

DryShips Inc.

ACQUISITION OF REMAINING MINORITY INTEREST IN DRILLING RIG UNIT



NASDAQ: "DRYS"

July 10, 2009

Forward Looking Statements

Matters discussed in this presentation may constitute forward-looking statements. Forward-looking statements reflect the Company's current views with respect to future events and financial performance and may include statements concerning plans, objectives, goals, strategies, future events or performance, and underlying assumptions and other statements, which are other than statements of historical facts.

The forward-looking statements in this release 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 DryShips Inc. believes that these assumptions were reasonable when made, because these assumptions are inherently subject to significant uncertainties and contingencies which are difficult or impossible to predict and are beyond our control, DryShips Inc. cannot assure you that it will achieve or accomplish these expectations, beliefs or projections. Important factors that, in the Company's view, could cause actual results to differ materially from those discussed in the forward-looking statements include the strength of world economies and currencies, general market conditions, including changes in charterhire rates and vessel values, changes in demand that may affect attitudes of time charterers to scheduled and unscheduled drydocking, changes in DryShips Inc.'s operating expenses, including bunker prices, dry-docking and insurance costs, or actions taken by regulatory authorities, potential liability from pending or future litigation, domestic and international political conditions, potential disruption of shipping routes due to accidents and political events or acts by terrorists.

Risks and uncertainties are further described in reports filed by DryShips Inc. with the US Securities and Exchange Commission.



Agenda

- I Transaction Highlights**
- II About Primelead**
- III Transaction Rationale and Valuation**
- IV Industry Update**
- V Conclusion**



Transaction Highlights

- **Company will acquire remaining 25% minority interest in Primelead Shareholders Inc. from certain related and third party sellers**
- **Consideration for the acquisition:**
 1. **Cash consideration of \$50 million payable upon closing**
 2. **Mandatory Convertible Preferred Stock of face value \$280 million to be issued to the Sellers**
 - **Price per share of \$5.36 (which represents the weighted average 7-day trailing price of DRYs common stock)**
 - **Mandatorily convertible in four equal increments matching the contractual delivery dates of the four newbuilding drillships**
 - **Conversion price at a 27.5% premium to \$5.36 per share**
 - **6.75% cumulative dividend per annum in additional preferred stock**



Transaction Highlights (continued)

- **52.2 million mandatory convertible Preferred Stock based on \$5.36 per share**
- **Assuming mandatory conversion at 27.5% premium 41 million Common shares issued in four equal tranches on**
 - **December 31, 2010; March 31, 2011; July 31, 2011 & September 30, 2011**
- **Dividend in Preferred Stock payable upon mandatory conversion of principal**
 - **Mandatory conversion of dividend upon delivery of the last vessel**
 - **Assuming mandatory conversion at \$5.36 per share 5.2 million common shares will be issued**
- **The Sellers can convert at any time before mandatory at a 42.9% premium to the established share price at \$5.36 per share**
 - **If the option is exercised, 36.6 million common shares issued**
 - **Basis established price of \$5.36 per share, value of \$196 million**
 - **Assumes no dividend is paid**



About Primelead



Primelead & Ultra Deepwater Drilling

❖ Management experience

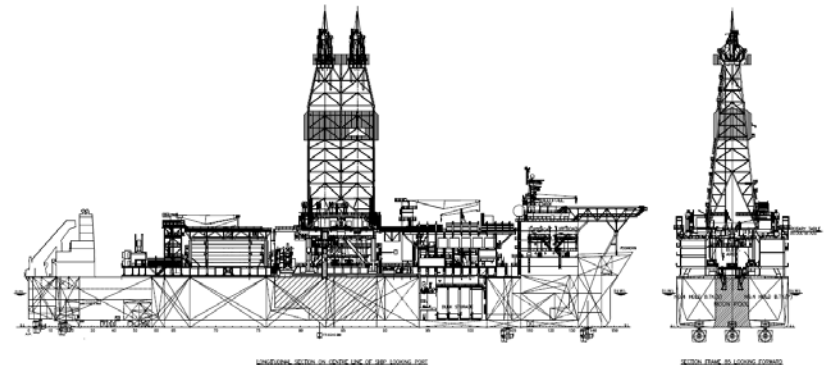
- ❖ Led by seasoned industry executives
- ❖ Technically challenging environments
- ❖ Diverse geographic spread
- ❖ Outstanding reputation with a diverse customer base

❖ Two semi-submersible drilling rigs

- ❖ Both on time charter to high quality counterparties (Shell, Petrobras, Tullow)
- ❖ \$1.3 billion revenue backlog

❖ Four newbuilding drillships on order with delivery from end-2010 to late 2011

- ❖ High specifications
- ❖ Best in class shipyard with proven track record for on time delivery
- ❖ High degree of standardization



Fleet Profile

Contracts in Place	2008E	2009E	2010E	2011E	2012E	2013E
Leiv Eiriksson	Shell 2 years		Petrobras - 3 years			
Eirik Raude	Exxon	Tullow - 3 years (Commenced October 2008)				
Private Drillship (Hull 1837)					Newbuilding Delivery	
Private Drillship (Hull 1838)					Newbuilding Delivery	
Drillship Hull 1865					Newbuilding Delivery	
Drillship Hull 1866					Newbuilding Delivery	

Semi-Submersible Rigs	Year	Current	Redelivery		Customer	Operating Area	Revenue Backlog (\$mm)
	Built	Employment	Earliest	Latest			
Leiv Eiriksson	2001	T/C	Sep – 09	Dec – 09	Shell	North Sea	\$ 70
		T/C	Sep – 12	Dec – 12	Petrobras	Black Sea	\$ 630
Eirik Raude	2002	T/C	Sep – 11	Oct – 11	Tullow	Off-shore Ghana	\$ 576
Total							\$1,276



Transaction Rationale and Valuation



Transaction Rationale

- **Capture 100% of the free cash flow from UDW drilling unit**
- **Relatively low valuation with a forward multiple of 5.1x EBITDA on first full operational year**
- **Cheaper to do it now rather than once newbuilding drillships are employed**
- **Average 1-year forward EV/EBITDA multiple of 6.0x for peer group and is expected to increase as equity markets recover**
- **Marginal cash outlay for Company**
- **Accretive to earnings & improves capital structure**
- **Affords Company flexibility for financing and IPO/spin off**
- **Aligns interests of all shareholders**



Valuation of Minority Interest

(in \$ millions)

Valuation of Minority Interest		
	<u>Par Value</u>	<u>Economic Value</u> ⁽¹⁾
Consideration:		
Cash	\$50	\$50
Preferred Stock	\$280	\$228
	<hr/>	<hr/>
Implied Value of 25% Equity Interest in Primelead	\$330	\$278

NAV Valuation		
25% of NAV of Primelead ⁽²⁾	<u>Low</u>	<u>High</u>
Pre-Charter Adjusted	\$266	\$331
Post-Charter Adjusted	\$312	\$377

(1) Assumes preferred shares and PIK shares are mandatory converted at a premium of 27.5% and sold at the conversion price of \$6.83 with proceeds discounted at cost of equity (see appendix)

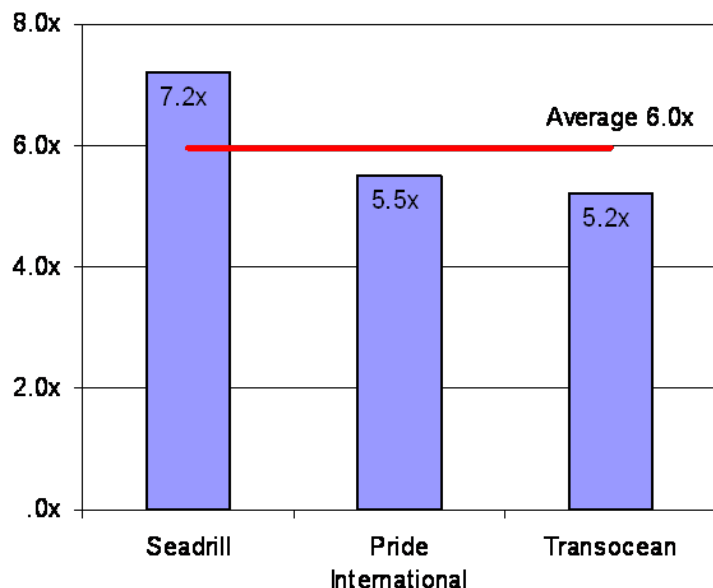
(2) See appendix for calculation



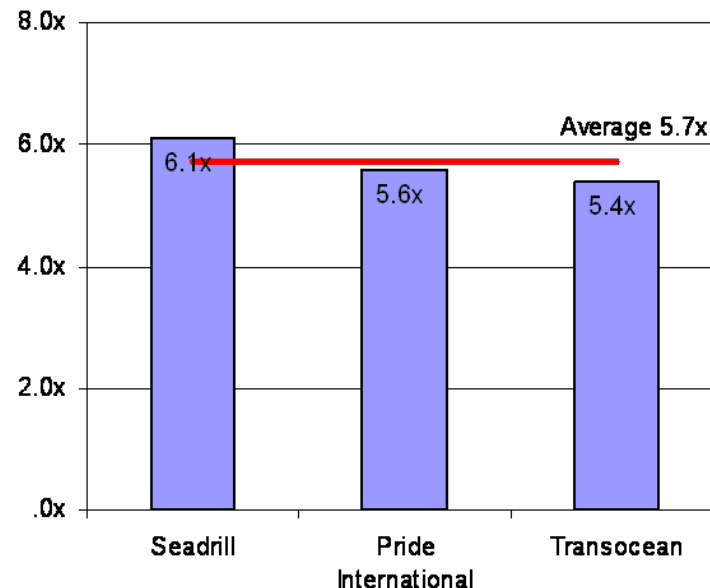
Valuation of Minority Interest (continued)

(in \$ millions)	# of Drilling Rigs	EBITDA ⁽¹⁾	Total Economic Value of 25% Interest	Implied Primelead Total Equity Value	Estimated Net Debt	Implied Enterprise Value	Transaction Multiple
Day Rate							
\$500,000	6	\$616	\$278	\$1,112	\$2,057	\$3,169	5.1x

2009E EV/EBITDA



2010E EV/EBITDA



(1) Assumes operating expenses of \$180,000 per day, G&A Expenses of \$30m for six drilling rigs, and utilization of 95%



Accretion/Dilution Analysis

(in \$ millions)

	EPS Accretion			
	2009E	2010E	2011E	2012E
Pro-Forma EPS				
Consensus GAAP Adjusted Net Income ⁽¹⁾	\$110.8	\$222.6	\$266.4	\$319.7
Weighted Average Common Shares Outstanding ⁽²⁾	208.6	254.1	254.1	254.1
Status Quo EPS	\$0.53	\$0.88	\$1.05	\$1.26
Pro-Forma EPS ⁽³⁾	\$0.59	\$0.98	\$1.12	\$1.31
EPS Accretion / (Dilution) in \$	\$0.06	\$0.10	\$0.07	\$0.05
EPS Accretion / (Dilution) in %	11.0%	11.9%	6.7%	4.1%
Debt / Total Capitalization				
Status Quo ⁽⁴⁾	48.7%	52.3%	53.6%	47.3%
Pro-Forma ⁽⁵⁾	43.2%	46.9%	48.4%	42.2%
Absolute Difference	(5.5%)	(5.3%)	(5.2%)	(5.1%)
Percentage Difference	11.3%	10.2%	9.7%	10.7%

(1) Source: Bloomberg, except for 2012E assumed by management 20% YoY

(2) Source: Company

(3) Proforma Net Income includes 25% of Primelead earnings and proforma share count assumes mandatory conversion of all preferred stock and preferred dividends at a 27.5% conversion premium. Proforma EPS does not represent GAAP EPS

(4) Debt / Debt plus Shareholder's Equity as at Year End

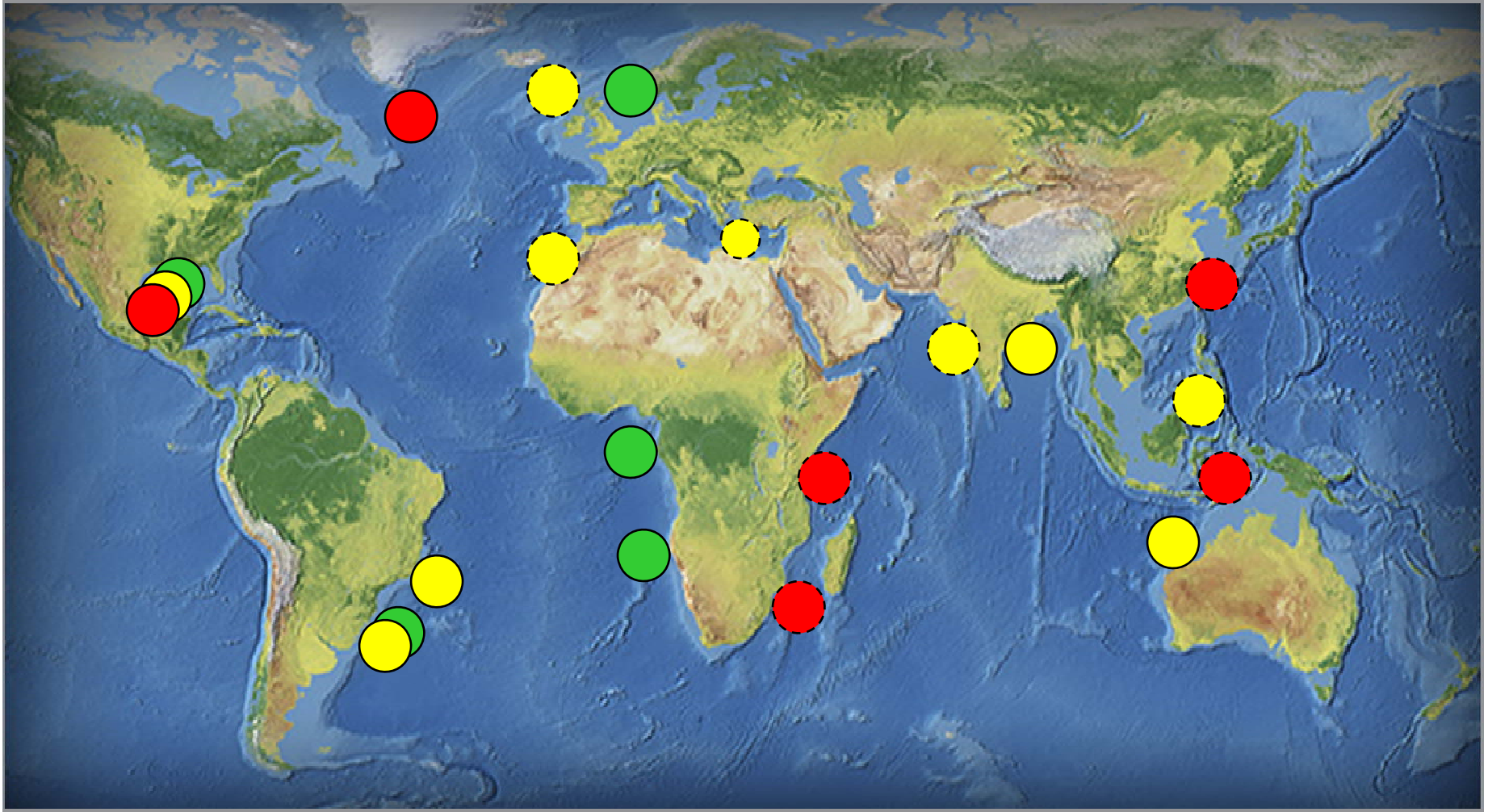
(5) Adjusted to reflect the issuance of \$280m preferred stock for this Transaction plus minority interest adjustments



Industry Update



Growing Demand From New Frontiers



Established



Developing



Frontier



Limited Availability – No Newbuilding Orders for 12 Months

Ultra deepwater rigs available before 4Q11

Rig Name	Year built	Water depth ft.	Customer/s	Country	Contract Expires	Dayrate \$/day	2009				2010				2011			
							1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
Cajun Express	2001	8,500	Shell/Chevron	USGoM	Feb-10	463												
Sedco Express	2001	7,500	BP	Angola	May-10	188												
West Gemini	2010	10,000	Available	S. Korea	Jul-10	NA												
ENSCO 7500	2000	8,000	Chevron	Australia	Aug-10	550												
Pacific Bora	2010	10,000	Available	S. Korea	Sep-10	NA												
Deepwater Horizon	2001	8,000	BP	USGoM	Oct-10	278												
Maersk Semi TBN III	2010	10,000	Available	Singapore	Dec-10	NA												
Cardiff Marine DS TBN1	2010	10,000	Available	S. Korea	Dec-10	NA												
Sedco Energy	2001	7,500	Chevron	Nigeria	Dec-10	476												
Discoverer Enterprise	1999	8,450	BP	USGoM	Feb-11	520												
Discoverer Deep Seas	2001	10,000	Chevron	USGoM	Feb-11	499												
Stena Tay	1999	8,100	Total	Nigeria	Feb-11	430												
Cardiff Marine DS TBN2	2011	10,000	Available	S. Korea	Mar-11	NA												
Pacific Scirocco	2011	10,000	Available	S. Korea	Mar-11	NA												
Petrorig 4	2011	10,000	Available	Singapore	Apr-11	NA												
Seadragon 2	2010	10,000	Available	Singapore	Apr-11	NA												
DeepSea Metro 1*	2011	10,000	Available	S. Korea	May-11	NA												
Pacific Mistral	2011	10,000	Available	S. Korea	May-11	NA												
Pacific Santa Ana	2011	10,000	Available	S. Korea	Jul-11	NA												
Dryships TBN 1	2011	10,000	Available	S. Korea	Jul-11	NA												
Dryships TBN 2	2011	10,000	Available	S. Korea	Jul-11	NA												
West Venture	2000	5,905	Statoil	Norway	Aug-11	248												
Deepwater Frontier	1999	10,000	Reliance	India	Sep-11	476												
ENSCO 8504	2011	8,500	Available	Singapore	Sep-11	NA												

Construction Contract Opt.

Source: Pareto, ODS-Petrodata

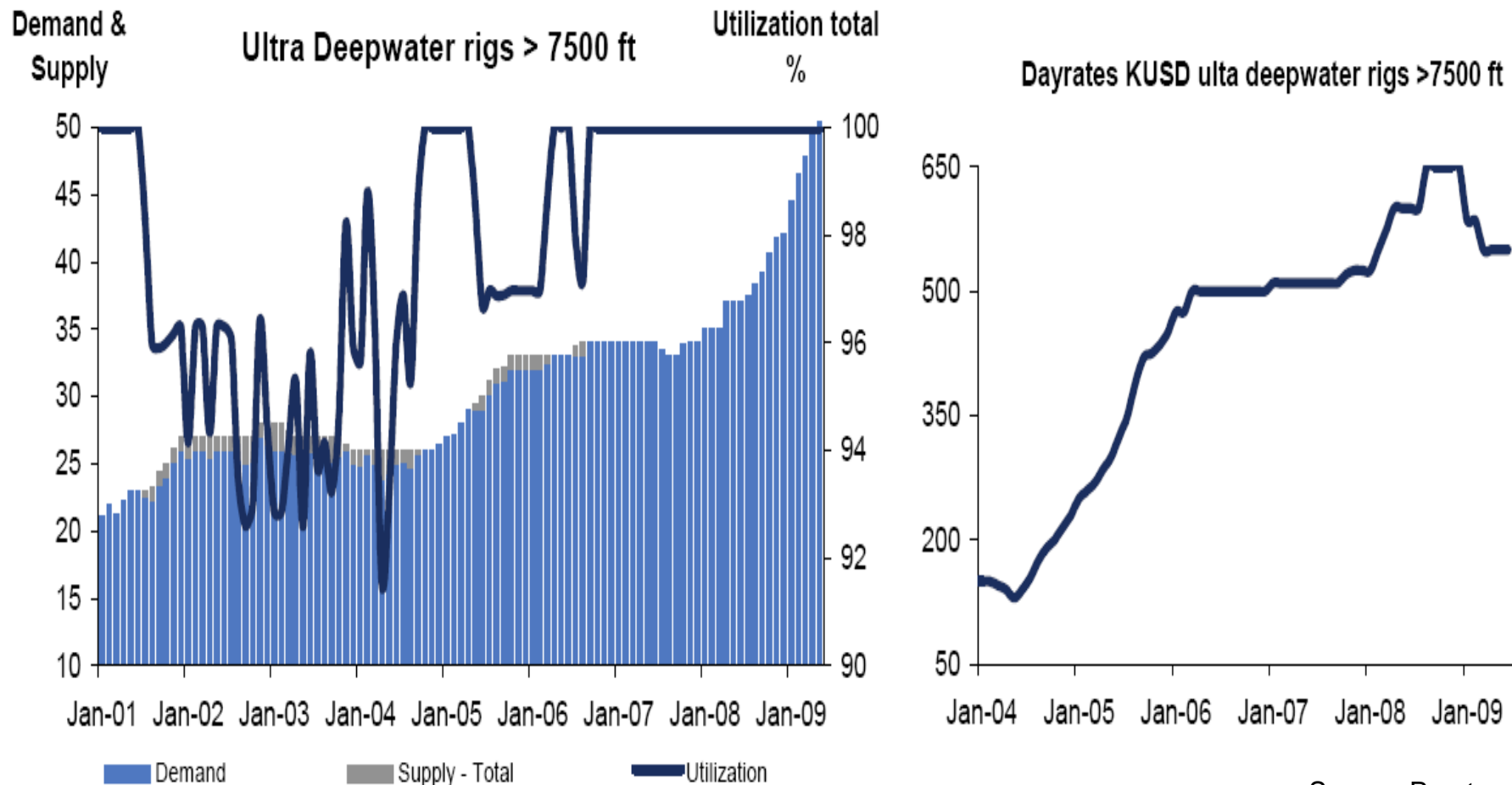
Pareto Securities - Equity Research



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Rising Enquiry → Stabilized Day Rates

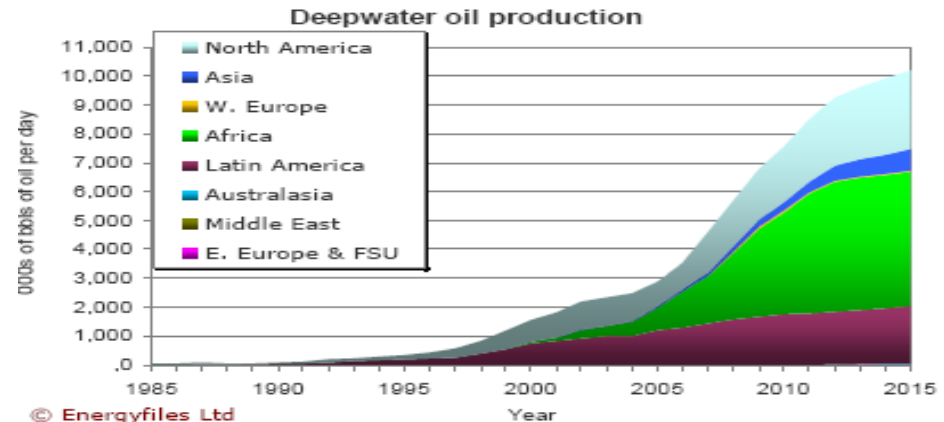


Source: Pareto

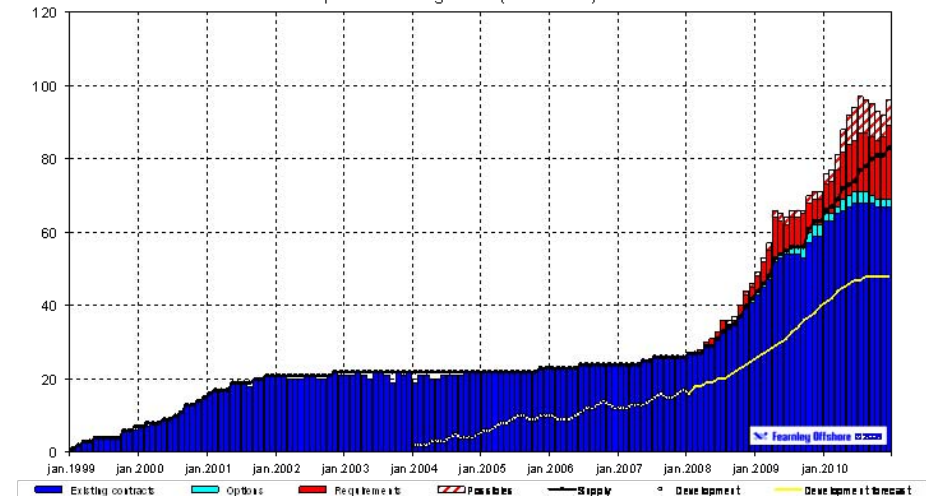


Prospects for Ultra Deepwater Drilling – Bright

- ❖ UDW is the primary source of incremental supply of oil
- ❖ Demand for UDW rigs continues to outstrip supply
 - ❖ Near term supply fully contracted
 - ❖ Increasing enquiry
 - ❖ No newbuilding orders for 12 months
 - ❖ Several existing orders in doubt due to lack of financing



Contract Status & Expected Demand 1999-2010:
Ultra Deepwater Drilling Units (>7500feet) - Worldwide



Conclusion



Conclusion

- Transaction provides DryShips the full benefit of the cash flows from the attractive ultra deepwater drilling market
- Mandatory convertible Preferred Stock limits cash outflow and allows for issuance of DryShips stock at a 27.5% premium to its current price
- Cash preserved for distressed acquisitions
- Attractive transaction multiple of EBITDA compared to peers
- Accretive to earnings & improves debt/cap ratio
- Aligns the interest of all shareholders
- Chairman and CEO, George Economou, continues his long-term commitment to DryShips



DRYS Investment Thesis

Low entry point in the commodity cycle – ride the rebound

- **Oil prices rebounding – Capex will rise to quench energy thirst**
- **Resilient growth trend in China & India**
- **Dry bulk commodity demand set to grow once recession abates**
- **EPS Impact of drillship opportunities**
- **DRYS oversold**
- **Leading consolidator – distressed opportunities**



APPENDICES



Primelead NAV Summary

Primelead Net Asset Value Summary

(\$ in millions)	Low		High
Current Market Value of Rig Fleet	\$4,070	-	\$4,330
Charter Adjusted Current Market Value of Rig Fleet	\$4,252	-	\$4,512
Net Debt		(853)	
Newbuilding and Other Liabilities		(2,152)	
Net Asset Value (Pre-Charter Adjustment)	\$1,064	-	\$1,324
Net Asset Value (Post-Charter Adjustment)	\$1,246	-	\$1,506
25% of Net Asset Value (Pre-Charter Adjustment)	\$266	-	\$331
25% of Net Asset Value (Post-Charter Adjustment)	\$312	-	\$377

Source: Company



NPV of Mandatory Conversion of Preferred Stock

Net Present Value of Mandatory Conversion of Preferred Stock (Intrinsic Value)

Value of PS	280,000,000
Dividends	6.75%
PS price per share	5.36
Conversion Premium	1.275
CS price per share	6.834
Shares of PS at issuance	52,238,806
CS equivalent shares	40,971,613
Assumed CS price at conversion	6.834

	<u>1H2009</u>	<u>1Q2010</u>	<u>2Q2010</u>	<u>3Q2010</u>	<u>4Q2010</u>	<u>1Q2011</u>	<u>2Q2011</u>	<u>3Q2011</u>	<u>4Q2011</u>
Common Shares, Beginning	-	-	-	-	-	10,242,903	20,485,806	30,728,709	46,200,137
Add: Conversion into CS (25%)	-	-	-	-	10,242,903	10,242,903	10,242,903	10,242,903	-
Add: Conversion into CS (PIK dividends)	-	-	-	-	-	-	-	5,228,525	-
Common Shares, End	-	-	-	-	10,242,903	20,485,806	30,728,709	46,200,137	46,200,137
Value of Common Shares:	-	-	-	-	69,999,999	69,999,999	69,999,999	105,731,739	-
NPV of Convertible Preferred Stock	228,292,207								



Visit our website at www.dryships.com

Investor Relations / Media:

Nicolas Bornozis

Capital Link, Inc. (New York)

Tel. 212-661-7566

E-mail: nbornozis@capitallink.com

