CALSTRS
HOW WILL YOU SPEND YOUR FUTURE?

California State Teachers'
Retirement System
Investments
100 Waterfront Place, MS-04
West Sacramento, CA 95605-2807
(916) 414-7410 Fax (916) 414-7442
asheehan@calstrs.com

October 6, 2011

Mr. John V. Lombardi
Chairman of the Compensation Committee
Nabors Industries Ltd
Crown House
4 Par-La-Ville Road
Hamilton, HM 08 Bermuda

Dear Mr. Lombardi,

We are writing to you on behalf of the members of the California State Teachers' Retirement System (CalSTRS). CalSTRS was established for the benefit of California's public school teachers over 95 years ago and is currently the second-largest public pension system in the United States. The CalSTRS portfolio is currently valued at approximately $146 billion and serves the investment and retirement interests of nearly 852,000 plan participants. The long-term nature of CalSTRS' liabilities, and its responsibilities as a fiduciary to its members, makes the fund keenly interested in governance issues.

We have carefully followed the implementation of the Dodd-Frank financial reform legislation and the application of the mandatory Say-on-Pay requirement for U.S. public companies. Prior to Dodd-Frank, the overwhelming criticism we heard from issuers was the lack of clarity around what an "against" vote on Say-on-Pay meant. Currently, CalSTRS holds 848,356 shares worth $15,643,684.64 of Nabors Industries Ltd and, as you may know, we voted against the Say-on-Pay at your Company's 2011 annual meeting. We believe transparent proxy voting and open communication are important, so in this vein we write to inform you of our reasons for voting against Nabors Industries Ltd's Say-on-Pay.

***Pay for Performance Disconnect***
The overriding tenet of any well designed compensation plan should be a link between pay and performance of the company. We believe performance goals should be disclosed and performance hurdles should be meaningful to drive long-term shareholder value. Based on our analysis, there was a disconnect between your Company's performance and the compensation awarded its executives.As a permanent investor we are very focused on long-term total shareholder returns. Initially, your Company was identified because the 5 year total return for your Company's stock is negative on an absolute basis. Next, your company's performance and compensation was examined relative to the peers identified in your proxy.

Your company underperformed its peers in both the 1- and 3-year time periods, yet compensated its CEO on par or above its peers. The lack of clarity into how your company links pay to performance is exaggerated by the overwhelming use of discretion afforded your committee. While we understand that boards of directors require some flexibility when determining compensation, we believe there should be a portion of executives' pay that is transparent and easily discernable by shareholders.

***CEO Base Salary Above Tax Deductible Limit***

CalSTRS believes an over-whelming majority of an executive's compensation should be performance-based. When an executive's base salary is above the tax deductible limit the company fails to maximize shareholder return by fully utilizing the tax shields. In addition, because other portions of compensation are usually factors of base salary (i.e. bonuses, pension benefits), it is not merely the dollar amount over $1 million that is problematic. It is the fact that starting with a high base can lead to overly generous compensation packages.

***Ratio of CEO Total Compensation to Average of NEO's***

As part of the Dodd-Frank legislation, there have been discussions about various pay ratios or sometimes referred to as, internal pay equity. We at CalSTRS understand that companies operate under various business models and their use of employee capital is deployed differently. This being said, we do think the pay ratio at the top of a company gives some insight into the workings of the board. We have found on average that the CEO pay to the average of the next four named officers is generally between 2 and 3 times. A ratio over 3 causes us to question the board's succession plan, the internal culture of the company, and the CEO's influence over the board. While we would never vote against a company's say-on-pay for this one factor, your Company was identified as having an executive pay ratio over 3 in conjunction with the other factors discussed in this letter.

***Extraneous Peer Group***

CalSTRS understand the challenges companies face when selecting a peer group and peer group are intertwined with performance measurement and compensation. This challenge is complicated as there is no widely accepted standard to establish peer groups. In some cases, companies fail to adequately disclose their rationale for selecting a particular peer or set of peers. In other cases, the justification is unacceptable because the number of companies in the group is too large, the sheer size of the companies is mismatched, or the peers are in an unrelated industry. While some of these deficiencies can be remedied with further disclosure, others appear as outliers when compared to other companies of similar size and within the same industry.

Your company was identified as having an unusual set of peers to which the company uses as a benchmark. We think your Company could benefit from further review of its peer group and a careful examination of the peers used by companies of similar size and in your own industry.

***Employment Agreements***
CalSTRS believes that in some instances employment or contractual agreements may be a necessary tool in order to recruit new executives or in times of transitions. We can be supportive of these types of arrangements when the company has described specific circumstances under which they may be used, the time periods covered by the arrangements, and the provisions for renewing or eliminating the agreements. We are less supportive of employment agreements when applied to a founder or long-standing member of a company's executive team or in instances where agreements are evergreen. We are especially critical of employment contracts that provide for any kind of "guaranteed" compensation for seasoned executives or expose the company to liabilities with excessive transfers of the corporate treasury to executives.

We identified your Company as having entered into employment agreements with certain executives that also have an automatic renewal feature. We do not believe these types of arrangements are in the best interests of shareholders and merely serve the interests of the executives. Furthermore, the elimination of contractual arrangements is seen as a move toward best practices as more and more companies are doing away with these agreements.

We would encourage your Company to dissolve its employment agreements, or at the very least commit to not entering into future agreements. If your Company still feels these types of arrangements are necessary we urge you to provide substantial disclosure as to why employment agreements are indispensable at your firm when so many U.S. companies have managed without them.

As one of only 37 companies in the Russell 3000 to have its Say-on-Pay voted down by shareholders, we hope you view this as an opportunity to engage your shareholders in an effort to overhaul your compensation program. We are happy to discuss our concerns at your earliest convenience. Should you have any immediate questions or wish to set up a call, please contact Aeisha Mastagni by phone at 916-414-7418 or by email at amastagni@calstrs.com.

Thank you for your attention in this matter.

Sincerely,

Anne Sheehan
Director of Corporate Governance

cc: Mr. William T. Comfort, Member of the Compensation Committee
Mr. James L. Payne, Member of the Compensation Committee