

DRIL-QUIP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Organization

Dril-Quip, Inc., a Delaware corporation (the “Company” or “Dril-Quip”), designs, manufactures, sells and services highly engineered offshore drilling and production equipment that is well suited for use in deepwater, harsh environment and severe service applications. The Company’s principal products consist of subsea and surface wellheads, subsea and surface production trees, subsea control systems and manifolds, mudline hanger systems, specialty connectors and associated pipe, drilling and production riser systems, liner hangers, wellhead connectors and diverters. Dril-Quip’s products are used by major integrated, large independent and foreign national oil and gas companies in offshore areas throughout the world. Dril-Quip also provides technical advisory assistance on an as-requested basis during installation of its products, as well as rework and reconditioning services for customer-owned Dril-Quip products. In addition, Dril-Quip’s customers may rent or purchase running tools from the Company for use in the installation and retrieval of the Company’s products.

The Company’s operations are organized into three geographic segments—Western Hemisphere (including North and South America; headquartered in Houston, Texas), Eastern Hemisphere (including Europe and Africa; headquartered in Aberdeen, Scotland) and Asia-Pacific (including the Pacific Rim, Southeast Asia, Australia, India and the Middle East; headquartered in Singapore). Each of these segments sells similar products and services and the Company has major manufacturing facilities in all three of its headquarter locations as well as in Macae, Brazil. The Company’s major subsidiaries are Dril-Quip (Europe) Limited (DQE), located in Aberdeen with branches in Denmark, Norway and Holland; Dril-Quip Asia Pacific PTE Ltd. (DQAP), located in Singapore; Dril-Quip do Brasil LTDA (DQB), located in Macae, Brazil; and DQ Holdings Pty Ltd. (DQH), located in Perth, Australia. Other subsidiaries include Dril-Quip (Ghana) Ltd. located in Takoradi, Ghana, PT DQ Oilfield Services Indonesia located in Jakarta, Indonesia, Dril-Quip (Nigeria) Ltd. located in Port Harcourt, Nigeria, Dril-Quip Egypt for Petroleum Services S.A.E. located in Alexandria, Egypt, Dril-Quip Oilfield Services (Tianjin) Co. Ltd. located in Tianjin, China and Dril-Quip Qatar, LLC located in Doha, Qatar.

2. Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries. All material intercompany accounts and transactions have been eliminated.

Revisions

The Company has corrected its 2013 consolidated balance sheet to reflect a \$4.5 million reclassification adjustment of deferred income tax, which reduced current deferred tax assets and long-term deferred tax liabilities. This adjustment had no impact on the Company’s consolidated statements of income, comprehensive income, cash flows or stockholders’ equity for any periods presented. In addition, the Company corrected its 2013 consolidated balance sheet to reflect a \$6.7 million reclassification from accounts payable and accrued expenses to prepaids and other current assets for vendor prepayments that were originally recorded as a reduction of accounts payable. This adjustment had no impact on the Company’s consolidated statements of income, comprehensive income, or stockholders’ equity for any periods presented. After similar reclassification adjustments were made to its 2012 and 2011 consolidated balance sheets (not presented herein), the Company’s 2013 and 2012 statements of cash flows were revised to reflect the reclassification of \$11.6 million and \$9.4 million, respectively, from changes in prepaids and other assets to changes in accounts payable and accrued expenses. There was no impact on the net cash from operating activities or any other reported cash flow amounts as a result of the reclassifications. The Company has evaluated the impact of these revisions and determined that they were not material.