Confidential
Supplement to Information Memorandum

Supplemental information to the Information Memorandum dated 4 April 2011 concerning the USD 500,000,000 Senior Unsecured Bonds, due 2016

You are not eligible to receive or review this Supplement to 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 Supplement to Information Memorandum. Please see "Information as to Placement in the United States". Nordea Bank Norge ASA, Nordea Markets are not registered with the U.S Securities and Exchange Commission as a U.S. registered broker-dealer and will not participate in the offer or sale of the Bonds within the United States.

Lead Manager and Global Coordinator

Joint Lead Managers

April 7 2010

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Important information

This document (the "**Supplement**") is a supplement to the information memorandum dated 4 April 2011 (the "**Information Memorandum**") which was prepared by Ocean Rig UDW Inc (hereinafter referred to as the "**Issuer**" or "**Ocean Rig UDW**" or the "**Company**")." The information herein is to be considered as an integral part of the Information Memorandum.

The Supplement and the Information Memorandum is being furnished for limited distribution through Pareto Securities AS, Fearnley Fonds ASA, and Nordea Bank Norge ASA, Nordea Markets (the "**Managers**"), as the exclusive authorized representative for the Issuer, for informational purposes only and solely for use by prospective investors who have expressed an interest in an investment in the bonds (the "**Bonds**") to be issued by the Issuer in the "Ocean Rig UDW Senior Unsecured Bond Issue 2011/2016" (the "**Bond Issue**"). Only the Issuer and the Managers are entitled to provide information in respect of matters described in this Supplement and in the Information Memorandum. Information that might be provided by any other person or persons is of no relevance to the contents of this Supplement and the Information Memorandum and must not be relied upon.

The information contained herein has been prepared to assist interested parties in making their own evaluation of the Issuer and its creditworthiness and does not purport to be all-inclusive or to contain all information that prospective investors may desire or that may be required in order to properly evaluate the business, prospects or value of the Issuer. In all cases, interested parties should conduct their own investigation and analysis of the Issuer and the data set forth in this Supplement and the Information Memorandum. The Manager has not independently verified any of the information contained herein, and none of the Managers, any of their advisors nor any of their affiliates makes any representation or warranty (whether expressed or implied) as to the accuracy or completeness of this Supplement or the Information Memorandum or any information, statements, estimates or projections contained herein, or the legality of any prospective investor's investment in the Bonds issued by the Issuer. None of the Managers, any of neither their advisors, nor any of their affiliates has any liability for the recipient's use of this Supplement or the Information Memorandum or any other oral, written or other communications transmitted to the recipient in the course of its evaluation of the Bonds or the Issuer.

The Information Memorandum contains certain tables and other statistical analyses (the "**Statistical Information**"). Numerous assumptions were used in preparing the Statistical Information, which may or may not be reflected herein. As such, no assurance can be given as to the accuracy, appropriateness or completeness of the Statistical Information as used in any particular context; nor as to whether the Statistical Information and/or the assumptions upon which they are based reflect present market conditions or future market performance. The contents of this Supplement and the Information Memorandum (including the Statistical Information) are not to be construed as legal, credit, business or tax advice. Each prospective investor should therefore consult with its own legal, credit, business or tax adviser as to legal, credit, business and tax advice. By receiving this Supplement and the Information Memorandum you acknowledge that you will be solely responsible for your own assessment of the market and the market position of the Issuer and that you will conduct your own analysis and are solely responsible for forming your own opinion of the potential future performance of the Issuer's business. The Managers have not conducted any due diligence investigation on the Issuer. In making an investment decision, investors must rely on their own examination of the Issuer, including the merits and risks involved.

No action has been or will be taken in any jurisdiction by the Managers or the Issuer that would permit an offering of the Bonds, or the possession or distribution of any documents relating thereto, or any amendment or supplement thereto, in any country or jurisdiction where specific action for such purpose is required. Accordingly, neither this Supplement nor the Information Memorandum may be used for the purpose of, and does not constitute, an

offer to sell or issue, or a solicitation of an offer to buy or apply for, any securities in any jurisdiction in any circumstances in which such offer or solicitation is not lawful or authorised. In particular, neither this Supplement nor the Information Memorandum may be distributed in, or to any person resident in, Canada, Australia, Japan, Bermuda or the United States (or to any U.S. person), except as set forth herein and pursuant to appropriate exemptions under the laws of any such jurisdiction.

Failure to comply with these restrictions may constitute a violation of applicable securities legislation. Persons into whose possession this Supplement or the Information Memorandum may come are required by the Issuer and the Manager to inform themselves about, and to observe, such restrictions. Neither the Issuer nor the Manager shall be responsible or liable for any violation of such restrictions by prospective investors. Specifically, the Bonds have not been and will not be registered under the United States Securities Act of 1933, as amended (the "U.S. Securities Act"), or any securities laws of any state in the United States. Accordingly, the Bonds may not be offered or sold within the United States, except in transactions exempt from registration under the U.S. Securities Act. The Bonds are being offered and sold (i) outside the United States persons other than U.S. persons ("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 on Regulation S under the U.S. Securities Act ("Regulation S") and to "qualified institutional buyers" (as defined in Rule 144A promulgated under the U.S. Securities Act ("Rule 144A")) ("QIBs") in the United States in reliance on Rule 144A under the U.S. Securities Act. As used herein, the terms "United States" and "U.S. person" have the meanings given to them in Regulation S. Please see "Information as to Placement in the United States" below. Neither this Supplement nor the Information Memorandum does constitute a prospectus as defined in the Prospectus Directive (Directive 2003/71/EC), and has not been prepared to comply with the Prospectus Directive or the EC Commission Regulation nr. 809/2004, nor with any national rules and regulations relating to prospectuses, including but not limited to Chapter 7 of the Norwegian Securities Trading Act of 29 June 2007 no. 75. Neither this Supplement nor the Information Memorandum has been reviewed by or approved by the Norwegian Financial Supervisory Authority (*Finanstilsynet*) or any other public authority, and is intended to be read by the addressee only.

This Supplement and the Information Memorandum was prepared solely for the recipient and other selected potential investors interested. This Supplement and the Information Memorandum are personal to the recipient to whom it has been delivered by the Managers and does not constitute an offer to any other person or a solicitation of the public in general to subscribe for, or otherwise acquire, the Bonds. Neither this Supplement nor the Information Memorandum may be distributed by the recipient to anyone other than (i) the recipient's financial advisor or legal counsel, nor may the recipient make copies of this Supplement, the Information Memorandum or any other document which the recipient may receive in connection with the Bond Issue, except to the extent necessary to consult with his, her or its financial advisor or legal counsel (and only so long as such financial advisor or legal counsel agrees to hold all information contained in this Supplement and the Information Memorandum confidential and not use it for purposes other than for providing advice in connection herewith); or (ii) persons approved in writing by the Managers and the Issuer. By accepting receipt of this Supplement and the Information Memorandum, each recipient acknowledges that it has received the information set out herein and therein and that they accept the terms of the Bond Issue as set out herein and therein, as well as in the Term Sheet, the Application Form and/or the Loan Agreement (each as defined in the Information Memorandum). This Supplement and the Information Memorandum is subject to Norwegian law, unless otherwise explicitly stated. Any dispute arising in respect of this Supplement or the Information Memorandum is subject to the exclusive jurisdiction of the Norwegian courts. Certain statements in this Supplement and the Information Memorandum are forward-looking. Such forward-looking statements and information are based on the beliefs of the Issuer's management or assumptions based on information available to the Issuer. When used in this document, the words "**anticipate**", "**believe**", "**estimate**" and "**expect**" and similar expressions, as they relate to the Issuer or its management, are intended to identify forward-looking statements. Such forward-looking statements reflect the current views of the Issuer or its management with respect to future events and are subject to certain risks, uncertainties and assumptions. The Issuer can give no assurance as to the correctness of such forward-looking statements. Many factors could cause the actual results, performance and achievements of the Issuer to be materially different from any future results, performance or achievements that may be expressed or implied by such forward-looking statements, including among others, risks or uncertainties associated with the Issuer's products, technological development, growth management, relations with customers and, more generally economic and business conditions, changes in domestic and foreign laws and regulations (including those of the European Union), taxes, changes in competition and pricing environments, and other factors referenced in this document. Some of these factors are discussed in more detail under section 8 ("Risk factors and other considerations"). Should one or more of these risks or uncertainties materialise, or should underlying assumptions prove incorrect, actual results may vary materially from those described in this document as anticipated, believed, estimated or expected. Except as required by applicable law and as provided for in section 1 ("The Bond Issue and the Bonds") related to the period up to the completion of the Bond Issue, the Issuer does not intend, and does not assume any obligation, to update the forward-looking statements included in this Supplement or in the Information Memorandum as at the date hereof. Neither the content of the Company's website nor the content of any website accessed from hyperlinks on the Company's website (or any other website) is incorporated into, or form part of, this Supplement or the Information Memorandum nor, unless previously published by means of a recognised information service, should any such content be relied upon in reaching a decision on whether or not to acquire, continue to hold, or disperse Bonds or other securities in the Company.

Information as to Placement in the United States

For the Bond Issue, the Company is relying upon certain exemptions from the registration requirements of the U.S. Securities Act. In making an investment decision with respect to the Bonds, investors must rely on their own examination of the Company and the terms of the Bond Issue, including the merits and risks involved. The Bonds to be issued 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 Supplement or the Information Memorandum is accurate or complete. Any representation to the contrary is a criminal offence in the United States.

The Bonds 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 in reliance upon Regulation S.

Each purchaser of the Bonds, 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 Bonds 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 Bonds for its own account or for the account of one or more other QIBs and is aware (and each beneficial owner of such Bonds has been advised) that the sale of such Bonds to it is being made in reliance on the exemption provided by Section 4(2) of the U.S. 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 Bonds in the Bond Issue 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 Bonds. Any recipient of this document agrees to the foregoing by accepting delivery of this document.

Prior to the purchase of any Bonds, 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 Bonds, to execute a U.S. Investor Representation Letter in the form appended to the Application Form and make representations, acknowledgements and agreements, including the following:

(i) The U.S. Investor is a QIB and acquiring the Bonds for its own account or for the account of a QIB and not with a view to any resale or distribution in violation of the U.S. Securities Act;

(ii) The U.S. Investor is aware that the Bonds are being offered in reliance on Rule 144A;

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

(iv) The U.S. Investor has had access to and has received such financial and other information regarding the Company and the Bonds as the U.S. Investor deems necessary in order to make an informed investment decision to subscribe for the Bonds. If the U.S. Investor has had any questions regarding the Company or the Bonds, the U.S. Investor has asked these questions and has received satisfactory answers from representatives of the Company. The

U.S. 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;

(v) the U.S. 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 Bonds. In the normal course of its business, the U.S. Investor invests in or purchases securities similar to the Bonds. The U.S. Investor is aware that it may be required to bear the economic risk of an investment in the Bonds for an indefinite period of time, and it is able to bear such risk for an indefinite period. The U.S. Investor is able to bear the economic risks of such an investment, including the loss of its entire investment. The U.S. Investor understands that it may not necessarily be able to liquidate its investment in the Bonds;

(vi) The U.S. Investor has relied upon its own tax, legal and financial advisers in connection with its decision to subscribe for the Bonds and believes that an investment in the Bonds is suitable for the U.S. Investor based upon the U.S. Investor's investment objectives, financial needs and personal contingencies. The U.S. Investor has no need for liquidity of investment with respect to the payment for the Bonds;

(vii) The U.S. Investor is not acquiring the Bonds with a view to or for the purposes of resale, distribution or fractionalization, in whole or in part thereof. The U.S. Investor has made no agreement with others regarding any of the Bonds. The U.S. Investor is aware that, in the view of the U.S. Securities and Exchange Commission, a subscription of the Bonds 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 Bonds and for which the Bonds are to be pledged, would, in each case, represent an intent inconsistent with the representations set forth herein. The U.S. Investor acknowledges that the Company, the Managers 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 Bonds to the U.S. Investor, and that such statements will survive the execution and delivery of this document and the U.S. Investor's subscription of the Bonds, and the U.S. Investor agrees to notify the Company and the Managers promptly in writing if any such statements cease to be accurate and complete;

(viii) The U.S. Investor agrees that so long as the Bonds are "restricted securities" as defined in Rule 144 under the U.S. Securities Act, it shall notify each transferee of the Bonds from it that (a) such Bonds have not been registered under the U.S. Securities Act; (b) such Bonds are subject to the restrictions on the resale or other transfer thereof described above; (c) such transferee shall be deemed to have represented that (A) it is a non-US person acquiring the Bonds in an offshore transaction pursuant to Regulation S, (B) it is a QIB acquiring the Bonds 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 (iii) that it an institutional investor acquiring the Bonds in a transaction exempt from registration under the U.S. Securities Act and that such transferee is not an "underwriter" within the meaning of Section 2(11) of the U.S. Securities Act; and (d) such transferee shall be deemed to have agreed to notify its subsequent transferees as to the foregoing.

(ix) The U.S. Investor has not subscribed to the Bonds as a result of any "general solicitation" or "general advertising" in the United States (within the meaning of Rule 502(c) under the U.S. Securities Act.

Transfer restrictions

The Bonds to be issued in the Bond Issue have not been and will not be registered under the U.S. Securities Act, or under the securities laws of any state of the United States. Accordingly, the Bonds 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 U.S. 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 Bonds.

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 Bonds are being made in a transaction exempt from the registration requirements of the U.S. Securities Act pursuant to Section 4(2) of the U.S. Securities Act and each U.S. Investor agrees that it will not re-offer, resell, pledge or otherwise transfer any of such Bonds except (a) outside the United States in accordance with Rule 903 or 904 of Regulation S, (b) to a person who the U.S. Investor reasonably believes is a QIB within the meaning of Rule 144A under the U.S. 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 U.S. Securities Act or (d) pursuant to another exemption from registration under the U.S. 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 Bonds.

Each non-U.S. purchaser of Bonds, 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 Bonds to a U.S. person for a period of forty (40) days following the settlement of the Bonds.

Available Information

The Company agrees that for so long as any of the Bonds being offered and sold in the Offering remain outstanding and are "restricted securities" within the meaning of Rule 144(a)(3) under the U.S. 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 bondholder or to a prospective purchaser of the Bonds designated by such bondholder the information specified in, and meeting the requirements of, Rule 144A(d)(4) under the U.S. Securities Act, upon the written request by such bondholder.

Service of Process; Enforcement of Liability

The Company is a corporation organized under the laws of the Republic of the Marshall Islands. 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.

Notice to New Hampshire Residents

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES, ANNOTATED, 1955, AS AMENDED, WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

Tax

PURSUANT TO U.S. TREASURY DEPARTMENT CIRCULAR 230, THE COMPANY IS INFORMING YOU THAT (A) THE DISCUSSION OF U.S. FEDERAL INCOME TAX CONSIDERATIONS CONTAINED IN THIS MEMORANDUM IS NOT INTENDED AND WAS NOT WRITTEN TO BE USED, AND CANNOT BE USED, BY ANY TAXPAYER FOR THE PURPOSE OF AVOIDING PENALTIES UNDER THE U.S. FEDERAL TAX LAWS THAT MAY BE IMPOSED ON THE TAXPAYER, (B) SUCH DISCUSSION WAS WRITTEN IN CONNECTION WITH THE PROMOTION OR MARKETING BY THE COMPANY AND THE INITIAL PURCHASERS OF THE NOTES, AND (C) EACH TAXPAYER SHOULD SEEK ADVICE BASED ON ITS PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR.

Supplemental Information

On 6 April 2011, the Company published its audited financial report for the period 1 January 2010 to 31 December 2010, including the Independent Auditor's report (the "**Financial Statements**"). The Company deems this information to be of importance for prospective investors.

The Financial Statements is attached hereto as Appendix 1.

OCEAN RIG UDW INC.
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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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, 2010 and 2009, and the consolidated statements of operations, stockholders' equity and cash flows for each of the three years ended December 31, 2010, and a summary of significant accounting policies and other explanatory information.

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 and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are 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 audit opinion.

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Ocean Rig UDW Inc. as of December 31, 2010 and 2009 and its financial performance and cash flows for each of the three years ended December 31, 2010, in accordance with U.S. generally accepted accounting principles.

Emphasis of matter
We draw attention to Note 3 of the consolidated financial statements which describes that the financial statements as of and for the year ended December 31, 2009 have been restated to correct errors in the application of ASC 835-20, *Capitalization of Interest* and ASC 815-03, *Cash Flow Hedges.* Our opinion is not qualified in respect of this matter.

Stavanger, April 6, 2011
ERNST & YOUNG AS

Jan Kvalvik
State authorized public accountant (Norway)

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

		December 31, 2009 (as restated)		December 31, 2010
ASSETS				
CURRENT ASSETS:				
Cash and cash equivalents……	$	234,195	$	95,707
Restricted cash (Note 6)……		220,690		512,793
Trade accounts receivable, net ……		65,486		24,286
Due from related parties (Note 4)……		4,934		-
Financial instruments (Note 11)……		434		1,538
Other current assets ……		32,819		37,682
Total current assets		558,558		672,006
FIXED ASSETS, NET:				
Rigs under construction (Note 7)……		1,178,392		1,888,490
Drilling rigs, machinery and equipment, net (Note 8)……		1,317,607		1,249,333
Total fixed assets, net		2,495,999		3,137,823
OTHER NON CURRENT ASSETS:				
Restricted cash (Note 6)		-		50,000
Intangible assets, net (Note 9)……		11,948		10,506
Above market acquired time charter (Note 9)……		2,392		1,170
Pensions (Note 12)……		388		-
Other non-current assets (Note 13)……		40,700		472,193
Total non current assets, net		55,428		533,869
Total assets	$	3,109,985	$	4,343,698
LIABILITIES AND STOCKHOLDERS' EQUITY				
CURRENT LIABILITIES:				
Current portion of long-term debt (Note 10)……	$	537,668	$	560,561
Accounts payable……		13,591		6,189
Due to related parties (Note 4)……		48,110		-
Accrued liabilities ……		34,235		45,631
Deferred revenue……		38,400		40,205
Financial instruments (Note 11)……		5,467		12,503
Other current liabilities……		4,816		2,829
Total current liabilities		682,287		667,918
NON CURRENT LIABILITIES				
Long term debt, net of current portion (Note 10)……		662,362		696,986
Financial instruments (Note 11)……		64,219		96,901
Deferred tax liability (Note 20)……		-		209
Pensions (Note 12)……		-		602
Total non current liabilities		726,581		794,698
COMMITMENTS AND CONTINGENCIES (Note 22)		-		-
STOCKHOLDERS' EQUITY:				
Common stock, $0,01par value; 131,696,928 shares authorized, issued and outstanding at December 31, 2010 (Note 14) ……		10		1,317
Additional paid in capital……		2,386,953		3,457,444
Accumulated other comprehensive loss……		(34,128)		(60,722)
Retained earnings……		(651,718)		(516,957)
Total stockholders' equity		1,701,117		2,881,082
Total liabilities and stockholders' equity	$	3,109,985	$	4,343,698

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, 2008, 2009 and 2010
(Expressed in thousands of U.S. Dollars - except for share and per share data)

	Year Ended		
	2008	2009 (as restated)	2010
REVENUES:			
Leasing revenues	$ 116,859	$ 223,774	$ 141,211
Service revenue	85,251	149,751	261,951
Other revenues	16,553	14,597	2,550
Total Revenues	218,663	388,122	405,712
EXPENSES:			
Drilling rigs operating expenses (Note 16)	86,229	133,256	119,369
Depreciation and amortization (Note 8 and 9)	45,432	75,348	75,092
Gain / (loss) of sale assets	-	-	(1,458)
Goodwill Impairment (Note 17)	761,729	-	-
General and administrative expenses	14,462	17,955	19,443
Operating income / (loss)	(689,189)	161,563	190,350
OTHER INCOME / (EXPENSES):			
Interest and finance costs (Note 18)	(71,692)	(46,120)	(8,418)
Interest income (Note 19)	3,033	6,259	12,464
Gain/(loss) on interest rate swaps (Note 11)	-	4,826	(40,303)
Other, net (Note 11)	(2,300)	2,023	1,104
Total expenses/ income, net	(70,959)	(33,012)	(35,153)
INCOME /(LOSS) BEFORE INCOME TAXES AND EQUITY IN LOSS OF INVESTEE	(760,148)	128,551	155,197
Income taxes (Note 20)	(2,844)	(12,797)	(20,436)
Equity in loss of investee (Note 5.1)	(1,055)	-	
NET INCOME/(LOSS)	(764,047)	115,754	134,761
Less: Net income attributable to non controlling interest	(1,800)	-	-
NET INCOME/(LOSS) ATTRIBUTABLE TO OCEAN RIG UDW INC.	$ (765,847)	$ 115,754	$ 134,761
Earnings/(loss) per common share attributable to Ocean Rig UDW inc., basic and diluted (Note 15)	(7.43)	1.12	1.30
Weighted average number of common shares, basic and diluted	103,125,500	103,125,500	103,908,279

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, 2008, 2009 and 2010
(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	Cash Flow Hedge	Actuarial pension gain/(loss)	Option Cost	Accumulated Other Comprehensive Income / (Loss)	Retained Earnings	Total Stockholders Equity
BALANCE, December 31, 2007		**103,125,500**	**10**	**162,057**				**-**	**(3,425)**	**158,642**
-Net income	(765,847)								(765,847)	(765,847)
-Unrealized gain on cash flows hedges, net of tax of $0 (Note 20)	(46,637)				(46,637)			(46,637)		(46,637)
-Increase in defined benefit plan adjustments, net of tax of $0 (Note 20)	1,240					1,240		1,240		1,240
- Option costs	812						812	812		812
-Capital contribution from Dryships Inc				650,164						650,164
-Capital contribution due to retirement of treasury shares				16,582						16,582
-Capital contribution due to stock option program employees				7,087						7,087
Retained earnings acquired									1,800	1,800
-Redemption adjustment				(212)						(212)
-Comprehensive income	(810,432)				(46,637)	1,240	812			
BALANCE, December 31, 2008		**103,125,500**	**10**	**835,678**				**(44,585)**	**(767,472)**	**23,631**
-Net income- As restated (Note 3)	115,754								115,754	115,754
-Realized expense on Cash flow hedges, net of tax $0 (Note 20) - As restated (Note 3)	(6,253)				(6,253)			(6,253)		(6,253)
-Unrealized gain on cash flows hedges, net of tax of $0 (Note 20)	16,140				16,140			16,140		16,140
-Increase in defined benefit plan adjustments, net of tax of $0 (Note 20)	570					570		570		570
-Contribution of net assets in Drillships Investments Inc.(Note 4)				439,900						439,900
-Cancellation of shares in relation to acquisition of Drillship Holding (Note 4)		(25,781,375)	(3)							(3)
-Acquisition of Drillships Holdings Inc. (Note 4)		25,781,375	3	358,000						358,003
-Capital contribution from Dryships Inc				753,375						753,375
-Comprehensive income	126,211				(36,750)	1,810	812			
BALANCE, December 31, 2009 As restated – (Note 3)		**103,125,500**	**10**	**2,386,953**				**(34,128)**	**(651,718)**	**1,701,117**
-Net income	134,761								134,761	134,761
-Realized expense on Cash flow hedges, net of tax $0 (Note 20)	(21,522)				(21,523)			(21,523)		(21,523)
-Unrealized gain on cash flows hedges, net of tax of $0 (Note 20)	(5,495)				(5,495)			(5,495)		(5,495)
-Increase in defined benefit plan adjustments, net of tax of $0 (Note 20)	424					424		424		424
-Share dividend (Note 14)			1,021	(1,021)						
-Private Placement (Note 14)		28,571,428	286	488,015						488,301
-Capital contribution from Dryships Inc				583,497						583,497
-Comprehensive income	108,168				(63,768)	2,234	812			
BALANCE, December 31, 2010		**131,696,928**	**1,317**	**3,457,444**				**(60,722)**	**(516,957)**	**2,881,082**

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, 2008, 2009 and 2010
(Expressed in thousands of United States Dollars)

	January 1 to December 31, 2008	January 1 to December 31, 2009 (as restated)	January 1 to December 31, 2010
Cash Flows from Operating Activities:			
Net income	$ (765,847)	115,754	$ 134,761
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	45,432	75,348	75,092
Loss from disposal of assets	-	-	1,458
Commitments fees on undrawn line of credit	6,188	4,300	6,375
Amortization and premium paid over withdrawn loans	14,062	10,973	-
Net amortization of fair value of acquired drilling contracts	(16,553)	(14,597)	1,222
Payments for Cash flow hedge not included in expense	-	(6,253)	(21,523)
Interest income on restricted cash related to drillships	-	(3,837)	(6,205)
Goodwill impairment charge	761,729	-	-
Income from associated companies	1,055	-	-
Change in fair value of derivatives	2,512	31,654	33,119
Changes in operating assets and liabilities:			
Trade accounts receivable	(1,569)	(23,626)	41,200
Other current assets	(1,012)	(17,521)	(4,863)
Deferred taxes	-	-	209
Accounts payable	(1,955)	6,147	(7,402)
Due to related parties	(26,797)	48,110	-
Other current liabilities	1,759	(3,207)	(1,988)
Pension liability	(2,015)	(142)	1,416
Accrued liabilities	(869)	1,940	5,022
Deferred revenue	4,999	26,732	1,805
Payment of margin call for derivatives	-	(40,700)	(37,900)
Net Cash Provided by Operating Activities	21,119	211,075	221,798
Cash Flows from Investing Activities:			
Investments in Ocean Rig ASA, net of cash acquired	(972,802)	-	-
Advances for vessels under construction	-	(130,832)	(705,022)
Downpayment for vessels under construction and other improvements	-	-	(294,569)
Drillship options	-	-	(99,024)
Drilling rigs, equipment and other improvements	(16,584)	(14,152)	(6,834)
Increase in restricted cash	(31,287)	(185,565)	(335,898)
Cash from acquisition of drillships	-	183,770	-
Net Cash Used in Investing Activities	(1,020,673)	(146,779)	(1,441,347)
Cash Flows from Financing Activities:			
Capital contribution by Dryships Inc	650,161	753,375	540,321
Net proceeds from the issuance of common shares	11,306	-	488,301
Proceeds from long-term credit facility	2,050,000	150,000	8,250
Proceeds from short term credit facility	-	-	300,000
Principal payments and repayments of long-term debt	(1,438,941)	(650,000)	(132,717)
Principal payments and repayments of short-term debt	-	(355,052)	(115,000)
Payment of financing costs	(15,136)	(1,364)	(8,094)
Net Cash Provided by (used in) Financing Activities	1,257,390	(103,041)	1,081,061
Net (decrease) / increase in cash and cash equivalents	257,836	(38,745)	(138,488)
Cash and cash equivalents at beginning of period	15,104	272,940	234,195
Cash and cash equivalents at end of period	$ 272,940	234,195	$ 95,707
SUPPLEMENTAL CASH FLOW INFORMATION:			
Cash paid during the year/period for:			
Interest, net of amount capitalized	23,103	51,093	43,203
Income taxes	2,566	13,233	19,803

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

1a. 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 formed under the laws of the Republic of the Marshall Islands on December 10, 2007under 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. 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. 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. On November 24, 2010, Ocean Rig UDW Inc. established an office and was registered with the Cyprus Registrar of Companies as an overseas company.

The Company is controlled 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 owned and operated as of December 31, 2010 the two semi-submersible rigs that are among the world's largest drilling rigs, built for ultra deep-waters and extreme weather conditions.

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 5). Two drillships (Hulls 1837 and 1838) were ordered by certain entities including entities affiliated with the CEO of DryShips Inc, George Economou. 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. 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, Hull 1837, which was named Ocean Rig Corcovado, was delivered on January 3, 2011. Hull 1838 which was named Ocean Rig Olympia was delivered on March 30, 2011. The other Hulls are scheduled to be delivered in 2011.

1b. Liquidity and Management Plans:

At December 31, 2010, the Company's short-term contractual obligations to fund the construction installments under the drillship shipbuilding contracts in 2011 amount to $1,374 million. Cash expected to be generated from operations is not anticipated to be sufficient to cover the Company's capital commitments, current loan obligations and maintain compliance with minimum cash balance covenants. In March 2011, the Company or Dryships Inc. received commitments from financial institutions for additional financing amounting to $800 million and consents from existing lenders to draw down an additional amount of $495 million to cover obligations falling due within 2011. Additionally, Dryships Inc. has committed to provide cash to meet the Company's liquidity needs over the next twelve months. The Company believes that the above financing and support from Dryships Inc. will be sufficient to meet its working capital needs, capital commitments, loan obligations and maintain compliance with its minimum cash balance and other loan covenants throughout 2011. In addition, should the Company exercise all its options to construct four new drillships, the Company would be required to pay cash payments of $ 698.8 million in 2011, for which it would be dependent upon obtaining additional financing. However, should such financing and support from Dryships not be available when required due to unexpected events, this could severely impact the Company's ability to satisfy future liquidity requirements and its ability to finance future operations.

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 in 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.

Significant Accounting policies-(continued):

(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.

(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.

Restricted cash balances include minimum required cash deposits, as defined in the loan agreements, and are classified as of December 31, 2008, 2009 and 2010 as either current or non-current depending on the individual deposit (note 6).

(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 accounts at December 31, 2009 or 2010.

(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 fair value of 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, 2010, cumulative instalment payments made to Samsung Heavy Industries amounts to approximately $1,512,655 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, 2010, are 95%, 94% and 94% for Hulls 1838, 1865 and 1866, respectively. As a result, the open risk is $19,000 for Hull 1838 and $30,000 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 drillships 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 17).

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/below 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, 2009 and 2010, 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 2009 and 2010.

(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 which may range from one to three percent of gross revenues. 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 drilling services are deferred and recognized over the estimated duration of the drilling period. 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 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 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, 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 did not have any impact on its financial position and results of operation, but the required note disclosures have been included in the financials.

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

3. Restatement of Previously Issued Financial Statements:

The Company adjusted its previously reported consolidated financial statements for the year ended December 31, 2009 to reflect the correction of an error in computing capitalized interest expense for rigs under construction. Management concluded that the amortization of and the deferred financing cost should have been included in the capitalized rate affecting the capitalization of interest.

Additionally, the Company considered ASC 835-20, *Capitalization of Interest*, and ASC 815-30, *Cash Flow Hedges*, and adjusted its previously reported financial statements for 2009 to reflect the correction of an error to reverse the reclassification into earnings of that portion of interest that should have remained in accumulated other comprehensive loss since it related to cash flow hedges of the variability of interest on borrowings that was capitalized as part of rigs under construction. Such accumulated other comprehensive loss should be reclassified into earnings in the same periods during which the hedged transactions affect earnings.

The Company's management determined that the Interest and finance costs were overstated by $11,189, rigs under construction were understated by $6,253, accumulated other comprehensive loss was understated by $4,936 and retained earnings was understated by $11,189.

The following tables reflect the impacts on the financial statement line items of the accounting adjustments:

Consolidated Statement of Operations		**For the Year Ended December 31, 2009**	
	As previously reported	**Errors**	**As restated**
Interest and finance costs	$ (57,309)	11,189	$ (46,120)
Net profit attributable to Ocean Rig UDW Inc.	104,565	11,189	115,754
Loss per common share, basic and diluted	$ 1.01	0.1	$ 1.12

Consolidated Balance Sheet		**December 31, 2009**	
	As previously reported	**Errors**	**As restated**
Rigs under construction	$ 1,173,456	4,936	$ 1,178,392
Total Fixed Assets, net	2,491,063	4,936	2,495,999
Total assets	3,105,049	4,936	3,109,985
Accumulated other comprehensive loss	(27,875)	(6,253)	(34,128)
Retained earnings	(662,907)	11,189	(651,718)
Total equity	1,696,181	4,936	1,701,117
Total liabilities and stockholders’ equity	3,105,049	4,936	3,109,985

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

Consolidated Cash Flow	For the Year ended December 31, 2009		
	As previously reported	Errors	As restated
Net income	$ 104,565	11,189	$ 115,754
Interest income on restricted cash related to drillships *)	-	(3,837)	(3,837)
Payments for Cash flow hedge not included in expense	-	(6,253)	(6,253)
Net Cash provided by Operating Activities	209,976	1,099	211,075
Advances for vessels under construction	(125,896)	(4,936)	(130,832)
Increase in restricted cash *)	(189,403)	(3,837)	(185,565)
Net Cash Used in Investing Activites	(145,681)	(1,099)	(146,779)
Net (decrease)/increase in cash and cash	$ (38,745)	-	$ (38,745)

*) Interest income on restricted cash related to drillships has been reclassified from Increase in restricted cash, as included in the section Net Cash Used in Investing Activities, to Interest income on restricted cash related to drillships, as included in Net Cash provided by Operating Activities.

(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 Marine Inc. (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 commission was 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 cancelled 25% of the shares held by Dryships Inc. as of May 15, 2009 and simultaneously reissued the same number of shares to the sellers. Consequently, following this transaction the sellers held shares equal to 25% of the Company's total issued and outstanding common shares. 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

Acquisition of Drillships Hulls 1865 and 1866
On March 5, 2009, DryShips Inc. contributed to the Company 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.

4. Transactions with Related Parties-(continued):

Management Agreements with Cardiff Marine Inc. (Cardiff) and Vivid Finance Ltd.
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. The management agreements were terminated effective December 21, 2010 and replaced by Vivid Finance and Global service agreements.

Under this agreement Vivid Finance Ltd, a company controlled by the Chairman, President and Chief Executive Officer, Mr. George Economou, provides consultancy services on financing matters for Dryships and its affiliates, subsidiaries or holding companies, including the Company, as directed by DryShips. Under this agreement, Vivid Finance provides consulting services relating to (i) the identification, sourcing, negotiation and arrangement of new loan and credit facilities, interest swap agreements, foreign currency contracts and forward exchange contracts; (ii) the raising of equity or debt in the public capital markets; and (iii) the renegotiation of existing loan facilities and other debt instruments. In consideration for these services, Vivid Finance is entitled to a fee of twenty basis points, or 0.20%, on the total transaction amount. The Company does not pay for services provided in accordance with this agreement. Dryships Inc. pays for the services. Accordingly, these expenses are recorded in the consolidated statement of operations (or as otherwise required by US GAAP) and as a shareholders contribution to capital.

Under the Global Services Agreement with Dryships, Cardiff, a company controlled by Mr. George Economou, or its subcontractor, will (i) provide consulting services related to identifying, sourcing, negotiating and arranging new employment for offshore assets of DryShips and its subsidiaries, including our drilling units; and (ii) identify, source, negotiate and arrange the sale or purchase of the offshore assets of DryShips and its subsidiaries, including our drilling units. In consideration of such services, DryShips will pay Cardiff a fee of 1.0% in connection with employment arrangements and 0.75% in connection with sale and purchase activities. The Company does not pay for services provided in accordance with this agreement, these expenses will however be recorded in the consolidated statement of operations and as a shareholders contribution to capital.

In the period from acquisition of Hulls 1837 and 1838 on May 15, 2009 to December 31, 2009, and January 1 to December 31, 2010 total charges from Cardiff under the management agreements amounted to $1,868 and $3,983 respectively. Costs from management service agreements are capitalized as a component of "Rigs under construction," being directly attributable cost to the construction.
As of December 31, 2009 and 2010, no balances were outstanding to Cardiff.

In the period from September 1, 2010 to December 31, 2010, total charges from Vivid Finance was $ 1,000 and charged to equity in relation to the private placement as cost directly attributable to the offering and reflected as an increase in shareholder contribution to capital, see note 14.

Private offering
A company controlled by our Chairman, President and Chief Executive Officer, Mr. George Economou, purchased 2,869,428 common shares, or 2.38% of our outstanding common shares, in the private offering that was completed on December 21, 2010. The offering price was $17.50 per share. The price per share paid was the same as that paid by other investors taking part in the private offering. See note 14.

Purchase of drillship options from DryShips
On November 22, 2010, DryShips entered into an option contract with Samsung for the construction of up to four ultra-deepwater drillships. The new orders would be "sister-ships" to the Ocean Rig Corcovado, the Ocean Rig Olympia and the two drillships under construction and would have the same specifications as the Ocean Rig Poseidon. Each of the four options to build a drillship may be exercised by November 2011 with vessel deliveries ranging from 2013 until 2014 depending on when the options are exercised. The total construction cost, excluding financing costs, is estimated to be about $600 million per drillship. The agreement includes a non-refundable slot reservation fee of $24.8 million per drillship, which was paid by DryShips, which will be applied towards the drillship

contract price if the options are exercised. This agreement was novated to the Company by DryShips on December 30, 2010 at a cost of $99.0 million.

Legal services

Mr. Savvas D. Georghiades, a member of the Company's board of directors, provides legal services to the Company and to its predecessor, Primelead Limited through his law firm, Savvas D. Georghiades, Law Office. In the year ended December 31, 2010, the Company and Primelead Limited paid a fee of Euro 94,235 for the legal services provided by Mr. Georghiades.

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 UDW. 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. There were no receivables or payables as of December 31, 2010.

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

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 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, 2008 as "Equity in loss of investee" and amounted to a loss of $1,055.

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

Result of Operations

		January 1 to May 14, 2008
Revenues	$	99,172
Operating income/ (loss)	$	19,521
Net Loss	$	(23,396)

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

5. Acquisition of Ocean Rig–(continued):

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, 5.4% 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 for Ocean Rig UDW was recorded as equity transaction in consolidation and increased 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.

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:

		December 20, 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

(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):

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 ASA.

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 17).

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. For 2010 the amount amortized was $(1,221).

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 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, 2010**	**Amount to be Amortized as of December 31**			
			2011	**2012**	**2013**	**2014-18**
Trade names	$ 8,774	2,384	877	877	877	$ 3,759
Software	5,659	1,544	566	566	566	2,417
	$ 14,434	3,928	1,443	1,443	1,443	$ 6,177

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, 2008, give effect to the acquisition of Ocean Rig ASA, as though the business combination had been completed at the beginning of the period:

	December 31, 2008
Pro forma:	
Revenues	$ 317,835
Net Operating Income/(loss)	(669,675)
Net Income/(loss)	(789,250)
Earnings per Shares, basic and diluted	$ (7.65)

(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):

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 ASA 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 both current and non-current assets in the accompanying consolidated balance sheets.

Restricted cash as of December 31, 2009 and 2010 amounted to:

	December 31, 2009	December 31, 2010
Amount pledged as collateral for bank loans (Note 10 b and e) ...	$ 187,389	$ 529,815
Amounts pledged as collateral to customer	1,000	1,000
Amounts representing minimum liquidity requirements under the loan facilities (Note 10)	30,000	30,000
Taxes withheld from employees..	2,301	1,978
Total restricted cash..	$ 220,690	$ 562,793

Restricted cash of $50,000 of total $ 562,793 has been classified as non-current as of December 31, 2010. As of December 31, 2009 total of $ 220,690 restricted cash was classified as current.

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 and 2010 the advances for rigs under construction and acquisitions are set forth below:

			December 31, 2009 (as restated)			
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	27,178	89,000	$ 370,524
H1838	March 2011	690,758	254,346	26,041	89,000	369,387
H1865	July 2011	715,541	205,940	13,827	-	219,767
H1866	September 2011	715,541	205,940	12,774	-	218,714
		$ **2,812,848**	**920,572**	**79,820**	**178,000**	$ **1,178,392**

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

7. Rigs under Construction-(continued):

			December 31, 2010			
Vessel Name	Expected delivery	Contract amount	Contract payments	Capitalized expenses	Rig fair value adjustments at acquisition date	Total
H1837	January 2011	$ 696,524	407,505	78,031	89,000	$ 574,536
H1838	March 2011	695,000	407,505	55,670	89,000	552,175
H1865	July 2011	731,987	374,833	33,033	-	407,866
H1866	September 2011	731,614	322,812	31,101	-	353,913
		$ **2,855,125**	**1,512,655**	**197,835**	**178,000**	$ **1,888,490**

During the year ended December 31, 2009 and 2010 the Contract amount increased from $ 2,812,848 to $ 2,855,125 from scope changes.

During the year ended December 31, 2009 and 2010 the movement of the advances for drillships under construction and acquisitions was as follows:

Balance at December 31, 2008	$ -
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 (as restated)	24,457
Capitalized expenses	8,834
Related Parties	1,869
Balance at, December 31, 2009 (as restated)	$ 1,178,392

Balance at January 1, 2010	$ 1,178,392
Advances for drillships under construction	592,085
Capitalized interest	35,781
Capitalized expenses	78,249
Related Parties	3,983
Balance at, December 31, 2010	$ 1,888,490

(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, 2008	$ 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	-	14,152
Depreciation	-	(73,905)	(73,905)
Balance December 31, 2009	1,436,082	(118,476)	1,317,607
Additions	6,835	-	6,835
Disposals	(2,800)	1,342	(1,458)
Depreciation		(73,651)	(73,651)
Balance December 31, 2010	$ 1,440,117	(190,785)	$ 1,249,333

As of December 31, 2009 and 2010, 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 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 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 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, 2009	Amortization for the year ended December 31, 2010	2011	2012	2013	2014	2015	thereafter
Trade names	$ 8,774	(1,507)	(877)	(877)	(877)	(877)	(877)	(877)	$ (2,005)
Software	5,659	(978)	(565)	(565)	(565)	(565)	(565)	(565)	(1,291)
Total Intangible Assets, net	$ 14,433	(2,485)	(1,442)	(1,442)	(1,442)	(1,442)	(1,442)	(1,442)	$ (3,296)
Above market time charters	$ 3,663	(1,271)	(1,222)	(1,170)					

(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, 2009	December 31, 2010
Two 562,500 Loan Agreements	$ 186,274	$ 194,524
1,040,000 Credit Facility	808,550	675,833
230,000 Credit Facility	230,000	115,000
300,000 Credit Facility	-	300,000
Total loan Facilities outstanding	1,224,824	1,285,357
Less: Deferred financing costs	(24,794)	(27,810)
Total debt reflected in balance sheet	1,200,030	1,257,547
Less: Current portion	(537,668)	(560,561)
Long-term portion	$ 662,362	$ 696,986

The principal payments, excluding deferred financing costs, to be made during each of the twelve-month periods subsequent to December 31, 2010 for the loan payments as classified in the balance sheet in, are as follows:

December 31, 2011	$ 568,333
December 31, 2012	195,000
December 31, 2013	522,024
Total principal payments	1,285,357
Less: Financing fees	(27,810)
Total debt reflected in balance sheet	$ 1,257,547

Total interest and debt amortization cost incurred on long-term debt for the years ended December 31, 2009 and 2010 amounted to $63,407 and $57,350, respectively, of which $24,457 and $35,780 respectively, were capitalized as part of the cost of the rigs under construction. Total interest incurred and amortization of debt issuance cost 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 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, 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 contained various covenants measured on a consolidated DryShips Inc. level, including a minimum market-adjusted equity ratio.

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.

10. 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 5, 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) a minimum market-adjusted equity ratio; and (ii) a minimum market value adjusted net worth..

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 contracts at acceptable terms is subject to cash deposit collateral of an equivalent amount to any drawdown.

As of December 31, 2010, the amount outstanding under the Two 562,500 Loan Agreements was $194,524. Cash deposits equivalent to the drawdowns on the Two 562,500 Loan Agreements are included as restricted cash (note 6).

As of December 31, 2010 the Company had an unutilized line of credit totaling $930,476. Drawdowns under this line of credit must be matched with corresponding cash collateral until the drillships enter into employment contracts for both vessels 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 by the earlier of (i) April 30, 2011 or (ii) the delivery of the *Ocean Rig Poseidon*, 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.

On March 28, 2011 the company restructured these facilities, see note 23.8.

10. Long-term Debt- (continued):

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.

The commitment under 1,040,000 Credit Facility's 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. Further, the commitment under 1,040,000 Credit Facility's Revolving Credit Facility B is 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, 2011.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.

As of December 31, 2009 and 2010, the outstanding balances under the 1,040,000 Credit Facility were $808,550 and $675,833, respectively.

d) 230,000 Credit Facility: In connection with the acquisition of Drillships Holdings on May 15, 2009, the Company assumed the $230,000 loan facility that was entered into in September 2007, in order to finance the construction of Hulls 1837 and 1838. The 230,000 Credit Facility bear interest at the lender's funding cost plus 1.25%, and are repayable upon the delivery of Hull 1837 in January 2011, 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. The Company repaid $115.0 million of the loan facility on December 22, 2010 in connection with the delivery of the *Ocean Rig Corcovado* and the remaining $115.0 million of the loan facility on March 18, 2011 in connection with the delivery of the *Ocean Rig Olympia.*

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 20010.

e) 300,000 Credit Facility: On December 28, 2010 the Company concluded a $300,000 loan facility to be repaid during 2011 which was callable by the bank at anytime and could be repaid without prepayment penalties. The loan was fully drawn on December 28, 2010 and fully repaid on January 3, 2011, see note 23.3. The loan cannot be redrawn. A corresponding amount was deposited on a required escrow account as required by the loan agreement as security for the loan, which is classified as restricted cash. Interest on the facility is LIBOR plus 1.5% while the borrowed funds are held with the bank earning LIBOR plus 3.85%.

10. Long-term Debt- (continued):

f) 325,000 Credit Facility: On December 21, 2010 the Company concluded a $325,000 bridge term loan facility, with its 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, or Ocean Rig Corcovado, and (iii) financing the payment of the final installment associated with the purchase of said drillship. 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. The loan was drawn in full on January 5, 2011 and matures July 5, 2011.

The loans above (a-f) are secured by a first priority mortgage over the drillships/drill rigs or assignment of shipbuilding contracts, corporate guarantee, and 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, the 230,000 Credit Facility and the 325,000 Credit Facility above also contain certain financial covenants relating to the consolidated financial position of DryShips Inc., operating performance and liquidity.

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. As of December 31, 2008 and 2009, Dryships was deemed to be in theoretical default of all its bank facilities. 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 was fully classified as current. The cross default provisions of the Company's credit facility 1,040,000 is only triggered by the actual default on other indebtedness and was 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 as per December 31, 2009 classified all of its affected long-term debt in breach due to cross-default clauses of the credit facility agreements amounting to $400,036 as current at December 31, 2009. As per December 31, 2010 there was no default situation in DryShips and therefore no cross-default for the Company's loans.

(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, 2009 and December 31, 2010 are as follows:

	December 31, 2009			December 31, 2010		
	Interest rate swaps	Foreign currency forward contracts	Total	Interest rate swaps	Foreign currency forward contracts	Total
Current Assets	$ -	434	434	-	1,538	$ 1,538
Current Liabilities	(5,467)	-	(5,467)	(12,503)	-	(12,503)
Non-current liabilities	(64,219)	-	(64,219)	(96,901)	-	(96,901)
Total	$ (69,686)	434	(69,252)	(109,404)	1,538	$ (107,866)

11.1 Interest rate swaps and cap and floor agreements: As of December 31, 2009 and 2010, the Company had outstanding eleven interest rate swap and cap and floor agreements, with a notional amount of $1,285,000 and $908,468 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, 2009 and 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 December 31, 2009 and 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. 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, 2010, security deposits (margin calls) of $78,600 were paid by the Company 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.

(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: As of December 31, 2009 and 2010, the Company had outstanding ten forward contracts to sell $20 million for NOK 119 million and twelve forward contracts to sell $28 million for NOK 174 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, 2009 and December 31, 2010 was an asset of $434 and an asset of $1,538 respectively.

The change in the fair value of such agreements for the years ended December 31, 2009 and 2010 amounted to a gain of $2,023 and a gain of $1,104 respectively and is reflected under "Other, net" in the accompanying consolidated statement of operations.

		Asset Derivatives			Liability Derivatives	
Derivatives designated as hedging instruments	**Balance Sheet Location**	**December 31, 2009 Fair value**	**December 31, 2010 Fair value**	**Balance Sheet Location**	**December 31, 2009 Fair value**	**December 31, 2010 Fair value**
Interest rate swaps........	Financial instruments	$ -	-	Financial instruments non-current liabilities	(31,028)	$ (36,523)
		-	-	Financial instruments current liabilities	-	-
Total derivatives designated as hedging instruments.............		-	-		(31,028)	(36,523)
Derivatives not designated as hedging instruments						
Interest rate swaps	Financial Instruments current assets	-	-	Financial Instruments current liabilities	(5,467)	(12,503)
Interest rate swaps	Financial Instruments non-current assets	-	-	Financial instruments-non current liabilities	(33,191)	(60,378)
Foreign currency forward contracts	Financial instruments current assets	434	1,538	Financial instruments current liabilities	-	-
Total derivatives not designated as hedging instruments.............		434	1,538		(38,658)	(72,781)
Total derivatives		$ 434	1,538	Total derivatives	(69,686)	$ (109,404)

(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 effect of Derivative Instruments on Accumulated other comprehensive income:

	Amount of Gain/(Loss) Recognized in OCI on Derivative (Effective Portion)		
Derivatives designated for cash flow hedging relationships	**Year ended December 31, 2009**		**Year ended December 31, 2010**
Interest rate swaps..	9,887	$	(27,018)
Total	9,887	$	(27,018)

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.

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

		Amount of Gain/(Loss)		
Derivatives not designated as hedging instruments	**Location of Gain or (Loss) Recognized**	**Year ended December 31, 2009**		**Year ended December 31, 2010**
Foreign currency forward contracts	Other, net	2,023	$	1,104
Interest rate swaps..	Gain/(loss) interest rate swaps	4,826		(40,303)
Total		6,849	$	(39,199)

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.

(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):

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.

	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)	$ -

	December 31, 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	$ (109,404)	-	(109,404)	$ -
Foreign currency forward contracts – asset position	1,538	1,538	-	-
Total	$ (107,886)	1,538	(109,404)	$ -

11.3 Amortization plan deferred OCI Cash flow hedge financing cost:

In 2011 the drillships will be delivered and put into operation. As the depreciation of the drillships will start in 2011, a portion of the net amount of the existing gains or losses on cash flow hedges reported in accumulated other comprehensive income will need to be reclassified into earnings. The estimated net amount of such existing gains or losses at December 31, 2010 that will be reclassified into earnings within the next 12 months is $694.

The following table summarizes the accumulated cash flow hedge interest expense in Other Comprehensive Income.

	December 31, 2008	December 31, 2009	December 31, 2010
Accumulated Cash flow interest expense	$ -	(6,253)	$ (27,776)
Amortized	-	-	-
Other Comprehensive Income	$ -	(6,253)	$ (27,776)

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

12. Pensions:

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

	December 31, 2009	December 31, 2010
Pension benefit obligation/ (asset)	$ (388)	$ 602

The Company has three pension benefit plans for employees managed and funded through Norwegian life insurance companies. As of December 31, 2010 the pension plans cover 55 employees. The pension scheme is in compliance with the Norwegian law on required occupational pension.

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:

	2009	2010
Benefit obligation at January 1	$ 7,032	$ 8,897
Service cost for benefits earned	4,121	2,021
Interest cost	280	334
Settlement	(1,983)	(2,985)
Actuarial gains/(losses)	(1,587)	149
Benefits paid	(42)	(72)
Payroll tax of employer contribution	(442)	(104)
Foreign currency exchange rate changes	1,518	(143)
Benefit obligation at end of year	$ 8,897	$ 8,097

The following table presents the change in the value of plan assets for the years ended December 31, 2009 and 2010 and the plans' funded status at December 31:

	2009	2010
Fair value of plan assets at January 1,	$ 6,320	$ 9,284
Expected return on plan assets	378	395
Actual return on plan assets	(1,395)	(760)
Employer contributions	3,138	741
Settlement	(624)	(1,986)
Foreign currency exchange rate changes	1,467	(178)
Fair value of plan assets at end of year	$ 9,284	$ 7,496
Funded/ (unfunded) status at end of year	$ 388	$ 602

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

	2008	2009	2010
Net actuarial loss	$ 3,337	$ 2,766	$ 2,342
Prior service cost	187	964	424
Defined benefit plan adjustment, before tax effect	$ 3,524	$ 3,730	$ 2,766

(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 $2,995 at December 31, 2010 and $6,265 at December 31, 2009.

The net periodic pension cost recognized in consolidated statements of income was $2,981, 3,652 and 2,008 for the years ended December 31, 2008, 2009 and 2010.

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

	2008	2009	2010
Expected return on plan assets	$ (410)	$ (378)	$ (395)
Service cost	2,870	4,121	2,021
Interest cost	275	280	334
Amortization of prior service cost	190	-	-
Amortization of actuarial loss	146	168	47
Settlement	(91)	(539)	1
Net periodic pension cost	$ 2,981	$ 3,652	$ 2,008

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

	2008	2009	2010
Net actuarial loss (gain)	$ 225	$ (1,091)	$ 1,101
Prior service cost (credit)	(1,511)	777	(1,020)
Amortization of actuarial loss	236	(256)	(505)
Amortization of prior service cost	(190)	-	-
Total recognized in net pension cost and other comprehensive income, before tax effects	$ (1,240)	$ (570)	$ (424)

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 $112.

Pension obligations are actuarially determined and are affected by assumptions including expected return on plan assets. As of December 31, 2010 contributions amounting to $741 in total, have been made to the defined benefit 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	December 31, 2010
Weighted average assumptions			
Expected return on plan assets	5.80%	5.70%	5.40%
Discount rate	3.80%	4.50%	4.00%
Compensation increases	4.25%	4.50%	4.00%

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. US 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 and 2010:

	2009	2010
Share and other equity investments	$ 1,086	$ 1,214
Bonds and other security – fixed yield	2,618	1,289
Bonds held to maturity	2,497	1,889
Properties and real estate	1,504	1,207
Money market	947	668
Other	631	1,229
Total plan net assets at fair value	$ 9,284	$ 7,496

The law requires a low risk profile; hence the majority of the funds are invested in government bonds and high-rated corporate bonds.

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, and real assets, 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 material. 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 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	2010
Shares and other equity instruments	12%	16%
Bonds	55%	42%
Properties and real estate	16%	16%
Other	17%	26%
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 are 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.

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.

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

12. Pensions- (continued):

The following table sets forth by level, within the fair value hierarchy, the pension asset at fair value as of December 31, 2010:

	Level 1	Level 2	Level 3	Total
Equity securities:				
US Equities	$ 531	-	133	$ 663
Non-US Equities	551	-	-	551
Fixed Income:				
Government Bonds	2,336	842	-	3,178
Corporate Bonds	982	-	-	982
Alternative Investments:				
Hedge funds and limited partnerships	-	225	-	225
Other	22	-	-	22
Cash and cash equivalents	667	-	-	667
Real Estate	-	-	1,207	1,207
Net Plan Net Assets	$ 5,089	$ 1,067	$ 1,340	$ 7,496

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 years ended December 31.

	Year ended December 31,	
	2009	2010
Balance, beginning of year	$ 1,161	$ 1,561
Actual return on plan assets:		
Assets sold during the period	-	-
Assets still held at reporting date	310	75
Purchases, sales, issuances and settlements (net)	91	(296)
Net Plan Net Assets	$ 1,561	$ 1,340

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

12. Pensions- (continued):

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

December 31, 2011	$ 83
December 31, 2012	84
December 31, 2013	66
December 31, 2014	106
December 31, 2015	107
December 31, 2016 – 2021	1,279
Total pension payments	$ 1,726

The Company's estimated employer contribution to the define benefit pension plan for the fiscal year 2011 is $678.

The Company has a defined contribution pension plan that include 354 employees. The contribution to the defined contribution pension plan for the year 2010 was $1,775. The contribution to the defined contribution pension plan for the years 2009 and 2008 was $104 and $54 respectively.

13. Other non-current assets

The amount of other non-current assets shown in the accompanying consolidated balance sheets is analyzed as follows:

	2009	2010
Margin calls	40,700	78,600
Advance payments drillships	-	294,569
Drillship options	-	99,024
Total	40,700	472,193

On November 22, 2010, the Company, entered into a contract with Samsung that granted DryShips options for the construction of up to four additional ultra-deepwater drillships, which would be "sister-ships" to the Ocean Rig Corcovado and the three drillships currently under construction and would have the same specifications as the Ocean Rig Poseidon. Each of the four options may be exercised at any time on or prior to November 22, 2011, with vessel deliveries ranging from 2013 to 2014 depending on when the options are exercised. The total construction cost is estimated to be $600.0 million per drillship. The option agreement required the Company to pay a non-refundable slot reservation fee of $24,756 per drillship, which fee will be applied towards the drillship contract price if the options are exercised. The cost of the option agreements of $99,024 was paid on December 30, 2010 and is recorded in the accompanying consolidated balance sheets as 'Other non-current assets'. On December 30, 2010 DryShips entered into a novation agreement with Ocean Rig UDW and transferred these options to its subsidiary. As of December 31, 2010, none of these options have been exercised.

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

14. Shareholders' equity

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

Prior to December 8, 2010, the Company's authorized capital stock consisted of 500 common shares, par value $20.00 per shares. During December 2010, the Company adopted, 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) declared and paid a stock dividend of 103,125,000 shares of its common stock to its sole shareholder, DryShips. On December 21, 2010 the Company completed through a private placement the sale of an aggregated of 28,571,428 common shares at $17.50 per share. Net proceeds from the private placement was $ 488,301 including $ 11,699 in attributable costs. The stock dividend has been accounted for as a stock split. As a result, we reclassified approximately $1,021 from APIC to common stock, which represents the par value per share of the shares issued. All previously reported share and per share amounts have been restated to reflect the stock dividend.

At December 31, 2010 the Company's authorized capital stock consist of 131,696,928 common shares, par value $0.01 per shares.

15. 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 Company increased the number of authorized shares to 250,000,000 with par value of $0.01 on December 7, 2010. On December 8, 2010, the Company declared a stock dividend of 103,125,000 shares to its sole shareholder, DryShips On December 21, 2010, the company completed the sale of an aggregate of 28,571,428 of the Company's common shares (representing a 22% ownership interest) in an offering made to both non-United States persons in Norway in reliance on Regulation S under the Securities Act and to qualified institutional buyers in the United States in reliance on Rule 144A under the Securities Act. We refer to this offering as the "private offering." A company controlled by our Chairman, President and Chief Executive Officer, Mr. George Economou, purchased 2,869,428 common shares, or 2.38% of our outstanding common shares, in the private offering at the offering price of $17.50 per share. After the completion of the private offering the Company's common stock issued is 131,696,928 shares with par value $0.01.

The following reflects the income and the share data used in the basic and diluted earnings per share computations under ASC 260-10-55-12, which states that if the number of common shares outstanding increases as a result of a stock dividend prior to the private offering, the computations of basic and diluted EPS shall be adjusted retroactively for all periods presented to reflect that change in capital structure:

	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, 2010:	134,761	103,908,279	1.30	134,761	103,908,279	1.30
For the year ended December 31, 2009:	115,754	103,125,500	1.12	115,754	103,125,500	1.12
For the year ended December 31, 2008:	(765,847)	103,125,500	(7.43)	(765,847)	103,125,500	(7.43)

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

16. 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, 2008	Year ended December 31, 2009	Year ended December 31, 2010
Crew wages and related costs	$ 46,951	76,628	$ 69,994
Insurance	12,686	7,869	7,918
Deferred rig operating cost	-	4,361	3,787
Repairs and maintenance	26,592	44,398	37,670
Total	$ 86,229	133,256	$ 119,369

17. 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 21) 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)

18. Interest and Finance Cost:

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

		Year ended December 31,			
		2008	2009 (as restated)		2010
Interest costs on long-term debt (*)	$	55,165	57,154	$	35,827
Capitalized interest (see note 7)		-	(24,457)		(35,780)
Bank charges		6,024	6,269		1,997
Commissions and commitment fees		10,503	7,154		6,374
Total	$	71,692	46,120	$	8,418

(*)In addition, a portion of interest was recorded in accumulated other comprehensive loss related to cash flow hedges of the variability of interest on borrowings that was capitalized as part of rigs under construction. The amounts recorded were $21,523 and $6,253 for 2010 and 2009, respectively.

19. Interest Income:

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

	Year ended December 31,				
	2008		2009	2010	
Bank Interest Income………..	$	3,033	6,254	$	12,464
Other Financial Income……..		-	5		-
Total ………………………….	$	3,033	6,259	$	12,464

20. Income Taxes

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)

20. Income Taxes – (continued):

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

	Year Ended		
	December 31, 2008	December 31, 2009 (as restated)	December 31, 2010
Cyprus	$ (40,599)	$ (24,617)	$ (32,438)
Norway	(747,018)	499,879	14,811
Marshall Islands	12,883	(370,007)	174,794
Korea	-	499	-
UK	62	1,915	763
Canada	-	(485)	(683)
USA	13,820	(262)	-
Ghana	704	21,628	(2,050)
Total income/(loss) before taxes and equity in loss of investee	$ (760,148)	$ 128,551	$ 155,197

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

	Year Ended		
	December 31, 2008	December 31, 2009	December 31, 2010
Cyprus (10.0%)	$ -	$ -	$ 52
Norway (28.0%)	-	-	13
Marshall Islands (0.0%)	-	-	-
Turkey (*)	-	-	7,950
Korea (24.2%)	-	110	-
UK (28.0%)	366	727	765
Ireland (25.0%)	423	-	-
Canada (10% - 19%)	-	45	82
USA (15.0%-35.0%)	1,399	470	-
Ghana (**)	656	11,445	11,365
Current Tax expense	$ 2,844	$ 12,797	$ 20,227
Deferred Tax expense / (benefit)	-	-	209
Income taxes	2,844	$ 12,797	$ 20,436
Effective tax rate	0%	10%	13%

(*) Ocean Rig 1 Inc. paid in 2010 withholding tax to Turkey authorities, based upon 5% of total contract revenues.

(**) 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.

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

20. Income Taxes- (continued):

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 $91.6 million consisted of gross deferred tax assets of $105.1 million net of gross deferred tax liabilities of $13.5 million. However, a corresponding amount ($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 in 2009.

Reconciliation of total tax expense:

	Year Ended		
	December 31, 2008	December 31, 2009	December 31, 2010
Statutory tax rate multiplied by profit/(loss) before tax*.............	$ (212,816)	$ -	$ -
Change in valuation allowance	115 407	(93,358)	(14,922)
Differences in tax rates..	135,908	138,865	14,177
Effect of permanent differences..	(74,929)	21,317	40
Adjustments in respect to current income tax of previous years..	-	-	281
Effect of exchange rate differences	39,274	(65,472)	1,465
Withholding tax...	-	11,445	19,395
Total...	$ 2,844	$ 12,797	$ 20,436

* Ocean Rig has for 2008 and 2009 elected to use the statutory tax rate for each year based upon the location where the largest parts of its operations were domiciled. During 2008 most of its activities were domiciled in Norway with tax rate 28%. During 2009 and 2010, most of its activities were re-domiciled to Marshall Islands with tax rate of zero.

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)

20. 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, 2009	December 31, 2010
Deferred tax assets		
Net operations loss carry forward	$ 65,045	$ 49,707
Accrued expenses	728	944
Accelerated depreciation of assets	9	8
Pension	-	157
Total deferred tax assets	$ 65,782	$ 50,816
Less: valuation allowance	(65,552)	(50,630)
Total deferred tax assets, net	230	186
Deferred tax liabilities		
Depreciation and amortization	$ (122)	$ (394)
Pension	(108)	-
Total deferred tax liabilities	$ (230)	$ (394)

The amounts above are reflected in the Consolidated Balance Sheet as follows:

Net deferred tax assets /(liability)	$ -	$ (209)
Short-term net deferred tax assets	-	-
Long-term net deferred tax assets(liabilities)	$ -	$ (209)

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, 2010, the valuation allowance for deferred tax assets is reduced from $65,552 in 2009 to $50,630 in 2010 reflecting a reduction in net deferred tax assets during the period. The decrease is primarily a result of the reduction of deferred tax asset due to utilization of tax loss carry forwards in Norway and in Cyprus in 2010.

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

20. Income Taxes- (continued):

The table below explains the "Net operations loss carry forward" in 2010 and 2009 for the countries the Company is operating in.

	Year Ended	
	December 31, 2009	December 31, 2010
Norway		
Net operations loss carry forward	$ 183,998	$ 144,189
Tax rate	28%	28%
Net operations loss carry forward, tax effect	51,520	40,373
Cyprus		
Net operations loss carry forward	$ 57,112	$ 89,832
Tax rate	10%	10%
Net operations loss carry forward, tax effect	5,711	8,983
Canada		
Net operations loss carry forward	$ 24,419	$ 879
Tax rate	32%	32%
Net operations loss carry forward, tax effect	7,814	281
UK		
Net operations loss carry forward	$ -	$ 249
Tax rate	28%	28%
Net operations loss carry forward, tax effect	-	70
Accumulated		
Net operations loss carry forward	$ 265,529	$ 235,106
Net operations loss carry forward, tax effect	65,045	49,707

The Company has tax losses, which arose in Norway of $183,998 and $144,146 at December 31, 2009 and 2010, 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 Cyprus of $57,112 and $89,832 at December 31, 2009 and 2010, 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 had tax losses, which arose in Canada of $24,419 and $879 at December 31, 2009 and 2010, 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. The possibility for utilization of this tax position for the period after the change of control in Ocean Rig on May 14, 2008, is in practice expired with an amount of $23,540. The tax loss carry forward per December 31, 2010 therefore only reflects tax losses after May 14, 2008.

20. Income Taxes- (continued):

The Company had tax losses, which arose in UK of $249 at December 31, 2010 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, 2010, 2009 and 2008, 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, 2010, 2009 and 2008 from the settlement of disputes with tax authorities and the expiration of statute of limitations was insignificant.

Ocean Rig UDW, is incorporated in Marshall Island and headquarted in Cyprus. 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%). After a restructuring of the Norwegian entities late in 2009, all Norwegian companies are owned directly by Primelead Ltd in Cyprus and the participation exemption model is therefore not relevant for 2010.

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

21. 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, 2008, 2009 and 2010, all of the consolidated revenues related to the operations of the Company's two drilling rigs.

21.1 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 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 2010 and 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, 2010, the estimated future minimum revenue is $1,091 million based on 100% earning efficiency and maximum bonuses. The estimated minimum revenue is distributed over 2011, 2012 and 2013 with $696 million, $335 million and $60 million, respectively. As of December 31, 2010, a total of $40,205 of revenue are deferred and will be recognized as revenue over the remaining contracts terms. As of December 31, 2009, a total of $38,400 of revenue was deferred.

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

21.2 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:

	2008	2009	2010
Ghana	$ 40,120	230,815	$ 227,649
Turkey	-	-	176,228
Norway	74,725	123,306	(715)
UK	-	19,404	-
USA	53,394	-	-
Ireland	33,749	-	-
Other	122	-	-
Total leasing and service revenues	$ 202,110	373,525	$ 403,162

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)

21. Segment information-(continued):

21.3 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, 2009 and 2010 our customers have been:

	2008	2009	2010
Customer A	20%	62%	57%
Customer B	-	-	43%
Customer C	54%	38%	-
Customer D	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.

22. Commitments and Contingencies

22.1 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 matter discussed below in 22.2, 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.

22.2 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 and does not believe it is probable that the duties will be upheld, no provision has been made. The maximum amount is estimated to be between $5-10 million.

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

22. Commitments and Contingencies – (continued):

22.3 Purchase obligations:

The following table sets forth the Company's contractual purchase obligations as of December 31, 2010.

	2011
Drillships shipbuilding contracts and owner furnished equipment	1,374,000
Total obligations	1,374,000

All contractual obligations are due during 2011.

22.4 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, 2010, the future obligations amount to $646 for 2011 and $323 for 2012.

23. Subsequent Events:

We have evaluated all subsequent events through April 6, 2011, the date the financial statements were available to be issued.

23.1 On January 3, 2011 the Company took delivery of its newbuilding drillship, the Ocean Rig Corcovado, the first to be delivered of the four sister drillship vessels that are being constructed at Samsung Heavy Industries. In connection with the delivery of "*Ocean Rig Corcovado"*, the final yard installment of $289.0 million was paid and the pre-delivery loan from DVB Bank of $115.0 million was repaid in full.

23.2 On January 4, 2011 the Company announced that it had entered into firm contracts with Cairn Energy PLC for the "*Leiv Eiriksson*" and the "*Ocean Rig Corcovado*" for a period of approximately 6 months each. The total contract value including mobilization for the "*Leiv Eiriksson*" is approximately $95 million. The mobilization period will start in direct continuation from the agreed release date from Petrobras. The total contract value including mobilization and winterization of the "*Ocean Rig Corcovado*" is approximately $142 million.

23.3 On January 4, 2011 the Company repaid the $300 million short term overdraft facility with EFG Eurobank from restricted cash, which was drawn down in full on December 28, 2010.

23.4 On January 4, 2011 the Company announced that it had entered into a firm contract with Petrobras Tanzania for its 3rd drillship newbuilding the "*Ocean Rig Poseidon*". As part of this agreement the *Leiv Eiriksson* will be released early from the existing contract and will be made available in second quarter 2011. The firm contract period is for about 600 days plus a mobilization period. The total contract value including mobilization is $353 million.

23.5 On January 5, 2011 the Company drew down the full amount of the $325 million Deutsche Bank term loan facility, with its subsidiary Drillships Hydra Owners Inc. as 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, or "*Ocean Rig Corcovado"*, and (iii) financing the payment of the final installment associated with the purchase of said drillship. Dry Ships Inc., Drillships Holdings Inc and Ocean Rig UDW Inc. are joint guarantors and guarantee all obligations and liabilities of Drillships Hydra Owners Inc.

23.6 Pursuant to the Drillship Master Agreement dated November 22, 2010, on February 25, 2011 and on March 18, 2011 the Company made additional payments to Samsung totaling $20 million in exchange for certain amendments to the originally agreed terms and conditions.

23.7 On March 18, 2011, the Company repaid the second and final $115 million tranche of the predelivery financing for hulls 1837 and 1838.

23.8 On March 25, 2011, the company received signed commitments from all lenders participating in an $800 million Syndicated Secured Term Loan Facility to partially finance the construction costs of the *Ocean Rig Corcovado* and the *Ocean Rig Olympia*. This facility has a five year term and a twelve year repayment profile, and bears interest at LIBOR plus a margin. The facility is guaranteed by Dryships Inc and Ocean Rig UDW Inc. and certain financial covenants on both entities. This new facility is subject to acceptable documentation customary in such loans. Upon drawdown, the Company expects to prepay its $325 million Bridge Loan Facility.

23.9 On March 28, 2011, the Company received a confirmation from the Agent of its Two $562,000 Loan Agreements to finance Hulls 1865 and 1866 that it received signed consent for the restructuring of these facilities.
The material terms of this restructuring are as follows: Maximum amount per facility is reduced from $562.5 million to $495 million, Ocean Rig guarantee will be provided, financial covenants on Ocean Rig guarantee, full drawdowns will be allowed for Hull 1865 against the Petrobras charter, and cash collateral will be released, for Hull 1866 and the Company has up to one month prior to delivery of hull 1866 to execute a charter acceptable to the lenders.

23.10 On March 28**,** 2011 the Company received a $127.5 million short term shareholder loan from DryShips to partially fund the final installment and take delivery of Ocean Rig Olympia.

23.11 On March 30, 2011 the Company took delivery of its newbuilding drillship, the *"Ocean Rig Olympia"*, the second to be delivered of the four sister drillship vessels that are being constructed at Samsung Heavy Industries.