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ESV - Q3 2011 Ensco plc Earnings Conference Call

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PRESENTATION

Operator

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Good morning. My name is Ryan and I will be your conference operator today. At this time, I would like to welcome everyone to the Enscopl third-quarter 2011 earnings conference call. (Operator Instructions). Thank you. I would now like to turn the call over to Mr. Sean O'Neill, Vice President of Investor Relations. Sir, you may begin.

Sean O'Neill - *Enscopl - VP IR & Communications*

Thank you operator and welcome everyone to Enscopl's third-quarter 2011 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 management team. We issued our earnings release, which is available on our website at enscopl.com. 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 and list risk factors and other events that could impact future results and disclose important additional information regarding our recent acquisition. 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 October 20th. Now, let me turn the call over to Dan Rabun, Chairman and CEO.

Dan Rabun - *Enscopl - Chairman, President, CEO*

Thanks Sean...and good morning everyone. Before Jay takes us through the financial results, I will discuss third-quarter highlights, the state of our markets, and the integration of our recent acquisition, which is going very well. Starting with third quarter highlights, ENSCO 8503 drilled a major discovery on its initial well for Tullow in French Guiana and we are very pleased by our customer's success in this new deepwater region. The discovery by Tullow is significant as it suggests the geological trend from the equatorial margin of West Africa may extend to the Americas. We expect this will lead to future demand for deepwater drilling in French Guiana as our clients move to assess and develop this new geological trend.

ENSCO 8504 commenced drilling for Total in Brunei, and we expect Total will exercise their options to keep the rig working in the region. Brunei is another exciting geological region, and operators are likely to require more rig time to fully assess the value of this relatively new region.

ENSCO 8505, which will be delivered soon, was contracted to Anadarko, Apache, and Noble energy for at least two years in the U.S. Gulf of Mexico. We view this as another positive sign that customers expect the pace of permitting in the U.S. Gulf will continue to improve. Our customers for ENSCO 8505 recognize the benefits of standardization across our 8500 series rigs.

For shareholders, when you compare our cost to build our 8500 series rigs and our cash operating costs versus other deepwater rigs, we believe that we will achieve superior financial returns.

We also exercised an option to build a third ultra-premium harsh environment jackup, bringing our total newbuild program to seven rigs now under construction. Our decision to exercise the additional jackup option was due in part to a recent contract for our first ultra-premium harsh environment jackup, which we named ENSCO 120. Details will be forthcoming once we receive final customer approval to issue the details in a press release.

What we can disclose is that the contract is for an initial 500-day term with a day rate of \$230,000 per day, plus mobilization. We've been working on this contract for some time and we are very pleased to have the rig contract well ahead of its scheduled delivery in 2013. The unique design, including a proprietary high-capacity cantilever envelope, provides increased drilling efficiencies for multi-well platform programs, ultra-deep gas drilling, and ultra-long reach wells up to 40,000 feet total drilling depth.

As I mentioned last quarter, several of our ultra-deepwater rigs have recently commenced their contracts, and I commend our crews for their hard work and dedication during these startups. By and large, these commencements went very well, but some

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of our newbuilds are experiencing downtime that is outside of the acceptable range. Most of this is due to OEM equipment issues that we are working to resolve with suppliers. We are systematically sharing lessons learned with the rest of our fleet to ensure that we do not experience repeat occurrences.

Our ENSCO 8500 series rigs and drillships that have been in service continue to perform extremely well, and I should add that our midwater segment also had a good utilization this quarter.

The jackup segment showed significant improvement in utilization, rising six percentage points from last quarter to 83% for the legacy Enscoplac fleet. We expect this will jump further to approximately 90% in the fourth quarter.

Finally, the integration of our newly-acquired operations is going extremely well. The relocation of personnel is largely complete. Operations is actively integrating systems and procedures to ensure consistency across our organization, especially for our safety management systems. We are realizing significant synergies from the acquisition and customers have responded extremely well, as evidenced by our recent contract awards in various markets.

We know that our workforce is our greatest asset and our highest priority, and we expect to promote and add hundreds of employees over the coming years as our newbuild rigs come out of the shipyard and go to work around the world.

Now let me discuss the markets. I will begin with deepwater, where all but two of our existing deepwater rigs have commitments through at least the first half of 2013. Given the strength of the markets and our delivery schedules, we believe Enscoplac is in the sweet spot in terms of our uncontracted rigs under construction.

As I mentioned earlier, we recently contracted ENSCO 8505 with three customers in the U.S. Gulf of Mexico, which we have been indicating has the potential to be a catalyst for new incremental demand. We are encouraged that deepwater permits are being issued at a much better pace, and this is driving a pickup in deepwater contracting.

In Brazil, we have six deepwater rigs operating as ENSCO 7500 commences its drilling program. We expect the market for deepwater rigs in Brazil to remain strong, and currently Petrobras has outstanding tenders for multiple rigs for three- to five-year term contracts. Other operators, such as Shell, Perenco, and Total, also have requirements.

The west Africa deepwater market improved during the quarter with several contract awards and several tenders and inquiries coming into the market for both deepwater and ultra-deepwater equipment.

Deepwater activity in Asia has seen a significant increase across Malaysia, Brunei, and Indonesia with national and independent operators. We have been indicating for several quarters that Asia will experience growing deepwater demand.

Floater activity in the Mediterranean remains finely balanced. Currently, there are outstanding opportunities in Egypt and Israel, and longer term, there is potential in Libya.

Moving to the midwater markets, the worldwide midwater fleet will remain challenged in 2012. Enscoplac's fleet of six rigs, however, are contracted through year-end, and four are contracted into 2013, including ENSCO 5002 and ENSCO 5004 with OX in Brazil.

Turning to the jackup markets, in the U.S. Gulf of Mexico we anticipate the utilization and day rates will continue to improve as hurricane season comes to a close and as supply continues to tighten with the departure of several rigs. The premium jackup fleet is expected to remain fully utilized.

In Mexico, our four jackups are contracted to Pemex with terms into 2012. Pemex intends to increase their jackup fleet by some 20 rigs; however, due to contract stipulations such as rate caps, technical requirements, and penalties for not meeting short-window start dates, awarding outstanding offers continue to be a challenge. Multiple tenders have been issued recently and more are expected soon, with some recent tenders not being awarded due to a lack of response from drillers.



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In the North Sea, standard-duty rigs in the southern UK and Danish sectors are fully utilized for the remainder of 2011, and we expect an undersupply of rigs through 2012.

In the heavy-duty jackup market, two industry rigs are stacked; however, we expect the market to balance in 2012. We are already receiving inquiries for work in the central North Sea for 2012, 2013, and even in 2014, a target market for our newbuild jackups.

The Mediterranean jackup market is expected to remain a challenge for the remainder of 2011, with several rigs available. There is potential for future opportunities in Egypt, Tunisia, and Greece. Authorities in Libya are working hard to restart operations as soon as possible, and Egypt may be opening up further with more blocks being offered in January 2012.

Competition remains high in west Africa, given the mobilizations from the Med and contract rollovers later this year.

The market for jackups in the Middle East tightened considerably this quarter with eight jackups receiving contract awards, including ENSCO 91, in addition to other contract extensions. Saudi Aramco will still have two outstanding requirements.

In the Southeast Asia market, industry utilization continues to increase, even with the mobilization of four jackups into the region. We increased our fleet size with the addition of ENSCO 105 that mobilized from Tunisia, and all of our rigs are contracted.

A number of tenders have failed in Indonesia and Malaysia as no suitable rigs were available. Operators are now forming consortiums for rig sharing in hopes that longer programs will attract rigs into the region. Petronas has moved to direct negotiations in order to lock up rigs for their programs.

We believe that the EnscO jackup fleet in Asia will be near full utilization through 2012.

To summarize, growing exploration and appraisal success; emerging deepwater basins, including French Guiana and Brunei; rising energy demand; and healthy commodity prices all bode well for our long-term growth. We believe demand for deepwater floaters will continue to grow as clients are under pressure to efficiently replace production in the midst of increasing technical complexity and rising safety standards.

Activity is improving in the U.S. Gulf of Mexico. Petrobras continues to sign contracts due to their increasing geological success in presalt, and deepwater opportunities are opening up in new areas around the world, and clients are now placing a greater value on high-specification equipment.

The jackup markets are picking up pace as well, with increasing utilization in most markets. Saudi Aramco and Pemex are adding multiple jackups to their fleets, and the North Sea is almost fully utilized. To date, all newbuild rigs are being absorbed into the fleet.

Most clients are focused on hiring companies with proven operational experience, competent crews, and successful safety and environmental track records. Scale is an important factor, and having newer assets also gives us a distinct advantage. Our newbuild delivery schedule not only puts us ahead of the curve in terms of meeting new customer demand, it will perpetuate our advantage of having one of the youngest fleets in the industry.

In closing, we remain laser-focused on safety and operational execution. We are quickly integrating our operations, and significant cost synergies are already being achieved from our recent acquisition. Our teams are doing a fantastic job managing the integration process, several new rig startups, and multiple construction projects, all on top of their daily responsibilities. Our team has worked countless hours to get us where we are today, and I'm extremely proud of their accomplishments.

Now let me turn it over to Jay.

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Jay Swent - *Ensc o plc - SVP, CFO*

Thanks, Dan. My comments today will cover highlights of our third-quarter results and our future outlook.

Regarding third-quarter results, let me start with a few introductory comments. We completed our acquisition on March 31, so third-quarter 2011 results include a full quarter of our newly-acquired operations, while third-quarter 2010 results do not.

We have provided information on our earnings release that we issued yesterday after the market closed that will assist you in making certain year-to-year comparisons. Therefore, my focus today will be on operational factors that influence the quarterly comparisons, not the effect of the acquisition on third-quarter results or the GAAP adjustments to acquired drilling contracts to estimated fair values, which we spelled out in our press release.

The effect of the acquisition and the adjustments to drilling contracts to estimate fair values were included in our prior outlook. We will be issuing our 10-Q shortly, which will also provide helpful information regarding our third-quarter results.

Starting with third-quarter results versus prior year, earnings from continuing operations were \$0.88 per share, down from \$0.92 a year ago, but up significantly from \$0.59 in second-quarter 2011. Combined severance costs and other integration-related expenses reduced earnings per share by \$0.04 in the third quarter, with \$0.03 reflected in G&A expense and \$0.01 reflected in contract drilling expense.

Total revenues were \$916 million, up from \$428 million last year. Deepwater revenues increased to \$440 million. Adding ENSCO 8502, 8503, and 8504 to our fleet over the past year also increased revenues. However, ENSCO 7500's mobilization to Brazil following its shipyard reduced revenues year to year.

Midwater revenues were \$121 million, all related to the newly-acquired midwater fleet.

Jackup segment revenues rose to \$330 million.

Utilization for the legacy Ensc o fleet improved four percentage points year over year to 83%, but the average day rate declined by \$3,000 to \$102,000 per day. Sequentially, legacy Ensc o utilization increased six percentage points and the average day rate improved by \$3,000 from the second quarter.

Other revenue was \$24 million, all related to the newly-acquired managed rig operations.

Third-quarter contract drilling expense increased to \$478 million. Deepwater segment contract drilling increased to \$233 million. Similar to the revenue comparisons, adding ENSCO 8502, 8503, and 8504 to our fleet was partially offset by the ENSCO 7500 mobilization to Brazil.

Midwater contract drilling expense was \$72 million in the third quarter, all related to the acquisition. Jackup segment contract drilling expense increased to \$155 million.

As we had anticipated in our last earnings call, an \$11 million pretax gain from a cash settlement for the ENSCO 69 insurance claim partially offset higher operating costs related to increased utilization.

Our contract drilling expense was \$18 million, related to our managed rig operations.

Depreciation and G&A expense are clearly spelled out in our earnings release, so I won't repeat them here. Other net in the third quarter of \$11 million included \$12 million of currency -- or of foreign-currency exchange gains related to intercompany accounts as the U.S. dollar appreciated against certain currencies, mainly the Euro and Brazilian real.

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Now let's discuss the fourth-quarter outlook. Revenues are expected to increase to about \$1.04 billion. ENSCO 8504 will have a full quarter of operations, ENSCO 7500 will commence its contract in Brazil, and there will be more operating days for our jackups. Jackup segment utilization, which includes the impact of legacy Pride rigs, some of which are cold stacked and not being marketed, is projected to be in the mid-80% range in the fourth quarter. Legacy Enscoplac jackup fleet utilization is projected to increase to the 90% level in the fourth quarter.

Moving to expenses, we anticipate fourth-quarter 2011 contract drilling expense will increase to approximately \$525 million, due in part to more operating days and higher utilization. Depreciation should increase to about \$140 million, and the full-quarter impact from ENSCO 8504 will drive the increase.

We anticipate G&A expense will rise slightly to approximately \$43 million in the fourth quarter, which will include about \$8 million of expense related to the Pride acquisition. Interest expense is estimated to be about \$42 million net of capitalization, which is a good run rate for 2012.

Our 2011 effective tax rate outlook for the fourth quarter is 15.6%, or approximately 17% for the full year. The higher tax rate outlook for the full year versus our earlier projection is due to various discrete items and a lower estimated pretax income for 2011, which results in changes in the relative components of our earnings generated in tax jurisdictions with higher versus lower tax rates.

As Dan mentioned earlier, unplanned downtime on some of our newbuild rigs outside of our targeted ranges has caused our full-year pretax income outlook to decline compared to earlier forecasts.

We continue to explore further tax efficiencies with respect to the legacy Pride rig ownership structure and we believe there will be opportunities for improvement in the tax rate in 2012 to below 14%.

2011 capital spending is forecasted as follows -- \$660 million for the construction of our drillships, 8500 series rigs, and ultra-premium jackups; \$235 million for rig enhancement projects; and \$200 million for sustaining projects.

Now a few comments on synergies. We've already realized some synergies in 2011, and they are reflected in our cost guidance. As we outlined on our last conference call, for 2012 we expect total expense synergies to be approximately \$100 million, with about half related to G&A and half related to contract drilling expense, mostly from purchasing efficiencies as we leverage our increased scale.

Anticipated full-year run rate synergies for years following 2012 will be approximately \$150 million, comprised of \$120 million of expense savings and \$30 million of capital-expenditure synergies. Our cost synergy outlook is augmented by our favorable outlook for revenue growth, with utilization and average day rates improving in 2012 and our newbuild rigs being put to work.

Now I will turn the call back over to Sean.

Sean O'Neill - Enscoplac - VP IR & Communications

Thanks, Jay. Now, operator, please open it up for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Collin Gerry, Raymond James.



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Collin Gerry - Raymond James & Associates - Analyst

Good morning, guys. I guess the topic of the day, especially as it relates to one of your bigger competitors, has been the pressure control equipment and the new standards and how it is affecting the industry, and it's clearly not as demonstrated in your results or in your guidance. So I wonder if you could just give us some color on what you're seeing for your fleet as it relates to any kind of, I guess, the post-Macondo world and what you're seeing in terms of pressure control needs on your BOPs.

Bill Chadwick - Enscoplac - EVP, COO

This is Bill Chadwick. We, like everyone else in the industry, are being subject to a lot more scrutiny with regard to all of our well control equipment. But you know, the biggest issue initially was trying to understand what the standards were. That is becoming clearer.

I think we've been very successful on all of our equipment in meeting whatever standards have been established. We have no instances where we have not been able to meet standards which have been clearly established, and we have no rigs which are out of service by reason of not being able to meet any standard which has been established by a customer or regulatory authority.

As expectations change, we were really asking more of some of this equipment than it was designed to do, so I think some of these standards are still developing and some of the methodology applied to the maintenance of this equipment is still developing to meet a whole new level of expectation, but this is something that the industry is responding to very successfully and will continue to be successful.

Collin Gerry - Raymond James & Associates - Analyst

Okay, that is helpful color. I guess switching gears, maybe to more of the marketing side. Clearly, we're seeing an increase in kind of day rates across the board, and it seems to me that that is trickling down not just in the high-spec, but also into the standard rig fleets, be it floater or jackup. Could you comment on that, whether or not you're seeing it? And if so, where would you suggest the highest rate of change we will see going forward? Would it be on the standard jackup side or on the older standard floater side?

Kevin Robert - Enscoplac - SVP Marketing

Collin, I can't speculate on the particular areas, but, yes, we are seeing across the board in all sectors strengthening demand, tightening utilization that, in some markets like deepwater and jackups like you mentioned, is taking effect a little bit quicker than in midwater. So as we look at our portfolio and look into next year, we are optimistic that those trends are going to continue.

Collin Gerry - Raymond James & Associates - Analyst

But you're not seeing a more acute price gain on the floater side versus the jackup, or vice versa?

Kevin Robert - Enscoplac - SVP Marketing

I think you have to go market by market. If you look at the U.S. Gulf of Mexico, the commodity jackups have had pretty substantial increases. On a percentage basis, I haven't tried to go around the world and look at it, but it's strong in all areas and certainly on the floater site as well, especially in premium equipment. We've seen some strong increases since June of this year.

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Operator

Ian Macpherson, Simmons.

Ian Macpherson - *Simmons & Company International - Analyst*

Hey, thank you. I got on one or two minutes late and I don't know if you addressed this in the opening remarks. But curious about the DS-6, and we've been watching anxiously for that contract and haven't seen it yet, and I'm curious if the lack of the contract announcement now reflects anything in the way of your decision to hold it off as long as possible as rates move higher or if this is an issue where negotiation is sort of protracted and just taking its time.

Dan Rabun - *Enscopl - Chairman, President, CEO*

Yes, I think it's the latter of the two, so just keep watching.

Ian Macpherson - *Simmons & Company International - Analyst*

Fair enough. Also, Dan, with just a follow-up on the question about control systems and inspection, et cetera, outside of the rig that lost a quarter in Israel last -- or lost a month, I mean, last quarter, have you seen anything unexpected with regard to the Pride acquisition rigs for the midwater semis that has caused you to sort of rethink what the efficiency of those assets might be over the next couple of years?

Dan Rabun - *Enscopl - Chairman, President, CEO*

No, not really. The 5006, I think, has some unique issues to it, but no other. We're very pleased with the equipment.

Ian Macpherson - *Simmons & Company International - Analyst*

I like these short answers. It gives me time for one more quick one. Jay, I'm sorry. I fell behind. What changed as you were updating your synergy guidance? It sounded like you tweaked it higher, and I didn't catch what the increase was versus (multiple speakers)

Jay Swent - *Enscopl - SVP, CFO*

No, I don't think we've tweaked it higher at all, Ian. It's exactly what it was before. I was talking about beyond 2012 is 150.

Ian Macpherson - *Simmons & Company International - Analyst*

As you stated last call, right? Okay.

Jay Swent - *Enscopl - SVP, CFO*

Correct.



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Ian Macpherson - *Simmons & Company International - Analyst*

Thanks.

Operator

Jud Bailey, Jefferies & Company.

Jud Bailey - *Jefferies & Company - Analyst*

Thanks. Good afternoon to you guys there. Question maybe for Kevin. When we look at kind of how floater rates have progressed here in the last few months, we've seen deepwater rates close the gap a little bit, it seems like, with ultra-deepwater. Midwater has still been a bit flattish, up a little bit.

As you look forward and look at the demand you're seeing for all the various asset classes, do you think we can see a stronger increase in midwater rates next year, or do you think that the bifurcation between those more deepwater rigs and midwater, do you think it widens or do you think it narrows significantly?

Kevin Robert - *Enscopl - SVP Marketing*

Again, Jud, that's difficult to predict, but the facts that we have right now is our deepwater fleet is between 98% and 99% utilized.

And you look into 2012, we do our best to kind of count available rigs. We're coming up with less than 20 for 2012. That's assuming that some contracts that we know about go ahead.

On the midwater fleet, the marketed fleet, these are marketed utilization numbers, we're seeing that fleet at about the 90% level, so when you try to look forward, that's the level where you're kind of on the fence and we need to see a little bit more activity.

The primary difference between those two sectors is the term. That's really what's kicking in on the deepwater fleet. So, activity level is good. We'd like to see it a bit stronger to see that midmarket move on up, and I think we'll just have to stay tuned and see what happens.

Jud Bailey - *Jefferies & Company - Analyst*

Thanks for that, and then, my follow-up is for Jay. And again, I apologize if I missed this as well. On your revenue guidance, did you say how much of that would -- how much of a fair market value write-up on some of the old Pride contracts that would be in that number?

Jay Swent - *Enscopl - SVP, CFO*

I didn't, but Jud, it's a little over \$25 million for the fourth quarter.

Jud Bailey - *Jefferies & Company - Analyst*

And is that going to be relatively consistent for the next few quarters?



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Jay Swent - *Enscoplac - SVP, CFO*

It bounces -- you know, it swings around next year. For the full year of 2012, it's only going to be about \$25 million in total for the year with some pluses and some minuses. We'll give you a little more guidance on that on the next call.

Jud Bailey - *Jefferies & Company - Analyst*

Okay, great. Thanks and congratulations on the good quarter.

Operator

Geoff Kiebertz, Weeden & Company.

Geoff Kiebertz - *Weeden & Company - Analyst*

Dan, you talked a bit about the unexpected downtime in the newbuilds. Can you elaborate a little bit? Are we talking about subsea systems again here?

Dan Rabun - *Enscoplac - Chairman, President, CEO*

Let me let Mark answer that because those are in his business unit.

Mark Burns - *Enscoplac - SVP Western Hemisphere*

Okay, Jeff, good morning. This is Mark Burns. As Dan alluded to in his opening comments, yes, we have experienced some unplanned downtime on certain of our newbuild rigs, but it's important to note that this is not uncommon.

We're working closely with our customers, our equipment suppliers, to resolve these issues and we're getting their full support.

Primarily, yes, it is some subsea equipment, but other equipment as well. So again, I just want to say it's not a developing trend in the start-up of new rigs. If you recall, our commissioning and startups of our ENSCO 8500 semis and their ensuing performance has been very impressive.

And most importantly, and I think Dan mentioned this also, is that we're sharing our learnings with the rest of our fleet where applicable. So again, we have a good understanding of this and we're going to get on top of it.

Geoff Kiebertz - *Weeden & Company - Analyst*

And insofar as these were unexpected, are you having any difficulty getting your vendors to respond to your needs?

Mark Burns - *Enscoplac - SVP Western Hemisphere*

No, I can assure you we are not.

Operator

Robin Shoemaker, Citigroup.

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Robin Shoemaker - Citigroup - Analyst

Yes, good afternoon. I wanted to ask you just in terms of the recent Petrobras tender, there seemed to me to be a couple of Enscoplac rigs that could have qualified on the availability for that, and I'm just curious as to whether you didn't bid in that because you've already kind of got something lined up for those rigs that would be available by the end of 2012 or if you thought that perhaps this was -- you have enough exposure to that market as it is today?

Kevin Robert - Enscoplac - SVP Marketing

We did have some rigs that could have qualified, but they were involved in other contracts. We continue to look at Brazil as a good place to grow our business, but there's also a lot of good opportunities in other parts of the world. So we continue to seek the highest-value application for our rigs.

Robin Shoemaker - Citigroup - Analyst

Right, understood. Okay. So then, along those lines, you seemed like you had some positive commentary on Asia. You include the deepwater market in Asia as part of that, and it seems that you have, perhaps, one rig now in the deepwater Asia market, but what is the kind of overall market growth rate there that you would anticipate perhaps for some of your currently-available rigs?

Kevin Robert - Enscoplac - SVP Marketing

I'd characterize southeast Asia -- remember, it includes Australia. There's some very, very strong developments on the gas side. A lot of that gas is in deeper water. Brunei is a fantastic place. It looks like it's got a lot of upside.

So we're starting to see just around the world, especially in southeast Asia, as the geologists begin to piece together trends from one region to another region, that's what we're seeing.

It's really pretty early, and I think traditionally that's been kind of a midwater floater market. We're starting to get out there to 5,000 feet and, more importantly, even in 3,000, 4,000, 5,000 feet, you have to look at the drilling demand in terms of how deep you're going, high pressure, high temperature. There's some complex drilling out there that I think we'll see a growing trend of higher-specification rigs working out there, and that will be good for our business.

Robin Shoemaker - Citigroup - Analyst

Okay. Does that mean that this 8504, which is out there, I think, until March of next year, it would seem that you have really good prospects for that beyond that contract (multiple speakers)

Dan Rabun - Enscoplac - Chairman, President, CEO

Yes, I think, Robin, in my prepared remarks I think we said we're very confident that rig will remain out there with the customer.

Operator

Dave Wilson, Howard Weil.



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David Wilson - *Howard Weil Incorporated - Analyst*

Good day, gentlemen. I just have one quick one here. Dan, operationally, it seems things are going well. The integration seems to be progressing nicely, but on the financial side, any thoughts or discussions you've had about revisiting the dividend and increasing it a bit? I know you still have some big payments on rigs that are under construction, but cash flows are strong. I just wanted to get a sense of where you're thinking about allocating free cash flow over the next year or so.

Dan Rabun - *Enscoplac - Chairman, President, CEO*

Yes, you know, I think what we said when we did the acquisition, we're going to focus on getting the integration done and kind of get through this year.

Our Board looks at this every quarter and spend considerable amount of time, and we weigh the benefits of reinvesting in the business, paying down debt or returning capital, and for right now, we feel good about where the dividend is, but we also feel very bullish about what the future is. So I'm sure we'll be revisiting that again at the next Board meeting and considering what our options are, but we do look at it on a continuous basis.

David Wilson - *Howard Weil Incorporated - Analyst*

Okay, and considering, I think, some of the comments in the past where you talked about doing more newbuilds and you thought you had a pretty full plate. I mean, does that kind of -- I'm sure that goes into the discussion, but does that kind of limit where the free cash flow goes?

Dan Rabun - *Enscoplac - Chairman, President, CEO*

Yes, I think as we've got plenty on our plate right now, but Enscoplac has a way of upping the ante, so.

David Wilson - *Howard Weil Incorporated - Analyst*

Got you, got you. Well, (multiple speakers) I appreciate the time, guys. Thank you.

Operator

David Smith, Johnson Rice.

David Smith - *Johnson Rice & Company - Analyst*

I saw reported that you may have bid the ENSCO 5006 in the Petrobras tender for workover demand? And wondering, if so, if that was indicative of maybe a negatively-revised outlook for the capabilities of the rig?

Kevin Robert - *Enscoplac - SVP Marketing*

No, the 5006 -- this is Kevin Robert -- has lots of opportunities out in the current market that it's in.

Like I said earlier, we're looking all the time globally around the world trying to maximize the value of our fleet. So we have numerous times that we are offering rigs that are currently under contract in other regions. It so happens that you can see it



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on a public tender like Petrobras, but it's not the only place that we're looking at taking our rigs. The 5006, along with 5001, have some pretty good opportunities, which is an indication that even that more deepwater market is starting to strengthen.

David Smith - *Johnson Rice & Company - Analyst*

Okay, thanks. Also, we've seen some pretty attractive rate increases for the international standard jackups, rigs that are 25 years and older, priced in the \$85,000 to \$115,000 a day range, a nice move over the past six months.

Should we think about rates for these assets going forward as tracking at discount to that generic newbuild pricing? Or is there a greater segmentation in these markets for the old versus new rigs?

Kevin Robert - *Ensc o plc - SVP Marketing*

The jackup market has got some distinct segregations from region to region. Again, you can pick a region and see within that region different rig classes earning different rates, but I think your characterization is correct. Across all those categories, you see increasing demand.

And certainly operators will look at their drilling program and put a value on different qualities of rig. The reason we're looking at the ultra-harsh premium jackups that we're building new and looking at some high-specification improvements to our fleet is we see that there is good value there and there is growing demand for that high-spec equipment, but the lower commodity equipment that is well maintained, like our fleet, still has a good, good market in front of it and is in high demand by all of our clients.

David Smith - *Johnson Rice & Company - Analyst*

Great. That's all I've got. Thank you.

Operator

Matt Conlan, Wells Fargo Securities.

Matt Conlan - *Wells Fargo Securities, LLC - Analyst*

Hey, guys. Did I miss it? Did you state what the day rate was or the contract terms were for the 120?

Dan Rabun - *Ensc o plc - Chairman, President, CEO*

Yes, we said it was a 500-day initial term with a day rate of \$230,000 per day, plus mobilization.

Matt Conlan - *Wells Fargo Securities, LLC - Analyst*

Oh, great. Thank you very much. And going back to the pressure control issues and getting rigs out of surveys, I know most of your deepwater fleet is, of course, very brand new, but do the DS-1 or the DS-2 have to go through any surveys in the next 12, 24 months?



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Bill Chadwick - *Ensc^o plc - EVP, COO*

You know, they're subject to five yearly periodic surveys, just as all rigs are. The DS-1 is scheduled next year. I believe it's -- we plan to go in about the third quarter. The DS-2 is sometime thereafter. I'm not sure exactly when.

Matt Conlan - *Wells Fargo Securities, LLC - Analyst*

Okay, and how about any of the older Pride semis?

Bill Chadwick - *Ensc^o plc - EVP, COO*

You know, it's a periodic requirement for all of them. So we will have various semis continuing to come due for their five yearly survey at various points in time. That's just routine for all of the fleet.

Matt Conlan - *Wells Fargo Securities, LLC - Analyst*

Okay, I was just uncertain of what the timing of their cycles were. Okay, and then, the last one, on the DS-6 that we're all anxiously awaiting for the contract. There's, of course, been some very recent contracts above \$500,000 a day. Are those benchmarks relevant for your current negotiations or did your negotiations start before those types of contracts got posted?

Kevin Robert - *Ensc^o plc - SVP Marketing*

You know, the benchmarks are always relative, but probably what's more relative is the specific job we're being asked to do, our presence on the ground in the market, and our ability to fulfill our clients' requirements. I'll remind everybody that these big rigs require an awful lot of support services, some real solid operational people on the ground, so most of these conversations start four to six months in advance of the actual contract being signed.

Operator

James Woods, FBR Capital Markets.

James Woods - *FBR & Co. - Analyst*

Hello, gentlemen. I'm calling in on behalf of Rob MacKenzie. Just a quick question today. I was wondering, you highlighted on the call that the midwater has sort of been moving sideways, while the deepwater and the jackups have really been getting more and more constructive. I'm wondering, what do you think the catalyst is going to be to move that midwater market higher, or I guess another way to ask it is what's holding it back?

Kevin Robert - *Ensc^o plc - SVP Marketing*

The midwater market, you need to look at the North Sea midwater market that is 30-some-odd rigs, and that market acts regionally on its own and is very cyclical due to the weather.

The rest of the midwater market is dispersed around the world, and with strong commodity prices, it certainly is very important that the operators that have that kind of between shallow water and deepwater geology see the geologic trends that they need to put longer terms together.

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So I think the catalyst is really the term of the fleet. As you look at -- currently, market utilization on that fleet its about 90%, but as you look into next year, about half of that fleet rolls to new contracts. So until we see terms start to push those rollovers out 12 to 18 months, probably we'll just see modest increases in that market.

James Woods - *FBR & Co. - Analyst*

Okay, that's helpful. Another question is, you guys announced the contract with Noble and the joint contract with the three E&Ps. Do you view that as something that's going to become a more common contracting structure going forward in the U.S. GOM or is that something that was sort of a one-off? Can you give us a little insight into how the negotiation on that went?

Dan Rabun - *Ensco plc - Chairman, President, CEO*

Well, I think if you look at our 8500 series rigs, that's been a pretty common practice on the rigs with these rig-sharing agreements, so I don't think it's anything new, quite frankly.

I think what's important about that contract is that these are return customers that have used our equipment, 8500 and 8501, and have demonstrated the efficiencies to be gained from the equipment, and we have repeat customers and I think that's what's important.

James Woods - *FBR & Co. - Analyst*

Okay, so how do the terms differ between that contract and other contracts and between -- is there differentiation in the terms that each E&P received in that contract or is it standardized across the three?

Dan Rabun - *Ensco plc - Chairman, President, CEO*

No, it's a standard -- it's one contract, and they have an agreement amongst themselves how they share the rig, but it's just one contract.

James Woods - *FBR & Co. - Analyst*

Okay, that's helpful. I guess on that I'm going to turn it back. Thanks, guys.

Operator

Nigel Browne, Macquarie.

Nigel Browne - *Macquarie Research Equities - Analyst*

My question has already been answered. Sorry about that.

Operator

Andreas Stubrud, Pareto.



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Andreas Stubsrud - Pareto/Nordic Partners - Analyst

Hi, good afternoon. I just am going to revisit ENSCO 120. I'm just surprised that you're not -- even if this is a very specialized market and kind of a small market, I'm just surprised you're not building more when you get \$230,000 a day, which in my view is a payback between four and five in EBITDA payback. Can you comment that? Are you thinking about building more in this segment, or are you going to wait and book more for ultra-deepwater?

Dan Rabun - EnSCO plc - Chairman, President, CEO

We are building three currently for that marketplace, which is quite a bit of equipment for that market.

Andreas Stubsrud - Pareto/Nordic Partners - Analyst

Okay, thank you for that. I thought likely with the strategy it (multiple speakers)

Dan Rabun - EnSCO plc - Chairman, President, CEO

And I do agree it's a fantastic contract, and you can do the back-of-the-envelope math and see the financial returns for the payback we're getting on that, are really very favorable.

Andreas Stubsrud - Pareto/Nordic Partners - Analyst

Just a follow-up, do you think that rate is something similar you can get for that type of a rig in the Middle East or is it more harsh environment UK contract type?

Dan Rabun - EnSCO plc - Chairman, President, CEO

Well, you always get the highest day rate when you find a customer that needs the capability -- the full capabilities of the rig.

So, you know, if you were to take that rig to another market, you don't need the harsh environment steel and some of the capabilities that rig has, so you won't be able to get a price for that because the customer doesn't need it. So, this particular customer -- and there are many opportunities in the central North Sea right now with several customers that are out talking about rigs that require those technical capabilities, and we think that's the most likely market for them to end up because that's the market where they need the technical capabilities.

Operator

John Lawrence, Tudor, Pickering, Holt.

John Lawrence - Tudor, Pickering, Holt & Co. Securities - Analyst

Good afternoon, guys. Just a question on the Hawaii and Pennsylvania. Could you bid those rigs in the Saudi or do those likely stay stacked?

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Kevin Robert - *Enscoplac - SVP Marketing*

No, those rigs technically could work in that market, yes, but they've been stacked for some time because we made a value judgment when they rolled off their last contract that the investment we would need to put into them to just keep them working to our standard didn't establish a fair rate of return for our resources employed, so that's why we've stacked those rigs.

John Lawrence - *Tudor, Pickering, Holt & Co. Securities - Analyst*

Okay. And then, just a follow-up on the 5003 in west Africa, does that stay there post the current contract? Is there enough work to keep that there?

Kevin Robert - *Enscoplac - SVP Marketing*

It's a good market traditionally for that midwater fleet. It certainly has been a little bit quiet, so we're working that rig hard. But we're optimistic that we'll find work as we go, but at this moment we're open sometime late first quarter.

John Lawrence - *Tudor, Pickering, Holt & Co. Securities - Analyst*

Okay, and then, Jay, just a quick follow-up on interest income. Any reason why that was so high this quarter?

Jay Swent - *Enscoplac - SVP, CFO*

You're actually going to see that going forward. That has to do with a contract that we entered into with one of our customers where we did some upgrades and deferred mob and were charging interest expense on that, being paid as part of the -- on a monthly basis. So you'll see that for the next couple of quarters. It will start to decline over time, but it will be of that sort of magnitude for the next few quarters.

Operator

At this time, I'm showing no further questions.

Sean O'Neill - *Enscoplac - VP IR & Communications*

Thank you, everyone, for participating on our conference call, and we'll talk to you again next quarter. Thank you.

Operator

This does conclude today's conference call. You may now disconnect.

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