

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

(Mark one)  
 **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2014

OR

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

Commission File Number 1-12317

**NATIONAL OILWELL VARCO, INC.**

(Exact name of registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**76-0475815**  
(I.R.S. Employer  
Identification No.)

**7909 Parkwood Circle Drive**  
**Houston, Texas**  
**77036-6565**  
(Address of principal executive offices)

**(713) 346-7500**  
(Registrant's telephone number, including area code)

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  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, 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 the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer   
Non-accelerated filer  (Do not check if a smaller reporting company) 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

As of October 30, 2014 the registrant had 430,573,759 shares of common stock, par value \$.01 per share, outstanding.

**PART I - FINANCIAL INFORMATION**

**Item 1. Financial Statements**

**NATIONAL OILWELL VARCO, INC.  
CONSOLIDATED BALANCE SHEETS  
(In millions, except share data)**

	<u>September 30,</u> <u>2014</u>	<u>December 31,</u> <u>2013</u>
	<u>(Unaudited)</u>	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 4,091	\$ 3,436
Receivables, net	4,482	4,896
Inventories, net	5,464	5,603
Costs in excess of billings	1,615	1,539
Deferred income taxes	399	373
Prepaid and other current assets	619	576
Total current assets	<u>16,670</u>	<u>16,423</u>
Property, plant and equipment, net	3,377	3,408
Deferred income taxes	433	372
Goodwill	8,614	9,049
Intangibles, net	4,695	5,055
Investment in unconsolidated affiliates	356	390
Other assets	125	115
Total assets	<u>\$ 34,270</u>	<u>\$ 34,812</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 1,259	\$ 1,275
Accrued liabilities	3,310	2,763
Billings in excess of costs	1,809	1,771
Current portion of long-term debt and short-term borrowings	151	1
Accrued income taxes	267	556
Deferred income taxes	405	312
Total current liabilities	<u>7,201</u>	<u>6,678</u>
Long-term debt	2,995	3,149
Deferred income taxes	2,088	2,292
Other liabilities	367	363
Total liabilities	<u>12,651</u>	<u>12,482</u>
Commitments and contingencies		
Stockholders' equity:		
Common stock - par value \$.01; 1 billion shares authorized; 430,569,502 and 428,433,703 shares issued and outstanding at September 30, 2014 and December 31, 2013	4	4
Additional paid-in capital	9,099	8,907
Accumulated other comprehensive loss	(362)	(4)
Retained earnings	12,782	13,323
Total Company stockholders' equity	<u>21,523</u>	<u>22,230</u>
Noncontrolling interests	96	100
Total stockholders' equity	<u>21,619</u>	<u>22,330</u>
Total liabilities and stockholders' equity	<u>\$ 34,270</u>	<u>\$ 34,812</u>

See notes to unaudited consolidated financial statements.

**NATIONAL OILWELL VARCO, INC.**  
**CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)**  
(In millions, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Revenue	\$ 5,587	\$ 4,863	\$15,731	\$13,919
Cost of revenue	4,059	3,503	11,463	10,219
Gross profit	1,528	1,360	4,263	3,700
Selling, general and administrative	540	476	1,568	1,410
Operating profit	988	884	2,700	2,290
Interest and financial costs	(26)	(26)	(79)	(84)
Interest income	4	2	13	8
Equity income in unconsolidated affiliates	9	13	42	47
Other income (expense), net	9	(12)	(12)	(24)
Income from continuing operations before income taxes	984	861	2,664	2,237
Provision for income taxes	283	263	806	686
Income from continuing operations	701	598	1,858	1,551
Income from discontinued operations	—	38	52	116
Net income	701	636	1,910	1,667
Net income (loss) attributable to noncontrolling interests	2	—	3	(2)
Net income attributable to Company	<u>\$ 699</u>	<u>\$ 636</u>	<u>\$ 1,907</u>	<u>\$ 1,669</u>
Per share data:				
Basic:				
Income from continuing operations	<u>\$ 1.63</u>	<u>\$ 1.40</u>	<u>\$ 4.34</u>	<u>\$ 3.64</u>
Income from discontinued operations	<u>\$ —</u>	<u>\$ 0.09</u>	<u>\$ 0.12</u>	<u>\$ 0.28</u>
Net income attributable to Company	<u>\$ 1.63</u>	<u>\$ 1.49</u>	<u>\$ 4.46</u>	<u>\$ 3.92</u>
Diluted:				
Income from continuing operations	<u>\$ 1.62</u>	<u>\$ 1.40</u>	<u>\$ 4.31</u>	<u>\$ 3.62</u>
Income from discontinued operations	<u>\$ —</u>	<u>\$ 0.09</u>	<u>\$ 0.12</u>	<u>\$ 0.28</u>
Net income attributable to Company	<u>\$ 1.62</u>	<u>\$ 1.49</u>	<u>\$ 4.43</u>	<u>\$ 3.90</u>
Cash dividends per share	<u>\$ 0.46</u>	<u>\$ 0.26</u>	<u>\$ 1.18</u>	<u>\$ 0.65</u>
Weighted average shares outstanding:				
Basic	<u>429</u>	<u>426</u>	<u>428</u>	<u>426</u>
Diluted	<u>431</u>	<u>428</u>	<u>430</u>	<u>428</u>

See notes to unaudited consolidated financial statements.

**NATIONAL OILWELL VARCO, INC.**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)**  
(In millions)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Net income	\$ 701	\$ 636	\$ 1,910	\$ 1,667
Currency translation adjustments	(310)	154	(248)	(84)
Changes in derivative financial instruments, net of tax	(99)	48	(110)	(22)
Comprehensive income	292	838	1,552	1,561
Comprehensive income (loss) attributable to noncontrolling interest	2	—	3	(2)
Comprehensive income attributable to Company	<u>\$ 290</u>	<u>\$ 838</u>	<u>\$ 1,549</u>	<u>\$ 1,563</u>

See notes to unaudited consolidated financial statements.

**NATIONAL OILWELL VARCO, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)**  
(In millions)

	<b>Nine Months Ended</b>	
	<b>September 30,</b>	
	<b>2014</b>	<b>2013</b>
<b>Cash flows from operating activities:</b>		
Income from continuing operations	1,858	\$ 1,551
<b>Adjustments to reconcile net income to net cash provided by operating activities:</b>		
Depreciation and amortization	579	543
Deferred income taxes	(36)	(93)
Equity income in unconsolidated affiliates	(42)	(47)
Dividend from unconsolidated affiliate	73	66
Other, net	180	82
<b>Change in operating assets and liabilities, net of acquisitions:</b>		
Receivables	(201)	(365)
Inventories	(817)	(128)
Costs in excess of billings	(76)	(415)
Prepaid and other current assets	(73)	2
Accounts payable	186	1
Billings in excess of costs	38	364
Income taxes payable	(289)	(87)
Other assets/liabilities, net	409	196
Net cash provided by continuing operating activities	<u>1,789</u>	<u>1,670</u>
Discontinued operations	89	209
Net cash provided by operating activities	<u>1,878</u>	<u>1,879</u>
<b>Cash flows from investing activities:</b>		
Purchases of property, plant and equipment	(468)	(434)
Business acquisitions, net of cash acquired	(181)	(2,397)
Cash distributed in spin-off	(253)	—
Other	117	69
Net cash used in continuing investing activities	<u>(785)</u>	<u>(2,762)</u>
Discontinued operations	(12)	(50)
Net cash used in investing activities	<u>(797)</u>	<u>(2,812)</u>
<b>Cash flows from financing activities:</b>		
Borrowings against lines of credit and other debt	153	2,357
Repayments on debt	(155)	(1,758)
Cash dividends paid	(507)	(278)
Proceeds from stock options exercised	107	25
Other	9	17
Net cash provided by (used in) continuing financing activities	<u>(393)</u>	<u>363</u>
Discontinued operations	—	—
Net cash provided by (used in) financing activities	<u>(393)</u>	<u>363</u>
Effect of exchange rates on cash	(33)	(8)
Increase (decrease) in cash and cash equivalents	655	(578)
Cash and cash equivalents, beginning of period	3,436	3,319
Cash and cash equivalents, end of period	<u>\$4,091</u>	<u>\$ 2,741</u>
<b>Supplemental disclosures of cash flow information:</b>		
<b>Cash payments during the period for:</b>		
Interest	\$ 57	\$ 64
Income taxes	\$1,097	\$ 886

See notes to unaudited consolidated financial statements.

**NATIONAL OILWELL VARCO, INC.**  
**Notes to Consolidated Financial Statements (Unaudited)**

**1. Basis of Presentation**

The preparation of financial statements in conformity with generally accepted accounting principles (“GAAP”) in the United States requires management to make estimates and assumptions that affect reported and contingent amounts of assets and liabilities as of the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The accompanying unaudited consolidated financial statements of National Oilwell Varco, Inc. (“NOV” or the “Company”) present information in accordance with GAAP in the United States for interim financial information and the instructions to Form 10-Q and applicable rules of Regulation S-X. They do not include all information or footnotes required by GAAP in the United States for complete consolidated financial statements and should be read in conjunction with our 2013 Annual Report on Form 10-K.

In our opinion, the consolidated financial statements include all adjustments, which are of a normal recurring nature, unless otherwise disclosed, necessary for a fair presentation of the results for the interim periods. The results of operations for the three and nine months ended September 30, 2014 are not necessarily indicative of the results to be expected for the full year.

On May 30, 2014, the Company completed the spin-off of its distribution business into an independent public company named NOW Inc. (“NOW”). As a result, the results of operations for our distribution business have been classified as discontinued operations for all periods presented. See Note 2 for additional information. Unless indicated otherwise, the information in the Notes to the Consolidated Financial Statements relates to our continuing operations.

In conjunction with the spin-off of NOW Inc. the Company reviewed its reporting and management structure, and effective April 1, 2014, reorganized the Rig Technology, Petroleum Services & Supplies and remaining operations of Distribution & Transmission reporting segments into four new reporting segments. The new reporting segments are Rig Systems, Rig Aftermarket, Wellbore Technologies and Completion & Production Solutions.

*Fair Value of Financial Instruments*

The carrying amounts of cash and cash equivalents, receivables, and payables approximated fair value because of the relatively short maturity of these instruments. Cash equivalents include only those investments having a maturity date of three months or less at the time of purchase. See Note 8 for the fair value of long-term debt and Note 11 for the fair value of derivative financial instruments.

**2. Spin-off of Distribution Business**

On May 30, 2014, the Company completed the previously announced spin-off (the “spin-off”) of its distribution business into an independent public company named NOW Inc., which trades on the New York Stock Exchange under the symbol “DNOW”. After the close of the New York Stock Exchange on May 30, 2014, the stockholders of record as of May 22, 2014 (the “Record Date”) received one share of NOW Inc. common stock for every four shares of NOV common stock held on the Record Date. No fractional shares of NOW Inc. common stock were distributed. Instead, the transfer agent aggregated any fractional shares into whole shares, sold those whole shares in the open market at prevailing rates and distributed the net cash proceeds, after deducting any taxes required to be withheld and any amount equal to all brokerage charges and commissions, pro rata to each holder who would otherwise have been entitled to receive fractional shares in the distribution.

In order to effect the spin-off and govern its relationship with NOW after the spin-off, the Company entered into a Separation and Distribution Agreement, a Tax Matters Agreement, an Employee Matters Agreement, a Transition Services Agreement, a Master Distributor Agreement, and a Master Services Agreement. The Separation and Distribution Agreement governs the terms of the separation of the distribution business from NOV’s other businesses. Generally, the Separation and Distribution Agreement includes agreements between NOW and NOV relating to the restructuring steps needed to be taken to complete the separation, including the assets, equity interests and rights to be transferred, liabilities to be assumed, contracts to be assigned and related matters. The Separation and Distribution Agreement also governs the treatment of aspects relating to indemnification, insurance, litigation responsibility, confidentiality, management, intellectual property (including trademarks) and cooperation.

The Tax Matters Agreement governs respective rights, responsibilities and obligations of NOV and NOW with respect to deficiencies and refunds, if any, of federal, state, local, and foreign taxes for periods before and after the distribution, as well as taxes attributable to the separation and distribution, and related matters such as the filing of tax returns and the conduct of IRS and other audits. In addition, the Tax Matters Agreement imposes certain restrictions on NOW and its subsidiaries (including restrictions on share issuances, business combinations, sales of assets and similar transactions) that are designed to preserve the generally tax-free status of the separation and distribution.

The Employee Matters Agreement governs the compensation and employee benefit obligations with respect to the current and former employees of NOV and NOW and generally allocates liabilities and responsibilities relating to employee compensation and benefit plans and programs. The Employee Matters Agreement provides for the treatment of outstanding NOV equity awards. The Employee Matters Agreement also sets forth the general principles relating to employee matters, including with respect to the assignment of employees and the transfer of employees from us to NOW, the assumption and retention of liabilities and related assets, expense reimbursements, workers' compensation, leaves of absence, the provision of comparable benefits, employee service credits, the sharing of employee information and the duplication or acceleration of benefits.

The Transition Services Agreement sets forth the terms on which NOV will provide to NOW, and NOW will provide to NOV, on a temporary basis, certain services or functions that the companies historically have shared. Transition services may include administrative, payroll, human resources, data processing, environmental health and safety, financial audit support, financial transaction support, legal support services, IT and network infrastructure systems and various other support and corporate services. The Transition Services Agreement provides for the provision of specified transition services generally for a period of up to 18 months.

The Master Distributor Agreement provides that NOW will act as a distributor of certain of NOV's products. Under the Master Supply Agreement, NOW will supply products and provide solutions, including supply chain management solutions, to NOV.

The following table presents the carrying value of assets and liabilities of NOW, immediately preceding the spin-off, which are excluded from our consolidated balance sheet at September 30, 2014 as a result of the spin-off on May 30, 2014 (in millions):

Current assets:	
Cash and cash equivalents	\$ 253
Receivables, net	753
Inventories, net	844
Deferred income taxes	30
Prepaid and other current assets	35
Total current assets of discontinued operations	1,915
Property, plant and equipment, net	115
Deferred income taxes	15
Goodwill	332
Intangibles, net	67
Other assets	2
Total assets of discontinued operations	<u>\$2,446</u>
Current liabilities:	
Accounts payable	\$ 384
Accrued liabilities	90
Accrued income taxes	5
Total current liabilities of discontinued operations	479
Deferred income taxes	17
Other liabilities	9
Total liabilities of discontinued operations	<u>\$ 505</u>

Other items incurred as a result of the spin-off were \$2 million and \$36 million for the three and nine months ended September 30, 2014 and are included in continuing operations. The following table presents selected financial information, as of May 30, 2014, regarding the results of operations of our distribution business, which is reported as discontinued operations (in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Revenue from discontinued operations	\$ —	\$ 1,113	\$ 1,701	\$ 3,255
Income from discontinued operations before income taxes	—	58	83	176

Prior to the spin-off, sales to NOW were \$231 million for the period ended May 30, 2014 and \$148 million and \$373 million for the three and nine months ended September 30, 2013, respectively. Prior to the spin-off, purchases from NOW were \$82 million for the period ended May 30, 2014 and \$38 million and \$101 million for the three and nine months ended September 30, 2013. Prior to May 30, 2014, the spin-off date, revenue and related cost of revenue were eliminated in consolidation between NOV and NOW. Beginning May 31, 2014, this revenue and cost of revenue represent third-party transactions with NOW.

### 3. Inventories, net

Inventories consist of (in millions):

	September 30, 2014	December 31, 2013
Raw materials and supplies	\$ 1,315	\$ 1,175
Work in process	1,149	798
Finished goods and purchased products	3,000	3,630
Total	<u>\$ 5,464</u>	<u>\$ 5,603</u>

### 4. Accrued Liabilities

Accrued liabilities consist of (in millions):

	September 30, 2014	December 31, 2013
Accrued vendor costs	\$ 840	\$ 531
Customer prepayments and billings	765	673
Compensation	503	516
Warranty	267	228
Taxes (non-income)	181	188
Insurance	140	131
Fair value of derivative financial instruments	140	31
Accrued commissions	93	97
Interest	30	11
Other	351	357
Total	<u>\$ 3,310</u>	<u>\$ 2,763</u>

## Service and Product Warranties

The Company provides service and warranty policies on certain of its products. The Company accrues liabilities under service and warranty policies based upon specific claims and a review of historical warranty and service claim experience in accordance with Accounting Standards Codification (“ASC”) Topic 450 “Contingencies” (“ASC Topic 450”). Adjustments are made to accruals as claim data and historical experience change. In addition, the Company incurs discretionary costs to service its products in connection with product performance issues and accrues for them when they are encountered.

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

Balance at December 31, 2013	<u>\$228</u>
Net provisions for warranties issued during the year	87
Amounts incurred	(50)
Currency translation adjustments and other	2
Balance at September 30, 2014	<u>\$267</u>

## 5. Costs and Estimated Earnings on Uncompleted Contracts

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

	September 30, 2014	December 31, 2013
Costs incurred on uncompleted contracts	\$ 10,544	\$ 7,608
Estimated earnings	4,810	3,553
	<u>15,354</u>	<u>11,161</u>
Less: Billings to date	15,548	11,393
	<u>\$ (194)</u>	<u>\$ (232)</u>
Costs and estimated earnings in excess of billings on uncompleted contracts	\$ 1,615	\$ 1,539
Billings in excess of costs and estimated earnings on uncompleted contracts	(1,809)	(1,771)
	<u>\$ (194)</u>	<u>\$ (232)</u>

## 6. Accumulated Other Comprehensive Income (Loss)

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

	Currency Translation Adjustments	Derivative Financial Instruments, Net of Tax	Defined Benefit Plans, Net of Tax	Total
Balance at December 31, 2013	\$ 17	\$ 5	\$ (26)	\$ (4)
Accumulated other comprehensive income (loss) before reclassifications	(248)	(95)	—	(343)
Amounts reclassified from accumulated other comprehensive income (loss)	—	(15)	—	(15)
Balance at September 30, 2014	<u>\$ (231)</u>	<u>\$ (105)</u>	<u>\$ (26)</u>	<u>\$ (362)</u>

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

	Three Months Ended September 30,							
	2014				2013			
	Currency Translation Adjustments	Derivative Financial Instruments	Defined Benefit Plans	Total	Currency Translation Adjustments	Derivative Financial Instruments	Defined Benefit Plans	Total
Revenue	\$ —	\$ (4)	\$ —	\$ (4)	\$ —	\$ (3)	\$ —	\$ (3)
Cost of revenue	—	6	—	6	—	7	—	7
Other income (expense), net	—	—	—	—	—	—	—	—
Tax effect	—	—	—	—	—	(2)	—	(2)
	<u>\$ —</u>	<u>\$ 2</u>	<u>\$ —</u>	<u>\$ 2</u>	<u>\$ —</u>	<u>\$ 2</u>	<u>\$ —</u>	<u>\$ 2</u>

	Nine Months Ended September 30,							
	2014				2013			
	Currency Translation Adjustments	Derivative Financial Instruments	Defined Benefit Plans	Total	Currency Translation Adjustments	Derivative Financial Instruments	Defined Benefit Plans	Total
Revenue	\$ —	\$ (25)	\$ —	\$ (25)	\$ —	\$ (7)	\$ —	\$ (7)
Cost of revenue	—	5	—	5	—	8	—	8
Other income (expense), net	—	—	—	—	(25)	—	—	(25)
Tax effect	—	5	—	5	—	(1)	—	(1)
	<u>\$ —</u>	<u>\$ (15)</u>	<u>\$ —</u>	<u>\$ (15)</u>	<u>\$ (25)</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ (25)</u>

The Company's reporting currency is the U.S. dollar. A majority of the Company's international entities in which there is a substantial investment have the local currency as their functional currency. As a result, currency translation adjustments resulting from the process of translating the entities' financial statements into the reporting currency are reported in Other Comprehensive Income or Loss in accordance with ASC Topic 830 "Foreign Currency Matters" ("ASC Topic 830"). For the three and nine months ended September 30, 2014, a majority of these local currencies weakened against the U.S. dollar resulting in net Other Comprehensive Loss of \$310 million and \$248 million, respectively, upon the translation from local currencies to the U.S. dollar. For the three months ended September 30, 2013 a majority of these local currencies strengthened against the U.S. dollar. This resulted in net other comprehensive income of \$154 million upon the translation from local currencies to the U.S. dollar. However, for the nine months ended September 30, 2013 a majority of these local currencies weakened against the U.S. dollar resulting in a net other comprehensive loss of \$59 million upon the translation from local currencies to the U.S. dollar. Due to the sale of a foreign subsidiary during the second quarter of 2013, \$25 million of currency translation gains were reclassified from accumulated other comprehensive income (loss) into other income (expense), net in the Consolidated Statements of Income.

The effect of changes in the fair values of derivatives designated as cash flow hedges are accumulated in Other Comprehensive Income or Loss, net of tax, until the underlying transactions to which they are designed to hedge are realized. The movement in Other Comprehensive Income or Loss from period to period will be the result of the combination of changes in fair value for open derivatives and the outflow of Other Comprehensive Income or Loss related to cumulative changes in the fair value of derivatives that have settled in the current or prior periods. The accumulated effect was Other Comprehensive Loss of \$99 million (net of tax of \$38 million) and \$110 million (net of tax of \$42 million) for the three and nine months ended September 30, 2014, respectively. The accumulated effect was Other Comprehensive Income of \$48 million (net of tax of \$17 million) and Other Comprehensive Loss of \$22 million (net of tax of \$10 million) for the three and nine months ended September 30, 2013, respectively.

## 7. Business Segments

Effective April 1, 2014, the Company's operations were reorganized into four reportable segments: Rig Systems, Rig Aftermarket, Wellbore Technologies and Completion & Production Solutions. Within the four reporting segments, the Company has aggregated two business units under Rig Systems, one business unit under Rig Aftermarket, six business units under Wellbore Technologies and six business units under Completion & Production Solutions for a total of 15 business units. The Company has aggregated each of its business units in one of the four reporting segments based on the guidelines of ASC Topic 280, "Segment Reporting" ("ASC Topic 280").

### *Rig Systems*

The Company's Rig Systems segment makes and supports the capital equipment and integrated systems needed to drill oil and gas wells on land and offshore. The segment designs, manufactures, and sells land rigs, offshore drilling equipment packages, including installation and commissioning services, and drilling rig components that mechanize and automate the rig process and functionality.

Equipment and technologies in Rig Systems include: substructures, derricks, and masts; cranes; pipe lifting, racking, rotating, and assembly systems; fluid transfer technologies, such as mud pumps; pressure control equipment, including blowout preventers; power transmission systems, including drives and generators; and rig instrumentation and control systems.

The Rig Systems segment primarily supports land and offshore drillers. Demand for Rig Systems products primarily depends on drilling contractors' and oil and gas companies' capital spending plans, specifically capital expenditures on rig construction and refurbishment.

### *Rig Aftermarket*

The Company's Rig Aftermarket segment provides comprehensive aftermarket products and services to support land rigs and offshore rigs, and drilling rig components manufactured by the Rig Systems segment.

The segment provides spare parts, repair, and rentals as well as technical support, field service and first well support, field engineering, and customer training through a network of aftermarket service and repair facilities strategically located in major areas of drilling operations.

The Rig Aftermarket segment primarily supports land and offshore drillers. Demand for Rig Aftermarket products and services primarily depends on overall levels of oilfield drilling activity, which drives demand for spare parts, service, and repair for Rig System's large installed base of equipment; and secondarily on drilling contractors' and oil and gas companies' capital spending plans, specifically capital expenditures on rig refurbishment and re-certification.

### *Wellbore Technologies*

The Company's Wellbore Technologies segment designs, manufactures, rents, and sells a variety of equipment and technologies used to perform drilling operations, and offers services that optimize their performance, including: solids control and waste management equipment and services, drilling fluids, premium drill pipe, wired pipe, tubular inspection and coating services, instrumentation, downhole tools, and drill bits.

The Wellbore Technologies segment focuses on oil and gas companies and supports drilling contractors, oilfield service companies, and oilfield rental companies. Demand for Wellbore Technologies products and services primarily depends on the level of oilfield drilling activity by oil and gas companies, drilling contractors, and oilfield service companies.

### *Completion & Production Solutions*

The Company's Completion & Production Solutions segment integrates technologies for well completions and oil and gas production. The segment designs, manufactures, and sells equipment and technologies needed for hydraulic fracture stimulation, including pressure pumping trucks and pumps, blenders, sanders, hydration units, injection units, flowline, manifolds and wellheads; well intervention, including coiled tubing units, coiled tubing, and wireline units and tools; onshore production, including composite pipe, surface transfer and progressive cavity pumps, and artificial lift systems; and offshore production, including floating production systems and subsea production technologies.

The Completion & Production Solutions segment primarily supports service companies and oil and gas companies. Demand for Completion & Production Solutions products depends on the level of oilfield completions and workover activity by oilfield service companies and drilling contractors and capital spending plans by oil and gas companies and oilfield service companies.

Operating results by segment are as follows (in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
<b>Revenue:</b>				
Rig Systems	\$2,659	\$ 2,061	\$ 7,287	\$ 6,053
Rig Aftermarket	837	712	2,372	1,933
Wellbore Technologies	1,469	1,395	4,193	3,840
Completion & Production Solutions	1,191	1,095	3,320	3,154
Eliminations	(569)	(400)	(1,441)	(1,061)
<b>Total Revenue</b>	<b>\$5,587</b>	<b>\$ 4,863</b>	<b>\$15,731</b>	<b>\$13,919</b>
<b>Operating Profit:</b>				
Rig Systems	\$ 533	\$ 388	\$ 1,485	\$ 1,141
Rig Aftermarket	229	202	637	533
Wellbore Technologies	278	306	762	672
Completion & Production Solutions	185	175	479	438
Unallocated expenses and eliminations	(237)	(187)	(663)	(494)
<b>Total Operating Profit</b>	<b>\$ 988</b>	<b>\$ 884</b>	<b>\$ 2,700</b>	<b>\$ 2,290</b>
<b>Operating Profit %:</b>				
Rig Systems	20.0%	18.8%	20.4%	18.9%
Rig Aftermarket	27.4%	28.4%	26.9%	27.6%
Wellbore Technologies	18.9%	21.9%	18.2%	17.5%
Completion & Production Solutions	15.5%	16.0%	14.4%	13.9%
<b>Total Operating Profit %</b>	<b>17.7%</b>	<b>18.2%</b>	<b>17.2%</b>	<b>16.5%</b>

Sales from one segment to another generally are priced at estimated equivalent commercial selling prices; however, segments originating an external sale are credited with the full profit to the Company. Eliminations include intercompany transactions conducted between the four reporting segments that are eliminated in consolidation. Intercompany transactions within each reporting segment are eliminated within each reporting segment.

Included in Wellbore Technologies revenue and operating profit for the three and nine months ended September 30, 2013, are \$102 million in net gains resulting from a legal settlement.

Included in operating profit are other items related to acquisitions, such as transaction costs, the amortization of backlog and inventory that was stepped up to fair value during purchase accounting, the costs of the spin-off of the Company's distribution business and certain legal costs. Other items by segment are as follows (in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
<b>Other items:</b>				
Rig Systems	\$ —	\$ 4	\$ —	\$ 16
Rig Aftermarket	—	—	—	—
Wellbore Technologies	—	2	9	39
Completion & Production Solutions	(1)	1	6	73
Unallocated expenses and eliminations	2	2	36	2
<b>Total other items</b>	<b>\$ 1</b>	<b>\$ 9</b>	<b>\$ 51</b>	<b>\$ 130</b>

The Company had revenues of 8% of total revenue from one of its customers for each of the three and nine months ended September 30, 2014, and 11% for each of the three and nine months ended September 30, 2013. This customer, Samsung Heavy Industries, is a shipyard acting as a general contractor for its customers, who are drillship owners and drilling contractors. This shipyard's customers have specified that the Company's drilling equipment be installed on their drillships and have required the shipyard to issue contracts to the Company.

## 8. Debt

Debt consists of (in millions):

	<u>September 30,</u> <u>2014</u>	<u>December 31,</u> <u>2013</u>
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	500
Senior Notes, interest at 2.6% payable semiannually, principal due on December 1, 2022	1,396	1,396
Senior Notes, interest at 3.95% payable semiannually, principal due on December 1, 2042	1,096	1,096
Other	<u>3</u>	<u>7</u>
Total debt	3,146	3,150
Less current portion	<u>151</u>	<u>1</u>
Long-term debt	<u>\$ 2,995</u>	<u>\$ 3,149</u>

The Company has a \$3.5 billion, five-year unsecured revolving credit facility which expires September 28, 2018. The Company also has a commercial paper program that is supported by its revolving credit facility. At September 30, 2014, the Company had no commercial paper borrowings and no borrowings against its revolving credit facility. Funds available under the Company's revolving credit facility were \$2,427 million due to \$1,073 million in outstanding letters of credit issued under the facility. Interest under this multicurrency facility is based upon LIBOR, NIBOR or EURIBOR plus 0.875% subject to a ratings-based grid, or the U.S. prime rate. The credit facility contains a financial covenant regarding maximum debt to capitalization and the Company was in compliance at September 30, 2014.

The Company also had \$3,212 million of additional outstanding letters of credit at September 30, 2014, primarily in Norway, that are under various bilateral committed letter of credit facilities. Other letters of credit are issued as bid bonds, advanced payment bonds and performance bonds.

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 those or similar instruments. At September 30, 2014 and December 31, 2013, the fair value of the Company's unsecured Senior Notes approximated \$3,023 million and \$2,896 million, respectively. At both September 30, 2014 and December 31, 2013, the carrying value of the Company's unsecured Senior Notes approximated \$3,143 million.

## 9. Tax

The effective tax rate for the three and nine months ended September 30, 2014 was 28.8% and 30.3%, respectively, compared to 30.6% and 30.7% for the same periods in 2013. Compared to the U.S. statutory rate, the effective tax rate was positively impacted in the periods by the effect of lower tax rates on income earned in foreign jurisdictions that is considered to be indefinitely reinvested, foreign exchange losses for tax reporting in Norway, a reversal of valuation allowances, and the deduction in the U.S. for manufacturing activities. The effective tax rate was negatively impacted by foreign dividends net of foreign tax credits, and additional foreign withholding taxes.

The difference between the effective tax rate reflected in the provision for income taxes and the U.S. federal statutory rate of 35% was as follows (in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Federal income tax at U.S. federal statutory rate	\$ 344	\$ 301	\$ 932	\$ 783
Foreign income tax rate differential	(91)	(50)	(189)	(172)
State income tax, net of federal benefit	8	5	23	17
Nondeductible expenses	1	4	20	20
Tax benefit of manufacturing deduction	(13)	(4)	(31)	(20)
Foreign dividends, net of foreign tax credits	113	12	134	24
Tax impact of foreign exchange	16	(12)	14	27
Tax rate change on temporary differences	—	(16)	—	(16)
Change in valuation allowance	(94)	32	(92)	40
Other	(1)	(9)	(5)	(17)
Provision for income taxes	<u>\$ 283</u>	<u>\$ 263</u>	<u>\$ 806</u>	<u>\$ 686</u>

The balance of unrecognized tax benefits at September 30, 2014 was \$128 million, \$55 million of which if ultimately realized, would be recorded as an income tax benefit. Included in the change in the balance of unrecognized tax benefits was an increase of \$1 million associated with certain operating expenses that may not be deductible in foreign jurisdictions.

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

The Company is subject to taxation in the U.S., various states and foreign jurisdictions. The Company has significant operations in the United States, Canada, the United Kingdom, the Netherlands and Norway. Tax years that remain subject to examination by major tax jurisdiction vary by legal entity, but are generally open in the U.S. for tax years after 2009 and outside the U.S. for tax years after 2005.

To the extent penalties and interest would be assessed on any underpayment of income tax, such accrued amounts have been classified as a component of income tax expense in the financial statements.

## 10. Stock-Based Compensation

The Company has a stock-based compensation plan known as the National Oilwell Varco, Inc. Long-Term Incentive Plan (the "Plan"). The Plan provides for the granting of stock options, performance-based share awards, restricted stock, phantom shares, stock payments and stock appreciation rights. The number of shares authorized under the Plan is 39.5 million. At September 30, 2014, 11,774,456 shares remain available for future grants under the Plan, all of which are available for grants of stock options, performance-based share awards, restricted stock awards, phantom shares, stock payments and stock appreciation rights.

On February 25, 2014, the Company granted 3,113,607 stock options with a fair value of \$25.60 per share and an exercise price of \$74.83 per share; 426,272 shares of restricted stock and restricted stock units with a fair value of \$74.83 per share; and performance share awards to senior management employees with potential payouts varying from zero to 436,390 shares. The stock options vest over a three-year period from the grant date while the restricted stock and restricted stock units vest on the third anniversary of the date of grant. The performance share awards can be earned based on performance against established goals over a three-year performance period. The performance share awards are divided into two equal, independent parts that are subject to two separate performance metrics: 50% with a TSR (total shareholder return) goal (the "TSR Award") and 50% with an internal ROC (return on capital) goal (the "ROC Award").

Performance against the TSR goal is determined by comparing the performance of the Company's TSR with the TSR performance of the members of the OSX index for the three year performance period. Performance against the ROC goal is determined by comparing the performance of the Company's actual ROC performance average for each of the three years of the performance period against the ROC goal set by the Company's Compensation Committee.

On May 14, 2014, the Company granted 18,736 restricted stock awards with a fair value of \$68.89 per share. The awards were granted to non-employee members of the board of directors and vest on the first anniversary of the grant date.

On June 2, 2014, as a result of the spin-off and pursuant to the terms of the Employee Matters Agreement and the Plan, outstanding NOV stock-based awards held by continuing NOV employees were adjusted to generally preserve the intrinsic value of the original award. Outstanding NOV stock-based awards held by employees of NOW were converted into similar NOW stock-based awards, each appropriately adjusted to generally preserve the intrinsic value of the original award. Adjustments to the awards did not have a material impact to compensation expense.

Total stock-based compensation for all stock-based compensation arrangements under the Plan was \$23 million and \$75 million for the three and nine months ended September 30, 2014, respectively and \$23 million and \$61 million for the three and nine months ended September 30, 2013, respectively. The total income tax benefit recognized in the Consolidated Statements of Income for all stock-based compensation arrangements under the Plan was \$7 million and \$23 million for the three and nine months ended September 30, 2014, respectively and \$7 million and \$19 million for the three and nine months ended September 30, 2013, respectively.

## 11. Derivative Financial Instruments

ASC Topic 815, "Derivatives and Hedging" ("ASC Topic 815") requires a company to recognize all of its derivative instruments as either assets or liabilities in the Consolidated Balance Sheet at fair value. The accounting for changes in the fair value (i.e., gains or losses) of a derivative 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 hedging 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 operation.

The Company is exposed to certain risks relating to its ongoing business operations. The primary risk managed by using derivative instruments is foreign currency exchange rate risk. Forward contracts against various foreign currencies are entered into to manage the foreign currency exchange rate risk on forecasted revenues and expenses denominated in currencies other than the functional currency of the operating unit (cash flow hedge). In addition, the Company will enter into non-designated forward contracts against various foreign currencies to manage the foreign 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-designated hedges discussed below, all derivative financial instruments that the Company holds are designated as cash flow hedges and are highly effective in offsetting movements in the underlying risks. Such arrangements typically have terms between 2 and 24 months, but may have longer terms depending on the underlying cash flows being hedged, typically related to the projects in our backlog. The Company may also use interest rate contracts to mitigate its exposure to changes in interest rates on anticipated long-term debt issuances.

At September 30, 2014, the Company has determined that the fair value of its derivative financial instruments representing assets of \$36 million and liabilities of \$186 million (primarily currency related derivatives) are determined using level 2 inputs (inputs other than quoted prices in active markets for identical assets and liabilities that are observable either directly or indirectly for substantially the full term of the asset or liability) in the fair value hierarchy as the fair value is based on publicly available foreign exchange and interest rates at each financial reporting date. At September 30, 2014, the net fair value of the Company's foreign currency forward contracts totaled a net liability of \$150 million.

At September 30, 2014, the Company did not have any interest rate swaps and its financial instruments do not contain any credit-risk-related or other contingent features that could cause accelerated payments when the Company's financial instruments are in net liability positions. We do not 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 Company has instituted a cash flow hedging program. The Company hedges portions of its forecasted revenues and expenses denominated in nonfunctional currencies with forward contracts. When the U.S. dollar strengthens against the foreign currencies, the decrease in present value of future foreign currency revenues and expenses is offset by gains in the fair value of the forward contracts designated as hedges. Conversely, when the U.S. dollar weakens, the increase in the present value of future foreign currency cash flows is offset by losses in the fair value of the forward contracts.

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

The Company had the following outstanding foreign currency forward contracts that were entered into to hedge nonfunctional currency cash flows from forecasted revenues and expenses (in millions):

<b>Foreign Currency</b>	<b>Currency Denomination</b>	
	<b>September 30, 2014</b>	<b>December 31, 2013</b>
Norwegian Krone	NOK 11,430	NOK 10,503
Euro	€ 560	€ 406
U.S. Dollar	\$ 350	\$ 357
Danish Krone	DKK 283	DKK 278
Mexican peso	MXN 129	MXN —
Singapore Dollar	SGD 51	SGD 17
British Pound Sterling	£ 32	£ 23
Canadian Dollar	CAD 14	CAD 16

#### *Non-designated Hedging Strategy*

The Company enters into forward exchange contracts to hedge certain nonfunctional currency monetary accounts. The purpose of the Company's foreign currency hedging activities is to protect the Company from risk that the eventual U.S. dollar equivalent cash flows from the nonfunctional 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., nonfunctional 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 monetary accounts (in millions):

<b>Foreign Currency</b>	<b>Currency Denomination</b>	
	<b>September 30, 2014</b>	<b>December 31, 2013</b>
Norwegian Krone	NOK 2,747	NOK 3,257
Russian Ruble	RUB 1,575	RUB 2,149
U.S. Dollar	\$ 1,057	\$ 715
Danish Krone	DKK 438	DKK 177
Euro	€ 413	€ 310
Mexican Peso	MXN 134	MXN —
British Pound Sterling	£ 31	£ 14
Swedish Krone	SEK 9	SEK 4
Canadian Dollar	CAD 4	CAD 3
Singapore Dollar	SGD 3	SGD 3

The Company has the following gross fair values of its derivative instruments and their balance sheet classifications:

	Asset Derivatives			Liability Derivatives		
	Balance Sheet Location	Fair Value		Balance Sheet Location	Fair Value	
		September 30, 2014	December 31, 2013		September 30, 2014	December 31, 2013
<b>Derivatives designated as hedging instruments under ASC Topic 815</b>						
Foreign exchange contracts	Prepaid and other current assets	\$ 9	\$ 35	Accrued liabilities	\$ 97	\$ 18
Foreign exchange contracts	Other Assets	6	5	Other Liabilities	45	9
<b>Total derivatives designated as hedging instruments under ASC Topic 815</b>		<u>\$ 15</u>	<u>\$ 40</u>		<u>\$ 142</u>	<u>\$ 27</u>
<b>Derivatives not designated as hedging instruments under ASC Topic 815</b>						
Foreign exchange contracts	Prepaid and other current assets	\$ 21	\$ 19	Accrued liabilities	\$ 43	\$ 13
Foreign exchange contracts	Other Assets	—	—	Other Liabilities	1	—
<b>Total derivatives not designated as hedging instruments under ASC Topic 815</b>		<u>\$ 21</u>	<u>\$ 19</u>		<u>\$ 44</u>	<u>\$ 13</u>
<b>Total derivatives</b>		<u>\$ 36</u>	<u>\$ 59</u>		<u>\$ 186</u>	<u>\$ 40</u>

**The Effect of Derivative Instruments on the Consolidated Statements of Income**  
(\$ in millions)

Derivatives in ASC Topic 815 Cash Flow Hedging Relationships	Amount of Gain (Loss) Recognized in OCI on Derivative (Effective Portion) (a)		Location of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Amount of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)		Location of Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Amount of Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing) (b)	
	Nine Months Ended September 30, 2014	Nine Months Ended September 30, 2013		Nine Months Ended September 30, 2014	Nine Months Ended September 30, 2013		Nine Months Ended September 30, 2014	Nine Months Ended September 30, 2013
Foreign exchange contracts			Revenue	25	7	Other income (expense), net	26	6
	(132)	(32)	Cost of revenue	(5)	(8)			
<b>Total</b>	<u>(132)</u>	<u>(32)</u>		<u>20</u>	<u>(1)</u>		<u>26</u>	<u>6</u>

<u>Derivatives Not Designated as Hedging Instruments under ASC Topic 815</u>	<u>Location of Gain (Loss) Recognized in Income on Derivative</u>	<u>Amount of Gain (Loss) Recognized in Income on Derivative</u>	
		<u>Nine Months Ended September 30,</u>	
		<u>2014</u>	<u>2013</u>
Foreign exchange contracts	Other income (expense), net	(25)	13
<b>Total</b>		<u>(25)</u>	<u>13</u>

- (a) The Company expects that \$101 million of the Accumulated Other Comprehensive Income (Loss) will be reclassified into earnings within 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 \$1 million and nil related to the ineffective portion of the hedging relationships for the nine months ended September 30, 2014 and 2013, respectively, and \$25 million and \$6 million related to the amount excluded from the assessment of the hedge effectiveness for the nine months ended September 30, 2014 and 2013, respectively.

## 12. 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 data):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
<b>Numerator:</b>				
Income from continuing operations	\$ 699	\$ 598	\$1,855	\$1,553
Income from discontinued operations	\$ —	\$ 38	\$ 52	\$ 116
Net income attributable to Company	\$ 699	\$ 636	\$1,907	\$1,669
<b>Denominator:</b>				
Basic—weighted average common shares outstanding	429	426	428	426
Dilutive effect of employee stock options and other unvested stock awards	2	2	2	2
Diluted outstanding shares	431	428	430	428
<b>Per share data:</b>				
<b>Basic:</b>				
Income from continuing operations	\$ 1.63	\$ 1.40	\$ 4.34	\$ 3.64
Income from discontinued operations	\$ —	\$ 0.09	\$ 0.12	\$ 0.28
Net income attributable to Company	\$ 1.63	\$ 1.49	\$ 4.46	\$ 3.92
<b>Diluted:</b>				
Income from continuing operations	\$ 1.62	\$ 1.40	\$ 4.31	\$ 3.62
Income from discontinued operations	\$ —	\$ 0.09	\$ 0.12	\$ 0.28
Net income attributable to Company	\$ 1.62	\$ 1.49	\$ 4.43	\$ 3.90
Cash dividends per share	\$ 0.46	\$ 0.26	\$ 1.18	\$ 0.65

ASC Topic 260, "Earnings Per Share" ("ASC Topic 260") requires companies with unvested participating securities to utilize a two-class method for the computation of Net income attributable to Company per share. The two-class method requires a portion of Net income attributable to Company to be allocated to participating securities, which are unvested awards of share-based payments with non-forfeitable rights to receive dividends or dividend equivalents, if declared. Net income attributable to Company allocated to these participating securities was immaterial for three and nine months ended September 30, 2014 and therefore not excluded from Net income attributable to Company per share calculation.

In addition, the Company had stock options outstanding that were anti-dilutive totaling 6 million and 8 million shares for three and nine months ended September 30, 2014, and 7 million shares for each of the three and nine months ended September 30, 2013, respectively.

## 13. Cash Dividends

On August 13, 2014, the Company's Board of Directors approved a cash dividend of \$0.46 per share. The cash dividend was paid on September 26, 2014, to each stockholder of record on September 12, 2014. Cash dividends aggregated \$198 million and \$507 million for the three and nine months ended September 30, 2014, and \$111 million and \$278 million for the three and nine months ended September 30, 2013, respectively. The declaration and payment of future dividends is at the discretion of the Company's Board of Directors and will be dependent upon the Company's results of operations, financial condition, capital requirements and other factors deemed relevant by the Company's Board of Directors.

#### 14. 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 U.S. Department of Justice (“DOJ”), the Department of Commerce Bureau of Industry and Security (“BIS”), the United States Department of Treasury, Office of Foreign Assets Control (“OFAC”), and U.S. Immigration and Customs Enforcement in responding to the inquiries. We have also cooperated with an informal inquiry from the Securities and Exchange Commission in connection with the inquiries previously made by the aforementioned federal agencies. We have conducted our own internal review of this matter. At the conclusion of our internal review in the fourth quarter of 2009, we identified possible areas of concern and discussed these areas of concern with the relevant agencies. We are currently negotiating a potential resolution with the agencies involved related to these matters. We currently anticipate that any administrative fine or penalty agreed to as part of a resolution would be within established accruals, and would not have a material effect on our financial position or results of operations. To the extent a resolution is not negotiated, we cannot predict the timing or effect that any resulting government actions may have on our financial position or results of operations.

On February 20, 2013, the Company acquired Robbins & Myers, Inc. (“R&M”). R&M was subject to an ongoing investigation by the DOJ and the BIS regarding potential export controls violations arising from certain shipments by R&M’s Belgian (“RMB”) subsidiary. The alleged violations involved less than \$75,000 in goods in 2005 and 2006. The settlement was negotiated by R&M before NOV’s acquisition of R&M. During the third quarter of 2014, the parties executed a Non-Prosecution Agreement (“NPA”) to memorialize the previously negotiated settlement. Accordingly, in the third quarter of 2014, R&M paid a fine of \$1,033,000 to the DOJ and \$600,000 to BIS, and RMB pleaded guilty to criminal violations of U.S. trade restrictions. RMB entered into a Plea Agreement and was sentenced to five years probation. Under the NPA, R&M, for two years unless otherwise changed pursuant to the NPA must implement a specified compliance program and periodically certify compliance with U.S. Trade Sanction Laws.

In addition, we are involved in various other claims, regulatory agency audits and pending or threatened legal actions involving a variety of matters. As of September 30, 2014, the Company recorded an immaterial amount for contingent liabilities representing all contingencies believed to be probable. The Company has also assessed the potential for additional losses above the amounts accrued as well as potential losses for matters that are not probable but are reasonably possible. The total potential loss on these matters cannot be determined; however, in our opinion, any ultimate liability, to the extent not otherwise provided for and except for the specific cases referred to above, will not materially affect our financial position, cash flow or results of operations. As it relates to the specific cases referred to above we currently anticipate that any administrative fine or penalty agreed to as part of a resolution would be within established accruals, and would not have a material effect on our financial position or 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 Company’s assessment of the nature of these matters, their progress toward resolution, the advice of legal counsel and outside experts as well as management’s intention and experience.

Our business is affected both directly and indirectly by governmental laws and regulations relating to the oilfield service industry in general, as 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, regulations and enforcement policies hereunder may not result in additional, presently unquantifiable, costs or liabilities to us.

## 15. Share Repurchase Program

On September 30, 2014, the Company announced that its Board of Directors authorized a share repurchase program to purchase up to \$3 billion of the Company's outstanding common stock. The Company may repurchase its shares on the open market at prevailing market prices. The timing and actual number of shares repurchased will depend on a variety of factors including market conditions and regulatory considerations. The duration of the share repurchase program is 36 months, although it may be increased, extended, suspended or discontinued without prior notice. The Company intends to fund the repurchases using its available U.S. cash balances, which may involve the repatriation of foreign earnings not indefinitely reinvested. However, depending on U.S. cash balances, the Company may choose to borrow against its revolving credit facility, its commercial paper program or new debt issuances to finance the repurchases. At September 30, 2014, the Company repurchased no shares under the program.

## 16. Recently Issued Accounting Standards

In April 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standard Update No. 2014-08 "Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity" (ASU No. 2014-08), which is an update for Accounting Standards Codification Topic No. 205 "Presentation of Financial Statements" and Topic No. 360 "Property, Plant and Equipment". This update changes the requirements of reporting discontinued operations. Under the amended guidance, a disposal of a component of an entity or a group of components of an entity is required to be reported in discontinued operations if the disposal represents a strategic shift that has (or will have) a major effect on an entity's operations and financial results. The amendments in this update are effective for all disposals (or classifications as held for sale) of components of an entity that occur within annual periods beginning on or after December 15, 2014, and interim periods within those years. Although early adoption is permitted, the Company did not elect to apply the guidance of ASU No. 2014-08 to the spin-off of NOW. The adoption of this update concerns presentation and disclosure only as it relates to our consolidated financial statements. The Company is currently assessing the impact of ASU No. 2014-08 on its consolidated financial position and results of operations.

In May 2014, the FASB issued Accounting Standard Update No. 2014-09 "Revenue from Contracts with Customers" (ASU No. 2014-09), which supersedes the revenue recognition requirements in Accounting Standard Codification Topic No. 605 "Revenue Recognition" and most industry-specific guidance. This update requires that entities recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which a company expects to be entitled in exchange for those goods or services. ASU No. 2014-09 is effective for fiscal years beginning after December 15, 2016, and for interim periods within those fiscal years. The Company is currently assessing the impact of the adoption of ASU No. 2014-09 on its consolidated financial position and results of operations.

## Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

### Introduction

National Oilwell Varco, Inc. (the “Company”) is a worldwide leader in the design, manufacture and sale of equipment and components used in oil and gas drilling and production, the provision of oilfield services, and supply chain integration services to the upstream oil and gas industry.

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

### *Rig Systems*

The Company’s Rig Systems segment makes and supports the capital equipment and integrated systems needed to drill oil and gas wells on land and offshore. The segment designs, manufactures, and sells land rigs, offshore drilling equipment packages, including installation and commissioning services, and drilling rig components that mechanize and automate the rig process and functionality.

Equipment and technologies in Rig Systems include: substructures, derricks, and masts; cranes; pipe lifting, racking, rotating, and assembly systems; fluid transfer technologies, such as mud pumps; pressure control equipment, including blowout preventers; power transmission systems, including drives and generators; and rig instrumentation and control systems.

The Rig Systems segment primarily supports land and offshore drillers. Demand for Rig Systems products primarily depends on drilling contractors’ and oil and gas companies’ capital spending plans, specifically capital expenditures on rig construction and refurbishment.

### *Rig Aftermarket*

The Company’s Rig Aftermarket segment provides comprehensive aftermarket products and services to support land rigs and offshore rigs, and drilling rig components manufactured by the Rig Systems segment.

The segment provides spare parts, repair, and rentals as well as technical support, field service and first well support, field engineering, and customer training through a network of aftermarket service and repair facilities strategically located in major areas of drilling operations.

The Rig Aftermarket segment primarily supports land and offshore drillers. Demand for Rig Aftermarket products and services primarily depends on overall levels of oilfield drilling activity, which drives demand for spare parts, service, and repair for Rig System’s large installed base of equipment; and secondarily on drilling contractors’ and oil and gas companies’ capital spending plans, specifically capital expenditures on rig refurbishment and re-certification.

### *Wellbore Technologies*

The Company’s Wellbore Technologies segment designs, manufactures, rents, and sells a variety of equipment and technologies used to perform drilling operations, and offers services that optimize their performance, including: solids control and waste management equipment and services, drilling fluids, premium drill pipe, wired pipe, tubular inspection and coating services, instrumentation, downhole tools, and drill bits.

The Wellbore Technologies segment focuses on oil and gas companies and supports drilling contractors, oilfield service companies, and oilfield rental companies. Demand for Wellbore Technologies products and services primarily depends on the level of oilfield drilling activity by oil and gas companies, drilling contractors, and oilfield service companies.

### *Completion & Production Solutions*

The Company’s Completion & Production Solutions segment integrates technologies for well completions and oil and gas production. The segment designs, manufactures, and sells equipment and technologies needed for hydraulic fracture stimulation, including pressure pumping trucks and pumps, blenders, sanders, hydration units, injection units, flowline, manifolds and wellheads; well intervention, including coiled tubing units, coiled tubing, and wireline units and tools; onshore production, including composite pipe, surface transfer and progressive cavity pumps, and artificial lift systems; and offshore production, including floating production systems and subsea production technologies.

The Completion & Production Solutions segment primarily supports service companies and oil and gas companies. Demand for Completion & Production Solutions products depends on the level of oilfield completions and workover activity by oilfield service companies and drilling contractors and capital spending plans by oil and gas companies and oilfield service companies.

#### *Discontinued Operations*

On May 30, 2014, the Company completed the spin-off of its distribution business into an independent public company named NOW Inc. and the results of operations for the distribution business have been classified as discontinued operations for all periods presented. Unless indicated otherwise, the information in the Management's Discussion and Analysis of Financial Condition and Results of Operations relates to our continuing operations.

#### **Critical Accounting Policies and Estimates**

In our annual report on Form 10-K for the year ended December 31, 2013, we identified our most critical accounting policies. In preparing the financial statements, we make assumptions, estimates and judgments that affect the amounts reported. We periodically evaluate our estimates and judgments that are most critical in nature which are related to revenue recognition under long-term construction contracts; allowance for doubtful accounts; inventory reserves; impairment of long-lived assets (excluding goodwill and other indefinite-lived intangible assets); goodwill and other indefinite-lived intangible assets; purchase price allocation of acquisitions; service and product warranties; and income taxes. Our estimates are based on historical experience and on our future expectations that we believe are reasonable. The combination of these factors forms the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results are likely to differ from our current estimates and those differences may be material.

## EXECUTIVE SUMMARY

For its third quarter ended September 30, 2014, the Company generated \$699 million in income from continuing operations, or \$1.62 per fully diluted share, on \$5.6 billion in revenue. Compared to the second quarter of 2014, revenue increased \$332 million or 6% and income from continuing operations increased \$92 million or 15%. Compared to the third quarter of 2013, revenue increased \$724 million or 15%, and income from continuing operations increased \$103 million or 17%.

The third quarter of 2014 included pre-tax other items of \$1 million, the second quarter of 2014 included pre-tax other items of \$32 million, and the third quarter of 2013 included pre-tax other items of \$9 million and a pre-tax gain of \$102 million resulting from the settlement of a legal claim. Excluding the other items from all periods, third quarter 2014 earnings from continuing operations were \$1.62 per fully diluted share, compared to \$1.47 per fully diluted share in the second quarter of 2014 and \$1.24 per fully diluted share in the third quarter of 2013.

Pre-tax other items for the third quarter of 2014, second quarter of 2014, and the third quarter of 2013 included costs related to acquisitions, such as transaction costs, the amortization of backlog and inventory that was stepped up to fair value during purchase accounting, the costs of the spin-off of the Company's distribution business, certain legal costs and a gain resulting from the settlement of a legal claim.

Operating profit, excluding other items, was \$989 million or 17.7% of sales in the third quarter of 2014, compared to \$945 million or 18.0% of sales in the second quarter of 2014, and \$791 million or 16.6% of sales in the third quarter of 2013.

### Oil & Gas Equipment and Services Market

Worldwide, developed economies turned down in late 2008 as looming housing-related asset write-downs at major financial institutions paralyzed credit markets and sparked a serious global banking crisis. Major central banks responded vigorously through 2009, but a credit-driven worldwide economic recession developed nonetheless. Developed economies struggled to recover throughout 2010 and 2011, facing additional economic weakness related to potential sovereign debt defaults in Europe. As a result, commodity prices, including oil and gas prices, have been volatile. During the first quarter of 2009, oil prices averaged \$43 per barrel, but slowly recovered into the \$100 per barrel range by mid-2011 where they held relatively steady since (although the fourth quarter of 2012 dipped to average \$88 per barrel). As a result of relatively high and stable oil prices, oil-drilling activity over the past two years has increased. However, oil prices declined significantly throughout most of the third quarter of 2014 with West Texas Intermediate Crude falling briefly below \$80 per barrel. In the third quarter of 2009, North American gas prices declined to average \$3.17 per mmbtu. Gas prices recovered modestly, 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 early 2012 to the \$2 range. However, the average quarterly price per mmbtu climbed steadily since the second quarter of 2012 and peaked to average \$5.18 per mmbtu in the first quarter of 2014. During the third quarter of 2014, average natural gas price declined to an average of \$3.94 per mmbtu.

The count of rigs actively drilling in the U.S. as measured by Baker Hughes, Inc. (a good measure of the level of oilfield activity and spending) decreased to a low of 876 in June, 2009 as many oil and gas operators, reliant on external financing to fund their drilling programs, significantly curtailed their drilling activity. As commodity prices improved, the U.S. rig count increased steadily to 2,026 by late 2011, but began to decline to average 1,903 rigs during the third quarter of 2014. Recently low gas prices have caused operators to trim drilling, driving the average U.S. gas rig count down 64% from the fourth quarter of 2011, to an average of 325 in the third quarter of 2014. However, with high oil prices, many have redirected drilling efforts towards unconventional shale plays targeting oil, rather than gas. For the third quarter of 2014, oil-directed drilling was 82% of the total domestic drilling effort, and remains at its highest levels in the U.S. since the early 1980's. However, oil prices declined throughout most of the third quarter of 2014, which could ultimately curtail drilling and completions activity.

Most international activity is driven by oil exploration and production by national oil companies, which has historically been less susceptible to short-term commodity price swings; but, the international rig count exhibited modest declines nonetheless, falling from its 1,108 in September 2008 to 947 in August 2009. Since that decline, international drilling activity has increased and averaged 1,347 rigs in the third quarter of 2014.

During 2009 the Company saw its Wellbore Technologies and Completion & Production Solutions margins affected most acutely by a drilling downturn, through both volume and price declines. Resumption of drilling activity since enabled both of these segments to gain volume, stabilize and lift pricing, and improve margins over 2009 results. The Company's Rig Systems segment was less impacted by the 2009 downturn owing to its high level of contracted backlog, which it executed well. It posted higher revenues and operating profits in 2009 than 2008 as a result. The segment's revenues decreased in 2010 as its backlog declined, remained relatively flat in 2011, and rose 24% year-over-year in 2012 as orders for new offshore rigs increased.

The economic decline beginning in late 2008 followed an extended period of high drilling activity which fueled strong demand for oilfield services between 2003 and 2008. Incremental drilling activity through the upswing shifted toward harsh environments, employing increasingly sophisticated technology to find and produce reserves. Higher utilization of drilling rigs tested the capability of the world's fleet of rigs, much of which is old and of limited capability. Technology has advanced significantly since most of the existing rig fleet was built. The industry invested little during the late 1980's and 1990's on new drilling equipment, but drilling technology progressed steadily nonetheless, as the Company and its competitors continued to invest in new and better ways of drilling. As a consequence, the safety, reliability, and efficiency of new, modern rigs surpass the performance of most of the older rigs at work today. Drilling rigs are now being pushed to drill deeper wells, more complex wells, highly deviated wells and horizontal wells, tasks which require larger rigs with more capabilities. The drilling process effectively consumes the mechanical components of a rig, which wear out and need periodic repair or replacement. This process was accelerated by very high rig utilization 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, 2.) replace older mechanical and DC electric land rigs with improved AC power, electronic controls, automatic pipe handling and rapid rigup and rigdown technology; and 3.) build out additional deepwater floating drilling rigs, including semisubmersibles and drillships, to employ recent advancements in deepwater drilling to exploit unexplored deepwater basins. We believe that the newer rigs offer considerably higher efficiency, safety, and capability, and that many will effectively replace a portion of the existing fleet.

As a result of the credit crisis and slowing drilling activity in 2009, orders in the Rig Systems segment declined below amounts flowing out of backlog as revenue, causing the segment's backlog to decline to \$4.4 billion by the end of 2010. Since 2010 lows, the backlog increased steadily as drillers ordered more than the Company shipped out of backlog, and the segment finished the second quarter of 2014 at a record \$15.4 billion. During the third quarter of 2014, revenues out of backlog exceeded orders and backlog for the segment finished at \$14.3 billion. Of this backlog, 90% of the total is for equipment destined for offshore operations, with 10% destined for land. Equipment destined for international markets totaled 90% of the backlog as of the end of the third quarter of 2014.

Manufacturing lead time for orders in the Completion & Production Solutions segment's backlog is considerably shorter than that of the orders in Rig System's backlog. This segment's backlog has increased since 2009 as levels of drilling activity worldwide moved higher. Backlog in this segment was \$2.1 billion at the end of the third quarter of 2014. Of the \$2.1 billion, 63% of the total is for equipment destined for offshore operations, with 37% destined for land. Equipment destined for international markets totaled 80%.

### **Segment Performance**

The Rig Systems segment generated \$2.7 billion in revenues and \$533 million in operating profit or 20.0% of sales in the third quarter of 2014. Compared to the prior quarter, revenues increased \$287 million, and operating profit increased \$32 million, representing 11% incremental operating leverage. Compared to the third quarter of 2013, segment revenues grew \$598 million or 29%, and operating profit increased \$145 million, representing 24% incremental leverage. The segments margins have moved down steadily since mid-2010 due to some lower priced projects, an adverse mix shift in the segment, and incremental expenses to support several strategic growth initiatives. The mix shift arises from offshore projects contracted at high prices in 2007 and 2008, which were subsequently manufactured in low cost environments in 2009 and 2010, resulting in high margins for the group which peaked in the third quarter of 2010. As these projects have been completed and replaced with lower priced projects, margins have gradually declined. Margins have also been negatively impacted by the compression of delivery schedules from our shipyard customers, which have challenged the limits of our supply chain and increased our overall project costs. Margins for the third quarter of 2014 were also negatively impacted by cost challenges on highly customized land rigs and higher costs on installation and commissioning. Third quarter 2014 revenue out of backlog for the Rig Systems segment increased 15% in comparison to the second quarter of 2014 and 34% year-over-year. Orders for twenty-five complete land rigs, nine offshore jackup rig drilling equipment packages, as well as discrete offshore components including cranes, jacking systems and spare BOP stacks contributed to total order additions of \$1.3 billion during the third quarter of 2014.

The Rig Aftermarket segment generated \$837 million in revenues and \$229 million in operating profit or 27.4% of sales in the third quarter of 2014. Compared to the prior quarter, revenues increased \$52 million, and operating profit increased \$12 million, representing 23% incremental operating leverage. Compared to the third quarter of 2013, segment revenues grew \$125 million or 18%, and operating profit increased \$27 million, representing 22% incremental leverage. Growth in revenue and operating profit is mainly attributable to increased demand for spare parts, repairs and services to accommodate our large installed base of equipment along with continued investments in capacity expansions.

The Wellbore Technologies segment generated \$1.5 billion in revenue and \$278 million in operating profit, or 18.9% of sales, for the third quarter of 2014. Compared to the prior quarter, revenue increased \$23 million or 2%, and operating profit increased \$15 million, representing 65% incremental operating leverage. Revenues and operating profit were up sequentially as the U.S. market continued to strengthen and more favorable seasonal conditions in Canada allowed for a significant increase in rigs actively drilling. Compared to the third quarter of 2013, revenues increased \$74 million, and operating profit decreased \$28 million. Included in Wellbore Technologies revenue and operating profit for the third quarter of 2013 are \$102 million in net gains resulting from a legal settlement.

The Completion & Production Solutions segment generated \$1.2 billion in revenue and \$185 million in operating profit or 15.5% of sales during the third quarter of 2014. Revenue increased \$64 million or 6% from the second quarter of 2014, and operating profit increased \$28 million, representing 44% incremental leverage. The revenue increase was primarily due to higher shipments well stimulation equipment and fiberglass pipe. Compared to the third quarter of 2013, revenues increased \$96 million, and operating profit increased \$10 million. Year-over-year, revenues grew on increased demand for pressure pumping equipment, coiled tubing units, floating production equipment and fiberglass pipe. Operating leverage was negatively impacted as the product mix of the incremental revenue increase was weighted more heavily to the comparatively lower margin production equipment related businesses as opposed to the more profitable completion equipment businesses.

## **Outlook**

Following the credit market downturn, global recession, and lower commodity prices of 2009, we saw signs of stabilization and recovery in many of our markets in 2010 and into 2011, led by higher drilling activity in North America and slowly improving international drilling activity. Since that time, order levels for new deepwater drilling rigs, as well as new jackup drilling rigs, have rebounded; but, softening day rates for deepwater drilling rigs and lower commodity prices has resulted in a near-term reduction in new orders for deepwater drilling rigs. Some of this expected reduction could be offset by increasing demand for new land drilling rigs and equipment packages, primarily in the North American, Latin American and Middle East markets. And, as the fleet of offshore and land drilling rigs worldwide continues to grow, we are confident that our Aftermarket business will continue to support our growing installed base of equipment with spare parts, service and repair. Strict regulatory drilling requirements worldwide will keep demand for the segment's offerings at high levels.

Our outlook for the Company's Wellbore Technologies segment and Completion & Production Solutions segment remains closely tied to the rig count, particularly in North America. Average U.S. rig count during the third quarter of 2014 saw modest gains of 3% and 8% compared to the second quarter of 2014 and third quarter of 2013, respectively. The third quarter of 2014 saw average Canadian rig count increase 91% sequentially and 11% year-over-year. As a result, revenues for both segments improved sequentially in Canada. Domestic land drilling and well service firms are increasing activity, which is leading to increased demand for drilling and stimulation equipment to develop unconventional shales. Activity generally seems to be continuing to increase in most markets outside North America as well. However, recent declines in commodity prices could negatively impact future activity levels.

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 market downturn, the Company also believes that its long history of cost-control and downsizing in response to slowing market conditions, and of executing strategic acquisitions during difficult periods will enable it to capitalize on new opportunities.

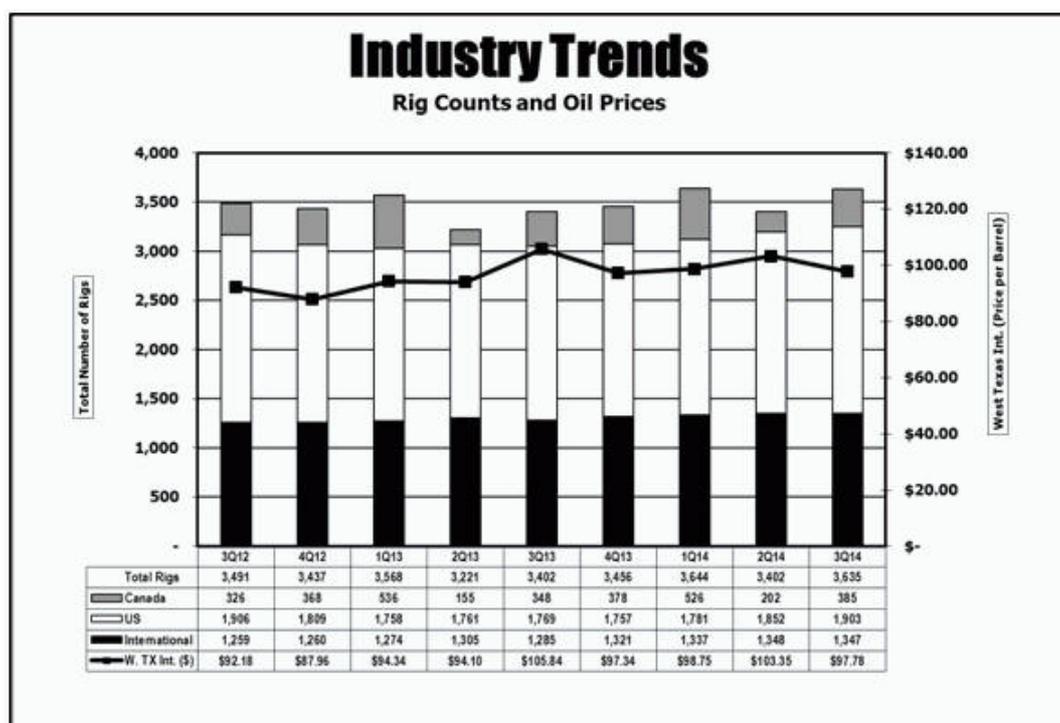
## Operating Environment Overview

The Company's results are dependent on, among other things, the level of worldwide oil and gas drilling, well remediation activity, the prices of crude oil and natural gas, capital spending by other oilfield service companies and drilling contractors, and worldwide oil and gas inventory levels. Key industry indicators for the third quarter of 2014 and 2013, and the second quarter of 2014 include the following

	3Q14*	3Q13*	2Q14*	% 3Q14 3Q13	% 3Q14 2Q14
<b>Active Drilling Rigs:</b>					
U.S.	1,903	1,769	1,852	7.6%	2.8%
Canada	385	348	202	10.6%	90.6%
International	1,347	1,285	1,348	4.8%	(0.1%)
Worldwide	3,635	3,402	3,402	6.8%	6.8%
<b>West Texas Intermediate Crude Prices (per barrel)</b>	\$97.78	\$105.84	\$103.35	(7.6%)	(5.4%)
<b>Natural Gas Prices (\$/mmbtu)</b>	\$ 3.94	\$ 3.55	\$ 4.61	11.0%	(14.5%)

\* Averages for the quarters indicated. See sources below.

The following table details the U.S., Canadian, and international rig activity and West Texas Intermediate Oil prices for the past nine quarters ended September 30, 2014, on a quarterly basis:



Source: Rig count: Baker Hughes, Inc. ([www.bakerhughes.com](http://www.bakerhughes.com)); West Texas Intermediate Crude and Natural Gas Prices: Department of Energy, Energy Information Administration ([www.eia.doe.gov](http://www.eia.doe.gov)).

The worldwide quarterly average rig count increased 6.8% (from 3,402 to 3,635) and the U.S. increased 2.8% (from 1,852 to 1,903), in the third quarter of 2014 compared to the second quarter of 2014. The average per barrel price of West Texas Intermediate Crude decreased 5.4% (from \$103.35 per barrel to \$97.78 per barrel) and natural gas prices decreased 14.5% (from \$4.61 per mmbtu to \$3.94 per mmbtu) in the third quarter of 2014 compared to the second quarter of 2014.

U.S. rig activity at October 24, 2014 was 1,927 rigs increased slightly compared to the third quarter average of 1,903 rigs. The price for West Texas Intermediate Crude was at \$81.01 per barrel at October 24, 2014, decreasing 17 percent from the third quarter average. The price for natural gas was at \$3.62 per mmbtu at October 24, 2014, decreasing eight percent from the third quarter average.

## Results of Operations

Operating results by segment are as follows (in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
<b>Revenue:</b>				
Rig Systems	\$2,659	\$ 2,061	\$ 7,287	\$ 6,053
Rig Aftermarket	837	712	2,372	1,933
Wellbore Technologies	1,469	1,395	4,193	3,840
Completion & Production Solutions	1,191	1,095	3,320	3,154
Eliminations	(569)	(400)	(1,441)	(1,061)
<b>Total Revenue</b>	<b>\$5,587</b>	<b>\$ 4,863</b>	<b>\$15,731</b>	<b>\$13,919</b>
<b>Operating Profit:</b>				
Rig Systems	\$ 533	\$ 388	\$ 1,485	\$ 1,141
Rig Aftermarket	229	202	637	533
Wellbore Technologies	278	306	762	672
Completion & Production Solutions	185	175	479	438
Unallocated expenses and eliminations	(237)	(187)	(663)	(494)
<b>Total Operating Profit</b>	<b>\$ 988</b>	<b>\$ 884</b>	<b>\$ 2,700</b>	<b>\$ 2,290</b>
<b>Operating Profit %:</b>				
Rig Systems	20.0%	18.8%	20.4%	18.9%
Rig Aftermarket	27.4%	28.4%	26.9%	27.6%
Wellbore Technologies	18.9%	21.9%	18.2%	17.5%
Completion & Production Solutions	15.5%	16.0%	14.4%	13.9%
<b>Total Operating Profit %</b>	<b>17.7%</b>	<b>18.2%</b>	<b>17.2%</b>	<b>16.5%</b>

### Rig Systems

Three and Nine months ended September 30, 2014 and 2013. Revenue from Rig Systems was \$2,659 million for the three months ended September 30, 2014, compared to \$2,061 million for the three months ended September 30, 2013, an increase of \$598 million (29.0%). For the nine months ended September 30, 2014, revenue from Rig Systems was \$7,287 million compared to \$6,053 million for the nine months ending September 30, 2013, an increase of \$1,234 million (20.4%). Increased demand for land rigs and equipment in the U.S., Latin America and the Middle East resulted in higher revenues for Rig Systems in the first nine months of 2014. In addition, increased capacity enabled Rig Systems to generate revenue out of backlog of \$2,381 million and \$6,420 million for the three and nine months ended September 30, 2014, respectively, compared to revenue out of backlog of \$1,772 million and \$5,257 million for the three and nine months ended September 30, 2013, respectively.

Operating profit from Rig Systems was \$533 million for the three months ended September 30, 2014 compared to \$388 million for the three months ended September 30, 2013, an increase of \$145 million (37.4%) from the same period in 2013. Operating profit percentage increased to 20.0% for the three months ended September 30, 2014, from 18.8% in the three months ended September 30, 2013. For the nine months ended September 30, 2014, operating profit from Rig Systems was \$1,485 million compared to \$1,141 million for the nine months ending September 30, 2013, an increase of \$344 million (30.1%). Operating profit percentage increased to 20.4% for the nine months ended September 30, 2014, from 18.9% in the nine months ended September 30, 2013.

The Rig Systems segment monitors its capital equipment backlog to plan its business. New orders are added to backlog only when the Company receives a firm written order for major drilling rig components or a signed contract related to a construction project. The capital equipment backlog was \$14.3 billion at September 30, 2014, an increase of \$0.2 billion (1.4%) from backlog of \$14.1 billion at

September 30, 2013. At September 30, 2014, approximately 90% of the capital equipment backlog was for offshore products and 10% was for land. In addition, at September 30, 2014, approximately 90% of the capital equipment backlog was for international markets and 10% was for domestic markets.

#### *Rig Aftermarket*

*Three and Nine months ended September 30, 2014 and 2013.* Revenue from Rig Aftermarket was \$837 million for the three months ended September 30, 2014, compared to \$712 million for the three months ended September 30, 2013, an increase of \$125 million (17.6%). For the nine months ended September 30, 2014, revenue from Rig Aftermarket was \$2,372 million compared to \$1,933 million for the nine months ending September 30, 2013, an increase of \$439 million (22.7%). This increase is primarily due to increased demand for spare parts, repairs and services as a result of our large installed base of equipment.

Operating profit from Rig Aftermarket was \$229 million for the three months ended September 30, 2014 compared to \$202 million for the three months ended September 30, 2013, an increase of \$27 million (13.4%). For the nine months ended September 30, 2014, operating profit from Rig Aftermarket was \$637 million compared to \$533 million for the nine months ending September 30, 2013, an increase of \$104 million (19.5%). Operating profit percentage decreased in the nine months ended September 30, 2014 to 26.9%, from 27.6% in the nine months ended September 30, 2013. Operating profit percentage decreased due to a shift in product mix with a decrease in overall revenue attributable to spare parts sales and an increase of overall revenue attributable to slightly lower margin repair work. In addition, several expansion initiatives worldwide also contributed to a lower operating profit percentage.

#### *Wellbore Technologies*

*Three and Nine months ended September 30, 2014 and 2013.* Revenue from Wellbore Technologies was \$1,469 million for the three months ended September 30, 2014 compared to \$1,395 million for the three months ended September 30, 2013, an increase of \$74 million (5.3%). For the nine months ended September 30, 2014, revenue from Wellbore Technologies was \$4,193 million compared to \$3,840 million for the nine months ending September 30, 2013, an increase of \$353 million (9.2%). This increase is primarily due to a strengthening in the U.S. market coupled with the fact that customers have worked through excess inventory that they carried into 2013.

Operating profit from Wellbore Technologies was \$278 million for the three months ended September 30, 2014 compared to \$306 million (which included \$102 million in litigation gains) for the three months ended September 30, 2013, a decrease of \$28 million (9.2%). For the nine months ended September 30, 2014, operating profit from Wellbore Technologies was \$762 million compared to \$672 million for the nine months ending September 30, 2013, an increase of \$90 million (13.4%). Operating profit percentage increased to 18.2% in the nine months ended September 30, 2014, up from 17.5% in the nine months ended September 30, 2013. This increase is primarily due to higher volumes and lower integration costs.

#### *Completion & Production Solutions*

*Three and Nine months ended September 30, 2014 and 2013.* Revenue from Completion & Production Solutions was \$1,191 million for three months ended September 30, 2014, compared to \$1,095 for the three months ended September 30, 2013, an increase of \$96 million (8.8%). For the nine months ended September 30, 2014, revenue from Completion & Production Solutions was \$3,320 million compared to \$3,154 million for the nine months ending September 30, 2013, an increase of \$166 million (5.3%). The increase in revenue was primarily driven by increased demand for well intervention and stimulation equipment, fiberglass pipe, and continued growth in both our floating production and subsea businesses.

Operating profit from Completion & Production Solutions was \$185 million for the three months ended September 30, 2014 compared to \$175 million for the three months ended September 30, 2013, an increase of \$10 million (5.7%). For the nine months ended September 30, 2014, operating profit from Completion & Production Solutions was \$479 million compared to \$438 million for the nine months ending September 30, 2013, an increase of \$41 million (9.4%). Operating profit percentage increased to 14.4% in the nine months ended September 30, 2014, from 13.9% in the nine months ended September 30, 2013. This increase was primarily related to lower integration costs during 2014 compared to 2013 offset by a decrease in operating profit percentage due to product mix with increased revenues from floating production and subsea products.

The Completion & Production Solutions segment monitors its capital equipment backlog to plan its business. New orders are added to backlog only when the Company receives a firm written order for major components or a signed contract related to a construction project. The capital equipment backlog was \$2.1 billion at September 30, 2014, an increase of \$0.6 billion (40.0%) from backlog of \$1.5 billion at September 30, 2013. At September 30, 2014, approximately 63% of the capital equipment backlog was for offshore products and 37% was for land.

#### *Unallocated expenses and eliminations*

Eliminations were \$237 million and \$663 million for the three and nine months ended September 30, 2014 compared to \$186 million and \$494 million for the same periods in 2013. This increase is primarily due to higher intersegment eliminations. Sales from one segment to another generally are priced at estimated equivalent commercial selling prices; however, segments originating an external sale are credited with the full profit to the company. Eliminations include intercompany transactions conducted between the four reporting segments that are eliminated in consolidation. Intercompany transactions within each reporting segment are eliminated within each reporting segment.

#### *Other income (expense), net*

Other income (expense), net were income of \$9 million and expenses of \$12 million for the three and nine months ended September 30, 2014 compared to expenses of \$11 million and \$15 million for the three and nine months ended September 30, 2013. The three months ended September 30, 2014 included a gain on the sale of the Company's aggregates business in Hawaii causing a shift to income for the period compared to expense for the same period in 2013. The nine months ended September 30, 2014 benefited from favorable movements in exchange rates offset by higher banking fees compared to the same period in 2013.

#### *Provision for income taxes*

The effective tax rate for the three and nine months ended September 30, 2014 was 28.8% and 30.3%, respectively, compared to 30.6% and 30.7% for the same periods in 2013. Compared to the U.S. statutory rate, the effective tax rate was positively impacted in the periods by the effect of lower tax rates on income earned in foreign jurisdictions that is considered to be indefinitely reinvested, foreign exchange losses for tax reporting in Norway, a reversal of valuation allowances, and the deduction in the U.S. for manufacturing activities. The effective tax rate was negatively impacted by foreign dividends net of foreign tax credits, and additional foreign withholding taxes.

## 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-GAAP financial measures in our quarterly earnings press releases and other public disclosures. The primary non-GAAP financial measures we focus on are: (i) operating profit excluding other items, (ii) operating profit percentage excluding other items, (iii) diluted earnings per share excluding other items and operating (non-GAAP) earnings. Each of these financial measures excludes the impact of certain amounts as further identified below and has not been calculated in accordance with GAAP. A reconciliation of each of these non-GAAP financial measures to its most comparable GAAP financial measure is included below.

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

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

	Three Months Ended			Nine Months Ended	
	September 30, 2014	2013	June 30, 2014	September 30, 2014	2013
<b>Reconciliation of operating profit:</b>					
GAAP operating profit	\$ 988	\$ 884	\$ 913	\$2,700	\$2,290
Litigation gain (1):					
Wellbore Technologies	—	(102)	—	—	(102)
Other items (2):					
Rig Systems	—	4	—	—	16
Rig Aftermarket	—	—	—	—	—
Wellbore Technologies	—	2	6	9	39
Completion & Production Solutions	(1)	1	1	6	73
Eliminations	2	2	25	36	2
<b>Operating profit excluding other items</b>	<b>\$ 989</b>	<b>\$ 791</b>	<b>\$ 945</b>	<b>\$2,751</b>	<b>\$2,318</b>
<b>Reconciliation of operating profit %:</b>					
GAAP operating profit %	17.7%	18.2%	17.4%	17.2%	16.5%
Other items %	0.0%	(1.6%)	0.6%	0.3%	0.2%
<b>Operating profit % excluding other items</b>	<b>17.7%</b>	<b>16.6%</b>	<b>18.0%</b>	<b>17.5%</b>	<b>16.7%</b>
<b>Reconciliation of diluted earnings per share:</b>					
GAAP earnings per share (continuing operations)	\$1.62	\$ 1.41	\$ 1.42	\$ 4.31	\$ 3.62
Litigation gain (1)	—	(0.17)	—	—	(0.17)
Other items (2)	—	0.01	0.05	0.07	0.22
<b>Earnings per share excluding other items</b>	<b>1.62</b>	<b>1.25</b>	<b>1.47</b>	<b>4.38</b>	<b>3.67</b>
Amortization of intangible assets per share	0.14	0.14	0.14	0.43	0.42
<b>Operating (non-GAAP) earnings per share</b>	<b>\$1.76</b>	<b>\$ 1.39</b>	<b>\$ 1.61</b>	<b>\$ 4.81</b>	<b>\$ 4.09</b>

- (1) Included in Wellbore Technologies revenue and operating profit for the three and nine months ended September 30, 2013, are \$102 million in gains resulting from a legal settlement.
- (2) Other items primarily related to acquisitions, such as transaction costs, the amortization of backlog and inventory that was stepped up to fair value during purchase accounting, the costs of the proposed spin-off of the Company's distribution business and certain legal costs, items which are included in operating profit. For the three and nine months ended September 30, 2014, other items included in operating profit were \$1 million and \$51 million, respectively. For the three and nine months ended September 30, 2013, other items included in operating profit were \$9 million and \$130 million, respectively. Certain other items are included in other income (expense), net were \$1 million and \$9 million for the three and nine months ended September 30, 2013, respectively. Other items for the three months ended June 30, 2014 totaled \$32 million.

## Liquidity and Capital Resources

### Overview

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

At September 30, 2014, the Company had cash and cash equivalents of \$4,091 million, and total debt of \$3,146 million. At December 31, 2013, cash and cash equivalents were \$3,436 million and total debt was \$3,150 million. A significant portion of the consolidated cash balances are maintained in accounts in various foreign subsidiaries and, if such amounts were transferred among countries or repatriated to the U.S., such amounts may be subject to additional tax obligations. Of the \$4,091 million of cash and cash equivalents at September 30, 2014, approximately \$3,760 million is held outside the U.S. If opportunities to invest in the U.S. are greater than available cash balances, rather than repatriating this cash, the Company may choose to borrow against its revolving credit facility or its commercial paper program.

The Company's outstanding debt at September 30, 2014 was \$3,146 million and consisted of \$151 million in 6.125% Senior Notes, \$500 million in 1.35% Senior Notes, \$1,396 million in 2.60% Senior Notes, \$1,096 million in 3.95% Senior Notes, and other debt of \$3 million.

At September 30, 2014, the Company had no commercial paper borrowings and no borrowings against its \$3.5 billion revolving credit facility. Funds available under the Company's revolving credit facility were \$2,427 million due to \$1,073 million in outstanding letters of credit issued under the facility.

The Company also had \$3,212 million of additional outstanding letters of credit at September 30, 2014, primarily in Norway, that are under various bilateral committed letter of credit facilities. Other letters of credit are issued as bid bonds, advanced payment bonds and performance bonds.

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

	Nine Months Ended	
	September 30,	
	2014	2013
Net cash provided by continuing operating activities	\$1,789	\$ 1,670
Net cash used in continuing investing activities	(785)	(2,762)
Net cash provided by (used in) continuing financing activities	(393)	363

### Operating Activities

For the first nine months of 2014, cash provided by continuing operating activities was \$1,789 million compared to \$1,670 million in the same period of 2013. Before changes in operating assets and liabilities, net of acquisitions, cash was provided by continuing operations primarily through net income from continuing operation of \$1,858 million plus non-cash charges of \$543 million, plus \$73 million in a dividend received from Voest-Alpine Tubulars, an unconsolidated affiliate, less \$42 million in equity income.

Net changes in operating assets and liabilities, net of acquisitions, used \$823 million for the first nine months of 2014 compared to \$432 million used in the same period in 2013. This decrease in the first nine months of 2014 compared to the same period in 2013 was primarily the result of prepayments and milestone invoicing on major projects which outpaced costs incurred, offset by higher accounts receivable and inventory.

### *Investing Activities*

For the first nine months of 2014, net cash used in continuing investing activities was \$785 million compared to \$2,762 million for the same period of 2013. Net cash used in continuing investing activities continued to be the result of acquisition activity as well as capital expenditures. The Company used approximately \$181 million for acquisitions in the first nine months of 2014, a significant decrease compared to approximately \$2.4 billion for the purpose of acquiring Robbins & Myers during the first nine months of 2013. Capital expenditures however increased to \$468 million during the first nine months of 2014 compared to \$434 million during the first nine months of 2013. In addition, the Company's cash and cash equivalents decreased \$253 million as a result of the spin-off of its distribution business on May 30, 2014.

### *Financing Activities*

For the first nine months of 2014, net cash used in continuing financing activities was \$393 million compared to net cash provided by continuing financing activities of \$363 million for the same period of 2013. The change was primarily due to a shift from net borrowings of approximately \$600 million during the first nine months of 2013 to no net borrowings during the same time period in 2014. In addition, dividends payments increased to \$507 million during the first nine months of 2014 from \$278 million during the first nine months of 2013. The change was partially offset by increased proceeds from stock options exercised to \$107 million during the first nine months of 2014, from \$25 million during the same time period of 2013.

### *Other*

The effect of the change in exchange rates on cash flows was a negative \$33 million and \$8 million for the first nine months of 2014 and 2013, respectively.

We believe that cash on hand, cash generated from operations, amounts available under our credit facility and through our commercial paper program, as well as from other sources of debt will be sufficient to fund operations, working capital needs, capital expenditure requirements, dividends and financing obligations.

On September 30, 2014, the Company announced that its Board of Directors authorized a share repurchase program to purchase up to \$3 billion of the Company's outstanding common stock. The Company may repurchase its shares on the open market at prevailing market prices. The timing and actual number of shares repurchased will depend on a variety of factors including market conditions and regulatory considerations. The duration of the share repurchase program is 36 months, although it may be increased, extended, suspended or discontinued without prior notice. The Company intends to fund the repurchases using its available U.S. cash balances, which may involve the repatriation of foreign earnings not indefinitely reinvested. However, depending on U.S. cash balances, the Company may choose to borrow against its revolving credit facility, its commercial paper program or new debt issuances to finance the repurchases. At September 30, 2014, the Company repurchased no shares under the program.

We intend to pursue additional acquisition candidates, but the timing, size or success of any acquisition effort and the related potential capital 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, our commercial paper program or new debt issuances, but may also issue additional equity either directly or in connection with acquisitions. There can be no assurance that additional financing for acquisitions will be available at terms acceptable to us.

## Recently Issued Accounting Standards

In April 2014, the Financial Accounting Standards Board issued Accounting Standard Update No. 2014-08 “Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity” (ASU No. 2014-08), which is an update for Accounting Standards Codification Topic No. 205 “Presentation of Financial Statements” and Topic No. 360 “Property, Plant and Equipment”. This update changes the requirements of reporting discontinued operations. Under the amended guidance, a disposal of a component of an entity or a group of components of an entity is required to be reported in discontinued operations if the disposal represents a strategic shift that has (or will have) a major effect on an entity’s operations and financial results. The amendments in this update are effective for all disposals (or classifications as held for sale) of components of an entity that occur within annual periods beginning on or after December 15, 2014, and interim periods within those years. Although early adoption is permitted, the Company did not elect to apply the guidance of ASU No. 2014-08 to the spin-off of NOW. The adoption of this update concerns presentation and disclosure only as it relates to our consolidated financial statements. The Company is currently assessing the impact of ASU No. 2014-08 on its consolidated financial position and results of operations.

In May 2014, the FASB issued Accounting Standard Update No. 2014-09 “Revenue from Contracts with Customers” (ASU No. 2014-09), which supersedes the revenue recognition requirements in Accounting Standard Codification Topic No. 605 “Revenue Recognition” and most industry-specific guidance. This update requires that entities recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which a company expects to be entitled in exchange for those goods or services. ASU No. 2014-09 is effective for fiscal years beginning after December 15, 2016, and for interim periods within those fiscal years. The Company is currently assessing the impact of the adoption of ASU No. 2014-09 on its consolidated financial position and results of operations.

## Forward-Looking Statements

Some of the information in this document contains, or has incorporated by reference, forward-looking statements. Statements that are not historical facts, including statements about our beliefs and expectations, are forward-looking statements. Forward-looking statements typically are identified by use of terms such as “may,” “expect,” “anticipate,” “estimate,” and similar words, although some forward-looking statements are expressed differently. All statements herein regarding expected merger synergies are forward-looking statements. You should be aware that our actual results could differ materially from results anticipated in the forward-looking statements due to a number of factors, including but not limited to changes in oil and gas prices, customer demand for our products, difficulties encountered in integrating mergers and acquisitions, and worldwide economic activity. You should also consider carefully the statements under “Risk Factors,” as disclosed in our Annual Report on Form 10-K for the year ended December 31, 2013, which address additional factors that could cause our actual results to differ from those set forth in the forward-looking statements. Given these uncertainties, current or prospective investors are cautioned not to place undue reliance on any such forward-looking statements. We undertake no obligation to update any such factors or forward-looking statements to reflect future events or developments.

### Item 3. 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 matters follows:

#### 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 currency exchange rates, although such fluctuations generally do not affect income since their functional currency is typically the local currency. These operations also have net assets and liabilities not denominated in the functional currency, which exposes us to changes in foreign currency exchange rates that impact income. We recorded a foreign exchange gain in our income statement of approximately \$9 million in the first nine months of 2014, compared to a \$24 million foreign exchange loss in the same period of the prior year. The gains and losses are primarily due to exchange rate fluctuations related to monetary asset balances denominated in currencies other than the functional currency and adjustments to our hedged positions as a result of changes in foreign currency exchange rates. Strengthening of currencies against the U.S. dollar may create losses in future periods to the extent we maintain net 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 impact our earnings to the extent that costs associated with those U.S. dollar revenues are denominated in the local currency. Similarly some of our revenues are denominated in foreign currencies, but have associated U.S. dollar costs, which also give rise to foreign currency exchange rate exposure. In order to mitigate that risk, we may utilize foreign currency forward contracts to better match the currency of our revenues and associated costs. 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 periods at September 30, 2014 (in millions, except contract rates):

Functional Currency	As of September 30, 2014			Total	December 31, 2013
	2014	2015	2016		
<b>CAD Buy USD/Sell CAD:</b>					
Notional amount to buy (in Canadian dollars)	265	—	—	265	229
Average USD to CAD contract rate	1.1081	—	—	1.1081	1.0669
Fair Value at September 30, 2014 in U.S. dollars	2	—	—	2	1
<b>Sell USD/Buy CAD:</b>					
Notional amount to sell (in Canadian dollars)	102	76	—	178	51
Average USD to CAD contract rate	1.1099	1.1180	—	1.1133	1.0230
Fair Value at September 30, 2014 in U.S. dollars	(1)	—	—	(1)	(1)
<b>EUR Buy USD/Sell EUR:</b>					
Notional amount to buy (in euros)	4	1	—	5	9
Average USD to EUR contract rate	0.7533	0.7523	—	0.7532	7.5900
Fair Value at September 30, 2014 in U.S. dollars	—	—	—	—	1
<b>Sell USD/Buy EUR:</b>					
Notional amount to buy (in euros)	308	123	—	431	344
Average USD to EUR contract rate	0.7731	0.7469	—	0.7654	0.7401
Fair Value at September 30, 2014 in U.S. dollars	(7)	(8)	—	(15)	9
<b>KRW Sell USD/Buy KRW:</b>					
Notional amount to buy (in South Korean won)	244,201	—	—	244,201	195,020
Average USD to KRW contract rate	1,039	—	—	1,039	1,114
Fair Value at September 30, 2014 in U.S. dollars	(2)	—	—	(2)	10
<b>GBP Buy USD/Sell GBP:</b>					
Notional amount to buy (in British Pounds Sterling)	—	—	—	—	11
Average USD to GBP contract rate	—	—	—	—	0.6142
Fair Value at September 30, 2014 in U.S. dollars	—	—	—	—	—
<b>Sell USD/Buy GBP:</b>					
Notional amount to buy (in British Pounds Sterling)	93	18	—	111	73
Average USD to GBP contract rate	0.6091	0.6045	—	0.6083	0.6201
Fair Value at September 30, 2014 in U.S. dollars	(2)	(1)	—	(3)	2

Functional Currency	As of September 30, 2014				December 31,
	2014	2015	2016	Total	2013
<b>USD Buy CAD/Sell USD:</b>					
Notional amount to buy (in U.S. dollars)	7	9	—	16	15
Average CAD to USD contract rate	0.9355	0.9399	—	0.9381	0.9431
Fair Value at September 30, 2014 in U.S. dollars	—	—	—	—	—
<b>Buy DKK/Sell USD:</b>					
Notional amount to buy (in U.S. dollars)	40	50	7	97	71
Average DKK to USD contract rate	0.1824	0.1826	0.1802	0.1824	0.1813
Fair Value at September 30, 2014 in U.S. dollars	(3)	(3)	—	(6)	1
<b>Buy EUR/Sell USD:</b>					
Notional amount to buy (in U.S. dollars)	270	623	132	1,025	773
Average EUR to USD contract rate	1.3409	1.3525	1.3444	1.3484	1.3411
Fair Value at September 30, 2014 in U.S. dollars	(14)	(37)	(6)	(57)	21
<b>Buy GBP/Sell USD:</b>					
Notional amount to buy (in U.S. dollars)	45	29	6	80	42
Average GBP to USD contract rate	1.6336	1.6350	1.6426	1.6347	1.5779
Fair Value at September 30, 2014 in U.S. dollars	—	—	—	—	1
<b>Buy NOK/Sell USD:</b>					
Notional amount to buy (in U.S. dollars)	408	1,003	485	1,896	1,877
Average NOK to USD contract rate	0.1636	0.1626	0.1604	0.1623	0.1642
Fair Value at September 30, 2014 in U.S. dollars	(22)	(55)	(22)	(99)	(28)
<b>Buy MXN/Sell USD:</b>					
Notional amount to buy (in U.S. dollars)	10	—	—	10	—
Average MXN to USD contract rate	0.0750	—	—	0.0750	—
Fair Value at September 30, 2014 in U.S. dollars	—	—	—	—	—
<b>Buy SGD/Sell USD:</b>					
Notional amount to buy (in U.S. dollars)	8	29	4	41	15
Average SGD to USD contract rate	0.7883	0.7874	0.7982	0.7887	0.7966
Fair Value at September 30, 2014 in U.S. dollars	—	—	—	—	—
<b>Sell MXN/Buy USD:</b>					
Notional amount to buy (in U.S. dollars)	10	—	—	10	—
Average MXN to USD contract rate	0.0747	—	—	0.0747	—
Fair Value at September 30, 2014 in U.S. dollars	—	—	—	—	—
<b>Sell CAD/Buy USD:</b>					
Notional amount to buy (in U.S. dollars)	1	—	—	1	2
Average CAD to USD contract rate	0.9058	—	—	0.9058	1.3625
Fair Value at September 30, 2014 in U.S. dollars	—	—	—	—	—
<b>Sell DKK/Buy USD:</b>					
Notional amount to buy (in U.S. dollars)	35	—	—	35	11
Average DKK to USD contract rate	0.1823	—	—	0.1823	1.3625
Fair Value at September 30, 2014 in U.S. dollars	2	—	—	2	—
<b>Sell EUR/Buy USD:</b>					
Notional amount to sell (in U.S. dollars)	262	11	6	279	190
Average EUR to USD contract rate	1.3086	1.3734	1.3772	1.3123	1.3109
Fair Value at September 30, 2014 in U.S. dollars	8	1	—	9	(2)
<b>Sell GBP/Buy USD:</b>					
Notional amount to sell (in U.S. dollars)	25	—	—	25	—
Average GBP to USD contract rate	1.6616	—	—	1.6616	—
Fair Value at September 30, 2014 in U.S. dollars	1	—	—	1	—
<b>Sell NOK/Buy USD:</b>					
Notional amount to sell (in U.S. dollars)	229	138	38	405	385
Average NOK to USD contract rate	0.1620	0.1624	0.1633	0.1622	0.1634
Fair Value at September 30, 2014 in U.S. dollars	10	7	2	19	6
<b>Sell SGD/Buy USD:</b>					
Notional amount to buy (in U.S. dollars)	1	—	—	1	1
Average SGD to USD contract rate	0.7986	—	—	0.7986	0.8000
Fair Value at September 30, 2014 in U.S. dollars	—	—	—	—	—

Functional Currency	As of September 30, 2014				December 31,
	2014	2015	2016	Total	2013
<b>USD Sell RUB/Buy USD:</b>					
Notional amount to buy (in U.S. dollars)	40	—	—	40	64
Average RUB to USD contract rate	0.0254	—	—	0.0254	0.0298
Fair Value at September 30, 2014 in U.S. dollars	1	—	—	1	(1)
<b>Sell SEK/Buy USD:</b>					
Notional amount to buy (in U.S. dollars)	1	—	—	1	1
Average SEK to USD contract rate	0.1524	—	—	0.1524	0.1529
Fair Value at September 30, 2014 in U.S. dollars	—	—	—	—	—
<b>DKK Sell DKK/Buy USD:</b>					
Notional amount to buy (in U.S. dollars)	58	—	—	58	111
Average DKK to USD contract rate	5.7618	—	—	5.7618	5.6126
Fair Value at September 30, 2014 in U.S. dollars	—	—	—	—	—
<b>CNY Sell CNY/Buy USD:</b>					
Notional amount to buy (in U.S. dollars)	68	—	—	68	—
Average CNY to USD contract rate	6.1840	—	—	5.7618	—
Fair Value at September 30, 2014 in U.S. dollars	—	—	—	—	—
<b>Other Currencies</b>					
Fair Value at September 30, 2014 in U.S. dollars	(1)	—	—	(1)	(1)
<b>Total Fair Value at September 30, 2014 in U.S. dollars</b>	<b>(28)</b>	<b>(96)</b>	<b>(26)</b>	<b>(150)</b>	<b>19</b>

The Company had other financial market risk sensitive instruments denominated in foreign currencies for transactional exposures totaling \$557 million and translation exposures totaling \$525 million as of September 30, 2014 excluding trade receivables and payables, which approximate fair value. These market risk sensitive instruments consisted of cash balances and overdraft facilities. The Company estimates that a hypothetical 10% movement of all applicable foreign currency exchange rates on the transactional exposures financial market risk sensitive instruments could affect net income by \$36 million and the translational exposures financial market risk sensitive instruments could affect the future fair value by \$53 million.

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

#### Interest Rate Risk

At September 30, 2014, long term borrowings consisted of \$151 million in 6.125% Senior Notes, \$500 million in 1.35% Senior Notes, \$1,396 million in 2.60% Senior Notes and \$1,096 million in 3.95% Senior Notes, no commercial paper borrowings and no borrowings against our revolving credit facility. Occasionally a portion of borrowings under our credit facility could be denominated in multiple currencies which could expose us to market risk with exchange rate movements. These instruments carry interest at a pre-agreed upon percentage point spread from either LIBOR, NIBOR or EURIBOR, or at the U.S. prime rate. Under our credit facility, we may, at our option, fix the interest rate for certain borrowings based on a spread over LIBOR, NIBOR or EURIBOR for 30 days to six months. Our objective is to maintain a portion of our debt in variable rate borrowings for the flexibility obtained regarding early repayment without penalties and lower overall cost as compared with fixed-rate borrowings.

**Item 4. Controls and Procedures**

As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures. The Company's disclosure controls and procedures are designed to provide reasonable assurance that the information required to be disclosed by the Company in the reports it files under the Exchange Act is accumulated and communicated to the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures and is recorded, processed, summarized and reported within the time period specified in the rules and forms of the Securities and Exchange Commission. Based upon that evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective as of the end of the period covered by this report at a reasonable assurance level.

There has been no change in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that occurred during our last fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**PART II - OTHER INFORMATION**

**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-Q.

**Item 6. Exhibits**

Reference is hereby made to the Exhibit Index commencing on page 40.

**SIGNATURE**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: November 3, 2014

By: /s/ Jeremy D. Thigpen

Jeremy D. Thigpen

Senior Vice President and Chief Financial Officer

(Duly Authorized Officer, Principal Financial and Accounting Officer)

## INDEX TO EXHIBITS

### (a) Exhibits

- 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) (2)
- 10.1 Credit Agreement, dated as of September 28, 2012, among National Oilwell Varco, Inc., the financial institutions signatory thereto, including Wells Fargo Bank, N.A., in their capacities as Administrative Agent, Co-Lead Arranger and Joint Book Runner. (Exhibit 10.1) (3)
- 10.2 National Oilwell Varco Long-Term Incentive Plan, as amended and restated. (4)\*
- 10.3 Form of Employee Stock Option Agreement. (Exhibit 10.1) (5)
- 10.4 Form of Non-Employee Director Stock Option Agreement. (Exhibit 10.2) (5)
- 10.5 Form of Performance-Based Restricted Stock. (18 Month) Agreement (Exhibit 10.1) (6)
- 10.6 Form of Performance-Based Restricted Stock. (36 Month) Agreement (Exhibit 10.2) (6)
- 10.7 Form of Performance Award Agreement (Exhibit 10.1) (7)
- 10.8 Form of Amended and Restated Executive Agreement of Clay C. Williams. (Exhibit 10.12) (8)
- 10.9 Second Amendment to Executive Agreement, dated as of December 22, 2008 of Clay Williams and National Oilwell Varco. (Exhibit 10.2) (9)
- 10.10 Third Amendment to Executive Agreement, dated as of December 31, 2009, of Clay Williams and National Oilwell Varco. (Exhibit 10.2) (10)
- 10.11 Employment Agreement dated as of January 1, 2004 between Jeremy Thigpen and National Oilwell. (Exhibit 10.1) (11)
- 10.12 First Amendment to Employment Agreement dated as of December 22, 2008 between Jeremy Thigpen and National Oilwell Varco. (Exhibit 10.2) (11)
- 10.13 Second Amendment to Employment Agreement dated as of December 31, 2009 between Jeremy Thigpen and National Oilwell Varco. (Exhibit 10.3) (11)
- 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 pursuant to section 1503 of the Dodd-Frank Act.
- 101 The following materials from our Quarterly Report on Form 10-Q for the period ended September 30, 2014 formatted in eXtensible Business Reporting Language (XBRL): (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Income, (iii) Consolidated Statements of Cash Flows, and (iv) Notes to the Consolidated Financial Statements, tagged as block text. (12)

\* 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 Current Report on Form 8-K filed on August 17, 2011.
- (3) Filed as an Exhibit to our Current Report on Form 8-K filed on October 1, 2012
- (4) Filed as Appendix I to our Proxy Statement filed on April 10, 2013.
- (5) Filed as an Exhibit to our Current Report on Form 8-K filed on February 23, 2006.
- (6) Filed as an Exhibit to our Current Report on Form 8-K filed on March 27, 2007.
- (7) Filed as an Exhibit to our Current Report on Form 8-K filed on March 27, 2013.
- (8) Filed as an Exhibit to Varco International, Inc.'s Quarterly Report on Form 10-Q filed on May 6, 2004.
- (9) Filed as an Exhibit to our Current Report on Form 8-K filed on December 23, 2008.
- (10) Filed as an Exhibit to our Current Report on Form 8-K filed on January 5, 2010.
- (11) Filed as an Exhibit to our Current Report on Form 8-K filed on December 7, 2012.
- (12) 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 Securities 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 Commission, upon request, all constituent instruments defining the rights of holders of our long-term debt not filed herewith.

## CERTIFICATION

I, Clay C. Williams, certify that:

1. I have reviewed this quarterly report on Form 10-Q of National Oilwell Varco, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 3, 2014

By: /s/ Clay C. Williams

Clay C. Williams

Chairman, President and Chief Executive Officer

## CERTIFICATION

I, Jeremy D. Thigpen, certify that:

1. I have reviewed this quarterly report on Form 10-Q of National Oilwell Varco, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 3, 2014

By: /s/ Jeremy D. Thigpen

Jeremy D. Thigpen

Senior Vice President and Chief Financial Officer

## CERTIFICATION PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of National Oilwell Varco, Inc. (the "Company") on Form 10-Q for the period ending September 30, 2014 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, Clay C. Williams, Chairman, President and Chief Executive Officer of the Company, hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (i) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (ii) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

The certification is given to the knowledge of the undersigned.

By: /s/ Clay C. Williams

Name: Clay C. Williams

Title: Chairman, President and Chief Executive Officer

Date: November 3, 2014

## CERTIFICATION PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of National Oilwell Varco, Inc. (the "Company") on Form 10-Q for the period ending September 30, 2014 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, Jeremy D. Thigpen, Senior Vice President and Chief Financial Officer of the Company, hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (i) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (ii) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

The certification is given to the knowledge of the undersigned.

By: /s/ Jeremy D. Thigpen

Name: Jeremy D. Thigpen

Title: Senior Vice President and Chief Financial Officer

Date: November 3, 2014

Mine Safety Disclosures

Our mines are operated subject to the regulation of the Federal Mine Safety and Health Administration (“MSHA”), under the Federal Mine Safety and Health Act of 1977 (the “Mine Act”). The following mine safety data is provided pursuant to the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”).

As required by the reporting requirements of the Dodd-Frank Act, as amended, the table below presents the following information for the three months ended September 30, 2014.

Mine	Section 104 S&S Citations	Section 104(b) Orders	Section 104(d) Citations and Orders	Section 110(b)(2) Violations	Section 107(a) Orders	Total Dollar Value of MSHA Assessments Proposed	Total Number of Mining Related Fatalities	Received Notice of Pattern of Violations Under Section 104(e)	Received Notice of Potential to have Patterns Under Section 104(e)	Legal Actions Pending as of Last Day of Period	Legal Actions Initiated During Period	Legal Actions Resolved During Period
Big Ledge (26-02603)	—	—	—	—	—	\$ —	—	no	no	—	—	—
Dry Creek (26-02646)	—	—	—	—	—	\$ 400	—	no	no	1	—	—
Houma (16-01321)	—	—	—	—	—	\$ —	—	no	no	—	—	—
Osino Barite Mill (26-02724)	—	—	—	—	—	\$ 648	—	no	no	—	—	—

\* Includes legal actions initiated during the period.