FORM 10-K

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

(MARK ONE)

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE YEAR ENDED DECEMBER 31, 1998 OR

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

Commission file number 1-12317

NATIONAL-OILWELL, INC.
(Exact name of registrant as specified in its charter)

DELAWARE	76-0475815
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

10000 Richmond Avenue
4th Floor
Houston, Texas
77042-4200

(Address of principal executive offices)

(713) 346-7500

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

COMMON STOCK, PAR VALUE $.01	NEW YORK STOCK EXCHANGE
(Title of Class)	(Exchange on which registered)

Securities registered pursuant to Section 12(g) of the Act: NONE

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ]

As of March 26, 1999, 56,313,049 common shares were outstanding. Based upon the closing price of these shares on the New York Stock Exchange and, excluding solely for purposes of this calculation 25,010,084 shares beneficially owned by directors, executive officers, First Reserve Corporation and Inverness/Phoenix LLC, the aggregate market value of the common shares of National-Oilwell, Inc. held by non-affiliates was approximately $340 million. By this calculation, the Registrant is not making a determination of the affiliate or non-affiliate status of any person.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement in connection with the 1999 Annual Meeting of Stockholders are incorporated in Part III of this report.

PART I

ITEM 1. BUSINESS

GENERAL

National-Oilwell is a worldwide leader in the design, manufacture and sale of machinery, equipment and downhole products used in oil and gas drilling and production, as well as in the distribution to the oil and gas industry of maintenance, repair and operating products.

National-Oilwell manufactures and assembles drilling machinery, including drawworks, mud pumps and power swivels (also known as "top drives"), which are the major mechanical components of drilling rigs, as well as masts, derricks and substructures. Many of these components are designed specifically for more demanding applications, which include offshore, extended reach and deep land drilling. The Company estimates that approximately 65% of the mobile offshore rig fleet and the majority of the world's larger land rigs (2,000 horsepower and greater) manufactured in the last twenty years utilize drawworks, mud pumps and other drilling machinery components manufactured by National-Oilwell's Products and Technology segment.

Through its Downhole Products segment, National-Oilwell designs and manufactures drilling motors and specialized drilling tools for rent and sale. Drilling motors are essential components of systems for horizontal, directional, extended reach and performance drilling. Drilling tools include drilling jars, shock tools and other specialized products.

National-Oilwell also provides distribution services through its network of distribution service centers located in the United States and Canada and near major drilling and production activity worldwide. These distribution service centers stock and sell a variety of expendable items for oilfield applications and spare parts for equipment manufactured by National-Oilwell. Distribution services also offer outsourcing and alliance arrangements that include comprehensive procurement, inventory management and logistics support.

National-Oilwell was incorporated in Delaware in 1995. Its principal executive offices are located at 10000 Richmond Avenue, 4th Floor, Houston, Texas 77042-4200, and its telephone number is (713) 346-7500.

BUSINESS STRATEGY

National-Oilwell's short term business strategy during the current depressed conditions for oil and gas industry is to reduce its operating costs, generate cash from its balance sheet to repay debt and provide for future strategic acquisitions and emerge from the current environment in a relatively stronger position than its competitors.

National-Oilwell's longer term business strategy is to enhance its market positions and operating performance by:

Leveraging Its Installed Base of Higher Capacity Drilling Machinery and Equipment

National-Oilwell believes its market position presents substantial opportunities to capture a significant portion of expenditures for the construction of new, higher capacity drilling rigs and equipment as well as the upgrade and refurbishment of existing drilling rigs and equipment. Over the next few years, the advanced age of the existing fleet of drilling rigs, coupled with drilling activity involving greater depths and extended reach, is expected to generate demand for new equipment, especially in the higher capacity end of the market. National-Oilwell's larger drawworks, mud pumps and power swivels often provide the largest capacities currently available in the industry. The large installed base of National-Oilwell equipment also provides recurring demand for spare parts and expendable products necessary for proper and efficient operation.

Expanding Its Downhole Products Business

National-Oilwell believes that directional, horizontal, extended reach and other value-added drilling applications are economically justifiable and will therefore increase, providing an opportunity for growth in the rental and sale of high-performance drilling motors and downhole tools.

Building on Distribution Strengths and Alliance/Outsourcing Trends

National-Oilwell has developed and implemented integrated information and process systems that enhance procurement, inventory management and logistics activities. As a result of efficiency initiatives, oil and gas companies and drilling contractors are frequently seeking alliances with suppliers, manufacturers and service providers, or outsourcing their procurement, inventory management and logistics requirements for equipment and supplies in order to achieve cost and capital improvements. National-Oilwell believes that it is well positioned to provide these services as a result of its:

- large and geographically diverse network of distribution service centers in major oil and gas producing areas;
- purchasing leverage due to the volume of products sold;
- breadth of available product lines; and
- information systems that offer customers enhanced online and onsite services.

In addition, the integration of its distribution expertise, extensive network and growing base of customer alliances provides an increased opportunity for cost-effective marketing of National-Oilwell's manufactured parts and equipment.

Continuing to Make Acquisitions That Enhance its Product Line

National-Oilwell believes that the oilfield service and equipment industry will continue to experience consolidation as businesses seek to align themselves with other market participants in order to gain access to broader markets and become affiliated with integrated product offerings. During 1997 and 1998, National-Oilwell made a total of eight acquisitions and plans to continue to participate in this trend.

OPERATIONS

Products and Technology

National-Oilwell designs, manufactures and sells the major mechanical components for both land and offshore drilling rigs as well as complete land drilling and well servicing rigs. The major mechanical components include drawworks, mud pumps, power swivels, SCR houses, traveling equipment and rotary tables. These components are essential to the pumping of fluids and hoisting, supporting and rotating of the drill string. Many of these components are designed specifically for applications in offshore, extended reach and deep land drilling. This equipment is installed on new rigs and often replaced during the upgrade and refurbishment of existing rigs.

Masts, derricks and substructures are designed and manufactured for use on land rigs and on fixed and mobile offshore platforms, and are suitable for drilling applications to depths of up to 30,000 feet or more. Other products include pedestal cranes, reciprocating and centrifugal pumps and fluid end expendables for all major manufacturers' pumps. National-Oilwell's business includes the sale of replacement parts for its own manufactured machinery and equipment.

While offering a complete line of conventional rigs, National-Oilwell has extensive experience in providing rig designs to satisfy requirements for harsh or specialized environments. Such products include drilling and well servicing rigs designed for the North Slope of Alaska and Arctic, highly mobile drilling and well servicing rigs for jungle and desert use, modular well servicing rigs for offshore platforms and modular drilling facilities for North Sea platforms.

Downhole Products

National-Oilwell designs and manufactures drilling motors and specialized drilling tools for rent and sale. Rentals generally involve products that are not economical for a customer to own or maintain because of the broad range of equipment required for the diverse hole sizes and depths encountered in drilling for oil and gas. Sales generally involve products that require infrequent service, are disposable or are sold in countries where National-Oilwell does not provide repair and maintenance services.

Drilling motors are devices placed between the drill string and the drill bit to cause the bit to rotate without necessarily rotating the drill string, and are essential components in systems for horizontal, directional, extended reach and performance drilling. National-Oilwell often rents its drilling motors, retaining control over the servicing and maintenance function so as to preserve their operating reliability. National-Oilwell is continuing to enhance and broaden the range of its drilling motors by:

- increasing the range of sizes offered;
- reducing the initial cost and ongoing repair and maintenance cost; and
- developing alternative designs of motor bearing assembly sealing and speed reduction systems.

National-Oilwell manufactures hydraulic and mechanical drilling jars and shock tools. Drilling jars are used to assist in releasing a drill string that becomes stuck in a well bore. A shock tool is a downhole shock absorber that is placed low in the drill string and is intended to extend bit life, reduce drill string failures and reduce damage to the drilling rig. National-Oilwell also manufactures and rents or sells fishing jars, bumper subs, reamers, stabilizers and kelly and tubing safety valves.

Distribution Services

National-Oilwell provides distribution services through its network of over 125 distribution service centers. These distribution service centers stock and sell a variety of expendable items for oilfield applications and spare parts for National-Oilwell equipment. As oil and gas companies and drilling contractors have refocused on their core competencies and emphasized efficiency initiatives to reduce costs and capital requirements, National-Oilwell's distribution services have expanded to offer outsourcing and alliance arrangements that include comprehensive procurement, inventory management and logistics support. In addition, management believes that National-Oilwell has a competitive advantage in the distribution services business by distributing market-leading products manufactured by its Products and Technology business.

The supplies and equipment stocked by National-Oilwell's distribution service centers vary by location. Each distribution point generally offers a large line of oilfield products including valves, fittings, flanges, spare parts for oilfield equipment and miscellaneous expendable items. Most drilling contractors and oil and gas companies typically buy such supplies and equipment pursuant to non-exclusive contracts, which normally specify a discount from National-Oilwell's list price for each product or product category.

National-Oilwell's tubular business is focused on the procurement, inventory management and delivery of oil country tubular goods manufactured by third parties. Tubular goods primarily consist of well casing and production tubing used in the drilling, completion and production of oil and gas wells. Well casing is used to line the walls of a well bore to provide structural support. Production tubing provides the conduit through which the oil or gas will be brought to the surface upon completion of the well. Substantially all sales of tubular goods are made through National-Oilwell's direct sales force and have historically been concentrated in North America.

Strategic alliances are significant to the Distribution Services business and differ from standard agreements for supplies and equipment in that National-Oilwell becomes the customer's primary supplier of those items. In certain cases, National-Oilwell has assumed responsibility for procurement, inventory management and product delivery for the customer, occasionally by working directly out of the customer's facilities.

Marketing

Substantially all of National-Oilwell's drilling machinery, equipment and spare parts sales, and a large portion of its smaller pumps and parts sales, are made through its direct sales force and distribution service centers. Sales to foreign state-owned oil companies are typically made in conjunction with agent or representative arrangements. National-Oilwell's downhole products are generally rented in Canada and Venezuela and marketed worldwide through its own sales force and through commissioned representatives. Distribution sales are made through the Company's network of distribution service centers. Customers for National-Oilwell's products and services include drilling and other service contractors, exploration and production companies, supply companies and nationally owned or controlled drilling and production companies.

Competition

The oilfield services and equipment industry is highly competitive and National-Oilwell's revenues and earnings can be affected by price changes, introduction of new technologies and products and improved availability and delivery. National-Oilwell competes in each of its segments with a large number of companies, none of which are dominant in that particular segment.

Manufacturing and Backlog

National-Oilwell has manufacturing facilities located in the United States and Canada. The manufacture of parts or purchase of components is also outsourced to qualified subcontractors. The manufacturing operations require a variety of components, parts and raw materials which National-Oilwell purchases from multiple commercial sources. National-Oilwell has not experienced and does not expect any significant delays in obtaining deliveries of materials.

Sales of products are made on the basis of written orders and oral commitments. The Company's backlog for equipment at December 31, 1998 was $77 million as compared to $270 million at December 31, 1997 and $38 million at December 31, 1996. Substantially all of the current backlog will be shipped by the end of the second quarter of 1999. The reduction in new orders for capital equipment will have a negative effect on operating results in 1999.

Distribution Suppliers

National-Oilwell obtains products sold by its Distribution Services business from a number of suppliers, including its own Products and Technology segment. No single supplier of products is significant to the company. National-Oilwell has not experienced and does not expect a shortage in products or tubular goods that it sells.

Engineering

National-Oilwell maintains a staff of engineers and technicians to:

- design and test new products, components and systems for use in drilling and pumping applications;

- enhance the capabilities of existing products; and

- assist the Company's sales organization and customers with special projects.

National-Oilwell's product engineering efforts focus on developing technology to improve the economics and safety of drilling and pumping processes. National-Oilwell has recently developed a 1,000 ton capacity power swivel to complement its lower capacity models, and has also introduced a 6,000 horsepower active heave compensating drawworks and a dual derrick system to increase customer efficiencies on deep water drilling rigs at extended depths and during horizontal drilling.

Patents and Trademarks

National-Oilwell owns or has a license to use a number of patents covering a variety of products. Although in the aggregate these patents are of importance, the Company does not consider any single patent to be of a critical or essential nature. In general, National-Oilwell depends on technological capabilities, quality products and application of its expertise rather than patented technology in the conduct of its business.

EMPLOYEES

As of December 31, 1998, National-Oilwell had a total of 3,118 employees, 1,508 of whom were salaried and 1,610 of whom were paid on an hourly basis. Of this workforce, 1,021 employees are employed in Canada and 173 are employed by the Company's other foreign subsidiaries. Relationships with employees are considered good.

RISK FACTORS

Before purchasing any shares of National-Oilwell common stock, you should consider carefully the following factors, in addition to the other information contained or incorporated by reference herein.

Dependence on the Oil and Gas Industry

National-Oilwell's financial results are very dependent upon the oil and gas industry and its willingness to explore for and produce oil and gas. The industry's willingness to explore and produce depends upon the prevailing view of future product prices. Many factors affect the supply and demand for oil and gas and therefore influence product prices, including:

- level of production from known reserves;
- cost of producing oil and gas;
- level of drilling activity;
- worldwide economic activity; and
- national government political requirements.

If there is a significant reduction in demand for drilling services, demand for National-Oilwell's products will drop.

Oil and Gas Prices are Volatile

Oil and gas prices have been volatile over the last ten years, ranging from less than $11 per barrel to over $40 per barrel. Oil prices have been low in 1998 and the first two months of 1999, and have generally ranged from $11 to $16 per barrel. Spot gas prices have also been volatile over the last ten years, ranging from less than $1.00 per mcf of gas to above $3.00. Gas prices have been moderate in 1998 and the first two months of 1999, and have generally ranged from $1.70 to $2.20 per mcf.

Oil and gas price changes have caused many shifts in the strategies and expenditure levels of oil and gas companies and drilling contractors, particularly with respect to decisions to purchase major capital equipment. Recent expectations of lower oil prices are slowing production and new drilling, particularly in areas where the per barrel cost of production is high. This slowdown quickly affected our distribution and downhole products businesses and is now negatively impacting the products and technology segment as lower prices are expected to continue for an extended period. We cannot predict future oil and gas prices or whether such future prices will be sufficient to support current exploration and production levels.

Our Industry is Highly Competitive

The oilfield products and services industry is highly competitive. The following competitive actions can each affect revenues and earnings:

- price changes;
- new product and technology introductions; and
- improvements in availability and delivery.

National-Oilwell competes with many companies. Some of these companies may possess greater financial resources or offer certain products that we do not have.

Potential Product Liability and Warranty Claims

Customers use some of our products in potentially hazardous drilling, completion and production applications. Improper use or failure of the products can cause injury or loss of life, damage to property, equipment or the environment and suspension of operations.

National-Oilwell believes it has amounts and types of insurance coverage which are consistent with normal industry practice. However, insurance does not protect against all liabilities. We cannot guarantee that our insurance will be adequate to cover all liabilities and cannot assure that we will be able to maintain insurance in the future at reasonable levels.

National-Oilwell may be named as a defendant in product liability or other lawsuits asserting potentially large claims if an accident occurs at a location where its equipment and services have been used. We are currently party to various legal and administrative proceedings. We cannot predict the outcome of these proceedings nor the effects of any negative outcomes.

Foreign and Domestic Political Developments and Governmental Regulations

Many aspects of National-Oilwell's operations are affected by political developments, including restrictions on the ability to do business in various foreign jurisdictions. We are also subject to foreign and domestic government regulations, such as regulations relating to oilfield operations, worker safety and environmental protection.

In addition, demand for our products and services comes from the oil and gas industry. Changes in taxation, price controls or other laws and regulations could affect the entire oil and gas industry. If laws or regulations are adopted which hinder exploration for or production of oil and gas, National-Oilwell's operations could suffer. We cannot predict the extent to which our future operations may be affected by political developments, new legislation or new regulations.

Environmental Regulations

Many foreign, federal, state, provincial and local environmental laws and regulations affect our operations, as well as the operations of our customers. The technical requirements of these laws and regulations are becoming increasingly expensive, complex and stringent. These laws and regulations may result in sanctions for damages to natural resources or threats to public health and safety. These laws can also make National-Oilwell liable for the actions of others, or for our acts that were, at the time, perfectly legal. Violations of laws or regulations may result in revocation of permits, corrective action orders, administrative or civil penalties, or criminal prosecution.

Certain environmental laws may subject National-Oilwell to joint and several liability for spills or releases of hazardous substances. This means that we could be forced to pay an entire judgment even in a case in which we were only partially responsible for the damage. National-Oilwell could also be sued for personal injuries or property damage as a result of alleged exposure to hazardous substances, as well as damage to natural resources.

Instability of Foreign Markets Could Have a Negative Impact on Revenues

Some of our revenues depend upon customers in the Middle East, Africa, Southeast Asia, South America and other international markets. These revenues are subject to risks of instability of foreign economies and governments. Furthermore, our sales can be affected by laws and regulations limiting exports to particular countries. Sometimes export laws and regulations of one jurisdiction may contradict those of another.

National-Oilwell is exposed to the risks of changes in exchange rates between the U.S. dollar and foreign currencies. We do not currently engage in or plan to engage in any significant hedging or currency trading transactions designed to compensate for adverse currency fluctuations.

Failure to Successfully Manage Growth

National-Oilwell acquired three companies in 1997 and five more in 1998, and intends to pursue acquisition candidates in the future. We cannot predict whether suitable acquisition candidates will be available on reasonable terms or if we will have access to adequate funds to complete any desired acquisitions. Once acquired, we cannot guarantee that we will successfully integrate the operations of the acquired companies.

National-Oilwell is Leveraged

During 1998, National-Oilwell issued $150 million of 6 7/8% unsecured senior notes due July 1, 2005. As a result of this issuance we have become more leveraged. As of December 31, 1998, we had a total of $213.1 million of debt, and a total of $386.8 million of stockholders' equity. Increased debt requires more of our cash flow from operations for payment of interest expense. Increased leverage may also make it more difficult to obtain additional financing in the future and make National-Oilwell more vulnerable to economic downturns and competitive pressures.

Potential Future Sale of Shares Could Affect Market Price

Future sales of our shares by stockholders or option holders could have a negative effect on the market price of National-Oilwell stock. At December 31, 1998, National-Oilwell had outstanding options to purchase a total of 904,511 shares at prices ranging from $5.63 to $28.81 per share. On February 9, 1999, options to purchase an additional 1,233,889 shares were issued with an exercise price of $10.13, vesting over a three-year period beginning February 9, 2000.

Some stockholders have certain rights to cause us to file a registration statement with the SEC to allow the sale of their shares, and some also have the right to be included in any registration statements we file. As of March 1, 1999, shares subject to registration rights totaled:

Stockholder	Number of Shares
Inverse/Phoenix LLC	9,300,562
First Reserve Corporation	8,370,494
Other stockholders (12 persons)	4,484,510

ITEM 2. PROPERTIES

National-Oilwell owned or leased approximately 150 facilities worldwide as of December 31, 1998, including the following principal manufacturing and administrative facilities:

LOCATION	APPROXIMATE BUILDING SPACE (SQUARE FOOT)	DESCRIPTION	STATUS
Houston, Texas	260,000	Manufactures drilling machinery and equipment	Leased
Channelview, Texas*	193,000	Fabricates drilling components	Owned
Galena Park, Texas	188,000	Fabricates drilling components and rigs	Owned
Houston, Texas	178,000	Manufactures SCR systems	Owned
Edmonton, Alberta, Canada	162,000	Manufactures downhole tools	Owned
Clearfield, Utah*	120,000	Fabricates drilling components	Leased
McAlester, Oklahoma	117,000	Manufactures pumps and expendable parts	Owned
Houston, Texas	100,000	Administrative offices	Leased
Houston, Texas*	72,000	Warehousing of spare parts	Owned
Marble Falls, Texas	65,000	Manufactures drilling expendable parts	Owned
Nisku, Alberta, Canada*	59,000	Manufactures drilling machinery and equipment	Owned
Edmonton, Alberta, Canada	57,000	Manufactures drilling machinery and equipment	Owned
Rosenberg, Texas	44,000	Manufactures downhole tools	Leased

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* Closed in the first quarter of 1999

National-Oilwell owns or leases five satellite repair and manufacturing facilities that refurbish and manufacture new equipment and parts and approximately 125 distribution service centers worldwide. Management believes that the capacity of facilities is adequate to meet demand currently anticipated for 1999.

ITEM 3. LEGAL PROCEEDINGS

National-Oilwell has various claims, lawsuits and administrative proceedings that are pending or threatened, all arising in the ordinary course of business, with respect to commercial, product liability and employee matters. Although no assurance can be given with respect to the outcome of these or any other pending legal and administrative proceedings and the effect such outcomes may have, management believes that any ultimate liability resulting from the outcome of such proceedings will not have a material adverse effect on National-Oilwell's consolidated financial statements.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of security holders during the quarter ended December 31, 1998.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Market Information

National-Oilwell common stock is listed on the New York Stock Exchange (ticker symbol: NOI). The following table sets forth the stock price range during 1998 and 1997:

	1997		1998	
QUARTER	HIGH	LOW	HIGH	LOW
First	$ 34.00	$ 23.88	$ 19.32	$ 14.00
Second	39.75	25.94	28.88	15.82
Third	29.13	7.75	37.50	25.07
Fourth	17.69	8.81	44.44	27.88

As of March 15, 1999, there were 435 holders of record of National-Oilwell common stock. National-Oilwell has never paid cash dividends, and none are anticipated during 1999.

Recent Registration of Securities

In December 1998, National-Oilwell acquired certain Canadian distribution businesses from Westburne, Inc. In connection with the acquisition, National-Oilwell issued 3 million shares of unregistered common stock. The shares were subsequently registered for resale on February 18, 1999 pursuant to a Registration Statement on Form S-3.

ITEM 6. SELECTED FINANCIAL DATA

As a result of the differing year ends of National-Oilwell and Dreco prior to the combination of the companies, the balance sheets and results of operations for dissimilar year ends have been combined pursuant to pooling-of-interests accounting. National-Oilwell's results of operations for the year ended December 31, 1997 include Dreco's results of operations for the six months ended May 31, 1997 and the six months ended December 31, 1997. Data for the year ended December 31, 1996 includes the operations of Dreco for the twelve months ended and as of November 30, 1996. Data for the two years ended August 31, 1995 reflect the operations of Dreco only, as National-Oilwell did not exist as a corporation prior to January 1, 1996.

	YEAR ENDED DECEMBER 31,			YEAR ENDED AUGUST 31, (1)	
	1998	1997 (2)	1996 (3)	1995	1994
	(IN THOUSANDS OF U.S. DOLLARS, EXCEPT PER SHARE AMOUNTS)				
OPERATING DATA:					
Revenues	$1,172,013	$1,005,572	$ 761,816	$ 86,875	$ 79,663
Operating income (loss) (4)	121,106	87,239	27,499	10,059	(9,253)
Income (loss) before taxes and extraordinary loss (5)	109,313	82,482	16,718	12,196	(6,709)
Income (loss) before extraordinary loss (5)	68,927	51,281	10,147	7,789	(6,682)
Net income (loss)	68,927	50,658	6,147	7,789	(6,682)
Income (loss) per share before extraordinary loss (5)					
Basic	1.31	1.00	0.25	0.69	(0.59)
Diluted	1.30	0.99	0.25	0.68	(0.59)
Net income (loss) per share					
Basic	1.31	0.99	0.15	0.69	(0.59)
Diluted	1.30	0.98	0.15	0.68	(0.59)
OTHER DATA:					
Depreciation and amortization	19,179	14,744	8,775	4,558	4,926
Capital expenditures	27,845	32,605	15,166	6,435	5,932
BALANCE SHEET DATA:					
Working capital	346,410	252,137	168,897	32,992	18,292
Total assets	817,993	567,511	352,518	72,355	69,323
Long-term debt, less current maturities	205,637	61,565	39,136	1,987	1,440
Stockholders' equity	386,803	277,688	169,016	48,957	38,690

(1) Data for the two years ended August 31, 1995 reflect the operations of Dreco only, as the operations of National-Oilwell were acquired from a predecessor partnership as of January 1, 1996 and, in accordance with generally accepted accounting principles, cannot be combined prior to that date.

(2) In order to conform Dreco's fiscal year end to match National-Oilwell's year end, the results of operations for the month of June 1997 have been included directly in stockholders' equity. Dreco's revenues and net income were $13.4 million and $0.9 million for the month.

(3) In order to conform Dreco's August 31 fiscal year end to a period within 93 days of National-Oilwell's December 31 year end, the results of operations for the period from September 1, 1995 through November 30, 1995 have been included directly in stockholders' equity. Dreco's revenues and net income were $33.4 million and $3.2 million for such period.

(4) In December 1998, National-Oilwell recorded a $16,400,000 charge related to personnel reductions and facility closures and a $5,600,000 charge related to the writedown to the lower of cost or market of certain tubular inventories. In September 1997, National-Oilwell recorded a $10,660,000 charge related to merger expenses incurred in connection with the combination with Dreco. In October 1996, National-Oilwell recorded $16,611,000 in charges related to the cancellation of management agreements and expenses related to special incentive plans that terminated upon the occurrence of the initial public offering of its common stock.

(5) National-Oilwell recorded extraordinary losses in September 1997 of $623,000 (net of $376,000 income tax benefit) and in October 1996 of $4,000,000 (net of $2,400,000 income tax benefit) due to the write-offs of deferred debt issuance costs.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

INTRODUCTION

National-Oilwell is a worldwide leader in the design, manufacture and sale of machinery and equipment and in the distribution of maintenance, repair and operating products used in oil and gas drilling and production. National-Oilwell's revenues are directly related to the level of worldwide oil and gas drilling and production activities and the profitability and cash flow of oil and gas companies and drilling contractors, which in turn are affected by current and anticipated prices of oil and gas. Beginning in late 1997, current and near term expectations for oil prices declined due to concerns about excess production, less demand from Asia due to an economic slowdown and warmer than average weather in many parts of the United States. The resulting lower demand for products and services is expected to have a negative impact on National-Oilwell's 1999 operating results. See "Risk Factors".

RESULTS OF OPERATIONS

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

	YEAR ENDED DECEMBER 31,		
	1998	1997	1996
Revenues:			
Products and Technology	$ 668.1	$ 371.8	$ 266.5
Downhole Products	61.8	69.0	28.6
Distribution Services	508.6	630.9	518.7
Eliminations	(66.5)	(66.1)	(52.0)
Total	$1,172.0	$1,005.6	$ 761.8
Operating Income:			
Products and Technology	$ 119.6	$ 53.4	$ 25.9
Downhole Products	17.0	25.6	8.9
Distribution Services	7.5	27.6	17.5
Corporate	(6.6)	(8.7)	(8.2)
	137.5	97.9	44.1
Special Charge	16.4	10.7	16.6
Total	$ 121.1	$ 87.2	$ 27.5

Products and Technology

The Products and Technology segment designs and manufactures a large line of proprietary products, including drawworks, mud pumps, power swivels, electrical control systems and reciprocating pumps, as well as complete land drilling and well servicing rigs and structural components such as masts, derricks and substructures. A substantial installed base of these products results in a recurring replacement parts and maintenance business. Sales of new capital equipment can result in large fluctuations in volume between periods depending on the size and timing of the shipment of orders. This segment also provides drilling pump expendable products for maintenance of National-Oilwell's and other manufacturers' equipment. As noted above, low oil prices are expected to have a negative impact on operating results in 1999.

Revenues for the Products and Technology segment increased by $296.3 million over 1997 primarily due to increased sales of major capital equipment and drilling spares. Specifically, the sale of complete rig packages, mud pumps, cranes and SCR equipment were substantially greater than the prior year. Revenues generated by acquisitions completed in 1998 totaled approximately $48 million during the year.

Operating income increased by $66.2 million in 1998 compared to the prior year due principally to the increased sales volume. Operating income as a percentage of revenues increased due to higher prices and manufacturing and operating cost efficiencies resulting from the higher volumes. Various acquisitions completed in 1998 contributed $2.6 million in operating profit during the year.

Revenues during 1997 increased $105.3 million over 1996 primarily due to increased demand for drilling capital equipment and spare parts as well as fluid end expendable parts. Acquisitions in 1997 other than Dreco accounted for $26.6 million of the increase. Operating income for this segment increased by $27.5 million when compared to the prior year with 1997 acquisitions other than Dreco accounting for $5.0 million of this incremental income and the remainder due to the higher activity levels.

Backlog of the Products and Technology capital products was $77 million at December 31, 1998 compared to $270 million at December 31, 1997 and $38 million at December 31, 1996. Substantially all of the current backlog is expected to be shipped by June 30, 1999.

Downhole Products

National-Oilwell designs and manufactures drilling motors and specialized drilling tools for rent and sale. Rentals generally involve products that are not economical for a customer to own or maintain because of the broad range of equipment required for the diverse hole sizes and depths encountered in drilling for oil and gas. Sales generally involve products that require infrequent service, are disposable or are sold in countries where National-Oilwell does not provide repair and maintenance services.

Downhole Products revenues decreased by $7.2 million (10%) in 1998 when compared to 1997, due primarily to lower motor sales and rentals, particularly in Canada. Operating income decreased $8.6 million in 1998 compared to the prior year. This decrease in operating income was a result of reduced margins due to the volume reduction and an increase in overhead spending caused by the addition of two minor acquisitions.

Revenues in 1997 increased $40.4 million over 1996 due to a general increase in market activity plus the inclusion of Vector Oil Tool revenues, a 1997 acquisition, of $24.6 million. Operating income in 1997 exceeded the prior year by $16.7 million with Vector accounting for $14.7 million of the increase.

Distribution Services

Distribution Services revenues result primarily from the sale of maintenance, repair and operating supplies from the Company's network of distribution service centers and from the sale of well casing and production tubing. These products are purchased from numerous manufacturers and vendors, including the Company's Products and Technology segment.

Distribution Services revenues during 1998 fell short of the comparable 1997 period by $122.3 million. This 19% decrease reflects the reduced demand for tubular and general rig operating supplies precipitated by the significant decrease in oil prices. North American revenues were off approximately 20%, with tubular revenues roughly two-thirds of the level achieved in 1997. Operating income in 1998 was approximately $20 million below 1997, due to reduced margins from the decline in revenues partially offset by reduced operating expenses, and the recording of a $5.6 million charge related to the writedown to lower of cost or market of certain tubular inventories.

Distribution Services revenues in 1997 exceeded 1996 by $112.2 million. This 22% increase reflects the increased spending levels of the Company's alliance partners and other customers. Incremental sales of maintenance, repair and operating supplies ($34.2 million), tubular products ($58.0 million), drilling spares ($8.1 million) and fluid end expendable parts and related pumps ($8.0 million) accounted for the majority of this increase. Operating income in 1997 exceeded the prior year by $10.1 million (58%) as an increase in operating expenses offset part of the incremental margin.

Corporate

Corporate charges represent the unallocated portion of centralized and executive management costs. While corporate charges in 1997 were comparable to 1996, these costs decreased substantially in 1998 due to the elimination of duplicate corporate costs that existed prior to the combination with Dreco.

Special Charges

During the fourth quarter of 1998, the Company recorded a special charge of $16.4 million ($10.4 million after tax, or $0.20 per share) related to operational changes resulting from the depressed market for the oil and gas industry. The components of the special charge are as follows (in millions):

Asset impairments	$ 5.4
Severance	5.6
Facility closures and exit costs	5.4

	$ 16.4
	======

The cash and non-cash elements of the charge approximate $11.0 million and $5.4 million, respectively. Breakdown of the charge by business segment is:

Products and Technology	$ 11.1
Downhole Products	1.4
Distribution Services	3.0
Corporate	.9

	$ 16.4
	======

The asset impairment losses of $5.4 million consists primarily of the shutdown of four North American manufacturing facilities. Assets related to these non-productive facilities which are not in service totaling $10.0 million have been reclassified on the balance sheet to property held for sale and have been written down to their estimated fair value, less cost of disposal. Severance costs of $5.6 million relate to the involuntary termination of approximately 200 employees, most of which are located in North America. Facility closure costs of $5.4 million consists principally of lease cancellation and facility exit costs. Substantially all of the actions associated with this charge will be fully implemented before the end of the first quarter of 1999.

During 1997, National-Oilwell recorded a $10.7 million charge ($8.1 million net of taxes, or $0.31 per share) related to various professional fees and integration costs incurred in connection with the combination with Dreco.

During 1996, National-Oilwell incurred certain one-time expenses in connection with its initial public offering of common stock, as follows: (i) a management services agreement was terminated at a cost of $4.4 million ($2.8 million after tax) and (ii) expenses and payout under National-Oilwell's Value Appreciation Plans, which resulted in National-Oilwell recording an expense of $12.2 million ($7.6 million after tax). The Value Appreciation Plans required the issuance of 681,852 shares of common stock and payment of $6.4 million in cash.

Interest Expense

Interest expense increased during 1998 when compared to the prior year due to the incurrence of debt to finance the Phoenix acquisition. Interest expense in 1997 was substantially lower than 1996 due to lower amounts of debt outstanding and lower interest rates under the new credit facilities.

Income Taxes

National-Oilwell is subject to U.S. federal, state, and foreign taxes and recorded a combined tax rate of 37% in 1998, 38% in 1997, and 39% in 1996. National-Oilwell has net operating tax loss carryforwards in the United States that could reduce future tax expense by up to $6.8 million. Additional loss carryforwards in Europe generally would reduce goodwill if realized in the future. Due to the uncertainty of future utilization, all of the potential benefits described above have been fully reserved. During 1998, National-Oilwell realized a tax benefit of $2.6 million from its U.S. carryforwards, but closure of certain operations may significantly reduce future realization. National-Oilwell's combined tax rate in 1998 would have been 39% if these carryforwards were excluded.

Extraordinary Losses

In the third quarter of 1997, National-Oilwell replaced its existing credit facility and recorded a charge of $1.0 million ($0.6 million after tax) due to the write-off of deferred debt costs. In the fourth quarter of 1996, the credit facility established in connection with the acquisition of the Company was replaced, resulting in the write-off of $6.4 million ($4.0 million after tax) in deferred debt costs.

LIQUIDITY AND CAPITAL RESOURCES

At December 31, 1998, National-Oilwell had working capital of $346.4 million, an increase of $94.3 million from December 31, 1997. Significant components of National-Oilwell's assets are accounts receivable and inventories. Accounts receivable, including unbilled revenues, increased by $57.3 million and inventories increased $38.5 million during 1998. Decreases in accounts payable of $16.4 million and customer prepayments of $12.3 million were offset by an increase in other accrued liabilities of $28.2 million.

Total capital expenditures were $27.8 million during 1998, $32.6 million in 1997 and $15.2 million in 1996. Additions and enhancements to the downhole rental tool fleet and information management and inventory control systems represent a large portion of these capital expenditures. Capital expenditures are expected to decline to approximately $20-22 million in 1999, which will include approximately $7 million necessary to complete the installation of a new information system for the Distribution Services group. National-Oilwell believes it has sufficient existing manufacturing capacity to meet currently anticipated demand through 1999 for its products and services.

On September 25, 1997, National-Oilwell entered into a new five-year unsecured $125 million revolving credit facility. The credit facility is available for acquisitions and general corporate purposes. The credit facility provides for interest at prime or LIBOR plus 0.625%, subject to adjustment based on National-Oilwell's Capitalization Ratio, as defined. The credit facility contains financial covenants and ratios regarding minimum tangible net worth, maximum debt to capital and minimum interest coverage.

National-Oilwell believes that cash generated from operations and amounts available under the credit facility will be sufficient to fund operations, working capital needs, capital expenditure requirements and financing obligations. National-Oilwell also believes any significant increase in capital expenditures caused by any need to increase manufacturing capacity can be funded from operations or through debt financing.

National-Oilwell intends to pursue acquisition candidates, but the timing, size or success of any acquisition effort and the related potential capital commitments cannot be predicted. National-Oilwell expects to fund future cash acquisitions primarily with cash flow from operations and borrowings, including the unborrowed portion of the credit facility or new debt issuances, but may also issue additional equity either directly or in connection with acquisitions. There can be no assurance that acquisition funds will be available at terms acceptable to National-Oilwell.

Inflation has not had a significant impact on National-Oilwell's operating results or financial condition in recent years.

YEAR 2000

The year 2000 issue is the result of computer programs having been written using two digits rather than four to define the applicable year. Any computer programs that have date-sensitive software may recognize a date using "00" as the year 1900 rather than the year 2000. This could result in a system failure or miscalculations causing disruptions of operations, including, among other things, a temporary inability to process transactions, send invoices, or engage in similar normal business activities.

In 1997, the Company's Distribution Services segment decided to replace its main business system in order to significantly improve our supply chain capabilities. The new system installation is expected to be complete in the third quarter of 1999 and will be Year 2000 compliant. In addition, the Company continues to identify, evaluate and implement modifications to its other business systems in order to achieve year 2000 date conversion compliance. The total cost of the year 2000 readiness is estimated at $1.0 million, of which approximately half has been spent. The Year 2000 review covers internal computer systems and process control systems, as well as embedded systems in products delivered. In addition, the Company has initiated formal communication with its significant suppliers, customers and business partners to determine the extent to which we are vulnerable to any failure of these third parties' to remedy their own Year 2000 issues. Third party vendors of hardware and packaged software have also been contacted about their products' compliance status. While the ability of third parties with whom the Company transacts business to address adequately their year 2000 issue is outside its control, the Company will evaluate the need to change sources as necessary.

Management believes that with installation of new systems, conversion to new software and modifications to existing software, the year 2000 issue will pose no significant operational problems for National-Oilwell. The Company expects to complete all new installations, conversions and necessary systems modifications and conversions by September 30, 1999. Accordingly, the Company does not have a contingency plan with respect to the year 2000 issue. There can be no assurance, however, that the Company will be able to install and maintain year 2000 compliant software and should this occur, operational difficulties could result. In such circumstances, delays in financial processes could occur, but neither these nor any product-related problems are expected to have an adverse effect on the Company's financial position.

The costs of the project and the dates on which the Company believes it will complete its Year 2000 project are based on management's best estimates. These estimates were derived using numerous assumptions of future events, including continued availability of resources, third party's Year 2000 status and plans and other factors. However, there can be no assurance that these estimates will be achieved and actual results could differ materially from those anticipated. Specific factors that might cause such material differences include the availability and cost of personnel, the ability to identify and correct all Year 2000 impacted areas, timely and effective action by third parties, the ability to implement interfaces between Year 2000-ready systems and those systems not being replaced, and other similar uncertainties.

MARKET RISK DISCLOSURE

The Company is subject to market risk exposure related to changes in interest rates on its credit facility which is comprised of revolving credit notes in the United States and Canada. A portion of the borrowings are denominated in Canadian funds which could expose the Company to market risk with exchange rate movements, although such is mitigated by the Company's substantial operations in Canada. These instruments carry interest at a pre-agreed upon percentage point spread from either the prime interest rate or LIBOR. Under its credit facility, the Company may, at its option, fix the interest rate for certain borrowings based on a spread over LIBOR for 30 days to 6 months. At December 31, 1998, the Company had $55.6 million outstanding under its credit facility. Based on this balance, an immediate change of one percent in the interest rate would cause a change in interest expense of approximately $0.6 million on an annual basis. The Company's objective in maintaining variable rate borrowings is the flexibility obtained regarding early repayment without penalties and lower overall cost as compared with fixed-rate borrowings.

RECENTLY ISSUED ACCOUNTING STANDARDS

In June 1998, the Financial Accounting Standards Board issued Statement No. 133, Accounting for Derivative Instruments and Hedging Activities. The Company expects to adopt the new Statement effective January 1, 2000. The Statement will require the Company to recognize all derivatives on the balance sheet at fair value. The Company does not anticipate that the adoption of this Statement will have a significant effect on its results of operations or financial position.

In April 1998, the AICPA issued SOP 98-5, Reporting the Costs of Start-up Activities. The SOP is effective for fiscal years beginning after December 15, 1998, which requires that the costs associated with such activities be expensed as incurred. The adoption of the new statement will not have a significant effect on earnings or the financial position of the Company.

FORWARD-LOOKING STATEMENTS

This document, other than historical financial information, contains forward-looking statements that involve risks and uncertainties. Such statements relate to National-Oilwell's sales of capital equipment, backlog, capacity, liquidity and capital resources, plans for acquisitions and any related financings and the impact of Year 2000. Given these uncertainties, current or prospective investors are cautioned not to place undue reliance on any such forward-looking statements. National-Oilwell disclaims any obligation or intent to update any such factors or forward-looking statements to reflect future events or developments.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Incorporated by reference to Item 7 above, "Market Risk Disclosure".

ITEM 8. FINANCIAL STATEMENT AND SUPPLEMENTARY DATA

Attached hereto and a part of this report are financial statements and supplementary data listed in Item 14.

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

None.

Part III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Incorporated by reference to the definitive Proxy Statement for the 1999 Annual Meeting of Stockholders.

ITEM 11. EXECUTIVE COMPENSATION

Incorporated by reference to the definitive Proxy Statement for the 1999 Annual Meeting of Stockholders.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Incorporated by reference to the definitive Proxy Statement for the 1999 Annual Meeting of Stockholders.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Incorporated by reference to the definitive Proxy Statement for the 1999 Annual Meeting of Stockholders.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

a) Financial Statements and Exhibits

1. Financial Statements
   The following financial statements are presented in response to Part II, Item 8:

Page(s) in This Report

2. Financial Statement Schedules

   All schedules are omitted because they are not applicable, not required or the information is included in the financial statements or notes thereto.

3. Exhibits

2.1 Combination Agreement, dated as of May 14, 1997, as amended, between National-Oilwell, Inc. and Dreco Energy Services Ltd. (Annex B)(3)

2.2 Plan of Arrangement and Exchangeable Share Provisions (Annex E)(3)

3.1 Amended and Restated Certificate of Incorporation of National-Oilwell, Inc. (Annex D)(3)

3.2 By-laws of National-Oilwell, Inc. (Exhibit 3.2)(1)

9.1 Form of Voting and Exchange Trust Agreement by and between National-Oilwell, Inc., Dreco Energy Services Ltd. and Montreal Trust Company of Canada (Annex G) (3)

10.1 Employment Agreement dated as of January 16, 1996 between Joel V. Staff and the Company with similar agreements with James J. Fasnacht, Jerry N. Gauche and Steven W. Krablin and a similar agreement dated as of February 5, 1996 between Merrill A. Miller, Jr. and the Company (Exhibit 10.1) (1)*

10.2 Restricted Stock Agreement between the Company and Joel V. Staff, with similar agreements with James J. Fasnacht, Jerry N. Gauche, Steven W. Krablin and Merrill A. Miller, Jr. (Exhibit 10.10) (1)*

10.3 Stockholders Agreement among the Company and its stockholders dated as of January 16, 1996 (Exhibit 10.3) (1)

10.4 Waiver and First Amendment to Stockholders Agreement dated as of July 24, 1996 (Exhibit 10.4) (1)

10.5 Second Amendment to Stockholders Agreement dated as of October 18, 1996 (Exhibit 10.17) (1)

10.6 Amended and Restated Stock Award and Long-Term Incentive Plan (Exhibit 10.6) (2)*

10.7 Value Appreciation and Incentive Plan A (Exhibit 10.8)(1)*

10.8 Value Appreciation and Incentive Plan B (Exhibit 10.9) (1)*

10.9 First Amendment to Value Appreciation and Incentive Plan A (Exhibit 10.15) (1)*

10.10 First Amendment to Value Appreciation and Incentive Plan B (Exhibit 10.16)(1)*

10.11 Supplemental Savings Plan (Exhibit 10.12)(1)*

10.12 Loan Agreement dated September 25, 1997 (Exhibit 10.1)(4)

10.13 Deferred Fee Agreement (Exhibit 10.14)(1)

10.14 Form of Support Agreement by and between National-Oilwell, Inc. and Dreco Energy Services Ltd. (Annex F)(3)

21.1 Subsidiaries of the Company

23.1 Consent of Ernst & Young LLP

23.2 Consent of Coopers & Lybrand

24.1 Power of Attorney (included on signature page hereto)

27.1 Financial Data Schedule

b) Reports on Form 8-K

No reports on Form 8-K were filed during the quarter ended December 31, 1998.

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* Compensatory plan or arrangement for management or others

(1) Filed as an Exhibit to Registration Statement No. 333-11051 on Form S-1, as amended, initially filed on August 29, 1996

(2) Filed as an Exhibit to the National-Oilwell, Inc. Proxy Statement for the Annual Meeting of Stockholders on May 14, 1997, filed on April 14, 1997

(3) Filed as an Annex to the Joint Proxy Statement/Prospectus in Post Effective Amendment No. 1 to Registration Statement No. 333-32191 on Form S-4 filed on August 21, 1997.

(4) Filed as an Exhibit to the National-Oilwell, Inc. Quarterly Report on Form 10-Q filed on November 7, 1997.

SIGNATURES

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

NATIONAL-OILWELL, INC.

Date: March 26, 1999

By: /s/ STEVEN W. KRABLIN

Steven W. Krablin
Vice President and
Chief Financial Officer

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

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

SIGNATURE	TITLE	DATE
/s/ JOEL V. STAFF JOEL V. STAFF	CHAIRMAN OF THE BOARD, PRESIDENT AND CHIEF EXECUTIVE OFFICER (PRINCIPAL EXECUTIVE OFFICER)	MARCH 26, 1999
/s/ STEVEN W. KRABLIN STEVEN W. KRABLIN	VICE PRESIDENT AND CHIEF FINANCIAL OFFICER (PRINCIPAL FINANCIAL OFFICER AND PRINCIPAL ACCOUNTING OFFICER)	MARCH 26, 1999
/s/ HOWARD I. BULL HOWARD I. BULL	DIRECTOR	MARCH 26, 1999
/s/ JAMES C. COMIS III JAMES C. COMIS III	DIRECTOR	MARCH 26, 1999
/s/ W. MCCOMB DUNWOODY W. MCCOMB DUNWOODY	DIRECTOR	MARCH 26, 1999
/s/ WILLIAM E. MACAULAY WILLIAM E. MACAULAY	DIRECTOR	MARCH 26, 1999
/s/ FREDRICK W. PHEASEY FREDRICK W. PHEASEY	DIRECTOR	MARCH 26, 1999
/s/ BRUCE M. ROTHSTEIN BRUCE M. ROTHSTEIN	DIRECTOR	MARCH 26, 1999

REPORT OF INDEPENDENT AUDITORS

To the Stockholders and Board of Directors
National-Oilwell, Inc.

We have audited the accompanying consolidated balance sheets of National-Oilwell, Inc., as of December 31, 1998 and 1997, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit, in 1996, the financial statements of Dreco Energy Services, Ltd., a wholly-owned subsidiary, which statements reflect total revenues of $113,195,000 for the year ended November 30, 1996. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to data included for Dreco Energy Services, Ltd., is based solely on the report of the other auditors.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the report of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of National-Oilwell, Inc., at December 31, 1998 and 1997, and the consolidated results of its operations and its cash flows for each of the years then ended, in conformity with generally accepted accounting principles.

/s/ ERNST & YOUNG LLP

Houston, Texas
February 3, 1999

To the Directors of
Dreco Energy Services Ltd.

We have audited the consolidated balance sheet of Dreco Energy Services Ltd. as at November 30, 1996 and the consolidated statements of operations, shareholders' equity and cash flows for the twelve months ended November 30, 1996. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in Canada. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the company as at November 30, 1996 and the consolidated results of its operations and its cash flows for the twelve months then ended in accordance with generally accepted accounting principles in the United States.

/s/ COOPERS & LYBRAND
Chartered Accountants

Edmonton, Alberta
October 21, 1997

NATIONAL-OILWELL, INC.
CONSOLIDATED BALANCE SHEETS
(In thousands, except share data)

	DECEMBER 31, 1998	DECEMBER 31, 1997
ASSETS		
Current assets:		
Cash and cash equivalents	$ 11,440	$ 19,824
Receivables, less allowance of $4,718 and $4,056	281,312	192,470
Unbilled revenues	--	31,521
Inventories	241,987	203,520
Deferred taxes	16,489	9,839
Prepaid and other current assets	6,533	6,424
Total current assets	557,761	463,598
Property, plant and equipment, net	91,756	74,282
Deferred taxes	6,757	4,919
Goodwill	145,696	24,233
Property held for sale	9,981	--
Other assets	6,042	479
	$ 817,993	$ 567,511
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	$ 7,447	$ 1,340
Accounts payable	118,579	134,955
Customer prepayments	25,392	37,688
Accrued compensation	7,237	12,957
Other accrued liabilities	52,696	24,521
Total current liabilities	211,351	211,461
Long-term debt	205,637	61,565
Deferred taxes	4,097	2,675
Other liabilities	10,105	14,122
Total liabilities	431,190	289,823
Commitments and contingencies		
Stockholders' equity:		
Common stock - par value $.01; 55,996,785 and 51,655,782 shares issued and outstanding at December 31, 1998 and December 31, 1997	561	517
Additional paid-in capital	248,198	207,954
Accumulated other comprehensive income	(13,827)	(7,074)
Retained earnings	151,871	76,291
	386,803	277,688
	$ 817,993	$ 567,511

The accompanying notes are an integral part of these statements.

NATIONAL-OILWELL, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share data)

	YEAR ENDED DECEMBER 31,		
	1998	1997	1996
Revenues	$ 1,172,013	$ 1,005,572	$ 761,816
Cost of revenues	898,995	799,367	639,433
Gross profit	273,018	206,205	122,383
Selling, general, and administrative	135,479	108,306	78,273
Special charge	16,433	10,660	16,611
Operating income	121,106	87,239	27,499
Interest and financial costs	(12,530)	(6,196)	(12,241)
Interest income	1,025	1,524	1,301
Other income (expense), net	(288)	(85)	159
Income before income taxes and extraordinary loss	109,313	82,482	16,718
Provision for income taxes	40,386	31,201	6,571
Net income before extraordinary loss	68,927	51,281	10,147
Extraordinary loss, net of tax benefit	--	623	4,000
Net income	$ 68,927	$ 50,658	$ 6,147
Net income per share:			
Basic			
Net income before extraordinary loss	$ 1.31	$ 1.00	$ 0.25
Extraordinary loss	--	(0.01)	(0.10)
Net income	$ 1.31	$ 0.99	$ 0.15
Net income per share:			
Diluted			
Net income before extraordinary loss	$ 1.30	$ 0.99	$ 0.25
Extraordinary loss	--	(0.01)	(0.10)
Net income	$ 1.30	$ 0.98	$ 0.15
Weighted average shares outstanding:			
Basic	52,780	51,124	40,018
Diluted	52,962	51,956	40,553

The accompanying notes are an integral part of these statements.

NATIONAL-OILWELL, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	YEAR ENDED DECEMBER 31,		
	1998	1997	1996
Cash flow from operating activities:			
Net income	$ 68,927	$ 50,658	$ 6,147
Adjustments to reconcile net income to net cash provided (used) by operating activities:			
Depreciation and amortization	19,179	14,744	8,775
Provision for losses on receivables	610	730	526
Provision for deferred income taxes	(4,092)	(3,121)	(2,433)
Gain on sale of assets	(2,337)	(2,973)	(2,727)
Foreign currency transaction (gain) loss	(103)	602	(157)
Special charge	16,433	10,660	16,611
Extraordinary loss	--	999	6,400
Changes in assets and liabilities, net of acquisitions:			
Receivables	(46,507)	(60,815)	(25,682)
Unbilled revenues	31,521	(17,641)	(8,151)
Inventories	15,667	(64,978)	(2,410)
Prepaid and other current assets	4,048	1,864	(889)
Accounts payable	(42,521)	45,083	5,555
Other assets/liabilities, net	(23,325)	23,339	(8,177)
Net cash provided (used) by operating activities	37,500	(849)	(6,612)
Cash flow from investing activities:			
Purchases of property, plant and equipment	(27,845)	(32,605)	(15,166)
Proceeds from sale of assets	9,866	4,415	3,995
Businesses acquired, net of cash	(130,867)	(19,253)	--
Partnership acquired, net of cash	--	--	(106,248)
Other	--	248	(350)
Net cash used by investing activities	(148,846)	(47,195)	(117,769)
Cash flow from financing activities:			
Borrowings (payments) on line of credit	(6,005)	57,677	(89,259)
Retirement of long-term debt	(40,855)	(41,359)	--
Net proceeds from issuance of long-term debt	148,937	--	--
Proceeds from issuance of common stock	--	37,240	107,947
Proceeds from stock options exercised	1,002	6,546	341
Proceeds from debt related to acquisition of Company	--	--	103,378
Other	104	--	5,125
Net cash provided (used) by financing activities	103,183	60,104	127,532
Effect of exchange rate losses on cash	(221)	(4,097)	(180)
Increase (decrease) in cash and equivalents	(8,384)	7,963	2,971
Cash and cash equivalents, beginning of year	19,824	13,611	16,266
Change in cash to conform fiscal year end	--	(1,750)	(5,626)
Cash and cash equivalents, end of year	$ 11,440	$ 19,824	$ 13,611

The accompanying notes are an integral part of these statements.

NATIONAL-OILWELL, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(In thousands, except share data)

	COMMON STOCK	ADDITIONAL PAID-IN CAPITAL	ACCUMULATED OTHER COMPREHENSIVE INCOME	RETAINED EARNINGS	TOTAL
Beginning Balance	$ 56	$ 40,138	$ (3,730)	$ 15,439	$ 51,903
Net income				6,147	6,147
Currency translation adjustments			1,428		1,428
Comprehensive income					7,575
Stock options exercised		341			341
Issuance of 17,857,698 shares	179	107,497			107,676
Tax benefit of options exercised		1,521			1,521
Balance at December 31, 1996	235	149,497	(2,302)	21,586	169,016
Net income				50,658	50,658
Currency translation adjustments			(4,772)		(4,772)
Comprehensive income					45,886
Stock options exercised	5	6,546			6,551
Issuance of 1,053,000 shares	10	37,225			37,235
Stock issued for acquisitions	8	10,984		3,130	14,122
Two-for-one stock split	259	(259)			--
Change in subsidiary's year end				917	917
Tax benefit of options exercised		3,961			3,961
Balance at December 31, 1997	517	207,954	(7,074)	76,291	277,688
Net income				68,927	68,927
Currency translation adjustments			(6,929)		(6,929)
Unrealized losses on available-for-sale securities			(473)		(473)
Comprehensive income					61,525
Stock options exercised		1,002			1,002
Stock issued for acquisitions	44	39,138	649	6,653	46,484
Tax benefit of options exercised		104			104
Balance at December 31, 1998	$ 561	$ 248,198	$ (13,827)	$ 151,871	$ 386,803

The accompanying notes are an integral part of these statements.

NATIONAL-OILWELL, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. ORGANIZATION AND BASIS OF PRESENTATION

Information concerning common stock and per share data has been restated on an equivalent share basis and assumes the exchange of all Exchangeable Shares issued in connection with the combination with Dreco Energy Services Ltd., as described below. The preparation of financial statements in conformity with generally accepted accounting principles 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.

Effective January 1, 1996, National-Oilwell, Inc. acquired National-Oilwell, a general partnership. The transaction was accounted for under the purchase method of accounting.

Effective September 25, 1997, National-Oilwell completed a combination with Dreco Energy Services Ltd. The combination was accounted for as a pooling-of-interests and the consolidated financial statements of National-Oilwell and Dreco have been combined with all prior periods restated. As a result of the combination, each Dreco Class "A" common share outstanding was converted into .9159 of a Dreco Exchangeable Share and approximately 14.4 million Exchangeable Shares were issued. Each Exchangeable Share is intended to have substantially identical economic and legal rights as, and will ultimately be exchanged on a one-for-one basis for, a share of National-Oilwell common stock. As of December 31, 1998, approximately 82% of the Exchangeable Shares had been converted into National-Oilwell common stock.

Other Acquisitions

On December 2, 1996, Dreco acquired 100% of the issued and outstanding shares of Vector Oil Tool Ltd. for consideration of 778,000 Dreco common shares and cash consideration of $1.5 million. This business involves the manufacture, sale, rental and service of downhole motors and other products. The transaction was accounted for using the purchase method, is reflected in the 1997 financial statements due to the combination of differing balance sheet dates as discussed above and did not have a material effect on National-Oilwell's consolidated financial statements.

On April 25, 1997, National-Oilwell purchased the drilling controls business of Ross Hill Controls and its affiliate, Hill Graham Controls Limited, for $19.2 million in cash. This business involves the manufacture, sale and service of electrical control systems used in conjunction with drilling operations. The transaction was accounted for under the purchase method of accounting and did not have a material effect on National-Oilwell's consolidated financial statements.

On May 15, 1997, National-Oilwell acquired by merger 100% of the common stock of PEP, Inc., a manufacturer of petroleum expendable pump products. The Company issued 800,000 shares of common stock pursuant to the transaction which was recorded in accordance with the pooling-of-interests method of accounting. The transaction did not have a material effect on National-Oilwell's historical consolidated financial statements and financial statements prior to April 1, 1997 were not restated.

On May 29, 1998, National-Oilwell acquired all of the capital stock of Phoenix Energy Products Holdings, Inc. for approximately $115 million in a business combination which was accounted for under the purchase method of accounting. Phoenix manufactures and sells multiple product lines that are complementary to those of National-Oilwell. The acquisition of the stock and the repayment of approximately $41 million in Phoenix debt were financed primarily through the issuance of $150 million in unsecured seven year senior notes. The excess of the purchase price over the book value of the net assets was approximately $106 million. Assuming the acquisition had occurred at the beginning of each period presented, pro forma summary results of operations would have been as follows:

	1998	1997
Revenues	$ 1,205,472	$ 1,088,003
Income before extraordinary item	68,170	55,609
Net income	68,170	54,986
Net income per share:		
Basic		
Income before extraordinary item	$ 1.29	$ 1.09
Net income	1.29	1.08
Diluted		
Income before extraordinary item	$ 1.29	$ 1.07
Net income	1.29	1.06

The unaudited pro forma summary is not necessarily indicative of results of operations that would have occurred had the purchase been made at the beginning of the year or of future results of operations of the combined businesses.

The seller of Phoenix is an affiliate of First Reserve Corporation, which is the beneficial owner of 22.9% of National-Oilwell's common stock. Two directors of National-Oilwell are affiliated with First Reserve.

On July 21, 1998, National-Oilwell purchased 100% of the capital stock of Roberds-Johnson Industries, Inc., a manufacturer of a broad range of drilling equipment, in exchange for 1.35 million shares of National-Oilwell common stock. This transaction was accounted for under the pooling-of-interests method of accounting. The Company's financial statements prior to July 1, 1998 have not been restated since the transaction did not have a material effect on National-Oilwell's consolidated historical financial statements.

On December 16, 1998, National-Oilwell purchased the business of DOSCO, a major Canadian oilfield distribution business, for 3 million shares of National-Oilwell common stock and a note for approximately US $6.5 million. This transaction was accounted for under the purchase method of accounting. DOSCO has been combined with the National-Oilwell's existing Canadian distribution business. Pro-forma information has not been provided as such amounts are not material.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include the accounts of National-Oilwell and its subsidiaries, all of which are wholly owned. All significant intercompany transactions and balances have been eliminated in consolidation.

Fair Value of Financial Instruments

Financial instruments consist primarily of cash and cash equivalents, receivables, payables and debt instruments. Cash equivalents include only those investments having a maturity of three months or less at the time of purchase. The carrying values of these financial instruments approximate their respective fair values.

Inventories

Inventories consist of oilfield products and oil country tubular goods, manufactured equipment, manufactured specialized drilling products and downhole motors and spare parts for manufactured equipment and drilling products. Inventories are stated at the lower of cost or market using the first-in, first-out or average cost methods.

Property, Plant and Equipment

Property, plant and equipment are recorded at cost. Expenditures for major improvements which extend the lives of property and equipment are capitalized while minor replacements, maintenance and repairs are charged to operations as incurred. Disposals are removed at cost less accumulated depreciation with any resulting gain or loss reflected in operations. Depreciation is provided using the straight-line method or declining balance method over the estimated useful lives of individual items.

Intangible Assets

Deferred financing costs are amortized on a straight-line basis over the life of the related debt security and accumulated amortization was $205,000 and $24,000 at December 31, 1998 and 1997, respectively. Goodwill is amortized on a straight-line basis over its estimated life of 10-40 years. Accumulated amortization at December 31, 1998 and 1997 was $4,061,000 and $1,214,000.

Foreign Currency

The functional currency for National-Oilwell's Canadian, United Kingdom, German and Australian operations is the local currency. The cumulative effects of translating the balance sheet accounts from the functional currency into the U.S. dollar at current exchange rates are included in cumulative foreign currency translation adjustments. The U.S. dollar is used as the functional currency for the Singapore and Venezuelan operations. Accordingly, certain assets are translated at historical exchange rates and all translation adjustments are included in income. For all operations, gains or losses from remeasuring foreign currency transactions into the functional currency are included in income.

Revenue Recognition

Revenue from the sale and rental of products and delivery of services is recognized upon passage of title, incurrance of rental charges or delivery of services to the customer. Revenue is recognized on certain significant contracts in the Products and Technology segment using the percentage of completion method based on the percentage of total costs incurred to total costs expected. Provision for estimated losses, if any, is made in the period such losses are estimable.

Income Taxes

Income taxes have been provided using the liability method in accordance with Financial Accounting Standards Board Statement No. 109, Accounting for Income Taxes.

Concentration of Credit Risk

National-Oilwell grants credit to its customers, which operate primarily in the oil and gas industry. National-Oilwell performs periodic credit evaluations of its customers' financial condition and generally does not require collateral, but may require letters of credit for certain international sales. Reserves are maintained for potential credit losses and such credit losses have historically been within management's expectations.

Stock-Based Compensation

National-Oilwell uses the intrinsic value method in accounting for its stock-based employee compensation plans. Compensation costs for stock options would be recognized over the vesting period if options were granted with an exercise price below market on the date of grant.

Net Income Per Share

The following table sets forth the computation of weighted average basic and diluted shares outstanding (in thousands):

	YEAR ENDED DECEMBER 31,		
	1998	1997	1996
Denominator for basic earnings per share--weighted average shares	52,780	51,124	40,018
Effect of dilutive securities:			
Employee stock options	182	832	535
Denominator for diluted earnings per share--adjusted weighted average shares and assumed conversions	52,962	51,956	40,553

3. INVENTORIES

Inventories consist of (in thousands):

	DECEMBER 31, 1998	DECEMBER 31, 1997
Raw materials and supplies	$ 24,304	$ 19,970
Work in process	39,991	34,849
Finished goods and purchased products	177,692	148,701
Total	$ 241,987	$ 203,520

4. STATEMENTS OF CASH FLOWS

The following information supplements the Consolidated Statements of Cash Flows (in thousands):

	DECEMBER 31,		
	1998	1997	1996
Cash paid during the period for:			
Interest	$ 5,767	$ 6,904	$ 8,819
Income taxes	47,985	24,175	4,252

5. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consists of (in thousands):

	ESTIMATED USEFUL LIVES	DECEMBER 31, 1998	DECEMBER 31, 1997
Land and improvements	2-20 Years	$ 6,421	$ 6,823
Buildings and improvements	5-31 Years	26,221	22,760
Machinery and equipment	5-12 Years	48,767	31,254
Computer and office equipment	3-10 Years	35,021	15,104
Rental equipment	1-7 Years	29,217	36,982
		145,647	112,923
Less accumulated depreciation		(53,891)	(38,641)
		$ 91,756	$ 74,282

6. LONG-TERM DEBT

Long-term debt consists of (in thousands):

	DECEMBER 31, 1998	DECEMBER 31, 1997
Revolving credit facilities	$ 55,637	$ 60,560
6 7/8% senior notes	150,000	--
Other	7,447	2,345
	213,084	62,905
Less current portion	7,447	1,340
	$ 205,637	$ 61,565

On September 25, 1997, National-Oilwell entered into a new five-year unsecured $125 million revolving credit facility that was used in part to repay amounts outstanding under the previous revolving credit facilities and other indebtedness. The credit facility is available for acquisitions and general corporate purposes and provides up to $50 million for letters of credit, of which $16 million were outstanding at December 31, 1998. The credit facility provides for interest at prime or LIBOR plus 0.625% (7.75% and 6.25% at December 31, 1998) subject to adjustment based on National-Oilwell's Capitalization Ratio, as defined. The credit facility contains financial covenants and ratios regarding minimum tangible net worth, maximum debt to capital and minimum interest coverage.

National-Oilwell also has additional credit facilities totaling $22.5 million used primarily for letters of credit, of which $3.1 million were outstanding at December 31, 1998.

In June 1998, National-Oilwell sold $150 million of 6.875% unsecured senior notes due July 1, 2005. Interest is payable on January 1 and July 1 of each year.

7. PENSION PLANS

National-Oilwell and its consolidated subsidiaries have several pension plans covering substantially all of its employees. Defined-contribution pension plans cover most of the U.S. and Canadian employees and are based on years of service, a percentage of current earnings and matching of employee contributions. For the years ended December 31, 1998, 1997 and 1996, pension expense for defined-contribution plans was $3.7 million, $3.5 million and $2.3 million, and all funding is current.

One of National-Oilwell's subsidiaries in the United Kingdom has a defined-benefit pension plan whose participants are primarily retired and terminated employees who are no longer accruing benefits. The pension plan assets are invested primarily in equity securities, United Kingdom government securities, overseas bonds and cash deposits. At December 31, 1998, the plan assets at fair market value were $43.5 million and the projected benefit obligation was $27.3 million.

8. ACCUMULATED OTHER COMPREHENSIVE INCOME

The components of other comprehensive income are as follows:

	CURRENCY TRANSLATION ADJUSTMENTS	UNREALIZED GAINS ON AVAILABLE-FOR-SALE SECURITIES	TOTAL
Beginning Balance	$ (3,730)	$ --	$ (3,730)
Currency translation adjustments	1,428	--	1,428
Balance at December 31, 1996	(2,302)	--	(2,302)
Currency translation adjustments	(4,772)	--	(4,772)
Balance at December 31, 1997	(7,074)	--	(7,074)
Currency translation adjustments	(6,929)	--	(6,929)
Unrealized gains on available-for-sale securities	--	244	244
Deferred taxes relating to unrealized gains on available-for-sale securities	--	(68)	(68)
Balance at December 31, 1998	$ (14,003)	$ 176	$ (13,827)

9. COMMITMENTS AND CONTINGENCIES

National-Oilwell leases land, buildings and storage facilities, vehicles and data processing equipment under operating leases extending through various dates up to the year 2004. Rent expense for the years ended December 31, 1998, 1997 and 1996 was $10.3 million, $9.0 million and $10.5 million. National-Oilwell's minimum rental commitments for operating leases at December 31, 1998, excluding future payments applicable to facilities to be closed as part of the 1998 Special Charge, were as follows: 1999 - $5.7 million; 2000 - $3.4 million; 2001 - $1.1 million; 2002 - $0.3 million; 2003 - $0.3 million; thereafter - $0.3 million

National-Oilwell is involved in various claims, regulatory agency audits and pending or threatened legal actions involving a variety of matters. The total liability on these matters at December 31, 1998 cannot be determined; however, in the opinion of management, any ultimate liability, to the extent not otherwise provided for, should not materially affect the financial position, liquidity or results of operations of National-Oilwell.

National-Oilwell's 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 National-Oilwell's business. Laws and regulations protecting the environment have generally become more expansive and stringent in recent years and National-Oilwell believes the trend will continue. Although National-Oilwell has not incurred material costs in connection with its compliance with such laws, there can be no assurance that other developments, such as stricter environmental laws, regulations and enforcement policies thereunder could not result in additional, presently unquantifiable costs or liabilities to National-Oilwell.

10. COMMON STOCK

National-Oilwell has authorized 75 million shares of $.01 par value common stock. National-Oilwell also has authorized 10 million shares of $.01 par value preferred stock, none of which is issued or outstanding.

National-Oilwell's stock plans collectively authorize the grant of restricted stock or options to purchase up to 5,832,606 shares of National-Oilwell's common stock to officers, key employees, non-employee directors and other persons. Options granted generally vest over a 3-year period starting one year from the date of grant and generally expire 5 years from the date of grant. During 1996, prior to National-Oilwell becoming a public company, 1,882,606 shares of restricted common stock were purchased by executive officers. These shares are subject to restrictions on transferability and are not entitled to receive cash dividends or distributions until such restrictions lapse. Restrictions lapse annually on 20% of these shares beginning on January 17, 1997 or in their entirety upon the occurrence of (i) a merger or consolidation of National-Oilwell into another company, (ii) a sale of all or substantially all the assets of National-Oilwell, or (iii) a sale of all the common stock of National-Oilwell. Restrictions also lapse in their entirety upon a participant's disability, death or involuntary termination of employment without cause. During 1998 and 1997, 112,954 and 225,906 shares of restricted stock were repurchased by the Company pursuant to the original terms of the issuance. In accordance with the plan, these forfeited shares may be reawarded in the future.

Options outstanding at December 31, 1998 under the stock option plans have exercise prices between $5.62 and $28.81 per share, and expire at various dates from March 21, 2002 to January 13, 2007. The weighted average exercise price on the 904,511 outstanding options at December 31, 1998 is $21.74.

The following summarizes option activity:

	WEIGHTED AVERAGE SHARE PRICE				
	INCENTIVE PLANS	PRIVATE AGREEMENTS	INCENTIVE PLANS	PRIVATE AGREEMENTS	TOTAL OPTIONS
Options outstanding:					
Balance at December 31, 1996	$ 6.01	$ 7.03	663,114	201,498	864,612
Granted	17.95	21.84	447,142	119,062	566,204
Cancelled	14.90	--	(132,456)	--	(132,456)
Exercised	5.77	12.53	(439,208)	(320,560)	(759,768)
Balance at December 31, 1997	13.94	--	538,592	--	538,592
Granted	27.46		513,896	--	513,896
Cancelled	22.82		(44,020)	--	(44,020)
Exercised	9.60		(103,957)	--	(103,957)
Balance at December 31, 1998	21.74	--	904,511	--	904,511
Options exercisable:					
Balance at December 31, 1996	$ 5.72	$ 7.03	328,260	201,498	529,758
Became exercisable	5.96	21.84	167,055	119,062	286,117
Exercisable cancelled	5.62	--	(9,159)	--	(9,159)
Exercised	5.77	12.53	(439,208)	(320,560)	(759,768)
Balance at December 31, 1997	6.16	--	46,948	--	46,948
Became exercisable	13.74		178,249		178,249
Exercisable cancelled	22.32		(7,034)		(7,034)
Exercised	9.60		(103,957)		(103,957)
Balance at December 31, 1998	13.97	--	114,206	--	114,206

The weighted average fair value of options granted during 1998 was approximately $10.23 per share as determined using the Black-Scholes option-pricing model. Assuming that National-Oilwell had accounted for its stock-based compensation using the alternative fair value method of accounting under FAS No. 123 and amortized the fair value to expense over the option's vesting period, net income and earnings per share would have been affected by $0.02 from the amounts reported. These pro forma results may not be indicative of future effects.

The Company evaluates annually the grant of options to eligible participants and on February 9, 1999, 1,233,889 options to purchase shares of common stock were granted at an exercise price of $10.13, the fair value of the common stock at that date.

In January 1996, National-Oilwell established Value Appreciation Plans intended to reward participants for enhancing the value of National-Oilwell's common stock. The company's initial public offering represented a triggering event under these plans, resulting in a one-time charge before taxes of $12.2 million ($7.6 million after tax). National-Oilwell paid $2.9 million of this amount in cash at the time of the initial public offering and became obligated to pay an additional $3.5 million in cash in five annual installments beginning January 17, 1997. The balance of the obligation was payable by the issuance of common stock. As of December 31, 1997, 365,588 shares of common stock had been issued and another 316,264 shares of common stock were issued on or about January 17, 1999.

11. INCOME TAXES

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

	DECEMBER 31, 1998	DECEMBER 31, 1997	DECEMBER 31, 1996
Domestic	$ 58,725	$ 47,436	$ 1,096
Foreign	50,588	35,046	15,622
	$ 109,313	$ 82,482	$ 16,718

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

	DECEMBER 31, 1998	DECEMBER 31, 1997	DECEMBER 31, 1996
Current:			
Federal	$ 24,341	$ 17,428	$ 4,435
State	2,074	1,496	561
Foreign	18,063	15,398	4,008
	44,478	34,322	9,004
Deferred:			
Federal	(4,151)	(287)	(3,898)
State	(845)	(64)	(864)
Foreign	904	(2,770)	2,329
	(4,092)	(3,121)	(2,433)
	$ 40,386	$ 31,201	$ 6,571

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

	DECEMBER 31, 1998	DECEMBER 31, 1997	DECEMBER 31, 1996
Federal income tax at statutory rate	$ 38,260	$ 28,869	$ 5,851
Foreign income tax rate differential	230	494	173
State income tax net of federal benefit	1,151	919	--
Tax benefit of foreign sales corporation	(2,547)	(990)	--
Nondeductible expenses	1,223	2,837	1,170
Incremental U.S. tax on foreign earnings	2,517	--	--
Unbenefited losses	2,903	209	--
Change in deferred tax valuation allowance	(2,765)	(1,617)	(462)
Other	(586)	480	(161)
	$ 40,386	$ 31,201	$ 6,571

Significant components of National-Oilwell's deferred tax assets and liabilities were as follows (in thousands):

	DECEMBER 31, 1998	DECEMBER 31, 1997
Deferred tax assets:		
Accrued liabilities	$ 18,641	$ 14,055
Net operating loss carryforwards	13,521	16,096
Other	9,625	5,913
Total deferred tax assets	41,787	36,064
Valuation allowance for deferred tax assets	(18,541)	(21,306)
	23,246	14,758
Deferred tax liabilities:		
Tax over book depreciation	1,743	2,226
Other	2,354	449
Total deferred tax liabilities	4,097	2,675
Net deferred tax assets	$ 19,149	$ 12,083

In the United States, the Company has $19.9 million of net operating loss carryforwards as of December 31, 1998, which expire at various dates through 2009. These operating losses were acquired in the combination with Dreco and are associated with Dreco's US subsidiary. As a result of share exchanges occurring since the combination resulting in a more than 50% aggregate change in the beneficial ownership of Dreco, the availability of these loss carryforwards to reduce future United States federal taxable income may have become subject to various limitations under Section 382 of the Internal Revenue Code of 1986, as amended. In addition, these net operating losses can only be used to offset separate company taxable income of Dreco's US subsidiary. Since the ultimate realization of these net operating losses is uncertain, the related potential benefit of $6.8 million has been recorded with a full valuation allowance. Future income tax expense will be reduced if the Company ultimately realizes the benefit of these net operating losses.

Outside the United States, the Company has $19.8 million of net operating loss carryforwards as of December 31, 1998 that are available indefinitely. The related potential benefit available of $6.7 million has been recorded with a full valuation allowance. If the Company ultimately realizes the benefit of these net operating losses, $4.7 million would reduce goodwill and other intangible assets and $2.0 million would reduce income tax expense.

The deferred tax valuation allowance decreased $2.8 million and $1.6 million for the period ending December 31, 1998 and December 31, 1997, respectively, resulting from the realization of foreign net operating losses and investment tax credits that were previously deferred. National-Oilwell's deferred tax assets are expected to be realized principally through future earnings.

Undistributed earnings of the Company's foreign subsidiaries amounted to $59.1 million and $44.4 million at December 31, 1998 and December 31, 1997. Those earnings are considered to be permanently reinvested and no provision for U.S. federal and state income taxes has been made. Distribution of these earnings in the form of dividends or otherwise would result in both U.S. federal taxes (subject to an adjustment for foreign tax credits) and withholding taxes payable in various foreign countries. Determination of the amount of unrecognized deferred U.S. income tax liability is not practical; however, unrecognized foreign tax credit carryforwards would be available to reduce some portion of the U.S. liability. Withholding taxes of approximately $6.1 million would be payable upon remittance of all previously unremitted earnings at December 31, 1998.

12. SPECIAL CHARGES

During the fourth quarter of 1998, the Company recorded a special charge of $16.4 million ($10.4 million after tax, or $0.20 per share) related to operational changes resulting from the depressed market for the oil and gas industry. The components of the special charge are as follows (in millions):

Asset impairments	$ 5.4
Severance	5.6
Facility closures and exit costs	5.4
	$ 16.4

The cash and non-cash elements of the charge approximate $11.0 million and $5.4 million, respectively. Breakdown of the charge by business segment is:

Products and Technology	$ 11.1
Downhole Products	1.4
Distribution Services	3.0
Corporate	.9
	$ 16.4

The asset impairment losses of $5.4 million consist primarily of the shutdown of four North American manufacturing facilities. Assets related to these non-productive facilities which are not in service totaling $10.0 million have been reclassified on the balance sheet to property held for sale and have been written down to their estimated fair value, less cost of disposal. Severance costs of $5.6 million relate to the involuntary termination of approximately 200 employees, most of which are located in North America. Facility closure costs of $5.4 million consists principally of lease cancellation and facility exit costs. Substantially all of the actions associated with this charge will be fully implemented before the end of the first quarter of 1999.

During 1997, National-Oilwell recorded a $10.7 million charge ($8.1 million net of taxes, or $0.31 per share) related to various professional fees and integration costs incurred in connection with the combination with Dreco.

During 1996, National-Oilwell incurred certain one-time expenses in connection with its initial public offering of common stock, as follows: (i) a management services agreement was terminated at a cost of $4.4 million ($2.8 million after tax) and (ii) expenses and payout under National-Oilwell's Value Appreciation Plans, which resulted in National-Oilwell recording an expense of $12.2 million ($7.6 million after tax). The Value Appreciation Plans required the issuance of 681,852 shares of common stock and payment of $6.4 million in cash.

13. EXTRAORDINARY LOSSES

In the third quarter of 1997, the replacement of the previous credit facility resulted in the write-off of $1.0 million ($0.6 million after tax) in deferred financing costs related to the replaced agreement. In the fourth quarter of 1996, another credit facility was replaced, resulting in the write-off of $6.4 million ($4.0 million after tax) in deferred financing costs related to the replaced agreement.

14. RELATED PARTY TRANSACTIONS

Prior to becoming a public company, National-Oilwell entered into a five-year Management Services Agreement with National-Oilwell's then largest stockholders, whereby National-Oilwell would pay for senior management assistance and other services as agreed and pay fees in connection with each acquisition or disposition completed during a five-year period. After becoming a public company, this agreement was terminated pursuant to a Deferred Fee Agreement, which provides for cash payments of up to $4.4 million. As of December 31, 1998, cash payments aggregating $3.5 million have been made to Inverness/Phoenix LLC and First Reserve Corporation in connection with the Deferred Fee Agreement. Future payments totaling $900,000 will be made to Inverness/Phoenix LLC during 1999. In addition, National-Oilwell paid transaction and management fees of $2.6 million to the Inverness/Phoenix LLC and $1.2 million to First Reserve Corporation in connection with the purchase of the company from a previous owner.

On May 29, 1998, National-Oilwell acquired Phoenix Energy Products Holdings, Inc., an affiliate of First Reserve Corporation, as more fully described in footnote 1.

15. BUSINESS SEGMENTS AND GEOGRAPHIC AREAS

National-Oilwell's operations consist of three segments: Products and Technology, Downhole Products and Distribution Services. The Products and Technology segment designs and manufactures a variety of oilfield equipment for use in oil and gas drilling, completion and production activities. The Downhole Products segment designs and manufactures drilling motors and specialized drilling tools for rent and sale. The Distribution Services segment distributes an extensive line of oilfield supplies, oilfield equipment and tubular products. Intersegment sales and transfers are accounted for at commercial prices and are eliminated in consolidation. The accounting policies of the reportable segments are the same as those described in the summary of significant accounting policies of the Company. The Company evaluates performance of each reportable segment based upon its operating income, excluding non-recurring items.

No single customer accounted for 10% or more of consolidated revenues during the three years ended December 31, 1998.

Summarized financial information is as follows (in thousands):

Business Segments

	PRODUCTS AND TECHNOLOGY	DOWNHOLE PRODUCTS	DISTRIBUTION SERVICES	CORPORATE / ELIMINATIONS(1)	TOTAL
DECEMBER 31, 1998					
Revenues from:					
Unaffiliated customers	$ 603,766	$ 59,636	$ 508,611	$ --	$ 1,172,013
Intersegment sales	64,301	2,119	--	(66,420)	--
Total revenues	668,067	61,755	508,611	(66,420)	1,172,013
Operating income (loss)	119,573	17,021	7,505(2)	(22,993)	121,106(2)
Capital expenditures	5,030	9,112	12,824	879	27,845
Depreciation and amortization	7,173	9,338	1,628	1,040	19,179
Identifiable assets	510,380	88,183	188,998	30,432	817,993
DECEMBER 31, 1997					
Revenues from:					
Unaffiliated customers	$ 306,481	$ 68,192	$ 630,899	$ --	$ 1,005,572
Intersegment sales	65,360	820	--	(66,180)	--
Total revenues	371,841	69,012	630,899	(66,180)	1,005,572
Operating income (loss)	53,453	25,551	27,581	(19,346)	87,239
Capital expenditures	13,812	16,724	1,434	635	32,605
Depreciation and amortization	3,448	8,950	1,131	1,215	14,744
Identifiable assets	274,336	78,036	177,574	37,565	567,511
DECEMBER 31, 1996					
Revenues from:					
Unaffiliated customers	$ 214,802	$ 28,329	$ 518,685	$ --	$ 761,816
Intersegment sales	51,732	275	--	(52,007)	--
Total revenues	266,534	28,604	518,685	(52,007)	761,816
Operating income (loss)	25,902	8,858	17,483	(24,744)	27,499
Capital expenditures	3,126	10,959	1,050	31	15,166
Depreciation and amortization	2,766	4,304	1,650	55	8,775
Identifiable assets	123,680	43,338	154,985	30,515	352,518

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(1) Operating loss of Corporate includes a special charge of $16,433 for 1998, $10,660 for 1997 and $16,611 for 1996.

(2) Includes a $5,600 charge related to the writedown to the lower of cost or market of certain tubular inventories.

Geographic Areas:

	UNITED STATES	CANADA	UNITED KINGDOM	OTHER	ELIMINATIONS	TOTAL
DECEMBER 31,1998						
Revenues from:						
Unaffiliated customers	$ 888,211	$ 196,493	$ 54,625	$ 32,684	$ --	$1,172,013
Interarea sales	58,112	34,912	4,056	1,044	(98,124)	--
Total revenues	946,323	231,405	58,681	33,728	(98,124)	1,172,013
Long-lived assets	451,217	306,847	36,321	23,608	--	817,993
DECEMBER 31,1997						
Revenues from:						
Unaffiliated customers	$ 733,905	$ 201,360	$ 38,223	$ 32,084	$ --	$1,005,572
Interarea sales	42,273	11,858	2,383	703	(57,217)	--
Total revenues	776,178	213,218	40,606	32,787	(57,217)	1,005,572
Long-lived assets	373,544	131,078	27,240	35,649	--	567,511
DECEMBER 31,1996						
Revenues from:						
Unaffiliated customers	$ 554,686	$ 146,067	$ 29,152	$ 31,911	$ --	$ 761,816
Interarea sales	34,252	10,028	1,912	504	(46,696)	--
Total revenues	588,938	156,095	31,064	32,415	(46,696)	761,816
Long-lived assets	228,881	66,129	21,632	35,876	--	352,518

16. QUARTERLY FINANCIAL DATA (UNAUDITED)

Summarized quarterly results as restated to reflect the combination with Dreco were as follows (in thousands, except per share data which have been restated to comply with FAS 128):

	1ST QUARTER	2ND QUARTER	3RD QUARTER	4TH QUARTER	TOTAL
YEAR END DECEMBER 31, 1998					
Revenues	$ 301.852	$ 294,843	$ 306,457	$ 268,861	$ 1,172,013
Gross profit	64,792	72,808	75,747	59,671(1)	273,018(1)
Special charge	--	--	--	16,433	16,433
Income (loss) before taxes	33,546	38,097	34,005	3,665	109,313
Net income	21,137	23,811	21,579	2,400	68,927
Net income per diluted share	0.40	0.46	0.40	0.04	1.30
YEAR ENDED DECEMBER 31, 1997					
Revenues	$ 206,670	$ 234,090	$ 264,959	$ 299,853	$ 1,005,572
Gross profit	38,640	43,038	55,352	69,175	206,205
Special charge	--	--	10,660	--	10,660
Income (loss) before taxes	15,096	17,164	16,715	33,507	82,482
Net income before extraordinary loss	9,699	11,065	9,447	21,070	51,281
Net income	9,699	11,065	8,824	21,070	50,658
Net income per diluted share, before extraordinary loss	0.19	0.21	0.18	0.41	0.99
Net income per diluted share	0.19	0.21	0.17	0.41	0.98

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(1) Includes a $5,600 charge related to the writedown to the lower of cost or market of certain tubular inventories.

INDEX TO EXHIBITS

Exhibit Number	Description
2.1	Combination Agreement, dated as of May 14, 1997, as amended, between National-Oilwell, Inc. and Dreco Energy Services Ltd. (Annex B)(3)
2.2	Plan of Arrangement and Exchangeable Share Provisions (Annex E)(3)
3.1	Amended and Restated Certificate of Incorporation of National-Oilwell, Inc. (Annex D)(3)
3.2	By-laws of National-Oilwell, Inc. (Exhibit 3.2)(1)
9.1	Form of Voting and Exchange Trust Agreement by and between National-Oilwell, Inc., Dreco Energy Services Ltd. and Montreal Trust Company of Canada (Annex G)(3)
10.1	Employment Agreement dated as of January 16, 1996 between Joel V. Staff and the Company with similar agreements with James J. Fasnacht, Jerry N. Gauche and Steven W. Krablin and a similar agreement dated as of February 5, 1996 between Merrill A. Miller, Jr. and the Company (Exhibit 10.1)(1)*
10.2	Restricted Stock Agreement between the Company and Joel V. Staff, with similar agreements with James J. Fasnacht, Jerry N. Gauche, Steven W. Krablin and Merrill A. Miller, Jr. (Exhibit 10.10)(1)*
10.3	Stockholders Agreement among the Company and its stockholders dated as of January 16, 1996 (Exhibit 10.3)(1)
10.4	Waiver and First Amendment to Stockholders Agreement dated as of July 24, 1996 (Exhibit 10.4)(1)
10.5	Second Amendment to Stockholders Agreement dated as of October 18, 1996 (Exhibit 10.17)(1)
10.6	Amended and Restated Stock Award and Long-Term Incentive Plan (Exhibit 10.6)(2)*
10.7	Value Appreciation and Incentive Plan A (Exhibit 10.8)(1)*

10.8 Value Appreciation and Incentive Plan B (Exhibit 10.9) (1)*

10.9 First Amendment to Value Appreciation and Incentive Plan A (Exhibit 10.15) (1)*

10.10 First Amendment to Value Appreciation and Incentive Plan B (Exhibit 10.16)(1)*

10.11 Supplemental Savings Plan (Exhibit 10.12)(1)*

10.12 Loan Agreement dated September 25, 1997 (Exhibit 10.1)(4)

10.13 Deferred Fee Agreement (Exhibit 10.14)(1)

10.14 Form of Support Agreement by and between National-Oilwell, Inc. and Dreco Energy Services Ltd. (Annex F)(3)

21.1 Subsidiaries of the Company

23.1 Consent of Ernst & Young LLP

23.2 Consent of Coopers & Lybrand

24.1 Power of Attorney (included on signature page hereto)

27.1 Financial Data Schedule

b) Reports on Form 8-K

No reports on Form 8-K were filed during the quarter ended December 31, 1998.

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* Compensatory plan or arrangement for management or others

(1) Filed as an Exhibit to Registration Statement No. 333-11051 on Form S-1, as amended, initially filed on August 29, 1996

(2) Filed as an Exhibit to the National-Oilwell, Inc. Proxy Statement for the Annual Meeting of Stockholders on May 14, 1997, filed on April 14, 1997

(3) Filed as an Annex to the Joint Proxy Statement/Prospectus in Post Effective Amendment No. 1 to Registration Statement No. 333-32191 on Form S-4 filed on August 21, 1997.

(4) Filed as an Exhibit to the National-Oilwell, Inc. Quarterly Report on Form 10-Q filed on November 7, 1997.

EXHIBIT 21.1

SUBSIDIARIES OF THE COMPANY

National-Oilwell, L.P.
NOW International, Inc.
   National-Oilwell Canada Ltd.
   National Oilwell (U.K.) Limited
   National-Oilwell de Venezuela
   National-Oilwell Pte. Ltd.
   National-Oilwell Pty Ltd.
Dreco Energy Services, Ltd.
   Dreco Inc.
   Vector Oil Tool Ltd.

EXHIBIT 23.1

CONSENT OF INDEPENDENT AUDITORS

We consent to the incorporation by reference in the following Registration Statements of National-Oilwell, Inc. and in the related Prospectus of our report dated February 3, 1999 with respect to the consolidated financial statements of National-Oilwell, Inc. included in this Annual Report (Form 10-K) for the year ended December 31, 1998.

Form	Description
S-8	Stock Award and Long Term Incentive Plan, Value Appreciation and Incentive Plan A and Value Appreciation and Incentive Plan B (No. 333-15859)
S-8	National-Oilwell Retirement and Thrift Plan (No. 333-36359)
S-8	Post Effective Amendment No. 3 to the Registration Statement on Form S-4 filed on Form S-8 pertaining to the Dreco Energy Services Ltd. Amended and Restated 1989 Employee Incentive Stock Option Plan, as amended, and Employment and Compensation Arrangements Pursuant to Private Stock Option Agreements (No. 333-21191)
S-3	Post Effective Amendment No. 3 to Form S-4 filed on Form S-3 pertaining to the offer to exchange $150,000,000 of 6 7/8% senior notes due 2005 for $150,000,000 of 6 7/8% senior notes due 2005, Series B. (No. 333-53717)
S-3	Registration of 3,000,000 shares of common stock issued to Westburne Inc. (No. 333-72509)

ERNST & YOUNG LLP

Houston, Texas
March 26, 1999

EXHIBIT 23.2

CONSENT OF INDEPENDENT AUDITORS

We consent to the use of our report dated October 21, 1997 with respect to the consolidated financial statements of Dreco Energy Services Ltd. for the twelve months ended November 30, 1996 included in the Current Report (Form 10-K) of National-Oilwell, Inc. dated March 26, 1999 filed with the Securities and Exchange Commission.

Coopers & Lybrand
Chartered Accountants

Edmonton, Alberta
March 26, 1999

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YEAR
DEC-31-1998
JAN-01-1998
DEC-31-1998
11,440
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286,030
4,718
241,987
557,761
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386,242
817,993
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1,172,013
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898,995
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610
12,530
109,313
40,386
68,927
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0
0
68,927
1.31
1.30