

FINAL TRANSCRIPT

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ESV - Q3 2008 Ensco International Earnings Conference Call

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PRESENTATION

Operator

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Good day, everyone and welcome to the ENSCO International third quarter of 2008 earnings conference call. As a reminder, this call is being recorded and your participation constitutes consent to its taping.

I will now turn this conference over to Mr. Richard LeBlanc, Vice President of Investor Relations, who will moderate the call. Please go ahead, sir.

Richard LeBlanc - *EnSCO International - VP IR*

Thank you, Deanna. I'd like to welcome everyone to our third quarter conference call. With me in Dallas are Dan Rabun, our Chief Executive Officer, Bill Chadwick, our Chief Operating Officer, Jay Swent, our Chief Financial Officer, as well as other members of our executive management team. This morning we released our earnings announcement, we filed our 8K with the SEC, we also expect to file our 10-Q later today. The earnings release is available on our website, www.EnSCOInternational.com.

As usual, we'll keep our calls about an hour. Jay will first provide a financial overview, then Dan will discuss our markets and operations. I'd like to remind everyone that any comments we make today about our expectations of future events are forward-looking statements pursuant to the Private Securities Litigation Reform Act of 1995. All such statements are subject to risks and uncertainties and many factors could cause actual results to differ materially. We refer to our earnings release and SEC filings available on our website which define such forward-looking statements, state that the company undertakes no duty to update any such statements and lists risk factors which could cause actual results to differ materially from our expectations. I'd also like to remind everyone that with regard to our rig status, a detailed listing is provided on our Website as is updated the middle of each month when we file our 8K with the SEC. The last update was as of mid October. At the end of our prepared remarks we will have time for questions. At this time, let me turn it over to Jay.

Jay Swent - *EnSCO International - SVP, CFO*

Thank you, Richard. Good morning and thank you all for joining us. Today's call is a bit unusual for us because I will be describing a businesses usual third quarter, and what we believe will be largely a business as usual fourth quarter, while at the same time, recognizing that we're in a period of unprecedented economic uncertainty. I'll review the current business details and conclude with some comments about how we are financially positioned for 2009. Dan will then review his thoughts about the current and future business climate. So let's get started.

We're pleased to report another solid quarter despite some weather-related and nonoperating issues that adversely impacted results. I'll talk more about these items in just a moment. Income from continuing operations increased 16% from prior-year levels to \$301.2 million, and earnings per share from continuing operations were up 20% to \$2.13. Our year-over-year operating improvement reflects higher average day rates for our jackups across all regions and for the EnSCO 7500 semisubmersible rig as well as higher utilization for our North and South America and Europe jackup fleets. We reported a \$0.13 per share loss from discontinued operations during the quarter. This relates to the loss of ENSCO 74 as a result of hurricane Ike in September. The rig has not been located and has been assumed to be a total loss for insurance purposes. We recorded a \$23.5 million net loss on disposal of the rig, offset in part by a \$4.6 million net income that the rig earned during the quarter prior to its loss. In connection with the loss, we expect to receive insurance proceeds of \$50 million sometime during the fourth quarter. This matter is detailed more fully in our SEC Form 10-Q that is being filed today.

The US dollar appreciated against the Singapore currency during the third quarter, which resulted in approximately \$10 million of exchange losses related to our Singapore dollar denominated investments. These investments are being held to fund a portion of our deepwater rig construction obligations that are denominated in Singapore dollars. Exchange gains or losses incurred on these investments will be offset in the future by a corresponding increase or decrease in the US dollar cost of these rigs. During the quarter, we repurchased 2.2 million shares at a total cost of \$148 million for an average price of \$68.20 per share. Since inception of our share repurchase program, on March 2006, we have repurchased 16.5 million shares, at a cost of \$938

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million, or an average price of \$56.79 per share. At this time, we have \$562 million remaining under our total \$1.5 billion share repurchase authorization.

Now, let's look more closely at third quarter specifics. Here we will compare third quarter 2008 sequentially to second quarter 2008 and these comparisons will exclude ENSCO 74 for both periods. Third quarter revenue increased by approximately 2% from second quarter levels, less than the 5% growth we had predicted. Third quarter revenue was adversely impacted by approximately \$16 million of revenue that was deferred to future quarters as a result of two rigs waiting on weather prior to commencement of new contracts in New Zealand and by 18 days of repair downtime and mobilization on EnSCO 7500. Contract drilling expense decreased by about 8% in the third quarter to \$193.4 million. As indicated on our last conference call, the second quarter included an unusual level of rig inspection and repair costs related to our Asia-Pacific jackup rig fleet. These expenses returned to more normal levels during the third quarter resulting in a contract drilling expense decline. The quarter over quarter decline was greater than expected, because other jackup rig fleet repairs planned for the third quarter were not completed and had slipped into the fourth quarter.

G&A expense increased by approximately \$1.5 million compared to the second quarter, due to an increase in outside legal and professional fees, and costs associated with our corporate branding initiative. Our third quarter effective tax rate was 19%, consistent with the second quarter, and in line with our earlier guidance. Our cash generation and complete remain strong during the third quarter. We generated \$349 million from operating activities of continuing operations. We utilized this amount plus cash on hand to fund \$239 million of capital expenditures, most of which related to our deepwater fleet expansion and to repurchase \$148 million of stock.

Now, let's look more specifically at third quarter results in each of our major geographic markets. The average day rate for our Asia-Pacific jackups was \$157,000, a 3% increase compared to the second quarter. As we realized day rate increases from contract rollovers or contractual cost escalations on approximately half of our Asia-Pacific fleet. Asia-Pacific jackup rig utilization was 96%, an increase from 91% last quarter, as several rigs returned to work after undergoing repairs or inspections during the second quarter. The average day rate for our Europe Africa jackup fleet increased to \$226,100 from \$217,700 in the second quarter. This was primarily due to application of contractual cost escalation provisions and EnSCO 71 rolling off the legacy contract to a new contract at nearly double the day rate in early August. Utilization in our Europe Africa fleet was 96% in the quarter, with little change from the 97% second quarter level.

Day rates for our North and South America jackup rigs increased 14% to an average of \$108,200 in the third quarter compared to \$94,800 in the second quarter. North South America jackup rig utilization was slightly lower in the third quarter, 98% compared to 100% in the second quarter, as EnSCO 82 was idle for approximately three weeks during hurricane soap. EnSCO 7500 worked during the third quarter at an average day rate of \$362,000 per day generally in line with the second quarter. Utilization decreased 87% in the third quarter from 98%, due to downtime associated with BOP repairs.

Let's now turn to the outlook for the fourth quarter 2008. We currently expect fourth quarter revenue to be down approximately 3% from third quarter levels. ENSCO 7500 will be mobilizing to its new contract in Australia during the entire fourth quarter, and even though we will receive day rate at the old contract rate, we will defer revenue of almost \$33 million in the fourth quarter until the rig commences operations early next year. In addition, ENSCO 53 will be in a shipyard for upgrade and life extension during most of the quarter. Partially offsetting these items, ENSCO 107 was finally able to establish location just last week and commenced a new contract after 74 days of waiting on weather. We anticipate fourth quarter contract drilling expense will increase by about 4% from third quarter levels as we complete repair and maintenance projects that were not completed during the third quarter. Depreciation expense is expected to increase slightly to \$50 million in the fourth quarter, and we expect our effective tax rate to be approximately 18%, slightly below our third quarter rate of 19%.

A couple of comments on 2008 CapEx. 2008 capital spending should be approximately \$820 million, \$670 million of this amount represents interim payments on our six new deepwater rigs now under construction and the recently delivered ENSCO 8500. We also expect to spend about \$40 million for rig enhancement projects and \$110 million for sustaining projects. This is an increase of \$95 million versus last quarter, and primarily represents the initial payment for EnSCO 8506, which was ordered on

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August 15th, 2008. Total capital expenditures at the end of the quarter were \$654 million, leaving \$166 million for the balance of the year. We're in the process of finalizing our 2009 budget, and currently expect CapEx will drop to \$720 million in 2009. We expect to spend approximately \$490 million on deepwater construction, \$120 million on enhancement projects, and \$110 million for sustaining projects. This includes provisional funds to prepare a number of rigs for international service, but we will only make these expenditures if we are rewarded new international contracts.

So given the current economic uncertainties, I would like to conclude with a few comments about our financial position. We ended the third quarter with more cash than debt, \$486 million of cash and short-term investments at the end of the third quarter, versus \$300 million of debt. Half of this debt is not due until 2027, and our repayments on the bam are less than \$20 million annually. We expect to end the year with a very strong strong cash position based on our current outlook and the contemplated receipt of \$50 million related to the ENSCO 74 loss. In addition, we have an undrawn \$350 million revolving credit facility. We have not repurchased any shares during the fourth quarter, and you should not read anymore into this other than an abundance of caution on our part. We are currently evaluating how best to manage our cash balances in these unprecedented times, so for the time being, we will probably deemphasize share repurchases. We have approximately 95% contract coverage for our projected fourth quarter revenue, and our expense levels are relatively firm at this point, so our 2008 outlook seems to be in good shape.

Looking at our backlog for 2009 and beyond, 85% of our customers are investment grade companies or national oil companies with a strong incentive to drill. We expect about 15% of our 2009 revenue to come from the Gulf of Mexico's jackup market, so our geographic exposure is reasonably well-balanced. As noted in our latest rig status report, we recently signed some term contracts in the Gulf of Mexico, and customers continue to approach us regarding term work there. With these comments, I'll now turn the call over to

Dan Rabun - *Ensco International - CEO, President*

Thank you, Jay, and good morning everyone. I'm going to depart from our normal earnings call format and begin by addressing matters we believe that are at the top of everyone's and I understand it. We believe Ensco's well-positioned to maneuver through the many challenges facing all global businesses. Ensco historic lip has been fiscally conservative in good times and in bad. We've always believed that a strong balance sheet is especially critical in a cyclical industry such as ours. As Jay highlighted in his remarks, we have more cash than debt and our cash generation from our existing backlog remains strong. We believe our financial position allows us to manage through the current capital market situation and to take advantage of any opportunities that may arise as a result of existing and future market conditions. We have been using internally generated funds to grow our deepwater fleet, while at the same time maintaining one of the industry's least-levered balance sheets.

We have been discussing drilling programs with our customers. Much of the discussion about changes to drilling programs centered on reductions in US onshore gas-related activities. As of today, we have not seen much impact on the offshore market and customers in international markets continue to discuss increases in spending for 2009. Much of the incremental demand is from national oil companies at strategic comparative to drill that mega majors are challenged to grow production and they continue to pursue major multiyear projects that are predicated on lower commodity prices than we are experiencing today. We would expect some of the small independents, however, may defer programs as they tend to be more dependent on cash flow and our leverage. But that is likely to impact mostly short-term programs. While we're encouraged by the dialog with our customers, we continue to remain vigilant and understand our outlook and programs may change and we may be required to respond accordingly.

In some markets, such as the Gulf of Mexico, we have seen an increase in premium jackup day rates and term work which appears to be driven more by the lack of premium drill rigs and not affected by current commodity prices. I'd like to point out that the long-term fundamentals that have been driving the oil market for the last several years have not changed that dramatically in the last few months. We have seen some reductions in demand for oil and reasonably would expect additional reductions in demand if the global economic cycle continues to slow. All of the forecasts that we've reviewed still point to a diminishing

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supply of hydrocarbons over the longer term which can only be addressed by increased drilling activity. However, we clearly recognize the long-term fundamentals may be disruptive in the short term by trouble in the world capital markets. We are being very proactive monitoring our customers and suppliers to determine any effects the current environment may have on their business.

With regard to new industry entrants and speculative new building, a number of these new companies were built on the premise of easy access to capital and this clearly is not the current environment. If this environment persists for an extended period of time, we would expect that a number of these assets will not be built, or if built, would end up in the hands of drilling contractors with less exposure to leverage. I know this subject will likely draw a number of questions. And all we can say at this point is that there are a number of rigs being marketed and it remains too early to make any predictions. Now, let's review our operations and market reports. I'll refer you to our monthly contract status report filed eight days ago with specific rig details.

Starting with the eastern hemisphere and Southeast Asia, Pacific Rim area, numerous contracts have been awarded and multiple new requirements are outstanding. In some cases, industry new build jackups had to discount day rates to get work. But that has not significantly impacted the market to date. We still see opportunities to command leading edge rates for our high spec units, as most operators see contractors with proven safety records and equipment as an advantage. The EnSCO fleet is fully contracted through 2008 with the exception of EnSCO 56, upon completion of its drilling program in New Zealand late this year, we plan to mobilize the rig to a shipyard for delayed repairs. We are actively marketing ENSCO 56 and are in the process of finalizing contracts for follow-on work for several of our other Asia-Pacific rigs after contracts are completed in 2009.

In the Middle East, several tenders are outstanding for term work in Saudi Arabia, UAE, India, and Qatar with the exception of ENSCO 53 entering a shipyard for upgrade and life extension and ongoing customer discussions for following work for ENSCO 50 our Middle East jackup rig with anticipated contract extensions is well-committed through 2009. In the North Sea, there's continuing strong interest in demand for jackups in 2009 and beyond, especially for standard duty rigs in the UK and Dutch sectors. The ENSCO jackup fleet has only limited availability in the second half of 2009 with a number of options still to be declared. The heavy-duty jackup market remains firm and we expect our high spec rigs will be contracted through 2009. We are encouraged by the level of additional inquiries for work in the Mediterranean. We have two jackups committed to this market with good prospects for continued work.

Turning to the western hemisphere, the US Gulf of Mexico jackup market has recently shown improvement. Operators are contracting premium jackups for extended terms, because of the substantial decrease in the size of the jackup fleet in recent years. Following the recent loss of two premium jackups, three if you count the diamond rig which is now serving in a support role due to the damage from hurricane Ike and the departure of two rigs, offset by one new-built entry, there are only 20 premium independent cantilever rigs in the US Gulf of Mexico. We expect the market will remain firm with the likelihood that additional premium jackups will move to Mexico, Venezuela or Brazil. We have been adding backlog and as evidenced in our recent contract status report, day rates have increased. With regard to PEMEX, we were the low bidder on the recent tender for two jackups. We have been informed by PEMEX that we can expect to hear the results of that tender very shortly. PEMEX was recently out with another tender for four jackups and a deepwater rig but that request was withdrawn the same day. PEMEX representatives informed us they need to work internal processes and they will retender for these rigs in the next few weeks. They've also informed us that their current intent is to tender for more incremental rigs later in the year.

Now let's turn to the deepwater market. We're encouraged by the level of dialog with customers for our three available new-built rigs. We continue to see an increase in deepwater discovery being made in Brazil, West Africa, India, Malaysia, Australia, and the US Gulf of Mexico. As mentioned earlier, the current worldwide liquidity situation is beginning to impact speculative rig contractors. Industry speculation indicates some operators may now need to seek alternative assets as some of the speculative new built rigs are cancelled or delayed. We have not seen any drawback in programs as a result of the current commodity price environment we'll continue to closely monitor developments. We continue to make good progress on our deepwater new-built program underway in Singapore, ENSCO 8500, the first in a series of seven ultra-deepwater semisubmersibles departed Singapore on September 23rd and is expected to arrive in the Gulf of Mexico in mid December when it will undergo deepwater sea trials and final outfitting. We expect that drilling operations will commence in mid-February 2009.

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ENSCO 8501 is progressing well and we anticipate delivery in the second quarter of 2009. The rig will then mobilize for the US Gulf of Mexico and operations are expected to commence in the third quarter. On ENSCO for 8502 were successfully joined and removed from dry dock last week and ENSCO 8503 continues on track with plans for pontoon launching in April 2009. Jay gave some color into our 2009 outlook. Our deepwater investments will begin to make a meaningful contribution in 2009. ENSCO 7500 will commence her new contract in Australia at a day rate of \$550,000 per day, with the revenue deferred during mobilization, the actual recognized revenue from this contract will exceed \$600,000 per day. In addition, we expect both ENSCO 8500 and ENSCO 8501 will be on the payroll in 2009 adding to our financial results. Our global diversification of assets continues to serve us well in some markets experiencing flat day rates we see other markets experiencing growth.

In closing, as we have stated, the current business environment will be challenging for all global businesses, but we believe EnSCO is well-positioned. We will continue to be conservative in our business approach and should market conditions worsen, we can and will adjust business operations accordingly. If strategic opportunities arise, we believe we have the financial flexibility to respond. However, we will continue to preserve our conservative balance sheet. In addition, we have excellent growth expectations with our deepwater fleet expansion which may counter any market softness elsewhere. Before opening the call to questions, I want to acknowledge our newest addition to our senior management team, Cary Lowe joined the company in August 2008 as Senior Vice President. His responsibilities include safety, health and environmental matters, capital projects, engineering and strategic planning. Prior to joining the company, Cary served in various capacities at Occidental Oil and Gas, Sinco Forex and Schlumberger oil field services. We look forward to his contributions.

Jay and I are available now to answer your questions, additionally, several other members of management are also available to answer questions regarding their respective areas. Richard, I'll now turn the call back to you.

Richard LeBlanc - *EnSCO International - VP IR*

Deanna, we're happy to take questions at this time.

QUESTIONS AND ANSWERS

Operator

Thank you, sir. (OPERATOR INSTRUCTIONS). We'll take our first question from Dan Boyd with Goldman Sachs.

Dan Boyd - *Goldman Sachs - Analyst*

Hi thanks. Dan, throughout your comments, you did mention the challenges that you see there out there for the market globally, but then when we went around each market, every single market for every single asset type seemed very bullish. Can you help me reconcile where you're seeing the challenges or where you might expect the market to weaken should oil prices hold at these levels or lower?

Dan Rabun - *EnSCO International - CEO, President*

Dan, that's the -- I think Jay said it, when he started his remarks. When we look at our business and we talk to our customers, we just got from a two-week trip around the world talking to our customers, there just seems to be a complete disconnected between the health of the business and what's going on in the marketplace. So, our market reports are pretty bullish because quite frankly that's the where our customers continue to be bullish on their programs. So it's -- you know --

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Dan Boyd - *Goldman Sachs - Analyst*

I guess, so with that outlook, and given the dislocation that really, I guess, you're implying is really in the stock price, you think this is a point where you would get more aggressive than at buying back shares unless the only reason why you're really stopping the share repurchase is so that you can be opportunistic in potentially making acquisitions down the road.

Dan Rabun - *EnSCO International - CEO, President*

Dan, there's two points. One, there were probably several people in our last conference call that aren't on the conference call today because the financial institutions they work for don't exist any longer, there are other folks carrying different business cards than they were last quarter. We are dealing with some fairly unprecedented financial times so I think it is an opportunity to be a little conservative. That having been said, there are a lot of opportunities, so we are going to try to be opportunistic as well.

Dan Boyd - *Goldman Sachs - Analyst*

Could you help us understand some of the opportunities that make more sense for EnSCO? From what I understand, JV's might not make more sense, doesn't seem that drill ships really don't sit in your portfolio. Is it something where you would want to go in and take over existing rigs being built or do you prefer to hopefully see those cancel and take over the shipyard slot?

Dan Rabun - *EnSCO International - CEO, President*

Dan, you know, we've said that we're going to be real aggressive in building out our deepwater assets. I think any opportunities that come up in that area we'd like at that look at.

Dan Boyd - *Goldman Sachs - Analyst*

Okay. Thanks. Appreciate the help.

Operator

We'll move on to Ian Macpherson with Simmons & Co.

Ian Macpherson - *Simmons & Co - Analyst*

Dan, just a follow-up on that question regarding tons for using your cash. If you're, I guess, more cautious with buying back your own stock down here, it's below half the average price of what you bought in the third quarter, are there external investments that would compete with that opportunity to buy your stock at 33, for example? There are a number of opportunities to reinvest in the business right now that didn't exist a month ago.

Dan Rabun - *EnSCO International - CEO, President*

Okay.

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Ian Macpherson - *Simmons & Co - Analyst*

That are very attractive. Okay. I guess changing over to PEMEX, I just wanted to clarify, did you say which rig was announced the low bidder on the recent award?

Jay Swent - *EnSCO International - SVP, CFO*

89 and 93 were the low bidders.

Dan Rabun - *EnSCO International - CEO, President*

Right, and it was what, 160 --

Jay Swent - *EnSCO International - SVP, CFO*

What did we bid? A little north of 160, and 155.

Ian Macpherson - *Simmons & Co - Analyst*

Both of those rigs will be going to Mexico?

Jay Swent - *EnSCO International - SVP, CFO*

Correct.

Ian Macpherson - *Simmons & Co - Analyst*

Okay.

Jay Swent - *EnSCO International - SVP, CFO*

Assuming the awards.

Ian Macpherson - *Simmons & Co - Analyst*

Okay. And then you said that I expect the recently retracted tender to reemerge in the weeks to come as well as further incremental rigs beyond that later this year, is that correct?

Dan Rabun - *EnSCO International - CEO, President*

Yes, that's what PEMEX has advised us. They had kind of a technical glitch putting out the tender, retracting it the same day, internal technical process.

Ian Macpherson - *Simmons & Co - Analyst*

Do you know how many rigs they're talking about in the second one?

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Dan Rabun - *EnSCO International - CEO, President*

Are you talking about the one that they just pulled?

Ian Macpherson - *Simmons & Co - Analyst*

The one that you expect to follow after that.

Dan Rabun - *EnSCO International - CEO, President*

We think it's going to be four additional jackups, 300-footers.

Ian Macpherson - *Simmons & Co - Analyst*

Okay. To replace mat rigs or incremental to their aggregate fleet, do you know?

Dan Rabun - *EnSCO International - CEO, President*

The 300-footers would not replace the mat rigs because there aren't any 300-foot mats down there, except possibly one, I'm not sure so it would be incremental.

Ian Macpherson - *Simmons & Co - Analyst*

Thank you very much.

Operator

We'll move on to Arun Jayaram with Credit Suisse.

Arun Jayaram - *Credit Suisse - Analyst*

On the EnSCO 8500, you have a \$20 million lump sum payment. I wanted to understand what the timing of that was and how you account for that \$20 million payment?

Jay Swent - *EnSCO International - SVP, CFO*

Well, the accounting would get deferred over the life of the contract like any other deferrals. The timing on payment is sometime during the fourth quarter. So even though we'll get the cash early, the recognition will be over a long period of time.

Arun Jayaram - *Credit Suisse - Analyst*

Okay. Second question, guys, in the most recent ODS, offshore rig monthly, they put out some commentary looking at each individual market, and they cited a 15-rig jackup excess in the Asia-Pacific market. So obviously I want to get your comments on that, because that's a pretty big market for you guys.

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Dan Rabun - *EnSCO International - CEO, President*

You're talking about including the new builds coming in?

Arun Jayaram - *Credit Suisse - Analyst*

They don't specify, but I think that would be inclusive of those new builds.

Dan Rabun - *EnSCO International - CEO, President*

We've said for some time that the one market that had some exposure would be the Southeast Asia market where all those rigs are being built. You are seeing those rigs marketed elsewhere, the Middle East and Africa, and other markets. So I think that trend will continue. And I don't think ODS -- I don't know that that has changed that much from their prior forecast. I think they always have expected maybe some surplus in that market.

Arun Jayaram - *Credit Suisse - Analyst*

Are you seeing any negative pricing points in that market, or some of your competitors getting a little more aggressive on pricing given the change in the marketplace?

Dan Rabun - *EnSCO International - CEO, President*

No, what we've seen, we've seen some of the new build guys discounting some work to be able to get work because that's what they have to do to get the work. It really hasn't affected us. Rates are clearly not going north, they're certainly flattened out, if you will. But we have a lot of opportunities out there. We look at the opportunities that we have up there, there's quite a few projects, I think, now that we're tendering our rigs into.

Arun Jayaram - *Credit Suisse - Analyst*

Where would you put, Dan, for a 300-foot premium jackup, something like the ENSCO 56, what is the range of opportunities in terms of day rate that you're seeing in that market?

Jay Swent - *EnSCO International - SVP, CFO*

That's always difficult because of tax rates out there. Because rates really vary pretty widely. I think fairly consistently we're -- down in New Zealand right now, that's had pretty high rate. Bill, what would you say?

Bill Chadwick - *EnSCO International - EVP, COO*

Excluding the freedom for Australia and New Zealand, I think rates are somewhere in the 165, 185 range.

Arun Jayaram - *Credit Suisse - Analyst*

Okay. So you obviously haven't seen any -- a big claim if that's the rates that you're seeing. No, the ODS data you're looking at, I haven't looked at it closely the Willco rigs, three of those are starting to go up to China, I don't know if that was contemplated in that data. Okay. I'll set it, we can talk perhaps offline.

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Operator

We'll move on to Tom Curran with Wachovia Capital Markets.

Tom Curran - Wachovia - Analyst

Good morning, fellows.

Dan Rabun - EnSCO International - CEO, President

Good morning, Tom.

Tom Curran - Wachovia - Analyst

Dan, you had just mentioned that there are a number of attractive opportunities to reinvest in the business that didn't exist just a short time ago. I was hoping you could share some color on what's leading those opportunities to emerge in terms of how much of it to the extent that you can discern it, seems to be arising from it are are issues arising with regards to the construction project in the shipyard perhaps, rookie or unexperienced owners or start-up yards getting in over their heads, how much of it is related to the global credit crisis, and then how much perhaps to the owners becoming concerned about the outlook for the market?

Dan Rabun - EnSCO International - CEO, President

I would say it's 100% related to the credit crisis.

Tom Curran - Wachovia - Analyst

100% financing-related?

Dan Rabun - EnSCO International - CEO, President

Yes.

Tom Curran - Wachovia - Analyst

Do you still see the potential for some, you know, engineering or construction-related mishaps to potentially lead to some blood in the water that you could opportunistically jump on as well?

Dan Rabun - EnSCO International - CEO, President

The answer to the question is yes, but it's all related to the credit crisis. You have projects -- there are projects that are midstream that are having financing problems. I don't know of any shipyards that are having any issues, but clearly a lot of the new build guys are having problems.

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Tom Curran - Wachovia - Analyst

Okay.

Dan Rabun - EnSCO International - CEO, President

A lot of these companies appear to be, I don't know that much about all of them, but they were accessing the credit markets or capital markets as their payments became due, and now the payments are coming due, there's no credit market or capital market, they're finding it difficult.

Tom Curran - Wachovia - Analyst

Right. Turning to the North Sea, could you tell us what percentage of your rigs there are currently drilling natural gas prospects versus oil? And then if I were to look at the fleet status report and go down the line of expected earliest availability by rig, where -- for which rigs might there be conditions that could lead it to becoming available earlier and why?

Dan Rabun - EnSCO International - CEO, President

Got the rig status report here. Everything drilling in the southern gas space, and in the UK and I don't have it in front of me, that's all gas. Most of the rest of it's drilling for oil. And earliest availability, I don't know, just look at our rig status report, you can figure it out.

Tom Curran - Wachovia - Analyst

But in terms of the earliest availability, are any of the rigs working on programs where the operator has some sort of early cancellation provision or it's well-to-well in terms of the results or economics and, therefore, we could end up releasing it earlier than the availability indicates? All these markets have different dynamics.

Dan Rabun - EnSCO International - CEO, President

The North Sea market, the contracting dynamics have always been in the North Sea that they have some sort of termination provision with -- over a period of time. Those vary from 120 days to 180 days. So they're all over the map in that market. But that's the fairly common contracting strategy action just like with some of the NOC's, with provision. So --

Tom Curran - Wachovia - Analyst

Okay. And the last question here, Jay, I'm sorry if I missed this, with the two jackups that were waiting on weather in New Zealand and had the revenues deferred, were the operating costs associated with those rigs also deferred in terms of recognition?

Dan Rabun - EnSCO International - CEO, President

Yes.

Tom Curran - Wachovia - Analyst

Great. Thanks, guys, I'll turn it back.

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Operator

We'll move on to Robin Shoemaker with Citigroup.

Robin Shoemaker - Citigroup - Analyst

Thanks, good morning. I wanted to ask you about the North Sea specifically. Some of the major service companies that have held conference calls here in the last few days have said that one of the international markets that's slowing or likely to slow is the North Sea. As it has in past periods of weaker oil prices. Of course, your perspective is via the jackup market seems to be quite different. But your fleet status report shows you are working for some of the UK independents, or the North Sea independents who are the ones more likely to cut back. Are you seeing any signs at all that beyond '08 that on renewal that some of the UK independents may be slowing down?

Dan Rabun - Ensco International - CEO, President

No, quite the contrary. That's 's probably the -- I would say, the strongest market we've got right now.

Robin Shoemaker - Citigroup - Analyst

Okay. Well, I guess just a different perspective from what we've heard from others. I wanted to ask you then, secondarily, about the investment in the new builds. This year, you mentioned that your investment is 670 on the six new rigs. So as we go into 2009, I believe that number comes down, and probably comes down a little more in 2010 as you finish up the program. But roughly could you give us an idea of what those outlays on the new builds are next year?

Jay Swent - Ensco International - SVP, CFO

Well, let me try to give it to you in a different form, Robin. The total program for all the rigs is about \$3.1 billion.

Robin Shoemaker - Citigroup - Analyst

Yes.

Jay Swent - Ensco International - SVP, CFO

By the end of the year, we will expend about \$1.3 billion, that will leave us about \$1.8 billion to go over the life of the project. And that probably, you know, it breaks out between 2009, 2012. It's pretty evenly distributed over those years.

Dan Rabun - Ensco International - CEO, President

We're filing the Q here, just an hour or so, it's all in there.

Robin Shoemaker - Citigroup - Analyst

Oh, okay, fine. Sure. I guess that's all for me. Thank you.

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Operator

We'll move on to Pierre Conner with Capital One.

Pierre Conner - *Capital One - Analyst*

Good morning, gentlemen.

Dan Rabun - *EnSCO International - CEO, President*

Good morning.

Pierre Conner - *Capital One - Analyst*

Dan, relative to the fleet that's in the Middle East, and what type of prospects they're working on, it's pretty obviously Ross Gas, rigs working for Ross Gas are drilling for LNG gas, but tell us, the rigs drilling for Saudi, are they for, is there oil drilling or does internal gas consumption -- what are those rigs working on, do you know?

Bill Chadwick - *EnSCO International - EVP, COO*

Three oil, one gas.

Pierre Conner - *Capital One - Analyst*

What is your perspective on that given the commentary of Saudi and potential OPEC cuts? You've got some options on those rigs, obviously potentially just met with them. How do you feel about those, Dan?

Dan Rabun - *EnSCO International - CEO, President*

Well, you know, those options are still priced well proceed current market. So everything Saudi has told us has been fairly consistent, you know, that they are increasing their offshore production and moving rigs from their onshore program to their offshore. And they continue to make that same indication. So we do have -- I think we've got a couple coming off contract late in the year.

Pierre Conner - *Capital One - Analyst*

Right.

Dan Rabun - *EnSCO International - CEO, President*

October time frame, those still have options on them, priced well below the current market.

Pierre Conner - *Capital One - Analyst*

Current assumption they'd execute those given the way the rates are?

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Dan Rabun - *EnSCO International - CEO, President*

Yeah, I would think so.

Pierre Conner - *Capital One - Analyst*

Yes. Next question, going back to the deepwater construction program, and either for you or somebody, but given that you might have some of the shipyards having projects cancelled, things should be loosening somewhat, what, if any, of the current contracted price for construction might have some variable cost in it? Maybe we should have asked Pete on this on his call earlier, but is there any opportunity there, or should we think about these outlays as fixed?

Dan Rabun - *EnSCO International - CEO, President*

Well, they are -- they're full-priced. We're committed, have contracts on them. Again, there's no real variable costing in there.

Bill Chadwick - *EnSCO International - EVP, COO*

I think obviously Pierre that cuts both ways. They're fixed-price contracts, the shipyard contract is fixed-price, virtually all of the third-party equipment is fixed-price. So it doesn't go up or down in this kind of time period.

Pierre Conner - *Capital One - Analyst*

Okay, so depending when you contract it. A follow-up, Jay, just clarification, the quantification of your customers, was that calculation based on numbers of customers or percentage of revenue stream possibly?

Jay Swent - *EnSCO International - SVP, CFO*

It works out about the same.

Pierre Conner - *Capital One - Analyst*

Does it?

Jay Swent - *EnSCO International - SVP, CFO*

When we were looking at backlog, but if you just go down the list, it's amazing, as Dan said, we've done a top-to-bottom look at both vendors and customers to make sure we feel comfortable with the situation going forward. And even I was quite surprised by the -- just the line, if you look at it line item-by-line item, virtually all of our customers other than some of the independents in the North Sea and Gulf of Mexico are very strong investment grade, and a lot of our customers that are in those other markets if investment grade, are still very strong companies. So I think we feel pretty good about their wherewithal. And I think you guys will know we're pretty conservative. So to the extent we're ever dealing with customers that are smaller and questionable, we're getting a fair amount of securities so we're comfortable that we're going to get paid. That's different than getting the contract but we're using pretty good shape on receivables.

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Pierre Conner - *Capital One - Analyst*

Okay. And then Jay, think about sort of the cash flow generation of the fleet in the future, try to reconcile that with the current equity valuation and try to think about what's the maintenance CapEx required to keep it, about \$110 million in sustaining projects this year, next year, given the renewal you've gone through with the fleet, is this what the number we should think of relative to what maintenance CapEx would be?

Jay Swent - *Ensco International - SVP, CFO*

Well, I think you have to look at the maintenance plus the others. So I mean, it's probably about 150, and that's in a world that's just looking at our jackup fleet. I don't think we have any basis yet to tell you what the maintenance CapEx will be on the semis once they're up and going.

Pierre Conner - *Capital One - Analyst*

I understand. Very good. Thanks, gentlemen.

Jay Swent - *Ensco International - SVP, CFO*

Thank you.

Operator

We'll move on to David Smith with JPMorgan.

David Smith - *JPMorgan - Analyst*

Hi, good morning.

Dan Rabun - *Ensco International - CEO, President*

Morning.

David Smith - *JPMorgan - Analyst*

Could you tell us which, if any, of the deepwater new builds in your program haven't cut steel yet?

Bill Chadwick - *Ensco International - EVP, COO*

8505 and 8506.

David Smith - *JPMorgan - Analyst*

Okay. And I'm asking this as a big fan of the new build program, but are there any cancellation clauses for those rigs that haven't begun construction?

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Bill Chadwick - *EnSCO International - EVP, COO*

No.

Dan Rabun - *EnSCO International - CEO, President*

I mean, in all of those rigs, there's a pretty substantial up front payment, and those are noncancellable contracts.

David Smith - *JPMorgan - Analyst*

Okay. And the follow-up question is, you mentioned the contract cancellation provisions with your clients in the North Sea. Does that include some level of a make whole provision?

Bill Chadwick - *EnSCO International - EVP, COO*

It's typically they've got to give us, I think, what, 120 to 180 days notice or pay in lieu of that.

David Smith - *JPMorgan - Analyst*

Okay. So if you had a contract going through, the end of '09, they could give you a notice tomorrow, in 120 days, we should be looking at that as maybe the firm fixed backlog?

Bill Chadwick - *EnSCO International - EVP, COO*

Yes. I think that's the right way probably to look at it.

David Smith - *JPMorgan - Analyst*

Okay. Appreciate it. Thank you.

Dan Rabun - *EnSCO International - CEO, President*

Sure.

Operator

And we'll move onto Geoff Kiebertz with Weeden.

Geoff Kiebertz - *Weeden - Analyst*

Thanks, I just had a background question on the opportunity comment that you made, Dan. I'm assuming what you're talking about here is projects, new-built projects that are in some stage of not being complete, and there's some financial difficulty. Who is responsible for making the decision to sell, is it the shipyard or is it the owner or is it some combination?

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Bill Chadwick - EnSCO International - EVP, COO

Right now, it's the drilling contractor. I guess at some point it's conceivable that it's the shipyard but that's after they haven't been paid and they're foreclosed on the asset. So I think that's a ways utilize. I think the conversations right now, and the conversations for the foreseeable future will be with the contractors themselves. The drilling contractors themselves.

Geoff Kieburtz - Weeden - Analyst

Okay. All right. That's it. Thanks.

Operator

We'll move on to Mike Urban with Deutsche Bank.

Mike Urban - Deutsche Bank - Analyst

Thanks, good morning you mentioned a couple times that some of the spec new builds have come into the market, that those guys have had to discount pricing to get in, it hasn't really had a spill-over effect to you dies as an incumbent. Does it at some point have an impact on any kind of rate or contracts indexed in the factor for you or some of the other incumbents and that has a potential downward effect over time?

Dan Rabun - EnSCO International - CEO, President

Could you please, it's not that -- other than the PMX, we really don't have any index contracts. It's not really it approximate approximate are are much of an effect.

Mike Urban - Deutsche Bank - Analyst

Right, right, but some of your competitors, I don't expect you to know what they are or not, if you know some of the incumbents have index contracts, that starts to come down, I'm wondering if that could potentially have a impact. The way most of thighs indices work, they're global indices, it's usually keyed off the highest rate, not the lowest rate. So , the answer to your question, it's not going to have any effect on

Dan Rabun - EnSCO International - CEO, President

Okay. That's great. Thank you.

Operator

Moving on to Jeff Spittel with Natixis.

Jeffery Spittel - Natixis Bleichroeder - Analyst

Good morning, touching on the foreign exchange market, I know you've talked a little bit about the currency hedging on the manufacturing program for the new builds. Can you quantify, if anything what the foreign exchange impact you're seeing in terms of cash operating costs right know?

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Dan Rabun - *EnSCO International - CEO, President*

Well we put in place forward hedges for a large portion of our non-US dollar denominated costs. Typically we're hedged fully one quarter out, then it steps down from that as you go out over time. So in the near term, I mean, for example, we have hedges in place against the Sterling that are close to \$2. And obviously Sterling's now in the 160 range now. So we will get some minor benefit of that in the current quarter, but for the most part, our costs there are now fixed at the \$2 rate. Obviously as the currencies have moved and we're doing hedging transactions further out, we're averaging down. It takes a couple quarters to work this in the system.

Jeffery Spittel - *Natixis Bleichroeder - Analyst*

Okay, understood. The 8505 and 06, have you started to implement any forward hedges in terms of currency exposure there?

Dan Rabun - *EnSCO International - CEO, President*

Well, the same dollar exposure I was talking about is really against that whole program.

Jeffery Spittel - *Natixis Bleichroeder - Analyst*

Right.

Jay Swent - *EnSCO International - SVP, CFO*

We have most of how we hedge that is US by holding collars -- we do have some forward contracts as well. They tend to be a pretty inefficient way to hedge that are, forward points on the same dollar. So we have a small portion of our total same dollar exposures that unhedged right now, but I forget the number, it's probably less than 20% of the total amount that's due over the whole life of all of the rigs.

Jeffery Spittel - *Natixis Bleichroeder - Analyst*

Okay. Thank you.

Jay Swent - *EnSCO International - SVP, CFO*

You're welcome.

Operator

(OPERATOR INSTRUCTIONS). And we'll move on to Brian Uhlmer with Pritchard Capital.

Brian Uhlmer - *Pritchard Capital - Analyst*

Good morning, guys.

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Dan Rabun - *EnSCO International - CEO, President*

Brian.

Brian Uhlmer - *Pritchard Capital - Analyst*

I had a question on what your strategy going forward would be if you have a market downturn, could you talk about what your strategy is versus stacking rigs and cutting rates, and how you make that -- those decisions?

Dan Rabun - *EnSCO International - CEO, President*

How we make a decision to stack a rig?

Brian Uhlmer - *Pritchard Capital - Analyst*

Yeah, if the market turns down, your contracts are -- your customers are asking you to cut rates substantially, at what point do you make a decision versus taking a cut rate and not staying disciplined with your rates versus just stacking a rig and lowering the supply out there?

Dan Rabun - *EnSCO International - CEO, President*

Brian, fortunately, we haven't had to confront that here recently. Historically, you go back to some of the is other cycles, there's a point in time when you have to make a decision that you're not leading the deterioration of rate, but that you're going to have to participate in it in order to keep the equipment working. The ultimate decision comes to cash flow breakeven. We haven't had to make those kind of decisions for a lot of years, we don't see them coming in the future but ultimately that's what it comes down to.

Brian Uhlmer - *Pritchard Capital - Analyst*

Okay, unfortunately, I'm receiving that question, I don't see it happening either, but I think some people are hearing that question. Thanks.

Dan Rabun - *EnSCO International - CEO, President*

Sure.

Operator

We'll move on to Mike Drickamer with Morgan Keegan.

Mike Drickamer - *Morgan Keegan - Analyst*

Good morning, guys. Dan, it seems to me that the market as kind of historically driven your preference for building out the deepwater rigs to being more of a build versus buy scenario. Has that changed, is your preference perhaps more buy versus build.

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Bill Chadwick - *EnSCO International - EVP, COO*

No, we really feel like we have a competitive's advantage with the 8500 series, cost-effective to build and cost-effective to operate. So that clearly has been our preference in where we've invested heavily, and with with respect to the you object committed rigs, marketing those is continuing at a fairly brisk pace. The alternatives in terms of buying are really being driven more by opportunities that are arising as a result of the credit market, not for us out seeking those alternatives. We're pressing ahead with our program, but we're taking taking a look at these alternatives that continue to evolve. I think the only thing I'd add to that, too, is that there's a huge efficiency that come from having one rig in the fleet in terms of spares and training and support and everything else. So while we wouldn't rule it out, certainly we're pretty happy with the one class approach that we have to this right now.

Mike Drickamer - *Morgan Keegan - Analyst*

All right, guys, thanks a lot.

Operator

Moving on to Robert MacKenzie with FBR capital markets.

Robert MacKenzie - *FBR Capital Markets - Analyst*

Thank you, my question's been answered.

Operator

And we'll move on to William Mansfield with Millennium.

William Mansfield - *Millennium - Analyst*

Hi, gentlemen, I just wanted to follow up on this issue of the opportunities that you kind of discussed that might be appearing in the market given the credit crisis here. One issue I was curious about is, is there a timing element to that? Do you guys think from your own perspective you need to see there's stability in the financial markets or in the oil markets before you move forward or is it actually possible, you'd put out announcement next month or the month after, hey, we've just bought a rig in near bankruptcy type of thing?

Dan Rabun - *EnSCO International - CEO, President*

No, I think there's a lot of moving pieces to this, and it's moving at a pretty fast pace. So I don't think there's a really easy answer to that question. Opportunities that seems to be multiplying by the day here. I would say generally speaking we're going to be real conservative looking at any of those alternatives. So I would expect that it's going to take a while for it to work through the system.

William Mansfield - *Millennium - Analyst*

And presumably the conservatism would also play through on your pricing dynamics, you'd want material discounts to weather construction costs or fair value or whatever?

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Dan Rabun - *EnSCO International - CEO, President*

We think we have a competitive advantage with an unlevered balance sheet and we intend to use that advantage.

William Mansfield - *Millennium - Analyst*

Okay. Thank you very much.

Richard LeBlanc - *EnSCO International - VP IR*

We have time for one more question.

Operator

(OPERATOR INSTRUCTIONS). It appears there are no further questions, sir.

Richard LeBlanc - *EnSCO International - VP IR*

Okay. We'd like to thank everyone for joining us today and we certainly look forward to talking with you again. Our fourth quarter and full-year 2008 earnings conference call is scheduled for Thursday, February 26th. Thanks.

Operator

Ladies and gentlemen, this concludes today's conference call. Thank you for your participation and have a wonderful day.

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