7,616,127	2.31
Millennium Management LLC	5,959,268	1.81
AJO LP	5,846,420	1.78
Dimensional Fund Advisors LP	5,765,826	1.75
TCW Asset Management Co.	5,391,774	1.64
INTECH Investment Management LLC	4,808,700	1.46
Citadel Advisors LLC	4,608,773	1.40
Security Investors LLC	4,596,290	1.40
Northern Trust Investments, Inc.	3,931,247	1.19
JPMorgan Investment Management, Inc.	3,732,612	1.13
Fidelity Management & Research Co.	3,254,863	0.99
KNASTER ALEXANDER MARK	3,260,000	0.99
Wells Fargo Advisors LLC	3,235,282	0.98

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Additional Information

Meeting Location	Fairmont Hamilton Princess Hotel, 76 Pitts Bay Road, Hamilton, Bermuda
Meeting Time	11:00
Shareholder Proposal Deadline	December 25, 2015
Solicitor	Georgeson Shareholder Communications, Inc.
Security IDs	G6359F103(CINS)

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