CME GROUP INC.
Form 10-Q
May 08, 2009
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2009

- OR -

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission file number 000-33379

CME GROUP INC.

(Exact name of registrant as specified in its charter)

Delaware	**36-4459170**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification Number)**
20 South Wacker Drive, Chicago, Illinois	**60606**
(Address of principal executive offices)	**(Zip Code)**

(312) 930-1000

(Registrant s telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ¨ No ¨

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

Large accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨ Smaller reporting company ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

The number of shares outstanding of each of the registrant s classes of common stock as of April 22, 2009 was as follows: 66,358,330 shares of Class A common stock, $0.01 par value; 625 shares of Class B common stock, Class B-1, $0.01 par value; 813 shares of Class B common stock, Class B-2, $0.01 par value; 1,287 shares of Class B common stock, Class B-3, $0.01 par value; and 413 shares of Class B common stock, Class B-4, $0.01 par value.

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FORM 10-Q

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PART I: FINANCIAL INFORMATION

On August 22, 2008, NYMEX Holdings, Inc. (NYMEX Holdings) merged into CMEG NY Inc., a wholly-owned subsidiary of CME Group. Unless otherwise noted, disclosures of trading volume, revenue and other statistical information include the results of NYMEX Holdings beginning on August 23, 2008.

Certain Terms

Throughout this document, unless otherwise specified or if the context otherwise requires:

CME Group refers to (1) CME Holdings and its subsidiaries prior to the completion of the merger between CME Holdings and CBOT Holdings, which occurred on July 12, 2007, (2) the combined company of CME Holdings and CBOT Holdings and their respective subsidiaries after July 12, 2007 and (3) the combined company of CME Holdings, CBOT Holdings and NYMEX Holdings as well as their respective subsidiaries after August 22, 2008;

CME Holdings refers to Chicago Mercantile Exchange Holdings Inc., which was the surviving corporation in its merger with CBOT Holdings and which was renamed CME Group Inc. in connection with the merger;

CME refers to Chicago Mercantile Exchange Inc., a wholly-owned subsidiary of CME Group;

CBOT Holdings refers to CBOT Holdings, Inc.;

CBOT refers to Board of Trade of the City of Chicago, Inc., which was a wholly-owned subsidiary of CBOT Holdings and became a wholly-owned subsidiary of CME Group on July 12, 2007;

NYMEX Holdings refers to NYMEX Holdings, Inc.;

NYMEX refers to New York Mercantile Exchange, Inc. and, unless otherwise indicated also refers to its subsidiary, Commodity Exchange, Inc. (COMEX), which were wholly-owned subsidiaries of NYMEX Holdings and became subsidiaries of CME Group on August 22, 2008 when NYMEX Holdings merged into CMEG NY Inc., a wholly-owned subsidiary of CME Group, which was renamed CMEG NYMEX Holdings Inc.;

Exchange refers to CME, CBOT and NYMEX, collectively; and

We, us and our refers to CME Group and its consolidated subsidiaries, collectively.

FORWARD-LOOKING STATEMENTS

From time to time, in written reports and oral statements, we discuss our expectations regarding future performance. These forward-looking statements are identified by their use of terms and phrases such as believe, anticipate, could, estimate, intend, may, plan, expect and expressions, including references to assumptions. These forward-looking statements are based on currently available competitive, financial and economic data, current expectations, estimates, forecasts and projections about the industries in which we operate and management s beliefs and assumptions. These statements are not guarantees of future performance and involve risks, uncertainties and assumptions that are difficult to predict. Therefore, actual outcomes and results may differ materially from what is expressed or implied in any forward-looking statements. We

want to caution you not to place undue reliance on any forward-looking statements. We undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise. Among the factors that might affect our performance are:

- our ability to realize the benefits and control the costs of our acquisition of NYMEX Holdings and our ability to successfully integrate the businesses of CME Group and NYMEX Holdings, including the fact that such integration may be more difficult, time consuming or costly than expected and revenues following the transaction may be lower than expected and expected cost savings from the transaction may not be fully realized within the expected time frames or at all;

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increasing competition by foreign and domestic entities, including increased competition from new entrants into our markets and consolidation of existing entities;

our ability to keep pace with rapid technological developments, including our ability to complete the development and implementation of the enhanced functionality required by our customers;

our ability to continue introducing competitive new products and services on a timely, cost-effective basis, including through our electronic trading capabilities, and our ability to maintain the competitiveness of our existing products and services;

our ability to adjust our fixed costs and expenses if our revenues decline;

our ability to continue to generate revenues from our processing services;

our ability to maintain existing customers, develop strategic relationships and attract new customers;

our ability to expand and offer our products in foreign jurisdictions;

changes in domestic and foreign regulations;

changes in government policy, including policies relating to common or directed clearing, changes as a result of a combination of the Securities and Exchange Commission (SEC) and the U.S. Commodity Futures Trading Commission (CFTC), or changes relating to the recently enacted or proposed legislation relating to the current economic crisis;

the costs associated with protecting our intellectual property rights and our ability to operate our business without violating the intellectual property rights of others;

our ability to generate revenue from our market data that may be reduced or eliminated by the growth of electronic trading or declines in subscriptions;

changes in our rate per contract due to shifts in the mix of the products traded, the trading venue and the mix of customers (whether the customer receives member or non-member fees or participates in one of our various incentive programs) and the impact of our tiered pricing structure;

the ability of our financial safeguards package to adequately protect us from the credit risks of clearing members;

the ability of our compliance and risk management methods to effectively monitor and manage our risks;

changes in price levels and volatility in the derivatives markets and in underlying fixed income, equity, foreign exchange and commodities markets;

economic, political and market conditions, including the recent volatility of the capital and credit markets and the impact of current economic conditions on the trading activity of our current and potential customers;

- our ability to accommodate increases in trading volume and order transaction traffic without failure or degradation of the performance of our systems;
- our ability to execute our growth strategy and maintain our growth effectively;
- our ability to manage the risks and control the costs associated with our acquisition, investment and alliance strategy;
- our ability to continue to generate funds and/or manage our indebtedness to allow us to continue to invest in our business;
- industry and customer consolidation;
- decreases in trading and clearing activity;
- the imposition of a transaction tax on futures and options on futures transactions;
- the unfavorable resolution of material legal proceedings;
- the seasonality of the futures business; and
- changes in the regulation of our industry with respect to speculative trading in commodity interests and derivative contracts.

For a detailed discussion of these and other factors that might affect our performance, see Item 1A. of this Report as well as Item 1A. of our Annual Report on Form 10-K, filed with the SEC on March 2, 2009.

The Globe logo, CME, Chicago Mercantile Exchange, CME Group, Globex and E-mini, are trademarks of Chicago Mercantile Exchange Inc. CBOT and Chicago Board of Trade are trademarks of Board of Trade of the City of Chicago, Inc. NYMEX, New York Mercantile Exchange and ClearPort are trademarks of New York Mercantile Exchange, Inc. All other trademarks are the property of their respective owners. Further information about CME Group and its products can be found at http://www.cmegroup.com. Information made available on our web site does not constitute a part of this Report.

TRAKRS, Total Return Asset Contracts, are exchange-traded non-traditional futures contracts designed to provide market exposure to various market-based indexes which trade electronically on the CME Globex electronic platform. Clearing and transaction fees on these products are minimal relative to other products. Unless otherwise noted, disclosures of trading volume and average rate per contract exclude our TRAKRS products.

In August 2006, we acquired Swapstream, a London-based electronic trading platform for interest rate swaps. Disclosures of trading volume and average rate per contract exclude these products.

All references to options or options contracts in the text of this document refer to options on futures contracts.

Unless otherwise indicated, references to CME Group products include references to exchange traded products on one of its regulated exchanges (CME, CBOT, NYMEX, COMEX). Products listed in these exchanges are subject to the rules and regulations of the particular exchange and the applicable rulebook should be consulted.

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Item 1. Financial Statements

CME GROUP INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(dollars in millions, expect per share data; shares in thousands)

(unaudited)

	March 31, 2009	December 31, 2008
Assets		
Current Assets:		
Cash and cash equivalents	$ 339.2	$ 297.9
Collateral from securities lending, at fair value	155.4	426.9
Marketable securities, including pledged securities of $114.6 and $283.8	248.5	310.1
Accounts receivable, net of allowance of $1.4 and $1.8	279.5	234.0
Other current assets	112.7	189.1
Cash performance bonds and security deposits	9,765.6	17,653.5
Total current assets	10,900.9	19,111.5
Property, net of accumulated depreciation and amortization of $496.5 and $479.5	711.4	707.2
Intangible assets trading products	16,982.0	16,982.0
Intangible assets other, net	3,335.3	3,369.4
Goodwill	7,517.0	7,519.2
Other assets	468.9	469.4
Total Assets	$ 39,915.5	$ 48,158.7
Liabilities and Shareholders Equity		
Current Liabilities:		
Accounts payable	$ 46.5	$ 71.0
Payable under securities lending agreements	157.1	456.8
Short-term debt	249.9	249.9
Other current liabilities	255.5	211.8
Cash performance bonds and security deposits	9,765.6	17,653.5
Total current liabilities	10,474.6	18,643.0
Long-term debt	2,848.2	2,966.1
Deferred tax liabilities	7,660.5	7,728.3
Other liabilities	133.1	132.7
Total Liabilities	21,116.4	29,470.1
Shareholders Equity:		
Preferred stock, $0.01 par value, 9,860 shares authorized, none issued or outstanding		
Series A junior participating preferred stock, $0.01 par value, 140 shares authorized, none issued or outstanding		
Class A common stock, $0.01 par value, 1,000,000 shares authorized, 66,300 and 66,417 shares issued and outstanding as of March 31, 2009 and December 31, 2008, respectively	0.7	0.7
Class B common stock, $0.01 par value, 3 shares authorized, issued and outstanding		
Additional paid-in capital	17,112.9	17,128.5
Retained earnings	1,842.5	1,719.7
Accumulated other comprehensive loss	(157.0)	(160.3)

Total Shareholders Equity	18,799.1	18,688.6
Total Liabilities and Shareholders Equity	$ 39,915.5	$ 48,158.7

See accompanying notes to unaudited consolidated financial statements.

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CME GROUP INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(dollars in millions, expect per share data; shares in thousands)

(unaudited)

	Quarter Ended March 31,	
	2009	**2008**
Revenues		
Clearing and transaction fees	$ 527.8	$ 525.1
Quotation data fees	85.5	56.8
Processing services	0.1	17.5
Access and communication fees	11.6	10.5
Other	22.1	15.2
Total Revenues	647.1	625.1
Expenses		
Compensation and benefits	86.7	73.3
Communications	12.4	14.8
Technology support services	11.8	17.0
Professional fees and outside services	22.3	14.8
Amortization of purchased intangibles	33.3	16.2
Depreciation and amortization	31.0	34.3
Occupancy and building operations	19.4	16.7
Licensing and other fee agreements	24.6	13.5
Restructuring	3.2	1.8
Other	16.0	22.8
Total Expenses	260.7	225.2
Operating Income	386.4	399.9
Non-Operating Income (Expense)		
Investment income	1.8	11.4
Gains (losses) on derivative investments		(2.2)
Securities lending interest income	2.4	23.6
Securities lending interest and other costs	(0.4)	(19.3)
Interest and other borrowing costs	(38.5)	(2.3)
Guarantee of exercise right privileges		8.4
Equity in losses of unconsolidated subsidiaries	(1.2)	(3.9)
Other income (expense)		(8.4)
Total Non-Operating Income (Expense)	(35.9)	7.3
Income before Income Taxes	350.5	407.2
Income tax provision	151.4	123.7
Net Income	$ 199.1	$ 283.5

Earnings per Common Share:		
Basic	$ 3.00	$ 5.28
Diluted	3.00	5.25
Weighted Average Number of Common Shares:		
Basic	66,302	53,751
Diluted	66,439	54,028

See accompanying notes to unaudited consolidated financial statements.

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CME GROUP INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY

(dollars in millions, expect per share data; shares in thousands)

(unaudited)

ass B mmon ock ares)	Common Stock and Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)
3	$ 17,129.2	$ 1,719.7	$
		199.1	

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2012 Acquisitions and Other Investments

In 2012, the Company made the following acquisitions:

Acquisition	Form	Operating Segment	Date o Transact
TechDrill LTD/Forth Valley Engineering LTD	Stock	Petroleum Services & Supplies	January 20
Wyoming Pipe and Tool Corporation	Stock	Petroleum Services & Supplies	January 20
Interval LLC	Stock	Petroleum Services & Supplies	January 20
NKT Flexibles I/S	Stock	Rig Technology	April 2012
Spectral, Inc.	Asset	Petroleum Services & Supplies	April 2012
Enerflow Industries, Inc.	Stock/Asset	Rig Technology	May 2012
Wilson Distribution	Stock	Distribution & Transmission	May 2012
Zap-Lok Pipeline Systems, Inc.	Stock	Petroleum Services & Supplies	June 2012
Engco Sales Ltd	Asset	Distribution & Transmission	June 2012
CE Franklin LTD	Stock	Distribution & Transmission	July 2012
DynaWinch Industries Ltd	Stock	Rig Technology	July 2012
Petrex, Inc.	Stock	Petroleum Services & Supplies	August 20
Fiberspar Corporation	Stock	Petroleum Services & Supplies	October 20
Algoa Oil & Pipeline Services LTD	Stock	Rig Technology	October 20
Algoa International Anstalt/Algoa International Angola Anstalt	Stock	Rig Technology	November
GH Services, LLC	Stock	Rig Technology	December
Westpro Fluid Handling Systems	Stock	Distribution & Transmission	December

The Company paid an aggregate purchase price of $2,880 million, net of cash acquired for acquisitions in 2012. On February 20, 2013, Company completed its previously announced acquisition of Robbins & Myers, Inc. for approximately $2.5 billion in cash. The Compa borrowed approximately $1.4 billion under the $3.5 billion revolving credit facility and used approximately $1.1 billion of cash on hanc the acquisition.

Seasonal Nature of the Company s Business

Historically, the level of some of the Company s segments have followed seasonal trends to some degree. In general, the Rig Technolo has not experienced significant seasonal fluctuation although orders for new equipment and aftermarket spare parts may be modestly af holiday schedules. There can be no guarantee that seasonal effects will not influence future sales in this segment.

In Canada, the Petroleum Services & Supplies segment has typically realized high first quarter activity levels, as operators take advanta winter freeze to gain access to remote drilling and production areas. In past years, certain Canadian businesses within Petroleum Servic Supplies and Distribution & Transmission have declined during the second quarter due to warming weather conditions which resulted i softer ground, difficulty accessing drill sites, and road bans that curtailed drilling activity (Canadian Breakup). However, these segm typically rebounded in the third and fourth quarter. Petroleum Services & Supplies activity in both the U.S. and Canada sometimes incr during the third quarter and then peaks in the fourth quarter as operators spend the remaining drilling and/or production capital budgets year. Petroleum Services & Supplies revenues in the Rocky Mountain region sometimes decline in the late fourth quarter or early first c to harsh winter weather. The segment s fiberglass and composite tubulars business in China has typically declined in the first quarter d impact of weather on manufacturing and installation operations, and due to business slowdowns associated with the Chinese New Year.

The Company anticipates that the seasonal trends described above will continue. However, there can be no guarantee that spending by t Company s customers will continue to follow patterns seen in the past or that spending by other customers will remain the same as in p

Marketing and Distribution Network

Substantially all of our Rig Technology capital equipment and spare parts sales, and a large portion of our smaller pumps and parts sale through our direct sales force and distribution service centers. Sales to foreign oil companies are often made with or through agent or representative arrangements. Products within Petroleum Service & Supplies are rented and sold worldwide through our own sales force through commissioned representatives. Distribution & Transmission sales are made directly through our network of distribution service

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The Rig Technology segment s customers include drilling contractors, shipyards and other rig fabricators, well servicing companies, pr
pumpers, national oil companies, major and independent oil and gas companies, supply stores, and pipe-running service providers. Dem
products is strongly dependent upon capital spending plans by oil and gas companies and drilling contractors, and the level of oil and ga
drilling activity. Rig Technology purchases can represent significant capital expenditures, and are often sold as part of a rig fabrication
rig refurbishment package. Sometimes these packages cover multiple rigs, and often the Company bids jointly with other related produc
services providers, such as rig fabrication yards and rig design firms.

The Petroleum Services & Supplies segment s customers for tubular services include major and independent oil and gas companies, na
companies, oilfield equipment and product distributors and manufacturers, drilling and workover contractors, oilfield service companie
pumpers, pipeline operators, pipe mills, manufacturers and processors, and other industrial companies. Certain tubular inspection and tu
coating products and services often are incorporated as a part of a tubular package sold by tubular supply stores to end users. The Comp
primarily has direct operations in the international marketplace, but operates through agents in certain markets.

The Petroleum Services & Supplies segment s customers for drilling services are predominantly major and independent oil and gas co
national oil companies, drilling contractors, well servicing companies, providers of drilling fluids, and other oilfield service companies.
segment operates sales and distribution facilities at strategic locations worldwide to service areas with high drilling activity. Strategicall
service and engineering facilities provide specialty repair and maintenance services to customers. Sales of capital equipment are someti
through rig fabricators, and often are bid as part of a rig fabrication package or rig refurbishment package. Sometimes these packages c
multiple rigs, and often the Company bids jointly with other related service providers.

The Distribution & Transmission segment s distribution services sales are made through our network of distribution service centers. Cu
our products and services include drilling and other service contractors, exploration and production companies, supply companies and n
owned or controlled drilling and production companies. The Distribution & Transmission segment s customers for transmission produc
services primarily include local, state and federal agencies, developers and general contractors.

The Company s foreign operations, which include significant operations in Canada, Europe, the Far East, the Middle East, Africa and L
America, are subject to the risks normally associated with conducting business in foreign countries, including foreign currency exchang
uncertain political and economic environments, which may limit or disrupt markets, restrict the movement of funds or result in the depr
contract rights or the taking of property without fair compensation. Government-owned petroleum companies located in some of the co
which the Company operates have adopted policies (or are subject to governmental policies) giving preference to the purchase of goods
services from companies that are majority-owned by local nationals. As a result of such policies, the Company relies on joint ventures,
arrangements and other business combinations with local nationals in these countries. In addition, political considerations may disrupt t
commercial relationship between the Company and such government-owned petroleum companies. Although the Company has not exp
any material problems in foreign countries arising from nationalistic policies, political instability, economic instability or currency restr
there can be no assurance that such a problem will not arise in the future. See Note 15 to the Consolidated Financial Statements for info
regarding geographic revenue information.

Research and New Product Development and Intellectual Property

The Company believes that it has been a leader in the development of new technology and equipment to enhance the safety and product
drilling and well servicing processes and that its sales and earnings have been dependent, in part, upon the successful introduction of ne
improved products. Through its internal development programs and certain acquisitions, the Company has assembled an extensive array
technologies protected by a substantial number of trade and service marks, patents, trade secrets, and other proprietary rights.

As of December 31, 2012, the Company held a substantial number of United States patents and had several patent applications pending
date, the Company also had foreign patents and patent applications pending relating to inventions covered by the United States patents.
Additionally, the Company maintains a substantial number of trade and service marks and maintains a number of trade secrets. Expirati
such patents range from 2013 to 2032. The Company does not expect significant adverse effects as patents expire.

Although the Company believes that this intellectual property has value, competitive products with different designs have been success
developed and marketed by others. The Company considers the quality and timely delivery of its products, the service it provides to its
and the technical knowledge and skills of its personnel to be as important as its intellectual property in its ability to compete. While the
stresses the importance of its research and development programs, the technical challenges and market uncertainties associated with the
development and successful introduction of new products are such that there can be no assurance that the Company will realize future r
from new products.

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Engineering and Manufacturing

The manufacturing processes for the Company s products generally consist of machining, welding and fabrication, heat treating, assem
manufactured and purchased components and testing. Most equipment is manufactured primarily from alloy steel. The availability and
alloy steel castings, forgings, purchased components and bar stock is critical to the production and timing of shipments. Primary manuf
facilities for the Rig Technology segment are located in Houston, Galena Park, Sugar Land, Conroe, Cedar Park, Anderson, San Angel
Worth and Pampa, Texas; Duncan, Oklahoma; Orange, California; Edmonton, Canada; Aberdeen, Scotland; Kristiansand, Stavanger an
Norway; Etten-Leur and Groot-Ammers, the Netherlands; Carquefou, France; Kalundborg and Brondby, Denmark; Singapore; Lanzhou
Shanghai, China; Dubai, UAE; Ulsan, South Korea; Port Elizabeth and Cape Town, South Africa; and Luanda, Angola.

The Petroleum Services & Supplies segment manufactures or assembles the equipment and products which it rents and sells to custome
which it uses in providing services. Downhole tools are manufactured at facilities in Houston, Texas; Manchester, England; Dubai, UA
Brazil and Singapore. Drill Bits are manufactured at facilities in Conroe, Texas; Stonehouse, U.K; and Jurong, Singapore. Drill Stem te
development and drill pipe are manufactured at facilities in Navasota, Texas; Veracruz, Mexico; Jurong, Singapore; and Baimi Town, J
and Jiangsu, China. Solids control equipment and screens are manufactured at facilities in Houston and Conroe, Texas; New Iberia, Lou
Aberdeen, Scotland; Trinidad; Shah Alum and Puncak Alam, Malaysia; and Macaé, Brazil. Pumps are manufactured at facilities in Hou
Odessa and Marble Falls, Texas; McAlester and Tulsa, Oklahoma; Manchester and Newcastle, England; Melbourne, Australia; and Bue
Argentina. NOV IntelliServ manufactures and assembles equipment in Provo, Utah. The Company manufactures tubular inspection equ
and tools at its Houston, Texas facility for resale, and renovates and repairs equipment at its manufacturing facilities in Houston, Texas
Germany; Singapore; and Aberdeen, Scotland. Fiberglass and composite tubulars and fittings are manufactured at facilities in San Anto
Burkburnett and Mineral Wells, Texas; Little Rock, Arkansas; Tulsa, Oklahoma; Wichita, Kansas; Geldermalsen, the Netherlands; Beti
Johor, Malaysia; Singapore and Harbin and Suzhou, China, while tubular coatings are manufactured in its Houston, Texas facility, or th
restricted sale agreements with third party manufacturers. Certain of the Company s manufacturing facilities and certain of the Compa
have various certifications, including, ISO 9001, API, APEX and ASME.

Raw Materials

The Company believes that materials and components used in its servicing and manufacturing operations and purchased for sales are ge
available from multiple sources. The prices paid by the Company for its raw materials may be affected by, among other things, energy,
other commodity prices; tariffs and duties on imported materials; and foreign currency exchange rates. Since 2006 the Company has ex
rising, declining and stable prices for mild steel and standard grades in line with broader economic activity and has generally seen speci
prices continued to rise, driven primarily by escalation in the price of the alloying agents. The Company has generally been successful i
to mitigate the financial impact of higher raw materials costs on its operations by applying surcharges to and adjusting prices on the pro
sells. Furthermore, the Company continued to expand its supply base starting in 2006 throughout the world to address its customers ne
2012, the Company witnessed flat to slight increases in steel pricing which was somewhat mitigated by improved sourcing and supply c
practices. The Company anticipates flat to moderate increases in steel pricing in 2013. Higher prices and lower availability of steel and
materials the Company uses in its business may adversely impact future periods.

Backlog

The Company monitors its backlog of orders within its Rig Technology segment to guide its planning. Backlog includes orders greater
$250,000 for most items and orders for wireline units in excess of $75,000, and which require more than three months to manufacture a

Backlog measurements are made on the basis of written orders which are firm, but may be defaulted upon by the customer in some inst
Most require reimbursement to the Company for costs incurred in such an event. There can be no assurance that the backlog amounts w
ultimately be realized as revenue, or that the Company will earn a profit on backlog work. Backlog for equipment at December 31, 201
and 2010, was $11.9 billion, $10.2 billion and $5.0 billion, respectively.

Employees

At December 31, 2012, the Company had a total of 60,235 employees, of which 8,574 were temporary employees. Approximately 906
in the U.S. are subject to collective bargaining agreements. Additionally, certain of the Company s employees in various foreign locati
subject to collective bargaining agreements. The Company believes its relationship with its employees is good.

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ITEM 1A. RISK FACTORS

You should carefully consider the risks described below, in addition to other information contained or incorporated by reference herei
Realization of any of the following risks could have a material adverse effect on our business, financial condition, cash flows and resul
operations.

We are dependent upon the level of activity in the oil and gas industry, which is volatile.

The oil and gas industry historically has experienced significant volatility. Demand for our services and products depends primarily upo
number of oil rigs in operation, the number of oil and gas wells being drilled, the depth and drilling conditions of these wells, the volum
production, the number of well completions, capital expenditures of other oilfield service companies and the level of workover activity.
and workover activity can fluctuate significantly in a short period of time, particularly in the United States and Canada. The willingness
gas operators to make capital expenditures to explore for and produce oil and natural gas and the willingness of oilfield service compan
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 throu 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 and drilling rig dayrates;
- 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, well servicing companies, or proc
companies or in drilling or well servicing rig utilization rates, then demand for the products and services of the Company will decline.

Volatile oil and gas prices affect demand for our products.

Oil and gas prices have been volatile since 1972. In general, oil prices approximated $18-$22 per barrel from 1991 through 1997, exper
decline into the low teens in 1998 and 1999, and have generally ranged between $25-$100 per barrel since 2000. In 2008, oil prices wer
extremely volatile oil prices rose to $147 per barrel in July 2008 only to fall into the $35-$45 per barrel range in December 2008. In 2
prices continued to be volatile, rising to the $70 per barrel range during the year. In 2010 oil prices continued rising to finish the year w
$80 per barrel. Domestic spot gas prices generally ranged between $1.80-$2.60 per mmbtu of gas from 1991 through 1999 then experie
spikes into the $10 range in 2001 and 2003. Prices generally ranged between $4.50-$12.00 per mmbtu during 2005-2008. During 2009
2011, spot gas prices generally stabilized, dropping into the $3.00-$4.50 per mmbtu range, but declined below $3.00 late in 2011 and th
much of 2012 before increasing slightly above $3.00 in late 2012.

Expectations for future oil and gas prices cause many shifts in the strategies and expenditure levels of oil and gas companies and drillin
contractors, particularly with respect to decisions to purchase major capital equipment of the type we manufacture. Oil and gas prices, v
determined by the marketplace, may fall below a range that is acceptable to our customers, which could reduce demand for our product

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Worldwide financial and credit crisis could have a negative effect on our operating results and financial condition.

Events in 2008 and 2009 constrained credit markets and sparked a serious global banking crisis. The slowdown in worldwide economic caused by the global recession reduced demand for energy and resulted in lower oil and natural gas prices. While markets have improve 2008, recent economic data suggests the potential for another global recession, which could negatively impact oil and natural gas prices restrict availability to credit markets. Any prolonged reduction in oil and natural gas prices will reduce oil and natural gas drilling activi result in a corresponding decline in the demand for our products and services, which could adversely impact our operating results and fi condition. Furthermore, many of our customers access the credit markets to finance their oil and natural gas drilling activity. If the avai credit to our customers is reduced, they may reduce their drilling and production expenditures, thereby decreasing demand for our produ services. Any such reduction in spending by our customers could adversely impact our operating results and financial condition.

There are risks associated with certain contracts for our drilling equipment.

As of December 31, 2012, we had a backlog of approximately $11.9 billion of drilling equipment to be manufactured, assembled, tested delivered by our Rig Technology segment. The following factors, in addition to others not listed, could reduce our margins on these co adversely affect our position in the market or subject us to contractual penalties:

our failure to adequately estimate costs for making this drilling equipment;

our inability to deliver equipment that meets contracted technical requirements;

our inability to maintain our quality standards during the design and manufacturing process;

our inability to secure parts made by third party vendors at reasonable costs and within required timeframes;

unexpected increases in the costs of raw materials; and

our inability to manage unexpected delays due to weather, shipyard access, labor shortages or other factors beyond our cont

The Company s existing contracts for rig equipment generally carry down payment and progress billing terms favorable to the ultimate of these projects and do not allow customers to cancel projects for convenience. However, unfavorable market conditions or financial d experienced by our customers may result in cancellation of contracts or the delay or abandonment of projects.

Any such developments could have a material adverse effect on our operating results and financial condition.

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

The oilfield products and services industry is highly competitive. We compete with national, regional and foreign competitors in each o current major product lines. Certain of these competitors may have greater financial, technical, manufacturing and marketing resources 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 we ope
adopted policies or regulations which may give local nationals in these countries competitive advantages. Competition in our industry c
to lower revenues and earnings.

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We have aggressively expanded our businesses and intend to maintain an aggressive growth strategy.

We have aggressively expanded and grown our businesses during the past several years, through acquisitions and investment in internal
We anticipate that we will continue to pursue an aggressive growth strategy but we cannot assure you that attractive acquisitions will be
to us at reasonable prices or at all. In addition, we cannot assure you that we will successfully integrate the operations and assets of any
business with our own or that our management will be able to manage effectively the increased size of the Company or operate any new
business. Any inability on the part of management to integrate and manage acquired businesses and their assumed liabilities could adve
our business and financial performance. In addition, we may need to incur substantial indebtedness to finance future acquisitions. We ca
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 de
and amortization expense, increased interest expense, increased financial leverage or decreased operating income for the Company, any
could cause our business to suffer.

Our operating results have fluctuated during recent years and these fluctuations may continue.

We have experienced fluctuations in quarterly operating results in the past. We cannot assure that we will realize earnings growth or tha
in any particular quarter will not fall short of either a prior fiscal quarter or investors expectations. The following factors, in addition to
listed, may affect our quarterly operating results in the future:

- fluctuations in the oil and gas industry;
- competition;
- the ability to service the debt obligations of the Company;
- the ability to identify strategic acquisitions at reasonable prices;
- the ability to manage and control operating costs of the Company;
- fluctuations in political and economic conditions in the United States and abroad; and
- the ability to protect our intellectual property rights.

There are risks associated with our presence in international markets, including political or economic instability, currency restrictio trade and economic sanctions.

Approximately 59% of our revenues in 2012 were derived from operations outside the United States (based on revenue destination). Ou
operations include significant operations in Canada, Europe, the Middle East, Africa, Southeast Asia, Latin America and other internati
markets. Our revenues and operations are subject to the risks normally associated with conducting business in foreign countries, includi
uncertain political and economic environments, which may limit or disrupt markets, restrict the movement of funds or result in the depr
contract rights or the taking of property without fair compensation. Government-owned petroleum companies located in some of the co
which we operate have adopted policies, or are subject to governmental policies, giving preference to the purchase of goods and service
companies that are majority-owned by local nationals. As a result of these policies, we may rely on joint ventures, license arrangements
business combinations with local nationals in these countries. In addition, political considerations may disrupt the commercial relations
between us and government-owned petroleum companies.

Our operations outside the United States could also expose us to trade and economic sanctions or other restrictions imposed by the Unit
or other governments or organizations. The U.S. Department of Justice (DOJ), the U.S. Securities and Exchange Commission and ot

agencies and authorities have a broad range of civil and criminal penalties they may seek to impose against corporations and individuals
violations of trading sanctions laws, the Foreign Corrupt Practices Act and other statutes. Under trading sanctions laws, the U.S. and oth
governments may seek to impose modifications to business practices, including cessation of business activities in sanctioned countries,
modifications to compliance programs, which may increase compliance costs. If any of the risks described above materialize, it could a
impact our operating results and financial condition.

We have received federal grand jury subpoenas and subsequent inquiries from governmental agencies requesting records related to our
compliance with export trade laws and regulations. We have cooperated fully with agents from the Department of Justice, the Bureau o
and Security, the Office of Foreign Assets Control, and U.S. Immigration and Customs Enforcement in responding to the inquiries. We
cooperated with an informal inquiry from the Securities and Exchange Commission in connection with the inquiries previously made by
aforementioned federal agencies. We have conducted our own internal review of this matter. At the conclusion of our internal review in
quarter of 2009, we identified possible areas of concern and discussed these areas of concern with the relevant agencies. We are current
negotiating a potential resolution with the agencies involved related to these matters. We currently anticipate that any administrative fin
penalty agreed to as part of a resolution would be within established accruals, and would not have a material effect on our financial pos
results of operations. To the extent a resolution is not negotiated as anticipated, we cannot predict the timing or effect that any resulting
government actions may have on our financial position or results of operations.

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The results of our operations are subject to market risk from changes in foreign currency exchange rates.

We earn revenues, pay expenses and incur liabilities in countries using currencies other than the U.S. dollar, including, but not limited t
Canadian dollar, the Euro, the British pound sterling, the Norwegian krone, the Venezuelan bolivar and the South Korean won. Approx
59% of our 2012 revenue was derived from sales outside the United States. Because our Consolidated Financial Statements are presente
dollars, we must translate revenues and expenses into U.S. dollars at exchange rates in effect during or at the end of each reporting peri
increases or decreases in the value of the U.S. dollar against other currencies in which our operations are conducted will affect our reve
operating income. Because of the geographic diversity of our operations, weaknesses in some currencies might be offset by strengths in
over time. We use derivative financial instruments to mitigate our net exposure to currency exchange fluctuations. We had forward con
a notional amount of $3,662 million (with a fair value of $86 million) as of December 31, 2012, to reduce the impact of foreign currenc
exchange rate movements. We are also subject to risks that the counterparties to these contracts fail to meet the terms of our foreign cu
contracts. We cannot assure you that fluctuations in foreign currency exchange rates would not affect our financial results.

An impairment of goodwill or other indefinite lived intangible assets could reduce our earnings.

The Company has approximately $7.1 billion of goodwill and $0.6 billion of other intangible assets with indefinite lives as of Decembe
Generally accepted accounting principles require the Company to test goodwill and other indefinite lived intangible assets for impairme
annual basis or whenever events or circumstances occur indicating that goodwill might be impaired. Events or circumstances which cou
a potential impairment include (but are not limited to) a significant reduction in worldwide oil and gas prices or drilling; a significant re
profitability or cash flow of oil and gas companies or drilling contractors; a significant reduction in worldwide well remediation activity
significant reduction in capital investment by other oilfield service companies; or a significant increase in worldwide inventories of oil
timing and magnitude of any goodwill impairment charge, which could be material, would depend on the timing and severity of the eve
events triggering the charge and would require a high degree of management judgment. If we were to determine that any of our remaini
of goodwill or other indefinite lived intangible assets was impaired, we would record an immediate charge to earnings with a correspon
reduction in stockholders equity; resulting in an increase in balance sheet leverage as measured by debt to total capitalization.

See additional discussion on Goodwill and Other Indefinite Lived Intangible Assets in Critical Accounting Estimates of Item 7. M
Discussion and Analysis of Financial Condition and Results of Operations.

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

Our businesses are subject to numerous federal, state and local laws, regulations and policies governing environmental protection, zoni
other matters. These laws and regulations have changed frequently in the past and it is reasonable to expect additional changes in the fu
existing regulatory requirements change, we may be required to make significant unanticipated capital and operating expenditures. We
assure you that our operations will continue to comply with future laws and regulations. Governmental authorities may seek to impose f
penalties on us or to revoke or deny the issuance or renewal of operating permits for failure to comply with applicable laws and regulati
these circumstances, we might be required to reduce or cease operations or conduct site remediation or other corrective action which co
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.

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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 obligatio 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 business, which is normally the

We may not have adequate insurance for potential environmental liabilities.

While we maintain liability insurance, this insurance is subject to coverage limits. In addition, certain policies do not provide coverage 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.

The adoption of climate change legislation or regulations restricting emissions of greenhouse gases could increase our operating co reduce demand for our products.

Environmental advocacy groups and regulatory agencies in the United States and other countries have been focusing considerable atten emissions of carbon dioxide, methane and other greenhouse gases and their potential role in climate change. The adoption of laws and r to implement controls of greenhouse gases, including the imposition of fees or taxes, could adversely impact our operations and financi condition. The U.S. Congress is currently working on legislation to control and reduce emissions of greenhouse gases in the United Stat includes establishing cap-and-trade programs. In addition to the pending climate legislation, the U.S. Environmental Protection Agency proposed regulations that would require permits for and reductions in greenhouse gas emissions for certain facilities, and may issue fina year. These changes in the legal and regulatory environment could reduce oil and natural gas drilling activity and result in a correspond in the demand for our products and services, which could adversely impact our operating results and financial condition.

We had revenues of 10% of total revenue from one of our customers for the year ended December 31, 2012.

The loss of this customer (Samsung Heavy Industries) or a significant reduction in its purchases could adversely affect our future reven earnings.

The 2010 moratorium on deepwater drilling in the U.S. Gulf of Mexico and its consequences could have a material adverse effect or business.

A moratorium on deepwater drilling in the U.S. Gulf of Mexico was enacted during the second quarter of 2010 following the Macondo blowout and oil spill. Even though such moratorium has been lifted, any prolonged reduction in oil and natural gas drilling and producti as a result of such moratorium or permitting issues in this area could result in a corresponding decline in the demand for our products ar which could adversely impact our operating results and financial condition.

Our information systems may experience an interruption or breach in security.

We rely heavily on information systems to conduct our business. Any failure, interruption or breach in security of our information syste result in failures or disruptions in our customer relationship management, general ledger systems and other systems. While we have pol procedures designed to prevent or limit the effect of the failure, interruption or security breach of our information systems, there can be assurance that any such failures, interruptions or security breaches will not occur or, if they do occur, that they will be adequately addre occurrence of any failures, interruptions or security breaches of the our information systems could damage our reputation, result in a los customer business, subject us to additional regulatory scrutiny, or expose us to civil litigation and possible financial liability, any of wh have a material adverse effect on our financial position or results of operations.

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GLOSSARY OF OILFIELD TERMS

	(Sources: Company management; A Dictionary for the Petroleum Industry, The University Austin, 2001.)
API	Abbr: American Petroleum Institute
Annular Blowout Preventer	A large valve, usually installed above the ram blowout preventers, that forms a seal in the annu between the pipe and the wellbore or, if no pipe is present, in the wellbore itself.
Annulus	The open space around pipe in a wellbore through which fluids may pass.
Automatic Pipe Handling Systems (Automatic Pipe Racker)	A device used on a drilling rig to automatically remove and insert drill stem components from the hole. It replaces the need for a person to be in the derrick or mast when tripping pipe into o hole.
Automatic Roughneck	A large, self-contained pipe-handling machine used by drilling crew members to make up and tubulars. The device combines a spinning wrench, torque wrench, and backup wrenches.
Beam pump	Surface pump that raise and lowers sucker rods continually, so as to operate a downhole pump
Bit	The cutting or boring element used in drilling oil and gas wells. The bit consists of a cutting el a circulating element. The cutting element is steel teeth, tungsten carbide buttons, industrial di polycrystalline diamonds (PDCs). These teeth, buttons, or diamonds penetrate and gouge or formation to remove it. The circulating element permits the passage of drilling fluid and utilize hydraulic force of the fluid stream to improve drilling rates. In rotary drilling, several drill coll joined to the bottom end of the drill pipe column, and the bit is attached to the end of the drill c Drill collars provide weight on the bit to keep it in firm contact with the bottom of the hole. M used in rotary drilling are roller cone bits, but diamond bits are also used extensively.
Blowout	An uncontrolled flow of gas, oil or other well fluids into the atmosphere. A blowout, or gusher when formation pressure exceeds the pressure applied to it by the column of drilling fluid. A k of an impending blowout.
Blowout Preventer (BOP)	Series of valves installed at the wellhead while drilling to prevent the escape of pressurized flu
Blowout Preventer (BOP) Stack	The assembly of well-control equipment including preventers, spools, valves, and nipples conn the top of the wellhead.
Closed Loop Drilling Systems	A solids control system in which the drilling mud is reconditioned and recycled through the dr process on the rig itself.
Coiled Tubing	A continuous string of flexible steel tubing, often hundreds or thousands of feet long, that is w a reel, often dozens of feet in diameter. The reel is an integral part of the coiled tubing unit, wh consists of several devices that ensure the tubing can be safely and efficiently inserted into the the surface. Because tubing can be lowered into a well without having to make up joints of tub running coiled tubing into the well is faster and less expensive than running conventional tubin advances in the use of coiled tubing make it a popular way in which to run tubing into and out Also called reeled tubing.
Cuttings	Fragments of rock dislodged by the bit and brought to the surface in the drilling mud. Washed cutting samples are analyzed by geologist to obtain information about the formations drilled.
Directional Well	Well drilled in an orientation other than vertical in order to access broader portions of the form

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Drawworks	The hoisting mechanism on a drilling rig. It is essentially a large winch that spools off or takes drilling line and thus raises or lowers the drill stem and bit.
Drill Pipe Elevator (Elevator)	On conventional rotary rigs and top-drive rigs, hinged steel devices with manual operating han crew members latch onto a tool joint (or a sub). Since the elevators are directly connected to th block, or to the integrated traveling block in the top drive, when the driller raises or lowers the the top-drive unit, the drill pipe is also raised or lowered.
Drilling jars	A percussion tool operated manually or hydraulically to deliver a heavy downward blow to fre drill stem.
Drilling mud	A specially compounded liquid circulated through the wellbore during rotary drilling operation
Drilling riser	A conduit used in offshore drilling through which the drill bit and other tools are passed from t the water s surface to the sea floor.
Drill stem	All members in the assembly used for rotary drilling from the swivel to the bit, including the K drill pipe and tool joints, the drill collars, the stabilizers, and various specialty items.
Fiberglass-reinforced spoolable pipe	A spoolable glass fiber-reinforced epoxy composite tubular product for onshore oil and gas ga injection systems, with superior corrosion resistant properties and lower installed cost than ste
Flexible pipe	A dynamic riser that connects subsea production equipment to a topside facility allowing for t oil, gas, and/or water.
Formation	A bed or deposit composed throughout of substantially the same kind of rock; often a lithologi Each formation is given a name, frequently as a result of the study of the formation outcrop at and sometimes based on fossils found in the formation.
FPSO	A Floating Production, Storage and Offloading vessel used to receive hydrocarbons from subs and then produce and store the hydrocarbons until they can be offloaded to a tanker or pipeline
Hardbanding	A special wear-resistant material often applied to tool joints to prevent abrasive wear to the are the pipe is being rotated downhole.
Hydraulic Fracturing	The process of creating fractures in a formation by pumping fluids, at high pressures, into the r which allows or enhances the flow of hydrocarbons.
Iron Roughneck	A floor-mounted combination of a spinning wrench and a torque wrench. The Iron Roughneck into position hydraulically and eliminates the manual handling involved with suspended indivi
Jack-up rig	A mobile bottom-supported offshore drilling structure with columnar or open-truss legs that su deck and hull. When positioned over the drilling site, the bottoms of the legs penetrate the seaf
Jar	A mechanical device placed near the top of the drill stem which allows the driller to strike a ve blow upward or downward on stuck pipe.
Joint	1. In drilling, a single length (from 16 feet to 45 feet, or 5 meters to 14.5 meters, depending on length) of drill pipe, drill collar, casing or tubing that has threaded connections at both ends. S joints screwed together constitute a stand of pipe. 2. In pipelining, a single length (usually 40 f meters) of pipe. 3. In sucker rod pumping, a single length of sucker rod that has threaded conn both ends.
Kelly	The heavy steel tubular device, four- or six-sided, suspended from the swivel through the rotar connected to the top joint of drill pipe to turn the drill stem as the rotary table returns. It has a b passageway that permits fluid to be circulated into the drill stem and up the annulus, or vice ve manufactured to API specifications are available only in four- or six-sided versions, are either feet (12 to 16 meters) long, and have diameters as small as 2.5 inches (6 centimeters) and as la inches (15 centimeters).

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Kelly bushing	A special device placed around the kelly that mates with the kelly flats and fits into the master the rotary table. The kelly bushing is designed so that the kelly is free to move up or down thro The bottom of the bushing may be shaped to fit the opening in the master bushing or it may ha that fit into the master bushing. In either case, when the kelly bushing is inserted into the maste and the master bushing is turned, the kelly bushing also turns. Since the kelly bushing fits onto the kelly turns, and since the kelly is made up to the drill stem, the drill stem turns. Also called bushing.
Kelly spinner	A pneumatically operated device mounted on top of the kelly that, when actuated, causes the k or spin. It is useful when the kelly or a joint of pipe attached to it must be spun up, that is, rota for being made up.
Kick	An entry of water, gas, oil, or other formation fluid into the wellbore during drilling. It occurs the pressure exerted by the column of drilling fluid is not great enough to overcome the pressu by the fluids in the formation drilled. If prompt action is not taken to control the kick, or kill th blowout may occur.
Making-up	1. To assemble and join parts to form a complete unit (e.g., to make up a string of drill pipe). 2 together two threaded pieces. Compare break out. 3. To mix or prepare (e.g., to make up a tank 4. To compensate for (e.g., to make up for lost time).
Manual tongs (Tongs)	The large wrenches used for turning when making up or breaking out drill pipe, casing, tubing pipe; variously called casing tongs, pipe tongs, and so forth, according to the specific use. Pow power wrenches are pneumatically or hydraulically operated tools that serve to spin the pipe u in some instances to apply the final makeup torque.
Master bushing	A device that fits into the rotary table to accommodate the slips and drive the kelly bushing so rotating motion of the rotary table can be transmitted to the kelly. Also called rotary bushing.
Mooring system	The method by which a vessel or buoy is fixed to a certain position, whether permanently or te
Motion compensation equipment	Any device (such as a bumper sub or heave compensator) that serves to maintain constant wei bit in spite of vertical motion of a floating offshore drilling rig.
Mud pump	A large, high-pressure reciprocating pump used to circulate the mud on a drilling rig.
Plug gauging	The mechanical process of ensuring that the inside threads on a piece of drill pipe comply with standards.
Pressure control equipment	Equipment used in: 1. The act of preventing the entry of formation fluids into a wellbore. 2. Th controlling high pressures encountered in a well.
Pressure pumping	Pumping fluids into a well by applying pressure at the surface.
Ram blowout preventer	A blowout preventer that uses rams to seal off pressure on a hole that is with or without pipe. A a ram preventer.
Ring gauging	The mechanical process of ensuring that the outside threads on a piece of drill pipe comply wit standards.
Riser	A pipe through which liquids travel upward.
Riser pipe	The pipe and special fitting used on floating offshore drilling rigs to established a seal between the wellbore, which is on the ocean floor, and the drilling equipment located above the surface water. A riser pipe serves as a guide for the drill stem from the drilling vessel to the wellhead a conductor or drilling fluid from the well to the vessel. The riser consists of several sections of includes special devices to compensate for any movement of the drilling rig caused by waves. called marine riser pipe, riser joint.

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Term	Definition
Rotary table	The principal piece of equipment in the rotary table assembly; a turning device used to impart power to the drill stem while permitting vertical movement of the pipe for rotary drilling. The bushing fits inside the opening of the rotary table; it turns the kelly bushing, which permits ver movement of the kelly while the stem is turning.
Rotating blowout preventer (Rotating Head)	A sealing device used to close off the annular space around the kelly in drilling with pressure a surface, usually installed above the main blowout preventers. A rotating head makes it possibl ahead even when there is pressure in the annulus that the weight of the drilling fluid is not ove the head prevents the well from blowing out. It is used mainly in the drilling of formations tha permeability. The rate of penetration through such formations is usually rapid.
Safety clamps	A clamp placed very tightly around a drill collar that is suspended in the rotary table by drill c Should the slips fail, the clamp is too large to go through the opening in the rotary table and th prevents the drill collar string from falling into the hole. Also called drill collar clamp.
Shaker	See Shale Shaker
Shale shaker	A piece of drilling rig equipment that uses a vibrating screen to remove cuttings from the circu fluid in rotary drilling operations. The size of the openings in the screen should be selected car be the smallest size possible to allow 100 per cent flow of the fluid. Also called a shaker.
Slim-hole completions (Slim-hole Drilling)	Drilling in which the size of the hole is smaller than the conventional hole diameter for a given This decrease in hole size enables the operator to run smaller casing, thereby lessening the cos completion.
Slips	Wedge-shaped pieces of metal with serrated inserts (dies) or other gripping elements, such as s buttons, that suspend the drill pipe or drill collars in the master bushing of the rotary table whe necessary to disconnect the drill stem from the kelly or from the top-drive unit s drive shaft. R fit around the drill pipe and wedge against the master bushing to support the pipe. Drill collar s around a drill collar and wedge against the master bushing to support the drill collar. Power sli pneumatically or hydraulically actuated devices that allow the crew to dispense with the manu of slips when making a connection.
Solids	See Cuttings
Spinning wrench	Air-powered or hydraulically powered wrench used to spin drill pipe in making or breaking co
Spinning-in	The rapid turning of the drill stem when one length of pipe is being joined to another. Spinni to separating the pipe.
Stand	The connected joints of pipe racked in the derrick or mast when making a trip. On a rig, the us about 90 feet (about 27 meters) long (three lengths of drill pipe screwed together), or a treble.
String	The entire length of casing, tubing, sucker rods, or drill pipe run into a hole.
Sucker rod	A special steel pumping rod. Several rods screwed together make up the link between the pum on the surface and the pump at the bottom of the well.
Tensioner	A system of devices installed on a floating offshore drilling rig to maintain a constant tension pipe, despite any vertical motion made by the rig. The guidelines must also be tensioned, so a s tensioner system is provided for them.
Thermal desorption	The process of removing drilling mud from cuttings by applying heat directly to drill cuttings.

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Tiebacks (Subsea)	A series of flowlines and pipes that connect numerous subsea wellheads to a single collection p
Top drive	A device similar to a power swivel that is used in place of the rotary table to turn the drill stem includes power tongs. Modern top drives combine the elevator, the tongs, the swivel, and the h though the rotary table assembly is not used to rotate the drill stem and bit, the top-drive syste to provide a place to set the slips to suspend the drill stem when drilling stops.
Torque wrench	Spinning wrench with a gauge for measuring the amount of torque being applied to the connec
Trouble cost	Costs incurred as a result of unanticipated complications while drilling a well. These costs are referred to as contingency costs during the planning phase of a well.
Turret	Mechanical device that allows a floating vessel to rotate around stationary flowlines, umbilica other associated risers.
Well completion	1. The activities and methods of preparing a well for the production of oil and gas or for other such as injection; the method by which one or more flow paths for hydrocarbons are establishe the reservoir and the surface. 2. The system of tubulars, packers, and other tools installed bene wellhead in the production casing; that is, the tool assembly that provides the hydrocarbon flo paths.
Wellhead	The termination point of a wellbore at surface level or subsea, often incorporating various valv control instruments.
Well stimulation	Any of several operations used to increase the production of a well, such as acidizing or fractu
Well workover	The performance of one or more of a variety of remedial operations on a producing oil well to increase production. Examples of workover jobs are deepening, plugging back, pulling and res liners, and squeeze cementing.
Wellbore	A borehole; the hole drilled by the bit. A wellbore may have casing in it or it may be open (un part of it may be cased, and part of it may be open. Also called a borehole or hole.
Wireline	A slender, rodlike or threadlike piece of metal usually small in diameter, that is used for lower tools (such as logging sondes, perforating guns, and so forth) into the well. Also called slick li

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

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ITEM 2. PROPERTIES

The Company owned or leased over 1,160 facilities worldwide as of December 31, 2012, including the following principal manufacturi
service, distribution and administrative facilities:

Location	Description	Building Size (SqFt)	Property Size (Acres)	Owned / Leased	T
Rig Technology:					
Lanzhou, China	Manufacturing Plant (Drilling Equipment) & Administrative Offices)	945,836	44	Owned*	
Pampa, Texas	Manufacturing Plant	549,095	500	Owned	
Houston, Texas	Manufacturing Plant of Drilling Equipment	511,964	33	Leased	
Kalundborg, Denmark	Flexibles Manufacturing, Warehouse, Shop & Administrative Offices	485,067	38	Owned	
Ulsan, South Korea	Fabrication of Drilling Equipment	380,068	51	Owned	
Houston, Texas	Bammel Facility, Repairs, Service, Parts, Administrative & Sales Offices	377,750	19	Leased	
Houston, Texas	West Little York Manufacturing Facility, Repairs, Service, Administrative & Sales Offices	483,450	34	Owned	
Orange, California	Manufacturing & Office Facility	351,418	9	Owned*	
Fort Worth, Texas	Coiled Tubing Manufacturing Facility, Warehouse, Administrative & Sales Offices	233,173	24	Owned	
Sugar Land, Texas	Manufacturing Plant, Warehouse & Administrative Offices	223,345	24	Owned	
Cedar Park, Texas	Instrumentation Manufacturing Facility, Administrative & Sales Offices	215,778	40	Owned	
Carquefou, France	Manufacturing Plant of Offshore Equipment	213,000		Owned	
Galena Park, Texas	Manufacturing Plant (Drilling Rigs & Components) & Administrative Offices	191,913	22	Owned	
Lafayette, Louisiana	Repair, Services and Spares facility	189,000	17	Leased	
Aberdeen, Scotland	Pressure Control Manufacturing, Administrative & Sales Offices	188,200	5	Leased	
Conroe, Texas	Manufacturing Plant, Administrative & Sales Offices	173,800	13	Leased	
Houston, Texas	Manufacturing Plant of Drilling Rigs & Components, Admin & Sales Offices	170,040	11	Owned	
Kristiansand, Norway	Warehouse & Administrative/Sales Offices	167,200	1	Owned	
Calgary, Canada	Manufacturing Facility & Administrative Offices	161,321	19	Leased	
Singapore	Manufacturing, Repairs, Service, Field Service/Training, Administrative & Sales Offices	149,605	3	Leased	
Anderson, Texas	Rolligon Manufacturing Facility, Administrative & Sales Offices	145,727	77	Leased	
Houston, Texas	Administrative Offices (Westchase)	125,494	4	Leased	
Duncan, Oklahoma	Nitrogen Units Manufacturing Facility, Warehouse & Offices	93,800	14	Owned	
Molde, Norway	Manufacturing Facility of Drilling Equipment	78,000	1	Owned	
Etten Leur, Netherlands	Manufacturing Plant & Sales Offices (Drilling Equipment)	75,000	6	Owned	
Sogne, Norway	Warehouse and Offices	70,959	4	Leased	
Edmonton, Canada	Manufacturing Plant (Drilling Machinery & Equipment)	70,346	18	Owned	
Stavanger, Norway	Manufacturing Facility of Drilling Equipment	41,333	1	Leased	
Dubai, UAE	Repair & Overhaul of Drilling Equipment, Warehouse & Sales Office	31,633	2	Owned	
Aracaju, Brazil	Fabrication of Drilling Equipment	11,195	1	Leased	
New Iberia, Louisiana	Riser Repair Facility	10,000	2	Leased	

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Location	Description	Building Size (SqFt)	Property Size (Acres)	Owned / Leased	T
Petroleum Services & Supplies:					
Senai, Malaysia	Manufacturing Facility of Fiber Glass Products	595,965	14	Owned*	
Navasota, Texas	Manufacturing Facility & Administrative Offices	562,112	196	Owned	
Conroe, Texas	Manufacturing Facility of Drill Bits and Downhole Tools, Administrative & Sales Offices	341,800	35	Owned	
Houston, Texas	Sheldon Road Inspection Facility	319,365	192	Owned	
Veracruz, Mexico	Manufacturing Facility of Tool Joints, Warehouse & Administrative Offices	303,400	42	Leased	
Houston, Texas	Holmes Rd Complex: Manufacturing, Warehouse, Coating Manufacturing Plant & Corporate Offices	300,000	50	Owned	
Little Rock, Arkansas	Manufacturing Facility of Fiber Glass Products	271,924	44	Owned	
Houston, Texas	Manufacturing, Service, Warehouse & Administrative Offices (WGB)	245,319	14	Leased	
Houston, Texas	QT Coiled Tubing Manufacturing Facility, Warehouse & Offices	238,428	26	Owned	
Tulsa, Oklahoma	Manufacturing Facility of Pumps, Warehouse and Administrative & Sales Offices	212,625	10	Owned	
Durham, England	Manufacturing Facility, Warehouse & Administrative Offices	183,100	13	Leased	
Dubai, UAE	Manufacturing Facility of Downhole Tools, Distribution Warehouse	180,000	1	Leased	
Conroe, Texas	Solids Control Manufacturing Facility, Warehouse, Administrative & Sales Offices, and Engineering Labs	153,750	35	Owned	
Houston, Texas	Manufacturing of fiber-reinforced tubular products & Administrative Offices	146,668	6	Leased	
McAlester, Oklahoma	Manufacturing Facility of Pumps, Service & Administrative Offices	139,359	25	Owned	
San Antonio, Texas	Manufacturing Facility of Fiber Glass Products	120,084	20	Owned	
Edmonton, Canada	Manufacturing Facility, Repairs, Assembly, Warehouse & Administrative Offices	112,465	11	Owned	
Singapore	Manufacturing Plant of Roller Cone Drill Bits, Shop, Warehouse & Administrative Offices	109,663	5	Leased	
Provo, Utah	Manufacturing Facility of Drilling Products, Fabrication, Warehouse & Administrative Offices	109,026	15	Owned	
Aberdeenshire, Scotland	Solids Control Manufacturing Facility, Assembly, Administrative & Sales Offices	107,250	6	Owned	
Betim, Brazil	Manufacturing Facility of Fiber Glass Products	96,691	18	Owned	
Mineral Wells, Texas	Manufacturing Facility of Fiber Glass Products	95,640	15	Owned	
Singapore	Manufacturing Facility of Fiber Glass Products	86,941	2	Leased	
Larose, Louisiana	Generator Rentals & Service, Assembly, Warehouse & Administrative Offices	72,993	11	Leased	
Stonehouse, U.K.	Manufacturing Facility, Inspection Plant & Premium Threading Shop	71,000	4	Owned	
Groot-Ammers, Netherlands	Workshop, Warehouse & Offices	61,859	3	Leased	
Beaumont, Texas	Pipe Threading Facility, Fabrication, Warehouse & Administrative Offices	42,786	40	Owned	
Dubai, UAE	Service Facility of Solids Control Equipment, Screens & Spare Parts, Inventory Warehouse, Sales, Rentals & Administrative Offices	14,569	1	Leased	
Rio de Janeiro, Brazil	Service and Repair Center, and Distribution Operations	12,116	1	Leased	

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Location	Description	Building Size (SqFt)	Property Size (Acres)	Owned / Leased	T
Distribution & Transmission:					
LaPorte, Texas	Distribution and Warehouse	450,000	20	Leased	
Manchester, England	Manufacturing, Assembly & Testing of PC Pumps and Expendable Parts, Administrative & Sales Offices	244,000	11	Owned	
Tracy, California	Water Transmission Group / Northern California	164,735	83	Owned	
Bogota, Colombia	APCI Fabrication, Coating, Machine shop	146,904	33	Owned	
Rancho Cucamonga, California	Water Transmission Group / Southern California	130,600	73	Owned	
Anniston, Alabama	Pole Products Manufacture	121,696	20	Leased	
Houston, Texas	Distribution and Warehouse	120,423	19	Owned*	
Lloydminster, Canada	Lloydminster Distribution Operations; Applied Products Facility	114,100	23	Leased	
Edmonton, Canada	Redistribution Center	100,000	7	Leased	
Kailua, Hawaii	KAAPA Quarry	53,980	163	Owned*	
Estevan, Canada	Distribution & Warehouse	27,842	6	Owned	
Honolulu, Hawaii	Hawaii Concrete Division Head Quarters	21,215	3	Leased	
Corporate:					
Houston, Texas	Corporate and Shared Administrative Offices	337,019	14	Leased	

* Building owned but land leased.

We own or lease more than 170 repair and manufacturing facilities that refurbish and manufacture new equipment and parts, approxima distribution service centers and 530 service centers that provide inspection and equipment rental worldwide.

ITEM 3. LEGAL PROCEEDINGS

We have various claims, lawsuits and administrative proceedings that are pending or threatened, all arising in the ordinary course of bu with respect to commercial, product liability and employee matters. Although no assurance can be given with respect to the outcome of any other pending legal and administrative proceedings and the effect such outcomes may have, we believe any ultimate liability resulti the outcome of such claims, lawsuits or administrative proceedings will not have a material adverse effect on our consolidated financial results of operations or cash flows. See Note 12 to the Consolidated Financial Statements.

ITEM 4. MINE SAFETY DISCLOSURES

Information regarding mine safety and other regulatory actions at our mines is included in Exhibit 95 to this Form 10-K.

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PART II

ITEM 5. MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information

Our common stock is traded on the New York Stock Exchange (NYSE) under the symbol NOV . The following table sets forth, for th periods indicated, the range of high and low closing prices for the common stock, as reported by the NYSE and the cash dividends decl share.

	2012				2011		
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	First Quarter	Second Quarter	Third Quarter
Common stock sale price:							
High	$ 87.18	$ 80.67	$ 84.83	$ 82.03	$ 82.26	$ 81.46	$ 83.31
Low	$ 70.75	$ 60.00	$ 64.40	$ 64.87	$ 63.72	$ 65.40	$ 51.22
Cash dividends per share	$ 0.12	$ 0.12	$ 0.12	$ 0.13	$ 0.11	$ 0.11	$ 0.11

As of February 14, 2013, there were 3,375 holders of record of our common stock. Many stockholders choose to own shares through br accounts and other intermediaries rather than as holders of (excluding individual participants in securities positions listing) record so th number of stockholders is unknown but significantly higher.

Cash dividends aggregated $209 million and $191 million for the years ended December 31, 2012 and 2011, respectively. The declarati payment of future dividends is at the discretion of the Company s Board of Directors and will be dependent upon the Company s resu operations, financial condition, capital requirements and other factors deemed relevant by the Company s Board of Directors.

The information relating to our equity compensation plans required by Item 5. Market for Registrant s Common Equity, Related Stoc Matters and Issuer Purchases of Equity Securities is incorporated by reference to such information as set forth in Item 12. Security C Certain Beneficial Owners and Management and Related Stockholder Matters contained herein.

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PERFORMANCE GRAPH

The graph below compares the cumulative total shareholder return on our common stock to the S&P 500 Index and the S&P Oil & Gas Equipment & Services Index. The total shareholder return assumes $100 invested on December 31, 2007 in National Oilwell Varco, Inc 500 Index and the S&P Oil & Gas Equipment & Services Index. It also assumes reinvestment of all dividends. The peer group is weigh on the market capitalization of each company. The results shown in the graph below are not necessarily indicative of future performanc

	12/07	12/08	12/09	12/10	12/11
National Oilwell Varco, Inc.	**$ 100.00**	**$ 33.27**	**$ 61.55**	**$ 94.77**	**$ 96.42**
S&P 500	**100.00**	**63.00**	**79.67**	**91.67**	**93.61**
S&P Oil & Gas Equipment & Services	**100.00**	**40.82**	**65.23**	**90.86**	**80.24**

This information shall not be deemed to be soliciting material or to be filed with the Commission or subject to Regulation 1 240.14a-1-240.14a-104), other than as provided in Item 201(e) of Regulation S-K, or to the liabilities of section 18 of the Exchange Act U.S.C. 78r).

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ITEM 6. SELECTED FINANCIAL DATA

	Years Ended December 31,			
	2012 (1)	2011	2010	2009
	(in millions, except per share data)			
Operating Data:				
Revenue	$ 20,041	$ 14,658	$ 12,156	$ 12,712
Operating profit	3,557	2,937	2,447	2,315
Income before taxes	3,505	2,922	2,397	2,208
Net income attributable to Company	$ 2,491	$ 1,994	$ 1,667	$ 1,469
Net income per share				
Basic	$ 5.86	$ 4.73	$ 3.99	$ 3.53
Diluted	$ 5.83	$ 4.70	$ 3.98	$ 3.52
Cash dividends per share	$ 0.49	$ 0.45	$ 0.41	$ 1.10
Other Data:				
Depreciation and amortization	$ 628	$ 555	$ 507	$ 490
Capital expenditures	$ 583	$ 483	$ 232	$ 250
Balance Sheet Data:				
Working capital	$ 10,029	$ 6,694	$ 5,999	$ 5,084
Total assets	$ 31,484	$ 25,515	$ 23,050	$ 21,532
Long-term debt, less current maturities	$ 3,148	$ 159	$ 514	$ 876
Total Company stockholders equity	$ 20,239	$ 17,619	$ 15,748	$ 14,113

(1) Financial information for prior periods and dates may not be comparable due to the impact of $2.9 billion in business combinatio financial position and results of operations during 2012.

(2) Financial results of Grant Prideco have been included in our Consolidated Financial Statements beginning April 21, 2008, the dat Prideco merger was completed and each of Grant Prideco s common shares were exchanged for .4498 shares of our common sto $23.20 in cash.

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ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERA
General Overview

The Company is a leading worldwide provider of highly engineered drilling and well-servicing equipment, products and services to the exploration and production segments of the oil and gas industry. With operations in over 1,160 locations across six continents, we desig manufacture and service a comprehensive line of drilling and well servicing equipment; sell and rent drilling motors, specialized downh and rig instrumentation; perform inspection and internal coating of oilfield tubular products; provide drill cuttings separation, managem disposal systems and services; provide expendables and spare parts used in conjunction with our large installed base of equipment; and supply chain management services through our distribution network. We also manufacture coiled tubing, manufacture high pressure fib composite tubing, and sell and rent advanced in-line inspection equipment to makers of oil country tubular goods. We have a long tradi pioneering innovations which improve the cost-effectiveness, efficiency, safety, and environmental impact of oil and gas operations.

Our revenues and operating results are directly related to the level of worldwide oil and gas drilling and production activities and the pr and cash flow of oil and gas companies and drilling contractors, which in turn are affected by current and anticipated prices of oil and g gas prices have been and are likely to continue to be volatile. See Risk Factors . We conduct our operations through three business se Technology, Petroleum Services & Supplies and Distribution & Transmission. See Item 1. Business for a discussion of each of these segments.

Unless indicated otherwise, results of operations data are presented in accordance with accounting principles generally accepted in the U States (GAAP). In an effort to provide investors with additional information regarding our results of operations, certain non-GAAP f measures, including operating profit excluding other costs, operating profit percentage excluding other costs and diluted earnings per sh excluding other costs, are provided. See Non-GAAP Financial Measures and Reconciliations in Results of Operations for an explana use of non-GAAP financial measures and reconciliations to their corresponding measures calculated in accordance with GAAP.

Operating Environment Overview

Our results are dependent on, among other things, the level of worldwide oil and gas drilling, well remediation activity, the price of cru natural gas, capital spending by other oilfield service companies and drilling contractors, and the worldwide oil and gas inventory levels industry indicators for the past three years include the following:

	2012*	**2011***	**2010***	**% 2012 v 2011**
Active Drilling Rigs:				
U.S.	1,919	1,875	1,541	2.3%
Canada	365	423	351	(13.7%)
International	1,234	1,168	1,094	5.7%
Worldwide	3,518	3,466	2,986	1.5%
West Texas Intermediate Crude Prices (per barrel)	$ 94.11	$ 94.90	$ 79.40	(0.8%)
Natural Gas Prices ($/mmbtu)	$ 2.75	$ 4.00	$ 4.39	(31.3%)

* Averages for the years indicated. See sources below.

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The following table details the U.S., Canadian, and international rig activity and West Texas Intermediate Oil prices for the past nine qu
ended December 31, 2012 on a quarterly basis:

Source: Rig count: Baker Hughes, Inc. (www.bakerhughes.com); West Texas Intermediate Crude Price: Department of Energy, Energy
Information Administration (www.eia.doe.gov).

The average price per barrel of West Texas Intermediate Crude was $94.11 per barrel in 2012, a slight decrease of 0.8% over the averag
2011 of $94.90 per barrel. Average natural gas prices were $2.75 per mmbtu, a decrease of 31.3% compared to the 2011 average of $4.0
mmbtu. Average rig activity worldwide increased 1.5% for the full year in 2012 compared to 2011. Average crude oil prices for the fou
of 2012 was $87.96 per barrel and natural gas was $3.40 per mmbtu.

At February 8, 2013, there were 2,390 rigs actively drilling in North America, compared to 1,967 rigs at December 31, 2012; an increas
from year end 2012 levels. The price of oil increased to $95.72 per barrel and gas decreased to $3.27 per mmbtu at February 8, 2013, re
a 4.2% increase in oil prices and a 4.6% decrease in gas prices from the end of 2012.

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EXECUTIVE SUMMARY

During 2012 National Oilwell Varco, Inc. earned $2.5 billion in net income attributable to Company, or $5.83 per fully diluted share. E
diluted share increased 24% from prior year levels of $2.0 billion or $4.70 per fully diluted share. Excluding other costs (as defined in t
Non-GAAP Financial Measures and Reconciliations in Results of Operations) from both years, diluted earnings per share of $5.91 i
increased 24% from $4.77 per share in 2011.

During 2012 revenue grew 37% from 2011, to $20.0 billion, and operating profit grew 21% from 2011 as well, to $3.6 billion. Generall
benefitted from strategic acquisitions as well as higher international drilling activity, which saw international rig counts (as measured b
Hughes) increase 6% from 2011. This enabled all three of the Company s reporting segments to post higher year-over-year revenues i

For its fourth quarter ended December 31, 2012, the Company generated $668 million in net income attributable to Company, or $1.56
diluted share, on $5.7 billion in revenue. Compared to the third quarter of 2012 revenue increased $366 million or 7% and net income a
to Company increased $56 million. Compared to the fourth quarter of 2011, revenue increased $1.4 billion or 33%, and net income attri
Company increased $94 million or 16%.

The fourth quarter of 2012 included pre-tax other costs of $51 million, the third quarter of 2012 included pre-tax other costs of $48 mil
the fourth quarter of 2011 included pre-tax other costs of $12 million. The fourth quarter of 2012 also included a net $69 million tax be
related to certain U.S. foreign tax credits in the quarter. Excluding the tax benefit and the other costs from all periods, fourth quarter 20
were $1.49 per fully diluted share, compared to $1.52 per fully diluted share in the third quarter of 2012 and $1.37 per fully diluted sha
fourth quarter of 2011.

Operating profit excluding other costs was $954 million or 16.8% of sales in the fourth quarter of 2012, compared to $946 million or 17
sales in the third quarter of 2012, and $860 million or 20.2% of sales in the fourth quarter of 2011. Fourth quarter 2012 results include f
results for several businesses acquired since the beginning of the year, including three lower-margin distribution businesses, which resu
lower margins for the fourth quarter of 2012 as compared to the fourth quarter of 2011 year-over-year. Operating leverage or flow-thro
change in operating profit divided by the change in revenue) was 2% on the sequential revenue increase, and 7% on the year-over-year
quarter sales increase.

Also of note, in the fourth quarter of 2012, National Oilwell Varco issued $3 billion of Senior Notes with an effective yield of 2.92%, w
million due in 5 years, $1.4 billion due in 10 years, and $1.1 billion due in 30 years.

Oil & Gas Equipment and Services Market

Worldwide, developed economies turned down in late 2008 as looming housing-related asset write-downs at major financial institution
credit markets and sparked a serious global banking crisis. Major central banks responded vigorously through 2009, but a credit-driven
economic recession developed nonetheless. Developed economies struggled to recover throughout 2010 and 2011, facing additional ec
weakness related to potential sovereign debt defaults in Europe. As a result, commodity prices, including oil and gas prices, have been
After rising steadily for six years to peak at around $140 per barrel (West Texas Intermediate Crude Prices) earlier in 2008, oil prices c
back to average $43 per barrel during the first quarter of 2009, but have slowly recovered into the $100 per barrel range by mid-2011 w
held relatively steady since (although the fourth quarter of 2012 dipped to average $88 per barrel). After trading in the range of $6 to $
from 2004 to 2008, North American gas prices declined to average $3.17 per mmbtu in the third quarter of 2009. Gas prices recovered
trading up above $5 six months later, but then slowly settled into the $3 to $4 per mmbtu through 2011 before turning down sharply in
to the $2 range (fourth quarter 2012 recovered to average $3.40 per mmbtu). The recent gas price collapse appears to be a direct result
gas supply out of unconventional shale reservoir development across North America, including gas associated with liquids production f
shales.

The steadily rising oil and gas prices seen between 2003 and 2008 led to high levels of exploration and development drilling in many o
basins around the globe by 2008, but activity slowed sharply in 2009 with lower oil and gas prices and tightening credit availability. St
oil prices since then have led to steadily rising oil-drilling activity over the past two years.

The count of rigs actively drilling in the U.S. as measured by Baker Hughes (a good measure of the level of oilfield activity and spendi
at 2,031 rigs in September 2008, but decreased to a low of 876 in June, 2009. U.S. rig count increased steadily to 2,026 by late 2011, b
decline with lower gas prices to average 1,809 rigs during the fourth quarter of 2012. Many oil and gas operators reliant on external fin
fund their drilling programs significantly curtailed their drilling activity in 2009, but drilling recovered across North America as gas pr
improved. Recently low gas prices have caused operators to trim drilling, driving the average U.S. gas rig count down 52% from the fo

of 2011, to an average of 423 in the fourth quarter of

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2012. However, with high oil prices, many have redirected drilling efforts towards unconventional shale plays targeting oil, rather than
the fourth quarter of 2012, oil-directed drilling rose to almost 77% of the total domestic drilling effort, and, while the average oil-direct
rig count declined by 2% from the third quarter to 1,383 rigs, it remains near its highest levels in the U.S. since the early 1980 s.

Most international activity is driven by oil exploration and production by national oil companies, which has historically been less susce
short-term commodity price swings; but, the international rig count exhibited modest declines nonetheless, falling from its September 2
of 1,108 to 947 in August 2009. Recently international drilling rebounded due to high oil prices, climbing back to 1,285 in June 2012 b
falling back to 1,253 in December.

During 2009 the Company saw its Petroleum Services & Supplies and its Distribution & Transmission margins affected most acutely by
downturn, through both volume and price declines. Resumption of drilling activity since enabled both of these segments to gain volume
and lift pricing, and improve margins since the fourth quarter of 2009. The Company s Rig Technology segment was less impacted by
downturn owing to its high level of contracted backlog, which it executed well. It posted higher revenues in 2009 than 2008 as a result.
revenues declined in 2010 as its backlog declined, but increased 12% in 2011 as orders for new offshore rigs began to increase.

The recent economic decline beginning in late 2008 followed an extended period of high drilling activity which fueled strong demand f
services between 2003 and 2008. Incremental drilling activity through the upswing shifted toward harsh environments, employing incre
sophisticated technology to find and produce reserves. Higher utilization of drilling rigs tested the capability of the world s fleet of rigs
which is old and of limited capability. Technology has advanced significantly since most of the existing rig fleet was built. The industry
little during the late 1980 s and 1990 s on new drilling equipment, but drilling technology progressed steadily nonetheless, as the Com
competitors continued to invest in new and better ways of drilling. As a consequence, the safety, reliability, and efficiency of new, mod
surpass the performance of most of the older rigs at work today. Drilling rigs are now being pushed to drill deeper wells, more complex
highly deviated wells and horizontal wells, tasks which require larger rigs with more capabilities. The drilling process effectively consu
mechanical components of a rig, which wear out and need periodic repair or replacement. This process was accelerated by very high rig
and wellbore complexity. Drilling consumes rigs; more complex and challenging drilling consumes rigs faster.

The industry responded by launching many new rig construction projects since 2005, to 1.) retool the existing fleet of jackup rigs (acco
RigLogix, nearly 65% of the existing 494 jackup rigs are more than 25 years old); 2.) replace older mechanical and DC electric land rig
improved AC power, electronic controls, automatic pipe handling and rapid rigup and rigdown technology; and 3.) build out additional
floating drilling rigs, including semisubmersibles and drillships, to employ recent advancements in deepwater drilling to exploit unexpl
deepwater basins. We believe that the newer rigs offer considerably higher efficiency, safety, and capability, and that many will effecti
replace a portion of the existing fleet.

As a result of these trends the Company s Rig Technology segment grew its backlog of capital equipment orders from $0.9 billion at J
2005, to $11.8 billion at September 30, 2008. However, as a result of the credit crisis and slowing drilling activity, orders declined belo
flowing out of backlog as revenue, causing the backlog to decline to $4.9 billion by June 30, 2010. The backlog increased steadily since
drillers began ordering more than the Company shipped out of backlog, and finished the fourth quarter of 2012 at a record $11.9 billion
Approximately $7.4 billion of these orders are scheduled to flow out as revenue during 2013, with the balance flowing out in 2014 and
this backlog, 91% of the total is for equipment destined for offshore operations, with 9% destined for land. Equipment destined for inte
markets totaled 94% of the backlog.

Segment Performance

The Rig Technology segment generated $10.1 billion in revenues and $2.3 billion in operating profit or 23.1% of sales during 2012. Co
the prior year revenues improved 30%, however, operating profit improved 14% year-over-year due to a broad change in the segment s
mix, which led to lower margins. Offshore projects contracted at high prices in 2007 and 2008 were manufactured in low cost environm
2010, resulting in high margins (29.6%) for the group. As these projects were completed and replaced with lower priced projects, 2011
declined 330 basis points from the prior year. For the fourth quarter of 2012, the segment generated $2.9 billion in revenues and $636 m
operating profit or 22.0% of sales. Compared to the prior quarter revenues increased $349 million or 14%, and operating profit increase
million. Operating leverage or flow-through was 11% from the third quarter to the fourth quarter. Compared to the fourth quarter of 201
revenues grew $580 million or 25%, and operating profit increased $39 million. Year-over-year operating leverage or flow-through was
Margins have moved down steadily since mid-2010 due to an adverse mix shift in the segment, the addition of lower-margin acquisitio
incremental expenses to support several strategic growth initiatives. The mix shift arises from offshore projects contracted at high price
and 2008, which were subsequently manufactured in low cost environments in 2009 and 2010, resulting in high margins for the group v
peaked in the third quarter of 2010. As these projects have been completed and replaced with lower priced projects, margins have gradu
declined. Revenue out of backlog increased 16% sequentially and increased 25% year-over-year. Non-backlog revenue, which is predo
aftermarket spares and services, increased 8% sequentially and increased 27% from the fourth

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quarter of 2011. Orders for seven deepwater floating rig equipment packages, and three spare BOP stacks contributed to total order add
backlog of $2.4 billion during the fourth quarter. Interest in offshore rig construction has remained strong as announced dayrates for de
offshore rigs are increasing, rig building costs have stabilized at attractive levels, and financing appears to be available for most establis
drillers. The Company continues to tender additional new offshore rig projects for Petrobras to shipyards and drilling contractors, whicl
built in Brazil. However, further potential bookings of any additional offshore rigs for Brazil may continue to be subject to delays. The
well intervention and stimulation product sales increased 25% sequentially, as the delivery of several large projects to international cust
more than offset a continued decline in demand for pressure pumping equipment.

The Petroleum Services & Supplies segment generated $7.0 billion in revenue and $1.5 billion in operating profit, or 21.5% of sales, fo
year 2012. Compared to the prior year revenue increased 23%, and operating leverage or flow-through was 33%. For the fourth quarter
the segment generated $1.8 billion in revenue and $340 million in operating profit, or 19.2% of sales. Compared to the prior quarter rev
increased $53 million or 3%, but operating profit declined $43 million. Sequentially, high year-end sales of drill pipe and large outside
(O.D.) connectors, combined with revenue growth in the international coating business, more than offset the lower sales of downhol
fluid-end expendables and coiled tubing, which were directly attributable to the reduction in U.S. land drilling and well service activity.
to the fourth quarter of 2011 revenues increased $200 million or 13% and operating leverage or flow-through was 23%. Approximately
the segment s fourth quarter sales were into North American markets, and 45% of sales were into international markets.

The Distribution & Transmission segment generated $3.9 billion in revenue and $185 million in operating profit or 4.7% of sales durin
Revenues improved 110% from 2011. For the fourth quarter of 2012, the segment generated $1.3 billion in revenue and $54 million in
profit or 4.3% of sales. Revenues declined $47 million or 4% from the third quarter of 2012 while operating profit increased $12 millio
Compared to the fourth quarter of 2011, revenues increased $708 million or 126% and flow-through or operating leverage was 1%. Seq
the overall decline in U.S. drilling and well service activity negatively impacted day-to-day sales of maintenance, repair and operating
consumables, as well as sales of tubular products. The year over year revenue growth was due primarily to the acquisitions of Wilson a
Franklin, made during the second and third quarters of 2012, respectively. Approximately 84% of the group s fourth quarter sales were
American markets and 16% into international markets.

Outlook

Following the credit market downturn, global recession, and lower commodity prices of 2009, we saw signs of stabilization and recove
of our markets in 2010 and into 2011, led by higher drilling activity in North America and slowly improving international drilling activ
levels for new deepwater drilling rigs have rebounded sharply, and the Rig Technology segment continues to experience a high level of
dayrates for deepwater offshore rigs continue to improve. Still, margins, which were 22.4% in the fourth quarter of 2012, may be tempo
challenged to expand, due to lower-margin contributions from recent subsea production equipment acquisitions, a soft outlook for land
workover and pressure pumping equipment markets in North America, in view of low gas and natural gas liquids prices, and by increm
expenses to support long-term strategic growth initiatives.

Our outlook for the Company s Petroleum Services & Supplies segment and Distribution & Transmission segment remains closely tie
count, particularly in North America. The fourth quarter saw domestic rig counts continue to decline, resulting in an average U.S. rig co
December 2012 that was down 11% from the average U.S. rig count in January of 2012, and an average Canadian rig count in Decemb
that was down 18% from the same period in 2011. As a result, pricing and volumes are beginning to come under pressure as pressure p
drilling contractors and oil companies reduce operating and capital expenditures. Additionally, economic weakness may pressure oil pr
could lead to further activity declines, particularly among North American operators which may rely on cash flows from gas productio
external financing to fund their drilling operations. In contrast, activity generally seems to be continuing to increase in most internation
outside North America.

The Company believes it is well positioned, and should benefit from its strong balance sheet and capitalization, access to credit, global
infrastructure, broad product and service offering, installed base of equipment, and a record level of contracted orders. In the event of a
downturn, the Company also believes that its long history of cost-control and downsizing in response to slowing market conditions, an
executing strategic acquisitions during difficult periods will enable it to capitalize on new opportunities to effect new organic growth a
acquisition initiatives.

Still the recovery of the world economy continues to move forward with a great deal of uncertainty as the world watches the sovereign
in several European countries unfold, market turbulence and general global economic worries. If such global economic uncertaintantie
adversely, world oil and gas prices could be impacted which in turn could negatively impact the worldwide rig count and the Company
financial results.

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Results of Operations

Years Ended December 31, 2012 and December 31, 2011

The following table summarizes the Company s revenue and operating profit by operating segment in 2012 and 2011 (in millions):

	Years Ended December 31,		Variance	
	2012	2011	$	%
Revenue:				
Rig Technology	$ 10,107	$ 7,788	$ 2,319	29
Petroleum Services & Supplies	6,967	5,654	1,313	23
Distribution & Transmission	3,927	1,873	2,054	109
Eliminations	(960)	(657)	(303)	46
Total Revenue	$ 20,041	$ 14,658	$ 5,383	36
Operating Profit:				
Rig Technology	$ 2,335	$ 2,053	$ 282	13
Petroleum Services & Supplies	1,501	1,072	429	40
Distribution & Transmission	185	135	50	37
Unallocated expenses and eliminations	(464)	(323)	(141)	43
Total Operating Profit	$ 3,557	$ 2,937	$ 620	21
Operating Profit %:				
Rig Technology	23.1%	26.4%		
Petroleum Services & Supplies	21.5%	19.0%		
Distribution & Transmission	4.7%	7.2%		
Total Operating Profit %	17.7%	20.0%		

Rig Technology

Revenue from Rig Technology for the year ended December 31, 2012 was $10,107 million, an increase of $2,319 million (29.8%) com
the year ended December 31, 2011. Deepwater offshore drilling worldwide and active shale plays in North America were the primary d
forces for the increase in revenue for this segment during the first half of 2012, resulting in increased rig construction as well as demand
intervention and stimulation equipment and aftermarket spare parts. In addition, the acquisitions of NKT and Enerflow, occurring towar
beginning of the second quarter of 2012, contributed to the increase in revenue for Rig Technology. As the segment moved into the sec
2012, it saw continued strong deepwater offshore demand as well as a strong demand in international markets with strong revenue grow
coiled tubing equipment, wireline equipment and land rigs sold internationally. North American markets, however, saw a decrease in de
land drilling as both gas and oil plays have decreased production. This is evidenced by a decrease in rig count in the U.S. during 2012 a
resulted in lower sales of land rigs and jackups in the U.S. as the segment moved into the second half of 2012. The average rig count in
during the fourth quarter of 2012 decreased to 1,809 rigs (9%) from the first quarter 2012 average of 1,991 rigs. Rig Technology revenu
decrease as it enters 2013 due to the decrease in demand for pressure pumping equipment.

Operating profit from Rig Technology was $2,335 million (which included $45 million in other costs related to acquisitions) for the yea
December 31, 2012, an increase of $282 million (13.7%) compared to 2011. Operating profit percentage decreased to 23.1%, from 26.4
Partially contributing to the decrease in operating profit percentage was a decrease in the average margin of revenue out of backlog as c
signed during 2009 and 2010 contain less favorable margins compared to contracts won during the order ramp-up from 2005 to 2008. A
contributing to the decrease in operating profit percentage were integration costs related to the NKT and Enerflow acquisitions made du
second quarter of 2012 as well as considerable start-up costs associated with construction of an NOV Flexibles plant in Brazil, and the c
a new Technical College in Korea. Coiled tubing equipment, wireline equipment and land rigs sold later in the year were primarily driv
international projects that were secured at lower than average margins. Finally, increased FPSO related revenues, with operating profit l

other parts of this segment, were dilutive to overall Rig Technology operating profit margins. As the segment enters 2013, we anticipate pricing pressures in North America coupled with a continuing shift in product mix that includes a growing percentage of Brazil and FPS revenues.

The Rig Technology segment monitors its capital equipment backlog to plan its business. New orders are added to backlog only when t Company receives a firm written order for major drilling rig components or a signed contract related to a construction project. The capi equipment backlog was $11.9 billion at December 31, 2012, an increase of $1.7 billion (17%) from backlog of $10.2 billion at Decemb 2011.

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Petroleum Services & Supplies

Revenue from Petroleum Services & Supplies for the year ended December 31, 2012 was $6,967 million, an increase of $1,313 million (23.2%) compared to the year ended December 31, 2011. Strong shale plays in North America lead to an increase in revenue for the Pet Services & Supplies segment during the first half of 2012 compared to 2011. Acquisitions made during the year such as Fiberspar Corp Zap-Lok Pipeline Systems, Inc. contributed to the increase in revenue for 2012 compared to 2011. Full period results of Ameron as wel strategic acquisitions made during 2011 in the U.S., the U.K., the Netherlands, Singapore, Malaysia and Brazil also contributed to the ir revenue for this segment in 2012 compared to 2011. Moving into the second half of 2012, while stronger than in 2011, compared to the of 2012, the segment saw a decrease in North American activity as evidenced in the decrease in U.S. rig count throughout the year. Petr Services & Supplies revenues could decrease as it enters 2013 as many of its businesses enter 2013 with diminished backlog and U.S. b drilling contractors as well as service firms have been hesitant to release new orders.

Operating profit from Petroleum Services & Supplies was $1,501 million (which included $18 million in other costs related to acquisiti the year ended December 31, 2012 compared to $1,072 million for 2011, an increase of $429 million (40.0%). Operating profit percenta increased to 21.5% up from 19.0% in 2011. This increase is primarily due to increased volume, favorable pricing and cost reductions w business units within the segment during the first half of 2012 compared to the same period in 2011. However, as the segment moved in second half of the year, due to the decrease in North American market activity, it began to experience pricing pressures across a number products in the North American land market, coupled with a shift in product mix, which led to lower margins. Most notably, the continu reduction of North American land activity led to pricing pressures and an overall reduction in volume for the segments downhole tools, pipe, coiled dubing, and fluid end expendables products. While declines in various product lines were offset partially with growth in the XL Systems and Tuboscope products, overall margins still continued to decline towards the end of the year. As the segment enters 2013 anticipate continued pricing pressures in North America coupled with a possible decrease in volume.

Distribution & Transmission

Revenue from Distribution & Transmission was $3,927 million for the year ended December 31, 2012, an increase of $2,054 million (109.7%) compared to the year ended December 31, 2011. This increase was primarily attributable to the acquisitions of Wilson during quarter of 2012 and CE Franklin during the third quarter of 2012. Distribution & Transmission revenues are expected to increase as it e as it realizes full period results for its 2012 acquisitions.

Operating profit from Distribution & Transmission was $185 million (which included $68 million in other costs related to acquisitions) year ended December 31, 2012, an increase of $50 million (37.0%) compared to $135 million for the year ended December 31, 2011. O profit percentage decreased to 4.7%, from 7.2% in 2011. Increased volume, greater cost efficiencies and continued favorable pricing wh to strong demand for this segment contributed to an increase in operating profit percentages for this segment during the first half of 201 However, the impact of businesses acquired during 2012 combined with lower market activity resulted in margins dropping slightly for In addition, other costs incurred for the expense recognition associated with acquired current assets stepped up to fair value during purc accounting also contributed to the decrease in operating profit percentage. The majority of the stepped up value related to inventory and recognized by December 31, 2012. As the segment enters 2013, we anticipate continued pricing pressures in North America coupled wi possible decrease in volume.

Unallocated expenses and eliminations

Unallocated expenses and eliminations in operating profit were $464 million for the year ended December 31, 2012 compared to $323 r the year ended December 31, 2011. This increase was primarily due to the increased activity along all segments which in turn resulted i intersegment eliminations.

Equity Income in Unconsolidated Affiliates

Equity income in unconsolidated affiliates was $58 million for the year ended December 31, 2012 compared to $46 million for the year December 31, 2011. This increase was primarily due to increased equity earnings from the Company s 50.01% investment in Voest-Al Tubulars (VAT) located in Kindberg, Austria.

Other income (expense), net

Other income (expense), net were expenses of $71 million for the year ended December 31, 2012 compared to $39 million for the year December 31, 2011. This increase was primarily due to foreign exchange losses and increased bank charges and fees.

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Provision for income taxes

The effective tax rate for the year ended December 31, 2012 was 29.2%, compared to 32.1% for 2011. Compared to the U.S. statutory r
effective tax rate was positively impacted in the period by the effect of lower tax rates on income earned in foreign jurisdictions, foreig
net of foreign tax credits, the deduction in the U.S. for manufacturing activities and foreign exchange losses for tax reporting in Norway
effective tax rate was negatively impacted by the recognition of increased valuation allowances on certain deferred tax assets associated
excess foreign tax credits carried to future periods.

During 2012, the Company recorded certain tax benefits totaling $138 million primarily from the repatriation of certain non-U.S. earnin
increased our U.S. foreign tax credits. These credits are available to be used by the Company as foreign tax credits in the U.S. over a 10
period. These excess foreign tax credits were recognized as deferred tax assets in the balance sheet and would be realized as a reduction
income tax payments in the U.S. However, because of uncertainty associated with the Company s ability to fully utilize these credits in
a valuation allowance of $69 million was recorded in the period. The net result of these transactions reduced income tax expense by $69
the period.

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Years Ended December 31, 2011 and December 31, 2010

The following table summarizes the Company s revenue and operating profit by operating segment in 2011 and 2010 (in millions):

	Years Ended December 31,		Variance	
	2011	2010	$	%
Revenue:				
Rig Technology	$ 7,788	$ 6,965	$ 823	11
Petroleum Services & Supplies	5,654	4,182	1,472	35
Distribution & Transmission	1,873	1,546	327	21
Eliminations	(657)	(537)	(120)	22
Total Revenue	$ 14,658	$ 12,156	$ 2,502	20
Operating Profit:				
Rig Technology	$ 2,053	$ 2,064	$ (11)	(0
Petroleum Services & Supplies	1,072	585	487	83
Distribution & Transmission	135	78	57	73
Unallocated expenses and eliminations	(323)	(280)	(43)	15
Total Operating Profit	$ 2,937	$ 2,447	$ 490	20
Operating Profit %:				
Rig Technology	26.4%	29.6%		
Petroleum Services & Supplies	19.0%	14.0%		
Distribution & Transmission	7.2%	5.0%		
Total Operating Profit %	20.0%	20.1%		

Rig Technology

Rig Technology revenue for the year ended December 31, 2011 was $7,788 million, an increase of $823 million (11.8%) compared to 2
Deepwater offshore drilling world-wide and active shale plays in the U.S. continue to be the driving force for the increase in revenue fo
segment resulting in both increased rig construction as well as demand for aftermarket spare parts and services. In addition, strategic ac
in the U.S. and Singapore contributed to the increase in revenue for this segment.

Operating profit from Rig Technology was $2,053 million for the year ended December 31, 2011, a decrease of $11 million (0.5%) ove
period of 2010. Operating profit percentage decreased to 26.4%, from 29.6% in 2010 primarily due to decrease in the average margin o
out of backlog as contracts signed during 2009 and 2010 contain less favorable margins compared to contracts won during the order ran
2005 to 2008. This decrease in margins was partially offset by the increase in demand for aftermarket spare parts and services.

The Rig Technology segment monitors its capital equipment backlog to plan its business. New orders are added to backlog only when t
Company receives a firm written order for major drilling rig components or a signed contract related to a construction project. The capi
equipment backlog was $10.2 billion at December 31, 2011, an increase of $5.2 billion (104.0%) from backlog of $5.0 billion at Decem
2010. The $5.2 billion increase in backlog included the largest order in the Company s history in the amount of approximately $1.5 bil
during the third quarter of 2011.

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Petroleum Services & Supplies

Revenue from Petroleum Services & Supplies was $5,654 million for 2011 compared to $4,182 million for 2010, an increase of $1,472 (35.2%). The increase was primarily attributable to shale plays leading to a strong North American market with a 21.7% increase in U.S activity and a 20.5% increase in Canada rig activity compared to 2010. North American shale plays continue to be a driving force in the in revenues across most business units within this segment. In addition, strategic acquisitions in the U.S., the U.K., the Netherlands, Sin Malaysia and Brazil contributed to the increase in revenue for this segment.

Operating profit from Petroleum Services & Supplies was $1,072 million for 2011 compared to $585 million for 2010, an increase of $4 (83.2%). Operating profit percentage increased to 19.0%, up from 14.0% in 2010. This increase is primarily due to increased volume w North American demand fueled by an increase in rig count as well as continued favorable pricing within most business units within the The increase was partially offset by lower levels of activity in the Middle East due to continued unrest in that region. This unrest resulte write-down, in the first quarter, of Libyan assets of $15 million, mostly related to accounts receivable affected by sanctions enacted dur quarter along with the write off of certain inventory and fixed assets in the country. The Company s Rig Technology and Distribution & Transmission segments incurred $2 million of such asset write-downs during the first quarter for a total of $17 million in Libyan asset write-downs incurred by the Company.

Distribution & Transmission

Revenue from Distribution & Transmission totaled $1,873 million for 2011, an increase of $327 million (21.2%) from 2010. This incre primarily attributable to increased rig count activity in Canada and the U.S. Internationally, the segments Mono business unit also contr the increase in revenues as demand for its power sections and artificial lift products increased in 2011 compared to 2010. In addition, st acquisitions in the U.S. and the U.K. contributed to the increase in revenue for this segment.

Operating profit from Distribution & Transmission, increased in 2011 to $135 million compared to $78 million in 2010. Operating prof percentage increased to 7.2% in 2011 from 5.0% in 2010 primarily due to greater cost efficiencies and better pricing related to strong de fueled by an increase in Canada and U.S. rig count activity. This increase was partially offset by rig moves towards liquid shale plays, c construction delays and weather issues towards the end of the year in certain markets in which this segment participates.

Unallocated expenses and eliminations

Unallocated expenses and eliminations in operating profit were $323 million for the year ended December 31, 2011 compared to $280 r 2010. This increase is primarily due to the increased activity along all segments which in turn resulted in higher intersegment eliminatio higher incentive compensation.

Equity Income in Unconsolidated Affiliates

Equity income in unconsolidated affiliates was $46 million for 2011 compared to $36 million for 2010, a $10 million increase which wa primarily related to increased equity earnings from the Company s 50.01% investment in Voest-Alpine Tubulars (VAT) located in K Austria.

Other income (expense), net

Other income (expense), net was expense of $39 million in 2011 compared to expense of $49 million in 2010. The decrease in expense primarily due to lower foreign exchange losses in 2011 compared to 2010. The Venezuelan government officially devalued the Venezu bolivar against the U.S. dollar in 2010. The Company converted its Venezuela ledgers to U.S. dollar functional currency and devalued n assets resulting in a $27 million foreign exchange loss during 2010. See Item 7A. Quantitative and Qualitative Disclosures About Mar Foreign Currency Exchange Rates. Lower exchange losses were partially offset by increased bank charges. The increase in bank charge primarily due to an increase in our standby letters of credit coupled with increased bank activity through growth both internally and thro

Provision for income taxes

The effective tax rate for the year ended December 31, 2011 was 32.1%, compared to 30.8% for 2010. Compared to the U.S. statutory r effective tax rate was positively impacted in the period by the effect of lower tax rates on income in foreign jurisdictions, an increase in of the manufacturing deduction as a result of increasing income in the U.S., plus the effect of tax rate reductions on timing differences i jurisdictions. This was partially offset by additional prior period taxes on foreign dividends. The impact of these prior period discrete ite

material to any individual prior period.

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Non-GAAP Financial Measures and Reconciliations

In an effort to provide investors with additional information regarding our results as determined by GAAP, we disclose various non-GA financial measures in our quarterly earnings press releases and other public disclosures. The primary non-GAAP financial measures we are: (i) operating profit excluding other costs, (ii) operating profit percentage excluding other costs, and (iii) diluted earnings per share e other costs. Each of these financial measures excludes the impact of certain other costs and therefore has not been calculated in accorda GAAP. A reconciliation of each of these non-GAAP financial measures to its most comparable GAAP financial measure is included be

We use these non-GAAP financial measures internally to evaluate and manage the Company s operations because we believe it provid supplemental information regarding the Company s on-going economic performance. We have chosen to provide this information to in enable them to perform more meaningful comparisons of operating results and as a means to emphasize the results of on-going operatio

The following tables set forth the reconciliations of these non-GAAP financial measures to their most comparable GAAP financial mea millions, except per share data):

	Three Months Ended December 31,		September 30,	Years Ended Decembe	
	2012	2011	2012	2012	2011
Reconciliation of operating profit:					
GAAP operating profit	$ 903	$ 848	$ 898	$ 3,557	$ 2,937
Other costs (1):					
Rig Technology	12	6	12	45	17
Petroleum Services & Supplies	15	6		18	23
Distribution & Transmission	24		36	68	1
Operating profit excluding other costs	$ 954	$ 860	$ 946	$ 3,688	$ 2,978

	Three Months Ended December 31,		September 30,	Years Ended Decembe	
	2012	2011	2012	2012	2011
Reconciliation of operating profit %:					
GAAP operating profit %	15.9%	19.9%	16.9%	17.7%	20.0%
Other costs %	0.9%	0.3%	0.9%	0.7%	0.3%
Operating profit % excluding other costs	16.8%	20.2%	17.8%	18.4%	20.3%

	Three Months Ended December 31,		September 30,	Years Ended Decembe	
	2012	2011	2012	2012	2011
Reconciliation of diluted earnings per share:					
GAAP earnings per share	$ 1.56	$ 1.35	$ 1.43	$ 5.83	$ 4.70
Other costs (1)	0.09	0.02	0.09	0.24	0.07
Tax benefits (2)	(0.16)			(0.16)	
Earnings per share excluding other costs (benefits)	$ 1.49	$ 1.37	$ 1.52	$ 5.91	$ 4.77

(1) Other costs primarily include items such as the expense recognition of backlog and inventory that was stepped up to fair value du
purchase accounting, items which are included in operating profit.

For the three months ended December 31, 2012 and 2011 and September 30, 2012, other costs included in operating profit were $51 mi
million and $48 million, respectively. Certain other costs are included in other income (expense), net as well as interest and financial co
were nil, nil and $9 million for the three months ended December 31, 2012 and 2011 and September 30, 2012, respectively.

For the years ended December 31, 2012, 2011 and 2010, other costs included in operating profit were $131 million, $41 million and $1
respectively. Certain other costs are included in other income (expense), net as well as interest and financial costs and were $12 million
$27 million for the years ended December 31, 2012, 2011 and 2010, respectively.

(2) Includes a net $69 million tax benefit related to certain U.S. foreign tax credits arising in the three months ended December 31, 20
credits resulted from a strategic reorganization of certain foreign operations to more fully integrate recently acquired businesses.

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Liquidity and Capital Resources

The Company assesses liquidity in terms of its ability to generate cash to fund operating, investing and financing activities. The Compa
in a strong financial position, with resources available to reinvest in existing businesses, strategic acquisitions and capital expenditures
short- and long-term objectives. The Company believes that cash on hand, cash generated from expected results of operations and amou
available under its revolving credit facility will be sufficient to fund operations, anticipated working capital needs and other cash requir
such as capital expenditures, debt and interest payments and dividend payments for the foreseeable future.

At December 31, 2012, the Company had cash and cash equivalents of $3,319 million, and total debt of $3,149 million. At December 3
cash and cash equivalents were $3,535 million and total debt was $510 million. The $2,855 million reduction in the net cash (cash less
balance in 2012 was due primarily to $2,880 million in cash paid for 2012 acquisitions. A significant portion of the consolidated cash b
maintained in accounts in various foreign subsidiaries and, if such amounts were transferred among countries or repatriated to the U.S.,
amounts may be subject to additional tax obligations. Of the $3,319 million of cash and cash equivalents at December 31, 2012, approx
$1,994 million is held outside the U.S. Of this amount, approximately $1,785 million is considered permanently reinvested and is availa
fund operations and other growth of foreign subsidiaries including, but not limited to, capital expenditures, acquisitions and working ca
needs. Of the $3,535 million of cash and cash equivalents at December 31, 2011, approximately $3,300 million was held outside the U.
approximately $1,900 million was considered permanently reinvested. If opportunities to invest in the U.S. are greater than available ca
balances, rather than repatriating this cash, the Company may choose to borrow against its revolving credit facility.

On February 20, 2013, the Company completed its previously announced acquisition of Robbins & Myers, Inc. for approximately $2.5
cash. The Company borrowed approximately $1.4 billion under the $3.5 billion revolving credit facility and used approximately $1.1 bi
cash on hand to fund the acquisition.

New Revolving Credit Facility

On September 28, 2012, the Company entered into a new five-year unsecured revolving credit facility with a syndicate of financial inst
This new credit facility replaced early the Company s previous $2.0 billion revolving credit facility and provides for aggregate multicu
borrowings up to $3.5 billion. In addition, the Company has the option to increase aggregate borrowing availability by an additional $1.
subject to syndication approval. Interest under the new credit facility is based upon LIBOR, NIBOR or EURIBOR plus 0.875% subject
ratings-based grid, or the prime rate. The terms of the new credit facility provide for a financial covenant regarding maximum debt to
capitalization. At December 31, 2012, the Company was in compliance with the financial covenant under the new credit facility.

Redemption of unsecured Senior Notes Due 2012

On November 15, 2012, the Company repaid $200 million of its 5.65% unsecured Senior Notes and $150 million of its 5.50% unsecure
Notes. Both series of unsecured Senior Notes were repaid using available cash balances.

Issuance of unsecured Senior Notes Due 2017, 2022 and 2042

On November 20, 2012, the Company issued the following; $500 million of 1.35% unsecured Senior Notes due 2017, $1.4 billion of 2.
unsecured Senior Notes due 2022 and $1.1 billion of 3.95% unsecured Senior Notes due 2042. The net proceeds were $2,969 million, a
deducting $22 million in underwriting fees and a $9 million discount. Interest on each series of notes is due on June 1 and December 1
year, beginning on June 1, 2013. The Company may redeem some or all of the Senior Notes at any time at the applicable redemption, p
interest, if any, to the redemption date. At December 31, 2012, the Company was in compliance with the covenants under the indenture
the Senior Notes.

The Company s outstanding debt at December 31, 2012 was $3,149 million and consisted of $151 million in 6.125% Senior Notes, $50
1.35% Senior Notes, $1,395 million in 2.60% Senior Notes and $1,096 million in 3.95% Senior Notes, and other debt of $7 million.

At December 31, 2012, there were no borrowings under the new $3.5 billion credit facility, however, there were $938 million in outstar
letters of credit issued, resulting in $2,562 million of funds available.

The Company also had $2,254 million of additional outstanding letters of credit at December 31, 2012, primarily in Norway, that are u
various bilateral committed letter of credit facilities. Other letters of credit are issued as bid bonds and performance bonds.

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The following table summarizes our net cash flows provided by operating activities, net cash used in investing activities and net cash pr
(used in) financing activities for the periods presented (in millions):

	Years Ended December 31,		
	2012	2011	2010
Net cash provided by operating activities	$ 620	$ 2,143	$ 1,542
Net cash used in investing activities	(3,428)	(1,458)	(743)
Net cash provided by (used in) financing activities	2,583	(464)	(102)

Operating Activities

Net cash provided by operating activities was $620 million in 2012 compared to net cash provided by operating activities of $2,143 mil
2011. Before changes in operating assets and liabilities, net of acquisitions, cash was provided by operations primarily through net inco
$2,483 million plus non-cash charges of $628 million and $61 million in a dividend received from Voest-Alpine Tubulars, an unconsol
affiliate, less $58 million in equity income.

Net changes in operating assets and liabilities, net of acquisitions, used $2,536 million in 2012 compared to $164 million used in 2011.
increase in market activity during 2012 compared to 2011, revenue and backlog increased which is reflected in increased accounts recei
well as a buildup in inventory. Increased market activity during 2012 also resulted in higher taxes paid, higher accounts payable and an
both costs in excess of billings and billings in excess of costs with costs incurred on major rig projects outpacing customer progress and
invoicing.

Investing Activities

Net cash used in investing activities was $3,428 million in 2012 compared to net cash used in investing activities of $1,458 million in 2
cash used in investing activities continued to primarily be the result of acquisition activity and capital expenditures both of which increa
2012 compared to 2011. The Company used $2,880 million for the purpose of strategic acquisitions during 2012 compared to $1,038 m
2011. In addition, due to the continued growth in the Company worldwide, both organically and through acquisition, the Company used
million during 2012 for capital expenditures compared to $483 million in 2011. During 2012, the Company used a combination of its ca
hand, borrowings from its revolving credit facility and the issuance of Senior Notes to fund its acquisitions and capital expenditures.

Financing Activities

Net cash provided by financing activities was $2,583 million in 2012 compared to net cash used in financing activities of $464 million i
The change related to a shift from the Company primarily repaying debt during 2011 to the Company refinancing its revolving credit fa
expanding it to $3.5 billion, and issuing three truanches of Senior Notes for a total of $3.0 billion in Senior Notes during 2012. Funds re
a result of borrowing in 2012 were used to finance working capital and acquisitions and to make tax payments. Proceeds from stock opt
exercised increased to $113 million during the year ended December 31, 2012 compared to $96 million for the year ended December 31
The Company again increased its dividend to $209 million during the year ended December 31, 2012 compared to $191 million for the
December 31, 2011.

The effect of the change in exchange rates on cash flows was a positive $9 million and a negative $19 million for the years ended Dece
2012 and 2011, respectively.

We believe that cash on hand, cash generated from operations and amounts available under our credit facilities and from other sources o
be sufficient to fund operations, working capital needs, capital expenditure requirements, dividends and financing obligations.

We intend to pursue additional acquisition candidates, but the timing, size or success of any acquisition effort and the related potential c
commitments cannot be predicted. We continue to expect to fund future cash acquisitions primarily with cash flow from operations and
borrowings, including the unborrowed portion of the credit facility or new debt issuances, but may also issue additional equity either di
connection with acquisitions. There can be no assurance that additional financing for acquisitions will be available at terms acceptable t

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A summary of the Company s outstanding contractual obligations at December 31, 2012 is as follows (in millions):

			Payment Due by Perio	
	Total	Less than 1 Year	1-3 Years	4-5 Years
Contractual Obligations:				
Total debt	$ 3,149	$ 1	$ 154	$ 500
Operating leases	1,119	220	322	202
Total Contractual Obligations	$ 4,268	$ 221	$ 476	$ 702
Commercial Commitments:				
Standby letters of credit	$ 3,192	$ 1,715	$ 960	$ 411

As of December 31, 2012, the Company had $128 million of unrecognized tax benefits. This represents the tax benefits associated with tax positions taken, or expected to be taken, on domestic and international tax returns that have not been recognized in our financial stat due to uncertainty regarding their resolution. Due to the uncertainty of the timing of future cash flows associated with these unrecognize benefits, we are unable to make reasonably reliable estimates of the period of cash settlement, if any, with the respective taxing authorit Accordingly, unrecognized tax benefits have been excluded from the contractual obligations table above. For further information relate unrecognized tax benefits, see Note 14 to the Consolidated Financial Statements included in this Report.

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Critical Accounting Policies and Estimates

In preparing the financial statements, we make assumptions, estimates and judgments that affect the amounts reported. We periodically our estimates and judgments that are most critical in nature which are related to revenue recognition under long-term construction contr allowance for doubtful accounts; inventory reserves; impairments of long-lived assets (excluding goodwill and other indefinite-lived int assets); goodwill and other indefinite-lived intangible assets; service and product warranties and income taxes. Our estimates are based historical experience and on our future expectations that we believe are reasonable. The combination of these factors forms the basis for judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results are likely to from our current estimates and those differences may be material.

Revenue Recognition under Long-term Construction Contracts

The Company uses the percentage-of-completion method to account for certain long-term construction contracts in the Rig Technology These long-term construction contracts include the following characteristics:

- the contracts include custom designs for customer specific applications;
- the structural design is unique and requires significant engineering efforts; and
- construction projects often have progress payments.

This method requires the Company to make estimates regarding the total costs of the project, progress against the project schedule and estimated completion date, all of which impact the amount of revenue and gross margin the Company recognizes in each reporting peri Company prepares detailed cost to complete estimates at the beginning of each project, taking into account all factors considered likely gross margin. Significant projects and their related costs and profit margins are updated and reviewed at least quarterly by senior manag Factors that may affect future project costs and margins include shipyard access, weather, production efficiencies, availability and costs materials and subcomponents and other factors as mentioned in Risk Factors. These factors can significantly impact the accuracy of estimates and materially impact the Company s future reported earnings.

Historically, the Company s estimates have been reasonably dependable regarding the recognition of revenues and gross profits on percentage-of-completion contracts. Based upon an analysis of percentage-of-completion contracts for all open contracts outstanding at December 31, 2011 and 2010, adjustments (representing the differences between the estimated and actual results) to all outstanding con resulted in net increases to gross profit margins of 0.78% ($75 million on $9.6 billion of outstanding contracts) and 2.0% ($185 million $9.3 billion of outstanding contracts) for the years ended December 31, 2012 and 2011, respectively. While the Company believes that estimates on outstanding contracts at and in future periods will continue to be reasonably dependable under percentage-of-completion a the factors identified in the preceding paragraph could result in significant adjustments in future periods. The Company has recorded re outstanding contracts (on a contract-to-date basis) of $8.4 billion at December 31, 2012.

Allowance for Doubtful Accounts

The determination of the collectability of amounts due from customer accounts requires the Company to make judgments regarding futu and trends. Allowances for doubtful accounts are determined based on a continuous process of assessing the Company s portfolio on a customer basis taking into account current market conditions and trends. This process consists of a thorough review of historical collect experience, current aging status of the customer accounts, and financial condition of the Company s customers. Based on a review of th the Company will establish or adjust allowances for specific customers. A substantial portion of the Company s revenues come from in oil companies, international shipyards, international oilfield service companies, and government-owned or government-controlled oil co Therefore, the Company has significant receivables in many foreign jurisdictions. If worldwide oil and gas drilling activity or changes i economic conditions in foreign jurisdictions deteriorate, the creditworthiness of the Company s customers could also deteriorate and th unable to pay these receivables, and additional allowances could be required. At December 31, 2012 and 2011, allowance for bad debts $120 million and $107 million, or 2.7% and 3.1% of gross accounts receivable, respectively.

Historically, the Company s charge-offs and provisions for the allowance for doubtful accounts have been immaterial to the Company
consolidated financial statements. However, because of the risk factors mentioned above, changes in estimates could become material i
periods.

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Inventory Reserves

Inventory is carried at the lower of cost or estimated net realizable value. The Company determines reserves for inventory based on hist
usage of inventory on-hand, assumptions about future demand and market conditions, and estimates about potential alternative uses, wh
usually limited. The Company s inventory consists of specialized spare parts, work in process, and raw materials to support ongoing m
operations and the Company s large installed base of specialized equipment used throughout the oilfield. Customers rely on the Compa
these specialized items to ensure that their equipment can be repaired and serviced in a timely manner. The Company s estimated carry
inventory therefore depends upon demand driven by oil and gas drilling and well remediation activity, which depends in turn upon oil a
prices, the general outlook for economic growth worldwide, available financing for the Company s customers, political stability in maj
gas producing areas, and the potential obsolescence of various types of equipment we sell, among other factors. At December 31, 2012
inventory reserves totaled $338 million and $281 million, or 5.4% and 6.5% of gross inventory, respectively.

While inventory reserves and accruals have not had a material impact on the Company s financial results for the periods covered in thi
changes in worldwide oil and gas activity, or the development of new technologies which make older drilling technologies obsolete, co
the Company to record additional allowances to reduce the value of its inventory. Such changes in our estimates could be material unde
market conditions or outlook.

Impairment of Long-Lived Assets (Excluding Goodwill and Other Indefinite-Lived Intangible Assets)

Long-lived assets, which include property, plant and equipment and identified intangible assets, comprise a significant amount of the C
total assets. The Company makes judgments and estimates in conjunction with the carrying value of these assets, including amounts to b
capitalized, depreciation and amortization methods and estimated useful lives.

The carrying values of these assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying
may not be recoverable. An impairment loss is recorded in the period in which it is determined that the carrying amount is not recoveral
estimate the fair value of these intangible and fixed assets using an income approach. This requires the Company to make long-term for
its future revenues and costs related to the assets subject to review. These forecasts require assumptions about demand for the Company
and services, future market conditions and technological developments. The forecasts are dependent upon assumptions regarding oil and
prices, the general outlook for economic growth worldwide, available financing for the Company s customers, political stability in maj
gas producing areas, and the potential obsolescence of various types of equipment we sell, among other factors. The financial and credi
volatility directly impacts our fair value measurement through our income forecast as well as our weighted-average cost of capital, both
assumptions used in our calculation. Changes to these assumptions, including, but not limited to: sustained declines in worldwide rig co
current analysts forecasts, collapse of spot and futures prices for oil and gas, significant deterioration of external financing for our cust
higher risk premiums or higher cost of equity, or any other significant adverse economic news could require a provision for impairment
period.

Goodwill and Other Indefinite-Lived Intangible Assets

The Company has approximately $7.1 billion of goodwill and $0.6 billion of other intangible assets with indefinite lives as of Decembe
Generally accepted accounting principles require the Company to test goodwill and other indefinite-lived intangible assets for impairme
annually or more frequently whenever events or circumstances occur indicating that goodwill or other indefinite-lived intangible assets
impaired. Events or circumstances which could indicate a potential impairment include, but not limited to: further sustained declines in
rig counts below current analysts forecasts, further collapse of spot and futures prices for oil and gas, significant additional deterioratio
external financing for our customers, higher risk premiums or higher cost of equity.

The implied fair value of goodwill is determined by deducting the fair value of a reporting unit s identifiable assets and liabilities from
value of that reporting unit as a whole. Fair value of the reporting units is determined in accordance with ASC Topic 820 Fair Value
Measurements and Disclosures using significant unobservable inputs, or level 3 in the fair value hierarchy. These inputs are based on
management estimates, forecasts and judgments, using a combination of three methods: discounted cash flow, comparable companies, a
representative transactions. While the Company primarily uses the discounted cash flow method to assess fair value, the Company uses
comparable companies and representative transaction methods to validate the discounted cash flow analysis and further support manage
expectations, where possible.

The discounted cash flow is based on management s short-term and long-term forecast of operating performance for each reporting uni
main assumptions used in measuring goodwill impairment, which bear the risk of change and could impact the Company s goodwill im
analysis, include the cash flow from operations from each of the Company s individual business units and the weighted average cost of

starting point for each of the reporting unit s cash flow from operations is the detailed annual plan or updated forecast. The detailed pla
forecasting process takes into consideration a multitude of factors including worldwide rig activity, inflationary forces, pricing strategie
customer analysis, operational issues, competitor analysis, capital spending requirements, working capital needs, customer needs to rep
equipment, increased complexity of drilling, new technology, and existing backlog among other items which impact the individual repo
projections. Cash flows beyond the specific operating plans were estimated using a terminal value calculation, which incorporated histo
forecasted financial cyclical trends for each reporting unit and considered long-term earnings growth rates. The financial and credit mar
volatility directly impacts our fair value measurement through our weighted average cost of capital that we use to determine our discou
During times of volatility, significant judgment must be applied to determine whether credit changes are a short-term or long-term trend

The annual impairment test is performed during the fourth quarter of each year. The valuation techniques used in the annual test were c
with those used during previous testing. The inputs used in the annual test were updated for current market conditions and forecasts. Ba
analysis, the Company did not report any impairment of goodwill and other indefinite-lived intangible assets for the years ended Decem
2012, 2011 and 2010.

Purchase Price Allocation of Acquisitions

The Company allocates the purchase price of an acquired business to its identifiable assets and liabilities based on estimated fair values
excess of the purchase price over the amount allocated to the assets and liabilities, if any, is recorded as goodwill. The Company uses al
information to estimate fair values including quoted market prices, the carrying value of acquired assets, and widely accepted valuation
such as discounted cash flows (all level 3 unobservable inputs). The Company engages third-party appraisal firms to assist in fair value
determination of inventories, identifiable intangible assets, and any other significant assets or liabilities when appropriate. The judgmen
determining the estimated fair value assigned to each class of assets acquired and liabilities assumed, as well as asset lives, could mater
impact the Company s results of operations.

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Service and Product Warranties

The Company provides service and warranty policies on certain of its products. The Company accrues liabilities under service and warr
policies based upon specific claims and a review of historical warranty and service claim experience in accordance with ASC Topic 450
Contingencies (ASC Topic 450). Adjustments are made to accruals as claim data and historical experience change. In addition, th
incurs discretionary costs to service its products in connection with product performance issues and accrues for them when they are enc
The Company monitors the actual cost of performing these discretionary services and adjusts the accrual based on the most current info
available. At December 31, 2012 and 2011, service and product warranties totaled $194 million and $211 million, respectively.

Income Taxes

The Company is a U.S. registered company and is subject to income taxes in the U.S. and other jurisdictions in which it operates. The C
operates through various subsidiaries in a number of countries throughout the world. Income taxes have been provided based upon the t
and rates of the countries in which the Company operates and income is earned.

The Company s annual tax provision is based on taxable income, statutory rates and tax planning opportunities available in the various
jurisdictions in which it operates. The determination and evaluation of the annual tax provision and tax positions involves the interpreta
tax laws in the various jurisdictions in which the Company operates. It requires significant judgment and the use of estimates and assum
regarding significant future events such as the amount, timing and character of income, deductions and tax credits. Changes in tax laws
regulations, and treaties, foreign currency exchange restrictions or the Company s level of operations or profitability in each jurisdictio
impact the tax liability in any given year. The Company also operates in many jurisdictions where the tax laws relating to the pricing of
transactions between related parties are open to interpretation, which could potentially result in aggressive tax authorities asserting addi
liabilities with no offsetting tax recovery in other countries.

The Company maintains liabilities for estimated tax exposures in jurisdictions of operation. The annual tax provision includes the impa
income tax provisions and benefits for changes to liabilities that the Company considers appropriate, as well as related interest. Tax exp
items primarily include potential challenges to intercompany pricing and certain operating expenses that may not be deductible in forei
jurisdictions. These exposures are resolved primarily through the settlement of audits within these tax jurisdictions or by judicial means
Company is subject to audits by federal, state and foreign jurisdictions which may result in proposed assessments. The Company believ
appropriate liability has been established for estimated exposures under the guidance in ASC Topic 740 Income Taxes (ASC Topic
However, actual results may differ materially from these estimates. The Company reviews these liabilities quarterly and to the extent au
other events result in an adjustment to the liability accrued for a prior year, the effect will be recognized in the period of the event.

The Company currently has recorded valuation allowances that the Company intends to maintain until it is more likely than not the defe
assets will be realized. Income tax expense recorded in the future will be reduced to the extent of decreases in the Company s valuation
allowances. The realization of remaining deferred tax assets is primarily dependent on future taxable income. Any reduction in future ta
income including but not limited to any future restructuring activities may require that the Company record an additional valuation allo
against deferred tax assets. An increase in the valuation allowance would result in additional income tax expense in such period and cou
significant impact on future earnings.

The Company has not provided for deferred taxes on the unremitted earnings of certain subsidiaries that are permanently reinvested. Sh
Company make a distribution from the unremitted earnings of these subsidiaries, the Company may be required to record additional tax
Unremitted earnings of these subsidiaries were $4,620 million and $3,789 million at December 31, 2012 and 2011, respectively. The Co
makes a determination each period whether to permanently reinvest these earnings. If, as a result of these reassessments, the Company
these earnings in the future, additional tax liabilities would result, offset by any available foreign tax credits.

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Recently Issued Accounting Standards

In July 2012, the Financial Accounting Standards Board issued Accounting Standard Update No. 2012-02 Intangibles Goodwill and O
350) that amends the accounting guidance on testing indefinite-lived intangible assets for impairment. The amendments in this accoun
standard update are intended to reduce complexity and costs by allowing an entity the option to make a qualitative evaluation about the
that an indefinite-lived intangible asset is impaired to determine whether it should perform a quantitative impairment test. The amendme
enhance the consistency of impairment testing guidance among long-lived asset categories by permitting an entity to assess qualitative f
determine whether it is necessary to calculate the asset s fair value when testing an indefinite-lived intangible asset for impairment, wh
equivalent to the impairment testing requirements for other long-lived assets. The amendments in this accounting standard update are ef
interim and annual impairment tests performed for fiscal years beginning after September 15, 2012. The Company tests its indefinite-liv
intangible assets for impairment annually in the fourth quarter or more frequently when events or changes in circumstances indicate tha
impairment may have occurred.

Forward Looking Statements

Some of the information in this document contains, or has incorporated by reference, forward-looking statements. Statements that are n
historical facts, including statements about our beliefs and expectations, are forward-looking statements. Forward-looking statements ty
identified by use of terms such as may, will, expect, anticipate, estimate, and similar words, although some forward-look
expressed differently. All statements herein regarding expected merger synergies are forward looking statements. You should be aware
actual results could differ materially from results anticipated in the forward-looking statements due to a number of factors, including bu
limited to changes in oil and gas prices, customer demand for our products and worldwide economic activity. You should also consider
the statements under Risk Factors which address additional factors that could cause our actual results to differ from those set forth in
forward-looking statements. Given these uncertainties, current or prospective investors are cautioned not to place undue reliance on any
forward-looking statements. We undertake no obligation to update any such factors or forward-looking statements to reflect future even
developments.

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ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK
We are exposed to changes in foreign currency exchange rates and interest rates. Additional information concerning each of these matte

Foreign Currency Exchange Rates

We have extensive operations in foreign countries. The net assets and liabilities of these operations are exposed to changes in foreign cu exchange rates, although such fluctuations generally do not affect income since their functional currency is typically the local currency. operations also have net assets and liabilities not denominated in the functional currency, which exposes us to changes in foreign curren exchange rates that impact income. During the years ended December 31, 2012, 2011 and 2010, the Company reported foreign currency $21 million, $10 million and $30 million, respectively. Gains and losses are primarily due to exchange rate fluctuations related to mone balances denominated in currencies other than the functional currency and adjustments to our hedged positions as a result of changes in currency exchange rates. Strengthening of currencies against the U.S. dollar may create losses in future periods to the extent we maintai assets and liabilities not denominated in the functional currency of the countries using the local currency as their functional currency.

Some of our revenues in foreign countries are denominated in U.S. dollars, and therefore, changes in foreign currency exchange rates in earnings to the extent that costs associated with those U.S. dollar revenues are denominated in the local currency. Similarly some of our are denominated in foreign currencies, but have associated U.S. dollar costs, which also give rise to foreign currency exchange rate exp order to mitigate that risk, we may utilize foreign currency forward contracts to better match the currency of our revenues and associate We do not use foreign currency forward contracts for trading or speculative purposes.

The following table details the Company s foreign currency exchange risk grouped by functional currency and their expected maturity of December 31, 2012 (in millions except for rates):

	As of December 31, 2012				Dec
Functional Currency	**2013**	**2014**	**2015**	**Total**	
CAD Buy USD/Sell CAD:					
Notional amount to buy (in Canadian dollars)	511			511	
Average USD to CAD contract rate	0.9895			0.9895	
Fair Value at December 31, 2012 in U.S. dollars	5			5	
Sell USD/Buy CAD:					
Notional amount to sell (in Canadian dollars)	241	14		255	
Average USD to CAD contract rate	1.0238	1.0098		1.0230	
Fair Value at December 31, 2012 in U.S. dollars	6			6	
EUR Buy USD/Sell EUR:					
Notional amount to buy (in euros)	7			7	
Average USD to EUR contract rate	0.7711			0.7711	
Fair Value at December 31, 2012 in U.S. dollars					
Sell USD/Buy EUR:					
Notional amount to buy (in euros)	180	25		205	
Average USD to EUR contract rate	0.7693	0.7645		0.7687	
Fair Value at December 31, 2012 in U.S. dollars	4			4	
KRW Buy USD/Sell KRW:					
Notional amount to buy (in South Korean won)	261			261	
Average USD to KRW contract rate	919			919	
Fair Value at December 31, 2012 in U.S. dollars					
Sell USD/Buy KRW:					
Notional amount to buy (in South Korean won)	639	58		697	
Average USD to KRW contract rate	1,020	941		1,013	
Fair Value at December 31, 2012 in U.S. dollars					

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	As of December 31, 2012				Dec
Functional Currency	2013	2014	2015	Total	
GBP Buy USD/Sell GBP:					
Notional amount to buy (in British Pounds Sterling)	47			47	
Average USD to GBP contract rate	0.6149			0.6149	
Fair Value at December 31, 2012 in U.S. dollars					
Sell USD/Buy GBP:					
Notional amount to buy (in British Pounds Sterling)	37			37	
Average USD to GBP contract rate	0.6347			0.6347	
Fair Value at December 31, 2012 in U.S. dollars	2			2	
USD Buy DKK/Sell USD:					
Notional amount to buy (in U.S. dollars)	38	4		42	
Average DKK to USD contract rate	0.1741	0.1761		0.1743	
Fair Value at December 31, 2012 in U.S. dollars					
Buy EUR/Sell USD:					
Notional amount to buy (in U.S. dollars)	608	56		664	
Average EUR to USD contract rate	1.3111	1.2921		1.3095	
Fair Value at December 31, 2012 in U.S. dollars	6	2		8	
Buy GBP/Sell USD:					
Notional amount to buy (in U.S. dollars)	18			18	
Average GBP to USD contract rate	1.6044			1.6044	
Fair Value at December 31, 2012 in U.S. dollars					
Buy NOK/Sell USD:					
Notional amount to buy (in U.S. dollars)	772	293		1,065	
Average NOK to USD contract rate	0.1684	0.1637		0.1671	
Fair Value at December 31, 2012 in U.S. dollars	44	22		66	
Buy SGD/Sell USD:					
Notional amount to buy (in U.S. dollars)	28	3		31	
Average SGD to USD contract rate	0.8139	0.7920		0.8115	
Fair Value at December 31, 2012 in U.S. dollars					
Sell DKK/Buy USD:					
Notional amount to buy (in U.S. dollars)	12			12	
Average DKK to USD contract rate	0.1749			0.1749	
Fair Value at December 31, 2012 in U.S. dollars					
Sell EUR/Buy USD:					
Notional amount to sell (in U.S. dollars)	141			141	
Average EUR to USD contract rate	1.3109			1.3109	
Fair Value at December 31, 2012 in U.S. dollars	(1)			(1)	
Sell NOK/Buy USD:					
Notional amount to sell (in U.S. dollars)	244	30		274	
Average NOK to USD contract rate	0.1722	0.1727		0.1723	
Fair Value at December 31, 2012 in U.S. dollars	(9)	(1)		(10)	
Sell SGD/Buy USD:					
Notional amount to sell (in U.S. dollars)					
Average SGD to USD contract rate					
Fair Value at December 31, 2012 in U.S. dollars					
Sell RUB/Buy USD:					
Notional amount to sell (in U.S. dollars)	47			47	
Average RUB to USD contract rate	0.0320			0.0320	
Fair Value at December 31, 2012 in U.S. dollars					
DKK Sell DKK/Buy USD:					
Notional amount to buy (in U.S. dollars)	111			111	
Average DKK to USD contract rate	5.61			5.6126	
Fair Value at December 31, 2012 in U.S. dollars					
Other Currencies					
Fair Value at December 31, 2012 in U.S. dollars	6			6	
Total Fair Value at December 31, 2012 in U.S. dollars	63	23		86	

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The Company had other financial market risk sensitive instruments denominated in foreign currencies for transactional exposures totali million and translation exposures totaling $397 million as of December 31, 2012, excluding trade receivables and payables, which appr fair value. These market risk sensitive instruments consisted of cash balances and overdraft facilities. The Company estimates that a hyp 10% movement of all applicable foreign currency exchange rates on the transactional exposures financial market risk sensitive instrume affect net income by $37 million and the translational exposures financial market risk sensitive instruments could affect the future fair v $40 million.

The counterparties to forward contracts are major financial institutions. The credit ratings and concentration of risk of these financial in are monitored on a continuing basis. In the event that the counterparties fail to meet the terms of a foreign currency contract, our exposu limited to the foreign currency rate differential.

During the first quarter of 2010, the Venezuelan government officially devalued the Venezuelan bolivar against the U.S. dollar. As a re Company converted its Venezuela ledgers to U.S. dollar functional currency, devalued monetary assets resulting in a $27 million charg wrote-down certain accounts receivable in view of deteriorating business conditions in Venezuela, resulting in an additional $11 millio During the first quarter of 2013, the Venezuelan government again officially devalued the Venezuelan bolivar against the U.S. dollar. A the Company expects to incur approximately $12 million in devaluation charges in the first quarter of 2013. The Company s net invest Venezuela was $34 million at December 31, 2012.

Interest Rate Risk

At December 31, 2012, our long term borrowings consisted of $151 million in 6.125% Senior Notes, $500 million in 1.35% Senior Not million in 2.60% Senior Notes and $1,100 million in 3.95% Senior Notes. We occasionally have borrowings under our credit facility, a portion of these borrowings could be denominated in multiple currencies which could expose us to market risk with exchange rate mov These instruments carry interest at a pre-agreed upon percentage point spread from either LIBOR, NIBOR or EURIBOR, or at the prim rate. Under our credit facility, we may, at our option, fix the interest rate for certain borrowings based on a spread over LIBOR, NIBOR EURIBOR for 30 days to six months.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Attached hereto and a part of this report are financial statements and supplementary data listed in Item 15. Exhibits and Financial State Schedules .

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISC

None.

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ITEM 9A. CONTROLS AND PROCEDURES

(i) Evaluation of disclosure controls and procedures

As required by SEC Rule 13a-15(b), we have evaluated, under the supervision and with the participation of our management, including
principal executive officer and principal financial officer, the effectiveness of the design and operation of our disclosure controls and pr
(as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this report. Our disclosure
and procedures are designed to provide reasonable assurance that the information required to be disclosed by the Company in reports th
under the Exchange Act is accumulated and communicated to the Company s management, including our principal executive officer an
financial officer, as appropriate, to allow timely decisions regarding required disclosure and is recorded, processed, summarized and rep
within the time periods specified in the rules and forms of the SEC. Our principal executive officer and principal financial officer have
that our current disclosure controls and procedures were effective as of December 31, 2012 at the reasonable assurance level.

Pursuant to section 302 of the Sarbanes-Oxley Act of 2002, our Chief Executive Officer and Chief Financial Officer have provided cert
certifications to the Securities and Exchange Commission. These certifications are included herein as Exhibits 31.1 and 31.2.

(ii) Internal Control Over Financial Reporting

(a) Management s annual report on internal control over financial reporting.

The Company s management report on internal control over financial reporting is set forth in this annual report on Page 62 and is inco
herein by reference.

(b) Changes in internal control

There were no changes in the Company s internal control over financial reporting that occurred during the Company s last fiscal quart
this report that have materially affected, or are reasonably likely to materially affect, the Company s internal control over financial rep

ITEM 9B. OTHER INFORMATION

None.

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PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Incorporated by reference to the definitive Proxy Statement for the 2013 Annual Meeting of Stockholders.

ITEM 11. EXECUTIVE COMPENSATION

Incorporated by reference to the definitive Proxy Statement for the 2013 Annual Meeting of Stockholders.

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

Incorporated by reference to the definitive Proxy Statement for the 2013 Annual Meeting of Stockholders.

Securities Authorized for Issuance Under Equity Compensation Plans.

The following table sets forth information as of our fiscal year ended December 31, 2012, with respect to compensation plans under wh
common stock may be issued:

Plan Category	Number of securities to be issued upon exercise of warrants and rights (a)	Weighted-average exercise price of outstanding rights (b)	Number of securities remaining available for equity compensation plans (excluding securities reflected in column (a)) (c) (1)
Equity compensation plans approved by security holders	9,473,482	$ 58.69	3,591,119
Equity compensation plans not approved by security holders			
Total	9,473,482	$ 58.69	3,591,119

(1) Shares could be issued through equity instruments other than stock options, warrants or rights; however, none are anticipated duri

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Incorporated by reference to the definitive Proxy Statement for the 2013 Annual Meeting of Stockholders.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Incorporated by reference to the definitive Proxy Statement for the 2013 Annual Meeting of Stockholders.

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PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

Financial Statements and Exhibits

(1) Financial Statements

The following financial statements are presented in response to Part II, Item 8:

Consolidated Balance Sheets
Consolidated Statements of Income
Consolidated Statements of Comprehensive Income
Consolidated Statements of Cash Flows
Consolidated Statements of Stockholders Equity
Notes to Consolidated Financial Statements

(2) Financial Statement Schedule

Schedule II Valuation and Qualifying Accounts

All schedules, other than Schedule II, are omitted because they are not applicable, not required or the information is included in the fina
statements or notes thereto.

(3) Exhibits

2.1	Amended and Restated Agreement and Plan of Merger, effective as of August 11, 2004 between National-Oilwell, Inc. and V International, Inc. (4)
2.2	Agreement and Plan of Merger, effective as of December 16, 2007, between National Oilwell Varco, Inc., NOV Sub, Inc., ar Prideco, Inc. (8)
3.1	Fifth Amended and Restated Certificate of Incorporation of National Oilwell Varco, Inc. (Exhibit 3.1) (1)
3.2	Amended and Restated By-laws of National Oilwell Varco, Inc. (Exhibit 3.1) (9)
10.1	Employment Agreement dated as of January 1, 2002 between Merrill A. Miller, Jr. and National Oilwell. (Exhibit 10.1) (2)
10.2	Employment Agreement dated as of January 1, 2002 between Dwight W. Rettig and National Oilwell, with similar agreemen Mark A. Reese. (Exhibit 10.2) (2)
10.3	Form of Amended and Restated Executive Agreement of Clay C. Williams. (Exhibit 10.12) (3)
10.4	National Oilwell Varco Long-Term Incentive Plan, as amended and restated. (5)*
10.5	Form of Employee Stock Option Agreement. (Exhibit 10.1) (6)
10.6	Form of Non-Employee Director Stock Option Agreement. (Exhibit 10.2) (6)
10.7	Form of Performance-Based Restricted Stock. (18 Month) Agreement (Exhibit 10.1) (7)
10.8	Form of Performance-Based Restricted Stock. (36 Month) Agreement (Exhibit 10.2) (7)
10.9	Credit Agreement, dated as of September 28, 2012, among National Oilwell Varco, Inc., the financial institutions signatory th including Wells Fargo Bank, N.A., in their capacities as Administrative Agent, Co-Lead Arranger and Joint Book Runner. (Exhibit 10.1) (10)

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10.10	First Amendment to Employment Agreement dated as of December 22, 2008 between Merrill A. Miller, Jr. and National Oilv (Exhibit 10.1) (11)
10.11	Second Amendment to Executive Agreement, dated as of December 22, 2008 of Clay Williams and National Oilwell Varco. 10.2) (11)
10.12	First Amendment to Employment Agreement dated as of December 22, 2008 between Mark A. Reese and National Oilwell V (Exhibit 10.3) (11)
10.13	First Amendment to Employment Agreement dated as of December 22, 2008 between Dwight W. Rettig and National Oilwel (Exhibit 10.4) (11)
10.14	Employment Agreement dated as of December 22, 2008 between Robert W. Blanchard and National Oilwell Varco. (Exhibit
10.16	Second Amendment to Employment Agreement dated as of December 31, 2009 between Merrill A. Miller, Jr. and National C Varco. (Exhibit 10.1) (12)
10.17	Third Amendment to Executive Agreement, dated as of December 31, 2009, of Clay Williams and National Oilwell Varco. (I 10.2) (12)
10.18	Second Amendment to Employment Agreement dated as of December 31, 2009 between Mark A. Reese and National Oilwel (Exhibit 10.3) (12)
10.19	Second Amendment to Employment Agreement dated as of December 31, 2009 between Dwight W. Rettig and National Oilv (Exhibit 10.4) (12)
10.20	First Amendment to Employment Agreement dated as of December 31, 2009 between Robert W. Blanchard and National Oil Varco. (Exhibit 10.5) (12)
10.21	Employment Agreement dated as of January 1, 2004 between Jeremy Thigpen and National Oilwell. (Exhibit 10.1) (13)
10.22	First Amendment to Employment Agreement dated as of December 22, 2008 between Jeremy Thigpen and National Oilwell (Exhibit 10.2) (13)
10.23	Second Amendment to Employment Agreement dated as of December 31, 2009 between Jeremy Thigpen and National Oilwe (Exhibit 10.3) (13)
21.1	Subsidiaries of the Registrant.
23.1	Consent of Ernst & Young LLP.
24.1	Power of Attorney. (included on signature page hereto)
31.1	Certification pursuant to Rule 13a-14a and Rule 15d-14(a) of the Securities and Exchange Act, as amended.
31.2	Certification pursuant to Rule 13a-14a and Rule 15d-14(a) of the Securities and Exchange Act, as amended.
32.1	Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
95	Mine Safety Information persuant to section 1503 of the Dodd-Frank Act.
101	The following materials from our Annual Report on Form 10-K for the period ended December 31, 2012 formatted in eXtens Business Reporting Language (XBRL): (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Income, (iii) Consol Statements of Cash Flows, and (iv) Notes to the Consolidated Financial Statements, tagged as block text. (14)

* Compensatory plan or arrangement for management or others.
(1) Filed as an Exhibit to our Quarterly Report on Form 10-Q filed on August 5, 2011.
(2) Filed as an Exhibit to our Annual Report on Form 10-K filed on March 28, 2002.

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(3) Filed as an Exhibit to Varco International, Inc. s Quarterly Report on Form 10-Q filed on May 6, 2004.
(4) Filed as Annex A to our Registration Statement on Form S-4 filed on September 16, 2004.
(5) Filed as an Exhibit to our Current Report on Form 8-K filed on February 24, 2012.
(6) Filed as an Exhibit to our Current Report on Form 8-K filed on February 23, 2006.
(7) Filed as an Exhibit to our Current Report on Form 8-K filed on March 27, 2007.
(8) Filed as Annex A to our Registration Statement on Form S-4 filed on January 28, 2008.
(9) Filed as an Exhibit to our Current Report on Form 8-K filed on August 17, 2011.
(10) Filed as an Exhibit to our Current Report on Form 8-K filed on October 1, 2012
(11) Filed as an Exhibit to our Current Report on Form 8-K filed on December 23, 2008.
(12) Filed as an Exhibit to our Current Report on Form 8-K filed on January 5, 2010.
(13) Filed as an Exhibit to our Current Report on Form 8-K filed on December 7, 2012.
(14) As provided in Rule 406T of Regulation S-T, this information is furnished and not filed for purposes of Sections 11 and 12 of the Act of 1933 and Section 18 of the Securities Exchange Act of 1934.

We hereby undertake, pursuant to Regulation S-K, Item 601(b), paragraph (4) (iii), to furnish to the U.S. Securities and Exchange Com upon request, all constituent instruments defining the rights of holders of our long-term debt not filed herewith.

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SIGNATURES

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

NATIONAL OILWELL VARCO, INC.

Dated: February 22, 2013

By: /s/ MERRILL A. MILLER, JR.
Merrill A. Miller, Jr.
Chairman and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on beh
registrant and in the capacities and on the dates indicated.

Each person whose signature appears below in so signing, constitutes and appoints Merrill A. Miller, Jr. and Jeremy D. Thigpen, and ea
acting alone, his true and lawful attorney-in-fact and agent, with full power of substitution, for him and in his name, place and stead, in
capacities, to execute and cause to be filed with the Securities and Exchange Commission any and all amendments to this report, and in
to file the same, with all exhibits thereto and other documents in connection therewith, and hereby ratifies and confirms all that said
attorney-in-fact or his substitute or substitutes may do or cause to be done by virtue hereof.

Signature	Title	Date
/s/ MERRILL A. MILLER, JR. Merrill A. Miller, Jr.	Chairman and Chief Executive Officer	Februar
/s/ JEREMY D. THIGPEN Jeremy D. Thigpen	Senior Vice President and Chief Financial Officer	Februar
/s/ ROBERT W. BLANCHARD Robert W. Blanchard	Vice President, Corporate Controller and Chief Accounting Officer	Februar
/s/ GREG L. ARMSTRONG Greg L. Armstrong	Director	Februar
/s/ ROBERT E. BEAUCHAMP Robert E. Beauchamp	Director	Februar
/s/ BEN A. GUILL Ben A. Guill	Director	Februar
/s/ DAVID D. HARRISON David D. Harrison	Director	Februar
/s/ ROGER L. JARVIS Roger L. Jarvis	Director	Februar
/s/ ERIC L. MATTSON Eric L. Mattson	Director	Februar
/s/ JEFFERY A. SMISEK Jeffery A. Smisek	Director	Februar

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MANAGEMENT S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

National Oilwell Varco, Inc. s management is responsible for establishing and maintaining adequate internal control over financial rep
National Oilwell Varco, Inc. s internal control system was designed to provide reasonable assurance regarding the reliability of financi
and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Internal control over financial reporting cannot provide absolute assurance of achieving financial reporting objectives because of its inh
limitations. Internal control over financial reporting is a process that involves human diligence and compliance and is subject to lapses i
judgment and breakdowns resulting from human failures. Internal control over financial reporting also can be circumvented by collusio
improper management override. Because of such limitations, there is a risk that material misstatements may not be prevented or detecte
timely basis by internal control over financial reporting. However, these inherent limitations are known features of the financial reportin
Therefore, it is possible to design into the process safeguards to reduce, though not eliminate, this risk.

On May 16, 2012, the Company acquired Enerflow, on May 31, 2012, acquired Wilson, and on July 19, 2012, acquired CE Franklin. Fo
of determining the effectiveness of the Company s internal control over financial reporting, as disclosed in this report, management has
these acquisitions from its evaluation. The acquired businesses represented approximately 6% of our consolidated total assets at Decem
2012, 8% of consolidated revenues and 2% of our consolidated operating profit for the year ended December 31, 2012.

Management has used the framework set forth in the report entitled Internal Control Integrated Framework published by the Comm
Sponsoring Organizations (COSO) of the Treadway Commission to evaluate the effectiveness of the Company s internal control ov
reporting. Management has concluded that the Company s internal control over financial reporting was effective as of December 31, 20

The effectiveness of our internal control over financial reporting as of December 31, 2012, has been audited by Ernst & Young LLP, th
independent registered public accounting firm which also has audited the Company s Consolidated Financial Statements included in th
Report on Form 10-K.

/s/ Merrill A. Miller, Jr.

Merrill A. Miller, Jr.

Chairman and Chief Executive Officer

/s/ Jeremy D. Thigpen

Jeremy D. Thigpen

Senior Vice President and Chief Financial Officer

Houston, Texas

February 22, 2013

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders

National Oilwell Varco, Inc.

We have audited National Oilwell Varco, Inc. s internal control over financial reporting as of December 31, 2012, based on criteria est
Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO
National Oilwell Varco, Inc s management is responsible for maintaining effective internal control over financial reporting, and for its
of the effectiveness of internal control over financial reporting included in the accompanying Management s Report on Internal Contro
Financial Reporting. Our responsibility is to express an opinion on the Company s internal control over financial reporting based on ou

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

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

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

As indicated in the accompanying Management s Report on Internal Control Over Financial Reporting, management s assessment of a
conclusion on the effectiveness of internal control over financial reporting did not include the internal controls related to the acquisition
Wilson, Enerflow and CE Franklin. The acquired businesses represented approximately 6% of consolidated total assets at December 31
of consolidated revenues and 2% of consolidated operating profit for the year ended December 31, 2012. Our audit of internal control o
financial reporting of the Company also did not include the evaluation of internal control over financial reporting of these acquisitions r
above.

In our opinion, National Oilwell Varco, Inc. maintained, in all material respects, effective internal control over financial reporting as of
December 31, 2012, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consol
balance sheets as of December 31, 2012 and 2011, and the related consolidated statements of income, comprehensive income, stockhol
and cash flows for each of the three years in the period ended December 31, 2012 of National Oilwell Varco, Inc. and our report dated
February 22, 2013 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

Houston, Texas

February 22, 2013

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders

National Oilwell Varco, Inc.

We have audited the accompanying consolidated balance sheets of National Oilwell Varco, Inc. as of December 31, 2012 and 2011, anc
related consolidated statements of income, comprehensive income, stockholders equity and cash flows for each of the three years in th
ended December 31, 2012. Our audits also included the financial statement schedule listed in the index at item 15(2). These financial st
and schedule are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statem
schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those s
require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material mi
An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also
assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial state
presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of N
Oilwell Varco, Inc. as of December 31, 2012 and 2011, and the consolidated results of its operations and its cash flows for each of the t
in the period ended December 31, 2012, in conformity with U.S. generally accepted accounting principles. Also in our opinion, the rela
financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all materi
the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), National C
Varco, Inc. s internal control over financial reporting as of December 31, 2012, based on criteria established in Internal Control-Integra
Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 22, 201
expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

Houston, Texas

February 22, 2013

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NATIONAL OILWELL VARCO, INC.

CONSOLIDATED BALANCE SHEETS

(In millions, except share data)

	Decemb 2012
ASSETS	
Current assets:	
Cash and cash equivalents	$ 3,319
Receivables, net	4,320
Inventories, net	5,891
Costs in excess of billings	1,225
Deferred income taxes	349
Prepaid and other current assets	574
Total current assets	15,678
Property, plant and equipment, net	2,945
Deferred income taxes	413
Goodwill	7,172
Intangibles, net	4,743
Investment in unconsolidated affiliates	393
Other assets	140
Total assets	$ 31,484
LIABILITIES AND STOCKHOLDERS EQUITY	
Current liabilities:	
Accounts payable	$ 1,200
Accrued liabilities	2,571
Billings in excess of costs	1,189
Current portion of long-term debt and short-term borrowings	1
Accrued income taxes	355
Deferred income taxes	333
Total current liabilities	5,649
Long-term debt	3,148
Deferred income taxes	1,997
Other liabilities	334
Total liabilities	11,128
Commitments and contingencies	
Stockholders equity:	
Common stock par value $.01; 1 billion shares authorized; 426,928,322 and 423,900,601 shares issued and outstanding at December 31, 2012 and December 31, 2011	4
Additional paid-in capital	8,743
Accumulated other comprehensive income (loss)	107
Retained earnings	11,385
Total Company stockholders equity	20,239
Noncontrolling interests	117

Total stockholders equity	20,356
Total liabilities and stockholders equity	$ 31,484

The accompanying notes are an integral part of these statements.

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NATIONAL OILWELL VARCO, INC.

CONSOLIDATED STATEMENTS OF INCOME

(In millions, except per share data)

	Years Ended Decemb	
	2012	**2011**
Revenue		
Sales	$ 16,641	$ 11,842
Services	3,400	2,816
Total	20,041	14,658
Cost of revenue		
Cost of sales	11,886	8,037
Cost of services	2,816	2,124
Total	14,702	10,161
Gross profit	5,339	4,497
Selling, general and administrative	1,782	1,560
Operating profit	3,557	2,937
Interest and financial costs	(49)	(40)
Interest income	10	18
Equity income in unconsolidated affiliates	58	46
Other income (expense), net	(71)	(39)
Income before income taxes	3,505	2,922
Provision for income taxes	1,022	937
Net income	2,483	1,985
Net loss attributable to noncontrolling interests	(8)	(9)
Net income attributable to Company	$ 2,491	$ 1,994
Net income attributable to Company per share:		
Basic	$ 5.86	$ 4.73
Diluted	$ 5.83	$ 4.70
Cash dividends per share	$ 0.49	$ 0.45
Weighted average shares outstanding:		
Basic	425	422
Diluted	427	424

The accompanying notes are an integral part of these statements.

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NATIONAL OILWELL VARCO, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In millions)

	Years Ended Decem	
	2012	2011
Net income attributable to Company	$ 2,491	$ 1,994
Other comprehensive income (loss) (net of tax):		
Currency translation adjustments	64	(65)
Derivative financial instruments	99	(63)
Change in defined benefit plans	(33)	14
Comprehensive income attributable to Company	2,621	1,880
Net loss attributable to noncontrolling interests	(8)	(9)
Comprehensive income	$ 2,613	$ 1,871

The accompanying notes are an integral part of these statements.

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NATIONAL OILWELL VARCO, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In millions)

	Years Ended Decemb	
	2012	**2011**
Cash flows from operating activities:		
Net income	$ 2,483	$ 1,985
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	628	555
Deferred income taxes	(97)	(352)
Stock-based compensation	80	73
Excess tax benefit from the exercise of stock options	(25)	(22)
Equity income in unconsolidated affiliates	(58)	(46)
Dividend from unconsolidated affiliates	61	45
Other	84	69
Change in operating assets and liabilities, net of acquisitions:		
Receivables	(517)	(696)
Inventories	(1,061)	(591)
Costs in excess of billings	(632)	222
Prepaid and other current assets	(224)	(44)
Accounts payable	(19)	205
Billings in excess of costs	324	354
Income taxes payable	(409)	283
Other assets/liabilities, net	2	103
Net cash provided by operating activities	620	2,143
Cash flows from investing activities:		
Purchases of property, plant and equipment	(583)	(483)
Business acquisitions, net of cash acquired	(2,880)	(1,038)
Dividend from unconsolidated affiliate		13
Other, net	35	50
Net cash used in investing activities	(3,428)	(1,458)
Cash flows from financing activities:		
Borrowings against lines of credit and other debt	5,575	
Payments against lines of credit and other debt	(2,938)	(391)
Cash dividends paid	(209)	(191)
Proceeds from stock options exercised	113	96
Excess tax benefit from the exercise of stock options	25	22
Other	17	
Net cash provided by (used in) financing activities	2,583	(464)
Effect of exchange rates on cash	9	(19)
Increase (decrease) in cash and cash equivalents	(216)	202
Cash and cash equivalents, beginning of period	3,535	3,333
Cash and cash equivalents, end of period	$ 3,319	$ 3,535

Supplemental disclosures of cash flow information:		
Cash payments during the period for:		
Interest	$ 40	$ 44
Income taxes	$ 1,572	$ 945

The accompanying notes are an integral part of these statements.

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NATIONAL OILWELL VARCO, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

(In millions)

	Shares Outstanding	Common Stock	Additional Paid in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total Company Stockholders Equity	Noncontrolling Interests	St
Balance at December 31, 2009	418	$ 4	$ 8,214	$ 90	$ 5,805	$ 14,113	$ 115	$
Net income					1,667	1,667	(8)	
Other comprehensive income, net				1		1		
Cash dividends, $.41 per common share					(172)	(172)		
Dividends to noncontrolling interests							(2)	
Noncontrolling interest contribution							9	
Stock-based compensation			66			66		
Common stock issued	3		73			73		
Withholding taxes			(10)			(10)		
Excess tax benefit of options exercised			10			10		
Balance at December 31, 2010	421	$ 4	$ 8,353	$ 91	$ 7,300	$ 15,748	$ 114	$
Net income					1,994	1,994	(9)	
Other comprehensive loss, net				(114)		(114)		
Cash dividends, $.45 per common share					(191)	(191)		
Dividends to noncontrolling interests							(17)	
Noncontrolling interest contribution							21	
Stock-based compensation			73			73		
Common stock issued	3		96			96		
Withholding taxes			(9)			(9)		
Excess tax benefit of options exercised			22			22		
Balance at December 31, 2011	424	$ 4	$ 8,535	$ (23)	$ 9,103	$ 17,619	$ 109	$
Net income					2,491	2,491	(8)	
Other comprehensive income, net				130		130		
Cash dividends, $.49 per common share					(209)	(209)		
Dividends to noncontrolling interests							(4)	
Noncontrolling interest contribution							20	
Stock-based compensation			80			80		
Common stock issued	3		113			113		
Withholding taxes			(10)			(10)		
Excess tax benefit of options exercised			25			25		
Balance at December 31, 2012	427	$ 4	$ 8,743	$ 107	$ 11,385	$ 20,239	$ 117	$

The accompanying notes are an integral part of these statements.

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NATIONAL OILWELL VARCO, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Organization and Basis of Presentation

Nature of Business

We design, construct, manufacture and sell comprehensive systems, components, and products used in oil and gas drilling and producti oilfield services and supplies, and distribute products and provide supply chain integration services to the upstream oil and gas industry revenues and operating results are directly related to the level of worldwide oil and gas drilling and production activities and the profita cash flow of oil and gas companies, drilling contractors and oilfield service companies, which in turn are affected by current and anticip of oil and gas. Oil and gas prices have been, and are likely to continue to be, volatile.

Basis of Consolidation

The accompanying Consolidated Financial Statements include the accounts of National Oilwell Varco, Inc. and its consolidated subsidi significant intercompany transactions and balances have been eliminated in consolidation. Investments that are not wholly-owned, but w exercise control, are fully consolidated with the equity held by minority owners and their portion of net income (loss) reflected as nonco interests in the accompanying consolidated financial statements. Investments in unconsolidated affiliates, over which we exercise signif influence, but not control, are accounted for by the equity method.

2. Summary of Significant Accounting Policies

Fair Value of Financial Instruments

The carrying amounts of cash and cash equivalents, receivables, and payables approximated fair value because of the relatively short m these instruments. Cash equivalents include only those investments having a maturity date of three months or less at the time of purchas Note 3 for the fair value of derivative financial instruments, Note 9 for the fair value of long-term debt and Note 10 for the fair value of benefit plan assets.

Derivative Financial Instruments

Accounting Standards Codification (ASC) Topic 815, Derivatives and Hedging (ASC Topic 815) requires companies to recog derivative instruments as either assets or liabilities in the Consolidated Balance Sheet at fair value. The accounting for changes in the fa (i.e., gains or losses) of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship further, on the type of hedging relationship. For those derivative instruments that are designated and qualify as hedging instruments, a c must designate the hedging instrument, based upon the exposure being hedged, as a fair value hedge, cash flow hedge, or a hedge of a n investment in a foreign operation.

The Company records all derivative financial instruments at their fair value in its Consolidated Balance Sheet. Except for certain non-de hedges discussed below, all derivative financial instruments that the Company holds are designated as cash flow and are highly effectiv offsetting movements in the underlying risks. Such arrangements typically have terms between two and 24 months, but may have longe depending on the underlying cash flows being hedged, typically related to the projects in our backlog. The Company may also use inter contracts to mitigate its exposure to changes in interest rates on anticipated long-term debt issuances.

At December 31, 2012, the Company has determined that the fair value of its derivative financial instruments representing assets of $10 and liabilities of $19 million (primarily currency related derivatives) are determined using level 2 inputs (inputs other than quoted price markets for identical assets and liabilities that are observable either directly or indirectly for substantially the full term of the asset or lia the fair value hierarchy as the fair value is based on publicly available foreign exchange and interest rates at each financial reporting da December 31, 2012, the net fair value of the Company s foreign currency forward contracts totaled a net asset of $86 million.

Inventories

Inventories consist of raw materials, work-in-process and oilfield and industrial finished products, manufactured equipment and spare p
Inventories are stated at the lower of cost or market using the first-in, first-out or average cost methods. Allowances for excess and obso
inventories are determined based on our historical usage of inventory on-hand as well as our future expectations related to our installed
the development of new products. The allowance, which totaled $338 million and $281 million at December 31, 2012 and 2011, respec
the amount necessary to reduce the cost of the inventory to its net realizable value.

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Property, Plant and Equipment

Property, plant and equipment are recorded at cost. Expenditures for major improvements that extend the lives of property and equipme capitalized while minor replacements, maintenance and repairs are charged to operations as incurred. Disposals are removed at cost less accumulated depreciation with any resulting gain or loss reflected in operations. Depreciation is provided using the straight-line methoc estimated useful lives of individual items. Depreciation expense was $323 million, $279 million and $262 million for the years ended December 31, 2012, 2011 and 2010, respectively. The estimated useful lives of the major classes of property, plant and equipment are i Note 6 to the consolidated financial statements.

Long-lived Assets

We record impairment losses on long-lived assets used in operations when events and circumstances indicate that the assets are impaire undiscounted cash flows estimated to be generated by those assets are less than the carrying amount of those assets. The carrying value used in operations that are not recoverable is reduced to fair value if lower than carrying value. In determining the fair market value of t we consider market trends and recent transactions involving sales of similar assets, or when not available, discounted cash flow analysis have been no impairments of long-lived assets for the years ended December 31, 2012, 2011 and 2010.

Intangible Assets

The Company has approximately $7.1 billion of goodwill and $4.7 billion of identified intangible assets at December 31, 2012. Genera accepted accounting principles require the Company to test goodwill and other indefinite-lived intangible assets for impairment at least or more frequently whenever events or circumstances occur indicating that such assets might be impaired.

Goodwill is identified by segment as follows (in millions):

	Rig Technology	Petroleum Services & Supplies	Distribution & Transmission	To
Balance at December 31, 2010	$ 1,854	$ 3,859	$ 77	$ 5,
Goodwill acquired during period	117	233	27	
Currency translation adjustments and other	(12)	(3)	(1)	
Balance at December 31, 2011	$ 1,959	$ 4,089	$ 103	$ 6,
Goodwill acquired during the period	412	241	347	1,
Currency translation adjustments and other	15	3	3	
Balance at December 31, 2012	$ 2,386	$ 4,333	$ 453	$ 7,

Identified intangible assets with determinable lives consist primarily of customer relationships, trademarks, trade names, patents, and te drawings acquired in acquisitions, and are being amortized on a straight-line basis over the estimated useful lives of 2-30 years. Amorti expense of identified intangibles is expected to be approximately $300 million in each of the next five years. Included in intangible asse approximately $643 million of indefinite-lived trade names.

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The net book value of identified intangible assets are identified by segment as follows (in millions):

	Rig Technology	Petroleum Services & Supplies	Distribution & Transmission	To
Balance at December 31, 2010	$ 666	$ 3,432	$ 5	$ 4,
Additions to intangible assets	70	176	27	
Amortization	(60)	(213)	(3)	(
Currency translation adjustments and other	(22)	(4)	(1)	
Balance at December 31, 2011	$ 654	$ 3,391	$ 28	$ 4,
Additions to intangible assets	545	380	56	
Amortization	(76)	(224)	(5)	(
Currency translation adjustments and other	(11)	3	2	
Balance at December 31, 2012	$ 1,112	$ 3,550	$ 81	$ 4,

Identified intangible assets by major classification consist of the following (in millions):

	Gross	Accumulated Amortization	Net Book Value
December 31, 2011:			
Customer relationships	$ 3,044	$ (717)	$ 2,327
Trademarks	716	(122)	594
Indefinite-lived trade names	643		643
Other	751	(242)	509
Total identified intangibles	$ 5,154	$ (1,081)	$ 4,073
December 31, 2012:			
Customer relationships	$ 3,522	$ (907)	$ 2,615
Trademarks	877	(152)	725
Indefinite-lived trade names	643		643
Other	1,087	(327)	760
Total identified intangibles	$ 6,129	$ (1,386)	$ 4,743

The Company performed its annual impairment analysis for its goodwill and indefinite-lived intangible assets during the fourth quarter 2011 and 2010, each resulting in no impairment. The valuation techniques used in the annual test were consistent with those used durin testing. The inputs used in the annual test were updated for current market conditions and forecasts.

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Foreign Currency

The functional currency for most of our foreign operations is the local currency. The cumulative effects of translating the balance sheet from the functional currency into the U.S. dollar at current exchange rates are included in accumulated other comprehensive income (lo Revenues and expenses are translated at average exchange rates in effect during the period. Certain other foreign operations, including operations in Norway, use the U.S. dollar as the functional currency. Accordingly, financial statements of these foreign subsidiaries are remeasured to U.S. dollars for consolidation purposes using current rates of exchange for monetary assets and liabilities and historical r exchange for nonmonetary assets and related elements of expense. Revenue and expense elements are remeasured at rates that approxim rates in effect on the transaction dates. For all operations, gains or losses from remeasuring foreign currency transactions into the functi currency are included in income. Net foreign currency transaction losses were $21 million, $10 million and $30 million for the years en December 31, 2012, 2011 and 2010, respectively, and are included in other income (expense) in the accompanying statement of operati

During the first quarter of 2010, the Venezuelan government officially devalued the Venezuelan bolivar against the U.S. dollar. As a re Company converted its Venezuela ledgers to U.S. dollar functional currency, devalued monetary assets resulting in a $27 million charg wrote-down certain accounts receivable in view of deteriorating business conditions in Venezuela, resulting in an additional $11 millio During the first quarter of 2013, the Venezuelan government again officially devalued the Venezuelan bolivar against the U.S. dollar. A the Company expects to incur approximately $12 million in devaluation charges in the first quarter of 2013. The Company s net invest Venezuela was $34 million at December 31, 2012.

Revenue Recognition

The Company s products and services are sold based upon purchase orders or contracts with the customer that include fixed or determi and that do not generally include right of return or other similar provisions or other significant post delivery obligations. Except for cert construction contracts and drill pipe sales described below, the Company records revenue at the time its manufacturing process is comp customer has been provided with all proper inspection and other required documentation, title and risk of loss has passed to the custome collectability is reasonably assured and the product has been delivered. Customer advances or deposits are deferred and recognized as r when the Company has completed all of its performance obligations related to the sale. The Company also recognizes revenue as servic performed. The amounts billed for shipping and handling cost are included in revenue and related costs are included in cost of sales.

Revenue Recognition under Long-term Construction Contracts

The Company uses the percentage-of-completion method to account for certain long-term construction contracts in the Rig Technology These long-term construction contracts include the following characteristics:

the contracts include custom designs for customer specific applications;

the structural design is unique and requires significant engineering efforts; and

construction projects often have progress payments.

This method requires the Company to make estimates regarding the total costs of the project, progress against the project schedule and estimated completion date, all of which impact the amount of revenue and gross margin the Company recognizes in each reporting peri Company prepares detailed cost estimates at the beginning of each project. Significant projects and their related costs and profit margin updated and reviewed at least quarterly by senior management. Factors that may affect future project costs and margins include shipyar weather, production efficiencies, availability and costs of labor, materials and subcomponents and other factors. These factors can impa accuracy of the Company s estimates and materially impact the Company s current and future reported earnings.

The asset, Costs in excess of billings, represents revenues recognized in excess of amounts billed. The liability, Billings in excess o represents billings in excess of revenues recognized.

Drill Pipe Sales

For drill pipe sales, if requested in writing by the customer, delivery may be satisfied through delivery to the Company s customer stor
or to a third-party storage facility. For sales transactions where title and risk of loss have transferred to the customer but the supporting
documentation does not meet the criteria for revenue recognition prior to the products being in the physical possession of the customer,
recognition of the revenues and related inventory costs from these transactions are deferred until the customer takes physical possessior

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Service and Product Warranties

The Company provides service and warranty policies on certain of its products. The Company accrues liabilities under service and warr
policies based upon specific claims and a review of historical warranty and service claim experience in accordance with ASC Topic 450
Contingencies (ASC Topic 450). Adjustments are made to accruals as claim data and historical experience change. In addition, th
incurs discretionary costs to service its products in connection with product performance issues and accrues for them when they are enc
The Company monitors the actual cost of performing these discretionary services and adjusts the accrual based on the most current info
available.

The changes in the carrying amount of service and product warranties are as follows (in millions):

Balance at December 31, 2010	$ 215
Net provisions for warranties issued during the year	40
Amounts incurred	(47)
Currency translation adjustments and other	3
Balance at December 31, 2011	$ 211
Net provisions for warranties issued during the year	51
Amounts incurred	(76)
Currency translation adjustments and other	8
Balance at December 31, 2012	$ 194

Income Taxes

The liability method is used to account for income taxes. Deferred tax assets and liabilities are determined based on differences betwee
financial reporting and tax basis of assets and liabilities and are measured using the enacted tax rates that will be in effect when the diff
expected to reverse. Valuation allowances are established when necessary to reduce deferred tax assets to amounts which are more likel
to be realized.

Concentration of Credit Risk

We grant credit to our customers, which operate primarily in the oil and gas industry. Concentrations of credit risk are limited because
large number of geographically diverse customers, thus spreading trade credit risk. We control credit risk through credit evaluations, cr
and monitoring procedures. We perform periodic credit evaluations of our customers financial condition and generally do not require
but may require letters of credit for certain international sales. Credit losses are provided for in the financial statements. Allowances for
accounts are determined based on a continuous process of assessing the Company s portfolio on an individual customer basis taking in
current market conditions and trends. This process consists of a thorough review of historical collection experience, current aging status
customer accounts, and financial condition of the Company s customers. Based on a review of these factors, the Company will establis
allowances for specific customers. Accounts receivable are net of allowances for doubtful accounts of approximately $120 million and
million at December 31, 2012 and 2011.

Stock-Based Compensation

Compensation expense for the Company s stock-based compensation plans is measured using the fair value method required by ASC T
Compensation Stock Compensation (ASC Topic 718). Under this guidance the fair value of stock option grants and restricted s
to expense using the straight-line method over the shorter of the vesting period or the remaining employee service period.

The Company provides compensation benefits to employees and non-employee directors under share-based payment arrangements, inc
various employee stock option plans.

Total compensation cost that has been charged against income for all share-based compensation arrangements was $80 million, $73 mil
$66 million for 2012, 2011 and 2010, respectively. The total income tax benefit recognized in the income statement for all share-based
compensation arrangements was $24 million, $17 million and $20 million for 2012, 2011 and 2010, respectively.

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Environmental Liabilities

When environmental assessments or remediations are probable and the costs can be reasonably estimated, remediation liabilities are rec
an undiscounted basis and are adjusted as further information develops or circumstances change.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires manag
make estimates and assumptions that affect reported and contingent amounts of assets and liabilities as of the date of the financial stater
reported amounts of revenues and expenses during the reporting period. Such estimates include but are not limited to, estimated losses o
receivable, estimated costs and related margins of projects accounted for under percentage-of-completion, estimated realizable value on
and obsolete inventory, contingencies, estimated liabilities for litigation exposures and liquidated damages, estimated warranty costs, es
related to pension accounting, estimates related to the fair value of reporting units for purposes of assessing goodwill and other indefini
intangible assets for impairment and estimates related to deferred tax assets and liabilities, including valuation allowances on deferred t
Actual results could differ from those estimates.

Contingencies

The Company accrues for costs relating to litigation claims and other contingent matters, including liquidated damage liabilities, when s
liabilities become probable and reasonably estimable. Such estimates may be based on advice from third parties or on management s ju
appropriate. Revisions to contingent liabilities are reflected in income in the period in which different facts or information become know
circumstances change that affect the Company s previous judgments with respect to the likelihood or amount of loss. Amounts paid up
ultimate resolution of contingent liabilities may be materially different from previous estimates and could require adjustments to the est
reserves to be recognized in the period such new information becomes known.

In circumstances where the most likely outcome of a contingency can be reasonably estimated, we accrue a liability for that amount. W
most likely outcome cannot be estimated, a range of potential losses is established and if no one amount in that range is more likely thar
the low end of the range is accrued.

Net Income Attributable to Company Per Share

The following table sets forth the computation of weighted average basic and diluted shares outstanding (in millions, except per share d

	Years Ended December 31,		
	2012	**2011**	**2010**
Numerator:			
Net income attributable to Company	$ 2,491	$ 1,994	$ 1,667
Denominator:			
Basic weighted average common shares outstanding	425	422	417
Dilutive effect of employee stock options and other unvested stock awards	2	2	2
Diluted outstanding shares	427	424	419
Basic earnings attributable to Company per share	$ 5.86	$ 4.73	$ 3.99
Diluted earnings attributable to Company per share	$ 5.83	$ 4.70	$ 3.98
Cash dividends per share	$ 0.49	$ 0.45	$ 0.41

ASC Topic 260, Earnings Per Share (ASC Topic 260) requires companies with unvested participating securities to utilize a two-c
the computation of net income attributable to Company per share. The two-class method requires a portion of net income attributable to
to be allocated to participating securities, which are unvested awards of share-based payments with non-forfeitable rights to receive div

dividend equivalents, if declared. Net income attributable to Company allocated to these participating securities was immaterial for the ended December 31, 2012, 2011 and 2010 and therefore not excluded from net income attributable to Company per share calculation.

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The Company had stock options outstanding that were anti-dilutive totaling 5 million, 3 million, and 8 million at December 31, 2012, 2
2010, respectively.

Recently Issued Accounting Standards

In July 2012, the Financial Accounting Standards Board issued Accounting Standard Update No. 2012-02 Intangibles Goodwill and C
350) that amends the accounting guidance on testing indefinite-lived intangible assets for impairment. The amendments in this accoun
standard update are intended to reduce complexity and costs by allowing an entity the option to make a qualitative evaluation about the
that an indefinite-lived intangible asset is impaired to determine whether it should perform a quantitative impairment test. The amendm
enhance the consistency of impairment testing guidance among long-lived asset categories by permitting an entity to assess qualitative f
determine whether it is necessary to calculate the asset s fair value when testing an indefinite-lived intangible asset for impairment, wh
equivalent to the impairment testing requirements for other long-lived assets. The amendments in this accounting standard update are ef
interim and annual impairment tests performed for fiscal years beginning after September 15, 2012. The Company tests its indefinite-liv
intangible assets for impairment annually in the fourth quarter or more frequently when events or changes in circumstances indicate tha
impairment may have occurred.

3. Derivative Financial Instruments

ASC Topic 815, Derivatives and Hedging (ASC Topic 815) requires a company to recognize all of its derivative instruments as ei
liabilities in the Consolidated Balance Sheet at fair value. The accounting for changes in the fair value (i.e., gains or losses) of a derivat
instrument depends on whether it has been designated and qualifies as part of a hedging relationship and further, on the type of hedging
relationship. For those derivative instruments that are designated and qualify as hedging instruments, a company must designate the hed
instrument, based upon the exposure being hedged, as a fair value hedge, cash flow hedge, or a hedge of a net investment in a foreign o

The Company is exposed to certain risks relating to its ongoing business operations. The primary risk managed by using derivative instr
foreign currency exchange rate risk. Forward contracts against various foreign currencies are entered into to manage the foreign currenc
exchange rate risk on forecasted revenues and expenses denominated in currencies other than the functional currency of the operating u
flow hedge). Other forward exchange contracts against various foreign currencies are entered into to manage the foreign currency excha
risk associated with certain firm commitments denominated in currencies other than the functional currency of the operating unit (fair v
hedge). In addition, the Company will enter into non-designated forward contracts against various foreign currencies to manage the fore
currency exchange rate risk on recognized nonfunctional currency monetary accounts (non-designated hedge).

The Company records all derivative financial instruments at their fair value in its Consolidated Balance Sheet. Except for certain non-de
hedges discussed below, all derivative financial instruments that the Company holds are designated as cash flow hedges and are highly
offsetting movements in the underlying risks. Such arrangements typically have terms between 2 and 24 months, but may have longer t
depending on the underlying cash flows being hedged, typically related to the projects in our backlog. The Company may also use inter
contracts to mitigate its exposure to changes in interest rates on anticipated long-term debt issuances.

At December 31, 2012, the Company has determined that the fair value of its derivative financial instruments representing assets of $10
and liabilities of $19 million (primarily currency related derivatives) are determined using level 2 inputs (inputs other than quoted price
markets for identical assets and liabilities that are observable either directly or indirectly for substantially the full term of the asset or lia
the fair value hierarchy as the fair value is based on publicly available foreign exchange and interest rates at each financial reporting dat
December 31, 2012, the net fair value of the Company s foreign currency forward contracts totaled a net asset of $86 million.

At December 31, 2012, the Company did not have any interest rate swaps and its financial instruments do not contain any credit-risk-re
other contingent features that could cause accelerated payments when the Company s financial instruments are in net liability positions
use derivative financial instruments for trading or speculative purposes.

Cash Flow Hedging Strategy

To protect against the volatility of forecasted foreign currency cash flows resulting from forecasted revenues and expenses, the Compar
instituted a cash flow hedging program. The Company hedges portions of its forecasted revenues and expenses denominated in nonfunc
currencies with forward contracts. When the U.S. dollar strengthens against the foreign currencies, the decrease in present value of futu
currency revenues and expenses is offset by gains in the fair value of the forward contracts designated as hedges. Conversely, when the
weakens, the increase in the present value of future foreign currency cash flows is offset by losses in the fair value of the forward contra

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For derivative instruments that are designated and qualify as a cash flow hedge (i.e., hedging the exposure to variability in expected futu
flows that is subject to a particular currency risk), the effective portion of the gain or loss on the derivative instrument is reported as a co
of Other Comprehensive Income and reclassified into earnings in the same line item associated with the forecasted transaction and in th
period or periods during which the hedged transaction affects earnings (e.g., in revenues when the hedged transactions are cash flow
with forecasted revenues). The remaining gain or loss on the derivative instrument in excess of the cumulative change in the present val
future cash flows of the hedged item, if any (i.e., the ineffective portion), or hedge components excluded from the assessment of effecti
recognized in the Consolidated Statements of Income during the current period.

At December 31, 2012 and 2011, the Company had the following outstanding foreign currency forward contracts that were entered into
nonfunctional currency cash flows from forecasted revenues and expenses (in millions):

	Currency Denomination			
Foreign Currency	**December 31, 2012**		**December 2011**	
Norwegian Krone	NOK	6,281	NOK	6,
U.S. Dollar	$	331	$	
Euro		389		
Mexican Peso	MXN		MXN	
Danish Krone	DKK	134	DKK	
Singapore Dollar	SGD	14	SGD	
British Pound Sterling	£	6	£	

Non-designated Hedging Strategy

The Company enters into forward exchange contracts to hedge certain nonfunctional currency monetary accounts. The purpose of the C
foreign currency hedging activities is to protect the Company from risk that the eventual U.S. dollar equivalent cash flows from the non
currency monetary accounts will be adversely affected by changes in the exchange rates.

For derivative instruments that are non-designated, the gain or loss on the derivative instrument subject to the hedged risk (i.e., nonfunc
currency monetary accounts) is recognized in other income (expense), net in current earnings.

The Company had the following outstanding foreign currency forward contracts that hedge the fair value of nonfunctional currency mo
accounts (in millions):

	Currency Denomination			
Foreign Currency	**December 31, 2012**		**December 2011**	
Norwegian Krone	NOK	1,684	NOK	2,
Russian Ruble	RUB	1,467	RUB	
U.S. Dollar	$	967	$	
Euro		225		
Danish Krone	DKK	177	DKK	
Brazilian Real	BRL	135	BRL	
Singapore Dollar	SGD	24	SGD	
British Pound Sterling	£	9	£	
Canadian Dollar	CAD	2	CAD	
Swedish Krone	SEK	5	SEK	

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The Company has the following fair values of its derivative instruments and their balance sheet classifications (in millions):

	Asset Derivatives			Liability Derivat	
	Balance Sheet Location	Fair Value December 31, 2012	2011	Balance Sheet Location	F Dec 201
Derivatives designated as hedging instruments under ASC Topic 815					
Foreign exchange contracts	Prepaid and other current assets	$ 57	$ 16	Accrued liabilities	$
Foreign exchange contracts	Other Assets	24	1	Other Liabilities	
Total derivatives designated as hedging instruments under ASC Topic 815		$ 81	$ 17		$
Derivatives not designated as hedging instruments under ASC Topic 815					
Foreign exchange contracts	Prepaid and other current assets	$ 24	$ 9	Accrued liabilities	$ 1
Total derivatives not designated as hedging instruments under ASC Topic 815		$ 24	$ 9		$ 1
Total derivatives		$ 105	$ 26		$ 1

The Effect of Derivative Instruments on the Consolidated Statements of Income

($ in millions)

Derivatives Designated as Hedging Instruments under ASC Topic 815	Amount of Gain (Loss) Recognized in OCI on Derivatives (Effective Portion) (a) Years Ended December 31, 2012	2011	Location of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Amount of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion) Years Ended December 31, 2012	2011	Location of Gain (Loss) Recognized in Income on Derivatives (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Amount Reco I on D (In P and Ex Effe Tes Yea Dec 2012
			Revenue	6	11		
Foreign exchange contracts	105	6	Cost of revenue	26	38	Other income (expense), net	8
Total	105	6		32	49		8

Derivatives Not Designated as Hedging Instruments under ASC Topic 815	Location of Gain (Loss) Recognized in Income on Derivatives	Amount of Gain (Loss) Recognized in Income on Derivatives Years Ended December 31, 2012	2011

Foreign exchange contracts	Other income (expense), net	19
Total		19

(a) The Company expects that $(35) million of the Accumulated Other Comprehensive Income (Loss) will be reclassified into earnin the next twelve months with an offset by gains from the underlying transactions resulting in no impact to earnings or cash flow.

(b) The amount of gain (loss) recognized in income represents nil and $17 million related to the ineffective portion of the hedging rel for the years ended December 31, 2012 and 2011, respectively, and $8 million and $18 million related to the amount excluded fro assessment of the hedge effectiveness for the years ended December 31, 2012 and 2011, respectively.

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4. Acquisitions and Investments

2012

In the year ended December 31, 2012, the Company completed 17 acquisitions for an aggregate purchase price of $2,880 million, net o
acquired. These acquisitions included:

All the shares of NKT Flexibles I/S (NKT), a Denmark-based designer and manufacturer of flexible pipe products and sy
offshore oil and gas industry, acquired on April 4, 2012. The Company reported the NKT results within its Rig Technology
from the date of acquisition.

All the shares of Enerflow Industries Inc. (U.S.) and certain assets of Enerflow Industries Inc. (Canada) (Enerflow), a Ca
fabricator and manufacturer of pressure pumping, blending, and cementing equipment for use primarily in Canada and the U
acquired on May 16, 2012. The Company reported the Enerflow results within its Rig Technology segment from the date of
acquisition.

All the shares of Wilson Distribution Holdings (Wilson), a U.S.-based distributor of pipe, valves and fittings as well as m
safety products and services, acquired on May 31, 2012. The Company reported the Wilson results within its Distribution &
Transmission segment from the date of acquisition.

All the shares of CE Franklin Ltd. (CE Franklin), a Canada-based distributor of pipe, valves, flanges, fittings, production
tubular products and other general oilfield supplies to oil and gas producers in Canada as well as to the oil sands, refining, h
petrochemical, forestry and mining industries, acquired on July 19, 2012. The Company reported the CE Franklin results wi
Distribution & Transmission segment from the date of acquisition.

All the shares of Fiberspar Corporation (Fiberspar), a U.S.-based manufacturer of fiberglass-reinforced spoolable pipe fo
gas industry, acquired on October 10, 2012. The Company reported the Fiberspar results within its Petroleum Services & Su
segment from the date of acquisition.

The purchase price allocation is complete for the majority of the 2012 acquisitions. Acquisitions made during the fourth quarter of 2012
preliminary until the valuations are complete. The following table displays the total preliminary purchase price allocation for the 2012 a
and summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition (in millions):

Current assets, net of cash acquired	$ 1,441
Property, plant and equipment	248
Intangible assets	981
Goodwill	1,000
Other assets	2
Total assets acquired	3,672
Current liabilities	585
Long-term debt	1
Other liabilities	206
Total liabilities	792

Cash consideration, net of cash acquired	$ 2,880

The Company allocated $981 million to intangible assets (18 year weighted-average life). The intangible assets are expected to be amor
are comprised of: $473 million of customer relationships (20 year weighted-average life),$159 million of trademarks (16 year weighted
life), and $348 million of other intangible assets (17 year weighted-average life). Goodwill specifically includes the expected synergies
benefits that the Company believes will result from combining its operations with those of businesses acquired and other intangible ass
not qualify for separate recognition, such as assembled workforce in place at the date of each acquisition. The $1,000 million allocated
represents the excess of the purchase price over the fair value of the net assets acquired. Goodwill resulting from the NKT and CE Fran
acquisitions and a portion of the Enerflow acquisition is not expected to be deductible for tax purposes.

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2011

The Company completed nine acquisitions for an aggregate purchase price of $1,038 million, net of cash acquired. These acquisitions i

The shares of Ameron International Corporation (Ameron), a U.S.-based manufacturer of highly engineered products and the chemical, industrial, energy, transportation and infrastructure markets.

The shares of Conner Steel Products Holding Company, a U.S.-based manufacturer of storage and handling equipment for t services industry.

The allocation of the purchase price of each acquisition was based upon valuations. The following table summarizes the fair values of th acquired and liabilities assumed at the date of acquisition of the 2011 acquisitions (in millions):

	Ameron	All Other Acquisitions	Total
Current assets, net of cash acquired	$ 245	$ 106	$ 351
Property, plant and equipment	402	41	443
Intangible assets	142	131	273
Goodwill	199	178	377
Other assets	59	14	73
Total assets acquired	1,047	470	1,517
Current liabilities	154	80	234
Long-term debt	16		16
Other liabilities	173	56	229
Total liabilities	343	136	479
Cash consideration, net of cash acquired	$ 704	$ 334	$ 1,038

The Company allocated $273 million to intangible assets (16 year weighted-average life), comprised of: $119 million of customer relati (14 year weighted-average life), $39 million of trademarks (35 year weighted-average life), and $115 million of other intangible assets weighted-average life).

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2010

The Company completed 12 acquisitions for an aggregate purchase price of $556 million, net of cash acquired. These acquisitions inclu

The shares of Advanced Production and Loading PLC, a Norway-based designer and manufacturer of turret mooring systen other products for Floating Production, Storage and Offloading vessels (FPSOs) and other offshore vessels and terminals purchase price of approximately $500 million.

The business and assets of Ambar Lone Star Fluids Services, LLP, a U.S.-based Drilling and Completions Fluids company.
The following table summarizes the fair values of the assets acquired and liabilities assumed at the date of acquisition of the 2010 acqui millions):

Current assets, net of cash acquired	$ 136
Cost in excess of billings	71
Property, plant and equipment	38
Intangible assets	299
Goodwill	298
Other assets	8
Total assets acquired	850
Current liabilities	142
Billings in excess of cost	41
Other liabilities	111
Total liabilities	294
Cash consideration, net of cash acquired	$ 556

The Company allocated $299 million to intangible assets (18 year weighted-average life), comprised of: $116 million of customer relati (15 year weighted-average life), $59 million of trademarks (30 year weighted-average life), and $124 million of other intangible assets weighted-average life).

Each of the acquisitions were accounted for using the purchase method of accounting and, accordingly, the results of operations of each are included in the consolidated results of operations from the date of acquisition. A summary of the acquisitions follows (in millions);

	Years Ended December 31,		
	2012	**2011**	**2010**
Fair value of assets acquired, net of cash acquired	$ 3,672	$ 1,517	$ 850
Cash paid, net of cash acquired	(2,880)	(1,038)	(556)
Liabilities assumed, debt issued and minority interest	$ 792	$ 479	$ 294
Excess purchase price over fair value of net assets acquired	$ 1,000	$ 377	$ 298

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5. Inventories, net

Inventories consist of (in millions):

	December 31, 2012	December 31, 2011
Raw materials and supplies	$ 1,268	$ 907
Work in process	905	852
Finished goods and purchased products	3,718	2,271
Total	$ 5,891	$ 4,030

6. Property, Plant and Equipment

Property, plant and equipment consist of (in millions):

	Estimated Useful Lives	December 31, 2012	December 31, 2011
Land and buildings	5-35 Years	$ 1,348	$ 1,069
Operating equipment	3-15 Years	2,463	1,955
Rental equipment	3-12 Years	712	636
		4,523	3,660
Less: Accumulated Depreciation		(1,578)	(1,215)
		$ 2,945	$ 2,445

7. Accrued Liabilities

Accrued liabilities consist of (in millions):

	December 31, 2012	December 31, 2011
Customer prepayments and billings	$ 699	$ 686
Compensation	511	468
Accrued vendor costs	444	280
Warranty	194	211
Taxes (non income)	150	119
Insurance	108	103
Fair value of derivatives	18	83
Interest	14	7
Other	433	419
Total	$ 2,571	$ 2,376

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8. Costs and Estimated Earnings on Uncompleted Contracts

Costs and estimated earnings on uncompleted contracts consist of (in millions):

	December 31, 2012	December 31, 2011
Costs incurred on uncompleted contracts	$ 5,731	$ 5,839
Estimated earnings	3,160	3,775
	8,891	9,614
Less: Billings to date	8,855	9,886
	$ 36	$ (272)
Costs and estimated earnings in excess of billings on uncompleted contracts	$ 1,225	$ 593
Billings in excess of costs and estimated earnings on uncompleted contracts	(1,189)	(865)
	$ 36	$ (272)

9. Debt

Debt consists of (in millions):

	December 31, 2012	December 31, 2011
Senior Notes, interest at 5.65% payable semiannually, principal due on November 15, 2012	$	$ 200
Senior Notes, interest at 5.5% payable semiannually, principal due on November 19, 2012		150
Senior Notes, interest at 6.125% payable semiannually, principal due on August 15, 2015	151	151
Senior Notes, interest at 1.35% payable semiannually, principal due on December 1, 2017	500	
Senior Notes, interest at 2.6% payable semiannually, principal due on December 1, 2022	1,395	
Senior Notes, interest at 3.95% payable semiannually, principal due on December 1, 2042	1,096	
Other	7	9
Total debt	3,149	510
Less current portion	1	351
Long-term debt	$ 3,148	$ 159

Principal payments of debt for years subsequent to 2012 are as follows (in millions):

2013	$ 1
2014	3

2015	151
2016	
2017	500
Thereafter	2,494
	$ 3,149

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New Revolving Credit Facility

On September 28, 2012, the Company entered into a new five-year unsecured revolving credit facility with a syndicate of financial inst
This new credit facility replaced early the Company s previous $2.0 billion revolving credit facility and provides for aggregate multicu
borrowings up to $3.5 billion. In addition, the Company has an accordion option to increase aggregate borrowing availability by an add
$1.0 billion, subject to obtaining additional or increased lender commitments from members of the syndication. Interest under the new c
facility is based upon LIBOR, NIBOR or EURIBOR plus 0.875% subject to a ratings-based grid, or the prime rate. The terms of the nev
facility provide for a financial covenant regarding maximum debt to capitalization. At December 31, 2012, the Company was in compli
the financial covenant under the new credit facility.

At December 31, 2012, there were no borrowings under the new $3.5 billion credit facility, however, there were $938 million in outstar
letters of credit issued, resulting in $2,562 million of funds available.

The Company also had $2,254 million of additional outstanding letters of credit at December 31, 2012, primarily in Norway, that are ur
various bilateral committed letter of credit facilities. Other letters of credit are issued as bid bonds and performance bonds.

Redemption of unsecured Senior Notes Due 2012

On November 15, 2012, the Company repaid $200 million of its 5.65% unsecured Senior Notes and $150 million of its 5.50% unsecure
Notes. Both series of unsecured Senior Notes were repaid using available cash balances.

Issuance of unsecured Senior Notes Due 2017, 2022 and 2042

On November 20, 2012, the Company issued the following; $500 million of 1.35% unsecured Senior Notes due 2017, $1.4 billion of 2.
unsecured Senior Notes due 2022 and $1.1 billion of 3.95% unsecured Senior Notes due 2042. The net proceeds were $2,969 million, a
deducting $22 million in underwriting fees and a $9 million discount. Interest on each series of notes is due on June 1 and December 1 c
year, beginning on June 1, 2013. The Company may redeem some or all of the Senior Notes at any time at the applicable redemption, p
interest, if any, to the redemption date. At December 31, 2012, the Company was in compliance with the covenants under the indenture
the Senior Notes.

The fair value of the Company s debt is estimated using Level 2 inputs in the fair value hierarchy and is based on quoted prices for tho
instruments. At December 31, 2012 and 2011, the fair value of the Company s unsecured Senior Notes approximated $3,190 million ar
million, respectively. At December 31, 2012 and 2011, the carrying value of the Company s unsecured Senior Notes approximated $3,
and $501 million, respectively.

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10. Employee Benefit Plans

We have benefit plans covering substantially all of our employees. Defined-contribution benefit plans cover most of the U.S. and Canad
employees, and benefits are based on years of service, a percentage of current earnings and matching of employee contributions. Emplo
Norwegian operations can elect to participate in a defined-contribution plan in lieu of a local defined benefit plan. For the years ended
December 31, 2012, 2011 and 2010, expenses for defined-contribution plans were $82 million, $54 million, and $41 million, respective
funding is current.

Certain retired or terminated employees of predecessor or acquired companies participate in a defined benefit plan in the United States.
the participants in this plan are eligible to accrue benefits. In addition, 1,105 U.S. retirees and spouses participate in defined benefit hea
plans of predecessor or acquired companies that provide postretirement medical and life insurance benefits. Active employees are inelig
participate in any of these defined benefit plans. Our subsidiaries in the United Kingdom and Norway also have defined benefit pension
covering virtually all of their employees.

As a result of the Ameron acquisition in October of 2011, the Company acquired a qualified, defined benefit, noncontributory pension p
certain U.S. employees as well as the obligation to provide defined retirement benefits to eligible employees in the Netherlands. The U.
December 31, 2011 was closed to new participants not covered by a collective bargaining agreement and ceased all benefit accruals und
with respect to employees that are not covered by a collective bargaining agreement. In addition, 232 U.S. employees covered by a colle
bargaining agreement participate in defined benefit health care plans that provide postretirement medical benefits.

Net periodic benefit cost for our defined benefit plans aggregated $10 million, $14 million and $10 million for the years ended Decemb
2012, 2011 and 2010, respectively.

The change in benefit obligation, plan assets and the funded status of the defined benefit pension plans in the United States, United Kin
Norway and the Netherlands and defined postretirement plans in the United States, using a measurement date of December 31, 2012 an
December 31, 2011, is as follows (in millions):

	Pension benefits		Postretirement bene	
At year end	**2012**	**2011**	**2012**	**20**
Benefit obligation at beginning of year	$ 556	$ 272	$ 35	$
Service cost	6	7		
Interest cost	27	19	1	
Actuarial loss (gain)	76	(14)	(2)	
Benefits paid	(26)	(14)	(4)	
Participants contributions	1	1		
Exchange rate loss (gain)	12	(6)		
Acquisitions	11	299		
Curtailments	(8)	(9)		
Other		1		
Benefit obligation at end of year	$ 655	$ 556	$ 30	$
Fair value of plan assets at beginning of year	$ 419	$ 203	$	$
Actual return	49	19		
Benefits paid	(26)	(14)	(4)	
Company contributions	53	19	4	
Participants contributions	1	1		
Exchange rate gain (loss)	12	(5)		
Acquisitions	9	196		
Fair value of plan assets at end of year	$ 517	$ 419	$	$
Funded status	$ (138)	$ (137)	$ (30)	$

Accumulated benefit obligation at end of year	$ 635	$ 527

Liabilities associated with the funded status of the defined benefit pension plans are included in the balances of accrued liabilities and o
liabilities in the Consolidated Balance Sheet.

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Defined Benefit Pension Plans

Assumed long-term rates of return on plan assets, discount rates and rates of compensation increases vary for the different plans accord
local economic conditions. The assumption rates used for benefit obligations are as follows:

	Years Ended December 31,	
	2012	2011
Discount rate:		
United States plan	3.78%	4.58%
International plans	3.30%-4.40%	4.50%-5.60%
Salary increase:		
United States plan	N/A	N/A
International plans	2.00%-3.87%	2.50%-4.00%

The assumption rates used for net periodic benefit costs are as follows:

	Years Ended December 31,		
	2012	2011	2010
Discount rate:			
United States plan	4.58%	4.95%	5.26%
International plans	4.50%-5.60%	5.25%-5.65%	5.25%-5.75%
Salary increase:			
United States plan	N/A	N/A	N/A
International plans	2.00%-4.00%	2.00%-4.33%	2.50%-4.25%
Expected return on assets:			
United States plan	6.33%	5.50%-6.50%	7.50%
International plans	4.50%-6.51%	4.50%-7.06%	6.00%-6.85%

In determining the overall expected long-term rate of return for plan assets, the Company takes into consideration the historical experie
as future expectations of the asset mix involved. As different investments yield different returns, each asset category is reviewed indivi
then weighted for significance in relation to the total portfolio.

The majority of our plans have projected benefit obligations in excess of plan assets.

The Company expects to pay future benefit amounts on its defined benefit plans of $32 million for each of the next five years and aggre
payments of $326 million.

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Plan Assets

The Company and its investment advisers collaboratively reviewed market opportunities using historic and statistical data, as well as th
valuation reports for the plans, to ensure that the levels of acceptable return and risk are well-defined and monitored. Currently, the Co
management believes that there are no significant concentrations of risk associated with plan assets. Our pension investment strategy w
prohibits a direct investment in our own stock.

The following table sets forth by level, within the fair value hierarchy, the Plan s assets carried at fair value (in millions):

		Fair Value Measurements		
	Total	Level 1	Level 2	Level 3
December 31, 2011:				
Equity securities	$ 212	$	$ 212	$
Bonds	100		100	
Other (insurance contracts)	107		30	77
Total Fair Value Measurements	$ 419	$	$ 342	$ 77
December 31, 2012:				
Equity securities	$ 204	$	$ 204	$
Bonds	139		139	
Other (insurance contracts)	174		74	100
Total Fair Value Measurements	$ 517	$	$ 417	$ 100

The following table sets forth a summary of changes in the fair value of the Plan s Level 3 assets (in millions):

	Level 3 Plan Assets
Balance at December 31, 2010	$ 32
Actual return on plan assets still held at reporting date	4
Purchases, sales and settlements	45
Currency translation adjustments	(4)
Balance at December 31, 2011	$ 77
Actual return on plan assets still held at reporting date	10
Purchases, sales and settlements	8
Currency translation adjustments	5
Balance at December 31, 2012	$ 100

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11. Accumulated Other Comprehensive Income (Loss)

The components of accumulated other comprehensive income (loss) are as follows (in millions):

	Defined Benefit Plans	Currency Translation Adjustments	Derivative Financial Instruments	To
Balance at December 31, 2009	$ (49)	$ 120	$ 19	$
Current period activity	1	19	(17)	
Tax effect		(6)	4	
Balance at December 31, 2010	$ (48)	$ 133	$ 6	$
Current period activity	19	(86)	(88)	(
Tax effect	(5)	21	25	
Balance at December 31, 2011	$ (34)	$ 68	$ (57)	$
Current period activity	(47)	64	138	
Tax effect	14		(39)	
Balance at December 31, 2012	$ (67)	$ 132	$ 42	$

12. Commitments and Contingencies

We have received federal grand jury subpoenas and subsequent inquiries from governmental agencies requesting records related to our compliance with export trade laws and regulations. We have cooperated fully with agents from the Department of Justice, the Bureau o and Security, the Office of Foreign Assets Control (OFAC), and U.S. Immigration and Customs Enforcement in responding to the in have also cooperated with an informal inquiry from the Securities and Exchange Commission in connection with the inquiries previous the aforementioned federal agencies. We have conducted our own internal review of this matter. At the conclusion of our internal revie fourth quarter of 2009, we identified possible areas of concern and discussed these areas of concern with the relevant agencies. We are negotiating a potential resolution with the agencies involved related to these matters.

In addition, we are involved in various other claims, regulatory agency audits and pending or threatened legal actions involving a variet matters. At December 31, 2012, the Company recorded an immaterial amount for contingent liabilities representing all contingencies be be probable. The Company has also assessed the potential for additional losses above the amounts accrued as well as potential losses fo that are not probable but are reasonably possible. The total potential loss on these matters cannot be determined; however, in our opinio ultimate liability, to the extent not otherwise provided for and except for the specific case referred to above, will not materially affect ou position, cash flow or results of operations. As it relates to the specific case referred to above we currently anticipate that any administr or penalty agreed to as part of a resolution would be within established accruals, and would not have a material effect on our financial p results of operations. To the extent a resolution is not negotiated as anticipated, we cannot predict the timing or effect that any resulting government actions may have on our financial position, cash flow or results of operations. These estimated liabilities are based on the C assessment of the nature of these matters, their progress toward resolution, the advice of legal counsel and outside experts as well as ma intention and experience.

In 2011, the Company acquired Ameron. On or about November 21, 2008, OFAC sent a Requirement to Furnish Information to Amero retained counsel and conducted an internal investigation. In 2009, Ameron, through its counsel, responded to OFAC. On or about Janua 2011, OFAC issued an administrative subpoena to Ameron. OFAC and Ameron have entered into tolling agreements. All of the conduc review occurred before acquisition of Ameron by the Company. We currently anticipate that any administrative fine or penalty agreed t a resolution would be within established accruals, and would not have a material effect on our financial position or results of operations extent a resolution is not negotiated, we cannot predict the timing or effect that any resulting government actions may have on our finan position or results of operations.

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Our business is affected both directly and indirectly by governmental laws and regulations relating to the oilfield service industry in ger
well as by environmental and safety regulations that specifically apply to our business. Although we have not incurred material costs in
connection with our compliance with such laws, there can be no assurance that other developments, such as new environmental laws, re
and enforcement policies hereunder may not result in additional, presently unquantifiable, costs or liabilities to us.

The Company leases certain facilities and equipment under operating leases that expire at various dates through 2066. These leases gen
contain renewal options and require the lessee to pay maintenance, insurance, taxes and other operating expenses in addition to the min
annual rentals. Rental expense related to operating leases approximated $331 million, $256 million, and $215 million in 2012, 2011 and
respectively.

Future minimum lease commitments under noncancellable operating leases with initial or remaining terms of one year or more at Decem
2012, are payable as follows (in millions):

2013	$ 220
2014	176
2015	146
2016	111
2017	91
Thereafter	375
Total future lease commitments	$ 1,119

13. Common Stock

National Oilwell Varco has authorized 1 billion shares of $.01 par value common stock. The Company also has authorized 10 million sh
$.01 par value preferred stock, none of which is issued or outstanding.

Cash dividends aggregated $209 million and $191 million for the years ended December 31, 2012 and 2011, respectively. The declarati
payment of future dividends is at the discretion of the Company s Board of Directors and will be dependent upon the Company s resu
operations, financial condition, capital requirements and other factors deemed relevant by the Company s Board of Directors.

Stock Options

Under the terms of National Oilwell Varco s Long-Term Incentive Plan, as amended, 25.5 million shares of common stock are authori
grant of options to officers, key employees, non-employee directors and other persons. Options granted under our stock option plan gen
over a three-year period starting one year from the date of grant and expire ten years from the date of grant. The purchase price of optio
may not be less than the closing market price of National Oilwell Varco common stock on the date of grant. At December 31, 2012,
approximately 3.5 million shares were available for future grants.

We also have inactive stock option plans that were acquired in connection with the acquisitions of Varco International, Inc. in 2005 and
Prideco in 2008. We converted the outstanding stock options under these plans to options to acquire our common stock and no further o
being issued under these plans. Stock option information summarized below includes amounts for the National Oilwell Varco Long-Ter
Incentive Plan and stock plans of acquired companies. Options outstanding at December 31, 2012 under the stock option plans have exe
prices between $9.14 and $84.58 per share, and expire at various dates from January 29, 2013 to February 22, 2022.

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The following summarizes options activity:

	Years Ended December 31,				
	2012		2011		2010
	Number of Shares	Average Exercise Price	Number of Shares	Average Exercise Price	Number of Shares
Shares under option at beginning of year	10,481,750	$ 47.20	11,039,544	$ 38.01	10,255,982
Granted	2,239,088	84.58	2,277,946	79.68	3,485,283
Cancelled	(228,137)	60.28	(241,174)	40.20	(232,488)
Exercised	(3,019,219)	82.26	(2,594,566)	36.84	(2,469,233)
Shares under option at end of year	9,473,482	$ 58.69	10,481,750	$ 47.20	11,039,544
Exercisable at end of year	4,823,331	$ 43.99	5,073,965	$ 38.47	5,067,186

The following summarizes information about stock options outstanding at December 31, 2012:

	Weighted-Avg Remaining	Options Outstanding		Options Exerci	We
Range of Exercise Price	Contractual Life	Shares	Weighted-Avg Exercise Price	Shares	
$9.14 $40.00	4.16	2,436,289	$ 27.79	2,436,289	$
$40.01 $65.00	6.47	2,738,151	49.42	1,690,555	
$65.01 $84.58	8.63	4,299,042	82.12	696,487	
Total	6.86	9,473,482	$ 58.69	4,823,331	$

The weighted-average fair value of options granted during 2012, 2011 and 2010, was approximately $30.01, $29.52 and $16.73 per sha
respectively, as determined using the Black-Scholes option-pricing model. The total intrinsic value of options exercised during 2012 an
was $120 million and $102 million, respectively.

The determination of fair value of share-based payment awards on the date of grant using an option-pricing model is affected by our sto
well as assumptions regarding a number of highly complex and subjective variables. These variables include, but are not limited to, the
stock price volatility over the term of the awards, and actual and projected employee stock option exercise activity. The use of the Blac
model requires the use of extensive actual employee exercise activity data and the use of a number of complex assumptions including e
volatility, risk-free interest rate, expected dividends and expected term.

	Years Ended December 31,		
	2012	2011	2010
Valuation Assumptions:			
Expected volatility	51.7%	53.2%	55.0%
Risk-free interest rate	0.9%	2.1%	2.3%
Expected dividends	$ 0.57	$ 0.44	$ 0.40
Expected term (in years)	3.2	3.1	3.2

The Company used the actual volatility for traded options for the past 10 years prior to option date as the expected volatility assumption
in the Black Scholes model.

The risk-free interest rate assumption is based upon observed interest rates appropriate for the term of our employee stock options. The
yield assumption is based on the history and expectation of dividend payouts. The estimated expected term is based on actual employee

activity for the past ten years.

As stock-based compensation expense recognized in the Consolidated Statement of Income in 2012 is based on awards ultimately expe
vest, it has been reduced for estimated forfeitures. ASC Topic 718 requires forfeitures to be estimated at the time of grant and revised, i
necessary, in subsequent periods if actual forfeitures differ from those estimates. Forfeitures were estimated based on historical experie

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The following summary presents information regarding outstanding options at December 31, 2012 and changes during 2012 with regar
options under all stock option plans:

	Shares	Weighted-Average Exercise Price	Remaining Contractual Term (years)	Aggrega Intrinsic V
Outstanding at December 31, 2011	10,481,750	$ 47.20	7.03	$ 217,950,
Granted	2,239,088	$ 84.58		
Exercised	(228,137)	$ 60.28		
Cancelled	(3,019,219)	$ 82.26		
Outstanding at December 31, 2012	9,473,482	$ 58.69	6.86	$ 150,667,
Vested or expected to vest	9,321,906	$ 58.69	6.86	$ 148,256,
Exercisable at December 31, 2012	4,823,331	$ 43.99	5.38	$ 125,192,

At December 31, 2012, total unrecognized compensation cost related to nonvested stock options was $78 million. This cost is expected
recognized over a weighted-average period of two years. The total fair value of stock options vested in 2012, 2011 and 2010 was appro
$55 million, $54 million and $78 million, respectively. Cash received from option exercises for 2012, 2011 and 2010 was $113 million
million and $73 million, respectively. The actual tax benefit realized for the tax deductions from option exercises totaled $42 million, $
and $16 million for 2012, 2011 and 2010, respectively. Cash used to settle equity instruments granted under all share-based payment ar
for 2012, 2011 and 2010 was not material for any period.

Restricted Shares

The Company issues restricted stock awards and restricted stock units with no exercise price to officers and key employees in addition
options. During the year ended December 31, 2012, the Company granted 482,428 shares of restricted stock and restricted stock units,
includes 148,550 performance-based restricted stock awards. Out of the total number of restricted stock and restricted stock units, 464,
granted February 21, 2012 and vest on the third anniversary of the date of grant. On May 16, 2012, 18,158 restricted stock awards were
the non-employee members of the board of directors. These restricted stock awards vest in equal thirds over three years on the annivers
grant date. The performance-based restricted stock awards were granted February 21, 2012. The performance-based restricted stock aw
granted will be 100% vested 36 months from the date of grant, subject to the performance condition of the Company s operating incom
measured on a percentage basis, from January 1, 2012 through December 31, 2014 exceeding the median operating income growth for
designated peer group over the same period. The estimated forfeiture rate of restricted stock awards and restricted stock units is factore
share-based compensation expense the Company recognizes.

The following summary presents information regarding outstanding restricted shares:

	Years Ended December 31,					
	2012		2011		2010	
	Number of Units	Weighted-Average Grant Date Fair Value	Number of Units	Weighted-Average Grant Date Fair Value	Number of Units	Weigh Gr Fa
Nonvested at beginning of year	1,606,047	$ 44.21	1,765,837	$ 42.15	2,181,244	$
Granted	482,428	83.79	374,425	79.53	558,531	
Vested	(406,844)	83.34	(496,642)	64.22	(921,454)	
Cancelled	(344,965)	30.39	(37,573)	44.02	(52,484)	
Nonvested at end of year	1,336,666	$ 67.56	1,606,047	$ 44.21	1,765,837	$

The weighted-average grant day fair value of restricted stock awards and restricted stock units granted during the years ended 2012, 201
2010 was $83.79, $79.53 and $43.99 per share, respectively. There were 406,844; 496,642 and 921,454 restricted stock awards that ves
2012, 2011 and 2010, respectively. At December 31, 2012, there was approximately $37 million of unrecognized compensation cost rel
nonvested restricted stock awards and restricted stock units, which is expected to be recognized over a weighted-average period of two

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14. Income Taxes

The domestic and foreign components of income before income taxes were as follows (in millions):

	Years Ended December 31,		
	2012	2011	2010
Domestic	$ 1,812	$ 1,282	$ 727
Foreign	1,693	1,640	1,670
	$ 3,505	$ 2,922	$ 2,397

The components of the provision for income taxes consisted of (in millions):

	Years Ended December 31,		
	2012	2011	2010
Current:			
Federal	$ 700	$ 484	$ 421
State	48	37	34
Foreign	371	768	448
Total current income tax provision	1,119	1,289	903
Deferred:			
Federal	(151)	(28)	(260)
State		(3)	(8)
Foreign	54	(321)	103
Total deferred income tax provision	(97)	(352)	(165)
Total income tax provision	$ 1,022	$ 937	$ 738

The difference between the effective tax rate reflected in the provision for income taxes and the U.S. federal statutory rate was as follov millions):

	Years Ended December 31,		
	2012	2011	2010
Federal income tax at U.S. statutory rate	$ 1,227	$ 1,023	$ 839
Foreign income tax rate differential	(154)	(152)	(117)
State income tax, net of federal benefit	31	22	17
Nondeductible expenses	30	42	40
Tax benefit of manufacturing deduction	(29)	(37)	(19)
Foreign dividends, net of foreign tax credits	(115)	9	15
Change in deferred tax valuation allowance	80	(18)	
Other	(48)	48	(37)
Total income tax provision	$ 1,022	$ 937	$ 738

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Significant components of our deferred tax assets and liabilities were as follows (in millions):

	December 31,		
	2012	2011	2010
Deferred tax assets:			
Allowances and operating liabilities	$ 368	$ 331	$ 344
Net operating loss carryforwards	25	14	10
Postretirement benefits	54	14	17
Foreign tax credit carryforwards	259	106	220
Other	149	151	75
	855	616	666
Valuation allowance for deferred tax assets	(93)	(13)	(9)
Total deferred tax assets	762	603	657
Deferred tax liabilities:			
Tax over book depreciation	268	204	213
Intangible assets	1,448	1,398	1,307
Deferred income	314	226	456
Accrued U.S. tax on unremitted earnings	92	70	149
Other	208	168	211
Total deferred tax liabilities	2,330	2,066	2,336
Net deferred tax liability	$ 1,568	$ 1,463	$ 1,679

The balance of unrecognized tax benefits at December 31, 2012 and 2011 was $128 million and $131 million, respectively. These unrec
tax benefits are included in the balance of other liabilities in the Consolidated Balance Sheet. If the $128 million of unrecognized tax be
accrued at December 31, 2012 are ultimately realized, $55 million would be recorded as a reduction of income tax expense.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows (in millions):

	2012	2011	2010
Unrecognized tax benefit at beginning of year	$ 131	$ 118	$ 58
Additions based on tax positions related to the current year	2	9	1
Additions for tax positions of prior years		13	82
Reductions for tax positions of prior years			(5)
Reductions for lapse of applicable statutes of limitations	(5)	(9)	(18)
Unrecognized tax benefit at end of year	$ 128	$ 131	$ 118

The Company does not anticipate that the total unrecognized tax benefits will significantly change due to the settlement of audits or the
of statutes of limitation within 12 months of this reporting date.

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To the extent penalties and interest would be assessed on any underpayment of income tax, such accrued amounts have been classified a
component of income tax expense in the financial statements consistent with the Company s policy. During the year ended December 3
Company recorded as an increase of income tax expense a $1 million net increase of accrued interest and penalties related to uncertain t
positions. At December 31, 2012, the Company has accrued approximately $7 million of interest and penalties relating to unrecognized
benefits. These interest and penalties are included in the balance of other liabilities in the Consolidated Balance Sheet at December 31,

The Company is subject to taxation in the United States, various states and foreign jurisdictions. The Company has significant operation
United States, Canada, the United Kingdom, the Netherlands and Norway. Tax years that remain subject to examination by major tax ju
vary by legal entity, but are generally open in the U.S. for the tax years ending after 2007 and outside the U.S. for the tax years ending a

In the United States, the Company has $20 million of net operating loss carryforwards as of December 31, 2012, which expire at variou
through 2030. The potential benefit of $7 million has been reduced by a $7 million valuation allowance. Future income tax payments w
reduced in the event the Company ultimately realizes the benefit of these net operating losses. If the Company ultimately realizes the be
these net operating loss carryforwards, the valuation allowance of $7 million would reduce future income tax expense.

Outside the United States, the Company has $76 million of net operating loss carryforwards as of December 31, 2012, which expire at v
dates through the year 2022. The potential benefit of $18 million has been reduced by a $16 million valuation allowance. Future income
payments will be reduced in the event the Company ultimately realizes the benefit of these net operating losses. If the Company ultimat
realizes the benefit of these net operating loss carryforwards, the valuation allowance of $16 million would reduce future income tax ex

Also in the United States, the Company has $259 million of excess foreign tax credits as of December 31, 2012, which expire at variou
through 2021. These credits have been allotted a valuation allowance of $70 million and would be realized as a reduction of future inco
payments.

During 2012, the Company recorded certain tax benefits totaling $138 million primarily from the repatriation of certain non-U.S. earni
increased our U.S. foreign tax credits. These credits are available to be used by the Company as foreign tax credits in the U.S. over a 10
period. These excess foreign tax credits were recognized as deferred tax assets in the balance sheet and would be realized as a reductio
income tax payments in the U.S. However, because of uncertainty associated with the Company s ability to fully utilize these credits i
a valuation allowance of $69 million was recorded in the period. The net result of these transactions reduced income tax expense by $6
the period.

During 2012, the Company recorded $118 million in net deferred tax liabilities with a corresponding increase in goodwill related to the
acquisition of Ameron and the 2012 acquisition of NKT.

Undistributed earnings of certain of the Company s foreign subsidiaries amounted to $4,620 million and $3,789 million at December 3
2011, respectively. Those earnings are considered to be permanently reinvested and no provision for U.S. federal and state income taxe
made. Distribution of these earnings in the form of dividends or otherwise could result in U.S. federal taxes (subject to an adjustment fo
tax credits) and withholding taxes payable in various foreign countries. Determination of the amount of unrecognized deferred U.S. inc
liability is not practical; however, unrecognized foreign tax credit carryforwards would be available to reduce some portion of the U.S.

Because of the number of tax jurisdictions in which the Company operates, its effective tax rate can fluctuate as operations and the loca
tax rates fluctuate. The Company is also subject to audits by federal, state and foreign jurisdictions which may result in proposed assess
Company s future tax provision will reflect any favorable or unfavorable adjustments to its estimated tax liabilities when resolved. The
is unable to predict the outcome of these matters. However, the Company believes that none of these matters will have a material adver
the results of operations or financial condition of the Company.

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15. Business Segments and Geographic Areas

The Company s operations consist of three reportable segments: Rig Technology, Petroleum Services & Supplies and Distribution & Transmission. Within the three reporting segments, the Company has aggregated two business units under Rig Technology, nine busine under Petroleum Services & Supplies and two under Distribution & Transmission for a total of 13 business units, one of which was add 2011 as a result of the Company s acquisition of Ameron. Prior to the Company s acquisition of Ameron in October 2011, the Compa Distribution & Transmission segment was called Distribution Services with one business unit. Distribution Services was expanded as a certain business operations of the Ameron acquisition adding an additional business unit to the segment called Transmission and changi name of the segment to Distribution & Transmission. The Company has aggregated each of its business units in one of the three reporti segments based on the guidelines of ASC Topic 280, Segment Reporting (ASC Topic 280).

Rig Technology: The Rig Technology segment designs, manufactures, sells and services complete systems for the drilling, completion, servicing of oil and gas wells. The segment offers a comprehensive line of highly-engineered equipment that automates complex well c and management operations, such as offshore and onshore drilling rigs; derricks; pipe lifting, racking, rotating and assembly systems; ri instrumentation systems; coiled tubing equipment and pressure pumping units; well workover rigs; wireline winches; wireline trucks; c flexible pipe for offshore production applications; and turret mooring systems and other products for floating production, storage and o vessels and other offshore vessels and terminals.

Petroleum Services & Supplies: The Petroleum Services & Supplies segment provides a variety of consumable goods and services used complete, remediate and workover oil and gas wells and service drill pipe, tubing, casing, flowlines and other oilfield tubular goods. Th manufactures, rents and sells a variety of products and equipment used to perform drilling operations, including drill pipe, wired drill pi transfer pumps, solids control systems, drilling motors, drilling fluids, drill bits, reamers and other downhole tools, and mud pump cons Oilfield tubular services include the provision of inspection and internal coating services and equipment for drill pipe, line pipe, tubing, pipelines; and the design, manufacture and sale of coiled tubing pipe and advanced fiberglass composite pipe for application in highly c environments.

Distribution & Transmission: The Distribution & Transmission segment provides pipe, maintenance, repair and operating supplies and to drill sites and production locations, pipeline operations, and processing plants worldwide. In addition to its comprehensive field locat network, which supports land drilling operations throughout North America, the segment supports major land and offshore operations f major oil and gas producing regions throughout the world. The segment employs advanced information technologies to provide comple procurement, materials management and logistics services to its customers around the globe. The segment also has a global reach in oil waste water treatment, chemical, food and beverage, paper and pulp, mining, agriculture, and a variety of municipal markets and is a le producer of water transmission pipe, fabricated steel products and specialized materials and products used in infrastructure projects.

The accounting policies of the reportable segments are the same as those described in the summary of significant accounting policies of Company. The Company evaluates performance of each reportable segment based upon its operating income, excluding non-recurring i

The Company had revenues of 10% and 12% of total revenue from one of its customers for the years ended December 31, 2012 and 20 respectively. This customer, Samsung Heavy Industries, is a shipyard acting as a general contractor for its customers, who are drillship and drilling contractors. This shipyard s customers have specified that the Company s drilling equipment be installed on their drillship required the shipyard to issue contracts to the Company.

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Geographic Areas:

The following table presents consolidated revenues by country based on sales destination of the use of the products or services (in milli

	Years Ended December 31,		
	2012	**2011**	**2010**
United States	$ 8,297	$ 5,449	$ 4,104
South Korea	3,121	2,257	2,616
Canada	1,319	913	656
Singapore	1,118	721	491
Norway	736	689	495
China	533	430	366
United Kingdom	523	465	421
Brazil	503	397	262
Other Countries	3,891	3,337	2,745
Total	$ 20,041	$ 14,658	$ 12,156

The following table presents long-lived assets by country based on the location (in millions):

	December 31,	
	2012	**2011**
United States	$ 1,606	$ 1,493
Denmark	174	3
United Kingdom	173	131
Brazil	162	92
Canada	131	113
South Korea	112	97
Singapore	93	86
Other Countries	494	430
Total	$ 2,945	$ 2,445

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Business Segments:

	Rig Technology	Petroleum Services & Supplies	Distribution & Transmission	Unallocated/ Eliminations
December 31, 2012:				
Revenues	$ 10,107	$ 6,967	$ 3,927	$ (960)
Operating profit (1)	2,335	1,501	185	(464)
Capital expenditures	150	310	64	59
Depreciation and amortization	148	424	25	31
Goodwill	2,386	4,333	453	
Total assets	11,758	13,463	2,784	3,479
December 31, 2011:				
Revenues	$ 7,788	$ 5,654	$ 1,873	$ (657)
Operating profit (1)	2,053	1,072	135	(323)
Capital expenditures	125	299	17	42
Depreciation and amortization	120	397	14	24
Goodwill	1,959	4,089	103	
Total assets	8,375	13,019	1,420	2,701
December 31, 2010:				
Revenues	$ 6,965	$ 4,182	$ 1,546	$ (537)
Operating profit (1)	2,064	585	78	(280)
Capital expenditures	59	152	2	19
Depreciation and amortization	95	384	7	21
Goodwill	1,854	3,859	77	
Total assets	7,778	11,807	923	2,542

(1) Included in operating profit are other costs related to acquisitions, such as the amortization of backlog and inventory that was step fair value during purchase accounting. Other costs by segment are as follows (in millions):

	Years Ended December 31,		
	2012	2011	2010
Other costs:			
Rig Technology	$ 45	$ 17	$ 8
Petroleum Services & Supplies	18	23	9
Distribution & Transmission	68	1	1
Total other costs	$ 131	$ 41	$ 18

For the year ended December 31, 2012, 2011 and 2010, other costs included in operating profit were $131 million, $41 million and $18 respectively. Certain other costs are included in other income (expense), net as well as interest and financial costs and were $12 million $27 million for the years ended December 31, 2012, 2011 and 2010, respectively.

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16. Quarterly Financial Data (Unaudited)

Summarized quarterly results, were as follows (in millions, except per share data):

	First Quarter	Second Quarter	Third Quarter	Fou Qua
Year ended December 31, 2012				
Revenues	$ 4,303	$ 4,734	$ 5,319	$ 5,
Gross profit	1,267	1,306	1,371	1,
Net income attributable to Company	606	605	612	
Net income attributable to Company per basic share	1.43	1.42	1.44	1
Net income attributable to Company per diluted share	1.42	1.42	1.43	1
Cash dividends per share	0.12	0.12	0.12	0
Year ended December 31, 2011				
Revenues	$ 3,146	$ 3,513	$ 3,740	$ 4,
Gross profit	975	1,083	1,164	1,
Net income attributable to Company	407	481	532	
Net income attributable to Company per basic share	0.97	1.14	1.26	1
Net income attributable to Company per diluted share	0.96	1.13	1.25	1
Cash dividends per share	0.11	0.11	0.11	0

17. Subsequent Event

On February 20, 2013, the Company completed its previously announced acquisition of Robbins & Myers, Inc. for approximately $2.5 cash. The Company borrowed approximately $1.4 billion under the $3.5 billion revolving credit facility and used approximately $1.1 bi cash on hand to fund the acquisition. Robbins & Myers, Inc. is a leading supplier of engineered, application-critical equipment and syst global energy, chemical and other industrial markets. The company provides products and services for upstream oil and gas markets, al portfolio of industrial process and flow control products.

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SCHEDULE II

NATIONAL OILWELL VARCO, INC.

VALUATION AND QUALIFYING ACCOUNTS

Years Ended December 31, 2012, 2011 and 2010

(in millions)

	Balance beginning of year	Additions (Deductions) charged to costs and expenses	Charge off s and other	Bal enc ye
Allowance for doubtful accounts:				
2012	$ 107	$ 6	$ 7	$
2011	107	9	(9)	
2010	95	39	(27)	
Allowance for excess and obsolete inventories:				
2012	$ 281	$ 99	$ (42)	$
2011	270	70	(59)	
2010	206	106	(42)	
Valuation allowance for deferred tax assets:				
2012	$ 13	$ 80	$	$
2011	9	4		
2010	8	1		
Warranty reserve:				
2012	$ 211	$ 51	$ (68)	$
2011	215	40	(44)	
2010	217	52	(54)	

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