Ocean Rig UDW Inc.
Form 20-F
March 14, 2012

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 20-F

o REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR 12(g) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2011

OR

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

For the transition period from to

OR

o SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Date of event requiring this shell company report: Not applicable

Commission file number 001-35298

OCEAN RIG UDW INC.
(Exact name of Registrant as specified in its charter)

(Translation of Registrant's name into English)

Republic of the Marshall Islands
(Jurisdiction of incorporation or organization)

10 Skopa Street, Tribune House
2nd Floor, Office 202, CY 1075
Nicosia, Cyprus
(Address of principal executive offices)

Mr. Savvas D. Georghiades,
Telephone: +357 22767517, Fax: +357 22761542
10 Skopa Street, Tribune House
2nd Floor, Office 202, CY 1075
Nicosia, Cyprus
(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

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

| Title of class | Name of exchange on which registered |
|---|---|
| Common stock, $0.01 par value | The NASDAQ Stock Market LLC |
| Preferred stock purchase rights | The NASDAQ Stock Market LLC |

Securities registered or to be registered pursuant to Section 12(g) of the Act: None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: None

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report: As of December 31, 2011, there were 131,696,928 shares of the registrant's common stock, $0.01 par value, outstanding.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. ¨ Yes x No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. ¨ Yes x No

Note—Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those Sections.

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). ¨ Yes ¨ No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See the definitions of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

| | | |
|---|---|---|
| Large accelerated filer ¨ | Accelerated filer ¨ | Non-accelerated filer x |

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

| | | |
|---|---|---|
| US GAAP x | International Financial Reporting Standards as issued | Other ¨ |

by the International Accounting Standards Board ¨

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow. ¨ Item 17 ¨Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). ¨ Yes x No

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## FORWARD-LOOKING STATEMENTS

The Private Securities Litigation Reform Act of 1995 provides safe harbor protections for forward-looking statements in order to encourage companies to provide prospective information about their business. The Company desires to take advantage of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 and is including this cautionary statement in connection with such safe harbor legislation.

This annual report and any other written or oral statements made by us or on our behalf may include forward-looking statements which reflect our current views and assumptions with respect to future events and financial performance and are subject to risks and uncertainties. Forward-looking statements include statements concerning plans, objectives, goals, strategies, future events or performance, and underlying assumptions and other statements, which are other than statements of historical or present facts or conditions. The words "believe," "anticipate," "intend," "estimate," "forecast," "project," "plan," "potential," "may," "should," "expect" and similar expressions identify forward-looking statements.

The forward-looking statements in this document are based upon various assumptions, many of which are based, in turn, upon further assumptions, including without limitation, management's examination of historical operating trends, data contained in our records and other data available from third parties. Although we believe that these assumptions were reasonable when made, because these assumptions are inherently subject to significant uncertainties and contingencies which are difficult or impossible to predict and are beyond our control, we cannot assure you that we will achieve or accomplish these expectations, beliefs or projections described in the forward-looking statements contained in this annual report. We undertake no obligation to update any forward-looking statements, whether as a result of new information, future events or otherwise.

In addition to these important factors and matters discussed elsewhere in this annual report, important factors that, in our view, could cause actual results to differ materially from those discussed in the forward-looking statements include factors related to:

- the offshore drilling market, including supply and demand, utilization rates, dayrates, customer drilling programs, commodity prices, effects of new rigs and drillships on the market and effects of declines in commodity prices and downturn in global economy on market outlook for our various geographical operating sectors and classes of rigs and drillships;

- hazards inherent in the offshore drilling industry and marine operations causing personal injury or loss of life, severe damage to or destruction of property and equipment, pollution or environmental damage, claims by third parties or customers and suspension of operations;

- customer contracts, including contract backlog, contract commencements, contract terminations, contract option exercises, contract revenues, contract awards and rig mobilizations, performance provisions, newbuildings, upgrades, shipyard and other capital projects, including completion, delivery and commencement of operations dates, expected downtime and lost revenue;

- political and other uncertainties, including political unrest, risks of terrorist acts, war and civil disturbances, piracy, significant governmental influence over many aspects of local economies, seizure, nationalization or expropriation of property or equipment;

- repudiation, nullification, termination, modification or renegotiation of contracts;

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- limitations on insurance coverage, such as war risk coverage, in certain areas;
- foreign and U.S. monetary policy and foreign currency fluctuations and devaluations;
- the inability to repatriate income or capital;
- complications associated with repairing and replacing equipment in remote locations;
- import-export quotas, wage and price controls imposition of trade barriers;
- regulatory or financial requirements to comply with foreign bureaucratic actions, including potential limitations on drilling activity;
- changing taxation policies and other forms of government regulation and economic conditions that are beyond our control;
- the level of expected capital expenditures and the timing and cost of completion of capital projects;
- our ability to successfully employ both our existing and newbuilding drilling units, procure or have access to financing, ability to comply with loan covenants, liquidity and adequacy of cash flow for our obligations;
- factors affecting our results of operations and cash flow from operations, including revenues and expenses, uses of excess cash, including debt retirement, dividends, timing and proceeds of asset sales, tax matters, changes in tax laws, treaties and regulations, tax assessments and liabilities for tax issues, legal and regulatory matters, including results and effects of legal proceedings, customs and environmental matters, insurance matters, debt levels, including impacts of the financial and credit crisis;
- the effects of accounting changes and adoption of accounting policies;
- recruitment and retention of personnel; and
- other important factors described in "Item 3. Key Information—D. Risk factors."

We caution readers of this annual report not to place undue reliance on these forward-looking statements, which speak only as of their dates.

Please note in this annual report, "we," "us," "our," "Ocean Rig UDW" and "the Company," all refer to Ocean Rig UDW Inc. and its subsidiaries, unless the context otherwise requires.

# PART I

## Item 1. Identity of Directors, Senior Management and Advisers

Not applicable.

## Item 2. Offer Statistics and Expected Timetable

Not applicable.

## Item 3. Key Information

A. Selected historical consolidated financial data

The following table sets forth our selected historical consolidated financial and other data, at the dates and for the periods indicated. We were incorporated on December 10, 2007 under the name Primelead Shareholders Inc. Primelead Shareholders Inc. was formed for the purposes of acquiring the shares of our predecessor, Ocean Rig ASA, which was incorporated in September 1996 under the laws of Norway. We acquired control of Ocean Rig ASA on May 14, 2008. The selected historical consolidated financial data as of December 31, 2011 and 2010 and for the years ended December 31, 2011 and 2010 is derived from the audited financial statements and related notes of Ocean Rig UDW Inc. and its subsidiaries ("successor") appearing elsewhere in this annual report.

The selected historical consolidated financial data as of December 31, 2009 and 2008 and for the year ended December 31, 2008 are derived from the audited financial statements and related notes of Ocean Rig UDW Inc. and its subsidiaries ("successor") not included in this annual report. The selected historical consolidated financial and other data of Ocean Rig ASA and its subsidiaries ("predecessor") as of and for the period from January 1 to May 14, 2008 and for the year ended December 31, 2007 is derived from the audited financial statements of Ocean Rig ASA not included in this annual report.

We refer you to the notes to the consolidated financial statements for a discussion of the basis on which the consolidated financial statements are presented. The selected historical consolidated financial and other data should be read in conjunction with "Item 5. Operating and Financial Review and Prospects" and the audited consolidated financial statements, the related notes thereto and other financial information appearing elsewhere in this annual report.

| | Ocean Rig ASA (predecessor) | | Ocean Rig UDW Inc. (successor) | | | |
|---|---|---|---|---|---|---|
| | As of December 31, | As of May 14, | Year Ended December 31, | | | |
| (U.S. Dollars in thousands) | 2007 | 2008 | 2008 | 2009 | 2010 | 2011 |
| Income statement data: | | | | | | |
| Total revenues | 209,095 | 99,172 | 218,663 | 388,122 | 405,712 | 699,649 |
| Drilling rigs operating expenses | 123,543 | 48,144 | 86,229 | 133,256 | 119,369 | 281,833 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Goodwill impairment | - | - | 761,729 | - | - | - |
| Loss on asset sales disposal of assets | - | - | - | - | 1,458 | 754 |
| Depreciation and amortization | 53,239 | 19,367 | 45,432 | 75,348 | 75,092 | 162,532 |

| | | | | | | |
|---|---|---|---|---|---|---|
| General and administrative expenses | 14,062 | 12,140 | 14,462 | 17,955 | 19,443 | 37,639 |
| Total operating expenses | 190,844 | 79,651 | 907,852 | 226,559 | 215,362 | 482,758 |
| | | | | | | |
| Operating income/(loss) | 18,251 | 19,521 | (689,189) | 161,563 | 190,350 | 216,891 |
| Interest and finance costs | (60,630) | (41,661) | (71,692) | (46,120) | (8,418) | (68,982) |
| Interest income | 3,234 | 381 | 3,033 | 6,259 | 12,464 | 9,810 |
| Gain/(loss) on interest rate swaps | - | - | - | 4,826 | (40,303) | (33,455) |
| Other income/(expense) | (1,559) | - | (2,300) | 2,023 | 1,104 | (1,538) |
| Total finance expenses, net | (58,955) | (41,280) | (70,959) | (33,012) | (35,153) | (94,165) |
| | | | | | | |
| Income/(loss) before income taxes | (40,704) | (21,759) | (760,148) | 128,551 | 155,197 | 122,726 |
| Income/(loss) taxes | (6,683) | (1,637) | (2,844) | (12,797) | (20,436) | (27,428) |
| Equity in income/(loss) of investee | - | - | (1,055) | - | - | - |
| Net income/(loss) | (47,387) | (23,396) | (764,047) | 115,754 | 134,761 | 95,298 |
| Less: Net income attributable to non controlling interest | - | - | (1,800) | - | - | - |
| Net income/(loss) | $(47,387) | $(23,396) | $(765,847) | $115,754 | $134,761 | $95,298 |
| Earnings per common share, basic and diluted | $(0.29) | $(0.14) | $(7.43) | $1.12 | $1.30 | $0.72 |
| Weighted average number of common shares, basic and diluted | 162,171,380 | 162,171,380 | 103,125,000 | 103,125,000 | 103,908,279 | 131,696,928 |

| | Ocean Rig ASA (predecessor) | | Ocean Rig UDW Inc. (successor) | | | |
|---|---|---|---|---|---|---|
| (U.S. Dollars in thousands) | As of December 31, 2007 | As of May 14, 2008 | 2008 | Year Ended December 31, 2009 | 2010 | 2011 |
| Balance sheet data: | | | | | | |
| Cash and cash equivalents | $31,002 | - | $272,940 | $234,195 | $95,707 | $250,878 |
| Other current assets | 62,646 | 96,471 | 93,379 | 324,363 | 576,299 | 269,707 |
| Total current assets | 93,648 | 96,471 | 366,319 | 558,558 | 672,006 | 520,585 |
| Drilling rigs, machinery and equipment, net | 1,141,771 | 1,132,867 | 1,377,359 | 1,317,607 | 1,249,333 | 4,538,838 |
| Intangibles, assets, net | - | - | 13,391 | 11,948 | 10,506 | 9,062 |
| Other non current assets | 7 | - | 3,612 | 43,480 | 523,363 | 191,945 |
| Advances for rigs and drillships Rigs under construction | - | - | - | 1,178,392 | 1,888,490 | 754,925 |
| Total assets | 1,235,426 | 1,229,338 | 1,760,681 | 3,109,985 | 4,343,698 | 6,015,355 |
| Current liabilities, including current portion of long term debt | 147,810 | 538,679 | 885,039 | 682,287 | 667,918 | 436,729 |
| Total long term debt, excluding current portion | 656,548 | 281,307 | 788,314 | 662,362 | 696,986 | 2,525,599 |
| Other non current liabilities | 1,180 | 2,470 | 63,697 | 64,219 | 97,712 | 54,571 |
| Total liabilities | 805,538 | 822,456 | 1,737,050 | 1,408,868 | 1,462,616 | 3,016,899 |
| Stockholders' equity | 429,888 | 406,882 | 23,631 | 1,701,117 | 2,881,082 | 2,998,456 |
| Total liabilities and stockholders' equity | $1,235,426 | $1,229,338 | $1,760,681 | $3,109,985 | $4,343,698 | $6,015,355 |

| | Ocean Rig ASA (predecessor) | | Ocean Rig UDW Inc. (successor) | | | |
|---|---|---|---|---|---|---|
| (U.S. Dollars in thousands, except for operating data) | Year ended December 31, 2007 | January 1, 2008 to May 14, 2008 | 2008 | Year Ended December 31, 2009 | 2010 | 2011 |
| Cash flow data: | | | | | | |
| Net cash provided by / (used in): | | | | | | |
| Operating activities | $35,455 | $(29,089) | $21,119 | $211,075 | $221,798 | $270,662 |
| Investing activities | (48,507) | (10,463) | (1,020,673) | (146,779) | (1,441,347) | (1,561,501) |
| Financing activities | (47,611) | 8,550 | 1,257,390 | (103,041) | 1,081,061 | 1,446,010 |
| Other financial data | | | | | | |
| EBITDA (1) | 69,931 | 38,888 | (648,912) | 243,760 | 226,243 | 344,430 |
| Cash paid for interest | 55,524 | 22,628 | 23,103 | 51,093 | 43,203 | 32,164 |
| Capital expenditures | (48,507) | (10,463) | (16,584) | (14,152) | (6,834) | (78,480) |

| | | | | | | |
|---|---|---|---|---|---|---|
| Payments for drillships under construction | - | - | - | (125,896 ) | (705,022 ) | (1,864,862) |
| Operating data, when on hire | | | | | | |
| Operating units | 2 | 2 | 2 | 2 | 2 | 6 |

(1) EBITDA represents net income before interest, taxes, depreciation and amortization. EBITDA is a non-U.S. generally accepted accounting principles, or U.S. GAAP, measure and does not represent and should not be considered as an alternative to net income or cash flow from operations, as determined by GAAP or other GAAP measures, and our calculation of EBITDA may not be comparable to that reported by other companies. EBITDA is included herein because it is a basis upon which we measure our operations and efficiency. EBITDA is also used by various of our lenders as a measure of our compliance with certain loan covenants and because we believe that it presents useful information to investors regarding a company's ability to service and/or incur indebtedness.

| (U.S. Dollars in thousands) | Ocean Rig ASA (predecessor) | | Ocean Rig UDW Inc. (successor) | | | |
|---|---|---|---|---|---|---|
| | Year ended December 31, 2007 | January 1, 2008 to May 14, 2008 | 2008 | Year Ended December 31, 2009 | 2010 | 2011 |
| EBITDA reconciliation | | | | | | |
| Net income / (loss) | $(47,387) | $(23,396) | $(765,047) | $115,754 | $134,761 | $95,298 |
| Add: Depreciation and amortization | 53,239 | 19,367 | 45,432 | 75,348 | 75,092 | 162,532 |
| Add: Net interest expense / income | 57,396 | 41,280 | 68,659 | 39,861 | (4,046) | 59,172 |
| Add: Income taxes | 6,683 | 1,637 | 2,844 | 12,797 | 20,436 | 27,428 |
| EBITDA | $69,931 | $38,888 | $(648,912) | $243,760 | $226,243 | $344,430 |

B. Capitalization and indebtedness

Not applicable.

C. Reasons for the offer and use of proceeds

Not applicable.

D. Risk factors

Some of the following risks relate principally to the industry in which we operate and our business in general. Other risks relate principally to the securities market and ownership of our common stock. The occurrence of any of the events described in this section could significantly and negatively affect our business, financial condition, operating results, cash flows or our ability to pay dividends, if any, in the future, or the trading price of our common stock.

Risks Relating to Our Industry

Our business in the offshore drilling sector depends on the level of activity in the offshore oil and gas industry, which is significantly affected by, among other things, volatile oil and gas prices and may be materially and adversely affected by a decline in the offshore oil and gas industry.

The offshore contract drilling industry is cyclical and volatile. Our business in the offshore drilling sector depends on the level of activity in oil and gas exploration, development and production in offshore areas worldwide. The availability of quality drilling prospects, exploration success, relative production costs, the stage of reservoir development and political and regulatory environments affect customers' drilling programs. Oil and gas prices and market expectations of potential changes in these prices also significantly affect this level of activity and demand for drilling units.

Oil and gas prices are extremely volatile and are affected by numerous factors beyond our control, including the following:

- worldwide production and demand for oil and gas and any geographical dislocations in supply and demand;
- the cost of exploring for, developing, producing and delivering oil and gas;
- expectations regarding future energy prices;
- advances in exploration, development and production technology;
- the ability of the Organization of Petroleum Exporting Countries, or OPEC, to set and maintain levels and pricing;
- the level of production in non-OPEC countries;
- government regulations;
- local and international political, economic and weather conditions;
- domestic and foreign tax policies;
- development and exploitation of alternative fuels;
- the policies of various governments regarding exploration and development of their oil and gas reserves; and
- the worldwide military and political environment, including uncertainty or instability resulting from an escalation or additional outbreak of armed hostilities, insurrection or other crises in the Middle East or other geographic areas or further acts of terrorism in the United States, or elsewhere.

Declines in oil and gas prices for an extended period of time, or market expectations of potential decreases in these prices, could negatively affect our business in the offshore drilling sector. Crude oil inventories remain at high levels compared to historical levels, which may place downward pressure on the price of crude oil and demand for offshore drilling units. Sustained periods of low oil prices typically result in reduced exploration and drilling because oil and gas companies' capital expenditure budgets are subject to cash flow from such activities and are therefore sensitive to changes in energy prices. These changes in commodity prices can have a dramatic effect on rig demand, and periods of low demand can cause excess rig supply and intensify the competition in the industry which often results in drilling units, particularly lower specification drilling units, being idle for long periods of time. We cannot predict the future level of demand for our services or future conditions of the oil and gas industry. Any decrease in exploration, development or production expenditures by oil and gas companies could reduce our revenues and materially harm our business and results of operations.

In addition to oil and gas prices, the offshore drilling industry is influenced by additional factors, including:

- the availability of competing offshore drilling vessels and the level of newbuilding activity for drilling vessels;
- the level of costs for associated offshore oilfield and construction services;
- oil and gas transportation costs;
- the discovery of new oil and gas reserves;
- the cost of non-conventional hydrocarbons, such as the exploitation of oil sands; and
- regulatory restrictions on offshore drilling.

Any of these factors could reduce demand for our services and adversely affect our business and results of operations.

Continuation of the recent worldwide economic downturn could have a material adverse effect on our revenue, profitability and financial position.

Although there are signs that the economic recession has abated in many countries, there is still considerable instability in the world economy, due in part to uncertainty related to continuing discussions in the United States regarding the federal debt ceiling, and in the economies of Eurozone countries, such as Greece, Spain, Portugal, Ireland and Italy, which have initiated a new economic downturn have introduced further volatility in the global markets. Further decrease in global economic activity would likely reduce worldwide demand for energy and result in an extended period of lower crude oil and natural gas prices. In addition, continued hostilities and insurrections in the Middle East and North Africa and the occurrence or threat of terrorist attacks against the United States or other countries could adversely affect the economies of the United States and of other countries. Any prolonged reduction in crude oil and natural gas prices would depress the levels of exploration, development and production activity. Moreover, even during periods of high commodity prices, customers may cancel or curtail their drilling programs, or reduce their levels of capital expenditures for exploration and production for a variety of reasons, including their lack of success in exploration efforts. These factors could cause our revenues and margins to decline, decrease daily rates and utilization of our drilling units and limit our future growth prospects. Any significant decrease in daily rates or utilization of our drilling units could materially reduce our revenues and profitability. In addition, any instability in the financial and insurance markets, as experienced in the recent financial and credit crisis, could make it more difficult for us to access capital and to obtain insurance coverage that we consider adequate or are otherwise required by our contracts.

The current state of global financial markets and current economic conditions may adversely impact our ability to obtain additional financing on acceptable terms which may hinder or prevent us from expanding our business.

Global financial markets and economic conditions have been, and continue to be, volatile. Recently, the debt and equity capital markets have been severely distressed. These issues, along with significant write-offs in the financial services sector, the re-pricing of credit risk and the current weak economic conditions, have made, and will likely continue to make, it difficult to obtain additional financing. The current state of global financial markets and current economic conditions might adversely impact our ability to issue additional equity at prices which will not be dilutive to our existing shareholders or preclude us from issuing equity at all.

Also, as a result of concerns about the stability of financial markets generally and the solvency of counterparties specifically, the cost of obtaining money from the credit markets has increased as many lenders have increased interest rates, enacted tighter lending standards, refused to refinance existing debt at all or on terms similar to current debt and reduced, and in some cases ceased, to provide funding to borrowers. Due to these factors, we cannot be certain that additional financing will be available if needed and to the extent required, on acceptable terms or at all. If additional financing is not available when needed, or is available only on unfavorable terms, we may be unable to meet our obligations as they come due or we may be unable to enhance our existing business, complete additional drilling unit acquisitions or otherwise take advantage of business opportunities as they arise.

The offshore drilling industry is highly competitive with intense price competition and, as a result, we may be unable to compete successfully with other providers of contract drilling services that have greater resources than we have.

The offshore contract drilling industry is highly competitive with several industry participants, none of which has a dominant market share, and is characterized by high capital and maintenance requirements. Drilling contracts are traditionally awarded on a competitive bid basis. Price competition is often the primary factor in determining which qualified contractor is awarded the drilling contract, although drilling unit availability, location and suitability, the quality and technical capability of service and equipment, reputation and industry standing are key factors which are considered. Mergers among oil and natural gas exploration and production companies have reduced, and may from time to time further reduce, the number of available customers, which would increase the ability of potential customers to achieve pricing terms favorable to them.

Many of our competitors in the offshore drilling industry are significantly larger than we are and have more diverse drilling assets and significantly greater financial and other resources than we have. In addition, because of the relatively small size of our drilling segment, we may be unable to take advantage of economies of scale to the same extent as some of our larger competitors. Given the high capital requirements that are inherent in the offshore drilling industry, we may also be unable to invest in new technologies or expand our drilling segment in the future as may be necessary for us to succeed in this industry, while our larger competitors with superior financial resources, and in many cases less leverage than ours, may be able to respond more rapidly to changing market demands and compete more efficiently on price for drillship and drilling rig employment. We may not be able to maintain our competitive position, and we believe that competition for contracts will continue to be intense in the future. Our inability to compete successfully may reduce our revenues and profitability.

An over-supply of drilling units may lead to a reduction in dayrates and therefore may materially impact our profitability.

During the recent period of high utilization and high dayrates, industry participants have increased the supply of drilling units by ordering the construction of new drilling units. Historically, this has resulted in an over-supply of drilling units and has caused a subsequent decline in utilization and dayrates when the drilling units enter the market, sometimes for extended periods of time until the units have been absorbed into the active fleet. According to industry sources, the worldwide fleet of ultra-deepwater drilling units as of February 2012 consisted of 112 units, comprised of 55 semi-submersible rigs and 57 drillships. An additional 13 semi-submersible rigs and 65 drillships were under construction or on order as of February 2012, which would bring the total fleet to 190 drilling units by the end of 2020. A relatively large number of the drilling units currently under construction have been contracted for future work, which may intensify price competition as scheduled delivery dates occur. The entry into service of these new, upgraded or reactivated drilling units will increase supply and has already led to a reduction in dayrates as drilling units are absorbed into the active fleet. In addition, the new construction of high-specification drilling units, as well as changes in our competitors' drilling unit fleets, could require us to make material additional capital investments to keep our fleet competitive. Lower utilization and dayrates could adversely affect our revenues and profitability. Prolonged periods of low utilization and dayrates could also result in the recognition of impairment charges on our drilling units if future cash flow estimates, based upon information available to management at the time, indicate that the carrying value of these drilling units may not be recoverable.

Consolidation of suppliers may increase the cost of obtaining supplies, which may have a material adverse effect on our results of operations and financial condition.

We rely on certain third parties to provide supplies and services necessary for our offshore drilling operations, including, but not limited to, drilling equipment suppliers, catering and machinery suppliers. Recent mergers have reduced the number of available suppliers, resulting in fewer alternatives for sourcing key supplies. Such consolidation, combined with a high volume of drilling units under construction, may result in a shortage of supplies and services thereby increasing the cost of supplies and/or potentially inhibiting the ability of suppliers to deliver on time, or at all. These cost increases, delays or unavailability could have a material adverse effect on our results of operations and result in rig downtime, and delays in the repair and maintenance of our drilling rigs.

Our international operations in the offshore drilling sector involve additional risks, including piracy, which could adversely affect our business.

We operate in various regions throughout the world. As of the date of this annual report, our drilling rig, the Leiv Eiriksson, is operating offshore the Falkland Islands and is scheduled to commence a contract for drilling operations on the Norwegian Continental Shelf in the fourth quarter of 2012 or the first quarter of 2013, our drilling rig, the Eirik Raude, is operating offshore the Ivory Coast and is scheduled to commence a contract for drilling operations offshore Ecuatorial Guinea immediately upon the termination of its current contract, our drillships, the Ocean Rig Corcovado and the Ocean Rig Mykonos, are acceptance testing under a contracts they have commenced for drilling operations offshore Brazil, and our drillships, the Ocean Rig Olympia and the Ocean Rig Poseidon, are operating offshore Ghana and Tanzania, respectively.

In the past, the Eirik Raude has operated in the Gulf of Mexico and offshore Canada, Norway, the United Kingdom, and Ghana, while the Leiv Eiriksson has operated offshore Greenland, West Africa, Turkey, Ireland, west of the Shetland Islands and in the North Sea and the Ocean Rig Corcovado has operated offshore Greenland. As a result of our international operations, we may be exposed to political and other uncertainties, including risks of:

- terrorist and environmental activist acts, armed hostilities, war and civil disturbances;

- acts of piracy, which have historically affected ocean-going vessels trading in regions of the world such as the South China Sea and in the Gulf of Aden off the coast of Somalia and which have generally increased significantly in frequency since 2008, particularly in the Gulf of Aden and off the west coast of Africa;

- significant governmental influence over many aspects of local economies;
- seizure, nationalization or expropriation of property or equipment;
- repudiation, nullification, modification or renegotiation of contracts;
- limitations on insurance coverage, such as war risk coverage, in certain areas;
- political unrest;
- foreign and U.S. monetary policy, government debt downgrades and potential defaults and foreign currency fluctuations and devaluations;
- the inability to repatriate income or capital;
- complications associated with repairing and replacing equipment in remote locations;
- import-export quotas, wage and price controls, imposition of trade barriers;
- regulatory or financial requirements to comply with foreign bureaucratic actions;
- changing taxation policies, including confiscatory taxation;
- other forms of government regulation and economic conditions that are beyond our control; and
- governmental corruption.

In addition, international contract drilling operations are subject to various laws and regulations in countries in which we operate, including laws and regulations relating to:

- the equipping and operation of drilling units;
- repatriation of foreign earnings;
- oil and gas exploration and development;
- taxation of offshore earnings and earnings of expatriate personnel; and
- use and compensation of local employees and suppliers by foreign contractors.

Some foreign governments favor or effectively require (i) the awarding of drilling contracts to local contractors or to drilling rigs owned by their own citizens, (ii) the use of a local agent or (iii) foreign contractors to employ citizens of, or purchase supplies from, a particular jurisdiction. These practices may adversely affect our ability to compete in those regions. It is difficult to predict what governmental regulations may be enacted in the future that could adversely affect the international drilling industry. The actions of foreign governments, including initiatives by OPEC, may adversely affect our ability to compete. Failure to comply with applicable laws and regulations, including those relating to sanctions and export restrictions, may subject us to criminal sanctions or civil remedies, including fines, denial of export privileges, injunctions or seizures of assets.

Our business and operations involve numerous operating hazards.

Our operations are subject to hazards inherent in the drilling industry, such as blowouts, reservoir damage, loss of production, loss of well control, lost or stuck drill strings, equipment defects, punch throughs, craterings, fires, explosions and pollution, including spills similar to the events on April 20, 2010 related to the Deepwater Horizon, in which we were not involved. Contract drilling and well servicing require the use of heavy equipment and exposure to hazardous conditions, which may subject us to liability claims by employees, customers and third parties. These hazards can cause personal injury or loss of life, severe damage to or destruction of property and equipment, pollution or environmental damage, claims by third parties or customers and suspension of operations. Our offshore fleet is also subject to hazards inherent in marine operations, either while on-site or during mobilization, such as capsizing, sinking, grounding, collision, damage from severe weather and marine life infestations. Operations may also be suspended because of machinery breakdowns, abnormal drilling conditions, failure of subcontractors to perform or supply goods, services or personnel shortages. We customarily provide contract indemnity to our customers for claims that could be asserted by us relating to damage to or loss of our equipment, including rigs and claims that could be asserted by us or our employees relating to personal injury or loss of life.

Damage to the environment could also result from our operations, particularly through spillage of fuel, lubricants or other chemicals and substances used in drilling operations, leaks and blowouts or extensive uncontrolled fires. We may also be subject to property, environmental and other damage claims by oil and gas companies. Our insurance policies and contractual indemnity rights with our customers may not adequately cover losses, and we do not have insurance coverage or rights to indemnity for all the risks to which we are exposed. Consistent with standard industry practice, our clients generally assume, and indemnify us against, well control and subsurface risks under dayrate contracts. These are risks associated with the loss of control of a well, such as blowout or cratering, the cost to regain control of or re-drill a well and associated pollution. However, there can be no assurance that these clients will be willing or financially able to indemnify us against all these risks. We maintain insurance coverage for property damage, occupational injury and illness, and general and marine third-party liabilities. However, pollution and environmental risks generally are not totally insurable. Furthermore, we have no insurance coverage for named storms in the Gulf of Mexico and while trading within war risks excluded areas.

The Deepwater Horizon oil spill in the Gulf of Mexico may result in more stringent laws and regulations governing deepwater drilling, which could have a material adverse effect on our business, operating results or financial condition.

On April 20, 2010, there was an explosion and a related fire on the Deepwater Horizon, an ultra-deepwater semi-submersible drilling unit that is not connected to us, while it was servicing a well in the Gulf of Mexico. This catastrophic event resulted in the death of 11 workers and the total loss of that drilling unit, as well as the release of large amounts of oil into the Gulf of Mexico, severely impacting the environment and the region's key industries. This event is being investigated by several federal agencies, including the U.S. Department of Justice, and by the U.S. Congress and is also the subject of numerous lawsuits. On January 11, 2011, the National Commission on the BP Deepwater Horizon Oil Spill and Offshore Drilling released its final report, with recommendations for new regulations.

We do not currently operate our drilling rigs in these regions, but we may do so in the future. In any event, these developments could have a substantial impact on the offshore oil and gas industry worldwide. Governmental investigations and proceedings may result in significant changes to existing laws, regulations and conditions of offshore drilling leases that impose stricter government controls on the operation of our drilling units. For example, Norway's Petroleum Safety Authority is assessing the results of the investigations into the Deepwater Horizon oil spill and issued a preliminary report of its recommendations in June 2011, and Oil & Gas UK has established the Oil Spill Prevention and Response Advisory Group, which issued its final report on industry practices in the UK in September 2011. In the EU, the European Commission has published a draft Regulation on the safety of offshore oil and gas activities. In addition, BP plc, the rig operator of the Deepwater Horizon, has reached an agreement with the U.S. government to establish a claims fund of $20 billion, which far exceeds the $75 million strict liability limit for most offshore facilities set forth under OPA. Amendments to existing laws and regulations or the adoption of new laws and regulations curtailing or further regulating exploratory or development drilling and production of oil and gas, may be highly restrictive and require costly compliance measures that could have a material adverse effect on our business, operating results or financial condition. Future earnings may be negatively affected by compliance with any such amended or new legislation or regulations.

Our insurance coverage may not adequately protect us from certain operational risks inherent in the drilling industry.

Our insurance is intended to cover normal risks in our current operations, including insurance against property damage, occupational injury and illness, loss of hire, certain war risks and third-party liability, including pollution liability.

Insurance coverage may not, under certain circumstances, be available, and if available, may not provide sufficient funds to protect us from all losses and liabilities that could result from our operations. We have also obtained loss of hire insurance which becomes effective after 45 days of downtime with coverage that extends for approximately one year. This loss of hire insurance is recoverable only if there is physical damage to the rig or equipment which is caused by a peril against which we are insured. The principal risks which may not be insurable are various environmental liabilities and liabilities resulting from reservoir damage caused by our gross negligence. Moreover, our insurance provides for premium adjustments based on claims and is subject to deductibles and aggregate recovery limits. In the case of pollution liabilities, our deductible is $10,000 per event and $250,000 for protection and indemnity claims brought before any U.S. jurisdiction. The deductible for collision liability claims is $50,000. Our aggregate recovery limit is $500.0 million for all claims arising out of any event covered by our protection and indemnity insurance. Our deductible is $1.5 million per hull and machinery insurance claim. In addition, insurance policies covering physical damage claims due to a named windstorm in the Gulf of Mexico generally impose strict recovery limits. Our insurance coverage may not protect fully against losses resulting from a required cessation of rig operations for environmental or other reasons. Insurance may not be available to us at all or on terms acceptable to us, we may not maintain insurance or, if we are so insured, our policy may not be adequate to cover our loss or liability in all cases. The occurrence of a casualty, loss or liability against, which we may not be fully insured against, could significantly reduce our revenues, make it financially impossible for us to obtain a replacement rig or to repair a damaged rig, cause us to pay fines or damages which are generally not insurable and that may have priority over the payment obligations under our indebtedness or otherwise impair our ability to meet our obligations under our indebtedness and to operate profitably.

If we enter into drilling contracts with countries or government-controlled entities that are subject to restrictions imposed by the U.S. government, our reputation and the market for our common stock could be adversely affected.

From time to time, we may operate in countries that are subject to sanctions and embargoes imposed by the U.S. government and/or identified by the U.S. government as state sponsors of terrorism, such as Cuba, Iran, Sudan and Syria. The U.S. sanctions and embargo laws and regulations vary in their application, as they do not all apply to the same covered persons or proscribe the same activities, and such sanctions and embargo laws and regulations may be amended or strengthened over time. In 2010, the U.S. enacted the Comprehensive Iran Sanctions Accountability and Divestment Act, or CISADA, which expanded the scope of the former Iran Sanctions Act. Among other things, CISADA expanded the application of the prohibitions to additional activities of non-U.S. companies and introduced limits on the ability of companies and persons to do business or trade with Iran when such activities relate to the investment, supply or export of refined petroleum or petroleum products. In addition, the U.S. Congress is currently considering the enactment of the Iran, North Korea, and Syria Nonproliferation Reform and Modernization Act of 2011, which would, among other things, provide for the imposition of sanctions, including a 180-day prohibition on calling at any U.S. port and enhanced vessel inspections, on companies or persons that provide certain shipping services to or from Iran, North Korea or Syria.

Although we believe that we are in compliance with all applicable sanctions and embargo laws and regulations, and intend to maintain such compliance, there can be no assurance that we will be in compliance in the future, particularly as the scope of certain laws may be unclear and may be subject to changing interpretations. Any such violation could result in fines or other penalties and could result in some investors deciding, or being required, to divest their interest, or not to invest, in our Company. In addition, certain institutional investors may have investment policies or restrictions that prevent them from holding securities of companies that have contracts with countries identified by the U.S. government as state sponsors of terrorism. The determination by these investors not to invest in, or to divest from, our common shares may adversely affect the price at which our common shares trade. Investor perception of the value of our common stock may be adversely affected by the consequences of war, the effects of terrorism, civil unrest and governmental actions in these and surrounding countries.

The instability of the euro or the inability of Eurozone countries to refinance their debts could have a material adverse effect on our revenue, profitability and financial position.

As a result of the credit crisis in Europe, in particular in Greece, Italy, Ireland, Portugal and Spain, the European Commission created the European Financial Stability Facility, or the EFSF, and the European Financial Stability Mechanism, or the EFSM, to provide funding to Eurozone countries in financial difficulties that seek such support. In March 2011, the European Council agreed on the need for Eurozone countries to establish a permanent stability mechanism, the European Stability Mechanism, or the ESM, which will be activated by mutual agreement, to assume the role of the EFSF and the EFSM in providing external financial assistance to Eurozone countries after June 2013.

Despite these measures, concerns persist regarding the debt burden of certain Eurozone countries and their ability to meet future financial obligations and the overall stability of the euro. An extended period of adverse development in the outlook for European countries could reduce the overall demand for oil and gas and for our services. These potential developments, or market perceptions concerning these and related issues, could affect our financial position, results of operations and cash flow.

Governmental laws and regulations, including environmental laws and regulations, may add to our costs or limit our drilling activity.

Our business in the offshore drilling industry is affected by laws and regulations relating to the energy industry and the environment in the geographic areas where we operate. The offshore drilling industry is dependent on demand for services from the oil and gas exploration and production industry, and, accordingly, we are directly affected by the adoption of laws and regulations that, for economic, environmental or other policy reasons, curtail exploration and development drilling for oil and gas. We may be required to make significant capital expenditures to comply with governmental laws and regulations. It is also possible that these laws and regulations may, in the future, add significantly to our operating costs or significantly limit drilling activity. Our ability to compete in international contract drilling markets may be limited by foreign governmental regulations that favor or require the awarding of contracts to local contractors or by regulations requiring foreign contractors to employ citizens of, or purchase supplies from, a particular jurisdiction. Governments in some countries are increasingly active in regulating and controlling the ownership of concessions, the exploration for oil and gas, and other aspects of the oil and gas industries. Offshore drilling in certain areas has been curtailed and, in certain cases, prohibited because of concerns over protection of the environment. Operations in less developed countries can be subject to legal systems that are not as mature or predictable as those in more developed countries, which can lead to greater uncertainty in legal matters and proceedings.

To the extent new laws are enacted or other governmental actions are taken that prohibit or restrict offshore drilling or impose additional environmental protection requirements that result in increased costs to the oil and gas industry, in general, or the offshore drilling industry, in particular, our business or prospects could be materially adversely affected. The operation of our drilling units will require certain governmental approvals, the number and prerequisites of which cannot be determined until we identify the jurisdictions in which we will operate on securing contracts for the drilling units. Depending on the jurisdiction, these governmental approvals may involve public hearings and conditions that result in costly undertakings on our part. We may not obtain such approvals or such approvals may not be obtained in a timely manner. If we fail to timely secure the necessary approvals or permits, our customers may have the right to terminate or seek to renegotiate their drilling contracts to our detriment. The amendment or modification of existing laws and regulations or the adoption of new laws and regulations curtailing or further regulating exploratory or development drilling and production of oil and gas could have a material adverse effect on our business, operating results or financial condition. Future earnings may be negatively affected by compliance with any such new legislation or regulations.

We are subject to complex laws and regulations, including environmental laws and regulations that can adversely affect the cost, manner or feasibility of doing business.

Our operations are subject to numerous laws and regulations in the form of international conventions and treaties, national, state and local laws and national and international regulations in force in the jurisdictions in which our vessels operate or are registered, which can significantly affect the ownership and operation of our vessels. These requirements include, but are not limited to, the International Convention for the Prevention of Pollution from Ships, or MARPOL, the International Convention on Civil Liability for Oil Pollution Damage of 1969, generally referred to as CLC, the International Convention on Civil Liability for Bunker Oil Pollution Damage, or Bunker Convention, the International Convention for the Safety of Life at Sea of 1974, or SOLAS, the International Safety Management Code for the Safe Operation of Ships and for Pollution Prevention, or ISM Code, the International Convention for the Control and Management of Ships' Ballast Water and Sediments in February 2004, or the BWM Convention, the U.S. Oil Pollution Act of 1990, or OPA, the Comprehensive Environmental Response, Compensation and Liability Act, or CERCLA, the U.S. Clean Water Act, the U.S. Clean Air Act, the U.S. Outer Continental Shelf Lands Act, the U.S. Maritime Transportation Security Act of 2002, or the MTSA, European Union regulations, and Brazil's National Environmental Policy Law (6938/81), Environmental Crimes Law (9605/98) and Law (9966/2000) relating to pollution in Brazilian waters. Compliance with such laws, regulations and standards, where applicable, may require installation of costly equipment or operational changes and may affect the resale value or useful lives of our vessels. We may also incur additional costs in order to comply with other existing and future regulatory obligations, including, but not limited to, costs relating to air emissions, including greenhouse gases, the management of ballast waters, maintenance and inspection, development and implementation of emergency procedures and insurance coverage or other financial assurance of our ability to address pollution incidents. These costs could have a material adverse effect on our business, results of operations, cash flows and financial condition. A failure to comply with applicable laws and regulations may result in administrative and civil penalties, criminal sanctions or the suspension or termination of our operations. Environmental laws often impose strict liability for remediation of spills and releases of oil and hazardous substances, which could subject us to liability without regard to whether we were negligent or at fault. Under OPA, for example, owners, operators and bareboat charterers are jointly and severally strictly liable for the discharge of oil in U.S. waters, including the 200-nautical mile exclusive economic zone around the United States. An oil spill could result in significant liability, including fines, penalties and criminal liability and remediation costs for natural resource damages under other international and U.S. federal, state and local laws, as well as third-party damages. We are required to satisfy insurance and financial responsibility requirements for potential oil (including marine fuel) spills and other pollution incidents and our insurance may not be sufficient to cover all such risks. As a result, claims against us could result in a material adverse effect on our business, results of operations, cash flows and financial condition.

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Although our drilling units are separately owned by our subsidiaries, under certain circumstances a parent company and all of the ship-owning affiliates in a group under common control engaged in a joint venture could be held liable for damages or debts owed by one of the affiliates, including liabilities for oil spills under OPA or other environmental laws. Therefore, it is possible that we could be subject to liability upon a judgment against us or any one of our subsidiaries.

Our drilling units could cause the release of oil or hazardous substances, especially as our drilling units age. Any releases may be large in quantity, above our permitted limits or occur in protected or sensitive areas where public interest groups or governmental authorities have special interests. Any releases of oil or hazardous substances could result in fines and other costs to us, such as costs to upgrade our drilling rigs, clean up the releases, and comply with more stringent requirements in our discharge permits. Moreover, these releases may result in our customers or governmental authorities suspending or terminating our operations in the affected area, which could have a material adverse effect on our business, results of operation and financial condition.

If we are able to obtain from our customers some degree of contractual indemnification against pollution and environmental damages in our contracts, such indemnification may not be enforceable in all instances or the customer may not be financially able to comply with its indemnity obligations in all cases. In addition, we may not be able to obtain such indemnification agreements in the future.

Our insurance coverage may not be available in the future or we may not obtain certain insurance coverage. If it is available and we have the coverage, it may not be adequate to cover our liabilities. Any of these scenarios could have a material adverse effect on our business, operating results and financial condition.

Regulation of greenhouse gases and climate change could have a negative impact on our business.

Currently, emissions of greenhouse gases from international shipping are not subject to the Kyoto Protocol to the United Nations Framework Convention on Climate Change, which entered into force in 2005 and pursuant to which adopting countries have been required to implement national programs to reduce greenhouse gas emissions. However, in July 2011 the MEPC adopted two new sets of mandatory requirements to address greenhouse gas emissions from ships that will enter into force in January 2013. Currently operating ships will be required to develop Ship Energy Efficiency Management Plans, and minimum energy efficiency levels per capacity mile will apply to new ships. These requirements could cause us to incur additional compliance costs. The IMO is also considering the development of market-based mechanisms to reduce greenhouse gas emissions from ships. The European Union has indicated that it intends to propose an expansion of the existing European Union emissions trading scheme to include emissions of greenhouse gases from marine vessels, and in January 2012 the European Commission launched a public consultation on possible measures to reduce greenhouse gas emissions from ships. In the United States, the EPA has issued a finding that greenhouse gases endanger the public health and safety and has adopted regulations to limit greenhouse gas emissions from certain mobile sources and large stationary sources. Although the mobile source emissions regulations do not apply to greenhouse gas emissions from vessels, such regulation of vessels is foreseeable, and the EPA has in recent years received petitions from the California Attorney General and various environmental groups seeking such regulation. Any passage of climate control legislation or other regulatory initiatives by the IMO, European Union, the U.S. or other countries where we operate, or any treaty adopted at the international level to succeed the Kyoto Protocol, that restrict emissions of greenhouse gases could require us to make significant financial expenditures which we cannot predict with certainty at this time.

Because our business depends on the level of activity in the offshore oil and gas industry, existing or future laws, regulations, treaties or international agreements related to greenhouse gases and climate change, including incentives to conserve energy or use alternative energy sources, could have a negative impact on our business if such laws, regulations, treaties or international agreements reduce the worldwide demand for oil and gas. In addition, such laws, regulations, treaties or international agreements could result in increased compliance costs or additional operating restrictions, which may have a negative impact on our business.

Failure to comply with the U.S. Foreign Corrupt Practices Act could result in fines, criminal penalties, drilling contract terminations and an adverse effect on our business.

We currently operate, and historically have operated, our drilling units outside of the United States in a number of countries throughout the world, including some with developing economies. Also, the existence of state or government-owned shipbuilding enterprises puts us in contact with persons who may be considered "foreign officials" under the U.S. Foreign Corrupt Practices Act of 1977, or the FCPA. We are committed to doing business in accordance with applicable anti-corruption laws and have adopted a code of business conduct and ethics which is consistent and in full compliance with the FCPA. We are subject, however, to the risk that we, our affiliated entities or our or their respective officers, directors, employees and agents may take actions determined to be in violation of such anti-corruption laws, including the FCPA. Any such violation could result in substantial fines, sanctions, civil and/or criminal penalties, curtailment of operations in certain jurisdictions, and might adversely affect our business, results of operations or financial condition. In addition, actual or alleged violations could damage our reputation and ability to do business. Furthermore, detecting, investigating, and resolving actual or alleged violations is expensive and can consume significant time and attention of our senior management.

Acts of terrorism and political and social unrest could affect the markets for drilling services, which may have a material adverse effect on our results of operations.

Acts of terrorism and political and social unrest, brought about by world political events or otherwise, have caused instability in the world's financial and insurance markets in the past and may occur in the future. Such acts could be directed against companies such as ours. In addition, acts of terrorism and social unrest could lead to increased volatility in prices for crude oil and natural gas and could affect the markets for drilling services and result in lower day-rates. Insurance premiums could increase and coverage may be unavailable in the future. U.S. government regulations may effectively preclude us from actively engaging in business activities in certain countries. These regulations could be amended to cover countries where we currently operate or where we may wish to operate in the future. Increased insurance costs or increased cost of compliance with applicable regulations may have a material adverse effect on our results of operations.

Acts of piracy have recently increased in frequency, which could adversely affect our business.

Acts of piracy have historically affected ocean-going vessels and drilling units in regions of the world such as the South China Sea, the Indian Ocean and in the Gulf of Aden off the coast of Somalia. Although sea piracy worldwide decreased slightly in 2011 for the first time in five years, throughout 2008, 2009 and 2010, the frequency of piracy incidents increased significantly, particularly in the Gulf of Aden off the coast of Somalia. If these piracy attacks result in regions in which our drilling units are deployed being characterized as "war risk" zones by insurers, as the Gulf of Aden temporarily was in May 2008, or Joint War Committee "war and strikes" listed areas, premiums payable for such coverage could increase significantly and such insurance coverage may be more difficult to obtain. In addition, crew costs, including due to employing onboard security guards, could increase in such circumstances. We may not be adequately insured to cover losses from these incidents, which could have a material adverse effect on us. In addition, any detention hijacking as a result of an act of piracy against our drilling units, or an increase in cost, or unavailability, of insurance for our drilling units, could have a material adverse impact on our business, financial condition and results of operations.

Hurricanes may impact our ability to operate our drilling units in the Gulf of Mexico or other U.S. coastal waters, which could reduce our revenues and profitability.

Hurricanes Ivan, Katrina, Rita, Gustav and Ike caused damage to a number of drilling units unaffiliated to us in the Gulf of Mexico. Drilling units that were moved off their locations during the hurricanes damaged platforms, pipelines, wellheads and other drilling units. The Bureau of Safety and Environmental Enforcement of the U.S. Department of the Interior, or BSEE, issued guidelines for tie-downs on drilling units and permanent equipment and facilities attached to outer continental shelf production platforms, and moored drilling rig fitness. These guidelines effectively impose new requirements on the offshore oil and natural gas industry in an attempt to improve the stations that house the moored units and increase the likelihood of survival of offshore drilling units during a hurricane. The guidelines also provide for enhanced information and data requirements from oil and natural gas companies operating properties in the Gulf of Mexico. BSEE may issue similar guidelines for future hurricane seasons and may take other steps that could increase the cost of operations or reduce the area of operations for our ultra-deepwater drilling units, thus reducing their marketability. Implementation of new BSEE guidelines or regulations that may apply to ultra-deepwater drilling units may subject us to increased costs and limit the operational capabilities of our drilling units. Our drilling units do not currently operate in the Gulf of Mexico or other U.S. coastal waters but may do so in the future.

Any failure to comply with the complex laws and regulations governing international trade could adversely affect our operations.

The shipment of goods, services and technology across international borders subjects our offshore drilling segment to extensive trade laws and regulations. Import activities are governed by unique customs laws and regulations in each of the countries of operation. Moreover, many countries, including the United States, control the export and re-export of certain goods, services and technology and impose related export recordkeeping and reporting obligations. Governments also may impose economic sanctions against certain countries, persons and other entities that may restrict or prohibit transactions involving such countries, persons and entities.

The laws and regulations concerning import activity, export recordkeeping and reporting, export control and economic sanctions are complex and constantly changing. These laws and regulations may be enacted, amended, enforced or interpreted in a manner materially impacting our operations. Shipments can be delayed and denied export or entry for a variety of reasons, some of which are outside our control and some of which may result from failure to comply with existing legal and regulatory regimes. Shipping delays or denials could cause unscheduled operational downtime. Any failure to comply with applicable legal and regulatory trading obligations also could result in criminal and civil penalties and sanctions, such as fines, imprisonment, debarment from government contracts, seizure of shipments and loss of import and export privileges.

New technologies may cause our current drilling methods to become obsolete, resulting in an adverse effect on our business.

The offshore contract drilling industry is subject to the introduction of new drilling techniques and services using new technologies, some of which may be subject to patent protection. As competitors and others use or develop new technologies, we may be placed at a competitive disadvantage and competitive pressures may force us to implement new technologies at substantial cost. In addition, competitors may have greater financial, technical and personnel resources that allow them to benefit from technological advantages and implement new technologies before we can. We may not be able to implement technologies on a timely basis or at a cost that is acceptable to us.

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Risks Relating to Our Company

We may be unable to comply with covenants in both our secured credit facilities and unsecured senior notes or any future financial obligations that impose operating and financial restrictions on us.

Both our secured credit facilities, which are secured by mortgages on our vessels, and our unsecured senior notes impose, and future financial obligations may impose, operating and financial restrictions on us. These restrictions may prohibit or otherwise limit our ability to, among other things:

- enter into other financing arrangements;
- incur additional indebtedness;
- create or permit liens on our assets;
- sell our drilling units or the shares of our subsidiaries;
- make investments;
- change the general nature of our business;
- pay dividends to our shareholders;
- change the management and/or ownership of the drilling units;
- make capital expenditures; and
- compete effectively to the extent our competitors are subject to less onerous restrictions.

In addition, certain of our secured loan agreements and related guarantees contain restrictions requiring our subsidiaries to maintain a minimum amount of total available cash ranging from $30.0 million to $75.0 million and also impose maximum capital expenditure restrictions for those subsidiaries. These restrictions could limit our ability to fund our operations or capital needs, make acquisitions or pursue available business opportunities. Furthermore, under the terms of our $800.0 million senior secured term loan agreement, which matures in 2016, we are not permitted to pay dividends without the consent of a majority of the lenders. Our credit facilities require (i) us to maintain specified financial ratios and satisfy various financial covenants, including covenants related to the market value of our drilling units and (ii) DryShips Inc., or DryShips, because it is a guarantor of certain of our facilities, to comply with financial covenants relating to liquidity, equity ratios, interest coverage ratios and net worth. As of December 31, 2011, we were in compliance with all of these ratios and covenants related to ourself. Due to the decline in vessel values in the drybulk shipping sector, DryShips was in breach of certain of its financial covenants as of December 31, 2008 and, as a result, obtained waiver agreements from its lenders waiving the violations of such covenants. Certain of these waiver agreements expire during 2012, at which time the original covenants under the loan agreements come back into effect. As of December 31, 2011, DryShips was not in compliance with the loan-to-value ratios contained in certain of its loan agreements under which a total of $185.8 million was outstanding as of that date, out of DryShips's group consolidated debt of approximately $4.4 billion as of December 31, 2011, and has obtained a waiver of the breach relating to approximately $97.3 million of this outstanding indebtedness until March 31, 2012. As a result of the aforementioned non-compliance, DryShips may be required to prepay indebtedness or provide additional collateral to its lenders in the form of cash or other property in the total amount of $83.0 million in order to comply with these ratios, including $64.4 million that will be payable on March 31, 2012 in the event that DryShips is not in compliance with the applicable loan-to-value ratio for which it has obtained a waiver until March 31, 2012. There can be no assurance that DryShips will regain compliance with the original covenants when the waivers expire or be able to obtain extensions upon the expiration of such waivers. Furthermore, if DryShips does not remedy covenant breaches, this may trigger cross-default provisions in our loan agreements, as discussed below.

Events beyond our control, including changes in the economic and business conditions in the deepwater offshore drilling market in which we operate, may affect our ability to comply with these ratios and covenants in the future. We cannot assure you that we will continue to meet these ratios or satisfy these covenants. A breach of any of the covenants in, or our inability to maintain the required financial ratios under, the credit facilities would prevent us from borrowing additional amounts under the credit facilities and could result in a default under the credit facilities. In addition, each of our loan agreements also contains a cross-default provision which can be triggered by a default under one of our other loan agreements. A violation of these covenants constitutes an event of default under our credit facilities, which, unless waived by our lenders, would provide our lenders with the right to accelerate the outstanding debt, together with accrued interest and other fees, to be immediately due and payable and proceed against the collateral securing that debt, which could constitute all or substantially all of our assets. A default by DryShips under one of its loan agreements would trigger a cross-default under our two $495.0 million credit facilities, referred to as our Deutsche Bank credit facilities, and would provide our lenders with the right to accelerate the outstanding debt under these facilities. Further, if DryShips defaults under one of its loan agreements, and the related debt is accelerated, this would trigger a cross-default under our $1.04 billion credit facility and our $800.0 million secured term loan agreement and would provide our lenders with the right to accelerate the outstanding debt under these facilities. We do not guarantee, or otherwise become directly liable for, any of DryShips's indebtedness. Our lenders' interests are different from ours, and we cannot guarantee that we will be able to obtain our lenders' waiver or consent with respect to any noncompliance with the specified financial ratios and financial covenants under our various credit facilities or future financial obligations. Any such non-compliance may prevent us from taking business actions that are otherwise in our best interest.

Our parent company, DryShips, is currently not in compliance with loan-to-value ratios contained in certain of its loan agreements and, additionally, has obtained waiver agreements for violations of various covenants under certain of its other loan agreements. Due to the cross-default provisions in our loan agreements that are triggered in the event of a default by us under one of our other loan agreements or, in certain cases, a default by DryShips under one of its loan agreements, our lenders could accelerate our indebtedness if DryShips fails to (i) obtain a waiver for any covenant breach or remedy any such breach within the required time period; or (ii) successfully extend the existing waiver agreements or comply with the applicable covenants in the original loan agreements, as applicable.

Our loan agreements, which are secured by mortgages on various of our drilling units, require us to (i) comply with specified financial ratios and (ii) satisfy certain financial and other covenants. As of December 31, 2011, we had (i) $522.5 million outstanding under our $1.04 billion credit facility; (ii) a total of $990.0 million outstanding under our Deutsche Bank credit facilities; (iii) $766.7 million outstanding under our $800.0 million senior secured term loan agreement; and (iv) $500.0 million outstanding under our $500.0 million of aggregate principal amount of 9.5% senior unsecured notes due in 2016.

DryShips currently provides guarantees under our Deutsche Bank credit facilities and our $800.0 million senior secured term loan agreement, which require DryShips to comply with certain financial covenants, including covenants to maintain minimum liquidity, equity ratio, interest coverage, net worth and debt service coverage ratio. All of our loan agreements contain a cross-default provision that may be triggered by a default under one of our other loan agreements. A cross-default provision means that a default on one loan would result in a default on all of our other loans. A default by DryShips under one of its loan agreements would trigger a cross-default under our Deutsche Bank credit facilities and would provide our lenders with the right to accelerate the outstanding debt under these facilities. Further, if DryShips defaults under one of its loan agreements, and the related debt is accelerated, this would trigger a cross-default under our $1.04 billion credit facility and our $800.0 million secured term loan agreement and would provide our lenders with the right to accelerate the outstanding debt under these facilities. We do not guarantee, or otherwise become directly liable for, DryShips's indebtedness.

DryShips and its shipping subsidiaries have several secured term loan agreements totaling $1.65 billion of gross indebtedness outstanding at December 31, 2011. Due to the decline in vessel values in the drybulk shipping sector, DryShips was in breach of certain of its financial covenants as of December 31, 2008 and, as a result, obtained waiver agreements from its lenders waiving the violations of such covenants. Certain of these waiver agreements expire during 2012, at which time the original covenants under the loan agreements come back into effect. In addition, as of December 31, 2011, DryShips was not in compliance with the loan-to-value ratios contained in certain of its loan agreements under which a total of $185.8 million was outstanding as of that date, out of DryShips’s group consolidated debt of approximately $4.4 billion as of December 31, 2011, and has obtained a waiver of the breach relating to approximately $97.3 million of this outstanding indebtedness until March 31, 2012. As a result of the aforementioned non-compliance, DryShips may be required to prepay indebtedness or provide additional collateral to its lenders in the form of cash or other property in the total amount of $83.0 million in order to comply with these ratios, including $64.4 million that will be payable on March 31, 2012 in the event that DryShips is not in compliance with the applicable loan-to-value ratio for which it has obtained a waiver until March 31, 2012.

If DryShips is not in compliance with all of the covenants under its loan agreements, there can be no assurance that it will be able to remedy any breaches of covenants, obtain additional waivers or amendments to the credit facilities or that the lenders will extend DryShips's existing waivers (which under each loan agreement requires the unanimous consent of the applicable lenders and some of which expire in 2012) prior to their expiration. Absent a waiver or amendment, a default by DryShips under one of its loan agreements would trigger a cross-default under our Deutsche Bank credit facilities and would provide our lenders with the right to accelerate the outstanding debt under these facilities and if DryShips defaults under one of its loan agreements, and the related debt is accelerated, this would trigger a cross-default under our $1.04 billion credit facility and our $800.0 million secured term loan agreement and would provide our lenders with the right to accelerate the outstanding debt under these facilities, even if we were otherwise in compliance with our loan agreements. If our indebtedness is accelerated pursuant to the cross-default provisions, it will be very difficult in the current financing environment for us to refinance our debt or obtain additional financing and we could lose our drilling units if our lenders foreclose their liens. If we do not have sufficient cash on hand and cash generated from operations to repay our loans that have cross-default provisions, which aggregated approximately $2.3 billion, excluding our 9.5% senior unsecured notes, as of December 31, 2011, if that debt were to be accelerated by our lenders, we would have to seek to access the capital markets to fund the mandatory payments, although such financing may not be available on attractive terms or at all. In addition, if we otherwise fail to comply with the covenants applicable to our operations in our secured loan agreements, our lenders could accelerate our indebtedness and foreclose their liens on our drilling units, which would impair our ability to continue our operations.

We will need to procure significant additional financing, which may be difficult to obtain on acceptable terms or at all, in order to complete the construction of our seventh generation hulls and any of the other three additional newbuilding drillships for which we exercise our option.

We have newbuilding contracts with Samsung for the construction of three seventh generation ultra-deepwater drillships, which we refer to as our seventh generation hulls, that are scheduled for delivery in July 2013, September 2013 and November 2013, respectively. The estimated total project cost per drillship for our seventh generation hulls, excluding financing costs, is between $668.0 million and $678.0 million, of which an aggregate of $1.3 billion is currently outstanding and due upon delivery of the drillships. We have no borrowing capacity under our existing loan agreements. We expect to finance the delivery payments due in 2013 for our seventh generation hulls with cash on hand, operating cash flow, equity financing or additional bank debt that we intend to arrange. In order to complete the construction of our seventh generation hulls, we will need to procure additional financing. We cannot be certain that additional financing will be available on acceptable terms or at all. If additional financing is not available when needed, or is available only on unfavorable terms, we may be unable to take delivery of one or more of the seventh generation hulls, in which case we would be prevented from realizing potential revenues from the applicable drillship and we could lose our deposit money, which amounted to $726.7 million in the aggregate, as of December 31, 2011. We may also incur additional costs and liability to the shipyards, which may pursue claims against us under our newbuilding construction contracts and retain and sell our seventh generation hulls to third parties.

In addition, pursuant to an agreement with Samsung, we have the option to construct up to three additional seventh generation, ultra-deepwater drillships, which would be "sister ships" to our operating drillships and our seventh generation hulls, with certain upgrades to vessel design and specifications. The options may be exercised by us at any time on or prior to April 2, 2012, with the first optional vessel being delivered in the fourth quarter of 2014 and the second and third optional vessels being delivered on the earliest available delivery dates based on the production schedule, as determined Samsung in its reasonable discretion. These three optional newbuilding drillships have an estimated total project cost per drillship of between $668.0 million and $678.0 million, excluding financing costs and assuming the drillships are built with the same specifications as our seventh generation hulls under construction. To the extent we exercise any of our three newbuilding options, we would expect to incur aggregate additional capital commitments of approximately $2.0 billion, assuming these drillships are built with the same specifications as our seventh generation hulls under construction, for which we would be dependent upon obtaining additional financing that we have not yet arranged. Should such financing not be available, this could severely impact our ability to satisfy our liquidity requirements, meet our obligations, finance future obligations and expand the size of our fleet. If, on the other hand, we do not exercise any of the remaining options, we will sacrifice the corresponding deposits, which total approximately $24.8 million as of December 31, 2011.

The amount of our debt could limit our liquidity and flexibility in obtaining additional financing and in pursuing other business opportunities.

As of December 31, 2011, we had $2.78 billion in principal amount of debt outstanding. Our current indebtedness and future indebtedness that we may incur, including to finance the remaining payments for our seventh generation hulls under construction, could affect our future operations, as a portion of our cash flow from operations will be dedicated to the payment of interest and principal on such debt and will not be available for other purposes. Covenants contained in our loan agreements require us to meet certain financial tests, which may affect our flexibility in planning for, and reacting to, changes in our business, may limit our ability to dispose of assets or place restrictions on the use of proceeds from such dispositions, withstand current or future economic or industry downturns and compete with others in our industry for strategic opportunities, and may limit our ability to obtain additional financing for working capital, capital expenditures, acquisitions, general corporate and other purposes. Our ability to meet our debt service obligations and to fund planned capital expenditures, including construction costs for our newbuilding projects, will be dependent upon our future performance, which will be subject to general economic conditions, industry cycles and financial, business and other factors affecting our operations, many of which are beyond our control. Our future cash flows may be insufficient to meet all of our debt obligations and contractual commitments, and any insufficiency could negatively impact our business. To the extent that we are unable to repay our indebtedness as it becomes due or at maturity, we may need to refinance our debt, raise new debt, sell assets or repay the debt with the proceeds from equity offerings. Additional indebtedness or equity financing may not be available to us in the future for the refinancing or repayment of existing indebtedness, and we may not be able to complete asset sales in a timely manner sufficient to make such repayments.

We may be unable to secure ongoing drilling contracts, including for our three uncontracted seventh generation hulls under construction, due to strong competition, and the contracts that we enter into may not provide sufficient cash flow to meet our debt service obligations with respect to our indebtedness.

We have not yet secured drilling contracts for our three seventh generation hulls under construction, scheduled to be delivered to us in July 2013, September 2013 and November 2013, respectively. The existing drilling contracts for our drilling units currently employed are scheduled to expire from the second quarter of 2012 through the fourth quarter of 2015 or the first quarter of 2016, depending on when the Leiv Eiriksson completes its contract for drilling operations on the Norwegian Continental Shelf. Our ability to renew these contracts or obtain new contracts will depend on the prevailing market conditions. We cannot guarantee that we will be able to obtain contracts for our three uncontracted newbuilding drillships or our drilling units currently employed, upon the expiration or termination of the current contracts, including those that expire in the second quarter of 2012, or that there will not be a gap in employment between current contracts and subsequent contracts. In particular, if the price of crude oil is low, or it is expected that the price of crude oil will decrease in the future, at a time when we are seeking to arrange employment contracts for our drilling units, we may not be able to obtain employment contracts at attractive rates or at all.

If the rates which we receive for the reemployment of our current drilling units, we will recognize less revenue from their operations. In addition, delays under existing contracts could cause us to lose future contracts if a drilling unit is not available to start work at the agreed date. Our ability to meet our cash flow obligations will depend on our ability to consistently secure drilling contracts for our drilling units at sufficiently high dayrates. We cannot predict the future level of demand for our services or future conditions in the oil and gas industry. If the oil and gas companies do not continue to increase exploration, development and production expenditures, we may have difficulty securing drilling contracts, including for the seventh generation hulls under construction, or we may be forced to enter into contracts at unattractive dayrates. Either of these events could impair our ability to generate sufficient cash flow to make principal and interest payments under our indebtedness and meet our capital expenditure and other obligations.

We have a substantial amount of debt, and we may lose the ability to obtain future financing and suffer competitive disadvantages.

We had outstanding indebtedness of $2.78 billion as of December 31, 2011. We expect to incur substantial additional indebtedness in order to fund the estimated remaining contractual obligations, excluding financing costs, of $1.3 billion for our three seventh generation newbuilding drillships and any further growth of our fleet. This substantial level of debt and other obligations could have significant adverse consequences on our business and future prospects, including the following:

- we may not be able to obtain financing in the future for working capital, capital expenditures, acquisitions, debt service requirements or other purposes;

- we may not be able to use operating cash flow in other areas of our business because we must dedicate a substantial portion of these funds to service the debt;

- we could become more vulnerable to general adverse economic and industry conditions, including increases in interest rates, particularly given our substantial indebtedness, some of which bears interest at variable rates;

- we may not be able to meet financial ratios included in our loan agreements due to market conditions or other events beyond our control, which could result in a default under these agreements and trigger cross-default provisions in our other loan agreements and debt instruments;

- less leveraged competitors could have a competitive advantage because they have lower debt service requirements; and

- we may be less able to take advantage of significant business opportunities and to react to changes in market or industry conditions than our competitors.

Our ability to service our debt will depend upon, among other things, our future financial and operating performance, which will be affected by prevailing economic conditions and financial, business, regulatory and other factors, some of which are beyond our control. If our operating income is not sufficient to service our current or future indebtedness, we will be forced to take actions such as reducing or delaying our business activities, acquisitions, investments or capital expenditures, selling assets, restructuring or refinancing our debt or seeking additional equity capital. We may not be able to affect any of these remedies on satisfactory terms, or at all. In addition, a lack of liquidity in the debt and equity markets could hinder our ability to refinance our debt or obtain additional financing on favorable terms in the future.

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We cannot currently pay dividends without our lenders' consent.

As a result of various restrictions imposed by our lenders under our Deutsche Bank credit facilties and under our 9.5% senior unsecured notes, our ability to pay dividends to our shareholders in any financial year is limited to 50% of our net income for such financial year and, under the terms of our $800.0 million senior secured term loan agreement, which matures in 2016, we are not permitted to pay any dividends without the consent of a majority of the lenders under the loan agreement. In addition, the payment of any future dividends will be subject at all times to the discretion of our board of directors. The timing and amount of dividends will depend on our earnings, financial condition, cash requirements and availability, fleet renewal and expansion, restrictions in our various loan agreements and the indenture governing our senior notes, the provisions of Marshall Islands law affecting the payment of dividends and other factors. Marshall Islands law generally prohibits the payment of dividends other than from surplus or while a company is insolvent or would be rendered insolvent upon the payment of such dividends, or if there is no surplus, dividends may be declared or paid out of net profits for the fiscal year.

Construction of drillships is subject to risks, including delays and cost overruns, which could have an adverse impact on our available cash resources and results of operations.

We have entered into contracts with Samsung for the construction of three ultra-deepwater newbuilding drillships, which we expect to take delivery of in July 2013, September 2013 and November 2013, respectively.

From time to time in the future, we may undertake new construction projects and conversion projects. Currently, we have three existing newbuilding drillships options with Samsung that we may exercise at any time on or prior to April 2, 2012. In addition, we may make significant upgrade, refurbishment, conversion and repair expenditures for our fleet from time to time, particularly as our drilling units become older. Some of these expenditures are unplanned. These projects together with our existing construction projects and other efforts of this type are subject to risks of cost overruns or delays inherent in any large construction project as a result of numerous factors, including the following:

- shipyard unavailability;
- shortages of equipment, materials or skilled labor for completion of repairs or upgrades to our equipment;
- unscheduled delays in the delivery of ordered materials and equipment or shipyard construction;
- financial or operating difficulties experienced by equipment vendors or the shipyard;
- unanticipated actual or purported change orders;
- local customs strikes or related work slowdowns that could delay importation of equipment or materials;
- engineering problems, including those relating to the commissioning of newly designed equipment;
- design or engineering changes;
- latent damages or deterioration to the hull, equipment and machinery in excess of engineering estimates and assumptions;

- work stoppages;
- client acceptance delays;
- weather interference, storm damage or other events of force majeure;
- disputes with shipyards and suppliers;
- shipyard failures and difficulties;
- failure or delay of third-party equipment vendors or service providers;
- unanticipated cost increases; and
- difficulty in obtaining necessary permits or approvals or in meeting permit or approval conditions.

These factors may contribute to cost variations and delays in the delivery of our ultra-deepwater newbuilding drillships. Delays in the delivery of these newbuilding drillships or the inability to complete construction in accordance with their design specifications may, in some circumstances, result in a delay in employment contract commencement, resulting in a loss of revenue to us, and may also cause customers to renegotiate, terminate or shorten the term of a drilling contract for the drillship pursuant to applicable late delivery clauses. In the event of termination of one of these contracts, we may not be able to secure a replacement contract on as favorable terms or at all. Additionally, capital expenditures for drillship upgrades, refurbishment and construction projects could materially exceed our planned capital expenditures. Moreover, our drillships that may undergo upgrade, refurbishment and repair may not earn a dayrate during the periods they are out of service. In addition, in the event of a shipyard failure or other difficulty, we may be unable to enforce certain provisions under our newbuilding contracts such as our refund guarantee, to recover amounts paid as installments under such contracts. The occurrence of any of these events may have a material adverse effect on our results of operations, financial condition or cash flows.

As our current operating fleet is comprised of two ultra-deepwater drilling rigs and four drillships, we rely heavily on a small number of customers and the loss of a significant customer could have a material adverse impact on our financial results.

As of December 31, 2011, we had four customers for our current operating fleet of two ultra-deepwater drilling rigs and four drillships and we are subject to the usual risks associated with having a limited number of customers for our services. Our two biggest customers represented 36% and 33% of our revenues during the fiscal year ended December 31, 2011, respectively, and our four customers represented 100% of our revenues during the year ended December 31, 2011. If these customers terminate, suspend or seek to renegotiate the contracts for drilling rigs, as they are entitled to do under various circumstances, or cease doing business, our results of operations and cash flows could be adversely affected. Although we expect that a limited number of customers will continue to generate a substantial portion of our revenues, we will have to expand our pool of customers as we take delivery of our three newbuilding drillships and further grow our business. See "Item 4. Information on the Company—B. Business Overview—Our customers."

Currently, our revenues depend on two ultra-deepwater drilling rigs and four drillships, which are designed to operate in harsh environments. The damage or loss of any of our drilling units could have a material adverse effect on our results of operations and financial condition.

Our revenues are dependent on the drilling rig Leiv Eiriksson, which is currently operating offshore the Falkland Islands, the drilling rig Eirik Raude, which is currently operating offshore the Ivory Coast, the drillships Ocean Rig Corcovado and Ocean Rig Mykonos, which are currently acceptance testing under contracts for drilling operations offshore Brazil and are scheduled to commence drilling operations under the contracts in March 2012, the Ocean Rig Olympia, which is currently operating offshore Ghana and the Ocean Rig Poseidon, which is currently operating offshore Tanzania. Our drilling units may be exposed to risks inherent in deepwater drilling and operating in harsh environments that may cause damage or loss. The drilling of oil and gas wells, particularly exploratory wells where little is known of the subsurface formations involves risks, such as extreme pressure and temperature, blowouts, reservoir damage, loss of production, loss of well control, lost or stuck drill strings, equipment defects, punch throughs, craterings, fires, explosions, pollution and natural disasters such as hurricanes and tropical storms. In addition, offshore drilling operations are subject to perils peculiar to marine operations, either while on-site or during mobilization, including capsizing, sinking, grounding, collision, marine life infestations, and loss or damage from severe weather. The replacement or repair of a rig or drillship could take a significant amount of time, and we may not have any right to compensation for lost revenues during that time. As long as we have only six drilling units in operation, loss of or serious damage to one of the drilling units could materially reduce our revenues for the time that drilling unit is out of operation. In view of the sophisticated design of the drilling units, we may be unable to obtain a replacement unit that could perform under the conditions that our drilling units are expected to operate, which could have a material adverse effect on our results of operations and financial condition.

We are subject to certain risks with respect to our counterparties, including under our drilling contracts, and failure of these counterparties to meet their obligations could cause us to suffer losses or otherwise adversely affect our business.

We enter into drilling services contracts with our customers, newbuilding contracts with shipyards, interest rate swap agreements and forward exchange contracts, and have employed and may employ our drilling rigs and newbuild drillships on fixed-term and well contracts. Our drilling contracts, newbuilding contracts, and hedging agreements subject us to counterparty risks. The ability of each of our counterparties to perform its obligations under a contract with us will depend on a number of factors that are beyond our control and may include, among other things, general economic conditions, the condition of the offshore contract drilling industry, the overall financial condition of the counterparty, the dayrates received for specific types of drilling rigs and drillships and various expenses. In addition, in depressed market conditions, our customers may no longer need a drilling unit that is currently under contract or may be able to obtain a comparable drilling unit at a lower dayrate. As a result, customers may seek to renegotiate the terms of their existing drilling contracts or avoid their obligations under those contracts. Should a counterparty fail to honor its obligations under an agreement with us, we could sustain significant losses, which could have a material adverse effect on our business, financial condition, results of operations and cash flows.

Some of our offshore drilling contracts may be terminated early due to certain events.

Some of our customers have the right to terminate our drilling contracts upon the payment of an early termination or cancellation fee. However, such payments may not fully compensate us for the loss of the contract. In addition, our contracts permit our customers to terminate the contracts early without the payment of any termination fees under certain circumstances, including as a result of major non-performance, longer periods of downtime or impaired performance caused by equipment or operational issues, or sustained periods of downtime due to piracy or force majeure events beyond our control.

In addition, during periods of challenging market conditions, our customers may no longer need a drilling unit that is currently under contract or may be able to obtain a comparable drilling unit at a lower dayrate.  As a result, we may be subject to an increased risk of our clients seeking to renegotiate the terms of their existing contracts or repudiate their contracts, including through claims of non-performance. Our customers' ability to perform their obligations under their drilling contracts with us may also be negatively impacted by the prevailing uncertainty surrounding the development of the world economy and the credit markets. If our customers cancel some of our contracts, and we are unable to secure new contracts on a timely basis and on substantially similar terms, or if contracts are suspended for an extended period of time or if a number of our contracts are renegotiated, it could adversely affect our consolidated statement of financial position, results of operations or cash flows.

If our drilling units fail to maintain their class certification or fail any annual survey or special survey, that drilling unit would be unable to operate, thereby reducing our revenues and profitability and violating certain covenants under our credit facilities.

Every drilling unit must be "classed" by a classification society. The classification society certifies that the drilling unit is "in-class," signifying that such drilling unit has been built and maintained in accordance with the rules of the classification society and complies with applicable rules and regulations of the drilling unit's country of registry and the international conventions of which that country is a member. In addition, where surveys are required by international conventions and corresponding laws and ordinances of a flag state, the classification society will undertake them on application or by official order, acting on behalf of the authorities concerned. Both our drilling rigs are certified as being "in class" by Det Norske Veritas. Each of our operating drillships is certified as being "in class" by American Bureau of Shipping. The Leiv Eiriksson was credited with completing its last Special Periodical Survey in April 2011 and the Eirik Raude completed the same in 2007. The Eirik Raude is due for its next Special Periodical Survey in the third quarter 2012, while our four drillships are due for their first Special Periodical Survey in 2016. Our seventh generation hulls are due for their first Special Periodical Survey in 2018. If any drilling unit does not maintain its class and/or fails any annual survey or special survey, the drilling unit will be unable to carry on operations and will be unemployable and uninsurable, which could cause us to be in violation of certain covenants in our credit facilities. Any such inability to carry on operations or be employed, or any such violation of covenants, could have a material adverse impact on our financial condition and results of operations.

Our drilling units, including our seventh generation hulls following their delivery to us, may suffer damage and we may face unexpected yard costs, which could adversely affect our cash flow and financial condition.

If our drilling units, including our seventh generation hulls following their delivery to us, suffer damage, they may need to be repaired at a yard. The costs of yard repairs are unpredictable and can be substantial. The loss of earnings while our drilling units are being repaired and repositioned, as well as the actual cost of these repairs, would decrease our earnings. We may not have insurance that is sufficient to cover all or any of these costs or losses and may have to pay dry docking costs not covered by our insurance.

We may not be able to maintain or replace our drilling units as they age.

The capital associated with the repair and maintenance of our fleet increases with age. We may not be able to maintain our existing drilling units to compete effectively in the market, and our financial resources may not be sufficient to enable us to make expenditures necessary for these purposes or to acquire or build replacement drilling units.

We may have difficulty managing our planned growth properly.

We intend to continue to grow our fleet and we may exercise one or more of our purchase options to purchase up to an additional three newbuilding drillships. Our future growth will primarily depend on our ability to:

- locate and acquire suitable drillships;
- identify and consummate acquisitions or joint ventures;

- enhance our customer base;
- locate and retain suitable personnel for our fleet;
- manage our expansion; and
- obtain required financing on acceptable terms.

Growing any business by acquisition presents numerous risks, such as undisclosed liabilities and obligations, the possibility that indemnification agreements will be unenforceable or insufficient to cover potential losses and difficulties associated with imposing common standards, controls, procedures and policies, obtaining additional qualified personnel, managing relationships with customers and integrating newly acquired assets and operations into existing infrastructure. We may experience operational challenges as we begin operating our new drillships which may result in low earnings efficiency and/or reduced dayrates compared to maximum dayrates. We may be unable to successfully execute our growth plans or we may incur significant expenses and losses in connection with our future growth which would have an adverse impact on our financial condition and results of operations.

The market value of our current drilling units, and any drilling units we may acquire in the future, may decrease, which could cause us to incur losses if we decide to sell them following a decline in their values or accounting charges that may affect our ability to comply with our loan agreement covenants.

If the offshore contract drilling industry suffers adverse developments in the future, the fair market value of our drilling units may decline. The fair market value of the drilling units we currently own or may acquire in the future may increase or decrease depending on a number of factors, including:

- prevailing level of drilling services contract dayrates;
- general economic and market conditions affecting the offshore contract drilling industry, including competition from other offshore contract drilling companies;
- types, sizes and ages of drilling units;
- supply and demand for drilling units;
- costs of newbuildings;
- governmental or other regulations; and
- technological advances.

In the future, if the market values of our drilling units deteriorate significantly, we may be required to record an impairment charge in our financial statements, which could adversely affect our results of operations. If we sell any drilling unit when drilling unit prices have fallen and before we have recorded an impairment adjustment to our financial statements, the sale may be at less than the drilling unit's carrying amount on our financial statements, resulting in a loss. Additionally, any such deterioration in the market values of our drilling units could trigger a breach of certain financial covenants under our credit facilities and our lenders may accelerate loan repayments. Such a charge, loss or repayment could materially and adversely affect our business prospects, financial condition, liquidity, and results of operations.

Because we generate most of our revenues in U.S. Dollars, but incur a significant portion of our employee salary and administrative and other expenses in other currencies, exchange rate fluctuations could have an adverse impact on our results of operations.

Our principal currency for our operations and financing is the U.S. Dollar. A substantial portion of the operating dayrates for the drilling units, our principal source of revenues, are quoted and received in U.S. Dollars; however, a portion of our revenue under our contracts with Petroleo Brasileiro S.A., or Petrobras Brazil, for the Ocean Rig Corcovado and the Ocean Rig Mykonos will be receivable in Brazilian Real following the commencement of drilling operations under the contract for the Ocean Rig Corcovado and the Ocean Rig Mykonos in March 2012. The principal currency for operating expenses is also the U.S. Dollar; however, a significant portion of employee salaries and administration expenses, as well as parts of the consumables and repair and maintenance expenses for the drilling rigs, may be paid in Norwegian Kroner (NOK), Great British Pounds (GBP), Canadian dollars (CAD), Euros (EUR) or other currencies depending in part on the location of our drilling operations. For the year ended December 31, 2011, approximately 59% of our expenses were incurred in currencies other than the U.S. Dollars. This exposure to foreign currency could lead to fluctuations in net income and net revenue due to changes in the value of the U.S. Dollar relative to the other currencies. Revenues paid in foreign currencies against which the U.S. Dollar rises in value can decrease, resulting in lower U.S. Dollar denominated revenues. Expenses incurred in foreign currencies against which the U.S. Dollar falls in value can increase, resulting in higher U.S. Dollar denominated expenses. We have employed derivative instruments in order to economically hedge our currency exposure; however, we may not be successful in hedging our future currency exposure and our U.S. Dollar denominated results of operations could be materially and adversely affected upon exchange rate fluctuations determined by events outside of our control.

We are dependent upon key management personnel.

Our operations depend to a significant extent upon the abilities and efforts of our key management personnel. The loss of our key management personnel's service to us could adversely affect our efforts to obtain employment for our drillships and discussions with our lenders and, therefore, could adversely affect our business prospects, financial condition and results of operations. We do not currently, nor do we intend to, maintain "key man" life insurance on any of our personnel.

Failure to attract or retain key personnel, labor disruptions or an increase in labor costs could adversely affect our operations.

We require highly skilled personnel to operate and provide technical services and support for our business in the offshore drilling sector worldwide. As of December 31, 2011, we employed 1,305 employees, the majority of whom are full-time crew employed on our drilling units. Under certain of our employment contracts, we are required to have a minimum number of local crew members on our drillships. We will need to recruit additional qualified personnel as we take delivery on our newbuilding drillships. Competition for the labor required for drilling operations has intensified as the number of rigs activated, added to worldwide fleets or under construction has increased, leading to shortages of qualified personnel in the industry and creating upward pressure on wages and higher turnover. If turnover increases, we could see a reduction in the experience level of our personnel, which could lead to higher downtime, more operating incidents and personal injury and other claims, which in turn could decrease revenues and increase costs. In response to these labor market conditions, we are increasing efforts in our recruitment, training, development and retention programs as required to meet our anticipated personnel needs. If these labor trends continue, we may experience further increases in costs or limits on our offshore drilling operations.

Currently, none of our employees are covered by collective bargaining agreements. In the future, some of our employees or contracted labor may be covered by collective bargaining agreements in certain jurisdictions such as Brazil, Nigeria, Norway and the United Kingdom. As part of the legal obligations in some of these agreements, we may be required to contribute certain amounts to retirement funds and pension plans and have restricted ability to dismiss employees. In addition, many of these represented individuals could be working under agreements that are subject to salary negotiation. These negotiations could result in higher personnel costs, other increased costs or increased operating restrictions that could adversely affect our financial performance. Labor disruptions could hinder our operations from being carried out normally and if not resolved in a timely cost-effective manner, could have a material impact our business. If we choose to cease operations in one of those countries or if the market conditions reduce the demand for our drilling services in such a country, we would incur costs, which may be material, associated with workforce reductions.

Our operating and maintenance costs with respect to our offshore drilling units will not necessarily fluctuate in proportion to changes in operating revenues, which may have a material adverse effect on our results of operations, financial condition and cash flows.

Operating revenues may fluctuate as a function of changes in supply of offshore drilling units and demand for contract drilling services, which, in turn, affect dayrates and the utilization and performance of our drilling units. However, costs for operating drilling units are generally fixed regardless of the dayrate being earned. Therefore, our operating and maintenance costs with respect to our offshore drilling units will not necessarily fluctuate in proportion to changes in operating revenues. In addition, should our drilling units incur idle time between contracts, we typically will not de-man those drilling units but rather use the crew to prepare the units for its next contract. During times of reduced activity, reductions in costs may not be immediate, as portions of the crew may be required to prepare rigs for stacking, after which time the crew members are assigned to active rigs or dismissed. In addition, as our drilling units are mobilized from one geographic location to another, labor and other operating and maintenance costs can vary significantly. In general, labor costs increase primarily due to higher salary levels and inflation. Equipment maintenance expenses fluctuate depending upon the type of activity the unit is performing and the age and condition of the equipment. Contract preparation expenses vary based on the scope and length of contract preparation required and the duration of the firm contractual period over which such expenditures are incurred. If we experience increased operating costs without a corresponding increase in earnings, this may have a material adverse effect on our results of operations, financial condition and cash flows.

In the event Samsung does not perform under its agreements with us and we are unable to enforce certain refund guarantees, we may lose all or part of our investment, which would have a material adverse effect on our results of operations, financial condition and cash flows.

As of December 31, 2011, we have paid an aggregate of $726.7 million to Samsung in connection our seventh generation hulls under construction, with a estimated total project cost, excluding financing costs, of between $668.0 million and $678.0 million per drillship. In addition, we have options under our contract with Samsung to construct up to three additional seventh generation, ultra-deepwater drillships, with an estimated total project cost per drillship of between $668.0 million and $678.0 million, excluding financing costs and assuming these drillships are built with the same specifications as our seventh generation hulls under construction. We also paid $99.0 million to DryShips in order to novate this contract to us. In addition, we paid deposits totaling $20.0 million to Samsung in the first quarter of 2011 to maintain favorable costs and yard slot timing under the option contract.

In the event Samsung does not perform under its agreements with us and we are unable to enforce certain refund guarantees with third party bankers due to an outbreak of war, bankruptcy or otherwise, we may lose all or part of our investment, which would have a material adverse effect on our results of operations, financial condition and cash flows.

Military action, other armed conflicts, or terrorist attacks have caused significant increases in political and economic instability in geographic regions where we operate and where the newbuilding drillships are being constructed.

Military tension involving North and South Korea, the Middle East, Africa and other attacks, threats of attacks, terrorism and unrest, have caused instability or uncertainty in the world's financial and commercial markets and have significantly increased political and economic instability in some of the geographic areas where we operate and where we have contracted with Samsung to build our three newbuilding drillships. Acts of terrorism and armed conflicts or threats of armed conflicts in these locations could limit or disrupt our operations, including disruptions resulting from the cancellation of contracts or the loss of personnel or assets. In addition, any possible reprisals as a consequence of ongoing military action in the Middle East, such as acts of terrorism in the United States or elsewhere, could materially and adversely affect us in ways we cannot predict at this time.

The derivative contracts we have entered into to hedge our exposure to fluctuations in interest rates could result in higher than market interest rates and charges against our income.

As of December 31, 2011, we had entered into interest rate swaps for the purpose of managing our exposure to fluctuations in interest rates applicable to indebtedness under our credit facilities, which was drawn at a floating rate based on LIBOR. Our hedging strategies, however, may not be effective and we may incur substantial losses if interest rates move materially differently from our expectations. Our existing interest rate swaps as of December 31, 2011 do not, and future derivative contracts may not, qualify for treatment as hedges for accounting purposes. We recognize fluctuations in the fair value of these contracts in our statement of operations. In addition, our financial condition could be materially adversely affected to the extent we do not hedge our exposure to interest rate fluctuations under our financing arrangements, under which loans have been advanced at a floating rate based on LIBOR and for which we have not entered into an interest rate swap or other hedging arrangement. Any hedging activities we engage in may not effectively manage our interest rate exposure or have the desired impact on our financial conditions or results of operations. At December 31, 2011, the fair value of our interest rate swaps was a liability of $92.8 million.

In addition, during February 2012, we entered into additional interest rate swap agreements to hedge our exposure to interest rate fluctuations applicable to indebtedness under our $800.0 million senior secured term loan agreement by fixing our three-month LIBOR rates at approximately 0.9% up to April 2016. See "Item 5. Operating and Financial Review and Prospects—B. Liquidity and Capital Resources—Swap agreements."

A change in tax laws, treaties or regulations, or their interpretation, of any country in which we operate could result in a higher tax rate on our worldwide earnings, which could result in a significant negative impact on our earnings and cash flows from operations.

We conduct our worldwide drilling operations through various subsidiaries. Tax laws and regulations are highly complex and subject to interpretation. Consequently, we are subject to changing tax laws, treaties and regulations in and between countries in which we operate. Our income tax expense is based upon our interpretation of tax laws in effect in various countries at the time that the expense was incurred. A change in these tax laws, treaties or regulations, or in the interpretation thereof, or in the valuation of our deferred tax assets, could result in a materially higher tax expense or a higher effective tax rate on our worldwide earnings, and such change could be significant to its financial results. If any tax authority successfully challenges our operational structure, inter-company pricing policies or the taxable presence of our operating subsidiaries in certain countries; or if the terms of certain income tax treaties are interpreted in a manner that is adverse to our structure; or if we lose a material tax dispute in any country, particularly in the United States, Canada, the U.K., Turkey, Angola, Cyprus, Korea, Ghana or Norway, our effective tax rate on our worldwide earnings could increase substantially and our earnings and cash flows from these operations could be materially adversely affected.

Our subsidiaries may be subject to taxation in the jurisdictions in which their offshore drilling activities are conducted. Such taxation would result in decreased earnings available to our shareholders.

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

United States tax authorities may treat us as a "passive foreign investment company" for United States federal income tax purposes, which may have adverse tax consequences to U.S. shareholders.

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

We do not believe that we are currently a PFIC, although certain of our wholly-owned subsidiaries may be or have been classified as PFICs at any time through the conclusion of the 2008 taxable year. Based on our current operations and future projections, we do not believe that we or any of our subsidiaries have been, are or will be a PFIC with respect to any taxable year beginning with the 2009 taxable year.

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

If the IRS were to find that we are or have been a PFIC for any taxable year, our U.S. shareholders will face adverse U.S. tax consequences. Under the PFIC rules, unless those shareholders make an election available under the Code (which election could itself have adverse consequences for such shareholders, as discussed below under "Taxation—U.S. Federal Income Tax Considerations"), such shareholders would be liable to pay U.S. federal income tax at the then prevailing income tax rates on ordinary income plus interest upon excess distributions and upon any gain from the disposition of the common shares, as if the excess distribution or gain had been recognized ratably over the shareholder's holding period of the common shares. In the event that our shareholders face adverse U.S. tax consequences as a result of investing in our common shares, this could adversely affect our ability to raise additional capital through the equity markets. See "Taxation—U.S. Federal Income Tax Considerations" for a more comprehensive discussion of the U.S. federal income tax consequences to U.S. shareholders if we are treated as a PFIC.

We may be subject to litigation that, if not resolved in our favor and not sufficiently insured against, could have a material adverse effect on us.

We may be, from time to time, involved in various litigation matters. These matters may include, among other things, contract disputes, personal injury claims, environmental claims or proceedings, asbestos and other toxic tort claims, employment matters, governmental claims for taxes or duties, and other litigation that arises in the ordinary course of our business. We cannot predict with certainty the outcome or effect of any claim or other litigation matter, and the ultimate outcome of any litigation or the potential costs to resolve them may have a material adverse effect on us. Insurance may not be applicable or sufficient in all cases, insurers may not remain solvent and policies may not be located.

Investor confidence and the market price of our common shares may be adversely impacted if we are unable to comply with Section 404 of the Sarbanes-Oxley Act of 2002.

As an operating subsidiary of DryShips, we have implemented procedures in order to meet the evaluation requirements of Rules 13a-15(c) and 15d-15(c) under the Securities Exchange Act of 1934, or the Exchange Act, for the assessment under Section 404 of the Sarbanes-Oxley Act of 2002, or Section 404. Section 404 requires us to include in our annual reports on Form 20-F (i) our management's report on, and assessment of, the effectiveness of our internal controls over financial reporting and (ii) our independent registered public accounting firm's attestation to and report on the effectiveness of our internal controls over financial reporting in our annual report. If we fail to maintain the adequacy of our internal controls over financial reporting, we will not be in compliance with all of the requirements imposed by Section 404. Any failure to comply with Section 404 could result in an adverse reaction in the financial marketplace due to a loss of investor confidence in the reliability of our financial statements, which ultimately could harm our business and could negatively impact the market price of our common shares.

We are incorporated in the Republic of the Marshall Islands, which does not have a well-developed body of corporate law, and as a result, shareholders may have fewer rights and protections under Marshall Islands law than under a typical jurisdiction in the United States.

Our corporate affairs are governed by our second amended and restated articles of incorporation and second amended and restated bylaws and by the Marshall Islands Business Corporations Act, or the BCA. The provisions of the BCA resemble provisions of the corporation laws of a number of states in the United States. However, there have been few judicial cases in the Republic of the Marshall Islands interpreting the BCA. The rights and fiduciary responsibilities of directors under the law of the Republic of the Marshall Islands are not as clearly established as the rights and fiduciary responsibilities of directors under statutes or judicial precedent in existence in certain United States jurisdictions. Shareholder rights may differ as well. While the BCA does specifically incorporate the non-statutory law, or judicial case law, of the State of Delaware and other states with substantially similar legislative provisions, our public shareholders may have more difficulty in protecting their interests in the face of actions by management, directors or controlling shareholders than would shareholders of a corporation incorporated in a United States jurisdiction.

It may not be possible for investors to enforce U.S. judgments against us.

We and all of our subsidiaries are incorporated in jurisdictions outside the United States and a substantial portion of our assets and those of our subsidiaries are located outside the United States. In addition, all of our directors and officers reside outside the United States and a substantial portion of the assets of our directors and officers are located outside the United States. As a result, it may be difficult or impossible for U.S. investors to serve process within the United States upon us, our subsidiaries or our directors and officers or to enforce a judgment against us for civil liabilities in U.S. courts. In addition, you should not assume that courts in the countries in which we or our subsidiaries are incorporated or where our assets or the assets of our subsidiaries and directors and officers are located (i) would enforce judgments of U.S. courts obtained in actions against us or our subsidiaries and directors and officers based upon the civil liability provisions of applicable U.S. federal and state securities laws or (ii) would enforce, in original actions, liabilities against us or our subsidiaries and directors and officers based on those laws.

We depend on directors who are associated with affiliated companies which may create conflicts of interest.

Our officers and directors have fiduciary duties to manage our business in a manner beneficial to us and our shareholders However, our Chairman, President and Chief Executive Officer, Mr. George Economou, is also the Chairman, President and Chief Executive Officer of DryShips, our parent company, and has significant shareholdings in DryShips. In addition, effective January 1, 2012, Mr. Pankaj Khanna was appointed as our Chief Marketing Officer. Mr. Pankaj Khanna also serves as the Chief Operating Officer of DryShips. Messrs. Economou and Khanna have fiduciary duties to manage the business of DryShips in a manner beneficial to DryShips and its shareholders and may have conflicts of interest in matters involving or affecting us and our customers or shareholders. In addition Messrs. Economou and Khanna may have conflicts of interest when faced with decisions that could have different implications for DryShips than they do for us. The resolution of these conflicts may not always be in our best interest or that of our shareholders and could have a material adverse effect on our business, results of operations, cash flows and financial condition.

In addition, Cardiff Marine Inc., or Cardiff, has been engaged by DryShips to provide services relating to our drilling units, under the Global Services Agreement. 70% of the issued and outstanding capital stock of Cardiff is owned by a foundation which is controlled by Mr. Economou. The remaining 30% of the issued and outstanding capital stock of Cardiff is owned by a company controlled by the sister of Mr. Economou, who is also a director of DryShips. Vivid Finance Ltd., a company controlled by Mr. Economou, has been engaged by DryShips to act as a consultant on financing matters for DryShips and its subsidiaries, including us. See "Item 7. Major Shareholders and Related Party Transactions—B. Related party transactions." If any of these conflicts of interest are not resolved in our favor, this could have a material adverse effect on our business.

We have recently incurred increased costs as a result of being public company.

On August 26, 2011, the U.S. Securities and Exchange Commission, or the SEC, declared effective our registration statement on Form F-4 and on October 6, 2011, our common shares began "regular way" trading on the NASDAQ Global Select Market. From the date that the registration statement was declared effective, we have been a public reporting company. As a public company, we incur significant legal, accounting, investor relations and other expenses that we did not previously incur. In addition, we are subject to the provisions of Sarbanes-Oxley and SEC rules and stock exchange requirements. These rules and regulations will increase our legal and financial compliance costs and will make some activities more time-consuming and costly. We estimate that we will have increased costs of approximately $0.7 million per year as a public company.

Risks Relating to Our Common Shares

We cannot assure you that an active and liquid public market for our common shares will continue.

Our common shares commenced "regular way" trading on the NASDAQ Global Select Market on October 6, 2011 and commenced trading in the Norwegian OTC market maintained by the Norwegian Security Dealers Association in December 2010. We cannot assure you that an active and liquid public market for our common shares will continue.

Since 2008, the U.S. stock market has experienced extreme price and volume fluctuations. In addition, the offshore drilling industry has been highly unpredictable and volatile. If the volatility in the market or the offshore drilling industry continues or worsens, it could have an adverse effect on the market price of our common stock and may impact a potential sale price if holders of our common stock decide to sell their shares.

The market price of our common stock may be influenced by many factors, many of which are beyond our control, including those described above in "—D. Risk factors" and the following:

- actual or anticipated variations in our operating results;
- changes in our cash flow, EBITDA or earnings estimates;
- changes in the price of oil;
- publication of research reports about us or the industry in which we operate;
- increases in market interest rates that may lead purchasers of common shares to demand a higher expected yield which, would mean our share price would fall;
- changes in applicable laws or regulations, court rulings and enforcement and legal actions;
- changes in market valuations of similar companies;
- announcements by us or our competitors of significant contracts, acquisitions or capital commitments;
- adverse market reaction to any increased indebtedness we incur in the future;
- additions or departures of key personnel;
- actions by institutional stockholders;
- speculation in the press or investment community;
- terrorist attacks
- economic and regulatory trends; and
- general market conditions.

As a result of these and other factors, investors in our common stock may not be able to resell their shares at or above the price they paid for such shares or at all. These broad market and industry factors may materially reduce the market price of our common stock, regardless of our operating performance.

Future sales of our common shares could have an adverse effect on our share price.

In order to finance the currently contracted and future growth of our fleet, we will have to incur substantial additional indebtedness and possibly issue additional equity securities. Future common share issuances, directly or indirectly through convertible or exchangeable securities, options or warrants, will generally dilute the ownership interests of our existing common stockholders, including their relative voting rights, and could require substantially more cash to maintain the then existing level, if any, of our dividend payments to our common stockholders, as to which no assurance can be given.  Preferred shares, if issued, will generally have a preference on dividend payments, which could prohibit or otherwise reduce our ability to pay dividends to our common stockholders. Our debt will be senior in all respects to our common shares, will generally include financial and operating covenants with which we must comply and will include acceleration provisions upon defaults thereunder, including our failure to make any debt service payments, and possibly under other debt. Because our decision to issue equity securities or incur debt in the future will depend on a variety of factors, including market conditions and other matters that are beyond our control, we cannot predict or estimate the timing, amount or form of our capital raising activities in the future. Such activities could, however, cause the price of our common shares to decline significantly.

As of March 6, 2012, DryShips owned 97,301,755 of our common shares. The common shares held by DryShips are "restricted securities" within the meaning of Rule 144 under the U.S. Securities Act of 1933, as amended, or the Securities Act, and may not be transferred unless they have been registered under the Securities Act or an exemption from registration is available. Upon satisfaction of certain conditions, Rule 144 permits the sale of certain amounts of restricted securities six months following the date of acquisition of the restricted securities from us.

In addition, in connection with the acquisition by DryShips of a majority interest in OceanFreight Inc., or OceanFreight, from entities affiliated with the Chief Executive Officer of OceanFreight, which occurred on August 24, 2011, the transferee of the sellers under the purchase agreement acquired 1,570,226 of our common shares, which are "restricted securities" within the meaning of Rule 144 under the Securities Act. Pursuant to the terms of the purchase agreement, the shares acquired by such transferee were subject to a six-month restriction on post-acquisition transfer, which expired in February 2012.

As our common shares become eligible for sale under Rule 144, the volume of sales of our common shares on applicable securities markets may increase, which could reduce the market value of our common shares.

DryShips, our parent company, controls the outcome of matters on which our shareholders are entitled to vote.

As of March 6, 2012, DryShips owned approximately 73.9% of our outstanding common shares. DryShips will control the outcome of matters on which our shareholders are entitled to vote, including the election of directors and other significant corporate actions. DryShips's interests may be different from your interests and the commercial goals of DryShips as a shareholder, and our goals, may not always be aligned. The substantial equity interests owned by DryShips may make it more difficult for us to maintain our business independence from other companies owned by DryShips and DryShips's affiliates.

Anti-takeover provisions contained in our organizational documents could make it difficult for our shareholders to replace or remove our current board of directors or have the effect of discouraging, delaying or preventing a merger or acquisition, which could adversely affect the market price of our securities.

Several provisions of our second amended and restated articles of incorporation and second amended and restated bylaws could make it difficult for our shareholders to change the composition of our board of directors in any one year, preventing them from changing the composition of management. In addition, the same provisions may discourage, delay or prevent a merger or acquisition that shareholders may consider favorable.

These provisions include:

- authorizing our board of directors to issue "blank check" preferred shares without shareholder approval;
- providing for a classified board of directors with staggered, three-year terms;
- prohibiting cumulative voting in the election of directors;
- authorizing the removal of directors only for cause and only upon the affirmative vote of the holders of a majority of the outstanding common shares entitled to vote generally in the election of directors;
- limiting the persons who may call special meetings of shareholders ; and

· establishing advance notice requirements for nominations for election to our board of directors or for proposing matters that can be acted on by shareholders at shareholder meetings.

In addition, we entered into an Amended and Restated Stockholder Rights Agreement that makes it more difficult for a third party to acquire us without the support of our board of directors. Under the Amended and Restated Stockholder Rights Agreement, our board of directors declared a dividend of one preferred share purchase right, or a right, to purchase one one-thousandth of a share of our Series A Participating Preferred Shares for each of our outstanding common shares. Each right entitles the registered holder, upon the occurrence of certain events, to purchase from us one one-thousandth of a share of Series A Participating Preferred Shares. The rights may have anti-takeover effects. The rights will cause substantial dilution to any person or group that attempts to acquire us without the approval of our board of directors. As a result, the overall effect of the rights may be to render more difficult or discourage any attempt to acquire us. Because our board of directors will be able to approve a redemption of the rights or a permitted offer, the rights should not interfere with a merger or other business combination approved by our board of directors.

Although the BCA does not contain specific provisions regarding "business combinations" between corporations organized under the laws of the Republic of Marshall Islands and "interested shareholders," our second amended and restated articles of incorporation include provisions that prohibit us from engaging in a business combination with an interested shareholder for a period of three years after the date of the transaction in which the person became an interested shareholder, unless:

· prior to the date of the transaction in which the person became an interested shareholder, our board of directors approved either the business combination or the transaction which resulted in the shareholder becoming an interested shareholder;

· upon consummation of the transaction that resulted in the shareholder becoming an interested shareholder, the interested shareholder owned at least 85% of our voting stock outstanding at the time the transaction commenced;

· at or subsequent to the date of the transaction that resulted in the shareholder becoming an interested shareholder, the business combination is approved by the board of directors and authorized at an annual or special meeting of shareholders by the affirmative vote of at least 66 2/3% of the outstanding voting stock that is not owned by the interested shareholder; or

· the shareholder became an interested shareholder prior to the consummation of our initial public offering under the Securities Act.

For purposes of these provisions, a "business combination" includes mergers, consolidations, exchanges, asset sales, leases and other transactions resulting in a financial benefit to the interested shareholder and an "interested shareholder" is any person or entity that beneficially owns 15% or more of our outstanding voting stock and any person or entity affiliated with or controlling or controlled by that person or entity, other than DryShips, provided, however, that the term "interested shareholder" does not include any person whose ownership of shares in excess of the 15% limitation is the result of action taken solely by us; provided that such person shall be an interested shareholder if thereafter such person acquires additional shares of our voting shares, except as a result of further action by us not caused, directly or indirectly, by such person. Further, the term "business combination", when used in reference to us and any "interested shareholder" does not include any transactions for which definitive agreements were entered into prior to May 3, 2011, the date the second amended and restated articles of incorporation were filed with the Republic of the Marshall Islands.

Item 4. Information on the Company

A. History and development of the company

Ocean Rig UDW Inc., a corporation organized under the laws of the Republic of the Marshall Islands, was formed on December 10, 2007 under the name Primelead Shareholders Inc. Primelead Shareholders Inc. was formed in December 2007 for the purpose of acquiring the shares of our predecessor, Ocean Rig ASA, which was incorporated in September 1996 under the laws of Norway. We acquired control of Ocean Rig ASA on May 14, 2008. Prior to the private placement of our common shares in December 2010, discussed below, we were a wholly-owned subsidiary of DryShips. Our shares commenced "regular way" trading on the NASDAQ Global Select Market under the symbol "ORIG" on October 6, 2011. As of March 6, 2012, DryShips owned approximately 73.9% of our outstanding common shares. Each of our drilling units is owned by a separate wholly-owned vessel-owning subsidiary.

We maintain our principal executive offices at 10 Skopa Street, Tribune House, 2nd Floor, Office 202, CY 1075, Nicosia, Cyprus and our telephone number at that address is +357 22767517. Our website address is www.ocean-rig.com. Information contained on our website does not constitute part of this annual report.

Business Development

In March 2009, DryShips contributed to us all of its equity interests in the newbuilding vessel-owning companies of the Ocean Rig Poseidon and Ocean Rig Mykonos. In May 2009, we acquired the equity interests of Drillships Holdings Inc., the owner of the Ocean Rig Corcovado and the Ocean Rig Olympia, from third parties and entities affiliated with our Chairman, President and Chief Executive Officer and, in exchange, we issued to the sellers common shares equal to 25% of our total issued and outstanding common shares as of May 15, 2009. In connection with the acquisition the Ocean Rig Corcovado and the Ocean Rig Olympia, we incurred debt obligations of $230.0 million, which has been repaid in full. In July 2009, DryShips acquired the remaining 25% of our total issued and outstanding capital stock from the minority interests held by third parties and entities controlled by our Chairman, President and Chief Executive Officer for a $50.0 million cash payment and the issuance of DryShips Series A Convertible Preferred Shares with an aggregate face value of $280.0 million, following which we became a wholly-owned subsidiary of DryShips.

On December 21, 2010, we completed the sale of an aggregate of 28,571,428 of our common shares (representing approximately 22% of our outstanding common shares) in an offering made to both non-U.S. 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 at a price of $17.50 per share. We refer to this offering, which includes the sale of 1,871,428 common shares pursuant to the managers' exercise of their option to purchase additional shares, as the private offering. A company controlled by our Chairman, President and Chief Executive Officer, Mr. 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. We received approximately $488.3 million of net proceeds from the private offering, of which we used $99.0 million to purchase an option contract from DryShips, our parent company, for the construction of up to four additional ultra-deepwater drillships, as described below. We applied the remaining proceeds to partially fund remaining construction installment payments for our newbuilding drillships and general corporate purposes. Following the completion of the private offering described above, DryShips owned approximately 78% of our outstanding common shares.

On April 27, 2011, we completed the issuance of $500.0 million aggregate principal amount of 9.5% senior unsecured notes due 2016 offered in a private placement. The net proceeds from the notes offering of approximately $487.5 million were used to finance our newbuilding drillships program and for general corporate purposes. See "Item 5.

Operating and Financial Review and Prospects—B. Liquidity and capital resources—Credit facilities—9.5% senior unsecured notes due 2016."

On May 3, 2011, following approval by our board of directors and shareholders, we amended and restated our amended and restated articles of incorporation to, among other things, increase our authorized share capital to 1,000,000,000 common shares and 500,000,000 shares of preferred stock, each with a par value of $0.01 per share.

On August 26, 2011, we commenced an offer to exchange up to 28,571,428 shares of our new common stock that were registered under the Securities Act pursuant to a registration statement on Form F-4 (Registration No. 333-175940), for an equivalent number of our common shares previously sold in the private offering in December 2010, or the Exchange Offer. On September 29, 2011, an aggregate of 28,505,786 common shares were exchanged in the Exchange Offer.

On October 5, 2011, DryShips completed the partial spin off of our Company by distributing an aggregate of 2,967,291 common shares of the Company, representing approximately a 2.25% stake in the Company, after giving effect to the treatment of fractional shares, on a pro rata basis to DryShips's shareholders of record as of September 21, 2011. In lieu of fractional shares, DryShips's transfer agent aggregated all fractional shares that would otherwise be distributable to DryShips's shareholders and sold a total of 105 common shares on behalf of those shareholders who would otherwise be entitled to receive a fractional share of our Company. Following the distribution, each such shareholder received a cash payment in an amount equal to its pro rata share of the total net proceeds of the sale of fractional shares. On September 19, 2011, our common shares commenced "when issued" trading on the NASDAQ Global Select Market under the ticker "ORIGV." Our common shares commenced "regular way" trading on the NASDAQ Global Select Market under the ticker symbol "ORIG" on October 6, 2011.

With effect as of January 1, 2012, Mr. Pankaj Khanna was appointed as our Chief Marketing Officer. Mr. Khanna also serves as the Chief Operating Officer of DryShips.

As of March 6, 2012, Dryships owned approximately 73.9% of our common shares. On November 3, 2011, the merger of Pelican Stockholdings Inc., a wholly-owned subsidiary of DryShips, and OceanFreight was completed, following approval by shareholders of OceanFreight at a special meeting of shareholders held on November 3, 2011. Following the completion of the merger, OceanFreight is a wholly-owned subsidiary of DryShips. We refer to this transaction as the OceanFreight merger. Under the terms of the merger agreement, OceanFreight shareholders received $11.25 cash and 0.52326 of a share of our common stock per share of OceanFreight common stock previously owned. Our common shares that comprised the stock portion of the merger consideration were previously outstanding shares that were owned by DryShips. Following the closing of the merger, DryShips transferred $33.1 million in cash and 1,541,159 shares of our common stock to shareholders of OceanFreight, other than the entities controlled by Mr. Anthony Kandylidis, as described below. Prior to the completion of the merger, on August 24, 2011, Dryships acquired from entities controlled by Mr. Anthony Kandylidis, the Chief Executive Officer of OceanFreight, all of their shares of OceanFreight, representing a majority of the outstanding shares of OceanFreight, for the same consideration per share that the OceanFreight shareholders received in the OceanFreight merger. Mr. Kandylidis is the son of one of the directors of DryShips and the nephew of DryShips's and our Chairman and Chief Executive Officer, Mr. George Economou. Pursuant to the purchase and sale agreement, the Company's shares paid by DryShips to the entities controlled by Mr. Kandylidis were subject to a six-month lock-up period that expired in February 2012.

Capital Expenditures

During the years ended December 31, 2009, 2010 and 2011 and during 2012 to date, our principal capital expenditures related to construction and construction-related expenses in connection with the construction of our sixth generation ultra-deepwater drillships, the Ocean Rig Corcovado, the Ocean Rig Olympia, the Ocean Rig Poseidon and the Ocean Rig Mykonos, which were delivered to us on January 3, 2011, March 30, 2011, July 28, 2011 and September 30, 2011, respectively, and our seventh generation hulls, which are scheduled to be delivered in July 2013, September

2013 and November 2013, respectively. For more information on our seventh generation hulls under construction, please see "—B. Business Overview— Newbuilding drillships and options to purchase new building drillships."

The total cost of construction and construction related expenses for the Ocean Rig Corcovado, the Ocean Rig Olympia, the Ocean Rig Poseidon and the Ocean Rig Mykonos amounted to approximately $755.7 million, $756.9 million, $791.8 million and $784.4 million, respectively. Construction related expenses include equipment purchases, commissioning, supervision and commissions to related parties, excluding financing costs.

The estimated total project cost per drillship for our seventh generation hulls under construction, excluding financing costs, ranges between $668 million and $678 million, consisting of $608.0 million of construction costs, upgrade costs to the existing drillship specifications of between $10.0 million and $20.0 million and construction-related expenses of $50.0 million. Construction-related expenses include equipment purchases, commissioning, supervision and commissions to related parties, excluding financing costs and fair value adjustments. As of December 31, 2011, we made pre-delivery payments for these three newbuilding drillships amounting to $726.7 million in the aggregate, which we financed with operating cash. The remaining total construction payments for these drillships, excluding financing costs, amounted to approximately $1.3 billion in the aggregate, consisting of the following:

| | (In millions) | |
|---|---|---|
| NB #1 (TBN) | | |
| Construction payments | $ | 377.2 |
| Other construction-related expenses (excluding financing costs) | $ | 50.0 |
| NB #2 (TBN) | | |
| Construction payments | $ | 376.3 |
| Other construction-related expenses (excluding financing costs) | $ | 50.0 |
| NB #3 (TBN) | | |
| Construction payments | $ | 385.9 |
| Other construction-related expenses (excluding financing costs) | $ | 50.0 |

We have not yet arranged financing for the remaining construction and construction-related payments relating to the seventh generation hulls, which are due upon the delivery of the drillships in 2013. We plan to finance these capital expenditures with new debt or equity financing which we will seek to secure at a date closer to the delivery dates for the drillships.

B. Business Overview

We are an international offshore drilling contractor providing oilfield services for offshore oil and gas exploration, development and production drilling and specializing in the ultra-deepwater and harsh-environment segment of the offshore drilling industry. We seek to utilize our high-specification drilling units to the maximum extent of their technical capability and we believe that we have earned a reputation for operating performance excellence.

We currently own and operate two modern, fifth generation ultra-deepwater semisubmersible offshore drilling rigs, the Leiv Eiriksson and the Eirik Raude, and four sixth generation advanced capability ultra-deepwater drillships, the Ocean Rig Corcovado, the Ocean Rig Olympia, the Ocean Rig Poseidon and the Ocean Rig Mykonos, delivered in January 2011, March 2011, July 2011 and September 2011, respectively, by Samsung. Our sixth generation advanced capability ultra-deepwater drillships are "sister-ships," constructed by Samsung to the same high-quality vessel design and specifications and are capable of drilling in water depths of 10,000 feet.

We have additional newbuilding contracts with Samsung for the construction of our three seventh generation hulls. These three newbuilding drillships are currently scheduled for delivery in July 2013, September 2013 and November 2013, respectively. The design of our seventh generation hulls reflects additional enhancements that, with the purchase of additional equipment, will enable the drillships to drill in water depths of 12,000 feet. We currently have a team overseeing the construction of the three newbuilding drillships at Samsung to help ensure that those drillships are built on time, to our exact vessel specifications and on budget, as was the case for our four operating drillships.

We believe that the Ocean Rig Corcovado, the Ocean Rig Olympia, the Ocean Rig Poseidon and the Ocean Rig Mykonos, as well as our three seventh generation hulls, are among the most technologically advanced drillships in the world. The S10000E design, used for our operating drillships, was originally introduced in 1998 and, including our four existing drillships, a total of 54 drillships have been ordered using this base design, which has been widely accepted by customers, of which 31 have been delivered, as of February 2012, including the Ocean Rig Corcovado, the Ocean Rig Olympia, the Ocean Rig Poseidon and the Ocean Rig Mykonos. Among other technological enhancements, our drillships are equipped with dual activity drilling technology, which involves two drilling systems using a single derrick that permits two drilling-related operations to take place simultaneously. We estimate this technology saves between 15% and 40% in drilling time, depending on the well parameters. Each of our drillships is capable of drilling 40,000 feet at water depths of 10,000 feet and our seventh generation hulls will have the capacity to drill 40,000 feet at water depths of 12,000 feet.

Our Fleet

Set forth below is summary information concerning our offshore drilling units as of March 6, 2012.

| Unit | Year Built or Scheduled Delivery / Generation | Water Depth to the Wellhead (ft) | Drilling Depth to the Oil Field (ft) | Customer | Contract Term | Maximum Dayrate | Drilling Location |
|---|---|---|---|---|---|---|---|
| Existing Drilling Rigs | | | | | | | |
| Leiv Eiriksson | 2001 / 5th | 7,500 | 30,000 | Borders & Southern plc | Q4 2011 – Q3 2012 | $530,000 | Falkland Islands |
| | | | | Rig Management Norway AS (2) | Q4 2012 or Q1 2013 – Q4 2015 or Q1 2016 | $545,000 | Norwegian Continental Shelf |
| Eirik Raude | 2002 / 5th | 10,000 | 30,000 | Anadarko Cote d'Ivoire Company | Q1 2012 – Q2 2012 | $535,000 | Ivory Coast |
| | | | | Ophir Services Pty Ltd | Q2 2012 – Q3 2012 | $647,651 | Equatorial Guinea |
| Existing Drillships | | | | | | | |
| Ocean Rig Corcovado (1) | 2011 / 6th | 10,000 | 40,000 | Petróleo Brasileiro S.A. | Q1 2012 – Q1 2015 | $456,000 (3) | Brazil |
| Ocean Rig Olympia (1) | 2011 / 6th | 10,000 | 40,000 | Tullow Ghana Limited | Q2 2011 – Q2 2012 | $498,000 | West Africa |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Ocean Rig Poseidon (1) | 2011 / 6th | 10,000 | 40,000 | Petrobras Tanzania Limited | Q3 2011 – Q2 2013 | $632,000 (4) | Tanzania and West Africa |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Ocean Rig Mykonos (1) | 2011 / 6th | 10,000 | 40,000 | Petróleo Brasileiro S.A. | Q1 2012 – Q1 2015 | $451,000 (3) | Brazil |
| Newbuilding Drillships | | | | | | | |
| NB #1 (TBN) (1) | Q3 2013 / 7th | 12,000 | 40,000 | | | | |
| NB #2 (TBN) (1) | Q3 2013 / 7th | 12,000 | 40,000 | | | | |
| NB #3 (TBN) (1) | Q4 2013 / 7th | 12,000 | 40,000 | | | | |
| Optional Newbuilding Drillships (5) | | | | | | | |
| NB Option #1 (1) | Q4 2014 / 7th | 12,000 | 40,000 | | | | |
| NB Option #2 (1) | 7th | 12,000 | 40,000 | | | | |
| NB Option #3 (1) | 7th | 12,000 | 40,000 | | | | |

(1) Represents "sister ship" vessels built to the same or similar design and specifications.
(2) Rig Management Norway is the coordinator for the consortium under the contract.
(3) Approximately 20% of the maximum dayrates are service fees paid to us in Brazilian Real (R$). The maximum dayrate disclosed in this table and elsewhere in this annual report is based on the March 6, 2012 exchange rate of R$ 1.75:$1.00.
(4) Maximum dayrate includes the operating dayrate of $586,000 plus the maximum performance bonus under the contract.
(5) Each of the options expires on April 2, 2012.

Employment of our fleet

The Leiv Eiriksson is currently employed under a contract with Borders & Southern plc, or Borders & Southern, for drilling operations offshore the Falkland Islands at a maximum operating dayrate of $530,000 and a $3.0 million mobilization fee payable upon commencement, as well as mobilization and demobilization fees, including fuel costs, of $15.4 million and $12.6 million, respectively. On May 19, 2011, Borders & Southern exercised its option to extend the contract from a two well program to drill an additional two wells, which it assigned to Falkland Oil and Gas Limited, or Falkland Oil and Gas. The estimated duration for the four-well contract, including mobilization/demobilization periods, is approximately 230 days, with the contract scheduled to expire in the third quarter of 2012. The Eirik Raude was originally scheduled to commence this contract with Borders & Southern; however on May 5, 2011, we terminated the contract for the Eirik Raude and entered into a new contract for the Leiv Eiriksson on the same terms as the original contract for the Eirik Raude, with the exception of the fees payable upon mobilization and demobilization and certain other terms specific to the Leiv Eiriksson, including off-hire dates, period surveys and technical specifications. Following the completion of the contract with Borders & Southern, the Leiv Eiriksson is scheduled to commence a contract with a consortium coordinated by Rig Management Norway for the drilling of 15 wells on the Norwegian Continental Shelf at a maximum dayrate of $545,000, plus a mobilization fee of $70.0 million plus fuel to cover mobilization costs and upgrades to operate in the Norwegian Continental Shelf. The contract has a minimum duration of 1,070 days and includes three options of up to 6 wells each that must be exercised prior to the expiry of the firm contract period.

In January 2012, following the completion of the contract with Tullow Oil plc, or the Tullow Oil contract, discussed below, the Eirik Raude commenced a contract with Anadarko Cote d'Ivoire Company, or Anadarko, at a maximum dayrate of $535,000 for the drilling of two wells offshore West Africa. The term of the contract with Anadarko is approximately 100 days and the operator may extend the duration of the contract for an additional period or additional well or wells. Prior to its commencement of the contract with Anadarko, the Eirik Raude was employed under a the Tullow Oil contract at a maximum dayrate of $665,000 for the drilling of one well offshore West Africa, which was amended to extend the contract term until mid-January 2012. Following the completion of the contract with Anadarko, the Eirik Raude is scheduled to commence a contract with Ophir Services at a maximum dayrate of $647,651, which may be increased to $668,984 in the event we are required to recruit certain additional crew, for the drilling of three wells offshore Equatorial Guinea. In addition, we are entitled to a mobilization fee of $568,400 per day, plus the cost of fuel, and a demobilization fee of $4.75 million; however, we are not entitled to the demobilization fee in the event the Eirik Raude engages in drilling operations with other companies in direct continuation of the contract with Ophir Services. The contract has an estimated duration of 60 days into the third quarter of 2012 and Ophir Services has the option to extend the contract term by one additional well, which is estimated to extend the duration of the contract by an additional 20 days.

The Ocean Rig Corcovado is currently employed under a three-year contract, plus a mobilization period, with Petróleo Brasileiro S.A., or Petrobras Brazil, for drilling operations offshore Brazil at a maximum dayrate of $456,000 (including service fees of $87,000 per day, based on the contracted rate of R$ 153,000 per day and the March 6, 2012 exchange rate of R$ 1.75: USD $1.00), plus a mobilization fee of $30.0 million. The Ocean Rig Corcovado is currently undergoing acceptance testing under the contract and is expected to commence drilling operations in March 2012. The contract is scheduled to be completed in the first quarter of 2015.

The Ocean Rig Olympia is currently operating under contracts to drill a total of five wells for exploration drilling offshore Ghana and the Ivory Coast at a maximum operating dayrate of $498,000 and a daily mobilization rate of $180,000, plus fuel costs. The original counterparty to the contracts was Vanco Cote d'Ivoire Ltd. and Vanco Ghana Ltd, or collectively, Vanco. On December 8, 2011, the remainder of the contracts was novated to Tullow Ghana. The Ocean Rig Olympia is currently performing drilling operations under the contract in Ghana. In February 2012, we agreed with Tullow Ghana to extend the number of operational days under the contracts from 108 to 120 and increase the dayrate to $600,000 per day in the event drilling operations occur after April 7, 2012. The contracts are scheduled to expire at the end of May 2012.

The Ocean Rig Poseidon commenced a contract with Petrobras Tanzania, a company related to Petrobras Oil & Gas B.V., or Petrobras Oil & Gas, on July 29, 2011 for drilling operations in Tanzania and West Africa for a period of 544 days, plus a mobilization period, at a maximum dayrate of $632,000, including a bonus of up to $46,000. In addition, we are entitled to receive a separate dayrate of $422,500 for up to 60 days during relocation and a mobilization dayrate of $317,000, plus the cost of fuel. The Ocean Rig Poseidon is currently performing drilling operations offshore Tanzania. The contract is scheduled to expire in April 2013.

The Ocean Rig Mykonos commenced a three-year contract, plus a mobilization period, with Petrobras Brazil, on September 30, 2011, for drilling operations offshore Brazil at a maximum dayrate of $451,000 (including service fees of $87,000 per day, based on the contracted rate of R$ 152,000 per day and the March 6, 2012 exchange rate of R$ 1.75: USD $1.00), plus a mobilization fee of $30.0 million. The Ocean Rig Mykonos is currently undergoing acceptance testing under the contract and is expected to commence drilling operations in March 2012. The contract is scheduled to expire in February 2015.

We have not yet arranged employment for our three seventh generation hulls under construction, which are scheduled to be delivered in July 2013, September 2013 and November 2013, respectively.

In addition, on February 9, 2012, Petrobras Brazil announced it awarded 15-year term charters to a consortium in which we are a participant, for five ultra-deepwater drilling units at an average day rate of $548,000.

Newbuilding drillships and options to purchase newbuilding drillships

On November 22, 2010, DryShips, our parent company, entered into a contract with Samsung that granted DryShips options for the construction of up to four additional ultradeepwater drillships, which would be "sister-ships" to our operating drillships with certain upgrades to vessel design and specifications. The option agreement required DryShips to pay a non-refundable slot reservation fee of $24.8 million per drillship. The option agreement was novated by DryShips to us on December 30, 2010, at a cost of $99.0 million, which we paid from the net proceeds of a private offering of our common shares that we completed in December 2010. In addition, we paid additional deposits totaling $20.0 million to Samsung in the first quarter of 2011 to maintain favorable costs and yard slot timing under the newbuild option contract.

On May 16, 2011, we entered into an addendum to the option contract with Samsung, pursuant to which Samsung granted us the option for the construction of up to two additional ultra deepwater drillships, which would be "sister-ships" to our operating drillships and our seventh generation hulls, with certain upgrades to vessel design and specifications. We did not pay slot reservation fees in connection with the entry into this addendum.

As of March 6, 2011, we had exercised three of the six options and, as a result, have entered into shipbuilding contracts for our seventh generation hulls with deliveries scheduled in July 2013, September 2013 and November 2013, respectively. We have made total payments of $726.7 million to the shipyard in connection with our exercise of the three newbuilding drillship options and payment of pre-delivery installments. The estimated total project cost per drillship, excluding financing costs, ranges between $668.0 million and $678.0 million, consisting of $608.0 million of construction costs, upgrade costs to the existing drillship specifications of between $10.0 million and $20.0 million and construction-related expenses of $50.0 million. These upgrades include a seven ram blowout preventer, or BOP, a dual mud system and, with the purchase of additional equipment, the capability to drill up to 12,000 feet water depth.

On January 27, 2012, we entered into a second addendum to our option contract with Samsung to extend the deadline for exercising the remaining three options for the construction of up to three additional seventh generation ultra-deepwater drillships from January 31, 2012 to April 2, 2012, with the first vessel being delivered in the fourth quarter of 2014 and the second and third vessels being delivered on the earliest available delivery dates based on the production schedule, as determined Samsung in its reasonable discretion. We estimate the total project cost per drillship for the remaining three optional drillships, excluding financing costs, to range between $668.0 million and $678.0 million, based on the construction expenses for our seventh generation hulls described above and assuming the drillships are built with the same specifications as the seventh generation hulls described above.

As part of the option contract novation from DryShips to us, described above, the benefit of the slot reservation fees passed to us. The amount of the slot reservation fees for the seventh generation hulls has been applied towards the drillship contract prices and the amount of the slot reservation fees applicable to one of the remaining three newbuilding drillship options will be applied towards the respective drillship contract price if the option is exercised.

Management of our fleet

Our wholly-owned subsidiary, Ocean Rig AS, provides supervisory management services including onshore management, to our operating drilling rigs and drillships pursuant to separate management agreements entered into with each of the drilling unit-owning subsidiaries. In addition, Ocean Rig AS provides supervisory management services for our seventh generation hulls under construction.

Under the terms of these management agreements, Ocean Rig AS, through its offices in Stavanger, Norway, Aberdeen, United Kingdom and Houston, Texas, is responsible for, among other things, (i) assisting in construction contract technical negotiations, (ii) securing contracts for the future employment of the drillships, and (iii) providing commercial, technical and operational management for the drillships.

Pursuant to the Global Services Agreement between DryShips and Cardiff, a company controlled by our Chairman, President and Chief Executive Officer, Mr. George Economou, effective December 21, 2010, DryShips has engaged Cardiff to act as consultant on commercial, financial and corporate matters for the offshore drilling units operated by us. Under the Global Services Agreement, Cardiff, 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 the services provided by Cardiff under the Global Services Agreement, DryShips will pay Cardiff a fee of 1.0% in connection with employment arrangements and 0.75% in connection with sale and purchase activities. We do not pay for services provided in accordance with this agreement. The costs of services we receive under the Global Services Agreement are expensed in our consolidated statement of operations or capitalized as directly attributable to construction costs under "Rig under construction". The payment by DryShips for services provided to us under the agreement is deemed an equity contribution to us and is recorded as shareholders' contribution to shareholders' equity. See "Item 7. Major Shareholders and Related Party Transactions—B. Related party transactions—Global Services Agreement."

The services provided by Ocean Rig AS and Cardiff overlap mainly with respect to negotiating shipyard orders and providing marketing for potential customers. Cardiff has an established reputation within the shipping industry, and has developed expertise and a network of strong relationships with shipbuilders and oil companies, which supplement the management capabilities of Ocean Rig AS.

The offshore drilling industry

The international offshore drilling market has seen an increased trend towards deepwater and ultra-deepwater exploration and subsequent development drilling. Due to the BP Macondo/Deepwater Horizon incident, there will be an increased focus by customers, governments and regulatory groups on technical and operational issues and the inherent risk of developing offshore fields in ultra-deepwater. This has resulted in the expectation that oil companies show a higher preference for modern, more technologically advanced units capable of drilling in these environments. Given the increasingly ageing floater fleet, industry sources believe a sustained demand in the market in the longer term will result in the need for replacements.

Our customers, which include oil super-majors and major integrated oil and gas companies, state-owned national oil companies and independent oil and gas companies. have experienced higher oil prices and significantly increased revenues over the last decade. The increase has been related to higher demand for oil and limited increases in available oil production to offset the growth in demand. Over the same period, the depletion rate for existing oil production has risen and replacement rates for oil reserves have fallen for most oil producers, highlighting the shortfall in exploration and production spending to meet future demand and replace existing reserves. In response to this development, oil producers, particularly super-majors, majors and national oil companies, have devoted more of their activities to identifying reserve replacements for existing production in new geographical areas at increasing water depths. According to industry sources, this has translated into an increased focus on frontier deepwater and ultra-deepwater areas, not only in existing offshore regions such as Brazil, the Gulf of Mexico, Europe and West Africa but also in India, Southeast Asia, China, East Africa, Australasia and the Mediterranean. These developments have resulted in a strong increase in demand for offshore drilling services, resulting in materially increased dayrates for drilling units. Dayrates increased from approximately $180,000 in 2004 to above $600,000 in 2008, before declining to an average level of just above $410,000 in mid-2010 as a result of the effects of the worldwide financial turmoil on the ultra-deep water drilling market. Since then, the dayrates have increased to approximately $550,000 in the current market, with a strong level of project inquiry for new drilling projects worldwide.

Markets

Our operations are geographically dispersed in oil and gas exploration and development areas worldwide. Although the cost of moving a rig and the availability of rig-moving vessels may cause the balance between supply and demand to vary between regions, significant variations do not tend to exist long-term because of rig mobility. Consequently, we operate in a single, global offshore drilling market. Because our drilling rigs are mobile assets and are able to be moved according to prevailing market conditions, we cannot predict the percentage of our revenues that will be derived from particular geographic or political areas in future periods.

In recent years, there has been increased emphasis by oil companies to expand their proven reserves and thus focus on exploring for hydrocarbons in deeper waters. This deepwater focus is due, in part, to technological developments that have made such exploration more feasible and cost-effective. Therefore, water-depth capability is a key component in determining rig suitability for a particular drilling project. Another distinguishing feature in some drilling market sectors is a rig's ability to operate in harsh environments, including extreme marine and climatic conditions and temperatures.

Our drilling units service the ultra-deepwater sector of the offshore drilling market. Although the term "deepwater" as used in the drilling industry to denote a particular sector of the market can vary and continues to evolve with technological improvements, we generally view the deepwater market sector as that which begins in water depths of approximately 4,500 feet and extends to the maximum water depths in which seventh generation rigs are capable of drilling, which is currently approximately 12,000 feet.

Our customers

Our customers generally fall within three categories: national oil companies, large integrated major oil companies and medium to smaller independent exploration and production companies. We, together with our predecessor, Ocean Rig ASA, have an established history with 121 wells drilled in 13 countries for 23 different customers .

For the years ended December 31, 2009, 2010 and 2011, the following customers, which represent all of our customers for the years indicated, accounted for more than 10% of our consolidated annual revenues:

| Customer | Year ended December 31, 2009 | Year ended December 31, 2010 | Year ended December 31, 2011 |
|---|---|---|---|
| Customer A | 62% | 57% | 36% |
| Customer B | - | 43% | 18% |
| Customer C | 38% | - | - |
| Customer D | - | - | 33% |
| Customer E | - | - | 13% |

Contract drilling services

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

A dayrate drilling contract generally extends over a period of time covering either the drilling of a single well or group of wells or covering a stated term, as do the current contracts under which our drilling units are employed. Currently, there is no spot market for offshore drilling units. The length of shorter-term contracts is typically from 60 to 365 days and the longer-term contracts are typically from two to five years. The contract term in some instances may be extended by the client exercising options for the drilling of additional wells or for an additional term. Our contracts also typically include a provision that allows the client to extend the contract to finish drilling a well-in-progress.

From time to time contracts with customers in the offshore drilling industry may contain terms whereby the customer has an option to cancel upon payment of an early termination payment, but where such payments may not fully compensate for the loss of the contract. Contracts also customarily provide for either automatic termination or termination at the option of the customer typically without the payment of any termination fee, under various circumstances such as major nonperformance, in the event of substantial downtime or impaired performance caused by equipment or operational issues, or sustained periods of downtime due to force majeure events. Many of these events are beyond our control.

We expect that provisions of future contracts will be similar to those in our current contracts for our drilling units. See "—Employment of our Fleet."

Competition

The offshore contract drilling industry is competitive with numerous industry participants, few of which at the present time have a dominant market share. The drilling industry has experienced consolidation in recent years and may experience additional consolidation, which could create additional large competitors. Many of our competitors have significantly greater financial and other resources, including more drilling units, than us. We compete with offshore drilling contractors that, as of February 2012, together have approximately 179 deepwater and ultra-deepwater drilling units worldwide, defined as units with water depth capacity of 3,000 feet or more.

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

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

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

Seasonality

In general, seasonal factors do not have a significant direct effect on our business as most of our drilling units are contracted for periods of at least 12 months. However, our drilling units may perform drilling operations in certain parts of the world where weather conditions during parts of the year could adversely impact the operational utilization of our drilling units and our ability to relocate units between drilling locations, and as such, limit contract opportunities in the short term. Such adverse weather could include the hurricane season for our operations in the Gulf of Mexico, the winter season in offshore Norway, and the monsoon season in Southeast Asia.

Environmental and other regulations

Our offshore drilling operations include activities that are subject to numerous international, federal, state and local laws and regulations, including the International Convention for the Prevention of Pollution from Ships, or MARPOL, the International Convention on Civil Liability for Oil Pollution Damage of 1969, generally referred to as CLC, the International Convention on Civil Liability for Bunker Oil Pollution Damage, or Bunker Convention, the International Convention for the Safety of Life at Sea of 1974, or SOLAS, the International Safety Management Code for the Safe Operation of Ships and for Pollution Prevention, or ISM Code, the International Convention for the Control and Management of Ships' Ballast Water and Sediments in February 2004, or the BWM Convention, the U.S. Oil Pollution Act of 1990, or OPA, the Comprehensive Environmental Response, Compensation and Liability Act, or CERCLA, the U.S. Clean Water Act, the U.S. Clean Air Act, the U.S. Outer Continental Shelf Lands Act, the U.S. Maritime Transportation Security Act of 2002, or the MTSA, European Union regulations, and Brazil's National Environmental Policy Law (6938/81), Environmental Crimes Law (9605/98) and Law (9966/2000) relating to pollution in Brazilian waters. These laws govern the discharge of materials into the environment or otherwise relate to environmental protection. In certain circumstances, these laws may impose strict liability, rendering us liable for environmental and natural resource damages without regard to negligence or fault on our part.

For example, the United Nations' International Maritime Organization, or IMO, has adopted MARPOL. Annex VI to MARPOL regulates harmful air emissions from ships, which include rigs and drillships. Amendments to the Annex VI regulations which entered into force on July 1, 2010, require a progressive reduction of sulfur oxide levels in heavy bunker fuels and create more stringent nitrogen oxide emissions standards for marine engines in the future. We may incur costs to comply with these revised standards. Rigs and drillships must comply with MARPOL limits on emissions of sulfur oxide, nitrogen oxide, chlorofluorocarbons and other air pollutants, except that the MARPOL limits do not apply to emissions that are directly related to drilling, production, or processing activities. We believe that all of our drilling units are currently compliant in all material respects with these regulations.

Our drilling units are subject not only to MARPOL regulation of air emissions, but also to the Bunker Convention's strict liability for pollution damage caused by discharges of bunker fuel in jurisdictional waters of ratifying states.

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

The U.S. BSEE periodically issues guidelines for rig fitness requirements in the Gulf of Mexico and may take other steps that could increase the cost of operations or reduce the area of operations for our units, thus reducing their marketability. Implementation of BSEE guidelines or regulations may subject us to increased costs or limit the operational capabilities of our units and could materially and adversely affect our operations and financial condition.

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

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

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

Insurance for our offshore drilling units

We maintain insurance for our drilling units in accordance with industry standards. Our insurance is intended to cover normal risks in our current operations, including insurance against property damage, loss of hire, war risk and third-party liability, including pollution liability. The insurance coverage is established according to the Norwegian Marine Insurance Plan of 1996, version 2010, but excluding collision liabilities which are covered by the Protection and Indemnity insurance. We have obtained insurance for the full assessed market value of our drilling units, as assessed by rig brokers. Our insurance provides for premium adjustments based on claims and is subject to deductibles and aggregate recovery limits. In the case of pollution liabilities, our deductible is $10,000 per event and in the case of other hull and machinery claims, our deductible is $1.5 million per event. Our insurance coverage may not protect fully against losses resulting from a required cessation of drilling unit operations for environmental or other reasons. We also have loss of hire insurance which becomes effective after 45 days of off-hire and coverage extends for approximately one year. This loss of hire insurance is recoverable only if there is physical damage to the rig or equipment which is caused by a peril against which we are insured. The principal risks which may not be insurable are various environmental liabilities and liabilities resulting from reservoir damage caused by our negligence. In addition, insurance may not be available to us at all or on terms acceptable to us, and there is no guarantee that even if we are insured, our policy will be adequate to cover our loss or liability in all cases. We plan to maintain insurance for our seventh generation hulls upon their delivery to us in accordance with the Norwegian Marine Insurance Plan of 1996, version 2010. This insurance would also be intended to cover normal risks in our current operations, including insurance against property damage, loss of hire and war risks. Third-party liability, including pollution liability, is covered under our protection and indemnity insurance.

Permits and Authorizations

We are required by various governmental and quasi-governmental agencies to obtain certain permits, licenses and certificates with respect to our drilling units. The kinds of permits, licenses and certificates required depend upon several factors, including the waters in which a drilling unit operates, the nationality of a drilling unit's crew and the age of a drilling unit. We have been able to obtain all permits, licenses and certificates currently required to permit our drilling units to operate. Additional laws and regulations, environmental or otherwise, may be adopted which could limit our ability to do business or increase the cost of us doing business.

C. Organizational structure

Ocean Rig UDW Inc. is the sole owner of all of the issued and outstanding shares of the subsidiaries listed on Exhibit 8.1 to this annual report.

D. Property, plants and equipment

We do not own any real property. We lease office space from an unaffiliated third party for our principal executive offices in Nicosia, Cyprus and certain of our wholly-owned subsidiaries lease office space from unaffiliated third parties for offices in Stavanger, Norway, Houston, Texas, Aberdeen, United Kingdom, Accra, Ghana, Rio de Janeiro, Brazil, Dar el Salam, Tanzania, Abidjan, Ivory Coast and Geoje, South Korea. Our interests in the drilling units in our fleet are our only material properties. See "—Our Fleet" in this section.

ItemUnresolved Staff Comments
4A.

Not applicable.

ItemOperating and Financial Review and Prospects
5.

The following is a discussion of financial condition and results of operations of Ocean Rig UDW Inc. and its wholly-owned subsidiaries for the years referenced below. You should read this section together with the historical consolidated financial statements, including the notes to those historical consolidated financial statements, for those same years included in this annual report. All of the consolidated financial statements included herein have been prepared in accordance with U.S. GAAP. See "—Results of operations."

This discussion includes forward-looking statements which, although based on assumptions that we consider reasonable, are subject to risks and uncertainties, which could cause actual events or conditions to differ materially from those currently anticipated and expressed or implied by such forward-looking statements. For a discussion of some of those risks and uncertainties, please see the section entitled "Forward-Looking Statements" at the beginning of this annual report and "Item. 3 Key Information—D. Risk factors."

A. Operating results

Overview

We are an international offshore drilling contractor providing oilfield services and drilling vessels for offshore oil and gas exploration, development and production drilling, and specializing in the ultra-deepwater and harsh-environment segment of the offshore drilling industry. We currently own and operate two modern, fifth generation ultra-deepwater semi-submersible offshore drilling rigs, the Leiv Eiriksson and the Eirik Raude, and four sixth generation advanced capability ultra-deepwater drillships, the Ocean Rig Corcovado, which was delivered to us on January 3, 2011, the Ocean Rig Olympia, which was delivered to us on March 30, 2011, the Ocean Rig Poseidon, which was delivered to us on July 28, 2011, and the Ocean Rig Mykonos, which was delivered to us on September 30, 2011. We have newbuilding contracts with Samsung for the construction of three seventh generation, advanced capability ultra-deepwater drillships. These newbuilding drillships are currently scheduled for delivery in July 2013, September 2013, and November 2013, respectively.

History of our company

We were formed under the laws of the Republic of the Marshall Islands on December 10, 2007, under the name Primelead Shareholders Inc. and as a wholly-owned subsidiary of DryShips.

Our predecessor, Ocean Rig ASA, was incorporated on September 26, 1996 under the laws of Norway and contracted for the construction of our two operating drilling rigs, the Leiv Eiriksson and the Eirik Raude. The shares of Ocean Rig ASA traded on the Oslo Stock Exchange from January 1997 to July 2008.

In December 2007, Primelead Limited, our wholly-owned subsidiary, acquired approximately 30.4% of the outstanding capital stock of Ocean Rig ASA from Cardiff, a company controlled by the Chairman, President and Chief Executive Officer of DryShips and us. After acquiring more than 33% of Ocean Rig ASA's outstanding shares through a series of transactions through April 2008, we launched a mandatory offer for the remaining shares of Ocean Rig ASA at a price of NOK45 per share, or $8.89 per share, as required by Norwegian law.  We gained control over Ocean Rig ASA on May 14, 2008. As of July 10, 2008, we held 100% of the shares of Ocean Rig ASA, or 163.6 million shares, which we acquired at a total cost of $1.4 billion.

With respect to the acquisition of Ocean Rig ASA, discussed above, DryShips purchased 4.4% of the share capital of Ocean Rig ASA from companies affiliated with our Chairman, President and Chief Executive Officer. In March 2009, DryShips contributed to us all of its equity interests in the newbuilding vessel-owning companies of the Ocean Rig Poseidon and Ocean Rig Mykonos. In May 2009, we acquired the equity interests of Drillships Holdings Inc., the owner of the Ocean Rig Corcovado and the Ocean Rig Olympia, from third parties and entities affiliated with our Chairman, President and Chief Executive Officer and, in exchange, we issued to the sellers common shares equal to 25% of our total issued and outstanding common shares as of May 15, 2009. In connection with the acquisition the Ocean Rig Corcovado and the Ocean Rig Olympia, we incurred debt obligations of $230.0 million, which has been repaid in full.  In July 2009, DryShips acquired the remaining 25% of our total issued and outstanding capital stock from the minority interests held by third parties and entities controlled by our Chairman, President and Chief Executive Officer for a $50.0 million cash payment and the issuance of DryShips Series A Convertible Preferred Shares with an aggregate face value of $280.0 million, following which we became a wholly-owned subsidiary of DryShips.

On December 21, 2010, we completed the sale of an aggregate of 28,571,428 of our common shares (representing approximately 22% of our outstanding common shares) in 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. We received approximately $488.3 million of net proceeds from the private offering, of which we used $99.0 million to purchase an option contract from DryShips, our parent company, for the construction of up to four ultra-deepwater drillships, as discussed below. We applied the remaining proceeds to partially fund remaining installment payments for our newbuilding drillships and general corporate purposes. Following the completion of our private offering on December 21, 2010, DryShips owned approximately 78% of our outstanding common shares.

On April 27, 2011, we completed the issuance of $500.0 million aggregate principal amount of 9.5% senior unsecured notes due 2016 offered in a private placement. The net proceeds from the notes offering of approximately $487.5 million were used to finance our newbuilding drillships program and for general corporate purposes. See "—B. Liquidity and capital resources—Credit facilities—9.5% senior unsecured notes due 2016."

On August 26, 2011, we commenced the Exchange Offer to exchange up to 28,571,428 shares of our new common stock that were registered under the Securities Act pursuant to a registration statement on Form F-4 (Registration No. 333-175940), for an equivalent number of our common shares previously sold in the private offering in December 2010. On September 29, 2011, an aggregate of 28,505,786 common shares were exchanged in the Exchange Offer.

On October 5, 2011, DryShips completed the partial spin off of our Company by distributing an aggregate of 2,967,291 common shares of the Company, representing approximately a 2.25% stake in the Company, after giving effect to the treatment of fractional shares, on a pro rata basis to DryShips's shareholders of record as of September 21, 2011. In lieu of fractional shares, DryShips's transfer agent aggregated all fractional shares that would otherwise be distributable to DryShips's shareholders and sold a total of 105 common shares on behalf of those shareholders who would otherwise be entitled to receive a fractional share of our Company. Following the distribution, each such shareholder received a cash payment in an amount equal to its pro rata share of the total net proceeds of the sale of fractional shares. On September 19, 2011, our common shares commenced "when issued" trading on the NASDAQ Global Select Market under the ticker "ORIGV." Our common shares commenced "regular way" trading on the NASDAQ Global Select Market under the ticker symbol "ORIG" on October 6, 2011.

On November 3, 2011, the merger of Pelican Stockholdings Inc., a wholly-owned subsidiary of DryShips, and OceanFreight was completed, following approval by shareholders of OceanFreight at a special meeting of shareholders held on November 3, 2011. Following the completion of the merger, OceanFreight is a wholly-owned subsidiary of DryShips. Under the terms of the merger agreement, OceanFreight shareholders received $11.25 in cash and 0.52326 of a share of our common shares per share of OceanFreight common shares previously owned. Our common shares that comprised the stock portion of the merger consideration were previously outstanding shares that were owned by DryShips. Prior to the completion of the merger, on August 24, 2011, DryShips acquired from entities controlled by Mr. Anthony Kandylidis, the Chief Executive Officer of OceanFreight, all of their shares of OceanFreight, representing a majority of the outstanding shares of OceanFreight, for the same consideration per share that the OceanFreight shareholders received in the OceanFreight merger. Mr. Kandylidis is the son of one of the directors of DryShips and the nephew of our Chairman and Chief Executive Officer, Mr. George Economou. The Company's shares paid by DryShips to the entities controlled by Mr. Kandylidis were subject to a six-month lock-up period that expired in February 2012.

On December 6, 2011, we announced that our board of directors had approved a repurchase program for up to a total of $500.0 million of our common shares and 9.5% senior unsecured notes due 2016. Our common shares and unsecured notes may be purchased under the program from time to time through December 31, 2013. Purchases made by us will be made for cash in open market transactions at prevailing market prices or in privately negotiated transactions. The timing and amount of purchases under the program will be determined by our management based on market conditions and other factors. We are not required to purchase any specific number or amount of common shares or unsecured notes under the program and the program may be suspended without our having purchased any common shares or unsecured notes or reinstated at any time in our discretion and without notice. As of March 6, 2012, we had not purchased any common shares or unsecured notes under the program described above.

As of March 6, 2012, Dryships owned approximately 73.9% of our common shares.

Our drilling rigs

Our drilling rigs are marketed for offshore exploration and development drilling programs worldwide, with particular focus on drilling operations in ultra-deepwater and harsh environments. The Leiv Eiriksson, delivered in 2001, has a water depth drilling capacity of 7,500 feet. Since 2001, it has drilled 39 deepwater and ultra-deepwater wells in a variety of locations, including Angola, Congo, Greenland, Turkey, Norway, the United Kingdom and Ireland, in addition to five shallow-water wells. In October 2009, the Leiv Eiriksson completed the Shell contract. In April 2009, the Leiv Eiriksson entered into a three-year contract with Petrobras Oil & Gas, or the Petrobras contract, for drilling operations in the Black Sea, offshore of Turkey, which was originally scheduled to expire in October 2012, but pursuant to an agreement with Petrobras Oil & Gas, the Petrobras contract terminated on April 10, 2011. The Leiv Eiriksson is currently employed under contract with Borders & Southern for drilling operations offshore the Falkland Islands that is scheduled to expire in the third quarter of 2012.

The Eirik Raude, delivered in 2002, has a water depth drilling capacity of 10,000 feet. Since 2002, it has drilled 60 deepwater and ultra-deepwater wells in countries such as Canada, Ghana, Norway, Ivory Coast and the United Kingdom, and the Gulf of Mexico, in addition to six shallow-water wells. In October 2008, the Eirik Raude commenced a three-year contract with Tullow Oil. We amended the Tullow Oil contract to extend the term until mid-January 2012 for the drilling of one well offshore of West Africa, following which the Eirik Raude commenced a contract with Anadarko for drilling two wells offshore of West Africa.

Our drillships

We took delivery of the Ocean Rig Corcovado, the Ocean Rig Olympia, the Ocean Rig Poseidon and the Ocean Rig Mykonos, our four sixth generation advanced capability ultra-deepwater drillships on January 3, 2011, March 30, 2011, July 28, 2011 and September 30, 2011, respectively. In addition, we have entered into contracts with Samsung for the construction of three seventh generation advanced capability ultra-deepwater drillships, which are scheduled for delivery in July 2013, September 2013 and November 2013, respectively. We have secured employment for our operating drillships but not for our seventh generation newbuilding drillships.

The total cost of construction and construction-related expenses for the Ocean Rig Corcovado the Ocean Rig Olympia, the Ocean Rig Poseidon and the Ocean Rig Mykonos amounted to approximately $755.7 million, $756.9 million, $791.8 million and $784.4 million, respectively. Construction-related expenses include equipment purchases, commissioning, supervision and commissions to related parties, excluding financing costs. As of December 31, 2011, we had made an aggregate of $726.7 million of the estimated total construction and construction-related payments relating to our three seventh generation drillships to be constructed by Samsung.

On November 22, 2010, DryShips, our parent 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 our operating drillships with certain upgrades to vessel design and specifications. The option agreement was novated by DryShips to us on December 30, 2010, at a cost of $99.0 million, which we paid from the net proceeds of a private offering of our common shares that we completed in December 2010. In addition, we paid additional deposits totaling $20.0 million to Samsung in the first quarter of 2011 to maintain favorable costs and yard slot timing under the option contract.

On May 16, 2011, we entered into an addendum to the option contract with Samsung, pursuant to which Samsung granted us the option for the construction of up to two additional ultra-deepwater drillships, which would be "sister-ships" to its drillships and its seventh generation hulls, with certain upgrades to vessel design and specifications. We did not pay slot reservation fees in connection with the entry into this addendum.

As of March 6, 2012, we had exercised three of the six options and, as a result, have entered into shipbuilding contracts for our seventh generation hulls with deliveries scheduled in July 2013, September 2013 and November 2013, respectively. We have made payments of $726.7 million to the shipyard in connection with our exercise of the three newbuilding drillship options. The estimated total project cost per drillship for our seventh generation hulls under construction, excluding financing costs, ranges between $668.0 million and $678.0 million, consisting of $608.0 million of construction costs, upgrade costs to the existing drillship specifications of between $10.0 million and $20.0 million and construction-related expenses of $50.0 million. These upgrades include a seven ram blowout preventer, or BOP, a dual mud system and, with the purchase of additional equipment, the capability to drill up to 12,000 feet water depth.

On January 27, 2012, we entered into a second addendum to our option contract with Samsung to extend the deadline for exercising the remaining three options for the construction of up to three additional seventh generation ultra-deepwater drillships from January 31, 2012 to April 2, 2012, with the first vessel being delivered in the fourth quarter of 2014 and the second and third vessels being delivered on the earliest available delivery dates based on the production schedule, as determined Samsung in its reasonable discretion. We estimate the total project cost per drillship for the remaining three optional drillships, excluding financing costs, to range between $668.0 million and $678.0 million, based on the construction expenses for our seventh generation hulls described above and assuming the drillships are built with the same specifications as the seventh generation hulls.

As part of the novation of the contract described above, the benefit of the slot reservation fees passed to us. The amount of the slot reservation fees for the seventh generation hulls has been applied towards the contract prices of the three drillships under construction and the amount of the slot reservation fees applicable to one of the remaining three newbuilding drillship options will be applied towards the drillship contract price if the option is exercised.

Management of our drilling units

Our wholly-owned subsidiary, Ocean Rig AS, provides supervisory management services including onshore management, to our operating drilling rigs and drillships pursuant to separate management agreements entered into with each of the drilling unit-owning subsidiaries. In addition, Ocean Rig AS provides supervisory management services for our newbuilding drillships. Under the terms of these management agreements, Ocean Rig AS, through its offices in Stavanger, Norway, Aberdeen, United Kingdom and Houston, Texas, is responsible for, among other things, (i) assisting in construction contract technical negotiations, (ii) securing contracts for the future employment of the drillships; and (iii) providing commercial, technical and operational management for the drillships.

Pursuant to the Global Services Agreement between DryShips and Cardiff, a company controlled by our Chairman, President and Chief Executive Officer, Mr. George Economou, effective December 21, 2010, DryShips has engaged Cardiff to act as consultant on matters of chartering and sale and purchase transactions for the offshore drilling units operated by us. Under the Global Services Agreement, Cardiff, 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 for such services, DryShips will pay to Cardiff a fee of 1% in connection with employment arrangements and 0.75% in connection with sale and purchase activities. We do not pay or reimburse DryShips or its affiliates for services provided under the Global Services Agreement. We do not pay for services provided in accordance with this agreement. The costs of services we receive under the Global Services Agreement are expensed in our consolidated statement of operations or capitalized as directly attributable to construction costs under "Rig under construction". The payment by DryShips for services provided to us under the agreement is deemed an equity contribution to us and is recorded as shareholders' contribution to shareholders' equity. See "Item 7. Major Shareholders and Related Party Transactions—B. Related party transactions—Global Services Agreement."

The services provided by Ocean Rig AS and Cardiff overlap mainly with respect to negotiating shipyard orders and providing marketing for potential contractors. Cardiff has an established reputation within the shipping industry, and has developed expertise and a network of strong relationships with shipbuilders and oil companies, which supplement the management capabilities of Ocean Rig AS.

Previously, we had management agreements with Cardiff pursuant to which Cardiff provided supervisory services in connection with the construction of the Ocean Rig Corcovado and the Ocean Rig Olympia. These agreements were terminated effective December 21, 2010. See "—Management Fees to Related Party" below.

Factors affecting our results of operations

We charter our drilling units to customers primarily pursuant to long-term drilling contracts. Under the drilling contracts, the customer typically pays us a fixed daily rate, depending on the activity and up-time of the drilling unit. The customer bears all fuel costs and logistics costs related to transport to and from the unit. We remain responsible for paying the unit's operating expenses, including the cost of crewing, catering, insuring, repairing and maintaining the unit, the costs of spares and consumable stores and other miscellaneous expenses.

We believe that the most important measures for analyzing trends in the results of our operations consist of the following:

- Employment Days: We define employment days as the total number of days the drilling units are employed on a drilling contract.

- Dayrates or maximum dayrates: We define drilling dayrates as the maximum rate in U.S. Dollars possible to earn for drilling services for one 24 hour day at 100% efficiency under the drilling contract. Such dayrate may be measured by quarter-hour, half-hour or hourly basis and may be reduced depending on the activity performed according to the drilling contract.

- Earnings efficiency / Earnings efficiency on hire: Earnings efficiency measures the effective earnings ratio, expressed as a percentage of the full earnings rate, after reducing for certain operations paid at a reduced rate, non-productive time at zero rate, or off hire without dayrates. Earnings efficiency on hire measures the earning efficiency only for the period during which the drilling unit is on contract and does not include off-hire periods.

- Mobilization / demobilization fees: In connection with drilling contracts, we may receive revenues for preparation and mobilization of equipment and personnel or for capital improvements to the drilling vessels, dayrate or fixed price mobilization and demobilization fees.

- Revenue: For each contract, we determine whether the contract, for accounting purposes, is a multiple element arrangement, meaning it contains both a lease element and a drilling services element, and, if so, identify all deliverables (elements). For each element we determine how and when to recognize revenue.

Term contracts: These are contracts pursuant to which we agree to operate the unit for a specified period of time. For these types of contracts, we determine whether the arrangement is a multiple element arrangement. 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 element is recognized as "Service revenues" in the period in which the services are rendered at fair value rates. 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.

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Well contracts: These are contracts pursuant to which we agree to drill a certain number of wells. Revenue from dayrate 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.

Revenue from drilling contracts

Our drilling revenues are driven primarily by the number of drilling units in our fleet, the contractual dayrates and the utilization of the drilling units. This, in turn, is affected by a number of factors, including the amount of time that our drilling units spend on planned off-hire class work, unplanned off-hire maintenance and repair, off-hire upgrade and modification work, reduced dayrates due to reduced efficiency or non-productive time, the age, condition and specifications of our drilling units, levels of supply and demand in the rig market, the price of oil and other factors affecting the market dayrates for drilling units. Historically, industry participants have increased supply of drilling units in periods of high utilization and dayrates. This has resulted in an oversupply and caused a decline in utilization dayrates. Therefore, dayrates have historically been very cyclical.

Rig operating expenses

Rig operating expenses include crew wages and related costs, catering, the cost of insurance, expenses relating to repairs and maintenance, the costs of spares and consumable stores, shore based costs and other miscellaneous expenses. Our rig operating expenses, which generally represent fixed costs, have historically increased as a result of the business climate in the offshore drilling sector. Specifically, wages and vendor supplied spares, parts and services have experienced a significant price increase over the previous two to three years. Other factors beyond our control, some of which may affect the offshore drilling industry in general, including developments relating to market prices for insurance, may also cause these expenses to increase. In addition, these rig operating expenses are higher when operating in harsh environments, though an increase in expenses is typically offset by the higher dayrates we receive when operating in these conditions.

Depreciation

We depreciate our drilling units on a straight-line basis over their estimated useful lives. Specifically, we depreciate bare-decks over 30 years and other asset parts over five to 15 years. We expense the costs associated with a five-year periodic class work.

Management fees to related party

From October 19, 2007 to December 21, 2010, we were party to, with respect to the Ocean Rig Corcovado and the Ocean Rig Olympia, separate management agreements with Cardiff pursuant to which Cardiff provided additional supervisory services in connection with these drillships including, among other things: (i) assisting in securing the required equity for the construction; (ii) negotiating, reviewing and proposing finance terms; (iii) assisting in marketing towards potential contractors; (iv) assisting in arranging, reviewing and supervising all aspects of building, equipment, financing, accounting, record keeping, compliance with laws and regulations; (v) assisting in procuring consultancy services from specialists; and (vi) assisting in finding prospective joint-venture partners and negotiating any such agreements. Pursuant to the management agreements, we paid Cardiff a management fee of $40,000 per month per drillship plus (i) a chartering commission of 1.25% on revenue earned; (ii) a commission of 1.0% on the shipyard payments or purchase price paid for drillships; (iii) a commission of 1.0% on loan financing; and (iv) a commission of 2.0% on insurance premiums. In accordance with the Addenda No. 1 to the above management agreements, dated as of December 1, 2010, these management agreements were terminated effective December 21, 2010; however, all obligations to pay for services rendered by Cardiff prior to termination remain in effect. As of December 31, 2010, these obligations totaled $5.8 million. For the years ended December 31, 2011, 2010 and 2009, total charges from Cardiff under the management agreement amounted to $5.8 million, $4.0 million and $1.9 million, respectively, which were capitalized as drillship under construction cost, being a cost directly attributable to the construction of the two drillships, the Ocean Rig Corcovado and the Ocean Rig Olympia.

See "—Management of our drilling units" and "Item 7. Major Shareholders and Related Party Transactions—B. Related party transactions—Management agreements with Cardiff – Management fees to related party."

General and administrative expenses

Our general and administrative expenses mainly include the costs of our offices, including salary and related costs for members of senior management and our shore-side employees.

Interest and finance costs

In 2008, we completed a refinancing of Ocean Rig ASA, which was later reorganized into Drill Rigs Holdings Inc., to replace our secured bank debt and two bond issuances with secured bank debt only. Please see "—Our credit facilities—$1.04 billion credit facility." As of December 31, 2009 and after the completion of the acquisitions of the contracts for four newbuilding drillships in March and May 2009, we had total indebtedness of $1.2 billion. As of December 31, 2010, we had total indebtedness of $1.26 billion. As of December 31, 2011, we had total indebtedness of $2.78 billion. We capitalize our interest on the debt we have incurred in connection with our drillships under construction.

Critical accounting policies

Advances for drillships under construction: This represents amounts expended by the Company in accordance with the terms of the construction contracts for drillships as well as with a related party in connection with on-site 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 and drillships under construction, or 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, or OFEs, spare parts, capitalized interest, certain non-reimbursable 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.

Capitalized interest: Interest expense is capitalized during the construction period of rigs and drillships based on accumulated expenditures for the applicable project at the Company's current rate of borrowing. The amount of interest expense capitalized in an accounting period is determined by applying an interest rate, or 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 in excess of 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.

Drilling unit machinery and equipment, net: Drilling units are stated at historical cost less accumulated depreciation. Such costs include the cost of adding or replacing parts of drilling unit 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 unit. 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. The residual values of the drilling rigs and drillships are estimated at $35 million and $50 million, respectively.

Drilling unit machinery and equipment, information technology and office equipment are recorded at cost and are depreciated on a straight-line basis over the estimated useful lives, for drilling unit machinery and equipment over 5 to 15 years and for information technology and office equipment over 5 years.

Intangible assets: Our finite-lived acquired intangible assets are recorded at historical cost less accumu−lated amortization. Amortization is recorded on a straight-line basis over the estimated useful lives of the intangibles as follows:

| Intangible assets/liabilities | Years |
|---|---|
| Tradenames | 10 |
| Software | 10 |

Fair value of above market acquired drilling contracts over remaining contract term

Trade names 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.

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 drillship by drillship 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. The Company evaluates the carrying amounts of its drilling rigs and drillships by obtaining independent appraisals to determine if events have occurred that would require modification to their carrying values or useful lives. In evaluating useful lives and carrying values of long-lived assets, the Company reviews certain indicators of potential impairment, such as undiscounted projected operating cash flows, drilling rig/drillship sales and purchases, business plans and overall market conditions. In developing estimates of future undiscounted cash flows, the Company makes assumptions and estimates about the drilling rigs' and drillships' future performance, with the significant assumptions being related to charter rates, fleet utilization, operating expenses, capital expenditures, residual value and the estimated remaining useful life of each rig/drillship. The assumptions used to develop estimates of future undiscounted cash flows are based on historical trends as well as future expectations. To the extent impairment indicators are present, the Company determines undiscounted projected net operating cash flows for each rig/drillship and compares them to the rig or drillship's carrying value. The projected net operating cash flows are determined by considering the revenues from existing drilling contracts. The salvage value used in the impairment test is estimated to be $35 million and $50 million for drilling rigs and drillships, respectively, in accordance with the Company's depreciation policy. If the Company's estimate of undiscounted future cash flows for any drilling rig or drillship is lower than the carrying value, the carrying value is written down, by recording a charge to operations, to the vessel's fair market value if the fair market value is lower than the vessel's carrying value. The Company's analysis for the year ended December 31, 2011, which also involved sensitivity tests on the drilling rates and fleet utilization (being the most sensitive inputs to variances), allowing for variances ranging from 97.5% to 92.5%, indicated no impairment on any of its drilling rigs or drillships. Although the Company believes that the assumptions used to evaluate potential impairment are reasonable and appropriate, such assumptions are highly subjective. There can be no assurance as to how long drilling rates and drilling rig and drillship values will remain at their currently high levels. 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, 2010 and 2011.

Deferred financing costs: Deferred financing costs include fees, commissions and legal expenses associated with our 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.

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 dayrates. In connection with drilling contracts, we may also receive revenues for preparation and mobilization of equipment and personnel or for capital improvements to the drilling rigs or drillships and dayrate or fixed price mobilization and demobilization fees. Revenues are recorded net of agents' commissions. There are two types of drilling contracts: well contracts and term contracts.

Well contracts: Well contracts are contracts under which the assignment is to drill a certain number of wells. Revenue from dayrate-based compensation for drilling operations is recog–nized 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. Contingent demobilization revenues are recognized as the amounts become known over the demobilization period. Non-contingent demobilization revenues are recognized over the estimated duration of the drilling period. All costs of demobilization are expensed as incurred. 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 drilling unit for a specified period of time. For these types of contracts we determine 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 element is recognized as "Service revenues" in the period in which the services are rendered at 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 periods. To the extent that expenses exceed revenue to be recognized, they are expensed as incurred. Contingent demobilization revenues are recognized as the amounts become known over the demobilization period. Non-contingent demobilization revenues are recognized over the estimated duration of the drilling period. All costs of demobilization are expensed as incurred. Contributions from customers for capital improvements are initially deferred and recognized as revenues over the estimated duration of the drilling contract.

Income taxes: Income taxes have been provided for based upon the tax laws and rates in effect in the countries in which our 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 we operate 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 our 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. We accrue interest and penalties related to its liabilities for unrecognized tax benefits as a component of income tax expense.

Inflation

Inflation has not had a material effect on our expenses given current economic conditions. In the event that significant global inflationary pressures appear, these pressures could increase our operating, administrative and financing costs.

Results of operations

Included in this document are our audited consolidated historical financial statements for the years ended December 31, 2011, 2010 and 2009.

Year ended December 31, 2011 compared to year ended December 31, 2010

(U.S. Dollars in thousands)

| | Year Ended December 31, 2010 | Year Ended December 31, 2011 | Change | Percentage Change |
|---|---|---|---|---|
| REVENUES: | | | | |
| Total revenues | 405,712 | 699,649 | 293,937 | 72.4 % |
| | | | | |
| EXPENSES: | | | | |
| Drilling rigs operating expenses | 119,369 | 281,833 | 162,464 | 136.1 % |
| Depreciation and amortization | 75,092 | 162,532 | 87,440 | 116.4 % |
| Loss on disposal of assets | 1,458 | 754 | (704 ) | (48.3 %) |
| General and administrative expenses | 19,443 | 37,639 | 18,196 | 93.6 % |
| Total operating expenses | 215,362 | 482,758 | 267,396 | 124.2 % |
| | | | | |
| Operating income | 190,350 | 216,891 | 26,541 | 13.9 % |
| Interest and finance costs | (8,418 ) | (68,982 ) | (60,564 ) | 719.5 % |
| Interest income | 12,464 | 9,810 | (2,654 ) | (21.3 %) |
| Gain/(loss) on interest rate swaps | (40,303 ) | (33,455 ) | 6,848 | (17.0 %) |
| Other, net | 1,104 | (1,538 ) | (2,642 ) | (239.3 %) |
| Total finance expenses, net | (35,153 ) | (94,165 ) | (59,012 ) | 167.9 % |
| | | | | |
| Income/(loss) before taxes | 155,197 | 122,726 | (32,471 ) | (20.9 %) |
| Income taxes | (20,436 ) | (27,428 ) | (6,992 ) | 34.2 % |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Net income attributable to Ocean Rig UDW Inc. | $ | 134,761 | $ | 95,298 | $ | (39,463 | ) | (29.3 | %) |

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Revenues

Revenues from drilling contracts increased by $293.9 million, or 72.4%, to $699.6 million for the year ended December 31, 2011, as compared to $405.7 million for the year ended December 31, 2010. The increase is primarily attributable to the operation of our six drilling units (two drill rigs and four drillships) in 2011, compared to the operation of two drill rigs in 2010. The Ocean Rig Olympia, Ocean Rig Corcovado and Ocean Rig Poseidon were delivered and commenced drilling activities during the year ended December 31, 2011. The day rates for the contracts on which our drilling units were employed during the year ranged between $415,000 and $665,473 per day.

Operating expenses

Drilling rigs operating expenses increased by $162.5 million, or 136.1%, to $281.8 million for the year ended December 31, 2011, compared to $119.4 million for the year ended December 31, 2010. The increase in operating expenses of $162.5 million is mainly due to $132.3 million in increased operating expenses from the commencement of drilling operations of the Ocean Rig Corcovado, the Ocean Rig Olympia, the Ocean Rig Poseidon and the Ocean Rig Mykonos during 2011, $15.3 million related to the 10-year class survey of the Leiv Eiriksson and $15.0 million in increased operating expenses relating to the Eirik Raude due to a more extensive maintenance program performed during 2011.

Depreciation and amortization expense

Depreciation and amortization expense for the drilling rigs increased by $87.4 million, or 116.4%, to $162.5 million for the year ended December 31, 2011, as compared to $75.1 million for the year ended December 31, 2010. The increase in depreciation and amortization was attributable to the depreciation related to our four operating drillships delivered during 2011.

Loss on sale of assets

Loss on disposal of assets amounting to $0.8 million and $1.5 million for the years ended December 31, 2011 and 2010, respectively, related to the disposal of rig equipment.

General and administrative expenses

General and administrative expenses increased by $18.2 million, or 93.6%, to $37.6 million for the year ended December 31, 2011, as compared to $19.4 million for the year ended December 31, 2010. The increase of $20.9 million is mainly due to increased costs relating to the management of six drilling units during the year ended December 31, 2011, as compared to two drilling units during the year ended December 31, 2010, as well as professional fees related to the Company's exchange offer completed in September 2011, which is partly offset by $2.7 million relating to foreign exchange gain.

Interest and finance costs

Interest and finance costs increased by $60.6 million, or 719.5%, to $69.0 million for the year ended December 31, 2011, compared to $8.4 million for the year ended December 31, 2010. The increase is mainly due to higher average debt, costs associated with debt issuance and increased interest rates during 2011.

Interest income

Interest income decreased by $2.7 million, or 21.3%, to $9.8 million for the year ended December 31, 2011, compared to $12.5 million for the year ended December 31, 2010. The decrease is due to lower interest rates on our deposits during 2011, although the average cash balances increased significantly during the same period.

Loss on interest rate swaps

Loss on interest rate swaps decreased by $6.8 million, or 17.0%, to $33.5 million for the year ended December 31, 2011, compared to a loss of $40.3 million for the year ended December 31, 2010. The loss for the year ended December 31, 2011 is mainly due to mark to market losses of outstanding swap positions as interest rates trended downwards.

Other, net

Other, net decreased by $2.6 million, or 239.3%, to a loss of $1.5 million for the year ended December 31, 2011, compared to a gain of $1.1 million for the year ended December 31, 2010. The decrease is due to net losses on currency forward contracts.

Income taxes

Income taxes increased by $7.0 million, or 34.2%, to $27.4 million for the year ended December 31, 2011, compared to $20.4 million for the year ended December 31, 2010. As our drilling units operate around the world, they may become subject to taxation in many different jurisdictions. The basis for such taxation depends on the relevant regulation in the countries in which we operate. Consequently, there is no expected relationship between the income tax expense or benefit for the period and the income or loss before taxes.

Year ended December 31, 2010 compared to year ended December 31, 2009

(U.S. Dollars in thousands)

| | Year Ended December 31, 2009 | Year Ended December 31, 2010 | Change | Percentage Change |
|---|---|---|---|---|
| REVENUES: | | | | |
| Total revenues | 388,122 | 405,712 | 17,590 | 4.5 % |
| | | | | |
| EXPENSES: | | | | |
| Drilling rigs operating expenses | 133,256 | 119,369 | (13,887 ) | (10.4 %) |
| Depreciation and amortization | 75,348 | 75,092 | (256 ) | (0.3 %) |
| Loss on disposal of assets | - | 1,458 | 1,458 | - |
| General and administrative expenses | 17,955 | 19,443 | 1,488 | 8.3 % |

| | | | | |
|---|---|---|---|---|
| Total operating expenses | 226,559 | 215,362 | (11,197) | (4.9%) |
| | | | | |
| Operating income / (loss) | 161,563 | 190,350 | 28,787 | 17.8% |
| Interest and finance costs | (46,120) | (8,418) | 37,702 | (81.7%) |
| Interest income | 6,259 | 12,464 | 6,205 | 99.1% |
| Gain/(loss) on interest rate swaps | 4,826 | (40,303) | (45,129) | (935.1%) |
| Other, net | 2,023 | 1,104 | (919) | (45.4%) |
| Total finance expenses, net | (33,012) | (35,153) | (2,141) | 6.5% |
| | | | | |
| Income/(loss) before taxes | 128,551 | 155,197 | 26,646 | 20.7% |
| Income taxes | (12,797) | (20,436) | (7,639) | 59.7% |
| Net income attributable to Ocean Rig UDW Inc. | $ 115,754 | $ 134,761 | $ 19,007 | 16.4% |

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Revenues

Revenues from drilling contracts increased by $17.6 million, or 4.5%, to $405.7 million for the year ended December 31, 2010, as compared to $388.1 million for the year ended December 31, 2009. The increase is primarily attributable to higher maximum dayrate achieved by both the Eirik Raude and the Leiv Eiriksson during the year ended December 31, 2010, as compared to the year ended December 31, 2009. The maximum day rates for the contracts on which our drilling units were employed during the period ranged between $583,000 and $647,000 per day.

Operating expenses

Drilling rigs operating expenses decreased by $13.9 million, or 10.4%, to $119.4 million for the year ended December 31, 2010, compared to $133.3 million for the year ended December 31, 2009. The decrease in operating expenses was mainly due to lower crew costs and catering costs for 2010, as a result of operations in Turkey in 2010, where costs are lower than they were in Norway, where we operated in 2009.

Depreciation and amortization expense

Depreciation and amortization expense of $75.1 million for the year ended December 31, 2010 was materially unchanged from $75.3 million for 2009.

Loss on sale of assets

We recorded a loss on sale of assets of $1.5 million as a result of the disposal of various drilling rig equipment for the year ended December 31, 2010. There was no such gain or loss for the year ended December 31, 2009.

General and administrative expenses

General and administrative expenses increased by $1.5 million, or 8.3%, to $19.4 million for the year ended December 31, 2010, compared to $18.0 million for the year ended December 31, 2009, primarily due to higher consulting fees.

Interest and finance costs

Interest and finance costs decreased by $37.7 million, or 81.7%, to $8.4 million for the year ended December 31, 2010, compared to $46.1 million for the year ended December 31, 2009. The decrease is due to a higher level of capitalization of interest expense and lower average debt levels.

Interest income

Interest income increased by $6.2 million, or 99.1%, to $12.5 million for the year ended December 31, 2010, compared to $6.3 million for the year ended December 31, 2009. The increase is mainly due to higher interest rates on bank deposits and higher average bank deposits included in restricted cash.

Loss on interest rate swaps

Loss on interest rate swaps increased by $45.1 million, to $40.3 million, for the year ended December 31, 2010, compared to a gain of $4.8 million in 2009 on interest rate swaps that did not qualify for hedge accounting. The loss for the year ended December 31, 2010 was due to mark-to-market losses from a decreasing interest rate level for the applicable interest swap durations.

Other, net

Other, net decreased by $0.9 million, or 45.4%, to $1.1 million for the year ended December 31, 2010, compared to $2.0 million for the year ended December 31, 2009. The decrease is due to lower gains on currency forward contracts.

Income taxes

Income taxes increased by $7.6 million, or 59.7%, to $20.4 million for the year ended December 31, 2010, compared to $12.8 million for the year ended December 31, 2009. As our drilling units operate around the world, they may become subject to taxation in many different jurisdictions. The basis for such taxation depends on the relevant regulation in the countries in which we operate. Consequently, there is no expected relationship between the income tax expense or benefit for the period and the income or loss before taxes.

B. Liquidity and capital resources

As of December 31, 2011, we had cash and cash equivalents of $250.9 million and $57.1 million of current and $125.0 million of non-current restricted cash mainly related to restricted bank deposits pledged as cash collateral under various secured credit agreements and minimum cash and cash equivalents, or minimum liquidity, required under various secured credit facilities. As of December 31, 2011, we had total indebtedness of $2.8 billion under various senior secured credit facilities and our 9.5% senior unsecured notes, excluding unamortized financing fees.

Our cash and cash equivalents as of December 31, 2011 increased by $155.2 million, or 162.1%, to $250.9 million, compared to $95.7 million as of December 31, 2010, while our restricted cash balances as of December 31, 2011 decreased by $380.7 million, or 67.6%, to $182.1 million, compared to $562.8 million as of December 31, 2010. The increase in our cash and cash equivalents was mainly due to the receipt of $1.9 billion in new secured vessel financing, $500 million in gross proceeds from our 9.5% senior notes offering, $270.7 million in surplus cash from operational activities and the decrease in restricted cash, which was partly offset by payments of yard installments and capital upgrades amounting to $1.9 billion and loan repayments of $926.7 million. The decrease in restricted cash balances was primarily due to the repayment of our $300.0 million short-term credit facility and corresponding release of restricted cash and the partial release of restricted cash under our two Deutsche Bank credit facilities following drawdowns that were partly offset by additional restricted cash deposits required under our $800.0 million credit facility and our two Deutsche Bank credit facilities.

Our total indebtedness as of December 31, 2011 increased by $1.5 billion, or 116.2%, to $2.8 billion, compared to $1.3 billion as of December 31, 2010 due to $1.9 billion of additional secured senior bank financing and the issuance of $500 million of 9.5% senior unsecured notes offering in April 2011, which was partly offset by payments and repayments of long and short term debt.

As of December 31, 2011, our total purchase commitments consisted of the remaining construction expenses of $1.3 billion, relating to the construction of our three seventh generation hulls, which are scheduled to be delivered in July 2013, September 2013 and November 2013, respectively. The estimated total project cost per drillship for our seventh generation hulls under construction, excluding financing costs, ranges between $668.0 million and $678.0 million, consisting of $608.0 million of construction costs, upgrade costs to the existing drillship specifications of between $10.0 million and $20.0 million and construction-related expenses of $50.0 million. As of December 31, 2011, we made pre-delivery payments of $726.7 million in the aggregate for these three newbuilding drillships. We have not yet arranged financing for the remaining $1.3 billion of construction and construction-related payments for the newbuilding drillships, which are due upon the delivery of the drillships, scheduled in the second half of 2013. We plan to finance these capital expenditures with new debt or equity financing.

We may exercise our options under our contract with Samsung to purchase up to three additional newbuilding drillships any time on or prior to April 2, 2012. To the extent we exercise any of these options, with an estimated total project cost, excluding financing costs, of approximately $2.0 billion in the aggregate, assuming these optional drillships are built with the same specifications as our seventh generation hulls under construction, we will incur additional payment obligations for which we have not arranged financing.

Working capital is defined as current assets minus current liabilities (including the current portion of long-term debt). Our working capital surplus amounted to $83.9 million as of December 31, 2011, compared to $4.1 million as of December 31, 2010. The working capital surplus as of December 31, 2011 is primarily due to cash balance exceeding debt falling due within a year. If we do not maintain our working capital surplus, or if we return to a working capital deficit and such a working capital deficit continues to grow, lenders may be unwilling to provide future financing or will provide future financing at significantly increased interest rates, which will negatively affect our earnings, liquidity and capital position, and our ability to make timely payments on our newbuilding purchase contracts and to meet our debt repayment obligations.

Our principal use of funds has been capital expenditures to establish and grow our fleet, maintain the quality of our drilling units, comply with international standards, environmental laws and regulations, fund working capital requirements and make principal repayments on outstanding loan facilities. Since our formation, our principal source of funds has been equity provided by our shareholders, operating cash flows, our equity and notes offerings and long-term bank borrowings. From January 1, 2009 to December 3, 2010, we received $1.3 billion in cash from our parent company, DryShips, in the form of capital contributions to meet obligations for capital expenditures on our drillships under construction and debt repayments during the period. In 2011, we did not receive cash capital contributions from DryShips. In March and April 2011, we borrowed an aggregate amount of $175.5 million from DryShips through shareholder loans, which we repaid in full in April 2011. Based on our current liquidity position, we do not expect to require funding from DryShips over the next 12 months. As we are no longer a wholly owned subsidiary of DryShips, even if it is able to do so, DryShips may be unwilling to provide continued funding or credit support for our capital expenditure requirements or only provide such funding in return for market rate repayment and interest rates or issuances of equity securities, which could be significantly dilutive to other shareholders.

As of December 31, 2011, we had no available borrowing capacity under our credit facilities and aggregate debt outstanding of $2.8 billion. As of December 31, 2011, we were in compliance with all covenants related to our various credit facilities. Please refer to the discussion on Long-term Debt as detailed in Note 8 of our audited condensed consolidated financial statements. Due to the decline in vessel values in the drybulk shipping sector, DryShips was in breach of certain of its financial covenants as of December 31, 2008 and, as a result, obtained waiver agreements from its lenders waiving the violations of such covenants. Certain of these waiver agreements expire during 2012, at which time the original covenants under the loan agreements come back into effect. In addition, as of December 31, 2011, DryShips was not in compliance with the loan-to-value ratios contained in certain of its loan agreements under which a total of $185.8 million was outstanding as of that date, out of DryShips's group consolidated debt of approximately $4.4 billion as of December 31, 2011, and has obtained a waiver of the breach relating to approximately $97.3 million of this outstanding indebtedness until March 31, 2012. As a result of the aforementioned non-compliance, DryShips may be required to prepay indebtedness or provide additional collateral to its lenders in the form of cash or other property in the total amount of $83.0 million in order to comply with these ratios, including $64.4 million that will be payable on March 31, 2012 in the event that DryShips is not in compliance with the applicable loan-to-value ratio for which it has obtained a waiver until March 31, 2012. There can be no assurance that DryShips will regain compliance with the original covenants when the waivers expire or be able to obtain extensions upon the expiration of such waivers. Due to the cross-default provisions in our loan agreements that are triggered in the event of a default by us under one of our other loan agreements or, in certain cases, a default by DryShips under one of its loan agreements, our lenders could accelerate our indebtedness if DryShips fails to (i) obtain a waiver for any covenant breach or remedy any such breach within the required time period; or (ii) successfully extend the existing waiver agreements or comply with the applicable covenants in the original loan agreements, as applicable. See "—Compliance with financial covenants under secured credit facilities" below.

Our internally generated cash flow is directly related to our business and the market sectors in which we operate. Should the drilling market deteriorate, or should we experience poor results in our operations, cash flow from operations may be reduced. As of March 6, 2012, assuming the drilling or financing markets do not deteriorate, we believe that our current cash balances and operating cash flow, together with any debt or equity issuances in the future, will be sufficient to meet our liquidity needs for the next 12 months, including minimum cash requirements under our loan agreements, of which $219.2 million is due in 2012. Our access to debt and equity markets may be reduced or closed due to a variety of events, including a credit crisis, credit rating agency downgrades of our debt, industry conditions, general economic conditions, market conditions and market perceptions of us and our industry.

Compliance with financial covenants under secured credit facilities

Our secured credit facilities impose operating and financial restrictions on us. These restrictions generally limit our subsidiaries' ability to, among other things (i) pay dividends; (ii) incur additional indebtedness; (iii) create liens on their assets; (iv) change the management and/or ownership of the drilling units; and (v) change the general nature of their business. For example, we are prohibited from paying dividends under our $800 million secured term loan agreement without the lender's consent.

In addition, our existing secured credit facilities require us and certain of our subsidiaries to maintain specified financial ratios and satisfy financial covenants, including to ensure that the market value of the mortgaged drilling unit under the applicable credit facility, determined in accordance with the terms of that facility, does not fall below a certain percentage of the outstanding amount of the loan, which we refer to as a value maintenance clause (which becomes applicable upon the completion of construction and following the delivery of the applicable drillship to us). In general, these financial covenants relate to the maintenance of (i) minimum amount of free cash; (ii) leverage ratio not to exceed specified levels; (iii) minimum interest coverage ratio; (iv) minimum current ratio (the ratio of current assets to current liabilities); and (v) minimum equity ratio (the ratio of value adjusted equity to value adjusted total assets). In addition, DryShips, as a guarantor under our Deutsche Bank credit facilities and our $800.0 million senior secured term loan agreement, is required to maintain certain financial covenants, as guarantor under the facilities. In general, these financial covenants require DryShips to maintain (i) minimum liquidity; (ii) a minimum market adjusted equity ratio; (iii) a minimum interest coverage ratio; (iv) a minimum market adjusted net worth; and (v) a minimum debt service coverage ratio.

Furthermore, all of our loan agreements also contain a cross-default provision that may be triggered by either a default under one of our other loan agreements or a default by DryShips under one of its loan agreements. A cross-default provision means that a default on one loan would result in a default on all of our other loans. A default by DryShips under one of its loan agreements would trigger a cross-default under our Deutsche Bank credit facilities and would provide our lenders with the right to accelerate the outstanding debt under these facilities. Further, if DryShips defaults under one of its loan agreements, and the related debt is accelerated, this would trigger a cross-default under our $1.04 billion credit facility and our $800.0 million secured term loan agreement and would provide our lenders with the right to accelerate the outstanding debt under these facilities.

In general, a violation of financial covenants constitutes a breach under our credit facilities and our lenders may declare an event of default, which would, unless waived by our lenders, provide our lenders with the right to require us to post additional collateral, enhance our equity and liquidity, increase our interest payments, pay down our indebtedness to a level where we are in compliance with our loan covenants, sell assets, reclassify our indebtedness as current liabilities and accelerate our indebtedness, which would impair our ability to continue to conduct our business.

As of December 31, 2011, we were in compliance with all covenants related to our various credit facilities. Due to the decline in vessel values in the drybulk shipping sector, DryShips was in breach of certain of its financial covenants as of December 31, 2008 and, as a result, obtained waiver agreements from its lenders waiving the violations of such covenants. Certain of these waiver agreements expire during 2012, at which time the original covenants under the loan agreements come back into effect. In addition, as of December 31, 2011, DryShips was not in compliance with the loan-to-value ratios contained in certain of its loan agreements under which a total of $185.8 million was outstanding as of that date, out of DryShips's group consolidated debt of approximately $4.4 billion as of December 31, 2011, and has obtained a waiver of the breach relating to approximately $97.3 million of this outstanding indebtedness until March 31, 2012. As a result of the aforementioned non-compliance, DryShips may be required to prepay indebtedness or provide additional collateral to its lenders in the form of cash or other property in the total amount of $83.0 million in order to comply with these ratios, including $64.4 million that will be payable on March 31, 2012 in the event that DryShips is not in compliance with the applicable loan-to-value ratio for which we have obtained a waiver until March 31, 2012. There can be no assurance that DryShips will regain compliance with the original covenants when the waivers expire or be able to obtain extensions upon the expiration of such waivers. Furthermore, if DryShips does not remedy covenant breaches, this may trigger cross-default provisions in our loan agreements. We do not guarantee, or otherwise become directly liable for, DryShips's indebtedness.

If our indebtedness is accelerated pursuant to the cross-default provisions, it will be very difficult in the current financing environment for us to refinance our debt or obtain additional financing and we could lose our drilling rigs if our lenders foreclose their liens. We expect that cash on hand and cash generated from operations would be sufficient to repay our loans that have cross-default provisions, which aggregated approximately $2.3 billion, excluding our 9.5% senior unsecured notes, as of December 31, 2011. However, in the event we do not have sufficient cash on hand and cash generated from operations to repay our loans that have cross-default provisions if that debt were to be accelerated by our lenders, we would have to seek to access the capital markets to fund the mandatory payments, although such financing may not be available on attractive terms or at all.

Our credit facilities

Existing credit facilities

$1.04 billion senior secured credit facility

On September 17, 2008, our wholly-owned subsidiaries Ocean Rig ASA and Ocean Rig Norway AS entered into a revolving credit and term loan facility with a syndicate of lenders that was amended and restated on November 19, 2009, to, among other things, add Drill Rigs Holdings Inc. as a borrower. This credit facility is in the aggregate amount of approximately $1.04 billion. The $1.04 billion credit facility consists of a guarantee facility, which provides us with a letter of credit of up to $20.0 million, which has been drawn, three revolving credit facilities in the amounts of $350.0 million, $250.0 million and $20.0 million, respectively, and a term loan in the amount of up to $400.0 million. On September 30 and October 10, 2008, Ocean Rig ASA drew down $750.0 million and $250.0 million, respectively, under this facility for the repayment of approximately $776.0 million under a previous credit facility and for general corporate purposes. Amounts outstanding under the $1.04 billion credit facility bear interest at LIBOR plus a margin and the loan is repayable in 20 quarterly installments plus a balloon payment of $400.0 million payable together with the last installment, on September 17, 2013. As of December 31, 2011 and 2010, the outstanding balance under this loan agreement was $522.5 million and $675.8 million, respectively.

The $1.04 billion credit facility is secured by, among other things, (i) first and second priority mortgages over the Leiv Eiriksson and the Eirik Raude; (ii) first and second priority assignment of all insurances and earnings of the Leiv Eiriksson and the Eirik Raude; (iii) pledges of shares of certain of our subsidiaries and (iv) first and second mortgages over the machinery and plant of certain of our subsidiaries.

Under the $1.04 billion credit facility, Drill Rigs Holdings Inc. and its subsidiaries are subject to certain covenants requiring, among other things, the maintenance of (i) a minimum amount of free cash; (ii) a leverage ratio not to exceed specified levels; (iii) a minimum interest coverage ratio; (iv) a minimum current ratio (the ratio of current assets to current liabilities); and (v) a minimum equity ratio (the ratio of value adjusted equity to value adjusted total assets).

In addition, capital expenditures must not exceed $50.0 million in any fiscal year and capital expenditures in excess of $30.0 million require the prior consent of the lender. Further, the aggregate market value of the Eirik Raude and the Leiv Eiriksson be at least equal to 135% of the principal amount of the borrowings outstanding under the term loan facility and of the $350.0 million and $20.0 million revolving credit facilities.

Furthermore, pursuant to the terms of the $1.04 billion credit facility, if any person or persons acting in concert (other than DryShips or other companies controlled by Mr. George Economou, our Chairman, President and Chief Executive Officer and the Chairman, President and Chief Executive Officer of DryShips) obtains either direct or indirect control of one-third or more of the shares in Drill Rigs Holdings Inc., notice must be provided to the Agent, who may, upon the instruction of any lender, cancel all commitments and declare outstanding loans and accrued interest due and payable. The $1.04 billion credit facility also contains restrictions on the ability of Drill Rigs Holdings Inc. to pay dividends, make distributions to its shareholders, and reduce share capital without the prior written consent of the lenders.

This loan agreement contains other customary restrictive covenants and events of default, including non-payment of principal or interest, breach of covenants or material representations, bankruptcy and imposes insurance requirements and restrictions on the employment of the vessels.

This credit facility contains a cross-default provision that applies to us and DryShips. This means that if we or DryShips default, by way of non-payment of principal and interest or by way of acceleration or cancellation of debt, we will be in default of this loan. Our wholly-owned subsidiary Drill Rigs Holdings Inc. has entered into three interest rate swap agreements to fix the interest rate on the principal amounts outstanding under this loan agreement. See "—Swap agreements" below for a description of these interest rate swap agreements.

The outstanding balance of this facility, as of March 6, 2012, was $522.5 million.

Two $562.5 million senior secured credit facilities, amended to $495.0 million each (the Deutsche Bank credit facilities)

On July 18, 2008, Drillship Kithira Owners Inc. and Drillship Skopelos Owners Inc., our wholly-owned subsidiaries and the owners of our newbuilding drillships, the Ocean Rig Poseidon and the Ocean Rig Mykonos, respectively, each entered into separate loan agreements with a syndicate of lenders, including Deutsche Bank AG, London Branch, in the amount of $562.5 million to partially finance the construction cost of the Ocean Rig Poseidon and the Ocean Rig Mykonos, including payment of financing fees, incidental drillship costs, commitment fees, loan interest, and a portion of the second yard installments. We refer to these credit facilities as the Deutsche Bank credit facilities. Both of the loans bear interest at a rate that is in part fixed and in part based on LIBOR plus an applicable margin and are repayable in 18 semi-annual installments of $31.25 million through September 2020 and November 2020, respectively. These agreements and the waivers and consents contained therein were terminated pursuant to the terms of the Supplemental Agreement No. 3, dated January 29, 2010, to each of these credit facilities because we, including DryShips, were in compliance with all of the covenants contained in this loan agreement.

On June 5, 2009, we entered into agreements with the facility agent and certain other lenders with respect to each of these credit facilities providing for a waiver of certain financial covenants through January 31, 2010. These agreements and the waivers and consents contained therein were terminated pursuant to the terms of the Supplemental Agreement No. 3, dated January 29, 2010, to each of these credit facilities because we and DryShips were in compliance with all of the covenants contained in this loan agreement. This credit facility contains a cross-default provision that applies to us and DryShips. This means that if we or DryShips default under any of our other loan obligations, we will be in default of this loan.

On April 27, 2011, we entered into an agreement with the lenders under our two Deutsche Bank credit facilities to amend these facilities. As a result of this restructuring, (i) the maximum amount permitted to be drawn was reduced from $562.5 million to $495.0 million under each facility; (ii) in addition to the guarantee already provided by DryShips, we provided an unlimited recourse guarantee that includes certain financial covenants; and (iii) we are permitted to draw under the facility with respect to the Ocean Rig Poseidon based upon the employment of the drillship under its drilling contract with Petrobras Tanzania, and on April 27, 2010, the cash collateral deposited for this vessel was released. On August 10, 2011, we amended the terms of the credit facility for the construction of the Ocean Rig Mykonos to allow for full drawdowns to finance the remaining installment payments for this drillship based on the contract with Petrobras Brazil for the Ocean Rig Mykonos and on August 10, 2011, the cash collateral deposited for the drillship was released. The amendment also requires that the Ocean Rig Mykonos be re-employed under a contract acceptable to the lenders meeting certain minimum terms and dayrates at least six months, in lieu of 12 months, prior to the expiration of the contract with Petrobras Brazil. All other material terms of the credit facility were unchanged.

Each Deutsche Bank loan agreement is secured by, among other things, a first priority mortgage on the relevant vessel and a reserve account pledge. Each loan agreement contains a loan to value ratio relating to the post-delivery market value of the relevant vessel.

As of December 31, 2011 and 2010, the outstanding balance under the Deutsche Bank credit facilities was $990.0 million and $194.5 million, respectively.

These loan agreements are guaranteed by DryShips. The guarantee covers the initial equity contribution and each other equity contribution, the equity collateral, amounts to be paid into the debt service reserve account and each payment of the loan balance. The guarantee by DryShips contains certain financial covenants measured on the DryShips financial accounts requiring the maintenance of (i) a minimum market adjusted equity ratio; (ii) a minimum interest coverage ratio; (iii) a minimum market value adjusted net worth of DryShips and its subsidiaries; and (iv) a minimum amount of free cash and cash equivalents.

In addition, as noted above, we provided an unlimited recourse guarantee under the terms of the restructuring of these loan agreements whereby we are required to comply with certain financial covenants requiring that we maintain (i) a minimum equity ratio; (ii) a minimum amount of working capital; (iii) a maximum leverage ratio; (iv) a minimum interest coverage ratio; and (v) a minimum amount of free cash.

The loan agreements contain customary restrictive covenants and events of default, including non-payment of principal or interest, minimum insurance requirements, breach of covenants or material misrepresentations, bankruptcy, and change of control and impose restrictions on the payments of dividends and employment of the vessels.

In addition, due to the cross-default provisions in these credit facilities, a default by DryShips under one of its loan agreements would trigger a cross-default under our Deutsche Bank credit facilities and would provide our lenders with the right to accelerate the outstanding debt under these facilities. Further, if DryShips defaults under one of its loan agreements, and the related debt is accelerated, this would trigger a cross-default under our $1.04 billion credit facility and our $800.0 million secured term loan agreement and would provide our lenders with the right to accelerate the outstanding debt under these facilities.

We have entered into four interest rate swap agreements to fix the interest rate payable on the principal amounts outstanding under the Deutsche Bank credit facilities. See "—Swap agreements" below for a description of the interest rate swap agreements.

The outstanding balance of this facility, as of March 6, 2012, was $962.5 million.

$800.0 million senior secured term loan agreement

On April 15, 2011, our wholly owned subsidiary Drillships Holdings Inc., or Drillships Holdings, entered into a $800 million senior secured term loan agreement with a syndicate of lenders to fund a portion of the construction of the Ocean Rig Corcovado and the Ocean Rig Olympia. The $800 million senior secured term loan agreement consists of four term loans, which were all fully drawn in April 2011. A portion of the loans was used to refinance the $325 million short term loan facility, as discussed below. Amounts outstanding under the $800 million senior secured term loan agreement bear interest at LIBOR plus a margin and the loan is repayable in 20 quarterly installments plus a balloon payment of $488.3 million payable together with the last installment payment.

The $800 million senior secured term loan agreement is secured by, among other things, the first priority rights to (i) the mortgages over the Ocean Rig Corcovado and the Ocean Rig Olympia; (ii) the assignment of earnings; (iii) the assignment of earnings accounts; (iv) the minimum cash accounts; (v) the insurances; and (vi) the all of the shares of Drillships Holdings Inc. and its subsidiaries, including Drillship Hydra Shareholders Inc., Drillship Hydra Owners Inc., Ocean Rig Corcovado Greenland Operations Inc., Ocean Rig Black Sea Coop, Ocean Rig Black Sea Operations B.V., Drillship Paros Shareholders Inc., Drillship Paros Owners Inc., Ocean Rig Olympia Ghana Operations Ltd and Drillships Holdings Operations Inc.

As of December 31, 2011, the outstanding balance under this loan was $766.7 million.

Under the $800 million senior secured term loan agreement, we and certain of our subsidiaries, as guarantors, are subject to certain covenants requiring among other things, the maintenance of (i) a minimum amount of free cash; (ii) a leverage ratio not to exceed specified levels; (iii) a minimum interest coverage ratio; (iv) a minimum current ratio; and (v) a minimum equity ratio. In addition, DryShips, as guarantor, must maintain (i) minimum liquidity; (ii) a minimum interest coverage ratio; (iii) a minimum market adjusted equity ratio; and (iv) a minimum market value adjusted net worth. Further, the aggregate market value of the Ocean Rig Corcovado and the Ocean Rig Olympia must be greater than 140% of the total borrowings outstanding under the senior secured term loan.

Also, the $800 million senior secured term loan agreement restricts our and Drillships Holdings' ability to pay dividends, make any distribution to its shareholders or buy-back common shares, except for dividends paid by Drillships Holdings to us from the first distribution and relating to the refinancing of capital expenditures for the Ocean Rig Corcovado and the Ocean Rig Olympia. Furthermore, pursuant to the terms of the $800 million senior secured term loan agreement, if, after an initial public offering, any person or group (other than George Economou and DryShips) acquire beneficial ownership of more than 50% of our equity, or, if George Economou and DryShips fails (i) prior to an initial public offering, to hold 65% of the aggregate ordinary voting power and economic interest in us; or (ii) after an initial public offering, to hold 15% aggregate ordinary voting power and economic interest in us, then all outstanding amounts under the $800 million senior secured term loan agreement are required to be prepaid within 60 days.

The $800 million senior secured term loan agreement contains other customary restrictive covenants and events of default, including non-payment of principal or interest, breach of covenants or material representations, bankruptcy and imposes insurance requirements and restrictions on the employment of the vessels.

The $800 million senior secured term loan agreement contains a cross-default provision that applies to us and DryShips, as guarantor. This means that if we or DryShips default, by way of non-payment of principal or interest or by way of acceleration or cancellation of debt, we will be in default of this loan.

We have entered into two interest rate swap agreements to fix the interest rate payable on the principal amounts outstanding under the $800.0 million senior secured term loan agreement. See "—Swap agreements" below for a description of the interest rate swap agreements.

The outstanding balance under this loan as of March 6, 2012 was $750.0 million.

9.5% senior unsecured notes due 2016

On April 27, 2011, we completed the issuance of $500.0 million aggregate principal amount of our 9.5% senior unsecured notes due 2016 in an offering made to both non-U.S. 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, which we refer to as the notes offering. We received net proceeds from the notes offering of approximately $487.5 million, which were used to finance a portion of the remaining payments under our newbuiliding program and for general corporate purposes. DryShips, our parent company, purchased $75.0 million of our 9.5% senior unsecured notes due 2016 from a third party on May 18, 2011.

Under the terms of the bond agreement, also referred to herein as the indenture, dated April 14, 2011, we will pay interest on the notes at a rate of 9.5% per annum. We will make interest payments on the bonds semi-annually in arrears on October 27 and April 27 of each year, beginning October 27, 2011 until the bonds' final maturity on April 27, 2016. Interest will accrue from the issue date of the notes. The notes will not be guaranteed by any of our subsidiaries. The notes will be our unsecured obligations and rank senior in right of payment to any of our future subordinated indebtedness and equally in right of payment to all of our existing and future unsecured senior indebtedness. We may redeem some or all of the notes as follows: (i) at any time and from time to time from April 27, 2014 to April 26, 2015, at a redemption price equal to 104.5% of the aggregate principal amount, plus accrued and unpaid interest to the date of redemption; or (ii) at any time and from time to time from April 27, 2015 at a redemption price equal to 102.5% of the aggregate principal amount, plus accrued and unpaid interest to the date of redemption. Upon a change of control, which occurs if 50% or more of our shares are acquired by any person or group other than DryShips or its affiliates, the noteholders will have an option to require us to purchase all outstanding notes at a redemption price of 100% of the principal amount thereof plus accrued and unpaid interest to the date of purchase.

Subject to a number of limitations and exceptions, the bond agreement governing the notes contains covenants limiting, among other things, our ability to: (i) create liens; or (ii) merge, or consolidate or transfer, sell or lease all or substantially all of our assets. Furthermore, the bond agreement contains financial covenants requiring us, among other things, to ensure that we maintain: (i) a consolidated equity ratio of minimum 35%; (ii) free cash of minimum $50 million; (iii) current ratio of minimum 1-to-1; and (iv) an interest coverage ratio of 2.5x calculated on a 12 month rolling basis.

In connection with the issue, we agreed to apply to list the notes on a securities exchange or other regulated market by December 1, 2011. The notes were approved for trading on the Oslo ABM, which is maintained by the Oslo Bors ASA, on October 10, 2011. We have obtained a credit rating on our Company and notes in compliance with the loan agreement. If we had failed to obtain the required credit ratings, the interest rate on the notes would have increased by 0.25% annually.

Cash flows

Year ended December 31, 2011 compared to year ended December 31, 2010

Our cash and cash equivalents increased to $250.9 million as of December 31, 2011, compared to $95.7 million as of December 31, 2010, primarily due to cash provided by new financing and operating activities partly offset by cash used in investing activities.

Working capital is equal to current assets minus current liabilities, including the current portion of long-term debt. Our working capital surplus was $83.9 million as of December 31, 2011, compared to a $4.1 million working capital surplus as of December 31, 2010.

Net cash provided by operating activities

Net cash provided by operating activities was $270.7 million for the year ended December 31, 2011. In determining net cash provided by operating activities for the year ended December 31, 2011, net income was adjusted for the effects of certain non-cash items, including $162.5 million of depreciation and amortization, $23.0 million of amortization and the write-off of deferred financing costs. Moreover for the year ended December 31, 2011, net income was also adjusted for the effects of non-cash items, such as the gain in the change in fair value of derivatives of $15.1 million, amortization of discontinued cash flow hedges of $9.8 million, amortization of below market value acquired drilling contracts of $1.2 million and $4.3 million interest income on restricted cash. Net cash provided by operating activities was $221.8 million for the year ended December 31, 2010.

Net cash used in investing activities

Net cash used in investing activities was $1.6 billion for the year ended December 31, 2011, compared to $1.4 billion for the year ended December 31, 2010. We made shipyard payments and project capital expenditures of approximately $1.9 billion for the year ended December 31, 2011, compared to $711.9 million for advances for drillships under construction and other capital expenditures for the year ended December 31, 2010. The decrease in restricted cash was $385.0 million during the year ended December 31, 2011, reflecting primarily repayment of the $300.0 million short-term credit facility that was classified as restricted cash as of December 31, 2010, compared to an increase of $335.9 million in the corresponding period of 2010.

Net cash provided by financing activities

Net cash provided by financing activities was $1.4 billion for the year ended December 31, 2011, consisting of $2.4 billion in net proceeds from new long-term debt, which was largely offset by repayments of credit facilities amounting to an aggregate of $926.7 million. This compares to net cash provided by financing activities of $1.08 billion for the year ended December 31, 2010, consisting mainly of stockholders contribution to fund investments of $540.3 million, net proceeds from the private offering of $488.3 million, proceeds from bank debt of $308.2 million and the repayment of bank debt of $247.7 million.

Year ended December 31, 2010 compared to year ended December 31, 2009

Our cash and cash equivalents decreased to $95.7 million as of December 31, 2010, compared to $234.2 million as of December 31, 2009, primarily due to cash used in investing activities which was partly offset by cash provided by operating activities and financing activities. Working capital is equal to current assets minus current liabilities, including the current portion of long-term debt. Our working capital surplus was $4.1 million as of December 31, 2010, compared to a $123.7 million working capital deficit as of December 31, 2009. The movement from a deficit to a surplus is due to the reclassification of long-term debt from current liabilities to non-current liabilities due to DryShips' compliance with its covenants, which removed the technical cross-default under our loan agreements.

Net cash provided by operating activities

Net cash provided by operating activities was $221.8 million for the year ended December 31, 2010, compared to $211.1 million for the year ended December 31, 2009. The increase is mainly due to increased operational profitability during 2010.

Net cash used in investing activities

Net cash used in investing activities was $1.4 billion for the year ended December 31, 2010. Net cash used in investing activities was $146.8 million for the year ended December 31, 2009. We made shipyard payments of approximately $999.6 million for advances for drillships for the year ended December 31, 2010. This compares to $130.8 million for advances for drillships for the year ended December 31, 2009. The increase in restricted cash was $335.9 million during 2010 and was mainly driven by a $300.0 million short-term credit facility, which was fully cash collateralized and was repaid in January 2011, compared to $185.6 million in the corresponding period of 2009. The increase in the cash used in investing activities for year ended December 31, 2010 was mainly due to yard installments.

Net cash provided by financing activities

Net cash provided by financing activities was $1.08 billion for the year ended December 31, 2010, consisting mainly of stockholders contribution to fund investments of $540.3 million, net proceeds from the private offering of $488.3 million, proceeds from bank debt of $308.2 million and the repayment of bank debt of $247.7 million. Net cash used in by financing activities was $103.0 million for the year ended December 31, 2009, consisting of stockholders' contribution of $753.4 million, proceeds from credit facilities of $150.0 million and debt repayments of $1.0 billion.

Swap agreements

As of December 31, 2011, we had seven interest rate swap and cap and floor agreements outstanding, with a notional amount of $1.0 billion, maturing from September 2013 through November 2017. These agreements were entered into in order to economically hedge our exposure to interest rate fluctuations with respect to our borrowings. As of January 1, 2011, we discontinued hedge accounting and, as such, changes in their fair values are included in the accompanying consolidated statement of operations for the year ended December 31, 2011. As of December 31, 2011, the fair value of the above agreements was a liability of $92.8 million. This fair value equates to the amount that would be paid by us if the agreements were cancelled at the reporting date, taking into account current interest rates and our creditworthiness.

In addition, during February 2012, we entered into two additional interest rate swap agreements with a notional amount of $700.0 million in the aggregate, maturing in April 2016, to hedge our exposure to interest rate fluctuations applicable to indebtedness under our $800.0 million senior secured term loan agreement by fixing our three-month

LIBOR rates at approximately 0.9% up to April 2016.

As of December 31, 2011, security deposits (margin calls) of $33.1 million were paid and were recorded as "Other non current assets" in our consolidated balance sheet. These deposits are required by the counterparty due to the market loss in the swap agreements.

As of December 31, 2009 and 2010, we had outstanding 11 interest rate swap and cap and floor agreements, with a notional amount of $1.3 billion and $908.0 million, respectively, maturing from September 2011 through November 2017. These agreements are entered into in order to economically hedge our exposure to interest rate fluctuations with respect to its borrowings. As of December 31, 2009 and 2010, eight of these agreements did 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 qualified for and were 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 woul