Ocean Rig UDW Inc.
Form 20-F
March 22, 2013

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, 2012

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, 2012, there were 131,725,128 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. x Yes ¨ 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). x 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 x   Non-accelerated filer ¨

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 by the International Accounting Standards Board ¨	Other ¨

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 the expectations, beliefs or projections described in the forward-looking statements contained in this annual report.

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 and drillship 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;

- 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;
- continued borrowing availability under our debt agreements and compliance with the covenants contained therein;
- our substantial leverage, including our ability to generate sufficient cash flow to service our existing debt and the incurrence of substantial indebtedness in the future;
- 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.

All forward-looking statements made in this annual report are qualified by these cautionary statements. These forward-looking statements are made only as of the date of this annual report, and we expressly disclaim any obligation to update or revise any forward-looking statements to reflect changes in assumptions, the occurrence of unanticipated events, changes in future operating results over time or otherwise.

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, 2012 and 2011 and for the years ended December 31, 2012, 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 successor audited financial statements and related notes 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 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.

(U.S. Dollars in thousands)	Ocean Rig ASA (predecessor) As of May 14, 2008	Ocean Rig UDW Inc. (successor) Year Ended December 31, 2008	2009	2010	2011	2012
Income statement data:						
Total revenues	99,172	218,663	388,122	405,712	699,649	941,903
Drilling rigs and drillships operating expenses	48,144	86,229	133,256	119,369	281,833	563,583
Goodwill impairment	-	761,729	-	-	-	-
Loss on disposals	-	-	-	1,458	754	133
	19,367	45,432	75,348	75,092	162,532	224,479

Depreciation and amortization						
Legal settlements and other, net	-	-	-	-	-	4,524
General and administrative expenses	12,140	15,052	20,423	20,566	46,718	83,647
Total operating expenses	79,651	908,442	229,027	216,485	491,837	876,366
Operating income/(loss)	19,521	(689,779)	159,095	189,227	207,812	65,537
Interest and finance costs	(41,661)	(71,692)	(46,120)	(8,418)	(63,752)	(116,427)
Interest income	381	3,033	6,259	12,464	9,810	553
Gain/(loss) on interest rate swaps	-	-	4,826	(40,303)	(33,455)	(36,974)
Other income/(expense)	-	(1,710)	4,491	2,227	2,311	(1,068)
Total finance expenses, net	(41,280)	(70,369)	(30,544)	(34,030)	(85,086)	(153,916)
Income/(loss) before income taxes	(21,759)	(760,148)	128,551	155,197	122,726	(88,379)
Income/(loss) taxes	(1,637)	(2,844)	(12,797)	(20,436)	(27,428)	(43,957)
Equity in income/(loss) of investee	-	(1,055)	-	-	-	-
Net income/(loss)	(23,396)	(764,047)	115,754	134,761	95,298	(132,336)
Less: Net income attributable to non controlling interest	-	(1,800)	-	-	-	-
Net income/(loss)	(23,396)	$ (765,847)	$ 115,754	$ 134,761	$ 95,298	$ (132,336)
Earnings/ (loss) per common share, basic and diluted	(0.14)	$ (7.43)	$ 1.12	$ 1.30	$ 0.72	$ (1.00)
Weighted average number of common shares, basic and diluted	162,171,380	103,125,000	103,125,000	103,908,279	131,696,928	131,696,935

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(U.S. Dollars in thousands)	Ocean Rig ASA (predecessor) As of May 14, 2008	Ocean Rig UDW Inc. (successor) As of December 31, 2008	2009	2010	2011	2012
Balance sheet data:						
Cash and cash equivalents	-	272,940	234,195	95,707	250,878	317,366
Other current assets	96,471	93,379	324,363	576,299	245,531	279,768
Total current assets	96,471	366,319	558,558	672,006	496,409	597,134
Drilling rigs, drillships, machinery and equipment, net	1,132,867	1,377,359	1,317,607	1,249,333	4,538,838	4,399,462
Intangible assets, net	-	13,391	11,948	10,506	9,062	7,619
Other non current assets	-	3,612	43,480	523,363	216,121	228,074
Advances for rigs and drillships under construction	-	-	1,178,392	1,888,490	754,925	992,825
Total assets	1,229,338	1,760,681	3,109,985	4,343,698	6,015,355	6,225,114
Current liabilities, including current portion of long term debt	538,679	885,039	682,287	667,918	427,557	505,665
Total long term debt, excluding current portion	281,307	788,314	662,362	696,986	2,525,599	2,683,630
Other non current liabilities	2,470	63,697	64,219	97,712	63,743	127,304
Total liabilities	822,456	1,737,050	1,408,868	1,462,616	3,016,899	3,316,599
Stockholders' equity	406,882	23,631	1,701,117	2,881,082	2,998,456	2,908,515
Total liabilities and stockholders' equity	$ 1,229,338	$1,760,681	$3,109,985	$4,343,698	6,015,355	$6,225,114

(U.S. Dollars in thousands, except for operating data)	Ocean Rig ASA (predecessor) January 1, 2008 to May 14, 2008	Ocean Rig UDW Inc. (successor) Year Ended December 31, 2008	2009	2010	2011	2012
Cash flow data:						
Net cash provided by / (used in):						
Operating activities	$ (29,089)	$21,119	$211,075	$221,798	$270,662	$278,303
Investing activities	(10,463)	(1,020,673)	(146,779)	(1,441,347)	(1,561,501)	(320,469)
Financing activities	8,550	1,257,390	(103,041)	1,081,061	1,446,010	108,654
Other financial data						
EBITDA (1)	38,888	(648,912)	243,760	226,243	339,200	251,974
Cash paid for interest	22,628	23,103	51,093	43,203	32,164	73,219
Capital expenditures	(10,463)	(16,584)	(14,152)	(6,834)	(78,480)	(97,869)
Payments for drillships under construction	-	-	(130,832)	(705,022)	(1,864,862)	(212,185)
Operating data, when on hire						
Operating units	2	2	2	2	6	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.

(U.S. Dollars in thousands)	Ocean Rig ASA (predecessor) January 1, 2008 to May 14, 2008	Ocean Rig UDW Inc. (successor) Year Ended December 31, 2008	2009	2010	2011	2012
EBITDA reconciliation						
Net income / (loss)	(23,396)	$(765,847)	$115,754	$134,761	$95,298	(132,336)
Add: Depreciation and amortization	19,367	45,432	75,348	75,092	162,532	224,479
Add: Net interest expense / income	41,280	68,659	39,861	(4,046)	53,942	115,874
Add: Income taxes	1,637	2,844	12,797	20,436	27,428	43,957
EBITDA	38,888	$(648,912)	$243,760	$226,243	$339,200	251,974

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 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 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, where a new economic downturn has 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 is otherwise required by our drilling 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 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 our relatively small fleet, 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 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 we have, 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 2013 consisted of 121 units, comprised of

59 semi-submersible rigs and 62 drillships. An additional 14 semi-submersible rigs and 71 drillships were under construction or on order as of February 2013, which would bring the total fleet to 206 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 operations, including, but not limited to, drilling equipment suppliers and 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 drilling unit downtime and delays in the repair and maintenance of our drilling units.

Our international operations involve additional risks, which could adversely affect our business.

We operate in various regions throughout the world. Our drilling rig, the Leiv Eiriksson, is currently undergoing equipment and winterization upgrades and is expected to commence drilling operations on the Norwegian Continental Shelf on or prior to April 15, 2013, our drilling rig, the Eirik Raude, is mobilizing from offshore West Africa to offshore Ireland, where it is expected to commence drilling operations, our drillships, the Ocean Rig Corcovado and the Ocean Rig Mykonos, are operating offshore Brazil and our drillships, the Ocean Rig Olympia and the Ocean Rig Poseidon, are operating offshore Ivory Coast and Tanzania, respectively.

In the past, the Eirik Raude has operated in the Gulf of Mexico and offshore Canada, Norway, the United Kingdom, Ghana and the Ivory Coast, while the Leiv Eiriksson has operated offshore Greenland, West Africa, Turkey, Ireland, west of the Shetland Islands, the Falkland Islands and in the North Sea, and the Ocean Rig Corcovado and the Ocean Rig Olympia have operated offshore Greenland and West Africa, respectively. 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, personnel shortages or failure of subcontractors to perform or supply goods or services.

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 customers generally assume, and indemnify us against, well control and subsurface risks under dayrate drilling contracts, including pollution damage in connection with reservoir fluids stemming from operations under the contract, damage to the well or reservoir, loss of subsurface oil and gas and the cost of bringing the well under control. We generally indemnify our customers against pollution from substances in our control that originate from the drilling unit (e.g., diesel used onboard the unit or other fluids stored onboard the unit and above the water surface). However, our drilling contracts are individually negotiated, and the degree of indemnification we receive from the customer against the liabilities discussed above can vary from contract to contract, based on market conditions and customer requirements existing when the contract was negotiated. Notwithstanding a contractual indemnity from a customer, there can be no assurance that our customers will be financially able to indemnify us or will otherwise honor their contractual indemnity obligations. 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 the Macondo 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 units in these regions, but we may do so in the future. In any event, changes to leasing and drilling activity requirements as a result of the Deepwater Horizon incident could have a substantial impact on the offshore oil and gas industry worldwide. All drilling activity in the U.S. Gulf of Mexico must be in compliance with enhanced safety requirements contained in Notices to Lessees 2010-N05 and 2010 N-06. Effective October 22, 2012 all drilling in the U.S. Gulf of Mexico must also comply with the Final Drilling Safety Rule as adopted on August 15, 2012, which enhances safety measures for energy development on the outer continental shelf. All drilling must also comply with the Workplace Safety Rule on Safety and Environmental Management Systems. We continue to evaluate these requirements to ensure that our rigs and equipment are in full compliance, where applicable. Additional requirements could be forthcoming based on further recommendations by regulatory agencies investigating the Macondo well incident.

We are not able to predict the extent of future leasing plans or the likelihood, nature or extent of additional rulemaking. Nor are we able to predict when the Bureau of Ocean Energy Management (BOEM) will enter into leases with our customers or when the Bureau of Safety and Environmental Enforcement (BSEE) will issue drilling permits to our customers. We are not able to predict the future impact of these events on our operations. The current and future regulatory environment in the Gulf of Mexico could impact the demand for drilling units in the Gulf of Mexico in terms of overall number of rigs in operations and the technical specification required for offshore rigs to operate in the Gulf of Mexico. It is possible that short-term potential migration of rigs from the Gulf of Mexico could adversely impact dayrates levels and fleet utilization in other regions. In addition, insurance costs across the industry have increased as a result of the Macondo well incident and certain insurance coverage has become more costly, less available, and not available at all from certain insurance companies.

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. For example, the amount of risk we are subject to might increase regarding occupational injuries because on January 12, 2012, the U.S. Supreme Court ruled that the U.S. Outer Continental Shelf Lands Act could cover occupational injuries.

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 drilling unit 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 drilling unit or to repair a damaged drilling unit, 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 or engage in certain other activities with countries or government-controlled entities or customers associated with countries that are subject to restrictions imposed by the U.S. government, or engage in certain other activities, including entering into drilling contracts with individuals or entities in such countries that are not controlled by their governments or engaging in operations associated with such countries or entities pursuant to contracts with third parties unrelated to those countries or entities, our ability to conduct our business and access U.S. capital markets and our reputation and the market for our securities could be adversely affected.

Although none of our drilling units have operated in countries subject to sanctions and embargoes imposed by the U.S. government and other authorities or countries identified by the U.S. government or other authorities as state sponsors of terrorism, including Cuba, Iran, Sudan and Syria, in the future our drilling units may operate in these countries from time to time on our customers' instructions. 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 amended the Iran Sanctions Act. Among other things, CISADA 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 2012, President Obama signed Executive Order 13608 which prohibits foreign persons from violating or attempting to violate, or causing a violation of any sanctions in effect against Iran or facilitating any deceptive transactions for or on behalf of any person subject to U.S. sanctions. Any persons found to be in violation of Executive Order 13608 will be deemed a foreign sanctions evader and will be banned from all contacts with the United States, including conducting business in U.S. dollars. Also in 2012, President Obama signed into law the Iran Threat Reduction and Syria Human Rights Act of 2012, or the Iran Threat Reduction Act, which created new sanctions and strengthened existing sanctions. Among other things, the Iran Threat Reduction Act intensifies existing sanctions regarding the provision of goods, services, infrastructure or technology to Iran's petroleum or petrochemical sector. The Iran Threat Reduction Act also includes a provision requiring the President of the United States to impose five or more sanctions from Section 6(a) of the Iran Sanctions Act, as amended, on a person the President determines is a controlling beneficial owner of, or otherwise owns, operates, or controls or insures a vessel that was used to transport crude oil from Iran to another country and (1) if the person is a controlling beneficial owner of the vessel, the person had actual knowledge the vessel was so used or (2) if the person otherwise owns, operates, or controls, or insures the vessel, the person knew or should have known the vessel was so used. Such a person could be subject to a variety of sanctions, including exclusion from U.S. capital markets, exclusion from financial transactions subject to U.S. jurisdiction, and exclusion of that person's vessels from U.S. ports for up to two years.

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, penalties or other sanctions that could severely impact our ability to access U.S. capital markets and conduct our business, and could result in some investors deciding, or being required, to divest their interest, or not to invest, in us. 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 stock may adversely affect the price at which our common stock trades. Moreover, our customers may violate applicable sanctions and embargo laws and regulations as a result of actions that do not involve us or our drilling units, and those violations could in turn negatively affect our reputation. In addition, our reputation and the market for our securities may be adversely affected if we engage in certain other activities, such as entering into drilling contracts with individuals or entities in countries subject to U.S. sanctions and embargo laws that are not controlled by the governments of those countries, or engaging in operations associated with those countries pursuant to contracts with third parties that are unrelated to those countries or entities controlled by their governments. 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 ability to fund our future capital expenditures or refinance our debt.

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 make it difficult for current or potential lenders in the Eurozone to provide new loan facilities we may need to fund our future capital expenditures.

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

Our business 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 drilling units. 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. Moreover, the manner in which these laws are enforced and interpreted is constantly evolving. 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.

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 ships involved in international transport 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. As of January 1, 2013, all ships (including rigs and drillships) must comply with mandatory requirements adopted by the MEPC in July 2011 relating to greenhouse gas emissions. All ships are required to follow the Ship Energy Efficiency Management Plans. Now the minimum energy efficiency levels per capacity mile, outlined in the Energy Efficiency Design Index, applies to all new ships. These requirements could cause us to incur additional compliance costs. The IMO is also considering the implementation 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 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 dayrates. 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.

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 our 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 Heavy Industries Co. Ltd., or Samsung, to build our four 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.

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

Acts of piracy have historically affected ocean-going vessels trading in regions of the world such as the South China Sea, the Indian Ocean, off the coast of West Africa and in the Gulf of Aden off the coast of Somalia. Although the frequency of sea piracy worldwide decreased during 2012 to its lowest level since 2009, sea piracy incidents continue to occur, particularly in the Gulf of Aden off the coast of Somalia and increasingly in the Gulf of Guinea. If these piracy attacks result in regions in which our drilling units are deployed being characterized as "war risk" zones by insurers, 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 vessels, could have a material adverse impact on our business, financial condition and results of operations.

The U.S. government recently imposed legislation concerning the deteriorating situation in Somalia, including acts of piracy offshore Somalia. On April 13, 2010, the President of the United States issued an Executive Order, which we refer to as the Order, prohibiting, among other things, the payment of monies to or for the benefit of individuals and entities on the list of Specially Designated Nationals, or SDNs, published by U.S. Department of the Treasury's Office of Foreign Assets Control. Certain individuals associated with piracy offshore Somalia are currently designated persons under the SDN list. The Order is applicable only to payments by U.S. persons and not by foreign entities, such as Ocean Rig UDW Inc. Notwithstanding this fact, it is possible that the Order, and the regulations promulgated thereunder, may affect foreign private issuers to the extent that such foreign private issuers provide monies, such as ransom payments to secure the release of crews and ships in the event of detention hijackings, to any SDN for which they seek reimbursement from a U.S. insurance carrier. While additional regulations relating to the Order may be promulgated by the U.S. government in the future, we cannot predict what effect these regulations may have on our 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 with us in the U.S. Gulf of Mexico. Drilling units that moved off their locations during the hurricanes damaged platforms, pipelines, wellheads and other drilling units. BOEM and the BSEE, the U.S. organizations that issue a significant number of relevant guidelines for the drilling units' activities, have in place until November 1, 2014 guidelines for tie-downs on drilling units and permanent equipment and facilities attached to outer continental shelf production platforms, and moored drilling unit fitness. These guidelines effectively impose requirements on the offshore oil and natural gas industry in an attempt to 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 that operate properties in the Gulf of Mexico region of the Outer Continental Shelf. BOEM and 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, thereby reducing their marketability. Implementation of new 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 us 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.

Risks Relating to Our Company

We have substantial indebtedness, and may incur substantial additional indebtedness, which could adversely affect our financial health.

As of December 31, 2012, on a consolidated basis, we had $2.9 billion in aggregate principal amount of indebtedness outstanding and $0 in additional credit available to us under our secured credit facilities. In February 2013, we entered into a $1.35 billion secured term loan facility to partially finance the construction of three of our four ultra-deepwater seventh generation drillships under construction, referred to as our seventh generation drillships, scheduled for delivery in July 2013, October 2013 and November 2013, under which we had $1.35 billion in available borrowing capacity as of the date of this annual report. Our substantial indebtedness could have significant adverse consequences for an investment in us and on our business and future prospects, including the following:

- we may not be able to satisfy our financial obligations under our indebtedness and our contractual and commercial commitments, which may result in possible defaults on and acceleration of such indebtedness;

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

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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;

- our ability to refinance indebtedness may be limited or the associated costs may increase;

- less leveraged competitors could have a competitive advantage because they have lower debt service requirements and, as a result, we may not be better positioned to withstand economic downturns;

- 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 and our management's discretion in operating our business may be limited; and

- we may be unable to raise the funds necessary to repurchase the 6.50% senior secured notes due 2017, or our Senior Secured Notes, issued by Drill Rigs Holdings Inc., our wholly-owned subsidiary, or Drill Rigs Holdings, in September 2012 tendered to Drill Rigs Holdings if there is a change of control or event of loss or in connection with an asset sale offer, which would constitute a default under the indenture governing the Senior Secured Notes.

Each of these factors may have a material and adverse effect on our financial condition and viability. 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. Any or all of these actions may be insufficient to allow us to service our debt obligations. Further, we may not be able to effect any of these remedies on satisfactory terms, or at all.

We may incur additional debt, which could exacerbate the risks associated with our substantial leverage.

Even with our existing level of debt, we and our subsidiaries may incur additional indebtedness in the future. In February 2013, we entered into a $1.35 billion syndicated term loan facility to partially finance the construction costs of three of our seventh generation drillships scheduled for delivery in July 2013, October 2013 and November 2013, and we may incur additional indebtedness in order to fund the estimated remaining contractual obligations, excluding financing costs, of $470.1 million as of the day of this annual report for our fourth seventh generation drillship. Although the terms of our existing debt agreements, and any future debt agreements we enter into, will limit our ability to incur additional debt, these terms may not prohibit us from incurring substantial amounts of additional debt for specific purposes or under certain circumstances. If new debt is added to our and our subsidiaries' current debt levels, the related risks that we and they now face could intensify and could further exacerbate the risks associated with our substantial leverage.

The agreements and instruments governing our indebtedness contain restrictions and limitations that could significantly impact our ability to operate our business.

Our secured credit facilities, the bond agreement governing our unsecured senior notes and the indenture governing the Senior Secured Notes impose, and future financial obligations may impose, certain 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 or guarantee additional indebtedness;

- create or permit liens on our assets;

- consummate a merger, consolidation or sale of our drilling units or the shares of our subsidiaries;
- make investments;
- change the general nature of our business;
- pay dividends, redeem capital stock or subordinated indebtedness or make other restricted payments;
- incur dividend or other payment restrictions affecting our restricted subsidiaries under the indenture governing our Senior Secured Notes;
- change the management and/or ownership of our drilling units;

- enter into transactions with affiliates;
- transfer or sell assets;
- amend, modify or change our organizational documents;
- make capital expenditures; and
- compete effectively to the extent our competitors are subject to less onerous restrictions.

In addition, certain of our existing secured credit facilities require us to maintain specified financial ratios and satisfy various financial covenants, including covenants related to the market value of our drilling units, capital expenditures and maintenance of a minimum amount of total available cash. Any future credit agreement or amendment or debt instrument we enter into may contain similar or more restrictive covenants. 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. Our ability to maintain compliance will also depend substantially on the value of our assets, our dayrates, our ability to obtain drilling contracts, our success at keeping our costs low and our ability to successfully implement our overall business strategy. We cannot guarantee that we would 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 or that we would be able to refinance any such indebtedness in the event of default.

These restrictions, ratios and financial covenants in our debt agreements could limit our ability to fund our operations or capital needs, make acquisitions or pursue available business opportunities, which in turn may adversely affect our financial condition. A violation of any of these provisions could result in a default under our existing and future debt agreements which could allow all amounts outstanding thereunder to be declared immediately due and payable. This would likely in turn trigger cross-acceleration and cross-default rights under the terms of our indebtedness outstanding at such time. If the amounts outstanding under our indebtedness were to be accelerated or were the subject of foreclosure actions, we cannot assure you that our assets would be sufficient to repay in full the money owed to the lenders or to our other debt holders.

We may not be able to generate sufficient cash flow to meet our debt service and other obligations due to events beyond our control.

Our ability to make scheduled payments on our outstanding indebtedness will depend on our ability to generate cash from operations in the future. Our future financial and operating performance will be affected by a range of economic, financial, competitive, regulatory, business and other factors that we cannot control, such as general economic and financial conditions in the offshore drilling industry or the economy generally. In particular, our ability to generate steady cash flow will depend on our ability to secure drilling contracts at acceptable rates. Assuming no exercise of any options to extend the terms of our existing drilling contracts, our operating drilling units are contracted until the fourth quarter of 2014 to the second quarter of 2016. In addition, we have entered into three-year drilling contracts for the Ocean Rig Mylos and the Ocean Rig Athena, our seventh generation drillships scheduled for delivery in July 2013 and November 2013, respectively, which are expected to commence upon delivery of the drillships from the shipyard or to the drilling location, and we have received a letter of award from a major oil company for a three-year drilling contract for the Ocean Rig Apollo, our seventh generation drillship scheduled for delivery in January 2015, to commence upon delivery of the drillship, subject to definitive documentation and customary conditions. Our ability to renew our existing drilling contracts or obtain new drilling contracts at acceptable dayrates upon the expiration of our existing contracts or at all will depend on the prevailing economic and competitive conditions.

Furthermore, our financial and operating performance, and our ability to service our indebtedness, is also dependent on our subsidiaries' ability to make distributions to us, whether in the form of dividends, loans or otherwise. The timing and amount of such distributions will depend on our earnings, financial condition, cash requirements and availability, fleet renewal and expansion, restrictions in our various debt agreements, the provisions of Marshall Islands law affecting the payment of dividends and other factors. Under our two $495.0 million senior secured credit facilities, or the Deutsche Bank credit facilities, the borrowers, Drillship Kithira Owners Inc. and Drillship Skopelos Owners Inc., our wholly-owned subsidiaries, are prohibited from paying dividends and making other distributions to us except following earnings deposit dates and unless all relevant primary transfers, as defined under the credit facilities, have been made, we maintain certain minimum balances in the debt service reserve accounts and no default has occurred, is continuing or will result from the payment. Notwithstanding the foregoing, in the case of the facility for the Ocean Rig Mykonos, distributions may be made upon earnings deposit dates in connection with (i) rebates of Brazilian import taxes incurred prior to May 14, 2012, (ii) the repayment of loans made by us to the borrower in respect of certain capital expenditures and operating expenses incurred prior to May 14, 2012; and (iii) any amounts paid by us following May 14, 2012 in respect of certain capital expenditures and operating expenses in excess of certain budgeted amounts, provided in each case all relevant primary transfers have been made. In addition, under the facility for the Ocean Rig Poseidon, Ocean Rig Poseidon Operations Inc., the borrower and the bareboat charterer, Ocean Rig Poseidon Operations Inc., our wholly-owned subsidiary, are also prohibited from making distributions to us other than out of funds released from the bareboat charter proceeds account during the term of the bareboat charter in respect of the drilling contract with Petrobras Tanzania Limited, or Petrobras Tanzania, for the Ocean Rig Poseidon. Further, 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.

If our operating cash flows are insufficient to service our debt and to fund our other liquidity needs, we may be forced to take actions such as reducing or delaying capital expenditures, selling assets, restructuring or refinancing our indebtedness, seeking additional capital, or any combination of the foregoing. We cannot assure you that any of these actions could be effected on satisfactory terms, if at all, or that they would yield sufficient funds to make required payments on our outstanding indebtedness and to fund our other liquidity needs. Also, the terms of existing or future debt agreements may restrict us from pursuing any of these actions. Furthermore, reducing or delaying capital expenditures or selling assets could impair future cash flows and our ability to service our debt in the future.

If for any reason we are unable to meet our debt service and repayment obligations, we would be in default under the terms of the agreements governing such indebtedness, which would allow creditors at that time to declare all such indebtedness then outstanding to be due and payable. This would likely in turn trigger cross-acceleration or cross-default rights among our other debt agreements. Under these circumstances, lenders could compel us to apply all of our available cash to repay borrowings or they could prevent us from making payments on the notes. If the amounts outstanding under our existing and future debt agreements were to be accelerated, or were the subject of foreclosure actions, we cannot assure you that our assets would be sufficient to repay in full the money owed to the lenders or to our other debt holders.

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 drillships and any of the other two additional newbuilding drillships for which we exercise our option.

We have newbuilding contracts with Samsung for the construction of four seventh generation ultra-deepwater drillships that are scheduled for delivery in July 2013, October 2013, November 2013 and January 2015, respectively. The estimated total project cost for our four seventh generation drillships, excluding financing costs, is approximately $2.7 billion, of which an aggregate of approximately $1.6 billion was outstanding as of December 31, 2012.

In order to complete the construction of our seventh generation drillships, we will need to procure additional financing. On February 28, 2013, we entered into a $1.35 billion syndicated secured term loan facility to partially finance the construction costs of the Ocean Rig Mylos, the Ocean Rig Skyros and the Ocean Rig Athena, our seventh generation drillships scheduled for delivery in July 2013, October 2013 and November 2013, respectively. We expect to finance the remaining delivery payments for our seventh generation drillships with cash on hand, operating cash flow, equity financing and additional bank debt. We cannot be certain that additional financing will be available on acceptable terms or at all. If additional bank 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 drillships, 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 $879.4 million in the aggregate, as of December 31, 2012. 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 drillships to third parties.

In addition, pursuant to an agreement with Samsung, we have the option to construct up to two additional seventh generation, ultra-deepwater drillships, which would be "sister ships" to our seventh generation drillships under construction. The options may be exercised by us at any time on or prior to March 31, 2013, with the optional vessels being delivered on the earliest available delivery dates based on the production schedule, as determined by Samsung in its reasonable discretion, and at a price to be mutually agreed at the time of the option declaration. If we exercise our two newbuilding options, we would expect to incur aggregate additional capital commitments of approximately $1.3 billion, assuming these drillships are built at the same price and with the same specifications as our seventh generation drillships 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.

We may be unable to secure ongoing drilling contracts, including for the Ocean Rig Skyros and the Ocean Rig Apollo, our two uncontracted seventh generation drillship to be delivered in October 2013 and January 2015, respectively, 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.

Assuming no exercise of any options to extend the terms of our existing drilling contracts, our operating drilling units are contracted until the fourth quarter of 2014 to the second quarter of 2016. In addition, we have entered into three-year drilling contracts for the Ocean Rig Mylos and the Ocean Rig Athena, our seventh generation drillships scheduled for delivery in July 2013 and November 2013, respectively, which are expected to commence upon delivery of the drillships from the shipyard or to the drilling location, and we have received a letter of award from a major oil company for a three-year drilling contract for the Ocean Rig Apollo, our seventh generation drillship scheduled for delivery in January 2015, to commence upon delivery of the drillship, subject to definitive documentation and customary conditions. We cannot guarantee that we will enter into definitive documentation for the drilling contract for the Ocean Rig Apollo for which we have received a letter of award or that we will be able to secure employment for the Ocean Rig Skyros, our second seventh generation drillship scheduled for delivery in October 2013.

Our ability to renew our existing drilling contracts or obtain new drilling contracts for our drilling units, including our two seventh generation drillships for which we have not yet secured employment, will depend on prevailing market conditions. We cannot guarantee we will be able to enter into new drilling contracts upon the expiration or termination of the contracts we have in place or at all or that there will not be a gap in employment between our current drilling 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 we receive for the reemployment of our drilling units upon the expiration or termination of our existing drilling contracts are lower than the rates under our existing contracts, we will recognize less revenue from the operations of our drilling units. In addition, delays under existing drilling 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 drillships under construction, or we may be forced to enter into drilling 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.

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 four seventh generation drillships, the Ocean Rig Mylos, the Ocean Rig Skyros, the Ocean Rig Athena and the Ocean Rig Apollo , which we expect to take delivery of in July 2013, October 2013, November 2013 and January 2015, respectively. From time to time in the future, we may undertake additional new construction projects and conversion projects. Currently, we have options with Samsung for the construction of up to two additional seventh generation ultra-deepwater drillships that we may exercise at any time on or prior to March 31, 2013. 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 drilling 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 drilling unit upgrades, refurbishment and construction projects could materially exceed our planned capital expenditures. Moreover, our drilling units 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, 2012, we had six customers for our current operating fleet of two ultra-deepwater drilling rigs and four drillships. We are subject to the usual risks associated with having a limited number of customers for our services. Our two largest customers represented 49% and 18% of our revenues during the fiscal year ended December 31, 2012, respectively, and our four customers represented, in the aggregate, 100% of our revenues during the year ended December 31 2012. If our customers terminate, suspend or seek to renegotiate the drilling contracts for drilling units, 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 four newbuilding drillships and further grow our business.

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 preparing to commence drilling operations on the Norwegian Continental Shelf, the drilling rig Eirik Raude, which is currently mobilizing to offshore Ireland, where the rig is expected to commence drilling operations, and the drillships Ocean Rig Corcovado and Ocean Rig Mykonos, which are currently operating offshore Brazil, Ocean Rig Olympia, which is currently operating offshore West Africa and 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.

Our future contracted revenue for our fleet of drilling units may not be ultimately realized.

As of March 4, 2013, the future contracted revenue for our fleet of drilling units, or our contract backlog, was approximately $4.4 billion under firm commitments. We may not be able to perform under our drilling contracts due to events beyond our control, and our customers may seek to cancel or renegotiate our drilling contracts for various reasons, including adverse conditions, resulting in lower daily rates. For example, effective March 3, 2013, one of our customers, European Hydrocarbons Limited, or European Hydrocarbons, unilaterally cancelled our drilling contract for the Eirik Raude for drilling offshore West Africa prior to the scheduled termination date. Our inability, or the inability of our customers, to perform under the respective contractual obligations may have a material adverse effect on our financial position, results of operations and cash flows.

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.

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

Under most of our current drilling contracts, our customers have the right to terminate the drilling contract upon the payment of an early termination or cancellation fee. However, such payments may not fully compensate us for the loss of the contract. For example, European Hydrocarbons, our customer under our drilling contract for the Eirik Raude for drilling offshore West Africa, unilaterally cancelled the contract effective March 3, 2013, approximately 23 days prior to the contract's scheduled termination date. In connection with the cancellation of the contract, we are entitled to an early termination fee of $13.7 million. As a result of the cancellation, we will not receive approximately $14.1 million in estimated contract revenues, after giving effect to the early termination payment.

In addition, our drilling 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 certain of our debt agreements.

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 December 2012. Our four operating drillships are due for their first Special Periodical Surveys in 2016. Our seventh generation drillships under construction are due for their first Special Periodical Surveys 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 certain of our debt agreements. 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 drillships 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 drillships 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 two 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, including our seventh generation drillships upon their delivery to us, 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 certain covenants in our secured credit facilities.

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 secured 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 Petróleo Brasileiro S.A., or Petrobras Brazil, for the Ocean Rig Corcovado and the Ocean Rig Mykonos is, and a portion of our revenue under our contract with Repsol Sinopec Brasil S.A., or Repsol, for the Ocean Rig Mylos, our seventh generation drillship scheduled to be delivered in July 2013 will be, receivable in Brazilian Real. 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, 2012, approximately 61% 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, 2012, we employed 1,374 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 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, 2012, we had paid an aggregate of $879.4 million to Samsung in connection with our seventh generation drillships currently scheduled for delivery in July 2013, October 2013, November 2013 and January 2015. The remaining total construction payments for these four newbuilding drillships, excluding financing costs, amounted to approximately $1.6 billion in the aggregate as of December 31, 2012.

In addition, we have options under our contract with Samsung to construct up to two additional seventh generation, ultra-deepwater drillships, which would be sister-ships to our seventh generation drillships. The deadline for exercising these options is March 31, 2013, with the option vessels, if exercised, being delivered on the earliest available delivery dates based on the production schedule, as determined by Samsung in its reasonable discretion, and at a price to be mutually agreed at the time of the option declaration. 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.

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, 2012, we had entered into interest rate swaps for the purpose of managing our exposure to fluctuations in interest rates applicable to indebtedness under our secured 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, 2012 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, 2012, the fair value of our interest rate swaps was in a net liability position of $76.7 million.

An increase in interest rates would increase the cost of servicing our indebtedness and could reduce our profitability.

Our debt under certain of our senior secured credit facilities bears interest at variable rates. We may also incur indebtedness in the future with variable interest rates. As a result, an increase in market interest rates would increase the cost of servicing our indebtedness and could materially reduce our profitability and cash flows. The impact of such an increase would be more significant for us than it would be for some other companies because of our substantial indebtedness.

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 our 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., Brazil, Turkey, Angola, Cyprus, Korea, Ghana, Netherlands, Ivory Coast, Tanzania, Falkland Islands or Norway, our effective tax rate on our worldwide earnings could increase substantially and our earnings and cash flows from our operations could be materially adversely affected.

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

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 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 may be adversely impacted if we are unable to comply with Section 404 of the Sarbanes-Oxley Act of 2002.

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.

We and many of our subsidiaries 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. Shareholders' 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, 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 but one 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 officers and 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, our Executive Vice President, Mr. Anthony Kandylidis, is the son of a director of DryShips and the nephew of our Chairman, President and Chief Executive Officer. Mr. Economou has 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 Kandylidis 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, we have engaged Cardiff Drilling (formerly known as Cardiff Oil & Gas Management Inc.) to provide consulting and other services relating to our drilling units. The capital stock of Cardiff Drilling is owned Mr. Economou. We have also engaged Vivid Finance Ltd., or Vivid Finance, a company controlled by Mr. Economou, to act as a consultant on financing matters relating to us and our subsidiaries. If any of these conflicts of interest are not resolved in our favor, this could have a material adverse effect on our business.

Furthermore, the indenture governing our Senior Secured Notes contains restrictions our ability and the ability of our Restricted Subsidiaries (as defined in the indenture), including Drill Rigs Holdings, the issuer of the Senior Secured Notes, to engage in transactions with, or make certain payments to, affiliates. These restrictions do not prohibit us or any Restricted Subsidiary from entering into a management agreement with an affiliate, including DryShips and any of its subsidiaries, for the provision of drilling unit management services (and the making of payments thereunder) that is entered into in the ordinary course of business and that is in line with industry standards, so long as such agreement has been approved by a majority of the disinterested directors.

Because the Public Company Accounting Oversight Board is not currently permitted to inspect our independent accounting firm, you may not benefit from such inspections.

Auditors of U.S. public companies are required by law to undergo periodic Public Company Accounting Oversight Board, PCAOB, inspections that assess their compliance with U.S. law and professional standards in connection with performance of audits of financial statements filed with the SEC. Certain European Union countries, including Greece, do not currently permit the PCAOB to conduct inspections of accounting firms established and operating in such European Union countries, even if they are part of major international firms. Accordingly, unlike for most U.S. public companies, the PCAOB is prevented from evaluating our auditor's performance of audits and its quality control procedures, and, unlike stockholders of most U.S. public companies, we and our stockholders are deprived of the possible benefits of such inspections.

We may be adversely affected by the introduction of new accounting rules for leasing.

International and U.S. accounting standard-setting boards (the International Accounting Standards Board, or IASB, and the Financial Accounting Standards Board, or FASB) have proposed changes to the accounting for operating and finance leases. If the proposals are adopted, they would be expected generally to have the effect of bringing most off-balance sheet leases onto a lessee's balance sheet as liabilities which would also change the income and expense recognition patterns of those items. Financial statement metrics, such as leverage and capital ratios, as well as EBITDA, may also be affected, even when cash flow and business activity have not changed. This may in turn affect covenant calculations under various contracts (e.g., loan agreements) unless the affected contracts are modified. The IASB and FASB are reconsidering their original proposals to address concerns raised by constituents and expect to issue revised proposals in the first quarter of 2013. Accordingly, the timing and ultimate effect of those proposals on the Company is uncertain.

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 20, 2013, DryShips owned 78,301,755, or approximately 59.4%, of our outstanding common shares, our Chairman, President and Chief Executive Officer, Mr. George Economou, was deemed to beneficially own 5,393,289, or approximately 4.1% of our outstanding common shares and our Executive Vice President, Mr. Anthony Kandylidis, was deemed to beneficially own 1,684,512, or 1.3%, of our outstanding common shares. The common shares held by DryShips and beneficially owned by Mr. Economou 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. 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 20, 2013, DryShips owned approximately 59.4%, 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 offering of our common shares in December 2010, discussed below, we were a wholly-owned subsidiary of DryShips. Our shares commenced trading on the NASDAQ Global Select Market under the symbol "ORIG" on October 6, 2011. As of March 20, 2013, DryShips, our parent company, owned approximately 59.4% 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 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 Series A Convertible Preferred Shares of DryShips 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 then 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, or the 2010 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 2010 Private Offering at the offering price of $17.50 per share. Following the completion of the 2010 Private Offering, 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 offering to eligible purchasers, or the 2011 Unsecured Bond Offering.

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 2010 Private Offering, 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 us by distributing an aggregate of 2,967,291 of our common shares, representing approximately a 2.25% stake in us, 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. 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 shares to shareholders of OceanFreight, other than the entities controlled by Mr. Anthony Kandylidis, the Chief Executive Officer of OceanFreight and our Executive Vice President. Prior to the completion of the merger, DryShips acquired from entities controlled by Mr. Kandylidis all of their shares of OceanFreight, representing a majority of the then outstanding shares of OceanFreight, for the same consideration per share that the OceanFreight shareholders received in the OceanFreight merger, the equity portion of which consisted of an aggregate of 1,570,226 of our common shares.

On April 17, 2012, DryShips completed the public offering of an aggregate of 11,500,000 of our common shares owned by DryShips. Companies affiliated with our Chairman, President and Chief Executive Officer purchased a total of 2,185,000 common shares from DryShips at the public offering price of $16.25 per share.

On September 20, 2012, Drill Rigs Holdings, our wholly-owned subsidiary, completed the issuance of $800 million of aggregate principal amount of Senior Secured Notes in an offering made to both non-U.S. persons 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, or the 2012 Secured Bond Offering.

On February 14, 2013, DryShips completed the public offering of an aggregate of 7,500,000 of our common shares owned by DryShips.

Capital Expenditures

During the years ended December 31, 2010 and 2011, 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. 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.

During the year ended December 31, 2012 and during 2013 to date, our principal capital expenditures related to construction expenses in connection with the construction of the Ocean Rig Mylos, the Ocean Rig Skyros, the Ocean Rig Athena and the Ocean Rig Apollo, our seventh generation drillships under construction, scheduled to be delivered in July 2013, October 2013, November 2013 and January 2015, respectively. For more information on our seventh generation drillships, please see "—B. Business Overview— Newbuilding Drillships and Options to Purchase Newbuilding Drillships." As of December 31, 2012, we had paid an aggregate of $879.4 million to Samsung in connection with our four seventh generation drillships, which we financed with cash from operations. The remaining total construction payments for these drillships, excluding financing costs, amounted to approximately $1.6 billion in the aggregate as of December 31, 2012. We plan to finance these remaining payments, which are due upon delivery of the drillships, with new debt or equity financing, which we have not yet secured in full. In February 2013, we entered into a $1.35 billion senior secured term loan facility to partially finance the construction costs of the Ocean Rig Mylos, the Ocean Rig Skyros and the Ocean Rig Athena. We cannot be certain that we will be able to obtain the additional financing we need to complete the acquisition of our seventh generation drillships on acceptable terms or at all.

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, customer service and safety.

We, through our wholly-owned subsidiaries, 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. The Ocean Rig Corcovado, the Ocean Rig Olympia, the Ocean Rig Poseidon and the Ocean Rig Mykonos 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 believe that owning and operating "sister-ships" helps us maintain our cost efficient operations on a global basis through the shared inventory and use of spare parts and the ability of our offshore maritime crews to work seamlessly across all of our drillships.

We have additional newbuilding contracts with Samsung for the construction of the Ocean Rig Mylos, the Ocean Rig Skyros, the Ocean Rig Athena and the Ocean Rig Apollo, our four seventh generation drillships scheduled for delivery in July 2013, October 2013, November 2013 and January 2015, respectively, which will be "sister ships" to our operating drillships. The design of our seventh generation drillships 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 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 operating drillships. The remaining total construction payments for these drillships, excluding financing costs, amounted to approximately $1.6 billion in the aggregate as of December 31, 2012. To date, the construction of these four newbuiding drillships is on budget and no time delays on delivery are expected.

We employ our drilling units primarily on a dayrate basis for periods of between two months and three years to drill wells for our customers, typically major oil companies, integrated oil and gas companies, state-owned national oil companies and independent oil and gas companies.

We also have options with Samsung for the construction of up to two additional ultra-deepwater drillships, which would also be sister-ships to our seventh generation drillships under construction. The deadline for exercising these options is March 31, 2013, with the option drillships, if exercised, being delivered on the earliest available delivery dates based on the production schedule, as determined by Samsung in its reasonable discretion, and at a price to be mutually agreed at the time of the option declaration.

We believe that our operating drillships, the Ocean Rig Corcovado, the Ocean Rig Olympia, the Ocean Rig Poseidon and the Ocean Rig Mykonos, as well as our four seventh generation drillships under construction, are among the most technologically advanced drillships in the world. The S10000E design, used for our operating drillships, was originally introduced in 1998 and has been widely accepted by customers. Including our operating drillships, a total of 56 drillships have been ordered using this base design, of which 35 have been delivered, as of February 2013, 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 operating drillships is capable of drilling 40,000 feet at water depths of 10,000 feet and our seventh generation drillships 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 the date of this annual report.

Drilling Unit	Year Built or Scheduled Delivery/ Generation	Water Depth to the Wellhead (ft)	Drilling Depth to the Oil Field (ft)	Customer	Expected Contract Term(1)	Maximum Dayrate	Drilling Location
Operating Drilling Rigs							
Leiv Eiriksson	2001/5th	7,500	30,000	Rig Management Norway AS(2)	Q1 2013– Q1 2016	$545,000	Norwegian Continental Shelf
Eirik Raude	2002/5th	10,000	30,000	ExxonMobil Exploration and Production Ireland (Offshore) Limited	Q1 2013 – Q3 2013 (3)	$595,000	Ireland
				Lukoil Overseas Sierra-Leone B.V.	Q4 2013 – Q4 2014	$575,000	West Africa
Operating Drillships							
Ocean Rig Corcovado	2011/6th	10,000	40,000	Petróleo Brasileiro S.A.	Q2 2012– Q2 2015	$446,000(4)	Brazil
Ocean Rig Olympia	2011/6th	10,000	40,000	Total E&P Angola	Q3 2012– Q3 2015	$584,450(5)	West Africa
Ocean Rig Poseidon	2011/6th	10,000	40,000	Petrobras Tanzania Limited	Q3 2011– Q1 2013	$632,000(6)	Tanzania and West Africa
				ENI Angola S.p.A.	Q2 2013– Q2 2016	$690,300(7)	Angola
Ocean Rig Mykonos	2011/6th	10,000	40,000	Petróleo Brasileiro S.A.	Q1 2012– Q1 2015	$441,000(4)	Brazil
Ocean Rig Mylos	Q3 2013/7th	12,000	40,000	Repsol Sinopec Brasil S.A.	Q3 2013– Q3 2016	$624,842(8)	Brazil
Ocean Rig Skyros	Q4 2013/7th	12,000	40,000				
Ocean Rig Athena	Q4 2013/7th	12,000	40,000	ConocoPhillips Angola 36 & 37 Ltd	Q4 2013– Q1 2017	$648,096(9)	Angola
	Q1 2015/7th	12,000	40,000				

Ocean Rig Apollo				Major Oil Company(10)	West Africa
Optional Newbuilding Drillships (11)					
NB Option #1	7th	12,000	40,000		
NB Option #2	7th	12,000	40,000		

(1) Not including the exercise of any applicable options to extend the term of the contract.

(2) Rig Management Norway is the coordinator for the consortium under the contract. The contract has a minimum duration of 1,070 days and includes three options of up to six wells each that must be exercised prior to the expiration of the firm contract period in the first quarter of 2016.

(3) We commenced this contract in March 2013, earlier than originally scheduled, following the cancellation of our contract with European Hydrocarbons Limited effective on March 3, 2013.

(4) Approximately 20% of the maximum dayrates are service fees paid to us in Brazilian Real (R$). The maximum dayrate disclosed in this table is based on the March 1, 2013 exchange rate of R$1.97:$1.00.

(5) Total E&P Angola has the option to extend the term of the contract for two additional one-year periods at the dayrate of $584,450, adjusted annually for inflation, with the first option exercisable within one year from the commencement date under the drilling contract, and the second option exercisable within one year after the date of exercise of the first option.

(6) We assigned this contract to Petrobras Oil & Gas B.V. for the performance of drilling operations with respect to one well offshore Namibia. The maximum dayrate under the contract during the assignment period, which commenced on July 27, 2012 and terminated on September 26, 2012, was $590,882, comprised of the operating dayrate during the period of $547,854 plus the maximum performance bonus during the period. Following the assignment period, the maximum dayrate increased to $632,000, comprised of the operating dayrate of $586,000 plus the maximum performance bonus under the contract.

(7) The maximum dayrate of $690,300 is the average maximum dayrate applicable during the initial three-year term of the contract. Under the contract, the initial maximum dayrate of $670,000 will increase annually at a rate of 3%, beginning twelve months after the commencement date, during the term of the contract. ENI has the option to extend the term of the contract by two optional periods of one-year each. In the event ENI exercises the option for both optional years on or before the date the contract is commenced, the maximum dayrate will decrease by $15,000 per day and, in the event ENI exercises the option for both optional years within the first year of the date the contract is commenced, the maximum dayrate will decrease by $10,000 per day.

(8) To commence upon delivery of the drillship from the shipyard or to the drilling location and the provisional acceptance of the drillship by Repsol at an average maximum dayrate of approximately $624,842 over the term of the contract. A portion of the maximum dayrate is service fees paid to us in Brazilian Real (R$). The average maximum dayrate disclosed in this table is based on the March 1, 2013 exchange rate of R$1.97:$1.00. Under the contract, Repsol has options to extend the contract for up to two years beyond the initial three-year contract period.

(9) The maximum dayrate of $648,096 is the average maximum dayrate applicable during the initial three-year term of the contract. Under the contract, the initial maximum dayrate of $633,500 is subject to a fixed annual escalation of approximately 2% during the contract period. Under the contract, ConocoPhillips has the option to extend the initial contract period by up to two years.

(10) We have received a letter of award from a major oil company for a three-year drilling contract, to commence upon delivery of the drillship from the shipyard. The contract is subject to final documentation and customary conditions.

(11) Each of the options currently expires on March 31, 2013.

Newbuilding Drillships and Options to Purchase Newbuilding Drillships

We have entered into shipbuilding contracts for the Ocean Rig Mylos, the Ocean Rig Skyros, the Ocean Rig Athena and the Ocean Rig Apollo, our seventh generation drillships with deliveries scheduled in July 2013, October 2013, November 2013 and January 2015, respectively, in connection with which we had made total payments of $879.4 million to Samsung, as of December 31, 2012. The total project cost per drillship, excluding financing costs, ranges between $668.0 million and $678.0 million.

We also have options with Samsung for the construction of up to two additional ultra-deepwater drillships, which would be "sister-ships" to our seventh generation drillships. On September 3, 2012, we entered into an addendum to our option contract with Samsung to extend the deadline for exercising these options from October 4, 2012 to March 31, 2013, with the vessels being delivered on the earliest available delivery dates based on the production schedule, as determined by Samsung in its reasonable discretion, and at a price to be mutually agreed at the time of the option declaration.

Employment of Our Fleet

Employment of Our Drilling Rigs

The Leiv Eiriksson is currently on drydock at Westcon, a Norwegian shipyard, to complete scheduled equipment and winterization upgrades relating to a drilling contract the rig is scheduled to commence with a consortium coordinated by Rig Management Norway, or Rig Management, for the drilling of 15 wells on the Norwegian Continental Shelf at a maximum dayrate of $545,000. We also expect to receive approximately $83.0 million under the contract to cover mobilization and fuel costs as well as the cost of equipment 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 six wells each that must be exercised prior to the expiration of the firm contract period in the first quarter of 2016. Following the completion of the drydock discussed above, the rig is scheduled to undergo acceptance testing at the drilling location in Norway and is expected to commence drilling operations under the contract on or prior to April 15, 2013.

Following the completion of its 10-year class survey in December 2012, the Eirik Raude commenced a drilling contract with European Hydrocarbons for the drilling of two wells offshore West Africa at a maximum dayrate of $718,750, which included the operating dayrate of $625,000, plus the maximum performance bonus available under the contract. We also received a mobilization fee under the contract of $15.0 million plus the cost of fuel consumed during the mobilization period. On March 3, 2013, our customer unilaterally cancelled the contract. We are entitled to an early termination payment of approximately $13.7 million under the contract. As a result of the cancellation, we will not receive approximately $14.1 million in estimated contract revenues, after giving effect to the early termination payment.

Following the cancellation of our contract with European Hydrocarbons, the Eirik Raude commenced a one-well drilling contract with an estimated duration of up to six months with ExxonMobil Exploration and Production Ireland (Offshore) Limited, or ExxonMobil, for drilling offshore Ireland at a maximum dayrate of $595,000. In addition, we are entitled to receive a mobilization fee of $589,050 per day during the mobilization period plus a $5.0 million start-up fee and reimbursement for the cost of fuel and a demobilization fee of $589,050 per day during the demobilization period, plus reimbursement for the cost of fuel, unless the parties mutually agree on lump-sum mobilization and demobilization fees. The Eirik Raude commenced the contract in the first quarter of 2013, earlier than originally scheduled, due to the early termination of the drilling contract with European Hydrocarbons.

Following the completion of the contract with ExxonMobil discussed above, the Eirik Raude is scheduled to commence a four well drilling contract with Lukoil Overseas Sierra-Leone B.V., or Lukoil, an with estimated duration of approximately 12 months. We are entitled to a maximum dayrate of $575,000 under the contract, plus a mobilization fee of $6.0 million, plus the cost of fuel. We are also entitled to demobilization fees of between $1.0 million and $5.0 million, plus fuel costs, depending on the location of the rig, provided the rig is not hired by other customers in direct continuation of the contract. Under the contract, Lukoil has the option to extend the term of the contract by up to two additional wells. The contract is scheduled to commence in the second half of 2013.

Employment of Our Drillships

The Ocean Rig Corcovado is currently employed under a three-year drilling contract, plus a mobilization period with Petrobras Brazil for drilling operations offshore Brazil at a maximum dayrate of $446,000 (including service fees of $78,000 per day, based on the contracted rate in Real per day and the March 1, 2013 exchange rate of R$1.97:USD $1.00), plus a mobilization fee of $30.0 million. The contract is scheduled to be completed in the second quarter of 2015.

The Ocean Rig Olympia commenced a three-year drilling contract with Total E&P Angola in July 2012 for drilling operations offshore West Africa at a maximum dayrate of $584,450, plus mobilization and demobilization fees of $9.0 million and $3.5 million, respectively, plus the cost of fuel. Under the contract, Total E&P Angola has the option to extend the term of the contract for two additional one-year periods at the dayrate specified above, adjusted annually for inflation, with the first option exercisable within one year from the commencement date under the drilling contract, and the second option exercisable within one year after the date of exercise of the first option.

The Ocean Rig Poseidon commenced a drilling 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 60-day mobilization period, at a maximum dayrate of $632,000, inclusive of 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. On July 6, 2012, we entered into an assignment and novation agreement with Petrobras Tanzania and Petrobras Oil & Gas, pursuant to which the contract has been assigned to Petrobras Oil & Gas for the performance of drilling operations with respect to one well offshore Namibia. During the assignment period, which commenced on July 27, 2012 and terminated on September 26, 2012, the maximum dayrate under the contract decreased to $590,882, inclusive of a performance bonus of up to $43,028. The contract is scheduled to expire in April 2013.

Following the expiration of its contract with Petrobras Tanzania, the Ocean Rig Poseidon is scheduled to commence a three-year drilling contract with ENI Angola S.p.A., or ENI, in the second quarter of 2013 for drilling operations offshore Angola at a maximum dayrate of $690,300, which is the average maximum dayrate applicable during the initial three-year term of the contract. During the term of the contract, the initial maximum dayrate of $670,000 will increase annual at a rate of 3%, beginning twelve months after the commencement date. The contract also includes a mobilization rate of $656,600 per day, plus reimbursement for the cost of fuel, and a demobilization fee of $5.0 million. Under the contract, ENI has the option to extend the term of the contract by two optional periods of one year each. In the event ENI exercises the option for both optional years on or before the date the contract is commenced, the maximum dayrate will decrease by $15,000 per day and, in the event ENI exercises the option for both optional years within the first year of the date the contract is commenced, the maximum dayrate will decrease by $10,000 per day.

The Ocean Rig Mykonos commenced a three-year drilling contract, plus a mobilization period, with Petrobras Brazil, on September 30, 2011, for drilling operations offshore Brazil at a maximum dayrate of $441,000 (including service fees of $77,000 per day, based on the contracted rate in Real and the March 1, 2013 exchange rate of R$1.97: $1.00), plus a mobilization fee of $30.0 million. The contract is scheduled to expire in February 2015.

In addition, we have entered into a three-year drilling contract with Repsol for drilling operations offshore Brazil for the Ocean Rig Mylos, our seventh generation drillship scheduled for delivery in July 2013, which is expected to commence following delivery of the drillship from the shipyard or to the drilling location and the provisional acceptance of the drillship by Repsol. We are entitled to receive an average maximum dayrate of $624,842 over the term of the contract. A portion of the average maximum dayrate is service fees payable in Brazilian Real and such dayrate is based on the March 1, 2013 exchange rate of R$1.97:$1.00. Under the contract, Repsol has options to extend the contract for up to two years beyond the initial three-year contract period.

Further, we have entered into a three-year contract with ConocoPhillips Angola 36 and 37 Ltd, or ConocoPhillips, for drilling operations offshore Angola for the Ocean Rig Athena, our seventh generation drillship scheduled for delivery in November 2013, which is expected to commence following the delivery of the drillship from the shipyard or to the drilling location. We are entitled to a maximum dayrate of approximately $648,096, which is the average maximum dayrate applicable during the initial three-year term of the contract, plus a lump-sum mobilization fee of $35,227,500, exclusive of fuel costs. Under the contract, the initial maximum dayrate of $633,500 is subject to a fixed annual escalation of approximately 2% during the contract period. In addition, Conoco Phillips has the option to extend the duration of the contract for two years.

We have also received a letter of award from a major oil company for a three-year drilling contract offshore West Africa with an estimated backlog of approximately $680.0 million, including mobilization, for the Ocean Rig Apollo, our seventh generation drillship scheduled for delivery in January 2015. The contract is scheduled to commence in the first quarter of 2015. The customer has the option to extend the term of the contract for four periods of six months each, with the first option exercisable not less than one year before completion date. We have the option to elect the Ocean Rig Apollo or a similar vessel, to drill under this contract. The contract is subject to definitive documentation and customary conditions.

The total contracted backlog under our drilling contracts for our drilling units, including our rigs, as of March 4, 2013, was $4.4 billion. We calculate our contract backlog by multiplying the contractual dayrate under all of our employment contracts for which we have firm commitments as of March 4, 2013, by the minimum expected number of days committed under such contracts (excluding any options to extend), assuming full utilization. There can be no assurance that the counterparties to such contracts will fulfill their obligations under the contracts. See the section of this annual report entitled "Item 3. Key Information—Risk Factors—Risks Relating to Our Company—Our future contracted revenue for our fleet of drilling units may not be ultimately realized."

Unless otherwise stated, all references to maximum dayrates included in this annual report are exclusive of any applicable annual contract revenue adjustments, which generally result in the escalation of the dayrates payable under the drilling contracts.

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. Ocean Rig AS also provides supervisory management services for our seventh generation drillships under construction.

Under the terms of these management agreements, Ocean Rig AS, through its affiliates 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 drilling units, and (iii) providing commercial, technical and operational management for the drillships.

In addition, we have engaged Cardiff Drilling, a company controlled by our Chairman, President and Chief Executive Officer, Mr. George Economou, to provide us with consulting and other services with respect to the arrangement of employment for, and relating to the purchase and sale of, our drilling units. See "Item 7. Major Shareholders and Related Party Transactions—B. Related Party Transactions—Global Services Agreements."

The Offshore Drilling Industry

In recent years, the international drilling market has seen an increasing trend towards deep and ultra-deepwater oil and gas exploration. As shallow water resources mature, deep and ultra-deepwater regions are expected to play an increasing role in offshore oil and gas exploration and production. According to industry sources, the industry-wide global ultra-deepwater market has seen rapid development over the last six years, with dayrates increasing from approximately $180,000 in 2004 to above $600,000 in 2008. As of February 2013, the market level is approximately $600,000. The ultra-deepwater market rig utilization rate has been stable, above 80% since 2000 and above 97% since 2006. The operating units capable of drilling in ultra-deepwater depths of greater than 7,500 feet consist mainly of fifth and sixth generation units, and also include certain older upgraded units. The in-service fleet as of February 2013 totaled 121 units, and is expected to grow to 206 units upon the scheduled delivery of the current newbuild orderbook by the end of 2020. Historically, an increase in supply has caused a decline in utilization and dayrates until drilling units are absorbed into the market. Accordingly, dayrates have been very cyclical. We believe that the largest undiscovered offshore reserves are mostly located in ultra-deepwater fields and primarily located in the "golden triangle" between West Africa, Brazil and the Gulf of Mexico, as well as in East Africa, Australia and Southeast Asia. The location of these large offshore reserves has resulted in more than 90% of the floating drilling unit, or floater, orderbook being represented by ultra-deepwater units. Furthermore, due to increased focus on technically challenging operations and the inherent risk of developing offshore fields in ultra-deepwater, particularly in light of the Deepwater Horizon accident in the Gulf of Mexico, in which we were not involved, oil companies have already begun to show a preference for modern units more capable of drilling in these challenging environments.

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 are generally major oil companies, integrated oil and gas companies, state-owned national oil companies and independent oil and gas companies. We, together with our predecessor, Ocean Rig ASA, have an established history with 151 wells drilled in 18 countries for 29 different customers as of March 2013.

For the years ended December 31, 2010, 2011 and 2012, 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, 2010	Year ended December 31, 2011	Year ended December 31, 2012
Customer A	57 %	36 %	-
Customer B	43 %	18 %	49 %
Customer C	-	-	18 %
Customer D	-	33 %	12 %
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 2013, together have approximately 195 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 contract. 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 regulate 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. Effective August 1, 2012, certain coastal areas of North America were designated ECAs, as will (effective January 1, 2014), the United States Caribbean Sea. 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, in which we were not involved, 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 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 cover for approximately one year which becomes effective after 45 days. 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 drillships 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 and collision 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

For a full list of our subsidiaries, please see Exhibit 8.1 to this annual report. All of the subsidiaries are, directly or indirectly, wholly-owned by Ocean Rig UDW Inc., except for Ocean Rig Deepwater Drilling Ltd., of which all but one of the issued and outstanding shares is owned by Ocean Rig UDW Inc. and the remaining outstanding share is owned by a director of the company, and Ocean Rig Angola Ltd., which is 51% owned by Angolan shareholders and 49% owned by Ocean Rig UDW Inc.

As of March 20, 2013, DryShips (NASDAQGS: DRYS) owned approximately 59.4% of our total outstanding common shares.

D. Property, Plants and Equipment

We do not own any real property. We maintain our principal executive offices in Nicosia, Cyprus and certain of our 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 es Salam, Tanzania, Abidjan, Ivory Coast and Geoje, South Korea. Our interests in the drilling units in our fleet are our only material properties. See "—B. Business Overview—Our Fleet" in this section.

Item 4A. Unresolved Staff Comments

Not applicable.

Item 5. Operating and Financial Review and Prospects

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, through our wholly-owned subsidiaries, 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, 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. We have newbuilding contracts with Samsung for the construction of the four seventh generation drillships, the Ocean Rig Mylos, the Ocean Rig Skyros, the Ocean Rig Athena and the Ocean Rig Apollo. These newbuilding drillships are currently scheduled for delivery in July 2013, October 2013, November 2013 and January 2015, 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 Marine Inc., or Cardiff Marine, 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 2010 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 2010 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 our option contract with Samsung from DryShips, our parent company. We applied the remaining proceeds to partially fund remaining installment payments for our newbuilding drillships and general corporate purposes. Following the completion of the 2010 Private Offering, 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 the 2011 Unsecured Bond Offering. The net proceeds of the 2011 Unsecured Bond Offering of approximately $487.5 million were used to finance our newbuilding drillships program and for general corporate purposes.

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 2010 Private Offering. 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 OceanFreight merger 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 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 shares to shareholders of OceanFreight, other than the entities controlled by Mr. Anthony Kandylidis, the Chief Executive Officer of OceanFreight and our Executive Vice President. Prior to the completion of the merger, DryShips acquired from entities controlled by Mr. Kandylidis all of their shares of OceanFreight, representing a majority of the then outstanding shares of OceanFreight, for the same consideration per share that the OceanFreight shareholders received in the OceanFreight merger, the equity portion of which consisted of an aggregate of 1,570,226 of our common shares.

On April 17, 2012, DryShips completed the public offering of an aggregate of 11,500,000 of our common shares owned by DryShips. Companies affiliated with our Chairman and Chief Executive Officer purchased a total of 2,185,000 common shares from DryShips at the public offering price of $16.25 per share.

Effective as of June 2012, we issued an aggregate of 28,200 restricted common shares to our management and employees under the Ocean Rig UDW Inc. 2012 Equity Incentive Plan.

On September 20, 2012, Drill Rigs Holdings, our wholly-owned subsidiary, completed the issuance of $800 million of aggregate principal amount of Senior Secured Notes in the 2012 Secured Bond Offering. We used the net proceeds of the 2012 Secured Bond Offering to fully repay outstanding indebtedness under our $1.04 billion senior secured credit facility (amounting to $487.5 million as of June 30, 2012) and for the purposes of financing offshore drilling rigs, and to pay all fees and expenses associated therewith.

As of March 20, 2013, DryShips owned approximately 59.4% 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 47 deepwater and ultra-deepwater wells as of March 2013 in a variety of locations, including Angola, Congo, Greenland, Turkey, Norway, the United Kingdom and Ireland, in addition to five shallow-water wells.

The Eirik Raude, delivered in 2002, has a water depth drilling capacity of 10,000 feet. Since 2002, it has drilled 74 deepwater and ultra-deepwater wells as of March 2013 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.

For information on the employment of our drilling rigs, please see "Item 4. Information on the Company—B. Business Overview—Employment of our Fleet—Employment of Our Drilling Rigs."

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. 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.

In addition, we have entered into contracts with Samsung for the construction of four seventh generation drillships, the Ocean Rig Mylos, the Ocean Rig Skyros, the Ocean Rig Athena and the Ocean Rig Apollo, scheduled for delivery in July 2013, October 2013, November 2013 and January 2015, respectively, in connection with which we had made total payments of $879.4 million to Samsung, as of December 31, 2012. The total project cost per drillship, excluding financing costs, ranges between $668.0 million and $678.0 million.

For information on the employment of our drillships, please see "Item 4. Information on the Company—B. Business Overview—Employment of our Fleet—Employment of Our Drillships."

We also have options with Samsung for the construction of up to two additional ultra-deepwater drillships, which would be "sister-ships" to our seventh generation drillships. On September 3, 2012, we entered into an addendum to our option contract with Samsung to extend the deadline for exercising these options from October 4, 2012 to March 31, 2013, with the vessels being delivered on the earliest available delivery dates based on the production schedule, as determined by Samsung in its reasonable discretion, and at a price to be mutually agreed at the time of the option declaration. See "Item 7. Major Shareholders and Related Party Transactions—B. Related Party Transactions—Purchase of Drillship Options from DryShips."

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.

In addition, we have engaged Cardiff Drilling, a company controlled by our Chairman, President and Chief Executive Officer, Mr. George Economou, to provide us with consulting and other services with respect to the arrangement of employment for, and relating to the purchase and sale of, our drilling units. See "Item 7. Major Shareholders and Related Party Transacitons—B. Related Party Transactions—Services Agreements."

The services provided by Ocean Rig AS and Cardiff Drilling overlap mainly with respect to negotiating shipyard orders and providing marketing for potential contractors.

Previously, we had management agreements with Cardiff Marine pursuant to which Cardiff Marine 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.

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 Marine pursuant to which Cardiff Marine 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 Marine 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 Marine prior to termination remained in effect. As of December 31, 2010, these obligations totaled $5.8 million. For the years ended December 31, 2012, 2011 and 2010, total charges from Cardiff under the management agreement amounted to $0, $5.8 million and $4.0 million, respectively, which were capitalized as drillship under construction cost, being a cost directly attributable to the construction of the Ocean Rig Corcovado and the Ocean Rig Olympia.

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

As of December 31, 2012, 2011 and 2010, we had total indebtedness of $2.9 billion, $2.78 billion and $1.26 billion, respectively. 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 us 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 our 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. We do not capitalize amounts in excess of actual interest expense incurred in the period. If our financing plans associate a specific new borrowing with a qualifying asset, we use 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 our other borrowings.

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 accumulated 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

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: We review 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, we review our 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, we evaluate 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. We evaluate the carrying amounts of our 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, we review 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, we make assumptions and estimates about the drilling rigs' and drillships' future performance, with the significant assumptions being related to drilling 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, we determine undiscounted projected net operating cash flows for each rig/drillship and compare them to the rig or drillship's carrying value. The projected net operating cash flows are determined by considering the drilling revenues from existing drilling contracts for the fixed days and an estimated daily rate equivalent for the unfixed days. 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 our depreciation policy. If our 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. Our analysis for the year ended December 31, 2012, 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 our drilling rigs or drillships. Although we believe 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, we determined that the carrying amounts of its assets held for use were recoverable, and therefore, concluded that no impairment loss was necessary for 2010, 2011 and 2012.

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 and drillships 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 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 and expenses, as applicable, over the estimated duration of the drilling period. To the extent that expenses exceed revenue to be recognized, they are expensed as incurred. Demobilization fees and expenses are recognized over the demobilization period. 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. Demobilization fees and expenses are recognized over the demobilization period. Contributions from customers for capital improvements are initially deferred and recognized as revenues over the estimated duration of the drilling contract.

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, 2012, 2011 and 2010.

Year Ended December 31, 2012 Compared to Year Ended December 31, 2011

	Year Ended December 31, 2011	Year Ended December 31, 2012	Change	Percentage Change
REVENUES:				
Total revenues	699,649	941,903	242,254	34.6 %
EXPENSES:				
Drilling rigs and drillships operating expenses	281,833	563,583	281,750	100.0 %
Depreciation	162,532	224,479	61,947	38.1 %
Loss on disposals	754	133	(621)	-82.4 %
General and administrative expenses	46,718	83,647	36,929	79.0 %
Legal settlements and other, net	-	4,524	4,524	-
Operating income	207,812	65,537	(142,275)	-68.5 %
OTHER INCOME/(EXPENSES):				
Interest and finance costs	(63,752)	(116,427)	(52,675)	82.6 %
Interest income	9,810	553	(9,257)	-94.4 %
Loss on interest rate swaps	(33,455)	(36,974)	(3,519)	10.5 %
Other, net	2,311	(1,068)	(3,379)	-146.2 %
Total other income/(expenses),net	(85,086)	(153,916)	(68,830)	80.9 %
Net income/(loss) before taxes	122,726	(88,379)	(211,105)	-172.0 %
Income Taxes	(27,428)	(43,957)	(16,529)	60.3 %
Net Income/(Loss)	95,298	(132,336)	(227,634)	-238.9 %

Revenues

Revenues from drilling contracts increased by $242.3 million, or 34.6%, to $941.9 million for the year ended December 31, 2012, as compared to $699.6 million for the year ended December 31, 2011. The increase is primarily attributable to the operation of the Ocean Rig Mykonos and the Ocean Rig Poseidon that commenced drilling activities after the third quarter of 2011, which contributed $353.0 million in aggregate revenues during the year ended December 31, 2012, as compared to $78.4 million in aggregate revenues during the same period in 2011. Further, the Ocean Rig Olympia and the Ocean Rig Corcovado, which commenced drilling activities during the first and second quarters of 2011, respectively, contributed $291.9 million in aggregate revenues during the year ended December 31, 2012, as compared to $219.5 million in aggregate revenues during the same period in 2011, which were offset by decreased revenues amounting to an aggregate of $94.3 million contributed by the Leiv Eiriksson and the Eirik Raude, due to lower rates and utilization during 2012. The maximum dayrates for the contracts on which our drilling units were employed during the year ended December 31, 2012, ranged between approximately $441,000 and $675,000 per day. The maximum day rates for the contracts on which our drilling units were employed during the year ended December 31, 2011, ranged between approximately $415,000 and $665,473 per day. Revenues for the year ended December 31, 2012, also include $24.6 million for loss of hire insurance recovery related to Ocean Rig Corcovado.

Operating expenses

Drilling rigs and drillships operating expenses increased by $281.8 million, or 100.0%, to $563.6 million for the year ended December 31, 2012, compared to $281.8 million for the year ended December 31, 2011. The increase in operating expenses was mainly due to the commencement of drilling operations of the Ocean Rig Mykonos and the Ocean Rig Poseidon, resulting in operating expenses of $159.3 million in total during the year ended December 31, 2012, as compared to operating expenses of $33.1 million in total for the same period in 2011. In addition, for the year ended December 31, 2012, the operating expenses relating to the Leiv Eiriksson, the Eirik Raude and the Ocean Rig Corcovado increased by $116.4 million, mainly due to a more extensive maintenance program and upgrades performed during the year ended December 31, 2012. Furthermore, operating expenses related to the Ocean Rig Olympia increased by $25.3 million during year ended December 31, 2012, due to the fact that the drillship operated for the entire period, as compared to the year ended December 31, 2011, when the drillship operated for a shorter period. Further, a growing resource team of technicians contributed $13.8 million of operating expenses during year ended December 31, 2012.

Depreciation and amortization expense

Depreciation and amortization expense for the drilling units increased by $62.0 million, or 38.2%, to $224.5 million for the year ended December 31, 2012, as compared to $162.5 million for the year ended December 31, 2011. The increase in depreciation and amortization expense was mainly attributable to the aggregate of $72.9 million of depreciation expense related to the depreciation of the Ocean Rig Poseidon and the Ocean Rig Mykonos, which were delivered during the third quarter of 2011, as compared to an aggregate of $23.1 million of depreciation expense for the same period in 2011. In addition, the Ocean Rig Olympia contributed $8.9 million more in depreciation expense for the year ended December 31, 2012, as compared to the same period of 2011, due to the Company's ownership of the drillship for the full year ended December 31, 2012. The Ocean Rig Corcovado also contributed $3.9 million more in depreciation expense during 2012 due to upgrades performed early this year.

Loss on disposals

Loss on asset disposals amounted to $0.1 million for the year ended December 31, 2012, while for the relevant period in 2011, there was a loss amounting to $0.8 million, related to disposal of office equipment.

General and administrative expenses

General and administrative expenses increased by $36.9 million, or 79.0%, to $83.6 million for the year ended December 31, 2012, as compared to $46.7 million for year ended December 31, 2011. This increase is mainly due to increased costs related to the management of a larger fleet, as well as expenses related to the operation of the Company's office in Brazil that commenced operations in late 2011.

Legal Settlements and other, net

The amount of $4.5 million consists of $6.4 million (loss) in legal settlements which is mainly related to a claim settlement related to import/export taxes duties in Angola that was settled during the second quarter of 2012, offset by a $1.9 million gain related to a settlement of an old dispute with one of our contractors. No such items are included in the relevant period of 2011.

Interest and finance costs

Interest and finance costs increased by $52.6 million, or 82.4%, to $116.4 million for year ended December 31, 2012, compared to $63.8 million for the year ended December 31, 2011. The increase is mainly associated with a higher level of debt during the year ended December 31, 2012, as compared to the corresponding period of 2011. In addition, capitalized interest and amortization of financing costs decreased by $12.8 million and $4.8 million, respectively.

Interest income

Interest income decreased by $9.2 million, or 93.9%, to $0.6 million for the year ended December 31, 2012, compared to $9.8 million for the year ended December 31, 2011. The decrease was mainly due to lower interest rates on our deposits during 2012 as compared to 2011.

Loss on interest rate swaps

Losses on interest rate swaps increased by $3.5 million, or 10.5%, to $37.0 million for year ended December 31, 2012, as compared to $33.5 million for the year ended December 31, 2011. The loss for the year ended December 31, 2012, was mainly due to discontinued cash flow hedges amortization increase by approximately $13.0 million due to repayment of the Company's $1.04 billion credit facility, partially offset by favorable trends of mark to market losses of outstanding swap positions..

Other, net

Other, net decreased by $3.4 million, or 147.8% to a loss of $1.1 million for year ended December 31, 2012, compared to a gain of $2.3 million for the year ended December 31, 2011. The decrease is mainly due to foreign currency exchange rate differences.

Income taxes

Income taxes increased by $16.6 million, or 60.6%, to $44.0 million for year ended December 31, 2012, compared to $27.4 million for the year ended December 31, 2011. Because 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, 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 and drillships operating expenses	119,369	281,833	162,464	136.1%
Depreciation and amortization	75,092	162,532	87,440	116.4%
Loss on disposals	1,458	754	(704)	(48.3%)
General and administrative expenses	20,566	46,718	26,152	127.2%
Operating income	189,227	207,812	18,585	9.8%
OTHER INCOME / (EXPENSES):				
Interest and finance costs	(8,418)	(63,752)	55,334	657.3%
Interest income	12,464	9,810	(2,654)	(21.3%)
Loss on interest rate swaps	(40,303)	(33,455)	6,848	(17.0%)
Other, net	2,227	2,311	84	3.8%
Total other income/(expenses), net	(34,030)	(85,086)	51,056	150.0%
Net Income/(loss) before taxes	155,197	122,726	(32,471)	(20.9%)
Income taxes	(20,436)	(27,428)	(6,992)	34.2%
Net Income/(Loss)	$ 134,761	$ 95,298	$ (39,463)	(29.3%)

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 and drillships operating expenses increased by $162.4 million, or 136.0%, 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 and drillships 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 disposal 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 $26.1 million, or 126.7%, to $46.7 million for the year ended December 31, 2011, as compared to $20.6 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 our exchange offer completed in September 2011.

Interest and finance costs

Interest and finance costs increased by $55.4 million, or 659.5%, to $63.8 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 21.6%, 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 was 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 16.9%, 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 increased by $0.1 million, or 4.5%, to a gain of $2.3 million for the year ended December 31, 2011, compared to a gain of $2.2 million for the year ended December 31, 2010. The increase is due to foreign exchange gain, which was offset by net losses on currency forward contracts.

Income taxes

Income taxes increased by $7.0 million, or 34.3%, 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.

B. Liquidity and Capital Resources

As of December 31, 2012, we had $192.7 million of restricted cash relating mainly to: (i) bank deposits which are blocked or pledged as cash collateral; and (ii) required minimum cash and cash equivalents. Our restricted cash balances as of December 31, 2012 increased by $10.6 million, or 5.8%, to $192.7 million, compared to $182.1 million as of December 31, 2011. The increase in restricted cash balances was primarily due to an increase of $65.8 million in aggregate restricted cash related to our Deutsche Bank credit facilities and cash collateral required by a new swap agreement. This increase was primarily offset by a decrease of $55.0 million in aggregate restricted cash related to the repayment of our $1.04 billion senior secured credit facility and the amendment to our $800.0 million senior secured term loan agreement.

As of December 31, 2012, we had $317.4 million of cash and cash equivalents. Our cash and cash equivalents increased by $66.5 million, or 26.5%, to $317.4 million as of December 31, 2012, compared to $250.9 million as of December 31, 2011. The increase in our cash and cash equivalents relates mainly to the receipt of $800.0 million in gross proceeds from the issuance and sale of Senior Secured Notes in the 2012 Secured Bond Offering and net cash provided by operating activities of $278.3 million, which were partly offset by payments of yard installments and capital upgrades amounting to $310.1 million in the aggregate and loan repayments amounting to $671.7 million in the aggregate.

As of December 31, 2012 and December 31, 2011, we had total indebtedness, on a consolidated basis, of $2.9 billion and $2.7 billion, respectively, under our outstanding debt agreements, excluding unamortized financing fees. Our total indebtedness as of December 31, 2012 increased by $0.2 billion, or 7.4%, to $2.9 billion, compared to $2.7 billion as of December 31, 2011 due to the issuance and sale of $800 million aggregate principal amount of Senior Secured Notes in the 2012 Secured Bond Offering, which was partly offset by payments and repayments of long- and short-term loans.

As of December 31, 2012, we had no available borrowing capacity under our secured credit facilities and aggregate debt outstanding of $2.9 billion. However, as discussed below, we entered into a $1.35 billion secured term loan facility in February 2013, under which we have borrowing capacity of $1.35 billion. As of December 31, 2012, we were in compliance with all covenants related to our outstanding debt agreements. Please refer to the discussion on Long-term Debt as detailed in Note 9 of our audited consolidated financial statements.

As of December 31, 2012, our total purchase commitments consisted of the remaining construction expenses of approximately $1.6 billion relating to the construction of our four seventh generation drillships under construction, which are scheduled to be delivered in July 2013, October 2013, November 2013 and January 2015, respectively. The estimated total project cost per drillship for our seventh generation drillships under construction, excluding financing costs, ranges between $668.0 million and $678.0 million. As of December 31, 2012, we made pre-delivery payments of $879.4 million in the aggregate for these newbuilding drillships. The remaining total construction payments for these drillships, excluding financing costs, amounted to approximately $1.6 billion in the aggregate as of December 31, 2012. We plan to finance these remaining payments, which are due upon delivery of the drillships, with new debt or equity financing, which we have not yet secured in full. In February 2013, we entered into a $1.35 billion senior secured term loan facility to partially finance the construction costs of our three seventh generation drillships scheduled for delivery in 2013. We cannot be certain that we will be able to obtain the additional financing we need to complete the acquisition of our seventh generation drillships on acceptable terms or at all.

We may exercise our options under our contract with Samsung to purchase up to two additional newbuilding drillships any time on or prior to March 31, 2013. To the extent we exercise any of these options, 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 $91.5 million as of December 31, 2012, as compared to a working capital surplus of $68.9 million as of December 31, 2011. The increase in working capital surplus as of December 31, 2012, as compared to December 31, 2011, is primarily due to our increased cash balance and the decrease of the debt falling due within a year.

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.

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 December 31, 2012, assuming the drilling or financing markets do not deteriorate, we believe that our current cash balances and operating cash flow, together with the proceeds of 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 secured credit facilities, under which $176.7 million is due in 2013 and our newbuilding contracts, under which an aggregate of approximately $1.2 billion is due in 2013. 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 Covenants under Our Debt Agreements

Our debt agreements, including the indenture governing our Senior Secured Notes, impose operating and financial restrictions on us. These restrictions generally limit our ability to, among other things (i) pay dividends; (ii) incur or guarantee additional indebtedness; (iii) create or permit liens on our assets; (iv) change the management and/or ownership of the drilling units; (v) change the general nature of their business; (vi) consummate a merger, consolidation or sale of our drilling units or the shares of our subsidiaries; (vii) make investments; and (viii) enter into transactions with affiliates.

In addition, our secured credit facilities, which are secured by mortgages on our operating drillships, require us and certain of our subsidiaries to maintain specified financial ratios and satisfy certain financial covenants, including the requirement that that the market value of the mortgaged drillships 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. 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). Any future credit agreement or amendment or debt instrument we enter into may contain similar or more restrictive covenants.

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. Our ability to maintain compliance will also depend substantially on the value of our assets, our dayrates, our ability to obtain drilling contracts, our success at keeping our costs low and our ability to successfully implement our overall business strategy. We cannot guarantee that we would 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 or that we would be able to refinance any such indebtedness in the event of default.

The restrictions, ratios and financial covenants in our debt agreements could limit our ability to fund our operations or capital needs, make acquisitions or pursue available business opportunities, which in turn may adversely affect our financial condition. A violation of any of these provisions could result in a default under our existing and future debt agreements which could allow all amounts outstanding thereunder to be declared immediately due and payable. This would likely in turn trigger cross-acceleration and cross-default rights under the terms of our indebtedness outstanding at such time. If the amounts outstanding under our indebtedness were to be accelerated or were the subject of foreclosure actions, we cannot assure you that our assets would be sufficient to repay in full the money owed to the lenders or to our other debt holders.

As of December 31, 2012, we were in compliance with all covenants related to our debt agreements.

If our indebtedness is accelerated pursuant to the cross-default or cross-acceleration provisions contained therein, 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 any of our lenders or the trustee and collateral agent under the indenture governing our Senior Secured Notes move to foreclose their liens on the collateral securing the agreements. We expect that cash on hand and cash generated from operations would be sufficient to repay our facilities that have cross-default provisions, which amounted to approximately $2.4 billion in the aggregate, excluding our 9.5% senior unsecured notes, as of December 31, 2012. However, in the event we do not have sufficient cash on hand and cash generated from operations to repay our indebtedness that has cross-default provisions, if that debt were to be accelerated by our lenders or the trustee or noteholder collateral agent, we would have to seek to access the capital markets to fund the mandatory payments and we cannot guarantee that such financing will be available on attractive terms or at all.

Recent Amendments to Our Debt Agreements

Prior to the amendments discussed below, our secured credit facilities also contained cross-default or cross-acceleration clauses relating to DryShips's indebtedness for its drybulk carrier and tanker fleet.

On May 14, 2012, we and two of our wholly owned subsidiaries signed amendments to our two Deutsche Bank credit facilities to, among other things, remove the payment guarantee of DryShips, subject to reinstatement as discussed below, and remove the financial covenants for DryShips and the cross-default provision relating to DryShips's outstanding indebtedness for its drybulk carrier and tanker fleet. As a result of the amendments, a default by DryShips under one of its loan agreements for its drybulk carrier and tanker fleet will not result in a cross-default under the Deutsche Bank credit facilities that would provide the lenders thereunder with the right to accelerate our outstanding debt. In addition, the amendments removed the automatic prepayment mechanism under the Deutsche Bank credit facilities. Also, by the end of September 2014, we are required to maintain an additional $57.0 million in the aggregate in the debt service reserve relating to the facilities. Furthermore, under the amended Deutsche Bank credit facilities, we are permitted to pay dividends, make distributions and effect redemptions or returns of share capital in an amount of up to 50% of net income, provided we maintain minimum liquidity in an aggregate amount of not less than $200.0 million in cash and cash equivalents and restricted cash and provide evidence to the lenders through cash flow forecasts that we will maintain such level for the next 12 months following the date of the dividend, distribution or redemption or return of share capital. The borrowers under the amended Deutsche Bank credit facilities are prohibited from paying dividends or making distributions to us or effecting redemptions, repayments or reductions of share capital, except following earnings deposit dates and unless all relevant primary transfers have been made, we maintain certain minimum balances in the debt service reserve accounts and no default has occurred, is continuing or will result from the payment. Notwithstanding the foregoing, in the case of the facility for the Ocean Rig Mykonos, the borrower may pay dividends to us upon earnings deposit dates in connection with (i) rebates of Brazilian import taxes incurred prior to May 14, 2012, (ii) the repayment of loans made by us to the borrower in respect of certain capital expenditures and operating expenses incurred prior to May 14, 2012; and (iii) any amounts paid by us following May 14, 2012 in respect of certain capital expenditures and operating expenses in excess of certain budgeted amounts, provided in each case all relevant primary transfers have been made. In addition, under the facility for the Ocean Rig Poseidon, Ocean Rig Poseidon Operations Inc., the borrower, is also prohibited from paying dividends or making distributions to us or effecting redemptions, repayments or reductions of share capital other than out of funds released from the bareboat charter proceeds account during the term of the bareboat charter in respect of the contract with Petrobras Tanzania for the Ocean Rig Poseidon.

Under the terms of the amended Deutsche Bank credit facilities, in the event of a breach by us of any of the financial covenants contained in our guarantees under the Deutsche Bank credit facilities, the unconditional and irrevocable payment guarantees of DryShips will be reinstated, pursuant to which DryShips will be obligated to pay, upon demand by the lenders, any amount outstanding under the credit facilities upon a failure by us to pay such amount. In addition, DryShips will be required to indemnify the lenders in respect of any losses they incur in respect of any amounts due under the loans that are not recoverable from DryShips under the guarantees and that we fail to pay. The amount payable by DryShips under the guarantees will be limited to $214.0 million with respect to the facility for the Ocean Rig Poseidon and $255.0 million with respect to the facility for the Ocean Rig Mykonos, in each case plus any other amounts that become payable in connection with the payment of such amount. The guarantees will not include any financial covenants applicable to DryShips or cross-default provisions in relation to DryShips's indebtedness for its drybulk carrier and tanker fleet. The Deutsche Bank credit facilities finance the Ocean Rig Poseidon and the Ocean Rig Mykonos. If these guarantees were to be reinstated, and subsequently were to become invalid or unenforceable for any reason, we would potentially be required to prepay the facilities.

On May 9, 2012, we and one of our other wholly owned operating subsidiaries, Drillships Holdings Inc., signed an amendment under our $800.0 million secured term loan agreement with Nordea Bank as agent to, among other things, terminate the guarantee by DryShips and remove the related covenants and remove the cross-acceleration provisions relating to DryShips's indebtedness for its drybulk carrier and tanker fleet and our indebtedness under our other credit facilities. As a result of the amendment, a default by DryShips under one of its loan agreements for its drybulk carrier and tanker fleet or a default by us under one of our other credit facilities and the acceleration of the related debt will not result in a cross-default under our $800.0 million secured term loan agreement that would provide our lenders with the right to accelerate the outstanding debt under the loan agreement. In addition, under the terms of the loan agreement, as amended, (i) we are permitted to buyback our common shares; (ii) Drillships Holdings Inc. is permitted to pay dividends to us as its shareholder; and (iii) we are permitted to pay dividends to our shareholders of up to 50% of our net income of each previous financial year, provided in each case that we maintain minimum liquidity in an aggregate amount of not less than $200.0 million in cash and cash equivalents and restricted cash and maintain such level for the next 12 months following the date of the dividend payment. The amendments also provide for a reduction in the amount of minimum free cash required to be maintained by Drillships Holdings Inc. from $75.0 million to $50.0 million. Under the agreement, we are required to maintain minimum free cash of $100.0 million. Amounts outstanding under this facility are secured by the Ocean Rig Corcovado and the Ocean Rig Olympia.

In addition, on May 18, 2012, we and Drill Rigs Holdings Inc. amended our $1.04 billion credit facility with DNB Bank ASA, as agent, to, among other things, remove the cross-acceleration clause relating to DryShips's indebtedness for its drybulk carrier and tanker fleet. We repaid in full the outstanding indebtedness under our $1.04 billion credit facility, which was $487.5 million as of June 30, 2012, using the net proceeds of our 2012 Secured Bond Offering.

Our Debt Agreements

Existing Debt Agreements

6.50% senior secured notes due 2017

On September 20, 2012, Drill Rigs Holdings, our wholly-owned subsidiary, or the Issuer, completed the issuance of $800 million aggregate principal amount of Senior Secured Notes pursuant to an indenture in the 2012 Secured Bond Offering. The Senior Secured Notes and are fully and unconditionally guaranteed, on a senior secured basis, by us and certain existing and future subsidiaries of the Issuer, or the Subsidiary Guarantors, including subsidiaries of the Issuer that holds or will hold the Leiv Eiriksson or the Eirik Raude, or certain assets related to such drilling rigs, or that is or becomes party to a drilling contract in respect of either the Leiv Eiriksson or the Eirik Raude.

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The Senior Secured Notes are secured, on a first priority basis, by a security interest in the Leiv Eiriksson and the Eirik Raude and certain other assets of the Issuer and Subsidiary Guarantors, assignments of all earnings and insurance proceeds related to the two drilling rigs, and by a pledge of the stock of the Issuer and the Subsidiary Guarantors.

The Senior Secured Notes mature on October 1, 2017, and bear interest from the date of their issuance at the rate of 6.50% per annum. Interest on outstanding Senior Secured Notes is payable semi-annually in arrears, commencing on April 1, 2013. The net proceeds, after fees and expenses, of the 2012 Secured Bond Offering of approximately $782.0 million were used to fully repay outstanding indebtedness under our $1.04 billion senior secured credit facility described below under "—Repaid Debt Agreements—$1.04 billion secured credit facility," amounting to $487.5 million as of June 30, 2012, and for the purposes of financing offshore drilling rigs, and to pay all fees and expenses associated therewith.

The Senior Secured Notes rank equally in right of payment with all of the Issuer's existing and future senior indebtedness and senior in right of payment to any of the Issuer's existing and future subordinated indebtedness. The guarantees of each guarantor are senior obligations of that guarantor and rank equally in right of payment with all of that guarantor's existing and future senior indebtedness, including guarantees, and senior in right of payment to all of that guarantor's existing and future subordinated indebtedness.

At any time on or after October 1, 2015, the Issuer may redeem some or all of the Senior Secured Notes at specified redemption prices, plus accrued and unpaid interest on the Senior Secured Notes redeemed. Prior to October 1, 2015, the Issuer may, at its option, redeem up to 35% of the aggregate original principal amount of the Senior Secured Notes with the net proceeds of one or more equity offering at a price equal to 106.500% of the principal amount thereof, plus accrued and unpaid interest thereon to the date of redemption. In addition, prior to October 1, 2015, the Issuer may redeem all or a portion of the Senior Secured Notes at a redemption price equal to 100% of the outstanding principal amount thereof, plus any accrued and unpaid interest thereon to the date of redemption, plus a "make whole" premium. Also prior to October 1, 2015, the Issuer may, not more than once in any twelve-month period, redeem up to 10% of the original principal amount of the Senior Secured Notes at a redemption price equal to 103% of the principal amount thereof, plus any accrued and unpaid interest thereon to the date of redemption.

If a change of control, as defined in the indenture, occurs, each holder of Senior Secured Notes will have the right to require the repurchase of all or any part of its Senior Secured Notes at a price equal to 101% of their original principal amount, plus accrued and unpaid interest to the date of repurchase. In addition, the Issuer may be required to offer to use all or a portion of the net proceeds of certain asset sales to purchase some or all of the Senior Secured Notes at 100% of the principal amount thereof, plus accrued and unpaid interest thereon to the date of purchase.

The indenture governing the Senior Secured Notes, among other things, limits the ability of us and our restricted subsidiaries thereunder, including the Issuer, to: (i) incur or guarantee additional indebtedness or issue preferred stock or disqualified capital stock; (iii) pay dividends, redeem equity interests or subordinated indebtedness or make other restricted payments; (iv) transfer or sell assets; (v) incur dividend or other payment restrictions affecting restricted subsidiaries; (vii) enter into transactions with affiliates; (ix) engage in businesses other than a business that is the same as our current business and any reasonably related businesses; and (viii) designate subsidiaries as unrestricted subsidiaries. In addition, the indenture also restricts the Issuer's ability and the ability of us and the other guarantors to, among other things, (i) create or incur liens; (ii) consummate a merger, consolidation or sale of all or substantially all of the assets of the Issuer, us or the other guarantors; and (iii) take or omit to take any actions that would adversely affect or impair in any material respect the collateral securing the Senior Secured Notes. Subject to certain exceptions, our future subsidiaries will become restricted subsidiaries under the indenture governing the Senior Secured Notes and, under limited circumstances, may also become guarantors of the Senior Secured Notes.

The Senior Secured Notes are listed on the Official List of the Irish Stock Exchange and trade on the Global Exchange Market of that exchange.

$1.35 billion secured term loan facility

On February 28, 2013, Drillships Ocean Ventures Inc., our wholly-owned subsidiary, entered into a secured term loan facilities agreement with a syndicate of lenders and DNB Bank ASA, as facility agent and security agent, in the amount of $1.35 billion to partially finance the construction costs of the Ocean Rig Mylos, the Ocean Rig Skyros and the Ocean Rig Athena, our seventh generation drillships scheduled for delivery in July 2013, October 2013 and November 2013, respectively. The facilities agreement is comprised of three term loan facilities of up to $150.0 million each (one relating to each of the aforementioned seventh generation drillships) made available by the commercial lenders, or the Commercial Facilities, three term loan facilities of up to $150.0 million each (one relating to each of the aforementioned seventh generation drillships) made available by Eksportkreditt Norge AS, or the Eksportkreditt GIEK Facilities, and three term loan facilities of up to $150.0 million each (one relating to each of the aforementioned seventh generation drillships) made available by The Export-Import Bank of Korea, or the Kexim Facilities. The term loan facilities with respect to the Ocean Rig Mylos bear interest at LIBOR plus a margin and are repayable beginning in the fourth quarter of 2013 in 45 quarterly installments of an aggregate of $10.0 million through the fourth quarter of 2024. The term loan facilities with respect to the Ocean Rig Skyros and the Ocean Rig Athena bear interest at LIBOR plus a margin and are repayable beginning in the first quarter of 2014 in 42 quarterly installments of an aggregate of approximately $10.5 million per drillship for the first 19 installment payments and $10.9 million per drillship for the final 23 installment payments through the second quarter of 2024.

The $1.35 billion secured term loan facility is secured by, among other things, a first priority mortgage over the Ocean Rig Mylos, the Ocean Rig Skyros and the Ocean Rig Athena, a first priority pledge of the borrower's and/or the guarantors' (as the case may be) earnings accounts, a first priority assignment of all earnings and insurances in respect of the mortgaged vessels, a pledge of the shares of capital stock of certain of our subsidiaries and guarantees from Ocean Rig UDW Inc. and certain of our subsidiaries.

Under the $1.35 secured term loan facility, we, the borrower and certain of our other subsidiaries, as guarantors, are subject to certain financial covenants requiring among other things, the maintenance of (i) a minimum amount of cash and cash equivalents; (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, the aggregate market value of the Ocean Rig Mylos, the Ocean Rig Skyros and the Ocean Rig Athena, following the delivery date of the first drillship, must be greater than 140% of the total borrowings outstanding under the facility.

The $1.35 billion secured term loan facility also contains other customary restrictive covenants, including restrictions on our ability to enter into affiliate transactions, create liens on our assets, merge or consolidate without the prior consent of the lenders, sell, lease, transfer or otherwise dispose of the collateral securing the facility other than for market value on an arm's length basis and in compliance with the terms of the facility, incur additional indebtedness or make investments.

In addition, we may only pay dividends or make other distributions in respect of our capital stock under the $1.35 billion secured term loan facility in an amount equal to up to 50% of our net income of each previous financial year, provided in each case that we maintain minimum liquidity in an aggregate amount of not less of $200.0 million in cash and cash equivalents and restricted cash and maintain such level for the next 12 months following the date of the dividend payment.

The $1.35 billion secured term loan facility also contains customary events of default, including non-payment of principal or interest, breach of covenants or material representations and bankruptcy and imposes insurance requirements and restrictions on the employment of the mortgaged drillships. In addition, the facility contains a cross-default provision that is triggered, among other things, when any of our other financial indebtedness in an amount equal to or in excess of $25.0 million is not paid when due or is declared to be or otherwise becomes due and payable prior to its specified maturity as a result of an event of default, pursuant to which our lenders may accelerate our indebtedness under the $1.35 billion secured term loan facility.

As of December 31, 2012, we had entered into three interest rate swap agreements to partly fix the interest rate payable on the principal amounts outstanding under the $1.35 billion secured term loan facility. See "—Swap Agreements" for a description of the interest rate swap agreements.

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 drillships, the Ocean Rig Poseidon and the Ocean Rig Mykonos, respectively, each entered into separate credit facility agreements with a syndicate of lenders, including Deutsche Bank AG, London Branch, in the amount of $562.5 million to partially finance the construction costs 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 credit facilities as amended, 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 $27.5 million through September 2020 or November 2020, as the case may be.

On April 27, 2011, we entered into an agreement with the lenders under the Deutsche Bank credit facilities to amend these credit 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 credit facility; (ii) in addition to the guarantee already provided by DryShips, we provided an unlimited recourse guarantee that includes certain financial covenants as further described below; and (iii) with respect to the credit facility for the financing of the Ocean Rig Poseidon, we were 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. On August 10, 2011, we amended the terms of the credit facility for the financing of the Ocean Rig Mykonos to allow for full drawdowns to finance the then remaining installment payments for this drillship based on the employment of the drillship under its drilling contract with Petrobras Brazil. 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 such credit facility were unchanged.

Each Deutsche Bank credit facility is secured by, among other things, a first priority mortgage on the relevant vessel and a reserve account pledge. In addition, we have pledged the shares of the following of our wholly owned subsidiaries as security under our Deutsche Bank credit facilities: Kithira Shareholders Inc., Drillship Kithira Owners Inc., Ocean Rig Poseidon Operations Inc., Skopelos Shareholders Inc., Drillship Skopelos Owners Inc., Ocean Rig Drilling Operations Cooperatief UA, Ocean Rig Drilling Operations B.V. and Drillships Investment Inc. Each credit facility contains a loan to value ratio requirement relating to the post-delivery market value of the relevant vessel.

We provided an unlimited recourse guarantee under the terms of the restructuring of these credit facility agreements described above, 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.

These credit facility agreements are the subjects of guarantees by DryShips. On May 14, 2012, we and Drillship Kithira Owners Inc. and Drillship Skopelos Owners Inc. signed amendments with the lenders under the Deutsche Bank credit facilities to, among other things, remove the payment guarantee of DryShips, subject to reinstatement as discussed below, and remove the financial covenants for DryShips and the cross-default provision relating to DryShips's outstanding indebtedness for its drybulk carrier and tanker fleet. As a result of the amendments, a default by DryShips under one of its loan agreements for its drybulk carrier and tanker fleet will not result in a cross-default under the Deutsche Bank credit facilities that would provide the lenders thereunder with the right to accelerate our outstanding debt. In addition, the amendments removed the automatic prepayment mechanism under the Deutsche Bank credit facilities. Also, by the end of September 2014, we are required to maintain an additional $57.0 million in the aggregate in the debt service reserve relating to the facilities. Furthermore, under the amended Deutsche Bank credit facilities, we are permitted to pay dividends, make distributions and effect redemptions or returns of share capital in an amount of up to 50% of net income, provided we maintain minimum liquidity in an aggregate amount of not less than $200.0 million in cash and cash equivalents and restricted cash and provide evidence to the lenders through cash flow forecasts that we will maintain such level for the next 12 months following the date of the dividend, distribution or redemption or return of share capital. The borrowers under the amended Deutsche Bank credit facilities are prohibited from paying dividends or making distributions to us or effecting redemptions, repayments or reductions of share capital, except following earnings deposit dates and unless all relevant primary transfers have been made, the borrowers maintain certain minimum balances in the debt service reserve accounts and no default has occurred, is continuing or will result from the payment. Notwithstanding the foregoing, in the case of the facility for the Ocean Rig Mykonos, the borrower may pay dividends to us upon earnings deposit dates in connection with (i) rebates of Brazilian import taxes incurred prior to May 14, 2012, (ii) the repayment of loans made by us to the borrower in respect of certain capital expenditures and operating expenses incurred prior to May 14, 2012; and (iii) any amounts paid by us following May 14, 2012 in respect of certain capital expenditures and operating expenses in excess of certain budgeted amounts, provided in each case all relevant primary transfers have been made. In addition, under the facility for the Ocean Rig Poseidon, Ocean Rig Poseidon Operations Inc., the borrower, is also prohibited from paying dividends or making distributions to us or effecting redemptions, repayments or reductions of share capital other than out of funds released from the bareboat charter proceeds account during the term of the bareboat charter in respect of the contract with Petrobras Tanzania for the Ocean Rig Poseidon.

Under the terms of the amended Deutsche Bank credit facilities, in the event of a breach by us of any of the financial covenants contained in our guarantees under the Deutsche Bank credit facilities, the unconditional and irrevocable payment guarantees of DryShips will be reinstated, pursuant to which DryShips will be obligated to pay, upon demand by the lenders, any amount outstanding under the credit facilities upon a failure by us to pay such amount. In addition, DryShips will be required to indemnify the lenders in respect of any losses they incur in respect of any amounts due under the loans that are not recoverable from DryShips under the guarantees and that we fail to pay. The amount payable by DryShips under the guarantees will be limited to $214.0 million with respect to the facility for the Ocean Rig Poseidon and $255.0 million with respect to the facility for the Ocean Rig Mykonos, in each case plus any other amounts that become payable in connection with the payment of such amount. The guarantees will not include any financial covenants applicable to DryShips or cross-default provisions in relation to DryShips's indebtedness for its drybulk carrier and tanker fleet. If these guarantees were to be reinstated, and subsequently were to become invalid or unenforceable for any reason, we would potentially be required to prepay the facilities.

The loan agreements contain customary restrictive covenants, including limitations on affiliate transactions, the creation of liens on assets and restrictions on the sale, transfer or disposal of the vessels, 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.

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" for a description of the interest rate swap agreements.

As of December 31, 2012 and 2011, the outstanding balance under the Deutsche Bank credit facilities was $907.5 million and $990.0 million, respectively.

$800.0 million senior secured term loan agreement

On April 15, 2011, our wholly owned subsidiary, Drillships Holdings Inc., entered into a $800.0 million senior secured term loan agreement with Nordea Bank as agent and a syndicate of lenders to fund a portion of the construction of the Ocean Rig Corcovado and the Ocean Rig Olympia. The $800.0 million senior secured term loan agreement consists of four term loans, which were all fully drawn during April 2011. Amounts outstanding under the $800.0 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 $483.3 million payable together with the last installment payment.

The $800.0 million senior secured term loan agreement is secured by, among other things, first priority (i) mortgages over the Ocean Rig Corcovado and the Ocean Rig Olympia; (ii) assignments of earnings; (iii) assignments of earnings accounts; (iv) assignments of minimum reserve cash accounts; (v) assignments of insurances; and (vi) pledges of the shares of our wholly owned subsidiaries, Drillships Holdings Inc., Drillship Hydra Shareholders Inc., Drillship Hydra Owners Inc., Drillship Paros Shareholders Inc., Drillship Paros Owners Inc. and Ocean Rig Corcovado Greenland Operations Inc.

Under the $800.0 million senior secured term loan agreement, we and certain of our subsidiaries, as guarantors, are subject to certain financial 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, 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.

On May 9, 2012, we and Drillships Holdings Inc. signed an amendment under the $800.0 million secured term loan agreement to, among other things, terminate the guarantee by DryShips and remove the related covenants and remove the cross-acceleration provisions relating to DryShips's indebtedness for its drybulk carrier and tanker fleet and our indebtedness under our other credit facilities. As a result of the amendment, a default by DryShips under one of its loan agreements for its drybulk carrier and tanker fleet or a default by us under one of our other credit facilities and the acceleration of the related debt will not result in a cross-default under our $800.0 million secured term loan agreement that would provide our lenders with the right to accelerate the outstanding debt under the loan agreement. In addition, under the terms of the loan agreement, as amended, (i) we are permitted to buyback our common shares; (ii) Drillships Holdings Inc. is permitted to pay dividends to us as its shareholder; and (iii) we are permitted to pay dividends to our shareholders of up to 50% of our net income of each previous financial year, provided in each case that we maintain minimum liquidity in an aggregate amount of not less than $200.0 million in cash and cash equivalents and restricted cash and maintain such level for the next 12 months following the date of the dividend payment. The amendments also provide for a reduction in the amount of minimum free cash required to be maintained by Drillships Holdings Inc. from $75.0 million to $50.0 million. Under the agreement, we are required to maintain minimum free cash of $100.0 million.

Furthermore, pursuant to the terms of the $800.0 million senior secured term loan agreement, if any person or group (other than George Economou and DryShips) acquires beneficial ownership of more than 50% of our equity, or, if George Economou and DryShips fails to hold a 15% aggregate ordinary voting power and economic interest in us, then all outstanding amounts under the $800.0 million senior secured term loan agreement are required to be prepaid within 60 days.

The $800.0 million senior secured term loan agreement contains other customary restrictive covenants, including limitations on affiliate transactions, the creation of liens on assets and restrictions on the sale, transfer or disposal of the vessels, 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.

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" for a description of the interest rate swap agreements.

As of December 31, 2012 and 2011, the outstanding balance under this loan was $700.0 million and $766.7 million, respectively.

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 the 2011 Unsecured Bond 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. We received net proceeds of the 2011 Unsecured Bond Offering of approximately $487.5 million, which was used to finance a portion of the remaining payments under our newbuilding 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, dated April 14, 2011, we are required to pay interest on the unsecured notes at a rate of 9.5% per annum. We are also required to make interest payments on the unsecured notes semi-annually in arrears on October 27 and April 27 of each year, until the final maturity on April 27, 2016. The unsecured notes are not guaranteed by any of our subsidiaries. The unsecured notes are 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 unsecured 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 unsecured 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 $50.0 million; (iii) a 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 issuance, we agreed to apply to list the unsecured notes on a securities exchange or other regulated market by December 1, 2011. The unsecured 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 the unsecured notes in compliance with the bond agreement. If we had failed to obtain the required credit ratings, the interest rate on the unsecured notes would have increased by 0.25% annually.

Repaid Debt Agreements

$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 as a borrower. This credit facility was in the aggregate amount of approximately $1.04 billion and consisted of a guarantee facility, which provided us with a letter of credit of up to $20.0 million that was 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. Amounts outstanding under the $1.04 billion credit facility bore interest at LIBOR plus a margin and the loan was repayable in 20 quarterly installments plus a balloon payment of $400.0 million payable together with the last installment, on September 17, 2013. This facility was repaid in full with a portion of the net proceeds of our 2012 Secured Bond Offering. As of December 31, 2011, the outstanding balance under this loan agreement was $522.5 million.

Drill Rigs Holdings had entered into three interest rate swap agreements to fix the interest rate on the principal amounts outstanding under this loan agreement, which were novated to us in connection with the closing of the 2012 Secured Bond Offering. See "—Swap Agreements" for a description of these interest rate swap agreements.

Cash Flows

Year Ended December 31, 2012 Compared to Year Ended December 31, 2011

Our cash and cash equivalents increased to $317.4 million as of December 31, 2012, compared to $250.9 million as of December 31, 2011, primarily due to cash provided by financing and operating activities partly offset by cash used in investing activities. Our working capital surplus was $91.5 million as of December 31, 2012, compared to a $68.9 million working capital surplus as of December 31, 2011.

Net Cash Provided by Operating Activities

Net cash provided by operating activities was $278.3 million for the year ended December 31, 2012. In determining net cash provided by operating activities for the year ended December 31, 2012, net income was adjusted for the effects of certain non-cash items, including $224.5 million of depreciation and amortization, $12.9 million of amortization and the write-off of deferred financing costs. Moreover, for the year ended December 31, 2012, 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 $16.1 million, amortization of discontinued cash flow hedges of $22.9 million, amortization of stock based compensation of $0.6 million and other non-cash items of $17.0 million. Net cash provided by operating activities was $270.7 million for the year ended December 31, 2011.

Net Cash Used in Investing Activities

Net cash used in investing activities was $320.5 million for the year ended December 31, 2012, compared to $1.6 billion for the year ended December 31, 2011. We made shipyard payments and project capital expenditures of approximately $310.1 million for the year ended December 31, 2012, compared to $1.9 billion for advances for drillships under construction and other capital expenditures for the year ended December 31, 2012. The increase in restricted cash was $10.6 million during the year ended December 31, 2012, compared to a decrease of $385.0 million in the corresponding period of 2011.

Net Cash Provided by Financing Activities

Net cash provided by financing activities was $108.7 million for the year ended December 31, 2012, consisting of $800.0 million in gross proceeds from the issuance of our 6.50% senior secured notes due 2017 in September 2012, which was largely offset by repayments of credit facilities amounting to an aggregate of $671.7 million. This compares to net cash provided by financing activities of $1.4 billion for the year ended December 31, 2011, consisting of $2.4 billion in gross proceeds from new long-term debt, which was largely offset by repayments of credit facilities amounting to an aggregate of $926.7 million.

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. Our working capital surplus was $68.9 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, $17.8 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.

Swap Agreements

As of December 31, 2012, we had twelve interest rate swap and cap and floor agreements outstanding, with a notional amount of $2.8 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 December 31, 2012, the aggregate fair value the above agreements was a net liability of $76.7 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.

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. As of December 31, 2011, the fair value of the above agreements was a liability of $92.8 million.

As of January 1, 2011, we discontinued hedge accounting and, as such, changes in the fair values of the agreements entered into as of December 31, 2012 and December 31, 2011 are included in the accompanying consolidated statement of operations.

As of December 31, 2010, we had outstanding 11 interest rate swap and cap and floor agreements, with a notional amount of $908.0 million, maturing from September 2011 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 December 31, 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, 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 would be paid by us if the agreements were cancelled at the reporting date, taking into account current interest rates and our creditworthiness.

As of December 31, 2011 and 2012, security deposits of $33,100 and $8,000, respectively were provided as security by the Company. The Company has deposited also cash collateral of $6,000 that is classified as current restricted cash. These amounts are expected to be released upon the delivery of the Ocean Rig Mylos, the Ocean Rig Skyros and the Ocean Rig Athena.

See "Item 11. Quantitative and Qualitative Disclosures About Market Risk."

Currency Forward Sale Exchange Contracts

As of December 31, 2012 and December 31, 2011, we had no outstanding currency forward sale exchange contracts. The change in fair value of forward contracts during the year ended December 31, 2011 amounted to a loss of $1.5 million and is included as Other, net in our consolidated statement of operations. See Note 10 to our consolidated financial statements included elsewhere in this annual report.

As of December 31, 2010, we had currency forward sale exchange contracts for the future sales of U.S. Dollars at fixed rates of $28.0 million outstanding with a fair market value of $1.5 million recorded in "Financial instruments" in our consolidated balance sheet. For the relevant period, we did not designate currency forward sale exchange contracts as hedges under U.S. GAAP, and realized gains are included as General and administrative expenses and unrealized gains are included as Other, net in our consolidated statement of operations. See Note 10 to our consolidated financial statements included elsewhere in this annual report.

See "Item 11. Quantitative and Qualitative Disclosures About Market Risk."

Supplemental Information – Drill Rigs Holdings

Drill Rigs Holdings, the issuer of our Senior Secured Notes, or the Issuer, is a corporation incorporated under the laws of the Republic of the Marshall Islands on October 10, 2008. The Issuer is a wholly owned subsidiary of the Company. Ocean Rig 1 Inc. and Ocean Rig 2 Inc., corporations incorporated under the laws of the Marshall Islands on October 10, 2008, and wholly owned subsidiaries of the Issuer, each separately own and operate our modern, fifth generation ultra-deepwater semi-submersible offshore drilling rigs, the Leiv Eiriksson and the Eirik Raude, respectively. The Senior Secured Notes are secured by, among other things, first priority mortgages on the Leiv Eiriksson and the Eirik Raude. Ocean Rig 1 Inc. and Ocean Rig 2 Inc., along with other existing and future subsidiaries of the Issuer that hold or will hold the Leiv Eiriksson or the Eirik Raude, or certain assets related to such drilling rigs, or that are or become a party to a drilling contract for the employment of the Leiv Eiriksson or the Eirik Raude, or collectively, the Issuer Subsidiary Guarantors, and Ocean Rig UDW Inc. are guarantors of our Senior Secured Notes. The address for the Issuer and Issuer Subsidiary Guarantors' principal place of business is c/o Ocean Rig UDW Inc., 10 Skopa Street, Tribune House, 2nd Floor, Office 202, CY 1075, Nicosia.

The following is additional information about the Issuer and Issuer Subsidiary Guarantors, all of which are wholly owned subsidiaries of the Issuer, as of December 31, 2012.

(a) Drill Rigs Holdings Inc. is a private limited company organized under the laws of theMarshall Islands. It is registered under registration number 32563 and the address of itsregistered office is at Trust Company Complex, Ajeltake Road, Ajeltake Island, Majuro,Marshall Islands MH 96960.
(b) Ocean Rig 1 Inc. is a private limited company organized under the laws of Marshall Islands. It is registered under registration number 32564 and the address of its registered office is at Trust Company Complex, Ajeltake Road, Ajeltake Island, Majuro, Marshall Islands MH 96960.
(c) Ocean Rig 2 Inc. is a private limited company organized under the laws of Marshall Islands. It is registered under registration number 32566 and the address of its registered office is at Trust Company Complex, Ajeltake Road, Ajeltake Island, Majuro, Marshall Islands MH 96960.
(d) Ocean Rig 1 Shareholders Inc. is a private limited company organized under the laws of Marshall Islands. It is registered under registration number 32565 and the address of its registered office is at Trust Company Complex, Ajeltake Road, Ajeltake Island, Majuro, Marshall Islands MH 96960.
(e) Ocean Rig 2 Shareholders Inc. is a private limited company organized under the laws of Marshall Islands. It is registered under registration number 32567 and the address of its registered office is at Trust Company Complex, Ajeltake Road, Ajeltake Island, Majuro, Marshall Islands MH 96960.
(f) Ocean Rig 1 Greenland Operations Inc. is a private limited company organized under the laws of Marshall Islands. It is registered under registration number 42634 and the address of its registered office is at Trust Company Complex, Ajeltake Road, Ajeltake Island, Majuro, Marshall Islands MH 96960.
(g) Ocean Rig Falkland Operations Inc. is a private limited company organized under the laws of Marshall Islands. It is registered under registration number 49548 and the address of its registered office is at Trust Company Complex, Ajeltake Road, Ajeltake Island, Majuro, Marshall Islands MH 96960.
(h) Drill Rigs Operations Inc. is a private limited company organized under the laws of Marshall Islands. It is registered under registration number 49395 and the address of its registered office is at Trust Company Complex, Ajeltake Road, Ajeltake Island, Majuro, Marshall Islands MH 96960.
(i) Ocean Rig EG Operations Inc. is a private limited company organized under the laws of Marshall Islands. It is registered under registration number 53660 and the address of its registered office is at Trust Company Complex, Ajeltake Road, Ajeltake Island, Majuro, Marshall Islands MH 96960.
(j) Ocean Rig Norway Operations Inc. is a private limited company organized under the laws of Marshall Islands. It is registered under registration number 53753 and the address of its registered office is at Trust Company Complex, Ajeltake Road, Ajeltake Island, Majuro, Marshall Islands MH 96960.

Selected Historical Consolidated Financial Information and Other Data:

The following table sets forth certain financial and other data of Drill Rigs Holdings, our wholly-owned subsidiary and the issuer of our Senior Secured Notes, and its operating subsidiaries, each an Issuer Subsidiary Guarantor of the Senior Secured Notes, at the dates and for the periods indicated, which is derived from unaudited financial statements of Drill Rigs Holdings and its operating subsidiaries on a consolidated basis and was prepared by us for use in connection with certain reporting requirements set forth under the indenture governing the Senior Secured Notes.

(U.S. Dollars in thousands)	Year Ended 2011	2012
Total revenue	333,889	313,479
EBITDA(1)	238,073	34,160

Total assets	1,342,648	1,271,829
Total debt, net of financing fees	(519,731)	(781,001)
Shareholders' equity	(730,198)	(337,086)
Total cash and cash equivalents	41,669	62,429
Capital expenditures (2)	(20,065)	(27,908)

(1) EBITDA represents net income before interest, taxes, depreciation and amortization. EBITDA is a non-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 U.S. GAAP or other U.S. 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.

(2) Capital expenditures represent fixed assets improvements excluding items expensed for the Leiv Eiriksson and the Eirik Raude class surveys incurred during the fiscal years ended December 31, 2011 and 2012, amounting to $15.3 million and $65.5 million, respectively.

EBITDA reconciliation

EBITDA represents net income before interest, taxes, depreciation and amortization and. EBITDA does not represent and should not be considered as an alternative to net income or cash flow from operations, as determined by US GAAP 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 Drill Rigs Holdings measures its operations and efficiency. EBITDA is also presented herein because Drill Rigs Holdings believes that it presents useful information to investors regarding a company's ability to service and/or incur indebtedness.

	Year Ended	
(U.S. Dollars in thousands)	2011	2012
EBITDA reconciliation		
Net income	132,904	(75,875)
Interest and finance costs	42,888	36,588
Interest income	(17,337)	(6,137)
Depreciation	75,212	73,322
Income taxes	4,406	6,262
EBITDA	238,073	34,160

Additional Unaudited Financial Information

The below information was prepared by us for use in connection with certain reporting requirements set forth under the indenture governing the Senior Secured Notes.

For the fiscal year ended December 31, 2012, EBITDA of Ocean Rig UDW Inc. and its consolidated subsidiaries, or the Group, attributable to the Issuer, the Issuer Subsidiary Guarantors and the subsidiaries of Ocean Rig UDW Inc. that are not guarantors of the Senior Secured Notes, or the Non-guarantors, was $-14.1million (or -5.6%), $48.3million (or 19.2%) and $217.8million (or 86.4 %), respectively.

As of December 31, 2012, the net assets of the Group attributable to the Issuer, the Issuer Subsidiary Guarantors and the Non-guarantors were $ -858.2 million (or -29.5%,) $1,195.3 million (or 41.1%) and $2,571.4 million (or 88.4%), respectively.

For the fiscal year ended December 31, 2012, EBITDA of the Group attributable to our Issuer Subsidiary Guarantors, Ocean Rig 1 Inc., the owner of the Leiv Eiriksson, and Ocean Rig 2 Inc., the owner of the Eirik Raude, accounted for \$58.5 million (or 23.2%) and \$-10.2 million (or -4.1%), respectively; and the net assets of the Group attributable to them as of that date were \$596.2 million (or 20.5%) and \$591.5 million (or 20.3%), respectively.

(U.S. Dollars in thousands)	Issuer	Issuer Subs Guarantor	Non-guarantors	Ocean Rig 1 Inc./ Leiv Eiriksson	Ocean Rig 2 Inc./ Eirik Raude
	For the Year Ended December 31, 2012				
EBITDA reconciliation					
Net income	(48,535)	(27,340)	(56,461)	25,316	(51,212)
Depreciation	109	73,213	151,157	34,697	37,073
Interest and finance costs	36,555	33	79,840	15	19
Interest income	(2,256)	(3,881)	5,583	(529)	(3,352)
Income Taxes	—	6,262	37,695	(989)	7,251
EBITDA(1)	(14,127)	48,287	217,814	58,510	(10,221)

(1) EBITDA represents net income before interest, taxes, depreciation and amortization. EBITDA is a non-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 U.S. GAAP or other U.S. 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.

High Composition of Non-Guarantor Companies

As non-guarantor companies may represent in excess of 25% of the EBITDA or net assets of the group's audited consolidated financial statements, the consolidated financial information may be of limited use in assessing the financial position of the guarantors of the Senior Secured Notes.

C. Research and Development, Patents and Licenses, etc.

Not applicable.

D. Trend Information

In recent years, the international drilling market has seen an increasing trend towards deep and ultra-deepwater oil and gas exploration. As shallow water resources mature, deep and ultra-deepwater regions are expected to play an increasing role in offshore oil and gas exploration and production. According to industry sources, the industry-wide global ultra-deepwater market has seen rapid development over the last six years, with dayrates increasing from approximately $180,000 in 2004 to above $600,000 in 2008. As of February 2013, the market level is approximately $600,000. The ultra-deepwater market rig utilization rate has been stable, above 80% since 2000 and above 97% since 2006. The operating units capable of drilling in ultra-deepwater depths of greater than 7,500 feet consist mainly of fifth and sixth generation units, and also include certain older upgraded units. The in-service fleet as of February 2013 totaled 121 units, and is expected to grow to 206 units upon the scheduled delivery of the current newbuild orderbook by the end of 2020. Historically, an increase in supply has caused a decline in utilization and dayrates until drilling units are absorbed into the market. Accordingly, dayrates have been very cyclical. We believe that the largest undiscovered offshore reserves are mostly located in ultra-deepwater fields and primarily located in the "golden triangle" between West Africa, Brazil and the Gulf of Mexico, as well as in East Africa, Australia and Southeast Asia.

The location of these large offshore reserves has resulted in more than 90% of the floating drilling unit, or floater, orderbook being represented by ultra-deepwater units. Furthermore, due to increased focus on technically challenging operations and the inherent risk of developing offshore fields in ultra-deepwater, particularly in light of the Deepwater Horizon accident in the Gulf of Mexico, in which we were not involved, oil companies have already begun to show a preference for modern units more capable of drilling in these challenging environments.

E. Off-balance Sheet Arrangements

We do not have any off-balance sheet arrangements.

F. Tabular disclosure of contractual obligations

The following table sets forth our contractual obligations and their maturity dates as of December 31, 2012:

Obligations (U.S. Dollars in thousands)	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Drillships under construction (1)	1,566,876	1,179,776	387,100	-	-
Retirement Plan Benefits (2)	2,955	93	270	401	2,191
Operating leases (3)	5,014	2,774	1,818	422	-
Loan payments (4)	2,907,500	176,667	353,333	2,020,000	357,500
Interest payments (5)	747,585	163,342	339,375	201,949	42,919
Total	5,229,930	1,522,652	1,081,896	2,222,772	402,610

(1) The figure includes contracted purchase obligations only.

(2) We have three defined benefit plans for our employees managed and funded through Norwegian life insurance companies at December 31, 2012. The pension plans covered 44 employees by December 31, 2012. Pension liabilities and pension costs are calculated based on the actuarial cost method as determined by an independent third party actuary.

(3) The Company has operating leases mostly relating to premises the most significant being its offices in Stavanger, Rio de Janeiro, Jersey and Aberdeen.

(4) Includes $500 million in aggregate principal amount of 9.5% senior unsecured notes and $800 million in aggregate principal amount of 6.5% senior secured notes.

(5) Based on assumed interest rates ranging from 4.14% to 9.5%.

Recent Accounting Pronouncements:

There are no recent accounting pronouncements issued in 2012, whose adoption would have a material impact on the Company's consolidated financial statements in the current year or that are expected to have a material impact on the Company's consolidated financial statements in future years.

G. Safe Harbor

See the section entitled "Forward-looking Statements" at the beginning of this annual report.

Item 6. Directors, Senior Management and Employees

A. Directors and senior management

Set forth below are the names, ages and positions of our directors and executive officers and the principal officers of certain of our operating subsidiaries. Members of our board of directors are elected annually on a staggered basis.

Each director elected holds office for a three-year term and until his successor shall have been duly elected and qualified, except in the event of his death, resignation, removal, or the earlier termination of his term of office. Officers are appointed from time to time by our board of directors, or our relevant subsidiary, as applicable, and hold office until a successor is appointed.

Directors and executive officers of Ocean Rig UDW Inc.(1)

Name	Age	Position
George Economou	60	Chairman of the Board, President, Chief Executive Officer and Class A Director
Michael Gregos	41	Class B Director
Trygve Arnesen	55	Class C Director
Savvas D. Georghiades	62	Class C Director
Prokopios (Akis) Tsirigakis	58	Class B Director
Anthony Kandylidis	35	Executive Vice President
Gilles Bocabarteille	45	Senior Vice President of Technical and Engineering
Mark Bessell(2)	48	Senior Vice President of Operations

Principal officers of Ocean Rig UDW Inc.'s operating subsidiaries(3)

Name	Age	Position
Jan Rune Steinsland(4)	53	Chief Financial Officer

(1) Effective October 2, 2012, Pankaj Khanna resigned from his position as Chief Marketing Officer of Ocean Rig UDW Inc., which he had held since January 1, 2012.

(2) Effective March 31, 2013, Mark Bessell will resign from his position as Senior Vice President of Operations of Ocean Rig UDW Inc.

(3) Effective October 2, 2012, Frank Tollefsen resigned from his position as Chief Operating Officer and Deputy Chief Executive Officer of Ocean Rig AS, our wholly-owned subsidiary, which he had held since February 2011.

(4) Effective March 31, 2013, Jan Rune Steinsland will resign from his position as Chief Financial Officer of Ocean Rig AS, our wholly-owned subsidiary.

The business address of each of our directors and executive officers is 10 Skopa Street, Tribune House, 2nd Floor, Office 202, CY 1075, Nicosia, Cyprus.

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

George Economou was appointed as our President and Chief Executive Officer on September 2, 2010, and Chairman and director in December 2010. Mr. Economou has over 25 years of experience in the maritime industry. He has served as Chairman, President and Chief Executive Officer of DryShips Inc. since January 2005. He successfully took DryShips public in February 2005, on NASDAQ under the trading symbol "DRYS". Mr. Economou has overseen the growth of DryShips into one of the largest US-listed dry bulk companies in fleet size and revenue and one of the largest Panamax owners in the world. Mr. Economou has also served as a director of Danaos Corporation and a director and President of AllShips Inc. since 2010. Mr. Economou began his career in 1976 when he commenced working as a Superintendent Engineer in Thenamaris Ship Management in Greece. From 1981-1986 he held the position of General Manager of Oceania Maritime Agency in New York. Between 1986 and 1991 he invested and participated in the formation of numerous individual shipping companies and in 1991 he founded Cardiff Marine Inc., Group of Companies. Mr. Economou is a member of ABS Council, Intertanko Hellenic Shipping Forum, and Lloyds Register Hellenic Advisory Committee. Mr. Economou is a graduate of the Massachusetts Institute of Technology and holds both a Bachelor of Science and a Master of Science degree in Naval Architecture and Marine Engineering and a Master of Science in Shipping and Shipbuilding Management.

Michael Gregos was appointed to our board of directors in December 2010. Since March 2009, Mr. Gregos has served as the Project Manager for Dynacom Tankers Management Ltd., a position he also served in from 2001 to September 2007. From September 2007 to February 2009, Mr. Gregos was employed at OceanFreight Inc. and served as the Chief Operating Officer of OceanFreight Inc. from January 2008 to February 2009. Prior to that period, he worked for a shipping concern based in Athens and New York for five years and the Corporate Finance arm of a Greek bank for one year. He is a graduate of Queen Mary University in London and holds an M.Sc. in Shipping, Trade and Finance from City University.

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

Savvas Georghiades was appointed to our board of directors in December 2010. Mr. Georghiades has been a practicing lawyer in Cyprus since 1976. He is a graduate of the Aristotle University in Thessaloniki, Greece.

Prokopios (Akis) Tsirigakis was appointed to serve on our board of directors effective September 12, 2011. Mr. Tsirigakis serves as Chairman of the Board of Directors, President and Co-Chief Executive Officer of Nautilus Marine Acquisition Corp., a blank check company formed for the purpose of acquiring one or more operating businesses or assets. In November 2007 he founded, and until February 2011 was the President and Chief Executive Officer of, Star Bulk Carriers Corp., a dry-bulk shipping company listed on the NASDAQ Stock Market (NASDAQ: SBLK). He also served as a director of Star Bulk Carriers Corp. from November 2007 to March 2012. From November 2005 until November 2007, Mr. Tsirigakis founded and served as Chairman of the Board, Chief Executive Officer and President of Star Maritime Acquisition Corp. (AMEX: SEA). Mr. Tsirigakis is experienced in ship ownership, ship management and new shipbuilding projects. Mr. Tsirigakis formerly served on the board of directors of DryShips. Since November 2003, he served as Managing Director of Oceanbulk Maritime S.A., a dry cargo shipping company that has operated and managed vessels. From November 1998 until November 2007, Mr. Tsirigakis served as the Managing Director of Combine Marine Inc., a company which he founded and that is providing ship management services to third parties. From 1991 to 1998, Mr. Tsirigakis was the Vice-President and Technical Director of Konkar Shipping Agencies S.A. of Athens, after having served as Konkar's Technical Director from 1984 to 1991. From 1982 to 1984, Mr. Tsirigakis was the Technical Manager of Konkar's affiliate, Arkon Shipping Agencies Inc. of New York. He is a life-member of The Propeller Club of the United States, a member of the Technical Committee (CASTEC) of Intercargo, the International Association of Dry Cargo Shipowners, President of the Hellenic Technical Committee of RINA, the Italian Classification Society and member of the Technical Committees of various Classification Societies. Mr. Tsirigakis received his Masters and B.Sc. in Naval Architecture from The University of Michigan, Ann Arbor and has seagoing experience.

Anthony Kandylidis has served as our Executive Vice President since June 2012. Mr. Kandylidis started his career at OMI Corporation's commercial department. During his tenure at OMI Corporation, he gained significant experience in the tanker vessel business and held various positions with responsibilities spanning Sale and Purchase, Time Charters, FFA Trading, Corporate Finance and Strategic Planning. In the spring of 2006, Mr. Kandylidis returned to Greece where he provided consultancy services to companies affiliated with Mr. George Economou. In September of 2006, Mr. Kandylidis founded OceanFreight Inc. and he took OceanFreight Inc. public in April of 2007. In 2011 OceanFreight Inc. was absorbed by DryShips through a merger. Mr. Kandylidis graduated magna cum laude from Brown University and continued his studies at the Massachusetts Institute of Technology where he graduated with a Masters degree of Science in Ocean Systems Management. Mr. Kandylidis is the nephew of our Chairman, President and Chief Executive Officer and the Chairman, President and Chief Executive Officer of DryShips, Mr. George Economou, and the son of a director of DryShips.

Gilles Bocabarteille joined our company in August 2012 as Senior Vice President Technical and Engineering and has served as our Senior Vice President Operations and Technical since January 1, 2013. Prior to joining our company, Mr. Bocabarteille served as Vice President, Asset Management of Ensco plc, or Ensco, and, prior to its acquisition by Ensco, Pride International, Inc., or Pride International, from 2008 to 2012. Mr. Bocabarteille also served as Managing Director of Pride International from 2005 to 2008 in Brazil, Operations Manager, Rig Manager and Offshore Installation Manager of Pride International from 1999 to 2004 in Angola and Commissioning Manager of Pride International for the construction of the Pride Angola in Korea in 1999. Mr. Bocabarteille began his career with FORASOL in 1991, where he served as Country Manager, Venezuela from 1994 to 1996 and Offshore Operations Manager from 1996 to 1998. Mr. Bocabarteille received a Mechanical Engineering degree from Arts et Metiers "ENSAM" in France in 1991.

Mark Bessell has served as our Senior Vice President of Operations since April 2012. Mr. Bessell has 25 years of experience in oil and gas industry, holding various positions in the drilling contracting business. Mr. Bessell has held a diverse number of leadership positions in the North Sea, Houston, Paris, West Africa, Far East and the Mediterranean and Middle East regions. Prior to joining the Company, he spent 24 years with Transocean Ltd., where he served in various managerial roles, most recently as Managing Director, Mediterranean Division from September 2009 to March 2012. Mr. Bessell is a graduate of Montana College of Mineral Science and Technology with a B.Sc. in Petroleum Engineering.

Jan Rune Steinsland is the Chief Financial Officer of Ocean Rig AS and joined the Ocean Rig group of companies in 2006. Mr. Steinsland also serves on the board of directors of 42 of the companies in the Ocean Rig group and is the President and a director of the Issuer. Mr. Steinsland has 17 years of experience from various positions in the energy and drilling industry and eight years of experience in the finance and technology industries. From 2000 to 2006, Mr. Steinsland was Chief Financial Officer of the Oslo Børs-listed Acta Holding ASA. From 1988 to 2000, Mr. Steinsland held several management positions in Esso Norge AS/Exxon Company International, including Financial Analyst, Financial Reporting Manager, Vice President Accounting, Project Controller and Audit Advisor. Mr. Steinsland has a Master of Business Administration from the University of St. Gallen Switzerland and is a Certified European Financial Analyst (AFA) from The Norwegian Society of Financial Analysts/Norwegian School of Economics and Business Administration.

B. Compensation

The aggregate compensation paid by us to the members of our senior management was $4.06 million for the year ended December 31, 2012, consisting of $4.02 million in salary and bonus and $ 0.04 million in pension contribution and other benefits.

Our non-employee directors are each entitled to receive annual directors' fees of $20,000, such amount to be pro-rated for any portion of a full calendar year that a non-employee director is a member of our board of directors, plus reimbursement for actual expenses incurred while acting in their capacity as director. In addition, the chairmen of the committees of our board of directors receive annual fees of $10,000, such amount to be pro-rated for any portion of the full calendar year that the director is chairman of the committee, plus reimbursement for actual expenses incurred while acting in their capacity as chairman. We do not maintain a medical, dental, or retirement plan for our directors. Members of our senior management who also serve as directors do not receive additional compensation for their services as directors.

Our board of directors has adopted an equity incentive plan, pursuant to which officers, directors and employees of the Company, our subsidiaries and our affiliates and consultants and service providers to the Company, our subsidiaries and our affiliates are eligible to receive awards under the plan. See "—E. Share Ownership—2012 Equity Incentive Plan" below.

C. Board Practices

Our board of directors consists of the five directors named above. Each director elected holds office for a three-year term and until his successor shall have been duly elected and qualified, except in the event of his death, resignation, removal, or the earlier termination of his term of office. The term of office of each director is as follows: our Class A director, Mr. George Economou, serves for a term expiring at the 2014 annual general meeting of shareholders, our two Class B directors, Messrs. Michael Gregos and Prokopios (Akis) Tsirigakis, serve for a term expiring at the 2015 annual meeting of shareholders and our two Class C directors, Messrs. Trygve Arnesen and Savvas D. Georghiades, serve for a term expiring at the 2013 annual meeting of shareholders.

There are no service contracts between us or any of our subsidiaries and any of our directors providing for benefits upon termination of their employment or service.

Our board of directors has determined three of our directors to be independent under Rule 10A-3 of the Exchange Act and the rules of the NASDAQ Stock Market: Messrs. Gregos, Arnesen and Tsirigakis. Under the NASDAQ corporate governance rules, a director is not considered independent unless our board of directors affirmatively determines that the director has no direct or indirect material relationship with us or our affiliates that could reasonably be expected to interfere with the exercise of such director's independent judgment. In making this determination, our board of directors broadly considers all facts and circumstances it deems relevant from the standpoint of the director and from that of persons or organizations with which the director has an affiliation.

We have established an audit committee, a compensation committee and a nominating and corporate governance committee, in each case comprised of independent directors.

Our audit committee, among other things, reviews our external financial reporting, engages our external auditors and oversees our internal audit activities, procedures and the adequacy of our internal accounting controls. Messrs. Gregos, Arnesen and Tsirigakis serve as members of the audit committee. Mr. Tsirigakis serves as Chairman of the audit committee. The board of directors has determined that Mr. Tsirigakis qualifies as an "audit committee financial expert" as defined in Item 407 of Regulation S-K promulgated by the SEC and Form 20-F.

Our compensation committee is responsible for establishing directors and executive officers' compensation and benefits and reviewing and making recommendations to the board of directors regarding our compensation policies. Messrs. Gregos, Arnesen and Tsirigakis serve as members of the compensation committee. Mr. Gregos serves as Chairman of the compensation committee.

Our nominating and corporate governance committee is responsible for recommending to the board of directors nominees for director and directors for appointment to committees of the board of directors and advising the board of directors with regard to corporate governance practices. Shareholders may also nominate directors in accordance with procedures set forth in our second amended and restated bylaws. Messrs. Gregos, Arnesen and Tsirigakis serve as members of the nominating and corporate governance committee. Mr. Arnesen serves as Chairman of the nominating and corporate governance committee.

D. Employees

As of December 31, 2012, Ocean Rig UDW Inc. employed 10 individuals, including our Chief Executive Officer, Executive Vice President and Senior Vice President of Operations. As of December 31, 2012, the total number of employees employed by our wholly-owned management subsidiaries was approximately 1,374, of which approximately 244 were full-time crew engaged through third party crewing agencies. Of the total number of employees, approximately 144 were assigned to the Eirik Raude, approximately 154 were assigned to the Leiv Eiriksson, approximately 186 were assigned to the Ocean Rig Corcovado, approximately 205 were assigned to the Ocean Rig Olympia, approximately 202 were assigned to the Ocean Rig Poseidon and approximately 182 were assigned to the Ocean Rig Mykonos. In addition, the newbuild drillship project team, located in South Korea and Norway, employed 44 employees and 48 employees were employed in a resource pool, while the management and staff positions at the Stavanger office consisted of 139 employees. Furthermore, there were 67 employees based at our Aberdeen, Rio de Janeiro and Jersey offices and 5 employees based in other locations.

As of December 31, 2011, Ocean Rig UDW Inc. employed one individual, our Chief Executive Officer. As of December 31, 2011, our wholly-owned management subsidiaries employed approximately 1,305 employees, including shore-based support teams in Turkey and Ghana, of which approximately 337 were full-time crew engaged through third party crewing agencies. Of the total number of employees, approximately 162 were assigned to the Eirik Raude, approximately 139 were assigned to the Leiv Eiriksson, approximately 202 were assigned to the Ocean Rig Corcovado, approximately 200 were assigned to the Ocean Rig Olympia, approximately 214 were assigned to the Ocean Rig Poseidon and approximately 191 were assigned to the Ocean Rig Mykonos. In addition, the newbuild drillship project team, located in South Korea and Norway, employed 70 employees, while the management and staff positions at the Stavanger office consisted of 110 employees. Furthermore, there were 12 employees based at our Aberdeen office and five employees based in other locations.

As of December 31, 2010, our management subsidiaries employed approximately 564 employees, of which approximately 119 were full-time crew engaged through third party crewing agencies. Of the total number of employees, approximately 160 were assigned to the Eirik Raude, approximately 143 were assigned to the Leiv Eiriksson, approximately 88 were assigned to the Ocean Rig Corcovado and 49 were assigned to the Ocean Rig Olympia. These numbers include shore-based support teams in Turkey and Ghana. The newbuild drillship project team, located in Korea and Norway, employed 50 employees, while the management and staff positions at the Stavanger office consisted of 59 employees. In addition, there were four employees based at the London office and two employees based in other locations.

The increase of employees from December 31, 2010 to December 31, 2011 and 2012 is primarily due to the general growth of our business.

We did not experience any material work stoppages due to labor disagreements during 2012, 2011 or 2010.

Employment Agreements

Effective June 1, 2012, we entered into a consultancy agreement with Basset Holdings Inc., or Basset, a Marshall Islands entity beneficially owned by our Executive Vice President, Mr. Anthony Kandylidis, for the provision of the services of our Executive Vice President. The agreement has an initial term of five years and may be renewed or extended for one-year successive terms with the consent of both parties. Under the terms of the agreement, we are be obligated to pay an annual remuneration to Basset of Euro 0.9 million ($1.2 million based on the Euro/U.S. Dollar exchange rate as of December 31, 2012), plus a sign on bonus. Basset is also entitled to cash or equity-based bonuses to be awarded at our sole discretion. We may terminate the agreement for cause, as defined in the agreement, in which case Basset will not be entitled to further payments of any kind. Upon termination of the agreement by us without cause, or in the event the agreement is terminated within three months of a change of control, as defined in the agreement, we will be obligated to pay a lump sum amount. Basset may terminate the agreement without cause upon three months written notice. For the year ended December 31, 2012, the Company incurred costs of $2.5 million, including a sign on bonus of Euro 1.5 million ($1.8 million based on the Euro/U.S. Dollar exchange rate at the date that the transaction was recorded) related to this agreement.

Effective August 16, 2012, we entered into a consultancy agreement with Mr. Gilles Bocabarteille for his services as our Senior Vice President of Technical and Engineering. The agreement has an initial term of three years and may be renewed or extended for additional one-year periods upon mutual agreement of the parties. Under the agreement, Mr. Bocabarteille is entitled to a monthly base remuneration, plus equity or cash bonuses to be awarded at our sole discretion. In the event the agreement is terminated by us for cause, as defined in the agreement, or by Mr. Bocabarteille without cause, Mr. Bocabarteille will not be entitled to any further payments of any kind under the agreement. Upon termination of the agreement by us without cause, any cash or equity bonuses already granted to Bocabarteille shall vest immediately and we will be obligated to pay Mr. Bocabarteille a lump-sum amount.

Our wholly owned subsidiary, Ocean Rig ASA (which has since been reorganized into Drill Rigs Holdings), entered into an employment agreement, dated as of May 15, 2006, with Mr. Jan Rune Steinsland for his services as Chief Financial Officer, pursuant to which Mr. Steinsland receives a fixed annual salary and may receive a bonus through the management bonus plan. The agreement continues until terminated by either party on six-months' notice. In addition, Mr. Steinsland is entitled to participation in our pension scheme. As of December 1, 2008, Mr. Steinsland's employment contract was amended to transfer Mr. Steinsland's employment from Ocean Rig ASA to Ocean Rig AS pursuant to the same terms and conditions described above.

E. Share Ownership

With respect to the total amount of common shares owned by our officers and directors, individually and as a group, see "Item 7. Major Stockholders and Related Party Transactions—A. Major Shareholders."

2012 Equity Incentive Plan

On March 21, 2012, our board of directors adopted the Ocean Rig UDW Inc. 2012 Equity Incentive Plan, or the plan, the material terms of which are set forth below. Under the plan, officers, directors and employees of, and consultants and service providers to, us, our subsidiaries and our affiliates are eligible to participate. The plan provides for the award of stock options, stock appreciation rights, restricted stock, restricted stock units, phantom stock units, dividend equivalents, unrestricted stock, and other stock or cash-based awards.

Administration

The plan is administered by our compensation committee, or such other committee of our board of directors as may be designated by our board of directors. The plan administrator has the authority to, among other things, designate participants under the plan, determine the type or types of awards to be granted to a participant, determine the number of shares of common stock to be covered by awards, determine the terms and conditions applicable to awards and interpret and administer the plan.

Number of Shares of Common Stock

Subject to adjustment in the event of any distribution, recapitalization, split, merger, consolidation and the like, the number of shares of our common stock with respect to which awards may be granted under the plan is 2,000,000. Shares subject to an award that remain unissued upon the termination or cancellation of the award, restricted shares awarded under the plan that are forfeited, shares in respect of an award that are settled for cash without delivery of common stock, and shares that are tendered or withheld to satisfy the grant or exercise price or tax withholding obligation pursuant to an award under the plan, will again be available for grant under the plan. Common stock delivered under the plan consists of authorized but unissued shares or shares acquired by us in the open market, from us or from any other person or entity.

Stock Options and Stock Appreciation Rights

The plan permits the grant of options covering common stock and the grant of stock appreciation rights. A stock appreciation right is an award that, upon exercise, entitles the participant to receive the excess of the fair market value of a share of common stock on the exercise date over the base price established for the stock appreciation right. Such excess may be paid in common stock, cash, or a combination thereof, as determined by the plan administrator in its discretion. The plan administrator will be able to make grants of stock options and stock appreciation rights under the plan containing such terms as the plan administrator may determine. Stock options and stock appreciation rights may have an exercise price or base price that is no less than the fair market value of our common stock on the date of grant. In general, stock options and stock appreciation rights granted will become exercisable over a period determined by the plan administrator, but in no event will they be exercisable later than ten years from the date of grant.

Restricted Stock, Restricted Stock Units and Phantom Stock Units

Restricted stock is subject to forfeiture prior to the vesting of the award. A restricted stock unit is notional stock that entitles the grantee to receive a share of common stock following the vesting of the restricted stock unit or, in the discretion of the plan administrator, cash equivalent to the value of our common stock. The plan administrator may determine to make grants under the plan of restricted stock and restricted stock units containing such terms as the plan administrator may determine. The plan administrator will determine the period over which restricted stock and restricted stock units granted to plan participants will vest. The plan administrator may base its determination upon the achievement of specified performance goals. Phantom stock units, which represent a notional share of our common stock, may also be granted by the plan administrator under the plan, subject to vesting and forfeiture and other terms and conditions as determined by the plan administrator.

Dividend Equivalent Rights

The plan administrator may grant dividend equivalent rights under the plan, subject to such terms and conditions as determined by the plan administrator in accordance with the terms of the plan.

Unrestricted Stock

The plan administrator may grant shares of our common stock free of restrictions under the plan in respect of past services or other valid consideration.

Other Stock-Based Awards

The plan administrator may, subject to the provisions of the plan, grant other equity-based or equity-related awards in such amounts and subject to such terms and conditions as the plan administrator may determine.

Change in Control

Unless otherwise provided in the instrument evidencing the award, in the event of a change in control of Ocean Rig UDW Inc., as defined in the plan, all outstanding awards will become fully and immediately vested and exercisable.

Term, Termination and Amendment of Plan and Awards

Our board of directors may terminate, suspend or discontinue the plan at any time with respect to any award that has not yet been granted. Unless the plan is terminated earlier, no award may be granted under the plan following the tenth anniversary of the date of the plan's adoption by our board of directors. Our board of directors also has the right to alter or amend the plan or any part of the plan from time to time, subject to shareholder approval in certain circumstances as provided in the plan. The plan administrator may also modify outstanding awards granted under the plan. However, other than adjustments to outstanding awards upon the occurrence of certain unusual or nonrecurring events, generally no change in any outstanding grant may be made that would materially impair the rights or materially increase the obligations of the participant without the consent of the participant.

Awards

Our compensation committee has approved the award under the plan of 153,150 restricted common shares to our management and employees (including 77,150 shares that were subsequently forfeited), of which 28,200 shares have been issued. The remaining 47,800 shares are expected to be issued in 2013 and all 76,000 shares vest ratably over a period of three years. As of December 31, 2012, 2,500 of these shares are vested.

Item 7. Major Shareholders and Related Party Transactions

A. Major Shareholders

The following table sets forth the beneficial ownership of our common shares, as of March 20, 2013, held by:

- each person or entity that we know beneficially owns 5% or more of our common stock;
- each of our executive officers and directors; and
- all our executive officers and directors as a group.

Beneficial ownership is determined in accordance with the SEC's rules. In computing percentage ownership of each person, common shares subject to options held by that person that are currently exercisable or convertible, or exercisable or convertible within 60 days of March 20, 2013, are deemed to be beneficially owned by that person. These shares, however, are not deemed outstanding for the purpose of computing the percentage ownership of any other person. All of our shareholders, including the shareholders listed in the table below, are entitled to one vote for each common share held.

Name and Address of Beneficial Owner(1)	Number of Shares Owned	Percent of Class(2)
Executive Officers and Directors:		
George Economou(3)	5,393,289	4.1%
Michael Gregos	-	*
Trygve Arnesen	-	*

Savvas D. Georghiades	-	*
Prokopios (Akis) Tsirigakis	-	*
Anthony Kandylidis(4)	1,684,512	1.3%
Gilles Bocabarteille	-	*
Mark Bessell	-	*
Jan Rune Steinsland	-	*
Executive Officers and Directors as a Group	7,112,466	5.4%
5% Beneficial Owners:		
DryShips Inc.(5)	78,301,755	59.4%

*Less than 1.0% of our total outstanding common shares.

(1) Unless otherwise indicated, the business address of each beneficial owner identified is 10 Skopa Street, Tribune House, 2nd Floor, Office 202, CY 1075, Nicosia, Cyprus.

(2) Based on 131,725,128 common shares outstanding as of March 20, 2013.

(3) George Economou, our Chairman, President and Chief Executive Officer, may be deemed to beneficially own 5,061,430 of these shares through Sphinx Investment Corp., a Marshall Islands corporation controlled by Mr. Economou. Mr. Economou may be deemed to beneficially own 79,525 of these shares through Elios Investments Inc., a wholly owned subsidiary of the Entrepreneurial Spirit Foundation, a Lichtenstein foundation, or the Foundation, the beneficiaries of which are Mr. Economou and members of Mr. Economou's family. Mr. Economou may be deemed to beneficially own 145,128 of these shares through Entrepreneurial Spirit Holdings Inc., a Liberian corporation that is wholly owned by the Foundation. Mr. Economou may be deemed to beneficially own 105,357 of these shares through Fabiana Services S.A., a Marshall Islands corporation, of which Mr. Economou is the controlling person. Mr. Economou may be deemed to own 1,849 of these shares through Goodwill Shipping Company Limited, a Malta corporation, of which Mr. Economou is the controlling person.

(4) Anthony Kandylidis, our Executive Vice President, may be deemed to beneficially own all of these shares through Skidrow Investments Limited, a Marshall Islands corporation controlled by Mr. Kandylidis.

(5) DryShips is our parent company and a reporting company under the Exchange Act. George Economou, our Chairman, President and Chief Executive Officer, is also the Chairman, President and Chief Executive Officer of DryShips. Information with respect to DryShips and Mr. Economou and their relations to us is discussed under "B.—Related Party Transactions." The business address of DryShips Inc. is 74-76 V. Ipeirou Street, GR 15125 Amaroussion, Greece. In October 2012, DryShips pledged 7,800,000 of these shares as additional collateral under certain of its credit facilities. The terms of the share pledge expire on June 30, 2013. In March 2013, DryShips pledged 1,602,500 of these shares as additional collateral under certain of its credit facilities.

The following transactions account for the significant changes in the percentage of beneficial ownership of our common shares held by our Chairman, President and Chief Executive Officer, Mr. George Economou, and DryShips since the closing of our 2010 Private Offering in December 2010:

Following the 2010 Private Offering, our Chairman, President and Chief Executive Officer, Mr. Economou, was deemed to beneficially own 2,869,428 of our common shares, or 2.38% of our then outstanding common shares, and DryShips owned 103,125,500 of our common shares, or approximately 78.5% of our then outstanding common shares. On October 5, 2011, DryShips completed the partial spin off of us by distributing an aggregate of 2,967,396 of our common shares that DryShips held, including 105 common shares treated of fractional shares, to shareholders of DryShips, including companies affiliated with our Chairman, President and Chief Executive Officer, on a pro rata basis. DryShips also received an aggregate of 255,036 of our common shares, which were returned to DryShips by Deutsche Bank Securities Inc. in connection with the partial spin-off pursuant to a share lending arrangement between DryShips and Deutsche Bank Securities Inc. In November 2011, as partial consideration in connection with the OceanFreight merger, DryShips distributed to OceanFreight shareholders, other than entities controlled by OceanFreight's Chief Executive Officer and our Executive Vice President, Mr. Anthony Kandylidis, an aggregate of 1,541,159 of our common shares that DryShips held. Prior to the completion of the OceanFreight merger, DryShips also distributed an aggregate of 1,570,226 common shares to entities controlled by Mr. Kandylidis as partial consideration for the acquisition of all of their shares of OceanFreight, representing a majority of the then outstanding shares of OceanFreight. On April 17, 2012, DryShips completed the public offering of an aggregate of 11,500,000 of our common shares owned by DryShips. Companies affiliated with our Chairman and Chief Executive Officer purchased a total of 2,185,000 common shares from DryShips in the offering at the public offering price.

As of March 20, 2013, we had 57 shareholders of record, 37 of which were located in the United States and held an aggregate of 57,990,515 of our common shares, representing 44.0% of our outstanding shares of common stock. However, one of the U.S. shareholders of record is CEDE & CO., a nominee of The Depository Trust Company, which held 57,989,290 shares of our common stock as of March 20, 2013. Accordingly, we believe that the shares held by Cede & Co. include shares of common stock beneficially owned by both holders in the United States and non-U.S. beneficial owners.

We are not aware of any arrangements the operation of which may at a subsequent date result in our change of control.

B. Related Party Transactions

All related party transactions are subject to the review and approval of the independent members of our board of directors.

Related Party Agreements

Legal Services

Mr. Savvas D. Georghiades, a member of our board of directors, provides legal services to us and to our predecessor, Primelead Limited, through his law firm, Savvas D. Georghiades, Law Office. For the years ended December 31, 2012, 2011 and 2010, we paid fees of €41,623, €47,390 and €94,235, respectively (or $55,005, $61,365 and $124,880, respectively, based on the Euro/U.S. Dollar exchange rate at December 31, 2012, 2011 and 2010 respectively), for the legal services provided by Mr. Georghiades.

Loans and Guarantees

$562.5 million loan agreements, amended to $495.0 million (the Deutsche Bank credit facilities)

On July 18, 2010, DryShips, our parent company, entered into guarantees in connection with our Deutsche Bank credit facilities. The guarantees by DryShips covered 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. In addition, the guarantees by DryShips contained certain financial covenants measured on the DryShips financial accounts requiring the maintenance of (i) minimum market adjusted equity ratio; (ii) minimum interest coverage ratio; (iii) minimum market value adjusted net worth of DryShips and its subsidiaries; and (iv) minimum amount of free cash and cash equivalents.

On May 14, 2012, we signed amendments to the Deutsche Bank credit facilities to, among other things, remove the payment guarantee of DryShips, subject to reinstatement as discussed below, and remove the financial covenants for DryShips and the cross-default provision relating to DryShips's outstanding indebtedness for its drybulk carrier and tanker fleet. As a result of the amendments, a default by DryShips under one of its loan agreements for its drybulk carrier and tanker fleet will not result in a cross-default under the Deutsche Bank credit facilities that would provide the lenders thereunder with the right to accelerate our outstanding debt. Under the terms of the amended Deutsche Bank credit facilities, in the event of a breach by us of any of the financial covenants contained in our guarantees under the Deutsche Bank credit facilities, the unconditional and irrevocable payment guarantees of DryShips will be reinstated, pursuant to which DryShips will be obligated to pay, upon demand by the lenders, any amount outstanding under the loans upon a failure by us to pay such amount. In addition, DryShips will be required to indemnify the lenders in respect of any losses they incur in respect of any amounts due under the loans that are not recoverable from DryShips under the guarantees and that we fail to pay. The amount payable by DryShips under the guarantees will be limited to $214.0 million with respect to the facility for the Ocean Rig Poseidon and $255.0 million with respect to the facility for the Ocean Rig Mykonos, in each case plus any other amounts that become payable in connection with the payment of such amount. The guarantees will not include any financial covenants applicable to DryShips or cross-default provisions in relation to DryShips's indebtedness for its drybulk carrier and tanker fleet. See "Item 5. Operating and Financial Review and Prospects—B. Liquidity and Capital Resources—Our Debt Agreements—Existing Debt Agreements—Two $562.5 million loan agreements, amended to $495.0 million (the Deutsche Bank credit facilities)."

$800.0 million senior secured term loan agreement

Our $800.0 million senior secured term loan agreement is guaranteed by us and, prior to May 9, 2012, was also guaranteed by DryShips. Under the loan agreement, DryShips was required to 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.

On May 9, 2012, we signed an amendment under our $800.0 million secured term loan agreement to, among other things, terminate the guarantee by DryShips and remove the related covenants and remove the cross-acceleration provisions relating to DryShips's indebtedness for its drybulk carrier and tanker fleet and our indebtedness under our other credit facilities. As a result of the amendment, a default by DryShips under one of its loan agreements for its drybulk carrier and tanker fleet or a default by us under one of our other credit facilities and the acceleration of the related debt will not result in a cross-default under our $800.0 million secured term loan agreement that would provide its lenders with the right to accelerate the outstanding debt under the loan agreement. See "Item 5. Operating and Financial Review and Prospects—B. Liquidity and Capital Resources—Our Debt Agreements—Existing Debt Agreements—$800.0 million senior secured term loan agreement."

Global Services Agreement

On December 1, 2010, DryShips, our parent company, entered into a Global Services Agreement with Cardiff Marine, a company controlled by our Chairman, President and Chief Executive Officer, Mr. George Economou, effective December 21, 2010, pursuant to which DryShips 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, (i) provided consulting services related to the identification, sourcing, negotiation and arrangement of new employment for offshore assets of DryShips and its subsidiaries, including our drilling units; and (ii) identified, sourced, negotiated and arranged the sale or purchase of the offshore assets of DryShips and its subsidiaries, including our drilling units. In consideration of such services, DryShips paid Cardiff a fee of 1.0% in connection with employment arrangements and 0.75% in connection with sale and purchase activities. We did not pay for services provided in accordance with this agreement. The costs of services we received under the Global Services Agreement were 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 was deemed an equity contribution to us and is recorded as shareholders' contribution to shareholders' equity.

Except as provided below, the Global Services Agreement applied to all offshore drilling contracts we entered into after December 21, 2010, as well as the drilling contract with Cairn Energy plc, or Cairn, for the Ocean Rig Corcovado, which commenced in January 2011 and was completed in November 2011, and the drilling contracts with Vanco Cote d'Ivoire Ltd. and Vanco Ghana Ltd for the Ocean Rig Olympia, which commenced in March 2011, were novated to Tullow Ghana in December 2011 and were completed in the second quarter of 2012. The Global Services Agreement did not apply to the agreement with Petrobras Oil & Gas regarding the early termination of the drilling contract with Petrobras Oil & Gas for the Leiv Eiriksson and the replacement of the Leiv Eiriksson under the drilling contract with Petrobras Oil & Gas with the Ocean Rig Poseidon, which occurred in April 2011, the drilling contract with Cairn for the Leiv Eiriksson, which commenced in April 2011 and was completed in November 2011 and the drilling contract with Borders & Southern plc for the Leiv Eiriksson, which commenced in November 2011 and was completed in the fourth quarter of 2012.

During the years ended December 31, 2012 and 2011, we recorded expenses of a total of approximately $6.2 and $2.4 million relating to employment arrangements, respectively, and $1.0 and $4.9 million relating to sale and purchase activities, respectively. We did not record any expenses in connection with the Global Services Agreement during the year ended December 31, 2010.

Effective January 1, 2013, the Global Services Agreement was terminated by mutual agreement of the parties. Also effective January 1, 2013, Ocean Rig Management Inc., or Ocean Rig Management, our wholly-owned subsidiary, entered into a new services agreement, or the Ocean Rig Services Agreement, with Cardiff Drilling, a company controlled by our Chairman, President and Chief Executive Officer, on the same terms and conditions as the Global Services Agreement, except that under the Ocean Rig Services Agreement, Ocean Rig Management is obligated to pay directly the fees of 1.0% in consideration of employment arrangements under the agreement and $0.75% in consideration of purchase and sale activities under the agreement, whereas under the Global Services Agreement, those fees were paid by DryShips.

Consultancy Agreement

As of September 1, 2010, DryShips, our parent company, entered into an agreement, or the DryShips Consultancy Agreement, with Vivid Finance, a company controlled by our Chairman, President and Chief Executive Officer, Mr. George Economou, whereby DryShips engaged Vivid Finance to act as a consultant on financing matters for DryShips and its affiliates, subsidiaries or holding companies, including us, as directed by DryShips. Under the DryShips Consultancy Agreement, Vivid Finance provided us with consulting services relating to (i) the identification, sourcing, negotiation and arrangement of new loan and credit facilities, interest swap agreements, foreign currency contracts and forward exchange contracts; (ii) the raising of equity or debt in the public capital markets; and (iii) the renegotiation of existing loan facilities and other debt instruments. In consideration for these services, Vivid Finance was entitled to a fee of twenty basis points, or 0.20%, on the total transaction amount. We did not pay or reimburse DryShips or its affiliates for services provided to us in accordance with the DryShips Consultancy Agreement. However, we recorded expenses incurred under the DryShips Consultancy Agreement in our income statement and as a shareholder's contribution (additional paid-in capital) to capital when they were incurred. During the years ended December 31, 2012, 2011 and 2010, we recorded expenses of a total of approximately $10.8 million $5.2 million and $1.0 million, respectively, in fees from Vivid Finance with respect our financing arrangements.

Effective January 1, 2013, Ocean Rig Management, our wholly-owned subsidiary, entered into a separate consultancy agreement, or the Ocean Rig Consultancy Agreement, with Vivid Finance, on the same terms and conditions as the DryShips Consultancy Agreement, except that under the Ocean Rig Consultancy Agreement, Ocean Rig Management is obligated to pay directly the fee of 0.20% to Vivid Finance on the total transaction amount in consideration of the services provided, whereas under the DryShips Consultancy Agreement, this fee was paid by DryShips. In connection with Ocean Rig Management's entry into the Ocean Rig Consultancy Agreement, the DryShips Consultancy

Agreement was amended, effective as of January 1, 2013, to limit the scope of the services provided under the agreement to DryShips and its subsidiaries or affiliates, except for Ocean Rig UDW Inc. and its subsidiaries. In essence, post-amendment, the DryShips Consultancy Agreement is in effect for DryShips's tanker and drybulk shipping segments only.

Employment Agreements

See "Item 6. Directors, Senior Management and Employees—D. Employees—Employment Agreements."

Registration Rights Agreement

On March 20, 2012, we entered into a registration rights agreement with DryShips, pursuant to which DryShips has the right, subject to certain restrictions, to require us to register under the Securities Act a total of 97,301,755 of our common shares that it owned as of the date of the agreement. On April 17, 2012, DryShips completed the sale of 11,500,000 of our common shares that were covered by the registration rights agreement.

C. Interests of experts and counsel

Not applicable.

Item 8. Financial Information

A. Consolidated statements and other financial information

See "Item 18. Financial Statements."

Legal Proceedings

Class Action Lawsuit

On October 13, 2011, a putative shareholder class action lawsuit entitled Litwin v. OceanFreight, Inc. et al. was filed in the United States District Court for the Southern District of New York against OceanFreight, DryShips, the Company, Pelican Stockholdings Inc. and certain current and former directors of OceanFreight, or collectively, the Defendants (Case No. 1:11-cv-7218). The complaint was then amended on October 14, 2011. The plaintiff alleged violations of certain provisions of the Exchange Act and the regulations thereunder, as well as breaches of fiduciary duties owed to OceanFreight by its directors, purportedly aided and abetted by the other Defendants, in connection with OceanFreight's agreement to merge with Pelican Stockholdings Inc., a wholly-owned subsidiary of the Company.

The amended complaint sought to rescind the agreement to merge and enjoin the merger discussed above, as well as an award of actual and punitive damages. The plaintiff made a motion for a temporary restraining order and preliminary injunction to delay the OceanFreight merger, which motion was denied on November 2, 2011. The plaintiff did not appeal the denial of her motion. On January 10, 2012, she voluntarily dismissed all her claims alleged in the amended complaint, with prejudice, as to all Defendants, including the Company. The case is now closed.

Import/export Duties in Angola

The Leiv Eiriksson operated in Angola during the period from 2002 to 2007. Our manager in Angola during this period has made a legal claim in the London High Court (Commercial Court) for reimbursement of import/export duties for two export/importation events from 2002 to 2007 retroactively levied by the Angolan government. Agreement was reached between the parties to this claim for an amount of $6.1 million, which was paid by our relevant subsidiary to the claimant on May 24, 2012, in full and final settlement of the London court proceedings.

Other Legal Proceedings

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

Dividend Policy

Our long-term objective is to pay a regular dividend in support of our main objective to maximize shareholder returns. However, we have not paid any dividends in the past and we are currently focused on the development of capital intensive projects in line with our growth strategy and this focus will limit any dividend payment in the medium term. Because we are a holding company with no material assets other than the shares of our subsidiaries through which we conduct our operations, our ability to pay dividends will depend on our subsidiaries distributing their earnings and cash flow to us. In addition, under certain of our debt agreements, our ability to pay dividends to our shareholders is restricted.

Any future dividends declared will be at the discretion of our board of directors and will depend upon our financial condition, earnings and other factors, including the covenants contained in our debt agreements. See "Item 5. Operating and Financial Review and Prospects—B. Liquidity and Capital Resources—Our Debt Agreements—Existing Debt Agreements." Our ability to pay dividends is also subject to Marshall Islands law, which generally prohibits the payment of dividends other than from operating surplus or while a company is insolvent or would be rendered insolvent upon the payment of such dividend.

We believe that, under current U.S. law, any future dividend payments from our then current and accumulated earnings and profits, as determined under U.S. federal income tax principles, would constitute "qualified dividend income" and, as a consequence, non-corporate U.S. shareholders would generally be subject to the same preferential U.S. federal income tax rates applicable to long-term capital gains with respect to such dividend payments. Distributions in excess of our earnings and profits, as so calculated, will be treated first as a non-taxable return of capital to the extent of a U.S. stockholder's tax basis in its shares of common stock on a dollar-for-dollar basis and thereafter as capital gain. Please see "Item 10. Additional Information—E. Taxation" for additional information relating to the tax treatment of our dividend payments.

B. Significant Changes

See note 18 of "Item 18. Financial Statements"

Item 9. The Offer and Listing

Since October 6, 2011, the primary trading market for our common shares has been the NASDAQ Global Select Market, on which our shares are listed under the symbol "ORIG." On September 19, 2011 our common shares began "when issued" trading and on October 6, 2011 commenced "regular way" trading on the NASDAQ Global Select Market. The secondary trading market for our common stock is the Norwegian OTC Market, on which our common shares have been trading since the pricing the private offering on December 15, 2010.

The table below sets forth the high and low closing prices of our common shares for each of the periods indicated, as reported by the NASDAQ Global Select Market and the Norwegian OTC Market. The quoted prices from the Norwegian OTC Market reflect intermittent transactions that were privately negotiated. Accordingly, the quoted prices are not necessarily indicative of the share prices that would have been obtained had there been a more active market for our common shares. The trading prices for our common shares on the Norwegian OTC Market are quoted in Norwegian kroner.

For the Year Ended	Low (NASDAQ)	High (NASDAQ)	Low(1) (OTC)	High(1) (OTC)
December 31, 2010	-	-	99.00(2)	103.00(2)
December 31, 2011	$ 11.96(3)	$ 16.00(3)	72.00	125.00
December 31, 2012	$ 11.75	$ 18.17	73.00	102.00
For the Quarter Ended				
March 31, 2011	-	-	104.00	125.00