



## Tax Consequences of the Merger

April 25, 2008

### An Example Illustrating the Tax Consequences of the Merger to Certain Former Grant Prideco Stockholders

#### Overview

National Oilwell Varco, Inc. ("National Oilwell Varco") announced on April 21, 2008 the completion of its acquisition of Grant Prideco, Inc. ("Grant Prideco") under the terms of its Agreement and Plan of Merger dated as of December 16, 2007 (the "Merger Agreement"), by and among National Oilwell Varco, NOV Sub, Inc., a wholly owned subsidiary of National Oilwell Varco ("Merger Sub"), and Grant Prideco. With the closing of the merger transaction, each issued and outstanding share of Grant Prideco common stock was converted into the right to receive 0.4498 of a share of common stock of National Oilwell Varco and \$23.20 in cash. Under the terms of the merger agreement, Grant Prideco merged with and into Merger Sub. The Company completed the merger transaction following approval of the merger by the stockholders of Grant Prideco on April 21, 2008.

This discussion contains a general explanation of certain U.S. federal income tax consequences of the merger of Grant Prideco into Merger Sub. This notice presents a situation which may apply to certain stockholders by way of an example. Unless specifically indicated otherwise, references to "tax" are to U.S. federal income tax. A proxy statement dated March 18, 2008, (which was included as part of National Oilwell Varco's Form S-4/A filed on March 17, 2008) which may be found at ([www.nov.com](http://www.nov.com)) was mailed to stockholders of Grant Prideco in connection with the merger. The proxy statement contains a detailed discussion of U.S. federal income tax consequences in the section titled "Material U.S. Federal Income Tax Consequences," which begins on page 89. That discussion will here be called the "Proxy Tax Discussion."

#### **CONSULT YOUR TAX ADVISOR**

The information contained in this notice represents our general understanding of the application of certain existing U.S. federal income tax laws and regulations relating to the merger. It does not constitute tax advice and does not purport to be complete or to describe the consequences that may apply to particular Grant Prideco stockholders. This notice is subject to all of the qualifications and limitations in the Proxy Tax Discussion. It applies only to former Grant Prideco stockholders who, at the time of the merger, were U.S. holders (as defined in the Proxy Tax Discussion) and held their shares as capital assets. In addition, the notice does not take into account the particular circumstances of specific stockholders and does not apply to former Grant Prideco stockholders who may be subject to special treatment under U.S. federal income tax laws. Former Grant Prideco stockholders are strongly urged to review the full Proxy Tax Discussion and to consult their own tax advisor regarding the particular federal, state, local and foreign tax consequences of the merger to them.

The Proxy Tax Discussion discusses the material tax consequences to holders of Grant Prideco shares of the receipt of National Oilwell Varco shares and cash in the merger based on the assumption that the merger will qualify as a "reorganization" within the meaning of Section 368(a) of the Internal Revenue Code. The Proxy Tax Discussion discusses the opinions of counsel that were conditions to the closing of the merger and which relate to the qualification of the merger as a reorganization under Section 368(a) of the Internal Revenue Code and states that there can be no assurance that the Internal Revenue Service will agree with the conclusions in those opinions. In addition, the Proxy Tax Discussion discusses the treatment to holders of Grant Prideco shares if the merger were not treated as a reorganization under this section of the Internal Revenue Code. In the remainder of this illustration, it is assumed that the merger qualified as a reorganization under Section 368(a) of the Internal Revenue Code.

#### Example

Subject to the foregoing, the following is an example (which is not all-inclusive) of the tax treatment to a former Grant Prideco stockholder of the receipt of National Oilwell Varco shares and cash in the merger. While this example discusses the manner in which gain will be computed for a former Grant Prideco stockholder, it does not consider whether that gain will be capital gain. Former Grant Prideco stockholders are urged to review the Proxy Tax Discussion and to consult their own tax advisor regarding whether gain, if any, recognized by them will be treated as capital gain.

**The example is provided solely for illustrative purposes and as a convenience to former Grant Prideco stockholders and their tax advisors when establishing their specific tax position. Please remember that National Oilwell Varco does not provide its stockholders with tax advice, and this notice is not intended to provide tax advice. National Oilwell Varco urges its stockholders to consult with their own tax advisors with their specific questions pertaining to their own tax positions including the application of the tax basis allocation rules to Grant Prideco shares acquired at different times and/or at different prices.**

In the following example, one component for determining the amount of gain that is realized by a former Grant Prideco stockholder in the merger is the fair market value of the National Oilwell Varco shares which such stockholder receives in the merger. U.S. federal income tax law does not specify how to determine fair market value. Fair market value is generally the price at which property would change hands between a willing buyer and a willing seller, neither being under any compulsion to buy or sell and both having reasonable knowledge of the facts. There are several potential methods for determining the fair market value of National Oilwell Varco shares. One approach is to utilize the mean between the high and low trading prices of the National Oilwell Varco stock on April 21, 2008, the date the merger was closed, which was \$74.34 per share. The example below utilizes this method. Another potential approach for determining the fair market value of the National Oilwell Varco shares is to utilize the closing trading price of National Oilwell Varco shares quoted on the New York Stock Exchange on April 21, 2008, the date the merger was closed, which was \$75.60.

For purposes of determining the cash to be paid in lieu of issuing a fractional share, pursuant to the Merger Agreement, fractional National Oilwell Varco shares have been valued, as required by the Merger Agreement, at \$69.93 per share, which is the average of the last reported sales price of the common stock of National Oilwell Varco on the New York Stock Exchange Composite Transaction Tape on each of the ten consecutive trading days immediately preceding the date of the effective time of the merger. As discussed above, this notice is subject to all of the qualifications and limitations in the Proxy Tax Discussion.

*Example -- Single Block of Grant Prideco Stock -- Gain Limited to Cash Received*

Stockholder C owns 100 shares of Grant Prideco and has a tax basis of \$30.00 in each share. In the merger, C receives the following:

- 44 National Oilwell Varco shares (100 Grant Prideco shares X .4498, rounded downward to eliminate a 0.98 fractional share). These shares are valued at \$3,270.96 (44 X \$74.34 - the mean between the high and low trading prices of the National Oilwell Varco stock on the closing date of the merger).
- Cash of \$2,388.53, consisting of:
  - a cash payment of \$2,320.00 (100 Grant Prideco shares X \$23.20) as part of the merger consideration; and
  - a cash payment of \$68.53 for a fractional share (0.98 X \$69.93).

Thus, C receives total consideration valued at \$5,659.49. C's realized gain in the merger is \$2,659.49 (\$5,659.49 [total consideration] minus \$3,000.00 [basis in the Grant Prideco shares]). However, excluding the effect of the cash received in lieu of the fractional share, C will be required to recognize gain of only \$2,320.00, the amount of cash which C received as part of the merger consideration (excluding cash received in lieu of the fractional share). C is urged to review the Proxy Tax Discussion and consult his tax advisor as to whether this recognized gain is treated as capital gain. As discussed below, additional gain will be recognized with respect to the fractional share.

C's basis in all of the National Oilwell Varco shares (including the fractional share) is equal to \$3,000.00 (\$3,000.00 [basis in Grant Prideco shares] minus \$2,320.00 [cash received as part of the merger consideration, excluding cash received in lieu of the fractional share] plus \$2,320.00 [gain recognized]).

C's allocable basis in the fractional share is \$65.36 ((0.98 divided by 44.98) X \$3,000.00). As indicated above, C will receive a cash payment of \$68.53 for a fractional share. Thus, C will recognize capital gain of \$3.17 on the fractional share (\$68.53 minus \$65.36). C's basis in the 44 National Oilwell Varco shares which C actually received is \$2,934.64 (\$3,000.00 minus \$65.36).

In this example, before taking into account the effect of the cash payment for a fractional share, C's recognized gain was equal to the amount of cash received as part of the merger consideration. If the amount of such cash had exceeded the amount of gain realized (computed as described above), only the gain realized would be recognized.

In this example, C owned only one block of stock (that is, stock acquired at the same time for the same price).

Except with respect to a fractional share, a Grant Prideco stockholder cannot recognize a loss in the merger. If the stockholder has gain on one block of stock but a loss on another, gain must be recognized on the first block without any offset for loss on the second block.

**IRS Circular 230 Disclaimer: Under applicable Treasury regulations, this notice is not intended or written to be used, and cannot be used, for the purpose of avoiding any penalties under the Internal Revenue Code.**