

NATIONAL OILWELL INC

Form 424B3

February 04, 2005

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Filed pursuant to Rule 424(b)(3)

Registration No. 333-119071

PROPOSED MERGER YOUR VOTE IS VERY IMPORTANT

Dear Stockholders:

On August 11, 2004, National-Oilwell, Inc. and Varco International, Inc. agreed to combine their businesses by merging Varco with and into National Oilwell, with National Oilwell continuing as the surviving corporation. We are proposing the merger because we believe it will benefit the stockholders of both companies by creating a larger, more diversified company that is better positioned to compete in the global marketplace. The name of the combined company will be National Oilwell Varco, Inc. and its shares will be traded on the New York Stock Exchange under the trading symbol NOV.

In the merger, each Varco stockholder will receive 0.8363 of a share of National Oilwell common stock for each share of Varco common stock that the stockholder owns. National Oilwell stockholders will continue to own their existing shares, which will not be affected by the merger. We estimate that immediately after the merger National Oilwell stockholders will hold approximately 51%, and Varco stockholders will hold approximately 49%, of the outstanding shares of the combined company based on the number of shares of National Oilwell and Varco common stock outstanding on January 27, 2005. Shares of National Oilwell common stock and Varco common stock are traded on the New York Stock Exchange under the trading symbols NOI and VRC, respectively. On February 3, 2005, the last trading day before the date of this document, National Oilwell common stock closed at \$38.49 per share as reported on the New York Stock Exchange. We do not expect that Varco stockholders will recognize any gain or loss for U.S. federal income tax purposes as a result of the merger.

In order to consummate the merger, the merger agreement must be adopted by the National Oilwell stockholders and the Varco stockholders. The obligations of National Oilwell and Varco to complete the merger are also subject to the satisfaction or waiver of several other conditions to the merger, including receiving approvals from regulatory agencies. This document contains detailed information about National Oilwell, Varco and the proposed merger. We encourage you to read carefully this entire document before voting, including the section entitled Risk Factors beginning on page 16 of this document.

National Oilwell's board of directors has unanimously approved the merger agreement and determined that it is advisable and in the best interests of National Oilwell and its stockholders. Accordingly, National Oilwell's board of directors recommends that National Oilwell stockholders vote FOR the proposal to adopt the merger agreement.

Similarly, Varco's board of directors has unanimously approved the merger agreement and determined that it is advisable and in the best interests of Varco and its stockholders. Accordingly, Varco's board of directors recommends that Varco stockholders vote FOR the proposal to adopt the merger agreement.

National Oilwell is also proposing to adopt a new long-term incentive plan to accommodate the larger employee base of the combined company after the merger. Adoption of that plan requires the approval of the National Oilwell stockholders and is subject to the completion of the merger. National Oilwell's board of directors recommends that National Oilwell stockholders vote to approve the new long-term incentive plan.

The proposals are being presented to the stockholders of National Oilwell and Varco at their special meetings. The dates, times and places of the meetings are as follows:

For National Oilwell stockholders:
March 11, 2005, 10:00 a.m., C.T.
Houston Marriott Westchase
Briarpark Room
2900 Briarpark Drive
Houston, Texas 77042

For Varco stockholders:
March 11, 2005, 10:00 a.m., C.T.
Houston Marriott Westchase
Richmond Room
2900 Briarpark Drive
Houston, Texas 77042

Your vote is very important. The merger cannot be completed unless the National Oilwell and Varco stockholders adopt the merger agreement. Whether or not you plan to attend your company's special meeting, please take the time to vote by completing and mailing us the

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enclosed proxy card or by submitting your voting instructions over the Internet or telephone. If your shares are held in street name, you must instruct your broker in order to vote.

Sincerely,

MERRILL A. MILLER, JR.
Chairman, President and Chief Executive Officer
NATIONAL-OILWELL, INC.

JOHN F. LAULETTA
Chairman of the Board and Chief Executive Officer
VARCO INTERNATIONAL, INC.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this document is truthful or complete. Any representation to the contrary is a criminal offense.

This document is dated February 4, 2005, and was first mailed to National Oilwell and Varco stockholders on or about February 9, 2005.

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NATIONAL-OILWELL, INC.

**10000 Richmond Avenue
Houston, Texas 77042-4200**

NOTICE OF SPECIAL MEETING OF STOCKHOLDERS

To Be Held on March 11, 2005

To National-Oilwell, Inc. Stockholders:

We will hold a special meeting of stockholders of National-Oilwell, Inc. for the following purposes:

To consider and vote on the adoption of the Amended and Restated Agreement and Plan of Merger, effective as of August 11, 2004, between National-Oilwell, Inc. and Varco International, Inc., as amended prior to the special meeting. Adoption of the merger agreement will also constitute approval of the issuance of shares of National Oilwell common stock in the merger and an amendment to National Oilwell's certificate of incorporation increasing the authorized number of shares of common stock to 500 million, eliminating the class of special voting stock and changing the company's name to National Oilwell Varco, Inc.;

To consider and vote on the approval of the National Oilwell Varco Long-Term Incentive Plan;

To consider and vote on any proposal to adjourn the special meeting for any reason, including to solicit additional proxies if there are not sufficient votes in favor of the foregoing proposals; and

To transact other business as may properly be presented at the meeting or any adjournments of the meeting.

The date, time and place of the meeting are as follows:

March 11, 2005

10:00 a.m., local time
Houston Marriott Westchase
Briarpark Room
2900 Briarpark Drive
Houston, Texas 77042

Only stockholders of record at the close of business on February 3, 2005, are entitled to notice of and to vote at the meeting and any adjournments of the meeting. National Oilwell will keep at its offices in Houston, Texas a list of stockholders entitled to vote at the meeting available for inspection for any purpose relevant to the meeting during normal business hours for the 10 days before the meeting.

YOUR PROXY IS IMPORTANT. WHETHER OR NOT YOU EXPECT TO ATTEND THE MEETING, PLEASE VOTE IN ANY ONE OF THE FOLLOWING WAYS:

use the toll-free telephone number shown on the proxy card;

use the Internet website shown on the proxy card; or

mark, sign, date and promptly return the enclosed proxy card in the postage-paid envelope. No postage is required if mailed in the United States.

If your shares are held in street name, which means shares held of record by a broker, bank or other nominee, you should check the voting instructions provided by the broker, bank or nominee to determine whether you will be able to vote over the Internet or by telephone.

You may revoke your proxy at any time before it is voted at the special meeting. If your shares are held in an account at a brokerage firm, bank or other nominee, you must instruct them on how to vote your shares and you must contact your broker, bank or nominee to revoke your

proxy.

The accompanying document describes the proposed merger in more detail. We encourage you to read the entire document before voting your shares.

The National Oilwell board of directors unanimously recommends that National Oilwell stockholders vote FOR the adoption of the merger agreement and approval of the National Oilwell Varco Long-Term Incentive Plan.

By Order of the Board of Directors

M. GAY MATHER
Corporate Secretary

Houston, Texas
February 4, 2005

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VARCO INTERNATIONAL, INC.

**2000 W. Sam Houston Parkway South, Suite 1700
Houston, Texas 77042**

NOTICE OF SPECIAL MEETING OF STOCKHOLDERS

To Be Held on March 11, 2005

To the Stockholders of Varco International, Inc.:

We will hold a special meeting of the stockholders of Varco International, Inc. on March 11, 2005, at 10:00 a.m., local time, at Houston Marriott Westchase, Richmond Room, 2900 Briarpark Drive, Houston, Texas 77042, for the following purposes:

1. To consider and vote on the adoption of the Amended and Restated Agreement and Plan of Merger, effective as of August 11, 2004, between National-Oilwell, Inc., a Delaware corporation, and Varco International, Inc., a Delaware corporation, as amended prior to the special meeting, pursuant to which Varco will be merged with and into National Oilwell and each outstanding share of Varco common stock will be converted into 0.8363 of a share of National Oilwell common stock;
2. To consider and vote on any proposal to adjourn the special meeting for any reason, including to solicit additional proxies if there are not sufficient votes in favor of the foregoing proposal; and
3. To transact any other business as may properly come before the special meeting or any adjournments or postponements of the special meeting.

Only stockholders of record at the close of business on February 3, 2005, are entitled to notice of and to vote at the special meeting and any adjournments or postponements of the special meeting. A complete list of Varco stockholders of record entitled to vote at the special meeting will be available for the 10 days before the special meeting at our executive offices and principal place of business for inspection by stockholders during ordinary business hours for any purpose germane to the special meeting.

Your vote is very important. All Varco stockholders are cordially invited to attend the special meeting in person. Whether you plan to attend the special meeting or not, if you are the record holder of your shares, please vote using one of the following methods to make sure that your shares are represented and voted at the special meeting:

use the toll-free telephone number shown on the proxy card;

use the Internet website shown on the proxy card; or

mark, sign, date and promptly return the enclosed proxy card in the postage-paid envelope. No postage is required if mailed in the United States.

If your shares are held in street name, which means shares held of record by a broker, bank or other nominee, you should check the voting instructions provided by the broker, bank or nominee to determine whether you will be able to vote over the Internet or by telephone.

You may revoke your proxy at any time before it is voted at the special meeting. If your shares are held in an account at a brokerage firm, bank or other nominee, you must instruct them on how to vote your shares and you must contact your broker, bank or nominee to revoke your proxy.

The accompanying document describes the proposed merger in more detail. We encourage you to read carefully the entire document before voting your shares.

The Varco board of directors unanimously recommends that Varco stockholders vote FOR the adoption of the merger agreement.

By Order of the Board of Directors,

JAMES F. MARONEY, III

Vice President, Secretary and General Counsel

Houston, Texas
February 4, 2005

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QUESTIONS AND ANSWERS ABOUT THE MERGER

Q: Why am I receiving these materials?

A: National Oilwell and Varco have agreed to combine their businesses by merging Varco with and into National Oilwell under the terms of a merger agreement that is described in this document and attached to this document as Annex A. The merger cannot be completed without obtaining the appropriate approvals of the stockholders of each of National Oilwell and Varco. National Oilwell is also proposing to adopt the new National Oilwell Varco Long-Term Incentive Plan, which we sometimes refer to in this document as the Long-Term Incentive Plan or the plan in connection with the merger that requires approval by National Oilwell stockholders and is subject to the completion of the merger. National Oilwell and Varco will hold separate special meetings of their respective stockholders to obtain these approvals.

Q: Why are National Oilwell and Varco proposing the merger?

A: National Oilwell and Varco both believe that the merger will provide substantial benefits to the stockholders of both companies by creating a larger, more diversified company that is better positioned to compete in the global marketplace.

Q: What will happen to Varco as a result of the merger?

A: As a result of the merger, Varco will be merged into National Oilwell, and National Oilwell will continue as the surviving company, and its certificate of incorporation will be amended to change its name to National Oilwell Varco, Inc.

Q: What will stockholders receive in the merger?

A: Each Varco stockholder will receive 0.8363 of a share of National Oilwell common stock in exchange for each share of Varco common stock that the stockholder owns at the effective time of the merger. Instead of receiving fractional shares, Varco stockholders will receive cash from National Oilwell in an amount reflecting the market value of any fractional share.

Each National Oilwell stockholder will continue to hold the shares of National Oilwell common stock that it held prior to the merger; however, those shares will represent a smaller portion of the total outstanding shares of the combined company.

Q: Does adoption of the merger agreement by the National Oilwell stockholders result in any other changes to the capital structure of National Oilwell?

A: The merger agreement provides that, at the effective time of the merger, the authorized number of shares of common stock of National Oilwell will be increased to 500 million shares and the class of special voting stock will be eliminated pursuant to a certificate of merger.

Q: What will be the name of the surviving corporation to the merger?

A: National Oilwell Varco, Inc.

Q: What stockholder approvals are needed to complete the merger?

A: The following stockholder approvals are needed to complete the merger:

the holders of at least a majority of the shares of National Oilwell common stock outstanding on February 3, 2005, the record date set for the meeting of stockholders of National Oilwell, must vote in favor of adopting the merger agreement; and

the holders of at least a majority of the shares of Varco common stock outstanding on February 3, 2005, the record date set for the meeting of stockholders of Varco, must vote in favor of adopting the merger agreement.

Q: Are any other matters being voted on at the special meetings?

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A: The stockholders of National Oilwell are being asked to vote to approve a new Long-Term Incentive Plan. The completion of the merger is not conditioned upon the approval of the Long-Term Incentive Plan. However, the adoption of the plan is subject to the completion of the merger. The stockholders

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of National Oilwell and Varco will also be asked to vote on any proposal to adjourn the special meeting for any reason, including to solicit additional proxies if there are not sufficient votes in favor of the proposals being voted on.

Q: What stockholder approvals are needed to approve the Long-Term Incentive Plan and to adjourn the special meeting?

A: The affirmative vote of at least a majority of the votes cast at the special meeting is required to approve the Long-Term Incentive Plan, provided the total votes cast represent over 50% of the outstanding National Oilwell shares entitled to vote on the proposal. The affirmative vote of the holders of at least a majority of the shares of common stock of National Oilwell or Varco, as applicable, present in person or represented by proxy at the special meeting of National Oilwell or Varco, as applicable, is required to adjourn the meeting.

Q: How do National Oilwell's and Varco's board of directors recommend that I vote?

A: National Oilwell's board of directors unanimously recommends that National Oilwell stockholders vote FOR the proposals to adopt the merger agreement and to approve the Long-Term Incentive Plan.

Varco's board of directors unanimously recommends that Varco stockholders vote FOR the proposal to adopt the merger agreement.

Q: When do you expect the merger to be completed?

A: We are working to complete the merger as soon as possible. A number of conditions must be satisfied before we can complete the merger, including approval by the stockholders of both National Oilwell and Varco and the expiration or early termination of applicable waiting periods under the Hart-Scott-Rodino Antitrust Improvements Act of 1976 and the laws of various foreign jurisdictions. Upon receipt of stockholder and regulatory approvals and satisfaction of other conditions to consummating the merger, we intend to complete the merger as soon as possible.

Q: What are the tax consequences to stockholders of the transaction?

A: It is generally expected that the merger will qualify as a tax-free reorganization within the meaning of Section 368(a) of the Internal Revenue Code of 1986, as amended (the Internal Revenue Code), and the consummation of the merger is conditioned on the receipt by each of National Oilwell and Varco of opinions from their respective counsel to the effect that the merger will so qualify.

Assuming that the merger qualifies as a reorganization under the Internal Revenue Code, then in general, neither the National Oilwell stockholders nor the Varco stockholders who receive shares of National Oilwell common stock in exchange for their Varco common stock in the merger will recognize any gain or loss for U.S. federal income tax purposes as a result of the merger, except that a Varco stockholder will recognize gain or loss with respect to any cash received in lieu of a fractional share of National Oilwell common stock in the merger. Tax matters are very complicated, and the tax consequences of the merger to a Varco stockholder will depend on the facts of each holder's own situation. For a description of the material federal income tax consequences of the merger, please see the information set forth in Material Federal Income Tax Consequences. We also encourage each Varco stockholder to consult the stockholder's own tax advisor for a full understanding of the tax consequences of the merger.

Q: What do I need to do now?

A: You should read this document carefully. Then, if you are the record holder of your shares and choose to vote by proxy, you should do so as soon as possible by any of the following means: completing, signing and mailing your proxy card; using the toll-free telephone number listed on your proxy card and following the recorded instructions; or going to the Internet website listed on your proxy card and following the instructions provided.

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Q: If I am planning on attending a meeting in person, should I still grant my proxy?

A: Yes. Whether or not you plan to attend a meeting, you should grant your proxy as described above. Your shares will not be voted unless you attend a meeting and vote in person or grant your proxy. For both National Oilwell and Varco stockholders, a failure to vote would have the same effect as a vote against adoption of the merger agreement. For National Oilwell stockholders, a failure to vote on the proposal to approve the Long-Term Incentive Plan will not count as a vote for or against the proposal but could affect whether sufficient votes have been cast on the proposal under the rules of the New York Stock Exchange, or NYSE.

Q: If my shares are held in street name by my broker, will my broker vote my stock for me?

A: Your broker will *not* vote your stock for or against adoption of the merger agreement or, in the case of National Oilwell stockholders, for or against approval of the Long-Term Incentive Plan unless you tell the broker how to vote. To tell your broker how to vote, you should follow the directions that your broker provides to you. A non-vote by your broker will have the same effect as a vote against the adoption of the merger agreement, but will have no effect on any proposal to adjourn or postpone your company's meeting. With respect to the proposal to approve the Long-Term Incentive Plan at the National Oilwell special meeting, broker non-votes will not be counted as votes cast and this may affect whether the total votes cast represent over 50% of National Oilwell's outstanding securities entitled to vote on the proposal.

Q: Can I change my vote after I have granted my proxy?

A: Yes. Stockholders who hold shares in their own name can change their vote at any time before their proxy is voted at their company's special meeting by:

timely delivery by mail, telephone or Internet of a valid, subsequently-dated proxy;

delivery to your company's Secretary at or before the special meeting of written notice revoking your proxy or of your intention to vote by ballot at the special meeting; or

submitting a vote by ballot at the special meeting; however, your attendance alone will not revoke your proxy.

If your shares are held in a street name account, you must contact your broker, bank or nominee to change your vote.

Q: Where and when are the special meetings?

A: The National Oilwell special meeting will take place at Houston Marriott Westchase, Briarpark Room, 2900 Briarpark Drive, Houston, Texas 77042, on March 11, 2005, at 10:00 a.m., local time. The Varco special meeting will take place at Houston Marriott Westchase, Richmond Room, 2900 Briarpark Room, Houston, Texas 77042, on March 11, 2005, at 10:00 a.m., local time.

Q: Should Varco stockholders send in their certificates representing Varco common stock now?

A: No. After the merger is completed, Varco stockholders will receive written instructions for exchanging their certificates representing Varco common stock. Please do not send in your certificates representing Varco common stock with your proxy card.

Q: What should I do if I receive more than one set of voting materials?

A: You may receive more than one set of voting materials, including multiple copies of this document and multiple proxy cards or voting instruction cards. For example, if you hold your shares in more than one brokerage account, you will receive a separate voting instruction card for each brokerage account in which you hold shares. If you are a holder of record and your shares are registered in more than one name, you will receive more than one proxy card. In addition, if you are a stockholder of both National Oilwell and Varco, you will receive one or more separate proxy cards or voting instruction cards for each company. Please complete, sign, date and return each proxy card and voting instruction card that you receive.

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Q: Do I have appraisal rights?

A: No. Neither the National Oilwell stockholders nor the Varco stockholders will have appraisal rights under Delaware law as a result of the merger.

Q: Whom do I call if I have further questions about voting, the meetings or the merger?

A: National Oilwell stockholders may call National Oilwell's Investor Relations department at (713) 346-7500 or InvestorCom, Inc., National Oilwell's proxy solicitor, at (800) 503-3375.

Varco stockholders may call Varco's Investor Relations department at (281) 953-2200 or Morrow & Co., Inc., Varco's proxy solicitor, at (800) 607-0088.

You may also obtain additional information about National Oilwell and Varco from documents filed with the Securities and Exchange Commission by following the instructions in the section entitled Where You Can Find More Information.

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SUMMARY

*This summary highlights some of the information in this document. It may not contain all of the information that is important to you. To understand the merger fully and for a more complete description of the terms of the merger agreement and the merger, you should read carefully this document, the documents we incorporate by reference and the full text of the merger agreement included as Annex A to this document. Please also read *Where You Can Find More Information*. We have included references to other portions of this document to direct you to a more complete description of the topics presented in this summary.*

Unless otherwise indicated, pro forma financial results presented in this document give effect to the completion of the merger.

The Companies

National-Oilwell, Inc. (see page 24)

10000 Richmond Avenue
Houston, Texas 77042
(713) 346-7500
www.natoil.com

The core focus of National Oilwell is to provide the oil and gas industry with the highest quality oilfield products and services. With over 200 worldwide manufacturing and service center locations, National Oilwell supplies customer-focused solutions to meet the quality, productivity and environmental requirements of the oil and gas industry.

National Oilwell designs, manufactures and sells major mechanical components and integrated systems for both land and offshore drilling rigs. It manufactures complete land drilling and well-servicing rigs, the largest line of lifting and handling equipment in the oil and gas industry and a broad offering of downhole drilling motors and specialized drilling tools, and also provides supply chain services through its global network of distribution service centers located near major drilling and production areas worldwide.

Varco International, Inc. (see page 24)

2000 W. Sam Houston Parkway South
Suite 1700
Houston, Texas 77042
(281) 953-2200
www.varco.com

Varco is a leading provider of highly engineered drilling and well-servicing equipment, products and services to the world's oil and gas industry. Varco has a long tradition of pioneering many drilling and production innovations which have improved the efficiency, safety, cost and environmental impact of petroleum operations.

Varco is a leading manufacturer and supplier of innovative drilling equipment and rig instrumentation; oilfield tubular and sucker rod inspections and internal tubular coating techniques; drill cuttings separation, control and disposal systems and services; high pressure fiberglass tubulars; and coiled tubing and pressure control equipment for land and offshore drilling operations. Varco also provides in-service pipeline inspections and sells and leases advanced in-line inspection equipment to makers of oil country tubular goods.

The Merger

Pursuant to the merger agreement, at the effective time of the merger, Varco will merge with and into National Oilwell, with National Oilwell surviving. As a result of the merger, each Varco stockholder will receive 0.8363 of a share of National Oilwell common stock for each share of Varco common stock that

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the stockholder owns at the effective time of the merger. National Oilwell will not issue any fractional shares. Instead, Varco stockholders will receive cash from National Oilwell in an amount that reflects the market value of any fractional share that would have been issued. Based on the number of shares of Varco and National Oilwell common stock outstanding as of February 3, 2005, we anticipate that National Oilwell will issue approximately 82,239,668 shares of its common stock in the merger and that upon completion of the merger, Varco stockholders will own approximately 49% of the combined company and National Oilwell stockholders will own approximately 51% of the combined company.

The merger agreement also provides that, effective as of the completion of the merger, National Oilwell's certificate of incorporation will be amended to increase the number of authorized National Oilwell shares of common stock from 150 million to 500 million, to eliminate the class of special voting stock and to change the name of the company to National Oilwell Varco, Inc.

Reasons for the Merger

National Oilwell (see page 35)

The National Oilwell board believes that the merger will provide substantial strategic and financial benefits to the stockholders of National Oilwell and that the merger will allow National Oilwell and Varco to combine their resources to enhance their ability to provide oilfield products and services. In reaching its determination to approve the merger agreement and the merger, the National Oilwell board consulted with National Oilwell's management, as well as its financial and legal advisors, and considered a variety of factors, a number of which are described in this document.

Varco (see page 38)

The Varco board of directors believes that the merger will provide substantial strategic and financial benefits to the stockholders of Varco, and that the combination will create a stronger oilfield services company that is capable of creating more stockholder value than Varco could achieve on its own. Varco also believes that the combination of Varco and National Oilwell will allow Varco stockholders to participate in a larger, more diversified company that will accelerate both companies' strategies to develop, enhance and commercialize products and services. In reaching its decision to approve the merger agreement and the merger, the Varco board of directors considered a variety of factors, a number of which are described in this document.

Recommendations to Stockholders

National Oilwell (see page 35)

National Oilwell's board of directors believes that the merger is advisable and fair to and in the best interests of the National Oilwell stockholders and unanimously recommends that National Oilwell stockholders vote FOR the proposal to adopt the merger agreement. A vote FOR adoption of the merger agreement also constitutes a vote FOR each of the following:

the issuance of shares of National Oilwell common stock in the merger; and

an amendment to National Oilwell's certificate of incorporation increasing the authorized number of shares of common stock from 150,000,000 to 500,000,000, eliminating the class of special voting stock and changing the name of National Oilwell to National Oilwell Varco, Inc., to become effective upon completion of the merger.

National Oilwell's board of directors also unanimously recommends that the National Oilwell stockholders vote FOR the approval of the National Oilwell Varco Long-Term Incentive Plan, or the Long-Term Incentive Plan.

As of the record date for the special meeting, less than 1% of National Oilwell's outstanding common stock was held by its directors and executive officers.

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Varco (see page 38)

Varco's board of directors believes that the merger is advisable and fair to and in the best interests of the Varco stockholders and unanimously recommends that Varco stockholders vote FOR the proposal to adopt the merger agreement.

As of the record date for the special meeting, less than 1% of Varco's outstanding common stock was held by its directors and executive officers.

Opinions of Financial Advisors

The opinions of National Oilwell's and Varco's financial advisors are attached to this document as Annexes B and C, respectively. We encourage you to read those opinions carefully in their entirety for a description of the assumptions made, procedures followed, matters considered and limitations on the review undertaken. Each opinion is directed to the applicable board of directors and does not constitute a recommendation to any stockholder as to any matter relating to the merger.

Opinion of Financial Advisor to National Oilwell (see page 41)

Goldman, Sachs & Co., National Oilwell's financial advisor, delivered its opinion to National Oilwell's board of directors that, as of August 11, 2004 and based upon and subject to the factors and assumptions set forth therein, the exchange ratio pursuant to the merger agreement is fair from a financial point of view to National Oilwell.

Opinion of Financial Advisor to Varco (see page 48)

Citigroup Global Markets Inc., Varco's financial advisor, delivered its opinion to the Varco board of directors on August 11, 2004 to the effect that, as of such date and based on and subject to various assumptions made, matters considered and limitations described in the opinion, the exchange ratio of 0.8363 of a share of National Oilwell common stock for each share of Varco common stock in the merger was fair, from a financial point of view, to the Varco stockholders.

The Special Meetings

National Oilwell Special Stockholders Meeting (see page 26)

Where and when: The National Oilwell special stockholders meeting will take place at Houston Marriott Westchase, Briarpark Room, 2900 Briarpark Drive, Houston, Texas 77042, on March 11, 2005 at 10:00 a.m., local time.

What you are being asked to vote on: At the National Oilwell meeting, National Oilwell stockholders will be asked to consider and vote on the following proposals:

the adoption of the merger agreement. Adoption of the merger agreement by the National Oilwell stockholders will also constitute approval of the following:

the issuance of National Oilwell common stock in connection with the merger; and

an amendment to the certificate of incorporation of National Oilwell to increase the authorized shares of common stock to 500,000,000, to eliminate the class of special voting stock and to change the name of the company to National Oilwell Varco, Inc.;

the approval of the Long-Term Incentive Plan;

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any proposal to adjourn the special meeting to a later date for any reason, including to solicit additional proxies if there are not sufficient votes in favor of the foregoing proposals; and

any proposal to transact other business as may properly come before the special meeting.

National Oilwell knows of no other matters that will be presented for consideration of its stockholders at the meeting.

Who may vote: You may vote at the National Oilwell meeting if you owned National Oilwell common stock at the close of business on the record date, February 3, 2005. On that date, there were 86,023,561 shares of National Oilwell common stock outstanding and entitled to vote. You may cast one vote for each share of National Oilwell common stock that you owned on the record date.

What vote is needed: The affirmative vote of the holders of at least a majority of the outstanding shares of National Oilwell common stock is required to adopt the merger agreement. The affirmative vote of at least a majority of the votes cast at the special meeting is required to approve the Long-Term Incentive Plan, provided the total votes cast represent over 50% of the outstanding National Oilwell shares entitled to vote on the proposal. The affirmative vote of the holders of at least a majority of the outstanding shares of National Oilwell common stock present in person or represented by proxy at the special meeting is required to adjourn the meeting.

Varco Special Stockholders Meeting (see page 26)

Where and when: The Varco special stockholders meeting will take place at Houston Marriott Westchase, Richmond Room, 2900 Briarpark Drive, Houston, Texas, 77042 on March 11, 2005, at 10:00 a.m., local time.

What you are being asked to vote on: At the Varco meeting, Varco stockholders will be asked to consider and vote on the following approvals:

the adoption of the merger agreement;

any proposal to adjourn the special meeting to a later date for any reason, including to solicit additional proxies if there are not sufficient votes in favor of the foregoing proposal; and

to consider any other matters that may properly come before the meeting.

Varco knows of no other matters that will be presented for consideration of its stockholders at the meeting.

Who may vote: You may vote at the Varco meeting if you owned Varco common stock at the close of business on the record date, February 3, 2005. On that date, there were 98,337,520 shares of Varco common stock outstanding and entitled to vote. You may cast one vote for each share of Varco common stock that you owned on the record date.

What vote is needed: The affirmative vote of the holders of at least a majority of the outstanding shares of Varco common stock is required to adopt the merger agreement. The affirmative vote of at least a majority of the shares of Varco common stock present in person or represented by proxy at the special meeting is required to adjourn the meeting.

Directors and Management of National Oilwell Following the Merger

The merger agreement provides that National Oilwell will take all requisite action such that the board of directors of National Oilwell Varco, as of the effective time of the merger, will consist of 10 persons, including:

John F. Lauletta, currently the Chairman of the Board and Chief Executive Officer of Varco;

Merrill A. Miller, Jr., currently the Chairman of the Board, President and Chief Executive Officer of National Oilwell;

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four directors designated by National Oilwell, consisting of Robert E. Beauchamp, Ben A. Guill, Roger L. Jarvis and David D. Harrison; and

four directors designated by Varco, consisting of Jeffery A. Smisek, Greg L. Armstrong, Eric L. Mattson and James D. Woods.

Upon completion of the merger, Messrs. Miller and Guill will change the class of directors to which they are currently assigned. At the effective time of the merger, the composition of the classes of the board will be as follows: Messrs. Lauletta, Beauchamp and Woods will be placed in the class of directors with a term expiring in 2005; Messrs. Miller, Harrison and Armstrong will be placed in the class of directors with a term expiring in 2006; and Messrs. Guill, Jarvis, Mattson and Smisek will be placed in the class of directors with a term expiring in 2007. The merger agreement provides that all designated directors, other than Mr. Lauletta and Mr. Miller, will be required to qualify as independent members of the board of directors as determined in accordance with the rules of the NYSE. The merger agreement does not provide any continuing right of a party to designate directors following the effective time of the merger.

At the effective time of the merger, Mr. Lauletta, currently the Chairman and Chief Executive Officer of Varco, will become the Chairman of the Board of National Oilwell Varco; Mr. Miller, currently the Chairman, President and Chief Executive Officer of National Oilwell, will become the President and Chief Executive Officer of National Oilwell Varco; Joseph C. Winkler, currently the President and Chief Operating Officer of Varco, will become the Chief Operating Officer of National Oilwell Varco; and Clay C. Williams, currently the Vice President and Chief Financial Officer of Varco, will become the Vice President and Chief Financial Officer of National Oilwell Varco.

Overview of the Merger Agreement

Conditions to the Merger (see page 71)

National Oilwell and Varco will complete the merger only if the conditions set forth in the merger agreement are satisfied or, in some cases, waived. These conditions include:

the adoption by National Oilwell stockholders and Varco stockholders of the merger agreement;

the expiration or early termination of the waiting periods under the Hart-Scott-Rodino Antitrust Improvements Act of 1976 and the laws of various foreign jurisdictions;

the receipt of all authorizations, consents and approvals from governmental entities, the failure of which to obtain is reasonably likely to have a material adverse effect on National Oilwell or Varco;

the declaration of effectiveness of the registration statement of which this document is a part by the Securities and Exchange Commission and the absence of any stop order or proceedings seeking a stop order;

the absence of any decree, order, injunction or law that prohibits the merger or makes the merger unlawful;

the approval for listing on the NYSE of the shares of National Oilwell common stock to be issued in the merger, subject to official notice of issuance;

the absence of litigation by any governmental entity that has a reasonable likelihood of success seeking to restrain or prohibit the consummation of the merger;

the continued accuracy of the representations and warranties of National Oilwell and Varco contained in the merger agreement, except where the failure of a representation or warranty to be accurate would not reasonably be expected to have a material adverse effect on National Oilwell or Varco;

the performance by National Oilwell and Varco in all material respects of their respective obligations under the merger agreement;

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the absence of any events that have had or are reasonably expected to have a material adverse effect on either National Oilwell or Varco; and

the receipt of legal opinions from counsel for each of National Oilwell and Varco to the effect that for federal income tax purposes the merger will qualify as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code.

Either National Oilwell or Varco may choose to complete the merger even though a condition to its obligations has not been satisfied if the necessary stockholder approvals have been obtained and the law allows it to do so.

No Solicitation (see page 68)

The merger agreement contains restrictions on the ability of National Oilwell and Varco to solicit or engage in discussions or negotiations with a third party with respect to a proposal to acquire a significant interest in National Oilwell's or Varco's equity or assets. Notwithstanding these restrictions, before their stockholders adopt the merger agreement, the merger agreement provides that under specified circumstances, if National Oilwell or Varco receives a proposal from a third party to acquire a significant interest in the company that the board of directors determines in good faith may reasonably be expected to lead to a proposal that is superior to the merger, National Oilwell or Varco, as applicable, may furnish nonpublic information to that third party and engage in negotiations regarding a transaction with that third party.

Termination of Merger Agreement (see page 73)

The merger agreement may be terminated at any time prior to the completion of the merger, whether before or after the stockholder approvals have been obtained:

by mutual written consent of National Oilwell and Varco;

by either National Oilwell or Varco, if the merger is not completed by March 15, 2005, other than due to a breach of the merger agreement by the terminating party;

by either National Oilwell or Varco, if a court or other government entity issues a non appealable final order, decree or ruling, or takes any other nonappealable final action, having the effect of permanently restraining, enjoining or otherwise prohibiting the merger;

by either National Oilwell or Varco, if the necessary approval of the stockholders of either party is not obtained at their respective stockholder meetings;

by Varco, if the board of directors of National Oilwell withdraws or modifies its recommendation of the merger to the stockholders of National Oilwell or recommends an acquisition transaction by a third party relating to National Oilwell;

by National Oilwell, if the board of directors of Varco withdraws or modifies its recommendation of the merger to the stockholders of Varco or recommends an acquisition transaction by a third party relating to Varco;

by Varco, upon certain breaches by National Oilwell of its representations, warranties or covenants in the merger agreement;

by National Oilwell, upon certain breaches by Varco of its representations, warranties or covenants in the merger agreement;

by Varco, if, prior to Varco's receipt of adoption of the merger agreement by its stockholders, Varco's board of directors receives a superior acquisition proposal from a third party and the Varco board of directors concludes, following receipt of the advice of its outside legal counsel, that the

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failure to accept the superior acquisition proposal would result in a breach of its fiduciary duties under applicable law; or

by National Oilwell, if, prior to National Oilwell's receipt of adoption of the merger agreement by its stockholders, National Oilwell's board of directors receives a superior acquisition proposal from a third party and the National Oilwell board of directors concludes, following receipt of the advice of its outside legal counsel, that the failure to accept the superior acquisition proposal would result in a breach of its fiduciary duties under applicable law.

Termination Fee; Expenses (see page 73)

If the merger agreement is terminated, either National Oilwell or Varco, in specified circumstances, may be required to pay a termination fee of \$75 million to the other party and reimburse up to \$5 million of the other party's expenses.

Varco Stock Options, Deferred Stock Units and Employee Stock Purchase Plan (see page 69)

In general, upon completion of the merger, options to purchase shares of Varco common stock will be converted into options to purchase shares of National Oilwell common stock and assumed by National Oilwell. The number of options and exercise prices will be determined by applying the conversion ratio pursuant to the merger agreement. In addition, some converted options will become fully vested and exercisable at the effective time of the merger. In addition, upon completion of the merger, each outstanding deferred stock unit and stock performance unit of Varco, representing a right to acquire shares of Varco common stock, will be converted into a deferred stock unit or a stock performance unit of National Oilwell Varco, representing a right to acquire shares of National Oilwell Varco common stock appropriately adjusted by applying the conversion ratio pursuant to the merger agreement. Some of the converted deferred stock units will become fully vested as of the retirement of certain board members in connection with the effective time of the merger. National Oilwell will assume the Varco equity participation plans at the effective time of the merger.

Each outstanding purchase right under Varco's employee stock purchase plan will be assumed by National Oilwell and converted into a right to purchase National Oilwell common stock in accordance with the merger agreement and the employee stock purchase plan. National Oilwell will assume Varco's employee stock purchase plan at the effective time of the merger.

Interests of Certain National Oilwell and Varco Executive Officers and Directors in the Merger (see page 53)

In considering the recommendations of the respective boards of directors of National Oilwell and Varco with respect to the merger, the stockholders of both companies should be aware that some of the executive officers and directors of National Oilwell and Varco have interests in the transaction that differ from, or are in addition to, the interests of that company's stockholders generally. National Oilwell's board of directors and Varco's board of directors were aware of these interests and considered them, among other matters, when making their respective decisions to approve the merger agreement.

Risk Factors (see page 16)

See Risk Factors for a discussion of factors you should carefully consider before deciding how to vote at your company's special meeting.

Material Federal Income Tax Consequences (see page 102)

It is generally expected that the merger will qualify as a tax-free reorganization within the meaning of the Internal Revenue Code. The consummation of the merger is conditioned on the receipt by each of National Oilwell and Varco of opinions from their respective counsel to the effect that the merger will so qualify. Neither National Oilwell nor Varco may waive these conditions to the merger after its respective

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stockholders have adopted the merger agreement unless further approval from its stockholders is obtained with appropriate disclosure.

Assuming that the merger qualifies as a reorganization under the Internal Revenue Code, then in general, neither National Oilwell stockholders nor Varco stockholders who receive shares of National Oilwell common stock in exchange for their Varco common stock in the merger will recognize any gain or loss for U.S. federal income tax purposes as a result of the merger, except that a Varco stockholder will recognize gain or loss with respect to any cash received in lieu of a fractional share of National Oilwell common stock in the merger. Tax matters are very complicated, and the tax consequences of the merger to a Varco stockholder will depend on the facts of each holder's own situation. For a description of the material federal income tax consequences of the merger, please see the information set forth in *Material Federal Income Tax Consequences*. We also encourage each Varco stockholder to consult the stockholder's own tax advisor for a full understanding of the tax consequences of the merger.

Accounting Treatment (see page 61)

National Oilwell will account for the merger using the purchase method of accounting. Under that method of accounting, the aggregate consideration that National Oilwell pays for Varco will be allocated to Varco's assets and liabilities based on their fair values, with any excess being treated as goodwill. National Oilwell currently expects to record approximately \$1,579 million of goodwill upon completion of the merger, but that estimate is subject to change based upon the final number of shares of National Oilwell common stock issued at the time of closing and the final valuation of Varco's identified assets and liabilities.

Other Information Related to the Merger

Regulatory Approvals (see page 60)

The merger is subject to antitrust laws. On September 10, 2004, National Oilwell and Varco made the required filings relating to the merger with the Federal Trade Commission, or FTC, and the Antitrust Division of the Department of Justice, or DOJ. On October 12, 2004, National Oilwell and Varco received a request for additional information and documentary material from the DOJ, which they have furnished.

National Oilwell and Varco have also made required filings relating to the merger with various government authorities in a number of foreign jurisdictions in which one or both companies have a sufficient market presence to require filings.

We continue to work with these various governmental agencies regarding the proposed merger. Upon receipt of all required regulatory approvals, we intend to close the merger as soon as possible thereafter. However, we cannot assure you that these regulatory approvals will be obtained or that the granting of these regulatory approvals will not involve the imposition of conditions on the completion of the merger. These conditions could result in the conditions to the merger not being satisfied.

Comparison of the Rights of National Oilwell and Varco Stockholders (see page 80)

The stockholders of Varco are being asked to adopt the merger agreement pursuant to which each share of Varco common stock (other than shares of Varco common stock held directly or indirectly by National Oilwell or Varco) will be converted into 0.8363 of one share of National Oilwell common stock. Consequently, such stockholders will no longer hold shares in Varco but will instead hold shares in National Oilwell and their rights as stockholders of National Oilwell will be governed by Delaware law, the amended and restated certificate of incorporation of National Oilwell and National Oilwell's bylaws. There are various differences between the rights of Varco stockholders and the rights of National Oilwell stockholders.

Listing of Common Stock to be Issued in the Merger (see page 62)

National Oilwell has agreed to file an application to have the shares of National Oilwell common stock issued in the merger listed on the NYSE, the approval of which is a condition to closing the merger.

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At the effective time of the merger, the name of the combined company will be National Oilwell Varco, Inc. and its shares will trade on the NYSE under the ticker symbol NOV.

Appraisal Rights (see page 60)

Neither National Oilwell stockholders nor Varco stockholders have appraisal rights under applicable law or contractual appraisal rights under Delaware law as a result of the merger.

National Oilwell Varco Long-Term Incentive Plan (see page 93)

On September 13, 2004, National Oilwell's board of directors approved the National Oilwell Varco Long-Term Incentive Plan, subject to approval of the plan by National Oilwell stockholders and to completion of the merger. The Long-Term Incentive Plan is intended, among other things, to help the combined company attract and retain directors and employees after the effective time of the merger and to encourage them to promote the growth and profitability of the combined company. The completion of the merger is not conditioned upon the approval of the Long-Term Incentive Plan.

Table of Contents**Selected Historical Consolidated Financial Data of National Oilwell**

National Oilwell is providing the following information to aid in your analysis of the financial aspects of the merger. The following selected historical financial data for each of the years in the five year period ended December 31, 2003 has been derived from National Oilwell's audited consolidated financial statements. The selected historical financial data for the nine months ended September 30, 2004 and 2003 has been derived from National Oilwell's unaudited consolidated financial statements. In the opinion of National Oilwell's management, the unaudited consolidated financial statements include all adjustments, consisting only of normal recurring adjustments, necessary for the fair presentation of the interim consolidated financial statements. Results for the interim periods are not necessarily indicative of the results to be expected for the full year.

The information is only a summary. You should read it along with National Oilwell's historical financial statements and related notes and the section titled "Management's Discussion and Analysis of Financial Condition and Results of Operations" contained in National Oilwell's Annual Report on Form 10-K for the year ended December 31, 2003 and Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2004 on file with the Securities and Exchange Commission and incorporated by reference into this document. See "Where You Can Find More Information."

	Nine Months Ended September 30,		Year Ended December 31,				
	2004	2003	2003	2002	2001	2000	1999
(In thousands, except per share data)							
Operating Data:							
Revenues	\$ 1,648,652	\$ 1,474,574	\$ 2,004,920	\$ 1,521,946	\$ 1,747,455	\$ 1,149,920	\$ 839,648
Operating income(1)	113,163	120,981	158,988	134,323	189,277	48,456	1,325
Net income (loss)(2)	60,180	57,312	76,821	73,069	104,063	13,136	(9,385)
Net income (loss) per share							
Basic(2)	0.70	0.68	0.91	0.90	1.29	0.17	(0.13)
Diluted(2)	0.70	0.68	0.90	0.89	1.27	0.16	(0.13)
Other Data:							
Depreciation and amortization	32,795	28,417	39,182	25,048	38,873	35,034	25,541
Capital expenditures	23,476	21,960	32,378	24,805	27,358	24,561	17,547
Balance Sheet Data:							
Working capital	664,616	801,256	794,185	768,852	631,257	480,321	452,015
Total assets	2,347,908	2,155,009	2,242,736	1,977,228	1,471,696	1,278,894	1,005,715
Long-term debt	350,000	571,126	593,980	594,637	300,000	222,477	196,053
Stockholders' equity	1,181,231	1,075,632	1,090,429	933,364	867,540	767,206	596,375

- (1) In connection with the IRI International Corporation merger in 2000, National Oilwell recorded pre-tax charges of \$14.1 million related to direct merger costs, personnel reductions, and facility closures and inventory write-offs of \$15.7 million due to product line rationalization.
- (2) National Oilwell adopted Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" (SFAS 142), effective January 1, 2002. The effects of not amortizing goodwill and other intangible assets in periods prior to the adoption of SFAS 142 would have resulted in net income (loss) of \$115.0 million, \$23.1 million and \$(4.0) million for the years ended December 31, 2001, 2000 and 1999, respectively; basic earnings (loss) per common share of \$1.42, \$0.29, and \$(0.06) for the years ending December 31, 2001, 2000 and 1999, respectively; and diluted earnings (loss) per common share of \$1.41, \$0.29 and \$(0.06) for the years ending December 31, 2001, 2000 and 1999, respectively.

Table of Contents**Selected Historical Consolidated Financial Data of Varco**

Varco is providing the following information to aid in your analysis of the financial aspects of the merger. The following selected historical financial data for each of the years in the five year period ended December 31, 2003 has been generally derived from Varco's audited consolidated financial statements. The selected historical financial data for the nine months ended September 30, 2004 and 2003 has been derived from Varco's unaudited consolidated financial statements. However, the revenue, operating profit and income from continuing operations information below for the three year period ended December 31, 2003 has been adjusted from the audited consolidated financial statements to reflect Varco's rig fabrication business as a discontinued operation. These adjustments were disclosed in Varco's Current Report on Form 8-K dated April 30, 2004. In the opinion of Varco's management, the unaudited consolidated financial statements include all adjustments, consisting only of normal recurring adjustments, necessary for the fair presentation of the interim consolidated financial statements. Results for the interim periods are not necessarily indicative of the results to be expected for the full year.

The information is only a summary. You should read it along with Varco's historical financial statements and related notes and the section titled "Management's Discussion and Analysis of Financial Condition and Results of Operations" contained in Varco's Annual Report on Form 10-K for the year ended December 31, 2003 and Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2004 on file with the Securities and Exchange Commission and incorporated by reference into this document. See "Where You Can Find More Information."

	Nine Months Ended September 30,		Year Ended December 31,				
	2004	2003	2003	2002	2001	2000	1999
(In thousands, except per share data)							
Statement of Income Data:							
Revenue(1)	\$ 1,125,550	\$ 1,089,264	\$ 1,437,621	\$ 1,322,366	\$ 1,261,795	\$ 866,615	\$ 975,848
Operating profit(1)	135,798	129,721	166,036	158,174	157,969	60,911	67,348
Income from continuing operations	72,831	69,138	88,832	81,283	82,858	21,055	29,809
Net income(2)	63,250	62,688	67,243	79,807	82,968	21,055	29,809
Dilutive earnings per common share:							
Continuing operations(2)	0.74	0.70	0.90	0.83	0.86	0.22	0.32
Net income(2)	0.64	0.64	0.68	0.82	0.86	0.22	0.32
Other Data:							
Depreciation and amortization	55,040	49,434	67,199	59,246	67,900	56,518	57,180
Capital expenditures	35,713	43,424	67,092	49,377	65,834	45,463	30,729
Balance Sheet Data:							
Working capital	614,069	578,939	559,046	529,647	423,602	263,378	310,175
Total assets	1,846,635	1,763,145	1,764,339	1,661,060	1,429,110	1,076,982	1,131,313
Total debt	463,690	455,928	456,918	467,928	322,614	136,507	233,335
Common stockholders equity	1,069,359	999,557	994,242	920,282	828,314	731,983	694,245

- (1) Revenue and operating profit represents results from continuing operations. Varco discontinued its rig fabrication business in the first quarter of 2004. The 1999 operating profit includes \$7.8 million of transaction costs and write-offs associated with a terminated merger. The 2000 operating profit includes \$26.5 million of consolidation and transaction costs associated with the May 2000 merger between Varco and Tuboscope. The 2001 operating profit includes \$16.5 million of litigation costs. The 2002 operating profit includes \$3.7 million associated with the acquisition of substantially all of

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the oilfield services business of ICO, Inc. and \$2.8 million of severance costs related to the merger between Varco and Tuboscope.

- (2) Varco adopted Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets (SFAS 142), effective January 1, 2002. The effects of not amortizing goodwill and other intangible assets in periods prior to the adoption of SFAS 142 would have resulted in net income of \$93.4 million, \$29.5 million and \$38.2 million for the years ended December 31, 2001, 2000 and 1999, respectively; basic earnings per common share of \$0.98, \$0.32 and \$0.42 for the years ended December 31, 2001, 2000 and 1999, respectively; and diluted earnings per common share of \$0.97, \$0.31 and \$0.41 for the years ended December 31, 2001, 2000 and 1999, respectively.

Table of Contents**Selected Unaudited Pro Forma Condensed Combined Financial and Other Data**

The merger will be accounted for under the purchase method of accounting, which means that the assets and liabilities of Varco will be recorded, as of completion of the merger, at their fair values and added to those of National Oilwell.

We have presented below selected unaudited pro forma condensed combined financial information that is intended to provide you with a better picture of what the businesses might have looked like had National Oilwell and Varco actually been combined. The unaudited pro forma combined balance sheet combines the historical consolidated balance sheets of National Oilwell and Varco as of September 30, 2004, giving effect to the merger as if it occurred on September 30, 2004. The unaudited pro forma combined statements of income combine the historical consolidated statements of income of National Oilwell and Varco for the year ended December 31, 2003 and the nine months ended September 30, 2004, giving effect to the merger as if it occurred on January 1, 2003. The selected unaudited pro forma condensed combined financial information does not reflect the effect of asset dispositions, if any, or cost savings that may result from the merger.

You should not rely on the selected unaudited pro forma condensed combined financial information as being indicative of the historical results that would have occurred had the companies been combined or the future results that may be achieved after the merger. The condensed combined financial information would have been different, perhaps materially, had the companies actually been combined during the period presented. The following selected unaudited pro forma combined financial information has been derived from, and should be read in conjunction with, the unaudited pro forma condensed combined financial statements and related notes included elsewhere in this document.

	Nine Months Ended September 30, 2004	Year Ended December 31, 2003
(In millions, except per share data)		
Statement of Operations Data:		
Revenues	\$2,763.7	\$3,426.4
Income from continuing operations	\$ 128.0	\$ 158.9
Income from continuing operations per share:		
Basic	\$ 0.76	\$ 0.96
Diluted	\$ 0.76	\$ 0.95
Balance Sheet Data:		
Working capital	\$1,248.6	
Total assets	\$5,828.8	
Long-term debt	\$ 809.8	
Stockholders' equity	\$3,699.6	

Table of Contents**COMPARATIVE PER SHARE DATA**

The following table presents:

historical per share data for National Oilwell;

pro forma per share data of the combined company after giving effect to the merger; and

historical and equivalent pro forma per share data for Varco.

The pro forma amounts included in the table below are presented as if the merger had been effective for the periods presented, have been prepared in accordance with accounting principles generally accepted in the United States and are based on the purchase method of accounting. The pro forma amounts in the table below do not, however, give consideration to the impact, if any, of asset dispositions or cost savings that may result from the merger or any non-recurring charges directly attributable to the merger.

You should read this table together with the historical consolidated financial statements of National Oilwell and Varco that are filed with the Securities and Exchange Commission and incorporated by reference into this document and the unaudited pro forma condensed consolidated financial statements and accompanying discussions and notes beginning on page 86 of this document. See *Where You Can Find More Information*. The pro forma amounts presented in the table below are presented for informational purposes only. You should not rely on the pro forma per share data as being indicative of actual results of the combined company had the merger occurred prior to the dates indicated below. The combined financial information as of and for the periods presented may have been different had the companies actually been combined as of or during those periods.

At and for the Nine Months Ended September 30, 2004

	National Oilwell Historical	Combined Company Pro Forma(1)	Varco	
			Historical	Equivalent Pro Forma(2)
Earnings from continuing operations per share:				
Basic	\$ 0.70	\$ 0.76	\$ 0.75	\$ 0.64
Diluted	0.70	0.76	0.74	0.64
Cash dividends per share				
Book value per share	13.75	21.67	10.94	18.12

At and for the Year Ended December 31, 2003

	National Oilwell Historical	Combined Company Pro Forma(1)	Varco	
			Historical	Equivalent Pro Forma(2)
Earnings from continuing operations per share:				
Basic	\$ 0.91	\$ 0.96	\$ 0.91	\$ 0.80
Diluted	0.90	0.95	0.90	0.79
Cash dividends per share				
Book value per share	12.81	20.78	10.26	17.38

- (1) The combined company's pro forma data includes the effect of the merger on the basis described in the notes to the unaudited pro forma combined financial information included elsewhere in this document.
- (2) Varco's equivalent pro forma amounts have been calculated by multiplying the combined company's pro forma earnings from continuing operations, cash dividends and book value per share amounts by the exchange ratio of 0.8363 of a share of National Oilwell common stock

for each share of Varco common stock.

Table of Contents**COMPARATIVE PER SHARE MARKET PRICE AND DIVIDEND INFORMATION**

Shares of National Oilwell common stock are traded on the New York Stock Exchange under the symbol **NOI** and shares of Varco common stock are traded on the New York Stock Exchange under the symbol **VRC**. The following table sets forth, for the periods indicated, the range of high and low sales prices per share for National Oilwell common stock and Varco common stock, on the New York Stock Exchange composite tape.

	Shares of National Oilwell Common Stock		Shares of Varco Common Stock	
	High	Low	High	Low
2002				
First Quarter	\$26.25	\$16.43	\$20.10	\$13.00
Second Quarter	28.81	20.91	22.00	17.21
Third Quarter	21.29	15.55	19.00	12.85
Fourth Quarter	23.31	17.69	18.96	14.50
2003				
First Quarter	23.85	19.15	19.71	15.93
Second Quarter	24.85	20.48	22.44	17.15
Third Quarter	21.92	17.71	20.34	16.12
Fourth Quarter	23.44	17.50	21.38	16.12
2004				
First Quarter	31.08	21.66	22.94	17.47
Second Quarter	31.74	25.42	21.94	17.80
Third Quarter	33.55	31.24	27.34	21.60
Fourth Quarter	37.38	31.54	30.79	25.88
2005				
First Quarter (through February 3, 2005)	38.30	33.08	31.88	27.32

Neither National Oilwell nor Varco has paid cash dividends. The payment of dividends by National Oilwell Varco in the future will depend on business conditions, National Oilwell Varco's financial condition, earnings, capital requirements and other factors.

Recent Closing Prices

The following table shows the closing sales prices per share of National Oilwell and Varco common stock on August 11, 2004 (the last full trading day before National Oilwell and Varco announced the proposed merger) and February 3, 2005, the most recent practicable date prior to the mailing of this document to National Oilwell and Varco stockholders. The Varco common stock pro forma equivalent price per share reflects the value of Varco common stock relative to the value of National Oilwell common stock on those dates, as determined by multiplying the closing sale price of National Oilwell common stock by 0.8363, the exchange ratio in the merger.

Date	National Oilwell Common Stock	Varco Common Stock	Varco Common Stock Pro Forma Equivalent
August 11, 2004	\$30.85	\$23.62	\$25.80
February 3, 2005	\$38.49	\$31.88	\$32.19

The above tables show only historical comparisons. Because the market prices of National Oilwell common stock and Varco common stock will likely fluctuate prior to the merger, these comparisons may not provide meaningful information to National Oilwell stockholders or Varco stockholders in determining whether to adopt the merger agreement. National Oilwell and Varco stockholders are encouraged to obtain current market quotations for National Oilwell and Varco common stock and to review carefully the other information contained in this document or incorporated by reference into this document when considering whether to adopt the merger agreement. See the section entitled **Where You Can Find More Information**.

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RISK FACTORS

In addition to the other information included in this document, including the matters addressed in Information Regarding Forward-Looking Statements, you should carefully consider the following risks before deciding whether to vote for adoption of the merger agreement. In addition, you should read and consider the risks associated with each of the businesses of National Oilwell and Varco because these risks will also affect the combined company. These risks can be found in our respective Annual Reports on Form 10-K for the year ended December 31, 2003, which are filed with the SEC and incorporated by reference into this document.

Risks Related to the Merger and the Related Transactions

We may not be able to successfully integrate the operations of the two companies and realize the anticipated benefits of the merger.

Achieving the benefits we expect from the merger will depend in large part on integrating our technology, operations and personnel in a timely and efficient manner to minimize the impact on customers, employees and management. Integration of the two previously independent companies will be a complex, time consuming and costly process. Failure to timely and successfully integrate these companies may have a material adverse effect on the combined company's business, financial condition and results of operations. The difficulties of combining the companies will present challenges to the combined company's management, including:

operating a significantly larger combined company with operations in more geographic areas and with more business lines;

integrating personnel with diverse backgrounds and organizational cultures;

coordinating sales and marketing functions;

retaining key employees, customers or suppliers;

preserving the research and development, collaboration, distribution, marketing, promotion and other important relationships of National Oilwell and Varco;

establishing the internal controls and procedures that the combined company will be required to maintain under the Sarbanes-Oxley Act of 2002; and

consolidating other corporate and administrative functions.

The combined company will also be exposed to other risks that are commonly associated with transactions similar to the merger, such as unanticipated liabilities and costs, some of which may be material, and diversion of management's attention. As a result, we cannot assure you that we will realize any of the anticipated benefits of the merger, including anticipated cost savings, and failure to do so could adversely affect the business of the combined company after the merger.

The costs of the merger could adversely affect combined financial results.

We expect the total merger-related costs, exclusive of employee benefit costs, to be approximately \$30.0 million, consisting primarily of financial advisory, legal and accounting fees, financial printing costs and other related charges. The amount of these expenses is a preliminary estimate and is subject to change. In addition, the combined company will incur certain integration costs, including, but not limited to, costs associated with consolidating administrative and operational functions and the closure of certain facilities. If the benefits of the merger do not exceed the costs associated with the merger, including any dilution to the stockholders of both companies resulting from the issuance of shares in connection with the merger, the combined company's financial results, including earnings per share, could be adversely affected.

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The exchange ratio for National Oilwell common stock to be received in the merger is fixed and will not be adjusted in the event of any change in stock price.

Upon completion of the merger, each share of Varco common stock will be exchanged for 0.8363 of a share of National Oilwell common stock. This conversion number is fixed and will not be adjusted as a result of any change in the price of National Oilwell common stock or Varco common stock. In addition, neither National Oilwell nor Varco may terminate the merger agreement solely because of changes in the market price of either company's common stock. Therefore, if the value of National Oilwell common stock declines prior to the completion of the merger, the value of the merger consideration to be received by Varco stockholders will decline. The share prices of National Oilwell common stock and Varco common stock are by nature subject to the general price fluctuations in the market for publicly traded equity securities and have experienced significant volatility, and we cannot predict or give any assurances as to the market prices of National Oilwell common stock and Varco common stock on the date of the special stockholders meetings, the date of the completion of the merger or at any time after the completion of the merger. Stockholders of National Oilwell and Varco are encouraged to obtain current market price quotations for National Oilwell and Varco common stock before voting their shares at the special meetings.

National Oilwell stockholders will be diluted by the merger.

The merger will dilute the ownership position of the present stockholders of National Oilwell. Based on the number of shares of Varco common stock outstanding as of February 3, 2005, National Oilwell will issue to Varco stockholders approximately 82,239,668 shares of National Oilwell common stock in the merger. As a result, Varco stockholders and National Oilwell stockholders will hold approximately 49% and 51%, respectively, of the combined company's common stock outstanding after the completion of the merger, based on the common stock of National Oilwell and Varco outstanding as of February 3, 2005.

Failure to complete the merger or delays in completing the merger could negatively impact National Oilwell's and Varco's stock prices and future business and operations.

If the merger is not completed for any reason, National Oilwell and Varco may be subject to a number of material risks, including the following:

the individual companies will not realize the benefits expected from becoming part of a combined company, including potentially enhanced financial and competitive position;

National Oilwell or Varco may be required to pay the other a termination fee of \$75 million or reimburse the other party for up to \$5 million in merger related expenses;

the price of National Oilwell common stock or Varco common stock may decline to the extent that the current market price of the common stock reflects a market assumption that the merger will be completed; and

some costs related to the merger, such as legal, accounting and financial advisor fees, must be paid even if the merger is not completed.

In addition, in response to the announcement of the merger, National Oilwell's or Varco's customers may delay or defer purchasing decisions. Any delay or deferral of purchasing decisions by customers could negatively affect the business and results of operations of National Oilwell and Varco, regardless of whether the merger is ultimately completed. Similarly, current and prospective employees of National Oilwell and Varco may experience uncertainty about their future roles with the companies until after the merger is completed or if the merger is not completed. This may adversely affect the ability of National Oilwell and Varco to attract and retain key management, marketing and technical personnel.

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Furthermore, while the merger agreement is in effect, subject to certain limited exceptions, National Oilwell and Varco are prohibited from soliciting, initiating or encouraging or entering into any extraordinary transactions, such as a merger, sale of assets or other business combination, with any third party, subject to exceptions set forth in the merger agreement. As a result of these limitations, National Oilwell or Varco may lose opportunities to enter into a more favorable transaction. Finally, if the merger is terminated and the National Oilwell or Varco board of directors determines to seek another merger or business combination, we cannot assure you that it will be able to find a transaction providing as much stockholder value as this merger.

National Oilwell and Varco could be required to divest, hold separate or license assets to complete the merger.

We cannot complete the merger until the waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976 or any other applicable waiting period has expired or is otherwise terminated. On September 10, 2004, National Oilwell and Varco made the required filings relating to the merger with the FTC and the DOJ. On October 12, 2004, National Oilwell and Varco received a request for additional information and documentary material from the DOJ, which they furnished. National Oilwell and Varco have also made required filings relating to the merger with various government authorities in a number of foreign jurisdictions in which one or both companies have sufficient market presence to require filings. We continue to work with these various governmental agencies to obtain regulatory clearance to complete the merger. As a prerequisite to obtaining the expiration or termination of this waiting period, or to avoid an injunction by the Department of Justice or another governmental entity, whether foreign or domestic, National Oilwell, Varco or both companies may be required to divest, hold separate or license certain assets. Although each of National Oilwell and Varco have agreed to use their reasonable best efforts to obtain the expiration or termination of this waiting period and to obtain any other governmental clearance or approvals under federal, state or foreign antitrust laws, neither National Oilwell nor Varco is required to divest, hold separate or license any of their respective businesses, product lines or assets, take or agree to take any other action or agree to any limitation, that would reasonably be expected to have a material adverse effect on the financial condition, results of operations or prospects of National Oilwell or Varco.

Divestitures or licensing of assets can be time consuming and may delay or prevent completion of the proposed merger. Because there may be a limited number of potential buyers or licensees for the assets subject to divestiture or license and because potential buyers will likely be aware of the circumstances of the sale or license, these assets could be sold or licensed at prices or rates lower than their fair market values or the prices National Oilwell or Varco paid for these assets. Asset divestitures or licenses of National Oilwell's or Varco's assets could also significantly reduce the value of the combined company, eliminate potential cost savings opportunities or lessen the anticipated benefits of the merger.

Some of the directors and executive officers of National Oilwell and Varco have interests that differ in several respects from their respective stockholders.

In considering the recommendation of each of the boards of directors of National Oilwell and Varco to adopt the merger agreement, the stockholders of National Oilwell and Varco should consider that some of their respective directors and executive officers have interests that differ from, or are in addition to, their interests as stockholders of National Oilwell and Varco generally. These interests include the expectation of being elected a director or appointed an officer of the combined company, the benefits that directors and officers may receive in connection with any acceleration of the vesting of their outstanding equity awards as a result of the merger or their terminations of service, and the potential payments that certain officers of Varco and National Oilwell may receive as a result of the merger. As a result, these officers and directors may be more likely to vote to adopt the merger agreement than if they did not hold these interests. You should consider whether these interests may have influenced these officers and directors to support or recommend the merger. For a detailed discussion of the interests of the directors and executive officers of National Oilwell and Varco, please read "The Merger - Interests of Certain Persons in the Merger."

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If National Oilwell or Varco fails to obtain all required consents and waivers, third parties may terminate or alter existing contracts.

Certain agreements with suppliers, customers, licensors or other business partners may require National Oilwell or Varco to obtain the approval or waiver of these other parties in connection with the merger. National Oilwell and Varco have agreed to use reasonable efforts to secure the necessary approvals and waivers. However, we cannot assure you that National Oilwell and/or Varco will be able to obtain all of the necessary approvals and waivers, and failure to do so could have a material adverse effect on the business of the combined company after the merger.

Risks Related to the Combined Company's Business

National Oilwell and Varco are dependent upon the oil and gas industry, which may be volatile.

The oil and gas industry in which National Oilwell and Varco participate historically has experienced significant volatility. Demand for our services and products depends primarily upon the number of oil rigs in operation, the number of oil and gas wells being drilled, the depth and drilling conditions of these wells, the volume of production, the number of well completions, capital expenditures of other oilfield service companies and the level of workover activity. Drilling and workover activity can fluctuate significantly in a short period of time, particularly in the United States and Canada. The willingness of oil and gas operators to make capital expenditures to explore for and produce oil and natural gas and the willingness of oilfield service companies to invest in capital equipment will continue to be influenced by numerous factors over which we have no control, including:

the ability of the members of the Organization of Petroleum Exporting Countries, or OPEC, to maintain price stability through voluntary production limits, the level of production by non-OPEC countries and worldwide demand for oil and gas;

level of production from known reserves;

cost of exploring for and producing oil and gas;

level of drilling activity;

worldwide economic activity;

national government political requirements;

development of alternate energy sources; and

environmental regulations.

If there is a significant reduction in demand for drilling services, in cash flows of drilling contractors or production companies or in drilling or well servicing rig utilization rates, then demand for the products and services of the combined company after the merger will decline.

Volatile oil and gas prices affect demand for our products.

Oil and gas prices have been volatile since 1990. In general, oil prices approximated \$18-22 per barrel from 1991 through 1997, experienced a decline into the low teens in 1998 and 1999, and have generally ranged between \$25-50 per barrel since 2000. Spot gas prices generally ranged between \$1.80-2.60 per mmbtu of gas from 1991 through 1999, then experienced severe spikes into the \$10 range in 2001 and 2003. Absent occasional spikes and dips due to imbalances in supply and demand, prices have generally ranged between \$4.00-6.00 per mmbtu during the last two years.

Expectations for future oil and gas prices cause many shifts in the strategies and expenditure levels of oil and gas companies and drilling contractors, particularly with respect to decisions to purchase major capital equipment of the type we manufacture. Industry activity and our revenues have responded slowly to the higher commodity prices that have existed since the second quarter of 2002, presumably due to concerns that these prices will not continue in the current range. Oil and gas prices, which are determined

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by the marketplace, may fall below a range that is acceptable to our customers, which could reduce demand for our products.

Competition in our industry could ultimately lead to lower revenues and earnings.

The oilfield products and services industry is highly competitive. National Oilwell and Varco both compete with national, regional and foreign competitors in each of their current major product lines. These competitors may have greater financial, technical, manufacturing and marketing resources than National Oilwell or Varco, even on a combined basis, and may be in a better competitive position. The following competitive actions can each affect our revenues and earnings:

price changes;

new product and technology introductions; and

improvements in availability and delivery.

In addition, certain foreign jurisdictions and government-owned petroleum companies located in some of the countries in which National Oilwell and Varco operate have adopted policies or regulations which may give local nationals in these countries competitive advantages over National Oilwell and Varco and which could impact the operations of the combined company after the merger.

We cannot assure you that the competitive environment in which National Oilwell and Varco operate will not have an adverse effect on the combined company after the merger. Competition in our industry could lead to lower revenues and earnings.

National Oilwell and Varco have each aggressively expanded their businesses, and the combined company intends to maintain an aggressive growth strategy after the merger.

National Oilwell and Varco have aggressively expanded and grown their businesses during the past several years, primarily through acquisitions. We anticipate that the combined company will continue to pursue an aggressive growth strategy following the merger; however, we cannot assure you that attractive acquisitions will be available to us after the merger, at reasonable prices or at all. In addition, we cannot assure you that we will successfully integrate the operations and assets of any acquired business with our own or that our management will be able to manage effectively the increased size of the combined company or operate any new lines of business. Any inability on the part of management to integrate and manage acquired businesses and their assumed liabilities could adversely affect our business and financial performance. In addition, after the merger, we may need to incur substantial indebtedness to finance future acquisitions. We cannot assure you that we will be able to obtain this financing on terms acceptable to us or at all. Future acquisitions may result in increased depreciation and amortization expense, increased interest expense, increased financial leverage or decreased operating income for the combined company, any of which could cause our business to suffer.

Both National Oilwell's and Varco's operating results have fluctuated during recent years and these fluctuations may continue for the combined company after the merger.

Both National Oilwell and Varco have experienced in the past, and the combined company may experience in the future, fluctuations in quarterly operating results. We cannot assure you that the combined company will realize expected earnings growth or that earnings in any particular quarter will not fall short of either a prior fiscal quarter or investors' expectations. The following factors, in addition to others not listed, may affect the combined company's quarterly operating results in the future:

fluctuations in the oil and gas industry;

competition;

the ability to effectively and efficiently integrate the operations and businesses of National Oilwell and Varco;

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- the ability to service the debt obligations of the combined company;
- the ability to identify strategic acquisitions at reasonable prices;
- the ability to manage and control operating costs of the combined company;
- fluctuations in political and economic conditions in the United States and abroad; and
- the ability to protect National Oilwell's and Varco's intellectual property rights.

There are risks associated with National Oilwell's and Varco's presence in international markets, including political or economic instability and currency restrictions.

Approximately 49% of National Oilwell's revenues and 52% of Varco's revenues in 2003 were derived from operations outside the United States. National Oilwell's foreign operations include significant operations in Europe, the Middle East, Africa, Southeast Asia, South America and other international markets. Varco has significant foreign operations in the United Kingdom, Germany, the Netherlands, Europe, Latin America, Canada, China, Latin America, Europe, the Far East and Singapore. Both companies' revenues and operations are subject to the risks normally associated with conducting business in foreign countries, including uncertain political and economic environments, which may limit or disrupt markets, restrict the movement of funds or result in the deprivation of contract rights or the taking of property without fair compensation. Government-owned petroleum companies located in some of the countries in which National Oilwell or Varco operates have adopted policies, or are subject to governmental policies, giving preference to the purchase of goods and services from companies that are majority-owned by local nationals. As a result of these policies, National Oilwell and Varco rely on joint ventures, license arrangements and other business combinations with local nationals in these countries. In addition, political considerations may disrupt the commercial relationships between National Oilwell and Varco and government-owned petroleum companies.

An impairment of goodwill could reduce the combined company's earnings.

National Oilwell had recorded approximately \$618 million of goodwill on its consolidated balance sheet as of September 30, 2004. National Oilwell currently expects to record approximately \$1,579 million of goodwill upon completion of the merger, but that estimate is subject to change based upon the final number of shares of National Oilwell common stock issued at the time of closing and the final valuation of Varco's identified assets and liabilities. Consequently, following the merger, we expect that approximately \$2,197 million, representing approximately 38% of the combined company's consolidated assets on a pro forma as adjusted basis, may be recorded as goodwill. Goodwill is recorded when the purchase price of a business exceeds the fair market value of the tangible and separately measurable intangible net assets. Generally accepted accounting principles will require the combined company to test goodwill for impairment on an annual basis or when events or circumstances occur indicating that goodwill might be impaired. If the combined company were to determine that any of its remaining balance of goodwill was impaired, it would record an immediate charge to earnings with a corresponding reduction in stockholders' equity and increase in balance sheet leverage as measured by debt to total capitalization.

We could be adversely affected if we fail to comply with any of the numerous federal, state and local laws, regulations and policies that govern environmental protection, zoning and other matters applicable to our businesses.

The businesses of National Oilwell and Varco are subject to numerous federal, state and local laws, regulations and policies governing environmental protection, zoning and other matters. These laws and regulations have changed frequently in the past and it is reasonable to expect additional changes in the future. If existing regulatory requirements change, we may be required to make significant unanticipated capital and operating expenditures. We cannot assure you that our operations will continue to comply with future laws and regulations. Governmental authorities may seek to impose fines and penalties on us or to revoke or deny the issuance or renewal of operating permits for failure to comply with applicable laws and

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regulations. Under these circumstances, we might be required to reduce or cease operations or conduct site remediation or other corrective action which could adversely impact our operations and financial condition.

Our businesses expose us to potential environmental liability.

Our businesses expose us to the risk that harmful substances may escape into the environment, which could result in:

personal injury or loss of life;

severe damage to or destruction of property; or

environmental damage and suspension of operations.

Our current and past activities, as well as the activities of our former divisions and subsidiaries, could result in our facing substantial environmental, regulatory and other liabilities. These could include the costs of cleanup of contaminated sites and site closure obligations. These liabilities could also be imposed on the basis of one or more of the following theories:

negligence;

strict liability;

breach of contract with customers; or

as a result of our contractual agreement to indemnify our customers in the normal course of our business, which is normally the case.

We may not have adequate insurance for potential environmental liabilities.

While National Oilwell and Varco maintain liability insurance, this insurance is subject to coverage limits. In addition, certain policies do not provide coverage for damages resulting from environmental contamination. We face the following risks with respect to our insurance coverage:

we may not be able to continue to obtain insurance on commercially reasonable terms;

we may be faced with types of liabilities that will not be covered by our insurance;

our insurance carriers may not be able to meet their obligations under the policies; or

the dollar amount of any liabilities may exceed our policy limits.

Even a partially uninsured claim, if successful and of significant size, could have a material adverse effect on our consolidated financial statements.

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INFORMATION REGARDING FORWARD-LOOKING STATEMENTS

This document and the documents incorporated by reference contain various forward-looking statements and information that are based on the beliefs of National Oilwell and Varco, as well as assumptions made by National Oilwell and Varco and information currently available to us. When used in this document, words such as anticipate, project, expect, plan, goal, forecast, intend, could, believe, may, and statements regarding our plans and objectives for future operations, are intended to identify forward-looking statements. Forward-looking statements in this document also include:

statements relating to the cost savings, transaction costs or integration costs that National Oilwell and Varco anticipate to arise from the merger;

statements with respect to various actions to be taken or requirements to be met in connection with completing the merger or integrating National Oilwell and Varco; and

statements relating to revenue, income and operations of the combined company after the merger is completed.

These forward-looking statements are subject to a number of factors and uncertainties that could cause actual results to differ materially from those described in the forward-looking statements. The following factors, among others, including those discussed in the Risk Factors section of this document, could cause actual results to differ materially from those described in the forward-looking statements:

expected cost savings from the merger may not be fully realized or realized within the expected time frame;

revenue of the combined company following the transaction may be lower than expected;

costs or difficulties related to obtaining regulatory approvals for completing the merger and, following the transaction, to the integration of the businesses of National Oilwell and Varco, may be greater than expected;

general economic conditions, either internationally or nationally or in the jurisdictions in which National Oilwell or Varco is doing business, may be less favorable than expected;

the potential for rapid and significant changes in technology and their effect on the combined company's operations;

inability to retain key personnel after the merger; and

operating, legal and regulatory risks.

Except for its ongoing obligations to disclose material information as required by the federal securities laws, neither National Oilwell nor Varco has any intention or obligation to update these forward-looking statements after it distributes this document.

Although we believe that such expectations reflected in such forward-looking statements are reasonable, we cannot give any assurances that such expectations will prove to be correct. Such statements are subject to a variety of risks, uncertainties and assumptions. If one or more of these risks or uncertainties materialize, or if underlying assumptions prove incorrect, our actual results may vary materially from those anticipated, estimated, projected or expected.

You should not put undue reliance on any forward-looking statements. When considering forward-looking statements, please review the risk factors described under Risk Factors in this document and incorporated by reference into this document.

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THE COMPANIES

National Oilwell's Business

This section summarizes information from National Oilwell's Annual Report on Form 10-K for the year ended December 31, 2003 and its other filings incorporated into this document by reference. For a more detailed discussion of National Oilwell's business, please read National Oilwell's Annual Report on Form 10-K for the year ended December 31, 2003 and its other filings incorporated into this document by reference.

Business Segments

National Oilwell's business has two reportable segments:

Products and Technology; and

Distribution Services.

Products and Technology

National Oilwell's Products and Technology segment designs and manufactures complete land drilling and workover rigs, as well as drilling related systems on offshore rigs. Technology has increased the desirability of one vendor assuming responsibility for the entire suite of components used in the drilling process, as mechanical and hydraulic components are replaced by or augmented with integrated computerized systems. In addition to traditional components such as drawworks (the hoisting winch used to raise and lower drill pipe), mud pumps (used to circulate drilling fluids), top drives (used to turn drill pipe), derricks, cranes, jacking and mooring systems (used to raise, lower and anchor offshore jackup drilling rigs), and other structural components, National Oilwell provides automated pipehandling, control and electrical power systems. National Oilwell has also developed new technology for drawworks and mud pumps applicable to the highly demanding offshore markets.

Non-capital revenue sources within our Products and Technology segment include drilling motors and specialized downhole tools that are sold or rented, spare parts and service on the large installed base of our equipment, expendable parts for mud pumps and other equipment, and smaller downhole, progressive cavity and transfer pumps.

Distribution Services

National Oilwell's Distribution Services segment provides maintenance, repair and operating supplies and spare parts to drill site and production locations throughout North America and to offshore contractors worldwide. Increasingly, this business also is expanding to locations outside North America, including the Middle East, Southeast Asia, and South America. Using its information technology platforms and processes, National Oilwell can provide complete procurement, inventory management, and logistics services to its customers.

Varco's Business

This section summarizes information from Varco's Annual Report on Form 10-K for the year ended December 31, 2003 and its other filings incorporated into this document by reference. For a more detailed discussion of Varco's business, please read Varco's Annual Report on Form 10-K for the year ended December 31, 2003 and its other filings incorporated into this document by reference.

Business Segments

Varco's business activities are segregated into four distinct operating segments:

the Drilling Equipment group;

the Tubular Services group;

the Drilling Services group; and

the Coiled Tubing & Wireline Products group.

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For information relating to revenues from external customers, operating income and total assets of each segment, please read the financial statements incorporated by reference into this document.

Drilling Equipment Group

The Drilling Equipment group manufactures and sells equipment for rotating and handling pipe on offshore and land drilling rigs, including conventional drilling rig tools and equipment; pipe handling tools; hoisting and rotary equipment; pressure control and motion compensation equipment; and flow devices. The group also provides after-market service and sales of spare parts for its drilling equipment. The Drilling Equipment group sells directly to drilling contractors, rig fabricators, national oil companies, oilfield service companies, and major and independent oil and gas companies. Demand for its products is strongly dependent upon capital spending plans by oil and gas companies and drilling contractors, and the level of oil and gas well drilling activity.

Tubular Services Group

Varco's Tubular Services group provides a variety of tubular services to oil and gas producers, national oil companies, drilling contractors, well-remediation service companies, pipeline operators, and tubular processors, manufacturers and distributors. The Tubular Services group provides inspection and reclamation services for drill pipe, casing, production tubing, sucker rods and line pipe at drilling and workover rig locations, at yards owned by its customers, at steel mills and processing facilities that manufacture tubular goods, and at facilities which it owns. The Tubular Services group also provides for the internal coating of tubular goods. Varco also conducts tubular coating operations through licensees in certain locations. Additionally, Varco designs, manufactures and sells high pressure fiberglass and composite tubulars for use in corrosive applications, and provides in-place inspection of oil, gas and product transmission pipelines through its application of instrumented survey tools which it engineers, manufactures and operates.

Drilling Services Group

Varco's Drilling Services group is engaged in the provision of highly-engineered equipment, products and services which separate and manage drill cuttings produced by the drilling process. Drill cuttings are usually contaminated with petroleum or drilling fluids, and must be disposed of in an environmentally sound manner. Additionally, efficient separation of drill cuttings enables the re-use of often costly drilling fluids. The Drilling Services group also rents and sells proprietary drilling rig instrumentation packages and drilling rig control systems which monitor various processes throughout the drilling operation. The group's Rig Instrumentation packages collect and analyze data through both analog and digital media, enabling rig personnel to maintain safe and efficient drilling operations. The group's customers for Drilling Services include major and independent oil and gas companies, national oil companies, and drilling contractors. Varco's Drilling Services group operates in highly competitive markets.

Coiled Tubing & Wireline Products Group

Varco's Coiled Tubing & Wireline Products group sells and rents capital equipment, and sells spare parts, repair services and consumables, to oilfield service providers who use Varco's products to remediate, workover and, to a lesser extent, drill oil and gas wells. Varco also manufactures steel coiled tubing used by well remediation contractors and oil and gas producers. Demand for the group's Coiled Tubing & Wireline Products is strongly dependent upon the capital spending plans of coiled tubing and wireline service companies, and the general level of well completion and remediation activity.

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THE SPECIAL MEETINGS

This document is being provided to the stockholders of National Oilwell and Varco as part of a solicitation of proxies by each of National Oilwell and Varco's board of directors for use at their respective special meetings. This document provides stockholders of National Oilwell and Varco with the information they need to know to be able to vote or instruct their vote to be cast at their respective special meetings.

Date, Time and Place of Special Meetings

The special meetings are scheduled to be held as follows:

For National Oilwell stockholders:
March 11, 2005, 10:00 a.m., C.T.
Houston Marriott Westchase
Briarpark Room
2900 Briarpark Drive
Houston, Texas 77042

For Varco Stockholders:
March 11, 2005, 10:00 a.m., C.T.
Houston Marriott Westchase
Richmond Room
2900 Briarpark Drive
Houston, Texas 77042

Purpose of the Special Meetings

National Oilwell Special Meeting

The National Oilwell special meeting of stockholders is being held for the following purposes:

To consider and vote on the adoption of the Amended and Restated Agreement and Plan of Merger, effective as of August 11, 2004, between National-Oilwell, Inc., a Delaware corporation, and Varco International, Inc., a Delaware corporation, as amended prior to the special meeting. Adoption of the merger agreement will also constitute approval of the issuance of shares of National Oilwell common stock in the merger and an amendment to National Oilwell's certificate of incorporation increasing the authorized number of shares of common stock to 500 million, eliminating the class of special voting stock and changing the company's name to National Oilwell Varco, Inc.;

To consider and vote on the approval of the National Oilwell Varco Long-Term Incentive Plan;

To consider and vote on any proposal to adjourn the special meeting for any reason, including to solicit additional proxies if there are not sufficient votes in favor or the foregoing proposals; and

To transact any other business that properly comes before the special meeting or any adjournments or postponements of the special meeting.

Varco Special Meeting

The Varco special meeting of stockholders is being held for the following purposes:

To consider and vote on the adoption of the Amended and Restated Agreement and Plan of Merger, effective as of August 11, 2004, between National-Oilwell, Inc., a Delaware corporation, and Varco International, Inc., a Delaware corporation, as amended prior to the special meeting, pursuant to which Varco will be merged with and into National Oilwell and each outstanding share of Varco common stock will be converted into 0.8363 of a share of National Oilwell common stock;

To consider and vote on any proposal to adjourn the special meeting for any reason, including to solicit additional proxies if there are not sufficient votes in favor or the foregoing proposal; and

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To transact any other business that properly comes before the special meeting or any adjournments or postponements of the special meeting.

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Recommendation of Boards of Directors

Recommendation of National Oilwell's Board of Directors

National Oilwell's board of directors has determined that the merger agreement and the transactions contemplated by the merger agreement are advisable and in the best interests of National Oilwell and its stockholders, and has approved the merger agreement and merger.

National Oilwell's board of directors has also approved the Long-Term Incentive Plan.

National Oilwell's board of directors unanimously recommends that you vote FOR the adoption of the merger agreement, FOR the approval of the Long-Term Incentive Plan and FOR any proposal presented by National Oilwell to approve the adjournment or postponement of the special meeting.

Recommendation of Varco's Board of Directors

Varco's board of directors has determined that the merger agreement and the transactions contemplated by the merger agreement are advisable and in the best interests of Varco and its stockholders, and has approved the merger agreement and merger.

Varco's board of directors unanimously recommends that you vote FOR the adoption of the merger agreement and FOR any proposal presented by Varco to approve the adjournment or postponement of the special meeting.

Record Date; Stockholders Entitled to Vote; Quorum

National Oilwell

Only holders of record of National Oilwell common stock at the close of business on February 3, 2005, the record date for National Oilwell's special meeting, are entitled to notice of and to vote at National Oilwell's special meeting. At the close of business on the record date, 86,023,561 shares of National Oilwell common stock were issued and outstanding and held by 482 holders of record. Holders of record of National Oilwell common stock on the record date are entitled to one vote per share at the special meeting on each proposal. National Oilwell will keep at its offices in Houston, Texas a list of stockholders entitled to vote at the meeting for inspection for any purpose relevant to the special meeting during normal business hours for a period of 10 days before the special meeting.

A quorum is necessary to hold a valid special meeting. A quorum will be present at National Oilwell's special meeting if the holders of a majority of the shares of National Oilwell common stock outstanding and entitled to vote on the record date are present, in person or by proxy. If a quorum is not present at the special meeting, we expect that the special meeting will be adjourned to solicit additional proxies. Abstentions and broker non-votes count as present for establishing a quorum for the transaction of all business.

Varco

Only holders of record of Varco common stock at the close of business on February 3, 2005, the record date for Varco's special meeting, are entitled to notice of and to vote at Varco's special meeting. At the close of business on the record date, 98,337,520 shares of Varco common stock were issued and outstanding and held by 1,015 holders of record. Holders of record of Varco common stock on the record date are entitled to one vote per share at the special meeting on each proposal. A list of Varco stockholders will be available for review for any purpose germane to the special meeting at Varco's executive offices and principal place of business during regular business hours for a period of ten days before the special meeting.

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A quorum is necessary to hold a valid special meeting. A quorum will be present at Varco's special meeting if the holders of a majority of the shares of Varco common stock outstanding and entitled to vote on the record date are present, in person or by proxy. If a quorum is not present at the special meeting, we

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expect that the special meeting will be adjourned to solicit additional proxies. Abstentions and broker non-votes count as present for establishing a quorum for the transaction of all business.

Vote Required

National Oilwell

The adoption of the merger agreement requires the affirmative vote of the holders of a majority of the shares of National Oilwell common stock outstanding and entitled to vote at the special meeting either in person or by proxy. The affirmative vote of at least a majority of the votes cast at the special meeting is required to approve and adopt the Long-Term Incentive Plan, provided the total votes cast represent over 50% of the outstanding National Oilwell shares entitled to vote on the proposal. The approval of any proposal presented by National Oilwell's management to adjourn or postpone the special meeting requires the affirmative vote of holders of a majority of the shares of National Oilwell common stock represented at the special meeting, in person or by proxy, and entitled to vote at the special meeting.

As of the record date for National Oilwell's special meeting, the directors and executive officers of National Oilwell as a group owned and were entitled to vote approximately 712,000 shares of National Oilwell common stock, or less than 1% of the outstanding shares of National Oilwell common stock on that date.

Varco

The adoption of the merger agreement requires the affirmative vote of the holders of a majority of the shares of Varco common stock outstanding and entitled to vote at the special meeting either in person or by proxy. The approval of any proposal presented by Varco's management to adjourn or postpone the special meeting requires the affirmative vote of holders of a majority of the shares of Varco common stock represented at the special meeting, in person or by proxy, and entitled to vote at the special meeting.

As of the record date for Varco's special meeting, the directors and executive officers of Varco as a group owned and were entitled to vote 326,450 shares of Varco common stock, or less than 1% of the outstanding shares of Varco common stock on that date.

Voting at the Special Meetings

Whether or not you plan to attend your company's special meeting, please vote your shares. If your shares are held in your name, you may vote in person at the special meeting or by proxy.

Voting in Person

If you plan to attend your company's special meeting and wish to vote in person, you will be given a ballot at the special meeting. Please note, however, that if your shares are held in street name, which means your shares are held of record by a broker, bank or other nominee, and you wish to vote at the special meeting, you must bring to the special meeting a proxy from the record holder (your broker, bank or nominee) of the shares authorizing you to vote at the special meeting.

Voting by Proxy

You should vote your proxy even if you plan to attend your company's special meeting. You can always change your vote at the special meeting.

Vote by Mail. National Oilwell and Varco stockholders of record may submit their proxies through the mail by completing their proxy card, and signing, dating and returning it in the enclosed, pre-addressed, postage-paid envelope. To be valid, a returned proxy card must be signed and dated. If you hold your shares of National Oilwell or Varco common stock in street name, you will receive instructions from your broker, bank or other nominee that you must follow in order to vote your shares.

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Vote by Telephone or Internet. If your shares of National Oilwell common stock are registered directly with American Stock Transfer & Trust Company, you may vote those shares either via the Internet or by calling American Stock Transfer & Trust Company. If your shares of Varco common stock are registered directly with Mellon Investor Services LLC, you may vote those shares either via the Internet or by calling Mellon Investor Services LLC.

Specific instructions for voting via the Internet or telephone are set forth on the enclosed proxy card. The Internet and telephone voting procedures for both companies are designed to authenticate the stockholder's identity and to allow stockholders to vote their shares and confirm that their instructions have been properly recorded. The Internet and telephone voting facilities will close at 11:59 p.m. E.S.T. on March 10, 2005.

If your shares are registered in the name of a broker, bank or nominee, you may be eligible to vote your shares electronically over the Internet or by telephone. A large number of brokers and banks are participating in the ADP Investor Communication Services online program. This program provides eligible stockholders who receive a paper copy of this document the opportunity to vote via the Internet or by telephone. If your broker, bank or nominee is participating in ADP's program, your voting form will provide instructions. If your voting form does not reference Internet or telephone information, please complete and return the paper proxy in the self-addressed, postage prepaid envelope provided.

If you vote via the Internet or by telephone, you should be aware that you may incur costs such as usage charges from telephone companies or Internet service providers, and that you must bear these costs. If you vote by Internet or telephone, you need not return a proxy card by mail.

How Proxies are Counted

All shares represented by properly executed proxies received in time for the special meetings will be voted at the appropriate special meeting in the manner specified by the stockholders giving those proxies. Properly executed proxies that do not contain voting instructions will be voted FOR the adoption of the merger agreement, FOR any proposal to approve the adjournment or postponement of the special meeting, and FOR, in the case of the National Oilwell special meeting, the approval of the Long-Term Incentive Plan.

Only shares affirmatively voted for a proposal, and properly executed proxies that do not contain voting instructions, will be counted as favorable votes for the proposals. Shares of common stock of National Oilwell or Varco held by persons attending that company's special meeting but not voting, and shares of National Oilwell or Varco common stock for which National Oilwell or Varco received proxies but with respect to which holders of those shares have abstained from voting, will have the same effect as votes against the adoption of the merger agreement.

For the proposal to approve the adjournment or postponement of the special meeting, abstentions will count as a vote against and shares held by persons not represented at the meeting in person or by proxy will have no effect.

In the case of the National Oilwell special meeting, a failure to vote on the proposal to approve the Long-Term Incentive Plan will not count as a vote for or against the proposal but could affect whether sufficient votes have been cast on the proposal under the rules of the NYSE. In addition, shares of National Oilwell common stock for which National Oilwell receives proxies but where holders abstain from voting will count as a vote against the proposal to approve the Long-Term Incentive Plan.

A broker non-vote occurs when a nominee holding shares for a beneficial owner has not received instructions from the beneficial owner and does not have discretionary authority to vote the shares. Shares represented by proxies that reflect a broker non-vote will be counted for purposes of determining whether a quorum exists, and those proxies will have the same effect as votes against the adoption of the merger agreement, but will have no effect on any proposal to adjourn or postpone either company's meeting. With respect to the proposal to approve the Long-Term Incentive Plan at the National Oilwell

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special meeting, broker non-votes will not be counted as votes cast and this may affect whether total votes cast represent over 50% of National Oilwell's outstanding securities entitled to vote on the proposal.

Revocation of Proxies

Submitting a proxy on the enclosed form does not preclude you from voting in person at the special meeting. A stockholder of record may revoke a proxy at any time before it is voted by:

filing with the corporate secretary of that company, at or before the company's special meeting, a duly executed revocation of proxy bearing a date later than the proxy;

submitting a duly executed proxy to the corporate secretary of that company with a date later than the proxy; or

appearing at the special meeting and voting in person.

A stockholder of record may revoke a proxy by any of these methods, regardless of the method used to deliver the stockholder's previous proxy. Attendance at the special meeting without voting will not itself revoke a proxy.

Written notices of revocation and other communications with respect to the revocation of proxies should be addressed:

For National Oilwell proxies, to:

National-Oilwell, Inc.
10000 Richmond
Houston, Texas 77042
Attention: Corporate Secretary

For Varco proxies, to:

Varco International, Inc.
2000 W. Sam Houston Parkway South
Suite 1700
Houston, Texas 77042
Attention: Corporate Secretary

Please note that if your shares are held of record by a broker, bank or other nominee, and you decide to attend and vote at the special meeting, your vote in person at the special meeting will not be effective unless you have obtained and present a proxy issued in your name from the record holder, your broker. If your shares are held in the name of a broker, bank or other nominee, you may change your vote by submitting new voting instructions to your bank, broker or other record holder.

Adjournments; Other Business

Adjournments may be made for the purpose of, among other things, soliciting additional proxies. An adjournment of a National Oilwell or Varco special meeting may be made from time to time by approval of the holders of shares representing a majority of the votes present in person or by proxy at the special meeting, whether or not a quorum exists, without further notice other than by an announcement made at the special meeting of the date, time and place at which the meeting will be reconvened. If the adjournment is for more than 30 days, or if after the adjournment a new record date is fixed for the adjourned meeting, a notice of the adjourned meeting will be given to each stockholder of record entitled to vote at the meeting. At the National Oilwell and Varco special meetings, no proxy voted against the proposal to adopt the merger agreement will be voted in favor of any adjournment unless it is specifically marked **FOR** a proposal presented by National Oilwell or Varco to adjourn or postpone its special meeting. Neither National Oilwell nor Varco currently intends to seek an adjournment of its respective special meeting.

Neither National Oilwell nor Varco expects that any matter other than the proposal to adopt the merger agreement or the proposal relating to adjournment or postponement of the Varco special meeting, or, in the case of the National Oilwell special meeting, the proposal relating to the approval of the Long-Term Incentive Plan will be brought before the special meeting. If, however, other matters are properly presented at the special meeting of National Oilwell or Varco, the persons named as proxies will vote in accordance with their best judgment with respect to those matters.

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Solicitation of Proxies

National Oilwell and Varco are soliciting proxies for each of their special meetings from their respective stockholders. Each of National Oilwell and Varco will pay its own cost of soliciting proxies, including the cost of mailing this proxy statement, from its stockholders. In addition to solicitation by use of the mails, proxies may be solicited by each company's directors, officers and employees in person or by telephone or other means of communication. These persons will not receive additional compensation, but may be reimbursed for reasonable out-of-pocket expenses in connection with this solicitation. In addition, National Oilwell has retained the services of InvestorCom, Inc. to assist in the solicitation of proxies for an estimated fee of \$6,500, plus reimbursement of out-of-pocket expenses. Varco has retained the services of Morrow & Co., Inc. to assist in the solicitation of proxies for an estimated fee of \$5,000, plus reimbursement of out-of-pocket expenses. National Oilwell and Varco will make arrangements with brokerage houses, custodians, nominees and fiduciaries to forward proxy solicitation materials to beneficial owners of shares held of record by them. National Oilwell and Varco will also reimburse these brokerage houses, custodians, nominees and fiduciaries for their reasonable expenses incurred in forwarding the proxy materials.

Assistance

If you need assistance in completing your proxy card or have questions, please contact:

For the National Oilwell special meeting:

National-Oilwell, Inc.
10000 Richmond Avenue
Houston, Texas 77042-4200
(713) 346-7500
Attention: Investor Relations

or

InvestorCom, Inc.
110 Wall Street
New York, New York 10005
(800) 503-3375

For the Varco special meeting:

Varco International, Inc.
2000 W. Sam Houston Parkway South
Suite 1700
Houston, Texas 77042
(281) 953-2200
Attention: Investor Relations

or

Morrow & Co., Inc.
445 Park Avenue, 5th Floor
New York, NY 10022
E-mail: varco.info@morrowco.com
Call Collect (212) 754-8000
Banks and Brokerage Firms, Please Call:
(800) 654-2468
Stockholders Please Call: (800) 607-0088

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THE MERGER

Background of the Merger

The management of each of National Oilwell and Varco continually reviews its company's respective position in light of the changing competitive environment of the oilfield services industry with the objective of determining what strategic alternatives are available to enhance stockholder value. While each of the companies believes that it has positive future prospects on a stand-alone basis, from time to time, the management of each of National Oilwell and Varco has had conversations with other companies to explore opportunities to improve the position of National Oilwell and Varco, respectively, including potential acquisitions or dispositions of assets, joint ventures or other strategic transactions.

In addition, National Oilwell and Varco management have periodically discussed over the past seven years the possibility of combining the companies. Each company has also periodically been approached by investment banking firms suggesting the possibility of such a combination. These discussions generally involved broad conceptual aspects of a merger.

During the early part of 2004, Varco's management met several times with representatives of Citigroup to discuss the potential strategic and financial benefits of pursuing a merger with National Oilwell. On May 19, 2004, representatives of Citigroup, at the request of Varco's management, contacted members of National Oilwell's management to discuss preliminary aspects of a potential merger and to suggest a meeting between the respective managements. On May 20, 2004, Merrill A. Miller, Jr., the chief executive officer of National Oilwell, and John F. Lauletta, the chief executive officer of Varco, discussed a possible strategic combination of the two companies and agreed to meet again in early June with other members of the respective management teams to further consider the benefits of a combination and to exchange information about recent and projected financial results of their respective companies.

On June 4, 2004, National Oilwell management contacted representatives of Goldman Sachs to discuss a potential merger with Varco.

On June 10, 2004, members of National Oilwell's and Varco's management teams met to discuss a potential strategic business combination transaction. At the meeting, National Oilwell and Varco provided the other party with an overview of its operations.

On June 11, 2004, members of National Oilwell's and Varco's management teams again met to discuss a potential strategic business combination transaction, including the pre-tax cost saving benefits that might result from such a transaction.

On June 22, 2004, members of National Oilwell's and Varco's management teams again met to discuss the potential strategic business combination transaction. At the meeting, National Oilwell and Varco discussed past and prospective operations and financial results of their respective company and further discussed the potential pre-tax costs savings that could be achieved by a business combination of the companies.

On July 8, 2004, members of National Oilwell's management team and representatives from Goldman Sachs met with members of Varco's management and representatives from Citigroup in the first of a series of meetings regarding the potential strategic business combination transaction. These meetings continued on July 9, July 13, and July 14, 2004 and were primarily focused on a thorough understanding of the respective businesses, and generating a general consensus of the pre-tax savings and benefits that could be reasonably expected from a business combination.

In order to further explore a transaction and in contemplation of the possible exchange of material non-public information between the parties, National Oilwell and Varco entered into a confidentiality agreement dated July 13, 2004.

On July 21, 2004, members of National Oilwell's and Varco's management teams met for the primary purpose of reviewing preliminary operating results for the second quarter of 2004 for each company.

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Despite the lack of agreement regarding significant terms of a possible transaction, on July 23, 2004, Varco's legal counsel delivered to National Oilwell a proposed form of merger agreement to facilitate the discussion of various ancillary terms of a possible transaction.

On July 27, 2004, management of National Oilwell and Varco met, along with their respective financial advisors, to discuss the financial structure of a possible transaction.

Between July 27 and August 11, 2004, Messrs. Miller and Lauletta and National Oilwell's and Varco's representatives and advisors had numerous conversations relating to the terms of the potential strategic business combination transaction, including, among other things, the strategic advantages of such a transaction, the relative value and contribution of each company in such a transaction, the structure of a potential transaction, the terms of the merger agreement and the composition of the board of directors and management team of the combined company.

On July 28, 2004, Varco's board of directors held a special meeting at which it was briefed on discussions between National Oilwell and Varco regarding a potential strategic business combination. During the meeting, Mr. Lauletta informed the board of directors that the transaction being discussed was a merger of equals whereby Varco stockholders would hold approximately 50% of the capital stock of the combined company. In addition, James F. Maroney, Varco's Vice President, General Counsel and Secretary, advised the board of directors of its fiduciary obligations when considering a strategic business combination with National Oilwell. At the conclusion of the meeting, Varco's board of directors authorized management to continue discussions with National Oilwell regarding a strategic business combination.

On August 2, 2004, members of the management of National Oilwell and Varco and their respective advisors met to discuss possible exchange ratios should a merger be advisable.

After a series of separate internal meetings and teleconferences between the parties, another meeting was held by Messrs. Miller and Lauletta and their respective advisors on August 4, 2004 to discuss a proposed structure that would be presented to each company's board of directors for consideration. At that meeting, Mr. Miller informed Mr. Lauletta that National Oilwell would only be interested in pursuing a transaction if the stockholders of National Oilwell would hold at least 51% of the capital stock of the combined company on a fully diluted basis.

On August 5, 2004, the board of directors of National Oilwell held a special meeting along with management and representatives of Goldman Sachs to consider the potential combination and review the proposed terms. Prior to the meeting, the directors received materials used in discussions between management and Goldman Sachs. All of the directors of National Oilwell were present at the meeting or in attendance by teleconference. At the meeting:

National Oilwell's management discussed the history of merger negotiations with Varco;

National Oilwell's management discussed the strategic benefits of a combination of Varco and National Oilwell;

National Oilwell's management discussed the progress of the current negotiations with Varco, including discussions related to the relative ownership of the combined company and discussions related to the potential designation of personnel for various executive officer positions;

National Oilwell's management reviewed the progress made by management in due diligence and answered the board of director's questions related to Varco;

National Oilwell's board of directors considered the proposed transaction on the basis of an ownership structure in which the current stockholders of National Oilwell would own approximately 51% and Varco stockholders would own approximately 49% of the combined company on a fully diluted basis; and

Representatives of Goldman Sachs provided certain financial analyses of National Oilwell, Varco and the combined company.

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At the end of the meeting the board of directors unanimously authorized management to continue discussions regarding a potential combination on terms similar to those discussed.

On August 5, 2004, Varco's board of directors held a special meeting to review the potential strategic business combination transaction with National Oilwell. Prior to the meeting, the board of directors was provided materials prepared by management and Citigroup, along with financial statements filed by National Oilwell with the SEC and other publicly available information concerning National Oilwell. At the meeting:

Varco's management reviewed the status of the negotiations of the proposed transaction, indicating that the parties had not reached agreement on significant issues, including the relative ownership of the combined company by each company's stockholders and the composition of the board of directors and management of the combined company;

Varco's management reviewed with the board of directors the strategic rationale for, and the potential risks and benefits of, the potential business combination with National Oilwell and discussed various financial measures relating to the transaction and strategic alternatives to the transaction;

Varco's management also updated the board of directors on the results of Varco's due diligence review of National Oilwell;

Mr. Lauletta informed the board of directors that the transaction being discussed was a merger of equals whereby Varco stockholders would hold 49% of the capital stock of the combined entity on a fully diluted basis; and

Representatives of Citigroup provided certain financial analyses of National Oilwell, Varco and the combined company.

At the conclusion of the meeting, Varco's board of directors authorized management to continue discussions with National Oilwell regarding a strategic business combination.

From August 5, 2004 through August 11, 2004, representatives and legal advisors to National Oilwell and Varco engaged in extensive negotiations regarding the terms of the merger agreement. Also during this period, the parties conducted extensive due diligence review of the other party, including conducting due diligence meetings between representatives and advisors of each company.

On August 11, 2004, the board of directors of National Oilwell held a special meeting to consider adoption of the merger agreement and the strategic business combination transaction between National Oilwell and Varco. Prior to the meeting, the board of directors was provided with a substantially final draft of the merger agreement and other materials related to the proposed transaction. At the meeting:

National Oilwell management updated the board of directors on the terms of the proposed transaction, as well as the final results of National Oilwell's due diligence review of Varco;

Representatives of Vinson & Elkins L.L.P. reviewed the terms of the proposed merger agreement, advised the board of directors of its fiduciary obligations when considering a strategic business combination with Varco and discussed with the board of directors the potential conflicts of interest of management and directors in the transaction;

Goldman Sachs rendered its oral opinion, subsequently confirmed by delivery of its written opinion dated August 11, 2004, that as of such date, and based upon and subject to the factors and assumptions set forth therein, the exchange ratio pursuant to the merger agreement was fair from a financial point of view to National Oilwell (see Opinions of Financial Advisors Opinion of Goldman, Sachs & Co.); and

The board of directors and management of National Oilwell discussed the financial and strategic benefits of the proposed business combination, the potential synergies resulting from the proposed business combination, costs and challenges of integrating the businesses of National Oilwell and

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Varco, the regulatory approvals necessary to complete the merger, tax considerations related to the business combination, and the risks associated with not completing the proposed business combination and the financial impact on National Oilwell in such event. Each of the National Oilwell directors were present at the meeting or participated by teleconference, and, following the presentations and discussion, the directors unanimously approved the proposed combination and the merger agreement.

On August 11, 2004, Varco's board of directors held a special meeting to consider approval of the merger agreement and the strategic business combination transaction between National Oilwell and Varco. Prior to the meeting, the board of directors was provided with a substantially final draft of the merger agreement, a summary of the terms of the merger agreement and certain financial analyses relating to the potential transaction. At the meeting:

Varco management updated the board of directors on the terms of the proposed transaction, as well as the final results of Varco's due diligence review of National Oilwell;

Representatives of Latham & Watkins LLP reviewed the terms of the proposed merger agreement, advised the board of directors of its fiduciary obligations when considering a strategic business combination with National Oilwell and informed the board of directors of potential conflicts of interest of management and directors in the transaction; and

Citigroup delivered its oral opinion, which was confirmed by a written opinion dated August 11, 2004, that as of such date and based upon and subject to various assumptions made, matters considered and limitations described in the opinion, the exchange ratio of 0.8363 of a share of National Oilwell common stock for each share of Varco common stock in the merger was fair, from a financial point of view, to the Varco stockholders. See Opinions of Financial Advisors Opinion of Citigroup Global Markets Inc.

Following discussions, Varco's board of directors unanimously approved the merger agreement, the merger and the other transactions contemplated by the merger agreement, and resolved to recommend that Varco's stockholders vote to adopt the merger agreement.

On August 11, 2004, the merger agreement was executed and delivered on behalf of both companies, and, on August 12, 2004, the parties issued a joint press release announcing the execution of the merger agreement prior to the opening of the New York Stock Exchange where the common stock of both companies is listed.

On September 13, 2004, in light of the adoption of the merger agreement, the National Oilwell board also determined it was in the best interests of National Oilwell and its stockholders to adopt a new long-term incentive plan subject to completion of the merger, which was adopted by unanimous written consent.

In addition, on September 13, 2004, the board of directors of National Oilwell and Varco each approved by unanimous written consent an amendment and restatement of the merger agreement to provide for (i) an amendment to the Amended and Restated Certificate of Incorporation to eliminate the class of special voting stock of National Oilwell, and (ii) an acknowledgment of the adoption of the National Oilwell Varco Long-Term Incentive Plan.

Recommendation of the Board of Directors of National Oilwell and Reasons for the Merger

The National Oilwell board believes that the merger will provide substantial strategic and financial benefits to the stockholders of National Oilwell and that the merger will allow National Oilwell and Varco to combine their resources to enhance their ability to provide oil field products and services. The National Oilwell board of directors has unanimously approved the merger agreement and, in connection therewith, the amendment of its certificate of incorporation to increase the number of authorized shares of common stock to 500 million, to eliminate the class of special voting stock, and to change the name of the surviving corporation to National Oilwell Varco, Inc., and the National Oilwell board of directors recommends that National Oilwell stockholders vote **FOR** adoption of the merger agreement. In reaching its

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determination, the National Oilwell board consulted with National Oilwell's management, as well as its financial and legal advisors, and considered a variety of factors, a number of which are summarized below:

Strengthened Strategic Position. The National Oilwell board of directors considered that the merger would create a combined company that has the benefits of increased size, an expanded customer base, a more diversified product and service offerings, increased geographic presence, and greater research and development capabilities to develop new product and service offerings. The National Oilwell board of directors considered the potential benefits to the customers of the combined company resulting from its more diversified product and service offerings and increased geographical presence.

Synergies. The National Oilwell board of directors reviewed the complementary nature of the businesses of National Oilwell and Varco and the opportunity for significant cost savings. The National Oilwell board of directors noted that, although no assurances can be given that any particular level of synergies will be achieved, National Oilwell's management anticipates annualized pre-tax cost savings and operating synergies of \$40 million to \$50 million will be achieved by the end of 2005.

Integration of Operations. The National Oilwell board of directors considered the fact that the combination of the businesses of National Oilwell and Varco would be challenging, time consuming and costly. However, based on consultations between management of National Oilwell and management of Varco, the National Oilwell board of directors determined that the operations of National Oilwell and Varco could be integrated in an efficient manner.

Merger Consideration. The National Oilwell board of directors believes that the merger consideration is fair to the National Oilwell stockholders in this strategic merger of equals transaction. In reaching this determination, the National Oilwell board of directors considered, among other things, the following:

current industry, market and economic conditions;

Varco's business, financial condition, results of operations, assets, management, competitive position, operating performance, trading performance and prospects;

National Oilwell's business, financial condition, results of operations, assets, management, competitive position, operating performance, trading performance and prospects;

the financial condition of the combined company after the merger, including its market capitalization, revenues, profits and earnings per share;

the fixed nature of the exchange ratio;

the retention by the National Oilwell stockholders of stock representing 51% of the fully diluted shares of the combined company following the completion of the merger;

the market price of Varco common stock over the last several years;

the market price of National Oilwell common stock over the last several years;

the current and historical market prices of National Oilwell common stock and Varco common stock relative to the exchange ratio;

the potential effect of the public announcement of the merger on the market price of the Varco and National Oilwell common stock;

the expected synergies expected to be realized from the combination of the two businesses; and

the expected accretion to cash earnings per share in 2005 to the National Oilwell stockholders, assuming that the combined company realizes the cost savings expected to result from the business combination by the end of 2005.

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Opinion of Financial Advisor. The National Oilwell board of directors considered the opinion of Goldman Sachs discussed under the heading "Opinion of Goldman, Sachs & Co. Financial Advisor to National Oilwell".

Terms of the Merger Agreement. The National Oilwell board of directors, with the assistance of counsel, considered the terms and conditions of the merger agreement, including:

the composition of the board of directors and the executive management personnel of the combined company following the completion of the merger;

provisions restricting the conduct of business by National Oilwell between signing of the merger agreement and the closing of the merger, which provided sufficient operating flexibility for National Oilwell to conduct its business in the ordinary course;

the fact that National Oilwell cannot solicit competing third-party proposals and must pay to Varco a termination fee if the merger agreement is terminated under certain circumstances, which could deter others from proposing an alternative transaction that may be more advantageous to National Oilwell stockholders but would not preclude bona fide alternative proposals;

the fact that Varco cannot solicit competing third-party proposals and must pay to National Oilwell a termination fee if the merger agreement is terminated under certain circumstances;

National Oilwell's ability to furnish information to and conduct negotiations with a third party, and to terminate the merger agreement, if a third party makes a superior proposal for a business combination or acquisition; and

the closing conditions, including the condition that the merger agreement is subject to the adoption of National Oilwell stockholders and, if a higher offer were to be made prior to the completion of the merger, National Oilwell stockholders would be free to reject the merger with Varco.

Closing and Regulatory Matters. The National Oilwell board of directors determined that the merger would likely be completed, including receipt of the regulatory approvals necessary to complete the merger.

Larger Capitalization, Increased Liquidity and Potentially Lower Cost of Capital. The National Oilwell board of directors considered that the market capitalization of the combined company would be substantially larger than National Oilwell's current market capitalization, which should provide National Oilwell stockholders with increased liquidity and provide the combined company with potentially lower cost of capital from future equity and debt transactions.

In addition, the National Oilwell board of directors also identified and considered a number of potentially negative factors in its deliberations concerning the merger, including:

the risk that, despite the efforts of National Oilwell and Varco, the combined company may lose key personnel either before or after the closing of the merger;

the risk that a significant number of National Oilwell's and Varco's customers and suppliers might cease doing business with the combined company;

the difficulty of managing operations in the different geographic locations in which National Oilwell and Varco operate;

the risk that the potential benefits of the merger might not be fully realized;

the fact that if the merger does not close, National Oilwell will have incurred significant expenses during the pendency of the merger;

the risk that, while the merger is expected to be completed, there can be no assurance that all conditions to the parties' obligations to complete the merger will be satisfied and, as a result, it is

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possible that the merger may not be completed even if approved by National Oilwell stockholders and it is possible that the merger may be unduly delayed;

The risk that regulatory agencies might prevent the merger or, in granting consent to the merger, might impose requirements that would force the companies to take actions that would reduce the benefits described above;

the interests that certain of National Oilwell's directors and executive officers may have in the merger that are, or may be, different from, or in addition to, those of National Oilwell stockholders generally; and

the various other risks associated with the merger and the businesses of National Oilwell, Varco and the combined company described in the section entitled "Risks Relating the Merger" and in the documents incorporated by reference into this document.

The National Oilwell board of directors concluded, however, that the potentially negative factors could be managed or mitigated by National Oilwell or were unlikely to have a material impact on the completion of the merger or on National Oilwell, and that, overall, the potentially negative factors associated with the merger were outweighed by the benefits of the merger.

The above discussion of the factors considered by the National Oilwell board of directors is not intended to be exhaustive, but does set forth the principal factors considered by the board of directors. The National Oilwell board of directors reached the conclusion to approve the merger agreement in light of the various factors described above and other factors that each member of the board of directors felt were appropriate. In view of the wide variety of factors considered by the National Oilwell board of directors in connection with its evaluation of the merger and the complexity of these matters, the board of directors did not consider it practical, and did not attempt, to quantify, rank or otherwise assign relative weights to the specific factors it considered in reaching its decision. Rather, the National Oilwell board of directors made its recommendation based on the totality of information presented to, and the investigation conducted by, the board of directors. In considering the factors discussed above, individual directors may have given different weight to different factors.

Recommendation of the Board of Directors of Varco and Reasons for the Merger

The Varco board of directors believes that the merger will provide substantial strategic and financial benefits to the stockholders of Varco, and that the combination will create a stronger oilfield services company that is capable of creating more stockholder value than Varco could achieve on its own. Varco also believes that the combination of Varco and National Oilwell will allow Varco stockholders to participate in a larger, more diversified company that will accelerate both companies' strategies to develop, enhance and commercialize products and services. The Varco board of directors has unanimously approved the merger agreement and the transactions contemplated by the merger agreement and recommends that Varco stockholders vote **FOR** adoption of the merger agreement.

In reaching its decision to approve the merger agreement and the merger, the Varco board of directors consulted with senior members of Varco's management team regarding the strategic and operational aspects of the merger and the results of the due diligence efforts undertaken by management and Varco's advisors. In addition, the Varco board of directors discussed with senior members of Varco's management and representatives of Citigroup the past and current business operations, financial condition and future prospects of National Oilwell. The Varco board of directors considered the opinion of Citigroup discussed under the heading "Opinion of Citigroup Global Markets Inc. Financial Advisor to Varco." The Varco board of directors also consulted representatives of Latham & Watkins LLP regarding the terms of the merger agreement. Varco retained additional advisors to advise the company as to certain legal, accounting and tax matters.

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In reaching its decision to approve the merger agreement and the merger, the Varco board of directors considered a variety of factors, a number of which are summarized below:

Strengthened Strategic Position. The Varco board of directors considered that the merger would create a combined company that is a leader in the oilfield services industry, with the benefits of increased size, diversified product and service offerings and an expanded customer base.

Positioned for Long-Term Growth. The Varco board of directors considered that the merger with National Oilwell would create a combined company with the prospects of accelerating Varco's revenue and earnings growth, including the belief that the transaction will be accretive to earnings and cash flow per share for stockholders of both companies in 2005.

Strategic Alternatives. The Varco board of directors reviewed strategic alternatives to the merger with National Oilwell and determined that National Oilwell was a strategic fit and presented a unique opportunity to enhance and expand Varco's business, product and service offerings, and position for future growth.

Synergies. The Varco board of directors reviewed the complementary nature of the businesses of Varco and National Oilwell and the opportunity for significant cost savings. The Varco board of directors noted that, although no assurances can be given that any particular level of synergies will be achieved, Varco's management expects that annualized pre-tax cost savings and operating synergies of \$40 million to \$50 million will be achieved by the end of 2005.

Integration of Operations. The Varco board of directors considered the fact that the combination of the businesses of Varco and National Oilwell would be challenging, time consuming and costly. However, after consultation with Varco's management, the Varco board of directors determined that the operations of Varco and National Oilwell could be integrated in an efficient manner.

Attractive Financial Terms. The Varco board of directors believes that, along with the strategic benefits associated with the merger, the merger consideration values Varco at a financially attractive level and appropriately compensates Varco stockholders in a merger of equals transaction. In reaching this determination, the Varco board of directors considered, among other things, the following:

current industry, market and economic conditions;

Varco's business, financial condition, results of operations, assets, management, competitive position, operating performance, trading performance and prospects, including Varco's prospects if it were to continue as a separate company;

National Oilwell's business, financial condition, results of operations, assets, management, competitive position, operating performance, trading performance and prospects;

the financial condition of the combined company after the merger, including its market capitalization, revenues, profits and earnings per share;

the fixed nature of the exchange ratio;

the market price of Varco common stock over the last several years and the potential for an increase or decrease in the market price of Varco common stock in the future;

the market price of National Oilwell common stock over the last several years;

the current and historical market prices of Varco common stock relative to the exchange ratio, including the fact that the exchange ratio represents a premium of 10.2% over the closing price of Varco common stock on August 10, 2004, the last trading day prior to the date of the merger agreement, and a premium of 14.9% over the average closing price of Varco common stock over the last 30 trading days prior to announcing the merger; and

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the effect of the public announcement of the merger on the market price of the Varco and National Oilwell common stock.

Opinion of Financial Advisor. The Varco board of directors considered the opinion of Citigroup discussed under the heading *Opinion of Citigroup Global Markets Inc. Financial Advisor to Varco* .

Tax Treatment. The Varco board of directors considered the expected qualification of the merger as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code, resulting in the Varco stockholders not recognizing any gain or loss for federal income tax purposes when they exchange their shares of Varco common stock for National Oilwell common stock in the merger, other than in connection with any cash received in lieu of fractional shares of National Oilwell common stock.

Terms of the Merger Agreement. The Varco board of directors, with the assistance of counsel, considered the terms and conditions of the merger agreement, including:

provisions restricting the conduct of business by Varco between signing of the merger agreement and the closing of the merger, which provide sufficient operating flexibility for Varco to conduct its business in the ordinary course;

the fact that Varco cannot solicit competing third-party proposals and must pay to National Oilwell a termination fee if the merger agreement is terminated under certain circumstances, which could deter others from proposing an alternative transaction that may be more advantageous to Varco stockholders but would not preclude bona fide alternative proposals;

Varco's ability to furnish information to and conduct negotiations with a third party, and to terminate the merger agreement, if a third party makes a superior proposal for a business combination or acquisition; and

the closing conditions, including the condition that the merger is subject to the approval of Varco stockholders and, if a higher offer were to be made prior to the completion of the merger, Varco stockholders would be free to reject the merger with National Oilwell.

Closing and Regulatory Matters. The Varco board of directors determined that the merger would likely be completed, including receipt of the regulatory approvals necessary to complete the merger.

Larger Capitalization and Increased Liquidity. The Varco board of directors considered that the market capitalization of the combined company would be substantially larger than Varco's current market capitalization, which should provide Varco stockholders with increased liquidity.

In addition, the Varco board of directors also identified and considered a number of potentially negative factors in its deliberations concerning the merger, including:

the risk that, despite the Varco's and National Oilwell's efforts after the closing of the merger, the combined company may lose key personnel;

the risk that a significant number of Varco's and National Oilwell's customers and suppliers might cease doing business with the combined company;

the difficulty of managing operations in the different geographic locations in which Varco and National Oilwell operate;

the risk that the potential benefits of the merger might not be fully realized;

the fact that if the merger does not close, Varco will have incurred significant expenses and its employees will have expended extensive efforts to attempt to complete the merger and will have experienced significant distractions from their work during the pendency of the merger and, as a result, Varco may experience adverse effects on its operating results, its ability to attract or retain employees and its competitive position in its markets;

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the risk that regulatory authorities may delay or refuse to approve the transaction or impose conditions that could adversely affect the business or financial condition of the combined company;

the risk that, while the merger is expected to be completed, there can be no assurance that all conditions to the parties' obligations to complete the merger will be satisfied and, as a result, it is possible that the merger may not be completed even if approved by Varco stockholders or may be unduly delayed;

the interests that certain of Varco's directors and executive officers may have in the merger that are, or may be, different from, or in addition to, those of Varco stockholders generally; and

the various other risks associated with the merger and the businesses of Varco, National Oilwell and the combined company described in the section entitled "Risk Factors" and in the documents incorporated by reference into this document.

The Varco board of directors concluded, however, that the potentially negative factors could be managed or mitigated by Varco or were unlikely to have a material impact on the completion of the merger or on Varco, and that, overall, the potentially negative factors associated with the merger were outweighed by the benefits of the merger.

The above discussion of the factors considered by the Varco board of directors is not intended to be exhaustive, but does set forth the principal factors considered by the board of directors. The Varco board of directors reached the conclusion to approve the merger agreement in light of the various factors described above and other factors that each member of the board of directors felt were appropriate. In view of the wide variety of factors considered by the Varco board of directors in connection with its evaluation of the merger and the complexity of these matters, the board of directors did not consider it practical, and did not attempt, to quantify, rank or otherwise assign relative weights to the specific factors it considered in reaching its decision. Rather, the Varco board of directors made its recommendation based on the totality of information presented to, and the investigation conducted by, the board of directors. In considering the factors discussed above, individual directors may have given different weight to different factors.

Opinions of Financial Advisors

Opinion of Goldman, Sachs & Co. - Financial Advisor to National Oilwell

Goldman Sachs rendered its opinion to the National Oilwell board of directors that, as of August 11, 2004 and based upon and subject to the factors and assumptions set forth therein, the exchange ratio pursuant to the merger agreement is fair from a financial point of view to National Oilwell.

The full text of the written opinion of Goldman Sachs, dated August 11, 2004, which sets forth assumptions made, procedures followed, matters considered and limitations on the review undertaken in connection with the opinion, is attached as Annex B. Goldman Sachs provided its opinion for the information and assistance of the National Oilwell board of directors in connection with its consideration of the transaction. The Goldman Sachs opinion is not a recommendation as to how any holder of National Oilwell common stock or Varco common stock should vote with respect to the transaction.

In connection with rendering the opinion described above and performing its related financial analyses, Goldman Sachs reviewed, among other things:

the merger agreement;

annual reports to stockholders and Annual Reports on Form 10-K of National Oilwell and Varco for the five fiscal years ended December 31, 2003;

certain interim reports to stockholders and Quarterly Reports on Form 10-Q of National Oilwell and Varco;

certain other communications from National Oilwell and Varco to their respective stockholders;

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certain internal financial analyses and forecasts for the financial year ending December 31, 2004 for National Oilwell prepared by its management;

certain internal financial analyses and forecasts for the financial year ending December 31, 2004 for Varco prepared by its management; and

certain cost savings and operating synergies projected by the managements of National Oilwell and Varco to result from the merger (which are referred to below as the Synergies).

Goldman Sachs also held discussions with members of the senior managements of National Oilwell and Varco regarding their assessment of the strategic rationale for, and the potential benefits of, the transaction and the past and current business operations, financial condition and future prospects of National Oilwell and Varco. In addition, Goldman Sachs reviewed the reported price and trading activity for the shares of National Oilwell common stock and the shares of Varco common stock, compared certain financial and stock market information for National Oilwell and Varco with similar information for certain other companies the securities of which are publicly traded, reviewed the financial terms of certain recent business combinations in the oilfield equipment and services industry specifically and in other industries generally and performed such other studies and analyses, and considered such other factors, as Goldman Sachs considered appropriate.

Goldman Sachs relied upon the accuracy and completeness of all of the financial, accounting, legal, tax and other information discussed with or reviewed by it and assumed such accuracy and completeness for purposes of rendering the opinion described above. In that regard, Goldman Sachs assumed with the National Oilwell board of directors' consent that the financial analyses and forecasts for National Oilwell and Varco prepared by their respective managements described above were reasonably prepared on a basis reflecting the best currently available estimates and judgments of National Oilwell and Varco, as applicable, and that the Synergies have been reasonably prepared on a basis reflecting the best currently available estimates and judgments of National Oilwell and Varco. Goldman Sachs was advised that neither National Oilwell nor Varco has prepared forecasts of their expected future financial performance beyond fiscal 2004. Accordingly, with the consent of the National Oilwell board of directors, Goldman Sachs' review with respect to projected earnings of National Oilwell and Varco after fiscal 2004 was limited to discussions with the senior managements of National Oilwell and Varco, including the projections of research analysts with respect to the future financial performance of National Oilwell and Varco. In addition, Goldman Sachs did not make an independent evaluation or appraisal of the assets and liabilities, including any contingent, derivative or off-balance sheet assets and liabilities, of National Oilwell or Varco or any of their respective subsidiaries and Goldman Sachs was not furnished with any such evaluation or appraisal. In addition, Goldman Sachs is not expressing any opinion as to the prices at which shares of National Oilwell common stock will trade at any time. Goldman Sachs assumed that all governmental, regulatory or other consents or approvals necessary for the consummation of the transaction will be obtained without any adverse effect on National Oilwell or Varco or on the expected benefits of the transaction in any way material to Goldman Sachs analysis. Goldman Sachs' opinion does not address the underlying business decision of National Oilwell to engage in the transaction.

The following is a summary of the material financial analyses used by Goldman Sachs in connection with rendering the opinion described above. The following summary, however, does not purport to be a complete description of the analyses performed by Goldman Sachs. The order of analyses described does not represent relative importance or weight given to those analyses by Goldman Sachs. Some of the summaries of the financial analyses include information presented in tabular format. The tables must be read together with the full text of each summary and are alone not a complete description of Goldman Sachs' financial analyses. Except as otherwise noted, the following quantitative information, to the extent that it is based on market data, is based on market data as it existed on or before August 10, 2004 and is not necessarily indicative of current market conditions.

Selected Companies Analysis. Goldman Sachs reviewed and compared certain financial information and public market multiples for National Oilwell and Varco to corresponding financial information and

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public market multiples for selected publicly traded companies in the oilfield equipment and services industry. The following table sets forth the names of these companies:

Large Cap	Mid Cap	Small Cap
Baker Hughes Inc. Halliburton Company Schlumberger Ltd.	BJ Services Company Cooper Cameron Corporation FMC Technologies Inc. Grant Prideco Inc. Hanover Compressor Company Smith International Inc. Universal Compression Holdings Inc. Weatherford International Ltd.	Dril-Quip Inc. Lone Star Technologies Inc. Maverick Tube Corp.

Although none of the selected companies are directly comparable to National Oilwell or Varco, the companies included were chosen because they are publicly traded companies with operations that for purposes of analysis can be considered similar to certain operations of National Oilwell and Varco.

Goldman Sachs also calculated and compared various financial multiples and ratios based on financial data as of August 10, 2004, information it obtained from Securities and Exchange Commission filings and Institutional Brokerage Estimate System, or IBES estimates. The multiples and ratios of National Oilwell, Varco and the selected companies were calculated using closing prices on August 10, 2004 and the most recent publicly available information for the selected companies. Financial projections for calendar years 2004 and 2005 for National Oilwell and Varco were calculated using the average of available Wall Street analyst projections; IBES estimates were used for calendar year 2004 and 2005 estimates for all other selected companies. With respect to the selected companies, Goldman Sachs calculated:

the ratio of common stock price to estimated calendar years 2004 and 2005 earnings per share;

the ratio of common stock price to estimated calendar years 2004 and 2005 cash flow per share;

enterprise value, which is the market value of common equity plus the book value of debt, adjusted for minority interest, less cash, as a multiple of estimated calendar year 2004 and 2005 earnings before interest, taxes, depreciation and amortization, or EBITDA; and

the ratio of net debt, which is the book value of short term and long term debt, plus the value of preferred stock and minority interest, less cash, to enterprise value.

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The following table presents the results of this analysis:

	Price/Earnings Per Share Ratio		Price/Cash Flow Per Share Ratio		Enterprise Value/EBITDA		Net Debt/ Enterprise
	2004E	2005E	2004E	2005E	2004E	2005E	Value
National Oilwell	29.6x	17.6x	20.2x	13.4x	15.5x	10.6x	16.3%
Varco	24.0x	18.0x	13.9x	11.4x	10.8x	8.9x	13.6%
Large Cap							
High	30.2x	24.6x	15.5x	13.7x	12.5x	11.4x	22.1%
Median	27.5x	22.5x	15.2x	13.2x	12.5x	11.2x	8.7%
Low	22.1x	18.4x	12.6x	11.1x	11.0x	9.6x	5.6%
Mid Cap							
High	36.2x	34.3x	20.1x	15.5x	14.5x	12.4x	63.0%
Median	25.8x	20.1x	14.5x	11.8x	12.3x	10.4x	15.7%
Low	21.0x	16.9x	5.7x	4.8x	7.6x	6.9x	0.2%
Small Cap							
High	28.1x	23.1x	13.4x	13.1x	10.9x	11.0x	12.9%
Median	8.1x	10.0x	6.2x	7.7x	6.4x	6.2x	10.0%
Low	6.9x	9.2x	5.9x	6.8x	4.5x	5.7x	9.1%

Historical Exchange Ratio Analysis. Goldman Sachs calculated the average historical exchange ratios of Varco common stock to National Oilwell common stock based on the closing prices of Varco common stock and National Oilwell common stock during the three-month, six-month, one-year and three-year periods ended August 10, 2004 and on the closing prices of National Oilwell common stock and Varco common stock on August 10, 2004. This analysis indicated that the average historical exchange ratios for these periods were 0.72x, 0.70x, 0.81x, 0.83x and 0.76x, respectively.

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Contribution Analysis. Goldman Sachs performed a contribution analysis in which Goldman Sachs analyzed the relative contributions to be made by National Oilwell and Varco to the equity market capitalization, enterprise value, earnings before interest, taxes, depreciation and amortization, or EBITDA, EBITDA less capital expenditures, earnings before interest and taxes, or EBIT, net income, and cash flow, which is defined as net income plus depreciation and amortization and other non-cash items, of the combined company following consummation of the transaction, before taking into account any of the possible benefits that may be realized following the merger. This analysis was based on historical financial data, adjusted for non-recurring items, and on calculated averages of available Wall Street analyst projections and based on the closing price of National Oilwell common stock of \$31.54 and the closing price of Varco common stock of \$23.93 on August 10, 2004. The proportionate contributions were compared to the estimated ownership by National Oilwell's stockholders of 51.0% of the outstanding common equity of the combined company on a fully diluted basis following the consummation of the transaction. The following table presents the results of this analysis:

	Relative Contribution to the Combined Company	
	National Oilwell	Varco
Equity Market Capitalization	53.5%	46.5%
Enterprise Value	54.3%	45.7%
EBITDA		
2002A	47.6%	52.4%
2003A	41.8%	58.2%
2004E	45.3%	54.7%
2005E	50.0%	50.0%
EBITDA less capital expenditures		
2002A	43.8%	56.2%
2003A	52.3%	47.7%
2004E	48.6%	51.4%
2005E	53.7%	46.3%
EBIT		
2002A	45.2%	54.8%
2003A	51.3%	48.7%
2004E	48.4%	51.6%
2005E	53.3%	46.7%
Net Income		
2002A	44.6%	55.4%
2003A	51.5%	48.5%
2004E	48.3%	51.7%
2005E	54.2%	45.8%
Cash Flow		
2002A	41.1%	58.9%
2003A	44.9%	55.1%
2004E	44.2%	55.8%
2005E	49.6%	50.4%

Pro Forma Merger Analysis. Goldman Sachs prepared pro forma analyses of the financial impact of the merger using calculated averages of available Wall Street analyst projections. Goldman Sachs compared the estimated earnings per share of National Oilwell on a stand-alone basis to the estimated earnings per share for the combined company. These analyses were based on the agreed upon exchange rate of 0.8363x, and assumptions of \$50 million in pre-tax synergies in 2005 and \$7 million in incremental

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depreciation and amortization as estimated by both National Oilwell and Varco. Based on such analysis, the proposed transaction would be accretive to the calculated averages of available Wall Street analyst projections for calendar year 2004 and 2005 earnings per share of National Oilwell common stock. Goldman Sachs also compared the estimated cash earnings per share of the combined company with the estimated cash earnings per share of National Oilwell on a stand-alone basis using calculated averages of available Wall Street analyst projections for calendar year 2004 and 2005 cash earnings per share of National Oilwell common stock. Cash earnings per share is net earnings from continuing operations excluding such items as amortization of purchased intangibles and deferred stock compensation, and any other non-cash or other charges unrelated to ongoing operations. Based on such analysis, the proposed transaction would be accretive to the calculated averages of available Wall Street analyst projections for calendar year 2004 and 2005 earnings per share of National Oilwell common stock. This analysis also indicated that at an exchange ratio of 0.8363x, National Oilwell stockholders would own 51.0% of the combined company on a fully diluted basis following the consummation of the transaction.

Premium Analysis. Goldman Sachs analyzed the premiums implied by the agreed upon exchange ratio of 0.8363x with respect to the closing price of Varco common stock on August 10, 2004 and the closing price of Varco common stock 30 days, 60 days, and 90 days prior to August 10, 2004, as well as the 52-week high price for the period ended August 10, 2004. The premiums to historical stock price are 10.2%, 12.2%, 35.2%, 38.3% and 5.2%, respectively.

Selected Transactions Analysis. Goldman Sachs analyzed certain information relating to the following selected transactions (listed by acquirer/ target) in the oilfield equipment and services industry since 1995:

SantaFe International/ Global Marine (2001);

Pride International/ Marine Drilling (2001);

Patterson Energy/ UTI Energy (2001);

Transocean/ R&B Falcon (2000);

Tuboscope/ Varco (2000);

National Oilwell/ IRI International (2000);

Schlumberger/ Camco (1998);

Baker Hughes/ Western Atlas (1998);

Energy Ventures Inc./ Weatherford (1998);

Halliburton/ Dresser Industries (1998);

National Oilwell/ Dresco (1997); and

Weatherford/ Enterra (1995).

For each of the selected transactions, Goldman Sachs calculated, and to the extent information was publicly available, compared, levered value, defined as equity market capitalization plus net debt and minority interest, as a multiple of EBIT and EBITDA, in each case for the last twelve months, which is referred to as LTM, prior to the date that the transaction was announced. The mean and high EBITDA multiples calculated exclude the impact of the Transocean/ R&B Falcon transaction's EBITDA multiple because it is not meaningful to the analysis.

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The following table presents the results of this analysis:

	Levered Value as a Multiple of:	
	LTM EBIT	LTM EBITDA
Selected Transactions Mean	18.0x	12.3x
Selected Transactions High	29.0x	23.9x
Selected Transactions Low	11.7x	7.9x
National Oilwell/ Varco Transaction	20.3x	13.7x

The preparation of a fairness opinion is a complex process and is not necessarily susceptible to partial analysis or summary description. Selecting portions of the analyses or of the summary set forth above, without considering the analyses as a whole, could create an incomplete view of the processes underlying Goldman Sachs' opinion. In arriving at its fairness determination, Goldman Sachs considered the results of all of its analyses and did not attribute any particular weight to any factor or analysis considered by it. Rather, Goldman Sachs made its determination as to fairness on the basis of its experience and professional judgment after considering the results of all of its analyses. No company or transaction used in the above analyses as a comparison is directly comparable to National Oilwell or Varco or the contemplated transaction.

Goldman Sachs prepared these analyses for purposes of Goldman Sachs' providing its opinion to the National Oilwell board of directors as to the fairness to National Oilwell, from a financial point of view, of the exchange ratio pursuant to the merger agreement. These analyses do not purport to be appraisals or necessarily reflect the prices at which businesses or securities actually may be sold. Analyses based on forecasts of future results are not necessarily indicative of actual future results, which may be significantly more or less favorable than suggested by these analyses. Because these analyses are inherently subject to uncertainty, being based upon numerous factors or events beyond the control of the parties or their respective advisors, none of National Oilwell, Varco, Goldman Sachs or any other person assumes responsibility if future results are different from those forecast.

As described above, Goldman Sachs' opinion to the National Oilwell board of directors was one of many factors taken into consideration by the board of directors in making its determination to approve the merger agreement. The foregoing summary does not purport to be a complete description of the analyses performed by Goldman Sachs in connection with the fairness opinion and is qualified in its entirety by reference to the written opinion of Goldman Sachs attached as Annex B.

Goldman Sachs and its affiliates, as part of their investment banking business, are continually engaged in performing financial analyses with respect to businesses and their securities in connection with mergers and acquisitions, negotiated underwritings, competitive biddings, secondary distributions of listed and unlisted securities, private placements and other transactions as well as for estate, corporate and other purposes. Goldman Sachs has acted as financial advisor to National Oilwell in connection with, and participated in certain of the negotiations leading to, the transactions contemplated by the merger agreement. In addition, Goldman Sachs has provided certain investment banking services to National Oilwell from time to time, including having acted as sole lead bookrunning manager with respect to a secondary offering of 3.2 million shares of National Oilwell common stock in February 2003. Goldman Sachs also may provide investment banking and other services to National Oilwell and Varco in the future. In connection with the above-described investment banking services Goldman Sachs has received, and may receive, compensation.

Goldman Sachs is a full service securities firm engaged, either directly or through its affiliates, in securities trading, investment management, financial planning and benefits counseling, risk management, hedging, financing and brokerage activities for both companies and individuals. In the ordinary course of these activities, Goldman Sachs and its affiliates may actively trade the debt and equity securities (or related derivative securities) of National Oilwell and Varco for their own account and for the accounts of their customers and may at any time hold long and short positions of such securities.

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Pursuant to a letter agreement dated July 16, 2004, National Oilwell engaged Goldman Sachs to act as its financial advisor in connection with the contemplated transaction. National Oilwell's board of directors selected Goldman Sachs as its financial advisor because it is an internationally recognized investment banking firm that has substantial experience in transactions similar to the proposed merger. Pursuant to the terms of this engagement letter, National Oilwell has agreed to pay Goldman Sachs a transaction fee of \$2.5 million, payable upon consummation of the transaction. If the merger agreement is terminated and Varco is required to pay National Oilwell a termination fee, National Oilwell has agreed to pay Goldman Sachs a minimum of \$1.0 million and up to \$2.5 million at the time Varco pays such termination fee to National Oilwell. In addition, National Oilwell has agreed to reimburse Goldman Sachs for its reasonable expenses, including attorneys fees and disbursements, and to indemnify Goldman Sachs and related persons against various liabilities, including certain liabilities under the federal securities laws.

Opinion of Citigroup Global Markets Inc. Financial Advisor to Varco

Varco has retained Citigroup to act as its financial advisor in connection with the merger. In connection with this engagement, Varco requested that Citigroup evaluate the fairness, from a financial point of view, to the holders of Varco common stock of the exchange ratio provided for in the merger agreement. On August 11, 2004, at a meeting of Varco's board of directors held to evaluate the merger, Citigroup rendered to the Varco board of directors an oral opinion, which opinion was subsequently confirmed by delivery of a written opinion dated August 11, 2004, to the effect that, as of the date of the opinion, and based upon and subject to the matters described in the opinion, the exchange ratio was fair, from a financial point of view, to the holders of Varco common stock.

The full text of Citigroup's opinion, which sets forth the assumptions made, general procedures followed, matters considered and limits on the review undertaken, is included as Annex C to this document. The summary of Citigroup's opinion set forth below is qualified in its entirety by reference to the full text of the opinion. **Holders of Varco common stock are urged to read the Citigroup opinion carefully and in its entirety. The following summary, which is qualified in its entirety by reference to the full text of Citigroup's opinion, discusses the material terms of the opinion.**

The Citigroup opinion was limited solely to the fairness of the exchange ratio from a financial point of view as of the date of the opinion. Neither the Citigroup opinion nor the related analyses constitutes a recommendation of the proposed merger to the Varco board of directors. Citigroup makes no recommendation to any stockholder regarding how such stockholder should vote or act with respect to any matter relating to the merger.

In arriving at its opinion, Citigroup:

reviewed the merger agreement;

held discussions with certain senior officers, directors and other representatives and advisors of Varco and certain senior officers and other representatives and advisors of National Oilwell concerning the businesses, operations and prospects of Varco and National Oilwell, respectively;

examined certain publicly available business and financial information relating to Varco and National Oilwell, as well as certain financial forecasts and other information and data relating to Varco and National Oilwell which were provided to or otherwise reviewed by or discussed with Citigroup by the respective managements of Varco and National Oilwell;

reviewed the financial terms of the merger as set forth in the merger agreement in relation to, among other things, current and historical market prices and trading volumes of Varco common stock and National Oilwell common stock, the historical and projected earnings and other operating data of Varco and National Oilwell and the capitalization and financial condition of Varco and National Oilwell;

considered, to the extent publicly available, the financial terms of certain other transactions effected which Citigroup considered relevant in evaluating the merger;

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analyzed certain financial, stock market and other publicly available information relating to the businesses of other companies whose operations Citigroup considered relevant in evaluating those of Varco and National Oilwell;

evaluated certain pro forma financial effects of the merger on the combined company; and

conducted such other analyses and examinations and considered such other information and financial, economic and market criteria as Citigroup deemed appropriate in arriving at its opinion.

In rendering its opinion, Citigroup assumed and relied, without independent verification, upon the accuracy and completeness of all financial and other information and data publicly available or provided to or otherwise reviewed by or discussed with it. With respect to financial forecasts and other information and data relating to Varco and National Oilwell provided to or otherwise reviewed by or discussed with it, Citigroup was advised by the respective managements of Varco and National Oilwell that such forecasts and other information and data were reasonably prepared on bases reflecting the best currently available estimates and judgments of the managements of Varco and National Oilwell as to the future financial performance of Varco and National Oilwell, the potential strategic implications and operational benefits (including the amount, timing and achievability thereof) anticipated to result from the merger and the other matters covered by the forecasts and other information and data. Citigroup assumed, with Varco's consent, that the merger will be consummated in accordance with its terms, without waiver, modification or amendment of any material term, condition or agreement and that in the course of obtaining the necessary regulatory or third party approvals, consents and releases for the merger, no material delay, limitation, restriction or condition will be imposed that would have an adverse effect on Varco or National Oilwell or the contemplated benefits of the merger. Citigroup also assumed, with Varco's consent, that the merger will be treated as a tax-free reorganization for federal income tax purposes.

Citigroup noted that its opinion relates only to the relative values of Varco and National Oilwell. Citigroup did not express any opinion as to what the value of the National Oilwell common stock actually will be when issued pursuant to the merger or the price at which the National Oilwell common stock will trade at any time. Citigroup did not make and was not provided with an independent evaluation or appraisal of the assets or liabilities (contingent or otherwise) of Varco or National Oilwell, nor did Citigroup make any physical inspection of the properties or assets of Varco or National Oilwell.

In connection with rendering its opinion, Citigroup was not requested to, and did not, solicit third party indications of interest in the possible acquisition of all or a part of Varco, nor was it requested to consider, and its opinion does not address, the relative merits of the merger as compared to any alternative business strategies that might exist for Varco or the effect of any other transaction in which Varco might engage. Citigroup's opinion was necessarily based upon information available to it, and financial, stock market and other conditions and circumstances existing, as of the date of its opinion.

In preparing its opinion, Citigroup performed a variety of financial and comparative analyses, including those described below. The summary of these analyses is not a complete description of the analyses underlying Citigroup's opinion. The preparation of a financial opinion is a complex analytical process involving various determinations as to the most appropriate and relevant methods of financial analysis and the application of those methods to the particular circumstances and, therefore, a financial opinion is not readily susceptible to summary description. Citigroup arrived at its ultimate opinion based on the results of all analyses undertaken by it and assessed as a whole, and did not draw, in isolation, conclusions from or with regard to any one factor or method of analysis for purposes of its opinion. Accordingly, Citigroup believes that its analyses must be considered as a whole and that selecting portions of its analyses and factors or focusing on information presented in tabular format, without considering all analyses and factors or the narrative description of the analyses, could create a misleading or incomplete view of the processes underlying its analyses and opinion.

In its analyses, Citigroup considered industry performance, general business, economic, market and financial conditions and other matters existing as of the date of its opinion, many of which are beyond the control of Varco and National Oilwell. No company, transaction or business used in those analyses as a

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comparison is identical to Varco, National Oilwell or the proposed merger, and an evaluation of those analyses is not entirely mathematical. Rather, the analyses involve complex considerations and judgments concerning financial and operating characteristics and other factors that could affect the acquisition, public trading or other values of the companies, business segments or transactions analyzed.

The estimates contained in Citigroup's analyses and the relative valuation ranges resulting from any particular analysis are not necessarily indicative of actual values or predictive of future results or values, which may be significantly more or less favorable than those suggested by its analyses. In addition, analyses relating to the value of businesses or securities do not necessarily purport to be appraisals or to reflect the prices at which businesses or securities actually may be sold. Accordingly, the estimates contained in, and the results derived from, Citigroup's analyses are inherently subject to substantial uncertainty.

The exchange ratio in the merger was determined through negotiations between Varco and National Oilwell. Citigroup did not determine the exchange ratio or recommend any specific exchange ratio to Varco. Citigroup's opinion and analyses were only one of many factors considered by the Varco board of directors in its evaluation of the merger and should not be viewed as determinative of the views of the Varco board of directors or management with respect to the proposed merger or the exchange ratio provided for in the merger agreement.

The following is a summary of the material financial analyses performed by Citigroup in connection with the rendering of its opinion to the Varco board of directors. **The financial analyses summarized below include information presented in tabular format. In order to fully understand Citigroup's financial analyses, the tables must be read together with the text of each summary. The tables alone do not constitute a complete description of the financial analyses. Considering the data below without considering the full narrative description of the financial analyses, including the methodologies and assumptions underlying the analyses, could create a misleading or incomplete view of Citigroup's financial analyses.**

Historical Exchange Ratio Analysis. Citigroup reviewed the historical ratio of the daily closing prices of Varco common stock to the daily closing prices of National Oilwell common stock on August 10, 2004 and for each trading day in the 6-month, 12-month and 3-year periods preceding August 10, 2004. Citigroup compared the exchange ratio in the proposed transaction of 0.8363x to the implied historical exchange ratio at August 10, 2004 and over the periods referred to above, as indicated in the following table:

Specified Period	Low	Average	High
August 10, 2004	N/A	0.7587x	N/A
6-month	0.6368x	0.7048x	0.7701x
12-month	0.6368x	0.8067x	0.9674x
3-year	0.6368x	0.8250x	0.9974x

Relative Contribution Analysis. Citigroup compared the relative contributions of Varco and National Oilwell to the combined company's calendar years 2001-2003 EBITDA, EBITDA minus capital expenditures, cash flow, defined as net income plus depreciation and amortization expense and referred to as Cash Flow, and net income, and calendar years 2004 and 2005 estimated EBITDA, EBITDA minus capital expenditures, Cash Flow and net income. Operational data of Varco and National Oilwell for calendar years 2001-2003 was based on publicly reported financial results for each company, adjusted to reflect non-recurring items and acquisitions and divestitures completed during those years as if such acquisitions and divestitures had occurred on January 1, 2001. Estimated financial data for Varco and National Oilwell for calendar years 2004-2005 was based on mean consensus estimates of First Call Corporation. Estimated capital expenditure data for Varco and National Oilwell for calendar years 2004-2005 was based on published forecasts of Smith Barney Equity Research. Citigroup calculated implied exchange ratios based on the percentage contributions of Varco and National Oilwell to these operational metrics. Citigroup compared the exchange ratio in the merger of 0.8363x to the implied exchange ratio

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range for the calendar years 2001-2003 of 0.7412x to 1.1623x and to the implied exchange ratio range for the calendar years 2004-2005 of 0.7310x to 1.1557x, as indicated in the following table:

	<u>Varco Contribution</u>	<u>National- Oilwell Contribution</u>	<u>Implied Exchange Ratio</u>
2001			
EBITDA	51%	49%	0.9946x
EBITDA Capex	48%	52%	0.8500x
Cash Flow	52%	48%	0.9566x
Net Income	46%	54%	0.7412x
2002			
EBITDA	54%	46%	1.1305x
EBITDA Capex	53%	47%	1.0856x
Cash Flow	57%	43%	1.1623x
Net Income	51%	49%	0.9070x
2003			
EBITDA	54%	46%	1.1051x
EBITDA Capex	50%	50%	0.9095x
Cash Flow	57%	43%	1.1609x
Net Income	53%	47%	0.9896x
2004E			
EBITDA	55%	45%	1.1557x
EBITDA Capex	52%	48%	1.0160x
Cash Flow	56%	44%	1.1205x
Net Income	52%	48%	0.9297x
2005E			
EBITDA	50%	50%	0.9229x
EBITDA Capex	47%	53%	0.8068x
Cash Flow	51%	49%	0.8954x
Net Income	46%	54%	0.7310x

Implied Premia and Multiples Analysis. Citigroup analyzed the trading multiples and premia implied in the merger based on the exchange ratio in the merger of 0.8363x and the closing prices of Varco common stock and National Oilwell common stock on August 10, 2004. Citigroup observed that the exchange ratio in the merger of 0.8363x reflected a premium to holders of Varco common stock of 10.2%, as compared with the ratio of the closing prices of Varco common stock and National Oilwell common stock on August 10, 2004, and reflected premiums ranging from 1.4% to 18.7%, as compared to the average exchange ratios for the preceding 1-month, 2-month, 3-month, 6-month, 12-month and 3-year periods.

Citigroup also observed that the price implied by the exchange ratio in the merger of 0.8363x and the closing price National Oilwell common stock on August 10, 2004 reflected a premium to holders of Varco common stock of 10.2%, as compared with the closing price of Varco common stock on August 10, 2004, and premiums of 12.6% and 35.2%, as compared with the closing price of Varco common stock 1 month and 2 months prior to August 10, 2004, respectively. Using publicly available information, Citigroup then compared these price premia to holders of Varco common stock to the price premia to target stockholders in selected merger of equal transactions that Citigroup deemed appropriate, including certain transactions in the energy sector. In these selected merger of equal transactions, Citigroup observed premia to targets stock prices 2 months prior to such transactions announcement ranging from (19%) to 49%, with a

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median of 11%, premia to targets stock prices 1 month prior to such transactions announcement ranging from (15%) to 46%, with a median of 8%, and premia to targets stock prices 1 day prior to such transactions announcement ranging from (10%) to 27%, with a median of 4%.

Citigroup also calculated price to earnings per share (EPS) multiples of 26.4x and 19.8x and firm value to EBITDA multiples of 11.9x and 9.9x for Varco for calendar years 2004 and 2005, respectively, based on the exchange ratio in the merger of 0.8363x and the closing price of National Oilwell common stock on August 10, 2004, and compared those multiples to Varco's current price to EPS multiples of 24.0x and 18.0x and firm value to EBITDA multiples of 10.9x and 9.1x for calendar years 2004 and 2005, respectively, and National Oilwell's current price to EPS multiples of 29.6x and 17.6x and firm value to EBITDA multiples of 15.5x and 10.7x for calendar years 2004 and 2005, respectively, in all cases based on the closing prices of Varco common stock and National Oilwell common stock on August 10, 2004. The forecasted financial information used by Citigroup for Varco and National Oilwell was based on mean consensus estimates of First Call Corporation.

Accretion/ Dilution Analysis. Citigroup analyzed the *pro forma* effect of the transaction on Varco's EPS and Cash Flow per share (CFPS) for calendar years 2002 and 2003, on Varco's forecasted EPS and CFPS for calendar years 2004 and 2005, and on Varco's EPS and CFPS assuming operations at the peak of the oilfield service business cycle (Peak). The forecasted financial information used by Citigroup for Varco and National Oilwell was based on Wall Street research analyst composite forecasts. Peak estimates were based on published Smith Barney Equity Research forecasts. Among other things, Citigroup assumed, based on Varco and National Oilwell management forecasts, that the pre-tax annual operating synergies as a result of the merger would be \$40 to \$50 million following successful integration. Citigroup also analyzed the *pro forma* effect of the transaction using a sensitized synergy range of \$60 million to \$70 million. Based on this analysis, as indicated in the following table, Citigroup noted that the transaction would be accretive to Varco's EPS in calendar years 2002 and 2003, to Varco's forecasted EPS in calendar years 2004 and 2005, to Varco's EPS at Peak, and to Varco's forecasted CFPS in calendar year 2005 and that the transaction would be dilutive to Varco's CFPS in calendar years 2002, 2003 and to Varco's forecasted CFPS in 2004. Citigroup also noted that the transaction would be accretive to Varco's CFPS at Peak assuming pre-tax annual operating synergies as a result of the merger of \$60 million or \$70 million and that the transaction would be dilutive to Varco's CFPS at Peak assuming pre-tax annual operating synergies as a result of the merger of \$40 million or \$50 million.

Varco Earnings Per Share	Accretion (Dilution) % Range
2002	9-20%
2003	3-14%
2004	4-14%
2005	14-21%
Peak	5-10%

Varco Cash Flow Per Share	Accretion (Dilution) % Range
2002	(5%)-1%
2003	(6%)-(0%)
2004	(7%)-(1%)
2005	1-6%
Peak	(1%)-2%

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Other Factors. In rendering its opinion, Citigroup also reviewed and considered other factors, including:

12- to 18-month price targets reflected in publicly available research reports covering Varco and National Oilwell prepared by Wall Street research analysts who cover both Varco and National Oilwell;

the relative price appreciation of the common stock of Varco and National Oilwell for the 12-month period ending August 10, 2004 and the relative trading multiples of Varco and National Oilwell for the 12-month period ending July 2004, utilizing a range of EBITDA and EPS estimates for Varco and National Oilwell for calendar years 2004 and 2005 as projected by First Call Corporation and Factset Research Systems;

the potential pro forma financial effect of the proposed transaction on Varco's credit statistics, after giving effect to estimated transaction costs and potential operating synergies anticipated by Varco's management to result from the merger; and

certain financial, operating and stock market data and forecasted financial information for selected publicly traded companies that Citigroup deemed appropriate to compare with similar information for Varco and National Oilwell.

Miscellaneous. Under the terms of Citigroup's engagement, Varco has agreed to pay Citigroup an aggregate fee of \$2.5 million for its financial advisory services in connection with the merger, a significant portion of which was paid in connection with delivery of Citigroup's fairness opinion and the remainder of which is contingent upon the consummation of the merger. Varco also has agreed to reimburse Citigroup for reasonable travel and other expenses incurred by Citigroup in performing its services, including reasonable fees and expenses of its legal counsel, and to indemnify Citigroup and related persons against liabilities, including liabilities under the federal securities laws, arising out of its engagement.

Citigroup and its affiliates in the past have provided, and currently provide, services to Varco and National Oilwell unrelated to the proposed merger, including having acted as sole bookrunning manager with respect to a private placement by Varco of \$150 million of Senior Notes in November 2002, for which services Citigroup and its affiliates have received and expect to receive compensation. In the ordinary course of business, Citigroup and its affiliates may actively trade or hold the securities of Varco and National Oilwell for their own account or for the account of customers and, accordingly, may at any time hold a long or short position in such securities. In addition, Citigroup and its affiliates, including Citigroup Inc. and its affiliates, may maintain relationships with Varco, National Oilwell and their respective affiliates.

Varco selected Citigroup as its financial advisor based on Citigroup's reputation, experience and familiarity with Varco and its business. Citigroup is an internationally recognized investment banking firm which regularly engages in the valuation of businesses and their securities in connection with mergers and acquisitions, negotiated underwritings, competitive bids, secondary distributions of listed and unlisted securities, private placements and valuations for estate, corporate and other purposes.

Interests of Certain Persons in the Merger

National Oilwell

In considering the recommendation of National Oilwell's board of directors that the National Oilwell stockholders vote in favor of adoption of the merger agreement, National Oilwell stockholders should be aware that some National Oilwell executive officers and directors may have interests in the merger that may be different from, or in addition to, their interests as stockholders of National Oilwell. These interests related to or arise from, among other things, the retention of some of the officers and directors of National Oilwell as officers or directors of National Oilwell Varco after the closing of the merger. In particular, the merger agreement provides that, Merrill A. Miller, Jr. and four other of the current directors of National Oilwell would be appointed to National Oilwell Varco's board of directors at the effective time of the

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merger. Subsequent to entering into the merger agreement, National Oilwell designated Messrs. Beauchamp, Guill, Jarvis and Harrison as its designees for directors of the combined company. Each of these directors will hold office until his or her respective successor is elected and qualified or until his or her earlier resignation or removal. See the Directors and Executive Officers of the Combined Company Directors section of this document for more information regarding the National Oilwell designees.

The merger agreement also provides that Mr. Miller, who is currently the Chairman of the Board, President and Chief Executive Officer of National Oilwell, will become the President and Chief Executive Officer of National Oilwell Varco at the effective time of the merger.

National Oilwell Stock Options. As of the effective date of the merger, all outstanding options under the Amended and Restated Stock Award and Long-Term Incentive Stock Plan granted to non-employee directors who continue service through the effective time of the merger and are not designated to serve on the board of National Oilwell upon the closing of the merger will become fully exercisable and will remain exercisable for a period of three months following the effective date of the merger. The following table shows, as of March 11, 2005, directors who will retire from their positions as directors of National Oilwell upon the closing of the merger, the number of options held on January 27, 2005 that will become fully exercisable as of the effective date of the merger at prices ranging between \$20.14 and \$28.22, and the value of those options based on the January 27, 2005 closing price of \$37.08 of National Oilwell common stock on the New York Stock Exchange:

Name	Unexercisable Options at March 11, 2005	Value
Hushang Ansary	7,500	\$ 86,650
William E. Macaulay	7,500	\$ 86,650
Frederick W. Pheasey	7,500	\$ 86,650
Joel V. Staff	7,500	\$ 86,650

All outstanding unexercisable options granted to National Oilwell employees become fully exercisable in the event the officer or employee is involuntarily terminated other than for cause at any time after a change of control or if the employee terminates voluntarily within twelve months following a change of control and after a reduction in authority, duties or responsibilities (as defined in the agreement) immediately prior to the change of control. These options remain fully exercisable for three months following termination.

While there is no triggering event known at this time that would result in accelerated vesting of options for any National Oilwell employee other than Mr. Krablin, the following table shows, as of March 11, 2005, options that were not yet exercisable held by Messrs. Miller, Krablin, Neveu, Reese, and Stratulate and all other executive officers as a group at prices ranging between \$20.14 and \$28.22, and the value of those options based on the January 27, 2005 closing price of \$37.08 of National Oilwell common stock on the New York Stock Exchange:

Name	Unexercisable Options at March 11, 2005	Value
Merrill A. Miller, Jr.	83,334	\$ 873,009
Steven W. Krablin	46,668	\$ 521,217
Kevin A. Neveu	30,000	\$ 346,600
Mark A. Reese	30,000	\$ 346,600
Gary W. Stratulate	30,000	\$ 346,600
All other executive officers as a group	143,334	\$ 1,620,078

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National Oilwell intends to award approximately 1.2 million options to its employees prior to closing the merger. A portion of such grants may be allocated to our named executive officers, in amounts consistent with prior annual grants.

Employment and Severance Agreements. Messrs. Miller and Krablin each have employment agreements that entitle them to severance benefits in the event of involuntary termination of employment without cause or if the employment relationship is terminated by the executive officer due to Good Reason defined as (i) the assignment of any duties inconsistent with his current position or any action by the company that results in a diminution in his position, authority, duties or responsibilities; (ii) a failure by the company to comply with the terms of his employment agreement; or (iii) the requirement of the executive officer to relocate or to travel to a substantially greater extent than required at the date of his employment agreement. Mr. Miller, who is Chairman, President and Chief Executive Officer of National Oilwell and will be the President and Chief Executive Officer of National Oilwell Varco, has waived his right to terminate his employment in connection with the merger due to Good Reason. Mr. Krablin, who will no longer be Senior Vice President and Chief Financial Officer of National Oilwell Varco and whose employment is expected to be terminated after the closing, would be entitled to the following lump sum severance payments in the event of such termination of employment:

the pro rata portion through the date of termination of the highest annual bonus received by the executive officer in the three years immediately prior to the date of termination in lieu of his current year bonus;

an amount equal to three times the executive officer's annual base salary and highest annual bonus received by the executive officer in the three years immediately prior to the date of termination;

an amount equal to the total of National Oilwell's employer matching contributions credited to the executive officer under the company's 401(k) savings plan and any other excess or supplemental retirement plan in which the executive officer participates or any other deferred compensation plan during the twelve month period immediate preceding the month of the executive officer's date of termination.

Mr. Krablin would also have the right during the sixty days following the date of involuntary termination to elect to surrender all or part of the options held by him pursuant to the company's stock option plan in exchange for a cash payment equal to the difference between the exercise price of the option and the highest reported sale price of National Oilwell common stock on the New York Stock Exchange for the sixty day period prior to and including the date of such involuntary termination for each option so surrendered. If he were to elect not to exchange any option for a cash payment as described above, such option would become fully exercisable to the extent it was not exercisable at that time and would remain exercisable for one year after the date of termination.

Additionally, Mr. Krablin would continue to participate in the company's welfare benefit plans for a period of three years from the date of termination, provided that he would continue to pay the monthly employee contribution for same and that such benefits would be secondary if he were eligible to receive such benefits through another employer. The company would provide Mr. Krablin with outplacement services, the scope and provider of which shall be selected by him in his sole discretion.

In the event that any distribution to or for the benefit of Mr. Krablin is determined to be a parachute payment and subject to an excise tax, he will be entitled to receive a gross-up payment such that, after payment of all taxes and the excise tax, the executive retains an amount equal to the excise tax.

If the merger is completed in the first quarter of 2005, approximately \$1.8 million (excluding any tax gross-ups) would be payable to Mr. Krablin as a result of his termination. This amount is in addition to the value shown in the table above of his unexercisable options that would become exercisable upon termination.

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Varco

In considering the recommendation of Varco's board of directors that the Varco stockholders vote in favor of adoption of the merger agreement, Varco stockholders should be aware that some Varco executive officers and directors may have interests in the merger that may be different from, or in addition to, their interests as stockholders of Varco. These interests related to or arise from, among other things:

the continued indemnification of current directors and officers of Varco under the merger agreement and providing these individuals with directors' and officers' insurance;

the retention of some of the officers and directors of Varco as officers or directors of National Oilwell Varco after the closing of the merger;

the potential receipt of severance payments; and

the acceleration of stock options for executive officers and certain members of senior management and the acceleration of deferred stock units and options for retiring directors.

The Varco board of directors was aware of these interests and considered them, among other matters, in making its recommendation.

Indemnification; Directors' and Officers' Insurance. Under the merger agreement, National Oilwell has agreed to indemnify all directors, officers and employees of Varco and its subsidiaries to the fullest extent permitted by law for all acts or omissions prior to the merger by such individuals in such capacities. National Oilwell has also agreed to provide, for six years after the merger, directors' and officers' liability insurance in respect of acts or omissions occurring prior to the merger covering each person currently covered by the directors' and officers' liability insurance policy of Varco on terms and in amounts no less favorable than those of the policies of Varco, provided that National Oilwell will not be required to pay an annual premium for the insurance in excess of 300% of the premium for the 2004 fiscal year. If such insurance cannot be obtained, or can only be obtained at an annual premium in excess of the maximum premium, National Oilwell will obtain the most advantageous policy of insurance obtainable for an annual premium equal to the maximum premium. National Oilwell has also agreed to honor all indemnification agreements entered into by Varco or any of its subsidiaries.

Retention of Directors and Officers of Varco. Under the merger agreement, John F. Lauletta, Jeffery A. Smisek, Greg L. Armstrong, Eric L. Mattson and James D. Woods, each of whom is currently a member of Varco's board of directors are expected to be appointed to National Oilwell Varco's board of directors at the effective time of the merger. Each of them will hold office until his or her respective successor is elected and qualified or until his or her earlier resignation or removal. See the Directors and Executive Officers of the Combined Company Directors section of this document for more information regarding the Varco designees.

In addition, at the effective time of the merger, Mr. Lauletta, who is currently the Chairman and Chief Executive Officer of Varco, will become the Chairman of the Board of National Oilwell Varco; Joseph C. Winkler, who is currently the President and Chief Operating Officer of Varco, will become the Chief Operating Officer of National Oilwell Varco; and Clay C. Williams, who is currently the Vice President and Chief Financial Officer of Varco, will become the Vice President and Chief Financial Officer of National Oilwell Varco.

Amendment and Restatement of the Supplemental Executive Retirement Plan. In November 2001, Varco amended and restated its Supplemental Executive Retirement Plan as to executive officer participants and adopted the Amendment and Restatement of the Supplemental Executive Retirement Plan, or the Amended SERP. All of Varco's executive officers are participants in the Amended SERP. The Amended SERP provides for retirement, death and disability benefits, payable over ten years. The annual benefit amount is generally equal to 50% of the average of a participant's highest five calendar years of base salary, or if greater, in the case of a change of control that occurs prior to January 1, 2006, the average salary in effect since January 2001. This annual benefit is subject to a service reduction in the event the participant retires or his employment is terminated prior to reaching age 65 (excluded from this

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reduction are terminations following a change in control). Benefits vest under the Amended SERP at the rate of 10% per year of service with Varco, and are fully vested upon a termination due to death, disability or in the event of a change in control.

All of Varco's executive officers are currently fully vested in the benefits provided by the Amended SERP, with the exception of Clay C. Williams. Mr. Williams is currently vested in 80% of his benefits under the Amended SERP and will be fully vested in those benefits (assuming the merger does not occur) in April 2006. The merger with National Oilwell will constitute a change of control under the Amended SERP and, upon its completion, Mr. Williams vesting will accelerate and he will become fully vested in the benefits under the Amended SERP. In addition, each executive officer will benefit from the above described Amended SERP provisions that are triggered by a change in control.

Amendment and Restatement of the Executive Retiree Medical Plan. Participants in the Amendment and Restatement of the Varco International, Inc. Executive Retiree Medical Plan (Effective as of November 15, 2001), or the Medical Plan, include all of Varco's current executive officers and one Varco director, Richard A. Kertson, based on his employment with Varco prior to the 2000 merger. Upon and following (i) certain retirements of a participant at or after age 55, or (ii) the death or disability of a participant, or (iii) terminations of a participant prior to age 55 (but benefits are not payable until age 55), the participant, his spouse and dependent children shall be provided the medical, dental, vision and prescription drug benefits that are then provided to Varco's executive officers. These Medical Plan benefits are, however, conditioned upon Varco's receipt of a monthly cash contribution in an amount not greater than that paid by the executive officers for similar benefits, and, in certain circumstances, the participant having achieved 10 years of service with Varco or any of its predecessor companies prior to retirement or termination of employment. In February 2004, the Medical Plan was further amended to permit participation by any retired non-employee director who (a) is at least age 55, (b) served on Varco's board of directors for at least 5 years, (c) does not have access to any other company-provided medical plan and (d) pays the entire cost of all benefits provided under the Medical Plan (including Varco's cost).

All of Varco's executive officers are currently fully vested in the benefits provided by the Medical Plan, with the exception of Clay C. Williams. Mr. Williams will be fully vested in benefits (assuming the merger does not occur) in April 2006. The merger with National Oilwell will constitute a change of control under the Medical Plan and, upon its completion, Mr. Williams will become fully vested in the years of service required to receive benefits under the plan.

Change in Control Severance Plan. Varco has a change in control severance plan which is intended to provide financial security to its senior management and to match similar plans adopted by competitors in Varco's industry. The plan is designed to retain and to motivate key employees, and, with the exception of options accelerated upon a change in control, pertains to terminations of employment following a change in control. Each of Varco's executive officers participates in the change in control severance plan, as it is implemented through the executive's Amended and Restated Executive Agreement with Varco.

The change in control severance plan provides benefits in the case of a change in control of Varco. Upon a change in control, all of the outstanding options held by the executive officers and other members of senior management subject to the change in control severance plan become fully exercisable. Certain other benefits are available if, within two years after the change in control, the executive is terminated other than for cause or if the executive terminates his employment for good reason (each as defined below). Upon such qualifying termination following a change in control, the executive is entitled to severance compensation and benefits, including those set forth below:

A lump sum payment equal to three times base salary;

A lump sum cash payment equal to the participant's annual bonus at the higher of Expected Value (as defined) or actual results during the year of termination, which is pro-rated to the date of termination;

A lump sum payment equal to three times bonus at expected value;

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Full vesting of all accrued benefits under Varco's 401(k) Plan, SERP, Deferred Compensation Plan and Medical Plan, as applicable;

A lump sum payment equal to three years of expected Varco contributions under Varco's 401(k) Plan and Deferred Compensation Plan;

Full vesting of any restricted stock awards and payment of awards earned under any intermediate or long-term bonus plan;

An extended option exercise period; and

The gross-up of certain payments, subject to excise taxes under the Internal Revenue Code as parachute payments, so that the participant receives the same amount he would have received had there been no applicable excise taxes.

Under the change in control severance plan, a participant is also entitled to receive, upon a qualifying termination, medical and dental benefits (based on the cost sharing arrangement in place on the date of termination) and automobile benefits, each throughout the three year payout period, and outplacement services valued at not more than 15% of base salary.

Under the terms of the amended and restated executive agreement, which contains the change of control severance plan, the term "cause means:

executive's conviction of a felony involving moral turpitude, dishonesty or a breach of trust towards Varco;

executive's commission of any act of theft, fraud, embezzlement or misappropriation against Varco that is materially injurious to Varco regardless of whether a criminal conviction is obtained;

executive's willful and continued failure to devote substantially all of his business time to Varco's business affairs (excluding failures due to illness, incapacity, vacations, incidental civic activities and incidental personal time) which failure is not remedied within a reasonable time after a written demand by Varco specifically identifying executive's failure is delivered by Varco;

executive's unauthorized disclosure of confidential information of Varco that is materially injurious to Varco; or

executive's knowing or willful material violation of federal or state securities laws, as determined in good faith by Varco's board of directors.

Under the terms of the amended and restated executive agreement, which contains the change of control severance plan, the term "good reason" means:

failure to re-elect or appoint the executive to any corporate office or directorship held at the time of the change of control or a material reduction in executive's authority, duties or responsibilities (including status, offices, titles and reporting requirements) or if executive is assigned duties or responsibilities inconsistent in any material respect from those of executive at the time of the relevant change of control all on the basis of which executive makes a good faith determination that the terms of his employment have been detrimentally and materially affected;

a material reduction of executive's compensation, benefits or perquisites, including annual base salary, annual bonus, intermediate or long-term cash or equity incentive opportunities or plans from those in effect prior to the change of control;

Varco fails to obtain a written agreement satisfactory to executive from any successor or assigns of Varco to assume and perform the amended and restated executive agreement; or

Varco requires executive to be based at any office located more than fifty (50) miles from Varco's current offices without executive's consent.

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The merger with National Oilwell will constitute a change of control under the change in control severance plan. Following the consummation of the merger, any qualifying termination of an executive officer will result in that executive officer becoming eligible to receive each of the benefits set forth above. In addition, upon completion of the merger, certain options held by the executive officers become fully exercisable. The following table shows, as of March 11, 2005, the number of shares subject to options held by each of Messrs. Lauletta, Winkler, Williams, Smith, Maroney and Nibling on January 27, 2005 that will become fully exercisable as of the effective date of the merger. The table also identifies the value of those options determined by calculating the spread between the aggregate exercise price of the options and the aggregate market value of the shares of National Oilwell common stock issuable in exchange for the shares of Varco common stock underlying the options (upon consummation of the merger), which market value is based on the closing price of National Oilwell common stock on January 27, 2005 of \$37.08:

Name	Unexercisable Options at March 11, 2005	Value
John F. Lauletta	271,766	\$ 1,718,208
Joseph C. Winkler	132,033	\$ 839,870
Haynes B. Smith, III	79,267	\$ 504,390
Clay C. Williams	69,267	\$ 440,333
James F. Maroney	36,433	\$ 231,316
Kenneth L. Nibling	33,267	\$ 211,779

The foregoing table includes 124,500, 60,000, 36,000, 31,500, 16,600 and 15,100 options, with an exercise price of \$30.39 granted by Varco on January 26, 2005, to Messrs. Lauletta, Winkler, Smith, Williams, Maroney and Nibling, respectively, consistent with past grant practices. The Varco compensation committee, however, required as a condition to the grant of these options to its executive officers and other officers party to the change in control severance plan that they waive the right to acceleration of the 2005 options as a result of the merger, and instead provided that the 2005 options will accelerate in the event of a qualifying termination following the merger under the change in control severance plan.

An estimate of the value of the severance payments payable pursuant to the change in control severance plan (excluding any applicable tax gross-up payments) to each Varco executive officer following the merger and a qualifying termination are set forth in the table below: This amount is in addition to the value shown in the table above regarding the unexercisable options that will become exercisable upon closing of the merger.

Name	Estimated Value of Severance Payments
John F. Lauletta	\$ 3,631,800
Joseph C. Winkler	\$ 2,430,629
Haynes B. Smith, III	\$ 1,629,778
Clay C. Williams	\$ 1,469,124
James F. Maroney	\$ 1,287,618
Kenneth L. Nibling	\$ 1,182,737

Director Stock Options and Deferred Stock. Each of Varco's non-employee directors holds options to purchase shares of Varco common stock and deferred stock units.

The stock options were granted under Varco's equity participation plans pursuant to a stock option agreement. Each option granted to a director typically vests as to 25% each year beginning on the first anniversary of the date of the grant. The option agreements provide that each option becomes exercisable as to all shares covered by the option upon a director's retirement. In connection with the merger, each of George S. Dotson, Richard A. Kertson, and Douglas E. Swanson will retire from their position as directors

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of Varco. As a result, all of the outstanding options held by these individuals will immediately vest and become exercisable.

The following table shows, as of March 11, 2005, the number of shares subject to options held by each of Messrs. Dotson, Kertson, and Swanson on January 27, 2005 that will become fully exercisable as of the effective date of their retirement from the Varco board of directors. The table also identifies the value of those options determined by calculating the spread between the aggregate exercise price of the options and the aggregate market value of the shares of National Oilwell common stock issuable in exchange for the shares of Varco common stock underlying the options (upon consummation of the merger), which market value is based on the closing price of National-Oilwell common stock on January 27, 2005 of \$37.08:

Name	Unexercisable Options at March 11, 2005	Value
George S. Dotson	6,000	\$ 59,850
Richard A. Kertson	6,000	\$ 59,850
Douglas E. Swanson	6,000	\$ 59,850

In 2003, Varco's board of directors approved the annual automatic grant of deferred stock units on the last Wednesday of January pursuant to the equity participation plan with a total value of \$45,000 (valued based on the closing price of Varco's common stock on the date of grant) to each non-employee director in lieu of the former automatic grant of options to purchase shares of Varco common stock on the date of each annual meeting of stockholders. Each director may make an election at or prior to each annual grant as to the timing of the distribution of the underlying shares of common stock to either be: (i) one year following the date of grant, (ii) five years following the date of grant, or (iii) upon retirement/termination of board service. Each deferred stock unit fully vests one year from the date of grant, or in the event of the earlier of retirement, death or disability. In connection with the merger, each of Messrs. Dotson, Kertson and Swanson will retire from their position as directors of Varco. As a result, the 1,481 deferred stock units held by these individuals on March 11, 2005 will immediately vest upon such retirement. The value of these 1,481 shares is \$45,926, based on the market value of the shares of National Oilwell common stock issuable in exchange for the shares of Varco common stock (upon consummation of the merger), which market value is based on the closing price of National-Oilwell common stock on January 27, 2005 of \$37.08.

Appraisal Rights

Appraisal rights are statutory rights that enable stockholders to dissent from a merger and to demand that the corporation pay the fair value for their shares as determined by a court in a judicial proceeding instead of receiving the consideration offered to shareholders in connection with the merger. Appraisal rights are not available in all mergers. The laws of the State of Delaware, which is the state of incorporation of National Oilwell and Varco, govern whether or not appraisal rights are available in a given merger.

National Oilwell and Varco stockholders are not entitled to appraisal rights in connection with the merger.

Regulatory Approvals Required for the Merger

The merger is subject to review by the Antitrust Division of the U.S. Department of Justice and the U.S. Federal Trade Commission under the Hart-Scott-Rodino Antitrust Improvements Act of 1976. Under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, National Oilwell and Varco are required to make pre-merger notification filings and to await the expiration or early termination of the statutory waiting period prior to completing the merger. On September 10, 2004, National Oilwell and Varco each filed a Premerger Notification and Report Form with the Antitrust Division of the U.S. Department of Justice and the U.S. Federal Trade Commission. On October 12, 2004, National Oilwell and Varco

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received a request for additional information and documentary material from the Antitrust Division of the U.S. Department of Justice. National Oilwell and Varco responded to this request by furnishing information and material to the Department of Justice, and continue to work with the Department of Justice regarding the proposed merger between the companies. The waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976 has been extended while the Antitrust Division conducts its review.

The merger is also subject to antitrust review by government authorities in a number of foreign jurisdictions in which one or both companies have a significant market presence to require filings. The parties have made the necessary antitrust filings in these jurisdictions. Governmental authorities in several foreign jurisdictions have requested the parties to provide additional data and information, and National Oilwell and Varco have responded to these requests. National Oilwell and Varco continue to work with the governmental authorities in these jurisdictions regarding the proposed merger between the companies. If one or more of these foreign approvals are not obtained prior to the special meetings of stockholders, National Oilwell and Varco may elect to proceed with the merger subject to certain restrictions on the combination of the operations of the companies in certain jurisdictions until such approvals could be obtained.

While National Oilwell and Varco expect to resolve matters related to the Department of Justice's and foreign authorities' antitrust review and receive regulatory clearance, we cannot assure you that the Department of Justice or the antitrust authorities in other jurisdictions will give regulatory clearance to complete the merger at all or without restrictions or conditions that would have a materially adverse effect on the combined company if the merger is completed. These restrictions and conditions could include the grant of a complete or partial license, divestiture, spin-off or the holding separate of assets or businesses. Under the terms of the merger agreement, neither National Oilwell or Varco is required to commit to any divestitures, licenses or hold separate or similar arrangements with respect to its assets or conduct of business arrangements if such divestiture, license, holding separate or arrangement is not conditioned upon the consummation of the merger or would have a material adverse effect on National Oilwell or Varco. In this case, either National Oilwell or Varco may refuse to complete the merger if any such restrictions or conditions are required by governmental authorities as a condition to approving the merger. No additional stockholder approval is expected to be required or sought for any decision by National Oilwell or Varco, after the special meetings, to agree to any terms and conditions necessary to resolve any regulatory objections to the merger, and stockholder approval will not be sought unless additional stockholder approval is required to approve the terms and conditions under applicable law.

In addition, during or after any statutory waiting periods (as applicable) and clearance of the merger, and even after completion of the merger, either the Antitrust Division of the U.S. Department of Justice, the U.S. Federal Trade Commission or foreign governmental authorities could challenge the consummated merger under the antitrust laws. Also, in some jurisdictions, a competitor, customer or other third party could initiate a private action under the antitrust laws challenging or seeking to enjoin the merger, before or after it is completed. National Oilwell and Varco cannot be sure that a challenge to the merger will not be made or that, if a challenge is made, National Oilwell and Varco will prevail.

Accounting Treatment

In accordance with accounting principles generally accepted in the United States, National Oilwell will account for the merger using the purchase method of accounting. Under this method of accounting, National Oilwell will record the market value (based on an average of the closing prices of National Oilwell common stock for a range of trading days from five days before and after August 11, 2004, the announcement date) of its common stock issued in the merger, the fair value of National Oilwell options issued in exchange for the options to purchase shares of Varco common stock and the amount of direct transaction costs associated with the merger as the estimated purchase price of acquiring Varco. National Oilwell will allocate the estimated purchase price to the net tangible and amortizable intangible assets acquired based on their respective fair values at the date of the completion of the merger. Any excess of the estimated purchase price over the fair value of net assets acquired will be accounted for as goodwill.

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Amortizable intangible assets, currently estimated at \$430 million, will generally be amortized over useful lives, which average approximately 15 years. In accordance with the Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets, goodwill resulting from the business combination currently estimated at \$1,579 million, will not be amortized but instead will be tested for impairment at least annually (more frequently if certain indicators are present). The foregoing preliminary amounts are subject to change based upon the final number of shares of National Oilwell common stock issued at the time of closing and the final valuation of Varco's identified assets and liabilities.

In the event that National Oilwell's management determines that the value of goodwill has become impaired, the combined company will incur an accounting charge for the amount of impairment during the fiscal quarter in which the determination is made. The amounts listed in the above paragraph are only preliminary estimates, however, actual amounts may differ from these estimates.

Listing of National Oilwell Common Stock

National Oilwell will use reasonable best efforts to:

cause the shares of National Oilwell common stock to be issued in the merger to be approved for listing on the New York Stock Exchange upon the completion of the merger; and

cause the shares of National Oilwell common stock to be issued upon the exercise of converted Varco stock options and purchase rights under Varco's employee stock purchase plan to be approved for listing on the New York Stock Exchange.

Following the merger, National Oilwell's name will be changed to National Oilwell Varco, Inc. and National Oilwell Varco's trading symbol on the New York Stock Exchange will be NOV.

Delisting and Deregistration of Varco Common Stock

If the merger is completed, Varco common stock will be delisted from the New York Stock Exchange and deregistered under the Securities Exchange Act of 1934, and Varco will no longer file periodic reports with the SEC.

Restrictions on Sales of Shares of National Oilwell Common Stock Received in the Merger

The shares of National Oilwell common stock to be issued in the merger will be registered under the Securities Act of 1933 and will be freely transferable, except for shares of National Oilwell common stock issued to any person who is deemed to be an affiliate of Varco under the Securities Act of 1933 prior to the merger. Persons who may be deemed to be affiliates of Varco prior to the merger include individuals or entities that control, are controlled by, or are under common control with Varco prior to the merger, and may include officers and directors, as well as significant shareholders of Varco prior to the merger. Affiliates of Varco prior to the merger may not sell any of the shares of National Oilwell common stock received by them in the merger except pursuant to:

an effective registration statement under the Securities Act of 1933 covering the resale of those shares;

an exemption under paragraph (d) of Rule 145 under the Securities Act of 1933; or

any other applicable exemption under the Securities Act of 1933.

National Oilwell's registration statement on Form S-4, of which this document is a part, does not cover the resale of shares of National Oilwell common stock to be received by affiliates of Varco in the merger.

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THE MERGER AGREEMENT

The following summary describes certain material provisions of the merger agreement. A copy of the merger agreement is attached to this document as Annex A and is incorporated by reference into this document. While the discussion below summarizes many of the material provisions of the merger agreement, it may not contain all of the information about the merger agreement that is important to you. We encourage you to read the merger agreement in its entirety for a more complete description of the terms and conditions of the merger.

General

The merger agreement provides that Varco will be merged with and into National Oilwell at the effective time of the merger. National Oilwell will continue as the surviving corporation in accordance with the Delaware General Corporation Law, or DGCL. As part of the merger, National Oilwell's name will be changed so that the name of the surviving corporation will be National Oilwell Varco, Inc. At the effective time of the merger, all the property, rights, privileges, powers and franchises of Varco and National Oilwell before the merger will vest in the surviving corporation, and all debts, liabilities and duties of Varco and National Oilwell before the merger will become the debts, liabilities and duties of the surviving corporation.

The merger will be completed after all conditions in the merger agreement are met or waived and National Oilwell and Varco file a certificate of merger with the Secretary of State of the State of Delaware. The merger agreement provides that the closing of the merger will take place at a time and date agreed to by National Oilwell and Varco but not later than the second business day after satisfaction or waiver of the conditions to the merger.

Conversion of Shares

The merger agreement provides that each issued and outstanding share of Varco common stock, other than shares owned by Varco or National Oilwell, will be converted into 0.8363 of a share of National Oilwell common stock. However, if prior to the merger, the outstanding shares of Varco common stock or National Oilwell common stock are changed into a different number of shares or a different class, by reason of any stock dividend, subdivision, reclassification, recapitalization, split, combination or exchange of shares, or if any Varco rights under Varco's rights plan are exercised, the exchange ratio will be adjusted accordingly.

Each share of National Oilwell common stock will be unaffected by the merger and will remain outstanding.

No fractional shares of National Oilwell common stock will be issued in the merger. Each holder of Varco common stock who would have otherwise been entitled to receive a fraction of a share of National Oilwell common stock will receive cash in lieu of a fractional share of National Oilwell common stock. The amount of cash will be equal to the relevant fraction times the average of the closing prices of a share of National Oilwell common stock on the New York Stock Exchange on the ten trading days prior to the date of the effective time of the merger.

Procedure for the Exchange of Stock Certificates

Exchange of Stock Certificates

National Oilwell and Varco have designated American Stock Transfer & Trust Company to serve as exchange agent for the exchange of certificates representing Varco common stock for certificates representing National Oilwell common stock and for the payment of cash in lieu of fractional shares. Promptly after the merger is completed, the exchange agent will mail transmittal forms and exchange instructions to each holder of record of Varco common stock. After receiving the transmittal form, each holder of certificates formerly representing Varco common stock will be able to surrender the certificates to the exchange agent and receive certificates evidencing the appropriate number of whole shares of

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National Oilwell common stock. After the merger, each certificate formerly representing Varco common stock, until surrendered and exchanged, will be deemed, for all purposes, to evidence only the right to receive a certificate representing the number of whole shares of National Oilwell common stock which the holder's shares of Varco common stock were converted in the merger, plus cash in lieu of fractional shares, if any. For purposes of determining quorums at stockholders' meetings and the stockholders entitled to notice of, and to vote at, meetings of stockholders, holders of unsurrendered Varco certificates will be considered to be record holders of the shares of National Oilwell common stock represented by their Varco certificates.

Dividends and Distributions

The holder of an unexchanged Varco certificate will not be entitled to receive any dividends or other distributions otherwise payable by National Oilwell until the certificate has been exchanged. Subject to applicable laws, following surrender of a Varco certificate by the holder, National Oilwell will pay the holder any accrued and unpaid dividends and distributions that have become payable between the effective time of the merger and the time the certificate is surrendered, without interest.

Lost Certificates

A stockholder must provide an appropriate affidavit to the exchange agent if any Varco common stock certificates are lost, stolen or destroyed, in order to receive National Oilwell common stock or cash in lieu of fractional shares in respect of the lost, stolen or destroyed certificates. In addition, the surviving corporation may require the holder of lost, stolen or destroyed certificates to post a bond as indemnity against any claim that may be made against the surviving corporation or the exchange agent with respect to the certificates.

No Liability

Neither the surviving corporation nor the exchange agent will be liable to any former holder of shares of Varco common stock for shares of National Oilwell common stock, or dividends or distributions made with respect to those shares, delivered to a public official under any applicable abandoned property, escheat or similar law.

Withholding Right

Either the surviving corporation or the exchange agent, on behalf of the surviving corporation, is entitled to deduct and withhold from the consideration payable to any former holder of shares of Varco common stock the amount it is required to deduct and withhold from the consideration under the Internal Revenue Code or any provision of state, local or foreign tax law. Any amounts withheld will be treated as having been paid to the former holder of the Varco common stock.

References to Varco common stock shall include, unless the context requires otherwise, the associated Preferred Share Purchase Rights issued pursuant to the Rights Agreement, dated as of November 29, 2000, as amended, between Varco and ChaseMellon Shareholder Services, L.L.C., a New Jersey limited liability company, as Rights Agent.

Representations and Warranties

National Oilwell and Varco have made mutual representations and warranties in the merger agreement relating to the following:

their organization and the organization of their subsidiaries;

their capital structures;

the authorization, execution, delivery and enforceability of the merger agreement and related matters;

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the board of directors adopting resolutions approving and recommending the merger agreement;

the absence of conflicts under their certificates or articles of incorporation, bylaws, agreements and applicable laws;

required consents or approvals;

documents and financial statements filed with the Securities and Exchange Commission and the accuracy of the information contained in those documents and financial statements;

the absence of material undisclosed liabilities;

the absence of material adverse events or changes;

taxes and tax returns;

properties;

intellectual property;

agreements, contracts and commitments;

litigation;

environmental matters;

employee benefit plans;

compliance with laws;

the accuracy of information contained in the registration statement filed by National Oilwell and this document;

labor matters;

insurance;

the absence of existing discussions with other parties;

opinions of financial advisors;

the inapplicability to the merger of anti-takeover laws;

compliance with the applicable provisions of the Sarbanes-Oxley Act of 2002, the Exchange Act of 1934, and the applicable listing and corporate governance rules and regulations of the New York Stock Exchange, including the proper establishment and maintenance of disclosure controls and procedures; and

broker's or finder's fees.

In addition, Varco has made representations in the merger agreement with respect to amendments to the Varco stockholder rights agreement so that it is inapplicable to the merger.

Certain Covenants of National Oilwell and Varco

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National Oilwell and Varco have agreed that, during the period from the date of the merger agreement until the completion of the merger, except as otherwise consented to in writing by the other party or as contemplated by the merger agreement, each will, and will cause its subsidiaries to:

carry on its business in the ordinary course;

pay its debts and taxes when due, subject to good faith disputes;

pay or perform other obligations when due;

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use reasonable efforts to preserve intact its present business organization, management team and business relationships;

refrain from accelerating, amending or changing the period of exercisability of warrants, options, stock purchase rights, restricted stock, or other stock awards granted under any stock plan or authorizing cash payments in exchange for any warrants, options, stock purchase rights, restricted stock or other stock awards granted under any stock plan, except as required pursuant to the plan or any related agreement;

not declare or pay any dividends on, or make other distributions in respect of, any of its capital stock;

not effect certain other changes in its capitalization;

not purchase or otherwise acquire any shares of its capital stock except from former employees, directors and consultants at a price not greater than the then current fair market value in accordance with agreements providing for the repurchase of shares in connection with the termination of service;

not grant, issue, deliver or sell, or authorize or propose to issue, deliver or sell any shares of its capital stock or securities convertible into shares of its capital stock, or any subscriptions, rights, warrants or options to acquire or other agreements obligating it to issue any shares or other convertible securities, subject to certain exceptions;

not make any acquisitions, except for all such acquisitions involving total consideration of \$50 million or less;

except for transactions among the party and its subsidiaries, not redeem, purchase, acquire or offer to purchase or acquire any shares of its capital stock or any options, warrants or rights to acquire any of its capital stock or any security convertible into or exchangeable for its capital stock other than in connection with the exercise of outstanding stock options pursuant to the terms of the stock plans;

not sell, lease, license or otherwise dispose of properties or assets other than (i) in the ordinary course of business or as may be required by law, (ii) sales of inventory and other current assets, (iii) sales or dispositions of assets in one or a series of related transactions having an aggregate value of \$25 million or less or (iv) divestitures pursuant to the terms of the merger agreement;

not increase the compensation or benefits payable to its officers or employees, except for (i) increases consistent with past practices, including bonuses, (ii) pursuant to contractual arrangements in effect on the date of the merger agreement, (iii) in connection with the assumption by the officer or employee of material new or additional responsibilities or (iv) to respond to offers of employment made by third parties;

not grant additional severance or termination pay or enter into employment or severance agreements with any employees or officers, other than:

- (a) payments or agreements paid to or entered into with employees, other than officers, in the ordinary course of business;
- (b) in the case of National Oilwell, severance agreements for up to 14 individuals providing for the payment of severance of up to the equivalent of 24 months base salary (and no other benefit); or
- (c) pursuant to contractual arrangements in effect on the date of the merger agreement;

not establish, adopt, enter into, or materially and adversely amend any collective bargaining agreement except as required by law;

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not establish, adopt, enter into, amend or terminate any benefit plan for any directors, officers or employees of parent or any of its subsidiaries, except as expressly permitted by the merger agreement;

not amend its charter or bylaws, except as contemplated by the merger agreement;

not incur indebtedness, other than:

- (a) borrowings pursuant to credit agreements in effect as of the date of the merger agreement or replacement credit agreements on substantially similar terms and having aggregate borrowing capacity not to exceed 150% of borrowing capacity under existing credit agreements; and
- (b) seller financings in connection with acquisitions permitted by the merger agreement;

not enter into any agreement that limits or otherwise restricts the ability to engage or compete in any line of business or in any geographic area;

not change any method or principle of financial accounting in a manner that is inconsistent with past practice, except to the extent required by generally accepted accounting principles;

not make or change any material tax election, or settle or compromise any material tax liability or refund;

not make or commit to any capital expenditures other than in the ordinary course of business; and

not take any action that is intended or would reasonably be expected to result in any of the conditions to the merger not being satisfied.

In addition, Varco shall not (i) amend, modify or terminate the rights agreement or redeem any company rights issued pursuant to the rights agreement except as required by law or (ii) take any action to exempt or make not subject to (a) the rights agreement, (b) the provisions of Section 203 of the DGCL or (c) any other state takeover statute or state law that purports to limit or restrict business combinations or the ability to acquire or vote shares.

Also, subject to compliance with applicable law, from the date of the merger agreement to the completion of the merger, each of Varco and National Oilwell shall confer on a regular and frequent basis with one or more representatives of the other party to report on the general status of ongoing operations.

Certain Additional Agreements

In addition, National Oilwell and Varco also have each agreed to use its reasonable best efforts to:

cause the merger to qualify as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code;

take all appropriate action to complete the merger promptly, including:

obtain any required consents, licenses, permits, waivers, approvals, authorizations or orders from governmental entities or other third parties required to complete the merger;

make all necessary filings and submissions required by federal, state and foreign securities laws, antitrust laws and other applicable laws;

obtain any governmental clearances required for the closing of the merger, to notify the other party and respond to any government requests for information and to contest and resist any government action which would prohibit the merger;

convene and hold a meeting of its stockholders on the earliest practicable date, and use all reasonable efforts to obtain proxies from its stockholders in favor of adoption of the merger agreement and the merger;

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afford to the other party, upon reasonable notice, access during normal business hours to its properties, books, contracts, commitments and records, subject to certain contractual or legal restrictions or sensitivity of information concerns; and

give prompt notice to the other party of (i) any notice from any person alleging that the consent of such person is or may be required in connection with the merger, (ii) any notice from any governmental entity in connection with the merger, (iii) any actions, suits, claims, investigations or proceedings commenced or threatened in writing against or somehow involving or affecting Varco or National Oilwell that relate to the consummation of the merger and (iv) if there has been a material change in the business, financial condition or results of operations or any event that might reasonably be expected to cause any representations or warranties to be untrue or inaccurate in any material respect.

However, neither National Oilwell nor Varco nor any of their subsidiaries are required (i) to divest or hold separate any of their respective businesses, product lines or assets, or to take or agree to take any other action or agree to any limitation, that would reasonably be expected to have a material adverse effect on the financial condition, results of operations or prospects of either National Oilwell or Varco, or (ii) to agree to or effect any divestiture, hold separate any business or take any other action that is not conditioned on the consummation of the merger.

No Solicitation

Under the merger agreement, National Oilwell and Varco have each agreed not to:

solicit, initiate, or encourage an acquisition proposal;

engage in negotiations or discussions concerning, or provide any non-public information to any person relating to, or take any other action to facilitate any inquiries or the making of any proposal that constitutes, or could reasonably be expected to lead to, any acquisition proposal; or

enter into any agreement, arrangement or understanding contemplating or relating to any acquisition proposal or requiring such party to abandon, terminate or fail to consummate the merger.

However, prior to receipt of stockholder adoption of the merger agreement, National Oilwell's board of directors and Varco's board of directors may furnish non-public information to, or enter into discussions or negotiations with, any person regarding an unsolicited bona fide written acquisition proposal, if:

such acquisition proposal was made after the date of the merger agreement and shall not have been withdrawn;

such acquisition proposal was not solicited, initiated, encouraged or facilitated after the date of the merger agreement in breach of, and did not otherwise result from a breach of, the merger agreement;

the board of directors of such party determines in good faith by affirmative vote of a majority of all its members, after consultation with outside legal counsel and financial advisors, that such acquisition proposal is, or is reasonably likely to lead to, a superior proposal;

prior to taking these actions, the board of directors receives an executed confidentiality agreement from the person with terms no less favorable than those contained in the confidentiality agreement between National Oilwell and Varco; and

prior to taking these actions, National Oilwell or Varco, as applicable, notifies the other party, orally and in writing, of the existence of the acquisition proposal or a request for non-public information or access to its properties, books or records relating to or which could reasonably be expected to lead to an acquisition proposal.

National Oilwell's board of directors and Varco's board of directors also may respond to any tender offer that may be made in order to comply with the requirements of Rule 14e-2 or Rule 14e-9 under the

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Securities Exchange Act of 1934. However, any withdrawal of, or adverse change in recommendation relating to this merger by either the National Oilwell or Varco board must be effected in accordance with the terms of the merger agreement. See **Change of Recommendation**.

National Oilwell and Varco are required to notify the other party orally and in writing promptly after its receipt (and in any event within one business day) of any acquisition proposal or any request for nonpublic information or access to its properties, books or records. The notice must detail the identity of the offeror and the terms and conditions of the proposal or inquiry. Each party is also required to keep the other party informed on a prompt basis of the status of any material developments relating to any acquisition proposal.

An acquisition proposal is any contract, offer or proposal (whether or not in writing and whether or not delivered to the stockholders) with respect to a potential or proposed acquisition transaction, which is:

any merger, consolidation, business combination, or similar transaction involving such party or its subsidiaries (which subsidiaries collectively represent 20% or more of the consolidated revenues, net income or assets of such party and its subsidiaries);

any sale, lease or other disposition directly or indirectly by merger, consolidation, business combination, share exchange, joint venture, or otherwise of any business or assets of such party or its subsidiaries representing 20% or more of the consolidated revenues, net income or assets of such party and its subsidiaries;

any issuance, sale, or other disposition of securities representing 20% or more of the voting power of such party;

any other transaction in which a person acquires beneficial ownership, or the right to acquire beneficial ownership of 20% or more of the outstanding voting capital stock of such party; or

any combination of the foregoing (in each case other than the merger agreement).

Change of Recommendation

Neither National Oilwell's board of directors nor Varco's board of directors may withdraw or adversely modify its recommendation that their stockholders adopt the merger agreement, except in the case where each of the following is satisfied:

stockholder adoption of the merger agreement has not been obtained;

National Oilwell's board of directors or Varco's board of directors, as applicable, has determined in good faith by affirmative vote of a majority of its members, after consultation with outside counsel, that withdrawing or adversely modifying its recommendation is required in order to fulfill its fiduciary duties under applicable law;

National Oilwell's board of directors or Varco's board of directors, as applicable, has notified the other party in writing of the determination described above;

At least three business days following receipt of the notice by the other party has elapsed and taking into account any revised proposals by the other party, the board of directors maintains its determination described above; and

The applicable party has not violated the no solicitation provisions of the merger agreement

Stock Options and Employee Benefits

Stock Options

As of the record date for the Varco special meeting, Varco had outstanding options to purchase a total of 6,878,126 shares of Varco common stock, 8,000 performance units and 14,731 deferred stock units. These equity awards were issued under Varco's employee and non-employee directors equity participation

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plans. The merger agreement provides that each of these equity awards will be assumed by National Oilwell in the merger and will be converted into an option to purchase or right to acquire, as applicable, shares of National Oilwell common stock. Each equity award shall continue to be subject to the same terms and conditions as set forth in the applicable Varco equity participation plan and agreement under which they were issued, except that, as of the effective time (i) each Varco equity award as so assumed and converted shall be exercisable for that number of whole shares of National Oilwell common stock equal to the product of the number of shares of Varco common stock that were subject to such Varco equity award immediately prior to the effective time multiplied by the exchange ratio, rounded down to the nearest whole number of shares of National Oilwell common stock, and (ii) the per share exercise price for the shares of National Oilwell common stock subject to such Varco stock option as so assumed and converted shall be equal to the quotient determined by dividing the exercise price per share of Varco common stock of such Varco stock option immediately prior to the effective time by the exchange ratio, rounded up to the nearest whole cent.

National Oilwell has agreed to reserve enough shares of National Oilwell common stock to cover the Varco stock options, deferred stock units and performance awards.

The Varco board of directors will take any necessary actions to convert the Varco stock options, deferred stock units and performance awards into options or rights to acquire National Oilwell common stock as described above without the consent of the holders of such awards.

Stock Purchase Plan

Under Varco's employee stock purchase plan, employees may purchase Varco common stock at a discount through payroll deductions. The stock purchase plan provides for six-month purchase periods ending on March 31 and September 30 of each year. At the end of a purchase period, payroll deductions are applied to the purchase of Varco common stock at a price per share equal to 85% of the fair market value of the Varco common stock at the beginning or end of the plan period, whichever is lower. The merger agreement provides for the boards of directors of National Oilwell and Varco to take all actions required for National Oilwell to assume Varco's obligations under the stock purchase plan with appropriate adjustments to substitute National Oilwell common stock for Varco common stock. National Oilwell agrees to reserve enough shares of National Oilwell common stock to cover the exercise of purchase rights under the plan.

As soon as practicable after the merger is completed, National Oilwell will file a registration statement on Form S-8 with respect to the shares of National Oilwell common stock subject to the stock options, deferred stock units, performance awards and stock purchase rights referred to above and National Oilwell has agreed to use all reasonable efforts to maintain the effectiveness of the registration statement for so long as these options, deferred stock units, performance awards and purchase rights remain outstanding.

Director and Officer Indemnification

The merger agreement provides that, after the merger, National Oilwell will indemnify and hold harmless each present and former director and officer of Varco against all liabilities or expenses, including attorneys' fees, arising out of any matters existing or occurring before the completion of the merger, including for acts and omissions occurring in connection with the adoption of the merger agreement. This right to indemnification will apply regardless of whether the claim was asserted before or after the merger is completed. National Oilwell's indemnification obligations will be to the fullest extent permitted under Delaware law and are in addition to any other indemnification rights available to Varco's current and former directors and officers, which National Oilwell agrees to honor.

For six years from the effective time, National Oilwell shall cause to be maintained in effect for the benefit of Varco's current directors and officers an insurance and indemnification policy that provides coverage for acts or omissions occurring prior to the effective time covering each such person currently covered by Varco's officers' and directors' liability insurance policies on terms with respect to coverage and

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in amounts no less favorable than those of Varco's policies in effect on the date of the merger agreement with the same or comparable quality insurance carriers. However, National Oilwell is not required to pay an annual premium for the insurance in excess of 300% of the premium for the 2004 fiscal year and, if the insurance coverage cannot be obtained at all, or can only be obtained at an annual premium in excess of the maximum premium, National Oilwell shall obtain the most advantageous policies of directors' and officers' insurance obtainable for an annual premium equal to the maximum premium.

Governance Matters

The merger agreement provides that, as of the effective time, National Oilwell shall take all requisite action such that (i) the board of directors of the combined company shall consist of 10 members, including John F. Lauletta (who shall be Chairman), Merrill A. Miller, Jr., four directors designated by Varco, consisting of Jeffery A. Smisek, Greg L. Armstrong, Eric L. Mattson and James D. Woods and four directors designated by National Oilwell, consisting of Robert E. Beauchamp, Ben A. Guill, Roger L. Jarvis and David D. Harrison, until the earlier of their resignation or removal or until their respective successors are duly elected and qualified, as the case may be and (ii) the composition of the classes of the board will be as follows: Messrs. Lauletta, Beauchamp and Woods will be placed in the class of directors with a term expiring in 2005; Messrs. Miller, Harrison and Armstrong will be placed in the class of directors with a term expiring in 2006; and Messrs. Guill, Jarvis, Mattson and Smisek will be placed in the class of directors with a term expiring in 2007. If any director designated by Varco or director designated by National Oilwell shall be unable to serve as a director at the effective time, the party which designated such individual shall designate another individual, reasonably acceptable to the other party, to serve in such individual's place. All designated directors other than Messrs. Lauletta and Miller shall qualify as independent members of the board of directors as determined in accordance with the rules of the NYSE.

The merger agreement provides that, as of the effective time, National Oilwell shall take all requisite action such that John F. Lauletta shall serve as Chairman of the Board, Merrill A. Miller Jr. shall serve as President and Chief Executive Officer, and Joseph C. Winkler shall serve as Chief Operating Officer of the combined company until the earlier of their resignation or removal. If any of these individuals ceases to be a full-time employee of either National Oilwell or Varco at or before the effective time, National Oilwell and Varco will agree in writing upon another person to serve in such person's stead.

State Takeover Statutes

If any state takeover statute or state law that purports to limit or restrict business combinations or the ability to acquire or vote shares is or may become applicable to the merger, each of Varco and its board of directors and National Oilwell and its board of directors will grant such approvals and take such other actions as are necessary so that such transactions may be consummated as promptly as practicable on the terms contemplated by the merger agreement and otherwise act to eliminate or minimize the effects of such statute or law on the merger agreement.

Conditions to the Merger

Joint Conditions to the Merger

The merger agreement provides that the obligations of National Oilwell and Varco to effect the merger are subject to the satisfaction or waiver of the following conditions:

the National Oilwell stockholders and Varco stockholders must approve the merger agreement and the merger;

any waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976 must expire;

other than approvals related to the Hart-Scott-Rodino Antitrust Improvements Act of 1976, all governmental consents and approvals must be obtained and all waiting periods imposed by any governmental entity must expire, unless the failure to obtain approval or the continuation of the waiting period of any of these is not reasonably likely to have a material adverse effect;

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National Oilwell's registration statement must be effective under the Securities Act of 1933 and not be the subject of a stop order or proceeding seeking a stop order;

the absence of any order, injunction, judgment, statute, rule or regulation that makes the merger illegal or otherwise prohibits the completion of the merger;

the shares of National Oilwell common stock to be issued in the merger must be approved for listing on the New York Stock Exchange; and

there shall not be pending or threatened any suit, action or proceeding by any governmental entity that has a reasonable likelihood of success that would interfere with the consummation of the merger or which otherwise is reasonably likely to have a material adverse effect on Varco or National Oilwell.

National Oilwell's Conditions to the Merger

In addition, the merger agreement provides that National Oilwell's obligation to effect the merger is subject to the satisfaction or waiver of the following conditions:

Varco's representations and warranties must be true and correct as of the date of the closing of the merger (except for the representations and warranties regarding Varco's capital structure and its corporate power and authority), except:

- (a) to the extent the representations and warranties are expressly made as of an earlier date; and
- (b) where the failure to be true and correct, individually or in the aggregate, has not had and would not reasonably be expected to have a material adverse effect upon Varco's business, properties, financial condition or results of operations or the completion of the merger, and the representations and warranties of Varco regarding Varco's capital structure and its corporate power and authority shall be true and correct in all material respects at and as of the date of the merger agreement and at and as of the closing date as if made at and as of such time (except to the extent expressly made as of an earlier date, in which case as of such earlier date). National Oilwell shall have received a certificate signed on behalf of Varco by an executive officer of Varco to such effect;

Varco must have performed, in all material respects, all of its obligations under the merger agreement prior to the closing of the merger;

National Oilwell must receive a written legal opinion of Vinson & Elkins L.L.P. to the effect that the merger will qualify for federal income tax purposes as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code. See "The Merger - Material United States Federal Income Tax Consequences"; and

since the date of the merger agreement, there shall not have been any event that has had or would reasonably be expected to have a material adverse effect on Varco's business, properties, financial condition or results of operations.

Varco's Conditions to the Merger

In addition, the merger agreement provides that Varco's obligation to effect the merger is subject to the satisfaction or waiver of the following conditions:

National Oilwell's representations and warranties must be true and correct as of the date of the closing of the merger (except for the representations and warranties regarding National Oilwell's capital structure and its corporate power and authority), except:

- (a) to the extent the representations and warranties are expressly made as of an earlier date; and
- (b) where the failure to be true and correct, individually or in the aggregate, has not had and would not reasonably be expected to have a material adverse effect upon National Oilwell's

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business, properties, financial condition or results of operations or the completion of the merger, and the representations and warranties of National Oilwell regarding National Oilwell's capital structure and its corporate power and authority shall be true and correct in all material respects at and as of the date of the merger agreement and at and as of the closing date as if made at and as of such time (except to the extent expressly made as of an earlier date, in which case as of such earlier date). Varco shall have received a certificate signed on behalf of National Oilwell by an executive officer of National Oilwell to such effect;

National Oilwell must have performed, in all material respects, all of its obligations under the merger agreement prior to the date of the closing of the merger;

Varco must receive a written legal opinion of Latham & Watkins LLP to the effect that the merger will qualify for federal income tax purposes as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code. See *The Merger - Material United States Federal Income Tax Consequences*; and

since the date of the merger agreement, there shall not have been any event that has had or would reasonably be expected to have a material adverse effect on National Oilwell's business, properties, financial condition or results of operations.

A material adverse effect on a person means a material adverse effect on (i) the business, assets, liabilities or obligations, financial condition or results of operations of such person and its subsidiaries, taken as a whole, (ii) the ability of such person to perform its obligations under the merger agreement or (iii) the ability of such person to consummate the merger. However, a material adverse effect does not include:

changes or conditions relating to the oil field services industry or arising from changes in the U.S. economy in general or in any other country in which the person has significant operations unless they have a disproportionate effect on the person, or

any change in such person's stock price or trading volume.

Termination; Termination Fees and Expenses

Termination of the Merger Agreement

The merger agreement may be terminated at any time prior to the completion of the merger, before or after adoption of the merger agreement by the National Oilwell stockholders or the Varco stockholders:

by mutual written consent of National Oilwell and Varco; or

by either National Oilwell or Varco if:

- (a) the merger is not consummated on or before March 15, 2005; provided, however, that the right to terminate the merger agreement shall not be available to the party whose failure to fulfill any obligation under the merger agreement has been the cause of, or results in, the failure of the merger to occur on or before such date;
- (b) the applicable stockholder approvals of National Oilwell or Varco have not been obtained at a meeting of such stockholders; or
- (c) a court or other governmental entity has issued an order, decree or ruling which cannot be appealed and which prohibits the completion of the merger;

by National Oilwell if:

- (a) the Varco board of directors withdraws or modifies its recommendation of the merger;
- (b) the Varco board of directors recommends an acquisition transaction to Varco stockholders;

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- (c) prior to the receipt of National Oilwell stockholders' approval, National Oilwell receives a superior proposal, its board of directors resolves to accept such superior proposal, National Oilwell gives Varco three business days' prior written notice of its intention to terminate the merger agreement, such acquisition proposal continues to constitute a superior proposal after taking into account any revised proposal made by Varco during such three business day period, and National Oilwell's board of directors concludes in good faith by affirmative vote of a majority of all of its members, following receipt of advice of its outside legal counsel, that the failure to accept such superior proposal would result in a breach of its fiduciary duties under applicable law; provided, however, that such termination shall not be effective until such time as payment of the termination fee shall have been made by National Oilwell; provided, further, that National Oilwell's right to terminate the merger agreement shall not be available if it breached the no solicitation provision of the merger agreement in any material respect in connection with such superior proposal; or
- (d) Varco has breached a representation, warranty, covenant or agreement contained in the merger agreement, which has not been cured within 20 business days after receiving written notice of the breach.

by Varco, if:

- (a) the National Oilwell board of directors withdraws or modifies its recommendation of the merger;
- (b) the National Oilwell board of directors recommends an acquisition transaction to National Oilwell stockholders;
- (c) prior to the receipt of Varco stockholders' approval, Varco receives a superior proposal, its board of directors resolves to accept such superior proposal, Varco gives National Oilwell three business days' prior written notice of its intention to terminate the merger agreement, such acquisition proposal continues to constitute a superior proposal after taking into account any revised proposal made by National Oilwell during such three business day period, and Varco's board of directors concludes in good faith by affirmative vote of a majority of all of its members, following receipt of advice of its outside legal counsel, that the failure to accept such superior proposal would result in a breach of its fiduciary duties under applicable law; provided, however, that such termination shall not be effective until such time as payment of the termination fee shall have been made by Varco; provided, further, that Varco's right to terminate the merger agreement shall not be available if it breached the no solicitation provision of the merger agreement in any material respect in connection with such superior proposal; or
- (d) National Oilwell has breached a representation, warranty, covenant or agreement contained in the merger agreement, which has not been cured within 20 business days after receiving written notice of the breach.

Superior proposal with respect to either Varco or National Oilwell, means any bona fide written proposal made by a third party to acquire substantially all the equity securities or assets of such person (including substantially all of the assets of such person's subsidiaries), pursuant to a tender or exchange offer, a merger, a consolidation, a liquidation or dissolution, a recapitalization, a sale of all or substantially all of its and its subsidiaries' assets or otherwise, on terms which the board of directors of such person determines in good faith by affirmative vote of a majority of all of its members, after consultation with such person's outside legal counsel and financial advisors and after taking into account all material legal, financial, strategic, regulatory and other aspects of such proposal and the party making such proposal, (i) to be more favorable from a financial point of view to the holders of such person's common stock than the merger agreement, taking into account all the terms and conditions of the merger agreement (including any proposal by the other party to the merger agreement to amend the terms of the merger) and (ii) is reasonably likely to be consummated.

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If the merger agreement is terminated by either National Oilwell or Varco as provided above, the merger agreement will become void and neither National Oilwell nor Varco will have any continuing liabilities or obligations under the merger agreement, except for:

any obligation to reimburse expenses or pay a termination fee under the circumstances described below;

any obligation to allow the other party access to information;

any restrictions on third party beneficiaries;

the provisions of the confidentiality agreement, which shall remain in full force and effect; and

liabilities for any knowing or willful misrepresentation in or breach of a representation, warranty, covenant or agreement contained in the merger agreement.

Obligation to Pay Expenses

The merger agreement provides that, except as set forth below, whether or not the merger is completed, each party will pay its own expenses, except that National Oilwell and Varco will each pay one-half of the expenses incurred in filing, printing and mailing this document or incurred in any other filings required to be made with a governmental entity in connection with the merger agreement.

National Oilwell has agreed to reimburse Varco for up to \$5 million in merger-related expenses incurred by Varco prior to the termination of the merger agreement where Varco terminates the merger agreement because National Oilwell has breached a representation, warranty, covenant or agreement contained in the merger agreement, which has not been cured within 20 business days after receiving written notice of the breach.

Varco has agreed to reimburse National Oilwell for up to \$5 million in merger-related expenses incurred by National Oilwell prior to termination of the merger agreement where National Oilwell terminates the merger agreement because Varco has breached a representation, warranty, covenant or agreement contained in the merger agreement, which has not been cured within 20 business days after receiving written notice of the breach.

These expense reimbursements must be made within one business day after the happening of the event giving rise to the payment obligation.

Termination Fee

National Oilwell and Varco may be required to pay a termination fee of \$75 million under the circumstances described below:

National Oilwell will pay Varco a termination fee of \$75 million if:

the merger agreement is terminated by Varco because National Oilwell's board of directors withdraws or adversely modifies its recommendation of the merger agreement;

the merger agreement is terminated by Varco because National Oilwell's board of directors recommends an acquisition transaction other than the merger;

the merger agreement is terminated by National Oilwell for a superior proposal as described under Termination of Merger Agreement; or

the merger agreement is terminated by Varco or National Oilwell because the National Oilwell stockholders did not adopt the merger agreement and, at any time after August 11, 2004 and before the vote at National Oilwell's stockholders meeting, an acquisition proposal has been publicly disclosed (or a third-party publicly announced an intention to make an acquisition proposal) and not publicly withdrawn and National Oilwell consummates a competing acquisition transaction within 12 months thereafter or enters into a definitive agreement with respect to a competing

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acquisition transaction within 12 months thereafter and such acquisition transaction is consummated (whether before or after such 12-month period).

Varco will pay National Oilwell a termination fee of \$75 million if:

the merger agreement is terminated by National Oilwell because Varco's board of directors withdraws or adversely modifies its recommendation of the merger agreement;

the merger agreement is terminated by National Oilwell because Varco's board of directors recommends an acquisition transaction other than the merger;

the merger agreement is terminated by Varco for a superior proposal as described under Termination of Merger Agreement; or

the merger agreement is terminated by Varco or National Oilwell because the Varco stockholders did not adopt the merger agreement and, at any time after August 11, 2004 and before the vote at Varco's stockholders meeting, an acquisition proposal has been publicly disclosed (or a third-party publicly announced an intention to make an acquisition proposal) and not publicly withdrawn and Varco consummates a competing acquisition transaction within 12 months thereafter or enters into a definitive agreement with respect to a competing acquisition transaction within 12 months thereafter and such acquisition transaction is consummated (whether before or after such 12-month period).

National Oilwell's or Varco's payment of the \$75 million termination fee is the sole and exclusive remedy of the other party with respect to the matters giving rise to the payment obligation. Notwithstanding the foregoing sentence, nothing shall relieve either National Oilwell or Varco from liability for any knowing or willful misrepresentation or inaccuracy in any of its representations or warranties contained in the merger agreement or any knowing or willful breach of any of its covenants or agreements contained in the merger agreement.

In addition, if a party fails to promptly pay the other party an amount due, such failing party shall pay the costs and expenses of such other party (including reasonable legal fees and expenses) in connection with any action, including the filing of any lawsuit or legal action, taken to collect payment, together with interest on the amount of the payment.

Amendment and Waiver

The merger agreement may be amended at any time by action taken by the boards of directors of National Oilwell and Varco, before or after stockholder adoption of the merger agreement. However, once the merger agreement is adopted by the stockholders, no change can be made where further stockholder approval is required by law. National Oilwell and Varco also may extend the time for performance of the obligations or other acts of the other, may waive inaccuracies in the representations or warranties contained in the merger agreement and may waive compliance with any agreements or conditions contained in the merger agreement.

Table of Contents**DIRECTORS AND EXECUTIVE OFFICERS OF THE COMBINED COMPANY****Directors**

National Oilwell's certificate of incorporation divides National Oilwell's board of directors into three classes. At each annual meeting, National Oilwell stockholders elect the members of one of the three classes to a three-year term. Immediately following the merger, the board of directors of the combined company will consist of the following ten members and each director's initial term will expire on the class expiration date identified opposite its name:

Name	Age	Class Expiration Date	Current Affiliation
John F. Lauletta	60	2005	Varco
Merrill A. Miller, Jr.	54	2006	National Oilwell
Greg L. Armstrong	46	2006	Varco
Robert E. Beauchamp	45	2005	National Oilwell
Ben A. Guill	54	2007	National Oilwell
David D. Harrison	57	2006	National Oilwell
Roger L. Jarvis	50	2007	National Oilwell
Eric L. Mattson	52	2007	Varco
Jeffery A. Smisek	50	2007	Varco
James D. Woods	73	2005	Varco

John F. Lauletta has served as Varco's Chief Executive Officer since January 1, 2003, Varco's Chairman of the Board since May 2003 and has served on Varco's board of directors since April 1996. From April 1996 until May 2003, Mr. Lauletta served as Varco's President. From May 2000 until January 2003, Mr. Lauletta was Varco's Chief Operating Officer, and from April 1996 until May 2000, he was Varco's Chief Executive Officer. From 1993 until April 1996, Mr. Lauletta was the President and Chief Executive Officer of D.O.S., Ltd., a provider of coiled tubing/wireline and solids control equipment and services to the oil and natural gas industry which Varco acquired in April 1996. From 1973 until 1993, Mr. Lauletta was with Baker Hughes Incorporated, a provider of products and services to the oil, gas and process industries, holding several executive positions. All references to Varco include references to its predecessor corporation Tuboscope Inc.

Merrill A. Miller, Jr. has been a Director of National Oilwell since May 2001 and Chairman of the Board since May 2002. He has served as National Oilwell's President and Chief Operating Officer since November 2000, as Chief Executive Officer since May 2001, and in various senior executive positions with National Oilwell since February 1996.

Greg L. Armstrong has been a Director of Varco since May 20, 2004. Since 1998, he has been the Chairman of the Board and Chief Executive Officer of Plains All American GP LLC, the general partner and controlling entity of Plains All American Pipeline, L.P., a publicly traded master limited partnership engaged in the business of marketing, gathering, transporting, terminating and storing crude oil. Mr. Armstrong served as the President, Chief Executive Officer and director of Plains Resources, Inc. from 1992 to May 2001. He previously served Plains Resources Inc. as: President and Chief Operating Officer from October to December 1992; Executive Vice President and Chief Financial Officer from June to October 1992; Senior Vice President and Chief Financial Officer from 1991 to 1992; Vice President and Chief Financial Officer from 1984 to 1991; Corporate Secretary from 1981 to 1988; and Treasurer from 1984 to 1987. Mr. Armstrong also serves as a director of the Independent Petroleum Association of America Southwest Texas Region and is a member of the National Petroleum Council.

Robert E. Beauchamp has been a Director of National Oilwell since August 2002. Since 1988, he has served in various capacities at BMC Software, Inc., a leading provider of enterprise management solutions, most recently as President and Chief Executive Officer and as a director. During his sixteen years with

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BMC, he also served as senior vice president of research & development, vice president of strategic marketing and corporate development, and director of strategic marketing.

Ben A. Guill has been a Director of National Oilwell since 1999. He is President of First Reserve Corporation, a corporate manager of private investments focusing on the energy and energy-related sectors, which he joined in September 1998. Prior to joining First Reserve, he was the Managing Director and Co-head of Investment Banking of Simmons & Company International, an investment-banking firm specializing in the oil service industry. Mr. Guill serves as a director of Dresser, Inc., a leader in the design, manufacture and marketing of highly engineered equipment and services for the energy industry, T-3 Energy Services, Inc., a consolidator of high-end equipment repair and specialty machining operations focused in the Gulf of Mexico, and Quanta Services, Inc., a leading provider of specialized contracting services for the electric power, telecommunications, broadband cable and gas pipeline industries.

David D. Harrison has been a Director of National Oilwell since August 2003. Since February 2000, he has served as Executive Vice President and Chief Financial Officer of Pentair, Inc., a diversified manufacturer in water technologies and enclosures businesses. From September 1999 through February 2000, Mr. Harrison was Executive Vice President and Chief Financial Officer of the Scotts Company, a lawn and garden products company. He was Executive Vice President and Chief Financial Officer and a Director of Coltec Industries, a company in the industrial and aerospace arena from 1996 to 1999. He also served as Executive Vice President and Chief Financial Officer of Pentair, Inc. from 1994 to 1996.

Roger L. Jarvis has been a Director of National Oilwell since February 2002. He has served as President, Chief Executive Officer and Director of Spinnaker Exploration Company, a natural gas and oil exploration and production company, since 1996 and as its Chairman of the Board since 1998. Mr. Jarvis also serves as a director of The Bill Barret Corporation, a private company engaged in the acquisition, exploitation and exploration of oil and gas properties in the Rocky Mountains.

Eric L. Mattson has been a Director of Varco (and its predecessor, Tuboscope Inc.) since January 1994. Since November 2003, Mr. Mattson has been Senior Vice President and Chief Financial Officer of VeriCenter, Inc., a private provider of managed hosting services. From November 2002 until October 2003, Mr. Mattson worked as an independent consultant. Mr. Mattson was the Chief Financial Officer of Netrail, Inc., a private Internet backbone and broadband service provider, from September 1999 until November 2002. Netrail filed for Chapter 11 Bankruptcy protection in the Northern Georgia district of the United States Bankruptcy Court in July 2001. In November 2002, the Bankruptcy Court approved Netrail's plan of liquidation and appointed a Trustee to effect the plan. At that time, Mr. Mattson ceased to be the Chief Financial Officer of Netrail. From July 1993 until May 1999, Mr. Mattson served as Senior Vice President and Chief Financial Officer of Baker Hughes Incorporated, a provider of products and services to the oil, gas and process industries. For more than five years prior to 1993, Mr. Mattson was Vice President and Treasurer of Baker Hughes.

Jeffery A. Smisek has been a Director of Varco (and its predecessor, Tuboscope Inc.) since February 1998. Since December 30, 2004, Mr. Smisek has served as President and a director of Continental Airlines, Inc. Mr. Smisek previously served Continental Airlines, Inc. as: Executive Vice President from March 2003 until December 2004; Executive Vice President - Corporate from May 2001 until March 2003; and Executive Vice President, General Counsel and Secretary from November 1996 to May 2001.

James D. Woods has been a Director of Varco since May 2000, and from 1988 until May 2000 he served as a director of a company acquired by Varco. Mr. Woods is the Chairman Emeritus and retired Chief Executive Officer of Baker Hughes Incorporated. Mr. Woods was Chief Executive Officer of Baker Hughes from April 1987, and Chairman from January 1989, in each case until January 1997. Mr. Woods is also a director of ESCO Technologies, an NYSE listed supplier of engineered filtration precuts to the process, healthcare and transportation markets; Foster Wheeler Ltd., an OTC traded holding company of various subsidiaries which provides a broad range of engineering, design, construction and environmental services; OMI Corporation, an NYSE listed bulk shipping company providing seaborne transportation services primarily of crude oil and refined petroleum products and USEC Inc., an NYSE listed supplier of enriched uranium.

Table of Contents**Executive Officers**

The following persons will be the executive officers of the combined company at the effective time of the merger.

Name	Age	Current Affiliation	Position
John F. Lauletta	60	Varco	Director and Chairman of the Board
Merrill A. Miller, Jr.			Director, President and Chief Executive Officer
Joseph C. Winkler	54	National Oilwell	Chief Operating Officer
Clay C. Williams	53	Varco	Vice President and Chief Financial Officer
	42	Varco	Officer

See Directors for information about Messrs. Lauletta and Miller.

Joseph C. Winkler has served as President of Varco since May 2003 and Chief Operating Officer since January 1, 2003. Mr. Winkler served as Varco's Executive Vice President from April 1996 until becoming President in May 2003 and as President, Varco Drilling Equipment Group from February 2002 until January 1, 2004. Mr. Winkler served as Varco's Chief Financial Officer from April 1996 until January 2003 and as Varco's Treasurer from April 1996 until May 2002. From 1993 to April 1996, Mr. Winkler served as the Chief Financial Officer of D.O.S., Ltd., a provider of solids control equipment and services to the oil and natural gas industry which Varco acquired in April 1996. Prior to joining D.O.S., Ltd., he was Chief Financial Officer of Baker Hughes INTEQ, an advanced drilling technology company, and served in a similar role for various companies owned by Baker Hughes Incorporated including Eastman/ Teleco and Milpark Drilling Fluids. All references to Varco include references to its predecessor corporation Tuboscope Inc.

Clay C. Williams has served as Varco's Vice President and Chief Financial Officer since January 1, 2003. From May 2002 until January 2003, Mr. Williams served as Varco's Vice President Finance and Corporate Development. From February 2001 until May 2002, and from February 1997 until February 2000, Mr. Williams served as Varco's Vice President Corporate Development. From May 1999 to February 2001, Mr. Williams served as Varco's Vice President of Pipeline Services, and from April 1996 to February 1997, he served as Varco's Director of Corporate Development. From March 1996 to April 1996, Mr. Williams was Director of Corporate Development of D.O.S., Ltd., a provider of solids control equipment and services to the oil and natural gas industry which Varco acquired in April 1996. Mr. Williams was an associate at SCF Partners, L.P. from January 1994 to March 1996. From July 1992 to December 1993, Mr. Williams was a graduate student at the University of Texas business school. Mr. Williams was an engineer for Shell Oil Company from 1985 to 1992. All references to Varco include references to its predecessor corporation Tuboscope Inc.

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**COMPARISON OF THE RIGHTS OF
NATIONAL OILWELL AND VARCO STOCKHOLDERS**

The rights of Varco stockholders are currently governed by Delaware law, Varco's certificate of incorporation, as amended, Varco's bylaws and Varco's stockholder rights plan. Upon completion of the merger, Varco stockholders will become National Oilwell stockholders and their rights as National Oilwell stockholders will be governed by Delaware law, National Oilwell's amended and restated certificate of incorporation, as amended and National Oilwell's bylaws.

The following describes the material differences between the rights of Varco stockholders and the rights of National Oilwell stockholders. It is not a complete summary of the provisions affecting, and the differences between, the rights of Varco stockholders and National Oilwell stockholders. The summary is qualified in its entirety by reference to the Delaware General Corporation Law; Varco's third amended and restated certificate of incorporation; Varco's third amended and restated bylaws; Varco's stockholder rights plan; National Oilwell's amended and restated certificate of incorporation; and National Oilwell's bylaws. In the Summary, we refer to National Oilwell's amended and restated certificate of incorporation as National Oilwell's amended and restated certificate of incorporation, and to Varco's third amended and restated certificate of incorporation as Varco's amended and restated certificate of incorporation.

Authorized Capital Stock

<i>National Oilwell</i>	Varco
<p>The authorized capital stock of National Oilwell consists of 150 million shares of common stock, par value \$0.01 per share, one share of special voting stock and 10 million shares of preferred stock, par value \$0.01 per share. The class of special voting stock will be eliminated if the amended and restated merger agreement is adopted by National Oilwell stockholders and the merger is completed.</p>	<p>The authorized capital stock of Varco consists of 200 million shares of common stock, par value \$0.01 per share, and 5 million shares of preferred stock, par value \$0.01 per share.</p>

Size of Board of Directors

<i>National Oilwell</i>	Varco
<p>National Oilwell's board of directors currently has nine members. National Oilwell's amended and restated certificate of incorporation provides that the minimum number of directors is three and that the actual number of directors may be fixed by a majority of the entire board of directors.</p>	<p>Varco's board of directors has nine members. Varco's amended and restated certificate of incorporation provides that the number of directors will not be less than one nor more than 15, and that the actual number of directors may be fixed exclusively by the board of directors.</p>

Cumulative Voting

<i>National Oilwell</i>	Varco
<p>National Oilwell's stockholders are not entitled to cumulative voting.</p>	<p>Varco's stockholders are not entitled to cumulative voting.</p>

Classes of Directors

<i>National Oilwell</i>	Varco

National Oilwell's amended and restated certificate of incorporation provides that its board of directors is divided into three classes of directors, of as equal size as practicable, with each class being elected to a staggered three-year term.

Varco's board of directors is not classified.

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Removal of Directors

<i>National Oilwell</i>	Varco
National Oilwell's amended and restated certificate of incorporation provides that a director of a Delaware corporation with a classified board may be removed only for cause and only by the holders of eighty percent (80%) of the shares entitled to vote.	Varco's amended and restated certificate of incorporation provides that a director may be removed only for cause and then only by an affirmative vote of the holders of two-thirds of the shares entitled to vote.

Vacancies on the Board of Directors

<i>National Oilwell</i>	Varco
Under Delaware law, unless the certificate of incorporation or bylaws provide otherwise, the board of directors of a corporation may fill any vacancy on the board, including vacancies resulting from an increase in the number of directors. National Oilwell's amended and restated certificate of incorporation provides that newly created directorships resulting from any increase in the authorized number of directors, or resulting from death, resignation, disqualification, removal or other cause, may be filled only by the affirmative vote of a majority of the remaining directors.	Varco's amended and restated certificate of incorporation provides that newly created directorships resulting from any increase in the authorized number of directors, or resulting from death, resignation, disqualification, removal or other cause, may only be filled by a majority vote of the remaining directors.

Action by Written Consent

<i>National Oilwell</i>	Varco
Under Delaware law, unless the certificate of incorporation provides otherwise, any stockholder action may be taken without a meeting if consent in writing, setting forth the action so taken, is signed by the holders of outstanding shares having not less than the minimum number of votes which would be necessary to authorize or take the action at a meeting at which all shares entitled to vote were present and voted. As permitted by Delaware law, National Oilwell's amended and restated certificate of incorporation provides that any action required or permitted to be taken by stockholders must be effected at a duly called annual or special meeting of stockholders. National Oilwell's amended and restated certificate of incorporation specifically prohibits stockholders from taking action by written consent.	As permitted by Delaware law, Varco's amended and restated certificate of incorporation provides that any action required or permitted to be taken by stockholders must be taken at an annual or special meeting of stockholders and may not be taken by written consent.

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Amendments to Certificate of Incorporation

<i>National Oilwell</i>	Varco
<p>Under Delaware law, a proposed amendment to the certificate of incorporation requires a resolution adopted by the board of directors and, unless otherwise provided in the certificate of incorporation, the affirmative vote of the holders of a majority of the outstanding stock entitled to vote thereon and (if applicable) the affirmative vote of the holders of a majority of the outstanding stock of each class entitled to vote thereon as a class. National Oilwell's amended and restated certificate of incorporation provides that the certificate of incorporation may be amended, changed or repealed in the manner prescribed by law, provided, that any amendment related to the provisions affecting directors requires approval of eighty percent (80%) of the combined voting power of the outstanding shares of voting stock, voting together as a single class, and that any amendment related to the provisions affecting capital stock requires approval of the holders of a majority of the then outstanding common shares voting as a single class.</p>	<p>Most of the provisions of Varco's amended and restated certificate of incorporation may be amended by the holders of a majority of the outstanding Varco common stock as provided under Delaware law, since a greater vote is not required by Varco's amended and restated certificate of incorporation. However, as permitted by Delaware law, the approval of two-thirds of the outstanding shares of Varco common stock is required to amend those provisions of Varco's amended and restated certificate of incorporation that:</p> <ul style="list-style-type: none"> authorize the directors to determine that a person may not serve as a director of Varco if the director holds a position with another company which the directors determine to be a competitor; set the authorized number of directors; give Varco stockholders the authority to remove a director at any time for cause by a vote of the holders of at least two-thirds of the outstanding Varco common stock; and deny the right of Varco stockholders to act by written consent.

Amendments to Bylaws

<i>National Oilwell</i>	Varco
<p>As permitted by Delaware law, National Oilwell's amended and restated certificate of incorporation provides that any alteration, amendment or repeal of National Oilwell's bylaws may be adopted either by the affirmative vote of at least a majority of its board of directors or by the stockholders by the affirmative vote of at least a majority of the combined voting power of the outstanding shares of voting stock, voting together as a single class.</p>	<p>As permitted by Delaware law, Varco's amended and restated certificate of incorporation and bylaws provide that Varco's bylaws may be altered, amended or repealed and new bylaws may be adopted by the board of directors or by the holders of at least a majority of the outstanding shares of capital stock of Varco entitled to vote thereon, voting together as a single class.</p>

Special Meeting of Stockholders

<i>National Oilwell</i>	Varco
<p>As permitted by Delaware law, National Oilwell's amended and restated certificate of incorporation and bylaws provide that special meetings of the stockholders may be called by:</p> <ul style="list-style-type: none"> the chairman of the board of directors; the president; or the board of directors pursuant to a resolution approved by a majority of the members of the board then in office. 	<p>As permitted by Delaware law, Varco's bylaws provide that special meetings of the stockholders may be called by the President or must be called by the President and Secretary if:</p> <ul style="list-style-type: none"> a majority of the board of directors requests in writing a meeting; or stockholders owning a majority of the outstanding capital stock entitled to vote request in writing a meeting.

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Vote on Extraordinary Corporate Transactions

<i>National Oilwell</i>	Varco
Under Delaware law, a sale or other disposition of all or substantially all of a corporation's assets, a merger or consolidation of a corporation with another corporation or a dissolution of a corporation requires the affirmative vote of the corporation's board of directors (except in limited circumstances) plus, with limited exceptions, the affirmative vote of a majority of the outstanding stock entitled to vote on the transaction.	Varco stockholders are subject to the same Delaware law provision.

Inspection of Documents

<i>National Oilwell</i>	Varco
Delaware law allows any stockholder the right to inspect for any proper purpose the corporation's stock ledger, a list of its stockholders and its other books and records, and to make copies or extracts from those documents. A proper purpose means a purpose reasonably related to the person's interest as a stockholder.	Varco stockholders are subject to the same Delaware law provisions.

State Anti-Takeover Statutes

<i>National Oilwell</i>	Varco
<p>Delaware law generally prohibits public corporations from engaging in significant business transactions, including mergers, with a holder of 15% or more of the corporation's stock for a period of three years after the holder exceeds that ownership level, unless:</p> <ul style="list-style-type: none"> the board approves either the transaction in question or the acquisition of shares by the interested stockholder prior to the time the stockholder becomes an interested stockholder based on its direct or indirect ownership of 15% of the corporation's stock; when the interested stockholder exceeds the 15% threshold, it acquires at least 85% of the outstanding shares not held by certain affiliates, such as pursuant to a tender offer; or the transaction is approved by the board of directors and the holders of at least two-thirds of the corporation's shares entitled to vote thereon, excluding the shares held by the interested stockholder, at a meeting of stockholders. Delaware law permits this vote to occur at or after the interested stockholder's share acquisition date. 	Varco stockholders are subject to the same Delaware law provisions.

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Stockholder Rights Plan

<i>National Oilwell</i>	Varco
<p>National Oilwell does not have a stockholder rights plan.</p>	<p>Under Varco's stockholder rights plan, each share of Varco common stock has attached to it one preferred stock purchase right. Further, upon the occurrence of one of the following events, each right will entitle the holder to purchase, at \$75, additional shares of Varco common stock in lieu of preferred shares:</p> <p style="padding-left: 40px;">ten days after a public announcement that a person or group has acquired or obtained the right to acquire beneficial ownership of 15% or more of the outstanding shares of Varco common stock; or</p> <p style="padding-left: 40px;">ten business days, or such later date as may be determined by Varco's board of directors, following the commencement of, or the announcement of an intention to make, a tender offer or exchange offer that would result in a person or group beneficially owning 15% or more of the outstanding shares of Varco common stock.</p> <p>The rights have some anti-takeover effects. Because a person or group acquiring Varco common stock in a manner that causes the rights to become exercisable is not entitled to exercise the rights that relate to its shares, such person or group's ownership of Varco common stock would be severely diluted if the other stockholders exercise their rights. All, but not less than all, of the rights may be redeemed by Varco's board of directors for \$0.01 per right. The terms of the rights plan may be supplemented or amended by Varco without the approval of any holders of Varco common stock or the rights. Varco amended the rights plan on August 11, 2004 to exempt National Oilwell from the application of the rights plan in connection with the transactions contemplated by the merger agreement.</p>

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Special Voting Stock

<i>National Oilwell</i>	Varco
<p>National Oilwell's amended and restated certificate of incorporation provides for one share of special voting stock (the "Voting Share") that possesses a number of votes equal to the number of outstanding exchangeable shares from time to time not owned by National Oilwell or any entity controlled by National Oilwell for the election of directors and on all other matters submitted to a vote of stockholders of National Oilwell. The holders of National Oilwell common stock and the holder of the Voting Share will vote together as a single class on all matters. In the event of certain liquidation events in respect of National Oilwell, all outstanding exchangeable shares will automatically be exchanged for shares of National Oilwell common stock, and the holder of the Voting Share will not be entitled to receive any assets of National Oilwell available for distribution to its stockholders. The holder of the Voting Share will not be entitled to receive dividends. In 2002, all outstanding exchangeable shares were redeemed and the Voting Share was canceled. The class of special voting stock will be eliminated if the merger agreement is adopted by National Oilwell stockholders and the merger is completed.</p>	<p>Varco does not have special voting stock.</p>

Table of Contents**UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL STATEMENTS**

The unaudited pro forma condensed combined financial statements have been prepared assuming the merger of National Oilwell and Varco is accounted for as a purchase under U.S. generally accepted accounting principles, and are based on the historical consolidated financial statements of each company which include, in the opinion of management of both companies, all adjustments necessary to present fairly the results as of and for such periods. However, the unaudited pro forma condensed combined financial statements do not give consideration to the impact, if any, of asset dispositions or cost savings that may result from the merger. The following unaudited pro forma condensed combined balance sheet at September 30, 2004, and unaudited pro forma condensed combined statements of operations for the nine months ended September 30, 2004 and the year ended December 31, 2003 should be read in conjunction with the historical financial statements of National Oilwell and Varco and the related notes which are incorporated by reference into this document. The unaudited pro forma condensed combined financial statements were prepared as if the merger occurred as of or at the beginning of each period presented. There are no significant adjustments required to the historical financial data to conform the accounting policies of the two companies.

The unaudited pro forma condensed combined financial statements are presented for informational purposes only and are not necessarily indicative of results of operations or financial position that would have occurred had the transaction been consummated at the beginning of the period presented, nor are they necessarily indicative of future results.

NATIONAL-OILWELL, INC. AND VARCO INTERNATIONAL, INC.**UNAUDITED PRO FORMA CONDENSED COMBINED BALANCE SHEET**

	September 30, 2004			
	Historical			
	National- Oilwell	Varco	Adjustments	Pro Forma Combined
	(In millions)			
Assets				
Current assets:				
Cash and cash equivalents	\$ 73.4	\$ 111.9	\$ (30.0)(A)	\$ 155.3
Receivables, net	459.4	365.2		824.6
Inventories, net	747.7	327.2		1,074.9
Prepaid and other current assets	35.0	49.0		84.0
	<u>1,315.5</u>	<u>853.3</u>	<u>(30.0)</u>	<u>2,138.8</u>
Total current assets	1,315.5	853.3	(30.0)	2,138.8
Property, plant and equipment, net	242.6	483.4	153.4 (B)	879.4
			30.0 (A)	
Goodwill	618.3	459.2	1,089.5 (B)	2,197.0
Intangibles, net	77.2	38.4	391.4 (B)	507.0
Other assets	94.3	12.3		106.6
	<u>\$2,347.9</u>	<u>\$1,846.6</u>	<u>\$1,634.3</u>	<u>\$5,828.8</u>
Liabilities and Stockholders Equity				
Current liabilities:				
Current portion of long-term debt	\$ 175.0	\$ 3.9	\$	\$ 178.9
Accounts payable	237.2	81.7		318.9
Other accrued liabilities	238.7	153.7		392.4
	<u>650.9</u>	<u>239.3</u>	<u>185.2 (B)</u>	<u>890.2</u>
Total current liabilities	650.9	239.3	185.2 (B)	890.2
Long-term debt	350.0	459.8		809.8
Deferred income taxes and other	148.9	78.2		412.3

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Total liabilities	<u>1,149.8</u>	<u>777.3</u>	<u>185.2</u>	<u>2,112.3</u>
Commitments and contingencies				
Minority interest	16.9			16.9
Stockholders' equity:				
Common stock	0.9	1.0	(0.2)(B)	1.7
Additional paid-in capital	690.7	562.2	1,955.4 (B)	3,208.3
Accumulated other comprehensive loss	(29.5)	(5.4)	5.4 (B)	(29.5)
Retained earnings	519.1	557.8	(557.8)	519.1
Treasury stock		(46.3)	46.3	
	<u>1,181.2</u>	<u>1,069.3</u>	<u>1,449.1</u>	<u>3,699.6</u>
	<u>\$2,347.9</u>	<u>\$1,846.6</u>	<u>\$1,634.3</u>	<u>\$5,828.8</u>

The accompanying notes are an integral part of these statements.

Table of Contents**NATIONAL-OILWELL, INC. AND VARCO INTERNATIONAL, INC.****UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF OPERATIONS**

Nine Months Ended September 30, 2004

	Historical			Pro Forma Combined
	National-Oilwell	Varco	Adjustments	
	(In millions, except per share data)			
Revenues	\$ 1,648.7	\$ 1,125.6	\$(10.6)(D)	\$ 2,763.7
Cost of products and services sold	1,295.6	828.5	7.7 (C)	2,121.2
Gross profit	353.1	297.1	(7.7)	642.5
Selling, general, and administrative	239.9	161.3		401.2
Operating income	113.2	135.8	(7.7)	241.3
Interest and financial costs	(26.3)	(22.9)		(49.2)
Other income (expense), net	(1.5)	(3.1)		(4.6)
Income from continuing operations before income taxes and minority interest	85.4	109.8	(7.7)	187.5
Provision for income taxes	24.1	36.9	(2.6)(C)	58.4
Income from continuing operations before minority interest	61.3	72.9	(5.1)	129.1
Minority interest in income of consolidated subsidiaries	(1.1)			(1.1)
Net income from continuing operations	\$ 60.2	\$ 72.9	\$ (5.1)	\$ 128.0
Net income from continuing operations per share:				
Basic	\$ 0.70	\$ 0.75		\$ 0.76
Diluted	\$ 0.70	\$ 0.74		\$ 0.76
Weighted average shares outstanding:				
Basic	85.7	97.2	(97.2)(B)	167.5
Diluted	86.3	98.2	1.2 (E) (98.2)(B)	169.3

The accompanying notes are an integral part of these statements.

Table of Contents**NATIONAL-OILWELL, INC. AND VARCO INTERNATIONAL, INC.****UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF OPERATIONS**

	Year Ended December 31, 2003			
	Historical			
	National Oilwell	Varco	Adjustments	Pro Forma Combined
	(In millions, except per share data)			
Revenues	\$2,004.9	\$ 1,437.6	\$(16.1)(D)	\$3,426.4
Cost of products and services sold	1,540.7	1,032.6	10.2 (C)	2,567.4
Gross profit	464.2	405.0	(10.2)	859.0
Selling, general, and administrative	305.2	239.0		544.2
Operating income	159.0	166.0	(10.2)	314.8
Interest and financial costs	(36.6)	(30.2)		(66.8)
Other income (expense), net	(5.7)	(2.2)		(7.9)
Income from continuing operations before income taxes and minority interest	116.7	133.6	(10.2)	240.1
Provision for income taxes	33.7	44.8	(3.5)(C)	75.0
Income from continuing interests before minority interest	83.0	88.8	(6.7)	165.1
Minority interest in income of consolidated subsidiaries	(6.2)			(6.2)
Net income from continuing operations	\$ 76.8	\$ 88.8	\$ (6.7)	\$ 158.9
Net income from continuing operations per share:				
Basic	\$ 0.91	\$ 0.91		\$ 0.96
Diluted	\$ 0.90	\$ 0.90		\$ 0.95
Weighted average shares outstanding:				
Basic	84.5	97.3	(97.3)(B)	166.3
Diluted	85.0	98.2	1.2 (E) (98.2)(B)	168.0

The accompanying notes are an integral part of these statements.

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**NOTES TO UNAUDITED PRO FORMA
CONDENSED COMBINED FINANCIAL STATEMENTS**

- (A) To record the estimated initial transaction costs of \$30.0 million, representing one-time professional and advisory fees. The one-time costs are not reflected in the Unaudited Pro Forma Condensed Combined Statements of Operations since the charges are non recurring in nature.
- (B) To record the issuance of 81,773,619 shares of National Oilwell common stock, at an assumed market price of \$29.99 to acquire all of the 97,780,245 outstanding shares at September 30, 2004 of Varco at the agreed exchange ratio of 0.8363 per share and the issuance of 5,199,392 options to purchase National Oilwell common stock at an average price of 20.64 per share, in exchange for all of the 6,217,137 options to purchase Varco common stock at an average price of \$17.26 per share. Based on preliminary estimates, the transaction is assumed to result in the write up of Varco's fixed assets by \$153.4 million, the identification of additional Varco amortizable intangibles of \$391.4 million and related tax effects. The excess of purchase price over the net assets acquired is included in goodwill.
- (C) To record the increased depreciation and amortization expense associated with the write up of fixed assets and identification of intangibles noted at (A) above, with a tax benefit calculated at 34%.
- (D) To eliminate revenues and cost of revenues associated with sales between National Oilwell and Varco.
- (E) Under the merger agreement, the outstanding Varco stock options will convert to National Oilwell stock options at the exchange rate of 0.8363 with a corresponding adjustment in exercise price, resulting in additional dilution of 1.2 million shares of National Oilwell.

Note: The pro forma results of operations do not include any anticipated combination benefits from the elimination of manufacturing, engineering, sales and administrative costs that management believes will be specifically identified during the integration planning process or after closing of the transaction. Management currently estimates that it will achieve annual pre-tax savings of \$40-50 million on a run-rate basis by the end of 2005. Assuming cost savings of this magnitude are identified, additional one time combination costs required to implement the savings will be incurred, and are expected to approximate \$30.0 million and, if related to the operations of Varco, result in an increase to goodwill and debt if reflected in the Unaudited Pro Forma Condensed Combined Balance Sheet. If such costs relate to the operations of National Oilwell, the amounts will be reflected as a charge to operating income.

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DESCRIPTION OF NATIONAL OILWELL CAPITAL STOCK

The capital stock of National Oilwell is as summarized below. Such summary is qualified in its entirety by reference to the National Oilwell amended and restated certificate of incorporation in existence prior to the adoption of the merger agreement.

The National Oilwell amended and restated certificate of incorporation currently authorizes 150,000,000 shares of National Oilwell common stock, one share of special voting stock and 10,000,000 shares of National Oilwell preferred stock. If the merger agreement is adopted by National Oilwell stockholders, then the National Oilwell amended and restated certificate of incorporation will be amended to authorize 500,000,000 shares of National Oilwell common stock and 10,000,000 shares of National Oilwell preferred stock.

Common Stock

There were 86,023,561 shares of National Oilwell common stock outstanding as of February 3, 2005. The holders of National Oilwell common stock are entitled to one vote per share on all matters voted on by the stockholders, including the election of directors. Holders of National Oilwell common stock are not entitled to cumulate their votes in elections of directors. Common stockholders have no preemptive rights or other rights to subscribe for additional shares. Holders of National Oilwell common stock have an equal and ratable right to receive dividends when, as and if declared by the board of directors out of funds legally available therefor subject only to any payment requirements or other restrictions imposed by any series of preferred stock that may be issued in the future. The transfer agent and registrar for the National Oilwell common stock is American Stock Transfer and Trust Company.

Special Voting Stock

The board of directors of National Oilwell, without any action by the National Oilwell stockholders, is authorized to issue a single share of National Oilwell special voting stock. Except as otherwise required by law or the National Oilwell amended and restated certificate of incorporation, the voting share will possess a number of votes equal to the number of outstanding exchangeable shares from time to time not owned by National Oilwell or any entity controlled by National Oilwell for the election of directors and on all other matters submitted to a vote of stockholders of National Oilwell. The holders of National Oilwell common stock and the holder of the voting share will vote together as a single class on all matters. In the event of a National Oilwell liquidation event, all outstanding exchangeable shares will automatically be exchanged for shares of National Oilwell common stock, and the holder of the voting share will not be entitled to receive any assets of National Oilwell available for distribution to its stockholders. The holder of the voting share will not be entitled to receive dividends. There are no shares of National Oilwell special voting stock outstanding. The class of special voting stock will be eliminated if the merger agreement is adopted by National Oilwell stockholders and the merger is completed.

Preferred Stock

The board of directors of National Oilwell, without any action by the National Oilwell stockholders, is authorized to issue up to 10,000,000 shares of preferred stock, in one or more series and to determine the voting rights (including the right to vote as a series on particular matters), preferences as to dividends and in liquidation and the conversion and other rights of each such series. There are no shares of preferred stock outstanding.

Certain Anti-Takeover and Other Provisions

The National Oilwell amended and restated certificate of incorporation and the bylaws of National Oilwell contain provisions that could have an anti-takeover effect. These provisions are intended to enhance the likelihood of continuity and stability in the composition of the board of directors of National Oilwell and in the policies formulated by the board of directors and to discourage certain types of transactions which may involve an actual or threatened change of control of National Oilwell. The

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provisions are designed to reduce the vulnerability of National Oilwell to an unsolicited proposal for a takeover of National Oilwell that does not contemplate the acquisition of all of its outstanding shares or an unsolicited proposal for the restructuring or sale of all or part of National Oilwell. The provisions are also intended to discourage certain tactics that may be used in proxy fights. The board of directors believes that, as a general rule, such takeover proposals would not be in the best interest of National Oilwell and its stockholders. Set forth below is a description of such provisions in the amended and restated certificate of incorporation and the bylaws. The description of such provisions set forth below discloses, in the opinion of National Oilwell's management, all material elements of such provisions, is intended only as a summary and is qualified in its entirety by reference to the pertinent sections of the amended and restated certificate of incorporation and the bylaws. The board of directors has no current plans to formulate or effect additional measures that could have an anti-takeover effect.

Classified Board of Directors. The classification of directors has the effect of making it more difficult for stockholders to change the composition of the board of directors. At least two annual meetings of stockholders generally will be required to effect a change in a majority of the board of directors. Such a delay may help ensure that National Oilwell's directors, if confronted by a stockholder attempting to force a proxy contest, a tender or exchange offer or an extraordinary corporate transaction, would have sufficient time to review the proposal as well as any available alternatives to the proposal and to act in what they believe to be the best interests of the stockholders. The classification provisions will apply to every election of directors, however, regardless of whether a change in the composition of the board of directors would be beneficial to National Oilwell and its stockholders and whether a majority of National Oilwell stockholders believes that such a change would be desirable. Pursuant to the amended and restated certificate of incorporation, the provisions relating to the classification of directors may only be amended by the affirmative vote of eighty percent of the then outstanding shares of capital stock entitled to vote thereon.

Removal of Directors Only for Cause. Pursuant to the amended and restated certificate of incorporation, directors can be removed from office only for cause and only by the affirmative vote of eighty percent of the then outstanding shares of capital stock entitled to vote thereon, other than at the expiration of their term of office. Vacancies on the board of directors may be filled only by the remaining directors and not by the stockholders.

Number of Directors. The amended and restated certificate of incorporation provides that the entire board of directors will consist of not less than three members, the exact number to be set from time to time by resolution of the board of directors. Accordingly, the board of directors, and not the stockholders, has the authority to determine the number of directors and could delay any stockholder from obtaining majority representation on the board of directors by enlarging the board of directors and filling the new vacancies with its own nominees until the next stockholder election.

No Written Consent of Stockholders. The amended and restated certificate of incorporation also provides that any action required or permitted to be taken by the stockholders of National Oilwell must be taken at a duly called annual or special meeting of stockholders and may not be taken by written consent. In addition, special meetings may only be called by (i) the Chairman of the Board, (ii) the President or (iii) the board of directors pursuant to a resolution adopted by a majority of the then-authorized number of directors.

Certificate of Incorporation and Bylaws. The amended and restated certificate of incorporation provides that the board of directors, by a majority vote, may adopt, alter, amend or repeal provisions of the Bylaws.

Business Combinations under Delaware Law. National Oilwell is subject to Section 203 of the DGCL, which prohibits certain transactions between a Delaware corporation and an interested stockholder, which is defined as a person who, together with any affiliates and/or associates of such person, beneficially owns, directly or indirectly, 15% or more of the outstanding voting shares of a Delaware corporation. This provision prohibits certain business combinations (defined broadly to include mergers, consolidations, sales or other dispositions of assets having an aggregate value in excess of 10% of the consolidated assets of the corporation, and certain transactions that would increase the interested stockholder's proportionate share

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ownership in the corporation) between an interested stockholder and a corporation for a period of three years after the date the interested stockholder acquired its stock, unless (i) the business combination or the transaction which resulted in the stockholder becoming an interested stockholder is approved by the corporation's board of directors prior to the date the interested stockholder acquired shares, (ii) the interested stockholder acquired at least 85% of the voting stock of the corporation in the transaction in which it became an interested stockholder or (iii) the business combination is approved by a majority of the board of directors and by the affirmative vote of two-thirds of the votes entitled to be cast by disinterested stockholders at an annual or special meeting.

Preferred Stock. The amended and restated certificate of incorporation authorizes the board of directors of National Oilwell, without any action by the stockholders of National Oilwell, to issue up to 10,000,000 shares of preferred stock, in one or more series and to determine the voting rights (including the right to vote as a series on particular matters), preferences as to dividends and in liquidation and the conversion and other rights of each such series. Because the terms of the preferred stock may be fixed by the board of directors of National Oilwell without stockholder action, the preferred stock could be issued quickly with terms designed to make more difficult a proposed takeover of National Oilwell or the removal of its management, thus affecting the market price of the National Oilwell common stock and preventing stockholders from obtaining any premium offered by the potential buyer. The board of directors will make any determination to issue such shares based on its judgment as to the best interests of National Oilwell and its stockholders.

Liability of Officers and Directors Indemnification

Delaware law authorizes corporations to limit or eliminate the personal liability of officers and directors to corporations and their stockholders for monetary damages for breach of officers' and directors' fiduciary duty of care. The duty of care requires that, when acting on behalf of the corporation, officers and directors must exercise an informed business judgment based on all material information reasonably available to them. Absent the limitations authorized by Delaware law, officers and directors are accountable to corporations and their stockholders for monetary damages for conduct constituting gross negligence in the exercise of their duty of care. Delaware law enables corporations to limit available relief to equitable remedies such as injunction or rescission. The amended and restated certificate of incorporation limits the liability of officers and directors of National Oilwell to National Oilwell or its stockholders to the fullest extent permitted by Delaware law. Specifically, officers and directors of National Oilwell will not be personally liable for monetary damages for breach of an officer's or director's fiduciary duty in such capacity, except for liability (i) for any breach of the officers' or directors' duty of loyalty to National Oilwell or its stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) for unlawful payments of dividends or unlawful stock repurchases or redemptions as provided in Section 174 of the DGCL or (iv) for any transaction from which the officer or director derived an improper personal benefit. The inclusion of this provision in the amended and restated certificate of incorporation may have the effect of reducing the likelihood of derivative litigation against officers and directors, and may discourage or deter stockholders or management from bringing a lawsuit against officers and directors for breach of their duty of care, even though such an action, if successful, might otherwise have benefited National Oilwell and its stockholders. Both National Oilwell's amended and restated certificate of incorporation and bylaws provide indemnification to National Oilwell's officers and directors and certain other persons with respect to certain matters to the maximum extent allowed by Delaware law as it exists now or may hereafter be amended. These provisions do not alter the liability of officers and directors under the U.S. federal securities laws and do not affect the right to sue (nor to recover monetary damages) under federal securities laws for violations thereof.

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APPROVAL OF NATIONAL OILWELL VARCO LONG-TERM INCENTIVE PLAN

At the National Oilwell special meeting, the stockholders will be asked to approve the National Oilwell Varco Long-Term Incentive Plan, or the Long-Term Incentive Plan. The Long-Term Incentive Plan is a broad-based incentive plan that provides for granting incentive stock options, stock options that do not constitute incentive stock options, stock appreciation rights, restricted stock awards, performance awards, stock payments and phantom stock awards to employees, consultants and non-employee directors.

The National Oilwell board of directors unanimously adopted the Long-Term Incentive Plan on September 13, 2004, subject to stockholder approval at the National Oilwell special meeting and the completion of the merger. The affirmative vote of at least a majority of the votes cast at the special meeting is required to approve the Long-Term Incentive Plan, provided that the total votes cast represent over 50% of the outstanding National Oilwell shares entitled to vote on the proposal. If the Long-Term Incentive Plan is not approved by the stockholders of National Oilwell at the special meeting or the merger is not completed, then the Long-Term Incentive Plan will not be effective.

In 1996, National Oilwell stockholders approved the Stock Award and Long-Term Incentive Plan, which currently reserves a total of 8.4 million shares of common stock for the grant of options to officers, key employees, non-employee directors and other persons. As of February 3, 2005, approximately 2.4 million shares were available for future grants and National Oilwell intends to award approximately 1.2 million options to its employees prior to closing the merger. This grant amount is consistent with the company's prior annual grants. National Oilwell will not grant any new awards under the Stock Award and Long-Term Incentive Plan following the completion of the merger provided the Long-Term Incentive Plan is effective. In addition, upon completion of the merger, the combined company will not grant any new awards under Varco's existing equity participation plan, which as of February 3, 2005 had approximately 2.6 million shares available for future grants.

Below is a summary of the terms of the Long-Term Incentive Plan that is qualified in its entirety by reference to the full text of the Long-Term Incentive Plan which is attached to this document as Annex D.

National Oilwell's board of directors recommends National Oilwell stockholders vote FOR the approval of the National Oilwell Varco Long-Term Incentive Plan.

Purpose and Key Features of the Plan

The Long-Term Incentive Plan is designed to enable National Oilwell Varco and its affiliates to provide a means to attract able directors, employees and consultants and to provide a means whereby those individuals upon whom the responsibilities of the successful administration and management of National Oilwell Varco and its affiliates rest, and whose present and potential contributions to National Oilwell Varco and its affiliates are of importance, can acquire and maintain stock ownership, thereby strengthening their concern for the welfare of National Oilwell Varco and its affiliates. A further purpose of the Long-Term Incentive Plan is to provide such individuals with additional incentive and reward opportunities designed to enhance the profitable growth of National Oilwell Varco and its affiliates.

The number of shares and type of awards issuable under the Long-Term Incentive Plan has been based, in part, on the expected needs of the combined company in the future, the historical grant practices of both companies and the competitive practices of companies in the oilfield services industries and companies of comparable size to the combined company. The Long-Term Incentive Plan provides for the following awards (the Awards):

discretionary grants to employees of National Oilwell Varco and its subsidiary corporations of stock options that constitute incentive stock options (Incentive Stock Options) as defined in Section 422 of the Internal Revenue Code; and

discretionary grants to employees, consultants and directors of National Oilwell Varco and its affiliates of (a) stock options that do not constitute Incentive Stock Options (Non-statutory Stock

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Options), (b) shares of common stock that are subject to restrictions on disposition and forfeiture to National Oilwell Varco under certain circumstances (Restricted Stock), (c) payments in cash and/or shares of common stock that may be earned based on the satisfaction of various performance measures (Performance Awards), (d) phantom or notional shares of common stock which vest over a period of time or based on specified criteria and may be paid in cash and/or shares of common stock (Phantom Shares), (e) stock appreciation rights that may be paid in cash and/or shares of common stock (SARs) and (f) stock payments that may be made as part of any bonus, deferred compensation or other arrangement (Stock Payment).

Number of Shares Subject to the Long-Term Incentive Plan and Award Limits

The aggregate maximum number of shares of National Oilwell Varco common stock that may be issued under the Long-Term Incentive Plan will be 7.5 million shares. No participant may receive Awards with respect to more than 500,000 shares in any calendar year; provided, however, that commencing January 1, 2005, to the extent the 500,000 share limit is not awarded to any participant with respect to any calendar year, the amount not so awarded but permitted for such participant shall be available for award to such participant during any subsequent calendar year. The limitation described in the preceding sentence may be adjusted upon a reorganization, stock split, recapitalization or other change in National Oilwell Varco's capital structure. The maximum amount of Awards denominated in cash that may be granted to any participant during any calendar year may not exceed \$2,000,000.

The shares of common stock covered by the Long-Term Incentive Plan may be treasury shares or authorized but unissued shares. To the extent that an award terminates, expires, lapses, is settled in cash or repurchased for any reason, any shares subject to the Award may be used again for new grants under the Long-Term Incentive Plan. In addition, shares tendered or withheld to satisfy the grant or exercise price or tax withholding obligation may be used for grants under the Long-Term Incentive Plan.

Administration

Generally, the Long-Term Incentive Plan will be administered by the Compensation Committee, or the Committee, of the board of National Oilwell Varco, which is intended to be comprised solely of two or more non-employee directors (within the meaning of Rule 16b-3) who also qualify as outside directors (within the meaning assigned to such term under Section 162(m) of the Internal Revenue Code). The board of directors will administer the Long-Term Incentive Plan as to Awards to members of the board. In addition, the Committee has the authority to delegate to one or more members of the board or one or more officers the power to administer the plan as to employees, other than persons subject to Section 16 of the Exchange Act or Section 162(m) of the Internal Revenue Code. The term Committee as used herein shall refer to the Compensation Committee, the board, or the subcommittee of the board, as applicable.

The Committee will have full authority, subject to the terms of the Long-Term Incentive Plan, to establish rules and regulations for the proper administration of the Long-Term Incentive Plan, to select the employees, consultants and directors to whom Awards are granted, and to set the date of grant, the type of Award that shall be made and the other terms of the Awards. When granting Awards, the Committee will consider such factors as an individual's duties and present and potential contributions to National Oilwell Varco's success. At any time after grant of an Award, the Committee may, in its sole and absolute discretion and subject to whatever terms and conditions it selects (i) accelerate the period during which the Award vests or becomes exercisable or payable, (ii) accelerate the time when applicable restrictions or risk of forfeiture or repurchase lapses, (iii) extend the period during which the Award may be exercised or paid and (iv) extend the term of any Award (other than the maximum ten year term), subject in each case to any applicable restrictions imposed by Section 162(m) of the Internal Revenue Code.

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Eligibility

All employees, consultants and directors of National Oilwell Varco and its affiliates are eligible to participate in the Long-Term Incentive Plan. The selection of those employees, consultants and directors, from among those eligible, who will receive Awards is within the discretion of the Committee.

Term of Long-Term Incentive Plan

Provided the Long-Term Incentive Plan is approved by National Oilwell's stockholders at the National Oilwell special meeting and the merger is completed, the Long-Term Incentive Plan will be effective as of September 13, 2004 and conditioned upon approval of the merger between National Oilwell and Varco. No further Awards may be granted under the Long-Term Incentive Plan after September 13, 2014, and the Long-Term Incentive Plan will terminate thereafter once all Awards have been satisfied, exercised or expire. The board of directors or Committee in its discretion may terminate the Long-Term Incentive Plan at any time with respect to any shares of common stock for which awards have not theretofore been granted.

Award Agreement

All Awards will be evidenced by a written contract containing provisions consistent with the Long-Term Incentive Plan and such other provisions as the Committee deems appropriate. The Committee may establish other terms and conditions for the issuance of Awards under the Long-Term Incentive Plan as are not inconsistent with the terms of the Long-Term Incentive Plan.

Stock Options

Term and Exercisability of Option

The term of each option will be as specified by the Committee at the date of grant (but not more than ten years). The effect of the termination of an optionee's employment, consulting relationship, or membership on the board will be specified in the Award agreement that evidences each option grant. The Committee shall also determine the performance or other conditions, if any, that must be satisfied before all or part of an Option may vest and be exercised. The period during which an option is exercisable shall be set forth in the Award Agreement. No portion of an option which is unexercisable at termination of the participant's employment or service, as applicable, shall thereafter become exercisable, except as may be otherwise provided by the Committee either in the Award agreement or by action following the grant of the option.

Option Price

The option price will be determined by the Committee and will be no less than the fair market value of the shares on the date that the option is granted, except for adjustments for certain changes in the National Oilwell Varco common stock. As of February 3, 2005, the closing price of National Oilwell common stock as reported on the NYSE was \$38.49.

Special Rules for Certain Stockholders

If an Incentive Stock Option is granted to an employee who then owns, directly or by attribution under the Internal Revenue Code, stock possessing more than 10% of the total combined voting power of all classes of stock of National Oilwell Varco or a subsidiary, then the term of the option will not exceed five years, and the option price will be at least 110% of the fair market value of the shares on the date that the option is granted.

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Size of Grant

Subject to the limitations described above under the section Number of Shares Subject to the Long-Term Incentive Plan and Award Limits, the number of shares for which an option is granted to an employee, consultant or director will be determined by the Committee.

Status of Options

The status of each option granted to an employee as either an Incentive Stock Option or a Non-statutory Stock Option will be designated by the Committee at the time of grant. If, however, the aggregate fair market value (determined as of the date of grant) of shares with respect to which Incentive Stock Options become exercisable for the first time by an employee exceeds \$100,000 in any calendar year, the options with respect to the excess shares will be Non-statutory Stock Options. All options granted to consultants and non-employee directors will be Non-statutory Stock Options.

Payment

The Committee may determine the method by which the option price may be paid upon exercise, including in cash, check, other shares of National Oilwell Varco common stock owned by the optionee for at least six months prior to exercise (unless waived by the Committee), shares issuable upon option exercise, other securities or property, a note, withholding of shares, or by a combination thereof. The Long-Term Incentive Plan also allows the Committee, in its discretion, to establish procedures pursuant to which an optionee may affect a cashless broker exercise of an option. No participant who is a member of the board of directors or an executive officer shall be permitted to pay the exercise price or tax withholding obligation of an option or any other Award in any method that would violate Section 13(k) of the Exchange Act.

Transferability

An Incentive Stock Option is not transferable other than by will or the laws of descent and distribution, and may be exercised during the employee's lifetime only by the employee or his or her guardian or legal representative. A Non-statutory Stock Option is not transferable other than by will or the laws of descent and distribution, or, with the consent of the Committee, to certain family members or trusts.

Restricted Stock

Transfer Restrictions and Forfeiture Obligations

Pursuant to a Restricted Stock award, shares of National Oilwell Varco common stock will be issued or delivered to the employee, consultant or director at the time the award is made without any payment to National Oilwell Varco (other than for any payment amount determined by the Committee in its discretion), but such shares will be subject to certain restrictions on the disposition thereof and certain obligations to forfeit and surrender such shares to National Oilwell Varco, which may be linked to Performance Criteria or other specified criteria including passage of time, as may be determined in the discretion of the Committee.

Waiver of Restrictions

The Committee may, in its discretion, waive any restrictions on any outstanding Restricted Stock award as of a date determined by the Committee, but the Committee may not in general take any action to waive restrictions on a Restricted Stock award that has been granted to a covered employee (within the meaning of Section 162(m) of the Internal Revenue Code) if such award has been designed to meet the exception for performance-based compensation under Section 162(m) of the Internal Revenue Code.

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Performance Awards

Performance Period

The Committee may, in its sole discretion, grant Performance Awards under the Long-Term Incentive Plan that may be paid in cash, National Oilwell Varco common stock or a combination thereof as determined by the Committee. At the time of the grant, the Committee will establish the maximum dollar amount of each Performance Award, the performance goals which may be linked to Performance Criteria or other specified criteria, including passage of time, and the performance period over which the performance goals will be measured.

Payment

Following the end of the performance period, the Committee will determine and certify in writing the amount payable to the holder of the Performance Award based on the achievement of the performance goals for such performance period. Payment shall be made in cash and/or in shares of National Oilwell Varco common stock, in a lump sum or in installments, following the close of the performance period or at such later deferral date elected by the participant, each as prescribed by the Committee.

Performance-Based Compensation

The Committee shall determine which Awards are to qualify as performance-based compensation under Section 162(m) of the Internal Revenue Code. For such Awards, the Committee shall establish performance goals applicable to those Awards based upon the attainment of such target levels of one or more of the Performance Criteria, over one or more periods of time, which may be of varying and overlapping durations, as the Committee may select. A performance goal need not be based upon an increase or positive result under a Performance Criteria and could, for example, be based upon limiting economic losses or maintaining the status quo. Which Performance Criteria to be used with respect to any grant, and the weight to be accorded thereto if more than one criteria is used, shall be determined by the Committee at the time of grant. Following the completion of each specified performance period, the Committee shall certify in writing whether the applicable performance goals have been achieved for such performance period. In determining the amount earned by a participant, the Committee shall have the right to reduce or eliminate (but not to increase) the amount payable at a given level of performance to take into account additional factors that the Committee may deem relevant to the assessment of individual or corporate performance for the performance period.

For purposes of the Long-Term Incentive Plan, Performance Criteria shall mean the following business criteria with respect to the company, any subsidiary or any division, operating unit or product line: net earnings (either before or after interest, taxes, depreciation and/or amortization), sales, revenue, net income (either before or after taxes), operating earnings, cash flow (including, but not limited to, operating cash flow and free cash flow), cash flow return on capital, return on net assets, return on stockholders' equity, return on assets, return on capital, stockholder returns, return on sales, gross or net profit margin, customer or sales channel revenue or profitability, productivity, expense, margins, cost reductions, controls or savings, operating efficiency, customer satisfaction, working capital, strategic initiatives, economic value added, earnings per share, earnings per share from operations, price per share of stock, and market share, any of which may be measured either in absolute terms or as compared to any incremental increase or as compared to results of a peer group. The Committee will determine whether the foregoing criteria will be computed without recognition of (i) unusual or nonrecurring events affecting the company or its financial statements or (ii) changes in applicable laws, regulations or accounting principles. The Performance Criteria shall be subject to adjustment for changes in accounting standards required by the Financial Accounting Standards Board after the goal is established, and, to the extent provided for in the Award agreement, shall be subject to adjustment for specified significant extraordinary items or events.

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Phantom Shares

Forfeiture

Phantom Shares under the Long-Term Incentive Plan are awards of, or rights to receive amounts equal to, a specified number of shares of National Oilwell Varco common stock over or following a specific period of time. Such awards may be subject to fulfillment of conditions, which may be linked to Performance Criteria or other specified criteria, including the passage of time, if any, as the Committee may specify.

The Committee may also provide that Phantom Shares will have distribution equivalent rights (DERs), which are rights to receive an amount equal to the value of any distributions made on shares of common stock during the period the Award is outstanding. Such DERs may be made subject to the same vesting terms as the Phantom Share award.

Payment

Payment of Phantom Shares may be made in cash, National Oilwell Varco common stock or a combination thereof and shall be paid in a lump sum or installments, following the close of the performance period or at such later deferral date elected by the participant each as prescribed by the Committee. Any payment to be made in cash will be based on the fair market value of the National Oilwell Varco common stock on the payment date.

Stock Appreciation Rights

The Committee may grant to employees, consultants and directors Stock Appreciation Rights, which consist of a right to receive amounts equal to the share appreciation in National Oilwell Varco common stock over a period of time, the payment may be made in shares of National Oilwell Varco common stock, cash or both. A SAR may be granted (a) in connection and simultaneously with the grant of an option, (b) with respect to a previously granted option or (c) independent of an option.

Stock Payments

Stock Payments may be awarded in such number of shares of National Oilwell Varco common stock and may be based upon the Performance Criteria or other specific criteria, if any, as determined appropriate by the Committee, determined on the date such Stock Payment is made or on any date thereafter. Stock Payments may be made as part of any bonus, deferred compensation or other arrangement, in lieu of all or any portion of such compensation.

Substitute Awards

The Committee may also grant to individuals who become employees, consultants or directors of National Oilwell Varco or its subsidiaries in connection with a merger or other corporate transaction awards under the Long-Term Incentive Plan in substitution of an award such person may have held under his or her prior employer's plan. It is expected that a substitute award will have substantially the same terms as the award it replaces.

Miscellaneous

The Committee may amend or modify the Long-Term Incentive Plan at any time; provided, however, that stockholder approval will be obtained for any amendment (i) to the extent necessary and desirable to comply with any applicable law, regulation or stock exchange rule, (ii) to increase the number of shares available or (iii) to permit the exercise price of any outstanding option or SAR that is underwater to be reduced or for an underwater option or SAR to be cancelled and replaced with a new Award. National Oilwell's Corporate Governance Guidelines do not permit the repricing of options.

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The Committee has the right to substitute a SAR for an option at any time prior to or upon exercise of such option; *provided* that such SAR shall be exercisable for the same number of shares as such substituted option would have been exercisable for.

National Oilwell Varco is authorized to collect from any payment due under any Award or any other compensation or other amount owing to a participant the amount of any applicable taxes required to be withheld in respect of the Award, its exercise, the lapse of restrictions thereon. In addition, the Committee may permit such tax withholding obligations to be satisfied through the withholding of shares otherwise to be acquired upon the exercise or payment of such Award, but only to the extent such withholding does not cause a charge to the National Oilwell Varco's financial earnings.

Federal Income Tax Aspects of the Long-Term Incentive Plan

The following is a brief summary of certain of the U.S. federal income tax consequences of certain transactions under the Long-Term Incentive Plan as normally operated and is not intended to provide or supplement tax advice to eligible employees, consultants or directors. The summary contains general statements based on current U.S. federal income tax statutes, regulations and currently available interpretations thereof. This summary is not intended to be exhaustive and does not describe state, local or foreign tax consequences or the effect, if any, of gift, estate and inheritance taxes.

Incentive Stock Options

Incentive Stock Options are subject to special federal income tax treatment. No federal income tax is imposed on the optionee upon the grant of any Incentive Stock Option. No federal income tax is imposed on the exercise of an Incentive Stock Option if the optionee does not dispose of the shares acquired pursuant to the exercise within the two-year period beginning on the date the option was granted or within the one-year period beginning on the date the option was exercised (collectively, the holding period). In such event, National Oilwell Varco would not be entitled to any deduction for federal income tax purposes in connection with the grant or exercise of the option or the disposition of the shares so acquired. With respect to an Incentive Stock Option, the difference between the fair market value of the stock on the date of exercise and the exercise price must generally be included in the optionee's alternative minimum taxable income for the year in which such exercise occurs. However, if the optionee exercises an Incentive Stock Option and disposes of the shares received in the same year and the amount realized is less than the fair market value of the shares on the date of exercise, then the amount included in alternative minimum taxable income will not exceed the amount realized over the adjusted basis of the shares. Upon disposition of the shares received upon exercise of an Incentive Stock Option after the holding period, any appreciation of the shares above the exercise price should constitute capital gain.

If an optionee disposes of shares acquired pursuant to his or her exercise of an Incentive Stock Option prior to the end of the holding period, the optionee will be treated as having received, at the time of disposition, compensation taxable as ordinary income. In such event, and subject to the application of Section 162(m) of the Internal Revenue Code as discussed below, National Oilwell Varco may claim a deduction for compensation paid at the same time and in the same amount as compensation is treated as received by the optionee. The amount treated as compensation is the excess of the fair market value of the shares at the time of exercise (or in the case of a sale in which a loss would be recognized, the amount realized on the sale if less) over the exercise price; any amount realized in excess of the fair market value of the shares at the time of exercise would be treated as short-term or long-term capital gain, depending on the holding period of the shares.

Non-Statutory Stock Options and Stock Appreciation Rights

As a general rule, no federal income tax is imposed on the optionee upon the grant of a Non-statutory Stock Option such as those under the Long-Term Incentive Plan (whether or not including a SAR), and National Oilwell Varco is not entitled to a tax deduction by reason of such grant. Generally, upon the exercise of a Non-statutory Stock Option, the optionee will be treated as receiving compensation taxable as

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ordinary income in the year of exercise in an amount equal to the excess of the fair market value of the shares of stock at the time of exercise over the option price paid for such shares. In the case of the exercise of a SAR, the holder will be treated as receiving compensation taxable as ordinary income