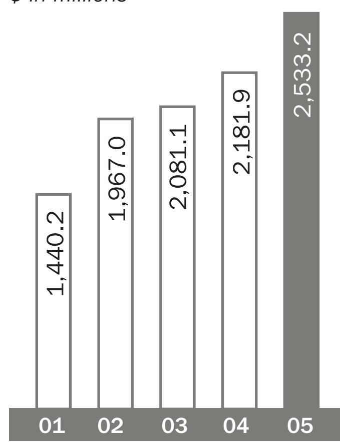
ENSCO®
ALL SYSTEMS GO ...05
2005 ENSCO INTERNATIONAL ANNUAL REPORT

ENSCO INTERNATIONAL INCORPORATED IS A PREMIER GLOBAL OFFSHORE OIL AND GAS DRILLING CONTRACTOR. Our current fleet of 46 offshore drilling rigs serves most of the major oil and gas provinces of the world through our three major business units: North & South America, Europe & Africa, and Asia & Pacific Rim. The Company also has one ultra-high specification jackup and two ultra-deepwater semisubmersible rigs under construction. ENSCO is headquartered in Dallas, Texas, and is publicly traded on the New York Stock Exchange under the symbol ESV.

FINANCIAL HIGHLIGHTS

	2005	2004	2003	2002	2001
(in millions, except per share amounts and ratios)					
Revenues	**$ 1,046.9**	$ 740.6	$ 742.3	$ 602.4	$ 655.8
Net Income	**294.2**	102.8	108.3	59.3	207.3
Diluted Earnings Per Share	**1.93**	0.68	0.72	0.42	1.50
Working Capital	**347.0**	277.9	355.9	189.2	312.0
Total Assets	**3,617.9**	3,322.0	3,183.0	3,061.5	2,323.8
Long-Term Debt	**475.4**	527.1	549.9	547.5	462.4
Stockholders' Equity	**2,533.2**	2,181.9	2,081.1	1,967.0	1,440.2
Long-Term Debt to Total Capital	**0.16**	0.19	0.21	0.22	0.24

* *Financial Highlights include the results of Chiles Offshore Inc., from the August 7, 2002, acquisition date and have been restated to give effect to the Company's operations reclassified as discontinued. (See Note 10 to the Company's Consolidated Financial Statements.)*



COUNTDOWN TO SUCCESS

...04 LEADERSHIP & PEOPLE

ENSCO is committed to being the Offshore Driller of Choice. We have assembled a competent and loyal workforce that strives to exceed the expectations of our customers.

...03 FLEET ENHANCEMENT

Ten years ago, we embarked on a $1.3 billion enhancement and life extension program that will be substantially complete in 2006. We invested counter-cyclically and undertook this work when equipment, construction and opportunity costs were favorable.

...02 NEW RIGS

We believe that a fleet renewal program must incorporate some element of new construction, provided it can be executed on a cost-effective basis. By 2009, ENSCO will have added ten new ultra-high specification jackups and three ultra-deepwater semisubmersible rigs to its fleet since 1999.

...01 POSITIONING

We are committed to providing exemplary service to our customers and superior financial performance to our stockholders. Through systematic fleet renewal and expansion, and strategic deployment of assets, we are well positioned to reap the benefit of the strongest drilling market in Company history.

ENSCO: ALL SYSTEMS GO

LEADERSHIP & PEOPLE

Our highly qualified personnel are committed to best-in-class performance.

To Our Stockholders:

Your Company had a record year in 2005. Revenue and net income were the highest in ENSCO's 18-year history. Revenue increased to over $1 billion in 2005, a first for ENSCO. Net income almost tripled, reaching $294 million for the year. Given current trends, future prospects appear even brighter.

The makings of what is now the strongest drilling market in Company history have been in the works for years. Lack of infrastructure and drilling investment over the last 20 years was justified on the basis of a healthy production capacity surplus. Strong energy demand growth in developing countries such as China and India, coupled with the ever-increasing problem of depletion, have eroded this supply cushion to an untenable level. Today, the world's surplus capacity is equivalent to approximately 2% of demand, a fraction of the 25% surplus some 20 years ago. The world must catch up. The challenge to replace depleted production, meet demand growth, and rebuild the production capacity cushion will be costly and take years of drilling to address.

Exploration and production companies are responding to this urgent need by returning to the drill bit. As a consequence, global jackup and deepwater rig fleets are near full utilization and day rates have reached record levels. Faced with equipment shortages, operators are contracting rigs well in advance of requirements, with some programs being delayed by lack of rig availability. Shipyards are busy with new construction to keep pace with growing rig demand.

ENSCO POSITIONING

It is not by chance that your Company is well positioned for this significant opportunity. Investments made in people and assets during our formative years have prepared ENSCO for today's resurgence in oil and gas drilling activity.

The demand for people to crew new and reactivated industry rigs is increasing and competition for qualified personnel is significant. At ENSCO, we have a competent and loyal

We are steadfast in our commitment to protect the safety and health of all personnel, and to respect and care for the environment.

CARL F. THORNE
Chairman of the Board and Chief Executive Officer

workforce. Active talent-pool management and company-wide training programs provide career paths and development opportunities for ENSCO personnel. The vast majority of key senior openings in 2005 were filled from within, indicative of ENSCO's bench strength and the success of our career development initiatives. Every effort is being made to ensure that ENSCO is the Employer of Choice, now and in the years to come.

A qualified workforce is essential to the continuing success of our safety initiatives. While more work is needed, we see positive results from our efforts to improve safety performance. ENSCO's 2005 Total Recordable Incident Rate was better than the offshore industry average. ENSCO 52 operating in Malaysia and ENSCO 68 in the Gulf of Mexico both completed 10 years without a lost time accident. These were significant milestones, and we seek to achieve the same results on all ENSCO rigs. We strive for zero incidents through comprehensive training, audit, follow-up and innovative proactive measures. Success will be dependent on continuous awareness, education, and repetition. Our goal is for every employee to return home safely.

We have a unique Safety, Health and Environment (SHE) Leadership Development Program that identifies core leadership competencies, provides insight into individual leadership behaviors and encourages preparation of development plans. Another initiative with relevance to safety, which is showing great promise, is represented by our Core Value Teams. Comprising some of our most experienced and respected operating personnel, these teams rotate among our rigs to audit as well as to provide counsel on safety and operational issues.

RENEWING OUR JACKUP FLEET

With regard to our assets, we made good progress on our jackup fleet enhancement program in 2005. We are in the final stages of this decade-long initiative, and when

Our enhanced assets offer significant return potential, given an attractive cost basis and increasing customer demand for high-end equipment.

FLEET ENHANCEMENTS

We have assembled one of the largest, newest and most capable jackup fleets in the world.

NEW RIGS

New rigs are an important element of our growth.

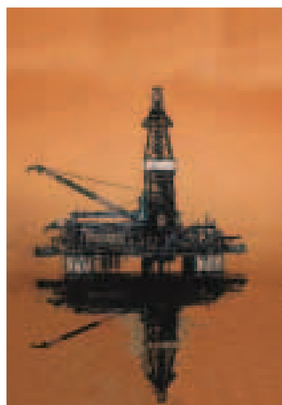
substantially completed in 2006, we will have spent approximately $1.3 billion on enhancing the capability and extending the service life of our existing jackup fleet. This program was undertaken when shipyard capacity was plentiful and shipyard, equipment and opportunity costs were attractive. With this program largely behind us, we anticipate being able to more fully utilize our fleet and meet customer demands for more rigorous drilling applications.

In renewing our fleet, we have balanced fleet enhancement with elements of new construction and expansion. In early 2005, we acquired full ownership of ENSCO 106, an ultra-high specification jackup rig that was built in joint venture with Keppel FELS in Singapore. We recently also took delivery of ENSCO 107 and expect delivery of ENSCO 108 next year. We negotiated these projects before the escalation of shipyard and equipment costs, and consequently enjoy a sustainable cost advantage on these rigs when compared to other new-build equipment.

With these additions, the Company's jackup fleet will increase to 44 rigs, 10 of which are ultra-high specification jackups built over the last seven years. Taking into consideration either the date of rig enhancement or the completion date of newly constructed rigs, the average age of ENSCO's jackup rig fleet is approximately six years. This is a marked advantage when compared with the industry jackup fleet average age of well over 20 years.

Not only are we positioned with regard to fleet age and capability, but we are also well situated geographically, with approximately 60% of our jackup fleet located internationally and 40% in North America. We address all of the major jackup drilling markets and have a leading position in most. In recent years, we have expanded our presence in our Asia & Pacific Rim business unit, where major gas development projects, often associated with LNG facilities, require rigs for long-term programs.

...02



Our ENSCO 8500 Series™ ultra-deepwater semisubmersible rigs take deepwater cost-efficiency to new depths by enhancing the already proven low-cost design of the ENSCO 7500 and expanding on its operating capabilities.

LEFT: A rendering of the new ENSCO 8500 Series™ rig.

EXPANDING OUR DEPTH

In keeping with our long-stated intention, we have taken steps to expand our deepwater fleet. Our approach is similar to the one we took in building our jackup fleet — developing cost-effective assets that address the vast majority of the market. We designed the ENSCO 8500 Series™ ultra-deepwater semisubmersible rigs based on an enhanced version of the operationally proven ENSCO 7500. In September 2005, we announced a firm four-year drilling contract with a consortium of three major independent oil companies for the first rig in the series, ENSCO 8500, to be delivered in the second quarter of 2008. In early 2006, we announced a second rig, ENSCO 8501, which is being built against a firm long-term drilling contract with two major independent oil companies. Delivery of ENSCO 8501 is scheduled in the second quarter of 2009. We believe ENSCO's 8500 Series™ ultra-deepwater semisubmersible rigs, each to be built at a cost of less than $350 million, will provide our customers a cost-effective solution to deepwater drilling and deliver attractive financial returns for the benefit of our stockholders.

With the expansion of our jackup and deepwater fleets, we continue to de-emphasize special-purpose assets. In May 2005, we announced the sale of our six barge drilling rigs in Venezuela. Only one barge rig, ENSCO I, remains in our fleet and is under a term contract with a major oil company in Indonesia. ENSCO has one remaining platform rig in the Gulf of Mexico, which is contracted to a major customer through the end of 2006. During 2005, we sold one platform rig and another was heavily damaged during Hurricane Rita and declared a constructive total loss. We were fortunate in that this was the only major loss resulting from the hurricanes that devastated the Gulf Coast region during 2005.

...01

LOOKING FORWARD

As we look to the future, we do so with confidence.

ENSCO is well positioned financially. New rig construction and fleet enhancement programs

Our long-standing commitment to be the Driller of Choice among customers and to achieve superior financial performance for stockholders has positioned ENSCO for further growth and success.

POSITIONING

We are well situated to reap the rewards of the strongest market in our history.

will likely continue to be funded out of internally generated cash flow. With $269 million of cash as of December 31, 2005, our significant cash flow generation capability, and a long-term debt to total capitalization ratio of only 16%, ENSCO is able to pursue growth opportunities without compromising its strong financial position.

We recently announced the deepening of our executive management team with the addition of Daniel W. Rabun as President and a member of the Board of Directors. Dan has been our primary outside counsel for 15 years and served on our Board of Directors in 2001. Being intimately familiar with our operations and business philosophy, Dan embraces our core fundamental values of discipline, business integrity and ethics. We anticipate that Dan will be appointed Chief Executive Officer within the next year. I expect to continue as Chairman.

We also recently announced the promotion of William S. Chadwick to Executive Vice President and Chief Operating Officer. Bill has been an integral part of ENSCO's management team since the Company's inception. His wealth of experience, demonstrated leadership capabilities, and participation in the formulation of our core values have made a significant contribution to ENSCO's growth and success over the years.

This is the market that we have anticipated for years — one that is marked by drilling necessity, where a new sense of urgency must overcome years of complacency. Shortages of people and equipment will remain a challenge. With the preparatory work we have done and the growth prospects before us, your Company is uniquely positioned for continued success.

All Systems GO!

CARL F. THORNE
Chairman and Chief Executive Officer
March 1, 2006

Our efforts have produced the most modern and one of the most capable rig fleets in the world, positioned in the most active drilling markets. This was achieved cost-efficiently and not by accident, just in time for this market upturn.

ALL SYSTEMS GO

SCO 67

OPERATIONS AND FINANCIAL INFORMATION

Offshore Equipment Listing	**14**
Selected Financial Data	**16**
Management's Discussion and Analysis of Financial Condition and Results of Operations	**17**
Management's Report on Internal Control Over Financial Reporting	**35**
Reports of Independent Registered Public Accounting Firm	**36**
Consolidated Statements of Income	**38**
Consolidated Balance Sheets	**39**
Consolidated Statements of Cash Flows	**40**
Notes to Consolidated Financial Statements	**41**

FORWARD-LOOKING STATEMENTS

This Annual Report contains forward-looking statements that are subject to a number of risks and uncertainties. The forward-looking statements are based on information as of the date of this report, and the Company assumes no obligation to update these statements. Generally, forward-looking statements include words or phrases such as "anticipates," "believes," "estimates," "expects," "intends," "plans," "projects," "could," "may," "might," "should," "will" and words and phrases of similar impact. The forward-looking statements include, but are not limited to, statements regarding future operations, industry trends or conditions and the business environment; statements regarding future levels of, or trends in, day rates, utilization, revenues, operating expenses, capital expenditures, financing and funding; and statements regarding future construction, enhancement or upgrade of rigs, future mobilization, relocation or other movement of rigs, and future availability or suitability of rigs. The forward-looking statements are made pursuant to safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Numerous factors could cause actual results to differ materially from those in the forward-looking statements, including: (i) industry conditions and competition, (ii) fluctuations in the price of oil and natural gas, (iii) regional and worldwide expenditures for oil and gas drilling, (iv) demand for oil and gas, (v) operational risks, including hazards created by severe storms or hurricanes, (vi) validity, enforceability, applicability and availability of contractual indemnities and insurance coverage, (vii) risks associated with operating in foreign jurisdictions, (viii) environmental liabilities that may arise in the future that are not covered by insurance or indemnity, (ix) the impact of current and future laws and government regulation, as well as repeal or modification of same, affecting the oil and gas industry, the environment, taxes and the Company's operations in particular, (x) changes in costs associated with rig construction or enhancement, as well as changes in dates rigs being constructed or undergoing enhancement will enter a shipyard, be delivered from a shipyard, or enter service, (xi) renegotiations, nullification, or breaches of contracts with customers, vendors, subcontractors or other parties, (xii) unionization or similar collective actions by the Company's employees, (xiii) consolidation among the Company's competitors or customers, (xiv) changes in worldwide and regional supplies of drilling rigs and (xv) the risks described from time to time in the Company's reports to the Securities and Exchange Commission, including the Risk Factors section of Form 10-K for 2005.

OFFSHORE EQUIPMENT LISTING

JACKUP RIGS

RIG NAME	YEAR BUILT/ REBUILT	RIG MAKE	MAXIMUM WATER DEPTH/ DRILLING DEPTH	CURRENT LOCATION	CUSTOMER AS OF 2/15/06
NORTH AMERICA					
ENSCO 60	1981/2003	Lev 111-C	300'/25,000'	Gulf of Mexico	Newfield
ENSCO 68	1976/2004	MLT 116-CE	400'/30,000'	Gulf of Mexico	Tana
ENSCO 69	1976/1995	MLT 84-S	400'/25,000'	Gulf of Mexico	Committed (1)
ENSCO 74	1999	MLT Super 116-C	400'/30,000'	Gulf of Mexico	Dominion
ENSCO 75	1999	MLT Super 116-C	400'/30,000'	Gulf of Mexico	Tarpon
ENSCO 81	1979/2003	MLT 116-C	350'/30,000'	Gulf of Mexico	Hunt Petroleum
ENSCO 82	1979/2003	MLT 116-C	300'/30,000'	Gulf of Mexico	Chevron
ENSCO 83	1979	MLT 82 SD-C	250'/25,000'	Gulf of Mexico	Gryphon
ENSCO 84	1981/2005	MLT 82 SD-C	250'/25,000'	Gulf of Mexico	Apache
ENSCO 86	1981/2006	MLT 82 SD-C	250'/30,000'	Gulf of Mexico	Shipyard (2)
ENSCO 87	1982/2006	MLT 116-C	350'/25,000'	Gulf of Mexico	Committed (3)
ENSCO 89	1982/2005	MLT 82 SD-C	250'/25,000'	Gulf of Mexico	Unocal
ENSCO 90	1982/2002	MLT 82 SD-C	250'/25,000'	Gulf of Mexico	Apache
ENSCO 93	1982/2002	MLT 82 SD-C	250'/25,000'	Gulf of Mexico	Hunt Oil
ENSCO 98	1977/2003	MLT 82 SD-C	250'/25,000'	Gulf of Mexico	Stone
ENSCO 99	1985/2005	MLT 82 SD-C	250'/30,000'	Gulf of Mexico	ExxonMobil
ENSCO 105	2002	KFELS MOD V-B	400'/30,000'	Gulf of Mexico	Dominion
EUROPE/AFRICA					
ENSCO 70	1981/1996	Hitachi K1032N	250'/30,000'	United Kingdom	ATP
ENSCO 71	1982/1995	Hitachi K1032N	225'/25,000'	Denmark	Maersk
ENSCO 72	1981/1996	Hitachi K1025N	225'/25,000'	Netherlands	Total
ENSCO 80	1978/1995	MLT 116-CE	225'/30,000'	United Kingdom	ConocoPhillips
ENSCO 85	1981/1995	MLT 116-C	225'/25,000'	United Kingdom	Newfield
ENSCO 92	1982/1996	MLT 116-C	225'/25,000'	United Kingdom	ConocoPhillips
ENSCO 100	1987/2000	MLT 150-88-C	350'/30,000'	Nigeria	ExxonMobil
ENSCO 101	2000	KFELS MOD V-A	400'/30,000'	United Kingdom	Tullow
ENSCO 102	2002	KFELS MOD V-A	400'/30,000'	United Kingdom	ConocoPhillips
ASIA PACIFIC					
ENSCO 50	1983/1998	F&G L-780 MOD II-C	300'/25,000'	India	British Gas
ENSCO 51	1981/2002	F&G L-780 MOD II-C	300'/25,000'	Brunei	Shell
ENSCO 52	1983/1997	F&G L-780 MOD II-C	300'/25,000'	Malaysia	Petronas Carigali
ENSCO 53	1982/1998	F&G L-780 MOD II-C	300'/25,000'	India	British Gas
ENSCO 54	1982/1997	F&G L-780 MOD II-C	300'/25,000'	Qatar	Ras Gas
ENSCO 56	1982/1997	F&G L-780 MOD II-C	300'/25,000'	New Zealand	Committed (4)
ENSCO 57	1982/2003	F&G L-780 MOD II-C	300'/25,000'	Malaysia	Murphy
ENSCO 67	1976/2005	MLT 116-CE	400'/30,000'	Australia	ROC Oil
ENSCO 76	2000	MLT Super 116-C	350'/30,000'	Saudi Arabia	Saudi Aramco
ENSCO 88	1982/2004	MLT 82 SD-C	250'/25,000'	Qatar	Ras Gas
ENSCO 94	1981/2001	Hitachi 250-C	250'/25,000'	Qatar	Ras Gas

JACKUP RIGS (CONTINUED)

RIG NAME	YEAR BUILT/ REBUILT	RIG MAKE	MAXIMUM WATER DEPTH/ DRILLING DEPTH	CURRENT LOCATION	CUSTOMER AS OF 2/15/06
ENSCO 95	1981/2005	Hitachi 250-C	250'/25,000'	Saudi Arabia	Saudi Aramco
ENSCO 96	1982/1997	Hitachi 250-C	250'/25,000'	Saudi Arabia	Saudi Aramco
ENSCO 97	1980/1997	MLT 82 SD-C	250'/25,000'	Saudi Arabia	Saudi Aramco
ENSCO 104	2002	KFELS MOD V-B	400'/30,000'	Indonesia	Premier
ENSCO 106	2005	KFELS MOD V-B	400'/30,000'	Australia	Apache
ENSCO 107	2006	KFELS MOD V-B	400'/30,000'	Singapore	Committed (5)
ENSCO 108	2007	KFELS MOD V-B	400'/30,000'	Singapore	Under construction (6)

ULTRA-DEEPWATER SEMISUBMERSIBLE RIGS

RIG NAME	YEAR BUILT	RIG TYPE	MAXIMUM WATER DEPTH/ DRILLING DEPTH	CURRENT LOCATION	CUSTOMER AS OF 2/15/06
ENSCO 7500	2000	Dynamically Positioned	8,000'/30,000'	Gulf of Mexico	Chevron
ENSCO 8500	2008	Dynamically Positioned	8,500'/35,000'	Singapore	Under construction (6)
ENSCO 8501	2009	Dynamically Positioned	8,500'/35,000'	Singapore	Under construction (6)

BARGE RIG

RIG NAME	YEAR BUILT	MAXIMUM DRILLING DEPTH	CURRENT LOCATION	CUSTOMER AS OF 2/15/06
ENSCO I	1999	30,000'	Indonesia	Total

PLATFORM RIG

RIG NAME	YEAR BUILT/ REBUILT	MAXIMUM DRILLING DEPTH	CURRENT LOCATION	CUSTOMER AS OF 2/15/06
ENSCO 25	1980/1998	30,000'	Gulf of Mexico	Chevron

(1) ENSCO 69 is in a Gulf of Mexico shipyard preparing for a long-term contract with ConocoPhillips in Venezuela that is scheduled to commence in March 2006.

(2) ENSCO 86 is in a shipyard undergoing enhancement procedures.

(3) ENSCO 87 is in a shipyard undergoing enhancement procedures and is scheduled to commence a contract with Hunt Petroleum in March 2006.

(4) ENSCO 56 is mobilizing to New Zealand where it is expected to commence a long-term contract in March 2006.

(5) On January 23, 2006, the Company accepted delivery of ENSCO 107, which is scheduled to commence drilling operations with various operators in March 2006 in Malaysia.

(6) For additional information concerning the two ultra-deepwater semisubmersible rigs and one ultra-high specification jackup rig under construction, see "Outlook" section included in "Management's Discussion and Analysis of Financial Condition and Results of Operations." The ENSCO 8500 and ENSCO 8501 are subject to long-term drilling contracts of four years and three and one half years, respectively. ENSCO 108 is scheduled to commence a one-year contract upon construction completion.

SELECTED FINANCIAL DATA

The selected financial data set forth below for each of the years in the five-year period ended December 31, 2005 has been derived from the Company's audited Consolidated Financial Statements. This information should be read in conjunction with the Company's Consolidated Financial Statements and notes thereto.

	YEAR ENDED DECEMBER 31,				
(in millions, except per share amounts)	**2005**	2004	2003	2002	2001
Consolidated Statement of Income Data					
Revenues	**$1,046.9**	$ 740.6	$ 742.3	$ 602.4	$ 655.8
Operating expenses					
Contract drilling	**454.4**	406.1	420.8	315.5	271.4
Depreciation and amortization	**154.8**	134.7	119.5	97.9	92.5
Impairment of assets	**–**	–	–	–	9.2
General and administrative	**25.8**	26.3	22.0	18.6	16.8
Operating income	**411.9**	173.5	180.0	170.4	265.9
Other expense, net	**(20.7)**	(33.6)	(32.8)	(23.1)	(25.5)
Income from continuing operations before income taxes	**391.2**	139.9	147.2	147.3	240.4
Provision for income taxes	**107.3**	35.2	43.3	41.2	65.3
Income from continuing operations	**283.9**	104.7	103.9	106.1	175.1
Income (loss) from discontinued operations [1]	**10.3**	(1.9)	4.4	(46.8)	32.2
Net income	**$ 294.2**	$ 102.8	$ 108.3	$ 59.3	$ 207.3
Earnings (loss) per share – basic					
Continuing operations	**$ 1.87**	$ .70	$ .69	$ .75	$ 1.28
Discontinued operations	**.07**	(.02)	.03	(.33)	.23
	$ 1.94	$ .68	$ .72	$ .42	$ 1.51
Earnings (loss) per share – diluted					
Continuing operations	**$ 1.86**	$ .70	$ .69	$ .75	$ 1.27
Discontinued operations	**.07**	(.02)	.03	(.33)	.23
	$ 1.93	$ .68	$ .72	$ .42	$ 1.50
Weighted average common shares outstanding:					
Basic	**151.7**	150.5	149.6	140.7	136.9
Diluted	**152.4**	150.6	150.1	141.4	137.9
Cash dividends per common share	**$ .10**	$ .10	$ .10	$ .10	$ .10
Consolidated Balance Sheet Data					
Working capital	**$ 347.0**	$ 277.9	$ 355.9	$ 189.2	$ 312.0
Total assets	**3,617.9**	3,322.0	3,183.0	3,061.5	2,323.8
Long-term debt, net of current portion	**475.4**	527.1	549.9	547.5	462.4
Stockholders' equity	**2,533.2**	2,181.9	2,081.1	1,967.0	1,440.2
Cash flow from continuing operations	**355.7**	247.8	273.2	180.3	363.6

(1) See Note 10 to the Company's Consolidated Financial Statements for information concerning the Company's discontinued operations.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

INTRODUCTION

ENSCO International Incorporated and subsidiaries ("ENSCO" or the "Company") is an international offshore contract drilling company with a current operating fleet of 46 drilling rigs, including 43 jackup rigs, one ultra-deepwater semisubmersible rig, one platform rig and one barge rig. Additionally, the Company has two ultra-deepwater semisubmersible rigs and one ultra-high specification jackup rig under construction. The Company's offshore contract drilling operations are integral to the exploration, development and production of oil and natural gas and the Company is one of the leading providers of offshore drilling services to the international oil and gas industry.

The Company drills and completes oil and gas wells under contracts with major international, government-owned and independent oil and gas companies. The drilling services provided by the Company are conducted on a "day rate" contract basis, under which the Company provides its drilling rigs and rig crews and receives a fixed amount per day for drilling wells. The customer bears substantially all of the ancillary costs of constructing the wells and supporting drilling operations, as well as the economic risk relative to the success of the wells.

Financial operating results in the offshore contract drilling industry have historically been very cyclical and are primarily related to the demand for drilling rigs and the available supply of rigs. Demand for rigs is directly related to the regional and worldwide levels of offshore exploration and development spending by oil and gas companies, which is beyond the control of the Company. Offshore exploration and development spending may fluctuate substantially from year to year and from region to region. Such spending fluctuations result from many factors, including:

- demand for oil and gas,
- regional and global economic conditions and expected changes therein,
- political, social and legislative environments in the U.S. and other major oil-producing countries,
- production levels and related activities of OPEC and other oil and gas producers,
- technological advancements that impact the methods or cost of oil and gas exploration and development, and
- the impact that these and other events have on the current and expected future pricing of oil and natural gas.

The supply of drilling rigs is limited and new rigs require a substantial capital investment and a long period of time to construct. In addition, it is time consuming and costly to move rigs between markets. Accordingly, as demand changes in a particular market, the supply of rigs may not adjust quickly, and therefore the utilization and day rates of rigs could fluctuate significantly. Certain events, such as hurricanes, may impact the supply of rigs in a particular market and cause rapid fluctuations in rig demand, utilization and day rates.

Since factors that affect offshore exploration and development spending are beyond the control of the Company and rig demand can change quickly, it is difficult for the Company to predict industry conditions or trends in operating results. Periods of low demand result in excess rig supply, which generally reduces rig utilization levels and day rates; periods of high demand tighten rig supply, generally resulting in increased rig utilization levels and day rates.

The Company's drilling rigs are deployed throughout the world, with drilling operations concentrated in the major geographic regions of North America, Europe/Africa, Asia Pacific (which includes Asia, the Middle East, Australia and New Zealand) and South America/Caribbean. The Company competes with other offshore drilling contractors on the basis of price, quality of service, operational and safety performance, equipment suitability and availability, reputation and technical expertise. Competition is usually on a regional basis, but offshore drilling rigs are mobile and may generally be moved from one region to another in response to demand.

BUSINESS ENVIRONMENT

The Company's North America offshore drilling operations are conducted in the Gulf of Mexico. The U.S. natural gas market and trends in oil and gas company spending largely determine offshore drilling industry conditions in this region. During the first half of 2003, the supply of jackup rigs in the Gulf of Mexico was in excess of a declining demand as oil and gas companies focused more of their spending on international projects. This imbalance led to a further reduction of day rates from already-reduced historical levels. During the second half of 2003, day rates for Gulf of Mexico jackup rigs began to improve as the supply of jackup rigs declined after some of the Company's competitors mobilized rigs to international markets in response to contract opportunities.

In 2004, the supply of jackup rigs in the Gulf of Mexico declined further as the Company and some of its competitors mobilized additional rigs to international markets. Additionally, demand improved significantly during the second half of

2004 due to increased spending by oil and gas companies. Even though day rate trends were mixed during the first six months of 2004, with day rates for the larger premium jackup rigs decreasing slightly from year-end 2003 levels due to a modest oversupply of larger rigs, average day rates for jackup rigs in the Gulf of Mexico improved significantly during the second half of 2004, due to both the reduced supply of rigs and increased spending by oil and gas companies.

During 2005, day rates of Gulf of Mexico jackup rigs continued to increase as a result of a further reduction in the supply of available rigs in the region and increased demand. The supply of jackup rigs began to tighten in mid-2005 as several of the Company's competitors announced the planned departure of rigs contracted outside the region. These rigs became unavailable during the latter half of 2005 to prepare for mobilization outside the region. Additionally, Hurricane Katrina and Hurricane Rita disrupted drilling operations and severely damaged or destroyed several rigs operating in the region thereby reducing the number of available rigs even further. The demand for Gulf of Mexico jackup rigs continued to strengthen during 2005 as oil and gas companies increased spending due to an increasing global demand for oil coupled with record level oil and natural gas prices.

The Company's Europe/Africa offshore drilling operations are mainly conducted in northern Europe where jackup rig demand and day rates remained fairly stable over the first half of 2003 as the impact of reduced spending by oil and gas companies was offset by a reduction in the supply of rigs after some of the Company's competitors mobilized rigs to stronger markets. During the second half of 2003, reduced oil and gas company spending resulted in limited term work opportunities and jackup day rates in Europe declined. During 2004, demand and day rates for jackup rigs in this region generally remained at reduced levels until the fourth quarter when demand and day rates began to improve. During 2005, day rates continued to improve as high oil and natural gas prices as well as an increasing global demand for oil have resulted in increased spending by oil and gas companies.

Demand for jackup rigs in most Asia Pacific region markets was strong during 2003 and 2004, as many of the major international and government-owned oil companies increased spending in those markets. However, Asia Pacific region day rates remained relatively stable during this period as the Company and some of its competitors mobilized additional rigs to the region in response to the increased demand. Demand continued to strengthen during 2005 and increased activity levels absorbed the additional rigs mobilized to the region and improved day rates.

RESULTS OF OPERATIONS

In recent years, the Company has disposed of several assets, including the sale of its 27-vessel marine transportation fleet in 2003, the exchange of three rigs in connection with a construction agreement in 2004, the sale of six barge rigs and a platform rig in 2005, and the loss of two rigs as a result of damage caused by hurricanes, one in 2004 and the other in 2005. The operating results of these assets have been reclassified as discontinued operations in the consolidated statements of income for each of the years in the three-year period ended December 31, 2005. (See "Discontinued Operations" for further information regarding the operating results and disposal of these assets.)

The Company's consolidated operating results for each of the years in the three-year period ended December 31, 2005, are as follows (in millions):

	2005	2004	2003
Revenues	**$1,046.9**	$740.6	$742.3
Operating expenses			
Contract drilling	**454.4**	406.1	420.8
Depreciation and amortization	**154.8**	134.7	119.5
General and administrative	**25.8**	26.3	22.0
Operating income	**411.9**	173.5	180.0
Other expense, net	**(20.7)**	(33.6)	(32.8)
Provision for income taxes	**107.3**	35.2	43.3
Income from continuing operations	**283.9**	104.7	103.9
Income (loss) from discontinued operations	**10.3**	(1.9)	4.4
Net income	**$ 294.2**	$102.8	$108.3

In 2005, net income increased by $191.4 million, or 186%, and operating income increased by $238.4 million, or 137%, as compared to 2004. The increases are primarily due to improved average day rates for the Company's jackup rigs and ENSCO 7500 and improved utilization of the Europe/Africa jackup rigs and ENSCO 7500, as compared to the prior year period.

In 2004, net income for the Company decreased by $5.5 million, or 5%, and operating income decreased by $6.5 million, or 4%, as compared to 2003. These decreases are due primarily to reduced utilization and average day rates for the Europe/Africa jackup rigs and ENSCO 7500, partially offset by increased average day rates for the North America jackup rigs and increased operating days for the Asia Pacific jackup rigs.

Detailed explanations of the Company's operating results for each of the years in the three-year period ended December 31, 2005, including discussions of revenues and contract drilling expense based on geographical location and type of rig, are set forth below.

Revenues and Contract Drilling Expense

The following is an analysis of the Company's revenues, contract drilling expense, rig utilization and average day rates from continuing operations for each of the years in the three-year period ended December 31, 2005 (in millions, except utilization and day rates):

	2005	2004	2003
Revenues			
Jackup rigs:			
North America	**$ 362.2**	$243.2	$201.8
Europe/Africa	**241.5**	146.0	179.7
Asia Pacific	**354.9**	268.8	233.3
South America/Caribbean	**4.0**	31.5	32.4
Total jackup rigs	**962.6**	689.5	647.2
Semisubmersible rig – North America	**52.0**	23.8	66.2
Barge rig – Asia Pacific	**19.7**	18.0	19.5
Platform rig – North America	**12.6**	9.3	9.4
Total	**$1,046.9**	$740.6	$742.3
Contract Drilling Expense			
Jackup rigs:			
North America	**$ 130.9**	$131.3	$137.7
Europe/Africa	**112.5**	95.8	99.2
Asia Pacific	**170.4**	136.2	134.1
South America/Caribbean	**2.8**	12.5	13.3
Total jackup rigs	**416.6**	375.8	384.3
Semisubmersible rig – North America	**21.3**	15.8	19.4
Barge rig – Asia Pacific	**9.4**	8.9	11.4
Platform rig – North America	**7.1**	5.6	5.7
Total	**$ 454.4**	$406.1	$420.8

	2005	2004	2003
Rig Utilization [1]			
Jackup rigs			
North America	**85%**	85%	86%
Europe/Africa	**96%**	82%	93%
Asia Pacific	**84%**	82%	82%
South America/Caribbean	**100%**	97%	99%
Total jackup rigs	**87%**	84%	86%
Semisubmersible rig – North America	**86%**	51%	96%
Barge rig – Asia Pacific	**98%**	100%	99%
Platform rig – North America	**99%**	100%	99%
Total	**87%**	84%	87%
Average Day Rates [2]			
Jackup rigs			
North America	**$ 67,725**	$ 41,800	$ 31,445
Europe/Africa	**84,441**	60,542	64,615
Asia Pacific	**69,506**	63,226	63,154
South America/Caribbean	**77,589**	87,529	86,381
Total jackup rigs	**71,694**	53,570	47,236
Semisubmersible rig – North America	**161,527**	123,988	188,335
Barge rig – Asia Pacific	**52,684**	48,317	41,333
Platform rig – North America	**35,848**	29,401	28,161
Total	**$ 72,721**	$ 53,939	$ 51,687

(1) Utilization is derived by dividing the number of days under contract, including days associated with compensated mobilizations, by the number of days in the period.

(2) Average day rates are derived by dividing contract drilling revenue by the aggregate number of contract days, adjusted to exclude certain types of non-recurring reimbursable revenue and lump sum revenue and contract days associated with certain mobilizations, demobilizations, shipyard contracts and standby contracts.

The following is a summary of the Company's offshore drilling rigs at December 31, 2005, 2004 and 2003:

	2005	2004	2003
Jackup rigs:			
North America [1]	**17**	17	20
Europe/Africa [2]	**9**	8	8
Asia Pacific [1] [2] [3] [4]	**16**	15	12
South America/Caribbean [3]	**–**	1	1
Total jackup rigs	**42**	41	41
Semisubmersible rig – North America	**1**	1	1
Barge rig – Asia Pacific	**1**	1	1
Platform rig – North America	**1**	1	1
Total [5]	**45**	44	44

(1) During 2004, the Company mobilized three jackup rigs from the Gulf of Mexico to the Asia Pacific region.

(2) At December 31, 2005, ENSCO 102 was en route from the Asia Pacific region to the United Kingdom and it commenced a one-year contract in February 2006.

(3) During 2005, the Company mobilized ENSCO 76 from Trinidad and Tobago to Saudi Arabia to commence a three-year contract in September 2005.

(4) Upon completion of its construction in the first quarter of 2005, the Company acquired ENSCO 106 from a joint venture in which the Company held a 25% interest.

(5) The total number of rigs for each period excludes rigs reclassified as discontinued operations (see Note 10 to the Company's consolidated financial statements for information concerning the Company's discontinued operations), and rigs under construction at December 31, 2005 (ENSCO 107, ENSCO 108, ENSCO 8500 and ENSCO 8501).

North America Jackup Rigs

In 2005, revenues for the North America jackup rigs increased by $119.0 million, or 49%, and contract drilling expense decreased by $400,000, as compared to 2004. The increase in revenues is due primarily to a 62% increase in average day rates, partially offset by decreased revenue attributable to the reduced size of the Company's North America jackup rig fleet resulting from the relocation of three jackup rigs from the Gulf of Mexico in 2004. The significant increase in average day rates is primarily attributable to a reduction in the supply of available rigs in the region and increased demand. The decrease in the supply of jackup rigs was partially due to several of the Company's competitors' rigs being taken out of operation in the second half of 2005 to prepare for international contract commitments. Additionally, Hurricane Katrina and Hurricane Rita disrupted drilling operations and severely damaged or destroyed several rigs operating in the region thereby reducing the number of available rigs even further. Demand increased due to higher levels of spending by oil and gas companies resulting from an increasing global demand for oil coupled with record level oil and natural gas prices. The slight decrease in contract drilling expense is primarily attributable to $4.0 million of costs incurred during the second quarter of 2004 relating to the termination of a rig transportation contract associated with the delayed relocation of two jackup rigs from the Gulf of Mexico to the Middle East and to the reduced size of the fleet in 2005, partially offset by an increase in repair costs and the receipt of a $500,000 insurance premium rebate in the prior year third quarter, which resulted from the low level of claims experienced during the Company's prior policy year.

In 2004, revenues for the North America jackup rigs increased by $41.4 million, or 21%, and contract drilling expense decreased by $6.4 million, or 5%, as compared to 2003. The increase in revenues is due primarily to a 33% increase in the average day rates, partially offset by decreased revenue attributable to the reduced size of the Company's North America jackup rig fleet in 2004 as noted above. The significant increase in average day rates is primarily attributable to a reduction in supply of Gulf of Mexico jackup rigs resulting from the relocation of several rigs by the Company and its competitors to international markets in the latter half of 2003 and in 2004. The decrease in contract drilling expense is primarily attributable to the reduced size of the fleet in 2004 and reduced insurance costs, partially offset by $4.0 million of costs incurred in 2004 in connection with the termination of a rig transportation contract as noted above and increased personnel costs.

Europe/Africa Jackup Rigs

In 2005, revenues for the Europe/Africa jackup rigs increased by $95.5 million, or 65%, and contract drilling expense increased by $16.7 million, or 17%, as compared to 2004. The increase in revenues is primarily attributable to a 39% increase in average day rates and an increase in utilization to 96% in 2005 from 82% in 2004. The improvement in day rates and utilization is attributable to increased spending by oil and gas companies. Contract drilling expense increased due to increased utilization and an increase in reimbursable expenses.

In 2004, revenues for the Europe/Africa jackup rigs decreased by $33.7 million, or 19%, and contract drilling expense decreased by $3.4 million, or 3%, as compared to 2003. The decrease in revenues is primarily attributable to a 6% decrease in the average day rates and a reduction in utilization to 82% in 2004 from 93% in 2003. The decrease in average day rates and utilization is due to market weakness in the North Sea that began during the latter part of 2003 and continued throughout 2004. Contract drilling expense decreased from the prior year period primarily due to reduced repair and insurance costs as well as $900,000 of expenses associated with a crane failure during the prior year, partially offset by increased personnel costs.

Asia Pacific Jackup Rigs

In 2005, revenues for the Asia Pacific jackup rigs increased by $86.1 million, or 32%, and contract drilling expense increased by $34.2 million, or 25%, as compared to 2004. The increase in revenues is primarily due to the increased size of the Asia Pacific jackup rig fleet. The Company relocated three rigs to the Asia Pacific region during the second and third quarters of 2004, which commenced operations after completing enhancement and contract preparation procedures. Additionally, the Company acquired ENSCO 106 in February 2005, which commenced operations shortly thereafter. Contract drilling expense increased primarily due to the increased size of the Asia Pacific jackup rig fleet in 2005.

In 2004, revenues for the Asia Pacific jackup rigs increased by $35.5 million, or 15%, and contract drilling expense increased by $2.1 million, or 2%, as compared to 2003. The increase in revenues is primarily due to improved utilization and increased revenues associated with reimbursed costs. The Company relocated three rigs to the Asia Pacific region during 2004, including two rigs that underwent enhancement procedures until year-end 2004, and a third rig that commenced operations in November 2004 after completing enhancement procedures. Excluding the impact of these three rigs, utilization of the remaining 12 rigs in the Asia Pacific jackup rig fleet increased to 93% in 2004 from 82% in 2003. The improved utilization resulted from a reduction in the amount of time rigs spent in shipyards undergoing enhancements and contract preparation during 2004 compared to 2003. The increase in contract drilling expense is primarily attributable to $6.7 million of costs associated with the three rigs added to the Asia Pacific fleet in 2004, the impact of increased utilization of the remaining rigs in the fleet and increased mobilization and reimbursable expenses, partially offset by a $13.4 million decrease in costs associated with the ENSCO 102 joint venture charter operations, which ceased effective January 31, 2004 upon ENSCO's acquisition of the rig from the joint venture, and a decrease in insurance expense. (See "Off-Balance Sheet Arrangements" for further information on the Company's joint venture arrangements.)

South America/Caribbean Jackup Rig

In 2005, revenues for the South American/Caribbean jackup rig decreased by $27.5 million, or 87%, and contract drilling expense decreased by $9.7 million, or 78%, as compared to 2004. The decrease in revenues and contract drilling expense is due to the completion of a long-term contract in February 2005 and the subsequent mobilization of ENSCO 76 from Trinidad and Tobago, compared to operating at near full utilization during the prior year period.

In 2004, revenues for the South American/Caribbean jackup rig decreased by $900,000, or 3%, and contract drilling expenses decreased by $800,000, or 6%, as compared to 2003. The decrease in revenues is primarily due to a decrease in revenue associated with reimbursed costs. The decrease in contract drilling expense is due primarily to minor decreases in personnel, repair and maintenance, insurance and reimbursable expenses.

North America Semisubmersible Rig

In 2005, revenues for ENSCO 7500 increased by $28.2 million, or 118%, and contract drilling expense increased by $5.5 million, or 35%, as compared to 2004. The increase in revenues and contract drilling expense is attributable to the rig being idle while undergoing minor improvements, regulatory inspection and maintenance procedures during approximately six months of 2004.

In 2004, revenues for ENSCO 7500 decreased by $42.4 million, or 64%, and contract drilling expense decreased by $3.6 million, or 19%, as compared to 2003, as the rig completed an approximate three-year contract in the first quarter of 2004 and was idle approximately six months as discussed above.

Asia Pacific Barge Rig

In 2005, revenues for the Asia Pacific barge rig, which is currently located in Indonesia, increased by $1.7 million, or 9%, and contract drilling expense increased by $500,000, or 6%, as compared to 2004. The increase in revenues is primarily due to a 9% increase in the average day rate of ENSCO I. The increase in contract drilling expense is primarily due to increased repair, maintenance and supply costs.

In 2004, revenues for the Asia Pacific barge rig decreased by $1.5 million, or 8%, and contract drilling expense decreased by $2.5 million, or 22%, as compared to 2003. The decrease in revenues is primarily due to a $4.0 million decrease in revenues associated with mobilization and other customer reimbursements relating to costs associated with initial contract operations in 2003, partially offset by a 17% increase in the average day rate of ENSCO I. The decrease in contract drilling expense is due primarily to a reduction in the aforementioned reimbursed costs.

North America Platform Rig

In 2005, revenues for the North America platform rig increased by $3.3 million, or 35%, and contract drilling expense increased by $1.5 million, or 27%, as compared to 2004. The increase in revenues is primarily due to a 22% increase in the average day rate of ENSCO 25. The increase in contract drilling expense is primarily due to an increase in personnel, repair and maintenance, and reimbursable expenses. In 2004, revenues and contract drilling expense for the North America platform rig were comparable to 2003.

Depreciation and Amortization

Depreciation and amortization expense for 2005 increased by $20.1 million, or 15%, as compared to 2004. The increase is primarily attributable to depreciation on capital enhancement projects completed in 2005 and 2004 and depreciation on ENSCO 106, which was acquired in February 2005.

Depreciation and amortization expense for 2004 increased by $15.2 million, or 13%, as compared to 2003. The increase is primarily attributable to depreciation on capital enhancement projects completed in 2004 and 2003 and depreciation on ENSCO 102, which was acquired in January 2004.

General and Administrative

General and administrative expense for 2005 decreased by $500,000, or 2%, as compared to 2004. The decrease is primarily attributable to non-recurring costs incurred in 2004 related to information systems consulting services, Sarbanes-Oxley Act compliance initiatives and other projects, partially offset by an increase in personnel costs in 2005.

General and administrative expense for 2004 increased by $4.3 million, or 20%, as compared to 2003. The increase is primarily attributable to increased personnel costs, audit fees and consulting services related to information systems, the Sarbanes-Oxley Act and other projects, offset in part by a decrease resulting from a $1.1 million payment of one-time severance costs during the first quarter of 2003 under an employment contract assumed in connection with a prior acquisition.

Other Income (Expense)

The components of other income (expense) for each of the years in the three-year period ended December 31, 2005, is as follows (in millions):

	2005	2004	2003
Interest income	**$ 7.0**	$ 3.7	$ 3.4
Interest expense, net:			
Interest expense	**(37.7)**	(40.5)	(38.7)
Capitalized interest	**8.9**	3.9	2.0
	(28.8)	(36.6)	(36.7)
Other, net	**1.1**	(.7)	.5
	$(20.7)	$(33.6)	$(32.8)

Interest income increased by $3.3 million in 2005, as compared to 2004, due to higher average interest rates. Interest income increased by $300,000 in 2004, as compared to 2003, due to higher average cash balances invested.

Interest expense decreased by $2.8 million in 2005, as compared to 2004, due primarily to a decrease in outstanding debt. Interest expense increased by $1.8 million in 2004, as compared to 2003, due primarily to a minor increase in average effective interest rates.

Capitalized interest increased by $5.0 million in 2005, as compared to 2004 due to an increase in the amount invested in rig construction and enhancement projects, primarily the ENSCO 107, ENSCO 108 and ENSCO 8500 construction projects and the enhancement projects associated with ENSCO 67 and ENSCO 87. Capitalized interest increased by $1.9 million in 2004, as compared to 2003, due to an increase in the amount invested in rig construction and enhancement projects, primarily the ENSCO 107 construction project and the enhancement projects associated with ENSCO 68, ENSCO 88 and ENSCO 67.

Other, net for 2005 includes a $3.1 million net gain related to the resolution of insurance claims associated with the damage sustained on ENSCO 64 and ENSCO 25 in the Gulf of Mexico during Hurricane Ivan in September 2004 and foreign currency translation gains of $700,000, partially offset by a $2.4 million expense for the unamortized discount and redemption premium incurred upon the redemption of the Company's 5.63% bonds on June 15, 2005 (see Note 4 to the Company's Consolidated Financial Statements), and a $500,000 loss for the insurance deductible related to damage sustained on the Company's rigs located in the Gulf of Mexico during Hurricane Katrina in September 2005. (See Note 11 to the Company's Consolidated Financial Statements for information regarding hurricane insurance claims.)

Other, net for 2004 consists primarily of a $5.5 million loss for the insurance deductible related to damages sustained on ENSCO 64 and ENSCO 25 during Hurricane Ivan in the Gulf of Mexico, partially offset by a $3.9 million gain resulting from the settlement of an insurance claim related to ENSCO 7500 hull repairs and lost revenue in the first quarter of 2002 and net foreign currency translation gains of $900,000.

Other, net for 2003 consists primarily of a $3.0 million gain related to the receipt and sale of shares of common stock of Prudential Financial, Inc. The shares were issued to the Company as a result of the Company's previous purchase of a Group Annuity Contract upon termination of a predecessor consolidated pension plan and the conversion of Prudential Financial, Inc. from a mutual company to a stock company. Other net for 2003 also includes $1.9 million of foreign currency translation losses and a loss of $300,000 related to the decline in fair value of certain treasury rate lock agreements obtained in connection with a prior acquisition. (See "Market Risk" for further information on the treasury rate lock agreements.)

Provision for Income Taxes

The Company recorded income tax expense of $107.3 million and $35.2 million in the years ended December 31, 2005 and 2004, respectively. The $72.1 million increase in the income tax provision from 2004 to 2005 is primarily attributable to increased profitability and an increase in the effective income tax rate, partially offset by the impact of a $6.5 million net benefit included in the income tax provision for the year ended December 31, 2005 that results primarily from the resolution of various issues in connection with an audit by tax authorities of the Company's 2002 and 2003 U.S. tax returns and release of certain tax liabilities recognized in prior years that are determined to no longer be necessary.

The Company's effective income tax rate increased to 27.4% in 2005 from 25.2% in 2004. The income tax rates imposed in the tax jurisdictions in which the Company's foreign subsidiaries conduct operations vary, as does the tax base to which the rates are applied. In some cases, tax rates may be applicable to gross revenue, statutory or negotiated deemed profits, or other bases utilized under local tax laws, rather than to net income. In addition, the Company's drilling rigs are frequently moved from one tax jurisdiction to another. As a result, the Company's consolidated effective income tax rate may vary substantially from one reporting period to another, depending on the relative components of the Company's earnings generated in tax jurisdictions with higher tax rates and lower tax rates.

The Company recorded income tax expense of $35.2 million and $43.3 million in the years ended December 31, 2004 and 2003, respectively. The $8.1 million decrease in the income tax provision from 2003 to 2004 is primarily attributable to reduced profitability of the Company in addition to a decrease in effective tax rate to 25.2% in 2004 from 29.4% in 2003. The decrease in effective tax rate is due primarily to an increase in the relative portion of the Company's earnings generated by foreign subsidiaries whose earnings are being permanently reinvested and taxed at lower rates.

Discontinued Operations

The ENSCO 29 platform rig sustained substantial damage as a consequence of Hurricane Katrina in September 2005. On January 5, 2006, beneficial ownership of ENSCO 29 effectively transferred to the Company's insurance underwriters following their acknowledgement that the rig was a constructive total loss under the terms of the Company's insurance policies. Accordingly, the Company will receive the rig's net insured value of $10.0 million. The $7.5 million carrying value of the rig remains classified in "Property and equipment, net" on the December 31, 2005 consolidated balance sheet. The Company expects to record the disposal of the rig in the first quarter of 2006 and recognize a pre-tax gain equivalent to the excess of the insurance proceeds received over the carrying value of the rig. The operating results of ENSCO 29 have been reclassified as discontinued operations in the consolidated statements of income for each of the years in the three-year period ended December 31, 2005.

On October 20, 2005, the Company sold the ENSCO 26 platform rig for $12.0 million and recognized a minimal gain. The operating results of ENSCO 26 have been reclassified as discontinued operations in the consolidated statements of income for each of the years in the three-year period ended December 31, 2005.

On June 30, 2005, the Company sold its six South America/Caribbean barge rigs for $59.6 million and recognized a pre-tax gain of $9.6 million, which is included in "Gain on disposal of discontinued operations, net" in the consolidated statement of income for the year ended December 31, 2005. The net book value of the rigs was $45.1 million on the date of sale. The operating results of the six South America/Caribbean barge rigs have been reclassified as discontinued operations in the consolidated statements of income for each of the years in the three-year period ended December 31, 2005.

The ENSCO 64 jackup rig sustained substantial damage during Hurricane Ivan in September 2004. On April 15, 2005, beneficial ownership of ENSCO 64 effectively transferred to the Company's insurance underwriters following their acknowledgement that the rig was a constructive total loss under the terms of the Company's insurance policies. Accordingly, the Company received the rig's full insured value of $65.0 million. On the date of transfer, the net book value of the rig was $52.8 million. The Company recognized a pre-tax gain of $11.7 million upon receipt of the insurance proceeds, which is included in "Gain on disposal of discontinued operations, net" in the consolidated statement of income for year ended December 31, 2005. The operating results of ENSCO 64 have been reclassified as discontinued operations in the consolidated statements of income for each of the years in the three-year period ended December 31, 2005.

In February 2004, the Company entered into an agreement with KFELS to exchange three rigs (ENSCO 23, ENSCO 24 and ENSCO 55) and $55.0 million for the construction of a new ultra-high specification jackup rig to be named ENSCO 107. The exchange of the three rigs occurred in May 2004 and was treated as a sale with no significant gain or loss recognized, as the fair value of the rigs approximated their aggregate net book value of $39.9 million. The results of operations of ENSCO 23, ENSCO 24 and ENSCO 55 have been reclassified as discontinued operations in the consolidated statements of income for each of the years in the two-year period ended December 31, 2004.

In February 2003, the Company reached an agreement to sell its 27-vessel marine transportation fleet. After receipt of various regulatory consents, the transaction was finalized in April 2003 for approximately $79.0 million. The Company recognized a pre-tax gain of approximately $6.4 million related to the transaction, which is included in "Gain on disposal of discontinued operations, net" in the consolidated statement of income for year ended December 31, 2003. The operating results of the marine transportation fleet, which represent the entire marine transportation services segment previously reported by the Company, have been reclassified as discontinued operations in the consolidated statement of income for the year ended December 31, 2003.

Following is a summary of income (loss) from discontinued operations for each of the years in the three-year period ended December 31, 2005 (in millions):

	2005	2004	2003
Revenues			
Contract drilling	**$15.0**	$30.0	$48.5
Marine transportation	**–**	–	7.6
	15.0	30.0	56.1
Operating expenses and other			
Contract drilling	**20.1**	31.5	46.4
Marine transportation	**–**	–	12.2
	20.1	31.5	58.6
Operating loss before income taxes	**(5.1)**	(1.5)	(2.5)
Income tax benefit (expense)	**1.5**	(.4)	2.8
Gain on disposal of discontinued operations, net	**13.9**	–	4.1
Income (loss) from discontinued operations	**$10.3**	$ (1.9)	$ 4.4

There is no debt or interest expense allocated to the Company's discontinued operations.

LIQUIDITY AND CAPITAL RESOURCES

Although the Company's business is cyclical, the Company has historically relied on its cash flow from continuing operations to meet liquidity needs and fund the majority of its cash requirements. Management believes the Company has maintained a strong financial position through the disciplined and conservative use of debt. A substantial majority of the Company's cash flow is invested in the expansion and enhancement of its fleet of drilling rigs.

During the three-year period ended December 31, 2005, the Company's primary sources of cash included an aggregate $876.7 million generated from continuing drilling operations, an aggregate $226.2 million from the disposition of assets, including $132.9 million from the disposal or insurance recovery related to various discontinued operations in 2005 and $78.8 million from the sale of its marine transportation fleet in 2003, and $87.4 million from the exercise of stock options. During the three-year period ended December 31, 2005, the Company's primary uses of cash included an aggregate $997.1 million for the acquisition, construction, enhancement and other improvement of drilling rigs and an aggregate $112.6 million for repayment of loans.

Detailed explanations of the Company's liquidity and capital resources for each of the years in the three-year period ended December 31, 2005, are set forth below.

Cash Flow from Continuing Operations and Capital Expenditures

The Company's cash flow from continuing operations and capital expenditures on continuing operations for each of the years in the three-year period ended December 31, 2005, are as follows (in millions):

	2005	2004	2003
Cash flow from continuing operations	**$355.7**	$247.8	$273.2
Capital expenditures on continuing operations:			
Rig acquisition	**$ 80.5**	$ 94.6	$ –
New construction	**139.3**	1.6	1.0
Enhancements	**208.0**	161.8	139.6
Minor upgrades and improvements	**50.3**	46.5	45.1
	$478.1	$304.5	$185.7

Cash flow from continuing operations in 2005 increased by $107.9 million, or 44%, from 2004. The increase resulted primarily from a $253.9 million increase in cash receipts from drilling services partially offset by a $23.7 million increase in cash payments for contract drilling expenses and a $129.2 million increase in cash payments related to income taxes.

Cash flow from continuing operations in 2004 decreased by $25.4 million, or 9%, from 2003. The decrease resulted primarily from an $18.8 million decrease in cash receipts from drilling services, a $7.1 million increase in income tax payments and $5.1 million of cash payments in 2004 related to the recovery and damage analysis of ENSCO 64, partially offset by a $3.7 million decrease in cash payments associated with contract drilling expenses and a $4.9 million decrease in interest payments. ENSCO 64 was severely damaged by Hurricane Ivan in September 2004 and the payments made in connection with its recovery and damage analysis were substantially recovered from insurance proceeds received after the rig was declared a constructive total loss in 2005.

The Company continues to expand the size and quality of its fleet of drilling rigs. During the past three years, the Company has invested $509.4 million upgrading the capability and extending the service lives of its drilling rigs as part of its enhancement program and an additional $141.9 million related to the construction of ENSCO 107, ENSCO 108 and ENSCO 8500. During 2004 and 2005, the Company purchased a harsh environment jackup rig, ENSCO 102, for $94.6 million and a ultra-high specification jackup rig, ENSCO 106, for $79.6 million. Both rigs were constructed through joint ventures with KFELS. (See Note 3 to the Company's Consolidated Financial Statements for information concerning the Company's investments in joint ventures.)

On January 23, 2006, the Company accepted delivery of ENSCO 107 and made the final installment payment of $27.5 million. In addition to the final payment on ENSCO 107, management anticipates that capital expenditures in 2006 will include approximately $85.0 million for rig enhancement projects, approximately $290.0 million for construction of ENSCO 108, ENSCO 8500 and ENSCO 8501, and approximately $60.0 million for minor upgrades and improvements. (See "Outlook" for information concerning the acquisition of ENSCO 107 and the construction of ENSCO 108, ENSCO 8500 and ENSCO 8501.) Depending on market conditions and opportunities, the Company may also make capital expenditures to construct or acquire additional rigs.

Financing and Capital Resources

The Company's long-term debt, total capital and long-term debt to total capital ratios at December 31, 2005, 2004 and 2003 are summarized below (in millions, except percentages):

	2005	2004	2003
Long-term debt	$ 475.4	$ 527.1	$ 549.9
Total capital*	3,008.6	2,709.0	2,631.0
Long-term debt to total capital	15.8%	19.5%	20.9%

**Total capital includes long-term debt plus stockholders' equity.*

On June 15, 2005, the Company redeemed its 5.63% bonds for $40.9 million, including $900,000 of accrued interest and a $1.8 million redemption premium. The bonds were guaranteed by MARAD and were assumed by the Company in connection with a prior acquisition to provide long-term financing for ENSCO 76. There were no other significant changes in the Company's long-term debt or total capital during 2005. At December 31, 2005, the Company has an aggregate $194.2 million outstanding under its remaining two separate MARAD guaranteed bond issues that require semiannual principal and interest payments. The Company also makes semiannual interest payments on $150.0 million of notes and $150.0 million of debentures, due in 2007 and 2027, respectively.

On June 23, 2005, the Company amended and restated its existing $250.0 million unsecured revolving credit agreement (the "Credit Agreement"). The amended and restated agreement (the "2005 Credit Facility") provides for a $350.0 million unsecured revolving credit facility with a syndicate of lenders for general corporate purposes. The 2005 Credit Facility has a five-year term, expiring June 23, 2010, and replaces the Company's $250.0 million five-year Credit Agreement that was scheduled to mature on July 26, 2007. The Company is in compliance with the financial covenants under the 2005 Credit Facility, which among other things require the maintenance of a specified level of interest coverage and debt to total capitalization ratio. The Company had no amounts outstanding under the 2005 Credit Facility or the Credit Agreement at December 31, 2005 and 2004, respectively.

The Company maintains investment grade credit ratings of Baa1 from Moody's and BBB+ from Standard & Poor's.

Off-Balance Sheet Arrangements

During recent years the Company entered into two separate joint venture arrangements with KFELS in connection with the construction and ownership of two jackup rigs. ENSCO Enterprises Limited ("EEL") was established by the Company (with an initial 25% ownership interest) and KFELS (with an initial 75% ownership interest) to own and charter ENSCO 102. Construction of ENSCO 102 commenced in 2000 and was completed in May 2002, after which the Company chartered ENSCO 102 from EEL. In January 2004, the Company exercised a purchase option and acquired ENSCO 102 from EEL and EEL was liquidated. ENSCO Enterprises Limited II ("EEL II") was established by the Company (25% ownership interest) and KFELS (75% ownership interest) in March 2003 to construct and own ENSCO 106. Upon completion of rig construction in February 2005, the Company exercised a purchase option and acquired ENSCO 106 from EEL II and EEL II was effectively liquidated.

The Company's equity interests in EEL and EEL II constituted variable interests in variable interest entities, as defined in the Financial Accounting Standards Board's Interpretation No. 46 (revised December 2003), "Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51" ("FIN 46R"). However, the Company did not absorb a majority of the expected losses or receive a majority of the expected residual returns of EEL and EEL II, as defined by FIN 46R, and accordingly was not required to consolidate EEL or EEL II.

Further information regarding the Company's off-balance arrangements is presented in Note 3 to the Company's Consolidated Financial Statements.

Contractual Obligations

The Company's significant contractual obligations as of December 31, 2005, and the periods in which such obligations are due, are as follows (in millions):

	PAYMENTS DUE BY PERIOD				
	2006	2007 AND 2008	2009 AND 2010	AFTER 2010	TOTAL
Principal payments on long-term debt	$ 17.2	$184.4	$34.4	$258.2	$ 494.2
Interest payments on long-term debt	31.9	50.6	36.4	205.6	324.5
Operating leases	4.9	3.6	.1	–	8.6
New rig construction agreements	159.7	172.6	–	–	332.3
Total contractual cash obligations	$213.7	$411.2	$70.9	$463.8	$1,159.6

The above table does not reflect the ENSCO 8501 contractual obligation as the Company entered into the agreement with KFELS in Singapore to construct ENSCO 8501 in January 2006. The aggregate contractual obligation of ENSCO 8501 is $313.7 million, of which, $125.5 million is due in 2006. Furthermore, "New rig construction agreements" represents the contractually fixed purchase obligation of the Company and comprises a majority of a new rig's total construction cost as provided in the "Outlook" section.

Liquidity

The Company's liquidity position at December 31, 2005, 2004 and 2003 is summarized in the table below (in millions, except ratios):

	2005	2004	2003
Cash and short-term investments	**$268.5**	$267.0	$354.0
Working capital	**347.0**	277.9	355.9
Current ratio	**2.5**	2.3	2.9

Management expects to fund the Company's short-term liquidity needs, including an aggregate $516.5 million of contractual obligations and anticipated capital expenditures during 2006, as well as any working capital requirements, from its cash and cash equivalents and operating cash flow.

Management expects to fund the Company's long-term liquidity needs, including contractual obligations and anticipated capital expenditures, from its cash and cash equivalents, investments, operating cash flow and, if necessary, funds drawn under the 2005 Credit Facility or other future financing arrangements.

The Company has historically funded the majority of its liquidity from operating cash flow. The Company anticipates a substantial amount of its cash flow in the near to intermediate term will continue to be invested in the expansion and enhancement of its fleet of drilling rigs. As a substantial amount of such expenditures are elective, the Company expects to be able to maintain adequate liquidity throughout future business cycles through the deferral or acceleration of its future capital investments, as necessary. Accordingly, while future operating cash flow cannot be accurately predicted, management believes its long-term liquidity will continue to be funded primarily by operating cash flow.

MARKET RISK

The Company has net assets and liabilities denominated in numerous foreign currencies and uses various methods to manage its exposure to foreign currency exchange risk. The Company predominantly structures its drilling contracts in U.S. dollars, which significantly reduces the portion of the Company's cash flows and assets denominated in foreign currencies. The Company also employs various strategies, including the use of derivative instruments, to match foreign currency denominated assets with equal or near equal amounts of foreign currency denominated liabilities, thereby minimizing exposure to earnings fluctuations caused by changes in foreign currency exchange rates. The Company occasionally utilizes derivative instruments to hedge forecasted foreign currency denominated transactions. At December 31, 2005, the Company had contracts outstanding to exchange an aggregate $81.7 million U.S. dollars for various foreign currencies, all of which mature during the next twelve months. Based on a hypothetical 10% adverse change in foreign currency exchange rates, the net unrealized loss associated with the Company's foreign currency denominated assets and liabilities and related foreign currency exchange contracts as of December 31, 2005, would approximate $3.9 million.

The Company uses various derivative financial instruments to manage its exposure to interest rate risk. The Company occasionally uses interest rate swap agreements to effectively convert the variable interest rate on debt to a fixed rate or the fixed rate on debt to a variable rate, and interest rate lock agreements to hedge against increases in interest rates on pending financing. At December 31, 2005, the Company had no outstanding interest rate swap agreements or interest rate lock agreements.

In connection with a prior acquisition, the Company obtained $80.0 million notional amount of outstanding treasury rate lock agreements that were scheduled to mature in October 2003. Upon completion of the acquisition, the Company designated approximately $65.0 million notional amount of the treasury rate lock agreements as an effective hedge against the variability in cash flows of $76.5 million of MARAD guaranteed bonds the Company intended to issue in October 2003. The Company deemed the remaining $15.0 million notional amount of treasury rate lock agreements obtained in the acquisition to be speculative in nature and settled $10.0 million notional amount in 2002 and $5.0 million notional amount in 2003. The Company settled the $65.0 million notional amount of treasury rate lock agreements designated as an effective hedge in October 2003 in connection with the pricing and subsequent issuance of the MARAD bonds. (See Note 5 to the Company's Consolidated Financial Statements.)

The Company utilizes derivative instruments and undertakes hedging activities in accordance with its established policies for the management of market risk. The Company does not enter into derivative instruments for trading or other speculative purposes. Management believes that the Company's use of derivative instruments and related hedging activities do not expose the Company to any material interest rate risk, foreign currency exchange rate risk, commodity price risk, credit risk or any other market rate or price risk.

OUTLOOK

Changes in industry conditions and the corresponding impact on the Company's operations cannot be accurately predicted because of the short-term nature of many of the Company's contracts and the volatility of oil and natural gas prices, which impact expenditures for oil and gas drilling, rig utilization and day rates. It is not determinable whether recent levels of regional and worldwide expenditures for oil and gas drilling and drilling activity will increase, decrease or remain unchanged. Accordingly, future rig demand and trends in average day rates and utilization levels are uncertain. Management's current plans and expectations relative to its major areas of operations and near-term industry conditions are detailed below.

Rig Construction

On January 23, 2006, the Company accepted delivery of ENSCO 107, an ultra-high specification jackup rig that is scheduled to commence drilling operations in March 2006 in Malaysia. The Company also has two ultra-deepwater semisubmersible rigs and one ultra-high specification jackup rig currently under construction by KFELS in Singapore. ENSCO 108 will be an enhanced KFELS MOD V (B) design jackup rig modified to ENSCO specifications and nearly identical to the recently delivered ENSCO 107. ENSCO 108 commenced construction in April 2005 and is expected to be delivered during the second quarter of 2007.

In September 2005, the Company entered into an agreement with KFELS in Singapore to construct ENSCO 8500, with delivery anticipated in the second quarter of 2008. The total construction cost of the rig is currently expected to be approximately $312.0 million. In January 2006, the Company entered into an agreement with KFELS in Singapore to construct ENSCO 8501 for a total construction cost of approximately $338.0 million. Delivery of ENSCO 8501 is expected during the second quarter of 2009. The ENSCO 8500 Series™ ultra-deepwater semisubmersibles are an enhanced version of the ENSCO 7500 and will be capable of drilling in up to 8,500 feet of water, and can readily be upgraded to 10,000 feet water-depth capability if required. Enhancements over ENSCO 7500, the Company's existing ultra-deepwater semisubmersible rig, include a two million pound quad derrick, offline pipe handling capability, increased drilling capacity, greater variable deck load, and improved automatic station keeping ability. With these features, the ENSCO 8500 Series™ rigs will be especially well-suited for deepwater development drilling. The ENSCO 8500 and ENSCO 8501 are subject to long-term drilling contracts of four years and three and one half years, respectively.

Rig Enhancements and Relocations

ENSCO 69 entered a shipyard in November 2005 for enhancement and contract preparation work. In March 2006, the rig is expected to mobilize to offshore Venezuela to commence a long-term contract. ENSCO 86 entered a shipyard in October 2005 for enhancement procedures and is projected to return to service in the Gulf of Mexico during April 2006. ENSCO 87 entered a shipyard in May 2005 for enhancement procedures and is expected to return to service in the Gulf of Mexico during March 2006. Enhancement procedures were recently completed on ENSCO 56 and it is currently en route to New Zealand where it is expected to commence a long-term contract in March 2006. ENSCO 105 is scheduled to continue its commitment for work in the Gulf of Mexico through early 2007 when it is expected to mobilize to Tunisia for an estimated two-year contract, plus options.

Industry Conditions

Demand for offshore drilling rigs is strong, and utilization and day rates are generally improving in all of the major geographical markets in which the Company currently operates. The Company has substantial contract backlog and the durations of recently executed contracts are generally greater than historical average contract durations in all of the Company's major geographical markets. While it is not possible to project the period of time for which current industry conditions will be sustained or predict long-term trends in industry conditions, the Company does not anticipate significant changes in current industry conditions in the near-term.

Hurricane Damage

During the third quarter 2005, ENSCO 7500 sustained minor damage during Hurricane Katrina. The rig was repaired in early 2006 in conjunction with minor enhancement and preparatory work for its pending two-year contract. The Company believes the insurance claim for the ENSCO 7500 hull repairs will be finalized by the end of the second quarter of 2006 with no significant gain or loss realized. Additional information regarding the resolution of insurance claims relating to hurricane damage is included in Note 11 to the Company's Consolidated Financial Statements.

Although several of the Company's jackup rigs were in the paths of Hurricane Katrina and/or Huricane Rita, the Company has detected only minor damage to those rigs and the associated repair costs incurred, or expected to be incurred, are not significant. In addition, none of the Company's jackup rigs experienced, or is expected to experience, significant downtime in order to complete damage repairs as a result of these hurricanes.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of financial statements and related disclosures in conformity with U.S. generally accepted accounting principles requires the Company's management to make estimates, judgments and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. The Company's significant accounting policies are included in Note 1 to the Consolidated Financial Statements. These policies, along with the underlying assumptions and judgments made by the Company's management in their application, have a significant impact on the Company's

consolidated financial statements. The Company identifies its most critical accounting policies as those that are the most pervasive and important to the portrayal of the Company's financial position and results of operations, and that require the most difficult, subjective and/or complex judgments by management regarding estimates about matters that are inherently uncertain. The Company's most critical accounting policies are those related to property and equipment, impairment of long-lived assets and goodwill, and income taxes.

Property and Equipment

At December 31, 2005, the carrying value of the Company's property and equipment totaled $2,663.6 million, which represents 74% of total assets. This carrying value reflects the application of the Company's property and equipment accounting policies, which incorporate estimates, assumptions and judgments by management relative to the capitalized costs, useful lives and salvage values of the Company's rigs.

The Company develops and applies property and equipment accounting policies that are designed to appropriately and consistently capitalize those costs incurred to enhance, improve and extend the useful lives of its assets and expense those costs incurred to repair or maintain the existing condition or useful lives of its assets. The development and application of such policies requires judgment and assumptions by management relative to the nature of, and benefits from, expenditures on Company assets. The Company establishes property and equipment accounting policies that are designed to depreciate or amortize its assets over their estimated useful lives. The assumptions and judgments used by management in determining the estimated useful lives of its property and equipment reflect both historical experience and expectations regarding future operations, utilization and performance of its assets. The use of different estimates, assumptions and judgments in the establishment of property and equipment accounting policies, especially those involving the useful lives of the Company's rigs, would likely result in materially different carrying values of assets and results of operations.

Useful lives of rigs are difficult to estimate due to a variety of factors, including technological advances that impact the methods or cost of oil and gas exploration and development, changes in market or economic conditions, and changes in laws or regulations affecting the drilling industry. The Company evaluates the remaining useful lives of its rigs on a periodic basis, considering operating condition, functional capability and market and economic factors. The Company's most recent change in estimated useful lives occurred in January 1998, when the Company extended the useful lives of its drilling rigs by an average of five to six years.

Under the Company's depreciation policy, the fleet of jackup rigs (42 as of December 31, 2005), which comprise in excess of 78% of both the gross cost and net carrying amount of the Company's property and equipment at December 31, 2005, is depreciated over useful lives ranging from 15 to 30 years. The Company's ultra-deepwater semisubmersible rig is depreciated over a 30-year useful life. The following table provides an analysis of estimated increases and decreases in depreciation expense that would have been recognized for the year ended December 31, 2005 for various assumed changes in the useful lives of the Company's drilling rigs effective January 1, 2005:

INCREASE (DECREASE) IN USEFUL LIVES OF THE COMPANY'S DRILLING RIGS	ESTIMATED INCREASE (DECREASE) IN DEPRECIATION EXPENSE THAT WOULD HAVE BEEN RECOGNIZED (IN MILLIONS)
10%	$(14.9)
20%	(27.2)
(10%)	15.7
(20%)	37.1

Impairment of Long-Lived Assets and Goodwill

The Company evaluates the carrying value of its property and equipment, primarily its drilling rigs, when events or changes in circumstances indicate that the carrying value of such rigs may not be recoverable. Generally, extended periods of idle time and/or inability to contract rigs at economical rates are an indication that a rig may be impaired. However, the offshore drilling industry is highly cyclical and it is not unusual for rigs to be unutilized or underutilized for significant periods of time and subsequently resume full or near full utilization when business cycles change. Likewise, during periods of supply and demand imbalance, rigs are frequently contracted at or near cash break-even rates for extended periods of time until demand comes back into balance with supply. Impairment situations may arise with respect to specific individual rigs, groups of rigs, such as a specific type of drilling rig, or rigs in a certain geographic location. The Company's rigs are mobile and may generally be moved from markets with excess supply, if economically feasible. The Company's jackup rigs and ultra-deepwater semisubmersible rig are suited for, and accessible to, broad and numerous markets throughout the world. However, there are fewer economically feasible markets available to the Company's barge rig and platform rig.

The Company tests goodwill for impairment on an annual basis, or when events or changes in circumstances indicate that a potential impairment exists. The goodwill impairment test requires the Company to identify reporting units and estimate the fair value of those units as of the testing date. If the estimated fair value of a reporting unit exceeds its carrying value, its goodwill is considered not impaired. If the estimated fair value of a reporting unit is less than its carrying value, the Company estimates the implied fair value of the reporting unit's goodwill. If the carrying amount of the reporting unit's goodwill exceeds the implied fair value of the goodwill, an impairment loss is recognized in an amount equal to such excess. In the event the Company disposes drilling rig operations that constitute a business, goodwill would be allocated in the determination of gain or loss on sale. Based on the Company's goodwill impairment analysis performed as of December 31, 2005, there was no impairment of goodwill.

Asset impairment evaluations are, by nature, highly subjective. In most instances they involve expectations of future cash flows to be generated by the Company's drilling rigs, and are based on management's assumptions and judgments regarding future industry conditions and operations, as well as management's estimates of future expected utilization, contract rates, expense levels and capital requirements of the Company's drilling rigs. The estimates, assumptions and judgments used by management in the application of the Company's asset impairment policies reflect both historical experience and an assessment of current operational, industry, economic and political environments. The use of different estimates, assumptions, judgments and expectations regarding future industry conditions and operations would likely result in materially different carrying values of assets and results of operations.

Income Taxes

The Company conducts operations and earns income in numerous foreign countries and is subject to the laws of taxing jurisdictions within those countries, as well as U.S. federal and state tax laws. At December 31, 2005, the Company has a $331.7 million net deferred income tax liability and $46.3 million of accrued liabilities for income taxes currently payable.

The carrying values of deferred income tax assets and liabilities reflect the application of the Company's income tax accounting policies in accordance with Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" ("SFAS 109"), and are based on management's assumptions and estimates regarding future operating results and levels of taxable income, as well as management's judgments regarding the interpretation of the provisions of SFAS 109. Carryforwards and tax credits are assessed for realization as a reduction of future taxable income by using a "more likely than not" determination. A U.S. deferred tax liability has not been recognized for undistributed earnings of foreign subsidiaries because it is not practicable to estimate. Should the Company elect to make a distribution of foreign earnings, or be deemed to have made a distribution of foreign earnings through application of various provisions of the Internal Revenue Code, it may be subject to additional U.S. income taxes.

The carrying values of liabilities for income taxes currently payable are based on management's interpretation of applicable tax laws, and incorporate management's assumptions and judgments regarding the use of tax planning strategies in various taxing jurisdictions. The use of different estimates, assumptions and judgments in connection with accounting for income taxes, especially those involving the deployment of tax planning strategies, may result in materially different carrying values of income tax assets and liabilities and results of operations.

The Company operates in many foreign jurisdictions where tax laws relating to the offshore drilling industry are not well developed. In jurisdictions where available statutory law and regulations are incomplete or underdeveloped, the Company obtains professional guidance and considers existing industry practices before deploying tax planning strategies and meeting its tax obligations. Tax returns are routinely subject to audit in most jurisdictions and tax liabilities are frequently finalized through a negotiation process. While the Company has historically not experienced significant adjustments to previously recognized tax assets and liabilities as a result of finalizing tax returns, there can be no assurance that significant adjustments will not arise in the future. In addition, there are several factors that could cause the future level of uncertainty relating to the Company's tax liabilities to increase, including the following:

- During recent years the portion of the Company's overall operations conducted in foreign tax jurisdictions has been increasing and the Company currently anticipates this trend will continue.
- In order to deploy tax planning strategies and conduct foreign operations efficiently, the Company's subsidiaries frequently enter into transactions with affiliates, which are generally subject to complex tax regulations and frequently are reviewed by tax authorities.
- The Company may conduct future operations in certain tax jurisdictions where tax laws are not well developed and it may be difficult to secure adequate professional guidance.
- Tax laws, regulations, agreements and treaties change frequently, requiring the Company to modify existing tax strategies to conform to such changes.

NEW ACCOUNTING PRONOUNCEMENTS

In December 2004, the FASB issued Statement of Financial Accounting Standards No. 123, (revised 2004) "Share-Based Payment" ("SFAS 123(R)"). This statement is a revision of Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" as amended ("SFAS 123"), and requires entities to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. The cost will be recognized over the period during which an employee is required to provide services in exchange for the award (usually the vesting period). Companies will be required to estimate forfeitures and adjust for actual forfeitures so that compensation cost will only be recognized for the awards that vest. This statement also requires an entity to measure equity awards classified as liabilities at fair value at each reporting date. SFAS 123(R) covers various share-based compensation arrangements including share options, restricted share plans, performance-based awards, share appreciation rights and employee share purchase plans. SFAS 123(R) eliminates the ability to use the intrinsic value method of accounting for share options, as provided in Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25"). SFAS 123(R) is effective January 1, 2006. The Company is currently evaluating the statement's transition methods and does not expect this statement to have an effect materially different than that of the pro forma SFAS 123 disclosures provided in Note 1 to the Company's Consolidated Financial Statements.

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) or 15d-15(f). The Company's internal control over financial reporting system is designed to provide reasonable assurance to the Company's management and Board of Directors regarding the preparation and fair presentation of published financial statements. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. Under the supervision and with the participation of management, including the Chief Executive Officer and Chief Financial Officer, the Company has conducted an evaluation of the effectiveness of its internal control over financial reporting based on the framework in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, the Company has concluded that its internal control over financial reporting is effective as of December 31, 2005 to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

KPMG LLP, the independent registered public accounting firm who audited the Company's consolidated financial statements, have issued an audit report on our assessment of the Company's internal control over financial reporting. KPMG LLP's attestation report on management's assessment of the Company's internal control over financial reporting is included herein.

February 23, 2006

REPORTS OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of ENSCO International Incorporated:

We have audited the accompanying consolidated balance sheets of ENSCO International Incorporated and subsidiaries (ENSCO) as of December 31, 2005 and 2004, and the related consolidated statements of income and cash flows for each of the years in the three-year period ended December 31, 2005. These consolidated financial statements are the responsibility of ENSCO's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of ENSCO as of December 31, 2005 and 2004, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2005, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of ENSCO's internal control over financial reporting as of December 31, 2005, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 22, 2006 expressed an unqualified opinion on management's assessment of, and the effective operation of, internal control over financial reporting.

KPMG LLP

KPMG LLP
Dallas, Texas
February 22, 2006

To the Board of Directors and Stockholders of ENSCO International Incorporated:

We have audited management's assessment, included in the accompanying Management's Report on Internal Control Over Financial Reporting, that ENSCO International Incorporated and subsidiaries (ENSCO) maintained effective internal control over financial reporting as of December 31, 2005, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). ENSCO's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that ENSCO maintained effective internal control over financial reporting as of December 31, 2005, is fairly stated, in all material respects, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Also, in our opinion, ENSCO maintained, in all material respects, effective internal control over financial reporting as of December 31, 2005, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of ENSCO International Incorporated and subsidiaries as of December 31, 2005 and 2004, and the related consolidated statements of income and cash flows for each of the years in the three-year period ended December 31, 2005, and our report dated February 22, 2006 expressed an unqualified opinion on those consolidated financial statements.

KPMG LLP

KPMG LLP
Dallas, Texas
February 22, 2006

CONSOLIDATED STATEMENTS OF INCOME

(in millions, except per share amounts)	YEAR ENDED DECEMBER 31, 2005	2004	2003
Operating Revenues	**$1,046.9**	$740.6	$742.3
Operating Expenses			
Contract drilling	**454.4**	406.1	420.8
Depreciation and amortization	**154.8**	134.7	119.5
General and administrative	**25.8**	26.3	22.0
	635.0	567.1	562.3
Operating Income	**411.9**	173.5	180.0
Other Income (Expense)			
Interest income	**7.0**	3.7	3.4
Interest expense, net	**(28.8)**	(36.6)	(36.7)
Other, net	**1.1**	(.7)	.5
	(20.7)	(33.6)	(32.8)
Income from Continuing Operations Before Income Taxes	**391.2**	139.9	147.2
Provision for Income Taxes			
Current income tax expense	**105.8**	13.3	15.9
Deferred income tax expense	**1.5**	21.9	27.4
	107.3	35.2	43.3
Income from Continuing Operations	**283.9**	104.7	103.9
Discontinued Operations			
Income (loss) from discontinued operations, net	**(3.6)**	(1.9)	.3
Gain on disposal of discontinued operations, net	**13.9**	–	4.1
	10.3	(1.9)	4.4
NET INCOME	**$ 294.2**	$102.8	$108.3
Earnings (Loss) Per Share – Basic			
Continuing operations	**$ 1.87**	$ .70	$ .69
Discontinued operations	**.07**	(.02)	.03
	$ 1.94	$ .68	$ .72
Earnings (Loss) Per Share – Diluted			
Continuing operations	**$ 1.86**	$ .70	$ .69
Discontinued operations	**.07**	(.02)	.03
	$ 1.93	$ .68	$ .72
Weighted Average Common Shares Outstanding			
Basic	**151.7**	150.5	149.6
Diluted	**152.4**	150.6	150.1
Cash Dividends Per Common Share	**$ .10**	$ .10	$ .10

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED BALANCE SHEETS

(in millions, except par value amounts)	DECEMBER 31, 2005	2004
ASSETS		
Current Assets		
Cash and cash equivalents	**$ 268.5**	$ 267.0
Accounts receivable, net	**269.0**	183.0
Prepaid expenses and other	**40.9**	43.7
Total current assets	**578.4**	493.7
Property and Equipment, at Cost	**3,672.8**	3,445.5
Less accumulated depreciation	**1,009.2**	1,014.2
Property and equipment, net	**2,663.6**	2,431.3
Goodwill	**336.2**	341.0
Other Assets, Net	**39.7**	56.0
	$3,617.9	$3,322.0
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts payable	**$ 19.1**	$ 15.6
Accrued liabilities	**195.1**	177.2
Current maturities of long-term debt	**17.2**	23.0
Total current liabilities	**231.4**	215.8
Long-Term Debt	**475.4**	527.1
Deferred Income Taxes	**345.1**	375.3
Other Liabilities	**32.8**	21.9
Commitments and Contingencies		
Stockholders' Equity		
Preferred stock, $1 par value, 20.0 million shares authorized and none issued	**–**	–
Common stock, $.10 par value, 250.0 million shares authorized, 176.8 million and 174.5 million shares issued	**17.7**	17.5
Additional paid-in capital	**1,498.5**	1,420.0
Retained earnings	**1,295.3**	1,016.3
Restricted stock (unearned compensation)	**(16.2)**	(12.5)
Accumulated other comprehensive loss	**(10.9)**	(9.0)
Treasury stock, at cost, 23.4 million shares	**(251.2)**	(250.4)
Total stockholders' equity	**2,533.2**	2,181.9
	$3,617.9	$3,322.0

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in millions)	YEAR ENDED DECEMBER 31, 2005	2004	2003
Operating Activities			
Net income	**$ 294.2**	$ 102.8	$ 108.3
Adjustments to reconcile net income to net cash provided by operating activities:			
(Income) loss from discontinued operations, net	**3.6**	1.9	(.3)
Gain on disposal of discontinued operations, net	**(13.9)**	–	(4.1)
Depreciation and amortization	**154.8**	134.7	119.5
Expense for redemption of debt	**2.4**	–	–
Deferred income tax provision	**1.5**	21.9	27.4
Tax benefit from stock compensation	**5.2**	2.1	6.6
Amortization of other assets	**6.0**	6.2	5.6
Net loss on asset dispositions	**3.7**	.4	.2
Other	**4.2**	3.5	2.5
Changes in operating assets and liabilities:			
Decrease (increase) in accounts receivable	**(86.0)**	(18.1)	13.8
Increase in prepaid expenses and other assets	**(16.8)**	(8.0)	(11.6)
Increase (decrease) in accounts payable	**3.5**	(.1)	.6
Increase (decrease) in accrued and other liabilities	**(6.7)**	.5	4.7
Net cash provided by operating activities of continuing operations	**355.7**	247.8	273.2
Investing Activities			
Additions to property and equipment	**(478.1)**	(304.5)	(185.7)
Net proceeds from disposal of discontinued operations	**132.9**	–	78.8
Proceeds from disposition of assets	**6.6**	2.9	5.0
Sale (purchase) of short-term investments	**–**	–	38.4
Investment in joint ventures	**(4.0)**	(11.3)	(13.5)
Net cash used in investing activities	**(342.6)**	(312.9)	(77.0)
Financing Activities			
Proceeds from long-term borrowings	**–**	–	26.7
Reduction of long-term borrowings	**(58.3)**	(23.0)	(23.0)
Cash dividends paid	**(15.2)**	(15.1)	(15.0)
Proceeds from exercise of stock options	**67.2**	7.8	12.4
Deferred financing costs	**(.7)**	–	(5.8)
Premium related to debt redemption	**(1.8)**	–	–
Other	**(.7)**	(.4)	(.7)
Net cash used in financing activities	**(9.5)**	(30.7)	(5.4)
Effect of exchange rate changes on cash and cash equivalents	**(.7)**	(.9)	1.9
Net cash (used in) provided by discontinued operations	**(1.4)**	9.7	14.2
Increase (Decrease) in Cash and Cash Equivalents	**1.5**	(87.0)	206.9
Cash and Cash Equivalents, Beginning of Year	**267.0**	354.0	147.1
Cash and Cash Equivalents, End of Year	**$ 268.5**	$ 267.0	$ 354.0

The accompanying notes are an integral part of these consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. DESCRIPTION OF THE BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business

ENSCO International Incorporated and subsidiaries (the "Company") is one of the leading international providers of offshore drilling services to the oil and gas industry. The Company's contract drilling operations are integral to the exploration, development and production of oil and gas. Business levels for the Company, and its corresponding operating results, are significantly affected by worldwide levels of offshore exploration and development spending by oil and gas companies. Levels of offshore exploration and development spending may fluctuate substantially from year to year and from region to region. Such fluctuations result from many factors, including demand for oil and gas, regional and global economic conditions, political and legislative environments in the U.S. and other major oil-producing countries, the production levels and related activities of OPEC and other oil and gas producers, technological advancements that impact the methods or cost of oil and gas exploration and development, and the impact that these and other events have on the current and expected future pricing of oil and natural gas. (See Note 12 "Segment Information" for additional information concerning the Company's operations by geographic region.)

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and its majority owned subsidiaries. All significant intercompany accounts and transactions have been eliminated.

Pervasiveness of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities, the related revenues and expenses, and disclosure of gain and loss contingencies at the date of the financial statements. Actual results could differ from those estimates.

Foreign Currency Translation

The U.S. dollar is the functional currency of all the Company's foreign subsidiaries. The financial statements of foreign subsidiaries are remeasured in U.S. dollars based on a combination of both current and historical exchange rates. Gains and losses caused by the remeasurement process are included in "other, net" on the consolidated statement of income. The Company had net translation gains of $700,000 and $900,000 for the years ended December 31, 2005 and 2004, respectively, and net translation losses of $1.9 million for the year ended December 31, 2003.

Cash Equivalents and Short-Term Investments

Highly liquid investments with maturities of three months or less at the date of purchase are considered cash equivalents. Highly liquid investments with maturities of greater than three months but less than one year at the date of purchase are classified as short-term investments.

Property and Equipment

All costs incurred in connection with the acquisition, construction, enhancement and improvement of assets are capitalized, including allocations of interest incurred during periods that drilling rigs are under construction or undergoing major enhancements and improvements. Maintenance and repair costs are charged to operating expenses. Upon sale or retirement of assets, the related cost and accumulated depreciation are removed from the accounts and the resulting gain or loss is included in income.

The Company provides for depreciation on the straight-line method, after allowing for salvage values, over the estimated useful lives of its assets. Drilling rigs and related equipment are depreciated over estimated useful lives ranging from 4 to 30 years. Other equipment, including computer and communications hardware and software costs, is depreciated over estimated useful lives ranging from two to six years. Buildings and improvements are depreciated over estimated useful lives ranging from 2 to 30 years.

The Company evaluates the carrying value of its property and equipment for impairment when events or changes in circumstances indicate that the carrying value of such assets may not be recoverable. For property and equipment used in the Company's operations, recoverability is determined by comparing the net carrying value of an asset to either an independent fair value appraisal of the asset or the expected undiscounted future cash flows, before interest, of the asset. The amount of impairment loss, if any, is measured as the difference between the net book value of the asset and its estimated fair value. The Company recorded no impairment charges during the three-year period ended December 31, 2005. Property and equipment held for sale is recorded at the lower of net book value or net realizable value.

Goodwill

Goodwill is recorded at fair value. The Company tests goodwill for impairment on an annual basis, or when events or changes in circumstances indicate that a potential impairment exists. Based on the Company's goodwill impairment analysis performed as of December 31, 2005, there was no impairment of goodwill.

During 2005 and 2004, the Company recorded purchase price adjustments reducing goodwill by $4.8 million and $1.7 million, respectively, primarily related to deferred taxes associated with prior acquisitions. The following table summarizes changes in the Company's goodwill during 2005 and 2004 (in millions):

	2005	2004
Balance as of January 1	**$341.0**	$342.7
Purchase price adjustments	**(4.8)**	(1.7)
Balance as of December 31	**$336.2**	$341.0

Operating Revenues and Expenses

Substantially all of the Company's drilling services contracts ("contracts") are performed on a day rate basis and the terms of such contracts are typically for a specific period of time or the period of time required to complete a specific task, such as drilling a well. Contract revenue and expenses are recognized on a per day basis, as the work is performed. Day rate revenues are typically earned, and contract drilling expenses are typically incurred, on a uniform basis over the terms of the Company's contracts.

In connection with some contracts, the Company receives lump-sum fees or similar compensation for the mobilization of equipment and personnel prior to the commencement of drilling services or the demobilization of equipment and personnel upon contract completion. Fees received for the mobilization or demobilization of equipment and personnel are included in operating revenue. The costs incurred in connection with the mobilization and demobilization of equipment and personnel are included in contract drilling expense. Effective October 1, 2004, the Company changed its method of accounting for the fees received and related costs incurred to mobilize its rigs from one geographic area to another. Mobilization fees received and costs incurred are now deferred and recognized over the period that the related drilling services are performed on a straight-line basis.

Prior to October 1, 2004, only the excess of mobilization fees received over costs incurred or the excess of mobilization costs incurred over fees received, as applicable, was deferred and recognized on a straight-line basis over the period that the related drilling services were performed. The Company changed its method of accounting for mobilization fees and costs because it believes it is more appropriate to defer all mobilization fees and costs during the mobilization period and subsequently recognize them over the period that the drilling services are performed.

If the method of accounting for mobilization fees and costs adopted on October 1, 2004, had been utilized in prior periods, the Company's operating income and net income would not have changed and the change in the amounts of operating revenue and contract drilling expenses within previously reported periods would not have been material. Demobilization fees and related costs are recognized as incurred, upon contract completion. Costs associated with the mobilization of equipment and personnel to more promising market areas without contracts are expensed as incurred.

Deferred mobilization costs are included in prepaid expenses and other current assets and other assets, net, and totaled $15.0 million and $700,000 at December 31, 2005 and 2004, respectively. Deferred mobilization revenue is included in accrued liabilities and other liabilities and totaled $25.0 million and $1.7 million at December 31, 2005 and 2004, respectively.

In connection with some contracts, the Company receives up-front, lump-sum fees or similar compensation for capital improvements to its rigs. Such compensation is deferred and recognized as revenue over the related contract period. The cost of such capital improvements is capitalized and depreciated over the useful life of the asset. Deferred revenue associated with capital improvements is included in accrued liabilities and other liabilities and totaled $4.4 million and $1.1 million at December 31, 2005 and 2004, respectively.

The Company must obtain certifications from various regulatory bodies in order to operate its drilling rigs and must maintain such certifications through periodic inspections and surveys. The costs incurred in connection with maintaining such certifications, including inspections, tests, surveys and drydock, as well as remedial structural work and other compliance costs, are deferred and amortized over the corresponding certification periods. Deferred regulatory certification and compliance costs are included in prepaid expenses and other current assets and other assets, net, and totaled $6.1 million and $7.0 million at December 31, 2005 and 2004, respectively.

Derivative Financial Instruments

The Company uses derivative financial instruments ("derivatives") to reduce its exposure to various market risks, primarily interest rate risk and foreign currency risk. The Company employs an interest rate risk management strategy that occasionally utilizes derivatives to minimize or eliminate unanticipated fluctuations in earnings and cash flows arising from changes in, and volatility of, interest rates. The Company maintains a foreign currency risk management strategy that utilizes derivatives to reduce its exposure to unanticipated fluctuations in earnings and cash flows caused by changes in foreign currency exchange rates. The Company does not enter into derivatives for trading or other speculative purposes.

All derivatives are recorded on the Company's consolidated balance sheet at fair value. Accounting for the gains and losses resulting from changes in the fair value of derivatives depends on the use of the derivative and whether it qualifies for hedge accounting. Derivatives qualify for hedge accounting when they are formally designated as hedges at inception of the associated derivative contract and are effective in reducing the risk exposure that they are designated to hedge. The Company's assessment for hedge effectiveness is formally documented at hedge inception and the Company reviews hedge effectiveness and measures any ineffectiveness throughout the designated hedge period on at least a quarterly basis.

Changes in the fair value of derivatives that are designated as hedges of the fair value of recognized assets or liabilities or unrecognized firm commitments ("fair value hedges") are recorded currently in earnings and included in "other, net" on the consolidated statement of income. Changes in the fair value of derivatives that are designated as hedges of the variability in expected future cash flows associated with existing recognized assets or liabilities or forecasted transactions ("cash flow hedges") are recorded in the accumulated other comprehensive loss section of stockholders' equity. Amounts recorded in accumulated other comprehensive loss associated with cash flow hedges are subsequently reclassified into contract drilling expense as earnings are affected by the underlying hedged forecasted transaction.

Gains and losses on a cash flow hedge, or a portion of a cash flow hedge, that no longer qualifies as effective due to an unanticipated change in forecasted transactions are recognized currently in earnings and included in "other, net" on the consolidated statement of income based on the change in the market value of the cash flow hedge. When a forecasted transaction is no longer probable of occurring, gains and losses on the cash flow hedge previously recorded in the accumulated other comprehensive loss section of shareholders' equity are reclassified currently into earnings and included in "other, net" on the consolidated statement of income. In assessing the effectiveness of a cash flow hedge, the hedge's time value component is excluded from the measurement of hedge effectiveness and recognized currently in earnings in "other, net" on the consolidated statement of income.

The Company occasionally enters into derivatives that economically hedge certain risks, but the Company does not designate such derivatives as hedges or the derivatives otherwise do not qualify for hedge accounting. In these situations, there generally exists a natural hedging relationship where changes in the fair value of the derivatives offset changes in the fair value of the underlying hedged items. Changes in the fair value of these derivatives are recognized currently in earnings in "other, net" on the consolidated statement of income.

Derivatives with asset fair values are reported in other current assets or other assets, net, depending on maturity date. Derivatives with liability fair values are reported in accrued current liabilities or other liabilities, depending on maturity date. At December 31, 2005 and 2004, the fair value of the Company's foreign currency derivatives was a net liability of $2.7 million and a net asset of $4.0 million, respectively.

Income Taxes

The Company conducts operations and earns income in numerous foreign countries and is subject to the laws of taxing jurisdictions within those countries, as well as U.S. federal and state tax laws. Current income taxes are recognized for the amount of taxes payable or refundable based on the laws and income tax rates in the taxing jurisdictions in which operations are conducted and income is earned.

Deferred tax assets and liabilities are recognized for the anticipated future tax effects of temporary differences between the financial statement basis and the tax basis of the Company's assets and liabilities using the enacted tax rates in effect at year end. A valuation allowance for deferred tax assets is recorded when it is more likely than not that the benefit from the deferred tax asset will not be realized. It is the policy and intention of the Company to permanently reinvest all of the undistributed earnings of its foreign subsidiaries in such subsidiaries. Accordingly, no U.S. deferred taxes are provided on the undistributed earnings of foreign subsidiaries.

The Company's drilling rigs are frequently moved from one taxing jurisdiction to another based on where they are contracted to perform drilling services. The movement of drilling rigs among taxing jurisdictions may include a transfer of the ownership of the drilling rig among the Company's subsidiaries. Income taxes attributable to gains resulting from intercompany sales of the Company's drilling rigs, as well as the tax effect of any reversing temporary differences resulting from intercompany sales or transfers, are deferred and amortized on a straight-line basis over the remaining useful life of the rig.

In some instances, the Company determines that certain temporary differences may not result in a taxable or deductible amount in future years, as it is more likely than not the Company will commence operations and depart from a given taxing jurisdiction without such temporary differences being recovered or settled. Under these circumstances, no future tax consequences are expected and no deferred taxes are recognized in connection with such operations. The Company evaluates its determinations on a periodic basis and in the event its expectations relative to future tax consequences change, the applicable deferred taxes are recognized.

Stock-Based Employee Compensation

The Company uses the intrinsic value method of accounting for employee stock options in accordance with Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25"). No compensation expense related to employee stock options is included in the Company's net income, as the exercise price of the Company's stock options equals the market value of the underlying stock on the date of grant. The following table includes disclosures required by Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" as amended ("SFAS 123"), and illustrates the effect on net income and earnings per share as if the Company had applied the fair value recognition provisions of SFAS 123 for each of the years in the three-year period ended December 31, 2005 (in millions, except per share amounts):

	2005	2004	2003
Net income, as reported	**$294.2**	$102.8	$108.3
Add: Stock-based employee compensation expense included in reported net income, net of tax	**2.6**	1.6	1.0
Deduct: Stock-based employee compensation expense determined under the fair value based method for all awards, net of tax	**(11.8)**	(11.3)	(10.2)
Net income, pro forma	**$285.0**	$ 93.1	$ 99.1
Basic earnings per share:			
As reported	**$ 1.94**	$ .68	$ .72
Pro forma	**1.88**	.62	.66
Diluted earnings per share:			
As reported	**1.93**	.68	.72
Pro forma	**1.87**	.62	.66

In deriving stock-based employee compensation expense under SFAS 123, the Company recognizes forfeitures as they occur. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions:

	2005	2004	2003
Risk-free interest rate	**3.5%**	3.2%	2.2%
Expected life (in years)	**5.1**	4.1	4.3
Expected volatility	**38.8%**	40.7%	48.1%
Dividend yield	**.3%**	.4%	.3%

In December 2004, the FASB issued Statement of Financial Accounting Standards No. 123, (revised 2004) "Share-Based Payment" ("SFAS 123(R)"). This statement is a revision of SFAS 123, and requires entities to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. The cost will be recognized over the period during which an employee is required to provide services in exchange for the award (usually the vesting period). Companies will be required to estimate forfeitures and adjust for actual forfeitures so that compensation cost will only be recognized for the awards that vest. This statement also requires an entity to measure equity awards classified as liabilities at fair value at each reporting date. SFAS 123(R) covers various share-based compensation arrangements including share options, restricted share plans, performance-based awards, share appreciation rights and employee share purchase plans. SFAS 123(R) eliminates the ability to use the intrinsic value method of accounting for share options, as provided in APB 25. SFAS 123(R) is effective January 1, 2006. The Company is currently evaluating the statement's transition methods and does not expect this statement to have an effect materially different than that of the pro forma SFAS 123 disclosures above.

Earnings Per Share

For each of the years in the three-year period ended December 31, 2005, there were no adjustments to net income for purposes of calculating basic and diluted earnings per share. The following is a reconciliation of the weighted average common shares used in the basic and diluted earnings per share computations for each of the years in the three-year period ended December 31, 2005 (in millions):

	2005	2004	2003
Weighted average common shares – basic	**151.7**	150.5	149.6
Potentially dilutive common shares:			
Restricted stock grants	**.1**	.1	.0
Stock options	**.6**	.0	.5
Weighted average common shares – diluted	**152.4**	150.6	150.1

Options to purchase 15,000 shares of common stock in 2005, 3.3 million shares of common stock in 2004 and 3.4 million shares of common stock in 2003 were not included in the computation of diluted earnings per share because the exercise price of the options exceeded the average market price of the common stock.

Reclassifications

Certain previously reported amounts have been reclassified to conform to the 2005 presentation.

2. PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2005 and 2004, consists of the following (in millions):

	2005	2004
Drilling rigs and equipment	**$3,374.1**	$3,256.8
Other	**39.4**	44.2
Work in progress	**259.3**	144.5
	$3,672.8	$3,445.5

In February 2005, the Company exercised a purchase option and acquired ENSCO 106 from an affiliated joint venture for a net payment of $79.6 million. Additions to drilling rigs and equipment during 2005 include $106.8 million for the acquisition of ENSCO 106, consisting of the $79.6 million payment and the Company's $27.2 million net investment in the joint venture. In January 2004, the Company exercised a purchase option and acquired ENSCO 102 from an affiliated joint venture for a net payment of $94.6 million. Additions to drilling rigs and equipment during 2004 include $135.8 million for the acquisition of ENSCO 102, consisting of the $94.6 million payment and the Company's $41.2 million net investment in the joint venture. (See Note 3 "Investment in Joint Ventures".)

In October 2005, the Company sold the ENSCO 26 platform rig for $12.0 million and in June 2005, the Company sold six South America/Caribbean barge rigs for $59.6 million. In April 2005, beneficial ownership of ENSCO 64 effectively transferred to the Company's insurance underwriters following their acknowledgement that the rig was a constructive total loss under the terms of the Company's insurance policies. ENSCO 64 had sustained substantial damage during Hurricane Ivan in September 2004. The aggregate net book value of the rigs disposed of in 2005 was $108.8 million. In May 2004, the Company exchanged three rigs and $55.0 million for the construction of a new ultra-high specification jackup rig. The aggregate net book value of the three rigs was $39.9 million. (See Note 10 "Discontinued Operations".)

Work in progress at December 31, 2005 includes $7.6 million of capitalized interest and primarily consists of costs associated with various modification and enhancement projects and $181.1 million related to the construction of two ultra-high specification jackup rigs, ENSCO 107 and ENSCO 108, and the ultra-deepwater semisubmersible rig, ENSCO 8500. ENSCO 107 was delivered on January 23, 2006, ENSCO 108 is expected to be delivered by the second quarter of 2007 and delivery of ENSCO 8500 is expected during the second quarter of 2008.

Additions to drilling rigs and equipment in 2005, 2004 and 2003 include $203.7 million, $181.7 million and $114.5 million, respectively, in connection with major modification and enhancement projects that improve the capability and extend the service lives of drilling rigs.

In January 2006, the Company entered into an agreement with Keppel FELS Limited ("KFELS"), a major international shipyard in Singapore, to construct ENSCO 8501 for a total construction cost of approximately $338.0 million. Similar to ENSCO 8500, ENSCO 8501 will be a dynamically positioned ultra-deepwater semisubmersible rig capable of drilling in up to 8,500 feet of water which can be readily upgraded to 10,000 feet water-depth capability if required. ENSCO 8501 is scheduled for delivery during the second quarter of 2009.

3. INVESTMENT IN JOINT VENTURES

During the fourth quarter of 2000, the Company entered into an agreement with KFELS, a major international shipyard, and acquired a 25% ownership interest in a harsh environment jackup rig under construction, which was subsequently named ENSCO 102. Upon completion of rig construction in the second quarter of 2002, the Company and KFELS established a joint venture company, ENSCO Enterprises Limited ("EEL"), to own and charter ENSCO 102. The Company and KFELS had initial ownership interests in EEL of 25% and 75%, respectively. Concurrent with the transfer of the rig to EEL, the Company agreed to charter ENSCO 102 from EEL for a two-year period that was scheduled to expire in May 2004.

In January 2004, the Company exercised a purchase option under the terms of the joint venture and acquired ENSCO 102 for a net payment of $94.6 million. EEL was liquidated upon the Company's acquisition of ENSCO 102. During the year ended December 31, 2004, EEL generated net income of $300,000 (unaudited), and the Company recognized $400,000, net of intercompany eliminations, from its equity in the earnings of EEL, which is included in contract drilling expenses on the consolidated statement of income.

During the first quarter of 2003, the Company entered into an agreement with KFELS to establish a second joint venture company, ENSCO Enterprises Limited II ("EEL II"), to construct a premium heavy duty jackup rig to be named ENSCO 106. The Company and KFELS had initial ownership interests in EEL II of 25% and 75%, respectively. At December 31, 2004, the Company's net investment in EEL II totaled $23.2 million and is included in other assets, net on the consolidated balance sheet. Upon completion of rig construction in February 2005, the Company exercised its purchase option under the terms of the joint venture and acquired ENSCO 106 for a net payment of $79.6 million. EEL II was effectively liquidated upon the Company's acquisition of ENSCO 106.

The Company's equity interest in EEL and EEL II constituted variable interests in variable interest entities, as defined in the Financial Accounting Standards Board's Interpretation No. 46 (revised December 2003), "Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51" ("FIN 46R"). However, the Company did not absorb a majority of the expected losses or receive a majority of the expected residual returns of EEL and EEL II, as defined by FIN 46R, and accordingly, was not required to consolidate EEL or EEL II.

4. LONG-TERM DEBT

Long-term debt at December 31, 2005 and 2004, consists of the following (in millions):

	2005	2004
4.65% Bonds due 2020	**$ 67.5**	$ 72.0
5.63% Bonds due 2011	**–**	40.5
6.36% Bonds due 2015	**126.7**	139.4
6.75% Notes due 2007	**149.8**	149.7
7.20% Debentures due 2027	**148.6**	148.5
	492.6	550.1
Less current maturities	**(17.2)**	(23.0)
Total long-term debt	**$475.4**	$527.1

4.65% Bonds Due 2020

In October 2003, the Company issued $76.5 million of 17-year bonds to provide long-term financing for ENSCO 105. The bonds are guaranteed by the United States Maritime Administration ("MARAD") and will be repaid in 34 equal semiannual principal installments of $2.3 million ending in October 2020. Interest on the bonds is payable semiannually, in April and October, at a fixed rate of 4.65%. The bonds are collateralized by ENSCO 105 and the Company has guaranteed the performance of its obligations under the bonds to MARAD. Proceeds from the bond issuance were used to retire a floating rate term loan that provided interim financing for the construction of ENSCO 105.

5.63% Bonds Due 2011

In connection with a prior acquisition, the Company assumed 5.63% bonds that were issued to provide long-term financing for ENSCO 76. The bonds were guaranteed by MARAD and were being repaid in 24 equal semiannual principal installments of $2.9 million ending in July 2011. On June 15, 2005, the Company redeemed the bonds for $40.9 million, including $900,000 of accrued interest and a $1.8 million redemption premium. The $1.8 million redemption premium and a $600,000 unamortized debt discount are included in "Other income (expense) – Other, net" in the consolidated statement of income for the year ended December 31, 2005.

6.36% Bonds Due 2015

In January 2001, the Company issued $190.0 million of 15-year bonds to provide long-term financing for ENSCO 7500. The bonds are guaranteed by MARAD and are being repaid in 30 equal semiannual principal installments of $6.3 million ending in December 2015. Interest on the bonds is payable semiannually, in June and December, at a fixed rate of 6.36%. The bonds are collateralized by ENSCO 7500 and the Company has guaranteed the performance of its obligations under the bonds to MARAD.

Notes Due 2007 and Debentures Due 2027

In November 1997, the Company issued $300.0 million of unsecured debt in a public offering, consisting of $150.0 million of 6.75% Notes due November 15, 2007 (the "Notes") and $150.0 million of 7.20% Debentures due November 15, 2027 (the "Debentures"). Interest on the Notes and the Debentures is payable semiannually in May and November. The Notes and Debentures may be redeemed at any time at the option of the Company, in whole or in part, at a price equal to 100% of the principal amount thereof plus accrued and unpaid interest, if any, and a make-whole premium. The indenture under which the Notes and the Debentures were issued contains limitations on the incurrence of indebtedness secured by certain liens, and limitations on engaging in certain sale/leaseback transactions and certain merger, consolidation or reorganization transactions. The Notes and Debentures are not subject to any sinking fund requirements.

Revolving Credit Facility

On June 23, 2005, the Company amended and restated its existing $250.0 million unsecured revolving credit agreement (the "Credit Agreement"). The amended and restated agreement (the "2005 Credit Facility") provides for a $350.0 million unsecured revolving credit facility with a syndicate of lenders for general corporate purposes. The 2005 Credit Facility has a five-year term, expiring June 23, 2010, and replaces the Company's $250.0 million five-year Credit Agreement that was scheduled to mature on July 26, 2007. Advances under the 2005 Credit Facility bear interest at LIBOR plus an applicable margin rate (currently .35% per annum), depending on the Company's credit rating. The Company pays a facility fee (currently .10% per annum) on the total $350.0 million commitment, which is also based on the Company's credit rating, and pays an additional utilization fee on outstanding advances if such advances equal or exceed 50% of the total $350.0 million commitment. The Company is required to maintain certain financial covenants under the 2005 Credit Facility, including a specified level of interest coverage and debt to total capitalization ratio. The Company had no amounts outstanding under the 2005 Credit Facility or the Credit Agreement at December 31, 2005 and 2004, respectively.

Maturities

The aggregate maturities of long-term debt, excluding un-amortized discounts of $1.6 million, for each of the five years subsequent to December 31, 2005, are as follows (in millions):

2006	$ 17.2
2007	167.2
2008	17.2
2009	17.2
2010	17.2
Thereafter	258.2
Total	$494.2

The Company is in compliance with the covenants of all of its debt instruments.

5. DERIVATIVE FINANCIAL INSTRUMENTS

In connection with a prior acquisition, the Company obtained $80.0 million notional amount of outstanding treasury rate lock agreements of which the Company designated $65.0 million notional amount as an effective hedge against the variability in cash flows of $76.5 million of MARAD guaranteed bonds that the Company intended to issue in October 2003. The Company deemed the remaining $15.0 million notional amount of treasury rate lock agreements to be speculative in nature and subsequently settled $10.0 million notional amount in 2002 and $5.0 million notional amount in 2003. The Company recognized a loss of $300,000 for the year ended December 31, 2003 in connection with the decline in fair value of the speculative treasury rate lock agreement. The Company settled the $65.0 million notional amount of treasury locks in October 2003 in connection with the pricing and subsequent issuance of the MARAD bonds. (See Note 4 "Long-Term Debt".)

The estimated amount of net unrealized losses on derivative instruments, net of tax at December 31, 2005, that will be reclassified to earnings during the next twelve months is as follows (in millions):

Unrealized losses to be reclassified to interest expense	$1.1
Net unrealized losses to be reclassified to contract drilling expenses	1.7
Net unrealized losses to be reclassified to earnings	$2.8

The Company utilizes derivative instruments and undertakes hedging activities in accordance with its established policies for the management of market risk. The Company does not enter into derivative instruments for trading or other speculative purposes. All of the Company's outstanding hedge contracts mature during the next twelve months. Management believes that the Company's use of derivative instruments and related hedging activities do not expose the Company to any material interest rate risk, foreign currency exchange rate risk, commodity price risk, credit risk or any other market rate or price risk.

6. COMPREHENSIVE INCOME

The components of the Company's comprehensive income for each of the years in the three-year period ended December 31, 2005, are as follows (in millions):

	2005	2004	2003
Net Income	**$294.2**	$102.8	$108.3
Other comprehensive income (loss)			
Net change in fair value of derivatives	**(6.3)**	2.4	.3
Reclassification of unrealized gains and losses on derivatives from other comprehensive income (loss) into net income	**3.3**	.1	.9
Foreign currency translation adjustment	**1.1**	–	–
Other	**–**	(.6)	–
Net other comprehensive income (loss)	**(1.9)**	1.9	1.2
Comprehensive income	**$292.3**	$104.7	$109.5

The components of the accumulated other comprehensive loss section of stockholders' equity at December 31, 2005 and 2004, are as follows (in millions):

	2005	2004
Net unrealized losses on derivatives, net of tax	**$10.9**	$7.9
Cumulative translation adjustment	**–**	1.1
Accumulated other comprehensive loss	**$10.9**	$9.0

The cumulative translation adjustment component of accumulated other comprehensive loss of $1.1 million at December 31, 2004 was associated with the six South America/Caribbean barge rigs sold on June 30, 2005, and is included in the pre-tax gain recognized on the sale. (See Note 10 "Discontinued Operations".)

7. STOCKHOLDERS' EQUITY

The Company initiated the payment of a $.025 per share quarterly cash dividend on its common stock during the third quarter of 1997. Cash dividends of $.10 per share were paid in each of the years in the three-year period ended December 31, 2005. At December 31, 2005 and 2004, the outstanding shares of the Company's common stock, net of treasury shares, were 153.4 million and 151.1 million, respectively.

On January 1, 2006, the Company will adopt SFAS 123(R). The new standard requires that compensation cost attributable to equity awards be recognized over the period during which an employee is required to provide service in exchange for the award (usually the vesting period). Accordingly, the use of a deferred compensation account will no longer be permitted and as part of the transition adjustments at adoption, unearned compensation associated with restricted stock will be reclassified into additional paid-in capital.

A summary of activity in the various stockholders' equity accounts for each of the years in the three-year period ended December 31, 2005, is as follows (shares in thousands, dollars in millions):

	COMMON STOCK		ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	RESTRICTED STOCK (UNEARNED COMPENSATION)	ACCUMULATED OTHER COMPREHENSIVE LOSS	TREASURY STOCK
	SHARES	AMOUNTS					
BALANCE, December 31, 2002	172,645	$17.2	$1,383.5	$ 835.3	$ (5.8)	$(12.1)	$(251.1)
Net income	–	–	–	108.3	–	–	–
Cash dividends paid	–	–	–	(15.0)	–	–	–
Common stock issued under employee and director incentive plans, net	1,269	.2	18.9	–	(8.4)	–	1.1
Amortization of unearned stock compensation	–	–	–	–	1.2	–	–
Tax benefit from stock compensation	–	–	6.6	–	–	–	–
Net other comprehensive income	–	–	–	–	–	1.2	–
BALANCE, December 31, 2003	173,914	17.4	1,409.0	928.6	(13.0)	(10.9)	(250.0)
Net income	–	–	–	102.8	–	–	–
Cash dividends paid	–	–	–	(15.1)	–	–	–
Common stock issued under employee and director incentive plans, net	628	.1	8.9	–	(1.2)	–	(.4)
Amortization of unearned stock compensation	–	–	–	–	1.7	–	–
Tax benefit from stock compensation	–	–	2.1	–	–	–	–
Net other comprehensive income	–	–	–	–	–	1.9	–
BALANCE, December 31, 2004	174,542	17.5	1,420.0	1,016.3	(12.5)	(9.0)	(250.4)
Net income	–	–	–	294.2	–	–	–
Cash dividends paid	–	–	–	(15.2)	–	–	–
Common stock issued under employee and director incentive plans, net	2,266	.2	73.3	–	(6.3)	–	(.8)
Amortization of unearned stock compensation	–	–	–	–	2.6	–	–
Tax benefit from stock compensation	–	–	5.2	–	–	–	–
Net other comprehensive income (loss)	–	–	–	–	–	(1.9)	–
BALANCE, December 31, 2005	**176,808**	**$17.7**	**$1,498.5**	**$1,295.3**	**$(16.2)**	**$(10.9)**	**$(251.2)**

8. EMPLOYEE BENEFIT PLANS

Stock Options

In May 2005, the Company's stockholders approved the 2005 Long-Term Incentive Plan (the "2005 Plan"). The 2005 Plan is similar to and essentially replaces the Company's previously adopted 1998 Incentive Plan (the "1998 Plan") and 1996 Non-Employee Directors' Stock Option Plan (the "Directors' Plan"). No further awards will be granted under the previously adopted plans, however, those plans shall continue to apply to and govern awards made under those plans. Under the 2005 Plan, a maximum of 7.5 million shares are reserved for issuance as awards of stock options to officers, employees and non-employee directors. Stock options granted to officers and employees generally become exercisable in 25% increments over a four-year period and to the extent not exercised, expire on the seventh anniversary of the date of grant. Stock options granted to non-employee directors are immediately exercisable and to the extent not exercised, expire on the seventh anniversary of the date of grant. The exercise price of stock options granted under the 2005 Plan equals the market value of the underlying stock on the date of grant. At December 31, 2005, options to purchase 715,700 shares of the Company's common stock were outstanding under the 2005 Plan.

Stock options previously granted under the 1998 Plan generally become exercisable in 25% increments over a four-year period and to the extent not exercised, expire on the fifth anniversary of the date of grant. Stock options previously granted under the Directors' Plan become exercisable six months after the date of grant and expire, if not exercised, five years thereafter. The exercise price of stock options granted under the 1998 Plan and the Directors' Plan equals the market value of the underlying stock on the date of grant. At December 31, 2005, options to purchase 2,865,981 shares of the Company's common stock were outstanding under the 1998 Plan and the Directors' Plan.

In connection with a prior acquisition, the Company assumed the predecessor's stock option plan and the outstanding stock options thereunder. The plan was renamed the ENSCO International Incorporated 2000 Stock Option Plan (the "2000 Plan") and the option awards have been converted to ENSCO common stock equivalents in terms of exercise prices and number of shares exercisable. At the assumption date, exercise prices of the assumed options ranged from $10.74 per share to $25.48 per share with various expiration dates through February 2012 (6.2 years weighted average remaining contractual life). No further options will be granted under the 2000 Plan and it will be terminated upon the exercise or expiration date of the last outstanding option. At December 31, 2005, options to purchase 11,408 shares of the Company's common stock were outstanding under the 2000 Plan.

The 2005 Plan, the 2000 Plan, the 1998 Plan and the Directors' Plan are collectively referred to as the "Plans" hereafter.

A summary of stock option transactions under the Plans is as follows (shares in thousands):

	2005		2004		2003	
	SHARES	WEIGHTED AVERAGE EXERCISE PRICE	SHARES	WEIGHTED AVERAGE EXERCISE PRICE	SHARES	WEIGHTED AVERAGE EXERCISE PRICE
Outstanding at beginning of year	**5,224**	**$30.41**	4,749	$29.23	5,241	$25.44
Granted	**742**	**33.68**	1,381	27.49	1,292	29.16
Exercised	**(2,098)**	**32.02**	(591)	13.12	(1,202)	10.71
Forfeited	**(275)**	**28.63**	(315)	32.34	(582)	33.16
Outstanding at end of year	**3,593**	**$30.28**	5,224	$30.41	4,749	$29.23
Exercisable at end of year	**1,199**	**$30.61**	2,095	$32.19	1,791	$26.63
Weighted average fair value of options granted during the year		**$13.02**		$ 9.71		$10.17

The following table summarizes information about stock options outstanding under the Plans at December 31, 2005 (shares in thousands):

	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
EXERCISE PRICES	NUMBER OUTSTANDING AT 12/31/05	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER EXERCISABLE AT 12/31/05	WEIGHTED AVERAGE EXERCISE PRICE
$10.74 - $11.73	2	3.0 years	$10.94	2	$10.94
20.91 - 26.92	202	2.8 years	25.57	66	25.99
27.13 - 29.33	1,163	3.3 years	27.58	309	27.97
30.04 - 33.89	2,139	3.4 years	31.97	750	31.71
35.21 - 40.32	87	1.5 years	36.21	72	35.36
	3,593	3.3 years	$30.28	1,199	$30.61

At December 31, 2005, 9.1 million shares were available for grant as stock options or incentive grants under the 2005 Plan.

Incentive Stock Grants

Key employees, who are in a position to contribute materially to the Company's growth and development and to its long-term success, are eligible for incentive stock grants. Prior to the adoption of the 2005 Plan, incentive stock grants were issued under the 1998 Plan and generally vested at a rate of 10% per year, as determined by a committee of the Board of Directors. No further incentive stock grants will be granted under the 1998 Plan, however, that plan shall continue to apply to and govern awards issued under that plan. The 2005 Plan provides for the issuance of incentive stock grants up to a maximum of 2.5 million shares. Under the 2005 Plan, shares of common stock subject to incentive grants generally vest at a rate of 20% per year, as determined by a committee of the Board of Directors, and have voting and dividend rights effective on the date of grant. Compensation expense is measured using the market value of the common stock on the date of grant and is recognized on a straight-line basis over the requisite service period (usually the vesting period).

Incentive stock grants issued under the Plans during each of the years in the three-year period ended December 31, 2005, were as follows: 211,860 shares at a weighted average fair value of $35.37 per share in 2005, 60,000 shares at a weighted average fair value of $28.61 per share in 2004 and 345,000 shares at a weighted average fair value of $26.50 per share in 2003. At December 31, 2005, there were 2.3 million shares of common stock available for incentive stock grants under the 2005 Plan. Incentive stock grants for an aggregate 589,175 shares of common stock issued under the 2005 Plan, 1998 Plan and a predecessor plan were outstanding at December 31, 2005, and vest as follows: 98,935 shares in 2006, 95,935 shares in 2007, 89,935 shares in 2008, 82,935 shares in 2009, 82,935 shares in 2010, 46,000 shares in 2011, 43,000 shares in 2012, 38,000 shares in 2013, 8,500 shares in 2014 and 3,000 shares in 2015.

Savings Plan

The Company has a profit sharing plan (the "ENSCO Savings Plan") which covers eligible employees with more than one year of service, as defined. Profit sharing contributions require Board of Directors approval and may be in cash or grants of the Company's common stock. The Company recorded profit sharing contribution provisions of $5.0 million, $3.1 million and $1.6 million for the years ended December 31, 2005, 2004 and 2003, respectively.

The ENSCO Savings Plan includes a 401(k) savings plan feature which allows eligible employees to make tax deferred contributions to the plan. The Company makes matching contributions based on the amount of employee contributions and rates set by the Company's Board of Directors. Matching contributions totaled $4.2 million, $4.1 million and $4.5 million in 2005, 2004 and 2003, respectively. The Company has reserved 1.0 million shares of common stock for issuance as matching contributions under the ENSCO Savings Plan.

Supplemental Executive Retirement Plan

The ENSCO 2005 Supplemental Executive Retirement Plan (the "SERP") provides a tax deferred savings plan for certain highly compensated employees whose participation in the profit sharing and 401(k) savings plan features of the ENSCO Savings Plan is restricted due to funding and contribution limitations of the Internal Revenue Code. The SERP is a non-qualified plan where eligible employees may defer a portion of their compensation for use after retirement. Eligibility for participation is determined by the Company's Board of Directors. The Company's matching and vesting provisions of the SERP are identical to the ENSCO Savings Plan, except that matching contributions under the SERP are further limited by contribution amounts under the 401(k) savings plan feature of the ENSCO Savings Plan. Matching contributions totaled $52,000 in 2005, $51,000 in 2004 and $40,000 in 2003. A SERP liability of $8.6 million and $6.7 million is included in other liabilities at December 31, 2005 and 2004, respectively.

9. INCOME TAXES

The Company had income of $225.7 million, $66.1 million and $78.6 million from its continuing operations before income taxes in the U.S. and income of $165.5 million, $73.8 million and $68.6 million from its continuing operations before income taxes in foreign countries for the years ended December 31, 2005, 2004 and 2003, respectively.

The components of the provision for income taxes from continuing operations for each of the years in the three-year period ended December 31, 2005, are as follows (in millions):

	2005	2004	2003
Current income tax expense (benefit):			
Federal	$ 70.9	$ (.9)	$ (1.3)
State	1.3	.4	.2
Foreign	33.6	13.8	17.0
	105.8	13.3	15.9
Deferred income tax expense (benefit):			
Federal	6.6	22.1	24.6
Foreign	(5.1)	(.2)	2.8
	1.5	21.9	27.4
Total income tax expense	$107.3	$35.2	$43.3

Significant components of deferred income tax assets (liabilities) as of December 31, 2005 and 2004, are comprised of the following (in millions):

	2005	2004
Deferred tax assets:		
Net operating loss carryforwards	$ 5.5	$ 3.9
Foreign tax credit carryforwards	–	2.7
Alternative minimum tax credit carryforwards	–	2.6
Accrued liabilities	9.8	9.4
Other	2.2	3.3
Gross deferred tax assets	17.5	21.9
Less: Valuation allowance	1.7	–
Deferred tax assets, net of valuation allowance	15.8	21.9
Deferred tax liabilities:		
Property	(311.7)	(361.5)
Intercompany transfers of property	(32.8)	(15.3)
Derivative financial instruments	(1.8)	(1.9)
Other	(1.2)	(2.7)
Total deferred tax liabilities	(347.5)	(381.4)
Net deferred tax liabilities	$(331.7)	$(359.5)
Net current deferred tax asset	$ 9.5	$ 12.6
Net noncurrent deferred tax liability	(341.2)	(372.1)
Net deferred tax liability	$(331.7)	$(359.5)

The income tax rates imposed in the taxing jurisdictions in which the Company's foreign subsidiaries conduct operations vary, as does the tax base to which the rates are applied. In some cases, tax rates may be applicable to gross revenue, statutory or negotiated deemed profits, or other bases utilized under local tax laws, rather than to net income. In addition, the Company's drilling rigs are frequently moved from one taxing jurisdiction to another. As a result, the Company's consolidated effective income tax rate may vary substantially from year to year, depending on the relative components of the Company's earnings generated in taxing jurisdictions with higher tax rates and lower tax rates. The consolidated effective income tax rate on continuing operations for each of the years in the three-year period ended December 31, 2005, differs from the U.S. statutory income tax rate as follows:

	2005	2004	2003
Statutory income tax rate	35.0%	35.0%	35.0%
Foreign taxes	(6.9)	(10.2)	(4.3)
Change in valuation allowance	.4	–	–
Resolution of income tax audits and release of tax liabilities determined to no longer be necessary	(1.7)	–	–
Other	.6	.4	(1.3)
Effective income tax rate	27.4%	25.2%	29.4%

At December 31, 2005, the Company had non-expiring foreign net operating loss carryforwards of $19.5 million in Denmark. During 2005, the Company established a $1.7 million valuation allowance against the $5.5 million deferred tax asset for these net operating loss carryforwards. Based on current earnings projections, management has determined that it is more likely than not that the $3.8 million excess of the deferred tax asset over the valuation allowance will be fully utilized.

The income tax provision for the year ended December 31, 2005 includes a $6.5 million net benefit that results from the resolution of various issues in connection with an audit by tax authorities of the Company's 2002 and 2003 U.S. tax returns and release of certain tax liabilities recognized in prior years that are determined to no longer be necessary.

Undistributed earnings of the Company's foreign subsidiaries, which are permanently reinvested, totaled $15.1 million at December 31, 2005. A U.S. deferred tax liability has not been quantified for these undistributed earnings because it is not practicable to estimate. Should the Company make a distribution of these foreign earnings in the form or dividends or otherwise, it may be subject to additional U.S. income taxes.

10. DISCONTINUED OPERATIONS

The ENSCO 29 platform rig sustained substantial damage as a consequence of Hurricane Katrina in September 2005. On January 5, 2006, beneficial ownership of ENSCO 29 effectively transferred to the Company's insurance underwriters following their acknowledgement that the rig was a constructive total loss under the terms of the Company's insurance policies. Accordingly, the Company will receive the rig's net insured value of $10.0 million. The $7.5 million carrying value of the rig remains classified in "Property and equipment, net" on the December 31, 2005 consolidated balance sheet. The Company expects to record the disposal of the rig in the first quarter of 2006 and recognize a pre-tax gain equivalent to the excess of the insurance proceeds received over the carrying value of the rig. The operating results of ENSCO 29 have been reclassified as discontinued operations in the consolidated statements of income for each of the years in the three-year period ended December 31, 2005.

On October 20, 2005, the Company sold the ENSCO 26 platform rig for $12.0 million and recognized a minimal gain. The operating results of ENSCO 26 have been reclassified as discontinued operations in the consolidated statements of income for each of the years in the three-year period ended December 31, 2005.

On June 30, 2005, the Company sold its six South America/Caribbean barge rigs for $59.6 million and recognized a pre-tax gain of $9.6 million, which is included in "Gain on disposal of discontinued operations, net" in the consolidated statement of income for the year ended December 31, 2005. The net book value of the rigs was $45.1 million on the date of sale. The operating results of the six South America/Caribbean barge rigs have been reclassified as discontinued operations in the consolidated statements of income for each of the years in the three-year period ended December 31, 2005.

The ENSCO 64 jackup rig sustained substantial damage during Hurricane Ivan in September 2004. On April 15, 2005, beneficial ownership of ENSCO 64 effectively transferred to the Company's insurance underwriters following their acknowledgement that the rig was a constructive total loss under the terms of the Company's insurance policies. Accordingly, the Company received the rig's full insured value of $65.0 million. On the date of transfer, the net book value of the rig was $52.8 million. The Company recognized a pre-tax gain of $11.7 million upon receipt of the insurance proceeds, which is included in "Gain on disposal of discontinued operations, net" in the consolidated statement of income for year ended December 31, 2005. The operating results of ENSCO 64 have been reclassified as discontinued operations in the consolidated statements of income for each of the years in the three-year period ended December 31, 2005.

In February 2004, the Company entered into an agreement with KFELS to exchange three rigs (ENSCO 23, ENSCO 24 and ENSCO 55) and $55.0 million for the construction of a new ultra-high specification jackup rig to be named ENSCO 107. The exchange of the three rigs occurred in May 2004 and was treated as a sale with no significant gain or loss recognized, as the fair value of the rigs approximated their aggregate net book value of $39.9 million. The results of operations of ENSCO 23, ENSCO 24 and ENSCO 55 have been reclassified as discontinued operations in the consolidated statements of income for each of the years in the two-year period ended December 31, 2004.

In February 2003, the Company reached an agreement to sell its 27-vessel marine transportation fleet. After receipt of various regulatory consents, the transaction was finalized in April 2003 for approximately $79.0 million. The Company recognized a pre-tax gain of approximately $6.4 million related to the transaction. The operating results of the marine transportation fleet, which represent the entire marine transportation services segment previously reported by the Company, have been reclassified as discontinued operations in the consolidated statement of income for the year ended December 31, 2003.

Following is a summary of income (loss) from discontinued operations for each of the years in the three-year period ended December 31, 2005 (in millions):

	2005	2004	2003
Revenues			
Contract drilling	**$15.0**	$30.0	$48.5
Marine transportation	**–**	–	7.6
	15.0	30.0	56.1
Operating expenses and other			
Contract drilling	**20.1**	31.5	46.4
Marine transportation	**–**	–	12.2
	20.1	31.5	58.6
Operating loss before income taxes	**(5.1)**	(1.5)	(2.5)
Income tax benefit (expense)	**1.5**	(.4)	2.8
Gain on disposal of discontinued operations, net	**13.9**	–	4.1
Income (loss) from discontinued operations	**$10.3**	$ (1.9)	$ 4.4

There is no debt or interest expense allocated to the Company's discontinued operations.

11. COMMITMENTS AND CONTINGENCIES

Leases

The Company is obligated under leases for certain of its offices and equipment. Rental expense relating to operating leases was $5.3 million in 2005, $5.2 million in 2004 and $4.3 million in 2003. Future minimum rental payments under the Company's noncancellable operating lease obligations having initial or remaining lease terms in excess of one year are as follows: $4.9 million in 2006; $2.7 million in 2007; $900,000 in 2008 and $100,000 in 2009.

Resolution of Insurance Claims Relating to Hurricane Katrina Damage

During the third quarter 2005, several of the Company's drilling rigs in the Gulf of Mexico sustained damage during Hurricane Katrina. Physical damage to the Company's rigs caused by a hurricane, as well as the related removal and recovery costs, are covered by insurance subject to a deductible. The Company maintains insurance coverage under multiple insurance policies that subject the Company to escalating deductibles, the amount of which depends on the type of rig damaged and the magnitude of the damage sustained by rig type. However, all losses incurred as a result of a single hurricane (an "occurrence") are limited to a maximum aggregate deductible of $5.5 million.

The ENSCO 29 platform rig sustained significant damage from Hurricane Katrina. Damage to the platform rig was substantial and, upon initial evaluation, it was not possible to determine whether the rig would be declared a constructive total loss ("CTL") under the terms of the Company's insurance policies. If ENSCO 29 was declared a CTL, the Company would transfer its interest in the platform rig to underwriters and receive the rig's net insured value of $10.0 million. In addition to the damage sustained by ENSCO 29, preliminary inspections indicated that the hull of ENSCO 7500 sustained minor damage during Hurricane Katrina. Due to the uncertainties involved and difficulties associated with estimating the damage sustained by the two rigs, the Company recognized a $5.5 million loss, representing its aggregate insurance deductible, during the third quarter of 2005.

On January 5, 2006, beneficial ownership of ENSCO 29 effectively transferred to the Company's insurance underwriters following their acknowledgement that the rig was a CTL. Accordingly, the Company will receive the rig's net insured value of $10.0 million. The $7.5 million carrying value of the rig remains classified in property and equipment on the consolidated balance sheet at December 31, 2005. The Company expects to record the disposal of the rig in the first quarter of 2006 and recognize a pre-tax gain equivalent to the excess of the insurance proceeds received over the carrying value of the

rig. Of the total $5.5 million loss representing the aggregate insurance deductible recognized during the third quarter of 2005, $5.0 million is included in “Income (loss) from discontinued operations, net” and $500,000 is included in “Other income (expense) – Other, net” in the consolidated statement of income for the year ended December 31, 2005. The portion of the loss allocated to discontinued operations represents the deductible applicable to ENSCO 29.

Damage to ENSCO 7500 was minor and the rig was repaired in early 2006 in conjunction with minor enhancement and prerequisite work for its pending two-year contract. The Company believes the insurance claim for the ENSCO 7500 hull repairs will be finalized by the end of the second quarter of 2006 with no significant gain or loss recognized. Additionally, the Company has made minor repairs to several jackup rigs that were in the path of Hurricane Katrina. The repair costs incurred were not significant and none of the Company’s jackup rigs experienced significant downtime in order to complete repairs.

Although several of the Company’s jackup rigs were in the path of Hurricane Rita, the Company has detected only minor damage to those rigs and the associated repair costs incurred, or expected to be incurred, are not significant. In addition, none of the Company’s jackup rigs experienced, or is expected to experience, significant downtime in order to complete damage repairs as a result of this hurricane.

Resolution of Insurance Claims Relating to Hurricane Ivan Damage

Two of the Company’s drilling rigs, the ENSCO 64 jackup rig and ENSCO 25 platform rig, sustained damage during Hurricane Ivan in September 2004. The physical damage to the rigs, as well as the related removal, salvage and recovery costs, was covered by insurance, subject to an aggregate escalating deductible of up to a maximum $5.5 million. Damage to ENSCO 64 was substantial and upon initial evaluation it was not possible to determine whether ENSCO 64 would be declared a CTL under the terms of the Company’s insurance policies. If ENSCO 64 were to be declared a CTL, the Company would transfer its interest in the rig to underwriters and receive the rig’s insured value of $65.0 million, with no deductible applicable. Due to the uncertainties involved and difficulties associated with estimating the damage sustained by the two rigs, the Company recognized a $5.5 million loss, representing its aggregate insurance deductible, during the third quarter of 2004. The loss is included in “Other income (expense) – Other, net” in the consolidated statements of income for the year ended December 31, 2004.

On April 15, 2005, beneficial ownership of ENSCO 64 effectively transferred to the Company’s insurance underwriters following their acknowledgement that the rig was a CTL. Accordingly, the Company received the rig’s full insured value of $65.0 million, which resulted in a pre-tax gain of approximately $11.7 million included in “Gain on disposal of discontinued operations, net” in the consolidated statement of income for the year ended December 31, 2005.

Damage to ENSCO 25 was less extensive than that of ENSCO 64, and the rig returned to service in late February 2005 after completion of the damage assessment and repair work. The Company recognized a net gain of $3.1 million during the first quarter of 2005, which consists of the excess of the $5.5 million provision recognized during the third quarter of 2004 for the aggregate insurance deductible over the $2.4 million loss realized in connection with the ENSCO 25 repair work. The $3.1 million net gain is included in “Other income (expense) – Other, net” in the consolidated statement of income for the year ended December 31, 2005.

Other Contingencies

In September 2005, the Company received summonses from the Lancaster Magistrates’ Court charging violations of the U.K. Health and Safety at Work Act in connection with a fatal injury sustained by an employee on one of its rigs during May 2003. Should criminal liability be established, the Company is subject to a monetary fine. The Company currently believes it has established a sufficient reserve in relation to this matter, and does not believe the resolution of these charges will have a material adverse effect on its financial position, results of operations or cash flows.

In August 2004, the Company and certain subsidiaries were named as defendants in three multi-party lawsuits filed in the Circuit Courts of Jones County (Second Judicial District) and Jasper County (First Judicial District), Mississippi, involving numerous other companies as co-defendants. The lawsuits seek an unspecified amount of monetary damages on behalf of individuals alleging personal injury or death, including claims under the Jones Act, purportedly resulting from exposure to asbestos on drilling rigs and associated facilities during the period 1965 through 1986. The lawsuits are at a

very preliminary stage during which the plaintiffs are required to submit “Fact Sheets,” which presumably would establish if they have a cause of action which merits review by the courts and, if so, whether the courts in question have jurisdiction to hear their claims. Inasmuch as not all plaintiffs have filed their “Fact Sheets” and others who have are the focus of motions to either transfer, sever and/or dismiss their claims, the Company has not been able to determine the number of plaintiffs with claims that may have been employed by the Company or its subsidiaries or otherwise associated with its drilling operations during the relevant period. The Company has filed responsive pleadings preserving all defenses and challenges to jurisdiction or venue, and intends to vigorously defend against the litigation. Based on information currently available or, more appropriately, the lack thereof, the Company cannot reasonably estimate a range of potential liability exposure, if any. While the Company does not expect the resolution of these lawsuits to have a material adverse effect on its financial position, results of operations or cash flows, there can be no assurance as to the ultimate outcome of these lawsuits.

Legislation known as the U.K. Working Time Directive was introduced in August 2003 and may be applicable to employees of the Company and other drilling contractors that work offshore in U.K. territorial waters or in the U.K. sector of the North Sea. Certain unions representing offshore employees have claimed that drilling contractors are not in compliance with the U.K. Working Time Directive in respect of paid time off (vacation time) for employees working offshore on a rotational basis (equal time working and off). Based on the information available at this time, the Company does not expect the resolution of this matter to have a material adverse effect on its financial position, results of operations or cash flows.

In September 2004, the Republic of India amended the Finance Act, 1994, by enacting the Finance (No. 2) Act, 2004 (the “Act”), which purported to extend a 10.2% tax levied on services to the specific service of “survey and exploration of minerals.” Based on the definition of “survey and exploration of minerals” contained in the Act, the Company does not believe its contract drilling operations in India should be considered taxable services, and thus, has not paid the tax or recognized a liability for the tax. The local chapter of the International Association of Drilling Contractors has filed a Writ Petition with the Indian courts challenging the applicability of the tax to contract drilling services, a position which is supported by the Oil and Natural Gas Corporation Limited, the government sponsored oil company in India. Proceedings relative to the Writ Petition have not concluded. If the Indian courts determine the tax applies to contract drilling services, the Company’s liability for such tax would be $4.8 million at December 31, 2005. However, the Company believes its customer has a contractual indemnity obligation and will reimburse, either in whole or in part, any tax liability that may be assessed. Based on the information available at this time, the Company does not expect the resolution of this matter to have a material adverse effect on its financial position, results of operations or cash flows.

The Company and its subsidiaries are named defendants in certain lawsuits and are involved from time to time as parties to governmental proceedings, including matters related to taxation, all arising in the ordinary course of business. Although the outcome of lawsuits or other proceedings involving the Company and its subsidiaries cannot be predicted with certainty and the amount of any liability that could arise with respect to such lawsuits or other proceedings cannot be predicted accurately, management does not expect these matters to have a material effect on the financial position, results of operations or cash flows of the Company.

12. SEGMENT INFORMATION

In April 2003, the Company completed the sale of its marine transportation fleet (see Note 10 “Discontinued Operations”). The operating results and net carrying value of the marine transportation fleet represent the entire marine transportation services segment as previously reported by the Company. Accordingly, the Company’s continuing operations now consist of one reportable segment: contract drilling services. At December 31, 2005, the Company’s contract drilling segment owned and operated a fleet of 45 offshore drilling rigs, including 42 jackup rigs, one ultra-deepwater semisubmersible rig, one platform rig and one barge rig.

The Company's operations are concentrated in four geographic regions: North America, Europe/Africa, Asia Pacific (which includes Asia, the Middle East, Australia and New Zealand) and South America/Caribbean. At December 31, 2005, the Company's North America operations consisted of 17 jackup rigs, one platform rig and one ultra-deepwater semisubmersible rig, all located in the U.S. waters of the Gulf of Mexico. The Company's Europe/Africa operations consist of nine jackup rigs, eight of which are currently deployed in various territorial waters of the North Sea and one is located offshore Nigeria. In Asia Pacific, the Company's operations currently consist of 16 jackup rigs deployed in various locations and one barge rig located in Indonesia.

The Company attributes revenues to the geographic location where such revenue is earned and assets to the geographic location of the drilling rig at December 31 of the applicable year. For new construction projects, assets are attributed to the location of future operation if known or to the location of construction if the ultimate location of operation is undetermined. Information by country for those countries that account for more than 10% of total revenues or 10% of the Company's long-lived assets is as follows (in millions):

	REVENUES			LONG-LIVED ASSETS		
	2005	2004	2003	**2005**	2004	2003
United States	**$ 426.8**	$276.4	$277.4	**$1,060.0**	$1,015.6	$1,050.1
United Kingdom	**157.8**	35.7	54.2	**381.3**	102.8	143.9
Qatar	**71.3**	92.5	48.5	**118.2**	200.5	25.1
Other foreign countries	**391.0**	336.0	362.2	**1,104.1**	1,112.4	998.1
Total	**$1,046.9**	$740.6	$742.3	**$2,663.6**	$2,431.3	$2,217.2

13. SUPPLEMENTAL FINANCIAL INFORMATION

Consolidated Balance Sheet Information

Accounts receivable, net at December 31, 2005 and 2004, consists of the following (in millions):

	2005	2004
Trade	**$251.4**	$164.0
Other	**21.3**	21.9
	272.7	185.9
Allowance for doubtful accounts	**(3.7)**	(2.9)
	$269.0	$183.0

Prepaid expenses and other current assets at December 31, 2005 and 2004, consists of the following (in millions):

	2005	2004
Prepaid expenses	**$10.5**	$17.7
Inventory	**3.7**	2.7
Deferred mobilization costs	**9.7**	.6
Deferred tax asset	**9.5**	12.5
Deferred regulatory certification and compliance costs	**4.0**	4.0
Other	**3.5**	6.2
	$40.9	$43.7

Other assets, net at December 31, 2005 and 2004, consists of the following (in millions):

	2005	2004
Prepaid taxes on intercompany transfers of property	**$12.8**	$12.9
Investment in joint ventures	**–**	23.2
Deferred finance costs	**6.1**	6.7
Deferred mobilization costs	**5.3**	.1
Deferred regulatory certification and compliance costs	**2.1**	3.0
Deferred tax asset	**3.8**	3.2
Supplemental executive retirement plan	**8.9**	6.8
Other	**.7**	.1
	$39.7	$56.0

Accrued liabilities at December 31, 2005 and 2004, consists of the following (in millions):

	2005	2004
Personnel	**$ 34.0**	$ 21.6
Taxes	**50.0**	62.4
Other operating expense	**45.8**	35.2
Capital additions	**36.8**	30.7
Interest	**5.1**	5.9
Deferred and prepaid revenue	**15.2**	6.3
ENSCO 64 salvage and damage assessment	**–**	10.3
Other	**8.2**	4.8
	$195.1	$177.2

Consolidated Statement of Income Information

Maintenance and repairs expense related to continuing operations for each of the years in the three-year period ended December 31, 2005, is as follows (in millions):

	2005	2004	2003
Maintenance and repairs	**$62.7**	$49.8	$55.8

Consolidated Statement of Cash Flows Information

Cash paid for interest and income taxes for each of the years in the three-year period ended December 31, 2005, is as follows (in millions):

	2005	2004	2003
Interest, net of amounts capitalized	**$ 29.7**	$33.4	$33.8
Income taxes	**143.1**	18.0	10.9

Capitalized interest totaled $8.9 million in 2005, $3.9 million in 2004 and $2.0 million in 2003.

Financial Instruments

The carrying amounts and estimated fair values of the Company's debt instruments at December 31, 2005 and 2004, are as follows (in millions):

	2005		2004	
	CARRYING AMOUNT	ESTIMATED FAIR VALUE	CARRYING AMOUNT	ESTIMATED FAIR VALUE
6.75% Notes	**$149.8**	**$154.5**	$149.7	$161.6
7.20% Debentures	**148.6**	**176.9**	148.5	174.7
4.65% Bonds, including current maturities	**67.5**	**60.5**	72.0	65.3
6.36% Bonds, including current maturities	**126.7**	**134.3**	139.4	153.1
5.63% Bonds, including current maturities	**–**	**–**	40.5	43.2

The estimated fair values of the Company's debt instruments were determined using quoted market prices or third party valuations. The estimated fair value of the Company's cash and cash equivalents, receivables, trade payables and other liabilities approximated their carrying values at December 31, 2005 and 2004. The Company has cash, receivables and payables denominated in foreign currencies. These financial assets and liabilities create exposure to foreign currency exchange risk. When warranted, the Company hedges such risk by entering into purchase options or futures contracts. The Company does not enter into such contracts for trading purposes or to engage in speculation. At December 31, 2005 and 2004, the fair value of such contracts was a net liability of $2.7 million and a net asset of $4.0 million, respectively.

Concentration of Credit Risk

The Company is exposed to credit risk relating to its receivables from customers, its cash and cash equivalents and its use of derivative instruments in connection with the management of foreign currency risk. The Company minimizes its credit risk relating to receivables from customers, which consist primarily of major and independent oil and gas producers as well as government-owned oil companies, by performing ongoing credit evaluations. The Company also maintains reserves for potential credit losses, which to date have been within management's expectations. The Company minimizes its credit risk relating to cash and investments by focusing on diversification and quality of instruments. Cash balances are maintained in major, highly-capitalized commercial banks. Cash equivalents and investments consist of a portfolio of high-grade instruments. Custody of cash equivalents and investments is maintained at several major financial institutions and the Company monitors the financial condition of those financial institutions. The Company minimizes its credit risk relating to the counterparties to its derivative instruments by transacting with multiple, high-quality counterparties, thereby limiting exposure to individual counterparties, and by monitoring the financial condition of those counterparties.

During 2005, one customer provided 12%, or $127.0 million, of consolidated revenues. During 2004, no customer provided more than 10% of consolidated revenues. Revenues from two customers exceeded 10% of consolidated revenues in 2003 and were $100.4 million, or 14% and $85.6 million, or 12% of consolidated revenues.

14. UNAUDITED QUARTERLY FINANCIAL DATA

A summary of unaudited quarterly consolidated income statement data for the years ended December 31, 2005 and 2004, is as follows (in millions, except per share amounts):

2005	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	FOURTH QUARTER	YEAR
Operating revenues	$210.6	$246.3	$275.1	$314.9	$1,046.9
Operating expenses					
Contract drilling	106.6	108.9	115.0	123.9	454.4
Depreciation and amortization	36.6	38.1	39.1	41.0	154.8
General and administrative	6.2	6.2	6.7	6.7	25.8
Operating income	61.2	93.1	114.3	143.3	411.9
Interest income	1.1	1.8	2.0	2.1	7.0
Interest expense, net	(7.8)	(8.0)	(6.5)	(6.5)	(28.8)
Other income (expense), net	3.8	(2.0)	(.2)	(.5)	1.1
Income from continuing operations before income taxes	58.3	84.9	109.6	138.4	391.2
Provision for income taxes	17.0	25.5	29.5	35.3	107.3
Income from continuing operations	41.3	59.4	80.1	103.1	283.9
Income (loss) from discontinued operations	.5	10.6	(3.6)	2.8	10.3
Net income	$ 41.8	$ 70.0	$ 76.5	$105.9	$ 294.2
Earnings (loss) per share – basic					
Continuing operations	$ .27	$ .39	$ .53	$ .68	$ 1.87
Discontinued operations	.01	.07	(.03)	.01	.07
	$ .28	$ .46	$ .50	$ .69	$ 1.94
Earnings (loss) per share – diluted					
Continuing operations	$ .27	$ .39	$ .52	$ .67	$ 1.86
Discontinued operations	.01	.07	(.02)	.02	.07
	$ .28	$ .46	$ .50	$ .69	$ 1.93

2004	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	FOURTH QUARTER	YEAR
Operating revenues	$178.1	$170.9	$187.0	$204.6	$740.6
Operating expenses					
Contract drilling	102.6	101.2	100.5	101.8	406.1
Depreciation and amortization	32.9	33.4	33.5	34.9	134.7
General and administrative	5.7	7.4	6.8	6.4	26.3
Operating income	36.9	28.9	46.2	61.5	173.5
Interest income	.8	.8	.9	1.2	3.7
Interest expense, net	(10.0)	(9.7)	(8.7)	(8.2)	(36.6)
Other income (expense), net	(.1)	1.0	(1.4)	(.2)	(.7)
Income from continuing operations before income taxes	27.6	21.0	37.0	54.3	139.9
Provision for income taxes	7.2	5.0	8.0	15.0	35.2
Income from continuing operations	20.4	16.0	29.0	39.3	104.7
Income (loss) from discontinued operations	.6	1.5	(3.2)	(.8)	(1.9)
Net income	$ 21.0	$ 17.5	$ 25.8	$ 38.5	$102.8
Earnings (loss) per share – basic					
Continuing operations	$ .14	$ .11	$ .19	$ .26	$ .70
Discontinued operations	.00	.01	(.02)	(.00)	(.02)
	$ .14	$ .12	$ .17	$ .26	$ .68
Earnings (loss) per share – diluted					
Continuing operations	$ .14	$ .11	$ .19	$ .26	$ .70
Discontinued operations	.00	.01	(.02)	(.00)	(.02)
	$ .14	$ .12	$ .17	$ .26	$ .68

STOCKHOLDER INFORMATION

QUARTERLY HIGH/LOW STOCK PRICE

2005	High	Low
First	**$ 41.42**	**$ 30.32**
Second	**$ 39.49**	**$ 29.25**
Third	**$ 47.85**	**$ 35.22**
Fourth	**$ 50.34**	**$ 39.42**
Year	**$ 50.34**	**$ 29.25**

2004	High	Low
First	$ 30.79	$ 26.35
Second	$ 29.16	$ 24.95
Third	$ 33.15	$ 26.95
Fourth	$ 34.15	$ 28.25
Year	$ 34.15	$ 24.95

The Company's Common Stock ("ESV") is traded on the New York Stock Exchange. At February 1, 2006, there were 1,143 stockholders of record of the Company's Common Stock.

EXECUTIVE OFFICES

ENSCO International Incorporated
500 North Akard Street, Suite 4300
Dallas, Texas 75201-3331
(214) 397-3000
http://www.enscous.com

INVESTOR RELATIONS DEPARTMENT

ENSCO International Incorporated
500 North Akard Street, Suite 4300
Dallas, Texas 75201-3331
(214) 397-3000

STOCK DIVIDENDS

The Company paid four quarterly cash dividends of $.025 per share during 2005.

INDEPENDENT ACCOUNTANTS

KPMG LLP
Dallas, Texas

TRANSFER AGENT

American Stock Transfer and Trust Company
59 Maiden Lane
Plaza Level
New York, New York 10038
(800) 937-5449
(718) 921-8124
www.amstock.com

ANNUAL MEETING

The Annual Meeting of Stockholders will be held at 10:00 a.m. C.D.T., May 9, 2006, at the Fairmont Hotel, 1717 N. Akard Street, Dallas, Texas 75201.

FORM 10-K AND ADDITIONAL INFORMATION

The Company's Annual Report on Form 10-K filed with the Securities Exchange Commission is available in the SEC Filings section of the Company's website and may be obtained without charge by contacting ENSCO's Investor Relations Department.

Analysts requesting additional information should contact ENSCO's Investor Relations Department. Stockholder communications concerning transfer requirements, lost certificates and changes of address should be directed to the Transfer Agent.

CORPORATE GOVERNANCE, BOARD AND BOARD COMMITTEES, WEBSITE DATA

The Corporate Governance section of the Company's website, www.enscous.com/ENSCO/governance.asp, contains information regarding (i) the composition of the Company's Board of Directors and Board Committees, (ii) Corporate Governance in general, (iii) Shareholder communications with the Board, (iv) the ENSCO Code of Business Conduct Policy, (v) the ENSCO Corporate Governance Policy, (vi) "whistleblower" reporting provisions, and (vii) the charters of the committees of the Company's Board of Directors. Copies of foregoing documents may be obtained without charge by contacting ENSCO's Investor Relations Department. The Company's website contains a direct link to the Company's SEC filings, including reports required under Section 16 of the Securities Exchange Act of 1934.

CEO AND CFO CERTIFICATIONS

The Annual CEO Certification pursuant to the New York Stock Exchange (NYSE) Listed Company Manual (Section 303A.12(a)) was filed with the NYSE on May 25, 2005. Additionally, certifications of the CEO and CFO pursuant to Rule 13a-14 or 15d-14 of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, were filed with the SEC as exhibits in the Company's 2005 Form 10-K. All of the aforementioned certifications were fully compliant and without qualification.

DIRECTORS AND OFFICERS

BOARD OF DIRECTORS

CARL F. THORNE
Chairman of the Board and Chief Executive Officer

DAVID M. CARMICHAEL (2)
Private Investor

GERALD W. HADDOCK (1)
Private Investor

THOMAS L. KELLY II (2)
General Partner,
CHB Capital Partners

MORTON H. MEYERSON (2)
Chairman and Chief Executive Officer,
2M Companies, Inc.

DANIEL W. RABUN (3)
President

RITA M. RODRIGUEZ (1)
Senior Fellow at Woodstock Theological Center
of Georgetown University

PAUL E. ROWSEY, III (1)
Managing Director
E2M Partners, LLC

JOEL V. STAFF (2)
Chairman and Chief Executive Officer,
Reliant Energy, Inc.

1. Audit Committee

2. Nominating, Governance and Compensation Committee

3. It is currently contemplated that Mr. Rabun will assume his office and directorship on or before March 31, 2006.

OFFICERS

CARL F. THORNE
Chairman of the Board and Chief Executive Officer

DANIEL W. RABUN (3)
President

WILLIAM S. CHADWICK, JR.
Executive Vice President – Chief Operating Officer

JAMES W. SWENT
Senior Vice President – Chief Financial Officer

PHILLIP J. SAILE
Senior Vice President – Business Development
and Safety, Health, Environment

PAUL MARS
President – ENSCO Offshore International Company

RICHARD A. LEBLANC
Vice President – Investor Relations

H.E. MALONE, JR.
Vice President – Finance

CHARLES A. MILLS
Vice President – Human Resources and Security

CARY A. MOOMJIAN, JR.
Vice President, General Counsel and Secretary

DAVID A. ARMOUR
Controller

RAMON YI
Treasurer

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