CORPORATE PARTICIPANTS

Sean O’Neill
Ensco International - VP of Investor Relations

Dan Rabun
Ensco International - Chairman and CEO

Jay Swent
Ensco International - CFO

Mark Burns
Ensco International - President - ENSCO Offshore

Bill Chadwick
Ensco International - COO

Carey Lowe
Ensco International - SVP - Deepwater Business

CONFERENCE CALL PARTICIPANTS

Jud Bailey
Jefferies & Company - Analyst

Dan Boyd
Goldman Sachs - Analyst

Geoff Kieburtz
Weeden - Analyst

Scott Gruber
Bernstein Asset Management - Analyst

Scott Burk
Oppenheimer - Analyst

Mike Urban
Deutsche Bank - Analyst

Pierre Conner
Capital One Southcoast - Analyst

Ian Macpherson
Simmons & Company - Analyst

Collin Gerry
Raymond James - Analyst

Rob MacKenzie
FBR Capital Market - Analyst

Roger Read
Natixis Bleichroeder - Analyst

Mike Drickamer
Morgan Keegan - Analyst

PRESENTATION

Operator
Good day, everyone. Welcome to the Ensco International Third Quarter 2009 Earnings Conference Call. As a reminder this call is being recorded and your participation constitutes a consent to its taping. 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 International - VP of Investor Relations

Good morning and welcome to Ensco's Third Quarter 2009 Conference Call. With me today are Dan Rabun -- CEO; Bill Chadwick -- our COO; Jay Swent -- Chief Financial Officer; as well as other members of our executive management team. This morning we issued our earnings release which is available on our website at enscointernational.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 our expectations are forward-looking statements and are subject to risks and uncertainties. Many factors could cause actual results to differ materially. Please refer 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 issued on October 15th. Now let me turn the call over to Dan Rabun, Chairman and CEO.

Dan Rabun - Ensco International - Chairman and CEO

Thanks, Sean, and good morning, everyone. Jay and I are in Europe and we're linked into Dallas for our call today. Before Jay walks through the financial results, I'd like to start by providing some color on the quarter and the state of our markets as well as our current outlook. I will start with our Deepwater business. In early September, we issued a press release regarding unplanned down time in the third quarter for ENSCO's 7500 our 9-year-old semi operating in Australia and ENSCO 8500, our brand new semi operating in the US Gulf. I'm pleased to report that we have resolved OEM equipment issues causing the down time and that both semis are back up and running. The actual EPS impact was $0.19 per share, in line with our earlier projections. Only $0.03 was related to ENSCO 8500 and the down time event was related to one specific piece of OEM equipment. As you may recall, one of the major benefits of the uniform design for all seven rigs in the 8500 series is the ability to transfer knowledge from one rig to the other six. Needless to say we have checked all of the other 8500 series rigs for similar issues.

Looking ahead, there will be significant growth in our Deepwater business based on contracts already in place and we have enhanced our Deepwater organization to accommodate this growth. For example, ENSCO 8501 recently commenced operations in the US Gulf and is now contributing to revenues in the fourth quarter. ENSCO 8502 is not far behind, and is scheduled for delivery from the shipyard in the first quarter of 2010 which will further accelerate the Deepwater revenue going forward. ENSCO 8503 also under contract is on schedule for a fourth quarter 2010 delivery. As our Deepwater revenues are ramping up, our CAPEX committment is declining. Turning now to the Jackup business, we are very pleased at how well our teams are maneuvering through the challenging markets. As you may have noticed in our recent rig status report during the quarter, we have put several of our previously stacked rigs back on the payroll and based on our current marketing outlook, we expect to see an increase in utilization in most of our markets.

Let me give you some of the highlights since our June report. In the Middle East, Saudi Aramco which consistently ranks our rigs among their top performers exercised options for two of our premium Jackups. ENSCO 96 returned to work with McDermott, a new customer and ENSCO 50 has commenced work in an accommodation mode for another new customer, Sime Darby, off Qatar. In Southeast Asia ENSCO 106 returned to work a few days ago for a one year program with Newfield in Malaysia and PERTAMINA awarded us a new contract for another rig in Indonesia. In Europe and Africa, Aegean Energy, a new customer contracted ENSCO 85 to work in Greece. ENSCO 72 is going back to work next month for Eni and in the North Sea we've been able to extend several existing contracts. In North and South America, we added one more Jackup in Mexico where we now have five working for PEMEX and in the US Gulf, Chevron extended its contract for ENSCO 82 through June of next year. While the Jackup market is still very challenging, our crews are doing a great job for our customers and our marketing and contracting groups are working hard to uncover new opportunities, bidding our rigs and winning tenders. Our overriding strategy is to
keep our rigs working wherever possible even if we have to move to a new market for short assignments. This is in contrast with some of our competitors that are cold stacking rigs quickly when opportunities are not readily apparent.

Now I’d like to turn to the topic of safety. Ensco has a very strong safety record as I’ll describe in a moment but first I’d like to draw the connection between safety, reliability, and customer satisfaction. First and foremost, focusing on safety as simply the right thing to do, but it’s also the smart thing to do. Safety is the key driver behind a dedicated workforce, operational efficiency, and customer retention. Employees want to work in a safe environment and we can recruit and motivate the best employees by maintaining a strong culture of safety, dedicated offshore workers focus on safety are attuned to keeping operations running smoothly and this translates into satisfied customers. For the past five years in a row, we have outperformed the offshore industry average for total recordable incident rates and as a Company, we have reduced our total recordable incident rate by more than half since 2003. We've improved our loss time incident rate even further by more than 80% over the same period. Our commitment to safety is supported by our commitment to training which also drives efficient operations. On our last rig contract status report we highlighted our IADC accreditation for 31 of our offshore positions more than any other drilling contractor. We firmly believe that some of the recovery we are seeing in our Jackup business is our customers’ recognition of our commitment to safety and operational excellence.

Now let’s discuss the markets. I’ll start with Deepwater. During the third quarter there were three new ultra-Deepwater market fixtures each around $500,000 per day for work starting in 2010. We continue to see new discoveries around the world including BP’s recent discovery in the Gulf of Mexico. In Brazil the large discoveries are well known and additional details have emerged regarding Petrobras plans for 28 rigs to be built in Brazil. This tender is expected out before the end of the month. There are several outstanding bids for work elsewhere in 2010 and onward. West Africa continues to be an area of high activity with several tenders outstanding for multi-year programs in Angola and Nigeria. And there are additional inquiries in tenders for work in India, China, Indonesia, and Australia. In the Mediterranean, Israel is on the fast track for development and there are opportunities in Libya and Egypt. We are actively marketing and are engaged in discussions with several operators regarding prospective work opportunities for our three uncommitted Deepwater rigs and we fully expect our uncommitted rigs will be contracted well before their deliveries.

In the Jackup market challenges continued during the quarter in terms of declining day rates and we expect this to continue for a period of time. With oil prices stabilizing in the $70 range, however, we have seen a noticeable increase in activity levels and the uptick in tenders and inquiries from operators makes us optimistic for 2010. As in the past, once we see a meaningful increase in utilization, day rates will follow. History tells us though that it takes several consecutive quarters of improved utilization before we see any significant recovery in pricing. Therefore, we cannot make any predictions on the timing of a pricing recovery in the Jackup markets other than to remind everyone that rates will recover as utilization improves; prompted by stable oil prices and our customers confidence in the long term fundamentals.

Now turning to specific markets. The Middle East, India and Southeast Asia Pacific Rim remain very competitive Jackup markets although there has been a noticeable increase in market surveys, bidding activity, and several new contracts have been awarded or extended. In addition to the normal areas of activity, several others also stand out. Vietnam is very active with upcoming work planned by several operators. Tenders are expected from Saudi Aramco that were reportedly call for as many as four incremental gas rigs for requirements starting in 2010. Kuwait Oil Company is expected to tender early next year for programs in Kuwait Bay, separate from work done in partnership with Saudi Aramco in the Partitioned Neutral Zone. Iran is expected to continue increasing rig count by as many as five more rigs which would help reduce the supply in other markets where we operate.

In the North Sea we have seen day rates come down with lower utilization; however, with the stabilization of oil and gas prices at somewhat higher levels as well as the easing of credit we expect utilization to improve. Most operators require a minimum of 20p per therm for UK gas projects to be feasible. With UK gas recently breaking the 30p per therm level we believe they will begin to see programs surfacing for work starting in 2010 and beyond. A recent report showed that offshore exploration and appraisal activity in the North Sea last quarter rose by 75% compared to the previous quarter. This is obviously positive for future demand.
Turning to the US Gulf of Mexico the current Jackup market continues to struggle; however, customer inquiries are improving for work starting early next year for all of our rig classes. With utilization at 50% though, there will be stiff competition. Opportunities in Latin America are also improving. We expect PEMEX to tender for three independent cantilever Jackups starting in 2010 which would be incremental demand and Jackup programs are emerging in Brazil, Columbia, Trinidad, Suriname, and Guyana. We are pursuing all of these opportunities. Overall, we are seeing an uptick in Jackup activity worldwide and while competition is significant, we believe our reputation for safety and operational excellence will continue to make Ensco stand out versus competitors. Now, let me turn it over to Jay.

Jay Swent - Ensco International - CFO

Thanks, Dan. My comments today will cover details of third quarter results, our outlook for the rest of the year and a review of our financial position. Before we begin, I need to remind everyone that on October 14, we issued an 8-K that updated our 2008 Form 10K filed in February for retrospective application of two accounting rules that became effective in January 2009 and reclassification of ENSCO 69 operating results to Discontinued Operations. Please be aware that any prior period comparisons we mentioned today are against the amounts shown in this most recent 8-K filing. With that as an introduction, let’s now discuss the results.

Third quarter earnings from continuing operations were $1.05 per diluted share compared to $2.06 a year ago. Total revenue for the third quarter was $425 million, a 31% decline from last year. Jackup segment revenues declined by approximately 39% to $363 million. This was partially offset by Deepwater revenue more than doubling to $63 million with ENSCO 7500 working at a higher day rate and ENSCO 8500 commencing operations in early June. Jackup utilization in the third quarter was 61% down from 72% in the second quarter and 97% a year ago. Average Jackup day rates were also down sequentially from $159,000 in second quarter to $148,000 in the third quarter. Year-over-year Jackup day rates declined $8,000 from $156,000 in last year’s third quarter.

As Dan mentioned, however, we have seen an uptick in Jackup activity and customer inquiries have improved significantly. With respect to expenses, we reduced contract drilling expense for all Jackup segments by approximately 16% versus last year. As Jackup segment utilization has declined during the past year we have reduced costs by warm stacking and in two cases cold stacking rigs in order to lower personnel and operating costs. Also, we negotiated cost reductions from vendors and service providers. Offsetting this, Deepwater segment expenses increased to $35 million from $8 million last year due to the addition of ENSCO 8500 to the fleet and ENSCO 7500 operating in Australia where costs are higher plus the mobilization expense that is amortized. Overall this nets to a 1% year-over-year reduction in total contract drilling expense.

Now let’s discuss quarterly trends by comparing third quarter 2009 sequentially to second quarter 2009. Third quarter revenue of $425 million decreased 17% from prior quarter levels. This decrease is attributable to a $5 million decrease in Deepwater revenue due to the unplanned down time that Dan noted earlier and an 18% decline in Jackup segment revenues as both utilization and day rates declined sequentially as shown in our earnings release tables. Total contract drilling expense was up 3% sequentially from the second quarter. This breaks down as follows — Deepwater segment contract drilling expense increased 46% mostly due to ENSCO 8500 operating for the full third quarter versus less than one month during the second quarter. Also, we reduced Jackup expense by 4% due to lower utilization as well as cost containment actions. Looking at other expenses, depreciation increased by $4 million mainly due to ENSCO 8500 coming online in late second quarter and then having a full quarter impact in the third quarter. G&A expense was $14 million as we projected. Cash on hand at quarter end was more than $1 billion even after $685 million of capital investments during the first nine months, $487 million of which related to our Deepwater fleet expansion.

Now let’s turn to our outlook for fourth quarter 2009. Revenue is expected to increase by about 11% from third quarter levels. In the Deepwater segment, ENSCO 8501 has now joined the fleet and commenced drilling on October 8 in the Gulf of Mexico and Deepwater utilization is projected to rise sharply in the third quarter, particularly for ENSCO 7500 which had an unusually high level of unplanned down time in the third quarter. We project an increase in utilization for our total Jackup segments as
well, however the average day rate for our Jackup fleet will continue to decline in the fourth quarter. For full year 2009 we anticipate Deepwater segment revenue to nearly triple from 2008 levels to approximately $250 million.

Moving to expenses, we anticipate fourth quarter 2009 contract drilling expense will increase by approximately 6%. Increased Jackup utilization and the addition of ENSCO 8501 are the key drivers. Depreciation expense should increase by approximately $3 million in the fourth quarter mostly due to adding ENSCO 8501 to the fleet. Finally, we anticipate G&A expense will be approximately $16 million in the fourth quarter reflecting higher legal and professional fees. Our effective tax rate is projected to be about 18% for the year due in part to a 16% effective tax rate in the third quarter primarily related to favorable settlement of an international transfer pricing matter. 2009 capital spending projections are unchanged from last quarter and for the full year, we expect 2009 capital spending to be approximately $790 million with $530 million committed to our 8500 series rigs, $160 million for rig enhancement projects, and $100 million for sustaining projects.

Now let's turn to the Balance Sheet. Despite difficult market conditions, we have strengthened our financial position over the past year even as we have made sizeable cash investments in our ultra-Deepwater fleet. In particular, we have a strong cash position, excellent interest coverage ratios, a $350 million revolving credit facility that is fully available, and low debt levels with no significant near term maturities.

In summary I’d like to emphasize the following points -- our Deepwater fleet is growing rapidly and we expect this contribution to earnings will increase significantly. Specifically in 2010 we expect Deepwater segment revenues to more than double to almost $600 million. Jackup utilization is projected to improve and this should offset some of the weakness we are seeing in terms of the declining average Jackup day rates. As Dan mentioned this will take some time since contracts expiring at higher rates are being replaced at today's lower market-rates. We are closely managing costs but also making sure that our rigs are ready to work as customer demand improves. We have a very strong balance sheet so that we are well positioned to take advantage of potential investment opportunities as they may arise. The level of customer inquiries for programs starting in 2010 has risen and if oil prices stabilize around current levels and credit markets continue to improve, we believe demand will be positive for contract drilling services next year. Now I will turn the call back over to Sean.

QUESTIONS AND ANSWERS

Operator
Thank you. The question and answer session will be conducted electronically. (Operator Instructions) We will take our first question from Jud Bailey with Jefferies & Company.

Jud Bailey - Jefferies & Company - Analyst
Thank you, good morning. A question on Jackup rates going forward. You look at global utilization right now it's been bouncing around 70% for a while now although there's a pretty big disparity between several markets most notably the Gulf of Mexico and West Africa. Could we see a situation where if activity increases in certain regions more quickly that we could see day rates go up in some regions and stay flat in others or even soften a little more due to the transportation cost between some of the major regions?

Dan Rabun - Ensco International - Chairman and CEO
Yes, Jud. This is Dan. I think, as you realize, all these markets are very different and certainly some of them react to pricing improvement utilization more quickly than others, so the answer to your question is yes. I mean you could see an uptick in the Gulf of Mexico and since there's very little supply with premium Jackups those rates could have some positive momentum if utilization were to pick up as opposed to say Asia where there's much larger supply of available rigs for particular jobs in the
Middle East as well. Same thing in the North Sea. I think the same dynamic in the North Sea if utilization were to pick up you could see rates move up more quickly but that's historically been the case.

Jud Bailey - Jefferies & Company - Analyst
Okay, and then on the Gulf of Mexico, one of your competitors said on one of the calls this morning they are talking to customers about six to 12 month contracts and so it seemed like maybe what you’re seeing as far as the demand increase might be more than a recovery post hurricane season. Could you maybe talk a little bit about your discussions with customers for work in the Gulf?

Dan Rabun - Ensco International - Chairman and CEO
Yes, I think the dialogue over the last few weeks has been fairly brisk. There are some customers out there trying to take advantage of where the pricing is now and talking longer term, so yes, there are customers out there talking for longer periods in the well-to-well which typically is where you find in that market.

Jud Bailey - Jefferies & Company - Analyst
Okay, and then last question if I may is as you noted in your prepared comments you’ve got over $1 billion in cash now, the market is picking up. Can you talk a little bit about what you’re going to do with all the cash, how much more would you let it build before buying back more stock aggressively or doing something else with the cash?

Dan Rabun - Ensco International - Chairman and CEO
Yes, Jud, it’s a question we get fairly often. One thing to just kind of let people know, we do have a lot of remaining CAPEX on the 8500 series. I don’t think we've given CAPEX guidance for next year but I'm sure you all can figure that out pretty quickly. One thing to note is our CAPEX and our 8500 series rigs is very, very much front end loaded coming up. We just have a lot of milestones hitting the early part of the year, particularly the first quarter so I would expect that you’ll see some of the cash balances probably drift down a little bit, just because of the CAPEX commitments so we continue to evaluate our cash situation very carefully and as we've continued to say to the extent we can't find opportunities for cash we'll look at opportunities to return it to shareholders, we continue to see a number of opportunities to reinvest in the business and evaluate those, it's something we watch very closely. We don't have an absolute number of what we let the cash build to but--

Jay Swent - Ensco International - CFO
I think part of the answer, Jud is we’d certainly not want to see cash drop a whole tremendously lower than where we are right now and we certainly don’t want to see it go much higher than it is either. As Dan said we've got some still major CAPEX commitments over the next couple of quarters so I don't think you're going to see a major build in cash over the next couple of quarters.

Jud Bailey - Jefferies & Company - Analyst
Great. I’ll turn it back, thank you.
Hi, thanks. Dan, I was wanting to follow-up on the Saudi market and the four rigs that they're going to be tendering to natural gas rigs. With them looking to actually go to a shipyard and build a new rig, what does that say about what day rates maybe on that tender?

Dan Rabun - Ensco International - Chairman and CEO
Dan, Mark Burns just got back from Saudi a week or two ago so maybe I'll get him to respond to that question and he can give you firsthand what he learned.

That would be great.

Mark Burns - Ensco International - President - ENSCO Offshore
Dan, good morning. Yes, we have received no formal information from Saudi Aramco that they intend to go out to tender and just in general discussions with Aramco recently, there is a potential that they will increase their capacity for gas drilling next year, so other than that, there's really no further information that we can give you on that, Dan.

I guess -- would you anticipate the day rates for those types of rigs will be necessary for that to be higher than what we're seeing in the market, maybe higher than the 115 or 120 we've seen on some contracts?

Well, remember, Dan. These are gas rigs, so they're high specification rigs. They will be most likely 15K equipment, Saudi Aramco will ask for more variable deck load, bigger rigs in order to minimize logistics expenses and those type of things, so you can take your assumptions based on that information.

Okay thanks, and one follow-up. The ENSCO 75 is available in the US Gulf. Are you marketing that outside of the Gulf or do you think there will be enough work there for that to go back in the next few months?

Dan, this is Bill. We're looking for opportunities with sufficient term and economics that would justify redeployment of that rig somewhere else, so yes, we're definitely marketing the rig outside of the Gulf but unless and until an economic opportunity with some term presents itself we will also continue to market it in the Gulf of Mexico.
Dan Boyd - Goldman Sachs - Analyst
Can you help me understand what the minimum criteria might be to move it outside in terms of term or day rate or anything you could help us think about that it would be great.

Bill Chadwick - Ensco International - COO
Well we don't have any specific threshold. It just has to make, the entire package has to make overall economic sense and that's a function of rate to end term.

Dan Boyd - Goldman Sachs - Analyst
Okay, fair enough. I'll turn it over, thanks.

Operator
We'll take our next question from Geoff Kieburtz with Weeden.

Geoff Kieburtz - Weeden - Analyst
Thanks, let me just pick up on that last comment actually, if you were looking at moving the 75, would you expect; a -- for the operator to pay for the mobilization and if they pay for the mobilization would you expect them to pay rate if you were moving the rig?

Bill Chadwick - Ensco International - COO
Again, we don't have any specific criteria that we'll have to have. We'll look at the overall economics of the package available to us considering both the rate, the mob and the term and just decide what makes sense on a case-by-case basis.

Geoff Kieburtz - Weeden - Analyst
I do understand. I guess what I'm really trying to get at is sort of what is the current state of the market? Is it kind of right now is the tone of the market that the customer would pay for the mobilization costs or not?

Dan Rabun - Ensco International - Chairman and CEO
Geoff, this is Dan. I think it really depends on what market you're talking about. So if you were talking about is somebody going to mobilize it to Asia to operate the answer is no.

Geoff Kieburtz - Weeden - Analyst
Yes, well that's fair enough. Yes.
Dan Rabun - Ensco International - Chairman and CEO

So, I mean it depends on what market you're talking about and what specific requirements -- so I agree, the only thing to add to what Bill said, is just a strategic priority to lessen our exposure to a hurricane risk in the Gulf of Mexico would also factor into how we viewed it, not just the economics.

Geoff Kieburtz - Weeden - Analyst

And in terms of the comment that we made earlier about Jackup rates falling, just wanted to distinguish between Jackup rates falling the leading edge falling from here versus the average rates falling because you have contracts rolling off.

Dan Rabun - Ensco International - Chairman and CEO

Geoff, that's an excellent point and I kind of caught that as I was giving the remarks. It's really the average rates because you just have this momentum with the older higher day rates set in the previous market rolling off so your average keeps coming down. I don't think the leading edge is coming or we're going to see the same momentum.

Geoff Kieburtz - Weeden - Analyst

So right now in most markets I know -- I understand your point about markets differing but right now your sense is that most markets within that market, the leading edge is relatively stable.

Bill Chadwick - Ensco International - COO

I would say it's fairly, I would say--

Jay Swent - Ensco International - CFO

Maybe even in some markets moving up slightly but not very dramatically and we don't anticipate any real dramatic upswing.

Geoff Kieburtz - Weeden - Analyst

Right, okay, and Jay, you made a comment in regards to cash earlier that you wouldn't want to see it drop below this level. Just to clarify there, are you meaning right now because you have this visible CAPEX or in general you want to keep $1 billion as a kind of a--

Jay Swent - Ensco International - CFO

No, Geoff, I was talking with respect to the CAPEX we see in front of us here over the next couple quarters.

Geoff Kieburtz - Weeden - Analyst

Okay, so once you're through that you don't necessarily feel like you need to keep $1 billion balance?
Jay Swent - Ensco International - CFO
Not at this point, but that could always change.

Geoff Kieburtz - Weeden - Analyst
Okay. I understand, some other opportunity may come up and let me just finish with that question actually. Let's get beyond the CAPEX, not that you’ve got to cover here in the first half of 2010. If the market conditions that you see today were to just basically freeze, asset values, day rates, utilization, the outlook for activity, and you continued to have a large cash balance and significant free cash flow, how would you rate the attractiveness of the obvious list of alternatives for that?

Dan Rabun - Ensco International - Chairman and CEO
Yes, Geoff, there are just very few alternatives to make dividends and/or do stock repurchases and we’ve evaluated both of those in the past, we’ve chosen to buy back our stock and we would evaluate both of them including special dividends or increasing the regular dividend and trying to decide which we thought was appropriate to deliver the best value to the shareholders and we would do it.

Geoff Kieburtz - Weeden - Analyst
And that would be more attractive than either building new rigs at today's asset values or buying somebody else's at today's asset values?

Dan Rabun - Ensco International - Chairman and CEO
Well, no. I mean that's -- I thought you were just talking about the returning equity to shareholders, no. We continue to evaluate, if we can find a good way to invest in the business that we think is very good returns to our shareholders that clearly would be a priority for us and it would give us additional exposure in the markets we want to be in.

Geoff Kieburtz - Weeden - Analyst
Okay, thank you.

Dan Rabun - Ensco International - Chairman and CEO
Sure.

Operator
Moving on our next question comes from Scott Gruber with Bernstein Asset Management.

Scott Gruber - Bernstein Asset Management - Analyst
Yes, good morning.
Good morning.

Are you surprised at the strength of the spot Jackup rates today in the international markets? It’s surprising to us that margins on the new contracts have been maintained at around the 50% level.

Am I surprised at that?

Yes, just given the trends in utilization and the fact that there’s still new equipment coming into the market?

No, I’m not really surprised. We’ve done fairly well and I think as we’ve said on other calls there’s somewhat of a bifurcation in the marketplace between contractors and we think with our operational performance and our low cost structure we can continue to deliver pretty good returns, so I’m not particularly surprised, no.

I think, Scott, a number of the new entrants have cost structures as Dan alluded to they’re much higher than ours, they have debt service costs that are pretty significant and so their ability to come down well below current rates is pretty limited. We often get the question of how long do you think it will be before day rates get down to cash break-even and my response always is whose cash break-even are you talking about? And I think from our vantage point at current day rates we’re making very good margins. I’m not sure of somebody that’s a new entrant with a small number of rigs is able to earn the same margin and he’s got to put those rigs to work at a reasonable day rate.

That makes sense.

So it actually puts pricing discipline into the market.

But given the fact that the vast majority of rigs are still with established operators, does the level of rates today limit the upside as utilization starts to improve next year? Or do you think there’s still upside to rates?
Jay Swent - Ensco International - CFO
I'm sorry I think we missed the first part of your question.

Scott Gruber - Bernstein Asset Management - Analyst
Well given the fact that the majority of the Jackup fleets still resides with the established operators, you should have margins more similar to yours in the current rate structure do you think that limits the upside to rates if utilization improves next year?

Jay Swent - Ensco International - CFO
Well it's not clear where utilization is going yet but I don't think we see it getting up into the high 80s or mid 90s during the early part of next year at all so I think until you're in that range it's hard to see day rates pushing much higher than where they are right now and I'd say at the same time I don't think there's much incentive to come down much below where they are right now.

Scott Gruber - Bernstein Asset Management - Analyst
And just if I could, turning to the North Sea, LNG deliveries into the region have been quite robust after the opening of some new import terminals. Is there the potential for less gas directed activity in the Southern portion of the North Sea next year assuming the deliveries continue?

Mark Burns - Ensco International - President - ENSCO Offshore
Scott, this is Mark Burns. I think recent reports have shown gas storage capacity in Europe are pretty robust I think in the 95% - 97% level; however, we are starting to see the price of natural gas in the Southern North Sea and in Europe stabilize. I believe this morning it's over 34p per therm, so with that improvement and stability in natural gas pricing, I think it bodes well for improvement in -- particularly in the North Sea for continued natural gas drilling.

Scott Gruber - Bernstein Asset Management - Analyst
Okay, great. That's all for me, I'll turn it back.

Operator
We will take our next question from Scott Burk with Oppenheimer.

Scott Burk - Oppenheimer - Analyst
Hi, good morning guys. A couple of questions about the direction of the Jackup fleet are going to follow in questions. You had a couple in your last fleet status update and you had a couple of rigs in the Middle East that went to work as accommodation units and I'm just wondering do you see that being a major use or large use of Jackup supply going forward in that region?

Dan Rabun - Ensco International - Chairman and CEO
Mark, do you want to handle that one?
Mark Burns - Ensco International - President - ENSCO Offshore

Yes, Dan. I think what we’re seeing in particularly in the Middle East in Qatar, we’re starting to see two things. We’re starting to see operators install new equipment, fixed platforms that type of thing offshore and in addition, the second thing we’re seeing is we’re seeing these platforms and production facilities starting to age somewhat, so with a decline in drilling activity that we’re seeing in the Middle East we’re seeing an opportunity for operators to go out and commission new facilities and also repair and continue to maintain existing facilities. But that is allowing us an opportunity and the oil companies an opportunity to use some of the existing Jackups for accommodation vessels. So although as Dan noted in his opening remarks we returned two of our units offshore in accommodation mode, we are expecting some additional opportunities to surface in that particular segment of the business and we could potentially get some extensions to existing contracts, so yes, there is some further opportunities.

Scott Burk - Oppenheimer - Analyst

Okay, and is that a preferred thing to do with your rigs because it looks like you get higher margins, lower expenses you still get pretty good decent rates. Is that a preferred thing to do?

Mark Burns - Ensco International - President - ENSCO Offshore

Well as we stated in the opening comments our overriding strategy is to maintain utilization and when you have the unit offshore you’re keeping the equipment maintained, you’re keeping your personnel employed and it’s good morale for the Company and yes, I mean, we’re going to look at all opportunities to keep our Jackup fleet utilized.

Scott Burk - Oppenheimer - Analyst

Okay, and then I wanted to ask you all--

Dan Rabun - Ensco International - Chairman and CEO

I would just add that that’s not going to be a major thrust of our business model, to be an accommodation unit provider but it is a very good use of the asset when it otherwise would have been warm stacked.

Scott Burk - Oppenheimer - Analyst

Sure. The other question I had was about Southeast Asia market. It has these 20 some Jackups delivering next year in 2010 and I’m just wondering how you see that impacting the Southeast Asian market next year?

Mark Burns - Ensco International - President - ENSCO Offshore

You see what’s happening so far, we have had some New Build Jackups delivered but up until this point, the market has absorbed the New Builds that have come on, recently we’ve seen companies move rigs from Southeast Asia to West Africa to North Africa to other areas so we continue to manage through this Jackups will continue to be delivered through the end of the year but we feel with our customer base and fast operating history that we’re in a very good position so we haven’t seen to this point a major impact.
Scott Burk - Oppenheimer - Analyst
Okay, thank you.

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

Mike Urban - Deutsche Bank - Analyst
Thanks, good morning. You listed a lot of potential opportunities in the Jackup market and some folks that either are in the market or will be in the market. Do you have a sense for what that aggregates to in terms of number of rigs out there that we might be looking at in terms of bid or tender activity globally?

Dan Rabun - Ensco International - Chairman and CEO
No, that’s really hard to quantify. I think the best way to characterize it as I travel around the world talking to customers and it’s universally almost exactly the same story everywhere in the world which is 2009 budgets are in place and just basically 2009 is already cast but with commodity prices recovering in the $70 - $80 range and people are going through their budgeting cycles, budgeting for 2010 and virtually all our customers around the world, I know there’s some exceptions on some of the majors that have been noted in the press but virtually all of our customers are budgeting for increased activity of Jackups and now how all that plays out through the budget cycle and when it starts coming into affect will remain to be seen. I can just tell you that it’s universally positive in every market that we operate in.

Mike Urban - Deutsche Bank - Analyst
And I guess following up on that, as you do get these 2010 budgets in place, are there markets that will benefit more or less from having the additional access to additional capital or as you said pretty broad based?

Dan Rabun - Ensco International - Chairman and CEO
Well, I think the markets that have been the most adversely affected by lack of access to capital would be in the US Gulf of Mexico and the North Sea where you had smaller independents who didn’t have the balance sheets to drill this year, so we do see some of the credit markets freeing up for some of those folks so that would probably be the markets I would say would benefit the most.

Mike Urban - Deutsche Bank - Analyst
Okay, that’s all for me, thanks.

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

Pierre Conner - Capital One Southcoast - Analyst
Good morning, gentlemen.
Dan Rabun - Ensco International - Chairman and CEO

Good morning.

Pierre Conner - Capital One Southcoast - Analyst

Dan, I know that your strategy is to continue to ultimately deploy capital towards growth of the floater fleet but, I would be curious if you have any data points on the bid asked spread on the Jackup opportunities that are out there in terms of dollar amount, where you see it or percentages say?

Dan Rabun - Ensco International - Chairman and CEO

Pierre, on the Jackups side, there really hasn’t been a lot of activity in the last quarter in terms of people out trying to sell Jackups. There’s a couple -- there’s a few here and there that are on the market that we’ve evaluated but we chose not to act not because of the difference between the bid and ask price, it was really just technical aspects of the equipment and a lot of it was more specialized Jackup equipment rather than something that would fit nicer into our fleet so I really can’t give you a data point.

Pierre Conner - Capital One Southcoast - Analyst

Okay, that’s okay. Let me ask of the other topic of New Builds. So is there a scenario where Ensco can employ your desires for preferred construction company, shipyard in the floater fleet and this obviously extensive tender out of Petrobras for construction of equipment in Brazil in order to get your returns and can you, is there a scenario that you can meet some of those desired outcomes?

Dan Rabun - Ensco International - Chairman and CEO

Yes, I mean obviously, Pierre, we’re evaluating those opportunities very carefully to see if we can participate and how we’re going to participate so yes, that’s under active consideration.

Pierre Conner - Capital One Southcoast - Analyst

Okay, and then getting back to this specific item just to take off the list I wanted to ask -- either for you or Bill -- on the PEMEX tender that just continues to lag out there, is this something we’re waiting until after the budget and so we would expect it kind of at year-end, is that right?

Dan Rabun - Ensco International - Chairman and CEO

Well I think on that, Pierre, PEMEX has invited all the contractors to a meeting in early November where they’re going to presumably and I’d just say presumably disclose their plans for incremental requirements or requirements for next year so I think the marketplace that information should be filtered through the marketplace in the next few weeks.

Pierre Conner - Capital One Southcoast - Analyst

Okay, all right, great. I’ll turn it back. Thanks gentlemen.
Operator
We'll take our next question from Ian Macpherson with Simmons & Company.

Ian Macpherson - Simmons & Company - Analyst
Hey, good morning. Dan, you made the remark in your opening comments about feeling pretty confident regarding the contracted status of the next floaters before they get delivered and maybe I inferred that you sounded like you had some form of negotiations that were I don't know how advanced but regarding maybe the ENSCO 8504, is that correct?

Dan Rabun - Ensco International - Chairman and CEO
ENSCO 8504 is the next rig, it's coming for delivery that we don't have a contract for -- No, I mean I wasn't trying to imply what the status of negotiations are but I will just make a few comments just following up on my prepared remarks. There are quite a few outstanding tenders which we are participating in for work in various parts of the world. And those discussions are, I would say active and ongoing and we think will result in the contracts for somebody. So we feel very good based on the level of discussions we're having with customers and the level of the customer discussions we're having with customers. I think another data point we've recently had a market inquiry for two additional Deepwater rigs in the US Gulf of Mexico which we haven't seen term contracts in the Gulf of Mexico being discussed for quite some time, so that's some new information that we think is going to bode well for the marketplace.

Ian Macpherson - Simmons & Company - Analyst
Okay, very good. For a follow-up I wanted to ask you about maybe the shape of the eventual recovery in the Jackup market. Do you sense maybe based on prior cycle recoveries or what you see now that the demand recovery will it be lead by higher end Jackups capturing the incremental demand or sort of I guess easier wells that come back into the demand picture and so really more generic Jackups can participate and lead in the recovery?

Bill Chadwick - Ensco International - COO
Yes, sure. Ian, I think it will really be both. I think the lower end Jackups that can work at substantially lower rates in the Gulf of Mexico are going to play a significant part in that market when it comes back but I also think that with very limited supply of high end Jackups in the Gulf of Mexico is going to place those rigs at a premium as activity increases in that market as well.

Ian Macpherson - Simmons & Company - Analyst
Okay, so you think it will be both?

Bill Chadwick - Ensco International - COO
Yes.
Ian Macpherson - Simmons & Company - Analyst
Okay. Alright, that's all I have. Thanks.

Operator
Moving on, we do have a question from Collin Gerry with Raymond James.

Collin Gerry - Raymond James - Analyst
Hey, good morning guys. Most of mine have been answered. Just real quick, what was the piece of equipment that caused some of the delays on the floaters this quarter?

Dan Rabun - Ensco International - Chairman and CEO
I don't think it would be appropriate to discuss but needless to say --

Collin Gerry - Raymond James - Analyst
And then I guess some recent conversations with some industry folks, not as quite as overly bullish on the Deepwater market going forward, maybe there's some concerns that at least could have a little bit of slack. We've spent a lot of time talking about the New Build Jackups coming into the market the last two or three years, if we looked at 2011 it seems to me there's 16 to 18 spec Deepwater rigs hitting the market. What's your, how do you guys look at that situation and just kind of give us your gut feeling on what's your read on 2011 and do you see rates being suppressed as we go through '11?

Dan Rabun - Ensco International - Chairman and CEO
Go ahead Carey.

Carey Lowe - Ensco International - SVP - Deepwater Business
Collin, this is Carey Lowe. What we've seen over the last couple months is the market increase in bidding activity and inquiries and this is for term work which is unusual recently. We're responding to those tenders but I don't think we can talk about particularly about day rates and where they're going to be. There is definitely an uptick in inquiries that we hadn't seen for the first six or so months of the year.

Collin Gerry - Raymond James - Analyst
Okay, that's helpful. And last question for me, 2010 CAPEX, I know you haven't given it but is it fair to assume roughly kind of a similar range that we've seen in '08 and '09 is roughly similar years, still got a pretty robust New Build program.

Dan Rabun - Ensco International - Chairman and CEO
Yes, we do and I think it will probably taper off just a little bit but at this point in time we're still working on the 2010 budget and wrapping that up, so we'll give you better guidance on the next call and it will be a lot more precise.
Collin Gerry - Raymond James - Analyst
Okay, that’s it for me, thanks.

Dan Rabun - Enso International - Chairman and CEO
Thank you.

Operator
We will take our next question from Rob MacKenzie from FBR Capital Markets.

Rob MacKenzie - FBR Capital Market - Analyst
Thank you. Just a quick follow-up guide on the New Build market. Where do you see or have you checked first — and where do you see prices now if you wanted to build another 8500 series rig at capital in Singapore? How much has the price come down?

Dan Rabun - Enso International - Chairman and CEO
You know, we haven’t priced a new rig in the last quarter. Directionally, prices have come down but with that having been said, steel prices for the type of steel that we use in the 8500 series rigs really has not come down substantially since the last time we placed a rig order so while certain commodities that you might think would affect pricing would have had a dramatic effect on the cost of a rig, it really hasn’t come down that substantially and then the cost from several of our equipment vendors, they certainly haven’t seemed to back off on pricing so directionally it’s less. I can’t tell you how much. I don’t think it’s real significant quite frankly.

Rob MacKenzie - FBR Capital Market - Analyst
Okay, and then just a follow-up to that. We’ve been hearing that some of the Korean yards are getting quite aggressive in their pricing on New Build rigs, perhaps also worried about their shipyard book. If that were the case and you got a good bid would you consider perhaps building an 8500 series rig at Daewoo or another Korean shipyard perhaps?

Dan Rabun - Enso International - Chairman and CEO
I don’t think we always would evaluate the opportunities, we certainly have a lot invested at the Keppel FELS facility and that works quite well for us so our inclination would be to build at Keppel FELS. They do a fantastic job for us but of course we would look at alternatives if somebody gave us a great price.

Rob MacKenzie - FBR Capital Market - Analyst
Thanks, guys.

Operator
Moving on we have a question from Roger Read with Natixis Bleichroeder.
Roger Read - Natixis Bleichroeder - Analyst

Good morning, gentlemen. A real quick question, in terms of the -- and you kind of run through some of this on a regional basis but in terms of the New Builds still coming into the market, are you seeing any change in their behavior given the amount of inquiries that are out there? In other words are they the guys most likely to lead rates down or are they bidding rationally or are they guys that are holding out for better day rates?

Jay Swent - Ensco International - CFO

I sort of touched on this a little bit earlier Roger, but I think what we’re seeing and it makes sense economically is the New Build participants for the most part have significantly higher operating costs in the rest of us do plus they have some pretty crushing debt service burdens, so what we’ve seen quite frankly all the way through the last cycle and what we see currently happening is that they’re probably the most disciplined pricers in the market because they have to be. They don’t have the choice to come down as far as we can.

Roger Read - Natixis Bleichroeder - Analyst

Okay, and then following on with that, is there anything you’re actively under way on in terms of reducing your costs other than just what market conditions are? I mean, are you trying to cut back on any R&M expenditures, reduce number of headcount in the rig or anything like that?

Jay Swent - Ensco International - CFO

Well I think that we’ve taken a number of actions across the board in both the G&A realm as well as contract drilling expense, looking at everything as creatively as we can but with an overriding priority that our rigs need to be ready for service and they need to continue to be well maintained so we can serve our customers well. We’re putting pressure on every one of our vendors for cost reductions where we can, where there’s opportunities to save money we’re obviously taking advantage of any of them, we’re putting certain things on hold but as I said when it comes to repair and maintenance activities we’re not cutting any corners there. As we’re warm stacking rigs, we try to do that in clusters where we can get the manning down as low as possible and still do a good job of keeping the rigs in a state of readiness. We still certainly have the option to look at more cold stacking but at this point, particularly given the level of activity that we’re seeing in the market right now I don’t think we have any immediate plans to do a lot of cold stacking, but that’s always an option.

Roger Read - Natixis Bleichroeder - Analyst

Okay, so as I’m kind of thinking of the first let’s say the fourth quarter but the first half of next year as well, on a kind of per rig basis no reason to see much of a change in cost, I’m not asking to forecast me a number but if I take what we’ve been seeing that’s a reasonable run rate?

Jay Swent - Ensco International - CFO

I think so.

Roger Read - Natixis Bleichroeder - Analyst

Okay, thank you.
Operator
Moving on we do have a question from Mike Drickamer with Morgan Keegan.

Mike Drickamer - Morgan Keegan - Analyst
Good morning guys. Following up on your comments on a Jackup market in the Gulf of Mexico, talk about increasing inquiry levels, can you specify as to what customers are looking for, is it higher end Jackups or is there something more the commodity type rigs will be able to handle?

Dan Rabun - Ensco International - Chairman and CEO
I'm sorry, there was some interference and I didn't hear the question.

Mike Drickamer - Morgan Keegan - Analyst
I'm sorry, is that better?

Jay Swent - Ensco International - CFO
Yes, thank you very much.

Mike Drickamer - Morgan Keegan - Analyst
Okay, just looking at the Gulf of Mexico Jackup market following up on your comments about the inquiries there, can you specify what kind of work or what kind of rigs they're looking for, is it higher end Jackups or is it something more the commodity rigs can handle?

Dan Rabun - Ensco International - Chairman and CEO
I think that it's all of our rigs in every market. I don't think there's any one specific rig class that isn't getting an inquiry.

Mike Drickamer - Morgan Keegan - Analyst
Okay, and then your Gulf of Mexico Jackup inquiry comments, was that more for work beginning in 2010?

Dan Rabun - Ensco International - Chairman and CEO
Yes.

Mike Drickamer - Morgan Keegan - Analyst
Right, all right, that's all for me guys, thanks.
Dan Rabun - EnSCO International - Chairman and CEO

Thank you.

Operator

And that does conclude the question and answer session today. At this time I'd like to turn it back over to the speakers for any additional or closing remarks.

Sean O'Neill - EnSCO International - VP of Investor Relations

Thanks everyone. This is Sean O'Neill, and we appreciate your participation and we'll see you again in a quarter. Thank you.

Operator

That does conclude today's conference. Thank you for your participation.

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