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PRESENTATION

Eddie Kim *- Barclays - Analyst*

Good morning, everyone. My name is Eddie Kim. I work on David Anderson's team at Barclays. Just a quick note, there will be no breakout session after Ensco's presentation today. But, we will try and field some questions from the audience after the presentation if time permits.

Today I have the pleasure of introducing Mr. Carl Trowell, CEO of Ensco. Mr. Trowell joined Ensco in June of last year as CEO and President, and is also a member of the Board of Directors. Prior to taking the helm at Ensco, he also held senior roles at Schlumberger after beginning his career as a petroleum engineer with Shell. Thank you for joining us today, Carl.

Carl Trowell *- Ensco plc - CEO, President*

Thank you. Good morning, everybody. And thank you to the Barclays team for inviting us to present at this conference again. Before we start, I'll just put up our forward-looking statement, which is available on our website.

And I would also like to take the opportunity to just give a very brief update to the second quarter's earnings call, a disclosure that we made regarding conditions with Petrobras. So, I just want to confirm that all five of our rigs that are working on contract with Petrobras continue to work on their existing contracts.

So, today I am going to cover market conditions as we see them today before moving and spending a little bit more time on the proactive steps that Ensco have taken to address the downturn, our outlook for offshore drilling and some of the factors that will eventually begin to address the supply and demand balance, and also actions that we're taking to maintain and further widen our leadership position so that we're well placed for an eventual upturn.

Since we were last at this conference, it has been an incredibly challenging 12 months for our sector, and particularly the offshore drilling sector. Commodity prices have halved, and on the back of that we've seen a substantial pullback in capital expenditure by our major customers.

What's also happened with that which is a little bit less transparent is the pullback that has happened in exploration spending, which actually started at the end of 2013. The pullback in both E&P spending and exploration is unprecedented and will eventually have a knock-on effect through to supply.

We have seen, as a consequence to this, much lower utilization and day rates, and they will continue to go down further as we go into 2016. And this is exacerbated by the additional supply that we have in the market.

We are fully expecting and planning on capital -- particularly in the offshore sector, the capital expenditure to fall next year again over 2015. And currently, from speaking to our clients, we expect this might be in the range of 10% to 15%.

Now, as I've already mentioned, the one bright side to this story is that this pullback, this level of E&P pullback, cannot be sustained without it eventually feeding through to the supply side. And there'll be plenty of people at this conference discussing the macro oil environment.

But, what I would personally point out is whilst a lot of attention, a disproportionate amount of attention, has been given to the production in North America and to some extent in OPEC, in two or three countries in OPEC, the thing to watch very carefully know going forward is the production or the call on the rest of the world excluding North America. And this is where decline rates are potentially very high, and that we will start to see, as we go through the next 12, 18 months some impact, I believe.

So, what has been the market response? Well, quite clearly, within the drilling sector, companies have done and reacted -- done what they can and reacted to be able to weather what is likely to be a persistent downturn by cutting costs and stacking rigs. There has been a whole series of deferral of newbuild rig capacity, and we're going to discuss that a little bit more in a second.

And speculators have started to cancel some of their rigs, or not turn up for delivery for them. The service companies, the major integrated service companies, have done likewise.

But, what has started to happen is we're starting to see strategic combinations happening and alliances to try to address inefficiencies, reduce cost, and come up with new technological advances to actually improve the efficiency of offshore development.

Now, our customers have reacted largely by reducing CapEx significantly so they can try and work within free cash flow. What that has meant largely is deferring projects. We've seen very few actually cancelled. We have seen a lot pushed out as far as they can be.

Now, some of these projects have a natural backstop, because either they have attendant surface facilities or pipelines or LNG coming on-stream that they must meet, or they have license terms with the local governments that must be fulfilled within a certain timeframe.

So, there is a backstop to the deferral that can happen on some of these projects. But, anything that has not had FID already has largely been pushed out.

And as a consequence, many of our customers have been pushing for concession renegotiations on rig contracts. And in some cases, which have been made very public, they have undertaken early terminations and used the rights within contracts to terminate at will.

On the more positive side, what we are seeing is a rapid reengineering process going on within a lot of the offshore development companies to reengineer projects and reduce the cost base, and we'll discuss that a little bit more in a second. And our customers are beginning to test developments now at a lower cost base and with streamlined project economics.

So, what have we done in this environment? Well, early last year or in the middle of last year we did feel that there was a weakness developing in the market and we should start taking some decisive actions, which we've continued as the cycle has worsened.

What we have done is we've taken some major decisive actions on capital management, fleet restructuring, expense management, and some focus in investment on things that improve our operational excellence and our safety, including innovation and process improvements. And I'm going to expand on some of these in the next few slides.

Our overall aim has been to make sure that we are resilient through the cycle and that we are in control of our own destiny and we're able to take options if we see them.

Shortly after this conference last year, we accessed the debt market and we raised $1.25 billion to increase our general liquidity and with the view that we were partway through a major capital build-out cycle with new assets.

We then went to the markets again in Q1 this year and we raised $1.1 billion in 10 and 30 year bonds, which was to effectively term out all debt maturities we had coming in the near term and in 2016. And we also removed any debt we had that had any type of complexity to it.

We increased our revolver to $2.25 billion and we extended the maturity to 2019. And in the first quarter, we took the decision to reduce our dividend and thereby increasing our liquidity.

What we've also recently done is defer the delivery of our final drillship under construction, the DS-10, which was supposed to be delivered in the latter half of this year and will now be delivered in the first quarter of 2017. And thereby we've deferred out a $300 million capital payment.

So, as a consequence of all of this, we now have no debt maturities until the second quarter of 2019. So, we have cleared the runway as far as our debt is concerned, and we've increased and we have fully available our $2.25 billion credit facility, revolving credit facility.

Consequently, we've been able to maintain our investment grade, and we still currently lead the peer group. And this is supported by $1.3 billion of cash and near term investments on hand and $7.4 billion of contract revenue.

Our cash position will also be enhanced, as we will receive $146 million cash settlement for the termination of the DS-4 contract. And that agreement has now been finalized. We expect that to come in at the end of the third quarter or the beginning of the fourth quarter.

We are coming towards the end now, within the next 18 months or so, of a major newbuild program, which has meant that our capital -- CapEx outlay has peaked in 2015 at about $1.7 billion. We have $800 million of CapEx remaining for the second half of the year.

We took the decision, as I mentioned, to defer the DS-10 delivery, which means that $300 million of capital that would have come in 2015 is now pushed out into 2017.

So, once we come off this peak of CapEx in 2015, you will see that our CapEx begins to reduce significantly in 2016 and 2017 as we complete the delivery of our remaining newbuilds before falling even further in 2018, at which stage we have no further plans for any newbuilds or any major upgrades. We have about $1.4 billion of remaining CapEx commitments for our newbuilds, which is largely and effectively covered by the cash we have on hand.

We have done well over the past few years of contracting our newbuilds. And we've been engaged in a process of fleet high-grading as we've brought in these new rigs.

The first seven rigs here you will see have been successfully contracted and are a -- or are delivering revenue to us in 2015. We have four remaining rigs to be delivered, the ENSCO 123, 140, and 141, which are all jackups, and the DS-10, as we've discussed, pushed out to 2017.

All of these rigs are very high specification, and they all have some unique technological advantages that makes us believe that we will be able to contract them as soon as we begin to see the opportunities develop in the marketplace.

We've also benefitted from upgrading of three of our oldest semi subs. The ENSCO 5004, 5006, and the ENSCO 5003, which has had a mooring upgrade, will all contribute to 2015 earnings on the back of the upgrades that they have had and new contracts that they've gained.

Whilst we have been bringing in new rigs at the higher end of the fleet, we've been very proactively removing our older or less capable rigs off the bottom of the fleet in a continuous process. We've divested 20 rigs since 2010, generating approximately $675 million.

And we've sold six rigs in the last 12 months which, because we were proactive and early in the cycle, we actually managed to sell some of these rigs for good returns and proceeds, including the four rigs that we sold in Mexico, which meant that we were able to optimize our position there without ending up with old rigs in a marketplace that was falling very quickly.

We've also placed and still have six rigs held for sale. These are currently cold stacked and not part of the go-forward fleet.

This action has allowed us to high-grade the fleet as we've brought in new rigs as the top, but it's also allowed us to very significantly reduce our expenditure as we've stacked out some of these rigs or sold them, which is a good segue into further expense management actions that we've been taking.

In February, we undertook a major cost cutting exercise, of which the actions were all undertaken in Q1 and the full effects and the full run rate savings were seen as from the second quarter of this year.

Yesterday we -- sorry if I go back. In our earnings call at the end of the second quarter, we announced that we would be taking further action, and yesterday we issued a press announcement which gave some more detail. What we have done, on actions taken in August, is we've been able to increase the cost savings on a year to year annual basis for our offshore compensation by 6 percentage points above and beyond what we did in February.

And we also undertook a reorganization of our business unit structure and some of the back office support functions for the Company, reducing from five to three business units, which has meant that we have reduced our onshore headcount by a further 14% and brought about another $30 million annualized savings.

What this means now is that the combined actions that we took at the beginning of the year and those that we took in August mean that we now have a 15% reduction year-on-year of our offshore unit labor cost, and we have at least $57 million of annualized savings for our onshore SG&A cost reduction.

We will continue to work the cost base down and there are incrementally further savings that we think we can undertake. They're not necessarily likely to be such big chunks as we go forward, but we still continue to refine the cost base of the Company.

An important point I'd like to make is that the vast majority of these cost savings we've taken are sustainable. They're not just actions that can be taken in the near term and then will have to come back when the market returns. But, these are ones that have been driven by fundamental changes in the way we operate and the structure of the Company, and therefore sustainable when the market comes back.

The other side of our cost management has been to proactively manage the stacking of rigs. As we've already said, we have put some rigs up for sale. We have cold stacked some rigs out where we don't intend to market them over the next 12 to 24 months but we do intend to bring them back when the market returns. And examples of these would be the ENSCO 8501 and 8502.

And we will warm stack other rigs ready for market opportunities. We've worked every cost line of our stacking, and we've now been able to reassess and reduce the warm stacking costs to $40,000 a day for a drillship, $32,000 a day for a semi, and $20,000 a day for a jackup.

Now, with this, a warm stack drillship can be mobilized and ready for a new contract within 90 days, and it will be faster for a semi or a jackup. So, this gives us swing capacity at the lower cost base.

With all of these actions that we've taken, we have reassessed our contract drilling expenses for the next couple of quarters. And we've reduced our estimate for our CD&E for the third quarter to round about $455 million, down from a benchmark of $503 million in Q2.

And we've initiated our first outlook and initial outlook for Q4, where we estimate our CD&E at this point will be about $440 million. The fourth quarter outlook is despite the fact that we will be starting up the DS-8 in Angola and that we will have about 7% incremental or increase in rig days in Q4. We will, of course, continue to work down our quarterly CD&E.

Now, despite this cost cutting, what we have been doing and we have increased is an investment on internal processes that will improve our position for the future. And we are investing in a series of initiatives that will increase our performance and increase the efficiency we can run the business.

Our aim is that, as we go through this cycle and we come out of it, that we will be the leanest, most efficient of the drilling contractors. And so, to that end, we are actually investing in some key initiatives.

And three of them are engineering and innovation around the drilling process and our rigs. The second one is around improving our management systems and performance management systems to increase uptime and performance. And the third is on reengineering the business support structure.

All three of these will continue and they will be multiyear programs. And we'll let you know more of these as we being to develop them. But, today I will just present one example, which is that we've recently launched our new proprietary Ensco asset management system that deals with how we maintain and monitor all of the critical equipment on our rigs.

This is a proprietary system that we've built from the knowledge we have in our global fleet of how to run our assets. We are pretty certain that this is going to improve our operational uptime.

It will reduce our maintenance costs, and it will lower the lifetime cost of our equipment. And it leverages the standardization we have on a broad part of our fleet, and it also uses the global knowledge we've had from running such a fleet over many years.

In addition, we're continuing to invest heavily in our safety systems. We believe we've got the leading edge safety system in the business. This is demonstrated by our performance versus our peer group, and also the fact that we're being recognized in the EnergyPoint survey by our clients as being number one in HSE.

We are continuing to invest heavily and have just rolled out a new process safety management system which will, we are certain, improve our risk, increase our uptime, and bring us in better alignment with our customers.

Now, safety in the current market conditions is actually proving to be a major differentiator when it comes to winning work. In the current market conditions, clients have a lot of choices as to who to go to. And it's telling that most of the big contracts that have gone over the past six to 12 months have gone to established drillers with good safety records rather than new companies or new entrant companies or speculators.

All of the factors I've said are aimed at perfecting and improving our margin. And the way we run the Company, the way we structure the Company has led us to have peer group leading net income margin, as you can see here.

It's also led for us five years in a row to win the number one rating in the EnergyPoint total customer satisfaction. And again, I know this is something that investors maybe don't think about, but service quality and service performance for a client at the moment is becoming even more critical than it was in the past.

So, now I'm going to move a little bit on to discuss how the market is evolving for offshore E&P development and offshore drilling. And I'm going to try and paint a few of the factors and a roadmap that can lead to a recovery in the sector.

The first bit I'd like to point out is a few points to remember about actually offshore exploration and production. The first is that deepwater production actually makes up 7% of global supply. That is very difficult to replace and is expected to grow over the next five to 10 years, and will be a key part of making sure that our global demand is met.

The offshore reserves are a critical part of the major E&P companies' portfolios and are not easily replaced or substituted or CapEx switched to other opportunities. It's also important to remember that most of our customers in our E&P work as a service provider to national governments or national oil companies.

Offshore reserves make a massive part of their strategic countries' reserves. And so, countries such as Angola, Nigeria, Mozambique, Brazil are not going to let their offshore reserves remain undeveloped over any long time period.

Excessive costs have been driven in to offshore development over the past few years in the $100-plus oil environment. And whereas onshore in places like the US with the unconventional development, where the last five years has seen significant efficiency and cost improvement, the complete opposite has happened offshore.

A huge amount of inefficiency, non value-add has been put into the system. This is now coming out rapidly. We do fully expect that the break-even commodity price for offshore developments will come down and will come down rapidly over the next couple of years.

And I have great faith in the industry to be able to address this by efficiency and technology. And as I mentioned earlier on, the unprecedented pullback in E&P expenditure will have a supply side effect as we go forward.

The importance of deepwater to major E&P companies is reiterated by Shell's acquisition of BG, which is fundamentally predicated on a view that offshore oil and gas production will be important for Shell going forward. And they've stated as much.

BP, Chevron, Total in the last 12 months have all reiterated their commitment to deepwater development. And all of these companies are very actively working on ways to be able to increase profitability in offshore.

What we're seeing now is the beginnings of a process which is building up pace and will continue aggressively over the next year or two, which is the reengineering of offshore projects.

And we've given a few examples here such as Mad Dog Phase 2, Total block 32, or Statoil's standardization, where the major operators are going back and looking at reengineering, phasing, optimizing, and standardizing around offshore developments in areas where a huge amount of inefficiency has crept in over the past 10 years.

The service sector has also responded. And as you have probably seen from several announcements recently, there have been strategic combinations of some of the major integrated service companies and subsea service companies in order to attack efficiencies, drive out interfaces, and come up with better technological innovations to improve offshore development.

It's the first -- it's early in the phase of this, but these type of combinations are going to start to bring better economics to offshore development. So, for all of these reasons, we do believe that the cost, the break-even cost of offshore E&P development will come down quite significantly over the next few years.

And if I give you another data point, approximately 50% of any offshore development cost is actually steel. And the steel cost has halved since 2013, and that will start to have an effect through on to development projects.

So, in this marketplace, although it is incredibly challenging and quite brutal at the moment, there still has been some activity. And year-to-date in 2015, there has been 285 rig years of new awards in the marketplace, of which Ensco has won just over 10% of that.

So, there is an ongoing background contracting even though it is at very modest levels compared to previous years, and it's not able currently to absorb the active fleet.

I'm going to spend a moment just talking about the jackup market, which often gets ignored or diminished in the discussion of offshore development. And I think we have a relatively unique point on this, given our global footprint in jackups.

The jackup market has remained comparatively robust and has not fallen off as quickly as most people thought. Now, there's no question it is highly competitive and will remain that way for the next year or so.

But, it's held up largely because offshore reserves are more economic in the shallow water, and there are many shallow water basins around the world that are economic at current oil prices.

The second is that it's very easy and fast to bring on reserves in the shallow water where you are nearer infrastructure and nearer shore. And the third is that there is a diverse -- a more diverse customer base including the NOCs, which are a very key player in the jackup market who have a very different driver and economic cycle at the moment.

There's another factor happening which we're seeing in a few places where there is some elasticity of demand, which is, as rigs' prices have come down, we've seen a marked uptick in the number of customers undertaking interventions and plug and abandonment operations using jackup rigs.

So, the market is quite different at the moment from the floater market. Now, it will remain very challenging, and we're going to discuss in a second some of the supply and demand dynamics.

But, for Ensco, in the current market conditions we see being a hybrid player, being exposed to the shallow market, as a distinct positive in terms of the cash flow that our jackup segment provides, the re-contracting opportunities that it provides, and the diversification in client base that it brings up.

Now, let me turn now to the global rig supply. Currently both floater and jackup segments are running round about -- this is globally, not just Ensco, at about 80% utilization.

Now, if we look, there are two factors going to drive the supply and demand going forward. The first is the attrition rate, and the second is the speed with which the new deliveries come to market and, in some cases, whether they are cancelled or deferred out.

In the floater market, we've actually seen scrapping and retirement pick up pace significantly. There's been 40 floaters scrapped since the third quarter of 2014. There's another 70 floaters over 30 years old going to come off contract by the end of 2017.

And if you apply an empirical analysis to this, if you look and assume that the same rate of retirement that has been happening over the past 12 months carries forward, then we can easily move towards over 100 floaters being stacked out. And I think that that is a reasonable assessment given that most of these 30, 35 year old floaters coming off contract are going to struggle to find work and never find work again.

Now, given that there are 71 newbuilds nominally on order, and we believe at least 15 of these will not be built, then there is a scenario as we go forward into the end of 2017/2018 where there will be less marketed floater rigs than there are today, with the attrition numbers being greater than the newbuilds and there basically being a wholesale upgrading of the global fleet.

The jackup market is a little bit different, because there's only been actually four advertised jackups retired in the market since 3Q 2014. But, this is different. There is a silent attrition going on here, because companies do not have to and are not incentivized to announce when they stack rigs.

But, there are 150 jackup rigs over the 30 years of age which are going to come off contract in the next two years or next 18 months or so. Many of these will be stacked, cold stacked. And with the newbuilds coming, it is unlikely that all of these rigs will come back.

So, there is a scenario, again here, where we can see up to 100 jackups being removed from the market. Now this, different from the floaters, is less than the potential number of newbuilds coming to market. But, as you can see from the slide here, way over half of the newbuild jackups being built have been built by speculators in Chinese yards, which were effectively built for an option, a few percent down and the rest on delivery.

We're seeing some of these being deferred. We're seeing those speculators not turn up to make the final payment. So, there is a very big question mark as to how and when these rigs will come to market.

I think over time that you will see a replacement of those older rigs I just described with the newer rigs. But, it's likely that that is going to be much more smeared out and over a longer duration than would be apparent if you just looked at the databases and the nominal delivery dates.

So, let me conclude and then we can move to some questions. So, we are facing a very, very challenging market, but we've taken some proactive capital management, fleet structuring, and expense management decisions. As a consequence of that, our liquidity and balance sheet position gives us resilience and options as we go through the cycle even if it remains tough for a while.

We'll continue to invest during that cycle in engineering and innovation to build our leadership and position us for the future so that we are lean, efficient, and the leading driller when the market turns.

And the offshore industry unquestionably is going to be reconfigured by this downturn. We are going to see assets become available. We're going to see mergers, acquisitions, and we're going to see business failures.

Our position is to be resilient and be in the driving seat as all of this unfolds. And that's why we believe that we're the company to invest in in this sector and to invest in for the upturn.

So, with that, I'll finish and see if we've got time for a question.

QUESTIONS AND ANSWERS

Eddie Kim - *Barclays - Analyst*

Great. Thank you, Carl. We have about four minutes. We'll take maybe two questions from the audience at this time. We have one over there.

Unidentified Audience Member

Can you talk about the buy versus build decision? There's a lot of new assets available in the market for 50% or less of newbuild costs. I don't understand why you would spend the money on a newbuild if you could buy one for 50% and it's of equal quality.

Carl Trowell - *Ensco plc - CEO, President*

Well, the first one is that we have contractual commitments, but also on rigs which are built to our specification and our QA and QC processes. Not all the rigs that you are talking about are built to the same quality.

The fact is that, as of today, if you're talking about rigs that are available form the shipyards or things like that, there are not actually very many of them that are up for sale. I think the market's going to be tested for the first time with the DSM-2 rig.

And the issue then is do you buy now and wait and have all of the additional cost of having to stack that rig or a rig like that and then invest in it to bring it up to contract value when -- or contract standard when you need to put it to work. So, the economics are not quite as simple as just saying you could pick up a drillship for $300 million.

But, as the cycle plays out, then that question will come back a bit more. I think it's quite early at the moment. And some of the newbuilds that you see, some of the speculators are not actually on the market at the moment.

Eddie Kim - *Barclays - Analyst*

One more question over there.

Unidentified Audience Member

Hi. Can you elaborate on the break-even cost of offshore drilling? And what price does Brent need to be in order to be healthy for this industry in the short, intermediate, and longer term?

And also with -- all the majors are more interested to invest in unconventional oil, especially in US. So, how is offshore, though, remain competitive in the majors' portfolios?

Carl Trowell - *Ensco plc - CEO, President*

Okay. There was quite a lot of questions in one question, so let me deal with it quickly this way. So, the first one is that to say one price is not a right way to do it, given that you have quite an overlap. And there is a very simple thesis that's out there in the market which is incorrect, that this is the price of drilling and developing offshore and this is the price of doing unconventionals on shore.

And it's not like that. It's like that. It overlaps significantly. So, you have offshore basins, the pre-salt in Brazil is an example, some of the areas of the Gulf of Mexico, which are economic at $50.00 Brent. You have others that are $60.00. You have others at $70.00. You have others that are $80.00-plus, and some in the Arctic which are $100.00 currently.

So, that's the first point. So, to pick one figure is not correct. But, I think it is important to understand that there isn't this nice differentiation. And likewise onshore in the US, for example, you have certain areas of the shale that's economic at $50.00, and you have others that's not economic at $80.00. So, there is a big overlap. That's the first point.

The second point on what type of oil price evolution, I think the first thing we need to see happen is a stabilization in the oil price because, as I've said, there are areas in the offshore which are economic even at $50.00 and $60.00 a barrel.

But, our clients are finding it very difficult to sanction projects when they have huge volatility and they're not sure whether they've looking at $35.00 oil or $55.00 or $65.00 oil. So, some stabilization in the market will at least lead to an initial uptick in some activity, because at least some planning can happen.

Thereafter, then if we start to step up into $60.00 range, $60.00, $65.00, I think we would see another tick up. And if we ended up in $70.00-plus a barrel, I think we would start to see then a much more material step up because, as I said earlier on, I think we're going to see that $20.00 to $30.00 of -- can be knocked off the break-even price of deepwater as we go through this cycle and we have a lot of the reengineering and we have a lot of the cost driven out of the supply chain. So, that's the second point.

The third point, if I can remember what it was, which is about switching, right, is that actually if you look at the major client base and certainly our big customer base, they do not have a lot of switching capability today. There's -- very few of the companies which drive deepwater and drive shallow water development actually have positions on the unconventional onshore.

So, today it's not a capital switching exercise. It's not that they're cutting offshore and putting onshore with a couple of exceptions. But, the majority don't, right? And it's more about cutting CapEx to reduce their cash flows.

Now, the thing that could change, and I freely admit, is that if we saw wholesale the major companies and NOCs start to flip and buy onshore companies. That could change it. But, as of today and as I think it's likely to unfold, it's not an instant CapEx switching decision.

Eddie Kim - *Barclays - Analyst*

Great. Thank you, Carl. I think that's about all of the time we have. And again, there will not be a breakout session after this presentation. Thanks, everyone.
