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ESV - Q3 2010 Ensco plc Earnings Conference Call

Event Date/Time: Oct. 21. 2010 / 3:00PM GMT

THOMSON REUTERS

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PRESENTATION

Operator

Greetings, and welcome to Ensco plc's third quarter 2010 earnings conference call. At this time, all participants are in a listen-only mode. A brief question and answer session will follow the formal presentation. (Operator Instructions). It is now my pleasure to introduce your host, Sean O'Neill, Vice President of Investor Relations for Ensco plc. Thank you, Mr. O'Neill, you may begin.

Sean O'Neill - *Ensco plc - VP IR*

Thank you operator, and welcome, everyone, to the third quarter 2010 conference call. With me today are Dan Rabun, CEO; Bill Chadwick, our Chief Operating Officer; Jay Swent, CFO; as well as other members of our executive management team. We issued our earnings release, which is available on our website at Enscoplc.com. Later today we plan to file our SEC Form 10-Q. As usual, we will keep our call to one hour.

Any comments we make about expectations are forward-looking statements, and are subject to risks and uncertainties. Many factors could cause actual results to differ materially. Please refer to our earnings release and SEC filings on our website, that define forward-looking statements, list risk factors and other events that could impact future results, and includes Safe Harbor disclaimers. Also, please note that the Company undertakes no duty to update forward-looking statements. As a reminder, our most recent fleet status report was issued on Friday, October 15. Now, let me turn it over to Dan Rabun, Chairman and CEO.

Dan Rabun - *Ensco plc - Chairman, CEO*

Thanks, Sean, and welcome, everyone, to today's call. The US Gulf of Mexico continues to be a major focus within our industry, and for good reason. But before I discuss specific developments within that region, I will cover highlights from our global operations.

First, we are very encouraged by the increase in our jackup fleet utilization to 79% for the quarter, up from 64% last year, and 75% last quarter. In our deepwater fleet, utilization was 96% for ENSCO 8500, and 100% for ENSCO 8501, both in the US Gulf of Mexico. Also ENSCO 7500 successfully completed its contract with Chevron in Australia and has now moved to Singapore for scheduled upgrades, repairs, and maintenance. These operating results are a testament to the high quality of our equipment and our well trained employees, who have received top scores for performance and reliability.

Our operational success is directly tied to our commitment to safety. I am pleased to report that we have maintained very high safety performance this year, with a total recordable incident rate that is comparable to our record results in 2010. Ensco operates under a comprehensive and integrated safety program that is supported by a robust safety management system. Very importantly, all crew members are empowered with the duty to stop work, which means employees who see something unsafe have not only the right, but the duty to intervene.

Our dedication to safety is also shared by our partners, and it was especially gratifying that we, along with the Keppel FELS shipyard, recently received a safety award from the Singapore government for the construction of ENSCO 8503, which was delivered on time, with no recordable incidents during the entire construction process. We now have four 8500 series rigs on our fleet, which along with ENSCO 7500, brings our total number of ultra deepwater semis to 5. During the quarter, we also added ENSCO 109, an ultra-high spec jackup that is ideally suited for deep gas drilling, an important growth area in the jackup market. Adding ENSCO 109 underscores our commitment to continually high grade our fleet, just as we have done throughout our 20-plus-year history.

Customer requirements will continue to gradually increase over time and it's Ensco's strategy to maintain our position at the high end of the premium jackup market. It's important to remember, however, that at any point in time, customers around the world will have a variety of jackup needs, ranging from different leg lengths, hoisting capacities, and equipment requirements.

Our objective at Ensco is to have just the right mix of rigs to match customer demand in each market so that we can provide cost effective solutions for our customers, while maximizing returns for our shareholders. Divesting selected assets has been a part of our high grading strategy and we plan to sell ENSCO 60, bringing jackup rig sales this year to a total of four.

Turning now to ENSCO 69, I want to commend our employees who were instrumental in successfully recovering ENSCO 69 from Venezuela during the third quarter. Since Petrosucre took control of ENSCO 69 last year, we have been carefully managing the situation to achieve the best possible outcome. We are glad to have recovered ENSCO 69 and we have collected most of the monies due to us under the agreement we have with Petrosucre.

Now, let me turn to the US Gulf of Mexico. We were gratified by the recent decision by the US government to lift the drilling moratorium, and we believe our lawsuit helped to accelerate this decision, making our time, effort, and expense well worth the benefits to our customers, employees, shareholders, and the communities of the Gulf region. More work lies ahead, however, and we will continue to work very closely with our customers and assist wherever possible in the permitting process.

Our efforts so far, along with our customers, have paid off, as six of our seven jackups in the US Gulf have continued to operate and earn dayrate. Most are working on side track or completion assignments and one is drilling a new well. On the deepwater side, as you may recall, we received the first two certifications under NTL-05, for ENSCO 8500 and ENSCO 8501. And as noted in the last fleet status report, both have been collecting full day rate.

For ENSCO 8502, there's no updates since last fleet status report. Our customer is disputing the commencement date of the two-year term, which we assert commenced on August 13, after meeting all of the required steps under the contract. We are actively working with our customer to resolve the dispute.

In general, while we see further clarifications on the permitting process, we continue to explore various opportunities with our customers, who continue to actively pursue permits for new projects. As I said last quarter, I have the utmost confidence that our industry will become even stronger and safer following recent events. Workers in our industry are devoted to protecting people and the environment, and I am confident we will find improved methods to further enhance the safety of offshore drilling.

Turning now to other regions, tender activity for deepwater rigs has improved somewhat in the third quarter, but mostly for short-term work. In Brazil, West Africa, and Austral-Asia, there are a few longer-term projects, although bid responses will be competitive. Petrobras is expecting to issue tenders for three or four rigs to commence work in 2011. Chevron in Angola has an outstanding tender for work beginning in the third quarter 2011 for a two-year term. Total has announced a work program in Asia, and there is also additional potential work in Australia. We are in discussions with operators and currently are working on several tenders.

On the jackup side, in Mexico, all of our five rigs are contracted. PEMEX currently has tenders outstanding, two for short-term contracts that will likely go to incumbent rigs. The other tenders are for work beginning in January 2011. One is for 350-foot jackup for 486 days and the other for a 300-foot jackup for 662 days. Both tenders call for rigs built in 2000 or later.

PEMEX has also published a pretender for one 350-foot rig for 730 days beginning in February 2011, and two 300-foot jackups, each for more than 700 days. Both have the 10-year age limitation stipulation. The media, however, has reported that PEMEX has confirmed its intention to relax the 10-year age requirement for certain future tenders. PEMEX also reportedly has additional tenders currently in some stage of approval. The tenders call for jackups with a possible single semi requirement being issued later in 2011.

The Middle East, on the other hand, continues to be a challenging market. Demand has been relatively flat with the exception of Saudi Aramco, which has made several awards during the quarter and tendered for an additional workover rig, as well as one oil and one standard gas rig. In India, there are several short-term programs out for tender, which will likely be awarded to warm-stacked rigs in the region. In Southeast Asia, the market has proven to be resillient, considering the number of new builds that have entered the market. Indonesia, Malaysia, and Thailand are especially active. All new builds constructed in the region have been contracted, with the exception of one that is currently undergoing commissioning. We are mindful that several high spec rigs will roll off contract over the next six months, which may negatively impact dayrates.

The North Sea market shows signs of recovery, with increased tendering activity for work starting in the second half of 2011, for both heavy duty and standard jackup rigs. Higher utilization must be obtained, though, for dayrates to increase. The Mediterranean may experience further pressure, as four new builds enter this market in 2011.

Now, before I hand the call over to Jay, let me make a few summary comments. While the situation in the US Gulf has added some variability to our outlook in the short-term, mainly due to a pending dispute with one customer, our employees have done an excellent job working to address the new regulations, and I believe we have and will continue to fare better than most drillers in the region. Globally, our jackup and deepwater rigs have performed exceptionally well, as evidenced by their strong utilization and market conditions in both deep and shallow water markets have been improving. Finally, if we see oil prices remain at current levels, we believe it would be very positive for rig utilization around the world. Now, I'll turn it over to Jay.

Jay Swent - *Ensco plc - CFO*

Thanks, Dan. My comments today will cover details of our third quarter results, our outlook for the fourth quarter, and a review of our financial position.

Let's start with the discussion about some items that influence third quarter results. As many of you will recall, we classified ENSCO 69 as discontinued operations when Petrosucre took control of the rig last year in the second quarter. However, as Dan mentioned, Ensco personnel were able to recover possession of the rig and move it out of Venezuela. Therefore, during the third quarter, we reclassified ENSCO 69 results back to continuing operations, for both current and prior periods.

For third quarter 2010, ENSCO 69 added about $0.04 to EPS from continuing operations, with revenues of approximately $10 million and expenses of about $2 million. This revenue represents cash collections received from Petrosucre during the quarter. Earnings per share for ENSCO 69, reflected in continuing operations for the first nine months of 2010, were approximately $0.09. ENSCO 69 is currently mobilizing to a shipyard in the Gulf of Mexico, and we will fully inspect the rig once it arrives in the shipyard.

Turning now to ENSCO 60, we have a pending agreement to sell the rig for approximately $26 million and have already received an initial nonrefundable deposit. Taking these points into consideration, we have classified ENSCO 60 as discontinued operations for current and prior periods, since it is now held for sale. We expect to book a gain when we close the sale later this year, since the net book value of ENSCO 60 is approximately $20 million. As noted in our earnings release, ENSCO 60 has been cold-stacked in the Gulf of Mexico and is the only rig of its type in our fleet. So we have determined that a sale is our best option for this rig, especially since the buyer intends to convert the rig to a mobile production unit.

Moving now to ENSCO 8502, we did not recognize any revenue for this rig in the third quarter due to the pending contract dispute with our customer. We did recognize operating expenses since the rig was placed in service on August 13. As Dan mentioned, we continue to work actively with our customer to resolve the dispute.

Turning now to ENSCO 109, as you will recall, we purchased this ultra-high spec Keppel FELS Mod V Super B jackup for $186 million in July. The average dayrate for rigs of this design in the market is about $150,000, and we anticipate favorable returns over the life of the rig. As part of the ENSCO 109 acquisition, we assumed that unfavorable below-market contracts in Australia in the low 100s per day. Under purchase accounting rules, we will be recognizing revenue of approximately $150,000 per day over the life of this contract. This accounting treatment differs from what we discussed on last quarter's conference call.

Now, I will discuss our results. Earnings from continuing operations were $0.92 per share compared to $1.01 a year ago. We had a loss of $0.01 per share from discontinued operations in the quarter, primarily related to ENSCO 60, that is cold-stacked in the US Gulf of Mexico compared to earnings of $0.04 per share a year ago. Third quarter earnings per diluted share were $0.91 versus $1.05 last year.

Total revenue for the third quarter was $428 million, a 5% increase from last year. Deepwater revenues increased 77%, driven by ENSCO 8501, which commenced operations in October 2009, as well as an 11 percentage point increase in utilization. This was partially offset by jackup segment revenues that decreased approximately 8%. Average jackup dayrates were down $42,000 year-over-year to $105,000, as shown in our earnings release, although jackup utilization in the third quarter was 79%, up from 64% a year ago.

Total contract drilling expense increased 11% year to year, due to growth in our operating assets and higher utilization. Deepwater segment contract drilling expense was up $13 million, or 38%, due primarily to adding ENSCO 8501 and 8502 to the active fleet, partially offset by lower expenses for ENSCO 7500 that is now in the shipyard. Jackup segment contract drilling expense grew approximately 4% versus a year ago, mainly due to higher utilization and the acquisition of ENSCO 109.

Now, let's discuss quarterly trends by comparing third quarter 2010 sequentially to second quarter 2010. Third quarter revenue increased 4% to $428 million. This increase is attributable to a $27 million, or 9% increase in jackup segment revenues driven by a 4 percentage point increase in utilization. Average dayrate remained unchanged at $105,000, plus, as I mentioned previously, we acquired ENSCO 109 at the start of the third quarter. The jackup segment revenue increase was partially offset by a decline in deepwater revenues of $10 million, mainly due to ENSCO 7500 going into the shipyard during the third quarter.

Total contract drilling expense declined $12 million sequentially from the second quarter, mostly due to the $12 million ENSCO I barge rig impairment that was recorded in the second quarter. Our higher expenses related to the addition of ENSCO 109 and ENSCO 8502 were largely offset by lower mob and repair costs and reduced ENSCO 7500 expenses. Looking at other expenses, depreciation increased $4 million with the addition of two rigs and G & A expense decreased $1 million due to lower professional fees. The effective tax rate in the third quarter was approximately 17%, which was higher than our prior guidance, due in part to ENSCO 69 being reclassified back into continuing operations and ENSCO 60 being classified as discontinued operations.

Now let's discuss the fourth quarter outlook. As I mentioned last quarter, there are still a few key moving pieces, which makes it difficult to be precise about the outlook. Based on our current outlook, total fourth quarter revenues are expected to be between $345 million and $400 million. While we will not get into the specifics by individual rig, factors influencing the range of this revenue outlook are primarily related to the deepwater segment.

Key factors are the final outcome of negotiations to resolve the dispute concerning ENSCO 8502 and the ultimate contracting for ENSCO 7500, which will influence the amount and timing of revenue recognition for the potential $26 million lump sum demobilization fee under the rig's prior contract in Australia. For ENSCO 7500, we've had more customer inquiries since our last earnings call, for work that may potentially allow us to recognize the lump sum fee in our fourth quarter results, but, again, this will only be determined once details of the new contract for ENSCO 7500 are finalized.

On the jackup side, the average reported dayrate is projected to decline somewhat as a result of older contracts rolling off to current lower market dayrates. Leading edge dayrates, however, have been firming. Jackup utilization is projected to remain in the high 70% range. Our revenue projections do not include any potential cash collections for ENSCO 69. Our Gulf of Mexico jackup rigs are expected to continue to have solid utilization, despite hurricane season and the changing regulatory environment. Of course this is subject to our customers receiving permits, which is also true for our deepwater rigs.

Moving to expenses, we anticipate fourth quarter 2010 total contract drilling expense will decrease by approximately $9 million from the third quarter. Expenses related to the addition of ENSCO 8502 to the fleet will be more than offset by lower expenses for ENSCO 7500 that is now in the shipyard. The recertification process in the Gulf of Mexico under the new and evolving regulatory framework will add some costs, although not material, and certain expenditures are reimbursable under our existing deepwater contracts.

Jackup contract drilling expense is estimated to be approximately even with the third quarter. Depreciation expense should increase to about $59 million with ENSCO 8502 now placed in service. We anticipate G&A expense will decrease to approximately $20 million in the fourth quarter, as some of the transitional costs related to our UK move declined. Our full year 2010 effective tax rate is projected to be in the 17% range. Our effective tax rate outlook for 2011 remains unchanged at this time, and assuming normalization of deepwater drilling in the Gulf of Mexico in 2011, we would expect to achieve an effective tax rate of 15% or below.

2010 capital spending is forecasted as follows. $610 million for the construction of our 8500 series rigs. $40 million for rig enhancement projects. $100 million is for sustaining projects, and $186 million was expended to acquire ENSCO 109.

We continue to maintain a strong financial position, even after significant investments in our fleet through acquisitions at our ultra deepwater newbuild program. Cash at the end of the third quarter was $905 million and our cash flow outlook remains positive, especially as new capital outlays decline. With that, I'll now turn the call back over to Sean.

Sean O'Neill - *Ensco plc - VP IR*

Okay, operator, you may now open it up for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question is from the line of Mike Urban with Deutsche Bank. Please proceed with your question.

Mike Urban - *Deutsche Bank - Analyst*

Thanks, good morning. The -- there's been a lot of talk of bifurcation in the jackup market. Was wondering if -- maybe there isn't a way to quantify that, but even qualitative remarks would help. Do you have any sense of some of the higher spec rigs that may be working in, or doing standard jackup work as that market tightens up? Are there opportunities for standard jackups? And maybe another way to look at it is if you look at the bid and tender activity out there, I mean, how much of that requires a premium or high spec rig versus standard versus a kind of customer preference issue? Just trying to get a sense for that, the issue broadly.

Mark Burns - *Ensco plc - SVP*

Yes, Mike, this is Mark Burns. Let me answer you in a couple ways. Certainly you have to look at your question and you have to compare different operating areas. Different operating areas have different requirements for jackups. Specifically in Saudi Aramco, we've seen a demand for higher spec jackups that are able to handle heavy hook loads and that type of thing. So you're starting to see a specific demand for high spec rig there. However, there are standard duty rigs that can and do perform work that high specification rigs have been tendered for.

Operators, oil companies, obviously, newer rigs are attractive to oil companies, so I think you'll see some, some interest in that. However, over time it's been shown that in particular areas, that older, well maintained jackups can do the work as efficiently and as well as the higher spec rigs can do. So, yes, I think you will see some -- depending on what areas of the globe you're looking at, you will see some operators prefer newer, larger equipment. However, as markets tighten up, it's been proven over and over again that standard duty rigs can do a lot of the work that the heavier duty or higher spec rigs can. So anyway, I hope that -- I hope that helps.

Dan Rabun - *Ensco plc - Chairman, CEO*

Just to embellish a little bit, this is Dan. The key to this business is to get the right rig for the right job. And if you have the right rig for the right job, that's when you can achieve your highest dayrate. There are a lot of newer rigs that are not working on the right jobs and they will not achieve those dayrates that they would like to achieve, and as well as standard duty rigs, when it's work a standard duty rig can do, they will probably get the job and get the same dayrate a new rig would.

Mike Urban - *Deutsche Bank - Analyst*

Okay. That's helpful. And then shifting gears a little bit, over to the deepwater side, you talked about potential tenders coming out of Brazil. On the 8500 series rig, I think you've been having some discussions with them about getting those, I don't know if qualify is the right word there, but I think they had technically required something a little bit different from a DP standpoint. Where do those discussions stand, and is that an opportunity for the remaining uncontracted new builds?

Dan Rabun - *Ensco plc - Chairman, CEO*

Well, first of all, we need to see the tenders and see what the rig specifications are, so I couldn't really comment, about what those tender specifications are going to be for those tenders. But typically, just about any rig when you go to work for Petrobras, you will find it's just like going to work for Aramco. There will be something your rig doesn't have and doesn't meet. And that means you have to make a capital investment and that's true of everybody going into Brazil. There's, there are always capital requirements to go take those jobs.

Mike Urban - *Deutsche Bank - Analyst*

So no reason why those rigs couldn't potentially end up there?

Dan Rabun - *Ensco plc - Chairman, CEO*

Clearly we'll be marketing them.

Mike Urban - *Deutsche Bank - Analyst*

Okay. Perfect. That's all for me. Thank you.

Operator

Thank you. Our next question is from the line of Matt Conlan with Wells Fargo. Please proceed with your question.

Matt Conlan

Thanks. The quarterly question of what you're going to do with all of your cash, how do you view the prospects out there for acquiring speculatively built rigs on the shipyard?

Jay Swent - *Ensco plc - CFO*

Well, I think as we've always said, a very high priority for us is managing capital and capital allocation. We continue to look at rigs in the market. We continue to be interested in acquiring additional jackups and also looking at deepwater rigs as well. So

I think that will continue in the, for the foreseeable future. I think, you know, if you look at what we've done in just the last quarter, you know, we've invested over $400 million in the fleet, with about half of that, a little less than half of that being allocated to the ENSCO 109 to add a high spec jackup. We increased our dividend by now to a run rate of about $50 million a quarter. So we have engaged in a combination of investing in the business and also returning capital to shareholders. We'll continue to look at that over time.

Matt Conlan

Can you tell us whether the asking prices on rigs in the shipyard, particularly deepwater rigs, have been coming down?

Dan Rabun - *Ensco plc - Chairman, CEO*

Directionally I would say they have. I can't give you exact prices or exact numbers, but, you know, directionally, they certainly have come a little more reasonable.

Matt Conlan

Okay, great. Thank you very much.

Dan Rabun - *Ensco plc - Chairman, CEO*

Yes, I think one way to look at it is look at the recent orders of these jackups and compare those to the market highs. And I think you would see a comparable trend on the deepwater rigs.

Operator

Thank you. Our next question is from the line of Judson Bailey with Jefferies & Company. Please proceed with your question.

Judson Bailey - *Jefferies & Co. - Analyst*

Thanks, good morning, I guess for you guys. Jay, I wanted to circle back on your comment on the 7500. Just want to make sure I'm clear on when you would -- you could potentially recognize the lump sum mobilization revenue in the fourth quarter. Is that -- if you get a contract for the 7500, do I have that correct?

Jay Swent - *Ensco plc - CFO*

Well, what we're saying there, Jud, is that -- and I won't get into all the specifics of our prior contract, but the prior contract provides that if we go back to work for Chevron, some or all of that demob fee would be waived. If we book business with somebody else between now and the end of the quarter, we would be very clear we're not going back to work for them. So in that case, we would recognize the revenue. But in the absence of that, we would not do anything until it was 100% clear that we would not in any way be returning any of that demob fee back to Chevron. Is that clear?

Judson Bailey - *Jefferies & Co. - Analyst*

Okay. So if you got a contract, though, with somebody else in January, you would recognize the revenue in the first quarter, is that -- do I have that straight?

Jay Swent - *Ensco plc - CFO*

Most likely.

Judson Bailey - *Jefferies & Co. - Analyst*

Okay, okay. And then a question for I guess either Dan or Mark, on the jackup market, you look at -- a lot of tender activity seems to be developing, a lot of it is starting up in 2011. In the meantime, there's a lot of rigs. Some of yours, some of your competitors rolling late this year, early next year, and I believe you may have alluded to this in your prepared comments. But do -- should we expect some softness in utilization to end the year before some of these tenders get going, or is it going to be more dayrate pressure? How do you think that works out over the next four or five months?

Mark Burns - *Ensco plc - SVP*

Judd, this is Mark again. I think, again, you need to look at each area in isolation. For example, in the North Sea, we're starting to see Q2, Q3. Next year, we're starting to see some pretender work coming out. There's some development projects that are coming up. So we expect utilization in the North Sea to continue to improve, although we will not see much improvement between now and the end of the year. However, we do expect to see improvement in 2011.

The Middle East, obviously an oversupplied jackup market, I think the Middle East will remain challenging for the foreseeable future. Southeast Asia, again, remains quite resilient, I believe, in terms of fixtures, and utilization. Again, in Southeast Asia, we will start to see some longer-term contracts roll over, which could put some further challenges in the market there. But overall, we're optimistic, as Dan mentioned, our jackup utilization improved from 64% to 79%. So we are encouraged by what we see, particularly if oil prices remain stable.

Dan Rabun - *Ensco plc - Chairman, CEO*

And Jud, you know, whenever people ask me that question, I kind of answer it this way, because I'm always interested when people say there's a bunch of rollovers coming, is that going to affect pricing or utilization. I would expect around the world the average length of a jackup contract is no more than two years. So that means 50% of the rigs roll over every year, so there's always a bunch of rigs rolling over. That's just the dynamics of the market. Yes, there are a lot of rigs coming available next year, but they will the next year and the year after that and they were last year, too. It's just the dynamics of the market.

Judson Bailey - *Jefferies & Co. - Analyst*

Yes, no, I understand. I guess I was wondering more just the year end dynamic. Just seems like a lot of the new work coming is for next year and if you have a rig rolling in November, could it be down for 30 or 45 days between contracts? That's more what I was, was wondering.

Jay Swent - *Ensco plc - CFO*

And Jud, this is Jay. I would direct to you my comments relative to the fourth quarter and the point that we made is that you might see a little bit of pricing decline as some of the older contracts roll off, but that we really expect to maintain about the same rate of utilization in the fourth quarter that we had in the third quarter.

Judson Bailey - *Jefferies & Co. - Analyst*

Okay, all right. And then on the 69 -- excuse me, the rig that you sold, I'm sorry, on the 60, was that rig, can you say, do you have an estimate on what it would have cost to bring that rig back into service? In other words, if you wanted to get a contract for it, what kind of CapEx you were looking at, you get that rig in operating condition?

Jay Swent - *Ensco plc - CFO*

Well, I think the answer to that is the rig pretty much was in operating condition. We cold-stacked it because it didn't have any good immediate work prospects. The point -- and I should clarify one thing to your question, which is we have not sold the rig yet. We have a deposit for sale and we anticipate that the sale will happen here pretty quickly, but the rig is still owned by us at the moment. The point I would make on the ENSCO 60 is it's a one-off rig, relative to our fleet. It's the only one in the fleet, and it's a rig that we probably have not spent the same kind of money over time on in terms of upgrades and life extensions. But it's still a very marketable rig and one that could go to work tomorrow.

Dan Rabun - *Ensco plc - Chairman, CEO*

Yes, Jud, this is Dan. The ENSCO 60 is the one rig in our fleet that we did not spend money on when we did our jackup enhancement program that we talked so long and hard about over the last decade. The one rig we didn't spend the money on. So when we were making a decision to cold-stack the rig, we looked at it and got the -- estimated the capital that would be required, not to put it into service, but to bring it up to the Ensco standards that we had done with the other rigs. The costs simply just didn't justify it, versus a new build cost. So that's why we made the decision to cold-stack the rig and not invest any additional capital.

Judson Bailey - *Jefferies & Co. - Analyst*

Okay. That's what I was looking for. Thank you.

Operator

Thank you. Our next question is from the line of Collin Gerry with Raymond James. Please proceed with your question.

Collin Gerry - *Raymond James - Analyst*

Good morning, guys. Dan, I want to go back to your closing comments. I think you said at current oil prices, or I sense some bullishness or some emphasis on your bullishness for offshore rig demand going forward. It would certainly make sense. Was that a change in your opinion? Are you getting more bullish on offshore rig demand at current oil prices than maybe over the past six months or year, or is that kind of a continued outlook?

Dan Rabun - *Ensco plc - Chairman, CEO*

No, I don't think my opinion has changed and what I've said fairly consistently on these conference calls, if commodity prices stay where they are today, we will see utilization of rigs gradually notch up and then when you get up to about 85% utilization, that's when you see some real pricing momentum. That's what every cycle before has seen and I don't see any reason to believe this cycle is going to be any different. I'm encouraged just by the underlying fundamentals that we've seen in previous cycles at these commodity price levels. I'll remind everyone that we set all of our record fixtures in the history of this company several years ago at oil prices that were lower than they are today. So it's a very healthy commodity price environment right now, and I'm sure everybody's got their own view of what pricing dynamics are out there, but, you know, most of what I read would support that there's a possibility for some more upward movement in the price of oil, which would always be positive for our business.

Collin Gerry - *Raymond James - Analyst*

Absolutely. Okay. I just wanted to kind of qualify that, your statement. My second -- my follow-up would be, and I apologize if I missed this earlier, but seems to me that you all are kind of going after the higher end of the jackups or high grading your fleet, if you want to call it that, as you sell the older stuff. Has the build versus buy kind of debate resurfaced? And I know that you all have been looking at buying recently, but are you all looking at possibly getting into new build market on the jackup side?

Dan Rabun - *Ensco plc - Chairman, CEO*

Well, we evaluate everything, but I'll tell you a transaction I like and that's ENSCO 109. That's a rig we bought for $186 million that had $6 million of spares on it, so it was about 180 million on it. It's a -- compare that to the new build price that's been announced by recently in the last couple weeks, plus some other folks, and with a couple of years of delivery, while we're out operating our rig, I would say that's a favorable transaction that I would like to repeat again and again. So, yes, there's always a balance there between, buying something today and building tomorrow. So it's just a judgment you got to make.

Collin Gerry - *Raymond James - Analyst*

Right, but I mean, are you all considering new build jackup -- I would imagine that building new jackups has for the most part been off the table for the past couple years. Are you all revisiting that concept more right now, or is it really looking at the purchases?

Dan Rabun - *Ensco plc - Chairman, CEO*

No, I would -- I wouldn't say we're revisiting. We visit that every day in our strategy, even during the new build jackup cycle, we were looking at that. So it's not something that we have any change. We're continuously talking to yards, we're continuously talking to customers about long-term programs. If we see an opportunity that we think presents itself, we'll act upon it.

Collin Gerry - *Raymond James - Analyst*

Okay, great. That's it for me. Thanks a bunch.

Operator

Thank you. Our next question is coming from the line of Robin Shoemaker with Citi. Please proceed with your question.

Robin Shoemaker - *Citigroup - Analyst*

Yes, thanks. Lot of my questions have been answered already, but you did mention regarding Mexico expecting a semi tender. Is that a deepwater or midwater requirement?

Carey Lowe - *Ensco plc - SVP*

Yes, Robin, this is Carey Lowe. We're hearing some talk about a tender for a deepwater rig and I would assume that's in the 5,000, to 7,500 feet of water depth range. It's just right now talk. We don't know if it's an incremental requirement or replacement for a rig that's already there. We're definitely watching that and continue to remain in contact with PEMEX.

Robin Shoemaker - *Citigroup - Analyst*

Okay, just one other clarification. On the Ensco rig, the 109, Jay, did I hear you say it's working for 150? The fleet status shows low 100s.

Jay Swent - *Ensco plc - CFO*

No, what I said Robin, was that rig, when we purchased it under purchase accounting, you write the contract up to what the fair value should be on the dayrate. The dayrate's in the low 100s, but what we're actually recording in the books on a monthly basis is a number closer to 150,000. That's standard purchase accounting.

Robin Shoemaker - *Citigroup - Analyst*

Okay.

Jay Swent - *Ensco plc - CFO*

So we will do that over the life of the contract.

Robin Shoemaker - *Citigroup - Analyst*

Since the rig is in Australia, how do you assess the jackup market for that rig in Australia against tenders or inquiries you've had?

Dan Rabun - *Ensco plc - Chairman, CEO*

Well, again this, is an extremely heavy duty rig, 2 million pound hook load rig, that its capable requirements, technical capabilities are not being used for its current drilling. So I think the key, like I said earlier, it's take the right rig for the right job. There's always been one or two jackups working in Australia and fortunately, it's usually been an Ensco rig. So we're reviewing our alternatives with that rig.

Robin Shoemaker - *Citigroup - Analyst*

Okay. Thanks.

Dan Rabun - *Ensco plc - Chairman, CEO*

Thanks.

Operator

Our next question is from the line of Ian Macpherson with Simmons. Please proceed with your question.

Ian Macpherson - *Simmons & Company - Analyst*

Thanks. I just wanted to see if I could clarify the outlook for the 7500 and sort of the triggers for determining the destiny of the rig and the release of the demob payment from Chevron. Did you say that you think you've got near clarity on that outcome relatively soon? So probably sometime this quarter, we'll see one way or the other--

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Jay Swent - *Ensco plc - CFO*

No, I think what we said at the end was that certainly since the last conference call, on the last conference call we were getting ready to finish up the job and demob to the shipyard. We're now in the shipyard and what has happened since we've gone into the shipyard is we've had a number of conversations, which are always encouraging. Until you have a contract, you don't have a contract. So I think we're just saying there is a reasonable chance we may get a contract, but the reason we gave a very wide range in our guidance this quarter is that it's a very uncertain situation right now. But the only color we can really give you is there have been some encouraging conversations.

Ian Macpherson - *Simmons & Company - Analyst*

Okay. Would you be willing to comment -- we've seen a hand full of high end deepwater dayrate fixtures in the past few months supporting this mid-400s dayrate floor. Are you comfortable with analysts thinking about that for your rigs on a mark to market basis, now I know the 7500 is a little bit lower spec than the 8500 series, but as a general range, are you comfortable with this thinking about that leading edge band?

Carey Lowe - *Ensco plc - SVP*

I don't think we should talk specifics on potential dayrates. Just you do have to consider that each market is different and each contracting situation is different, but it's never that good to be out there talking about potential negotiations with clients and specific numbers or even ranges. I don't think we should really talk about that.

Ian Macpherson - *Simmons & Company - Analyst*

Okay.

Carey Lowe - *Ensco plc - SVP*

Or be precise for that matter.

Ian Macpherson - *Simmons & Company - Analyst*

One more question, Jay, sorry to be obtuse, on the 109, or we modeling the 100 on the fleet status or are we modeling the 150 that you're accruing in the books?

Jay Swent - *Ensco plc - CFO*

Probably for your modeling purposes should be modeling the 150.

Operator

Thank you. Our next question is from the line of David Smith with Johnson Rice. Please proceed with your question.

David Smith - *Johnson Rice - Analyst*

Good morning, thank you. Following up on your comments on the North Sea jackup outlook, which looks like it could tighten quickly in the first half of next year, how are you looking at contracting in that market and specifically your view of signing term contracts at the recent dayrates? Hello?

Operator

Would you repeat the question?

David Smith - *Johnson Rice - Analyst*

Sorry. On the North Sea jackup market, on your outlook, saying that it could tighten up early next year, how are you looking at signing term contracts there? How are you looking at current -- what's your view of signing term contracts at the recent market levels?

Bill Chadwick - *Ensco plc - EVP, COO*

David, this is Bill Chadwick. I think our view is that as long as the rates seem commensurate with extending the term, we would look on extending our backlog in that market very favorably now.

David Smith - *Johnson Rice - Analyst*

Thanks. And if you had a near term opportunity for high spec job that required the 109, would you be able to switch that rig out with a different lower spec one on the current program?

Bill Chadwick - *Ensco plc - EVP, COO*

Yes, I think we would be able to do that.

David Smith - *Johnson Rice - Analyst*

And quick follow-up, what is the cost that you're recording now on the 109?

Sean O'Neill - *Ensco plc - VP IR*

For the 109, the contract really expense outlook for 4Q would be about $7 million, David.

David Smith - *Johnson Rice - Analyst*

All right. Thank you very much.

Sean O'Neill - *Ensco plc - VP IR*

Sure.

Dan Rabun - *Ensco plc - Chairman, CEO*

Okay. This is London. We got cut off of the telephone call. Are we back on?

Sean O'Neill - *Ensco plc - VP IR*

Yes, you are, Dan.

Dan Rabun - *Ensco plc - Chairman, CEO*

Okay, good.

Operator

Our next question is coming from the line of Roger Read with Natixis Bleichroeder. Please proceed with your question.

Roger Read - *Natixis Bleichroeder - Analyst*

Yes, hello. Good to have you back on the call there.

Dan Rabun - *Ensco plc - Chairman, CEO*

Well, we didn't want you to think we were evading the question that was being asked, so I assume Bill or someone in Dallas took care of it.

Roger Read - *Natixis Bleichroeder - Analyst*

Hopefully there weren't any problems there. I guess a slightly different way to ask the question, whether business is getting better or worse or stable, and then obviously following off of what's happened with Macondo and force majeures and everything, are you seeing your clients push for any different terms under the contracts? I mean obviously when dayrates are moving up, it's easy -- easier, I should say, to move terms in your favor. At a time when dayrates may be more stable, are you seeing any pushback from clients on that front?

Dan Rabun - *Ensco plc - Chairman, CEO*

On the contract terms? It's a good question. I've asked that same one of our folks. I don't think we're seeing a big change in contracting strategy with our customers. I kind of would have expected that there might be more of that, but there really doesn't seem to be any real change.

Roger Read - *Natixis Bleichroeder - Analyst*

Okay, and then kind of along those same lines, obviously we've heard about Mexico requiring, or China required younger rigs. We've seen a similar thing out of parts of the Middle East. Does that seem to be gaining strength in terms of clients requesting that, or do you think it's one of those things, it's reared its head, it's there, but it's not going to become a major part of the market?

Dan Rabun - *Ensco plc - Chairman, CEO*

Bill, do you want to take that?

Sean O'Neill - *Ensco plc - VP IR*

Go ahead. Sorry. Go ahead, Bill.

Bill Chadwick - *Ensco plc - EVP, COO*

PEMEX announced that requirement sometime ago, but to date they really have not succeeded in adding any of these newer rigs to their fleet except one Mexican-owned rig, that was really built specifically for that market. So clearly there's an initiative out there to try and update some of these fleets with newer equipment, but they are also trying to very severely cap their rates that they pay for it. And so far, that effort really hasn't resulted in very much change in their fleet mix. So I think it remains to be seen whether that initiative's going to have much success or not.

Roger Read - *Natixis Bleichroeder - Analyst*

Okay. Thank you.

Operator

Thank you. Our next question come from the line of Dan Boyd with Goldman Sachs. Please proceed with your question.

Daniel Boyd - *Goldman Sachs - Analyst*

Thanks. Dan, in your prepared remarks, you mentioned that we might see some weakness in rates in Southeast Asia just as the number of new builds or newer rigs roll off contract, maybe before some tendering picks up for next year. Was that a comment on the market in general, or should we direct that more towards some of the lower spec rigs? How do you think about the bifurcation in that market?

Dan Rabun - *Ensco plc - Chairman, CEO*

Yes, Dan, I'll let Mark address that one since that's his area.

Mark Burns - *Ensco plc - SVP*

Dan, this is Mark Burns. I think Dan mentioned it in his opening comments, we've seen the Southeast Asia market remain quite active, even though the majority of the new build jackups that are being delivered are being built in that part of the world. Still today for the end of the year, I think there's nine jackups, new builds to be delivered. Of those nine jackups, all but I believe two have contracts.

So we're seeing the market soak up this extra capacity now, as some of these legacy contracts roll over, as we discussed earlier, we may see some pressure on the pricing in that area next year in some areas. But again, just today I was visiting with Dan about it. We've seen -- still continue to see inquiries come in for work in Indonesia, for work in Malaysia, for work in Vietnam. So Southeast Asia and that market, Dan, continues to remain quite robust.

Daniel Boyd - *Goldman Sachs - Analyst*

I got that. That's helpful. One of the things I was trying to get at, though, if we did see pricing weakness, would you expect it to really just be a wider bifurcation in that the lower spec rigs suffer a little bit more, or would you expect just a general, general pressure on, you know, the high end and the low end?

Mark Burns - *Ensco plc - SVP*

Well, I think you may see some pricing weakness on the lower end jackups. I think that's only natural. Again, if there's newer equipment available in certain of these markets, I think operators will, a lot of times will prefer newer equipment. So I think just that in itself will tend to add some pressure to the lower end equipment. That's why it's critical, Dan to keep your equipment well maintained and up to spec. And you can continue to work through these up and down cycles that we go through.

Daniel Boyd - *Goldman Sachs - Analyst*

Okay, great. Just wanted to make sure you aren't saying that the better rigs will see pressure as well. Thanks.

Mark Burns - *Ensco plc - SVP*

Thank you, Dan.

Operator

You thank you. Our next question is coming from the line of Geoff Kieburtz with Weeden. Please proceed with your question.

Geoff Kieburtz - *Weeden & Co - Analyst*

Thanks. I think while London was offline there, we talked about the 109 again. Just to be clear, Jay, I think on the revenue line, we're modeling $150,000 a day. But then you're amortizing some of the purchase price right up so that the margin you're generating on that is equivalent to what you would get on a 115?

Jay Swent - *Ensco plc - CFO*

No, it's equivalent to what you would get on the 150.

Geoff Kieburtz - *Weeden & Co - Analyst*

Okay.

Jay Swent - *Ensco plc - CFO*

1-5-0 price.

Geoff Kieburtz - *Weeden & Co - Analyst*

Okay. So there's no impact on OpEx. It's just on the revenue, you get a bigger margin?

Jay Swent - *Ensco plc - CFO*

That's correct.

Geoff Kieburtz - *Weeden & Co - Analyst*

Okay, all right. Interesting.

Dan Rabun - *Ensco plc - Chairman, CEO*

Purchase accounting doesn't make a lot of sense.

Geoff Kieburtz - *Weeden & Co - Analyst*

It's a nice trick, I suppose.

Jay Swent - *Ensco plc - CFO*

It's been done in several other merger situations, acquisitions mentioned.

Dan Rabun - *Ensco plc - Chairman, CEO*

The one big merger in our business a few years ago, there was a substantial amount of purchase accounting adjustments.

Geoff Kieburtz - *Weeden & Co - Analyst*

All right, well, we won't rehash that. Dan, I think last time we spoke you were saying that you thought we could see a rig contracted in a drilling mode in over 500 feet of water in the Gulf of Mexico as early as the first quarter. Since that time, the moratorium's been lifted. Have you changed your view at all? Do you think it could happen this year?

Dan Rabun - *Ensco plc - Chairman, CEO*

I don't know if I want to go out on a limb on that one. We're working with a process with the government and really the operators are the ones that are driving the permitting process and they are the ones that have the engagement with the regulators. So you probably -- you're probably best to direct questions like that to the operator community and see what they say. I will say that, you know, the new safety rules came out and they were no great surprise to us. We've been able to work our way through the equipment portions of the safety regime.

So really it's this environmental permitting that seems to be the holdup and, you know, the BOEM needs to understand their processes and procedures. I know they are working on permits, so you also have to recall there were a number of wells permitted at the time of the moratorium and so I think you could see some of those go back to work sooner rather than later, but the exact timing of which, I'm not sure. But I'm becoming fairly encouraged about what I'm seeing.

Geoff Kieburtz - *Weeden & Co - Analyst*

Okay, great. And then the comment on the ENSCO 60, the capital necessary to make it an acceptable quality for the Ensco fleet was not worth it. Can you give us a ball park of what is the capital expenditures as a percentage of new build costs where you make that decision, that's not worth it?

Dan Rabun - *Ensco plc - Chairman, CEO*

Bill, do you want to--

Bill Chadwick - *Ensco plc - EVP, COO*

Sure. I think it's not just a question of the capital required to do something to the condition of the rig. It also addresses the capability of that particular unit to begin with. So, the capital required just to keep that rig in class and keep it in the active fleet in the Gulf of Mexico is not all that large, but, you know, our philosophy is that over time, we like to take some of the older and the less capable equipment and where we can realize some sort of value for it and hopefully not increase the fleet we are actively directly competing against, we like to move that out and try and find ways to displace it with newer, more capable equipment, and that's the reason for the decision on ENSCO 60.

Geoff Kieburtz - *Weeden & Co - Analyst*

Okay. I was just trying to -- I was fishing for a little bit of a rule of thumb, if you will. Is it a third of new build, is it a 50% of new build, where you go that's just not worth it because what we result with after that expenditure is kind of by definition not as good as the new build?

Jay Swent - *Ensco plc - CFO*

One thing I would remind you of, when we were talking about upgrade of the fleet many years ago, the point we used to make is we would never really find ourselves spending more than 50% of the cost of the new rig upgrading an existing one. And I think what's happened -- that was many years ago when we were looking at it. Today, when you look at all the new rigs coming in and that's what Bill was making the point about the capability of the rig, I think you would be hard pressed to feel good about spending 50% of the costs of a new build to upgrade, or to do a life extension on a rig that's still not going to have the same capability of a newbuild it's probably more in the 30 to 50% range today.

Geoff Kieburtz - *Weeden & Co - Analyst*

Great. That's very helpful. Thank you.

Sean O'Neill - *Ensco plc - VP IR*

Okay, operator. We'll take one more question, please.

Operator

Okay, sir, that question is coming from the line of Scott Burk with Oppenheimer. Please proceed with your question.

Scott Burk - *Oppenheimer & Co. - Analyst*

Hi, just had one follow-up question on the Ensco 80. It was suspended by Conoco-Phillips from October to first quarter 2011. Could you describe exactly what is going on with that contract?

Mark Burns - *Ensco plc - SVP*

Yes, Scott, we have a long-term contract with Conoco Phillips with Ensco 80. We have for some time. In the contract, it allows for a suspension for the contract from time to time for a certain period, but during that period, we're able to go out and market the rig and work with other companies as need be. So we were hoping that the Ensco 80 would continue to work through the end of the year, but Conoco Phillips has had a change of program. However, we do hope to restart that rig early in 2011. And in the meantime, we are free to market the rig for any short-term opportunities as may come up.

Scott Burk - *Oppenheimer & Co. - Analyst*

Okay, and sorry to beat a dead horse here, but the ENSCO 109, there's going to be some amortization of deferred revenue that would come out of your cash flow, right, so you're just going to get the cash flow from the $100,000 a day, but you will in EPS recognize $150,000. Is that how it's going to work?

Jay Swent - *Ensco plc - CFO*

Exactly correct, Scott.

Scott Burk - *Oppenheimer & Co. - Analyst*

Okay, all right. Very good. Thanks, guys.

Sean O'Neill - *Ensco plc - VP IR*

Okay. Thank you, everyone. Before we end our call today, in anticipation of the Texas Rangers defeating the Yankees later this week, we just want to extend our condolences to all the Yankee fans on the call and obviously congratulate all of the Texas Rangers fans. Thanks very much.

Operator

This concludes today's teleconference. You may disconnect your lines at this time. Thank you for your participation.