FINAL TRANSCRIPT

Thomson StreetEvents℠

ESV - Q1 2010 Ensco plc Earnings Conference Call

Event Date/Time: Apr. 22. 2010 / 3:00PM GMT

THOMSON REUTERS

CORPORATE PARTICIPANTS

Sean O'Neill
Ensco - VP-IR

Dan Rabun
Ensco - Chairman, President & CEO

Jay Swent
Ensco - CFO & SVP

Carey Lowe
Ensco - SVP

Mark Burns
Ensco - SVP

William Chadwick
Ensco - COO & EVP

CONFERENCE CALL PARTICIPANTS

Jud Bailey
Jefferies & Company - Analyst

Pierre Conner
Capital One Southcoast - Analyst

Mike Urban
Deutsche Bank - Analyst

Dan Boyd
Goldman Sachs - Analyst

Ian MacPherson
Simmons & Company - Analyst

Robin Shoemaker
Citigroup - Analyst

Roger Read
Natixis Securities - Analyst

Geoff Kieburtz
Weeden & Company - Analyst

Scott Gruber
Bernstsein - Analyst

Joe Hill
Tudor, Pickering, Holt & Company - Analyst

Alan Laws
BMO Capital Markets - Analyst

Atle Hauge
Carnegie - Analyst

Matt Beeby
Morgan Keegan - Analyst

PRESENTATION

Operator

Good day, everyone, and welcome to Ensco plc's first quarter earnings for 2010 conference call. (Operator Instructions).

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

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

Good morning, and welcome to Ensco's first quarter 2010 conference call. With me today are Dan Rabun, CEO; Bill Chadwick, our Chief Operating Officer; Jay Swent, Chief Financial Officer; as well as other members of our executive management team. We issued our earnings release, which is available on our new website, enscoplc.com. Later today, we plan to file our SEC Form 10-Q. As usual, we will keep our call to one hour. Any comments we make about expectations are forward-looking statements and are subject to risks and uncertainties. Many factors could cause actual results to differ materially.

Please refer to our earnings release and SEC filings on our website that define forward-looking statements and list risk factors and other events that could impact future results. Also please note that the Company undertakes no duty to update forward-looking statements. As a reminder, our monthly rig status report was last issued on April 15th. Now let me turn the call over to Dan Rabun, Chairman and CEO.

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

Thanks, John, and good morning, everyone. Let me start by saying that our thoughts and prayers are with the employees and families of Transocean and BP, especially the crew members of the Deepwater Horizon. Offshore drillers are a tight-knit community, and many of our employees have friends at Transocean and BP. They will be kept in our prayers.

Before Jay takes us through the financial results, I would like to start by providing some color on first quarter highlights, the state of our markets, and our current outlook. Before I begin, though, I would like to mention that our redomestication to the UK went very smoothly. Our senior executives have relocated to London, and we're setting into our new corporate headquarters, and we are on schedule in restructuring our operations to maximize the benefits of the move.

I would like to note that we have not experienced any financial impact from the recent interruptions caused by the volcano in Iceland. We have had some minor difficulty in the North Sea with crew changes and logistical support, but to date it has not affected the safe operation of our rigs.

Now let me turn to operations. I will start with our deepwater business. I am very pleased to report that we achieved a 99% utilization in the first quarter, including our latest newbuild semis. The first well drilled by Ensco 8501 was very challenging, even for a seasoned rig. A number of complex operations took place while drilling this well, and the rig had minimal downtime. Our customer is very pleased with the performance of the rig and the crew. We are starting to see the benefits of our strategy of building rigs with the same design and equipment, and then leveraging our experience as the rigs commence operations. On our last earnings call, we reported that fire damage on Ensco 8502 would delay the commencement of the rig. I am pleased to report that the repairs were completed sooner than expected, and the rig is scheduled to arrive in the US Gulf in mid-May and commence operations in August. We were able to expedite the necessary repairs and limit the delay by leveraging resources in the shipyard where we are constructing four additional rigs of the same design. The Keppel FELS shipyard made this repair a priority, and with Ensco's capital project team, completed the repairs ahead of schedule. The next rig in the series, Ensco 8503, remains on schedule for delivery in the shipyard in the fourth quarter within the contract delivery date. We expect significant growth in our deepwater business, based on contracts already in place.

Also, we continue to market the remaining uncommitted rigs for work beginning in late 2011 and 2012 when they are scheduled for delivery, as well as Ensco 7500 that will roll off its current contract in Australia later this year. Our deepwater fleet now represents nearly half of our total assets, and our remaining capital spending commitment for the $3 billion-plus newbuild program is now approximately $1 billion. Turning now to our jackup business, utilization improved again in the first quarter to 76%. Our strategy is to drive utilization, and our marketing teams are doing a good job of identifying and securing opportunities, and in many cases with new customers. Over the years, Ensco has a history of disposing of selected assets and reinvesting in newer, more technically capable assets. We are committed to continuous evaluation and high grading of our fleet. In the first quarter, we sold two of our jackups at attractive prices. We continue to evaluate opportunities to reinvest in new jackups.

Now let's discuss the markets. I will start with deepwater. There are upcoming opportunities in the short and medium-term time frame in West Africa, Brazil, Australia and the US Gulf of Mexico, as well as nontraditional but growing areas like Indonesia, China, Ghana, Sri Lanka and the Mediterranean. We are focusing our marketing efforts in these and other areas for Ensco 7500 that will be available later this year. The market is experiencing some gaps in the commencement of new long-term drilling programs in 2010, resulting from drilling plans being suspended or canceled in 2008 during the global financial crisis as commodity prices fell. As oil prices have risen and stabilized, we have seen customers gain confidence in the long-term fundamentals, and there is an increase in plans for deepwater bidding activity across several regions. We anticipate that demand for deepwater rigs will increase over the next several years as new drilling programs emerge and development drilling begins on many of the recent deepwater discoveries. We believe these opportunities will fit the delivery of our uncommitted semis that will be available late next year and in 2012.

In the jackup market, challenges continued during the quarter in terms of declining average day rates, as expiring long-term contracts signed at the peak of the market are renewed at lower market rates. We expect the rate of decline in average day rates to ease significantly, though, since many of our longer-term contracts have rolled over to prevailing market rates. Also, with oil prices at higher levels, market day rates appear to be stabilizing as operators become more confident, especially for heavy duty or high-specification jackups in Asia, Middle East, and the North Sea. In the US Gulf of Mexico, we are even seeing rates increase. While new rigs are coming into the market, some contractors have cold stacked a large number of jackups, which has help to limit available supply. In addition, we anticipate the national oil companies and major operators will begin to lock in rigs for longer periods to take advantage of the current pricing environment, which will help to absorb supply and support day rates.

Turning to specific markets, the Middle East, India, and Southeast Asia-Pacific Rim remain very competitive jackup markets. Saudi Aramco has issued tenders for two gas rigs and two workover rigs. We expect additional tenders from them and other customers for requirements in late 2010 and early 2011. In India, activity is stable, with some opportunities for upside in the future. ONGC is still in the process of negotiating rates following tenders for seven jackups against incumbents. In Southeast Asia, the high-paced tendering activity we experienced at the end of last year has subsided. The majority of open tenders were awarded; and in Indonesia alone, seven of the nine tenders were awarded, and the other two are in the state of retendering.

Turning now to the North Sea, demand in the southern region remains low, as current drilling economics are fragile, with the UK gas prices at low levels. With more stable oil prices, operators drilling for oil are proceeding with their plans, and we see a number of new inquiries surface for work starting late this year and beyond. 2010 will remain a challenging year for standard-duty rigs in the North Sea and Mediterranean. Available programs in the southern North Sea will be very competitive, and gaps in work are anticipated. However, demand for heavy-duty rigs is strong, and we expect full utilization of our larger heavy-duty units in the second half of year, and most of them are already contracted.

In the US Gulf of Mexico, utilization has improved substantially. The utilization rate for premium jackups is 90%, and we are starting to see term and day-rate increases. Several quarters ago, we were asked which market might be the first to see a recovery. While it had the lowest utilization of any region at the time, we said the US Gulf of Mexico, because so many premium jackups had left the market, and because it is typically the first market to recover. At this time, we believe that at least four of our rigs in the US Gulf will work continuously through peak hurricane season, and we continue to review potential drilling locations for the other two marketed rigs. We continue to develop more sophisticated methodology to assess locations for suitability during hurricane season using improved soil and weather analysis. This, together with improved sequencing of weather-sensitive locations with our customers, is improving utilization while effectively addressing our customers' requirements. In Mexico, four of our five rigs are contracted into 2012. The fifth, Ensco 81, will complete the primary term of its contract in June of this year.

We are optimistic regarding a term extension for this contract, and there is interest in the rig elsewhere, both in South America and the US Gulf of Mexico. As we reported on our fleet status report, Ensco 68 has completed its contract in Venezuela and will demobilize to the US Gulf. We are in discussions for a potential drilling program that would put the rig to work immediately upon arrival for the duration of the year. This rig is also bid on work commencing later in 2010 in South America. Now I will turn it over to Jay.

Jay Swent - *Ensco - CFO & SVP*

Thanks, Dan. My comments today will cover details of first quarter results, our outlook for second quarter and full-year 2010, and a review of our financial position. Before I begin, let me remind everybody that the two jackup rigs we sold in the first quarter have been reclassified as discontinued operations. So all of my comments today regarding continuing operations for current and prior periods as well as future periods excludes these two rigs, and Ensco 69 that was previously reclassified.

Now I will discuss our results. First quarter earnings per share were $1.33 versus $1.56 last year.

Earnings from continuing operations were $1.11 per diluted share, compared to $1.59 a year ago. We earned $0.22 per share from discontinued operations, with $0.20 related to the sale of the two jackups, and $0.02 related to payments received in connection with Ensco 69. Total revenue for the first quarter was $449 million, a 10% decline from last year. Jackup segment revenues decreased by approximately 36% to $319 million. Average jackup day rates were down $55,000 year to year to $113,000, as shown in our earnings release, and jackup utilization in the first quarter was 76%, down from 82% a year ago. This decline was partially offset by deepwater revenues increasing to $130 million from zero a year ago. About one-half of this amount is attributable to Ensco 8500 and Ensco 8501, which commenced operations in mid and late 2009, respectively, and the balance came from Ensco 7500 operations in Australia.

Ensco 7500 reported no revenues in first quarter 2009 because the rig was mobilizing to Australia. We reduced contract drilling expense for all jackup segments by approximately 9% versus a year ago, mainly by proactively reducing personnel and other operating costs on our idle rigs. We also continued to negotiate cost reductions from vendors and service providers. Offsetting this, deepwater segment contract drilling expense increased $40 million, due in part to adding Ensco 8500 and 8501 to the active fleet. Also in first quarter of 2009, we deferred the majority of Ensco 7500 expenses while the rig was mobilizing to Australia. Overall, this nets to a 17% year-over-year increase in total contract drilling expense. Now let's discuss quarterly trends by comparing first quarter 2010 sequentially to fourth quarter 2009. First quarter revenue decreased 9% to $449 million. This decrease is attributable to a 13% decrease in jackup segment revenues, driven by an $18,000 decline in average day rates, offset in part by a 3 percentage point increase in utilization.

The jackup revenue decrease was partially offset by deepwater revenues which increased $7 million, mainly due to the addition of Ensco 8501 to the fleet during October 2009, and a significant improvement in utilization to 99%, versus 91% in the fourth quarter. Total contract drilling expense was down 6% sequentially from fourth quarter, adjusted for the reclassification. This breaks down as follows. Jackup expense declined 7%, mostly due to higher shipyard costs in the fourth quarter 2009. In addition, certain repair and maintenance projects originally planned for the first quarter now are scheduled for second quarter. Deepwater segment contract drilling expense was essentially unchanged quarter-to-quarter. Looking at other expenses, depreciation was flat at $54 million adjusted for the reclassification, and G&A expense declined 8% from the fourth quarter, which included higher legal and professional fees associated with our redomestication. Cash at the end of the first quarter was $1.2 billion.

Now let's discuss our outlook for the full year and second quarter 2010. Our full-year outlook is essentially unchanged from our prior guidance. Deepwater revenues are estimated to be up slightly from our prior outlook of $525 million. Ensco 8502 is scheduled to commence operations sooner than we anticipated last quarter, and we have reduced our downtime assumptions since the last earnings call. Our jackup revenue outlook is essentially flat versus our prior internal estimate, as we believe the revenue loss associated with the sale of Ensco 50 and 51 will be replaced by improvements in Gulf of Mexico and the Asia-Pacific region. The total contract drilling expense outlook is also essentially unchanged from prior guidance. The benefit from the sale of the two rigs, we expect, will be partially offset by increased utilization across the fleet. As stated last quarter, we anticipate a significant increase in deepwater segment operating days, so deepwater contract drilling expense is forecasted to increase approximately 85% versus last year.

We expect this to be partially offset by a decline in contract drilling expense for the jackup fleet to approximately $560 million. Depreciation is projected to increase to about $225 million with the addition of our new ultra-deepwater rigs. G&A expense is anticipated to be approximately $77 million, a slight increase from prior guidance. The projected increase versus last year is due to costs related to our new London headquarters and higher share-based compensation. Our effective tax rate is projected to be 16% to 17% for the full year, with the reduction from last year being driven in part by the restructuring of our operations related to our redomestication to the UK. 2010 capital spending, which of course is always subject to change throughout the year, is forecasted to decline by about $95 million to approximately $765 million in 2010. The anticipated breakdown is as follows. $635 million is committed to our 8500 series rigs; $30 million is for rig enhancement projects; and $100 million is for sustaining projects.

Now let's discuss the second quarter outlook. We indicated on our last earnings conference call that we expected the second quarter would be difficult, and that is still the case, with revenues expected to decrease by about 11% from first quarter levels as utilization and day rates decline. Deepwater segment revenues will be somewhat lower due to 14 days that we spent this month to complete Ensco 8501 equipment upgrades, and ten days for Ensco 7500 scheduled repairs, as noted in our most recent fleet status report. Total jackup segment utilization for the full year is projected to be in the mid-70% range, but lower in the second quarter and third quarter, and then higher in the fourth quarter. We expect 12 days of planned downtime for Ensco 76, and 30 days for Ensco 105 during the second quarter, and some of our North Sea jackup rigs that are available near-term are already fully contracted later in the year. We expect the average day rate that we will report for our jackup fleet in the second quarter will decline further as expiring contracts are adjusting to prevailing market rates.

Moving to expenses, we anticipate second quarter 2010 contract drilling expense will increase by approximately 8%, mostly due to a $6 million increase in maintenance cost, a $3 million increase in mobilization expense, and $3 million associated with asset disposals. The maintenance cost increase is related to timing of maintenance projects that were rescheduled from first quarter to the second quarter. Depreciation expense should increase slightly to about $55 million, and we anticipate G&A expense will be approximately $20 million in the second quarter.

In summary, I would like to emphasize that our deepwater fleet achieved very high utilization in the first quarter, and we expect deepwater segment revenues to more than double in 2010. Jackup utilization improved again in the first quarter; and while there will be pressure in the near-term, we anticipate that utilization will improve toward the end of the year. Our tax rate has improved as planned, and our balance sheet has never been stronger. Now I will hand the call back.

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

Our management team has spent a great deal of time discussing with our shareholders the potential and alternatives for returns of capital. As I have mentioned on several occasions, there is a great diversity of views among our shareholders on this issue. Clearly, our shareholders prefer us to continue to reinvest in our business when we can achieve good returns. Given the strength of our capital position, including $1.2 billion of cash, a 4% leverage ratio -- the lowest in our peer group -- our backlog, a $350 million credit facility that is fully available, and our positive cash flow outlook relative to our remaining capital commitments for our ultra-deepwater newbuild program, Ensco's Board of Directors has approved a large increase in the quarterly dividend from $0.025 to $0.35 or $1.40 per share on an annual basis.

Management and the Board believe that this dividend level is prudent and sustainable on an ongoing basis, given our track record and our financial outlook. It also gives us adequate flexibility to make additional investments in our fleet, make additional distributions, and/or buy back shares under our remaining $560 million authorization. Finally, we will continue to assess economic, energy and credit market conditions, as well as investment opportunities in our financial outlook to evaluate whether further sustainable increases to our quarterly dividend or other returns of capital may be appropriate as a part of our overall capital management plan. Now, I will turn the call over to Sean.

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

Okay. Operator, if you could open it up for questions, please.

QUESTIONS AND ANSWERS

Operator

(Operator instructions). The first question comes from Jud Bailey with Jefferies and Company.

Jud Bailey - *Jefferies & Company - Analyst*

Thanks. Congratulations on a good quarter. Two questions. First, on the 7500, Jay, I may have missed, but when that rig is off of its contract in Australia, can you walk us through -- do you plan on mobilizing it back to the Gulf, or does it depend on where the next job is? And how do you treat the demob -- sorry, from an accounting standpoint?

Jay Swent - *Ensco - CFO & SVP*

On the -- let me start with the last part of your question. On the demob, we would take whatever that amount is in as revenue, because we would be completing the contract, and it would be paid by the existing customer, not by the new customer. And in terms of what is in the outlook, we're projecting that rig is going to work somewhere through the year, and -- when it comes off of contract.

Jud Bailey - *Jefferies & Company - Analyst*

Okay. So you wouldn't anticipate any downtime between the current job with Chevron and its next opportunity?

Jay Swent - *Ensco - CFO & SVP*

No, I mean, I think we're looking at a number of options in the region, as well as coming back to the Gulf of Mexico, and there is nothing firm at this point, but I think it's reasonable to expect that one way or the other the rig is reporting revenue for the balance of the year.

Jud Bailey - *Jefferies & Company - Analyst*

Okay. That's helpful. And then you sold a couple of your shorter -- your 300-foot jackups, and you are looking to opportunistically renew your fleet. Can you just walk us through how you think about that? And we know you have expanded on the deepwater side, but maybe on the jackup side, are you more leaning towards trying to buy something that's in the market at a cheaper price, or would you consider building one or two assets with Keppel?

Jay Swent - *Ensco - CFO & SVP*

Well, I think our real strong preference would be to buy rigs that are in the market as opposed to be adding to the rig fleet, and we're continuing to look at those kind of opportunities going forward. I think in terms of the way we're looking at the rig sale, those opportunities come along from time to time, and I think you have to assess each one that comes along. I think the way we look at it is if we have an opportunity to sell an older rig and it's going to be going into a region where we're not going to find it competing with us in the near-term and where quite frankly we might not be able to find work competitively ourselves, I think we'll be at that point happy to -- we'll be happy to buy those rigs -- or to sell rigs in that situation.

Jud Bailey - *Jefferies & Company - Analyst*

Okay. And my last question is regarding India. Dan, I believe you said there is some opportunity for some upside there later in the year. Could you maybe expand on that a little bit, please?

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

Excuse me, Judd, you said India?

Jud Bailey - *Jefferies & Company - Analyst*

I believe you said, India, yes.

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

I think we were talking about the existing ONGC tenders that are out there. There are seven of them that are out there right now.

Jud Bailey - *Jefferies & Company - Analyst*

Okay, I'm sorry. Did you -- okay, so you didn't say there was something beyond that could be incremental? I may have misunderstood that.

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

There could be additional opportunities, yes.

Jud Bailey - *Jefferies & Company - Analyst*

Okay. All right. That's all I have got. Thanks.

Operator

We'll take our next question from Pierre Conner with Capital One Southcoast.

Pierre Conner - *Capital One Southcoast - Analyst*

Good afternoon, gentlemen.

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

Hey, Pierre.

Pierre Conner - *Capital One Southcoast - Analyst*

Hey. Dan, just a clarification. Subtly I think when you are speaking about your expectations on the rates and the jackups in particular, you mentioned, I think, expected declining, and I wanted to clarify your comment was around your average rates as we're rolling off of peak, and just wanted to see if you could expand a bit on where you see the spot markets maybe in a couple of -- two or three different regions, too?

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

Yes, you are right, Pierre, and that's clearly -- I've got that in my prepared remarks. That's exactly right. We have contracts that were signed at the peak of the market that are rolling, so it's just, that is driving the down. If you look at each individual market, Pierre -- you take the US Gulf of Mexico, what we're seeing right now. We're actually seeing a little pricing improvement in the US Gulf of Mexico, and I think we have pretty consistently said that the first market that usually turns in the cycle is the US Gulf of Mexico, and the other markets kind of fall along behind it. So we are seeing some pricing improvement in the US Gulf of Mexico. That's due to the result -- we have 90% utilization right now in the premium jackups.

So we are seeing some improvement there. I'd say on Asia-Pacific, we -- the -- that market has been pretty good for us, and I would describe it as the prices are stable for the high spec rigs; there's a real good market out there. The Middle East is a little more tricky. There's not a lot of new fixtures out there. I wouldn't say there's any pricing improvement there. The North Sea, I think you're still seeing -- I think we're kind of at the bottom of the cycle from what I can tell. Maybe the prices will bounce around a little bit more until utilization picks back up. But in the heavy duty market, we see some pretty nice rates.

Pierre Conner - *Capital One Southcoast - Analyst*

Right.

Jay Swent - *Ensco - CFO & SVP*

So I think, Pierre, as we think about the outlook for the year, hopefully the second quarter is the last time we see a decline in jackup revenue. As we've said before, it was always going to be a difficult market in terms of utilization, particularly in the Asia-Pacific and the Europe markets. And we see those improving in terms of utilization for sure going forward, and I think the feeding through of old contracts is just about half completed now, so I don't think we'll see any further reduction in our overall reported day rate.

Pierre Conner - *Capital One Southcoast - Analyst*

In the averages. Great. Thanks. On -- actually this is for Jay. This -- lots of things happening with the Company's dual listing these days. Do you have any opportunities as such? And what is your thought on those opportunities, if you have some, for additional listings?

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

Hey, Pierre, it's Dan. Let me take that one. Yes, we've looked at it, drew a listing here on the London Stock Exchange and some other alternatives. Candidly, right at the moment, that's -- we have had a lot on our plate just getting moved over here. So we will be evaluating it. Nothing -- I wouldn't describe it as imminent.

Pierre Conner - *Capital One Southcoast - Analyst*

Okay, all right. Well, very good. Congrats on the dividend rates, look forward to seeing you guys soon. Thank you.

Jay Swent - *Ensco - CFO & SVP*

Thanks, Pierre.

Operator

We'll take our next question from Mike Urban with Deutsche Bank.

Mike Urban - *Deutsche Bank - Analyst*

Thanks, good morning. You talked about the Gulf of Mexico being a nice surprise for you, and for years that has been a source of supply into the international markets. With so many premium rates having left that market, and there certainly seems to be some scarcity developing, can that actually be a source of demand for either you or some of the newbuilds, or some of the other competitors in the industry going forward, especially as the premium rigs are now going to be drilling some more deep gas prospects?

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

Yes, there's -- for new rigs to come into the marketplace, other than the ones that are in this hemisphere, I'm not sure that that market is particularly attractive, just because of the long mob over here, and still the contracts tend to be a little bit short-term in nature. But I think it is going to be a market that's going to be supplied by the current supply of rigs. So as demand picks up, you see things change real quickly. And as we have started the call, I noticed I got an email that we have signed some contracts on some other rigs in the Gulf of Mexico. Maybe Bill wants to give a little color on that?

William Chadwick - *Ensco - COO & EVP*

Just since the rig status report was issued earlier in the month, we now have firm contracts terms for three of the jackups for the rest of this year, including 68, which is mobilizing back from the Chevron, Repsol work in Venezuela. There's -- another four rigs in the US Gulf, two of which we believe very strongly will be working continuously for the rest of the year. But we don't have contractually committed terms. We have work programs and approved locations that should easily take us through the rest of the year. That leaves two others that we continue to evaluate locations, and I'm optimistic that we'll keep them all working for the rest of the year. But it's rather unusual in the Gulf, where you actually have firm contractually committed term on three, and a good solid programs for another two for the rest of the calendar year.

Mike Urban - *Deutsche Bank - Analyst*

You would see the high end of the Gulf of Mexico market more as relatively fixed supply? It sounds like demand is rising, so hopefully you get a little bit of pricing and term out of it, which seems to be what's happening.

Jay Swent - *Ensco - CFO & SVP*

Yes, I think the other thing, Mike, to keep in mind is wind storm insurance is still really not available during hurricane season.

Mike Urban - *Deutsche Bank - Analyst*

Yes.

Jay Swent - *Ensco - CFO & SVP*

And so for the folks with newbuilds that are banked financed, it's going to be very difficult for them to mob into the region; and as Dan said, for a lot of people there's not going to be long-term contracts in that market, so it's pretty hard for somebody to make a decision to mob into the US, I think.

Mike Urban - *Deutsche Bank - Analyst*

Okay. That's all for me. Thanks a lot.

Operator

We'll take our next question from Dan Boyd with Goldman Sachs.

Dan Boyd - *Goldman Sachs - Analyst*

Hi, good morning. Great to see the dividend increase. Dan, is the plan here to not build cash going forward, given the -- all of the cash you currently have on the balance sheet, given where we are in the cycle? And would we expect any additional return to shareholders to come through the buybacks I think as you somewhat, maybe, imply in the press release?

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

Dan, you know, this is -- Ensco is real proud of its balance sheet, and we have given an awful lot of thought to what we're going to do with it, and how we're going to use it, so I can't -- I really can't make a prediction about what it is that we're going to be doing, but we look at it at every Board meeting, and talk about it. And what we want to do to start the returning capital to the shareholders, and then add a meaningful new dividend. But we also want to retain the flexibility that we think is very important to us to make additional investments in the fleet through asset or corporate transactions, and then we also can make additional distributions of capital if we deem appropriate, and we also have the alternative of buying back shares. We still have $560 million authorization remaining.

Dan Boyd - *Goldman Sachs - Analyst*

Absolutely. And then just on the guidance, it is somewhat implied here, but there was the step down in earnings in 2Q. As costs were going up, revenue was coming down. But as we looked at the back half of the year, we should see revenue step up nicely with pretty flattish costs. Is that correct?

Jay Swent - *Ensco - CFO & SVP*

What we said on guidance, Dan, is that for the full year, really, think of it as being unchanged from whatever you had in your prior model, and obviously keep in mind that we sold two rigs, and all of the cost and all of the revenue for those two rigs come out for the year. So we've more than -- so we have offset the impact of that, and we're still holding even at our outlook.

Dan Boyd - *Goldman Sachs - Analyst*

Yes.

Jay Swent - *Ensco - CFO & SVP*

I think if you have -- whatever modeling you previously had is probably still accurate even though we sold two rigs.

Dan Boyd - *Goldman Sachs - Analyst*

Oh, great. Thanks, turn it back over.

Operator

And Ian MacPherson with Simmons & Company has our next question.

Ian MacPherson - *Simmons & Company - Analyst*

Hi, good afternoon, congratulations again on the quarter and the dividend. I wanted to ask you about the sale price for the two jackups, the 50 and 51, and to the extent that you may continue to opportunistically prune the older end of your jackup fleet. Were there any characteristics of those rigs that might have made them more or less viable than your typical 250 or 300 IC jackup of those -- of that particular vintage?

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

Bill, you want to take that one?

William Chadwick - *Ensco - COO & EVP*

Ian, no, I don't think there were any particular characteristics of those rigs individually. The old 780s are a good versatile rig, but not one of the more capable designs we have in the fleet. So there appears to be an opportunity here to sell those rigs in a situation where we will not compete head-to-head with them any time in the foreseeable future, and to realize what would look to us to be pretty good cash value for them, so we took that opportunity.

Ian MacPherson - *Simmons & Company - Analyst*

Okay. Unrelated question. How do you think about the sustainability of the improvement in the Gulf of Mexico? I mean, relative to what is happening with gas prices and the structural challenges that the shale presents, et cetera? Do you have any visibility into what your customer's threshold economics are, and what those may allow for with regard to further pricing power for high-end jackups?

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

Bill?

William Chadwick - *Ensco - COO & EVP*

What we see -- there's a certain amount of production that is going to be sustained from the Gulf of Mexico. There is a lot of investment in infrastructure, gathering systems and so forth. And I think to the extent that the customer base can maintain production to feed that infrastructure at a reasonable cost, that's what we see that they are continuing to do. Just in terms of what sort of upside pricing structure on day rates that might support, I really couldn't say. It's a long-term proposition. It's not a day-to-day situation, And with the very limited supply in the Gulf of Mexico, we have seen some upward movement this year, and I don't believe there's any reason to think that that has maxed out yet.

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

Yes, I think two points to add to Bill's question. One is the -- that our ability to use these rigs during hurricane season has gotten a little bit better in terms of planning, and so -- we're seeing a little bit of an increase in utilization as a result of that, and the other points that Bill raised as well.

Ian MacPherson - *Simmons & Company - Analyst*

Okay. Great. That's all I have. Thank you very much.

Operator

Our next question will come from Robin Shoemaker with Citi.

Robin Shoemaker - *Citigroup - Analyst*

Thank you. Yes, Dan, I think in your earlier comments, you mentioned that the deepwater market there, that some operators may be looking now to lock in longer-term contracts, given the recent decline in deepwater rig rates. So if you were to look at your three available rigs that you are marketing, are you -- are your discussions typically multi-year in nature? And are -- or do you think that there's a chance the deepwater market contract links may get quite a bit shorter with the supply available that's in the same late 2011, '12 time frame, when your rigs become available?

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

Yes, let me break that into two parts Robin. First of all the comment was related to the jackups, not of the deepwater rigs, and typically what we see when prices get attractive and the operators see prices moving the other direction upward, they start locking in for longer terms. So I think if you notice some of our recent status reports, you'll see a trend towards some longer-term contracts. So that's what that comment was directed toward. As it relates to ultra-deepwater market rates, I'll let Carey Lowe, who handles that part of the business, respond.

Carey Lowe - *Ensco - SVP*

Yes, we see the same softness in the market in 2010 and possibly into 2011 that a lot of people have talked about, and as Dan mentioned we are seeing some short to medium-term work in that near-term. period. But with the oil price stabilizing and a number of these programs and developments are two or three-year type lead time projects, we believe that by the end of the second half of 2011 when our first rig is available, we'll see a pickup in activity and we'll be able to take advantage of that. I would like to point out, though, if rates do come under pressure, our low build cost will allow us to achieve higher returns in a number of these very expensive, high-cost builds that our competitors have.

Robin Shoemaker - *Citigroup - Analyst*

Okay. Then just a follow-up on the Gulf of Mexico, the -- you have got a couple of rigs working for Apache, and they clearly have been quite aggressive lately in acquiring Gulf of Mexico shelf properties. In terms of the kind of plays -- are we looking at the Gulf of Mexico rebound such as it is, driven by exploration or development, or is it just kind of the usual mix of activities?

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

Bill, you want to take that?

William Chadwick - *Ensco - COO & EVP*

I think right now it's driven by development on the shelf. The deepwater, of course, is a different story. But what we see right now is the activity -- jackup activity in the Gulf of Mexico is development-drilling related.

Robin Shoemaker - *Citigroup - Analyst*

Okay. I did notice that Apache in some of its comments about the acquisition of shelf properties did highlight exploratory potential, so are you seeing that market -- or any rig requirements that relate to that?

William Chadwick - *Ensco - COO & EVP*

We're not seeing that yet. Obviously, we hope it's in the pipeline, but that's not what we're engaged on right now.

Robin Shoemaker - *Citigroup - Analyst*

Okay. Thank you.

Operator

We'll take our next question from Roger Reed with Natixis.

THOMSON REUTERS

Roger Read - *Natixis Securities - Analyst*

Yes, good morning.

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

Good morning.

Roger Read - *Natixis Securities - Analyst*

Quick question for you -- I mean, it's obvious things are looking a little better in the deepwater side. As you look at the improvements in the jackup market, how much of it at this point -- or the expectations of improvement in the jackup market, maybe I should say, globally -- how much of it is due to rigs that have been put on the beach temporarily versus how much of it would you say at this point is due to really and truly operators looking at more and more projects, whichever region you want to talk about in particular?

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

We'll let Mark Burns take that one.

Mark Burns - *Ensco - SVP*

Yes, Roger, I guess you have to take, look at each region independently. I think a couple of dynamics. Obviously, the economic situation -- the global economic situation. In the last two years, operators have been very uncertain and didn't have a lot of confidence in the market, so plans have been shelved. We're starting to see now with -- certainly with the oil price more stable, we are starting to see some operators start to announce plans in the jackup area. And for the North Sea, of course, we'll see some improvement in the summer just due to the weather. And so if you walk around other markets, I think there's -- it's combination of factors. But some of these rigs have been idle, plans have been shelved, and now we're starting to see a pickup in the market in some areas.

Roger Read - *Natixis Securities - Analyst*

Other than the North Sea on a seasonal basis, the small improvements we've seen in the Gulf of Mexico, what market would you sort of put up as surprising you in maybe the level of interest out of your customers over the last, let's say, three quarters or so -- or three months or so?

Mark Burns - *Ensco - SVP*

I think, Roger, the one that we have been most pleased with has been the activity we've seen in Southeast Asia. As Dan mentioned, tender activity in Southeast Asia in the first quarter, primarily Indonesia, was quite strong. There were a total of nine tenders out in the last two quarters, so we have seen some good activity there. We are also starting to see some potential activity in Malaysia and Vietnam later in the year. So I think if any market, other than this US Gulf of Mexico, has surprised us on the upside, I would have to say Southeast Asia.

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

And I would add, the typical cycle has been over the years historically, Gulf of Mexico, Asia, North Sea, and the reverse direction on the downside as well. So we don't see anything different than what has happened in prior cycles, but I think we -- not 100% certain of that.

Roger Read - *Natixis Securities - Analyst*

The more it changes, the more it stays the same.

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

Yes.

Roger Read - *Natixis Securities - Analyst*

Final -- I know you have gotten out of -- you got out of West Africa a couple of years ago. That's one of the areas we've been seeing some pickup. I'm not asking you necessarily to comment on the contracts there. Is that a region you would be willing to go back into? Or you would prefer to just leave it to the others at this time?

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

No, we always review all markets, but when we go into a new market, we want to go into a market where we can get some synergy of cost with multiple rig type of locations, and we just really haven't seen an opportunity to establish a base in West Africa -- that's on the jackup side. But we do evaluate opportunities. Where we are looking at is -- on the deepwater side -- as everyone knows, West Africa is quite a robust market for deepwater activity, and there have been several fixtures or opportunities this year -- tenders -- and we expect that there will be more, and those opportunities are perfectly suited for the ENSCO 8500 series rigs, so we are very closely in touch touch with that marketplace, and been very active in tender activity there.

Roger Read - *Natixis Securities - Analyst*

All right. Thank you.

Operator

And Geoff Kieburtz with Weeden and Company has our next question.

Geoff Kieburtz - *Weeden & Company - Analyst*

Thanks very much. Actually if I could just pick up on that last comment, if you were to establish a presence in West Africa with a floater, would that change your thought process in regards to establishing a jackup presence, or what the scale of the jackup presence might be required?

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

Absolutely.

Geoff Kieburtz - *Weeden & Company - Analyst*

Okay. I wanted to go back, Dan, to your comment regarding -- prepared comments -- about the dividend. You mentioned the possibility of additional distributions. I assume you were talking about either special dividend or share repurchase when you made that comment. Can you give us any sense of how those might stack up in a -- if we think about additions to the regular dividend, special dividend, and buyback?

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

Well, what I said is we wanted to keep our balance sheet so that we had flexibility to consider that, so I think that was the context in which I made the statement. And the answer is -- there's a huge diversity of view on this subject amongst our shareholders and our Board -- and we look at all three of those alternatives, and for now we decided to do what we're doing. We'll continue to evaluate that and make a decision at that time.

Geoff Kieburtz - *Weeden & Company - Analyst*

Okay. And if I could, one last question on Brazil, I think you have said before that the 8500 series rigs are pretty well suited for the operating environment in Brazil; is that correct?

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

Yes, I mean -- the 8500 series is perfect for Brazil, Gulf of Mexico, and West Africa and Asia.

Geoff Kieburtz - *Weeden & Company - Analyst*

Is -- does that -- well, I guess in light of that, how are you thinking about the the current tendering process for newbuilds that would require local content, i.e., being built in Brazil?

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

Well, let me turn that one over to Carey, because he's the one that's been handling that.

Carey Lowe - *Ensco - SVP*

Yes, we're very carefully studying that tender process. It's interesting, because it's a large number of rigs with the biggest operator of deepwater rigs in the world. But we're just carefully considering our participation in that tender.

Geoff Kieburtz - *Weeden & Company - Analyst*

Okay. Do you expect that that -- that those tenders are still going to stay on the current schedule, or do you think that that is going to slip again?

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

We have got no indication that that is changing.

Geoff Kieburtz - *Weeden & Company - Analyst*

Okay. All right. Great. Thank you very much.

Operator

We'll take our next question from Scott Gruber with Bernstein.

Scott Gruber - *Bernstsein - Analyst*

Yes, good afternoon, gentlemen. In the press release following the sale of the Ensco 50 and 51, you highlighted the potential to acquire premium jackups. Are you sensing a clear preference for premium jackups from operators in Southeast Asia and the Middle East, where those two rigs were operating?

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

Bill, you want to take that?

William Chadwick - *Ensco - COO & EVP*

Yes, I think clearly we do. Operators are looking at more demanding drilling prospects, and I think the beauty of the high spec rig is that it can do everything the lower spec rig can do and a whole lot more, so it's our judgment that we will see the higher-spec jackups becoming more and more the preferred tool for more and more customers in Southeast Asia and other areas as well.

Scott Gruber - *Bernstsein - Analyst*

Okay. That makes sense. And a large number of the new jackups still in the construction queue will be owned by Asian drillers. Are their fleet expansions changing the negotiations in the region? Do you have to increasingly offer premium rigs and premium service qualities to compete?

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

The answer to that question is no. Most of the rigs that are owned by the Chinese drilling contractors have gone to China, but the ones that are competing in the markets where we compete, we have not seen any of that. They seem to have pretty good price discipline and seem to run a fairly good operation.

Scott Gruber - *Bernstsein - Analyst*

Yes. I mean, there are a fair number of rigs being built by Indian drilling companies, the Egyptian drilling companies? You're not seeing a material impact in those markets?

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

I think we have talked about this on a couple of the calls, and we went through this exercise again this week. If you take the schedule of newbuild jackups and you study it very, very carefully and you see who is building the rigs -- and first of all you question what is actually being built and delivered, that's one cut. And then you take a look at where the rigs are going to be utilized in what markets, and there's an awful lot of these rigs going to very specialized markets. It's surprising -- and it's always surprising to me when I do this analysis -- how few rigs there are coming into the markets in which we compete. So we do not expect a material impact of newbuild jackups in the markets for next year which we operate.

Scott Gruber - *Bernstsein - Analyst*

Okay. Great. That's all I have.

Operator

We'll move back to Joe Hill with Tudor, Pickering, Holt, and Company.

Joe Hill - *Tudor, Pickering, Holt & Company - Analyst*

Good morning.

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

Hi.

Joe Hill - *Tudor, Pickering, Holt & Company - Analyst*

Gentlemen, I was just a bit curious about a couple of things. Given that you sold the 50 and the 51, I was just curious as to how deep the secondary market is for older equipment in the jackup space? And I understand that most of this stuff goes to accommodation usage, because obviously the sellers don't want to see it back out competing against them. How many more jackups do you think the market can absorb that way?

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

Bill, you want to take that?

William Chadwick - *Ensco - COO & EVP*

Yes, I think it's a question of specific opportunity. We -- the two jackups we sold, we sold into a specific opportunity that was created by a tender in India, and probably didn't exist apart from that tender. There are other specific opportunities for specific types of equipment that we look at, but I think -- in our view, the used rig market, if you want to realize optimum value, it's very much opportunity driven. It's not a market that exists all of the time. There are opportunities from time to time driven by specific requirements, and once those requirements are satisfied, there's very much less of a market until the next opportunity comes along.

Joe Hill - *Tudor, Pickering, Holt & Company - Analyst*

Okay. That's -- that's very helpful. Thank you. And then my second question was regarding mobilization expenses, and given the influx in new capacity we're seeing in the market, what your expectation for mob costs are going forward, and maybe if you could help us with common route costs for mobs from Singapore to Brazil, or West Africa or what not?

THOMSON REUTERS

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

I think if you are asking the question, has the practice changed from the operators paying for the mob, and demob, the answer is no. I think that's probably about as relevant as we need to get it. The cost is what it is, and the operators are paying for it.

Joe Hill - *Tudor, Pickering, Holt & Company - Analyst*

Okay. But I guess really where I'm going with this is ultimately, if the operator is burying the cost of the mob, then there's probably an umbrella for some of the older equipment to keep working in spite of newer equipment being available, I would take it?

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

Yes. I mean, an operator is going to take the equipment that is closest to the job that can technically do it. You get out in Asia, and there's a lot of technical capabilities, so it's not necessarily the location of the rig, so.

Joe Hill - *Tudor, Pickering, Holt & Company - Analyst*

Okay. I'll follow up offline. Thanks a lot.

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

Yes, why don't you give Sean a call on that?

Operator

And Alan Laws with BMO Capital Markets has our next question.

Alan Laws - *BMO Capital Markets - Analyst*

Good morning. Thanks for getting me in here. First I would just like to say I loved the balanced approach to the dividend, guys. It was really quite a positive surprise. First question I have, though, is can you comment on the potential for corporate consolidation? You mentioned it a few times in this call, and maybe provide your thoughts on Ensco's potential roll in that, as maybe -- you are a pretty attractive dance partner, I guess, is a better way to say it.

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

Okay, I'm going to start off -- I haven't corrected anybody on this call so far. You keep saying good morning to us, and Ensco's management team is in London. So it's good afternoon.

Alan Laws - *BMO Capital Markets - Analyst*

I'm worlds away in Colorado, so --

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

Okay. I don't think the environment has changed a whole lot since the last couple of quarters. What has changed, I think, from Ensco's perspective is we continue to have a pristine balance sheet. We have moved to the UK, and have been able to establish ourselves with a very competitive tax rate. We believe we have a competitive advantage at looking at M&A opportunities, and we have always been very aggressive at analyzing these things, and we are going to continue to do that, and try to use all of this hard work that we have done to get us into a competitive position to our advantage. So yes, we'll continue to look.

Alan Laws - *BMO Capital Markets - Analyst*

So the reincorporation did have some aspects of tax restructuring that allowed for more attractive M&A?

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

We feel very good about how we're situated today.

Alan Laws - *BMO Capital Markets - Analyst*

Okay. Then my follow-up is from an asset purchase side, then. Are the stars aligning for buying jackup rigs with the rates kind of finding bottom and not yet call it fully robust demand? Kind of, are the bid ask spreads getting more constructive?

Jay Swent - *Ensco - CFO & SVP*

I think -- Alan, my sense that is you still have people who are living in the yester-year, and still want premiums to what they paid for rigs, or want to at least get back every dollar that they may have paid when they bought at the top of the market. So as Dan said, we have lots of conversations with people, and I haven't seen that the sellers have come down particularly in their aspirations on price, and so I think bid ask spread is probably about where it has been for the last few quarters.

Alan Laws - *BMO Capital Markets - Analyst*

Any movement on cash versus equity?

Jay Swent - *Ensco - CFO & SVP*

I'm sorry -- I missed the question.

Alan Laws - *BMO Capital Markets - Analyst*

Are they more -- are the sellers --

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

They won't -- (Overlapping Speakers)

Jay Swent - *Ensco - CFO & SVP*

Yes, I'm sorry. It's the cash.

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

Yeah, because you are talking to creditors generally.

Alan Laws - *BMO Capital Markets - Analyst*

Yeah. Okay. All right. That's all I have. Appreciate it. Thanks.

Jay Swent - *Ensco - CFO & SVP*

Thanks, Alan.

Operator

We'll now go to Atle Hauge with Carnegie.

Atle Hauge - *Carnegie - Analyst*

Yes, thank you. Just a quick question. You may have touched on it, I joined a bit late. In terms of the contract opportunities or tendering activity in Q1 versus Q4, did that sort of change materially, or is it about the same?

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

I think what you are going to see if you look at our rig status report, it's contracts coming onstream during the second quarter -- late in the second quarter -- that have an effect on utilization in prior quarters that are uncontracted at the beginning of the second quarter. So you have quite a few unusual number of rigs coming off contract the beginning of Q2 or end of Q1, that don't pick back up until later in Q2. And we do see some increase in tendering activity as well, so it's a combination.

Atle Hauge - *Carnegie - Analyst*

All right. Thank you. And just a follow-up on the previous question on the buying premium jackup assets. In terms of newbuild prices, have they sort of also come down materially, and then pushing down second hand values, or how is that sort of -- ?

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

Why don't you call Sean on that? We just answered that a few minutes ago, so --

---

Atle Hauge - *Carnegie - Analyst*

Thanks.

THOMSON REUTERS

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

Okay. Operator, we have time for one more question, please.

Operator

Certainly, we'll take our last question from Matt Beeby with Morgan Keegan.

Matt Beeby - *Morgan Keegan - Analyst*

Thank you. With the desire to high-grade the fleet, is the Ensco 60 more likely for divestiture, or is it possible that we see that reactivated with strengthening US demand, or do you think it stays cold stacked?

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

Bill, you want to take that?

William Chadwick - *Ensco - COO & EVP*

Sure. We consider all of our opportunities for the 60. If he had a specific opportunity to divest it at what we thought was good value, we would consider that. But at the same time, we are always considering opportunities to put it back to work. We haven't ruled it out at all.

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

Just one thing on this high grade of fleet, general comment, if you look at the Ensco fleet ten years ago, it doesn't look anything like it does today, and I can probably state today that ten years from now, any fleets you are looking at today won't look the same either. So it's a very dynamic process that we have been continuously evolving the capability of the Ensco fleet, and we're going to continue to do that.

Matt Beeby - *Morgan Keegan - Analyst*

Okay, one more --

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

Okay, operator, thanks very much, and we will conclude the call at this point. Thanks, everybody for participating.

Operator

Ladies and gentlemen, that does conclude today's conference call, and we thank you for your participation.
