Confidential
Information Memorandum

OCEAN RIG

Private placement of 26,700,000 new shares of Ocean Rig UDW Inc.

Indicative price range: USD 16.00 to 21.50 per share

You are not eligible to receive or review this Information Memorandum unless: (A) you either (1) are a "qualified institutional buyer" (a "QIB"), as that term is defined in Rule 144A under the Securities Act of 1933, as amended (the "Securities Act"), (2) are not in the United States (as contemplated in Rule 903(a)(1) of Regulation S under the Securities Act) and are not a "U.S. person" (as defined in Rule 902(k) of Regulation S under the Securities Act), or (3) are a dealer or other professional fiduciary organized, incorporated or (if an individual) resident in the United States holding a discretionary account or similar account (other than an estate or trust) for the benefit or account of a non-U.S. person (as contemplated in Rule 903(a)(1) of Regulation S under the Securities Act); and (B) you are able to truthfully make all of the representations set forth in the Investor Letter delivered to you concurrently with this Information Memorandum. Please see "Information as to Placement in the United States".

Joint Lead Managers and Bookrunners

DnB NOR Markets   Fearnley Fonds   Pareto Securities

Co-managers

Nordea   SEB ENSKILDA

December 6, 2010

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Important information

This Information Memorandum has been prepared in connection with a contemplated private placement (the "Private Placement") of 26,700,000 new shares (the "Offer Shares") in Ocean Rig UDW Inc. (hereafter referred to as "Ocean Rig" or "the Company").

The delivery of this Information Memorandum shall under no circumstances create any implication that the information about Ocean Rig contained in this Information Memorandum is correct as of any time subsequent to its dating. **Ocean Rig does not undertake to update the Information Memorandum for any information subsequent to its date.**

Unless otherwise indicated, the source of information contained in this Information Memorandum is Ocean Rig.

The distribution of this Information Memorandum may be restricted by law in certain jurisdictions and persons into whose possession this Information Memorandum may come are required by Ocean Rig and the Managers to inform themselves about, and to observe, any such restrictions. This Information Memorandum may not be used for, or in connection with, any offer, or solicitation of an offer, of shares in any jurisdiction under any circumstances in which such offer or solicitation is not authorized or is unlawful.

Certain statements made in this Information Memorandum may include forward-looking statements. These statements relate to Ocean Rig's expectations, beliefs, intentions or strategies regarding the future. These statements may be identified by the use of words like "anticipate", "believe", "estimate", "expect", "intend", "may", "plan", "project", "will", "should", "seek", and similar expressions. The forward-looking statements reflect Ocean Rig's current views and assumptions with respect to future events and are subject to risks and uncertainties. The forward-looking statements in this document are based upon various assumptions, many of which are based, in turn, upon further assumptions, including without limitation, management's examination of historical operating trends, data contained in the Company's records and other data available from third parties. Although the Company believes that these assumptions were reasonable when made, because these assumptions are inherently subject to significant uncertainties and contingencies which are difficult or impossible to predict and are beyond the Company's control, the Company cannot assure you that it will achieve or accomplish these expectations, beliefs or projections described in the forward-looking statements contained herein. Actual and future results and trends could differ materially from those set forth in such statements.

Important factors that, in the Company's view, could cause actual results to differ materially from those discussed in the forward-looking statements include supply and demand in the offshore drilling market, utilization rates, dayrates, customer drilling programs, capital expenditures, including the timing and cost of completion of capital projects, our ability to successfully employ our drilling units, our ability to procure or have access to financing and our ability to comply with loan covenants, revenues and expenses, tax matters, legal, regulatory and environmental matters.

All inquiries relating to this Information Memorandum or the matters addressed herein should be directed to Ocean Rig or the Managers. No persons other than those described in this Information Memorandum have been authorized to disclose or disseminate information about this Information Memorandum or about the matters addressed in this Information Memorandum. If given, such information may not be relied upon as having been authorized by Ocean Rig.

This Information Memorandum shall be governed by Norwegian law, and any disputes relating to this Information Memorandum or the Private Placement is subject to the sole jurisdiction of Norwegian courts, with Oslo District Court as legal venue.

INFORMATION AS TO PLACEMENT IN THE UNITED STATES

For the Private Placement, the Company is relying upon certain exemptions from the registration requirements of the Securities Act. In making an investment decision with respect to the Offer Shares, investors must rely on their own examination of the Company and the terms of the Private Placement, including the merits and risks involved. The Shares to be issued in the Private Placement have not been recommended by any U.S. federal or state authorities or by any foreign authorities and such authorities have not determined that this Information Memorandum is accurate or complete. Any representation to the contrary is a criminal offence in the United States.

The Offer Shares are being offered and sold only to QIBs and outside the United States to persons other than U.S. Persons or "non-U.S. purchasers," which term shall include dealers or other professional fiduciaries in the United States acting on a discretionary basis for non-U.S. beneficial owners (other than an estate or trust) in reliance upon Regulation S. As used herein, the terms "United States" and "U.S. person" have the meanings given to them in Regulation S.

Each purchaser of Offer Shares, by its acceptance thereof, will be deemed to have acknowledged, represented to and agreed with the Company and with the Managers that such purchaser (A) is not a U.S. Person and is acquiring such Offer Shares for its own account or for the account of a non-U.S. Person in an offshore transaction (as defined in Regulation S) pursuant to an exemption from registration provided by Regulation S or (B) is a QIB, is acquiring such shares for its own account or for the account of one or more other QIBs and is aware (and each beneficial owner of such Offer Shares has been advised) that the sale of such Offer Shares to it is being made in reliance on the exemption provided by Section 4(2) of the Securities Act and/or Rule 506 of Regulation D promulgated thereunder.

Any recipient of this document in the United States is hereby notified that this document has been furnished to it on a confidential basis and may not be reproduced, retransmitted or otherwise redistributed, nor may the contents of this document be disclosed, in whole or in part, without the Company's prior written consent. Furthermore, recipients are authorized to use it solely for the purpose of considering a purchase of the Offer Shares in the Private Placement and may not use any information herein for any other purpose. This document is personal to each offeree and does not constitute an offer to any other person or to the public generally to subscribe for or otherwise acquire the Offer Shares. Any recipient of this document agrees to the foregoing by accepting delivery of this document.

Prior to the purchase of any Offer Shares, you will be required to execute an Investor Representation Letter satisfactory to the Company.

Any investor that is a QIB will be required to make additional representations, acknowledgements and agreements, including the following:

(i) the investor understands that the Offer Shares will not be registered under the Securities Act and will be "restricted securities" (as defined in Rule 144 under the Securities Act) and that the New Shares may not be reoffered, resold, pledged or otherwise transferred, except (A) outside the United States in an offshore transaction pursuant to Regulation S under the Securities Act, (B) to a person who the investor reasonably believes is a QIB in a transaction meeting the requirements of Rule 144A, (C) pursuant to an exemption from registration under the Securities Act provided by Rule 144 thereunder (if available), or (D) pursuant to an effective registration statement under the Securities Act, in each case in accordance with any applicable securities laws of any state of the United States or other jurisdiction;

(ii) the investor has had access to and has received such financial and other information regarding the Company and the Offer Shares as the investor deems necessary in order to make an informed investment decision to subscribe for the Offer Shares. If the investor has had any questions regarding the Company or the Offer Shares, the investor has asked these questions and has received satisfactory answers from representatives of the Company. The investor has not relied on representations, warranties, opinions, projections, financial or other information or analysis, if any, supplied to it by any person other than the Company or any of its affiliates;

(iii) the investor is a sophisticated institutional investor and has such knowledge and experience in financial and business matters as to be capable of evaluating the merits and risks of international investments, including an investment in the Offer Shares. In the normal course of its business, the investor invests in or purchases securities similar to the Offer Shares. The investor is aware that it may be required to bear the economic risk of an investment in the Offer Shares for an indefinite period of time, and it is able to bear such risk for an indefinite period. The investor is able to bear the economic risks of such an investment, including the loss of its entire investment. The investor understands that it may not necessarily be able to liquidate its investment in the Offer Shares;

(iv) the investor has relied upon its own tax, legal and financial advisers in connection with its decision to subscribe for the Offer Shares and believes that an investment in the Offer Shares is suitable for the investor based upon the investor's investment objectives, financial needs and personal contingencies. The investor has no need for liquidity of investment with respect to the payment of the Subscription Amount;

(v) the investor is not acquiring the Offer Shares with a view to or for the purposes of resale, distribution or fractionalization, in whole or in part thereof. The investor has made no agreement with others regarding any of the Offer Shares. The investor is aware that, in the view of the U.S. Securities and Exchange Commission, a subscription of the Offer Shares with an intent to distribute them in connection with any foreseeable, specific contingency or anticipated change in market values, or any change in the condition of the Company, or a contemplated liquidation or settlement of any loan obtained for the acquisition of the Offer Shares and for which the Offer Shares are to be pledged, would, in each case, represent an intent inconsistent with the representations set forth herein. The investor acknowledges that the Company, the Manager and their respective directors, employees, agents, representatives and affiliates will rely on the truth and accuracy of the statements made herein in making any transfer of the Offer Shares to the investor, and that such statements will survive the execution and delivery of the Subscription Agreement and payment for the Offer Shares, and the investor agrees to notify the Company and the Manager promptly in writing if any such statements cease to be accurate and complete;

(vi) the investor agrees that so long as the Offer Shares are "restricted securities" as defined in Rule 144 under the Securities Act, it shall notify each transferee of the Offer Shares from it that (a) such shares have not been registered under the Securities Act; (b) such shares are subject to the restrictions on the resale or other transfer thereof described above; (c) such transferee shall be deemed to have represented that (1) it is a non-US person acquiring the shares in an offshore transaction pursuant to Regulation S under the Securities Act, (2) it is a QIB acquiring the shares in a transaction that complies with the requirements of the exemption from registration provided for in Rule 144A and any applicable laws of the states of the United States, or (3) that it an institutional investor acquiring the shares in a transaction exempt from registration under the Securities Act and that such transferee is not an "underwriter" within the meaning of Section 2(11) of the Securities Act; and (d) such transferee shall be deemed to have agreed to notify its subsequent transferees as to the foregoing.

(vii) The investor has not subscribed to the Offer Shares as a result of any "general solicitation" or "general advertising" in the United States (within the meaning of Rule 502(c) under the Securities Act.

Transfer restrictions

The Shares to be issued in the Private Placement have not been and will not be registered under the Securities Act, or under the securities laws of any state of the United States. Accordingly, the Shares may not be offered, pledged, sold, resold, granted, delivered, allotted or otherwise transferred, as applicable, in the United States, except only in transactions that are exempt from, or in transactions not subject to, registration under the Securities Act and in compliance with any applicable state securities laws.

Because of the following restrictions, prospective investors are advised to consult legal counsel prior to making any resale, pledge or transfer of the Shares. Prospective investors that are U.S. persons or have a registered U.S. address (each a "U.S. Investor") will be required, prior to the purchase of Shares, to execute an Investor Representation Letter in the form provided to each U.S. Person by or on behalf of the Company.

Each U.S. Investor, by participating in the offering described herein and as a condition to such participation, hereby acknowledges that the offer and sale of the Offer Shares are being made in a transaction exempt from the registration requirements of the Securities Act pursuant to Section 4(2) of the Securities Act and each U.S. Investor agrees that it will not re-offer, resell, pledge or otherwise transfer any of such shares except (a) outside the United States in accordance with Rule 903 or 904 of Regulation S under the Securities Act, (b) to a person who the U.S. Investor reasonably believes is a QIB within the meaning of Rule 144A under the Securities Act and who is purchasing for its own account, or the account of another QIB, to whom notice is given that the resale, pledge or other transfer is being made pursuant to Rule 144A, (c) in a transaction that is registered under the Securities Act or (d) pursuant to another exemption from registration under the Securities Act (if available). No representation can be made as to the availability of the exemption from registration provided by Rule 144 for re-sales of the Offer Shares.

Each non-U.S. purchaser of Offer Shares, by participating in the offering described herein and as a condition to such participation, hereby agrees that it will not re-offer, resell, pledge or otherwise transfer any of such shares to a U.S. person for a period of forty (40) days following the settlement of the Offer Shares.

Available Information

The Company agrees that for so long as any of the Offered Shares being offered and sold in the Offering remain outstanding and are “restricted securities” within the meaning of Rule 144(a)(3) under the Securities Act, if at any time the Company is neither subject to Section 13 or 15(d) under the U.S. Securities Exchange Act of 1934, as amended (the “Exchange Act”) nor the reporting requirements under the Exchange Act pursuant to Rule 12g3-2(b) thereunder, the Company will furnish to any shareholder or to a prospective purchaser of the Offered Shares designated by such shareholder the information specified in, and meeting the requirements of, Rule 144A(d)(4) under the Securities Act, upon the written request by such shareholder.

Service of Process; Enforcement of Liability

The Company is a corporation organized under the laws of the Republic of the Marshall Islands and is prior to the private placement contemplated herewith a wholly-owned subsidiary of DryShips Inc. (NASDAQ:DRYS), a Marshall Islands corporation. The directors of the Company and executives reside in various jurisdictions. As a result, it may not be possible for investors (i) to effect service of process in other jurisdictions upon such persons or the Company, (ii) to enforce judgments on such persons or the Company in other jurisdictions, or (iii) enforce against any such persons or the Company a judgment obtained in a United States court predicated upon the civil liability provisions of the securities laws of the United States or territory within the United States.

Statements of responsibility

The Board of Directors

This Information Memorandum has been prepared in order to provide a description of Ocean Rig's business in connection with the Private Placement.

The Board of Directors acknowledges responsibility for the information contained in this Information Memorandum and confirms that, to the best of its knowledge, the information presented herein is correct and contains no omissions likely to affect the information contained in this Information Memorandum.

Statements in the Information Memorandum about current and future market conditions and prospects for the Company have been made on a best judgement basis.

Majuro, Republic of the Marshall Islands, December 6, 2010
The Board of Directors of Ocean Rig UDW Inc.

Definitions, terms and abbreviations

Company definitions

Company, Ocean Rig	Ocean Rig UDW Inc., a Marshall Islands corporation, and, unless the context requires otherwise, its consolidated subsidiaries.
Cardiff	Cardiff Marine Inc., Group of Companies, companies controlled by Mr. George Economou, the Company's President and Chief Executive Officer and the Chairman and Chief Executive Officer of DryShips.
DryShips...............................	DryShips Inc., a Marshall Islands corporation, and, unless the context requires otherwise, its consolidated subsidiaries. DryShips is the sole shareholder of the Company prior to the Private Placement. DryShips is a publicly traded company whose shares are listed on the NASDAQ Global Select Market under the symbol "DRYS".
Samsung	Samsung Heavy Industries Co., Ltd, a corporation incorporated under the laws of the Republic of Korea

Other definitions and abbreviations

Information Memorandum ...	This information memorandum, including all appendices hereto
IPO	An initial public offering of the Company's shares by way of listing on Oslo Børs and/or another recognised stock exchange
Managers..............................	DnB Nor Markets, Fearnley Fonds ASA, and Pareto Securities AS are joint lead managers and joint bookrunners. Nordea Markets and SEB Enskilda are co-managers
NOK	Norwegian Kroner, the lawful currency of the Kingdom of Norway
Offer Shares	Shares in the Company being offered through the Private Placement.
Private Placement.................	The contemplated offering of 26,700,000 new shares in the Company
USD, $.................................	United States Dollars, the lawful currency of the United States of America
VPS	Verdipapirsentralen, the Norwegian Central Securities Depositary

1. Terms and conditions of the Private Placement

1.1 Share capital prior to the Private Placement

As of the date of this Information Memorandum, the Company's authorized capital stock consists of 500 common shares, par value $20.00 per shares, all of which are owned by DryShips Inc. ("DryShips"). Prior to the completion of this offering, the Company intends to (i) adopt amended and restated articles of incorporation pursuant to which its authorized capital stock will consist of 250,000,000 common shares, par value $0.01 per share; and (ii) declare and pay a stock dividend of 103,125,000 shares of its common stock to its sole shareholder, DryShips, implying that the the number of issued and outstanding common shares in the in the Company will be 103,125,500 each of par value $0.01. For a more detailed discussion of the Company's common shares, see Section 6.2 below.

1.2 The Private Placement

The Private Placement consists of an offering of 26,700,000 common shares (the "Offer Shares"). Following the completion of the Private Placement, the Company will have 129,825,500 common shares issued and outstanding, of which 103,125,500 shares, or approximately 79.4%, will be owned by DryShips.

The number of Offer Shares may be increased by up to 4,000,000 shares to a maximum of 30,700,000 shares.

The Offer Shares are being offered to institutional investors and other professional investors in Norway and outside the United States in reliance upon Regulation S under the Securities Act and to QIBs in the United States. See "Information as to Placement in the United States" for important information concerning the Private Placement and transfer restrictions related to the Offer Shares.

Share price

The subscription price for the Offer Shares is expected to be between USD 16.00 and USD 21.50 per share. The share price will be finally determined by the Company in consultation with the Managers on the basis of a book-building process conducted as part of the Private Placement and could be within, below or above the range set out above.

Proceeds

The gross proceeds to the Company from the Private Placement are estimated to be approximately USD 500 million, assuming that the Offer Shares are priced in the middle of the range set out above.

Order period

Applications for Offer Shares must be made in the period December 6, 2010 to December 15, 2010, at 22:00, Oslo time. The Company and the Managers reserve the right to end the order period earlier as well as to extend the order period.

Order procedures

Orders in the Private Placement must be in an amount of a minimum of USD 100,000. Orders in lower amounts will be rejected.

Orders for Offer Shares must be submitted in accordance with the terms of the Subscription Agreement before the end of the order period to one of the Managers.

By placing an order for Offer Shares, each investor will authorize the Managers to subscribe on its behalf for the Offer Shares allotted to it in the Private Placement.

Orders are binding once received by a Manager and may not be withdraws after such time.

An investor applying for Offer Shares in the Private Placement will be deemed to have accepted the terms and conditions set out herein and in the separate Subscription Agreement.

Allotment

Allotment of the Offer Shares will take place after the expiration of the offer period. The Board of Directors may at its sole discretion determine to reject and/or reduce an order, in whole or in part on the final allocation or to cancel the Private Placement.

The Managers will assist the Board of Directors by providing advice on the allotment process and will, in doing so, place emphasis on various factors in accordance with normal business practice and in light of orders received and the total order book. It is envisaged that particular emphasis will be placed on early orders, investment history, and size of the application.

The Managers will inform each of the subscribers of their allotted number of Offer Shares as soon as practicable after the allocation has been resolved by the Board of Directors.

Settlement

Delivery of the Offer Shares in the VPS at a settlement date determined by the Managers, currently expected to be on December 21, 2010 will be made against payment therefor in immediately available funds to the account of the Company.

Delivery of the allocated shares may be made by delivery of existing and unencumbered shares in the Company, in which case the delivery of such existing shares shall constitute a full discharge of the Company's obligations to the subscriber pursuant to the subscription agreement.

Overdue payments will be charged with an interest rate at 9% p.a. If the subscriber fails to comply with the terms of payment, the Managers and the Company reserve the right to, at any time after the settlement date, cancel the order, let another person apply for the allotted shares in whole or in part, and/or to sell all or part of the allotted shares for the applicant's account and risk (however, the original subscriber will not be entitled to any gain) in accordance with applicable regulations. The original subscriber will be liable for any damage, loss, cost or expense suffered or incurred by the Company or the Managers as a result of or in connection with such re-sale and/or the original subscriber's failure to make timely payment.

Share description

All shares in the Company are of the same class and carry equal rights in all respects. The Offer Shares will rank *pari passu* with the existing shares of the Company once issued.

The shares will be registered in VPS with Nordea Bank Norge ASA as registrar. The ISIN number of the shares will be MHY643541060. Additional description of the Company's shares is found in Section 6.1.

Managers

The joint lead managers and joint bookrunners for the Private Placement are DnB Nor Markets, Fearnley Fonds ASA and Pareto Securities AS. Nordea Markets and SEB Enskilda are co-managers. None of the managers or their employees hold shares or other interests in the Company.

1.3 Conditions

Closing of the Private Placement is conditional upon the following conditions being met on or prior to December 21, 2010:

(i) the Company having obtained valid orders for Offer Shares in the Private Placement for an aggregate amount of no less than USD 500 million;

(ii) approval of the final terms of the Private Placement by the Board of Directors of the Company;

(iii) filing of the Company's amended and restated articles of incorporation with the Registrar of Corporations of the Republic of the Marshall Islands;

(iv) the distribution to DryShips of 103,125,000 common shares of the Company as a share dividend.

The conditions set forth above shall be deemed to have been satisfied upon the written confirmation to such effect by the Managers, which shall so act on behalf of all Subscribers in the Private Placement.

Neither the Company nor either of the Managers makes any representation or covenant that any or all of the above conditions will be satisfied, and they shall have no liability whatsoever to the subscribers for the failure of any of such conditions to be satisfied.

1.4 Listing and trading of the shares

The Company intends to apply for listing of its shares on Oslo Børs as soon as practically possible, with the objective of having its application considered by a board meeting of Oslo Børs not later than June 30, 2011.

Any prospective investor should be aware that the listing is dependent on the consent of the Board of Oslo Børs and that such consent may require the waivers of certain listing requirements.

In connection with the application for listing on Oslo Børs, the Company envisages that an additional equity offering will be made for the purpose of obtaining a broader shareholder base. It is currently envisaged that the amount of equity to be raised in such offering will be approximately USD 10 million.

Until listing can commence on Oslo Børs, the shares will be traded in the OTC market maintained by the Norwegian Association of Stockbroking Companies.

2. Company and business overview

2.1 Company overview

Ocean Rig is an international offshore drilling contractor providing oilfield services for offshore oil and gas exploration, development and production drilling, and specializing in the ultra-deepwater and harsh-environment segment of the offshore drilling industry. The Company currently owns and operates two ultra-deepwater semi-submersible offshore drilling rigs, the *Leiv Eiriksson* and the *Eirik Raude*, and has newbuilding contracts with Samsung for the construction of four state-of-the-art advanced capability ultra-deepwater drillships identified until their delivery as Samsung Hulls 1837, 1838, 1865 and 1866. These newbuilding drillships are currently scheduled for delivery in January, March, July and September 2011, respectively. Each of these newbuilding drillships is a "sister-ship" and is expected to be delivered to the Company on time and on budget.

As of September 30, 2010, as adjusted for a payment of $47.8 million in October 2010, the Company has made $859.7 million of construction and construction-related payments for Samsung Hulls 1837 and 1838, consisting of $815.0 million in construction payments under the shipyard contracts and $44.7 million in construction-related expenses, and the remaining construction and construction-related payments for these two drillships aggregate to approximately $658.9 million, consisting of (i) in respect of Samsung Hull 1837 (a) construction payments in the amount of $287.6 million and (b) other construction-related expenses, such as equipment purchases, commissioning and supervision, excluding financing costs, of $35.3 million; and (ii) in respect of Samsung Hull 1838 (a) construction payments in the amount of $286.8 million due in March 2011 and (b) other construction-related expenses of $49.2 million.

As of September 30, 2010, as adjusted for a payment of $52.0 million in November 2010, the Company has made $711.2 million of construction and construction-related payments for Samsung Hulls 1865 and 1866, consisting of $697.6 million in construction payments under the shipyard contracts and $13.6 million in construction-related expenses, and the remaining construction and construction-related payments for Samsung Hulls 1865 and 1866 aggregate to approximately $856.8 million, consisting of (i) in respect of Samsung Hull 1865 (a) construction payments in the amount of $357.1 million of which $52.0 million is due in April 2011 and $305.1 million is due in July 2011, and (b) other construction-related expenses, excluding financing costs, of $47.3 million; and (ii) in respect of Samsung Hull 1866 (a) construction payments in the amount of $408.8 million of which $104.0 million is due in March 2011 and $304.8 million is due in September 2011, and (b) other construction-related expenses, excluding financing costs, of $43.6 million.

Upon the completion of this offering and, provided that the Company finds suitable employment for Samsung Hulls 1865 and 1866 prior to May 2011 as required by the related loan agreements, it is expected that the remaining financing requirement for the four newbuilding drillships will be approximately $174 million, assuming that $100 million of the proceeds from this Private Placement will have been used to purchase the four drillship options for a consideration of $100 million. See Section 2.8.

The keel for the first of the Company's drillships, the Samsung Hull 1837, was laid in February 2010, and the keels for the remaining drillships were laid in June 2010, August 2010 and September 2010 in respect of Samsung Hulls 1837, 1865 and 1866 respectively. Samsung Hull 1837 was launched in April 2010 and is under construction in the water, and launching took place in July and September 2010 for Samsung Hulls 1838 and 1865, respectively. Samsung Hull 1866 is expected to be launched in December 2010. When delivered, the Company believes these drillships, which are S10000E designed, will be among the most technologically advanced drillships in the world. The S10000E design was originally introduced in 1998 and a total of 16 drillships have been constructed using this design (including drillships with slightly modified designs). Among other technological enhancements, the Company's drillships are equipped with dual activity drilling technology, which involves two drilling systems using a single derrick that permits two drilling-related operations to take place simultaneously, which the Company estimates to save 15-40% in drilling time depending on the well parameters. Each of the four newbuilding drillships is capable of drilling 35,000 feet at water depths of up to 10,000 feet. The Company currently has a large team overseeing the construction of its four newbuilding drillships at Samsung to help ensure that those drillships are built to the Company's exact specifications and on budget.

2.2 History of the Company

The Company was formed under the laws of the Republic of the Marshall Islands on December 10, 2007, under the name Primelead Shareholders Inc., and as a wholly-owned subsidiary of DryShips Inc., a publicly traded company whose shares are listed on the NASDAQ Global Select Market under the symbol "DRYS".

The Company's predecessor, Ocean Rig ASA, was incorporated on September 26, 1996 under the laws of Norway and contracted for the construction of the Company's two operating drilling rigs, as well as two other newbuilding drilling rigs that were subsequently sold. The *Leiv Eiriksson* and the *Eirik Raude* commenced operations in 2001 and 2002, respectively, under contracts with leading oil and gas companies. The shares of Ocean Rig ASA traded on Oslo Børs from January 1997 to July 2008.

The Company's wholly-owned subsidiary Primelead Limited, a corporation organized under the laws of the Republic of Cyprus, was formed on November 16, 2007 for the purpose of acquiring shares of Ocean Rig ASA. On December 20, 2007, Primelead Limited, acquired 51,778,647 shares, or approximately 30.4% of the outstanding capital stock of Ocean Rig ASA, following its nomination as a buyer from Cardiff Marine Inc., a company controlled by Mr. George Economou, the Company's Chief President and Executive Officer and the Chairman and Chief Executive Officer of DryShips Inc., the Company's parent company. Ocean Rig UDW Inc. acquired all of the outstanding shares of Primelead Limited in December 2007. After acquiring an additional 33% of Ocean Rig ASA's outstanding shares on April 22, 2008, the Company launched a mandatory offer for the remaining shares of Ocean Rig ASA at a price of NOK45 per share ($8.89 per share) as required by Norwegian law. On May 9, 2008, the Company concluded a guarantee facility of NOK5.0 billion (approximately $974.5 million) and a term loan of $800.0 million (collectively, the "Acquisition Facility") in order to guarantee the purchase price of the Ocean Rig ASA shares to be acquired through the mandatory offer, to finance the acquisition cost of the Ocean Rig ASA shares and to refinance existing debt. The Company acquired additional shares and gained control over Ocean Rig ASA on May 14, 2008. The results of operations related to the acquisition are included in the consolidated financial statements as of May 15, 2008. The Company held 100% of the shares of Ocean Rig ASA (163.6 million shares) as of July 10, 2008 that it acquired at a total cost of $1.4 billion. With respect to the transaction described above, DryShips Inc. purchased 4.4% of the share capital of Ocean Rig ASA from companies affiliated with the Company's Chairman and President.

On March 5, 2009, DryShips Inc. contributed all its equity interests in the buying companies of Samsung Hulls 1865 and 1866 to the Company.

On May 15, 2009, the Company closed a transaction to acquire the equity interests of the companies buying the Samsung Hulls 1837 and 1838, which were owned by clients of Cardiff, including certain entities affiliated with Mr. Economou. As part of this transaction, the Company assumed the liabilities for two $115.0 million loan facilities. As consideration for the acquisition, the Company issued to the sellers a number of common shares equal to 25% of its total issued and outstanding common shares as of May 15, 2009.

On July 15, 2009, DryShips Inc. acquired the remaining 25% of the Company's total issued and outstanding capital stock from the minority interests held by certain unrelated entities and certain parties related to Mr. George Economou. The consideration paid for the 25% interest consisted of a one-time $50.0 million cash payment and the issuance of DryShips Inc. Series A Convertible Preferred Stock with an aggregate face value of $280.0 million. Following such acquisition, the Company became a wholly-owned subsidiary of DryShips Inc.

2.3 Fleet information

The following table summarizes key information about the Company's offshore drilling units as of the date of this Information Memorandum:

Operating drilling units (semisubmersibles):

Name	Year built / gen.	Design	Water depth to the wellhead (ft)	Drilling depth to the oil field (ft)	Customer	Contract end date	Dayrate (maximum)	Location
Leiv Eiriksson	2001 / 5th	Trosvik Bingo 9000	7,500	30,000	Petrobras	Q4 2012	$583,000 (1)	Black Sea
Eirik Raude	2002 / 5th	Trosvik Bingo 9000	10,000	30,000	Tullow Oil	Q4 2011	$647,000 (2)	Ghana

Drilling units under construction (drillships):

Hull	Name	Scheduled delivery	Type / design	Water depth to the wellhead (ft)	Drilling depth to the wellhead (ft)
Samsung Hull 1837	*Ocean Rig Corcovado*	Q1 2011	D8 / S10000E	10,000	35,000
Samsung Hull 1838	*Ocean Rig Olympia*	Q1 2011	D8 / S10000E	10,000	35,000
Samsung Hull 1865	*Ocean Rig Poseidon*	Q3 2011	D8 / S10000E	10,000	35,000
Samsung Hull 1866	*Ocean Rig Mykonos*	Q3 2011	D8 / S10000E	10,000	35,000

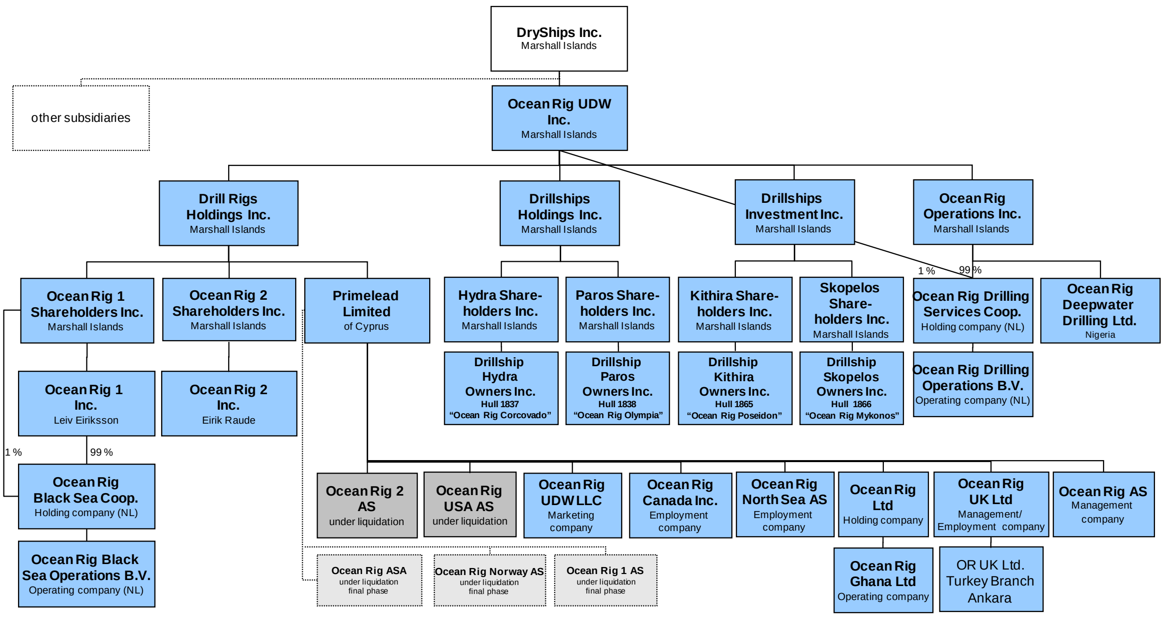
(1) The maximum dayrate of $583,000 includes a maximum 8% incentive bonus, which is the maximum that the Company can achieve based on operational performance. From drilling operations commencement February 24, 2010, to September 30, 2010, the rig had an earnings efficiency of 94%.

(2) The dayrate is escalated each year by $18,000. The rig is currently operating offshore of Ghana at a maximum dayrate of $647,000. In 2011, the maximum dayrate will increase to $665,000 and will be effective until the expiration of the contract. From October 9, 2008 through September 30, 2010, the rig had an earnings efficiency of 98%.

2.4 Structure overview

Prior to the Private Placement, the Company is a wholly-owned subsidiary of DryShips Inc. (NASDAQ:DRYS), a Marshall Islands corporation. Overall responsibility for the activities of Ocean Rig UDW Inc. rests with its board of directors and the Company's corporate headquarters will be located in Nicosia, Cyprus. The Company's wholly-owned management subsidiary, Ocean Rig AS, is located at Vestre Svanholmen 6, Forus N-4313, Sandnes, Norway. The Company's management subsidiary's telephone number at that address is +47-51969000. Please see the public filings of Dryships Inc. that may be accessed free of charge on the U.S. Securities and Exchange Commission's website at www.sec.gov.

An illustration of the Company's organizational structure is provided by the chart below.



2.5 Business strategy

The Company's business strategy is predicated on becoming a world leader in the offshore ultra-deepwater drilling industry and providing customers with high quality service and state-of-the-art drilling equipment. The following outlines the primary elements of this strategy:

Create a credible and competitive "pure play" model in the ultra-deepwater and harsh environment markets. The Company's mission is to become the preferred offshore drilling contractor in the ultra-deepwater and harsh environment regions of the world and to deliver excellent performance to its clients, exceeding their expectations for operational efficiency and safety standards. The Company believes its four newbuilding drillships will be among the most technologically advanced in the world and over time, and the Company plans to grow its drillship fleet to allow it to continue to meet its customers' demands while optimizing its fleet size from an operational and logistical perspective.

Capitalize on the unique operating capabilities of the Company's drilling units. The Company plans to capitalize on the operating capabilities of its drilling units by entering into attractive contracts. The focus of the Company's marketing effort is to maximize the benefits of the drilling units' ability to operate in ultra-deepwater drilling locations. The Company aims to secure firm contracts for the drilling units, at or near the highest dayrates available in the industry at that time while balancing appropriate contract lengths. As the Company works towards its goal of securing firm contracts for its drilling units at attractive dayrates, the Company believes that it will be able to differentiate itself based on its prior experience operating drilling rigs and its safety record. Over the past nine years, the Company together with its predecessor, Ocean Rig ASA, has drilled 87 wells in 12 countries for 19 clients and operated in some of the harshest weather conditions.

Maximize drillships' utilization and profitability. The Company aims to maximize the revenue generation of its drillships by minimizing the days its drillships are off-hire due to severe weather conditions and periods between employments. The Company has a proven track record of optimizing equipment utilization. The *Leiv Eiriksson* has been operating in the Black Sea, and has per October 31, 2010 maintained a 95% earnings efficiency since commencing operations under the Petrobras contract in February 2010. The *Eirik Raude* has been operating offshore of Ghana, maintaining a 98% earnings efficiency since commencing the Tullow Oil contract in October 2008. In preparation for the delivery of the drillships, the Company has already recruited the majority of the middle to senior level crew required for Samsung Hull 1837, with the remainder of the crew to be sourced locally depending upon the area of operation, and the Company has also recruited a significant portion of the crew required for Samsung Hull 1838.

Continue to prioritize safety and have it as a key focus of the Company's operations. The Company believes safety is of paramount importance to its customers and a key differentiator for Ocean Rig. Despite operating under severely harsh weather conditions, the Company has a proven track record of high efficiency deepwater and ultra-deepwater operations. The Company through its subsidiaries employs approximately 520 people and has been operating ultra-deepwater drilling rigs since 2001. The Company together with its predecessor, Ocean Rig ASA, has a strong history with 87 wells drilled in 12 countries for 19 different customers over the past nine years. The Company has extensive experience from working in regulatory regimes across the globe, including Eastern Canada, Angola, Congo, Cuba, Ireland, the Gulf of Mexico, the U.K., West of Shetlands, Norway including the Barents Sea, Ghana and Turkey. The Company has a zero incident philosophy embedded in its corporate culture, which is reflected in its policies and procedures. Both rigs have a valid and updated safety case as per U.K. Health and Safety Executive (HSE) regulations, and both hold a Norwegian sector certificate of compliance (called an Acknowledgement of Compliance). In the period from 2007 to July 2010, the Company has operated the *Eirik Raude* without a single "lost time incident". The *Leiv Eiriksson* operated without a lost-time incident during 2007 and 2008 and has been operating for the last 4 years with a total of only three such incidents. Similarly, the work on the four drill ships currently under construction in Korea has been carried out without a single "lost time incident" to date. The Company believes that this safety record has enabled it to hire and retain highly-skilled employees, thereby improving its overall operating and financial performance. The Company expects to continue its track record and commitment to safety across all of its operations by investing in the latest technologies, performing regular planned maintenance on its drilling units, and investing in the training and development of new safety programs for its employees. The Company requires the active commitment to, and support of, HES&Q (health, environment, safety & quality) from all employees. In addition, line management has a leadership role in the communication and implementation of, and ensuring compliance with, HES&Q policies, standards and procedures. In addition, the Company has developed a separate "CARE for Safety Philosophy" program to further promote, implement and sustain a positive HES&Q culture within the Company. All offshore employees are required to complete the "CARE for Safety" behavioral HES&Q program to ensure proper introduction and familiarization with the principles of this philosophy and further the elements of the Company's HES&Q Management System, which contributes to the Company's safety track record.

Implement and sustain a competitive cost structure. The Company believes that it has a competitive cost structure due to its operating experience and successful employee retention policies. The Company believes that its retention of highly-skilled personnel leads to significant transferable experience and knowledge of drilling rig operation through deployment of seasoned crews across the fleet. By focusing on the ultra-deepwater segment the Company believes that it is able to design and implement best-in-class processes to streamline its operations and improve efficiency. As the Company grows, it hopes to benefit from significant economies of scale due to an increased fleet size and future construction of sister ships to Samsung Hulls 1837, 1838, 1865 and 1866, where the Company expects to benefit from the standardization of these drilling units resulting in lower training and operating costs. In addition, the drillships have high-end specifications, including advanced technology and safety features, and, therefore, the Company expects that the need for upgrades will be very limited. The increase from two to six drilling units will most likely bring more than one unit into each drilling region, and the Company expects to benefit from economies of scale and improved logistic coordination managing more units from the same onshore bases.

2.6 Contract drilling services

The Company's contracts to provide offshore drilling services and drilling units are individually negotiated and vary in their terms and provisions. The Company generally obtain its contracts through competitive bidding against other contractors. The contracts for the Company's drilling units typically provide for compensation on a "dayrate" basis under which the Company is paid a fixed amount for each day that the vessel is operating under a contract at full efficiency, with higher rates while the drilling unit is operating and lower rates for periods of mobilization or when drilling operations are interrupted or restricted by equipment breakdowns, adverse environmental conditions or other conditions beyond the Company's control. Under most dayrate contracts, the Company pays the operating expenses of the rig or drillship, including planned rig maintenance, crew wages, insurance and the cost of supplies.

A dayrate drilling contract generally extends over a period of time covering either the drilling of a single well or group of wells or covering a stated term, as do the current contracts for the Company's drilling rigs. Currently, there is no spot market for offshore drilling units. The length of shorter-term contracts is typically from 60 to 365 days and the longer-term contracts are typically from two to five years. From time to time contracts with customers in the offshore drilling industry may contain terms whereby the customer has an option to cancel upon payment of an early termination payment, but where such payments may not fully compensate for the loss of the contract. Contracts also customarily provide for either automatic termination or termination at the option of the customer typically without the payment of any termination fee, under various circumstances such as major nonperformance, in the event of substantial downtime or impaired performance caused by equipment or operational issues, or sustained periods of downtime due to force majeure events. Many of these events are beyond the Company's control. The contract term in some instances may be extended by the client exercising options for the drilling of additional wells or for an additional term. The Company's contracts also typically include a provision that allows the client to extend the contract to finish drilling a well-in-progress.

The Company expects that provisions of future contracts will be similar to those in its current contracts for its drilling units.

2.7 Contract overview

The section below makes reference to various clients of the Company. As used herein, "Petrobras" refers to Petrobras Oil & Gas BV, "Tullow" refers to Tullow Oil plc, "Borders" refers to Borders & Southern Petroleum plc, and "Vanco" refers to Vanco Exploration.

Semi-submersible drilling rig *Leiv Eiriksson*

On April 8, 2009 the Company entered into a three-year contract with Petrobras for drilling operations in the Black Sea, offshore of Turkey, at an operating dayrate between $540,000 and $583,000, which is the maximum the Company can achieve assuming receipt of a maximum 8% performance bonus. The contract was originally scheduled to expire in October 2012, however, under the rig swap agreement described for the Samsung Hull 1865 (to be named *Ocean Rig Poseidon*), the *Leiv Eiriksson* will effectively be released on May 1, 2011.

On November 18, 2010, the Company received a Letter of Intent from a British energy company for a term based contract period for drilling operations in the Northern Atlantic basin at a maximum operating day rate of $550,000. In addition, the client shall pay a mobilization fee of $7 million plus fuel coverage from Mediterranean to the North Atlantic. The mobilization period will start in direct continuation from the agreed release date from Petrobras, estimated to May 1, 2011, and the term contract period will expire October 31, 2011. The Letter of Intent is valid until close of business December 7, 2010. The Letter of Intent is subject to board approval by both parties.

Semi-submersible drilling rig *Eirik Raude*

In October 2008, the *Eirik Raude* commenced a three-year contract with Tullow that is scheduled to expire in October 2011. The dayrate under the contract is escalated on February 15th of each year by $18,300 (with such increases effective in February 2009 and February 2010). The drilling rig is currently operating offshore of Ghana at a maximum dayrate of $647,000. On February 15, 2011, the dayrate will increase to a maximum of $665,000 and will be effective until the expiration of the contract. The contract is scheduled to expire on October 9 2011.

On November 26, 2010 the Company entered into a contract with Borders for a two-well contract for drilling operations offshore the Falkland Islands at a maximum operating dayrate of $540,000. In addition, Borders will pay a mobilization/demobilization fee of $28 million including fuel. The contract also includes the possibility for Borders to extend the contract period up to five wells based upon certain notification periods, with an overall day rate adjustment to $515,000. The contract will commence in direct continuation from the Tullow contract, and the estimated duration for a two well program including mobilization/demobilization periods is 170 days.

Samsung Hull 1837, to be named *Ocean Rig Corcovado*

On November 18, 2010, the Company received a Letter of Intent from a British energy company for a 6 months firm contract period from June 1, 2011 for drilling operations in the Northern Atlantic basin at a maximum operating day rate of $560,000. In addition, the client will pay a mobilization fee of $17 million plus fuel coverage, and winterization upgrading costs of $12 million plus coverage of four weeks extra yard stay costs at $200,000 per day. The Letter of Intent is valid until close of business December 7, 2010. The Letter of Intent is subject to board approval by both parties.

Samsung Hull 1838, to be named *Ocean Rig Olympia*

On October 11, 2010, the Company entered into a contract with Vanco for a 5 well contract in Ghana / Ivory Coast at a maximum operating dayrate of $415,000. In addition, Vanco shall pay a daily mobilization rate of $ 180,000 plus fuel coverage. The contract also includes the possibility for Vanco to extend the contract period for 1 well + 1 year period upon providing a notification by no later than the date on which the second well reaches its target depth.

Samsung Hull 1865, to be named *Ocean Rig Poseidon*

On November 5, 2010, the Company entered into an agreement with Petrobras for a “Rig Swap” agreement from the *Leiv Eiriksson* to the *Ocean Rig Poseidon*. The agreement is subject to board approval by both parties. The agreement includes that the *Leiv Eiriksson* will be released by May 1, 2011 from the existing contract and replaced by the *Ocean Rig Poseidon* delivered from yard. The operating dayrate shall be $540,000 plus a bonus of maximum 8% for 540 days. A separate day rate of $409,825 has been agreed for up to 60 days during moving periods between countries. Mobilization day rate to be $317,000 plus fuel coverage.

Samsung Hull 1866, to be named *Ocean Rig Mykonos*

The *Ocean Rig Mykonos* has no employment contract commitments in place as per the date of this Information Memorandum, and is available from yard September 30, 2011.

2.8 Drillship options

On November 22, 2010, DryShips entered into an option contract with Samsung for up to four ultra deepwater drillships. The new orders would be sisterships of the drillships under construction with further upgrades to the specification. Each of the four options can be declared within twelve months of this agreement. Depending on when the options are declared, deliveries are ranging from 2013 until 2014, or as determined by Samsung at its reasonable discretion. The total project cost is estimated to be about $600 million per drillship. The agreement includes a non-refundable slot reservation fee of $24.8 million per drillship that will be applied towards the drillship contract price if the options are exercised.

In connection with the Private Placement contemplated herewith, these option contracts will be transferred to Ocean Rig at the cost paid by DryShips. Accordingly, Ocean Rig will pay a total of $99 million to DryShips out of the net proceeds from the Private Placement.

2.9 Customers

The Company's prospective customers generally fall within three categories: national oil companies, large integrated major oil companies and medium to smaller independent exploration and production companies. The Company, together with its predecessor, Ocean Rig ASA, has an established history with 87 wells drilled in 12 countries for 19 different customers. During 2009, the Company's drilling contracts with Shell and Tullow Oil accounted for 38% and 62% of the total consolidated annual revenues, respectively. During May 14 through December 31, 2008, the Company's drilling contracts with Shell, accounted for 54%, Exxon for 26% and Tullow Oil for 20% of the total consolidated annual revenues. During 2007, Ocean Rig UDW Inc. had no revenues, as Ocean Rig ASA was not fully consolidated in any period.

2.10 Competition

The offshore contract drilling industry is competitive with numerous industry participants, few of which at the present time have a dominant market share. The drilling industry has experienced consolidation in recent years and may experience additional consolidation, which could create additional large competitors. Many of the Company's competitors have significantly greater financial and other resources, including more drilling units, than the Company. The Company competes with offshore drilling contractors that together have approximately 156 deepwater and ultra-deepwater drilling units worldwide, defined as units with water depth capacity of 3,000 feet or more.

The offshore contract drilling industry is influenced by a number of factors, including global demand for oil and natural gas, current and anticipated prices of oil and natural gas, expenditures by oil and gas companies for exploration and development of oil and natural gas and the availability of drilling rigs. In addition, mergers among oil and natural gas exploration and production companies have reduced, and may from time to time reduce, the number of available customers.

Drilling contracts are traditionally awarded on a competitive bid basis. Intense price competition is often the primary factor in determining which qualified contractor is awarded a job. Customers may also consider unit availability, location and suitability, a drilling contractor's operational and safety performance record, and condition and suitability of equipment. The Company believes that it competes favorably with respect to these factors.

The Company competes on a worldwide basis, but competition may vary significantly by region at any particular time. Competition for offshore units generally takes place on a global basis, as these units are highly mobile and may be moved, at a cost that may be substantial, from one region to another. Competing contractors are able to adjust localized supply and demand imbalances by moving units from areas of low utilization and dayrates to areas of greater activity and relatively higher dayrates. Significant new unit construction and upgrades of existing drilling units could also intensify price competition.

3. Board, management and employees

3.1 Directors, executive officers and key employees

Set forth below are the names, ages and positions of the directors and executive officer of Ocean Rig UDW Inc. and the executive officers and key employees of certain of its subsidiaries. Members of the board of directors are elected annually. Each director elected holds office until his successor shall have been duly elected and qualified, except in the event of his death, resignation, removal, or the earlier termination of his term of office. As of the date of this Information Memorandum, Mr. George Economou and Mare Services Limited serve on the Company's board of directors. Prior to the completion of this offering, the Company intends to appoint the four directors set out and further described below, and Mare Services Limited will resign. As of the date of this Information Memorandum, Dr. Adriano Cefai serves as the Company's Executive Vice President and Treasurer. It is intended that Dr. Cefai will resign from the Company prior to the completion of the offering. Officers are appointed from time to time by the board of directors of Ocean Rig UDW Inc. or the relevant subsidiary, as applicable, and hold office until a successor is appointed.

Directors and executive officers		
Name	*Age*	*Position*
George Economou	57	President and Chief Executive Officer, Chairman and director
Pankaj Khanna	40	Intended director
Michael Gregos	39	Intended director
Trygve Arnesen	53	Indended director
Savvas D. Georghiades	60	Indended director
Principal officers of operating subsidiaries		
Name	*Age*	*Position*
Jan Rune Steinsland	50	Chief Financial Officer
Frank Tollefsen	48	Senior Vice President, Operations
John Rune Hellevik	51	Senior Vice President, Marketing & Procurement
Ronald Coull	49	Senior Vice President, Human Resources
Rolf Håkon Holmboe	44	Vice President, Health, Safety, Environment & Quality

The intended directors Messrs. Gregos and Arnesen have no direct or indirect material relationship with the Company or its affiliates that could reasonably be expected to interfere with the exercise of such director's independent judgment. The Board of Directors intends to appoint Messrs. Gregos and Arnesen as members of the Company's audit committee.

Biographical information with respect to the above individuals is set forth below.

George Economou was appointed President and Chief Executive Officer of the Company on September 2, 2010, and Chairman and director in December 2010. Mr. Economou has over 25 years of experience in the maritime industry. He has served as Chairman, President and Chief Executive Officer of DryShips Inc. Inc since January 2005. He successfully took the Company public in February 2005, on the NASDAQ Global Market under the trading symbol "DRYS". Mr. Economou has overseen the Company's growth into one of the largest US-listed dry bulk companies in fleet size and revenue and one of the largest Panamax owners in the world. Mr. Economou began his career in 1976 when he commenced working as a Superintendent

Engineer in Thenamaris Ship Management in Greece. From 1981-1986 he held the position of General Manager of Oceania Maritime Agency in New York. Between 1986 and 1991 he invested and participated in the formation of numerous individual shipping companies and in 1991 he founded Cardiff Marine Inc., Group of Companies. Mr. Economou is a member of ABS Council, Intertanko Hellenic Shipping Forum, and Lloyds Register Hellenic Advisory Committee. Mr. Economou is a graduate of Athens College, and completed his higher education in the United States at the Massachusetts Institute of Technology in Boston, in 1976; he earned both a Bachelor of Science and a Master of Science degree in Naval Architecture and Marine Engineering, and a Master of Science in Shipping and Shipyard Management.

Pankaj Khanna, one of the intended directors of the Company, was appointed as Dryships Inc.'s Chief Operating Officer in March 2009. Mr. Khanna has 22 years of experience in the shipping industry. Prior to joining the Company, Mr. Khanna was the Chief Strategy Officer for Excel Maritime Carriers Ltd. Mr. Khanna also previously served as Chief Operating Officer of Alba Maritime Services S.A. Prior to joining Alba Maritime Services S.A., Mr. Khanna was Vice President of Strategic Development at Teekay Corporation where he headed vessel sales & purchase activities, newbuilding ordering activities, and other strategic development projects from 2001 through 2007. Prior to this, Mr. Khanna was a Senior Analyst at SSY, a large multinational shipbroker. Mr. Khanna also sailed as a deck officer on merchant vessels for seven years. Mr. Khanna graduated from Blackpool and the Fylde College, Fleetwood Nautical Campus and also received a post-graduate diploma in international trade and transport from London Metropolitan University.

Michael Gregos, one of the intended directors of the Company, is Project Manager for Dynacom Tankers Management Ltd. which he joined in 2001. For a period two years (2007-2008) he was employed as Chief Operating Officer by Oceanfreight Inc.. Prior to that period, he worked for a shipping concern based in Athens and New York for five years and the Corporate Finance arm of a Greek bank for one year. He is a graduate of Queen Mary University in London and holds an MSc in Shipping, Trade and Finance from City University.

Trygve Arnesen, one of the intended directors of the Company, is a Director for Aftermarket Eastern Region with FMC Technologies, a position he has held since August 2010. Mr. Arnesen holds an M.Sc. in petroleum engineering and applied geophysics from the Norwegian University of Science and Technology from 1980. He has worked in the drilling and oil service industry since 1982, and has held a broad range of positions in various companies including Wilhelmsen (1982-1984), Morco&Ross (1984-1985), Norcem / Aker Drilling (1985-1989), Saga (1989), Transocean / Procon / Prosafe (1990-1992 and 1994-2005), Shell (1992-1994), and Odfjell (2005-2006). He was the CEO of Ocean Rig ASA, the Company's predecessor, in 2006-2008 and worked for Norwind in the period 2008-2010 until his current position.

Savvas Georghiades, one of the intended directors of the Company, is a practicing lawyer in Cyprus since 1976. He is a graduate of the Aristotle University in Thessaloniki. Mr. Georghiades is a member of the Shipping Committee of the Cyprus Bar Association.

Jan Rune Steinsland is the Chief Financial Officer of Ocean Rig AS and joined the Ocean Rig group of companies in 2006. Mr. Steinsland has 16 years experience from various positions in the energy and drilling industry and six years of experience in the finance industry. Mr. Steinsland has a Master of Business Administration from the University of St. Gallen Switzerland and is a Certified European Financial Analyst (AFA) from The Norwegian Society of Financial Analysts/Norwegian School of Economics and Business Administration. From 2000 to 2006 Mr. Steinsland was Chief Financial Officer of Oslo Børs listed Acta Holding ASA. From 1988 to 2000, Mr. Steinsland held several management positions in Esso Norge/Exxon, including Financial Analyst, Financial Reporting Manager, Vice President Accounting, Project Controller and Audit Advisor.

Frank Tollefsen has served as the Senior Vice President Operations of Ocean Rig AS since March 2006. Mr. Tollefsen has 26 years of experience from various positions in the drilling contracting business. From 1990 Mr. Tollefsen has had leading positions in the North Sea, Nigeria, Houston, Brazil, Canada, and the Middle East region as well as India and the Mediterranean. He spent the last 12 years with Transocean Ltd. Before that Mr. Tollefsen served six years with Dolphin Drilling. Mr. Tollefsen is a Mechanical Engineer.

John Rune Hellevik has served as the Senior Vice President Marketing Procurement of Ocean Rig AS since 2007. Mr. Hellevik has 30 years experience in the offshore business, both from oil companies and contractors. He has worked in various management positions with contract and procurement activities within Smedvig, Scana, Transocean Ltd. and Prosafe. Mr. Hellevik is educated in Business Administration from Bedriftsøkonomisk Institutt (BI), Norway.

Ronald Coull has served as the Senior Vice President Human Resources of Ocean Rig Ltd. since June 2009. He has worked in the oil and gas sector for over 20 years with extensive experience in both Generalist HR and Recruitment. His previous roles included Operational Director of Atlantic Resourcing Ltd which is a part of the Petrofac group of companies, where he was responsible for the profits and losses of this business. This included working with a number of external companies delivering innovative recruitment solutions to the drilling, marine and operations business. Prior to this he was Human Resources Director & Head of Human Resources for Petrofac Facilities Management in Aberdeen, with responsibility for providing full human resource support to the business in the North Sea, and international contracts in Europe, Middle East and Africa and Asia-Pacific.

Rolf Håkon Holmboe has served as the Vice President Health, Safety, Environment & Quality (HSE&Q) of Ocean Rig AS since January 2010, and has worked in the area of health, safety, environment and quality in the oil & gas sector for 19 years. From 1991 to 1997 Mr. Holmboe worked for Det norske Veritas, before joining Statoil where he spent 12 years, from 1997 to 2009. Areas of experience include emergency preparedness, risk analyses, HSE management, operational safety and incident investigations. Mr. Holmboe is a Chemical Engineer, graduated from Heriot-Watt University, Edinburgh, in 1990.

3.2 Compensation of directors and senior management

The aggregate annual compensation paid by the Company to the members of senior management of its subsidiaries (seven individuals) was $3.8 million for the year ended December 31, 2009, consisting of $3.7 million in salary and bonus, pension contribution of $0.135 million and other benefits, including share option costs of $0.002 million. The Company plans to pay its nonexecutive directors annual director fees. In addition, each director will be reimbursed for out-of-pocket expenses incurred attending any meeting of the board of directors or any committee of the board of directors. The Company does not maintain a medical, dental, or retirement plan for its directors. Members of the Company's senior management who also serve as directors will not receive additional compensation for their services as directors.

3.3 Employees

As per November 27, 2010, the Company's management subsidiaries had approximately 520 employees, of which approximately 409 were employed by the management subsidiaries of the Company and 95 were permanent crew engaged through third party crewing agencies. Of the total number of employees, approximately 156 were assigned to the *Eirik Raude* and approximately 137 were assigned to the *Leiv Eiriksson*. The Company's remaining employees are shore based support and management in Korea, Turkey and Ghana, including 56 employees based at the Stavanger office, approximately 4 employees based at the London office and 2 employees based in other locations.

Recruitment for drillship operations

The ongoing recruitment for the drillship operations is proceeding on plan. There will be 90 Ocean Rig employees per drillship as base crew, the remainder will be recruited according to contract location and the availability of quality personnel in that area. The crew for Samsung Hull 1837 (to be named *Ocean Rig Corcovado*) has been recruited with 80 personnel already mobilized to Korea, the remaining crew arriving within the end of December 2010. The core crew for the Samsung Hull 1838 (to be named *Ocean Rig Olympia*) is at 60 % with the rest mobilizing early in 2011.

3.4 Management services purchased from outside parties

Ocean Rig UDW is a fully integrated drilling contractor and does not rely on any management services from outside parties.

4. Financial information

4.1 Selected consolidated financial information

The following section should be read in conjunction with the Company's audited financial statements for the years ended December 31st 2007, 2008 and 2009, as attached hereto in appendix 4, and the unaudited financial statements for the interim period ending September 30, 2010, as attached hereto as appendix 5.

A summary of the accounting principles is given in the relevant appendices.

Summary of consolidated income statements

	Year ended December 31,			Nine months ended September 30,	
	2007	2008	2009	2009 (unaudited)	2010 (unaudited)
Revenues:					
Revenues	$ -	$ 218,663	$388,122	$312,562	$303,412
Expenses:					
Drilling rigs operating expenses	-	86,229	133,256	105,923	86,354
Depreciation and amortization	-	45,432	75,348	56,052	57,261
Goodwill impairment	-	761,729	-	-	-
Loss on disposal of assets	-	-	-	-	751
General and administrative expenses	2	14,462	17,955	13,547	14,232
Operating income	(2)	(689,189)	161,563	137,040	144,814
Other Income/(Expenses):					
Interest and finance costs, net	(4,617)	(68,659)	(51,050)	(44,712)	(12,636)
Gain/(loss) on interest rate swaps	-	-	4,826	1,697	(52,781)
Other, net	-	(2,300)	2,023	2,590	857
Total other income/ (expenses), net..	$(4,617)	$ (70,959)	$(44,201)	$ (40,425)	$(64,560)
Income taxes		(2,844)	(12,797)	(9,859)	(14,796)
Equity in income/(loss) of investee	1,194	(1,055)	-	-	-
Net income attributable to non controlling inter	-	(1,800)	-	-	-
Net income/(loss)..............................	$(3,425)	$(765,854)	$104,565	$86,756	$65,458

Summary of consolidated balance sheets

	December 31, 2008	December 31 2009	September 30, 2010 (unaudited)
ASSETS			
Current assets			
Cash and cash equivalents	272,940	234,195	123,799
Restricted cash	31,287	220,690	307,434
Other current assets	62,092	103,673	78,507
Total current assets	366,319	558,558	509,740
Fixed assets, net	1,377,359	2,491,063	2,998,374
Other non current assets	17,003	55,428	90,741
Total assets	$ 1,760,681	$ 3,105,049	$ 3,598,855
LIABILITIES AND STOCKHOLDERS EQUITY			
Current portion of long term debt	826,027	537,668	576,303
Other current liabilities	59,012	144,619	143,105
Total current liabilities	885,039	682,287	719,408
Long term debt	788,314	662,362	535,304
Financial instruments	47,168	64,219	121,975
Other non current liabilities	16,529	-	4,085
Total non current liabilities	852,011	726,581	661,364
Stockholders equity	23,631	1,696,181	2,218,083
Total liabilities and stockholders equity	$ 1,760,681	$ 3,105,049	$ 3,598,855

Summary of consolidated statements of cash flows

	Year ended December 31,			Nine months ended September 30,	
	2007	2008	2009	2009 (unaudited)	2010 (unaudited)
Net cash provided by operating activities	15,958	21,119	209,976	194,039	159,674
Net cash used in investing activities	(406,023)	(1,020,673)	(145,681)	(86,121)	(650,985)
Net cash provided by financing activities	405,169	1,257,390	(103,041)	(143,364)	380,915
Net increase/(decrease) in cash and cash equivalents	15,104	257,836	(38,745)	(35,446)	(110,396)
Cash and cash equivalents at beginning of period	-	15,104	272,940	272,940	234,195
Cash and cash equivalents at end of period	$ 15,104	$ 272,940	$ 234,195	$ 237,494	$ 123,799

Overview of events subsequent to September 30, 2010

The following is an overview of the subsequent events through December 3, 2010, the date the financial statements were issued.

On May 25, 2010, the Company entered into two amendment agreements regarding the shipbuilding contracts with Samsung for Hulls 1865 and 1866. Under these amendments the Company paid Samsung $12.8 million respectively in regards of hull 1865 and 1866. As part of the amendment the fourth installment for hull 1865 of $104 million, scheduled for August 2010, is postponed for three months. The fourth installment for hull 1866 of $104 million, scheduled for October 2010, is postponed for six months. 50% of the fourth installment for hull 1865 of $104 million, i.e $52 million, scheduled for November 2010, is postponed for five months. The remaining $52 milion was paid according to schedule.

On October 11, 2010 the company entered into a contract with subsidiaries of Vanco Overseas Energy Limited (“Vanco”) for projects in which Vanco is operator and LUKOIL Overseas is majority co-venturer, for a five well contract for exploration drilling offshore Ghana and Cote d’Ivoire for a period of about one year with one drillship, commencing in the second quarter of 2011. The value of the contracts is approximately $160 million. The Company has the option to use either of the *Ocean Rig Corcovado* (Hull 1837) or the *Ocean Rig Olympia* (Hull 1838). The contract may be extended for an additional year or an additional well, prior to the completion of operations on the second well in the program.

On November 5, 2010, the Company entered into an agreement with Petrobras for a “Rig Swap” agreement from the *Leiv Eiriksson* to the *Ocean Rig Poseidon*. The agreement is subject to board approval by both parties. The agreement includes that the *Leiv Eiriksson* will be released by May 1, 2011 from the existing contract and replaced by the *Ocean Rig Poseidon* delivered from yard. The operating dayrate shall be $540,000 plus a bonus of maximum 8% for 540 days. A separate day rate of $409,825 has been agreed for up to 60 days during moving periods between countries. Mobilization day rate to be $317,000 plus fuel coverage.

On November 18, 2010, the Company received a Letter of Intent for *Leiv Eiriksson* from a listed oil company for a term based contract period for drilling operations in the North Atlantic basin at an operating day rate of $550,000 and in addition a mobilization fee of $7 million plus fuel coverage. The mobilization period will start in direct continuation from the agreed release date from Petrobras, estimated to May 1, 2011, and the term contract period will expire October 31, 2011. The Letter of Intent is valid until close of business December 7, 2010. The Letter of Intent is subject to completion of definitive documentation.

On November 18, 2010, the Company received a Letter of Intent for *Ocean Rig Corcovado* (Hull 1837) from a listed oil company for a 6 months firm contract period from June 1, 2011 for drilling operations in the North Atlantic basin at an operating day rate of $560,000 and in addition a mobilization fee of $17 million, fuel coverage, and winterization upgrading costs of $12 million plus coverage of four weeks extra yard stay costs at $200,000 per day. The Letter of Intent is valid until close of business December 7, 2010. The Letter of Intent is subject to completion of definitive documentation

On November 26, 2010 the Company entered into a contract with Borders for a two-well contract for the *Eirik Raude* for drilling operations offshore the Falkland Islands at a maximum operating dayrate of $540,000. In addition, Borders will pay a mobilization/demobilization fee of $28 million including fuel. The contract also includes the possibility for Borders to extend the contract period up to five wells based upon certain notification periods, with an overall day rate adjustment to $515,000. The contract will commence in direct continuation from the Tullow contract, and the estimated duration for a two well program including mobilization/demobilization periods is 170 days. The contract was entered into pursuant to a Letter of Intent dated November 11, 2010.

On December 1, 2010, Dry Ships Inc. accepted a conditional offer for a USD 325,000,000 bridge term loan facility, with Drillships Hydra Owners Inc. as intended borrower, for the purpose of (i) meeting the ongoing working capital needs of Drillships Hydra Owners Inc, (ii) financing the partial repayment of existing debt in relation to the purchase of the drillship identified as Samsung Hull 1837, and (iii) financing the payment of the final installment associated with the purchase of said drillship. The offer is subject to due diligence, internal approval by the lenders and satisfactory documentation. According to term sheet, Dry Ships Inc., Drillships Holdings Inc and Ocean Rig UDW Inc. will act as joint guarantors and guarantee all obligations and liabilities of Drillships Hydra Owners Inc.

On December 3, 2010, Dry Ships Inc. converted a $47.6 million intercompany receivable on OCR UDW group to equity.

4.2 Auditors

The Company's auditors are Ernst & Young AS, Vassbotnen 11, N-4313 Sandnes, Norway. Ernst & Young AS has been auditor for the Company since 2009 and has been auditor for the Company's predecessor Ocean Rig ASA since 2003.

The consolidated financial statements of the Company as of December 31, 2009, and each of the three years then ended, included in the information memorandum, have been audited by Ernst & Young AS, independent auditors, as stated in their report (which contains an explanatory paragraph describing conditions that give substantial doubt about the Company's ability to continue as a going concern as described in Note 3 to the consolidated financial statements) appearing herein.

5. Investments, capital resources and indebtedness

5.1 Investments

As of September 30, 2010, as adjusted for a payment of $47.8 million in October 2010 and a payment of $52.0 million in November 2010, the remaining yard instalments for Samsung Hulls 1837, 1838, 1865 and 1866, are analyzed as follows:

($ in millions)	Samsung Hull 1837 and 1838	Samsung Hulls 1865 and 1866	Total
Yard instalments			
Remaining for fiscal year 2011	574	766	1,340
Paid to date	815	698	1,513
Total yard instalments	1,389	1,464	2,853
Commitments not covered by loans	574	-	574

As with any major shipyard project that takes place over an extended period of time, the actual costs, the timing of expenditures and the project completion date may vary from estimates based on numerous factors, including actual contract terms, weather, exchange rates, shipyard labor conditions, and the market demand for components and resources required for drilling unit construction.

5.2 Liquidity and capital resources

As of September 30, 2010, the Company had cash and cash equivalents of $123.8 million and short-term restricted cash of $307.4 million, mainly related to collateral requirements for debt classified as short term.

As of September 30, 2010, the Company had aggregate debt outstanding of $1.1 billion, inclusive of deferred financing costs amounting to $21.9 million, of which $576.3 million was classified as current in its balance sheet. As of September 30, 2010, the Company had $934.7 million of unutilized credit facilities for the construction of Hulls 1865 and 1866, however, until the Company finds suitable employment for Hulls 1865 and 1866, any draw downs must be collateralized with an equivalent deposit to restricted cash. The Company has substantial purchase commitments mainly representing the remaining installment payments for the delivery of four newbuilding drillships scheduled to be delivered in the the first quarter of 2011 (two drillships) and third quarter of 2011 (two drillships).

The Company does not expect that internally generated cash flow will be sufficient to fund the remaining aggregate shipyard commitments for these drillships which, as of September 30, 2010 as adjusted for two payments in October and November 2010, amount to $1.3 billion for 2011, and the repayment of scheduled debt of $35.3 million in 2010 and $383.3 million in 2011. The proceeds of this offering will be used to part finance the remaining construction costs of the drillships. The lenders under the Company’s two $562.5 million loan agreements are not required to fund certain scheduled drawdowns under the loan agreements in the event the Company does not obtain, by the earlier of April 30, 2011 and the delivery of the applicable drillship, employment contracts for Hull 1865 and Hull 1866, respectively, at certain minimum dayrates and with charterers that are satisfactory to such lenders as stipulated in the loan agreements.

The Company expects to use the net proceeds of this offering, existing cash balances, internally generated cash flows, drawdowns under existing credit facilities when suitable employment is found for Hulls 1865 and 1866 and proceeds from the issuance of new debt or equity to fulfill anticipated obligations such as scheduled debt maturities, capital expenditures and working capital needs. The Company’s access to debt and equity markets may be reduced or closed to it due to a variety of events, including a credit crisis, credit rating agency downgrades of its debt, industry conditions, general economic conditions, market conditions and market perceptions of the Company and its industry.

The Company's internally generated cash flow is directly related to its business and the market sectors in which it operates. The Company believes that amounts available under its existing credit facilities, current cash balance, as well as operating cash flow, together with the net proceeds of this offering and other debt or equity issuances in the future, will be sufficient to meet its liquidity needs for the next two to three years, assuming the drilling or financing markets do not deteriorate and provided the Company is permitted to borrow amounts under its two $562.5 million loan agreements. All previous and future draw downs under the facility must be fully cash collateralized until the Company finds suitable employment as defined in the loan agreement, for both drillships under construction at the end of 2010 and during 2011. Under the loan agreements, the employment contract must have minimum dayrates of $545,000 for a two year contract, $550,000 for a three year contract and $510,000 for a five year contract with counterparties that are satisfactory to the lenders. These minimum dayrates are above current dayrates available in the market. The Company needs to secure new employment for its drilling rigs and drillships as they come off contracts, or are delivered from yard, as the case may be. Should the drilling market deteriorate, or should the Company experience poor results in its operations, cash flow from operations may be reduced.

The Company intends to fund the remaining installments for the drillships with a portion of the net proceeds of this offering. The Company expects to fund the remaining installments for Samsung Hulls 1865 and 1866 with borrowings under its two $562.5 million loan agreements, provided that it finds suitable employment for Samsung Hulls 1865 and 1866, as required by the loan agreements. If the Company does not meet the conditions of its financing for the remaining installments for its four newbuilding drillships, then the Company may default under these newbuilding contracts. A default would entitle the builder (i) to six percent interest from the due date of any installment payment and (ii) to rescind the contract. Rescission of a contract would enable the builder to retain any installment payments already made and entitle the builder to sell the applicable drillship to another buyer, which may have a material adverse effect on the Company's business and result of operations and, therefore, cash flow from operations may be reduced.

5.3 Indebtedness

As of September 30, 2010, the Company's outstanding debt totaled $1.1 billion consisting of bank debt under credit facilities described below. As of September 30, 2010, the Company had $934.7 million available for drawdown under its current credit facilities, provided that the Company finds suitable employment for Samsung Hulls 1865 and 1866, as required by the loan agreements, all of which the Company intends to apply towards the construction of Samsung Hulls 1865 and 1866.

An overview of the debt facilities as of September 30, 2010, is provided in the table below, with each facility described in more detail following the table.

					Amortization (USD mill.)				
Facility	Original amount ($ mill.)	Amount drawn ($ mill.) (1)	Margin	Maturity	2010	2011	2012	2013	2014
$230 million credity facility	$230	$230	1.25%	Two payments due on the earlier of (i) the delivery date of each of Samsung Hull 1837 and 1838 and (ii) March 30, 2011 and June 30, 2011, respectively	-	$230	-	-	-
$1.04 billion credit facility	$1,040	$711	1.50% to 1.75 %	Q3 2013	$35	$153	$70	$453	-
$562 million loan agreement with Drillship Kithira Owners Inc.	$562	$96	1.75% to 2.00%	Q3 2020	-	-	$11	$11	$11
$562 million loan agreement with Drillship Skopelos Owners Inc.	$562	$96	1.75% to 2.00%	Q4 2020	-	-	$11	$11	$11

(1) Amounts drawn in above table represent gross loan amounts and do not include deferred financing costs which, as of September 30, 2010, were as follows: (a) $0.5 million for the $230.0 million credit facility; (b) $5.8 million for the $1.04 billion credit facility; (c) $7.8 million for the $562.5 million loan agreement with Drillship Kithira Owners; and (d) $7.8 million for the $562.5 million loan agreement with Drillship Skopelos Owners Inc.

$230 million credit facility

On September 10, 2007, Drillship Paros and Drillship Hydra, the Company's wholly-owned subsidiaries and the buyers of the drillships identified as Samsung Hulls 1837 and 1838, respectively, entered into a term loan agreement with a syndicate of lenders including DVB Bank, in the amount of $230.0 million (the "$230.0 million credit facility"), representing $115.0 million per drillship, in order to finance the construction costs of these drillships. This loan agreement bears interest at the bank's funding cost plus 1.25%. This loan facility is repayable in two equal installment payments of $115.0 million on the earlier of (i) the delivery date of the respective drillship or (ii) March 30, 2011 in respect of Samsung Hull 1837 and June 30, 2011 in respect of Samsung Hull 1838. As of September 30, 2010 the outstanding balance under this loan agreement was $230.0 million, exclusive of deferred financing costs amounting to $0.5 million.

This loan agreement is secured, among other things, by (i) first priority deeds of assignment of the newbuilding contracts and refund guarantees of the dillships, (ii) first priority pledges of all of the issued shares of the Drillship Hydra and Drillship Paros held by Drillship Hydra Shareholders Inc. and Drillship Paros Shareholders Inc., (iii) second priority mortgages over certain collateral vessels described in the loan agreement together with collateral deeds of covenants, (iv) second priority deeds of assignment of the insurances, earnings and requisition compensation of the collateral vessels described in the loan agreement, and (v) second priority deeds of pledge or charge over the earnings accounts of the collateral vessel owners, and (vi) deeds of co-ordination in respect of the collateral vessels described in the loan agreement.

In addition, DryShips Inc., as corporate guarantor, provides guarantees under this loan agreement.

This loan agreement contains financial covenants, including the requirement that DryShips Inc., as guarantor, maintains:

- a market adjusted equity ratio of at least 0.3:1;
- an interest coverage ratio of at least 3:1; and
- a market value adjusted net worth of at least $500.0 million.

Under this loan agreement, Drillship Paros and Drillship Hydra are not able to pay dividends without the prior written consent of the lenders.

This credit facility contains a cross-default provision that applies to the Company and DryShips Inc. This means that if the Company or DryShips Inc. default under any of their other loan or guarantee obligations, the Company will be in default of this loan. For a discussion of the financial condition of DryShips Inc. (NASDAQ: DRYS), the Company's current sole shareholder, reference is made to its annual report for the year ended December 31, 2009 and its other public filings that may be accessed free of charge on the U.S. Securities and Exchange Commission's website at www.sec.gov. All of the Company's loan agreements contain covenants including restrictions, without the bank's prior consent, as to changes in management and ownership of the drilling units, additional indebtedness and mortgaging of drilling units and change in the general nature of its business.

As of December 31, 2009, one of the guarantors was in breach of covenants contained in the $230.0 million credit facility. During 2010, the Company entered into a series of back-to-back waiver letters with DVB Bank to provide a waiver for these breached covenants, with the latest waiver letter expiring on December 1, 2010. On November 25, 2010, the Company obtained an extension of the above-mentioned waiver letter to December 31, 2010. DryShips Inc. is currently in negotiations with the Company's lenders to provide an extension of this waiver until the completion of this offering. The Company has classified as current all of the outstanding indebtedness under this loan agreement, which as of September 30, 2010 amounted to $230.0 million, because DryShips Inc. may not be able to successful negotiate a waiver extension, which would result in an event of default under this loan agreement by virtue of the cross-default provision contained therein.

The Company expects to repay this loan in full concurrently with this offering.

Proposed USD 325,000,000 term loan facility

On December 1, 2010, Dry Ships accepted a conditional offer for a USD 325,000,000 bridge term loan facility, with the Company's subsidiary Drillships Hydra Owners Inc. as intended borrower, for the purpose of (i) meeting the ongoing working capital needs of Drillships Hydra Owners Inc, (ii) financing the partial repayment of existing debt in relation to the purchase of the drillship identified as Samsung Hull 1837, and (iii) financing the payment of the final installment associated with the purchase of said drillship. The offer is subject to due diligence, internal approval by the lenders and satisfactory documentation. According to term sheet, Dry Ships Inc., the Company's subsidiary Drillships Holdings Inc and Ocean Rig UDW Inc. will act as joint guarantors and guarantee all obligations and liabilities of Drillships Hydra Owners Inc.

$1.04 billion credit facility.

On September 17, 2008, the Company's wholly-owned subsidiaries, Ocean Rig ASA and Ocean Rig Norway AS, entered into a revolving credit and term loan facility with a syndicate of lenders, including DnB NOR Bank ASA, which was amended and restated on November 19, 2009, to, among other things, replace Ocean Rig ASA and Ocean Rig Norway AS with Drill Rigs Holdings Inc., as borrower, in the amount of approximately $1.04 billion (the "$1.04 billion credit facility"). On September 30 and October 10, 2008, Ocean Rig ASA drew down $750.0 million and $250.0 million, respectively, under this facility for the repayment of approximately $776.0 million under a previous credit facility with the same lender and for general corporate purposes. The $1.04 billion credit facility consists of a guarantee facility, which provides the Company with a letter of credit of up to $20.0 million, three revolving credit facilities in the amounts of $350.0 million, $250.0 million and $20.0 million, respectively, and a term loan in the amount of up to $400.0 million. Amounts outstanding under the $1.04 billion credit facility bear interest at LIBOR plus a margin and the loan is repayable in 20 quarterly installments plus a balloon payment of $400.0 million payable together with the last installment on September 17, 2013. The revolving credit facilities are repayable and to be reduced, in accordance with the remaining duration of the employment contracts. As of September 30, 2010 the outstanding balance under this loan agreement was $711.1 million, exclusive of deferred financing costs amounting to $5.8 million. In addition to the loan balance under this facility, as of September 30, 2010, the Company had a $20.0 million guarantee drawn under the guarantee facility.

Under the $1.04 billion credit facility, Drill Rigs Holdings Inc. and its subsidiaries are subject to certain covenants requiring, among other things:

- free cash of at least $30.0 million;
- a leverage ratio (the ratio of net interest bearing debt to EBITDA) not more than (i) 5.0% at the end of each quarter for the year ending December 31, 2010, and (ii) 4.5% thereafter;
- a minimum interest coverage ratio (the ratio of EBITDA to net interest costs) of 2.5;
- a minimum current ratio (the ratio of current assets to current liabilities) of 1.0;
- a minimum equity ratio (the ratio of value adjusted equity to value adjusted total assets) of 0.25;
- capital expenditures not exceed $50.0 million in any fiscal year;
- the aggregate market value of the *Eirik Raude* and the *Leiv Eiriksson* be at least equal to 135% of the principal amount of the borrowings outstanding under the term loan facility and of the $350.0 million and $20.0 million revolving credit facilities;

- the insured value for the *Eirik Raude* and the *Leiv Eiriksson* be at least equal to each drilling rig's market value;
- the aggregate insured value for the *Eirik Raude* and the *Leiv Eiriksson* be at least equal to 120% of the aggregate value of the loans and the maximum amount payable under the letter of credit; and
- the mortgagee interest insurance be in an amount equal to 120% of the aggregate value of the loans and the maximum amount payable under the letter of credit.

Furthermore, pursuant to the terms of the $1.04 billion credit facility, if any person or persons acting in concert (other than DryShips Inc. or other companies controlled by Mr. George Economou) obtains either direct or indirect control of one-third or more of the shares in Drill Rigs Holdings Inc., notice must be provided to DnB NOR Bank ASA, who may, upon the instruction of any lender, cancel all commitments and declare outstanding loans and accrued interest due and payable.

The $1.04 billion credit facility is secured by, among other things, (i) first and second priority mortgages over the *Leiv Eiriksson* and the *Eirik Raude*; (ii) first and second priority assignment of all insurances and earnings of the *Leiv Eiriksson* and the *Eirik Raude*; (iii) pledges of shares in each of Primelead Ltd., Ocean Rig 2 AS, Ocean Rig North Sea AS, Ocean Rig Ghana Limited, Ocean Rig Limited, Ocean Rig 1 Inc., Ocean Rig 2 Inc., Ocean Rig 1 Shareholders Inc., Ocean Rig 2 Shareholders Inc. and Ocean Rig Black Sea Coop. and (iv) first and second mortgages over the machinery and plant of Ocean Rig 1 Inc. and Ocean Rig 2 Inc.

The $1.04 billion credit facility contains restrictions on the ability of Drill Rigs Holdings Inc. to pay dividends, make distributions to its stockholders, and reduce share capital without the prior written consent of the lenders if fewer than six months (excluding options) remain on the term of the Tullow Oil contract unless such contract has been replaced with a comparable drilling services contract for the *Eirik Raude* with a counterparty that has a financial standing equal to that of Tullow Oil at the time the Tullow Oil contract was entered into. As a result, Drill Rigs Holdings Inc. would not be able to pay dividends beginning April 2011 unless a suitable replacement contract is in place at that time.

This credit facility contains a cross-default provision that applies to the Company and DryShips Inc. This means that if the Company or DryShips Inc. default, by way of non-payment of principal and interest or by way of acceleration or cancellation of debt, under any of their respective other loan or guarantee obligations, the Company will be in default of this loan. For a discussion of the financial condition of DryShips Inc. (NASDAQ: DRYS), the Company's current sole shareholder, reference is made to its annual report for the year ended December 31, 2009 and its other public filings that may be accessed free of charge on the U.S. Securities and Exchange Commission's website at www. sec.gov.

Two $562.5 million loan agreements.

On July 18, 2008, Drillship Kithira and Drillship Skopelos, the Company's wholly-owned subsidiaries and the owners of the newbuilding drillships under construction identified as Samsung Hulls 1865 and 1866, respectively, each entered into a loan agreement with a syndicate of lenders, including Deutsche Bank AG, in the amount of $562.5 million to partially finance (70%) the construction cost of Samsung Hulls 1865 and 1866, including payment of the loan financing fees, incidental drillship costs, commitment fees, loan interest, and a portion of the second yard installments. Both of the loans bear interest in part at a fixed rate and in part at LIBOR plus applicable margin. The loans are repayable in 18 semi-annual installments of $31.25 million through September 2020 and November 2020, respectively.

The lenders under the Company's two $562.5 million loan agreements are not required to fund certain drawdowns by the Company under such loan agreements, and the Company would be required to repay all outstanding amounts, in the event the Company does not obtain, by the earlier of April 30, 2011 and the delivery of the applicable drillship, employment contracts for Samsung Hull 1865 and Samsung Hull 1866, respectively, at minimum dayrates of $545,000 for a two year contract, $550,000 for a three year contract and $510,000 for a five year contract and with charterers that are satisfactory to such lenders.

The two $562.5 million loan agreements are secured by, among other things, a first priority mortgage on Samsung Hulls 1865 and 1866. These loan agreements contain certain financial covenants requiring that Drillship Kithira and Drillship Skopelos each:

- maintain a post-delivery minimum leverage ratio of 125%;
- maintain vessel insurance not less than the greater of 125% of the aggregate of the outstanding loans or the fair market value of the respective drillship;
- maintain protection and indemnity insurance for the respective drillships during sea trials in an amount not less that $300.0 million and general third party liability insurance, effective from the commencement of the sea trials, in an amount not less than $25.0 million; and
- pay $25.0 million into the debt service reserve account prior to the drilling charter cutoff date, which is the earlier of April 30, 2011 and the delivery date of the drillship identified as Samsung Hull 1865.

These loan agreements are guaranteed by DryShips Inc. The guarantee covers the initial equity contribution and each other equity contribution, the equity collateral, amounts to be paid into the debt service reserve account and each payment of the loan balance. The guarantee by DryShips Inc. contains certain financial covenants measured on the DryShips Inc. financial accounts to:

- maintain a minimum market adjusted equity ratio of 30%;
- maintain a minimum interest coverage ratio of 3 to 1;
- maintain a minimum market value adjusted net worth of the DryShips Group of $500.0 million;
- maintain minimum free cash and cash equivalents of $40.0 million.

Under both loan agreements, Drillship Kithira and Drillship Skopelos may not assign or transfer any of their rights and obligations under the loan agreements without the prior consent of Deutsche Bank Luxembourg S.A., acting on the instructions of all of the lenders.

Both loan agreements also contain covenants that include:

- restrictions on selling, transferring, or otherwise disposing of the assets of Drillship Kithira and Drillship Skopelos, as applicable;
- restrictions on giving possession of the drillships for repairs in an amount greater than $15.0 million;
- restrictions on the application of the proceeds from the sale or total loss of the drillships, including losses during the pre-delivery period;
- restrictions on the chartering of the drillships for any period;
- minimum collateral requirements;
- restrictions on the creation of any security interest other than those permitted under the terms of the loan agreements; and
- restrictions on the payment by Drillship Kithira and Drillship Skopelos of any dividend or other distribution to any of their stockholders.

On June 5, 2009, the Company entered into agreements with Deutsche Bank Luxembourg S.A., as facility agent, and certain other lenders on waiver and amendment terms with respect to each of these credit facilities providing for a waiver of certain financial covenants through January 31, 2010. These agreements and the waivers and consents contained therein were terminated pursuant to the terms of the Supplemental Agreement No. 3, dated January 29, 2010, to each of these credit facilities because the Company, including DryShips Inc., were in compliance with all of the covenants contained in this loan agreement. However, additional draw downs must be fully cash collateralized until the Company finds suitable employment, as described above, for both vessels.

This credit facility contains a cross-default provision that applies to the Company and DryShips Inc. This means that if the Company or DryShips Inc. default under any of their other loan or guarantee obligations, the Company will be in default of this loan. For a discussion of the financial condition of DryShips Inc. (NASDAQ: DRYS), the Company's current sole shareholder, reference is made to its annual report for the year ended December 31, 2009 and its other public filings that may be accessed free of charge on the U.S. Securities and Exchange Commission's website at www.sec.gov.

DryShips Inc. is currently in negotiations with its lenders to provide it with an extension of the waivers under certain of its loan agreements. Accordingly, the Company has classified as current all of the aggregate outstanding indebtedness under these two loan agreements, which as of September 30, 2010 amounted to $192.4 million, exclusive of deferred financing costs amounting to $15.6 million, because DryShips Inc. may not be able to successfully negotiate a waiver extension, which would result in an event of default under these two loan agreements by virtue of the cross-default provision contained in each.

Interest Rate Swap (IRS) agreements

As of September 30, 2010, the Company had outstanding eleven interest rate swap and cap and floor agreements, with a notional amount of $733 million and $1.3 billion respectively, maturing from September 2011 through November 2017. These agreements are entered into in order to economically hedge its exposure to interest rate fluctuations with respect to the Company's borrowings. As of September 30, 2010, eight of these agreements do not qualify for hedge accounting and, as such, changes in their fair values are included in the accompanying consolidated statement of operations. As of September 30, 2010, three agreements qualify for and are designated for hedge accounting and, as such, changes in their fair values are included in other comprehensive loss. As of September 30, 2010, the fair value of these agreements was a liability of $132.4 million. This fair value equates to the amount that would be paid by the Company if the agreements were cancelled at the reporting date, taking into account current interest rates and creditworthiness of the Company.

As of September 30, 2010, security deposits (margin calls) of $78.4 million were paid and were recorded as "Other non current assets" in the consolidated balance sheet. These deposits are required by the counterparty due to the market loss in the swap agreements.

6. Share capital and shareholder matters

6.1 Share capital

Authorized Capitalization

Prior to the completion of this offering, the Company intends to adopt amended and restated articles of incorporation. Under the Company's amended and restated articles of incorporation, the authorized capital stock will consist of 250,000,000 common shares, par value $0.01 per share. For a more detailed discussion of the Company's common shares, see Section 6.2 below.

Share History

On December 11, 2007, the Company issued 500 shares of common stock to DryShips in connection with its initial capitalization. Prior to the completion of this offering, the Company intends to (i) adopt amended and restated articles of incorporation pursuant to which its authorized capital stock will consist of 250,000,000 common shares, par value $0.01 per share; and (ii) declare and pay a stock dividend of 103,125,000 shares of its common stock to its sole shareholder, DryShips. Assuming that the number of Offer Shares will not be increased, following the completion of this Private Placement, the Company will have 129,825,500 shares issued and outstanding, of which 103,125,500 shares, or approximately 79.4%, will be owned by DryShips.

Registrar and Transfer Agent

The Offer Shares, and the existing shares in the company if elected by the Company's existing shareholder, will for the purpose of Marshall Islands company law, be registered in the Company's share register in the name of the Company's registrar. For the purpose of enabling trading in the Shares with settlement in the VPS system, the Company intends to maintain a register in VPS operated by the registrar as the Company's account operator, where the beneficial ownership interests in and transfer of the beneficial ownership interests in the shares are recorded. The beneficial ownership interest in the shares is in accordance with Norwegian market practice referred to as shares in the Company when registered in the VPS and on the OTC.

For the purpose of Marshall Islands law, the registrar will be regarded as the owner of the shares and investors registered as owners in VPS will have to exercise, indirectly through the registrar as their nominee, all rights of ownership relating to the shares. The investors registered as owners in VPS must look solely to the registrar for the payment of dividends, for the exercise of voting rights attached to the shares, and for all other rights arising in respect of the shares.

The registrar for the Company's shares will be Nordea Bank Norge ASA, with registered office located at Middelthunsgt.17, N-0368 Oslo, Norway. The shares will be registered in book-entry form with the VPS under ISIN MHY643541060.

6.2 Articles of Incorporation and By-laws

The following is a description of the material terms of the Company's amended and restated articles of incorporation and bylaws that will be in effect immediately prior to the consummation of this offering. Please see the amended and restated articles of incorporation and bylaws, copies of which have been attached as exhibits to this Information Memorandum.

Purpose

The Company's purpose, as stated in its amended and restated articles of incorporation, is to engage in any lawful act or activity for which corporations may now or hereafter be organized under the Business Corporations Act of the Marshall Islands, or the BCA. The Company's amended and restated articles of incorporation and bylaws do not impose any limitations on the ownership rights of the Company's shareholders.

Authorized Capitalization

Prior to the completion of this offering, the Company intend to adopt amended and restated articles of incorporation. Under the Company's amended and restated articles of incorporation, the authorized capital stock will consist of 250,000,000 common shares, par value $0.01 per share.

Common shares

Each outstanding common share entitles the holder to one vote on all matters submitted to a vote of shareholders. Subject to preferences that may be applicable to any outstanding shares of preferred stock, holders of common shares are entitled to receive ratably all dividends, if any, declared by the board of directors out of funds legally available for dividends. Upon the Company's dissolution or liquidation or the sale of all or substantially all of its assets, after payment in full of all amounts required to be paid to creditors and to the holders of preferred stock having liquidation preferences, if any, the holders of the Company's common shares are entitled to receive pro rata the Company's remaining assets available for distribution. Holders of common shares do not have conversion, redemption or pre-emptive rights to subscribe to any of the Company's securities. The rights, preferences and privileges of holders of common shares are subject to the rights of the holders of any shares of preferred stock, which the Company may issue in the future.

Directors

The Company's directors are elected by a plurality of the votes cast by shareholders entitled to vote. There is no provision for cumulative voting.

The Company's amended and restated bylaws require the board of directors to consist of at least three members. The Company's amended and restated bylaws may be amended by the vote of a majority of its entire board of directors.

Directors are elected annually, and each shall serve until his successor shall have been duly elected and qualified, except in the event of his death, resignation, removal, or the earlier termination of his term of office. The board of directors has the authority to fix the amounts which shall be payable to the members of the board of directors for attendance at any meeting or for services rendered to the Company.

Shareholder Meetings

Under the Company's amended and restated bylaws, annual meetings of shareholders will be held at a time and place selected by its board of directors. The meetings may be held in or outside of the Republic of The Marshall Islands. Special meetings may be called at any time by a majority of the board of directors, the chairman of the board of directors, an officer of the Company who is also a director or a shareholder of record holding at least ten (10%) percent of the shares issued and outstanding and entitled to vote at such meetings. The board of directors may set a record date between 15 and 60 days before the date of any meeting to determine the shareholders that will be eligible to receive notice and vote at the meeting. One or more shareholders representing at least one-third of the total voting rights of the total issued and outstanding shares present in person or by proxy at a shareholder meeting shall constitute a quorum for the purposes of the meeting.

Dissenters' Rights of Appraisal and Payment

Under the BCA, the Company's shareholders have the right to dissent from various corporate actions, including any merger or consolidation and the sale of all or substantially all of its assets not made in the usual course of the Company's business, and receive payment of the fair value of their shares. In the event of any further amendment of the Company's articles of incorporation, a shareholder also has the right to dissent and receive payment for his or her shares if the amendment alters certain rights in respect of those shares. The dissenting shareholder must follow the procedures set forth in the BCA to receive payment. In the event that the Company and any dissenting shareholder fail to agree on a price for the shares, the BCA procedures involve, among other things, the institution of proceedings in the high court of the Republic of The Marshall Islands or in any appropriate court in any jurisdiction in which the Company's shares are primarily traded on a local or national securities exchange.

Shareholders' Derivative Actions

Under the BCA, any of the Company's shareholders may bring an action in the Company's name to procure a judgment in the Company's favor, also known as a derivative action, provided that the shareholder bringing the action is a holder of common shares both at the time the derivative action is commenced and at the time of the transaction to which the action relates.

Limitations on Liability and Indemnification of Officers and Directors

The BCA authorizes corporations to limit or eliminate the personal liability of directors and officers to corporations and their shareholders for monetary damages for breaches of directors' fiduciary duties. The Company's amended and restated articles of incorporation and bylaws include a provision that eliminates the personal liability of directors for monetary damages for actions taken as a director to the fullest extent permitted by law.

The Company's bylaws provide that the Company must indemnify its directors and officers to the fullest extent authorized by law. The Company is also expressly authorized to advance certain expenses (including attorney's fees and disbursements and court costs) to its directors and officers and carry directors' and officers' insurance providing indemnification for its directors, officers and certain employees for some liabilities. The Company believes that these indemnification provisions and insurance are useful to attract and retain qualified directors and executive officers.

The limitation of liability and indemnification provisions in the articles of incorporation and bylaws may discourage shareholders from bringing a lawsuit against directors for breach of their fiduciary duty. These provisions may also have the effect of reducing the likelihood of derivative litigation against directors and officers, even though such an action, if successful, might otherwise benefit the Company and its shareholders. In addition, the investment of a shareholder may be adversely affected to the extent the Company pays the costs of settlement and damage awards against directors and officers pursuant to these indemnification provisions.

There is currently no pending material litigation or proceeding involving any of the Company's directors, officers or employees for which indemnification is sought.

Anti-Takeover Effect of Certain Provisions of the Articles of Incorporation and Bylaws

Certain provisions of the Company's articles of incorporation and bylaws, which are summarized below, may have anti-takeover effects. These provisions are intended to avoid costly takeover battles, lessen the Company's vulnerability to a hostile change of control and enhance the ability of the Company's board of directors to maximize shareholder value in connection with any unsolicited offer to acquire the Company. However, these anti-takeover provisions, which are summarized below, could also discourage, delay or prevent (1) the merger or acquisition of the Company by means of a tender offer, a proxy contest or otherwise that a shareholder may consider in its best interest and (2) the removal of incumbent officers and directors.

Election and removal of directors

The Company's amended and restated articles of incorporation prohibit cumulative voting in the election of directors. The articles of incorporation also provide that the Company's directors may be removed for cause upon the affirmative vote of not less than two-thirds of the outstanding shares of the capital stock entitled to vote for those directors. These provisions may discourage, delay or prevent the removal of incumbent officers and directors.

Mandatory Offer Obligation

The Company's amended and restated articles of incorporation contain mandatory offer obligations which are based on the mandatory offer obligations set out in the Norwegian Securities Trading Act.

According to these provisions a person or entity that directly or indirectly acquires shares and as a result of such acquisition the share of the capital interest or voting rights held by such person or entity exceeds a threshold of 1/3 ("Threshold 1") of the total capital interest or voting rights in the Company, such person or entity (the "Offeror"), is required to make an unconditional public offer (the "Offer") at a fair price for the purpose of acquiring all issued and outstanding shares in the share capital of the Company, as well as all issued and outstanding instruments giving rights to shares in the share capital of the Company or voting rights.

The obligation to put forward an Offer shall also apply accordingly in case a shareholder who owns shares representing more than 1/3 of the total capital interest or voting rights in the Company directly or indirectly acquires shares and as a result of such acquisition the share of the capital interest or voting rights held by such shareholder exceeds a threshold of forty (40%) percent ("Threshold 2") or fifty (50%) percent ("Threshold 3") of the total capital interest or voting rights in the Company.

A shareholder who at a time subsequent to the date that the Company's Amended and Restated Articles of Incorporation come into effect has passed Threshold 1, 2 or 3 in a manner that did not trigger off the requirement to make an Offer and therefore has not made an Offer, is obliged to make an Offer in connection with any subsequent share acquisition that increases the shareholder's voting rights in the Company.

The requirement to make an Offer does not apply if the Offeror within four weeks after the requirement arouse, dispose of such number of shares exceeding the threshold which triggered off the Offer requirement.

The price offered per share in the Offer shall be at least as high as the highest price paid by the Offeror for shares in the Company in the period six (6) months prior to the date when the offer obligation was activated. If it is clear that the fair price when the Offer obligation was activated is higher than the price referred to above, the price offered per share shall be at least as high as the fair price. If the Offeror, after the Offer obligation has arisen and before expiry of the period of the Offer, has or agreed to pay a higher price than the price reflected in the Offer, a new Offer shall be deemed to have been made with an offer price per share equivalent to the higher price.

The amended and restated articles of incorporation contain further provisions laying out detailed requirements for the content of the Offer and how the offer shall be put forward including the required content for the an offer document, as well as consequences of not complying with the mandatory offer obligation.

In a situation where the Offeror following an Offer holds more than ninety (90%) percent of the shares in the Company and an equivalent of the votes which may be cast at the Company's shareholders' meeting, there are detailed regulations setting out that the Offeror can acquire the remaining shares of the Company and the remaining shareholders can require that the Offeror takes over the shares.

The holdings of certain close associates are considered equal to the shareholders' shares for the purpose of the obligation to put forward a mandatory offer.

The mandatory offer obligation provisions do not apply to the Company's registrar in Verdipapirsentralen (VPS) or DryShips Inc., provided that Dryships. holds at least one-third (1/3) of the total capital interest or voting rights in the Company.

6.3 Shareholder policies

Shareholder policy

The Company will inform its shareholders and the market in general on an ongoing basis of the Company's development, activities and special events, ensuring that as far as possible the pricing of the Company's shares reflects the underlying values and expectations on future profits. Such information will be included in the Company's annual reports, quarterly reports, press releases and investor presentations when appropriate.

Dividend policy

The Company's long-term objective is to pay a regular dividend in support of the Company's main objective to maximise returns to shareholders. However, currently the Company is focused on the development of capital intensive projects and this will limit any dividend payment in the medium term.

The level of the Company's dividends will be guided by current earnings, market prospects, capital expenditure requirements and investment opportunities.

Any future dividends declared will be at the discretion of the board of directors and will depend upon the Company's financial condition, earnings and other factors. The Company's ability to declare dividends is also regulated by Marshall Islands law, which generally prohibits the payment of dividends other than from surplus or while a company is insolvent or would be rendered insolvent upon the payment of such dividend.

In addition, since the Company is a holding company with no material assets other than the shares of its subsidiaries through which the Company conducts its operations, its ability to pay dividends will depend on its subsidiaries distributing their earnings and cash flow. Some of the Company's loan agreements limit or prohibit the Company's and its subsidiaries' ability to make distributions without the consent of the Company's lenders.

The Company has not paid any dividends in the past.

Corporate governance

The parent company in the Ocean Rig group of companies, Ocean Rig UDW Inc., is a corporation organized under the laws of the Republic of the Marshall Islands. Following the completion of this offering, Ocean Rig UDW Inc. will be majority-owned by DryShips. The Company intends to apply for listing on one of the market places operated by Oslo Børs. Upon such listing, the Company will be required to publish an annual statement on the Company's principles for corporate governance in accordance with the Norwegian Code of Practice for Corporate Governance (the "Code), as published by the Norwegian Corporate Governance Board (NUES). The Code is a non-binding recommendation which all companies listed on Oslo Børs and Oslo Axess are required to relate to on a "comply or explain" basis.

Ocean Rig is committed to ensuring that its principles of corporate governance shall meet the highest standards and generally supports the principles set forth in the Code. Being subject to two different sets of corporate governance regulations (Norway and Marshall Islands) means, however, that the Company will have to rely on some exceptions from the Code. As a corporation organized under the laws of the Republic of the Marshall Islands, the parent company in the Ocean Rig group of companies is also subject to requirements of Marshall Islands law, which in some matters differ from Norwegian law.

7. Certain relationships and related party transactions

7.1 Agreements involving the Company

Management agreements with Cardiff with respect to Samsung Hulls 1837 and 1838 - Management fees to related party

Since October 19, 2007, the Company, through its subsidiaries Drillship Hydra Owners Inc. and Drillship Paros Owners Inc., has been party to, with respect to Samsung Hulls 1837 and 1838, separate management agreements with Cardiff pursuant to which Cardiff shall provide additional supervisory services in connection with said drillships including, among other things: (i) assisting in securing the required equity for the construction; (ii) negotiating, reviewing and proposing finance terms; (iii) assisting in marketing towards potential contractors; (iv) assisting in arranging, reviewing and supervising all aspects of building, equipment, financing, accounting, record keeping, compliance with laws and regulations; (v) assisting in procuring consultancy services from specialists; and (vi) assisting in finding prospective joint-venture partners and negotiating any such agreements. Pursuant to the agreements, the Company shall pay Cardiff a management fee of $40,000 per month per drillship. The management agreements with Cardiff also provide for: (i) chartering commission of 1.25% on revenue earned; (ii) a commission of 1.0% on the shipyard payments or purchase price paid for drillships; (iii) a commission of 1.0% on loan financing; and (iv) a commission of 2.0% on insurance premiums. In the nine-month period ending on September 30, 2010, total charges from Cardiff under the management agreement amounted to $2.8 million. This was capitalized as drillship under construction cost, being a cost directly attributable to the construction.

In accordance with the Addenda No. 1 to the above management agreement dated December 1, 2010, between Cardiff and the Company's respective subsidiaries, the management agreements with respect to Samsung Hulls 1837 and 1838 shall be terminated with effect from the time of closing of the Private Placement, subject to that closing takes place within December 31, 2010. From the same time the Global Services Agreement between Cardiff and Dryships will provide for the delivery of certain management services related to the Company's drillships as further described under section 7.2.

Acquisition of Ocean Rig ASA

The Company's wholly-owned subsidiary, Primelead Limited, a corporation organized under the laws of the Republic of Cyprus, was formed on November 16, 2007 for the purpose of acquiring shares of Ocean Rig ASA. On December 20, 2007, Primelead Limited acquired 51,778,647 shares, or approximately 30.4% of the outstanding capital stock of Ocean Rig ASA following its nomination as a buyer from Cardiff, for which Cardiff received a commission of $4.1 million on February 1, 2008. Ocean Rig UDW Inc. was formed under the laws of the Republic of the Marshall Islands on December 10, 2007, under the name Primelead Shareholders Inc. Ocean Rig UDW Inc. acquired all of the outstanding shares of Primelead Limited in December 2007 in a transaction under common control, which was accounted for as a pooling of interests. In April 2008, 7,546,668 shares, representing 4.4% of the share capital of Ocean Rig ASA, were purchased from companies controlled by the Company's Chairman and President, Mr. George Economou, for consideration of $66.8 million, which is the U.S. dollar equivalent of NOK45 per share, which is the price that was offered to all shareholders in the mandatory offering. After acquiring 33% of Ocean Rig ASA's outstanding shares on April 22, 2008, the Company launched a mandatory bid for the remaining shares of Ocean Rig ASA at a price of NOK45 per share ($8.89 per share) as required by Norwegian law. The Company acquired additional shares and gained control over Ocean Rig on May 14, 2008. The results of operations related to the acquisition are included in the consolidated financial statements as of May 15, 2008. The Company held 100% of the shares of Ocean Rig ASA

(163.6 million shares) as of July 10, 2008. A commission of $9.9 million was paid to Cardiff on December 5, 2008 for services rendered in relation to the Company's acquisition of the remaining shares in Ocean Rig ASA.

Acquisition of the owning companies for Samsung Hulls 1837 and 1838

On October 3, 2008, the Company entered into a share purchase agreement to acquire the equity interests of the companies owning the Samsung Hulls 1837 and 1838, which were controlled by clients of Cardiff, including certain entities affiliated with Mr. Economou. As part of this transaction, the Companies assumed the liabilities for two $115.0 million loan facilities which, in addition to the customary security and guarantees issued to the borrower, were collateralized by certain vessels owned by certain parties affiliated with Mr. Economou, corporate guarantees of certain entities affiliated with Mr. Economou and a personal guarantee from Mr. Economou.

On May 15, 2009, the above transaction closed. As consideration for this acquisition, the Company issued to the sellers the number of common shares equal to 25% of its total issued and outstanding common shares as of May 15, 2009. In connection with the acquisition of the newbuilding contracts for the construction of these drillships, the Company assumed installment payments totaling $1.0 billion and incurred debt obligations of $230.0 million.

On July 15, 2009, DryShips Inc. acquired the remaining 25% of the Company's total issued and outstanding capital stock from the minority interests held by certain unrelated entities and certain parties related to Mr. George Economou. The consideration paid for the 25% interest consisted of a one-time $50.0 million cash payment and the issuance of DryShips Inc. Series A Convertible Preferred Stock with an aggregate face value of $280.0 million. Following such acquisition, the Company became a wholly-owned subsidiary of DryShips Inc.

Purchase of drillship options from DryShips

On November 22, 2010, DryShips entered into an option contract with Samsung for up to four ultra deepwater drillships. The new orders would be sisterships of the drillships under construction with further upgrades to the specification. Each of the four options can be declared within twelve months of this agreement, with deliveries ranging from 2013 until 2014. The total project cost is estimated to be about $600 million per drillship. The agreement includes a non-refundable slot reservation fee of $24.8 million per drillship that will be applied to the drillship contract price if the options are exercised.

In connection with the Private Placement contemplated herewith, these option contracts will be transferred to Ocean Rig at the cost paid by DryShips. Accordingly, Ocean Rig will pay a total of $99.2 million to DryShips out of the net proceeds from the Private Placement.

7.2 Agreements relating to, but not involving the Company

Global Services Agreement between Cardiff and Dryships relating to the Company

On December 1, 2010 Cardiff and Dryships entered into a Global Services Agreement (the "Global Services Agreement") where Cardiff is engaged by Dryships to act as consultant on matters of chartering and sale and purchase transactions for the offshore drilling units operated by the Company. The Global Services Agreement comes into effect as from the time of the closing of the Private Placement and is subject to such closing occurring by December 31, 2010. Under the Global Services Agreement, Cardiff, or its subcontractor, shall (i) provide consulting services related to identifying, sourcing, negotiating and arranging new employment for the Dryship group of companies' offshore assets, including the Company's drillships and rigs; and (ii) identifying, sourcing, negotiating and arranging the sale or purchase of the Dryship group of companies' offshore assets, including the Company's drillships and rigs. In consideration of such services Dryships shall pay to Cardiff a fee of 1% in connection with employment arrangements and 0.75%

in connection with sale and purchase activities. The Company is not charged for services provided in accordance the Global Services Agreement.

The Global Services Agreement shall apply for the Vanco contract for the Samsung Hull 1838 and the Letter of Intent entered into with a British energy company for the Samsung Hull 1837, if the latter materializes into a contract but will not be applicable for the agreement with Petrobras regarding a "rig swap" from the *Leiv Eiriksson* to the Samsung Hull 1865, the *Eirik Raude* contract with Borders and the *Leiv Eiriksson* Letter of Intent entered into with a British energy company, if the latter materializes into a contract. Other than this, the Global Services Agreement will apply to any contracts entered into after the Effective Date. The Company has no obligation to receive services in accordance the Global Services Agreement and shall not be charged for services provided in accordance with the Global Services Agreement.

Consultancy Agreement between Vivid Finance Limited and Dryships relating to the Company

With effect from September 1, 2010, Vivid Finance Limited, a company controlled by Mr. George Economou, the Company's President and Chief Executive Officer, and Dryships entered into a Consultancy Agreement (the "Consultancy Agreement") where Vivid Finance Limited is engaged by Dryships to act as consultant on matters of financing for Dryships and for any affiliates, subsidiaries or holding companies as directed by Dryships, including the Company. Under the Consultancy Agreement Vivid Finance Limited, or its subcontractor, shall provide consulting services related to (i) identifying, sourcing, negotiating and arranging new loan and credit facilities with lenders/financial institutions; (ii) raising equity or debt in the public capital markets; (iii) identifying, sourcing, negotiating and arranging interest rate swaps agreements, foreign currency contracts and forward exchange contracts; and (iv) renegotiating existing loan facilities, bonds etc. In consideration of such services Dryships shall pay to Vivid Finance Limited a fee of twenty basis points (0.20%) on the total transaction amount. The Company shall not be charged for services provided in accordance with the Consultancy Agreement.

7.3 Employment agreements

Pursuant to the employment agreement, dated May 15, 2006, with Mr. Jan Rune Steinsland, he receives a fixed annual salary and may receive a bonus through the management bonus plan. The agreement continues until terminated by either party on six months' notice. In addition Mr. Steinsland is entitled to participation in the Company's pension scheme. In the case of his termination, except for reasons of gross breach of contract, Mr. Steinsland is entitled to twelve months' salary, payable in monthly installments following termination.

Ocean Rig AS entered into an employment agreement, dated January 8, 2004, with Mr. Frank Tollefsen for his services as Senior Vice President Operations from January 19, 2004. The agreement continues until terminated by either party on three months' notice. Pursuant to the agreement, Mr. Tollefsen receives a fixed annual salary and may receive a bonus through the management bonus plan, as well as a "stay on" bonus of 6 months salary paid every three years. In addition Mr. Tollefsen is entitled to participation in the Company's pension scheme.

Ocean Rig AS entered into an employment agreement, dated September 15, 2007, with Mr. John Rune Hellevik for his services as Senior Vice President Contracts and Procurement from January 1, 2007. The agreement continues until terminated by either party on three months' notice. Pursuant to the agreement, Mr. Hellevik receives a fixed annual salary and may receive a bonus through the management bonus plan. In addition Mr. Hellevik is entitled to participation in the Company's pension scheme.

Ocean Rig Ltd entered into an employment agreement, dated February 2010, with Mr. Ronald Coull for his services as Senior Vice President Human Resources from June 15, 2009. The agreement continues until terminated by either party on six months' notice. Pursuant to the agreement, Mr. Coull receives a fixed annual salary and may receive a bonus through the management bonus plan. In addition Mr. Coull is entitled to participation in the Company's pension scheme. In the case of his termination, Mr. Coull is entitled to six months notice and six months salary, which will increase by one month per year of service up to a maximum of 12 months' salary.

Ocean Rig AS entered into an employment agreement, dated September 28, 2009, with Mr. Rolf Håkon Holmboe for his services as Vice President HSE&Q from January 1, 2010. The agreement continues until terminated by either party on three months' notice. Pursuant to the agreement, Mr. Holmboe receives a fixed annual salary and may receive a bonus through the management bonus program. In addition Mr. Holmboe is entitled to participation in the Company's pension scheme.

8. Legal and regulatory matters

8.1 Environmental and other regulations in the offshore drilling industry

The Company's offshore drilling operations include activities that are subject to numerous international, federal, state and local laws and regulations, including the International Convention for the Prevention of Pollution from Ships, or MARPOL, the International Convention on Civil Liability for Oil Pollution Damage of 1969, generally referred to as CLC, the International Convention on Civil Liability for Bunker Oil Pollution Damage, or Bunker Convention, the U.S. Oil Pollution Act of 1990, or OPA, the Comprehensive Environmental Response, Compensation and Liability Act, or CERCLA, the U.S. Outer Continental Shelf Lands Act, and Brazil's National Environmental Policy Law (6938/81), Environmental Crimes Law (9605/98) and Law 9966/2000 relating to pollution in Brazilian waters. These laws govern the discharge of materials into the environment or otherwise relate to environmental protection. In certain circumstances, these laws may impose strict liability, rendering the Company liable for environmental and natural resource damages without regard to negligence or fault on its part.

For example, the United Nations' International Maritime Organization, or IMO, adopted MARPOL and Annex VI to MARPOL to regulate the discharge of harmful air emissions from ships, which include rigs and drillships. Rigs and drillships must comply with MARPOL limits on sulfur oxide and nitrogen oxide emissions, chlorofluorocarbons, and the discharge of other air pollutants, except that the MARPOL limits do not apply to emissions that are directly related to drilling, production, or processing activities.

The Company's drilling units are subject not only to MARPOL regulation of air emissions, but also to the Bunker Convention's strict liability for pollution damage caused by discharges of bunker fuel in ratifying states. The Company believes that all of its drilling units are currently compliant in all material respects with these regulations. In October 2008, IMO's Maritime Environment Protection Committee, or MEPC, adopted amendments to the Annex VI regulations which entered into force on July 1, 2010, that will require a progressive reduction of sulfur oxide levels in heavy bunker fuels and create more stringent nitrogen oxide emissions standards for marine engines in the future. The Company may incur costs to comply with these revised standards.

Furthermore, any drillships that the Company may operate in the waters of the U.S., including the U.S. territorial sea and the 200 nautical mile exclusive economic zone around the U.S., would have to comply with OPA and CERCLA regulations, as described above, that impose liability (unless the spill results solely from the act or omission of a third party, an act of God or an act of war) for all containment and clean-up costs and other damages arising from discharges of oil or other hazardous substances, other than discharges related to drilling.

The U.S. Bureau of Ocean Energy Management, Regulation and Enforcement, or BOEMRE, periodically issues guidelines for rig fitness requirements in the Gulf of Mexico and may take other steps that could increase the cost of operations or reduce the area of operations for the Company's units, thus reducing their marketability. Implementation of BOEMRE guidelines or regulations may subject the Company to increased costs or limit the operational capabilities of its units and could materially and adversely affect the Company's operations and financial condition.

Numerous governmental agencies issue such regulations to implement and enforce the laws of the applicable jurisdiction, which often involve lengthy permitting procedures, impose difficult and costly compliance measures, particularly in ecologically sensitive areas, and subject operators to substantial administrative, civil and criminal penalties or may result in injunctive relief for failure to comply. Some of these laws contain criminal sanctions in addition to civil penalties. Changes in environmental laws and regulations occur frequently, and any changes that result in more stringent and costly compliance or limit contract drilling opportunities, including changes in response to a serious marine incident that results in significant oil pollution or otherwise causes significant adverse environmental impact, such as the April 2010 *Deepwater Horizon* oil spill in the Gulf of Mexico, could adversely affect the Company's financial results. While the Company believes that it is in substantial compliance with the current laws and regulations, there is no assurance that compliance can be maintained in the future.

In addition to the MARPOL, OPA, and CERCLA requirements described above, the Company's international operations in the offshore drilling segment are subject to various laws and regulations in countries in which it operates, including laws and regulations relating to the importation of and operation of drilling units and equipment, currency conversions and repatriation, oil and gas exploration and development, environmental protection, taxation of offshore earnings and earnings of expatriate personnel, the use of local employees and suppliers by foreign contractors and duties on the importation and exportation of drilling units and other equipment. New environmental or safety laws and regulations could be enacted, which could adversely affect the Company's ability to operate in certain jurisdictions. Governments in some countries have become increasingly active in regulating and controlling the ownership of concessions and companies holding concessions, the exploration for oil and gas and other aspects of the oil and gas industries in their countries. In some areas of the world, this governmental activity has adversely affected the amount of exploration and development work done by major oil and gas companies and may continue to do so. Operations in less developed countries can be subject to legal systems that are not as mature or predictable as those in more developed countries, which can lead to greater uncertainty in legal matters and proceedings.

Implementation of new environmental laws or regulations that may apply to ultra-deepwater drilling units may subject the Company to increased costs or limit the operational capabilities of its drilling units and could materially and adversely affect the Company's operations and financial condition.

8.2 Contingencies, legal proceedings, etc.

Import/export duties in Angola

Ocean Rig's *Leiv Eiriksson* operated in Angola in the period 2002 to 2007. Ocean Rig understands that the Angolan government has retroactively levied import/export duties for two importation events in the period 2002 to 2007. As Ocean Rig has formally disputed all claims in relation to the potential duties, no provision has been made. The maximum amount is estimated to be between USD 5-10 million.

Other legal proceedings, etc.

With the exception of the matters discussed above, the Company is not involved in any legal proceedings or disputes that it believes will have a significant effect on its business, financial position, and results of operations or liquidity. From time to time, the Company may be subject to legal proceedings and claims in the ordinary course of business. It is expected that these claims would be covered by insurance if they involved liabilities such as arise from a collision, other marine casualty, damage to cargoes, oil pollution, death or personal injuries to crew, subject to customary deductibles. Those claims, even if lacking merit, could result in the expenditure of significant financial and managerial resources.

9. Tax considerations

The material tax considerations under the tax laws of the Marshall Islands and the United States are summarized below. The discussion below is based, in part, on the description of the Company's business as described herein and assumes that the Company conducts its business as described herein.

Persons interested in purchasing Offer Shares should consult their own tax advisors with respect to the tax consequences, including the income tax consequences, if any, to them of the purchase, holding, redemption, sale or transfer of Offer Shares.

9.1 Marshall Islands Tax Considerations

In the opinion of Seward & Kissel LLP, the following are the material Marshall Islands tax consequences relevant to an investment decision with respect to the Offer Shares. The Company is incorporated in the Marshall Islands. Under current Marshall Islands law, the Company is not subject to tax on income or capital gains, and no Marshall Islands withholding tax will be imposed upon payments of dividends by the Company to its shareholders.

9.2 U.S. Federal Income Tax Considerations

In the opinion of Seward & Kissel LLP, the Company's U.S. counsel, the following are the material U.S. federal income tax consequences relevant to an investment decision by a U.S. Holder with respect to the Offer Shares. The following discussion of U.S. federal income tax matters is based on the U.S. Internal Revenue Code of 1986, or the Code, judicial decisions, administrative pronouncements, and existing and proposed regulations issued by the U.S. Department of the Treasury, all of which are subject to change, possibly with retroactive effect.

This discussion does not purport to deal with the tax consequences of owning Offer Shares to all categories of investors, some of which, such as dealers in securities, investors whose functional currency is not the U.S. dollar and investors that own, actually or under applicable constructive ownership rules, 10% or more of the Company's shares, may be subject to special rules. This discussion deals only with holders who purchase Offer Shares in connection with this offering and hold the Offer Shares as a capital asset. You are encouraged to consult your own tax advisors concerning the overall tax consequences arising in your own particular situation under U.S. federal, state, local or foreign law of the ownership of Offer Shares.

PURSUANT TO U.S. INTERNAL REVENUE SERVICE REGULATIONS, THE COMPANY AND ITS TAX ADVISORS HEREBY INFORM YOU THAT: (I) ANY TAX ADVICE CONTAINED HEREIN IS NOT INTENDED AND WAS NOT WRITTEN TO BE USED, AND CANNOT BE USED BY ANY TAXPAYER, FOR THE PURPOSES OF AVOIDING PENALTIES THAT MAY BE IMPOSED ON THE TAXPAYER; (II) ANY SUCH ADVICE WAS WRITTEN TO SUPPORT THE PROMOTION OR MARKETING OF THE OFFER SHARES DESCRIBED HEREIN; AND (III) EACH TAXPAYER SHOULD SEEK ADVICE BASED ON THE TAXPAYER'S PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR.

A shareholder (and each employee, representative, or other agent of the shareholder) may disclose to any and all persons, without limitation of any kind, the tax treatment and tax structure of an investment in the Company and all materials of any kind (including opinions or other tax analyses) that are provided to the shareholder relating to such tax treatment and tax structure.

As used herein, the term "U.S. Holder" means a beneficial owner of Offer Shares that is a U.S. citizen or resident, U.S. corporation or other U.S. entity taxable as a corporation, an estate the income of which is subject to U.S. federal income taxation regardless of its source, or a trust if a court within the United States is able to exercise primary jurisdiction over the administration of the trust and one or more U.S. persons have the authority to control all substantial decisions of the trust.

If a partnership holds the Offer Shares, the tax treatment of a partner will generally depend upon the status of the partner and upon the activities of the partnership. If you are a partner in a partnership holding the Offer Shares, you are encouraged to consult your tax advisor.

Distributions

Subject to the discussion of passive foreign investment companies below, any distributions made by the Company with respect to the Offer Shares to a U.S. Holder, will generally constitute dividends, to the extent of the Company's current or accumulated earnings and profits, as determined under U.S. federal income tax principles. Distributions in excess of the Company's earnings and profits will be treated first as a nontaxable return of capital to the extent of the U.S. Holder's tax basis in his Offer Shares on a dollar-for-dollar basis and thereafter as capital gain. Because the Company is not a U.S. corporation, U.S. Holders that are corporations will not be entitled to claim a dividends received deduction with respect to any distributions they receive from the Company. Dividends paid with respect to the Offer Shares will generally be treated as "passive category income" or, in the case of certain types of U.S. Holders, "general category income" for purposes of computing allowable foreign tax credits for U.S. foreign tax credit purposes. Since the Offer Shares are not traded on a established securities market in the United States, the Company does not anticipate that any dividends paid on the Offer Shares will be treated as "qualified dividend income" which is taxable (through December 31, 2010 under current law) at preferential rates to U.S. Holders who are individuals, trusts or estates.

Sale, Exchange or other Disposition of Offer Shares

Assuming the Company does not constitute a passive foreign investment company for any taxable year, a U.S. Holder generally will recognize taxable gain or loss upon a sale, exchange or other disposition of the Offer Shares in an amount equal to the difference between the amount realized by the U.S. Holder from such sale, exchange or other disposition and the U.S. Holder's tax basis in such stock. Such gain or loss will be treated as long-term capital gain or loss if the U.S. Holder's holding period is greater than one year at the time of the sale, exchange or other disposition. Such capital gain or loss will generally be treated as U.S. source income or loss, as applicable, for U.S. foreign tax credit purposes. A U.S. Holder's ability to deduct capital losses is subject to certain limitations.

Passive Foreign Investment Company Status and Significant Tax Consequences

Special U.S. federal income tax rules apply to a U.S. Holder that holds stock in a foreign corporation classified as a passive foreign investment company (a "PFIC") for U.S. federal income tax purposes. In general, a foreign corporation will be treated as a PFIC with respect to a U.S. shareholder in such foreign corporation, if, for any taxable year in which such shareholder holds stock in such foreign corporation, either:

- at least 75% of the corporation's gross income for such taxable year consists of passive income (e.g., dividends, interest, capital gains and rents derived other than in the active conduct of a rental business); or
- at least 50% of the average value of the assets held by the corporation during such taxable year produce, or are held for the production of, passive income.

For purposes of determining whether a foreign corporation is a PFIC, it will be treated as earning and owning its proportionate share of the income and assets, respectively, of any of its subsidiary corporations in which it owns at least 25% of the value of the subsidiary's stock. If Ocean Rig UDW Inc. is treated as a PFIC, then a U.S. person would be treated as indirectly owning shares of its foreign corporate subsidiaries for purposes of the PFIC rules.

Income earned by a foreign corporation in connection with the performance of services would not constitute passive income. By contrast, rental income would generally constitute “passive income” unless the foreign corporation is treated under specific rules as deriving its rental income in the active conduct of a trade or business.

The Company does not believe that it is currently a PFIC, although the Company may have been a PFIC for certain prior taxable years. Based on the Company’s current operations and future projections, the Company does not believe that it has been, is, or will be a PFIC with respect to any taxable year beginning with the 2009 taxable year. Although the Company intends to conduct its affairs in the future in a manner to avoid being classified as a PFIC, it cannot assure that the nature of its operations will not change in the future.

Special U.S. federal income tax elections have been made or will be made in respect of certain of the Company’s subsidiaries. The effect of these special U.S. tax elections is to ignore or disregard the subsidiaries for which elections have been made as separate taxable entities and to treat them as part of their sole shareholder. Therefore, for purposes of the following discussion, for each subsidiary for which such an election has been made, the shareholder of such subsidiary, and not the subsidiary itself, will be treated as the owner of the subsidiary’s assets and as receiving the subsidiary’s income.

As discussed more fully below, if the Company were to be treated as a PFIC for any taxable year, a U.S. Holder would be subject to different taxation rules depending on whether the U.S. Holder makes an election to treat the Company as a “Qualified Electing Fund,” which election is referred to as a “QEF election.” In addition, if the Company were to be treated as a passive foreign investment company for any taxable year after 2010, a U.S. Holder would be required to file an annual report with the Internal Revenue Service for that year with respect to such holder’s Offer Shares.

A U.S. Holder who owns shares in a PFIC is permitted to make a “mark-to-market” election with respect to such stock if the stock is treated as “marketable stock.” The Company does not anticipate that its stock will be treated as “marketable stock” for purposes of the PFIC rules and the remainder of this discussion assumes that a U.S. Holder of the Offer Shares will not be able to make a “mark-to-market” election.

Taxation of U.S. Holders Making a Timely QEF Election

If a U.S. Holder makes a timely QEF election, which U.S. Holder is referred to as an “Electing Holder,” the Electing Holder must report each year for U.S. federal income tax purposes his pro rata share of the Company’s ordinary earnings and its net capital gain, if any, for the Company’s taxable year that ends with or within the taxable year of the Electing Holder, regardless of whether or not distributions were received from the Company by the Electing Holder. The Electing Holder’s adjusted tax basis in the Offer Shares will be increased to reflect taxed but undistributed earnings and profits. Distributions of earnings and profits that had been previously taxed will result in a corresponding reduction in the adjusted tax basis in the Offer Shares and will not be taxed again once distributed. An Electing Holder would generally recognize capital gain or loss on the sale, exchange or other disposition of the Offer Shares. A U.S. Holder would make a QEF election with respect to any year that the Company is a PFIC by filing Internal Revenue Service Form 8621 with his U.S. federal income tax return. If the Company was aware that it were to be treated as a PFIC for any taxable year, the Company would, if possible, provide each U.S. Holder with all necessary information in order to make the QEF election described above. It should be noted that the Company may not be able to provide such information if it did not become aware of its status as a PFIC in a timely manner.

Taxation of U.S. Holders Not Making a Timely QEF Election

Finally, if the Company were to be treated as a PFIC for any taxable year, a U.S. Holder who does not make a QEF election for that year, whom is referred to as a "Non-Electing Holder," would be subject to special rules with respect to (1) any excess distribution (i.e., the portion of any distributions received by the Non-Electing Holder on the Offer Shares in a taxable year in excess of 125 % of the average annual distributions received by the Non-Electing Holder in the three preceding taxable years, or, if shorter, the Non-Electing Holder's holding period for the Offer Shares), and (2) any gain realized on the sale, exchange or other disposition of the Offer Shares. Under these special rules:

- the excess distribution or gain would be allocated ratably over the Non-Electing Holders' aggregate holding period for the Offer Shares;
- the amount allocated to the current taxable year and any taxable year before the Company became a PFIC would be taxed as ordinary income; and
- the amount allocated to each of the other taxable years would be subject to tax at the highest rate of tax in effect for the applicable class of taxpayer for that year, and an interest charge for the deemed deferral benefit would be imposed with respect to the resulting tax attributable to each such other taxable year.

These penalties would not apply to a pension or profit sharing trust or other tax-exempt organization that did not borrow funds or otherwise utilize leverage in connection with its acquisition of the Offer Shares. If a Non-Electing Holder who is an individual dies while owning the Offer Shares, such holder's successor generally would not receive a step-up in tax basis with respect to such stock.

Backup Withholding and Information Reporting

In general, dividend payments, or other taxable distributions, made within the United States to you will be subject to information reporting requirements. Such payments will also be subject to backup withholding tax if paid to a non-corporate U.S. Holder who:

- fails to provide an accurate taxpayer identification number;
- is notified by the Internal Revenue Service that he has failed to report all interest or dividends required to be shown on his federal income tax returns; or
- in certain circumstances, fails to comply with applicable certification requirements.

Backup withholding tax is not an additional tax. Rather, a taxpayer generally may obtain a refund of any amounts withheld under backup withholding rules that exceed the taxpayer's income tax liability by filing a refund claim with the Internal Revenue Service.

9.3 Tax Considerations in Norway

This subsection presents a brief outline of certain tax aspects under Norwegian law related to subscription, holding and disposal of the Offer Shares. The summary is based on Norwegian laws, rules and regulations applicable as of the date of this Information Memorandum, which may be subject to any changes in law occurring after such date. Such changes could possibly be made on a retroactive basis.

The summary concerns only the shareholder categories explicitly mentioned below, and special tax considerations that are not described in this summary may apply for other categories of shareholders, including partnerships, funds etc. Furthermore, special rules (exit taxation), which are not mentioned below, may apply to shareholders that have moved or will move out of Norway.

The summary is of a general nature and is not intended to be an exhaustive analysis of all possible tax aspects that may be relevant for a decision to acquire, own or dispose of Offer Shares. Shareholders who wish to clarify their own tax situation should consult with and rely upon their own tax advisers.

Shareholders resident in jurisdictions other than Norway should consult with and rely upon their own tax advisers with respect to the tax position in their country of residence.

The statements below only apply to shareholders who are beneficial owners of the Offer Shares.

Please note that for the purpose of this subsection, a reference to a Norwegian or foreign shareholder refers to the tax residency and not the nationality of the shareholder.

Norwegian shareholders

Taxation of dividends - Norwegian personal shareholders

Dividends distributed from the Company to Norwegian personal shareholders are taxable as ordinary income at a flat rate of 28 per cent, to the extent the dividend exceeds a tax-free allowance.

The allowance is calculated on a share-by-share basis. The allowance is calculated for each calendar year, and is allocated solely to the Norwegian personal shareholders holding Offer Shares at the end of the relevant calendar year. Norwegian personal shareholders who transfer Offer Shares will thus not be entitled to deduct any calculated allowance related to the year of transfer. The allowance for each Offer Share is calculated on the basis of the shareholder's cost price on the share (which may be subject to certain adjustments), multiplied with a statutory risk-free interest. The risk-free interest is determined on the basis of interest on 3-months Treasury bills (Norwegian: "statskasseveksler"), as published by Norges Bank, after tax. Any part of the calculated allowance one year exceeding the dividend distributed on the Offer Share ("Excess Allowance") may be carried forward and set off against dividends received on, or capital gains upon realisation of, the same share in subsequent years. Furthermore, any Excess Allowance will be added to the basis for calculating the allowance on the same share for subsequent years.

Taxation of dividends - Norwegian corporate shareholders

Dividends distributed from the Company to Norwegian corporate shareholders (limited liability companies and similar entities) are taxable as corporate income at a flat rate of 28 per cent.

Taxation of capital gains - Norwegian personal shareholders

Sale, redemption or other disposal of Offer Shares is considered as a realization for Norwegian tax purposes.

A capital gain or loss generated by a Norwegian personal shareholder through a realization of Offer Shares is taxable or tax deductible, as applicable, in Norway. Such capital gain or loss is included in or deducted from the basis for computation of ordinary income in the year of realization. Ordinary income is taxable at a flat rate of 28 per cent. Gain is subject to tax and loss is deductible for tax purposes irrespective of the duration of the ownership and the number of Offer Shares owned and/or disposed of.

The gain or loss is calculated per Offer Share, as net consideration for the share less the shareholder's cost price on the share (which may be subject to certain adjustments), including any costs incurred in relation to the acquisition or realisation of the share. From this capital gain, Norwegian personal shareholders are entitled to deduct a calculated allowance, to the extent that such allowance has not already been used to reduce taxable dividend income. See "Taxation of dividends – Norwegian personal shareholders" above for a description of the calculation of the allowance. However, any allowance may only be deducted in order to reduce a capital gain, and not to produce or increase a loss. Further, any allowance on one share cannot be set-off against gains on another share.

If the Norwegian personal shareholder owns shares in the Company acquired at different points in time, the shares that were acquired first will be regarded as the first to be disposed of, on a first-in first-out basis.

Special rules may apply for Norwegian shareholders that have emigrated.

Taxation of capital gains - Norwegian corporate shareholders

Sale, redemption or other disposal of Offer Shares is considered as a realization for Norwegian tax purposes. A capital gain or loss generated by a Norwegian corporate shareholder (limited liability company or similar entity) through a realization of Offer Shares is taxable or tax deductible, as applicable, in Norway. Such capital gain or loss is included in or deducted from the basis for computation of ordinary income in the year of realization. Ordinary income is taxable at a flat rate of 28 per cent. Gain is subject to tax and loss is deductible for tax purposes irrespective of the duration of the ownership and the number of Offer Shares owned and/or disposed of.

If the Norwegian corporate shareholder owns shares in the Company acquired at different points in time, the shares that were acquired first will be regarded as the first to be disposed of, on a first-in first-out basis.

Net wealth tax

Norwegian personal shareholders are subject to net wealth tax. The marginal net wealth tax rate is currently 1.1 percent of the value assessed. When calculating the net wealth tax base, the Offer Shares are valued at their proportionate share of the Company's net wealth (for tax purposes) as of January 1 in the fiscal year (i.e. the year before the assessment year).

Norwegian corporate shareholders are not subject to net wealth tax.

Foreign shareholders - Norwegian taxation

As a general rule, dividends received and capital gains generated by a non-Norwegian personal or corporate shareholder from shares in companies that are tax resident outside of Norway, are not subject to Norwegian taxation unless the foreign shareholder (i) holds the shares in connection with a business liable to taxation in Norway (e.g. a permanent establishment); or (ii) is a person which has previously been tax resident in Norway.

Foreign personal shareholders are not subject to net wealth tax in Norway unless the Offer Shares are held in connection with a business liable to taxation in Norway (e.g. a permanent establishment).

Foreign corporate shareholders are not subject to net wealth tax.

CFC taxation

If Norwegian shareholders (and foreign shareholders that hold the shares in connection with a business that is taxable in Norway), in the aggregate, directly or indirectly own or control 50% or more of the Company's share capital at the beginning and end of a fiscal year, or more than 60% at the end of a fiscal year, then such shareholders may become subject to CFC taxation (Norwegian: "NOKUS") in Norway.

In the event CFC taxation applies, the Company's annual profits will be taxable (at a rate of 28%) on the hands of the shareholders that are subject to CFC taxation, according to each such shareholder's proportionate share of the Company's equity. The CFC taxation applies regardless of whether – and to what extent – the profits are distributed to the shareholders. The Company's profits will, for the purpose of the CFC taxation, be calculated according to Norwegian tax rules as if the Company was a Norwegian taxpayer.

For a Norwegian corporate shareholder that is subject to CFC taxation, dividends distributed from the Company are exempt from further taxation to the extent the dividends do not exceed such shareholder's taxable share of the Company's net income.

For a Norwegian personal shareholder who is subject to CFC taxation, 72 % of the dividends distributed from the Company will be taxable according to the rates and provisions discussed under "Taxation of dividends – Norwegian personal shareholders" above.

Special rules apply to the calculation of taxable gains/losses upon realization of shares by a Norwegian corporate shareholder that is or has been subject to CFC taxation. These will not be discussed further here.

Duties on transfer of shares

No stamp duty or similar duties are currently imposed in Norway on the transfer of Offer Shares, neither on acquisition nor on disposal.

Inheritance tax

When Offer Shares are transferred either through inheritance or as a gift, such transfer may give rise to inheritance or gift tax in Norway, if the decedent at the time of death, or the donor, at the time of the gift, is a resident or citizen of Norway for inheritance tax purposes, or if the Offer Shares are effectively connected with a business carried out through a permanent establishment in Norway. However, in the case of inheritance, if the decedent was a citizen but not a resident of Norway, Norwegian inheritance tax will not be levied if inheritance tax or a similar tax is levied by the decedent's country of residence.

The basis for the computation of inheritance tax is the market value of the shares at the time the transfer takes place. The rate is progressive from 0% to 15%. For inheritance and gifts from parents to children, the maximum rate is 10%.

9.4 Other Tax Considerations

In addition to the tax consequences discussed above, the Company may be subject to tax in one or more other jurisdictions where it conducts activities. The amount of any such tax imposed upon its operations may be material.

The Company is presently arranging for it to become Cyprus tax resident by arranging for the Company's corporate headquarters to be located in Cyprus and its corporate matters being managed and controlled from Cyprus. At the current time, the Company has reason to believe, based on the current tax situation in Cyprus, that tax residency in Cyprus shall not create any material tax liability for the Company.

10. Risk factors

A number of risk factors may adversely affect the Company. These risk factors include financial risks, technical risks, risks related to the business operations of the Company, environmental and regulatory risks. If any of these risks or uncertainties actually occurs, the business, operating results and financial condition of the Company could be materially and adversely affected. The risks presented in this Information Memorandum are not exhaustive, and other risks not discussed herein may also adversely affect the Company. Prospective investors should consider carefully the information contained in this Information Memorandum and make an independent evaluation before making an investment decision.

Included in this Information Memorandum are various "forward-looking statements", including statements regarding the intent, opinion, belief or current expectations of the Company or its management with respect to, among other things, (i) the Company's target market, (ii) evaluation of the Company's markets, competition and competitive position, (iii) trends which may be expressed or implied by financial or other information or statements contained herein. Such forward-looking statements are not guarantees of future performance and involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance and outcomes to be materially different from any future results, performance or outcomes expressed or implied by such forward-looking statements. Such factors include, but are not limited to, the risk factors described below and elsewhere in this Information Memorandum.

Construction risks: The Company has entered into contracts for the fabrication, installation and commissioning of four ultra deep water drillships; including hull, marine equipment and supply and installation of drilling equipment. The contracts stipulate dates of delivery and specified prices. In the case of late delivery, the Company may be in a position to impose penalties. However, delays may still represent serious negative consequences for the Company, as may also any increase in cost for items not covered by fixed prices. Delays may, among other things, result in the termination of charter contracts. As with any delivery of new units from yards, there is a risk that final testing will reveal defects or inefficiencies which may take time or additional costs to remedy..

The contractual rights of the relevant owner to take title to, and possession of, either rig under construction will not be enforceable in the event of a bankruptcy or receivership of the relevant yard.

Charters: The Company cannot be assured that it will obtain charter contracts for one or more of its drillships when completed, or that such contracts, if and when obtained, will be obtained on profitable terms to the Company. Furthermore, there is often considerable uncertainty as to the duration of offshore charters because most charter contracts give the operator both extension and early cancellation options. There can also be off-hire periods between charters. The cancellation or postponement of one or more charters can have a major impact on the earnings of drilling and service companies.

Oil prices: Historically, demand for offshore exploration, development and production has been volatile and closely linked to the price of hydrocarbons. Low oil prices typically lead to a reduction in exploration drilling as the oil companies' scale down their investment budgets. The sharp reduction in production costs on new oil fields will probably somewhat reduce the strong historical correlation between rig rates and oil prices

The offshore drilling industry is highly cyclical and an over-supply of drilling units may lead to a reduction in dayrates which would negatively impact our revenues, profitability and cash flows: The Company's industry has historically been cyclical. During the recent period of high utilization and high dayrates, industry participants have increased the supply of drilling units by ordering the construction of new drilling units. Historically, this has resulted in an over-supply of drilling units and has caused a subsequent decline in utilization and dayrates when the drilling units enter the market, sometimes for extended periods of time until the units have been absorbed into the active fleet.

The worldwide fleet of deepwater and ultra-deepwater drilling units (defined as units with water depth capacity of 3,000 feet or more) currently consists of approximately 156 units. In addition, approximately 49 units are under construction or on order, which would bring the total worldwide fleet to approximately 205 drilling units within the next few years. The entry into service of these new, upgraded or reactivated drilling units will increase supply and could curtail a further strengthening, or trigger a reduction, in dayrates as drilling units are absorbed into the active fleet. The construction of new drilling units could have a negative impact on utilization and dayrates. In addition, the new construction of high-specification rigs, as well as changes in the Company's competitors' drilling units, could require the Company to make material additional capital investments to keep its fleet competitive. Lower utilization and dayrates could adversely affect the Company's revenues, profitability and cash flows available to meet scheduled debt repayments. Prolonged periods of low utilization and dayrates could also result in the recognition of impairment charges on the Company's drilling units if future cash flow estimates, based upon information available to management at the time, indicate that the carrying value of these drilling units may not be recoverable.

Market risks: Demand for drilling services in connection with exploration, development and production in the offshore oil and gas sector is particularly sensitive to price falls, reductions in production levels and disappointing exploration results. On the supply side, there is also uncertainty when it comes to the construction of new rigs, the upgrading and maintenance of existing rigs, the conversion of other types of rigs into drilling units and alternative uses for equipment as market conditions change.

The Company may assume substantial liabilities: Contracts in the offshore sector require high standards of safety, and it is important to note that all offshore contracts are associated with considerable risks and responsibilities. These include technical, operational, commercial and political risks, and it is impossible to insure against all the types of risk and liabilities mentioned. For instance, under some contracts the Company may have unlimited liability for losses caused by its own gross negligence.

Political risks: Changes in the legislative and fiscal framework governing the activities of the oil companies could have an impact on exploration and development activity or affect the company's operations directly. Changes in political regimes may constitute a risk factor for operations in foreign countries.

Interest rate risks: The Company's bank financing agreements are subject to floating interest rates. Hence, the Company will be financially exposed to fluctuations in interest rates.

Service life and technical risks: The service life of drilling rigs is generally assumed to be more than 30 years but will depend ultimately on their efficiency. There will always be some exposure to technical risks, with unforeseen operational problems leading to unexpectedly high operating costs and/or lost earnings.

Environmental risk: The Company's operations may involve the use and/or disposal of materials that may be classified as hazardous substances. The environmental laws and regulations of the countries in which the Company may operate expose the Company to liability for the conduct of, or for conditions caused by, others, or for acts of the Company that were in compliance with all applicable laws at the time such actions were taken. In the past several years, protection of the environment has become a higher and more visible priority of many governments throughout the world, particularly following the April 2010 *Deepwater Horizon* oil spill in the Gulf of Mexico.

Offshore drilling in certain areas has been opposed by environmental groups and, in some areas, has been legally restricted. The Company's operations could be restricted and its rigs could become more expensive to operate if new laws are enacted or other governmental actions are taken that prohibit or restrict offshore drilling or impose additional environmental protection requirements. Moreover, the Company may have no right to compensation from its customers if its costs are increased through such governmental actions, and its operating margins may fall as a result.

Fluctuations in share price: The market price of the Company's share may fluctuate and may decline below the subscription price in the Private Placement. The market price of the Company's shares may fluctuate widely, depending on many factors beyond the Company's control, including:

- market expectations of the rig construction performance;
- investor perceptions of the outlook for the Company to obtain future engagements for its rigs on profitable terms;
- the outcome of the intended IPO process; and
- the other factors listed above under "Risk factors".

The price of the Company's shares will also be subject to fluctuations in line with general movements in the capital markets and the liquidity of the secondary market. Earnings of offshore companies and the value of the equipment used have historically seen major fluctuations.

As a result of these and other factors, the Company cannot give assurance that any investor will be able to sell its shares at a price equal to or greater than the subscription price in the Private Placement.

Control by major shareholder: DryShips is expected to hold more than 50% of the shares of the Company following the completion of the Private Placement and the expected subsequent IPO. This means that DryShips will have the ability to significantly influence the outcome of matters submitted for the vote of shareholders, including the election of members of the board of directors. The commercial goals of DryShips as a shareholder, and those of the Company, may not always remain aligned. The substantial equity interest by DryShips may make it more difficult for the Company to maintain its business independence from other companies within the DryShips group of companies and its affiliates.

If DryShips were to sell a large number of shares in the Company, or there is a perception in the market that such sales could occur, the trading price of the shares in the Company could decline. Such sales could also make it more difficult for the Company to offer equity securities in the future at a time and at a price that are deemed appropriate.

Ability to continue as a going concern: From January 1, 2009, up to September 30, 2010, the Company received $1.2 billion in cash from its parent company, DryShip Inc. in the form of capital contributions to meet obligations for capital expenditures on its four drillships under construction and debt repayments during the period. At the current time, the Company's commitments in 2011 exceed its expected cash flows from operations for those periods. To meet its yard commitments for its four drillships under construction which total $1.3 billion in 2011, and to repay maturing debt of $383 million in 2011, the Company is dependent upon further debt or equity financing, either from the continued support from our parent company or from external sources. The two $562.5 million loan agreements have an aggregate of $932.6 million of undrawn credit as of September 30, 2010 for the financing of Samsung Hulls 1865 and 1866. However, all future draw downs under the loan agreements must be fully cash collateralized until the Company finds suitable employment for both drillships. Under the loan agreements, the relevant employment contracts must have minimum dayrates of $545,000 for a two year contract, $550,000 for a three year contract and $510,000 for a five year contract with counterparties that are satisfactory to the lenders. These minimum dayrates are above current dayrates available in the market and the rates received by the Company in certain of its latest contract awards or Letters of Intent. In addition, the Company requires financing for the construction of Samsung Hulls 1837 and 1838, which is expected to be partly obtained from the net proceeds of this offering.

As if December 31, 2008, DryShips Inc. was in breach of certain financial covenants contained in its loan agreements. Even though none of DryShips Inc.'s lenders declared an event of default under its loan agreements, these breaches constituted potential events of default and could have resulted in those lenders requiring immediate repayment of the loans. During 2009 and up to September 30, 2010, DryShips Inc. had obtained waivers from all of its lenders. The Company was also in breach of financial covenants related to its $230.0 million credit facility, which breaches were waived by the lender in a series of back-to-back waiver letters with the latest waiver expiring on December 31, 2010. However, some of these waiver agreements expire during the next 12 months, at which time the original covenants come back in force. For those waivers that expire during the next 12 months, DryShips Inc. is currently in negotiations with its lenders to obtain waiver extensions or to restructure the affected debt.

DryShips Inc. guarantees the Company's $230.0 million credit facility and its two $562.5 million loan agreements. Due to the cross-default provisions in the Company's loan agreements and breach of certain financial covenants both for the Company and for DryShips Inc., the Company has classified its outstanding balance under the $230.0 million credit facility and the two $562.5 million loan agreements as current liabilities. A default by DryShips Inc. on its loan agreements could have a substantial effect on the Company. Should DryShips Inc. fail to pay loan installments or guarantee obligations as they fall due, this would result in a cross-default on the $230.0 million credit facility and the two $562.5 million loan agreements, as well as the $1.04 billion credit facility. Furthermore, if the Company fails to secure additional external debt or equity financing to fund the construction of the drillships or is unable to drawdown amounts under the two $562.5 million loan agreements or is unable to obtain continued support from DryShips Inc., this would have a material adverse effect on the Company's ability to continue as a going concern.

Therefore, the Company's ability to continue as a going concern is dependent on DryShips Inc.'s and the Company's management's ability to successfully generate revenue and to meet the Company's obligations as they become due and is dependent on the continued support of DryShips Inc.'s and the Company's lenders. DryShips Inc.'s independent registered public accounting firm has issued its opinion with an explanatory paragraph in connection with the financial statements included in DryShips Inc.'s annual report that expresses substantial doubt about its ability to continue as a going concern. The Company's financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result from the outcome of DryShips Inc.'s or the Company's inability to continue as a going concern. However, there is a material uncertainty related to events and conditions that raise significant doubt about DryShips Inc.'s and the Company's ability to continue as a going concern and, therefore, the Company may be unable to realize its assets and discharge its liabilities in the normal course of business. See note 3 to the Company's audited consolidated financial statements for the years ended December 31, 2007, 2008 and 2009, and note 3 to the Company's unaudited consolidated financial statements for the nine months ended September 30, 2009 and 2010 included in this Information Memorandum.

U.S. tax authorities could treat the Company as a "passive foreign investment company," which could have adverse U.S. federal income tax consequences to U.S. holders: A foreign corporation will be treated as a "passive foreign investment company," or PFIC, for U.S. federal income tax purposes if either (1) at least 75% of its gross income for any taxable year consists of certain types of "passive income" or (2) at least 50% of the average value of the corporation's assets produce or are held for the production of those types of "passive income". For purposes of these tests, "passive income" includes dividends, interest, and gains from the sale or exchange of investment property and rents and royalties other than rents and royalties which are received from unrelated parties in connection with the active conduct of a trade or business. For purposes of these tests, income derived from the performance of services does not constitute "passive income". U.S. shareholders of a PFIC are subject to a disadvantageous U.S. federal income tax regime with respect to the income derived by the PFIC, the distributions they receive from the PFIC and the gain, if any, they derive from the sale or other disposition of their shares in the PFIC.

The Company does not believe that is currently a PFIC, although certain of its wholly-owned subsidiaries may be or have been classified as PFICs at any time through the conclusion of the 2008 taxable year. Based on the Company's current operations and future projections, the Company does not believe that it or any of its subsidiaries have been, are or will be a PFIC with respect to any taxable year beginning with the 2009 taxable year. Although the Company intends to conduct its affairs in the future in a manner to avoid itself or any of its subsidiaries being classified as a PFIC, the Company cannot assure that the nature of its operations will not change in the future.

However, no assurance can be given that the U.S. Internal Revenue Service, or IRS, or a court of law will accept the Company's position, and there is a risk that the IRS or a court of law could determine that the Company or one of its subsidiaries is a PFIC. Moreover, no assurance can be given that the Company or a subsidiary would not constitute a PFIC for any future taxable year if there were to be changes in the nature and extent of its operations.

If the IRS were to find that the Company is or has been a PFIC for any taxable year, the Company's U.S. shareholders will face adverse U.S. tax consequences. Under the PFIC rules, unless those shareholders make an election available under the Code (which election could itself have adverse consequences for such shareholders, as discussed below under "Tax Considerations—U.S. Federal Income Tax Considerations"), such shareholders would be liable to pay U.S. federal income tax at the then prevailing income tax rates on ordinary income plus interest upon excess distributions and upon any gain from the disposition of the Offer Shares, as if the excess distribution or gain had been recognized ratably over the shareholder's holding period of the Offer Shares. See "Tax Considerations—U.S. Federal Income Tax Considerations" for a more comprehensive discussion of the U.S. federal income tax consequences to U.S. shareholders if the Company is treated as a PFIC.

A change in tax laws, treaties or regulations, or their interpretation, of any country in which the Company operates its drilling rigs could result in a high tax rate on its worldwide earnings, which could result in a significant negative impact on its earnings and cash flows from operations: The Company conducts its worldwide drilling operations through various subsidiaries. Tax laws and regulations are highly complex and subject to interpretation. Consequently, the Company is subject to changing tax laws, treaties and regulations in and between countries in which it operates. The Company's income tax expense is based upon its interpretation of tax laws in effect in various countries at the time that the expense was incurred. A change in these tax laws, treaties or regulations, or in the interpretation thereof, or in the valuation of the Company's deferred tax assets, could result in a materially higher tax expense or a higher effective tax rate on the Company's worldwide earnings, and such change could be significant to its financial results. If any tax authority successfully challenges the Company's operational structure, inter-company pricing policies or the taxable presence of its key subsidiaries in certain countries; or if the terms of certain income tax treaties are interpreted in a manner that is adverse to the Company's structure; or if the Company loses a material tax dispute in any country, particularly in the U.S., Canada, the U.K., Turkey, Angola, Cyprus, Korea, Ghana or Norway, the Company's effective tax rate on its worldwide earnings could increase substantially and its earnings and cash flows from these operations could be materially adversely affected.

The Company's subsidiaries may be subject to taxation in the jurisdictions in which their offshore drilling activities are conducted. Such taxation would result in decreased earnings available to the Company's shareholders. Ocean Rig ASA initiated in the fourth quarter of 2008 the process of transferring the domicile of its Norwegian entities that owned, directly or indirectly, the *Leiv Eiriksson* and the *Eirik Raude* to the Republic of the Marshall Islands and to liquidate the four companies of the Norwegian rig owning structure. The *Leiv Eiriksson* and the *Eirik Raude* were transferred to Marshall Islands corporations in December 2008. The present status of the four companies of the former Norwegian rig owning structure is that three of them will be formally liquidated during December 2010 and the fourth company is planned to being formally liquidated during the first quarter of 2011.

Investors are encouraged to consult their own tax advisors concerning the overall tax consequences of the ownership of the Offer Shares arising in an investor's particular situation under U.S. federal, state, local or foreign law.

Appendix 1 Certificate of Incorporation

REPUBLIC OF THE MARSHALL ISLANDS
OFFICE OF THE REGISTRAR OF CORPORATIONS

CERTIFICATE OF INCORPORATION

I HEREBY CERTIFY that

PRIMELEAD SHAREHOLDERS INC.

is duly incorporated and has filed articles of incorporation under the provisions of the Marshall Islands Business Corporations Act on

December 10, 2007

WITNESS my hand and the official seal of the Registry on **December 10, 2007**.

C. Kashinaky

Deputy Registrar

27330

Appendix 2 Form of Articles of Incorporation

FORM OF
AMENDED AND RESTATED ARTICLES OF INCORPORATION
OF
OCEAN RIG UDW INC.
PURSUANT TO THE MARSHALL ISLANDS BUSINESS CORPORATION ACT

A. The name of the Corporation shall be:

OCEAN RIG UDW INC.

B. The purpose of the Corporation is to engage in any lawful act or activity for which corporations may now or hereafter be organized under the Marshall Islands Business Corporations Act (the "BCA").

C. The registered address of the Corporation in the Marshall Islands is Trust Corporation Complex, Ajeltake Road, Ajeltake Island, Majuro, Marshall Islands MH96960. The name of the Corporation's registered agent at such address is The Trust `Corporation of the Marshall Islands, Inc.

D. The aggregate number of shares of stock that the Corporation is authorized to issue is Two Hundred Fifty Million (250,000,000) registered shares designated common shares with a par value of one United States cent (US$0.01) per share.

E. The Corporation shall have every power which a corporation now or hereafter organized under the BCA may have.

F. The name and address of the incorporator is:

Name	Post Office Address
Majuro Nominees Ltd.	P.O. Box 1405 Majuro Marshall Islands

G. No holder of shares of the Corporation of any class, now or hereafter authorized, shall have any preferential or preemptive rights to subscribe for, purchase or receive any shares of the Corporation of any class, now or hereafter authorized or any options or warrants for such shares, or any rights to subscribe to or purchase such shares, or any securities convertible into or exchangeable for such shares, which may at any time be issued, sold or offered for sale by the Corporation.

H. Corporate existence commenced on December 10, 2007 and shall continue upon filing these Amended and Restated Articles of Incorporation with the Registrar of Corporations as of the filing date stated herein.

I. (a) The number of directors constituting the entire Board of Directors shall be not less than one, as fixed from time to time by the vote of not less than two-thirds of the entire Board of Directors; provided, however, that the number of directors shall not be reduced so as to shorten the term of any director at the time in office. The phrase "two-thirds of the entire Board of Directors" as used in these Amended and Restated Articles of Incorporation shall be deemed to refer to two-thirds of the number of directors constituting the Board of Directors as provided in or pursuant to this Section (a) of this Article I, without regard to any vacancies then existing.

(b) Any vacancies in the Board of Directors for any reason, and any created directorships resulting from any increase in the number of directors, may be filled by the vote of not less than a majority of the members of the Board of Directors then in office, although less than a quorum, and any directors so chosen shall hold office until their successors shall be elected and qualified.

(c) Notwithstanding any other provisions of these Amended and Restated Articles of Incorporation or the bylaws of the Corporation (and notwithstanding the fact that some lesser percentage may be specified by law, these Amended and Restated Articles of Incorporation or the bylaws of the Corporation), any director or the entire Board of Directors of the Corporation may be removed at any time, but only for cause and only by the affirmative vote of the holders of two-thirds or more of the issued and outstanding shares of common stock of the Corporation entitled to vote generally in the election of directors (considered for this purpose as one class) cast at a meeting of the shareholders called for that purpose.

(d) Directors shall be elected by a plurality of the votes cast at a meeting of shareholders by the holders of shares entitled to vote in the election. Cumulative voting, as defined in Division 7, Section 71(2) of the BCA, shall not be used to elect directors.

(e) Notwithstanding any other provisions of these Amended and Restated Articles of Incorporation or the bylaws of the Corporation (and notwithstanding the fact that some lesser percentage may be specified by law, these Amended and Restated Articles of Incorporation or the bylaws of the Corporation), the affirmative vote of the holders of two-thirds or more of the outstanding shares of common stock of the Corporation entitled to vote generally in the election of directors (considered for this purpose as one class) shall be required to amend, alter, change or repeal this Article I.

J. The bylaws of the Corporation may not be amended by shareholders and may be amended only in accordance with the amendment provisions of the bylaws. Notwithstanding any other provisions of these Amended and Restated Articles of Incorporation or the bylaws of the Corporation (and notwithstanding the fact that some lesser percentage may be specified by law, these Amended and Restated Articles of Incorporation or the bylaws of the Corporation), the affirmative vote of the holders of two-thirds or more of the outstanding shares of common stock of the Corporation entitled to vote generally in the election of directors (considered for this purpose as one class) shall be required to amend, alter, change or repeal this Article J.

K. At all meetings of shareholders of the Corporation, except as otherwise expressly provided by law, there must be present either in person or by proxy shareholders of record holding at least one-third of the shares issued and outstanding and entitled to vote at such meetings in order to constitute a quorum, but if less than a quorum is present, a majority of those shares present either in person or by proxy shall have power to adjourn any meeting until a quorum shall be present.

L. This Article L does not apply to the Corporation's registrar in Verdipapirsentralen (VPS) or DryShips Inc., provided that DryShips Inc. holds at least one-third (1/3) of the total capital interest or voting rights in the Corporation.

(a) For the purposes of this Article L "shares" shall mean both the shares of the Corporation as registered in the Corporation's register of shareholders and the beneficial interest in the shares as registered in Verdipapirsentralen (VPS). The beneficial interest in the shares shall be considered to represent voting rights and capital rights in the Corporation on equal basis as the shares registered in the Corporation's register of shareholders.

(b) A person or entity that directly or indirectly acquires shares and as a result of such acquisition the share of the capital interest or voting rights held by such person or entity exceeds a threshold of one-third (1/3) ("Threshold 1") of the total capital interest or voting rights in the Corporation, such person or entity (the "Offeror"), is required to make an unconditional public offer (the "Offer") at a fair price for the purpose of acquiring all issued and outstanding shares in the share capital of the Corporation, as well as all issued and outstanding instruments giving rights to shares in the share capital of the Corporation or voting rights.

In case a shareholder has exceeded Threshold 1 and not Threshold 2 (as defined below) prior to the date that these Amended and Restated Articles of Incorporation come into effect, the obligation to make the Offer will apply to that particular shareholder when that shareholder increases the number of shares held by that shareholder.

This Article L including the obligation to make the Offer shall also apply accordingly in case a shareholder who owns shares representing more than one-third (1/3) of the total capital interest or voting rights in the Corporation directly or indirectly acquires shares and as a result of such acquisition the share of the capital interest or voting rights held by such shareholder exceeds a threshold of forty (40%) percent ("Threshold 2") or fifty (50%) percent ("Threshold 3") of the total capital interest or voting rights in the Corporation. This paragraph does not apply in case the share acquisition takes place in connection with the Offer. Under this Article L, shares owned or acquired by the following persons and entities shall be considered equal to a shareholder's own shares:

(i) the spouse or a person with whom the shareholder cohabits in a relationship akin to marriage;
(ii) the shareholder's children under 18 years of age, and children under 18 years of a person as mentioned in (i) above with whom the shareholder cohabits;
(iii) an entity within the same group as the shareholder;
(iv) a person or an entity with whom the shareholder must be assumed to be acting in concert in the exercise of rights accruing to the owner of a share in the Corporation; and
(v) an entity in which a person or an entity mentioned in (i) to (iv) above has a controlling interest as a result of an agreement or through the ownership of shares or units in that entity.

The requirement to make an Offer is not triggered off by acquisition in the form of:
(i) inheritance of gift;
(ii) allotment on division of estate;
(iii) consideration in demerger or merger of a limited liability company.

A shareholder who at a time subsequent to the date that these Amended and Restated Articles of Incorporation come into effect has passed Threshold 1, 2 or 3 in a manner that did not trigger off the requirement to make an Offer and therefore has not made an Offer, is obliged to make an Offer in connection with any subsequent share acquisition that increases the shareholder's voting rights in the Corporation.

The requirement to make an Offer does not apply if the Offeror within four weeks after the requirement arouse, dispose of such number of shares exceeding the threshold which triggered off the requirement.

Share lending and redelivery of shares lent shall, respectively, for the purpose of this Article L not be considered a sale or purchase of shares for the lender.

(c) The Offer shall ensure the equality of treatment of shareholders and of holders of instruments giving right to shares in the share capital of the Corporation or voting rights. The Offeror may not, in making the Offer, differentiate the Offer between groups of or individual shareholders.

(d) The Offer price shall be at least as high as the highest price paid by the Offeror for shares in the Corporation in the period six (6) months prior to the date when the offer obligation was activated. If it is clear that the fair price when the Offer obligation was activated is higher than the price referred to above, the Offer price shall be at least as high as the fair price.

(e) The Offer for the purchase of the remaining shares in the Corporation shall be made without undue delay and no later than four (4) weeks after the offer obligation was activated.

(f) If the Offeror, after the Offer obligation has arisen and before expiry of the period of the Offer, has or agreed to pay a higher price than the price reflected in the Offer, a new Offer shall be deemed to have been made with an Offer price equivalent to the higher price.

(g) Settlement under the terms of the Offer shall be made in cash. Any Offer may nonetheless give the shareholders the right to accept any other form of settlement. The Offeror's settlement obligation shall be guaranteed by a bank or insurance institution which has been authorised to conduct business in Norway in accordance with the terms established by the Oslo Stock Exchange.

(h) The Offer shall include a time limit for the shareholders to accept the Offer. The time limit shall not be shorter than four (4) weeks and not longer than six (6) weeks. Settlement shall take place as soon as possible and no later than fourteen (14) days after the expiry of the Offer period. The Offeror may make a new Offer prior to the expiry of the original Offer period. The shareholders are, in such event, entitled to choose between the two Offers so made. If a new Offer is made, the period of acceptance of such Offer shall be extended so that at least two weeks remain until its expiry when made.

(i) The Offeror shall issue an Offer document which shall reproduce the Offer and give correct and complete information about matters of significance for evaluating the Offer. The following information shall be specifically included in the Offer document:

(i) The Offeror's name and address, type of organisation and organization number if the Offeror is a legal entity, to the extent available.
(ii) Information about parties with whom the Offeror is acting in concert including the basis for the consolidation thereof and any shareholder agreements relevant thereto.
(iii) Which shares and convertible loans in the Corporation which, at the time the Offer is made, are owned by the Offeror or a close associate thereto or any person or entity action in concert with the Offeror.
(iv) The Offer price, the deadline for settlement, the form of settlement and what guarantees are furnished for performance of the Offeror's settlement obligations.
(v) The principles applying to the valuation of any asset offered in settlement for the shares purchased under the Offer other than cash.
(vi) The time limit for accepting the Offer and how acceptance notice should be made.
(vii) Information as to how the Offeror's purchase of the shares is to be financed.

(viii) Any special advantages or rights which are accorded by agreements with members of the management and governing bodies of the Corporation by the Offeror.

(ix) The content of any contact the Offeror has had with the management or governing bodies of the Corporation prior to the date the Offer was made.

(x) The Offeror's purpose of taking over control of the Corporation and any plans for further operations and reorganisation of the Corporation.

(xi) The significance the implementation of the Offer will have in relation to the Corporation's employees, including legal, financial and work related effects; and

(xii) Legal and tax consequences of the Offer.

(j) The Offer document shall be signed by the Offeror.

(k) When an Offer is made in accordance with the above, the Board of Directors shall issue a statement on the Offer which shall include information on the employee's views and other factors of significance for assessing whether the Offer should be accepted by the shareholders or not. Information shall also be given about the views, if any, of the Board of Directors in their capacity as shareholders.

(l) An Offeror who fails to make an Offer in accordance with this Article L may not, for the duration of the Offer obligation, exercise rights in the Corporation other than the right to dividend.

(m) If an Offer is not made in accordance with this Article L and the Offeror does not sell sufficient number of shares in the Corporation to reduce the Offeror's shareholding in the Corporation to the level before the Offer obligation was activated, the Corporation may, subject to fourteen (14) days prior notice to the Offeror, sell sufficient number to the Offeror's shares in the Corporation to reduce the Offeror's shareholding in the Corporation to the level before the Offer obligation was activated.

(n)

(1) If the Offeror following an Offer holds more than ninety (90%) percent of the shares in the Corporation and an equivalent of the votes which may be cast at the Corporation's shareholders' meeting, the Offeror may by a resolution of its board decide to take over the remaining shares of the Corporation. In this situation remaining shareholders are also entitled to demand that the Offeror takes over the shares.

(2) If compulsory transfer of shares takes place within three (3) months after expiration of the time limit stipulated pursuant to Section (h) above, the price in the Offer shall be the basis for the redemption price unless there are special reasons for another price.

(3) In the Absence of an amicable agreement or acceptance of an offer in accordance with the third sentence of subsection (4) below, the redemption price shall be fixed by an appraisement for the account of the Offeror. If special reasons favor this, it may be decided that the cost are to be covered by the other party in full or in part. The appraisement case shall be resolved in accordance with Oslo District Court as legal venue.

(4) The Offeror must offer the shareholders a redemption price. If the offer is made in writing to all shareholders with a known address, a deadline may be fixed within which the individual shareholder may make objections to or reject the offer. If no such objection is received by the Corporation before the expiry of the deadline, the shareholder shall be regarded as having accepted the offer. The deadline cannot be fixed for a period of less than two (2) months from the notice. In the written communication and in the notices, the shareholders must be informed of the deadline and of the consequences of any failure to meet it.

If the Offeror has decided to take over shares pursuant to subsection (1) above, the Offeror must be registered as the owner of the shares in the register of shareholders. At the same time, the Offeror must pay the total offer price into a separate account in a bank which is authorized to carry on banking activities in Norway to the extent the amount is not secured by the bank guarantee provided pursuant to Section (g).

(5) If a person or entity following a voluntary offer to acquire the remaining shares of the Corporation in compliance with Section (c), (f), (i) and (j) holds more than ninety (90%) percent of the shares in the Corporation and an equivalent of the votes which may be cast at the Corporation's shareholders' meeting, a compulsory transfer of shares pursuant to this Section (n) can take place without a prior mandatory Offer provided the following conditions are met:

(i) Compulsory transfer is initiated within four (4) weeks after the acquisition pursuant to the voluntary offer is effected;

(ii) The redemption price is equal to or higher than the minimum price which could have been offered if the voluntary offer had been a mandatory Offer; and

(iii) A bank guarantee similar to that provided for in Section (g) of this Article L is provided.

M. The 500 registered common shares, par value twenty United States dollars (US$20.00) per share of the Corporation issued and outstanding shall be converted into five hundred (500) registered common shares, par value one United States cent (US$0.01) per share, on a share-for-share basis.

N. The stated capital of the Corporation is reduced from ten thousand United States dollars (US$10,000.00) to five United States dollars (US$$5.00) and the amount of nine thousand nine hundred and ninety five United States dollars (US$9,995.00) is transferred to surplus.

Appendix 3 Form of Bylaws

OCEAN RIG UDW INC.
(the "Corporation")

FORM OF AMENDED AND RESTATED BYLAWS

As Adopted December ___, 2010

ARTICLE I

OFFICES

The principal place of business of the Corporation shall be at such place or places as the Directors shall from time to time determine. The Corporation may also have an office or offices at such other places within or without the Marshall Islands as the Board of Directors (the "Board") may from time to time appoint or the business of the Corporation may require.

ARTICLE II

SHAREHOLDERS

Section 1. Annual Meeting: The annual meeting of shareholders of the Corporation shall be held on such day and at such time and place within or without the Marshall Islands as the Board of Directors may determine for the purpose of electing Directors and of transacting such other business as may properly be brought before the meeting. The Chairman of the Board (the "Chairman") or, in the Chairman's absence, another person designated by the Board shall act as the Chairman of all annual meetings of shareholders.

Section 2. Nature of Business at Annual Meetings of Shareholders: No business may be transacted at an annual meeting of shareholders, other than business that is either (a) specified in the notice of meeting (or any supplement thereto) given by or at the direction of the Board (or any duly authorized committee thereof); (b) otherwise properly brought before the annual meeting by or at the direction of the Board (or any duly authorized committee thereof); or (c) otherwise properly brought before the annual meeting by any shareholder of the Corporation (i) who is a shareholder of record on the date of the giving of the notice provided for in Section 2 of this Article II and has remained a shareholder of record through the record date for the determination of shareholders entitled to vote at such annual meeting and (ii) who complies with the notice procedures set forth in Section 2 of this Article II.

In addition to any other applicable requirements, for business to be properly brought before an annual meeting by a shareholder, such shareholder must have given notice thereof in proper written form to the Secretary of the Corporation (the "Secretary").

To be in proper written form, a shareholder's notice to the Secretary must set forth as to each matter such shareholder proposes to bring before the annual meeting (i) a brief description of the business desired to be brought before the annual meeting and the reasons for conducting such business at the annual meeting, (ii) the name and record address of such shareholder along with such shareholder's tax identification number, (iii) the class or series and number of shares of capital stock of the Corporation which are owned beneficially or of record by such shareholder, (iv) a description of all arrangements or understandings between such shareholder and any other person or persons (including their names) in connection with the proposal of such business by such shareholder and any material interest of such shareholder in such business and (v) a representation that such shareholder intends to appear in person or by proxy at the annual meeting to bring such business before the meeting. In addition, notwithstanding anything in Section 2 of this Article II to the contrary, a shareholder intending to nominate one or more persons for election as a Director at an annual meeting must comply with Article III Section 3 of these Bylaws for such nomination or nominations to be properly brought before such meeting.

No business shall be conducted at the annual meeting of shareholders except business brought before the annual meeting in accordance with the procedures set forth in Section 2 of this Article II; provided, however, that, once business has been properly brought before the annual meeting in accordance with such procedures, nothing in Section 2 of this Article II shall be deemed to preclude discussion by any shareholder of any such business. If the Chairman of an annual meeting determines that business was not properly brought before the annual meeting in accordance with the foregoing procedures, the Chairman of the meeting shall declare to the meeting that the business was not properly brought before the meeting and such business shall not be transacted.

Section 3. Special Meeting: Special meetings of shareholders, unless otherwise prescribed by law, may be called for any purpose or purposes at any time by the Chairman, a majority of the Board, any officer of the Corporation who is also a Director or a shareholder of record holding at least ten (10%) percent of the shares issued and outstanding and entitled to vote at such meetings, provided that a request for a special meeting of shareholders submitted by one or more shareholders must be in proper form required by Section 2 of this Article II or Article III Sections 3 or 4 of these Bylaws, as the case may be. No other person or persons are permitted to call a special meeting, unless otherwise prescribed by law. No business may be conducted at the special meeting other than business brought before the meeting by the Board. Such meetings shall be held at such place and on a date and at such time as may be designated in the notice thereof by the officer of the Corporation designated by the Board of Directors to deliver the notice of such meeting. The business transacted at any special meeting shall be limited to the purposes stated in the notice.

Section 4. Notice of Meetings: Notice of every annual and special meeting of shareholders, other than any meeting the giving of notice of which is otherwise prescribed by law, stating the date, time, place and purpose thereof, and in the case of special meetings, the name of the person or persons at whose direction the notice is being issued, shall be given personally or sent by mail, telefax, telegraph, cablegram, telex, or teleprinter at least fifteen (15) but not more than sixty (60) days before such meeting, to each shareholder of record entitled to vote thereat and to each shareholder of record who, by reason of any action proposed at such meeting would be entitled to have his shares appraised if such action were taken, and the notice shall include a statement of that purpose and to that effect. If mailed, notice shall be deemed to have been given when deposited in the mail, directed to the shareholder at his address as the same appears on the record of shareholders of the Corporation or at such address as to which the shareholder has given notice to the Secretary. Notice of a meeting need not be given to any shareholder who submits a signed waiver of notice, whether before or after the meeting, or who attends the meeting without protesting prior to the conclusion thereof the lack of notice to him. If the Corporation shall issue any class of bearer shares, notice for all meetings shall be given in the manner proved in the Articles of Incorporation.

Section 5. Adjournments: Any meeting of shareholders, annual or special, may adjourn from time to time to reconvene at the same or some other place, and notice need not be given of any such adjourned meeting if the time and place thereof are announced at the meeting at which the adjournment is taken. At the adjourned meeting the Corporation may transact any business which might have been transacted at the original meeting. If the meeting is adjourned for lack of quorum, notice of the new meeting shall be given to each shareholder of record entitled to vote at the meeting. If after an adjournment a new record date is fixed for the adjourned meeting, a notice of the adjourned meeting shall be given to each shareholder of record on the new record date entitled to notice in Section 4 of this Article II.

Section 6. Quorum: At all meetings of shareholders for the transaction of business, the number of shares of capital stock issued and outstanding and entitled to vote thereat, present either in person or represented by proxy, which is provided in the Articles of Incorporation or, if not in the Articles of Incorporation, by statute, shall be requisite and shall constitute a quorum. If less than a quorum is present, a majority of those shares present either in person or by proxy shall have power to adjourn any meeting until a quorum shall be present.

Section 7. Voting: If a quorum is present, and except as otherwise expressly provided by law, the Corporation's Articles of Incorporation then in effect or these bylaws, the affirmative vote of a majority of the votes cast by holders of shares of stock represented at the meeting shall be the act of the shareholders. At any meeting of shareholders each shareholder entitled to vote any shares on any matter to be voted upon as such meeting shall be entitled to one vote on such matter for each such share, and may exercise such voting right either in person or by proxy. Any action required to be permitted to be taken at a meeting, may be taken without a meeting if a consent in writing, setting forth the action so taken, is signed by all of the shareholders entitled to vote with respect to the subject matter thereof.

Section 8. Fixing of Record Date: The Board of Directors may fix a time not more than sixty (60) nor less than fifteen (15) days prior to the date of any meeting of shareholders, or more than sixty (60) days prior to the last day on which the consent or dissent of shareholders may be expressed for any purpose without a meeting, as the time as of which shareholders entitled to notice of and to vote at such a meeting or whose consent or dissent is required or may be expressed for any purpose, as the case may be, shall be determined, and all persons who were holders of record of voting shares at such time and no others shall be entitled to notice of and to vote at such meeting or to express their consent or dissent, as the case may be. The Board of Directors may fix a time not exceeding sixty days preceding the date fixed for the payment of any dividend, the making of any distribution, the allotment of any rights or the taking of any other action, as a record time for the determination of the shareholders entitled to receive any such dividend, distribution, or allotment or for the purpose of such other action.

ARTICLE III

DIRECTORS

Section 1. Number: The affairs, business and property of the Corporation shall be managed by its Board of Directors. The number of Directors is determined according to the Articles of Incorporation. The Directors need not be residents of the Marshall Islands nor shareholders of the Corporation. Corporations may, to the extent permitted by law, be elected Directors.

Section 2. How Elected: The Board of Directors shall be elected as specified in the Articles of Incorporation.

Section 3. Nomination of Directors: Only persons who are nominated in accordance with the following procedures shall be eligible for election as Directors of the Corporations. Nominations of persons for election to the Board may be made at any annual meeting of shareholders (a) by or at the direction of the Board (or any duly authorized committee thereof) or (b) by any shareholders of the Corporation (i) who is a shareholder of record on the date of the giving of the notice provided for in Section 3 of this Article III and on the record date for the determination of shareholders entitled to vote at such meeting and (ii) who complies with the notice procedures set forth in Section 3 of this Article III.

In addition to any other applicable requirements, for a nomination to be made by a shareholder, such shareholder must have given notice thereof in proper written form to the Secretary.

To be in proper written form, a shareholder's notice to the Secretary must set forth; (a) as to each person whom the shareholder proposes to nominate for election as a Director (i) the name, age, business address and residence address of the person, (ii) the principal occupation or employment of the person, (iii) the class or series and number of shares of capital stock of the Corporation which are owned beneficially or of record by the person and (iv) any other information relating to the person that would be required to be disclosed in a proxy statement or other filings required to be made in connection with solicitations of proxies for election of Directors pursuant to Section 14 of the United States Securities Exchange Act of 1934, as amended (the "Exchange Act"), and the rules and regulations promulgated thereunder applicable to issuers that are not foreign private issuers and (b) as to the shareholder giving the notice (i) the name and record address of such shareholder along with such shareholder's tax identification number, (ii) the class or series and number of shares of capital stock of the Corporation which are owned beneficially and of record by such shareholder, (iii) a description of all arrangements or understandings between such shareholder and each proposed nominee and any other person and persons (including their names) pursuant to which the nomination(s) are to be made by such shareholder, (iv) a representation that such shareholder intends to appear in person or by proxy at the meeting to nominate the person or persons named in its notice and (v) any other information relating to such shareholder that would be required to be disclosed in a proxy statement or other filings required to be made in connection with solicitations of proxies for election of Directors of companies other than foreign private issuers pursuant to Section 14 of the Exchange Act and the rules and regulations promulgated thereunder. Such notice must be accompanied by a written consent of each proposed nominee to being named as a nominee and to serve as a Director if elected.

No person shall be eligible for election as a Director of the Corporation unless nominated in accordance with the procedures set forth in Section 3 of this Article III. If the Chairman of the meeting determines that a nomination was not made in accordance with the foregoing procedures, the Chairman shall declare to the meeting that the nomination was defective and such defective nomination shall be disregarded.

Notwithstanding any other provisions of the Articles of Incorporation or these bylaws (and notwithstanding the fact that some lesser percentage may be specified by law, the Articles of Incorporation or these bylaws), the vote of not less than two-thirds of the entire Board of Directors shall be required to amend, alter, change or repeal this Article III Section 3.

Section 4. Removal: Removal of Directors is governed by Articles of Incorporation Section I.

No proposal by a shareholder to remove a Director shall be voted upon at a meeting of the shareholders unless such shareholder has given notice thereof in proper written form to the Secretary. To be in proper written form, a shareholder's notice must set forth: (a) a statement of the grounds, if any, on which such Director is proposed to be removed, (b) evidence reasonably satisfactory to the Secretary of such shareholder's status as such and of the number of shares of each class of capital stock of the Corporation beneficially owned by such shareholder, and (c) a list of the names and addresses of other shareholders of the Corporation, if any, with whom such shareholder is acting in concert, and the number of shares of each class of capital stock of the Corporation beneficially owned by each such shareholder.

No shareholder proposal to remove a Director shall be voted upon at an annual meeting of the shareholders unless proposed in accordance with the procedures set forth in Section 4 of this Article III. If the Chairman of the meeting determines, based on the facts, that a shareholder proposal to remove a Director was not made in accordance with the foregoing procedures, the Chairman shall declare to the meeting that a proposal to remove a Director of the Corporation was not made in accordance with the procedures prescribed by these Bylaws, and such defective proposal shall be disregarded.

Section 5. Vacancies: Any vacancies in the Board of Directors shall be governed by the Articles of Incorporation.

Section 6. Regular Meetings: Regular meetings of the Board of Directors may be held at such time and place as may be determined by resolution of the Board of Directors and no notice shall be required for any regular meeting. Except as otherwise provided by law, any business may be transacted at any regular meeting.

Section 7. Special Meetings: Special meetings of the Board of Directors may, unless otherwise prescribed by law, be called from time to time by the Chairman, a majority of the Board, or any officer of the Corporation who is also a Director. The President or the Secretary shall call a special meeting of the Board upon written request directed to either of them by any two Directors stating the time, place, and purpose of such special meeting. Special meetings of the Board shall be held on a date and at such time and at such place as may be designated in the notice thereof by the officer calling the meeting.

Section 8. Notice of Special Meetings: Notice of the date, time and place of each special meeting of the Board of Directors shall be given to each Director at least forty-eight (48) hours prior to such meeting, unless the notice is given orally or delivered in person, in which case it shall be given at least twenty-four (24) hours prior to such meeting. For the purpose of this section, notice shall be deemed to be duly given to a Director if given to him personally (including by telephone) or if such notice be delivered to such Director by mail, telegraph, telefax, cablegram, telex, or teleprinter to his last known address. Notice of a meeting need not be given to any Director who submits a signed waiver of notice, whether before or after the meeting or who attends the meeting without protesting, prior to the conclusion thereof, the lack of notice to him.

Section 9. Quorum: A majority of the Directors at the time in office, present in person or by proxy or by conference telephone, shall constitute a quorum for the transaction of business.

Section 10. Interested Directors. No contract or transaction between the Corporation and one or more of its Directors or officers, or between the Corporation and any other corporation, partnership, association or other organization in which one or more of its Directors or officers are directors or officers, or have a financial interest, shall be void or voidable solely for this reason, or solely because the Director or officer is present at or participates in the meeting of the Board of Directors or committee thereof which authorizes the contract or transaction, or solely because his or her or their votes are counted for such purpose, if: (i) the material facts as to his or her relationship or interest and as to the contract or transaction are disclosed or are known to the Board of Directors or the committee and the Board of Directors or committee in good faith authorizes the contract or transaction by the affirmative votes of a majority of the disinterested Directors, or, if the votes of the disinterested Directors are insufficient to constitute an act of the Board of Directors as defined in Section 55 of the BCA, by unanimous vote of the disinterested Directors; or (ii) the material facts as to his relationship or interest and as to the shareholders entitled to vote thereon, and the contract or transaction is specifically approved in good faith by vote of the shareholders; or (iii) the contract or transaction is fair as to the Corporation as of the time it is authorized, approved or ratified, by the Board of Directors, a committee thereof or the shareholders. Common or interested Directors may be counted in determining the presence of a quorum at a meeting of the Board of Directors or of a committee which authorizes the contract or transaction.

Section 11. Voting: The vote of the majority of the Directors, present in person, by proxy, or by conference telephone, at a meeting at which a quorum is present shall be the act of the Directors. Any action required or permitted to be taken at a meeting may be taken without a meeting if all members of the Board consent thereto in writing.

Section 12. Compensation of Directors and Members of Committees: The Board may from time to time, in its discretion, fix the amounts which shall be payable to members of the Board of Directors and to members of any committee, for attendance at the meetings of the Board or of such committee and for services rendered to the Corporation.

ARTICLE IV

COMMITTEES

The Board of Directors may, by resolution or resolutions passed by a majority of the entire Board, designate from among its members an executive committee to consist of one or more of the Directors of the Corporation, which, to the extent provided in said resolution or resolutions, or in these Bylaws, shall have and may exercise, to the extent permitted by law, the powers of the Board of Directors in the management of the business and affairs of the Corporation, and may have power to authorize the seal of the Corporation to be affixed to all papers which may require it, provided, however, that no committee shall have the power or authority to (i) fill a vacancy in the Board or in a committee thereof, (ii) amend or repeal any Bylaw or adopt any new Bylaw, (iii) amend or repeal any resolution of the entire Board, (iv) or increase the number of Directors on the Board, or (v) remove any Director. In addition, the Board of Directors may, by resolution or resolutions passed by a majority of the entire Board designate from among its members other committees to consist of one or more of the Directors of the Corporation, each of which shall perform such function and have such authority and powers as shall be delegated to it by said resolutions or as provided for in these Bylaws, except that only the executive committee may have and exercise the powers of the Board of Directors. Members of the executive committee and any other committee shall hold office for such period as may be prescribed by the vote of a majority of the entire Board of Directors. Vacancies in membership of such committees shall be filled by vote of the board of Directors. Committees may adopt their own rules of procedure and may meet at stated times or on such notice as they may determine. Each committee shall keep a record of its proceedings and report the same to the Board when requested.

ARTICLE V

OFFICERS

Section 1. Number of Designation: The Board of Directors shall appoint a President, Secretary and Treasurer and such other officers with such duties as it may deem necessary. Officers may be of any nationality, need not be residents of the Marshall Islands and may be, but are not required to be, Directors. Officers of the Corporation shall be natural persons except the secretary may be a corporate entity. Any two or more offices may be held by the same natural person.

The salaries of the officers and any other compensation paid to them shall be fixed from time to time by the Board of Directors. The Board of Directors may at any meeting appoint additional officers. Each officer shall hold office until his successor shall have been duly appointed and qualified, except in the event of the earlier termination of his term of office, through death, resignation, removal or otherwise. Any officer may be removed by the Board at any time with or without cause. Any vacancy in an office may be filled for the unexpired portion of the term of such office by the Board of Directors at any regular or special meeting.

Section 2. President: The President shall have general management of the affairs of the Corporation together with the powers and duties usually incident to the office of President, except as specifically limited by appropriate written resolution of the Board of Directors and shall have such other powers and perform such other duties as may be assigned to him by the Board of Directors. The President shall preside at all meetings of shareholders at which he is present and, if he is a Director, at all meetings of the Directors.

Section 3. Treasurer: The Treasurer shall be the chief financial officer of the Corporation and shall have general supervision over the care and custody of the funds, securities, and other valuable effects of the Corporation and shall deposit the same or cause the same to be deposited in the name of the Corporation in such depositories as the Board of Directors may designate, shall disburse the funds of the Corporation as may be ordered by the Board of Directors, shall have supervision over the accounts of all receipts and disbursements of the Corporation, shall, whenever required by the Board, render or cause to be rendered financial statements of the Corporation, shall have the power and perform the duties usually incident to the office of Treasurer, and shall have such powers and perform such other duties as may be assigned to him by the Board of Directors or the President.

Section 4. Secretary: The Secretary shall act as Secretary of all meetings of the shareholders and of the Board of Directors at which he is present, shall have supervision over the giving and serving of notices of the Corporation, shall be the custodian of the corporate records and of the corporate seal of the Corporation, shall be empowered to affix the corporate seal to those documents, the execution of which, on behalf of the Corporation under its seal, is duly authorized and when so affixed may attest the same, and shall exercise the powers and perform such other duties as may be assigned to him by the Board of Directors or the President. If the Secretary is a corporation, the duties of the Secretary may be carried out by any authorized representative of such corporation.

Section 5. Other Officers: Officers other than those treated in Sections 2 through 4 of this Article shall exercise such powers and perform such duties as may be assigned to them by the Board of Directors or the President.

Section 6. Bond: The Board of Directors shall have power to the extent permitted by law, to require any officer, agent or employee of the Corporation to give bond for the faithful discharge of his duties in such form and with such surety or sureties as the Board of Directors may deem advisable.

ARTICLE VI

CERTIFICATES FOR SHARES

Section 1. Form and Issuance: The shares of the Corporation shall be represented by certificates in a form meeting the requirements of law and approved by the Board of Directors. Certificates shall be signed by (i) the President or a Vice President and by (ii) the Secretary or any Assistant Secretary or the Treasurer or any Assistant Treasurer. These signatures may be facsimiles if the certificate is countersigned by a transfer agent or registered by a registrar other than the Corporation itself or its employees. Shares may also be represented in uncertificated form, and, specifically, the Corporation may issue shares to be represented in any manner permitted or required by the rules of the stock exchange or a trading market on which the Corporation may be listed or quoted.

Section 2. Transfer: The Board of Directors shall have power and authority to make such rules and regulations as they may deem expedient concerning the issuance, registration and transfer of shares of the Corporation's stock, and may appoint transfer agents and registrars thereof.

Section 3. Loss of Stock Certificates: The Board of Directors may direct a new certificate or certificates of stock to be issued in place of any certificate or certificates theretofore issued by the Corporation alleged to have been lost or destroyed, upon the making of an affidavit of that fact by the person claiming the certificate of stock to be lost or destroyed. When authorizing such issue of a new certificate or certificates, the Board of Directors may, in its discretion and as a condition precedent to the issuance thereof, require the owner of such lost or destroyed certificate or certificates, or his legal representative, to advertise the same in such manner as it shall require and/or give the Corporation a bond in such sum as it may direct as indemnity against any claim that may be made against the Corporation with respect to the certificate alleged to have been lost or destroyed.

ARTICLE VII

DIVIDENDS

Dividends may be declared in conformity with law by, and at the discretion of, the Board of Directors at any regular or special meeting. Dividends may be declared and paid in cash, stock, or other property of the Corporation.

ARTICLE VIII

INDEMNIFICATION

Section 1. Indemnification. Any person who is or was a Director or officer of the Corporation, or is or was serving at the request of the Corporation as a director or officer of another, partnership, joint venture, trust or other enterprise shall be entitled to be indemnified by the Corporation upon the same terms, under the same conditions, and to the same extent as authorized by Section 60 of the BCA, if he or she acted in good faith and in a manner he or she reasonably believed to be in or not opposed to the best interests of the Corporation, and, with respect to any criminal action or proceeding, had no reasonable cause to believe his or her conduct was unlawful. The Corporation shall have the power to pay in advance expenses a director or officer incurred while defending a civil or criminal proceeding, provided that the director or officer will repay the amount if it shall ultimately be determined that he or she is not entitled to indemnification under this section.

Section 2. Insurance. The Corporation shall have the power to purchase and maintain insurance on behalf of any person who is or was a Director or officer of the Corporation or is or was serving at the request of the Corporation as a director or officer against any liability asserted against such person and incurred by such person in such capacity whether or not the Corporation would have the power to indemnify such person against such liability by law or under the provisions of these Bylaws.

ARTICLE IX

CORPORATE SEAL

The seal of the Corporation, if any, shall be circular in form, with the name of the Corporation in the circumference and such other appropriate legend as the Board of Directors may from time to time determine.

ARTICLE X

FISCAL YEAR

The fiscal year of the Corporation shall be such period of twelve consecutive months as the Board of Directors may by resolution designate.

ARTICLE XI

AMENDMENTS

The Board of Directors of the Corporation are expressly authorized to make, alter or repeal these bylaws of the Corporation by a vote of not less than a majority of the entire Board of Directors, unless otherwise provided in these bylaws.

Appendix 4 Consolidated financial statements 2007-2009

OCEAN RIG UDW INC.
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

ERNST & YOUNG

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Medlemmer av Den norske Revisorforening

To the Board of Directors of
Ocean Rig UDW Inc.

Independent Auditor's report

We have audited the accompanying consolidated financial statements of Ocean Rig UDW Inc., which comprise the consolidated balance sheets as of December 31, 2009 and 2008, and the consolidated statements of operations, stockholders' equity and cash flows for the period November 16, 2007 (inception) through December 31. 2007 and each of the two years ended December 31, 2009, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these combined financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethic requirements and plan and perform the audit to obtain reasonable assurance whether the financial information is free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the consolidated financial statements presents fairly, in all material respects, the consolidated financial position of Ocean Rig UDW Inc. as of December 31, 2009 and 2008 and its financial performance and cash flows for the period November 16, 2007 (inception) through December 31. 2007 and each of the two years ended December 31, 2009, in accordance with U.S. generally accepted accounting principles.

Without qualifying our opinion, we emphasize that the accompanying consolidated financial statements have been prepared assuming that Ocean Rig UDW Inc. and subsidiaries will continue as a going concern. As discussed in Note 3, Ocean Rig UDW Inc., a wholly owned subsidiary of DryShips Inc., has a negative working capital position due to certain debt being classified as current and is dependent upon support from its parent entity or additional external debt or equity financing to meet future capital expenditures and debt repayments. DryShips Inc. reported conditions raising substantial doubt about its ability to continue as going concern and both Ocean Rig UDW Inc. and DryShips Inc. are in breach of certain covenants of loan agreements with banks. These conditions raise substantial doubt about Ocean Rig UDW Inc.'s ability to continue as a going concern. The consolidated financial statements of Ocean Rig UDW Inc. do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result from the outcome of this uncertainty.

Stavanger, December 3, 2010
ERNST & YOUNG AS

Jan Kvalvik
State authorized public accountant (Norway)

OCEAN RIG UDW INC.
Consolidated Balance Sheets
As of December 31, 2008 and 2009
(Expressed in thousands of U.S. Dollars - except for share and per share data)

	December 31, 2008	December 31, 2009
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 272,940	$ 234,195
Restricted cash (Note 6)	31,287	220,690
Trade accounts receivable, net	41,860	65,486
Due from related parties (Note 4)	4,394	4,934
Financial instruments (Note 11)	-	434
Other current assets	15,838	32,819
Total current assets	366,319	558,558
FIXED ASSETS, NET:		
Rigs under construction (Note 7)	-	1,173,456
Drilling rigs, machinery and equipment, net (Note 8)	1,377,359	1,317,607
Total fixed assets, net	1,377,359	2,491,063
OTHER NON CURRENT ASSETS:		
Intangible assets, net (Note 9)	13,391	11,948
Above market acquired time charter (Note 9)	3,612	2,392
Pensions (Note 12)	-	388
Other non-current assets (Note 11)	-	40,700
Total non current assets, net	17,003	55,428
Total assets	$ 1,760,681	$ 3,105,049
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Current portion of long-term debt (Note 10)	$ 826,027	$ 537,668
Accounts payable	7,444	13,591
Due to related parties (Note 4)	-	48,110
Accrued liabilities	32,295	34,235
Deferred revenue	11,667	38,400
Financial instruments (Note 11)	1,589	5,467
Other current liabilities	6,017	4,816
Total current liabilities	885,039	682,287
NON CURRENT LIABILITIES		
Long term debt, net of current portion (Note 10)	788,314	662,362
Financial instruments (Note 11)	47,168	64,219
Below market acquired time charter (Note 9)	15,817	-
Pensions (Note 12)	712	-
Total non current liabilities	852,011	726,581
COMMITMENTS AND CONTINGENCIES (Note 18)	-	-
STOCKHOLDERS' EQUITY:		
Common stock, $20par value; 500 shares authorized, issued and outstanding at December 31, 2008 and 2009 (Note 13)	10	10
Additional paid in capital	835,678	2,386,953
Accumulated other comprehensive loss	(44,585)	(27,875)
Retained earnings	(767,472)	(662,907)
Total stockholders' equity	23,631	1,696,181
Total liabilities and stockholders' equity	$ 1,760,681	$ 3,105,049

The accompanying notes are an integral part of these consolidated financial statements.

OCEAN RIG UDW INC.
Consolidated Statements of Operations
For the periods ended December 31, 2007, 2008 and 2009
(Expressed in thousands of U.S. Dollars - except for share and per share data)

	November 16 (inception) to December 31,2007	January 1 to December 31,2008	January 1 to December 31,2009
REVENUES:			
Leasing revenues	$	$ 116,859	$ 223,774
Service revenue	-	85,251	149,751
Other revenues		16,553	14,597
Total Revenues	-	218,663	388,122
EXPENSES:			
Drilling rigs operating expenses (Note 15)	-	86,229	133,256
Depreciation and amortization (Note 8 and 9)	-	45,432	75,348
Goodwill Impairment (Note 16)	-	761,729	-
General and administrative expenses	2	14,462	17,955
Operating income / (loss)	(2)	(689,189)	161,563
OTHER INCOME / (EXPENSES):			
Interest and finance costs (Note 17)	(4,617)	(71,692)	(57,309)
Interest income (Note 18)	-	3,033	6,259
Gain/(loss) on interest rate swaps (Note 11)	-	-	4,826
Other, net (Note 11)	-	(2,300)	2,023
Total expenses/ income, net	(4,617)	(70,959)	(44,201)
INCOME /(LOSS) BEFORE INCOME TAXES AND EQUITY IN LOSS OF INVESTEE	(4,619)	(760,148)	117,362
Income taxes (Note 19)	-	(2,844)	(12,797)
Equity in income/(loss) of investee (Note 5.1)	1,194	(1,055)	-
NET INCOME/(LOSS)	(3,425)	(764,047)	104,565
Less: Net income attributable to non controlling interest	-	(1,800)	-
NET INCOME/(LOSS) ATTRIBUTABLE TO OCEAN RIG UDW INC.	$ (3,425)	$ (765,847)	$ 104,565
Earnings/(loss) per common share attributable to dryships inc. common stockholders, basic and diluted(note 14)	(6,850)	(1,531,694)	209,130
Weighted average number of common shares, basic and diluted	500	500	500

The accompanying notes are an integral part of these consolidated financial statements

OCEAN RIG UDW INC.
Consolidated Statements of Stockholders' Equity
For the periods ended December 31, 2007, 2008 and 2009
(Expressed in thousands of U.S. Dollars - except for share and per share data)

	Comprehensive Income/Loss	# of Shares	Par Value	Additional Paid-in Capital	Accumulated Other Comprehensiv Income/(Loss)	Retained Earnings	Total Stockholders Equity
On incorporation, December 10, 2007, issue of shares	$	500	10	-	-	-	$ 10
-Net loss November 16 (inception) to December 31, 2007	(3,425)	-	-	-	-	(3,425)	(3,425)
-Capital contribution other holding companies		-	-	162,057	-	-	162,057
-Comprehensive income	(3,425)	-	-		-	-	-
BALANCE December 31, 2007		**500**	**10**	**162,057**	**-**	**(3,425)**	**158,642**
-Net loss	(765,847)	-		-	-	(765,847)	(765,847)
-Addition to paid in capital				-			
-Unrealized loss on cash flows hedges, net of tax of $0 (Note 19)	(46,637)	-		-	(46,637)	-	(46,637)
-Option costs	812	-		-	812	-	812
-Increase/ (Decrease) in defined benefit plan adjustments, net of tax of $0 (Note 19)	1,240	-		-	1,240	-	1,240
-Shareholders' Contribution	-	-		650,164	-	-	650,164
-Redemption adjustment	-	-		(212)	-	-	(212)
-Capital contribution due to retirement of treasury shares (Note 5.3)	-	-		16,582	-	-	16,582
-Capital contribution due to stock option program employees (Note 5.3)	-	-		7,087	-	-	7,087
-Retained earnings acquired	-	-		-	-	1,800	1,800
-Comprehensive income	(810,439)	-					
BALANCE, December 31, 2008		**500**	**10**	**835,678**	**(44,585)**	**(767,472)**	**23,631**
-Net income	104,565	-	-	-		104,565	104,565
-Unrealized gain on cash flows hedges, net of tax of $0 (Note 19)	16,140	-	-	-	16,140	-	16,140
-Increase in defined benefit plan adjustments, net of tax of $0 (Note 19)	570	-	-	-	570	-	570
-Contribution of net assets in Drillships Investments Inc.(Note 4)	-	-	-	439,900	-	-	439,900
-Acquisition of Drillships Holdings Inc.		-	-	358,000	-	-	358,000
-Capital contribution		-	-	753,375	-	-	753,375
-Comprehensive income	$ 121,275	-	-		-	-	
BALANCE, December 31, 2009		**500**	**10**	**2,386,953**	**(27,875)**	**(662,907)**	**1,696,181**

The accompanying notes are an integral part of these consolidated financial statements.

OCEAN RIG UDW INC.

Consolidated Statement of Cash Flows
As of and for periods ended December 31, 2007, 2008 and 2009
(Expressed in thousands of United States Dollars)

	November 16 (inception) to December 31, 2007	January 1 to December 31, 2008	January 1 to December 31, 2009
Cash Flows from Operating Activities:			
Net income	$ (3,425)	(765,847)	$ 104,565
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization		45,432	75,348
Commitments fees on undrawn line of credit	(2,500)	6,188	4,300
Amortization and premium paid over withdrawn loans	54	14,062	10,973
Net amortization of fair value of acquired drilling contracts	-	(16,553)	(14,597)
Goodwill impairment charge	-	761,729	-
Income from associated companies	(1,194)	1,055	-
Change in fair value of derivatives	-	2,512	(9,046)
Changes in operating assets and liabilities:			
Trade accounts receivable	-	(1,569)	(23,626)
Other current assets	(2)	(1,012)	(17,521)
Accounts payable	-	(1,955)	6,147
Due to related parties	22,458	(26,797)	48,110
Other current liabilities	-	1,759	(3,207)
Pension liability	-	(2,015)	(142)
Accrued liabilities	567	(869)	1,940
Deferred revenue	-	4,999	26,732
Net Cash Provided by Operating Activities	15,958	21,119	209,976
Cash Flows from Investing Activities:			
Investments in Ocean Rig ASA, net of cash acquired	(406,023)	(972,802)	-
Advances for vessels under construction	-	-	(125,896)
Drilling rigs, equipment and other improvements		(16,584)	(14,152)
Increase in restricted cash	-	(31,287)	(189,403)
Cash from acquisition of drillships	-	-	183,770
Net Cash Used in Investing Activities	(406,023)	(1,020,673)	(145,681)
Cash Flows from Financing Activities:			
Capital contribution by stockholders	162,067	650,161	753,375
Net proceeds from the issuance of common shares	-	11,306	-
Proceeds from long-term credit facility	245,602	2,050,000	150,000
Principal payments and repayments of long-term debt	-	(1,438,941)	(650,000)
Principal payments and repayments of short-term debt	-	-	(355,052)
Payment of financing costs	(2,500)	(15,136)	(1,364)
Net Cash Provided by (used in) Financing Activities	405,169	1,257,390	(103,041)
Net (decrease) / increase in cash and cash equivalents	15,104	257,836	(38,745)
Cash and cash equivalents at beginning of period		15,104	272,940
Cash and cash equivalents at end of period	$ 15,104	272,940	$ 234,195
SUPPLEMENTAL CASH FLOW INFORMATION:			
Cash paid during the year/period for:	-	23,103	51,093
Interest, net of amount capitalized	-	2,566	13,233
Income taxes			

The accompanying notes are an integral part of these consolidated financial statements.

1. Basis of Presentation and General Information:

The accompanying consolidated financial statements include the accounts of Ocean Rig UDW Inc. and its subsidiaries (collectively, the "Company,""Ocean Rig UDW" or "Group"). Ocean Rig UDW Inc was incorporated in 2007 with the name Primelead Shareholders Inc. The Company was established by DryShips Inc. for the purpose of being the holding company of its drilling rig segment. In 2007, DryShips Inc. through its subsidiary, Primelead Limited of Cyprus, purchased approximately 30% of the shares in Ocean Rig ASA which was accounted for as an equity method investment. In 2008, the remainder of the shares in Ocean Rig ASA were acquired and Ocean Rig ASA was delisted from Oslo Stock Exchange. The transactions were accounted for as a step acquisition under the purchase method of accounting and the results of operations were consolidated subsequent to the date control was achieved on May 14, 2008. Ocean Rig UDW Inc. was formed under the laws of the Republic of the Marshall Islands on December 10, 2007, under the name Primelead Shareholders Inc. Ocean Rig UDW Inc. acquired all of the outstanding shares of Primelead Limited in December 2007 in a reverse acquisition transaction under common control, which was accounted for as a pooling of interests. As a result, the consolidated financial statements include the results of operations of Primelead Limited since the date of its inception on November 16, 2007.

The Company is wholly owned by DryShips Inc., a publicly listed company on NASDAQ exchange listed under the symbol "DRYS".

Through Ocean Rig ASA, the predecessor of the Group, the Company was organized in 1996, when Ocean Rig ASA ordered four Hulls. The 5th generation drilling rigs *Leiv Eiriksson* and *Eirik Raude* were delivered in 2001 and 2002, while two remaining Hulls were sold. Ocean Rig UDW today owns and operates the two semi-submersible rigs that are among the world's largest drilling rigs, built for ultra deep-waters and extreme weather conditions. The units are currently operating in Ghana and in Turkey.

Further, the Group has acquired companies holding contracts for four drillships which are currently under construction, two of which were originally ordered in 2007 and the other two in 2008 (Note 4). Two drillships (Hulls 1837 and 1838) were ordered by certain entities including entities affiliated with the CEO of DryShips Inc, George Economou. The Company acquired all of the shares in Drillships Holding Inc., being the holding company of the companies holding contracts for Hull Nos. 1837 and 1838, on 15 May 2009. The two other drillships, Hulls 1865 and 1866, were ordered by DryShips Inc. which subsequently contributed all its equity interests in the companies holding these contracts to Ocean Rig UDW on 5 March 2009. Hull 1837 is scheduled to be delivered late in 2010 and the others Hulls are scheduled to be delivered in 2011.

2. Significant Accounting policies:

(a) Principles of Consolidation: The accompanying consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America ("US GAAP") and include the accounts and operating results of Ocean Rig UDW Inc. and its wholly-owned subsidiaries. All intercompany balances and transactions have been eliminated on consolidation.

(b) Equity method investments*:* Investments in entities that the Company does not control, but has the ability to exercise significant influence over the operating and financial policies, are accounted for using the equity method.

(c) Business Combinations: In accordance with Financial Accounting Standards Board guidance ("guidance") related to business combinations, the purchase price of acquired businesses is allocated to tangible and identified intangible assets acquired and liabilities assumed based on their respective fair values. The excess of the purchase price over the respective fair value of net assets acquired is recorded as goodwill. Incremental costs incurred in relation to a business combination were capitalized until the adoption of the new guidance for business combinations on January 1, 2009 that requires all costs related to business combinations to be expensed. However, associated costs to obtain related debt financing are an element of the effective interest cost of the debt. Therefore they are capitalized and amortized over the term of the related debt an included as interest expense using the effective interest method.

(d) Use of Estimates: The preparation of consolidated financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(e) Current and non-current classification*:* Assets and liabilities are classified as current assets and current liabilities, respectively, if their maturity is within one year of the balance sheet date. Otherwise, they are classified as non-current assets and non-current liabilities.

2. Significant Accounting policies-(continued):

(f) Cash and Cash Equivalents: The Company considers highly liquid investments such as time deposits and certificates of deposit with an original maturity of three months or less to be cash equivalents.

(g) Restricted Cash: Restricted cash may include (i) retention accounts which can only be used to fund the loan installments coming due; (ii) minimum liquidity collateral requirements under the loan facilities; (iii) taxes withheld from employees and deposited in designated bank accounts; and (iv) amounts pledged as collateral for bank guarantees to suppliers and (v) amounts pledged as collateral for credit facilities.

In terms of certain loan agreements, the Company is required to hold bank deposits which are used to fund the loan installments coming due. These funds can only be used for the purposes of loan repayments and are shown as "Restricted cash" under current assets. Restricted cash also includes additional minimum cash deposits required to be maintained with certain banks under the Company's borrowing arrangements.

Restricted cash balances include minimum required cash deposits, as defined in the loan agreements, and are classified as of December 31, 2007, 2008 and 2009 as current.

(h) Trade Accounts Receivable: The amount shown as trade accounts receivable at each balance sheet date includes receivables from charterers for hire of drilling rigs and related billings, net of a provision for doubtful accounts. At each balance sheet date, all potentially uncollectible accounts are assessed individually for purposes of determining the appropriate provision for doubtful accounts. There were no provisions for doubtful debt at December 31, 2008 or 2009.

(i) Related parties: Parties are related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also related if they are subject to common control or common significant influence. Related parties also include members of the Company's or its parent company's management or owners and their immediate families (Note 4).

(j) Derivatives: The Company's derivatives include interest rate swaps and foreign currency forward contracts. The guidance on accounting for certain derivative instruments and certain hedging activities requires all derivative instruments to be recorded on the balance sheet as either an asset or liability measured at its fair value, with changes in fair value recognized in earnings unless specific hedge accounting criteria are met.

(i) Hedge Accounting: At the inception of a hedge relationship, the Company formally designates and documents the hedge relationship to which the Company wishes to apply hedge accounting and the risk management objective and strategy undertaken for the hedge. The documentation includes identification of the hedging instrument, hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting exposure to changes in the hedged item's cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in cash flows and are assessed on an ongoing basis to determine whether they actually have been highly effective throughout the financial reporting periods for which they were designated.

The Company is party to interest swap agreements where it receives a floating interest rate and pays a fixed interest rate for a certain period in exchange. Certain contracts which meet the criteria for hedge accounting are accounted for as cash flow hedges.

A cash flow hedge is a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognized asset or liability, or a highly probable forecasted transaction that could affect profit or loss.

The effective portion of the gain or loss on the hedging instrument is recognized directly as a component of Other comprehensive income in equity, while any ineffective portion is recognized, immediately, in current period earnings. The Company discontinues cash flow hedge accounting if the hedging instrument expires and it no longer meets the criteria for hedge accounting or designation is revoked by the Company. At that time, any cumulative gain or loss on the hedging instrument recognized in equity is kept in equity until the forecasted transaction occurs. When the forecasted transaction occurs, any cumulative gain or loss on the hedging instrument

2. Significant Accounting policies-(continued):

(j) Derivatives- (continued) :

is recognized in profit or loss. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognized in equity is transferred to net profit or loss for the year as financial income or expense.

(ii) Other Derivatives: Changes in the fair value of derivative instruments that have not been designated as hedging instruments are reported in current period earnings under "Gain/(loss) on interest rate swaps" and "Other net".

(k) Guidance "Fair Value Measurements": Effective January 1, 2008, the Company adopted the guidance "Fair Value Measurements and Disclosures". In addition, on January 1, 2008, the Company made no election to account for its monetary assets and liabilities at fair values as allowed by FASB guidance for financial instruments (Note 11).

(l) Concentration of Credit Risk: Financial instruments, which potentially subject the Company to significant concentrations of credit risk, consist principally of cash and cash equivalents; trade accounts receivable and derivative contracts (interest rate swaps and foreign currency contracts. The maximum exposure to loss due to credit risk is the book value at the balance sheet date. The Company places its cash and cash equivalents, consisting mostly of deposits, with qualified financial institutions. The Company performs periodic evaluations of the relative credit standing of those financial institutions. The Company is exposed to credit risk in the event of non-performance by counter parties to derivative instruments; however, the Company limits its exposure by diversifying among counter parties. The Company's customers are mainly major oil companies. The credit risk has therefore determined by the Company to be low. When considered necessary, additional arrangements are put in place to minimize credit risk, such as letters of credit or other forms of payment guarantees. The Company limits its credit risk with trade accounts receivable by performing ongoing credit evaluations of its customer's financial condition and generally does not require collateral for its trade accounts receivable. The Company has made drill ships prepayments to Samsung Heavy Industries. The ownership of the drill ships is transferred from the yard to the Company at delivery. The credit risk of the prepayments is to a large extent reduced through refund guarantees by highly rated banks.

As of December 31, 2009, cumulative instalment payments made to Samsung Heavy Industries amounts to approximately $920,570 for the four units contracted. These instalment payments are, to a large extent, secured with irrevocable letters of guarantee, covering pre-delivery instalments if the contract is rescinded in accordance with the terms of the contract. The irrevocable letters of guarantee are issued by high quality banks.

The coverage ratios (letter of credit to total Samsung payments) as per December 31, 2009, are 95%, 95%, 95% and 95% for Hulls 1837, 1838, 1865 and 1866, respectively. As a result, the open risk in $19,000 for Hulls 1837 and 1838 and $ 20,000 for the Hulls 1865 and 1866. The open risk (prepayments less letters of guarantee) is considered to be within acceptable levels given Samsung Heavy Industries' financial position and position as key company for South Korea. The drillships, while under construction, will be insured by Samsung Heavy Industries from the time of the keel-laying until delivery.

(m) Rigs under construction: This represents amounts expended by the Company in accordance with the terms of the construction contracts for drilling ships as well as expenses incurred directly or under a management agreement with a related party in connection with on sight supervision. In addition, interest costs incurred during the construction (until the asset is substantially complete and ready for its intended use) are capitalized. The carrying value of rigs under construction ("Newbuildings") represents the accumulated costs at the balance sheet date. Cost components include payments for yard installments and variation orders, commissions to related party, construction supervision, equipment, spare parts, capitalized interest, costs related to first time mobilization and commissioning costs. No charge for depreciation is made until commissioning of the newbuilding has been completed and it is ready for its intended use.

(n) Capitalized interest: Interest expenses are capitalized during construction of rigs under construction based on accumulated expenditures for the applicable project at the Company's current rate of borrowing. The amount of interest expense capitalized in an

2. Significant Accounting policies - (continued):
(n) Capitalized interest-(continued):

accounting period is determined by applying an interest rate ("the capitalization rate") to the average amount of accumulated expenditures for the asset during the period. The capitalization rates used in an accounting period are based on the rates applicable to

borrowings outstanding during the period. The Company does not capitalize amounts beyond the actual interest expense incurred in the period.

If the Company's financing plans associate a specific new borrowing with a qualifying asset, the Company uses the rate on that borrowing as the capitalization rate to be applied to that portion of the average accumulated expenditures for the asset that does not exceed the amount of that borrowing. If average accumulated expenditures for the asset exceed the amounts of specific new borrowings associated with the asset, the capitalization rate applied to such excess is a weighted average of the rates applicable to other borrowings of the Company.

(o) Drilling Rigs machinery and equipment, Net:

(i) Drilling rigs are stated at historical cost less accumulated depreciation. Such costs include the cost of adding or replacing parts of drilling rig machinery and equipment when that cost is incurred, if the recognition criteria are met. The recognition criteria require that the cost incurred extends the useful life of a drilling rig. The carrying amounts of those parts that are replaced are written off and the cost of the new parts is capitalized. Depreciation is calculated on a straight- line basis over the useful life of the assets as follows: bare deck 30 years and other asset parts 5 to 15 years.

(ii) Drilling rig machinery and equipment, IT and office equipment, are recorded at cost and are depreciated on a straight-line basis over the estimated useful lives, for Drilling rig machinery and equipment over 5-15 years and for IT and office equipment over 5 years.

(p) Goodwill and Intangible assets: Goodwill represents the excess of the purchase price over the estimated fair value of net assets acquired in a business combination. Goodwill is reviewed for impairment whenever events or circumstances indicate possible impairment. The Company tests goodwill for impairment annually. Goodwill is not amortized. The Company has no other intangible assets with an indefinite life. The Company tests for impairment each year on December 31.

The Company tests goodwill for impairment by first comparing the carrying value of the reporting unit, which is defined as an operating segment or a component of an operating segment that constitutes a business for which financial information is available and is regularly reviewed by management, to its fair value. The Company estimates the fair value of the reporting unit by weighting the combination of generally accepted valuation methodologies, including both income and market approaches.

For the income approach, the Company applies undiscounted projected cash flows. To develop the projected net cash flows from the Company's reporting unit, which are based on estimated future utilization, day rates, projected demand for its services, and rig availability, the Company considers key factors that include assumptions regarding future commodity prices, credit market uncertainties and the effect these factors may have on the Company's contract drilling operations and the capital expenditure budgets of its customers.

For the market approach, the Company derives publicly traded company multiples from companies with operations similar to the Company's reporting unit by using information publicly disclosed by other publicly traded companies and, when available, analyses of recent acquisitions in the marketplace.

If the fair value of a reporting unit exceeds its carrying value, no further testing is required. This is referred to as Step 1. If the fair value is determined to be less than the carrying value, a second step, Step 2, is performed to compute the amount of the impairment, if any. In this process, an implied fair value for goodwill is estimated, based in part on the fair value of the operations, and is compared to its carrying value. The shortfall of the implied fair value of goodwill below its carrying value represents the amount of goodwill impairment.

All of the Company's goodwill was impaired for the year ended December 31, 2008 (Note 16).

2. Significant Accounting policies - (continued):

(p) Goodwill and Intangible assets – (continued):

The Company's finite-lived acquired intangible assets are recorded at historical cost less accumulated amortization. Amortization is recorded on a straight-line basis over their estimated useful lives of the intangibles as follows:

Intangible assets/liabilities	Years
Tradenames	10
Software	10
Fair value of above market acquired time charters	Over remaining contract term

Tradenames and software constitute the item "Intangible assets" in the Consolidated Balance Sheets. The amortization of these items are included in the line "Depreciation and amortization" in the Consolidated Statement of Operations.

(q) Impairment of Long-lived assets: The Company reviews for impairment long-lived assets and intangible long-lived assets held and used whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. In this respect, the Company reviews its assets for impairment on a rig by rig and asset by asset basis. When the estimate of undiscounted cash flows, excluding interest charges, expected to be generated by the use of the asset is less than its carrying amount, the Company evaluates the asset for impairment loss. The impairment loss is determined by the difference between the carrying amount of the asset and the fair value of the asset.

As at December 31, 2008 and 2009, the Company performed an impairment review of the Company's long-lived assets due to the global economic downturn, the significant decline in drilling rates in the rig industry and the outlook of the oil services industry. The Company compared undiscounted cash flows with the carrying values of the Company's long-lived assets to determine if the assets were impaired. In developing estimates of future cash flows, the Company relied upon assumptions made by management with regard to the Company's rigs, including future drilling rates, utilization rates, operating expenses, future dry docking costs and the estimated remaining useful lives of the rigs. These assumptions are based on historical trends as well as future expectations in line with the Company's historical performance and the Company's expectations for future fleet utilization under its current fleet deployment strategy, and are consistent with the plans and forecasts used by management to conduct its business. The variability of these factors depends on a number of conditions, including uncertainty about future events and general economic conditions; therefore, the Company's accounting estimates might change from period to period. As a result of the impairment review, the Company determined that the carrying amounts of its assets held for use were recoverable, and therefore, concluded that no impairment loss was necessary for 2008 and 2009.

(r) Fair value of above/below market acquired time charter: In a business combination, the Company identifies assets acquired or liabilities assumed and records all such identified assets or liabilities at fair value. Favorable or unfavorable drilling contracts exist when there is a difference between the contracted dayrate and the dayrates prevailing at the acquisition date. The amount to be recorded as an asset or liability at the acquisition date is based on the difference between the then-current fair values of a charter with similar characteristics as the time charter assumed and the net present value of future contractual cash flows from the time charter contract assumed. When the present value of the time charter assumed is greater than the then-current fair value of such charter, the difference is recorded as "Fair value of above market acquired time charter." When the opposite situation occurs, the difference is recorded as "Fair value of below-market acquired time charter." Such assets and liabilities are amortized as a reduction of or an increase in "Other revenue," over the period of the time charter assumed.

(s) Deferred financing costs: Deferred financing costs include fees, commissions and legal expenses associated with the Company's long- term debt and are capitalized and recorded net with the underlying debt. These costs are amortized over the life of the related debt using the effective interest method and are included in interest expense. Unamortized fees relating to loans repaid or refinanced as debt extinguishments are expensed as interest and finance costs in the period the repayment or extinguishment is made.

2. Significant Accounting policies - (continued):

(t) Pension and retirement benefit obligation: For employees, the Company has five retirement benefit plans, which are managed and funded through Norwegian life insurance companies. The projected benefit obligations are calculated based on projected unit credit method and compared with the fair value of pension assets.

Because a significant portion of the pension liability will not be paid until well into the future, numerous assumptions have to be made when estimating the pension liability at the balance sheet date. The assumption may be split into two categories; actuarial assumptions and financial assumptions. The actuarial assumptions are unbiased, mutually compatible and represent the Company's best estimates of the variables. The financial assumptions are based on market expectations at the balance sheet date, for the period over which the obligations are to be settled. Due to the long-term nature of the pension obligations, they are discounted to present value.

The funded status or net amount of the projected benefit obligation and pension asset (net pension liability or net pension asset) of each of its defined benefit plans, is recorded in the balance sheet under the captions "Non-current liabilities" and "Non-current assets" with an offsetting amount in "Accumulated other comprehensive income" for any amounts of actuary gains of losses or prior service cost that has not been amortized to income.

Net pension costs (benefit earned during the period including interest on the projected benefit obligation, less estimated return on pension assets and amortization of accumulated changes in estimates) are included in "General and administrative expenses" (administration employees) and "Rig operating expenses" (rig employees).

Actuarial gains and losses are recognized as income or expense when the net cumulative unrecognized actuarial gains and losses for each individual plan at the end of the previous reporting year exceed 10% of the higher of the present value of the defined benefit obligation and the fair value of plan assets at that date. These gains and losses are recognized over the expected average remaining working lives of the employees participating in the plans.

(u) Provisions: A provision is recognized in the balance sheet when the Company has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate of the amount can be made.

(v) Revenue and Related Expenses:

Revenues: Our services and deliverables are generally sold based upon contracts with our customers that include fixed or determinable prices. We recognize revenue when delivery occurs, as directed by our customer, or the customer assumes control of physical use of the asset and collectability is reasonably assured. We evaluate if there are multiple deliverables within our contracts and whether the agreement conveys the right to use the drill rigs for a stated period of time and meet the criteria for lease accounting, in addition to providing a drilling services element, which are generally compensated for by day rates. In connection with drilling contracts, the Company may also receive revenues for preparation and mobilization of equipment and personnel or for capital improvements to the drilling rigs and day rate or fixed price mobilization and demobilization fees. Revenues are recorded net of agents' commissions. There are two types of drilling contracts: well contracts and term contracts.

Well contracts: Well contracts are contracts under which the assignment is to drill a certain number of wells. Revenue from day-rate based compensation for drilling operations is recognized in the period during which the services are rendered at the rates established in the contracts. All mobilization revenues, direct incremental expenses of mobilization and contributions from customers for capital improvements are initially deferred and recognized as revenues over the estimated duration of the drilling period. To the extent that expenses exceed revenue to be recognized, they are expensed as incurred. Demobilization revenues and expenses are recognized over the demobilization period. All revenues for well contracts are recognized as "Service revenues" in the statement of operations.

Term contracts: Term Contracts are contracts under which the assignment is to operate the unit for a specified period of time. For these types of contracts the Company determines whether the arrangement is a multiple element arrangement containing both a lease element and drilling services element. For revenues derived from contracts that contain a lease, the lease elements are recognized as "Leasing revenues" in the statement of operations on a basis approximating straight line over the lease period. The drilling services

2. Significant Accounting policies - (continued):

(v) Revenue and Related Expenses-(continued):

element is recognized as "Service revenues" in the period in which the services are rendered at estimated fair value. Revenues related to the drilling element of mobilization and direct incremental expenses of mobilization are deferred and recognized over the estimated duration of the drilling contracts. To the extent that expenses exceed revenue to be recognized, they are expensed as incurred. Demobilization fees and expenses are recognized over the demobilization period. Contributions from customers for capital improvements are initially deferred and recognized as revenues over the estimated duration of the drilling contract.

See *(r) Fair value of above/ below market acquired time charter,* for an explanation of "Other revenues."

(w) Class costs: The Company follows the direct expense method of accounting for periodic class costs incurred during special surveys of drilling rigs, normally every five years. Class costs and other maintenance costs are expensed in the period incurred and included in drilling rigs operating expenses.

(x) Foreign Currency Translation: The functional currency of the Company is the U.S. Dollar since the Company operates in international drilling markets, and therefore primarily transacts business in U.S. Dollars. The Company's accounting records are maintained in U.S. Dollars. Transactions involving other currencies during the year are converted into U.S. Dollars using the exchange rates in effect at the time of the transactions. At the balance sheet dates, monetary assets and liabilities, which are denominated in other currencies, are translated into U.S. Dollars at the year-end exchange rates. Resulting gains or losses are included in "General and administrative expenses" in the accompanying consolidated statements of operations.

(y) Income Taxes: Income taxes have been provided for based upon the tax laws and rates in effect in the countries in which the Company's operations are conducted and income is earned. There is no expected relationship between the provision for/or benefit from income taxes and income or loss before income taxes because the countries in which the Company operates have taxation regimes that vary not only with respect to the nominal rate, but also in terms of the availability of deductions, credits and other benefits. Variations also arise because income earned and taxed in any particular country or countries may fluctuate from year to year. Deferred tax assets and liabilities are recognized for the anticipated future tax effects of temporary differences between the financial statement basis and the tax basis of the Company assets and liabilities using the applicable jurisdictional tax rates in effect at the year end. A valuation allowance for deferred tax assets is recorded when it is more likely than not that some or all of the benefit from the deferred tax asset will not be realized. The Company accrues interest and penalties related to its liabilities for unrecognized tax benefits as a component of income tax expense.

(z) Earnings/(loss) per common share: Basic earnings per common share ("EPS") is calculated by dividing net income available to common stockholders by the weighted average number of common shares outstanding during the year. Diluted EPS reflect the potential dilution that could occur if securities or other contracts to issue common stock were exercised. Dilution has been computed using the treasury stock method.

(aa) Other comprehensive income/(loss): The Company records certain transactions directly as "Comprehensive income/(loss)" which is shown as a separate component of "Stockholders' equity."

(ab) Business segment*:* Offshore drilling operations represent the Company's only segment.

2. Significant Accounting policies - (continued):

(ac) Recent Accounting pronouncements:

In December 2007, new guidance established accounting and reporting standards for ownership interests in subsidiaries held by parties other than the parent, the amount of consolidated net income attributable to the parent and to the noncontrolling interest, changes in a parent's ownership interest, and the valuation of retained noncontrolling equity investments when a subsidiary is deconsolidated. The new guidance also establishes disclosure requirements that clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. The above-mentioned guidance was effective for fiscal years beginning after December 15, 2008, and was adopted by the Company in the first quarter of 2009. The adoption of the new guidance did not have a material impact on the Company's consolidated financial statements. The new guidance was retroactively applied to the consolidated statement of stockholders equity for the year ended December 31, 2008.

In March 2008, new guidance was issued with the intent to provide users of financial statements with an enhanced understanding of derivative instruments and hedging activities. The new guidance requires qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of gains and losses on instruments, and disclosures about credit-risk-related contingent features in derivative agreements. This guidance was effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. This guidance does not require comparative disclosures for earlier periods at initial adoption. The Company adopted this guidance in the first quarter of 2009.

In June 2008, new guidance clarified that all outstanding unvested share-based payment awards that contain rights to non forfeitable dividends participate in undistributed earnings with common shareholders. Awards of this nature are considered participating securities, and the two-class method of computing basic and diluted earnings per share must be applied. The Company determined that non-vested shares granted under its equity incentive plan are participating securities because the non-vested shares participate in dividends. The guidance was effective for fiscal years beginning after December 15, 2008. The Company adopted this new guidance in 2009, which was retroactively applied to the years ended December 31, 2008 and 2007 and did not have a material impact on the earnings per share.

In December 2008 new guidance was issued which requires more detailed disclosures about employers' plan assets, including employers' investment strategies, major categories of plan assets, concentrations of risk within plan assets, and valuation techniques used to measure the fair value of plan assets. The guidance was effective for fiscal years ending after December 15, 2009. Adoption of this guidance in 2009 did not have a significant impact on the Company's financial statements.

In June 2009, the Financial Accounting Standards Board ("FASB") issued guidance establishing the FASB Accounting Standards Codification as the single source of authoritative U.S. GAAP recognized by the FASB to be applied by nongovernmental entities. The Codification's content effectively supersedes previous guidance and include only two levels of GAAP: authoritative and non authoritative. The guidance is effective for financial statements issued for interim and annual periods ending after September 15, 2009. The Company adopted the new guidance in the third quarter of 2009 and revised references to US GAAP in these consolidated financial statements to reflect the guidance in the Codification.

In June 2009, new guidance was issued with regards to the consolidation of variable interest entities ("VIE"). This guidance responds to concerns about the application of certain key provisions of the FASB Interpretation, including those regarding the transparency of the involvement with VIEs. The new guidance revises the approach to determining the primary beneficiary of a VIE to be more qualitative in nature and requires companies to more frequently reassess whether they must consolidate a VIE. Specifically, the new guidance requires a qualitative approach to identifying a controlling financial interest in a VIE and requires ongoing assessment of whether an entity is a VIE and whether an interest in a VIE makes the holder the primary beneficiary of the VIE. In addition, the standard requires additional disclosures about the involvement with a VIE and any significant changes in risk exposure due to that involvement. The guidance is effective as of the beginning of the first fiscal year that begins after November 15, 2009 and early adoption is prohibited. There is no impact of this statement to the Company.

In September 2009, clarifying guidance was issued on multiple-element revenue arrangements. The revised guidance primarily provides two significant changes: 1) eliminates the need for objective and reliable evidence of the fair value for the undelivered element in order for a delivered item to be treated as a separate unit of accounting, and 2) eliminates the residual method to allocate the arrangement consideration. In addition, the guidance also expands the disclosure requirements for revenue recognition. The new guidance will be effective for the first annual reporting period beginning on or after June 15, 2010, with early adoption permitted

2. Significant Accounting policies - (continued):

(ac) Recent Accounting pronouncements – (continued):

provided that the revised guidance is retroactively applied to the beginning of the year of adoption. The Company is currently assessing the future impact of this new accounting pronouncement to its consolidated financial statements.

In January 2010, the FASB issued ASU 2010-01, Accounting for Distributions to Shareholders with Components of Stock and Cash which amends FASB ASC 505, Equity in order to clarify that the stock portion of a distribution to shareholders that allows the shareholder to elect to receive cash or stock with a potential limitation on the total amount of cash that all shareholders can elect to receive in the aggregate is considered a share issuance that is reflected in earnings per share prospectively and is not a stock dividend for purposes of applying FASB ASC 505, Equity and FASB ASC 260, Earnings Per Share. The Company has not been involved in any such distributions and thus, the impact to the Company cannot be determined until any such distribution occurs.

In January 2010, the FASB issued ASU 2010-06, Fair Value Measurements and Disclosures (Topic 820)-Improving Disclosures about Fair Value Measurements. ASU 2010-06 amends ASC 820 to add new requirements for disclosures about transfers into and out of Levels 1 and 2 and separate disclosures about purchases, sales, issuances, and settlements relating to Level 3 measurements. It also clarifies existing fair value disclosures about the level of disaggregation and about inputs and valuation techniques used to measure fair value. The ASU also amends guidance on employers' disclosures about postretirement benefit plan assets under ASC 715 to require that disclosures be provided by classes of assets instead of by major categories of assets. The guidance in the ASU was effective for the first reporting period (including interim periods) beginning after December 15, 2009, except for the requirement to provide the Level 3 activity of purchases, sales, issuances, and settlements on a gross basis, which will be effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. The adoption of this guidance is not expected to have any impact on its financial position and results of operation.

In February 2010, the FASB issued ASU 2010-09, Subsequent Events (Topic 855). ASU 2010-09 amends ASC 855 to clarify which entities are required to evaluate subsequent events through the date the financial statements are issued and the scope of the disclosure requirements related to subsequent events. The amendments remove the requirement for an SEC filer to disclose the date through which management evaluated subsequent events in both issued and revised financial statements. Revised financial statements include financial statements revised as a result of either correction of an error or retrospective application of U.S. GAAP. Additionally, the FASB has clarified that if the financial statements have been revised, then an entity that is not an SEC filer should disclose both the date that the financial statements were issued or available to be issued and the date the revised financial statements were issued or available to be issued. Those amendments remove potential conflicts with the SEC's literature. All of the amendments in this Update are effective upon its issuance, except for the use of the issued date for conduit debt obligors. That amendment is effective for interim or annual periods ending after June 15, 2010. The adoption of the above amendments of ASU 2010-09 is not expected to have any impact on the Company's unaudited interim consolidated financial statements.

In April 2010, the FASB issued ASU 2010-13, Compensation-Stock Compensation, Effect of Denominating the Exercise Price of a Share- Based Payment Award in the Currency of the Market in Which the Underlying Equity Security Trades a consensus of the FASB Emerging Issues Task Force (Topic 718) which Update addresses the classification of a share-based payment award with an exercise price denominated in the currency of a market in which the underlying equity security trades. Topic 718 is amended to clarify that a share-based payment award with an exercise price denominated in the currency of a market in which a substantial portion of the entity's equity securities trades shall not be considered to contain a market, performance, or service condition. Therefore, such an award is not to be classified as a liability if it otherwise qualifies as equity classification. The amendments in this Update are effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2010. The amendments in this Update should be applied by recording a cumulative-effect adjustment to the opening balance of retained earnings. The cumulative-effect adjustment should be calculated for all awards outstanding as of the beginning of the fiscal year in which the amendments are initially applied, as if the amendments had been applied consistently since the inception of the award. The cumulative-effect adjustment should be presented separately. Earlier application is permitted. The adoption of the above amendments of ASU 2010-09 is not expected to have any impact on the Company's unaudited interim consolidated financial statements.

3. Going Concern:

The Company believes that its revenues for 2010 and the available credit facility will provide sufficient cash flow for working capital, including payment of interest costs. However, in order to meet the Company's capital expenditure requirements of $966,650 in 2010 and $1.03 billion in 2011 related to our four drillships under construction and repayment of maturing debt of $252,633 in 2010 and $263,417 in 2011, the Company is dependent upon further debt or equity financing, either from continued support from its parent company or from external sources. There is no unutilized commitment under the 230,000 Credit Facility. The Two 562,500 Loan Agreements requires cash deposit collateral equal to any drawdown on the credit facility prior to securing certain drilling contracts (Note 10 and 17). As of December 31, 2009, $186,274 of the Two 562,500 Loan Agreements is utilized, and a corresponding amount of restricted cash deposit has been established.

The Company is, as of December 31, 2009, a wholly owned subsidiary of DryShips Inc. As of December 31, 2008, DryShips was in breach of certain financial covenants, mainly the loan-to-value ratios, contained in DryShips' loan agreements relating to $1.8 bilion of DryShips' debt. Even though none of the lenders declared an event of default under the loan agreements, these breaches constituted potential events of default (also known as technical defaults) and could have resulted in the lenders requiring immediate repayment of the loans.

During 2009 and up to December 31, 2009, DryShips has obtained waivers from all of its lenders, except that the Company was in breach of financial covenants related to its 230,000 Credit Facility, which on April 16, 2010 were waived through June 15, 2010. On June 16, 2010 the Company obtained an extension on the waiver through July 15, 2010. On September 3, 2010 the Company obtained an extension of the waiver of those breaches effective through December 1, 2010. On November 25, 2010 the Company obtained a further extension of the waiver of those breaches effective through December 31, 2010. However, some of these waiver agreements expire during 2010 and the original covenants come back in force. For some of these waiver agreements expiring in 2010, DryShips, does not expect to meet the loan-to-value ratios contained in the original covenants using the current fair market values of its vessels. Accordingly, assuming that current market conditions would prevail upon waiver agreement expiration in 2010, DryShips has deemed that it is probable that it will not be able to comply with the original covenants at measurement dates that are within the next 12 months. Due to cross-default provisions in its debt agreements, DryShips has classified all of its affected debt as current liabilities.

DryShips guarantees two of the Company's credit facilities, namely (i) 230,000 Credit facility and (ii) Two 562,500 Loan Agreements. George Economou also guarantees the 230,000 Credit Facility. Due to the cross-default situation and breach of certain financial covenants both for the Company and for DryShips, the Company has classified its outstanding balance under these two facilities as current liabilities. For those waivers that expire in 2010, DryShips is currently in negotiations with its lenders to obtain waiver extensions or to restructure the affected debt. DryShips management expects that the lenders will not demand payment of the loans before their maturity, provided that DryShips pays loan installments and accumulated or accrued interest as they fall due under the existing credit facilities.

A default situation in DryShips could have a substantial effect on the Company. Should DryShips fail to pay loan installments as they fall due, this would result in a cross-default on the Company's facilities guaranteed by DryShips, as well as the Company's 1,040,000 Credit Facility which is not guaranteed by DryShips. Furthermore, if the Company fails to secure additional external financing to fund its drillships new-build programs or obtain continued support from DryShips, this would have a material adverse effect on the Company's ability to continue as a going concern.

The Company's consolidated financial statements have been prepared assuming that the Company will continue as a going concern. Accordingly, the financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts, the amounts and classification of liabilities, or any other adjustments that might result in the event the Company is unable to continue as a going concern, except for the current classification of debt.

(Expressed in thousands of United States Dollars – except for share and per share data, unless otherwise stated)

4. Transactions with Related Parties:

Purchase of Ocean Rig ASA shares from a Related Party in 2007 and 2008
On December 20, 2007, for consideration of $406,024, the Company acquired 51,778,647 shares in Ocean Rig ASA from Cardiff, who acted as an intermediary (Note 5). This represented 30.4% of the issued shares in Ocean Rig ASA. A commission was paid to Cardiff amounting to $4,050. The above commission was paid on February 1, 2008. The commissions were expensed and presented as part of "Interest and finance costs" in 2007.

In April 2008, 7,546,668 shares, representing 4.4% of the share capital of Ocean Rig ASA were purchased from companies controlled by the Chairman and Chief Executive Officer of Dryships Inc for a consideration of $66,800, which is the U.S. dollar equivalent NOK 45 per share, which is the price that was offered to all shareholders in a mandatory offering.

In addition, a commission was paid to Cardiff amounting to $9,900 for services rendered in relation to the acquisition of the remaining shares in 2008 of Ocean Rig ASA. This commission was paid on December 5, 2008 and was expensed and presented as part of "Interest and finance costs" in 2008.

Acquisition of Drillship Hulls 1837 and 1838
On October 3, 2008, the Company entered into a share purchase agreement with certain unrelated parties and certain entities affiliated with the Chairman and Chief Executive Officer of DryShips Inc. to acquire the new build contracts for the drillship Hulls 1837 and 1838, which were under construction, and the associated debt, included in Drillships Holdings Inc. ("Drillships Holdings") (Note 1). On May 15, 2009, the transaction closed. Since the investment did not meet the definition of a business, it was accounted for as a net asset acquisition on the closing date. As consideration for this asset acquisition, Ocean Rig UDW issued to the sellers common shares equal to 25% of its total issued and outstanding common shares as of May 15, 2009. The value of the shares issued was determined based on the fair value of the net assets acquired of $358,000 and was recorded as an increase in the paid in capital in stockholder's equity. The fair values of individual assets and liabilities acquired by the Company were as follows:

		Amount
Contracts for construction of drillship Hulls 1837 and 1838	$	625,400
Cash deposits		200
Debt assumed		(259,900)
Other liabilities		(7,700)
Net assets acquired	$	358,000

4. Transactions with Related Parties-(continued):

Acquisition of Drillships Hulls 1865 and 1866
On March 5, 2009, DryShips Inc. contributed to the Company (for no consideration) the new build contracts for the drillship Hulls 1865 and 1866 under construction and other associated assets and debt included in Drillships Investments Inc. Since the transfer did not meet the definition of a business, it was not an exchange of a business under common control. Therefore, it was accounted for prospectively as a net asset acquisition under common control and the assets acquired and liabilities assumed were recorded at the historical cost of DryShips Inc. in the period in which the transfer occurred. The contribution of shares is recorded as an increase in paid in capital in stockholder's equity at the historical cost of net assets of $439,900.

The carryover basis of individual assets and liabilities received by the Company were the construction contracts for Hulls 1865 and 1866 at an aggregate of $ 422,100, cash deposits of $183,500, other receivables of $40,700, intercompany receivables of $1,300, bank borrowings of $161,900, other liabilities of $100 and financial instruments with a negative fair value of $45,700.

Management Agreements with Cardiff Marine Inc. (Cardiff)
Cardiff engages primarily in the management of ocean-going vessels, including but not limited to vessels owned by DryShips Inc. Cardiff is beneficially majority-owned by the Chairman and Chief Executive Officer of DryShips, Mr. George Economou. In addition, Cardiff has management agreements in place with the Company relating to Hulls 1837 and 1838 for a management fee of $40 per month per hull.

The management agreements also provide for: (i) chartering commission of 1.25% on the revenue earned; (ii) a commission of 1.00% on all gross shipyards payments or sale proceeds for drillships; (iii) a commission of 1% on loan financing or refinancing; and (iv) a commission of 2% on insurance premiums.

In the period from acquisition of Hulls 1837 and 1838 on May 15, 2009 to December 31, 2009, total charges from Cardiff under the management agreement amounted to $1,868 and are capitalized as a component of "Rigs under construction," being directly attributable cost to the construction. As of December 31, 2009 and 2008, no balances were outstanding to Cardiff.

Related party transactions on the balance sheet
Dryships, makes a number of payments towards yard installments, loan installments, loan interest and interest rate swap payments on behalf of Ocean Rig. The receivable from or payable to Dryships Inc. included in the accompanying consolidated balance sheets amounted to receivables of $4,934 and payables of $48,110 as of December 31, 2009 and receivables of $4,394 as of December 31, 2008.

5. Acquisition of Ocean Rig:

5.1 Initial investment in 2007 using the equity method:

On December 20, 2007, the Company acquired 51,778,647 shares or 30.4% of the issued shares in Ocean Rig ASA from a related party (Note 4). Ocean Rig ASA, incorporated on September 26, 1996 and at that time domiciled in Norway, was a public limited company whose shares previously traded on the Oslo Stock Exchange.

The Company accounted for its investment in Ocean Rig for the year ended December 31, 2007, and for the period from January 1, 2008 to May 14, 2008 using the equity method of accounting. The Company's proportionate share in the income/(loss) of Ocean Rig ASA and related amortization of purchase price allocation adjustments is shown in the accompanying consolidated statements of operations for the year ended December 31, 2007 and 2008 as "Equity in income/(loss) of investee" and amounted to income of $1,194 and a loss of $(1,055), respectively.

(Expressed in thousands of United States Dollars – except for share and per share data, unless otherwise stated)

5. Acquisition of Ocean Rig–(continued):

5.1 Initial investment in 2007 using the equity method-(continued):

Summarized financial information of the Company's equity method investees that represent 100% of the investees' financial information, is as follows:

Financial Positions as of:		December 31, 2007
Current assets	$	93,648
Non-current assets	$	1,141,778
Current liabilities	$	147,810
Non-current liabilities	$	657,728

	Results of Operations for the period			
	December 20 to December 31, 2007		January 1 to May 14, 2008	
Revenues	$	8,227	$	99,172
Operating income/ (loss)	$	(927)	$	19,521
Net Loss	$	(985)	$	(23,396)

5.2 Subsequent step transactions in 2008 to acquire 100%

After acquiring more than 33% of Ocean Rig ASA's outstanding shares on April 22, 2008, the Company, as required by Norwegian Law, launched a mandatory bid for the remaining shares of Ocean Rig at a price of NOK 45 per share ($8.89 per share). The Company acquired additional shares of Ocean Rig ASA, resulting in the Company gaining control over Ocean Rig ASA on May 14, 2008. The results of operations related to the acquisition are included in the consolidated financial statements since May 15, 2008. The mandatory bid expired on June 11, 2008. As of July 10, 2008, the total shares held by the Company in Ocean Rig amounted to 100% (163.6 million shares). Out of the total shares acquired as discussed above, 4.4% of the share capital of Ocean Rig was purchased from companies controlled by George Economou (Note 4).

During the second quarter of 2008, the Company recorded a non-controlling minority interest on its balance sheet in accordance with guidance related to classification and measurement of redeemable equity securities. The resulting non-controlling interest was recorded at its fair value based upon the bid price in NOK which exceeded it carrying value with a reduction in paid in capital. When the non-controlling interest was purchased the adjustment to the carrying amount was eliminated in the manner it was initially recorded by increasing paid in capital with a resulting exchange rate difference of $212.

As a result of the change of control provisions in Ocean Rig ASA's employee stock option program, employee options became immediately vested and Ocean Rig ASA sold shares for cash to certain employees. The resulting gain of $7,087 was recorded as an increase in consolidated paid in capital. These shares were subsequently acquired by the Company through the public mandatory bid discussed in the paragraph above. Subsequent to the Company obtaining control of Ocean Rig ASA, Ocean Rig ASA retired treasury shares increasing the relative book value owned by the Company which was recorded as an increase in consolidated paid in capital of $16,852.

(Expressed in thousands of United States Dollars – except for share and per share data, unless otherwise stated)

5. Acquisition of Ocean Rig–(continued):

5.3 Purchase price allocation

The purchase price of Ocean Rig for each step of the acquisition comprised of the following:

		December 20, 2007	May 14, 2008	June 30, 2008	July 10, 2008		Total
Cash consideration	$	405,168	682,427	288,978	21,283	$	1,397,856
Transaction costs		855	6,154	3,510	240		10,761
Total purchase price	$	406,024	688,581	292,488	21,523	$	1,408,618

The following table summarizes the aggregate fair values of the assets acquired and liabilities assumed by the Company as of the dates of the step acquisitions:

		2007	May 14, 2008	June 30, 2008	July 10, 2008		Total
Total current assets	$	28,469	43,179	25,029	1,895	$	98,572
Drilling rigs, machinery and equipment		386,080	664,659	288,981	21,976		1,361,696
Intangible assets		4,366	6,829	3,007	232		14,434
Above market acquired time charter			2,473	1,104	86		3,663
Goodwill		252,070	358,146	141,515	9,998		761,729
Total assets acquired	$	670,985	1,075,286	459,636	34,187	$	2,240,094
Total current liabilities		(45,439)	(238,944)	(108,629)	(8,223)		(401,235)
Total non current liabilities		(207,632)	(130,127)	(52,506)	(3,975)		(394,241)
Below market acquired time charter		(11,890)	(17,633)	(6,013)	(464)		(36,000)
Total Liabilities assumed	$	(264,961)	(386,705)	(167,148)	(12,663)	$	(831,476)
Total purchase price	$	406,024	688,581	292,488	21,525	$	1,408,618

A contingent liability that was settled during the allocation period of $3,143 was recognized, based on a claim from an investment bank in relation to DryShips acquisition of Ocean Rig.

Goodwill included in the Company's single segment constitutes a premium paid by the Company over the fair value of the net assets of Ocean Rig ASA, which was attributable to the anticipated benefits from Ocean Rig ASA's unique position to take advantage of the fundamentals of the ultra deep water drilling market at the acquisition date. Goodwill is not deductible for income tax purposes. Goodwill was subsequently impaired as of December 31, 2008 (Note 16).

In connection with the acquisition, the Company acquired drilling contracts for the future contract drilling services of Ocean Rig ASA, some of which extend through 2011. These contracts include fixed day rates that were above or below day rates available as of the acquisition date. After determining the aggregate fair values of these drilling contracts as of the acquisition, the Company recorded the respective contract fair values on the consolidated balance sheet as non-current liabilities and non-current assets under "Fair value of below/above market acquired time charters." These are being amortized into revenues using the straight-line method over the respective contract periods (1 and 3 years for the respective contracts). The amount amortized for the period from May 15, 2008 to December 31, 2008 amounted to $16,553. For 2009 the amount amortized was $14,597.

Additionally, the Company identified finite-lived intangible assets associated with the trade names and software that will be amortized over their useful life which is determined to be 10 years. The fair value of the intangible assets acquired related to Trade names and

(Expressed in thousands of United States Dollars – except for share and per share data, unless otherwise stated)

5. Acquisition of Ocean Rig–(continued):

5.3 Purchase price allocation-(continued):

Software were $8,774 and $5,659, respectively and are included in "Intangible assets, net" in the accompanying consolidated balance sheets.

	Amount Acquired	Amortized to December 31, 2008	Amount to be Amortized as of December 31				
			2009	2010	2011	2012	2013-18
Trade names	$ 8,774	630	877	877	877	877	$ 4,636
Software	5,659	412	566	566	566	566	2,983
	$ 14,434	1,042	1,443	1,443	1,443	1,443	$ 7,619

Included in the amount amortized to December 31, 2008 was $97 and $67 related to Trade names and Software, respectively, that was recorded in the "Equity in (loss)/income of investee".

Pro forma results of operations (unaudited) – The following unaudited pro forma financial data for the periods ended December 31, 2007 and 2008, give effect to the acquisition of Ocean Rig ASA, as though the business combination had been completed at the beginning of each period:

	December 31, 2007	December 31, 2008
Pro forma:		
Revenues	$ 209,095	$ 317,835
Net Operating Income/(loss)	13,677	(669,675)
Net Income/(loss)	(50,812)	(789,250)
Earnings per Shares, basic and diluted	$ (101.62)	$ (1,578.50)

The unaudited pro forma financial information includes adjustments for additional depreciation based on the fair market value of the drilling rigs, amortization of intangibles arising from the step acquisitions and amortization of the fair value above and below market with respect to the time charters acquired and increased interest expense and financing fees related to debt incurred to finance the acquisition of Ocean Rig ASA. The unaudited pro forma financial information is not necessarily indicative of the result of operations for any future periods. The pro forma information does not give effect to any potential revenue enhancement cost synergies or other operational efficiencies that could result from the acquisitions. The actual results of the operations of Ocean Rig are consolidated since May 15, 2008, the date when control was obtained.

6. Restricted cash:

Restricted cash balances include minimum required cash deposits, as defined in the loan agreements, are classified as current assets in the accompanying consolidated balance sheets. Restricted cash has been classified as current as of December 31, 2008 and 2009.

(Expressed in thousands of United States Dollars – except for share and per share data, unless otherwise stated)

6. Restricted cash-(continued):

Restricted cash as of December 31, 2008 and 2009 amounted to:

	December 31, 2008	December 31, 2009
Amount pledged as collateral for bank loans (Note 10 b)	$ -	$ 187,389
Amounts pledged as collateral to customer	-	1,000
Amounts pledged as collateral for bank guarantees to suppliers and foreign exchange deposit	41	-
Amounts representing minimum liquidity requirements under the loan facilities (Note 10)	30,000	30,000
Taxes withheld from employees	1,246	2,301
Total	$ 31,287	$ 220,690

7. Rigs under Construction:

The amounts shown in the accompanying consolidated balance sheets include the fair value at acquisition, milestone payments relating to the shipbuilding contracts with the shipyards, supervision costs and any material related expenses incurred during the construction periods including 1% commissions to related parties for Hulls 1837 and 1838, all of which are capitalized in accordance with the accounting policy discussed in Note 2. As of December 31, 2009, the advances for rigs under construction and acquisitions are set forth below:

		December 31, 2009				
Vessel name	Expected delivery	Contract amount	Contract payments	Capitalized expenses	Rig fair value adjustments at acquisition date	Total
H1837	January 2011	$ 691,008	254,346	26,144	89,000	$ 369,490
H1838	March 2011	690,758	254,346	24,829	89,000	368,175
H1865	July 2011	715,541	205,939	12,485	-	218,424
H1866	September 2011	715,541	205,939	11,428	-	217,367
		$ 2,812,848	920,570	74,886	178,000	$ 1,173,456

During the year ended December 31, 2009, the movement of the advances for drillships under construction and acquisitions was as follows:

	December 31, 2009
Balance at beginning of year	$ -
Acquisitions of Hulls 1837/ 1838 (May 15, 2009)	625,445
Acquisitions of Hulls 1865/ 1866 (March 5, 2009)	422,114
Advances for drillships under construction	95,673
Capitalized interest cost	19,521
Capitalized expenses	8,834
Related Parties	1,869
Balance at end of year	$ 1,173,456

(Expressed in thousands of United States Dollars – except for share and per share data, unless otherwise stated)

8. Drilling Rigs:

The amounts in the accompanying consolidated balance sheets are analyzed as follows:

Drilling Rigs, machinery and equipment:

	Cost	Accumulated Depreciation	Net Book Value
Balance on acquisition May, 14	$ 1,405,346	-	$ 1,405,346
Additions	16,584	-	16,584
Depreciation	-	(44,571)	(44,571)
Balance, December 31, 2008	1,421,930	(44,571)	1,377,359
Additions	14,152	-	4,152
Disposals	-	-	-
Depreciation	-	(73,905)	(73,905)
Balance December 31, 2009	$ 1,436,082	(118,476)	$ 1,317,607

As of December 31, 2008 and 2009, all of the Company's drilling rigs and drillships under construction have been pledged as collateral to secure the bank loans (Note 10).

9. Intangible Assets and Liabilities:

The Company identified, in connection with the acquisition of Ocean Rig, finite-lived intangible assets associated with the trade names, software, and above- and below-market acquired time charters that are being amortized over their useful lives. In the case of the trade names and software, the useful lives are estimated to be ten years. The useful lives of above- and below-market acquired time charters depend on the contract term remaining at the date of acquisition. Trade names and software are included in "Intangible assets, net" in the accompanying consolidated balance sheets net of accumulated amortization. Above-market and below-market acquired time charters are presented separately in the accompanying consolidated balance sheets, net of accumulated amortization.

				Amortization Schedule					
	Amount Acquired	Accumulated amortization as of December 31, 2008	Amortization for the year ended December 31, 2009	2010	2011	2012	2013	2014	thereafter
Trade names	$ 8,774	(630)	(877)	(877)	(877)	(877)	(877)	(877)	$ (2,882)
Software	$ 5,659	(412)	(566)	(566)	(566)	(566)	(566)	(566)	$ (1,851)
Total Intangible Assets, net	$ 14,433	(1,042)	(1,443)	(1,443)	(1,443)	(1,443)	(1,443)	(1,443)	$ (4,733)
Above market time charters	$ 3 663	(51)	(1,220)	(1220)	(1,172)	-	-	-	$ -
Below-market time charters	$ (36 000)	20,183	15,817	-	-	-	-	-	$ -
Fair value debt	$ 11,146	(11,146)	-	-	-	-	-	-	$ -

(Expressed in thousands of United States Dollars – except for share and per share data, unless otherwise stated)

10. Long-term Debt:

The amount of long-term debt shown in the accompanying consolidated balance sheets is analyzed as follows:

	December 31, 2008	December 31, 2009
Acquisition Facility	$ 650,000	$ -
Two 562,500 Loan Agreements	-	186,274
1,040,000 Credit Facility	982,500	808,550
230,000 Credit Facility	-	230,000
Total loan Facilities	1,632,500	1,224,824
Less: Deferred financing costs	(18,159)	(24,794)
Total debt	1,614,341	1,200,030
Less: Current portion	(826,027)	(537,668)
Long-term portion	$ 788,314	$ 662,362

The principal payments, excluding deferred financing costs, to be made during each of the twelve-month periods subsequent to December 31, 2009 for the loan payments as classified in the balance sheet in, are as follows:

December 31, 2010	$ 553,907
December 31, 2011	148,417
December 31, 2012	70,000
December 31, 2013	452,500
Total principal payments	1,224,824
Less: Financing fees	(24,794)
Total debt	$ 1,200,030

The table above includes the debt repayments due as a result of the technical default on certain covenants (Note 3). The amounts scheduled to be repaid under the original loan agreements is $252,633 for the year end December 31, 2010.

Total interest incurred on long-term debt for the years ended December 31, 2008 and 2009 amounted to $51,946 and $58,704, respectively, of which $0 and $19,522 respectively, were capitalized as part of the cost of the rigs under construction. Total interest incurred on long-term debt, net of capitalized interest, are included in "Interest and finance costs" in the accompanying consolidated statement of operations.

a) Acquisition Facility: On May 9, 2008, the Company concluded a guarantee facility of NOK 5.0 billion (approximately $974,500) and a term loan of $800,000 in order to guarantee the purchase price of the Ocean Rig shares to be acquired through the mandatory offering, to finance the acquisition cost of the Ocean Rig shares and to refinance existing debt. The term loan is repayable in four quarterly installments of $75,000 followed by four quarterly installments of $50,000 plus a balloon payment payable together with the last installment on May 12, 2010. As of December 31, 2008 the Company drew down the total amount of $ 800,000 and repaid $150,000. As of December 31, 2009, the Company had fully repaid it. The facility contains various covenants measured on a consolidated DryShips Inc. level, including a market-adjusted equity ratio greater than or equal to 30%.

10. Long-term Debt- (continued):

During the first quarter of 2009 and in April 2009, the Company repaid $190,000 and $160,000, respectively, of its existing $800,000 facility. The remaining outstanding balance of $300,000 was fully repaid in May 2009, of which $150,000 was paid with the Company's new credit facility discussed in the following paragraph below.

On May 13, 2009, the Company entered into a new one-year credit facility with the same lender as above for an amount of up to $300,000 in order to refinance the Company's existing loan indebtedness discussed in the above paragraph. In May 2009, the Company drew down $150,000 of the loan in order to refinance the $150,000 outstanding debt at the date of the drawdown of the above facility. The loan bore interest at LIBOR plus a margin ranging from 2.1% to 3.1%. This new credit facility was fully repaid in May 2009 using proceeds from an increase in paid in capital from DryShips. DryShips' financed the capital contribution to the Company from its at-the-market offerings. The undrawn amount of the facility was fully cancelled.

b) Two 562,500 Loan Agreements: On March 5, 2009, in connection with the acquisition of Drillships Investment Inc. including the two companies owning drillship Hulls 1865 and 1866, as further described in Note 4, the Company assumed two facility agreements for an aggregate amount of $ 1,125,000 in order to partly finance the construction cost of Drillship Hulls 1865 and 1866. The Two 562,500 Loan Agreements bear interest at LIBOR plus a margin ranging from 1.61% to 2.00%, depending on the period (pre-completion or post-completion) and depending on the lender (commercial lender or export agency) and are repayable in eighteen semi-annual installments through November 2020. The first installment is payable six months after the delivery of the vessels, which is expected to be in the third quarter of 2011. The Two 562,500 Loan Agreements contains various covenants measured on a consolidated DryShips Inc. level, including: (i) market-adjusted equity ratio greater than or equal to 25%; and (ii) market value adjusted net worth greater than or equal to $500,000.

On June 5, 2009, the Company entered into agreements with a bank, as facility agent, and certain other lenders on waiver and amendment terms with respect to the Two 562,500 Loan Agreements providing for a waiver of certain financial covenants through January 31, 2010. These agreements provide for, among other things; (i) a waiver of the required market adjusted equity ratio; (ii) a waiver of the required market value adjusted net worth; and (iii) a required payment from us to each lender and the facility agent.

On January 28, 2010, the Company signed two supplemental agreements that provided for certain non-financial covenant amendments to the Two 562,500 Loan Agreements. In addition these agreements revoked all waivers previously obtained related to the Two 562,500 Loan Agreements.

A basic principle of the two credit facilities is that any drawdown on the credit facility prior to securing certain drilling contract is subject to cash deposit collateral of an equivalent amount to any drawdown.

As of December 31, 2009, the amount outstanding under the Two 562,500 Loan Agreements was $186,274. Drawdowns on the "Two 562,500 Loan Agreements", prior to securing certain drilling contracts, are subject to cash deposit collateral of an equivalent amount to the drawdowns.

As of December 31, 2009 the Company had an unutilized line of credit totaling $938,726. Drawdowns under this line of credit must be matched with corresponding cash collateral until the drillships enter into suitable employment contracts at which point no cash collateral is needed. The Company is required to pay a quarterly commitment fee of 0.60% per annum of the unutilized portion of the unutilized line of credit.

c) 1,040,000 Credit Facility: On September 17, 2008, the Company entered into a new five-year secured credit facility for the amount of up to $1.040,000 in order to refinance the Company's existing loan indebtedness in relation to the drilling units Leiv Eiriksson and Eirik Raude and for general corporate purposes. The 1,040,000 Credit Facility consists of a guarantee facility, three revolving credit facilities (a, b and c) and a term loan. The aggregate amount of the term loan is up to $400,000 and the aggregate amount under the revolving credit facility a is up to $350,000. The aggregate amount under the revolving credit facility b is up to $250,000 and under the revolving credit facility c is up to $20,000. The guarantee facility provides the Company with a credit facility of up to $20,000.

In September and October, 2008, the Company drew down $1.020,000 of the new credit facility. The drawdown proceeds were used to repay all other Ocean Rig outstanding debt at the date of the drawdown amounting to $776,000.

10. Long-term Debt- (continued):

c) 1,040,000 Credit Facility-(continued):

The commitment under 1,040,000 Credit Facility a was reduced by $17,500 on December 17, 2008 and will continue to be reduced by $17,500 quarterly thereafter until September 17, 2013, which is 60 months after the date of the agreement. This loan bears interest at LIBOR plus a margin ranging from 1.5% to 1.75% and is repayable in twenty quarterly installments. The term loan will be repaid by

one balloon payment of $400,000 on September 17, 2013. The commitment under revolving credit facility b will be reduced quarterly by 12 unequal quarterly installments with a final maturity date of not later than the earlier of a) the expiry of the time charter of the drilling rig the Eirik Raude, which is scheduled to expire in October 2011 or b) September 17, 2011.

As of December 31, 2008 and 2009, the outstanding balances under the 1,040,000 Credit Facility were $982,500 and $808,550, respectively.

d) 230,000 Credit Facility: In connection with the acquisition of Drillships Holdings on May 15, 2009, the Company assumed two $115,000 loan facilities that were entered into in September 2007, in order to finance the construction of Hulls 1837 and 1838. The 230,000 Credit Facility bear interest at LIBOR plus 1.25%, and are repayable upon the delivery of Hull 1837 in December 2010 and Hull 1838 in March 2011. Borrowings under the 230,000 Credit Facility are subject to certain financial covenants and restrictions on dividend payments, assignment of the relevant shipbuilding contracts, refund guarantees and other related items. In addition to the customary security and guarantees issued to the borrower, the 230,000 Credit Facility was collateralized by certain vessels owned by certain related parties, corporate guarantees of certain related parties and a personal guarantee from George Economou. As of December 31, 2009, the amount outstanding under the 230,000 Credit Facility was $230,000. At December 31, 2009, the Company was in breach of financial covenants which which were subsequently waived. See Note 3 for additional information on the waivers.

In connection with the acquisition of Drillships Holdings on May 15, 2009, the Company also assumed two $15,551 fixed-rate term notes that were entered into in January 2009, in order to finance the construction of Hulls 1837 and 1838. The term notes were fully repaid in July 2009.

The loans above (a-d) are secured by a first priority mortgage over the drillships/drill rigs or assignment of shipbuilding contracts, corporate guarantee, a first assignment of all freights, earnings, insurances and requisition compensation. The loans contain covenants including restrictions, without the bank's prior consent, as to changes in management and ownership of the vessels, additional indebtedness and mortgaging of vessels, change in the general nature of the Company's business, and maintaining an established place of business in the United States or the United Kingdom. The loan described under the 1,040,000 Credit Facility also contains certain financial covenants relating to the Company's financial position, operating performance and liquidity. The loans described under the Two 562,500 Loan Agreements and 230,000 Credit Facility above also contain certain financial covenants relating to the consolidated financial position of DryShips Inc., operating performance and liquidity.

Under the terms of the loan agreements, the Company is required to maintain (i) bank deposits which are used to fund the loan installments coming due (or 'retention accounts'), (ii) bank deposits permanently blocked as cash collateral, and (iii) minimum cash and cash equivalents on the face of its balance sheet at each reporting period end (or 'minimum liquidity'). All these amounts are included in "Restricted cash" in the accompanying consolidated balance sheets, and amounted to $220,690 as of December 31, 2009 and $31,287 as of December 31, 2008.

A default situation in DryShips could have a substantial effect on the Company. Should DryShips fail to pay loan installments as they fall due, this would result in a cross-default on the Company's facilities guaranteed by DryShips. Since as of December 31, 2008 and 2009, Dryships was deemed to be in theoretical default of all its bank facilities, and since Dryship's guarantees four of the Company's loan facilities (see items Two 562,500 Loan Agreements and 230,000 Credit Facility, above). Due to the cross-default situation and breach of certain financial covenants both for the Company and for DryShips, the loan balances under the Company's affected facilities have been fully classified as current. The cross default provisions of the Company's credit facility 1,040,000 Credit Facility is only triggered by the actual default on other indebtedness and is therefore classified as non-current except for repayments due in the next twelve months. In accordance with guidance related to classification of obligation that are callable by the creditor, the Company has classified all of its affected long-term debt in breach due to cross-default clauses of the credit facility agreements amounting to $645,101 and $400,036 as current at December 31, 2008 and 2009, respectively.

(Expressed in thousands of United States Dollars – except for share and per share data, unless otherwise stated)

11. Financial Instruments and Fair Value Measurements:

All derivatives are carried at fair value on the consolidated balance sheets at each period end. Balances as of December 31, 2008 and December 31, 2009 are as follows:

	December 31, 2008			December 31, 2009		
	Interest rate swaps	Foreign currency forward contracts	Total	Interest rate swaps	Foreign currency forward contracts	Total
Current Assets	$ -	-	-	-	434	$ 434
Current Liabilities	-	(1,589)	(1,589)	(5,467)	-	(5,467)
Non-current liabilities	(47,168)	-	(47,168)	(64,219)	-	(64,219)
Total	$ (47,168)	(1,589)	(48,757)	(69,686)	434	$ (69,252)

11.1 Interest rate swaps and cap and floor agreements: As of December 31, 2008 and 2009, the Company had outstanding eleven interest rate swap and cap and floor agreements, with a notional amount of $733,000 and $1,285,000 respectively, maturing from September 2011 through November 2017. These agreements are entered into in order to economically hedge its exposure to interest rate fluctuations with respect to the Company's borrowings. As of December 31, 2008 and 2009, eight of these agreements do not qualify for hedge accounting and, as such, changes in their fair values are included in the accompanying consolidated statement of operations. As of December 31, 2008 and 2009, three agreements qualify for and are designated for hedge accounting and, as such, changes in their fair values are included in other comprehensive loss. The fair value of these agreements equates to the amount that would be paid by the Company if the agreements were cancelled at the reporting date, taking into account current interest rates and creditworthiness of the Company.

As of December 31, 2009, security deposits (margin calls) of $40,700 were paid and were recorded as "Other non-current assets" in the accompanying consolidated balance sheet. These deposits are required by the counterparty due to the market loss in the swap agreements.

11.2 Foreign currency forward contracts: As of December 31, 2008 and 2009, the Company had outstanding eleven forward contracts, to sell $16,500 for NOK 104 million and ten forward contracts to sell $20,000 for NOK 119 million. These agreements are entered into in order to hedge its exposure to foreign currency fluctuations. The fair value of these contracts at December 31, 2008 and December 31, 2009 was a liability of $1,589 and an asset of $434, respectively.

The change in the fair value of such agreements for the years ended December 31, 2008 and 2009 amounted to a loss of $2,512 and a gain of $2,023, respectively and is reflected under "Other, net" in the accompanying consolidated statement of operations.

(Expressed in thousands of United States Dollars – except for share and per share data, unless otherwise stated)

11.2 Foreign currency forward contracts-(continued):

		Asset Derivatives			Liability Derivatives	
Derivatives designated as hedging instruments	**Balance Sheet Location**	**December 31, 2008 Fair value**	**December 31, 2009 Fair value**	**Balance Sheet Location**	**December 31, 2008 Fair value**	**December 31, 2009 Fair value**
Interest rate swaps...........	Financial instruments	$ -	-	Financial instruments non-current liabilities	(47,168)	$ (31,028)
				Financial instruments current liabilities	-	
Total derivatives designated as hedging instruments..................		-	-		(47,168)	(31,028)
Derivatives not designated as hedging instruments						
Interest rate swaps	Financial Instruments current assets	-	-	Financial Instruments current liabilities		(5,467)
Interest rate swaps	Financial Instruments non-current assets	-	-	Financial instruments-non current liabilities		(33,191)
Foreign currency forward contracts........	Financial instruments current assets	-	434	Financial instruments current liabilities	(1,589)	
Total derivatives not designated as hedging instruments..................		-	434		(1,589)	(38,658)
Total derivatives..............		$ -	434	Total derivatives	(48,757)	$ (69,686)

The effect of Derivative Instruments on the Consolidated Statement of Operations:

	Amount of Gain/(Loss) Recognized in OCI on Derivative (Effective Portion)	
Derivatives designated for cash flow hedging relationships	**Year ended December 31, 2008**	**Year ended December 31, 2009**
Interest rate swaps...	$ (46,637)	$ 16,140
Total	$ (46,637)	$ 16,140

(Expressed in thousands of United States Dollars – except for share and per share data, unless otherwise stated)

11. Financial Instruments and Fair Value Measurements-(continued):

11.2 Foreign currency forward contracts-(continued):

No portion of the cash flow hedges shown above was ineffective during the year. In addition, the Company did not transfer any gains/losses on the hedges from accumulated OCI into the consolidated statement of operations.

Derivatives not designated as hedging instruments	Location of Gain or (Loss) Recognized	Amount of Gain/(Loss) Year ended December 31, 2008	Amount of Gain/(Loss) Year ended December 31, 2009
Foreign currency forward contracts	Other, net	$ (2,300)	$ 2,023
Interest rate swaps	Gain/(loss) interest rate swaps	-	4,826
Total		$ (2,300)	$ 6,849

The Company recognizes all derivative instruments as either assets or liabilities at fair value on its consolidated balance sheet. The Company has designated all qualifying interest rate swap contracts as cash flow hedges, with the last qualifying contract expiring in September 2013.

For derivative instruments that are designated and qualify as a cash flow hedge, the effective portion of the gain or loss on the derivative is reported as a component of other comprehensive income and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. Gains and losses on the derivative representing either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness are recognized in the accompanying consolidated statement of operations. Changes in the fair value of derivative instruments that have not been designated as hedging instruments are reported in the accompanying consolidated statement of operations.

The Company enters into interest rate swap transactions to manage interest costs and risk associated with changing interest rates with respect to its variable interest rate loans and credit facilities. The Company enters into foreign currency forward contracts in order to manage risks associated with future hire rates and fluctuations in foreign currencies, respectively. All of the Company's derivative transactions are entered into for risk management purposes.

The carrying amounts of cash and cash equivalents, restricted cash and trade accounts receivable reported in the consolidated balance sheets approximate their respective fair values because of the short term nature of these accounts. The fair value of the interest rate swaps was determined using a discounted cash flow method based on market-based LIBOR swap yield curves, taking into account current interest rates and the creditworthiness of both the financial instrument counterparty and the Company. The fair value of foreign currency forward contracts was based on the forward exchange rates.

Fair value measurements are classified based upon inputs used to develop the measurement under the following hierarchy:
Level 1--Quoted market prices in active markets for identical assets or liabilities.
Level 2--Observable market-based inputs or unobservable inputs that are corroborated by market data.
Level 3--Unobservable inputs that are not corroborated by market data.

(Expressed in thousands of United States Dollars – except for share and per share data, unless otherwise stated)

11. Financial Instruments and Fair Value Measurements-(continued):

11.2 Foreign currency forward contracts-(continued):

The following table summarizes the valuation of assets and liabilities measured at fair value on a recurring basis as of the valuation date.

	December 31, 2009	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
Recurring measurements:				
Interest rate swaps-liability position	$ (69,686)	-	(69,686)	$ -
Foreign currency forward contracts – asset position	434	-	434	-
Total	$ (69,252)	-	(69,252)	$ -

12. Pensions:

Pensions in the accompanying consolidated balance sheets are analyzed as follows:

	December 31, 2008	December 31, 2009
Pension benefit obligation/ (asset)	$ 712	$ (388)

The Company has three pension benefit plans for employees managed and funded through Norwegian life insurance companies. As of December 31, 2009 the pension plans cover 264 employees. The pension scheme is in compliance with the Norwegian law on required occupational pension. At year end 2007, there were no pension plans in the Company.

The Company uses a January 1 measurement date for net periodic pension cost and a December 31 measurement date for benefit obligations and plan assets.

For defined benefit pension plans, the benefit obligation is the projected benefit obligation, the actuarial present value, as of our December 31 measurement data, of all benefits attributed by the pension benefit formula to employee service rendered to that date. The amount for benefit to be paid depends on a number of future events incorporated into the pension benefit formula, including estimates of the average life of employees/survivors and average years of service rendered. It is measured based on assumptions concerning future interest rates and future employee compensation levels.

(Expressed in thousands of United States Dollars – except for share and per share data, unless otherwise stated)

12. Pensions- (continued):

The following table presents this reconsolidation and shows the change in the projected benefit obligation for the years ended December 31:

	2008	2009
Benefit obligation at January 1	$ -	$ 7,033
Benefit obligation at acquisition May 14, 2008	9,374	-
Service cost for benefits earned	1,988	4,121
Interest cost	155	280
Settlement	(298)	(1,983)
Actuarial losses	(1,210)	(1,587)
Benefits paid	-	(442)
Payroll tax of employer contribution	(367)	(42)
Foreign currency exchange rate changes	(2,609)	1,518
Benefit obligation at end of year	$ 7,033	$ 8,897

The following table presents the change in the value of plan assets for the years ended December 31, 2008 and 2009 and the plans' funded status at December 31:

	2008	2009
Fair value of plan assets at January 01, 2009	$ -	$ 6,320
Fair value of plan assets at acquisition May 14, 2008,	6,904	-
Expected return on plan assets	270	378
Actual return on plan assets	(1,222)	(1,395)
Employer contributions	2,600	3,138
Settlement	(105)	(624)
Foreign currency exchange rate changes	(2,127)	1,467
Fair value of plan assets at end of year	$ 6,320	$ 9,284
Funded/ (unfunded) status at end of year	$ (712)	$ 388

Amounts included in accumulated other comprehensive income that have not yet been recognized in net periodic benefit cost at December 31 are listed below:

	2008	2009
Net actuarial loss	$ 3,337	$ 2,766
Prior service cost	187	964
Defined benefit plan adjustment, before tax effect	$ 3,524	$ 3,042

(Expressed in thousands of United States Dollars – except for share and per share data, unless otherwise stated)

12. Pensions- (continued):

The accumulated benefit obligation for the pension plans represents the actuarial present value of benefit based on employee service and compensation as of a certain date and does not include an assumption about future compensation levels. The accumulated benefit obligation for the pension plans was $6,265 at December 31, 2009 and $4,276 at December 31, 2008.

The net periodic pension cost recognized in consolidated statements of income was $3,652 and 2,981 for the years ended December 31, 2009 and 2008.

The following table presents the components of net periodic pension cost:

	2008	2009
Expected return on plan assets	$ (410)	$ (378)
Service cost	2,870	4,121
Interest cost	275	280
Amortization of prior service cost	190	-
Amortization of actuarial loss	146	168
Settlement	(91)	(539)
Net periodic pension cost	$ 2,981	$ 3,652

The table below presents the components of changes in Plan Assets and Benefit Obligations recognized in Other Comprehensive Income:

	2008	2009
Net actuarial loss (gain)	$ 225	$ (1,091)
Prior service cost (credit)	(1,511)	777
Amortization of actuarial loss	236	(256)
Amortization of prior service cost	(190)	-
Total recognized in net pension cost and other comprehensive income, before tax effects	$ (1,240)	$ (570)

The estimated net loss for pension benefits that will be amortized from accumulated other comprehensive income into the periodic benefit cost for the next fiscal year is $89.

Pension obligations are actuarially determined and are affected by assumptions including expected return on plan assets. As of December 31, 2009 contributions amounting to $1 500 in totals, have been made to the pension plan.

The Company evaluates assumptions regarding the estimated long-term rate of return on plan assets based on historical experience and future expectations on investment returns, which are calculated by an unaffiliated investment advisor utilizing the asset allocation classes held by the plan's portfolios. Changes in these and other assumptions used in the actuarial computations could impact the Company's projected benefit obligations, pension liabilities, pension cost and other comprehensive income.

The Company bases its determination of pension cost on a market-related valuation of assets that reduces year-to-year volatility. This market-related valuation recognizes investment gains or losses over a five-year period from the year in which they occur. Investment gains or losses for this purpose are the difference between the expected return calculated using the market-related value of assets and the actual return based on the market-related value of assets.

(Expressed in thousands of United States Dollars – except for share and per share data, unless otherwise stated)

12. Pensions- (continued):

The following are the weighted–average assumptions used to determine net periodic pension cost:

	December 31, 2008	December 31, 2009
Weighted average assumptions		
Expected return on plan assets	5.80%	5.70%
Discount rate	3.80%	4.50%
Compensation increases	4.25%	4.50%

The Company's investments are managed by the insurance company Storebrand by using models presenting many different asset allocation scenarios to assess the most appropriate target allocation to produce long-term gains without taking on undue risk. GAAP standards require disclosures for financial assets and liabilities that are re-measured at fair value at least annually. The following table set forth the pension assets at fair value as of December 31, 2009:

	2009
Share and other equity investments	$ 1,086
Bonds and other security – fixed yield	2,618
Bonds held to maturity	2,497
Properties and real estate	1,504
Certificates	947
Other	631
Total plan net assets at fair value	$ 9,284

The law requires a low risk profile; hence the majority of the funds are invested in government bonds and high-rated corporate bonds. The major categories of plan assets as a percentage of the fair value of plan assets are as follows:

Investments are stated at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Investments in securities traded on a national securities exchange are valued at the last reported sales price on the last business day of the year. If no sale was reported on that date, they are valued at the last reported bid price. Investments in securities not traded on a national securities exchange are valued using pricing models, quoted prices of securities with similar characteristics or discounted cash flows.

Alternative investments, binding investment in private equity, private bonds, hedge funds, real assets and natural resources, do not have readily available marked values. These estimated fair values may differ significantly from the values that would have been used had a ready market for these investments existed, and such differences could be matter. Private equity, private bonds, hedge funds and other investments not having an established market are valued at net assets values as determined by the investment managers, which management had determined approximates fair value. Investments in real assets funds are stated at the aggregate net asset value of the units of these funds, which management has determined approximate fair value. Real assets and natural resource investment are valued either at amounts based upon appraisal reports prepared by appraisal performed by the investment manager, which management has determined approximates.

Purchases and sales of securities are recorded as of the trade date. Realized gains and losses on sales of securities are determined on the basis of average cost. Interest income is recognized on the accrual basis. Dividend income is recognized on the ex-dividend date.

(Expressed in thousands of United States Dollars – except for share and per share data, unless otherwise stated)

12. Pensions- (continued):

The major categories of plan assets as a percentage of the fair value of plan assets are as follows:

	As of December 31,	
	2009	2008
Shares and other equity instruments	12%	17%
Bonds	55%	64%
Properties and real estate	16%	12%
Other	17%	7%
Total	100%	100%

The US GAAP standards require disclosures for financial assets and liabilities that are re-measured at fair value at least annually. The US GAAP standards establish a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. Tiers include three levels which is explained below:

Level 1:
Financial instruments valued on the basis of quoted priced for identical assets in active markets. This category encompasses listed equities that over the previous six months have experienced a daily average turnover equivalent to approximately $ 3,462 or more. Based on this, the equities are regarded as sufficiently liquid to be encompassed by this level. Bonds, certificates or equivalent instruments issued by national governments are generally classified as level 1. In the case of derivatives, standardized equity-linked and interest rate futures will be encompassed by this level.

Level 2:
Financial instruments valued on the basis of observable market information not covered by level 1. This category encompasses financial instruments that are valued on the basis of market information that can be directly observable or indirectly observable. Market information that is indirectly observable means that prices can be derived from observable, related markets. Level 2 encompasses equities or equivalent equity instruments for which market prices are available, but where the turnover volume is too limited to meet the criteria in level 1. Equities on this level will normally have been traded during the last month. Bonds and equivalent instruments are generally classified as level 2. Interest rate and currency swaps, non-standardized interest rate and currency derivatives, and credit default swaps are also classified as level 2. Funds are generally classified as level 2, and encompass equity, interest rate, and hedge funds.

(Expressed in thousands of United States Dollars – except for share and per share data, unless otherwise stated)

12. Pensions- (continued):

Level 3:
Financial instruments valued on the basis of information that is not observable pursuant to by level 2. Equities classified as level 3 encompass investments in primarily unlisted/private companies. These include investments in forestry, real estate and infrastructure. Private equity is generally classified as level 3 through direct investments or investments in funds. Asset backed securities (ABS), residential mortgage backed securities (RMBS) and commercial mortgage backed securities (CMBS) are classified as level 3 due to their generally limited liquidity and transparency in the market. Storebrand is of the opinion that the valuation method used represents a best estimate of the mutual fund's market value.

The following table sets forth by level, within the fair value hierarchy, the pension asset at fair value as of December 31, 2009:

	Level 1	Level 2	Level 3	Total
Equity securities:				
US Equities	$ 516	-	57	$ 573
Non-US Equities	512	-	-	512
Fixed Income:				
Government Bonds	3,344	1,206	-	4,550
Corporate Bonds	789	-	-	789
Alternative Investments:				
Hedge funds and limited partnerships	-	214	-	214
Other	167	-	-	167
Cash and cash equivalents	975	-	-	975
Real Estate	-	-	1,504	1,504
Net Plan Net Assets	$ 6,304	$ 1,419	$ 1,561	$ 9,284

The tables below set forth a summary of changes in the fair value of the pension assets level 3 investment assets for the year ended December 31, 2009:

	Level 3	Total
Balance, beginning of year	$ 1,161	$ 1,161
Actual return on plan assets:		
Assets sold during the period	-	-
Assets still held at reporting date	310	310
Purchases, sales, issuances and settlements (net)	91	91
Net Plan Net Assets	$ 1,561	$ 1,561

The following pension benefits contributions are expected to be paid by the Company during the years ending:

December 31, 2010	$ 82
December 31, 2011	76
December 31, 2012	77
December 31, 2013	58
Thereafter	1,065
Total pension payments	$ 1,358

The Company's estimated contribution to the pension plan for the fiscal year 2010 is $2,500.

(Expressed in thousands of United States Dollars – except for share and per share data, unless otherwise stated)

13. Shareholders' equity

There is one class of common shares, and each common share is entitled to one vote at the General Meeting.

The Company had one shareholder with 500 shares at December 31, 2009 and 2008 which is Dryships Inc.

14. Earnings / (loss) per share

Basic earnings per share is calculated by dividing net profit/ (loss) for the year by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share is calculated by dividing the net profit/(loss) by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would have been issued on the conversion of options into ordinary shares.

The following reflects the income and the share data used in the basic and diluted earnings per share computations:

	Earnings/ (loss) applicable to common shares (numerator)	Weighted average shares outstanding (denominator)	Basic earnings / (loss) per share amount	Earnings/ (loss) applicable to diluted shares (numerator)	Weighted average shares outstanding diluted (denominator)	Diluted earnings / (loss) per share amount
For the year ended December 31, 2009:	104,565	500	209.13	104,565	500	209.13
For the year ended December 31, 2008:	(765,847)	500	(1,531.69)	(765,847)	500	(1,531.69)
For the year ended December 31, 2007:	(3,425)	500	(6.85)	(3,425)	500	(6.85)

(Expressed in thousands of United States Dollars – except for share and per share data, unless otherwise stated)

15. Drilling rig operating expenses:

The amounts of drilling rig operating expenses in the accompanying consolidated statements of operations are analyzed as follows:

	Year ended December 31, 2007	Year ended December 31, 2008	Year ended December 31, 2009
Crew wages and related costs	$ -	48,660	$ 76,628
Insurance	-	12,686	7,869
Deferred rig operating cost	-	(1,709)	4,361
Repairs and maintenance	-	26,592	44,398
Total	$ -	86,229	$ 133,256

16. Impairment Charge

From the date the Company acquired Ocean Rig ASA in May 2008 through the annual goodwill impairment test performed on December 31, 2008, the market declined significantly and various factors negatively affected industry trends and conditions, which resulted in the revision of certain key assumptions used in determining the fair value of the Company's single reporting unit (see Note 20) and therefore the implied fair value of goodwill. During the second half of 2008, the credit markets tightened, driving up the cost of capital and therefore the Company increased the rate of a long-term weighted average cost of capital. In addition, the economic downturn and volatile oil prices resulted in a downward revision of projected cash flows from the Company's reporting unit in the Company's forecasted discounted cash flows analysis for its 2008 impairment testing. Furthermore, the decline in the global economy negatively impacted publicly traded company multiples used when estimating fair value under the market approach. Based on results of the Company's annual goodwill impairment analysis, the Company determined that the carrying value of the Company's goodwill was impaired.

The Company recognized an impairment charge in the amount of $761,729 for the full carrying amount of Goodwill which had no tax effect.

The Goodwill balance and changes in the Goodwill is as follows:

Balance at January 1, 2008	$ -
Goodwill from acquisition of Ocean Rig ASA	761,729
Goodwill impairment charge	(761,729)
Balance December 31, 2008	$ -

(Expressed in thousands of United States Dollars – except for share and per share data, unless otherwise stated)

17. Interest and Finance Cost:

The amounts in the accompanying consolidated statements of operations are analyzed as follows:

	Year ended December 31,		
	2007	2008	2009
Interest on long-term debt	$ 567	51,946	$ 58,703
Capitalized interest on long term debt	-	-	(19,521)
Bank charges	54	6,024	6,269
Amortization and write-off of financing fees	50	3,219	4,704
Commissions and commitment fees	3,946	10,503	7,154
Total	$ 4,617	71,692	$ 57,309

18. Interest Income:

The amounts in the accompanying consolidated statements of operations are analyzed as follows:

	Year ended December 31,		
	2007	2008	2009
Bank Interest Income	$ -	3,033	$ 6,254
Other Financial Income	-	-	5
Total	$ -	3,033	$ 6,259

19. Income Taxes

Ocean Rig UDW, is incorporated in the Marshall Islands. Some of its subsidiaries are incorporated and domiciled in Norway, and as such, are in general subject to Norwegian income tax of 28%. Participation exemption normally applies to equity investments in the EEA (European Economic Area) except investments in low-tax countries. The model may also apply to investments outside of the EEA (except low-tax countries) to the extent the investment for the last two years have constituted at least 10% of the capital and votes in the entity in question. The Norwegian entities are subject to the Norwegian participation exemption model which provides that only 3% of dividend income and capital gains that are received by Norwegian companies are subject to tax. In effect this gives an effective tax of total income under the participation exemption for Norwegian companies of 0.84% (3% x 28%).

Ocean Rig UDW operates through its various subsidiaries in a number of countries throughout the world. Income taxes have been provided based upon the tax laws and rates in the countries in which operations are conducted and income is earned. The countries in which Ocean Rig UDW operates have taxation regimes with varying nominal rates, deductions, credits and other tax attributes. Consequently, there is not an expected relationship between the provision for/or benefit from income taxes and income or loss before income taxes.

(Expressed in thousands of United States Dollars – except for share and per share data, unless otherwise stated)

19. Income Taxes – (continued):

The components of Ocean Rig's income/(losses) before taxes by country are as follows:

	Year Ended		
	December 31, 2007	December 31, 2008	December 31, 2009
Cyprus	$ (4,619)	$ (40,599)	$ (24,617)
Norway	-	(747,018)	499,879
Marshall Islands	-	12,883	(381,196)
Korea	-	-	499
UK	-	62	1,915
Canada	-	-	(485)
USA	-	13,820	(262)
Ghana	-	704	21,628
Total income/(loss) before taxes and equity in loss of investee	$ (4,619)	$ (760,148)	$ 117,362

The table below shows for each entity's total income tax expense for the period and statutory tax rate:

	Year Ended		
	December 31, 2007	December 31, 2008	December 31, 2009
Cyprus (10.0%)	$ -	$ -	$ -
Norway (28.0%)	-	-	-
Marshall Islands (0.0%)	-	-	-
Korea (24.2%)	-	-	110
UK (28.0%)	-	366	727
Ireland (25.0%)	-	423	-
Canada (10% - 19%)	-	-	45
USA (15.0%-35.0%)	-	1,399	470
Ghana *	-	656	11,445
Current Tax expense	$ -	$ 2,844	$ 12,797
Deferred Tax expense / (benefit)	-	-	-
Income taxes	$ -	2,844	$ 12,797
Effective tax rate	0%	0%	11%

(*) Tax in Ghana is a withholding tax, based upon 5% of total contract revenues.

Taxes have not been reflected in Other Comprehensive income since the valuation allowances would result in no recognition of deferred tax.

Up to December 15, 2009, when a corporate reorganization occurred, Ocean Rig's drilling operations were consolidated in Ocean Rig ASA, a company incorporated and domiciled in Norway. Subsequently, many of the activities and assets have moved to jurisdictions that do not have corporate taxation. As a result, net deferred tax assets were reversed in 2009. The net deferred tax assets of USD 91.6 million consisted of gross deferred tax assets of USD 105.1 million net of gross deferred tax liabilities of USD 13.5 million. However, a corresponding amount (USD 91.6 million) of valuation allowance was also reversed. As a result, there was no impact on deferred tax expense for the change of tax status of these entities.

(Expressed in thousands of United States Dollars – except for share and per share data, unless otherwise stated)

19. Income Taxes- (continued):

Reconciliation of total tax expense:

	Year Ended		
	December 31, 2007	December 31, 2008	December 31, 2009
Statutory tax rate multiplied by profit/(loss) before tax*	$ (462)	$ (212,816)	$ -
Change in valuation allowance	462	115 407	(93,358)
Differences in tax rates	-	135,908	138,865
Effect of permanent differences	-	(74,929)	21,317
Effect of exchange rate differences	-	39,274	(65,472)
Withholding tax	-	-	11,445
Total	$ -	$ 2,844	$ 12,797

* The statutory tax rate used for 2007 is 10% (Cyprus), 28% (Norway) for 2008 and 0% (Marshall Island) for 2009. Ocean Rig has elected to use the statutory tax rate for each year based upon the location where the largest part of its operations were domiciled. During 2009, most of its activities were redomiciled to Marshall Islands with zero tax rate.

Ocean Rig is subject to changes in tax laws, treaties, regulations and interpretations in and between the countries in which its subsidiaries operate. A material change in these tax laws, treaties, regulations and interpretations could result in a higher or lower effective tax rate on worldwide earnings.

(Expressed in thousands of United States Dollars – except for share and per share data, unless otherwise stated)

19. Income Taxes- (continued):

Deferred tax assets and liabilities are recognized for the anticipated future tax effects of temporary differences between the financial statement basis and the tax basis of the Company's assets and liabilities at the applicable tax rates in effect. The significant components of deferred tax assets and liabilities are as follow:

	Year Ended			
	December 31, 2008		December 31, 2009	
Deferred tax assets				
Net operations loss carry forward	$	67,109	$	64,045
Outside basis in subsidiaries		91,447		-
Accrued expenses		13,656		728
Accelerated depreciation of assets		-		9
Pension		199		-
Total deferred tax assets	$	172,411	$	64,782
Deferred tax liabilities				
Depreciation and amortization	$	(3,712)	$	(122)
Rig contracts		(9,789)		-
Pension		-		(108)
Total deferred tax liabilities	$	(13,501)	$	(230)
Net deferred tax assets	$	158,910	$	65,552
Valuation allowance	$	(158,910)	$	(65,552)
Net deferred tax assets	$	-	$	-
Short-term net deferred tax assets		13,656		728
Short-term portion of valuation allowance		(13,656)		(728)
Long-term net deferred tax assets	$	145,254	$	64,824
Long-term portion of valuation allowance	$	(145,254)	$	(64,824)

Ocean Rig ASA filed for liquidation in 2008 and on December 15, 2009 it distributed all significant assets to Primelead Ltd., a subsidiary of Dryships, as a liquidation dividend, including the shares in all its subsidiaries. The statute of limitation under Norwegian tax law is two years after the fiscal year, if correct and complete information is disclosed in the tax return. The tax treatment of the liquidation is therefore subject to audit by the tax authorities until the end of 2011. The company does not expect any adverse tax effects from this transaction.

A valuation allowance for deferred tax assets is recorded when it is more likely than not that some or all of the benefit from the deferred tax asset will not be realized. The Company provides a valuation allowance to offset deferred tax assets for net operating losses ("NOL") incurred during the year in certain jurisdictions and for other deferred tax assets where, in the Company's opinion, it is more likely than not that the financial statement benefit of these losses will not be realized. The Company provides a valuation allowance for foreign tax loss carry forward to reflect the possible expiration of these benefits prior to their utilization. As of December 31, 2009, the valuation allowance for non-current deferred tax assets is reduced from $158,910 in 2008 to $64,551 in 2009

19. Income Taxes- (continued):

reflecting a reduction in net deferred tax assets during the period. As of December 31, 2009 and 2008, all net deferred tax assets were fully reserved with a valuation allowance.

The Company has tax losses, which arose in Norway of $183,998 and $192,700 at December 31, 2009 and 2008, respectively, that are available indefinitely for offset against future taxable profits of the companies in which the losses arose. However, all of these amounts are related to Ocean Rig ASA, Ocean Rig Norway AS, Ocean Rig 1 AS and Ocean Rig 2 AS that are under liquidation. Upon liquidation the tax losses will not be available.

The Company had tax losses, which arose in Canada of $23,935 and $24,419 at December 31, 2008 and 2009, respectively, that are available indefinitely for offset against future taxable profits of the company in which the losses arose. The tax loss in Canada may be deducted in the future only against income and proceeds of disposition derived from resource properties owned at the time of the acquisition of control, or the Weymouth well. Thus the possibility for utilization of this tax position is in practice expired for the period after the change of control in Ocean Rig on May 14, 2008.

The Company had tax losses, which arose in Cyprus of $45,150 and $57,112 at December 31, 2008 and 2009, respectively that are available indefinitely for offset against future taxable profits of the company in which the losses arose. A 100% valuation allowance in the assets resulting from the loss carry forward has been provided for as the Company is not profitable.

The Company's income tax returns are subject to review and examination in the various jurisdictions in which the Company operates. Currently one tax audit is open. The Company may contest any tax assessment that deviates from its tax filing. However, this review is not expected to incur any tax payables.

The Company accrues for income tax contingencies that it believes are more likely than not exposures in accordance with the provisions of guidance related to accounting for uncertainty in income taxes.

The Company accrues interest and penalties related to its liabilities for unrecognized tax benefits as a component of income tax expense. During the year ended December 31, 2009, 2008 and 2007, the Company did not incur any interest or penalties.

Ocean Rig UDW, and/or one of its subsidiaries, filed federal and local tax returns in several jurisdictions throughout the world. The amount of current tax benefit recognized during the years ended December 31, 2009, 2008 and 2007 from the settlement of disputes with tax authorities and the expiration of statute of limitations was insignificant.

20. Segment information:

The Company has one operating segment which is offshore drilling operations and this is consistent with management reporting and decision making. The operating segment is the Company's primary segment as the Group has only one segment. Therefore, the company only reports the entity wide information on products and services, geographical information and major customers.

For the years ended December 31, 2009 and 2008, all of the consolidated revenues related to the operations of the Company's two drilling rigs.

20.1 Products and services

In October 2009, Leiv Eiriksson commenced the three year Petrobras contract to drill in the Black Sea. The Petrobras contract is accounted for as a Well Contract based on the terms of the contract as described in Note 2 (v). Revenues are recognized as the wells are drilled and recorded as Service revenues in the consolidated statement of operations. *Leiv Eiriksson* has operated under drilling

(Expressed in thousands of United States Dollars – except for share and per share data, unless otherwise stated)

20. Segment information-(continued):

20.1 Products and services-(continued):

contracts with Shell in the North Sea commencing on January 8, 2008 until October 2009. The Shell contract was accounted for as Term Contract as described in Note 2 (v). Revenues derived from the contract are partly accounted for as a lease, where the lease of

the rig is recognized to the statement of operation as Leasing revenue on a straight line basis over the lease period, while the drilling services element is recognized in the period when drilling services are rendered as Service revenue. During 2007, the rig completed the Total contract on September 11, 2007 and underwent its five year class work prior to beginning the Shell contract. The Total contract was accounted for as a Term Contract as described for the Shell contract above.

During 2009, *Eirik Raude* worked under the three-year Tullow Oil contract which commenced in October 2008. *Eirik Raude* operated in the US Gulf of Mexico under a contract with Exxon Mobil from 2007 until October 9, 2008. Both, the ExxonMobil and the Tullow contracts qualify as Term Contracts, as described in Note 2 (v). Accounting for the contract follows the same principles as described for the Shell contract as outlined above.

As of December 31, 2009, the estimated future minimum lease payment is $274,015 based on estimated 99% earnings efficiency, 65% lease share and the contract expires in 2011. The estimated minimum lease payment is distributed over 2010 and 2011 with $153,002 and $121,013, respectively. As at December 31, 2009, a total of $38,400 of revenue are deferred and will be recognized as revenue over the remaining contract term.

See Note 2 (v) for a discussion of Other revenues.

20.2 Geographic segment information for offshore drilling operations

The revenue shown in the table below is revenue per country based upon the location that the drilling takes place related to the Offshore Drilling Operation segment:

		2009		2008
USA	$	-	$	53,394
Norway		123,306		74,725
UK		19,404		-
Ireland		-		33,749
Ghana		230,815		40,120
Other		-		122
Total revenues	$	373,525	$	202,110

The drilling rigs *Leiv Eiriksson* and *Eirik Raude* constitute the Company's long lived assets. Until December 22, 2008, the rigs were owned by Norwegian entities when ownership was transferred to Marshall Island entities.

(Expressed in thousands of United States Dollars – except for share and per share data, unless otherwise stated)

20. Segment information-(continued):

20.3 Information about Major customers

Our customers are oil and gas exploration and production companies, including major integrated oil companies, independent oil and gas producers and government-owned oil and gas companies. In the year ended December 31, 2008 and 2009 our customers have been:

	2008	2009
Customer A	20%	62%
Customer B	54%	38%
Customer C	26%	-

The loss of any of these significant customers could have a material adverse effect on our results of operations if they were not replaced by other customers.

21. Commitments and Contingencies

21.1 Legal proceedings

Various claims, suits, and complaints, including those involving government regulations and product liability, arise in the ordinary course of the shipping business.

The Company has obtained insurance for the assessed market value of the rigs. However, such insurance coverage may not provide sufficient funds to protect the Company from all liabilities that could result from its operations in all situations. Risks against which the Company may not be fully insured or insurable for include environmental liabilities, which may result from a blow-out or similar accident, or liabilities resulting from reservoir damage alleged to have been caused by the negligence of the Company.

The Company's loss of hire insurance coverage does not protect against loss of income from day one, but will be effective after 45 days' off-hire. The occurrence of casualty or loss, against which the Company is not fully insured, could have a material adverse effect on the Company's results of operations and financial condition. The insurance covers approximately one year with loss of hire.

As part of our normal course of operations, our customer may disagree on amounts due to us under the provision of the contracts which are normally settled though negotiations with the customer. Disputed amounts are normally reflected in revenues at such time as we reach agreement with the customer on the amounts due. Except for the matters discussed below, the Company is not a party to any material litigation where claims or counterclaims have been filed against the Company other than routine legal proceedings incidental to our business.

(Expressed in thousands of United States Dollars – except for share and per share data, unless otherwise stated)

21. Commitments and Contingencies-(continued):

21.2 Purchase obligations:

The following table sets forth the Company's contractual obligations and their maturity dates as of December 31, 2009.

	Total	2010	2011
Drillships shipbuilding contracts and owner furnished equipment	$ 1,949,370	1,047,890	$ 901,480
Cardiff management fees and commissions (1% on gross shipyard payments)	9,811	6,858	2,953
Total obligations	$ 1,959,181	$ 1,054,748	$ 904,433

21.3 Rental payments

Ocean Rig entered into a five year office lease agreement with Vestre Svanholmen 6 AS which commenced on July 1, 2007. This lease includes an option for an additional five years term which must be exercised at least six months prior to the end of the term of the contract which expires in June 2012. As of December 31, 2009, the future obligations amount to $1,500 for 2010, $1,100 for 2011 and $400 for 2012.

21.4 Potential Angolan Import-/Export duties

Ocean Rig's Leiv Eiriksson operated in Angola in the period 2002 to 2007. Ocean Rig understands that the Angolan government has retroactively levied import/export duties for two importation events in the period 2002 to 2007. As Ocean Rig has formally disputed all claims in relation to the potential duties, no provision has been made. The maximum amount is estimated to be between USD 5-10 million.

22. Subsequent Events:

We have evaluated all subsequent events through December 3, 2010, the date the financial statements were available to be issued.

22.1 On March 31, 2010, the Company was in breach of financial covenants in its $230,000 Credit Facility, which breaches on April 16, 2010, were waived through June 15, 2010. On June 16, 2010, the Company obtained an extension of the waiver of those breaches through July 15, 2010. On September 3, 2010 the Company obtained an extension of the waiver of those breaches effective through December 1, 2010. On November 25th, 2010 the Company obtained an extension of the waiver of those breaches effective through December 31, 2010.

22.2 On May 25, 2010, the Company entered into two amendment agreements regarding the shipbuilding contracts with Samsung for Hulls 1865 and 1866. Under these amendments the Company paid Samsung $12,800 respectively in regards of hull 1865 and 1866. As part of the amendment the fourth installment for hull 1865 of $104,000, scheduled for August 2010, is postponed for three months. The fourth installment for hull 1866 of $ 104,000, scheduled for October 2010, is postponed for six months. 50% of the fourth installment for hull 1865 of $ 104,000, i.e $52,000, scheduled for November 2010, is postponed for five months. The remaining $52,000 was paid according to schedule.

22. Subsequent Events-(continued):

22.3 On June 22, 2010, the Company paid the keel-laying installment for Hull 1838 in the amount of $105,300 which was funded with cash on hand.

22.4 On July 7, 2010 DryShips Inc. announced the appointment of Mr. George Economou, Chairman of the Board and Chief Executive Officer, as interim Chief Executive Officer for the Company's fully-owned subsidiary Ocean Rig UDW. This follows the resignation of Mr. David Mullen, Chief Executive Officer of the Ocean Rig Group of companies, who left the Company to pursue other interests, effective August 7, 2010.

22.5 On October 11, 2010 the company entered into a contract with subsidiaries of Vanco Overseas Energy Limited ("Vanco") for projects in which Vanco is operator and LUKOIL Overseas is majority co-venturer, for a five well contract for exploration drilling offshore Ghana and Cote d'Ivoire for a period of about one year with one drillship, commencing in the second quarter of 2011. The value of the contracts is approximately $160 million. The Company has the option to use either of the Ocean Rig Corcovado (Hull 1837) or the Ocean Rig Olympia (Hull 1838). The contract may be extended for an additional year or an additional well, prior to the completion of operations on the second well in the program

22.6 On November 5, 2010, the Company entered into an agreement with Petrobras for a "Rig Swap" agreement from the Leiv Eiriksson to the Ocean Rig Poseidon. The agreement is subject to board approval by both parties. The agreement includes that the Leiv Eiriksson will be released by May 1, 2011 from the existing contract and replaced by the Ocean Rig Poseidon delivered from yard. The operating dayrate shall be maximum $540,000 plus a bonus of maximum 8% for 540 days. A separate day rate of $409,825 has been agreed for up to 60 days during moving periods between countries. Mobilization day rate to be $317,000 plus fuel coverage.

22.7 On November 18, 2010, the Company received a Letter of Intent from a listed oil company for a term based contract period for drilling operations in the North Atlantic basin at an operating day rate of $550,000 and in addition a mobilization fee of $7 million plus fuel coverage. The mobilization period will start in direct continuation from the agreed release date from Petrobras, estimated to May 1, 2011, and the term contract period will expire October 31, 2011. The Letter of Intent is valid until close of business December 7, 2010. The Letter of Intent is subject to completion of definitive documentation.

22.8 On November 18, 2010, the Company received a Letter of Intent for Ocean Rig Corcovado (Hull 1837) from a listed oil company for a 6 months firm contract period from June 1, 2011 for drilling operations in the North Atlantic basin at an operating day rate of $560,000 and in addition a mobilization fee of $17 million, fuel coverage, and winterization upgrading costs of $12 million plus coverage of four weeks extra yard stay costs at $200,000 per day. The Letter of Intent is valid until close of business December 7, 2010. The Letter of Intent is subject to completion of definitive documentation

22.9 On November 26, 2010 the Company entered into a contract with Borders & Southern Petroleum plc for a two-well contract for the Eirik Raude for drilling operations offshore the Falkland Islands at a maximum operating dayrate of $540,000. In addition, Borders will pay a mobilization/demobilization fee of $28 million including fuel. The contract also includes the possibility for Borders to extend the contract period up to five wells based upon certain notification periods, with an overall day rate adjustment to $515,000. The contract will commence in direct continuation from the Tullow contract, and the estimated duration for a two well program including mobilization/demobilization periods is 170 days. The contract was entered into pursuant to a Letter of Intent dated November 11, 2010.

22.10 On 1 December 2010 Dry Ships Inc. accepted a conditional offer for a USD 325,000,000 bridge term loan facility, with Drillships Hydra Owners Inc. as intended borrower, for the purpose of (i) meeting the ongoing working capital needs of Drillships Hydra Owners Inc, (ii) financing the partial repayment of existing debt in relation to the purchase of the drillship identified as Samsung Hull 1837, and (iii) financing the payment of the final installment associated with the purchase of said drillship. The offer is subject to due diligence, internal approval by the lenders and satisfactory documentation. According to term sheet, Dry Ships Inc., Drillships Holdings Inc and Ocean Rig UDW Inc. will act as joint guarantors and guarantee all obligations and liabilities of Drillships Hydra Owners Inc.

22.11 On 3 December 2010 Dry Ships Inc. converted a $47,602 intercompany receivable on OCR UDW group to equity.

Appendix 5 Interim financial statements to September 30, 2010

OCEAN RIG UDW INC.
INDEX TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

OCEAN RIG UDW INC.
Consolidated Balance Sheets
As of December 31, 2009 and September 30, 2010 (Unaudited)
(Expressed in thousands of U.S. Dollars - except for share and per share data)

	December 31, 2009	September 30, 2010
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalentsv	$ 234,195	$ 123,799
Restricted cash (Note 7)	220,690	307,434
Trade accounts receivable, net of allowance for doubtful receivables of $0 and $0, respectively	65,486	41,712
Due from related parties (Note 4)	4,934	-
Financial instruments (Note 8)	434	1,291
Other current assets	32,819	35,504
Total current assets	558,558	509,740
FIXED ASSETS, NET:		
Advances for Rigs under construction (Note 5)	1,173,456	1,731,278
Drilling rigs, machinery and equipment, net (Note 6)	1,317,607	1,267,096
Total fixed assets, net	2,491,063	2,998,374
OTHER NON-CURRENT ASSETS:		
Intangible assets, net	11,948	10,866
Above-market acquired time charter	2,392	1,475
Pensions	388	-
Other non- current assets	40,700	78,400
Total other non- current assets	55,428	90,741
Total assets	$ 3,105,049	$ 3,598,855
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Current portion of long-term debt (Note 7)	$ 537,668	$ 576,303
Accounts payable	13,591	6,424
Due to related parties (Note 4)	48,110	47,602
Accrued liabilities	34,235	30,060
Deferred revenue	38,400	46,439
Financial instruments (Note 8)	5,467	10,393
Other current liabilities	4,816	2,187
Total current liabilities	682,287	719,408
NON-CURRENT LIABILITIES:		
Long-term debt, net of current portion (Note 7)	662,362	535,304
Financial instruments (Note 8)	64,219	121,975
Pensions	-	4,085
Total non-current liabilities	726,581	661,364
COMMITMENTS AND CONTINGENCIES: (Note 12)		
STOCKHOLDER'S EQUITY:		
Common stock, $20 par value 500 shares authorized, issued and outstanding at December 31, 2009 and September 30, 2010	10	10
Additional paid-in capital	2,386,953	2,859,946
Accumulated other comprehensive income/ (loss)	(27,875)	(44,424)
Retained earnings	(662,907)	(597,449)
Total stockholder's equity	1,696,181	2,218,083
Total liabilities and stockholders' equity	$ 3,105,049	$ 3,598,855

The accompanying notes are an integral part of these unaudited interim condensed consolidated financial statements.

OCEAN RIG UDW INC.
Unaudited Interim Condensed Consolidated Statements of Operations
For the nine-month periods ended September 30, 2009 and 2010
(Expressed in thousands of U.S. Dollars - except for share and per share data)

	Nine months ended 30, September	
	2009	**2010**
REVENUES:		
Leasing revenues	176,819	105,971
Service revenues	124,356	194,585
Other revenues/(amortization)	11,387	2,856
Total revenues	312,562	303,412
EXPENSES:		
Drilling rigs operating expenses	105,924	86,354
Depreciation and amortization	56,052	57,261
Loss on disposal of assets	-	751
General and administrative expenses	13,547	14,232
Operating profit	137,040	144,814
OTHER INCOME / (EXPENSES):		
Interest and finance costs (Note 9)	(48,826)	(21,978)
Interest income (Note 10)	4,113	9,342
Gain/(loss) on interest rate swaps (Note 8)	1,697	(52,781)
Other, net (Note 8)	2,590	857
Total expenses net	(40,427)	(64,560)
INCOME BEFORE INCOME TAXES	96,615	80,254
Income taxes (Note 11)	(9,859)	(14,796)
NET INCOME	$ 86,756	$ 65,458
EARNINGS PER SHARE, BASIC AND DILUTED	$ 173,512	$ 130,916
WEIGHTED AVERAGE NUMBER OF SHARES, BASIC AND DILUTED	500	500

The accompanying notes are an integral part of these unaudited interim condensed consolidated financial statements

OCEAN RIG UDW INC.
Unaudited Interim Condensed Consolidated Statements of Cash Flows
For the nine-month periods ended September 30, 2009 and 2010
(Expressed in thousands of U.S. Dollars – except for share and per share data)

	2009	2010
Net Cash Provided by Operating Activities	$ 194,039	$ 159,674
Cash Flows from Investing Activities:		
Advances for rigs under construction	(61,980)	(557,822)
Cash from acquisition of drillships	248	-
Drilling rigs, equipment and other improvements	(4,998)	-
Acquisition of other fixed assets	-	(6,419)
Increase in restricted cash	(19,390)	(86,744)
Net Cash used in Investing Activities	(86,121)	(650,985)
Cash Flows from Financing Activities:		
Capital contribution by stockholders	671,926	472,993
Proceeds from short-term credit facility	150,803	5,358
Payments of short-term credit facility	(964,133)	(97,436)
Payment of financing costs	(1,960)	-
Net Cash provided by/ (used in) Financing Activities	(143,364)	380,915
Net increase/(decrease) in cash and cash equivalents	(35,446)	(110,396)
Cash and cash equivalents at beginning of period	272,940	234,195
Cash and cash equivalents at end of period	$ 237,494	$ 123,799

The accompanying notes are an integral part of these unaudited interim condensed consolidated financial statements.

1. Basis of Presentation and General Information:

The accompanying unaudited interim condensed consolidated financial statements include the accounts of Ocean Rig UDW Inc. and its subsidiaries (collectively, the “Company”, “Ocean Rig UDW” or “Group”). The Company was established by DryShips Inc. for the purpose of being the holding company of its drilling rig segment. In 2007, DryShips Inc. through its subsidiary, Primelead Limited of Cyprus, purchased approximately 30% of the shares in Ocean Rig ASA which was accounted for as an equity method investment. In 2008, the remainder of the shares in Ocean Rig ASA were acquired and Ocean Rig ASA was delisted from Oslo Stock Exchange. The transactions were accounted for as a step acquisition under the purchase method of accounting and the results of operations were consolidated subsequent to the date control was achieved on May 14, 2008. Ocean Rig UDW was formed under the laws of the Republic of the Marshall Islands on December 10, 2007, under the name Primelead Shareholders Inc. Ocean Rig UDW acquired all of the outstanding shares of Primelead Limited in December 2007 in a reverse acquisition transaction under common control, which was accounted for as a pooling of interests. As a result, the consolidated financial statements include the results of operations of Primelead Limited since the date of its inception on November 16, 2007.

The Company is wholly owned by DryShips Inc., a publicly listed company on NASDAQ exchange listed under the symbol “DRYS”.

Ocean Rig ASA, the predecessor of the Company was organized in 1996, when Ocean Rig ASA ordered four Hulls. The 5th generation drilling rigs Leiv Eiriksson and Eirik Raude were delivered in 2001 and 2002, while two remaining Hulls were sold. Ocean Rig UDW today owns and operates the two semi-submersible rigs that are among the world's largest and most modern drilling rigs, built for ultra deep-waters and harsh environment. The units are currently operating in Ghana and in Turkey.

Further, the Group has acquired companies holding contracts for four drillships which are currently under construction, two of which were ordered in 2007 and the other two in 2008. Two drillships (Hulls 1837 and 1838) were ordered by certain entities including entities affiliated with the CEO of DryShips Inc, George Economou. The Company acquired all of the shares in Drillships Holding Inc., being the holding company of the buying companies of Hulls 1837 and 1838, on May 15, 2009. The two other drillships, Hulls 1865 and 1866, were ordered by DryShips Inc. which subsequently contributed all its equity interests in the companies holding these contracts to Ocean Rig UDW on March 5, 2009. Hull 1837 is scheduled to be delivered late in 2010 while the remaining Hulls are scheduled to be delivered in 2011.

The accompanying unaudited interim condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("U.S. GAAP") for interim financial information. Accordingly, they do not include all the information and notes required by U.S. GAAP for complete financial statements. These statements and the accompanying notes should be read in conjunction with the Company's Annual Consolidated Financial Statements.

These unaudited interim condensed consolidated financial statements have been prepared on the same basis as the annual consolidated financial statements and, in the opinion of management, reflect all adjustments, which include only normal recurring adjustments considered necessary for a fair presentation of the Company's financial position, results of operations and cash flows for the periods presented. Operating results for the nine-month period ended September 30, 2010 are not necessarily indicative of the results that might be expected for the fiscal year ending December 31, 2010.

2. Significant Accounting policies and Recent Accounting Pronouncements:

A discussion of the Company's significant accounting policies can be found in the Company's Consolidated Financial Statements for the year ended December 31, 2009. There have been no material changes to these policies in the nine-month period ended September 30, 2010, other than noted below.

(i) In December 2009, the FASB issued ASU 2009-16, Transfers and Servicing (Topic 860) - Accounting for Transfers of Financial Assets, which formally codifies FASB Statement No. 166, Accounting for Transfers of Financial Assets into the ASC. ASU 2009-16 represents a revision to the provisions of former FASB Statement No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities and will require more information about transfers of financial assets, including securitization transactions, and where entities have continuing exposure to the risks related to transferred financial assets. Among other things, ASU 2009-16 (1) eliminates the concept of a "qualifying special-purpose entity", (2) changes the requirements for derecognizing financial assets, and (3) enhances information reported to users of financial statements by providing greater transparency about transfers of financial assets and an entity's continuing involvement in transferred financial assets. The adoption of ASU 2009-16 did not have a material impact on the Company's unaudited interim consolidated financial statements.

(ii) In December 2009, the FASB issued ASU 2009-17, Consolidations (Topic 810) - Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities, which codifies FASB Statement No. 167, Amendments to FASB Interpretation No. 46(R). ASU 2009-17 represents a revision to former FASB Interpretation No. 46 (Revised December 2003), Consolidation of Variable Interest Entities, and changes how a reporting entity determines when an entity that is insufficiently capitalized or is not controlled through voting (or similar rights) should be consolidated. The determination of whether a reporting entity is required to consolidate another entity is based on, among other things, the other entity's purpose and design and the reporting entity's ability to direct the activities of the other entity that most significantly impact the other entity's economic performance. ASU 2009-17 also requires a reporting entity to provide additional disclosures about its involvement with variable interest entities and any significant changes in risk exposure due to that involvement. The adoption of ASU 2009-17 did not have any effect on the Company's unaudited interim consolidated financial statements.

(iii) In September 2009, the FASB issued ASU-2009-13 clarifying guidance on multiple-element revenue arrangements. The revised guidance primarily provides two significant changes: 1) eliminates the need for objective and reliable evidence of the fair value for the undelivered element in order for a delivered item to be treated as a separate unit of accounting, and 2) eliminates the residual method to allocate the arrangement consideration. In addition, the guidance also expands the disclosure requirements for revenue recognition. The new guidance will be effective for the first annual reporting period beginning on or after June 15, 2010, with early adoption permitted provided that the revised guidance is retroactively applied to the beginning of the year of adoption. The Company is currently assessing the future impact of this new accounting pronouncement to its consolidated financial statements.

(iv) In January 2010, the FASB issued ASU 2010-06, Fair Value Measurements and Disclosures (Topic 820)-Improving Disclosures about Fair Value Measurements. ASU 2010-06 amends ASC 820 to add new requirements for disclosures about transfers into and out of Levels 1 and 2 and separate disclosures about purchases, sales, issuances, and settlements relating to Level 3 measurements. It also clarifies existing fair value disclosures about the level of disaggregation and about inputs and valuation techniques used to measure fair value. The ASU also amends guidance on employers' disclosures about postretirement benefit plan assets under ASC 715 to require that disclosures be provided by classes of assets instead of by major categories of assets. The guidance in the ASU was effective for the first reporting period (including interim periods) beginning after December 15, 2009, except for the requirement to provide the Level 3 activity of purchases, sales, issuances, and settlements on a gross basis, which will be effective for fiscal years beginning after December 15, 2010, and for interim periods within those

(Expressed in thousands of United States Dollars – except for share and per share data, unless otherwise stated)

2. Significant Accounting policies and Recent Accounting Pronouncements-(continued):

fiscal years. The adoption of this guidance did not have any impact on its financial position and results of operation.

(v) In February 2010, the FASB issued ASU 2010-09, Subsequent Events (Topic 855). ASU 2010-09 amends ASC 855 to clarify which entities are required to evaluate subsequent events through the date the financial statements are issued and the scope of the disclosure requirements related to subsequent events. The amendments remove the requirement for an SEC filer to disclose the date through which management evaluated subsequent events in both issued and revised financial statements. Revised financial statements include financial statements revised as a result of either correction of an error or retrospective application of U.S. GAAP. Additionally, the FASB has clarified that if the financial statements have been revised, then an entity that is not an SEC filer should disclose both the date that the financial statements were issued or available to be issued and the date the revised financial statements were issued or available to be issued.Those amendments remove potential conflicts with the SEC's literature. All of the amendments in this Update were effective upon its issuance, except for the use of the issued date for conduit debt obligors. That amendment is effective for interim or annual periods ending after June 15, 2010. The adoption of the above amendments of ASU 2010-09 did not have any material impact on the Company's unaudited interim consolidated financial statements.

(vi) In March 2010, the FASB issued ASU 2010-11, Derivatives and Hedging- Scope Exception Related to Embedded Credit Derivatives (Topic 815) which addresses application of the embedded derivative scope exception in ASC 815-15-15-8 and 15-9. The ASU primarily affects entities that hold or issue investments in financial instruments that contain embedded credit derivative features, however, other entities may also benefit from the ASU's transition provisions, which permit entities to make a special one-time election to apply the fair value option to any investment in a beneficial interest in securitized financial assets, regardless of whether such investments contain embedded derivative features. The ASU is effective for each reporting entity at the beginning of its first fiscal quarter beginning after June 15, 2010. Early adoption is permitted at the beginning of any fiscal quarter beginning after March 5, 2010. The Company has not engaged in any such contracts and thus, the impact to the Company cannot be determined until any such contact is entered.

(vii) In April 2010, the FASB issued ASU 2010-13, Compensation-Stock Compensation, Effect of Denominating the Exercise Price of a Share- Based Payment Award in the Currency of the Market in which the Underlying Equity Security Trades a consensus of the FASB Emerging Issues Task Force (Topic 718) which addresses the classification of a share-based payment award with an exercise price denominated in the currency of a market in which the underlying equity security trades. Topic 718 is amended to clarify that a share-based payment award with an exercise price denominated in the currency of a market in which a substantial portion of the entity's equity securities trades shall not be considered to contain a market, performance, or service condition. Therefore, such an award is not to be classified as a liability if it otherwise qualifies as equity classification. The amendments in this Update are effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2010. The amendments in this Update should be applied by recording a cumulative-effect adjustment to the opening balance of retained earnings. The cumulative-effect adjustment should be calculated for all awards outstanding as of the beginning of the fiscal year in which the amendments are initially applied, as if the amendments had been applied consistently since the inception of the award. The cumulative-effect adjustment should be presented separately. Earlier application is permitted. The Company is currently assessing the potential impacts, if any, on its consolidated financial statements.

3. Going Concern

The Company believes that its revenues for 2010 and the available credit facility will provide sufficient cash flow for working capital, including payment of interest costs. However, in order to meet the Company's capital expenditure requirements of $461,622 remaining part of 2010 and $1.03 billion in 2011 related to our four drillships under construction and repayment of maturing debt of $35,282 in 2010 and $383,333 in 2011, the Company is dependent upon further debt or equity financing, either from continued support from its parent company or from external sources. There is no unutilized commitment under the 230,000 Credit Facility. The Two 562,500 Loan Agreements requires cash deposit collateral equal to any drawdown on the credit facility prior to securing certain drilling contracts (Note 10 and 17). As of December 31, 2009, $186,274 of the Two 562,500 Loan Agreements is utilized, and a corresponding amount of restricted cash deposit has been established.

The Company is, as of September 30, 2010, a wholly owned subsidiary of DryShips Inc. As of December 31, 2008, DryShips was in breach of certain financial covenants, mainly the loan-to-value ratios, contained in DryShips' loan agreements relating to $1.8 billion of DryShips' debt. Even though none of the lenders declared an event of default under the loan agreements, these breaches constituted potential events of default (also known as technical defaults) and could have resulted in the lenders requiring immediate repayment of the loans.

During 2009 and up to December 31, 2009, DryShips has obtained waivers from all of its lenders, except that the Company was in breach of financial covenants related to its 230,000 Credit Facility, which on April 16, 2010 were waived through June 15, 2010. On June 16, 2010 the Company obtained an extension on the waiver through July 15, 2010. On September 3, 2010 the Company obtained an extension of the waiver of those breaches effective through December 1, 2010. On November 25, 2010 the Company obtained a further extension of the waiver of those breaches effective through December 31, 2010. However, some of these waiver agreements expire during 2010 and the original covenants come back in force. For some of these waiver agreements expiring in 2010, DryShips, does not expect to meet the loan-to-value ratios contained in the original covenants using the current fair market values of its vessels. Accordingly, assuming that current market conditions would prevail upon waiver agreement expiration in 2010, DryShips has deemed that it is probable that it will not be able to comply with the original covenants at measurement dates that are within the next 12 months. Due to cross-default provisions in its debt agreements, DryShips has classified all of its affected debt as current liabilities.

DryShips guarantees two of the Company's credit facilities, namely (i) 230,000 Credit facility and (ii) Two 562,500 Loan Agreements. George Economou also guarantees the 230,000 Credit Facility. Due to the cross-default situation and breach of certain financial covenants both for the Company and for DryShips, the Company has classified its outstanding balance under these two facilities as current liabilities. For those waivers that expire in 2010, DryShips is currently in negotiations with its lenders to obtain waiver extensions or to restructure the affected debt. DryShips management expects that the lenders will not demand payment of the loans before their maturity, provided that DryShips pays loan installments and accumulated or accrued interest as they fall due under the existing credit facilities.

The Company's consolidated financial statements have been prepared assuming that the Company will continue as a going concern. Accordingly, the financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts, the amounts and classification of liabilities, or any other adjustments that might result in the event the Company is unable to continue as a going concern, except for the current classification of debt.

A default situation in DryShips' could have a substantial effect on the Company. Should DryShips fail to pay loan installments as they fall due, this would result in a cross-default on the Company's facilities guaranteed by DryShips, as well as the Company's 1,040,000 Credit Facility which is not guaranteed by DryShips. Furthermore, if the Company fails to secure additional external financing to fund its drillships new-build programs or obtain continued support from DryShips, this would have a material adverse effect on the Company’s ability to continue as a going concern.

4. Transactions with Related Parties:

Cardiff engages primarily in the management of ocean-going vessels, including but not limited to vessels owned by DryShips Inc. Cardiff is beneficially majority-owned by the Chairman and Chief Executive Officer of DryShips, George Economou. In addition, Cardiff has management agreements in place with the Company relating to Hulls 1837 and 1838 for a management fee of $40per month per hull. The management agreements also provide for: (i) chartering commission of 1.25% on the revenue earned; (ii) a commission of 1.00% on all gross shipyards payments or sale proceeds for drillships; (iii) a commission of 1% on loan financing or refinancing; and (iv) a commission of 2% on insurance premiums.

In the nine month period ending September 30, 2010 and 2009 respectively, total charges from Cardiff under the management agreement amounted to $3,304 and $798 respectively. This is capitalized as drillship under construction being directly attributable cost to the construction. There were no transactions between the Company and related parties that had an impact of the statement of operations. There were no balances outstanding at December 31, 2009 and September 30, 2010.

Dryships makes a number of payments towards yard installments, loan installments, loan interest and interest rate swap related payments on behalf of Ocean Rig. The amounts included in the accompanying consolidated balance sheets with Dryships Inc. are a receivable of $4,934 and a payable of $48,110 at December 31, 2009 and a payable of $47,602 at September 30, 2010, respectively.

(Expressed in thousands of United States Dollars – except for share and per share data, unless otherwise stated)

5. Advances for Rigs under Construction:

The amounts shown in the accompanying consolidated balance sheets include milestone payments relating to the shipbuilding contracts with the shipyards, supervision costs and any material related expenses incurred during the construction periods including 1% commissions to related parties for Hulls 1837 and 1838, all of which are capitalized in accordance with the accounting policy discussed in Note 2 in the Company's Consolidated Financial Statements for the year ended December 31, 2009.

As of December 31, 2009 and September 30, 2010, the advances for rigs under construction are set forth below:

			December 31, 2009				September 30, 2010			
Vessel name	**Expected delivery**	**Contract amount**	**Contract payments**	**Capitalized expenses**	**Fair value adjustments**	**Total**	**Contract payments**	**Capitalized expenses**	**Fair value adjustments**	**Total**
H1837	December 2010	$ 691,910	254,346	26,144	89,000	$ 369,489	$ 4 07,506	55,285	89,000	$ 551,791
H1838	March 2011	691,444	254,346	24,829	89,000	368,175	359,669	39,216	89,000	487,885
H1865	July 2011	716,744	205,940	12,484	-	218,424	322,813	23,599	-	346,412
H1866	September 2011	716,389	205,940	11,427	-	217,367	322,813	22,377	-	345,190
		$ 2,816,486	920,571	74,884	178,000	$ 1,173,456	$ 1,412,801	140,477	178,000	$ 1,731,278

5. Advances for Rigs under Construction – (continued):

For Hulls 1837 and 1838, contract payments of $206,510 and $206,510, respectively, were paid before the acquisition date. Fair value adjustments for Hulls 1837 and 1838 were $89,000 and $89,000, respectively. For Hulls 1865 and 1866, contract payments of $205,939 and $205,939, respectively, were paid before the acquisition date.

During the year ended December 31, 2009 and the nine-months ended September 30, 2010, the movement of the advances for drillships under construction were as follows:

	2009	2010
Balance at beginning of period..	$ -	$ 1,173,456
Acquisition of hull 1865 / 1866 (March 5, 2009)	422,114	-
Acquisitions of 1837/ 1838 (May 15, 2009)	625,445	-
Advances for drillships under construction and related costs	125,897	557,822
Balance at end of period,..	$ 1,173,456	$ 1,731,278

(Expressed in thousands of United States Dollars – except for share and per share data, unless otherwise stated)

6. Drilling Rigs, machinery and equipment:

The amounts in the accompanying consolidated balance sheets are analyzed as follows:

	Cost	Accumulated Depreciation	Net Book Value
Balance, December 31, 2009	$ 1,436,082	(118,476)	$ 1,317,607
Additions	6,419	-	6,419
Depreciation	-	(56,179)	(56,179)
Disposals	(1,401)	650	(751)
Balance September 30, 2010	$ 1,441,100	(174,005)	$ 1,267,096

As of September 30, 2010, all of the Company's drilling rigs and drillships under construction have been pledged as collateral to secure the bank loans (Note 7).

7. Long-term Debt:

The amount of long-term debt shown in the accompanying consolidated balance sheets is analyzed as follows:

	December 31, 2009	September 30, 2010
Acquisition Facility	$ -	$ -
Two 562,500 Loan Agreements	186,274	192,414
1,040,000 Credit Facility	808,550	711,115
230,000 Credit Facility	230,000	230,000
Total loan Facilities	**1,224,824**	**1,133,529**
Less: Deferred financing costs	(24,794)	(21,922)
Total debt	**1,200,030**	**1,111,607**
Less: Current portion	(537,668)	(576,303)
Long-term portion	$ **662,362**	$ **535,304**

(Expressed in thousands of United States Dollars – except for share and per share data, unless otherwise stated)

7. Long-term Debt-(continued):

The principal payments, excluding deferred financing costs, to be made during each of the twelve-month periods subsequent to September 30, 2010 for the loan payments as classified in the balance sheet, are as follows:

September 30, 2011	$	593,529
September 30, 2012		70,000
September 30, 2013		470,000
September 30, 2014		-
Total principal payments		1,133,529
Less: Financing fees		(21,922)
Total debt	$	1,111,607

The table above includes the debt repayments due as a result of the technical default on certain covenants (Note 3). The amounts scheduled to be repaid under the original loan agreements is $401,115 for the next twelve months.

Total interest incurred on long-term debt for the nine-month periods ended September 30, 2009 and 2010, amounted to $39,998 and $28,042 respectively, of which $ 6,304 and $15,686 respectively, were capitalized as part of the cost of the Drill Rigs under construction. Total interest incurred on long-term debt, net of capitalized interest, are included in "Interest and finance costs" in the accompanying unaudited interim condensed consolidated statement of operations.

a) **Acquisition Facility**: On May 9, 2008, the Company concluded a guarantee facility of NOK 5.0 billion (approximately $974,500) and a term loan of $800,000 (collectively, the "Acquisition Facility") in order to guarantee the purchase price of the Ocean Rig ASA shares to be acquired through the mandatory offering, to finance the acquisition cost of the Ocean Rig ASA shares and to refinance existing debt. The term loan was repayable in four quarterly installments of $75,000 followed by four quarterly installments of $50,000 plus a balloon payment payable together with the last installment on May 12, 2010. As of December 31, 2009, the Company had drawn down the total amount of the term loan and thereafter fully repaid it. The Acquisition Facility contained various covenants measured on a consolidated DryShips Inc. level, including a market-adjusted equity ratio greater than or equal to 30%.

During the first quarter of 2009 and in April 2009, the Company repaid $190,000 and $160,000, respectively, of its existing $800,000 facility. The remaining outstanding balance of $300,000 was fully repaid in May 2009, of which $150,000 was paid with the Company's new credit facility discussed in the following paragraph.

On May 13, 2009, the Company entered into a new one-year credit facility (the "New Acquisition Facility" with the same lender as above for an amount of up to $300,000 in order to refinance the Company's existing loan indebtedness discussed in the Acquisition Facility paragraph. In May 2009, the Company drew down $150,000 of the loan in order to refinance the $150,000 outstanding debt at the date of the drawdown of the above facility. The loan bore interest at LIBOR plus a margin ranging from 2.1% to 3.1%. The New Acquisition facility was fully repaid in May 2009 using the proceeds from an increase in paid in capital from DryShips. DryShips financed the capital contribution to the Company from its at-the-market offerings. The undrawn amount was fully cancelled.

7. Long-term Debt-(continued):

b) **Two 562,500 Loan Agreements**: On March 5, 2009, in connection with the acquisition of Drillships Investment Inc. including the two companies owning drillship Hulls 1865 and 1866, as further described in Note 1, the Company assumed two facility agreements for an aggregate amount of $ 1,125,000 (the "Two 562,500 Loan Agreements") in order to partly finance the construction cost of Drillship Hulls 1865 and 1866. The Two 562,500 Loan Agreements" bear interest at LIBOR plus a margin ranging from 1.61% to 2.00%, depending on the period (pre-completion or post-completion) and depending on the lender (commercial lender or export agency) and are repayable in eighteen semi-annual installments through November 2020. The first installment is payable six months after the delivery of the vessels, which is expected to be in the third quarter of 2011. The Two 562,500 Loan Agreements contain various covenants measured on a consolidated DryShips Inc. level, including: (i) market-adjusted equity ratio greater than or equal to 25%; and (ii) market value adjusted net worth greater than or equal to $500,000.

On September 5, 2009, the Company entered into agreements with the facility agent, and the other lenders on waiver and amendment terms with respect to the Two 562,500 Loan Agreements providing for a waiver of certain financial covenants through January 31, 2010. These agreements provide for, among other things; (i) a waiver of the required market adjusted equity ratio; (ii) a waiver of the required market value adjusted net worth; and (iii) a required payment from us to each lender and the facility agent.

On January 28, 2010, the Company signed two supplemental agreements that provided for certain non-financial covenant amendments to the Two 562,500 Loan Agreements. In addition these agreements revoked all the waivers previously obtained related to the Two 562,500 Loan Agreements.

As of December 31, 2009 and September 30, 2010, the amount outstanding balances under the Two 562,500 Loan Agreements were $186,274 and $192,414 respectively. Drawdowns on "Two 562,500 Loan Agreements" prior to securing certain drilling contracts, are subject to cash collateral of an equivalent amount to the drawdowns.

As of September 30, 2010 the Company's unutilized line of credit under the Two 562,500 Loan Agreements, which is subject to certain conditions including the contemporaneous employment of both drillships under suitable revenue contracts, as defined in the Two 562,500 Loan Agreements, totaled $932,585 and the Company is required to pay a quarterly commitment fee of the unutilized portion of the unutilized line of credit.

c) **1,040,000 Credit Facility**: On September 17, 2008, the Company entered into a new five-year secured credit facility for the amount of up to $1,040,000 (the "1,040,000 Credit Facility") in order to refinance the Company's existing loan indebtedness in relation to the drilling units Leiv Eiriksson and Eirik Raude and for general corporate purposes. The 1,040,000 Credit Facility consists of a $20,000 guarantee facility, three revolving credit facilities (A, B and C) and a term loan. The aggregate amount of the term loan is up to $400,000 and the aggregate amount under the revolving credit facility A is up to $350,000. The aggregate amount under the revolving credit facility B is up to $250,000 and under the revolving credit facility C is up to $20,000.

In September and October 2008, the Company drew down $1,020,000 of the 1,040,000 Credit Facility. The drawdown proceeds were used to repay all other Ocean Rig outstanding debt at the date of the drawdown amounting to $776,000.

The commitment under the revolving credit facility A was reduced by $17,500 on December 17, 2008 and will continue to be reduced by $17,500 quarterly thereafter until September 17, 2013, which is 60 months after the date of the agreement. The term loan will be repaid by one balloon payment of $400,000 on September 17, 2013. The commitment under revolving credit facility B will be reduced quarterly by 12 unequal quarterly installments with a final maturity date of not later than the earlier of (a) the expiry of the time charter of the drilling rig the Eirik Raude, which is scheduled to expire in October 2011 or (b) September 17, 2011. These loans bear interest at LIBOR plus a margin ranging from 1.5% to 1.75% and are repayable in twenty quarterly installments.

7. Long-term Debt-(continued):

As of December 31, 2009 and September 30, 2010, the outstanding balances under the 1,040,000 Credit Facility were $808,550 and $711,115 respectively.

d) **230,000 Credit Facility**: In connection with the acquisition of Drillships Holdings on May 15, 2009, the Company assumed two $115,000 loan facilities (collectively the "230,000 Credit Facility") that were entered into in September 2007, in order to finance the construction of Hulls 1837 and 1838. The "230,000 Credit Facility" bears interest at the bank's funding cost plus 1.25% and is repayable upon the delivery of Hull 1837 in December 2010 and Hull 1838 in March 2011. Borrowings under the 230,000 Credit Facility are subject to certain financial covenants and restrictions on dividend payments, assignment of the relevant shipbuilding contracts, refund guarantees and other related items. In addition to the customary security and guarantees issued to the borrower, the 230,000 Credit Facility was collateralized by certain vessels owned by certain related parties, corporate guarantees of certain related parties. As of December 31, 2009, and September 30, 2010 the amount outstanding under the "230,000 Credit Facility" was $230,000.

In connection with the acquisition of Drillships Holdings on May 15, 2009, the Company also assumed two $15,551 fixed-rate term notes that were entered into in January 2009, in order to finance the construction of Hulls 1837 and 1838. The term notes were fully repaid in July 2009.

The loans above (a-d) are secured by first priority mortgages over the drillships/drill rigs or assignment of shipbuilding contracts, corporate guarantee, first assignments of all freights, earnings, insurances and requisition compensation. The loans contain covenants including restrictions, without the bank's prior consent, as to changes in management and ownership of the vessels, additional indebtedness and mortgaging of vessels, change in the general nature of the Company's business, and maintaining an established place of business in the United States or the United Kingdom. The loan described under the 1,040,000 Credit Facility also contains certain financial covenants relating to the Company's financial position, operating performance and liquidity. The loans described under Two 562,500 Loan Agreements and 230,000 Credit Facility above also contain certain financial covenants relating to the consolidated financial position of DryShips Inc., operating performance and liquidity.

Under the terms of the loan agreements, the Company is required to maintain (i) bank deposits which are used to fund the loan installments coming due (or 'retention accounts'), (ii) bank deposits blocked as cash collateral, and (iii) minimum cash and cash equivalents on the face of its balance sheet (or 'minimum liquidity'). All these amounts are included in "Restricted cash" in the accompanying consolidated balance sheets, and amounted to $220,690 and $307,434 as of December 31, 2009 and September 30, 2010 respectively.

As of December 31, 2009, the Company was deemed to be in breach of one financial covenant and deemed to be in technical default of certain of its financial covenants during 2010 (Note 3). In accordance with guidance related to classification of obligation that are callable by the creditor, the Company has classified all of its long-term debt in breach amounting to $400,036 and $176,830 (including unamortized debt issuance cost) as current at December 31, 2009 and September 30, 2010 respectively.

A default situation in DryShips' could have a substantial effect on the Company. Should DryShips fail to pay loan installments as they fall due, this would result in a cross-default on the Company's facilities guaranteed by DryShips, as well as the Company's 1,040,000 Credit Facility which is not guaranteed by DryShips. Furthermore, if the Company fails to secure additional external financing to fund its drillships new-build programs or obtain continued support from DryShips, this would have a material adverse effect on the Company's ability to continue as a going concern.

Since at September 30, 2010, Dryships was deemed to be in technical default of all its bank facilties, and since Dryship's guarantees four of the Company's loan facilities that have cross default provisions triggered by the technical default (see items Two 562,500 Loan Agreements and 230,000 Credit Facility, above) the loan balances under the Company's affected facilities have been fully classified as current. The cross default provisions of the Company's credit facility 1,040,000 Credit Facility is only triggered by the actual default on other indebtedness and is therefore classified as non-current except for repayments due in the next twelve months.

(Expressed in thousands of United States Dollars – except for share and per share data, unless otherwise stated)

8. Financial Instruments and Fair Value Measurements:

All derivatives are carried at fair value on the consolidated balance sheets at each period end.

	December 31, 2009			September 30, 2010		
	Interest rate swaps	Foreign currency forward contracts	Total	Interest Rate Swaps	Foreign currency forward contracts	Total
Current Assets	$ -	434	$ 434	$ -	1,291	$ 1,291
Current liabilities	(5,467)	-	(5,467)	(10,393)	-	(10,393)
Non-current liabilities	(64,219)	-	(64,219)	(121,975)	-	(121,975)
Total	$ (69,686)	434	$ (69,252)	$ (132,368)	1,291	$ (131,077)

(Expressed in thousands of United States Dollars – except for share and per share data, unless otherwise stated)

8. Financial Instruments and Fair Value Measurements-(continued):

		Asset Derivatives			Liability Derivatives	
Derivatives designated as hedging instruments	**Balance Sheet Location**	**December 31, 2009 Fair value**	**September 30, 2010 Fair value**	**Balance Sheet Location**	**December 31, 2009 Fair value**	**September 30, 2010 Fair value**
Interest rate swaps	Financial instruments	$ -	$ -	Financial instruments non-current liabilities	$ (31,028)	$ (44,829)
Total derivatives designated as hedging instruments		-	-		(31,028)	(44,829)
Derivatives not designated as hedging instruments						
Interest rate swaps	Financial Instruments current assets	-	-	Financial Instruments current liabilities	(5,467)	(10,393)
Interest rate swaps	Financial Instruments non-current assets	-	-	Financial instruments-non current liabilities	(33,191)	(77,146)
Foreign currency forward contracts	Financial instruments current assets	434	-	Financial instruments current liabilities	-	-
Foreign currency forward contracts	Financial Instruments non-current assets	-	1,291			
Total derivatives not designated as hedging instruments		434	1,291		(38,658)	(87,539)
Total derivatives		$ 434	$ 1,291	Total derivatives	$ (69,686)	$ (132,368)

The effect of Derivative Instruments qualifying as hedging instruments recognized in accumulated other comprehensive income during the periods:

	Amount of Gain/(Loss) Recognized in OCI on Derivatives (Effective Portion)	
Derivatives designated for cash flow hedging relationships	**None-month period ended September 30, 2009**	**Nine-month period ended September 30, 2010**
Interest rate swaps	$ 11,977	$ (13,801)
Total	$ 11,977	$ (13,801)

(Expressed in thousands of United States Dollars – except for share and per share data, unless otherwise stated)

8. Financial Instruments and Fair Value Measurements-(continued):
No portion of the cash flow hedges shown above was ineffective during the year. In addition, the Company did not transfer any gains/losses on the hedges from accumulated OCI into statement of operations.

The effects of derivative instruments not designated or qualifying as hedging instruments on the unaudited interim condensed consolidated statement of operations:

		Amount of Gain/(Loss)	
Derivatives not designated as hedging instruments	**Location of Gain or (Loss) Recognized**	**Nine-month period ended September 30, 2009**	**Nine-month period ended September30, 2010**
Foreign currency forward contracts	Other, net	$ 2,590	$ 857
Interest rate swaps	Gain/(loss) on interest rate swaps	(1,697)	(52,781)
Total		$ 893	$ (51,924)

As of December 31, 2009 and September 30, 2010, security deposits (margin calls) of $40,700 and $78,400 respectively, were paid and were recorded as "Other non-current assets" in the accompanying consolidated balance sheets. These deposits are required by the counterparty due to the market loss in the swap agreements for the year ended December 31, 2009 and the nine-month period ended September 30, 2010.

The ASU 2010-11guidance for derivatives requires companies to recognize all derivative instruments as either assets or liabilities at fair value in the statement of financial position. In accordance with the guidance, the Company designates all the contracts as cash flow hedges, if they qualify for that treatment, with the last qualifying contract expiring in September 2013. As of September 30, 2010, the Company had outstanding eleven interest rate swap and cap and floor agreements. Of these contracts, eight do not qualify for hedge accounting and three contracts are designated for hedge accounting.

For derivative instruments that are designated and qualify as a cash flow hedge, the effective portion of the gain or loss on the derivative is reported as a component of other comprehensive income and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. Gains and losses on the derivative representing either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness are recognized in the accompanying consolidated statement of operations. Changes in the fair value of derivative instruments that have not been designated as hedging instruments are reported in the accompanying consolidated statement of operations.

The Company enters into interest rate swap transactions to manage interest costs and risk associated with changing interest rates with respect to its variable interest rate loans and credit facilities. The Company enters into foreign currency forward contracts in order to manage risks associated with future hire rates and fluctuations in foreign currencies, respectively.

The carrying amounts of cash and cash equivalents, restricted cash and trade accounts receivable reported in the consolidated balance sheets approximate their respective fair values because of the short term nature of these accounts. The fair value of the interest rate swaps was determined using a discounted cash flow method based on market-based LIBOR swap yield curves, taking into account current interest rates and the creditworthiness of both the financial instrument counterparty and the Company. The fair value of foreign currency forward contracts was based on the forward exchange rates.

(Expressed in thousands of United States Dollars – except for share and per share data, unless otherwise stated)

8. Financial Instruments and Fair Value Measurements-(continued):

Fair value measurements are classified based upon inputs used to develop the measurement under the following hierarchy:

Level 1: Quoted market prices in active markets for identical assets or liabilities.
Level 2: Observable market- based inputs or unobservable inputs that are corroborated by market data.
Level 3: Unobservable inputs that are not corroborated by market data.

The following table summarizes the valuation of assets and liabilities measured at fair value on a recurring basis as of the valuation date.

	September 30, 2010	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
Recurring measurements:				
Interest rate swaps-liability position	$ (132,368)		(132,368)	$ -
Foreign currency forward contracts – liability position	1,291		1,291	-
Total	$ (131,077)		(131,077)	$ -

9. Interest and Finance costs:

The amounts in the accompanying unaudited interim condensed consolidated statements of operations are analyzed as follows:

	Nine - month period September 30, 2009	Nine - month period September 30, 2010
Interest on long-term debt	$ 38,998	$ 28,042
Project interest capitalization	(6,304)	(15,686)
Long-term debt commitment fees	4,320	4,305
Bank charges	1,878	1,652
Amortization and write-off of financing fees	9,934	3,665
Total	$ 48,826	$ 21,978

(Expressed in thousands of United States Dollars – except for share and per share data, unless otherwise stated)

10. Interest income:

The amounts in the accompanying unaudited interim condensed statements of operations are analyzed as follows:

	Nine - month period September 31,	
	2009	**2010**
Interest Income	$ 4,113	$ 9,342
Total	$ 4,113	$ 9,342

11. Income Tax

Ocean Rig UDW operates through its various subsidiaries in a number of countries throughout the world. Income taxes have been provided based upon the tax laws and rates in the countries in which operations are conducted and income is earned. The countries in which Ocean Rig UDW operates have taxation regimes with varying nominal rates or no system of corporate taxation, as well differing deductions, credits and other tax attributes. Consequently, there is not an expected relationship between the provision for/or benefit from income taxes and income or loss before income taxes.

12. Commitments and Contingencies

12.1 Legal proceedings

Various claims, suits, and complaints, including those involving government regulations and product liability, arise in the ordinary course of the shipping business.

The Company has obtained insurance for the assessed market value of the rigs. However, such insurance coverage may not provide sufficient funds to protect the Company from all liabilities that could result from its operations in all situations. Risks against which the Company may not be fully insured or insurable for include environmental liabilities, which may result from a blow-out or similar accident, or liabilities resulting from reservoir damage alleged to have been caused by the negligence of the Company.

The Company’s loss of hire insurance coverage does not protect against loss of income from day one, but will be effective after 45 days’ off-hire. The occurrence of casualty or loss, against which the Company is not fully insured, could have a material adverse effect on the Company’s results of operations and financial condition. The insurance covers approximately one year with loss of hire.

As part of our normal course of operations, our customer may disagree on amounts due to us under the provision of the contracts which are normally settled though negotiations with the customer. Disputed amounts are normally reflected in revenues at such time as we reach agreement with the customer on the amounts due. Except for the matters discussed below, the Company is not a party to any material litigation where claims or counterclaims have been filed against the Company other than routine legal proceedings incidental to our business.

12. Commitments and Contingencies-(continued):

12.1 Legal proceedings-(continued):

Ocean Rig's Leiv Eiriksson operated in Angola in the period 2002 to 2007. Ocean Rig understands that the Angolan government has retroactively levied import/export duties for two importation events in the period 2002 to 2007. As Ocean Rig has formally disputed all claims in relation to the potential duties, no provision has been made. The maximum amount is estimated to be between $ 5-10 million.

12.2 Purchase obligations

Ocean Rig has acquired contracts for four drillships which are currently under construction. Hull 1837 is scheduled to be early 2011 and the others Hulls are scheduled to be delivered during 2011. As of September 30, 2010, the future obligations in relation to the drillships under construction, including management fees to Cardiff related to Hull 1837 and Hull 1838, amounted to $649,906 and $847,654 respectively for the next 12 months thereafter, in total $1,497,560

12.3 Rental payments

Ocean Rig entered into a five year office lease agreement with Vestre Svanholmen 6 AS which commenced on July 1, 2007. This lease includes an option for an additional five years term which must be exercised at least six months prior to the end of the term of the initial contract which expires in June 2012. As of September 30, 2010, the future obligations amount to $1,4 million for 2011, $0,8 million for 2012, and $0,1 million for 2013.

13. Subsequent Events:

We have evaluated all subsequent events through December 3, 2010, the date the financial statements issued.

13.1 On May 25, 2010, the Company entered into two amendment agreements regarding the shipbuilding contracts with Samsung for Hulls 1865 and 1866. Under these amendments the Company paid Samsung $12,800 respectively in regards of hull 1865 and 1866. As part of the amendment the fourth installment for hull 1865 of $104,000, scheduled for August 2010, is postponed for three months. The fourth installment for hull 1866 of $ 104,000, scheduled for October 2010, is postponed for six months. 50% of the fourth installment for hull 1865 of $ 104,000, i.e $52,000, scheduled for November 2010, is postponed for five months. The remaining $52,000 was paid according to schedule.

13.2 On October 11, 2010 the company entered into a contract with subsidiaries of Vanco Overseas Energy Limited ("Vanco") for projects in which Vanco is operator and LUKOIL Overseas is majority co-venturer, for a five well contract for exploration drilling offshore Ghana and Cote d'Ivoire for a period of about one year with one drillship, commencing in the second quarter of 2011. The value of the contracts is approximately $160 million. The Company has the option to use either of the Ocean Rig Corcovado (Hull 1837) or the Ocean Rig Olympia (Hull 1838). The contract may be extended for an additional year or an additional well, prior to the completion of operations on the second well in the program.

13.3 On November 5, 2010, the Company entered into an agreement with Petrobras for a "Rig Swap" agreement from the Leiv Eiriksson to the Ocean Rig Poseidon. The agreement is subject to board approval by both parties. The agreement includes that the Leiv Eiriksson will be released by May 1, 2011 from the existing contract and replaced by the Ocean Rig Poseidon delivered from yard. The operating dayrate shall be $540,000 plus a bonus of maximum 8% for 540 days. A separate day rate of $409,825 has been agreed for up to 60 days during moving periods between countries. Mobilization day rate to be $317,000 plus fuel coverage.

13. Subsequent Events: -(continued):

13.4 On November 18, 2010, the Company received a Letter of Intent for Leiv Eiriksson from a listed oil company for a term based contract period for drilling operations in the North Atlantic basin at an operating day rate of $550,000 and in addition a mobilization fee of $7 million plus fuel coverage. The mobilization period will start in direct continuation from the agreed release date from Petrobras, estimated to May 1, 2011, and the term contract period will expire October 31, 2011. The Letter of Intent is valid until close of business December 7, 2010. The Letter of Intent is subject to completion of definitive documentation.

13.5 On November 18, 2010, the Company received a Letter of Intent for Ocean Rig Corcovado (Hull 1837) from a listed oil company for a 6 months firm contract period from June 1, 2011 for drilling operations in the North Atlantic basin at an operating day rate of $560,000 and in addition a mobilization fee of $17 million, fuel coverage, and winterization upgrading costs of $12 million plus coverage of four weeks extra yard stay costs at $200,000 per day. The Letter of Intent is valid until close of business December 7, 2010. The Letter of Intent is subject to completion of definitive documentation

13.6 On November 26, 2010 the Company entered into a contract with Borders & Southern Petroleum plc for a two-well contract for the Eirik Raude for drilling operations offshore the Falkland Islands at a maximum operating dayrate of $540,000. In addition, Borders will pay a mobilization/demobilization fee of $28 million including fuel. The contract also includes the possibility for Borders to extend the contract period up to five wells based upon certain notification periods, with an overall day rate adjustment to $515,000. The contract will commence in direct continuation from the Tullow contract, and the estimated duration for a two well program including mobilization/demobilization periods is 170 days. The contract was entered into pursuant to a Letter of Intent dated November 11, 2010.

13.7 On 1 December 2010 Dry Ships Inc. accepted a conditional offer for a USD 325,000,000 bridge term loan facility, with Drillships Hydra Owners Inc. as intended borrower, for the purpose of (i) meeting the ongoing working capital needs of Drillships Hydra Owners Inc, (ii) financing the partial repayment of existing debt in relation to the purchase of the drillship identified as Samsung Hull 1837, and (iii) financing the payment of the final installment associated with the purchase of said drillship. The offer is subject to due diligence, internal approval by the lenders and satisfactory documentation. According to term sheet, Dry Ships Inc., Drillships Holdings Inc and Ocean Rig UDW Inc. will act as joint guarantors and guarantee all obligations and liabilities of Drillships Hydra Owners Inc.

13.8 On 3 December 2010 Dry Ships Inc. converted a $47,602 intercompany receivable on OCR UDW group to equity.

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