

FINAL TRANSCRIPT

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PRESENTATION

Operator

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

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

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Richard LaBlanc - *EnSCO International - VP of IR*

Thank you, Melanie. I would like to welcome everyone to our earnings conference call this morning. With me in Dallas are Dan Rabun, our Chief Executive Officer, Bill Chadwick, our Chief Operating Officer and Jay Swent, our Chief Financial Officer as well as other members of our executive management team. This morning we released our earnings announcement and we filed our 8-K with the SEC. I would like to remind everyone the earnings release is available on our website, www.enscointernational.com. As usual, we will keep the call to about an hour. Jay will first provide a financial overview. Dan will then discuss our market and operation. In the comments we make today about our expectations, the 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 you our earnings release and SEC filings available on our website which define such forward-looking statements that states that the company undertakes no duty to update any such statements and risk factors which could cause actual results to differ materially from our expectations. I would just like to remind everyone that with regard to our rig status, a detailed listing is provided on our website and is updated the middle of each month when we file our 8-K with the SEC. The last update was as of February 17. At the end of our prepared remarks, we will have time for questions. With that, let me turn it over to Jay.

Jay Swent - *EnSCO International - CFO*

Thank you, Richard. Good morning, and thank you all for joining us today. I will start our call this morning with an overview of full year 2008, then discuss fourth quarter results and close with some comments about our outlook for the first quarter and full year 2009.

We're pleased to report that 2008 was another record year for ENSCO. Net income increased to nearly \$1.2 billion, a 16% increase over 2007, and earnings per share was \$8.11, a 21% increase. Approximately 80% of our year-over-year operating improvement relates to the stronger performance of our international jackup fleet in Asia-Pacific and Europe-Africa, where average day rates increased 16% and 11%, respectively. We also realized a significant day rate increase on ENSCO 7500 in early 2008 while it operated in the Gulf of Mexico. During the fourth quarter, we commenced segment reports and our SEC filings will now provide separate financial information for a deepwater operating segment and free jackup operating segments. The deepwater operating segment will include ENSCO 7500 and all 8500 series rigs. Our three jackup operating segments will be displayed on a geographic basis with segments for North and South America, Asia-Pacific and Europe-Africa. Deepwater will become a major component of our business over time, so going forward, I will split my comments between the deepwater segment and the three jackup segments. Deepwater revenue grew 16% in 2008 to about 3.5% of total revenue. ENSCO 7500, the only rig earning revenue in 2008, commenced preparatory work for mobilization to Australia late in the third quarter and as a result, \$36 million of day rate revenue was deferred in 2008 and will be amortized over the initial contract term once the rate commences operations in Australia. This is expected to occur in April 2009 at a day rate of \$550,000 per day. Had ENSCO 7500 operated in the Gulf through the end of 2008, we would have seen a 65% increase in year-over-year revenue. Revenue from our jackup segments increased by 17% in 2008, and operating income increased by 18%.

Turning now to our fourth quarter results, net income increased 26% from prior year levels to \$299.8 million and earnings per share were up 29% to \$2.14. Higher average jackup day rates across all regions contributed to this year-over-year improvement. We had three unusual items impacting the quarter that merit discussion. First of all, we were negatively impacted by approximately \$11 million which reflects foreign currency losses and adjustments to measure our auction rates securities to fair value at year end. Secondly, we are closely monitoring our receivable balances as well as the impact that the current economic climate might be having on our customers. After a thorough review, we increased our bad debt reserve by approximately \$15 million. This additional reserve is reflected in fourth quarter contract drilling expense. Finally, our fourth quarter effective tax rate was 13%. This rate reflects lower than planned earnings in our North and South America segment, which is subject to some of our highest statutory tax rates and also the final resolution of some outstanding tax matters. Now let's discuss quarterly trends by comparing the fourth quarter sequentially to the third quarter 2008.

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Fourth quarter revenue decreased by approximately 2% from third quarter levels, slightly less than the 3% decline we had predicted during last quarter's call. As expected, fourth quarter revenue was adversely impacted by approximately \$34 million of deepwater day rate revenue that was deferred to future quarters as a result of the mobilization of ENSCO 7500 to Australia. Revenues from our jackup segments increased by about 3% during the period. Contract drilling expense increased by about 8% in the fourth quarter to \$209 million. Excluding the increase in our bad debt reserve previously discussed, contract drilling expense increased by less than 1% compared to third quarter. This was less than our third quarter guidance of 4% and reflects additional spending controls that we recently put in place. G&A expense decreased by \$3.1 million compared to third quarter due to lower outside legal and financial fees. Our cash generation and our balance sheet remains strong during the quarter with cash increasing by \$342 million to \$790 million. This increase is after funding \$118 million of capital expenditures, most of which related to our deepwater expansion.

Now let's look more specifically at fourth quarter results in each of our jackup operating segments. The average day rate for our Asia-Pacific segment was \$159,100, a 1% increase compared to the third quarter to principally to scheduled increases on our rigs working in Saudi Arabia and one in Qatar offset by ENSCO 54 rolling to a lower rate under a new term contract in the UAE. Asia-Pacific utilization was 94% compared to 96% in the third quarter due primarily to ENSCO 53 entering the shipyard in October for life extension work. The average day rate for our Europe-Africa segment increased by \$1,600 to \$227,700 in the fourth quarter. This was primarily due to ENSCO 71 rolling from a legacy contract to a new contract at nearly double the day rate in early August. This was offset in part by ENSCO 85 going on to a temporary standby rate in early December. Utilization on our Europe-Africa segment was 94% in the fourth quarter compared to 96% in the third quarter due to a slight increase in maintenance and repair down time. Day rates for our North and South America segment increased by 6% to an average of \$115,000 in the fourth quarter as about half of the fleet rolled to higher day rates. North and South America utilization was 99% in the fourth quarter compared to 98% in the third quarter.

Now let's look at the outlook for first quarter 2009. It's important to keep in mind that we will not have the benefit any of revenue from our deepwater fleet during the first quarter with ENSCO 7500 still mobilizing to Australia and ENSCO 8500 not yet on the payroll. The amount of deferred day rate revenue for ENSCO 7500 in the first quarter will be approximately \$33 million. We currently expect first quarter 2009 revenue to be down approximately 18% from fourth quarter levels. Part of this revenue reduction is due to our decision to defer booking revenue after late January on the ENSCO 69 contract in Venezuela, given the ongoing dispute with PDVSA. Also, three of our Gulf of Mexico jackups will be in shipyards for preparatory work prior to mobilization and commencement of new term contracts in Latin America.

ENSCO 68 will be mobilizing to Venezuela to work for Chevron, and ENSCO 89 and 93 will be moving to Mexico. Two of our Asia-Pacific jackup rigs, ENSCO 50 and ENSCO 56, entered shipyards following completion of contracts in the fourth quarter and three other rigs either completed or will complete contracts during the first quarter of 2009 and are currently being marketed. We anticipate first quarter contract drilling expense will decrease by approximately 10% from fourth quarter levels. The fourth quarter was adversely impacted by the \$15 million bad debt provision previously discussed. We expect to begin realizing the impact of a stronger dollar on our international contract drilling expenses. Assuming the dollar remains strong, this impact should become more significant over the course of 2009 as we roll off existing foreign currency hedges. We also believe the impact from our additional cost control measures will become more pronounced over the course of 2009, and I will elaborate more on this in a moment. Depreciation expense and G&A expenses are expected to be comparable to fourth quarter levels.

Now a few comments about our 2009 full year outlook. We expect the revenue contribution from our deepwater fleet to more than triple in 2009 to just over \$300 million. ENSCO 8500 ENSCO 8501 are expected to commence operations in the Gulf of Mexico in April and September 2009, respectively, and ENSCO 7500 should recommence drilling operations in early April. We will be adding operating days for our deepwater fleet with the startup of ENSCO 8500 and 8501 during 2009, but we still expect a slight decrease in overall 2009 contract drilling expenses compared to 2008 as we adjust to lower expected activity levels on our jackup fleet. Deepwater contract drilling expenses will increase by approximately \$76 million with the addition of our two deepwater rigs and the higher cost associated with ENSCO 7500 in Australia. We expect this increase to be more than offset by an 11% reduction in contract drilling expense related to our jackup segments. Fewer jackup rig operating days, a stronger dollar and cost containment initiatives will be the main contributors to our cost management. One wild card for 2009 will be insurance

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costs, especially in the Gulf of Mexico. Early indications are that insurers are looking for large premium increases on all classes of assets operating in the Gulf. Depreciation expense is expected to increase to approximately \$213 million for the full year with the addition of our two new deepwater rigs. We anticipate G&A expenses will be approximately \$50 million for 2009, which represents a 7% reduction from 2008. We expect our effective tax rate to approximately 19% for the year.

As we discuss our 2009 capital spending plans, I should caution you that our enhancement and sustaining budgets may be adjusted over the course of the year, depending on business activity and prospects. With that caveat, we currently expect 2009 capital spending will be approximately \$740 million, somewhat less than the \$772 million spent in 2008. \$515 million of this amount will be spent on our six new deepwater rigs now under construction and the recently delivered ENSCO 8500. We also expect to spend about \$125 million for rig enhancement projects and \$100 million for sustaining projects.

In conclusion, we expect the year to be challenging, but we have an excellent track record of managing our business through these cycles. We enter 2009 in excellent financial condition and a with backlog of \$4 billion of which more than \$1.7 billion covers 2009. In an environment where cash is king, we have strong liquidity with \$790 million of cash at the end of 2008 versus \$292 million of debt. Half of our debt is not due until 2027 and our repayments on the balance are less than \$20 million annually. In addition, we have an undrawn \$350 million revolving credit facility. We expect to fund this year's capital costs from operating cash flow and existing liquidity just as we did in 2008. We recently completed a thorough review of all operations and major prospects and we plan to aggressively manage costs to protect margins as we move through the year. Although we can not necessarily influence the marketplace, we can ensure that we will remain one of the most efficient drilling contractors and that, gentlemen, will be our focus in 2009. With those comments, I will now turn the call over to Dan.

Daniel Rabun - *Ensco International - CEO*

Thanks, Jay, and good morning, everyone. First, I would like to make a few introductory comments about 2008. We completed another very successful year and achieved a number of important milestones. We took delivery of ENSCO 8500, the first of our seven ultra-deepwater rigs in the ENSCO 8500 series. ENSCO 8500 is currently undergoing deepwater sea trials in the Gulf of Mexico and we expect the rig to commence operations in April. This is an important strategic initiative for the company as we transition from what was once considered largely a pure jackup company to now being a hybrid driller with a meaningful presence in both shallow and deep water. We believe the significant investment that we're making in deepwater will become more widely recognized and valued as we continue to take delivery of our ENSCO 8500 series semis.

We continued our emphasis on safety performance in 2008, and our results were very positive. The safety of our employees is a core value of our company. Our total recordable instant rate was equal to our record performance in 2007, the best in the history of the company and was 25% better than the industry average. We are also pleased that the severity of instance continues to decrease as well. Our people are to be commended for their efforts in this critically important area. We planned several initial initiatives in 2009 to continue the improvement in our safety performance. We also added to our contract backlog over the last 12 months with additional deepwater term commitments and contracts on three of our Gulf of Mexico jackup rigs in Latin America. Our total backlog increased to \$4 billion as of February 2009, a 5% improvement from a year ago. We will have the opportunity to add to our backlog with our yet to be contracted three deepwater rigs and with prospects for additional jackup rigs to Mexico. As we indicated in our last earnings conference call, we did not purchase any of our stock during the fourth quarter. We remained very concerned about the credit markets and the lack of options to access capital if we were to take advantage of any opportunities. Accordingly, and as stated in our last conference call, for the time being, we have suspended stock repurchases, but we will continue to evaluate repurchases in light of the health of the credit markets.

While it is more satisfying from our perspective to look back at our record year in 2008, the reality is everyone is focused on what 2009 and beyond will begin. Let me begin by addressing matters we believe is at the top of everyone's mind. As we and our customers adjust to lower commodity prices, tight credit market and a global recession, we believe ENSCO is better positioned to maneuver through the challenges. As Jay mentioned, we ended the year with \$790 million of cash. Our balance sheet remains one of our strengths and gives us great flexibility.

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We have consistently achieved among the highest operating margins in the industry in good times and not so good times. We have always operated one of the most cost efficient fleets in the industry, and this will be a point of continued emphasis in 2009. We are aggressively reviewing and addressing our capital expenditures and call structure to better align with the new level of business activity. The earnings from our growing deepwater investment should serve as a buffer to the weakness and the jackup markets. As mentioned, the first of our 8500 series rigs is expected to commence operations in early April 2009. ENSCO 8501 is expected to be delivered in June, and we anticipate it will be on contract late in the third quarter. ENSCO 7500 is expected to recommence drilling operations in Australia in April at a day rate of \$550,000 per day, a significantly higher rate than it was receiving last year in the Gulf of Mexico. In addition, when the rig commences operations, we will begin to recognize \$70 million of deferred day rate revenue over the life of the ENSCO 7500 contract. We expect contributions from these rigs will begin to meaningfully impact our results later this year and even more so in 2010.

Deliveries of ENSCO 8502 and ENSCO 8503 are expected to follow in 2010 and the remaining three rigs in 2011 and 2012, so we expect to show significant future growth in our deepwater revenue. I recently returned from a trip to Southeast Asia and the Middle East and had the opportunity to visit the KFEL shipyard in Singapore where our new semis are being built. Construction of our 8500 series rigs is going well. The lessons learned while constructing ENSCO 8500 have been applied to the other rigs and I'm pleased with the progression we are making. It is important to note, particularly in these unsettled times, that our deepwater expansion is being financed with internally generated funds, preserving our balance sheet for other uses.

I know I will get the question about M&A opportunities on the call, so I would like to address this up front. Several of the new built contractors are experiencing liquidity issues and are seeking alternatives. We have seen opportunities on both the jackup and deepwater sides of the business. We will continue to evaluate possible transactions to grow our business, but as usual, we will be very cautious about protecting our balance sheet. These opportunities are evolving as the drilling and credit markets continue to be volatile and it is too early to make any predictions about whether any deals will get done. In my personal opinion, I believe the price expectations that currently exist are not reflective of current market conditions and valuations and therefore, the timing is not yet right.

While in Asia and the Middle East, Mark Burns, who heads up our international operations and I had the opportunity to visit with many of our customers. Although it is clear that some are deferring or curtailing drilling programs due to the dramatic reduction in oil and gas prices, there are others that will continue to drill through the cycle. Several of the majors have announced that they are not curtailing drilling programs. It should be noted, however, that competition is intense as rigs complete contracts and new rigs are delivered into the market without contracts. There is no question that 2009 will be challenging in the Asia-Middle East market and jackup rigs, including some of ours, will be without contracts for some portion of the year. We are evaluating market opportunities for our idle rigs, and we will not hesitate to stack our rigs to reduce our carrying costs if we do not see any near term prospects for work.

With those general comments, let's review our operations and markets as we do every quarter. I refer to you our monthly contract status report filed nine days ago for specific rig details. Starting in Southeast Asia Pacific Rim, as I alluded to, some operators have declined to exercise contract extension options and have delayed or cancelled drilling programs. But there are several programs that are planned to commence later in the year or next year in Indonesia, Vietnam and China. We currently have two rigs that have completed programs and are being marketed in the region. In both cases, we are pursuing opportunities for work starting in the second quarter and beyond. We visited all of our markets in the Middle East and India during the trip. There are several opportunities on the Horizon, most notably where in the UAE and in India, but some tenders have been cancelled or postponed.

In Saudi Arabia, Saudi Aramco is cutting back on oil drilling given the much publicized OPEC cutbacks and recently released two of our rigs. We believe that Saudi Aramco will require more gas rigs, but that will not be enough to make up for the expected reduction in oil drilling. In the North Sea, the market is still fairly balanced with currently only one industry rig stacked. There are a number of outstanding inquiries for work starting in the second half of the year. Unfortunately, there are not many term work opportunities announced to date as several of the independents have curtailed drilling in light of lower commodity prices and the failed credit markets. We are starting to see some rate pressure in this market with some standard duty work now below

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\$200,000 per day and heavy duty work somewhat above that level. The ENSCO fleet is generally committed into the second half of 2009. The Med, where two of our jackups are located is currently balanced as well, although leading edge day rates are off their highs. We see further indications of softness, particularly in the second half of the year.

Turning to the US Gulf of Mexico, we continue to see the supply of premium jackups decrease as rigs move to Mexico and other markets. We expect that the number of premium rigs will be reduced to 17 in the next few months with more departures likely. Gulf of Mexico jackup demand continues to fall given lower natural gas prices and budget cutbacks by many of the independents. As a result, the market is choppy with some rigs idle and the day rates softening. With regard to Mexico, we were awarded work for two of our 250 foot Gulf of Mexico jackups and were the low bidder or two other Pemex requirements. We expect a final decision by Pemex on the two latest rigs by early March. Pemex is expected to be out for an additional 10 rigs this year with a tender for five of the rigs expected in March. In Venezuela, we recently announced that our customer, a subsidiary of PDVSA, failed to honor its payment obligations under the drilling contract. We understand that generally all oil service companies operating in Venezuela have similar issues. We continue to work with PDVSA to reach a satisfactory resolution of the matter, but we do not have anything new to report to you at this time. This is obviously a very large issue, both for the oil field services industry as a whole and the production of oil and gas in Venezuela, which can not remain unresolved for an indefinite period. Fortunately, our PDVSA exposure is limited to a single rig.

Now let's turn to the deepwater market where we are optimistic with several opportunities developing and major discoveries being announced. The first appraisal will confirm that the Liwan field in China is a major deepwater gas discovery. In Brazil, BG and Devon have deepwater wells underway in the prolific pre-salt areas with significant reserve potential. And Petrobras, Exxon-Mobil, Repsol in Anadarko recently have reported more discoveries there. In the deepwater Gulf of Mexico, Chevron recently announced a significant lower tertiary discovery. In Mexico, Pemex just the other day announced plans to drill eight to 10 wells a year starting in 2010 and will look to international oil companies to assist in this effort. We also see deepwater rig opportunities in India, Ghana and Angola. ONGC is at the tender currently for four additional rigs for long term work. Given this level of activity and success, we are confident of the opportunities for our three uncontracted semis. We continue to hear rumors that previously announced new build deepwater rig construction is being cancelled or delayed due to lack of funding. This is raising concern for operators and several have expressed their desire to work with only well established drilling contractors going forward. We believe our strong balance sheet and liquidity are significant advantages in the marketing of our three available 8500 series rigs.

In closing, the macroenvironment has certainly worsened from what it was last year when we achieved our record results. Given that fact, we are proactive in addressing our cost structure and aligning our operations with the current business climate. There are positives, however; our significant deepwater investment will begin to pay dividends starting this year and we have the -- have had success bidding rigs into Mexico for term work. We have one of the strongest balance sheets and liquidity positions in the industry. We are in good position to weather the current environment. With that as an overview, our entire management team is available to answer your questions. Richard, I will hand the call back to you now.

Richard LaBlanc - *Ensco International - VP of IR*

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

QUESTIONS AND ANSWERS

Operator

Thank you, Mr. Leblanc. (Operator Instructions) Our first question comes from a Robin Shoemaker with Citigroup.

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Robin Shoemaker - Citigroup - Analyst

Thank you. Good morning. Jay, was wondering if your comment about the 11% cost reduction for the jackup in 2009, it included, I think, as you said, some fewer rig days-- operating rig days. But in terms of the generic kind of cost trend with respect to wages and insurance and all the other costs that go into that, what is that trend on a year-over-year basis, roughly?

Jay Swent - EnSCO International - CFO

I think Robin, I would say of all the expenses, as I highlighted in my comments, insurance is probably the one that people are likely to see big increases in year-over-year. I think we haven't made firm decisions yet relative to wages. And as I always say, we operate in the market, we have to be competitive, so we will follow whatever the market does. At the moment, it's not looking like there is going to be any huge increases in labor. So in terms of where we expect costs to come out, we -- there is always work to be done looking at rigs and trying to find more efficient ways to run them and we're doing that. We are also, obviously, there is fewer rig days, as you said. There are a lot of moving pieces as you note from my comments in the first quarter. But at the end of the day, we will have fewer rig days unless the market turns back up, and that is a big component of the savings as well.

Robin Shoemaker - Citigroup - Analyst

Okay. And Dan, I was going ask but your strategy or your current state of your conversations with potential customers for the three 8500 series rigs, which are not yet contracted. Obviously, they a little more than two years away from completion of the first one. But is -- are we likely to see anything in that respect this year ,or is it in ENSCO's interest to wait for a better market environment, perhaps in 2010?

Daniel Rabun - EnSCO International - CEO

It's a good question. We continue to be pleasantly surprised by what is going on in the ultra-deep water market with the major discoveries being announced. We have fairly substantial customer engagement and interest in these rigs, so it's really difficult to predict. But at the time, if we have an opportunity, we're not going to hesitate to contract them, just have to judge by what the term and the rate may be. But it's difficult to predict whether it will be this year or when in this year it will be or next year, but we'll say the interest is extremely high.

Robin Shoemaker - Citigroup - Analyst

Okay, if you're successful in your -- in what you expect to bid in into Mexico again this year, are you -- how many rigs would you anticipate could potentially end up in Mexico from your Gulf of Mexico fleet, given this 10 rig tender package you're anticipating?

Daniel Rabun - EnSCO International - CEO

Probably out of the Gulf of Mexico fleet, probably a couple more.

Robin Shoemaker - Citigroup - Analyst

So then th other rigs bid for Pemex work would come from the Middle East, probably?

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Daniel Rabun - *EnSCO International - CEO*

They would come from other markets, that's correct.

Robin Shoemaker - *Citigroup - Analyst*

Okay. Alright, thank you.

Daniel Rabun - *EnSCO International - CEO*

Thank you.

Operator

Our next question will come from Ian MacPherson with Simmons and Company.

Ian Macpherson - *Simmons & Co. - Analyst*

Good morning. Could you indicate which two rigs were the latest low bidders to Pemex and what the day rates look like? Do they have the index terms as others have recently, or?

Daniel Rabun - *EnSCO International - CEO*

Jeff Saile, who runs that business unit, let me let him address that.

Jeff Saile - *EnSCO International*

It's two of the 250s, ENSCO 90 and 93, and the terms are not indexed -- or the right is not indexed and the rates will be -- they are in the low 100s, in the teens, the low 1-teens.

Ian Macpherson - *Simmons & Co. - Analyst*

Okay. Following up again on the cost guidance for this year with lower activity expected, does that implicitly assume cold stacked time for certain rigs or how exactly does lower activity in your jackup fleet manifest itself?

Jay Swent - *EnSCO International - CFO*

Okay. I guess Ian, I'd say at this point in time we haven't made any firm decisions about cold stacking any rigs. As you can tell from my comments, we have rigs coming off contract and being marketed, and so they going to be in a warm stacked condition for some period of time, and we will evaluate cold stacking at some point in time. So our guidance at the moment at the end of the day assumes some level of cold stacking, but it's -- we can't be specific at this point in time.

Ian Macpherson - *Simmons & Co. - Analyst*

Do you have a, I imagine you have done this in your planning process, I don't know if you'd be willing to share it with us today or not. Sort of a bracket of possible utilization outcomes for your jackup fleet this year based on what you see in the market.

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Jay Swent - *EnSCO International - CFO*

You're right, I think I will stay away from that question. (laughter) Alright. Thanks. Thanks, Ian.

Operator

And our next question will come from Geoff Kiebertz with Needham and Company.

Geoff Kiebertz - *Needham & Co. - Analyst*

Thanks, goon morning. I'm actually going to start out with a little bit of a repeat there. Just to understanding your guidance in terms of Op Ex for '09, you said down 11%. Some of that is reduced to operating days, but I was not quite clear in the last response there. You are including in that the assumption of some cold stacking?

Jay Swent - *EnSCO International - CFO*

There is some assumption of that in there, yes.

Geoff Kiebertz - *Needham & Co. - Analyst*

Okay.

Jay Swent - *EnSCO International - CFO*

And that is probably about as specific as I can be for you.

Geoff Kiebertz - *Needham & Co. - Analyst*

Okay.

Jay Swent - *EnSCO International - CFO*

The other thing, Jeff, that I forgot to talk really about is obviously labor is half of our cost, the other half is repair and maintenance and other third party costs, if you will. Everybody's getting price pressure and we're in the process of putting pressure on our vendors as well, and we think that will yield some additional savings as well.

Geoff Kiebertz - *Needham & Co. - Analyst*

What are you thinking operating costs per active rig day is going to do in '09 versus '08? Is that going to be flat or down?

Jay Swent - *EnSCO International - CFO*

I would say it's probably going to be flat.

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Geoff Kieburz - *Needham & Co. - Analyst*

Okay, alright. That is helpful. And Dan, you touched on this, you acknowledged we were going to ask about M&A. So I guess what I would like to --

Daniel Rabun - *EnSCO International - CEO*

(laughter) I knew I could not get away from that question.

Geoff Kieburz - *Needham & Co. - Analyst*

Just flagging it is not going to let you off the hook.

Daniel Rabun - *EnSCO International - CEO*

Not off the hook yet, huh?

Geoff Kieburz - *Needham & Co. - Analyst*

You got a lot -- you emphasized several times the financial flexibility that ENSCO has. It's fairly self evident. Flexibility is only valuable though if you think you're going to use it. Are you saying that the flexibility is there, you waiting to see a little bit more clearly how deep and how long this downturn is and then you'll assess what is flexibility and what is really just an insurance policy? Or is it really being driven more by evaluation of the bid-ask spread on -- in the market for either new build or existing assets?

Jay Swent - *EnSCO International - CFO*

Kind a combination of things. One, we definitely believe there are going to be opportunities. All we say as we sit here and speak today of what we have evaluated, we don't think the current -- right now is the appropriate time now. Quite frankly, given the way these markets are moving, the volatility in the markets, that could change next week. So it is such a rapidly evolving situation that it's hard to make any predictions about where it's going to go. So given the volatility, we remain real conservative with the balance sheet.

Geoff Kieburz - *Needham & Co. - Analyst*

Got you. Okay. Any sense as to -- do you have any sense yet as to when there might be a little bit more stability in the market where you can start making a little bit more confident long term plans?

Jay Swent - *EnSCO International - CFO*

laughter)

Geoff Kieburz - *Needham & Co. - Analyst*

I think the answer is no.

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Jay Swent - *EnSCO International - CFO*

(laughter) Well, we were trying to get over our chuckling first.

Geoff Kiebertz - *Needham & Co. - Analyst*

Yes. Okay, alright. And then just last question, you did say there was a lot of interest on the deepwater-- the uncontracted 8500 rigs. Has there been any change in the body language or the tone of those conversations over the last three months?

Jay Swent - *EnSCO International - CFO*

I would -- let me characterize it this way. I think as we went through the fall, things just dropped off the radar screen. Give an example, Petrobras has said we're not going to make any decisions on rigs because we need to figure out what our business plan is going to be, and I think all of our customers were doing the same thing. Now that people recalibrated their plans based on lower commodity prices, the interest level has picked up. So I would say first quarter activity level compared to fourth quarter activity level are at opposite ends of the continuum. So I think that is -- So I would say the body language has not changed, in fact, it's picked up quite substantially, so.

Geoff Kiebertz - *Needham & Co. - Analyst*

Okay. Great. Thank you.

Operator

Your next question will come from Tom Curran with Wachovia.

Tom Curran - *Wachovia Securities - Analyst*

Good morning, guys.

Jay Swent - *EnSCO International - CFO*

Hi, Tom.

Tom Curran - *Wachovia Securities - Analyst*

Another great quarter. Dan or Bill, curious. The ENSCO 96 and 97, which -- on which field did they spend the majority of their time with Aramco?

Daniel Rabun - *EnSCO International - CEO*

They were on Manifa.

Tom Curran - *Wachovia Securities - Analyst*

Both of them?

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Daniel Rabun - *Ensco International - CEO*

Yes.

Tom Curran - *Wachovia Securities - Analyst*

And that was throughout the majority of their contracts?

Daniel Rabun - *Ensco International - CEO*

I think the whole time they were on Manifa.

Tom Curran - *Wachovia Securities - Analyst*

Okay. And looking ahead from here, how many of its remaining jackups that are working on oil fields do you expect Aramco to release?

Daniel Rabun - *Ensco International - CEO*

I can't answer that question. You would need to ask Aramco that. All they have told us, and we went and spent quite a bit of time with them a couple of weeks ago, and they're under the same cost pressure as everyone in the world is, and so our rigs were the first rigs to get into Saudi Arabia. They were the first one off their contract terms, so we were the most vulnerable. And as contracts come due, I think the Roen rigs got released that were coming due in April. You can probably look at whose rigs were working there and see when they come off contract and make your own assumptions about it.

Tom Curran - *Wachovia Securities - Analyst*

Sure. To the extent that there is a method at work, other than first up for renewal, first out, do they seem to be factoring in the nature of the fields that the rigs are currently working on or spent most of their time working on?

Daniel Rabun - *Ensco International - CEO*

Yes, oh, absolutely. The least vulnerable are rigs drilling for gas and the most vulnerable are the rigs drilling for oil and in inverse order, if you're drilling for light oil versus heavy oil. If you are drilling for heavy oil, that is the least marketable. So when they meet their OPEC commitments, they've described to us that they cut back on what is the least marketable, which is heavy oil, and that's where we happen to be drilling.

Tom Curran - *Wachovia Securities - Analyst*

Right, and presumably that would not only mean Manifa, but Safaniya.

Daniel Rabun - *Ensco International - CEO*

We're not there, so I can't really comment.

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Tom Curran - Wachovia Securities - Analyst

But Safaniya is the other primary offshore field that is heavy, right?

Daniel Rabun - EnSCO International - CEO

Yes.

Tom Curran - Wachovia Securities - Analyst

Okay. Great, thanks, guys. I'll turn it back.

Operator

We'll take our next question from Dan Pickering with Tudor Pickering and Holt.

Dan Pickering - Tudor, Pickering & Holt - Analyst

Morning guys.

Jay Swent - EnSCO International - CFO

Good morning.

Dan Pickering - Tudor, Pickering & Holt - Analyst

Dan, you mentioned that there is nothing new to say about the rig in Venezuela. I'm curious, is it actually operating now? And Jay, are we incurring costs down there? Is that a zero revenue, zero cost asset for you guys at this point?

William Chadwick - EnSCO International - COO

Dan, this is Bill. The rig is operating. It's being operated by the subsidiaries of PDVSA, who is our customer. We still have our crew on board in an observation mode. So we are still incurring some costs for crude, we are incurring, our sure base is still operational. That is there because we anticipate resolving this situation in the very near future and resuming operations under the contract. So we are still incurring some costs. We have curtailed those to the maximum extent possible. If this thing retracted for any great length of time, we would have to take another look at, but right now it's our expectation that this thing will be resolved very soon.

Dan Pickering - Tudor, Pickering & Holt - Analyst

Okay.

Jay Swent - EnSCO International - CFO

And Dan, my comment was that we defer to recognizing revenue. That does not necessarily mean we have given up on it.

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Dan Pickering - *Tudor, Pickering & Holt - Analyst*

Right. And I guess in the bad debt adjustment, I assume all PDVSA debt is considered current? So in other words, there is no increase of bad debt assumption for PDVSA at this point?

Jay Swent - *Enco International - CFO*

I wouldn't jump to that conclusion.

Dan Pickering - *Tudor, Pickering & Holt - Analyst*

Okay, alright. So part of the Q4 costs would assume some PDVSA.

Jay Swent - *Enco International - CFO*

Some of PDVSA, yes.

Dan Pickering - *Tudor, Pickering & Holt - Analyst*

Okay, thank you. And then just so I get my math correct on the 7500, when it starts up in April, 550 is the day rate and we're going to be adding \$70 million over 17 months on top of that number. Is that correct?

Jay Swent - *Enco International - CFO*

You got the math right. Yes, sir.

Dan Pickering - *Tudor, Pickering & Holt - Analyst*

Thank you. And then I guess conceptually, the last question for me would be on the deepwater side. Dan, I don't hear any hesitancy on the three new build rigs for late delivery. So there is no thought at this point of slowing down or stopping any work on the 8503 through 06 --

Daniel Rabun - *Enco International - CEO*

If anything, we've talked about accelerating it.

Dan Pickering - *Tudor, Pickering & Holt - Analyst*

Okay. And what's the total spending to date on those three rigs?

Daniel Rabun - *Enco International - CEO*

To date Dan, we've spent \$1.7 billion. That would be as of the end of '08, the balance to be spent over the -- all rigs through 2012 is about another \$1.7 billion.

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Dan Pickering - *Tudor, Pickering & Holt - Analyst*

Thank you very much, guys.

Jay Swent - *EnSCO International - CFO*

It's \$1.4 billion, \$1.7 billion? I think you said \$1.7 billion that we

Dan Pickering - *Tudor, Pickering & Holt - Analyst*

Okay, \$1.7 billion spent, \$1.4 billion left? Sorry.

Jay Swent - *EnSCO International - CFO*

No, one -- let me start over. \$1.4 billion has been spent as of the end of 2008, \$1.7 billion is left to go for a total of \$3.1 billion.

Dan Pickering - *Tudor, Pickering & Holt - Analyst*

Got you. Thank you.

Jay Swent - *EnSCO International - CFO*

Okay.

Daniel Rabun - *EnSCO International - CEO*

Thanks, Dan.

Operator

We'll take our next question from Arun Jayaram from Credit Suisse.

Arun Jayaram - *Credit Suisse - Analyst*

Good morning, guys.

Daniel Rabun - *EnSCO International - CEO*

Good morning, Arun.

Arun Jayaram - *Credit Suisse - Analyst*

Quickly guys, this is for the 8500 series rigs. What kind of day operating costs should we be thinking about? I think those have full marine (inaudible), but just trying to get a sense of the cost of those.

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Daniel Rabun - *Ensco International - CEO*

The 8500 series?

Arun Jayaram - *Credit Suisse - Analyst*

Yes.

Daniel Rabun - *Ensco International - CEO*

About about \$75,000 a day.

Arun Jayaram - *Credit Suisse - Analyst*

Great.

Jay Swent - *Ensco International - CFO*

And remember, Arun, we have full cost adjustments on all of those.

Arun Jayaram - *Credit Suisse - Analyst*

That's right. That's right. Dan, interested in your interested trip down to Keffel FELS. I was wondering if you could give us some comments on if they run into a situation where customers are not paying them, what do you think they do, and could there be opportunities for you guys to work with your strategic relation with them to increase your deepwater fleet?

Daniel Rabun - *Ensco International - CEO*

Interesting question. I don't think KFELS has a lot of exposure in the area, Arun. I think the yards that have exposure are other places and so no, I don't really see a lot of opportunities as --, taken advantage of our good relationship with KFELS with some of these opportunities that exist. They don't have a lot of exposure to companies that are having funding issues. I think there was one that was pretty well publicized that has now gone by the wayside.

Arun Jayaram - *Credit Suisse - Analyst*

Yes, that is right. And last question, Dan, we do a lot of work in terms of on valuation side looking at the replacement cost of rigs and, obviously the US dollar has appreciated versus some of the Asian currencies, making them maybe cheaper on a dollar bases. Any sense from talking to KFELS if you theoretically would build or could get a rig from them, what the cost would be versus some of the recent numbers in the 200-plus range?

Daniel Rabun - *Ensco International - CEO*

No, and I haven't really asked the question. I have kind of an instinctive feel for what it might be, but I would hate to speculate. It's obviously come down.

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Arun Jayaram - *Credit Suisse - Analyst*

What does your instinct tell us?

Daniel Rabun - *EnSCO International - CEO*

Sorry?

Arun Jayaram - *Credit Suisse - Analyst*

What would be your instinct?

Daniel Rabun - *EnSCO International - CEO*

It's come down.

Arun Jayaram - *Credit Suisse - Analyst*

Okay. It's come down. (laughter)

Daniel Rabun - *EnSCO International - CEO*

I think I told you it'd come down. I'm not going to quantify it. Half of the costs, or more than half of the cost is equipment, and O&M hasn't been real generous in lowering their prices yet. So really, it's the cost of steel and just the Singapore dollar component of the labor to construct the rigs. So you can count on the back of the envelope, figure out what those might be.

Arun Jayaram - *Credit Suisse - Analyst*

You're a well trained lawyer, Dan. Thank you very much. Appreciate it.

Operator

And we'll take our next question from Pierre Connor with Capital One South Company.

Pierre Connor - *Capital One Southcoast - Analyst*

That is me. Good morning, gentlemen.

Jay Swent - *EnSCO International - CFO*

Hi, Pierre.

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Pierre Connor - Capital One Southcoast - Analyst

I want to ask you guys, in the past, the strategy might have been to take (inaudible) market to accelerate upgrades and modifications and to the extent you've got \$125 million of Cap Ex plans for enhancements. Are you -- in the current environment, do you -- would you anticipate accelerating potentially any other into this year if you had available time?

Jay Swent - EnSCO International - CFO

I think, Pierre, it's really a function of the rig and the geography it's in. It's not a simple question. Obviously, we have always had breaks in the schedule, we've used that to -- and not been afraid of spending money on the rigs. I think as we have said, we view cash as a precious commodity right now, and so we're going to be very judicious in how we spend it. But we have a rig that has good work prospects and needs some work done before it goes to the next contract, we're not going to be bashful about spending money on it. Obviously, if you're looking at a rig that you are going to have to spend a lot of money on and has no work prospects, we're going to spend a lot more time thinking about that.

Daniel Rabun - EnSCO International - CEO

And Pierre, you were breaking up as you asked the question. But I think what you asked, is if there is a possibility if we have rigs that are idle that we would accelerate CapEx?

Pierre Connor - Capital One Southcoast - Analyst

That's correct and with that, I believe -- .

Daniel Rabun - EnSCO International - CEO

I think the answer to that is no, quite frankly, because if you look at our fleet, we have pretty well completed our upgrade program. We have got a couple of projects that we have identified that are included in that budget that Jay mentioned and quite frankly, there is not any other major upgrades that we could make to the rigs, quite frankly.

Pierre Connor - Capital One Southcoast - Analyst

Okay. That was my sense, that you were pretty much done.

Jay Swent - EnSCO International - CFO

Right.

Pierre Connor - Capital One Southcoast - Analyst

Okay.

William Chadwick - EnSCO International - COO

There is not anything that would be contract specific.

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Daniel Rabun - *Ensco International - CEO*

Yes, so if we were able to get other rigs down to Pemex or something like that, yes.

Pierre Connor - *Capital One Southcoast - Analyst*

Understand. Same kind of question though around the potential stacking. And so I know the math could be done, but what is that time frame that would cause you -- is it a six-month window that is not of an opportunity for a contract that says, here's a cold stack opportunity?

Jay Swent - *Ensco International - CFO*

Pierre there is just not a bright line analysis that you can put to that. You have got to look at all the factors and what -- with regard to each specific rig, so it's really hard to answer that question. As Dan said, we're not going to be bashful about stacking rigs but, we also recognize the second you have taken a rig out of the market, particularly in this market, it's probably out of the market for a long period of time. So you have to weigh up all of the factors, come to a conclusion.

Pierre Connor - *Capital One Southcoast - Analyst*

Okay. Another one that is probably a general answer too, Dan, earlier you did say about the M&A. I guess I have heard that one rig contractor is beginning to market a partially built rig for less than they contracted to build it. So they're coming down, but is your sense the bid-ask spread, has it increased or is it beginning to close? Admittedly not there yet.

Daniel Rabun - *Ensco International - CEO*

I would think it's beginning to close, but I don't think it's quite there yet.

Pierre Connor - *Capital One Southcoast - Analyst*

Okay. So the direction is better?

Daniel Rabun - *Ensco International - CEO*

The direction is going better. That is correct.

Pierre Connor - *Capital One Southcoast - Analyst*

Okay. Okay.

Daniel Rabun - *Ensco International - CEO*

As I like to say, I don't need to talk to the equity holders, I need to be talking to the creditors, and that is when it will be an opportune time.

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Pierre Connor - *Capital One Southcoast - Analyst*

Right. Okay. I think the rest was answered. Thanks, gentlemen.

Jay Swent - *Ensco International - CFO*

Thanks, Pierre.

Operator

Our next question come is coming from Truls Olsen from Fearnley Fonds.

Truls Olsen - *Fearnley Fonds - Analyst*

Yes, thank you, a few quick questions (inaudible). On the -- your fleet status report of late, I have noticed that there has been some, I don't know, should I call it fluctuations or variations on the contract terms on some of your jackups. They have been -- the terms has been shortened quite substantially where there has been no comments into when the contract has been shortened or anything (inaudible) a lot of shortening or cutting short a contract. Any particular reason for this occurring? It's been on the 5,6,7 contract over the last three, four, five latest (inaudible) reports.

Daniel Rabun - *Ensco International - CEO*

Truls, sometimes we can complete the work earlier than expected. Sometimes the operator doesn't pick up options. We consistently have shown the expected duration and the status report, but we don't add a lot of color to that, but it varies by contract as to what the difference might be.

Truls Olsen - *Fearnley Fonds - Analyst*

Yes, okay, just an arbitrary example with the ENSCO 97 which in the January report was stated being on contract until October 9 and then the February contract is stated to be in contract on March '09 (inaudible).

Daniel Rabun - *Ensco International - CEO*

Right, that is the rig, Truls, where they give us notice, a 30 day notice that they were canceling the contract.

Truls Olsen - *Fearnley Fonds - Analyst*

Okay.

Jay Swent - *Ensco International - CFO*

And in that case, they had exercised a one year option, but it had a 30 day termination clause in it.

Truls Olsen - *Fearnley Fonds - Analyst*

Any other contracts with termination clauses?

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Daniel Rabun - *Ensco International - CEO*

Yes, that there would be other contracts that have notice periods for termination. It varies by contract.

Truls Olsen - *Fearnley Fonds - Analyst*

Except in Mexico?

Daniel Rabun - *Ensco International - CEO*

It's different in every market we operate, which is the same for every other drilling contractor as well. So it's kind of hard to generalize.

Truls Olsen - *Fearnley Fonds - Analyst*

My other questions have been answered. Thank you.

Daniel Rabun - *Ensco International - CEO*

Thank you.

Operator

The next question will come from Mike Drickamer with Morgan Keegan.

Mike Drickamer - *Morgan Keegan - Analyst*

Hey, good morning, guys. You have been approached yet by customers looking to renegotiate the terms of the contract, perhaps the (inaudible) term for day rate?

Daniel Rabun - *Ensco International - CEO*

There have been several conversations with customers, and if customers are willing to extend terms, we'll talk to them about day rate. I don't think we have struck any deals with anybody, but we've certainly had the conversations.

Mike Drickamer - *Morgan Keegan - Analyst*

Is it still very early in those conversations, or is something likely to happen there?

Daniel Rabun - *Ensco International - CEO*

It's impossible to predict. Needless to say, if we got a firm contract and someone wants us to reduce the rate, we obviously want something in considering for it.

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Mike Drickamer - Morgan Keegan - Analyst

Sure, sure. And my other question was on cold stacking costs. Assuming you guys, perhaps, cold stack some rigs this year, what should we look at as cold stacking costs, maybe as a percentage of operating cost or active cost?

Daniel Rabun - EnSCO International - CEO

Well, fortunately, we don't have much experience in the history of this company of cold stacking rigs, so I can only tell you. We've got ENSCO 1 that is cold stacked, our barge rig over in Singapore and right now, its Op Ex is \$5,000 a day. I will -- that includes a pretty healthy allocation of overhead, and so I think their true cost is somewhere, \$2,500 to \$3,000 and we're, we really don't have experience in what it's like on the jackups, but I don't imagine it's a whole lot more than that.

Mike Drickamer - Morgan Keegan - Analyst

Okay. That is it for me guys, thank you.

Richard LaBlanc - EnSCO International - VP of IR

We probably have time for one more question.

Operator

Great, and we'll take the next question from Judson Bailey from Jefferies and Company.

Judson Bailey - Jefferies & Co. - Analyst

Thank you, good morning. A followup to the comments on Mexico. If you are awarded the two contracts, I apologize if I missed this, did you say when those would start and how long those rigs might be out of service in the Gulf to prepare for that work?

Daniel Rabun - EnSCO International - CEO

I'll let Jeff handle that one.

Jeff Saile - EnSCO International

Well, one would be mid-year and the other will be from September time frame.

Judson Bailey - Jefferies & Co. - Analyst

And would they need to be out of service for some amount of time to do some upgrades or work on the rig?

Jeff Saile - EnSCO International

They will be a modest amount of contract specific work that has to be done. It will probably take around 45 days, something like that.

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Judson Bailey - *Jefferies & Co. - Analyst*

Okay. And my followup, Dan, you covered all the markets pretty well in your prepared comments. Could you maybe give us a little more color on the North Sea and what your customers are saying? I believe you said that their indications are down below 200. That's pretty wide -- could be a wide range. Do you have any sense on where things could reprice by say mid-year this year?

Daniel Rabun - *Ensco International - CEO*

I'll tell you what, let me let Mark answer that one, because he's visited with all the customers over there.

Mark Burns - *Ensco International - President, Offshore International*

Joseph, this is Mark Burns. As we see it today, the North Sea is surprisingly holding up very well. It still remains a very balanced jackup market. Our mixture is between majors and independents. Obviously, we have seen some of the majors delay or cancel some of their planned programs for the back half of 2009, so we're in discussions with them, but we remain fully utilized in the North Sea. However, we expect to see some softness later in the half -- back half of 2009, but we're pleased with where we're at there.

Judson Bailey - *Jefferies & Co. - Analyst*

And any sense on rates, where some of those -- your rigs might reprice as they come up for renewal throughout the year?

Mark Burns - *Ensco International - President, Offshore International*

No, not really. Not other than what Dan mentioned in his opening comments.

Daniel Rabun - *Ensco International - CEO*

The one comment we can say, you have heard us say it several times before, that is somewhat of a unique market in terms of the demand/supply equation of rigs. There is not a lot of rigs that can move into that market or are being built as new builds that can move into that market. So it's got a different dynamic to it than Asia-Pacific and the Middle East, so it's clearly going to have some pressures as commodity prices stay at these depressed levels, but it's really hard to say.

Judson Bailey - *Jefferies & Co. - Analyst*

Okay, that is all I have got. Thank you. Thanks, Jeff. I would like to just thank everyone for joining us today and we look forward to talking again on Thursday the 23rd of April for our first quarter earnings conference call. With that, Melanie, I'll turn it back to you.

Operator

That concludes today's conference call. Thank you for joining us, and have a wonderful day.

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