

# ENSCO PLC

## FORM 8-K (Current report filing)

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

**FORM 8-K**

CURRENT REPORT

PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934

DATE OF REPORT (Date of earliest event reported): January 13, 2012

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**Enesco plc**

(Exact name of registrant as specified in its charter)

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**England and Wales**

(State or other jurisdiction of  
incorporation)

**1-8097**

(Commission File Number)

**98-0635229**

(I.R.S. Employer  
Identification No.)

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**6 Chesterfield Gardens  
London, England W1J 5BQ**

(Address of Principal Executive Offices and Zip Code)

Registrant's telephone number, including area code: **44 (0) 20 7659 4660**

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**Not Applicable**

(Former name or former address, if changed since last report)

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Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
  - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
  - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
  - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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Updated Part I, "Item 1. Financial Statements" of our Quarterly Report on Form 10-Q for the period ended March 31, 2011 .

Updated Part I, "Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations" of our Quarterly Report on Form 10-Q for t he period ended March 31, 2011.

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## INFORMATION TO BE INCLUDED IN THE REPORT

### Item 8.01 Other Events

EnSCO plc (the "Company," "EnSCO," "we" or "us") is filing this Current Report on Form 8-K (the "Report") for the purpose of updating our Quarterly Report on Form 10-Q for the period ended March 31, 2011 filed with the Securities and Exchange Commission (the "SEC") on April 29, 2011 (the "Form 10-Q"), to retrospectively reflect the reorganization of our reportable segments for all periods presented. Concurrently with this Report, we are filing a Current Report on Form 8-K for the purpose of updating our Annual Report on Form 10-K for the year ended December 31, 2010 filed with the SEC on February 24, 2011 (the "Form 10-K"), to retrospectively reflect the reorganization of our reportable segments for all periods presented.

As previously reported, on May 31, 2011 (the "Merger Date"), EnSCO plc completed a merger transaction (the "Merger") with Pride International, Inc., a Delaware corporation ("Pride"), ENSCO International Incorporated, a Delaware corporation and an indirect, wholly-owned subsidiary and predecessor of EnSCO plc ("EnSCO Delaware"), and ENSCO Ventures LLC, a Delaware limited liability company and an indirect, wholly-owned subsidiary of EnSCO plc ("Merger Sub"). Pursuant to the merger agreement and subject to the conditions set forth therein, Merger Sub merged with and into Pride, with Pride as the surviving entity and an indirect, wholly-owned subsidiary of EnSCO plc.

In connection with the Merger and resulting management reorganization, we evaluated our then-current core assets and operations and organized them into three segments based on water depth operating capabilities. Accordingly, we now consider our business to consist of three reportable segments: (1) Deepwater, which consists of our drillships and semisubmersible rigs capable of drilling in water depths of 4,500 feet or greater, (2) Midwater, which consists of our semisubmersible rigs capable of drilling in water depths of 4,499 feet or less and (3) Jackup, which consists of our jackup rigs capable of operating in water depths up to 400 feet. Each of our three reportable segments provides one service, contract drilling.

Each Item updated in the Form 10-Q is filed as a separate exhibit to this Report. The specific disclosures updated within each Item are as follows:

- Note 13 to our condensed consolidated financial statements as of and for the three-month periods ended March 31, 2011 and 2010, included in Part I, "Item 1. Financial Statements" of the Form 10-Q (filed as Exhibit 99.1 hereto); and
- The Business Environment and Results of Operations sections, included in Part I, "Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations" of the Form 10-Q (filed as Exhibit 99.2 hereto).

The updated segment disclosures included in this Report do not impact or change any of our previously filed consolidated balance sheets, consolidated statements of income or consolidated statements of cash flows. The revised Items of the Form 10-Q included in this Report have not been updated for any events occurring after the respective dates the Form 10-Q was originally filed other than the updated segment disclosures resulting from the aforementioned Merger and reorganization. This Report should be read in conjunction with the Form 10-Q (except for Part I, Items 1 and 2), the Form 10-K (except for Part II, Items 7 and 8 and Part I, Item 1) and our other reports on Form 10-Q and Form 8-K filed during 2011.

## FORWARD-LOOKING STATEMENTS

Statements contained in this report that are not historical facts are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements include words or phrases such as "anticipate," "believe," "estimate," "expect," "intend," "plan," "project," "could," "may," "might," "should," "will" and similar words and specifically include statements regarding expected financial performance; expected utilization, day rates, revenues, operating expenses, contract term, contract backlog, capital expenditures, insurance, financing and funding; expected effects, results and synergies from the integration of Pride's operations; the timing of availability, delivery, mobilization, contract commencement or relocation or other movement of rigs; future rig construction (including construction in progress and completion thereof), enhancement, upgrade or repair and timing thereof; the suitability of rigs for future contracts; general market, business and industry conditions, trends and outlook; future operations; the impact of the Macondo well incident; expected contributions from our rig fleet expansion program and our program to high-grade the rig fleet by investing in new equipment and divesting selected assets and underutilized rigs; expense management; and the likely outcome of litigation, legal proceedings, investigations or insurance or other claims and the timing thereof.

Such statements are subject to numerous risks, uncertainties and assumptions that may cause actual results to vary materially from those indicated, including:

- our ability to successfully integrate the operations of EnSCO and Pride as contemplated and to realize the anticipated benefits of the Merger;
- our ability to meet our increased debt service obligations as a result of the Merger and to fund planned expenditures, including construction costs for our remaining newbuild construction projects;
- our ability to realize expected benefits from the December 2009 redomestication as a U.K. public limited company and the related reorganization of EnSCO's corporate structure (the "redomestication"), including the effect of any changes in laws, rules and regulations, or the interpretation thereof, or in the applicable facts, that could adversely affect our status as a non-U.S. corporation for U.S. tax purposes or otherwise adversely affect our anticipated consolidated effective income tax rate;
- the continued impact of the Macondo well incident on offshore drilling operations, including current and any future actual or de facto drilling permit and operations delays, moratoria or suspensions, new and future regulatory, legislative or permitting requirements (including requirements related to certification and testing of blow-out preventers and other equipment or otherwise impacting operations), future lease sales, changes in laws, rules and regulations that have or may impose increased financial responsibility, additional oil spill abatement contingency plan capability requirements and other governmental actions that may result in claims of force majeure or otherwise adversely affect our existing drilling contracts;
- governmental regulatory, legislative and permitting requirements affecting drilling operations, including limitations on drilling locations, such as the Gulf of Mexico during hurricane season;
- changes in worldwide rig supply and demand, competition or technology, including changes as a result of delivery of newbuild drilling rigs;
- changes in future levels of drilling activity and expenditures, whether as a result of global capital markets and liquidity, prices of oil and natural gas or otherwise, which may cause us to idle or stack additional rigs;
- downtime and other risks associated with offshore rig operations or rig relocations, including rig or equipment failure, damage and other unplanned repairs, the limited availability of transport vessels, hazards, self-imposed drilling limitations and other delays due to severe storms and hurricanes and the limited availability or high cost of insurance coverage for certain offshore perils, such as hurricanes in the Gulf of Mexico or associated removal of wreckage or debris;

- possible cancellation or suspension of drilling contracts as a result of mechanical difficulties, performance or other reasons;
- risks inherent to shipyard rig construction, repair or enhancement, including risks associated with concentration of our construction contracts with two shipyards, unexpected delays in equipment delivery and engineering or design issues following delivery, or changes in the commencement, completion or service dates;
- delays in actual contract commencement dates;
- environmental or other liabilities, risks or losses, whether related to storm or hurricane damage, losses or liabilities (including wreckage or debris removal), collisions, groundings, blowouts, fires, explosions and other accidents or terrorism or otherwise, for which insurance coverage and contractual indemnities may be insufficient or otherwise unavailable;
- our ability to attract and retain skilled personnel on commercially reasonable terms, whether due to labor regulations, unionization or otherwise;
- governmental action, terrorism, piracy, military action and political and economic uncertainties, including uncertainty or instability resulting from civil unrest, political demonstrations, mass strikes, or an escalation or additional outbreak of armed hostilities or other crises in oil or natural gas producing areas of the Middle East, North Africa, West Africa or other geographic areas, which may result in expropriation, nationalization, confiscation or deprivation of our assets or result in claims of a force majeure situation;
- the outcome of litigation, legal proceedings, investigations or other claims or contract disputes, including any inability to collect receivables or resolve significant contractual or day rate disputes, claims related to the Seahawk bankruptcy and related matters, any purported renegotiation, nullification, cancellation or breach of contracts with customers or other parties and any failure to negotiate or complete definitive contracts following announcements of receipt of letters of intent;
- adverse changes in foreign currency exchange rates, including their effect on the fair value measurement of our derivative instruments; and
- potential long-lived asset or goodwill impairments

In addition to the numerous risks, uncertainties and assumptions described above, you should also carefully read and consider "Item 1A. Risk Factors" in Part I and "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" in Part II of our annual report on Form 10-K for the year ended December 31, 2010, as updated in our subsequent quarterly reports on Form 10-Q and by this report and the Current Report on Form 8-K being filed concurrently herewith, which are available on the SEC's website at [www.sec.gov](http://www.sec.gov). Each forward-looking statement speaks only as of the date of the particular statement, and we undertake no obligation to publicly update or revise any forward looking statements, except as required by law.

**Item 9.01 Financial Statements and Exhibits**

(d) Exhibits

<b><u>Exhibit No.</u></b>	<b><u>Description</u></b>
15.1	Letter Regarding Unaudited Interim Information.
99.1	Updated Part I, "Item 1. Financial Statements" of our Quarterly Report on Form 10-Q for the period ended March 31, 2011.
99.2	Updated Part I, "Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations" of our Quarterly Report on Form 10-Q for the period ended March 31, 2011.
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101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation Linkbase
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101.LAB	XBRL Taxonomy Extension Label Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase

## SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

**Enscopl**

Date: January 13, 2012

/s/ DOUGLAS J. MANKO  
Douglas J. Manko  
Controller

## EXHIBIT INDEX

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January 13, 2012

Enscopl  
London, England

Re: Registration Statements on Form S-8 (Nos. 333-174611, 333-58625, 33-40282, 333-97757, 333-125048 and 333-156530)

With respect to the subject registration statements, we acknowledge our awareness of the use therein of our report dated April 29, 2011 (except for the updated disclosures pertaining to the change in reportable segments as described in Note 13 as to which the date is January 13, 2012) related to our review of interim financial information.

Pursuant to Rule 436 under the Securities Act of 1933 (the Act), such report is not considered part of a registration statement prepared or certified by an independent registered public accounting firm, or a report prepared or certified by an independent registered public accounting firm within the meaning of Sections 7 and 11 of the Act. It should be noted, we have not performed any procedures subsequent to April 29, 2011 (except for the updated disclosures pertaining to the change in reportable segments as described in Note 13 as to which the date is January 13, 2012).

/s/ KPMG LLP  
Dallas, Texas

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**PART I - FINANCIAL INFORMATION**

As further discussed in Note 13 to our condensed consolidated financial statements herein, our condensed consolidated financial statements for all periods presented herein have been updated to retrospectively reflect the reorganization of our reportable segments resulting from the merger transaction with Pride International, Inc. (the "Merger") completed on May 31, 2011, pursuant to which Pride International became an indirect, wholly-owned subsidiary of Enco plc. This filing includes updates only to the portions of Item 1 and Item 2 of the Form 10-Q that specifically relate to the updated segment disclosures resulting from the Merger and management reorganization and does not otherwise modify or update any other disclosures set forth in the Form 10-Q.

**Item 1. Financial Statements****REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Board of Directors and Shareholders  
Enco plc:

We have reviewed the condensed consolidated balance sheet of Enco plc and subsidiaries as of March 31, 2011, the related condensed consolidated statements of income for the three-month periods ended March 31, 2011 and 2010, and the related condensed consolidated statements of cash flows for the three-month periods ended March 31, 2011 and 2010. These condensed consolidated financial statements are the responsibility of the Company's management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the condensed consolidated financial statements referred to above for them to be in conformity with U.S. generally accepted accounting principles.

We have previously audited, in accordance with standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Enco plc and subsidiaries as of December 31, 2010, and the related consolidated statements of income and cash flows for the year then ended (not presented herein); and in our report dated February 24, 2011, except for the change in reportable segments as described in Note 13, as to which the date is January 13, 2012, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 2010, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ KPMG LLP

Dallas, Texas

April 29, 2011, except for the change in reportable segments as described in Note 13, as to which the date is January 13, 2012

**ENSCO PLC AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF INCOME**  
(In millions, except per share amounts)  
(Unaudited)

	Three Months Ended March 31,	
	2011	2010
OPERATING REVENUES	\$361.5	\$448.6
OPERATING EXPENSES		
Contract drilling (exclusive of depreciation expense)	191.6	182.4
Depreciation	59.5	51.7
General and administrative	30.1	20.6
	281.2	254.7
OPERATING INCOME	80.3	193.9
OTHER INCOME, NET	2.2	3.1
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	82.5	197.0
PROVISION FOR INCOME TAXES		
Current income tax expense	26.3	23.2
Deferred income tax (benefit) expense	(9.3)	11.8
	17.0	35.0
INCOME FROM CONTINUING OPERATIONS	65.5	162.0
DISCONTINUED OPERATIONS		
Income from discontinued operations, net	--	.4
Gain on disposal of discontinued operations, net	--	29.2
	--	29.6
NET INCOME	65.5	191.6
NET INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS	(.9)	(1.8)
NET INCOME ATTRIBUTABLE TO ENSCO	\$ 64.6	\$189.8
EARNINGS PER SHARE - BASIC		
Continuing operations	\$ .45	\$ 1.12
Discontinued operations	--	.21
	\$ .45	\$ 1.33
EARNINGS PER SHARE - DILUTED		
Continuing operations	\$ .45	\$ 1.12
Discontinued operations	--	.21
	\$ .45	\$ 1.33
NET INCOME ATTRIBUTABLE TO ENSCO SHARES		
Basic	\$ 63.6	\$187.4
Diluted	\$ 63.6	\$187.4
WEIGHTED-AVERAGE SHARES OUTSTANDING		
Basic	141.2	140.7
Diluted	141.4	140.8
CASH DIVIDENDS PER SHARE	\$ .35	\$ .025

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

**ENSCO PLC AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
(In millions, except share and par value amounts)

	March 31, 2011 (Unaudited)	December 31, 2010
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$3,432.1	\$1,050.7
Accounts receivable, net	269.3	214.6
Other	183.8	171.4
Total current assets	3,885.2	1,436.7
<b>PROPERTY AND EQUIPMENT, AT COST</b>		
Less accumulated depreciation	7,012.0	6,744.6
Property and equipment, net	1,752.9	1,694.7
	5,259.1	5,049.9
<b>GOODWILL</b>	336.2	336.2
<b>OTHER ASSETS, NET</b>	184.6	228.7
	\$9,665.1	\$7,051.5
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable – trade	\$ 296.4	\$ 163.5
Accrued liabilities and other	155.9	168.3
Short-term debt	2,462.9	--
Current maturities of long-term debt	17.2	17.2
Total current liabilities	2,932.4	349.0
<b>LONG-TERM DEBT</b>	240.1	240.1
<b>DEFERRED INCOME TAXES</b>	350.0	358.0
<b>OTHER LIABILITIES</b>	150.7	139.4
<b>COMMITMENTS AND CONTINGENCIES</b>		
<b>ENSCO SHAREHOLDERS' EQUITY</b>		
Class A ordinary shares, U.S. \$.10 par value, 450.0 million shares authorized, 150.0 million shares issued	15.0	15.0
Class B ordinary shares, £1 par value, 50,000 shares authorized and issued	.1	.1
Additional paid-in capital	648.3	637.1
Retained earnings	5,319.4	5,305.0
Accumulated other comprehensive income	13.2	11.1
Treasury shares, at cost, 6.6 million shares and 7.1 million shares	(9.3)	(8.8)
Total Ensco shareholders' equity	5,986.7	5,959.5
<b>NONCONTROLLING INTERESTS</b>	5.2	5.5
Total equity	5,991.9	5,965.0
	\$9,665.1	\$7,051.5

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

**ENSCO PLC AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(In millions)  
(Unaudited)

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2011</b>	<b>2010</b>
<b>OPERATING ACTIVITIES</b>		
Net income	\$ 65.5	\$ 191.6
Adjustments to reconcile net income to net cash provided by operating activities of continuing operations:		
Depreciation expense	59.5	51.7
Share-based compensation expense	11.5	10.7
Deferred income tax (benefit) expense	(9.3)	11.8
Amortization expense	5.5	10.8
Income from discontinued operations, net	--	(4.4)
Gain on disposal of discontinued operations, net	--	(29.2)
Other	(2.9)	.2
Changes in operating assets and liabilities:		
(Increase) decrease in accounts receivable	(55.7)	14.7
Decrease in trading securities	49.3	5.4
(Increase) decrease in other assets	(9.2)	4.3
Increase (decrease) in liabilities	11.0	(111.9)
Net cash provided by operating activities of continuing operations	125.2	159.7
<b>INVESTING ACTIVITIES</b>		
Additions to property and equipment	(131.0)	(167.5)
Proceeds from disposal of discontinued operations	--	94.7
Proceeds from disposition of assets	.5	.2
Net cash used in investing activities	(130.5)	(72.6)
<b>FINANCING ACTIVITIES</b>		
Proceeds from short-term borrowings	2,462.8	--
Cash dividends paid	(50.2)	(3.5)
Financing costs	(25.5)	--
Other	(.5)	(1.3)
Net cash provided by (used in) financing activities	2,386.6	(4.8)
Effect of exchange rate changes on cash and cash equivalents	.1	(.5)
Net cash provided by operating activities of discontinued operations	--	6.2
<b>INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>2,381.4</b>	<b>88.0</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>	<b>1,050.7</b>	<b>1,141.4</b>
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	<b>\$3,432.1</b>	<b>\$1,229.4</b>

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

**ENSCO PLC AND SUBSIDIARIES**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
(Unaudited)

**Note 1 - Unaudited Condensed Consolidated Financial Statements**

*Basis of Presentation*

We prepared the accompanying condensed consolidated financial statements of Enesco plc and subsidiaries (the "Company", "Enesco", "we" or "us") in accordance with accounting principles generally accepted in the United States of America ("GAAP"), pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC") included in the instructions to Form 10-Q and Article 10 of Regulation S-X. The financial information included in this report is unaudited but, in our opinion, includes all adjustments (consisting of normal recurring adjustments) that are necessary for a fair presentation of our financial position, results of operations and cash flows for the interim periods presented. The December 31, 2010 condensed consolidated balance sheet data were derived from our 2010 audited consolidated financial statements but do not include all disclosures required by GAAP. Certain previously reported amounts have been reclassified to conform to the current year presentation. The preparation of our condensed consolidated financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities, the related revenues and expenses and disclosures of gain and loss contingencies as of the date of the financial statements. Actual results could differ from those estimates.

The financial data for the quarters ended March 31, 2011 and 2010 included herein have been subjected to a limited review by KPMG LLP, our independent registered public accounting firm. The accompanying independent registered public accounting firm's review report is not a report within the meaning of Sections 7 and 11 of the Securities Act of 1933, and the independent registered public accounting firm's liability under Section 11 does not extend to it.

Results of operations for the quarter ended March 31, 2011 are not necessarily indicative of the results of operations that will be realized for the year ending December 31, 2011. It is recommended that these condensed consolidated financial statements be read in conjunction with our audited consolidated financial statements and notes thereto for the year ended December 31, 2010 included in our Annual Report on Form 10-K filed with the SEC on February 24, 2011.

*Pending Merger with Pride*

On February 6, 2011, Enesco plc entered into an Agreement and Plan of Merger with Pride International, Inc., a Delaware corporation ("Pride"), ENSCO International Incorporated, a Delaware corporation and a wholly-owned subsidiary and predecessor of Enesco, and ENSCO Ventures LLC, a Delaware limited liability company and an indirect, wholly-owned subsidiary of Enesco ("Merger Sub"). Pursuant to the merger agreement and subject to the conditions set forth therein, Merger Sub will merge with and into Pride, with Pride as the surviving entity and an indirect, wholly-owned subsidiary of Enesco. As a result of the merger, each outstanding share of Pride's common stock (other than shares of common stock held directly or indirectly by Enesco, Pride or any wholly-owned subsidiary of Enesco or Pride (which will be cancelled as a result of the merger), those shares with respect to which appraisal rights under Delaware law are properly exercised and not withdrawn and other shares held by certain U.K. residents if determined by Enesco) will be converted into the right to receive \$15.60 in cash and 0.4778 Enesco American depositary shares, each representing one Class A ordinary share ("ADS" or "share"). Under certain circumstances, U.K. residents may receive all cash consideration as a result of compliance with legal requirements.

We estimate that the total consideration to be delivered in the merger to be approximately \$7.9 billion, consisting of \$2.8 billion of cash, the delivery of approximately 86.0 million Enesco ADSs (assuming that no Pride employee stock options are exercised before the closing of the merger) with an aggregate value of \$5.1 billion based on the closing price of Enesco ADSs of \$59.10 on April 25, 2011 and the estimated fair value of \$32.0 million of Pride employee stock options assumed by Enesco. The value of the merger consideration will fluctuate based upon changes in the price of Enesco ADSs and the number of shares of Pride common stock and employee stock options outstanding on the closing date. The merger agreement and the merger were approved by the respective Boards of Directors of Enesco and Pride. Consummation of the merger is subject to the approval of the shareholders of Enesco and the stockholders of Pride, regulatory approvals and the satisfaction or waiver of various other conditions as more fully described in the merger agreement. On March 30, 2011, Enesco and Pride received notice from the Antitrust Division of the U.S. Department of Justice and the Federal Trade Commission granting early termination of the waiting period under the Hart-Scott-Rodino Act. Subject to receipt of remaining required approvals, it is anticipated that the closing of the merger will occur during the second quarter of 2011.

## Note 2 - Noncontrolling Interests

Noncontrolling interests are classified as equity on our consolidated balance sheets, and net income attributable to noncontrolling interests is presented separately on our consolidated statements of income. In our Asia Pacific operating segment, local third parties hold a noncontrolling ownership interest in three of our subsidiaries.

The following table is a reconciliation of income from continuing operations attributable to EnSCO for the quarters ended March 31, 2011 and 2010 (in millions):

	<u>2011</u>	<u>2010</u>
In come from continuing operations	\$65.5	\$162.0
Income from continuing operations attributable to noncontrolling interests	(.9)	(1.6)
Income from continuing operations attributable to EnSCO	\$64.6	\$160.4

The following table is a reconciliation of income from discontinued operations, net, attributable to EnSCO for the quarter ended March 31, 2010 (in millions):

	<u>2010</u>
In come from discontinued operations	\$29.6
Income from discontinued operations attributable to noncontrolling interests	(.2)
Income from discontinued operations attributable to EnSCO	\$29.4

## Note 3 - Earnings Per Share

We compute basic and diluted earnings per share ("EPS") in accordance with the two-class method. Net income attributable to EnSCO used in our computations of basic and diluted EPS is adjusted to exclude net income allocated to non-vested shares granted to our employees and non-employee directors. Weighted-average shares outstanding used in our computation of diluted EPS includes the dilutive effect of share options using the treasury stock method and excludes non-vested shares.

The following table is a reconciliation of net income attributable to EnSCO shares used in our basic and diluted EPS computations for the quarters ended March 31, 2011 and 2010 (in millions):

	<u>2011</u>	<u>2010</u>
Net income attributable to EnSCO	\$64.6	\$189.8
Net income allocated to non-vested share awards	(1.0)	(2.4)
Net income attributable to EnSCO shares	\$63.6	\$187.4

The following table is a reconciliation of the weighted-average shares used in our basic and diluted EPS computations for the quarters ended March 31, 2011 and 2010 (in millions):

	<u>2011</u>	<u>2010</u>
Weighted-average shares - basic	141.2	140.7
Potentially dilutive share options	.2	.1
Weighted-average shares - diluted	141.4	140.8

Antidilutive share options totaling 400,000 and 1.0 million were excluded from the computation of diluted EPS for the quarters ended March 31, 2011 and 2010, respectively.

## Note 4 - Derivative Instruments

Our functional currency is the U.S. dollar. As is customary in the oil and gas industry, a majority of our revenues are denominated in U.S. dollars, however, a portion of the revenues earned and expenses incurred by certain of our subsidiaries are denominated in currencies other than the U.S. dollar ("foreign currencies"). These transactions are remeasured in U.S. dollars based on a combination of both current and historical exchange rates. We use foreign currency forward contracts ("derivatives") to reduce our exposure to foreign currency exchange rate risk. We maintain a foreign currency exchange rate risk management strategy that utilizes derivatives to reduce our exposure to unanticipated fluctuations in earnings and cash flows caused by changes in foreign currency exchange rates. Although no interest rate related derivatives were outstanding as of March 31, 2011 and December 31, 2010, we occasionally employ an interest rate risk management strategy that utilizes derivatives to minimize or eliminate unanticipated fluctuations in earnings and cash flows arising from changes in, and volatility of, interest rates. We minimize our credit risk relating to the counterparties of our derivatives by transacting with multiple, high-quality financial institutions, thereby limiting exposure to individual counterparties, and by monitoring the financial condition of our counterparties. We do not enter into derivatives for trading or other speculative purposes. All of our derivatives mature in the next 17 months.

All derivatives were recorded on our condensed consolidated balance sheets at fair value. Accounting for the gains and losses resulting from changes in the fair value of derivatives depends on the use of the derivative and whether it qualifies for hedge accounting. See "Note 9 - Fair Value Measurements" for additional information on the fair value measurement of our derivatives.

As of March 31, 2011 and December 31, 2010, our condensed consolidated balance sheets included net foreign currency derivative assets of \$13.2 million and \$16.4 million, respectively. Derivatives recorded at fair value in our condensed consolidated balance sheets as of March 31, 2011 and December 31, 2010 consisted of the following (in millions):

	<u>Derivative Assets</u>		<u>Derivative Liabilities</u>	
	<u>March 31,</u> <u>2011</u>	<u>December 31,</u> <u>2010</u>	<u>March 31,</u> <u>2011</u>	<u>December 31,</u> <u>2010</u>
<b>Derivatives Designated as Hedging Instruments</b>				
Foreign currency forward contracts - current <sup>(1)</sup>	\$13.3	\$16.8	\$ .1	\$.6
Foreign currency forward contracts - non-current <sup>(2)</sup>	.2	.1	.3	.1
	13.5	16.9	.4	.7
<b>Derivatives Not Designated as Hedging Instruments</b>				
Foreign currency forward contracts - current <sup>(1)</sup>	.1	.2	.0	--
	.1	.2	.0	--
<b>Total</b>	<b>\$13.6</b>	<b>\$17.1</b>	<b>\$ .4</b>	<b>\$.7</b>

(1) Derivative assets and liabilities that have maturity dates equal to or less than twelve months from the respective balance sheet date were included in other current assets and accrued liabilities and other, respectively, on our condensed consolidated balance sheets.

(2) Derivative assets and liabilities that have maturity dates greater than twelve months from the respective balance sheet date were included in other assets, net, and other liabilities, respectively, on our condensed consolidated balance sheets.

We utilize derivatives designated as hedging instruments to hedge forecasted foreign currency denominated transactions ("cash flow hedges"), primarily to reduce our exposure to foreign currency exchange rate risk associated with the portion of our remaining ENSCO 8500 Series® construction obligations denominated in Singapore dollars and contract drilling expenses denominated in various foreign currencies. As of March 31, 2011, we had cash flow hedges outstanding to exchange an aggregate \$245.2 million for various foreign currencies, including \$132.8 million for Singapore dollars, \$95.7 million for British pounds, \$8.4 million for Mexican pesos and \$8.3 million for other currencies.

Gains and losses, net of tax, on derivatives designated as cash flow hedges included in our condensed consolidated statements of income for the quarters ended March 31, 2011 and 2010 were as follows (in millions):

	<b>Gain (Loss) Recognized in Other Comprehensive Income ("OCI") (Effective Portion)</b>		<b>(Loss) Gain Reclassified from Accumulated Other Comprehensive Income ("AOCI") into Income (Effective Portion)</b>		<b>(Loss) Gain Recognized in Income on Derivatives (Ineffective Portion and Amount Excluded from Effectiveness Testing) <sup>(1)</sup></b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
	Interest rate lock contracts <sup>(2)</sup>	\$ --	\$ --	\$(.1)	\$(.1)	\$ --
Foreign currency forward contracts <sup>(3)</sup>	2.9	(1.4)	.9	1.4	(.4)	.0
<b>Total</b>	<b>\$ 2.9</b>	<b>\$(1.4)</b>	<b>\$ .8</b>	<b>\$1.3</b>	<b>\$(.4)</b>	<b>\$ .0</b>

<sup>(1)</sup> Gains and losses recognized in income for ineffectiveness and amounts excluded from effectiveness testing were included in other income, net, in our condensed consolidated statements of income.

<sup>(2)</sup> Gains and losses on derivatives reclassified from AOCI into income (effective portion) were included in other income, net, in our condensed consolidated statements of income.

<sup>(3)</sup> Gains and losses on derivatives reclassified from AOCI into income (effective portion) were included in contract drilling expense in our condensed consolidated statements of income.

We have net assets and liabilities denominated in numerous foreign currencies and use various methods to manage our exposure to foreign currency exchange rate risk. We predominantly structure our drilling contracts in U.S. dollars which significantly reduces the portion of our cash flows and assets denominated in foreign currencies. We occasionally enter into derivatives that hedge the fair value of recognized foreign currency denominated assets or liabilities but do not designate such derivatives as hedging instruments. In these situations, a natural hedging relationship generally exists whereby changes in the fair value of the derivatives offset changes in the fair value of the underlying hedged items. As of March 31, 2011, we had derivatives not designated as hedging instruments outstanding to exchange an aggregate \$30.3 million for various foreign currencies, including \$11.8 million for Australian dollars, \$5.8 million for Swiss francs, \$4.0 million for Indonesian rupiahs and \$8.7 million for other currencies.

Net gains of \$200,000 and \$600,000 associated with our derivatives not designated as hedging instruments were included in other income, net, in our condensed consolidated statements of income for the quarters ended March 31, 2011 and 2010, respectively.

As of March 31, 2011, the estimated amount of net gains associated with derivatives, net of tax, that will be reclassified to earnings during the next twelve months was as follows (in millions):

Net unrealized gains to be reclassified to contract drilling expense	\$1.8
Net realized losses to be reclassified to other income, net	(.3)
Net gains to be reclassified to earnings	\$1.5

#### Note 5 - Accrued Liabilities and Other

Accrued liabilities and other as of March 31, 2011 and December 31, 2010 consisted of the following (in millions):

	<u>2011</u>	<u>2010</u>
Deferred revenue	\$ 49.6	\$ 48.1
Personnel costs	39.3	58.0
Wreckage and debris removal	21.0	21.0
Taxes	20.7	22.1
Other	25.3	19.1
	<u>\$155.9</u>	<u>\$168.3</u>

#### Note 6 - Short-Term Debt

##### *Senior Notes*

On March 17, 2011, we issued \$1,000.0 million aggregate principal amount of unsecured 3.25% senior notes due 2016 at a discount of \$7.6 million and \$1,500.0 million aggregate principal amount of unsecured 4.70% senior notes due 2021 at a discount of \$29.6 million (collectively the “Notes”) in a public offering. Interest on the Notes is payable semiannually in March and September of each year. The Notes were issued pursuant to an Indenture between us and Deutsche Bank Trust Company Americas, as trustee (the “Trustee”), dated March 17, 2011 (the “Indenture”), and a Supplemental Indenture between us and the Trustee, dated March 17, 2011 (the “Supplemental Indenture”).

We intend to use the proceeds from the sale of the Notes to fund a portion of the cash consideration payable in connection with the proposed merger with Pride. However, in the event that, for any reason, (i) we do not consummate the merger prior to 5:00 p.m., New York City time, on February 3, 2012 or (ii) the merger agreement with Pride is terminated at any time before such time but after September 17, 2011, we must redeem all of the Notes at a redemption price equal to 102% of the aggregate principal amount of the Notes, plus accrued and unpaid interest to the special mandatory redemption date. If the merger agreement with Pride is terminated at any time on or before September 17, 2011, we must redeem the Notes at a redemption price equal to 101% of the aggregate principal amount of the Notes, plus accrued and unpaid interest to the special mandatory redemption date. “Special mandatory redemption date” means the earlier to occur of (1) March 9, 2012, if the merger has not been consummated prior to 5:00 p.m., New York City time, on February 3, 2012, or (2) the 35th day (or if such day is not a business day, the first business day thereafter) following the termination of the merger agreement with Pride for any reason.

Due to the aforementioned redemption features, the Notes were classified as short-term debt on our condensed consolidated balance sheet as of March 31, 2011 and will be reclassified as long-term debt in the event the merger is consummated within the timeframe described above.

We may also redeem each series of the Notes, in whole or in part, at any time, at a price equal to 100% of their principal amount, plus accrued and unpaid interest and a “make-whole” premium. The Notes, the Indenture and the Supplemental Indenture also contain customary events of default, including failure to pay principal or interest on the Notes when due, among others. The Supplemental Indenture contains certain restrictions, including, among others, restrictions on our ability and the ability of our subsidiaries to create or incur secured indebtedness, enter into certain sale/leaseback transactions and enter into certain merger or consolidation transactions.

#### *Bridge Term Facility*

On February 6, 2011, we entered into a bridge commitment letter (the “Commitment Letter”) with Deutsche Bank AG Cayman Islands Branch (“DBCI”), Deutsche Bank Securities Inc. and Citigroup Global Markets Inc. (“Citi”). Pursuant to the Commitment Letter, DBCI and Citi committed to provide a \$2,750.0 million unsecured bridge term loan facility (the “Bridge Term Facility”) to fund a portion of the cash consideration in the merger with Pride. Upon receipt of the proceeds from the issuance of the Notes, we determined that we had adequate cash resources to fund the cash component of the consideration payable in connection with the proposed merger with Pride, and accordingly the Bridge Term Facility was terminated.

### **Note 7 – Share-Based Compensation**

#### *Non-Vested Share Awards*

During the quarter ended March 31, 2011, we granted 495,050 non-vested share awards to our officers and certain other employees, pursuant to our 2005 Long-Term Incentive Plan (“LTIP”). These grants included retention awards that were granted to our officers and certain other key employees upon the announcement of our proposed merger with Pride, awards to certain of our officers for annual equity awards and awards granted to new or recently promoted employees. The retention award grants and the annual equity award grants to certain of our officers generally vest at a rate of 33% per year. All other grants of non-vested share awards generally vest at a rate of 20% per year, as determined by a committee of the Board of Directors. All non-vested share awards have voting and dividend rights effective on the date of grant and are measured using the market value of our shares on the date of grant. The weighted-average grant-date fair value of non-vested share awards granted during the quarter ended March 31, 2011 was \$52.54 per share. All non-vested share award grants were issued out of treasury.

#### *Performance Awards*

During the quarter ended March 31, 2011, we granted performance awards to certain of our officers as annual equity awards pursuant to our LTIP. Performance awards generally vest at the end of a three-year measurement period based on measurement against performance goals. Our performance awards are classified as liability awards with compensation expense measured based on the estimated probability of attainment of the specified performance goals and recognized on a straight-line basis over the requisite service period. The aggregate grant-date fair value of performance awards granted during the quarter ended March 31, 2011 totaled \$1.3 million.

#### *Share Option Awards*

During the quarter ended March 31, 2011, we granted 91,725 share options to certain officers as annual equity awards made pursuant to our LTIP. The share options granted generally become exercisable in annual 33% increments over a three-year period and, to the extent not exercised, expire on the seventh anniversary of the grant date. The following table summarizes the value of share options granted during the quarter ended March 31, 2011 (per share):

Weighted-average grant-date fair value	\$19.31
Weighted-average exercise price	\$55.34

The exercise price of share options granted during the period equals the market value of the underlying stock on the date of grant. The fair value of each option award was estimated on the date of grant using the Black-Scholes option valuation model with the following weighted-average assumptions for the quarter ended March 31, 2011:

Risk-free interest rate	1.7%
Expected life (in years)	3.93
Expected volatility	52.2%
Dividend yield	2.5%

Expected volatility is based on the historical volatility in the market price of our shares over the period of time equivalent to the expected term of the options granted. The expected term of options granted is derived from historical exercise patterns over a period of time equivalent to the contractual term of the options granted. We have not experienced significant differences in the historical exercise patterns among officers, employees and non-employee directors for them to be considered separately for valuation purposes. The risk-free interest rate is based on the implied yield of U.S. Treasury zero-coupon issues on the date of grant with a remaining term approximating the expected term of the options granted.

#### Note 8 - Comprehensive Income

Accumulated other comprehensive income as of March 31, 2011 and December 31, 2010 was comprised of gains and losses on derivative instruments, net of tax. The components of comprehensive income, net of tax, for the quarters ended March 31, 2011 and 2010 were as follows (in millions):

	<u>2011</u>	<u>2010</u>
Net income	\$65.5	\$191.6
Other comprehensive income:		
Net change in fair value of derivatives	2.9	(1.4)
Reclassification of gains and losses on derivative instruments from other comprehensive income into net income	(.8)	(1.3)
Net other comprehensive income (loss)	2.1	(2.7)
Comprehensive income	67.6	188.9
Comprehensive income attributable to noncontrolling interests	(.9)	(1.8)
Comprehensive income attributable to Ensco	\$66.7	\$187.1

## Note 9 - Fair Value Measurements

The following fair value hierarchy table categorizes information regarding our financial assets and liabilities measured at fair value on a recurring basis as of March 31, 2011 and December 31, 2010 (in millions):

	<b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>	<b>Total</b>
<b>As of March 31, 2011</b>				
Supplemental executive retirement plan assets	\$26.5	\$ --	\$ --	\$26.5
Derivatives, net	--	13.2	--	13.2
<b>Total financial assets</b>	<b>\$26.5</b>	<b>\$13.2</b>	<b>\$ --</b>	<b>\$39.7</b>
<b>As of December 31, 2010</b>				
Auction rate securities	\$ --	\$ --	\$44.5	\$44.5
Supplemental executive retirement plan assets	23.0	--	--	23.0
Derivatives, net	--	16.4	--	16.4
<b>Total financial assets</b>	<b>\$23.0</b>	<b>\$16.4</b>	<b>\$44.5</b>	<b>\$83.9</b>

### *Auction Rate Securities*

As of December 31, 2010, we held long-term debt instruments with variable interest rates that periodically reset through an auction process ("auction rate securities") totaling \$50.1 million (par value) and were included in other assets, net, on our condensed consolidated balance sheet. During the quarter ended March 31, 2011, \$42.0 million (par value) of our auction rate securities were repurchased at par and \$8.1 million (par value) were sold at 90% of par. Our auction rate securities were measured at fair value on a recurring basis using significant Level 3 inputs as of December 31, 2010. The following table summarizes the fair value measurements of our auction rate securities using significant Level 3 inputs, and changes therein, for the quarters ended March 31, 2011 and 2010 (in millions):

	<b>2011</b>	<b>2010</b>
Beginning Balance	\$44.5	\$60.5
Sales	(49.3)	(5.4)
Realized losses*	(.1)	--
Unrealized gains*	4.9	.3
Transfers in and/or out of Level 3	--	--
<b>Ending balance</b>	<b>\$ --</b>	<b>\$55.4</b>

\* Realized losses and unrealized gains are included in other income, net, in our condensed consolidated statements of income.

### *Supplemental Executive Retirement Plans*

Our EnSCO supplemental executive retirement plans (the "SERP") are non-qualified plans that provide for eligible employees to defer a portion of their compensation for use after retirement. Assets held in the SERP were marketable securities measured at fair value on a recurring basis using Level 1 inputs and were included in other assets, net, on our condensed consolidated balance sheets as of March 31, 2011 and December 31, 2010. The fair value measurement of assets held in the SERP was based on quoted market prices.

## Derivatives

Our derivatives were measured at fair value on a recurring basis using Level 2 inputs as of March 31, 2011 and December 31, 2010. See "Note 4 - Derivative Instruments" for additional information on our derivatives, including a description of our foreign currency hedging activities and related methodologies used to manage foreign currency exchange rate risk. The fair value measurement of our derivatives was based on market prices that are generally observable for similar assets or liabilities at commonly-quoted intervals.

## Other Financial Instruments

The carrying values and estimated fair values of our debt instruments as of March 31, 2011 and December 31, 2010 were as follows (in millions):

	<u>March 31,</u> <b>2011</b>		<u>December 31,</u> <b>2010</b>	
	<u>Carrying</u> <u>Value</u>	<u>Estimated</u> <u>Fair</u> <u>Value</u>	<u>Carrying</u> <u>Value</u>	<u>Estimated</u> <u>Fair</u> <u>Value</u>
4.70% Senior Notes	\$1,470.5	\$1,488.9	\$ --	\$ --
3.25% Senior Notes	992.4	1,001.1	--	--
7.20% Debentures	148.9	168.4	148.9	165.0
6.36% Bonds, including current maturities	63.4	70.8	63.4	71.9
4.65% Bonds, including current maturities	45.0	50.0	45.0	50.6

The estimated fair values of our 4.70% senior notes, 3.25% senior notes and 7.20% debentures were determined using quoted market prices. The estimated fair values of our 6.36% bonds and 4.65% bonds were determined using an income approach valuation model. The estimated fair values of our cash and cash equivalents, receivables, trade payables and other liabilities approximated their carrying values as of March 31, 2011 and December 31, 2010.

## Note 10 - Income Taxes

Our consolidated effective income tax rate for the quarter ended March 31, 2011 of 20.6% reflects the impact of \$4.7 million of net income tax expense attributable to prior years, \$3.2 million of which resulted from the recognition of a liability for unrecognized tax benefits associated with a tax position taken in a prior year. Excluding the impact of the aforementioned items, our consolidated effective income tax rate for the quarter ended March 31, 2011 was 14.9% compared to a consolidated effective income tax rate of 17.8% in the prior year quarter. The decrease was primarily attributable to the transfer of ownership of several of our drilling rigs among our subsidiaries in April 2010 and December 2010, which resulted in an increase in the relative components of our earnings generated in tax jurisdictions with lower tax rates.

## Note 11- Discontinued Operations

### Rig Sales

We sold jackup rigs ENSCO 50, ENSCO 51, ENSCO 57 and ENSCO 60 during the year ended December 31, 2010. The rigs' operating results were reclassified as discontinued operations in our condensed consolidated statement of income for the quarter ended March 31, 2010. The rigs' operating results were previously included within our Jackup operating segment.

The following table summarizes income from discontinued operations for the quarter ended March 31, 2010 (in millions):

	<b>2010</b>
Revenues	\$12.6
Operating expenses	10.8
Operating income before income taxes	1.8
Income tax expense	1.4
Gain on disposal of discontinued operations, net	29.2
Income from discontinued operations	\$29.6

Debt and interest expense are not allocated to our discontinued operations.

## **Note 12 - Contingencies**

### *Shareholder Class Actions*

During the first quarter of 2011, six shareholder class action lawsuits were brought on behalf of the holders of Pride common stock against Pride, Pride's directors and Ensco challenging Pride's proposed merger with Ensco. The plaintiffs in such actions generally allege that each member of the Pride board of directors breached his or her fiduciary duties to Pride and its stockholders by authorizing the sale of Pride to Ensco for what plaintiffs deem "inadequate" consideration, failure to disclose material information concerning the proposed merger in the registration statement on Form S-4, that Pride directly breached and/or aided and abetted the other defendants' alleged breach of fiduciary duties and/or that Ensco aided and abetted the alleged breach of fiduciary duties by Pride and its directors. These lawsuits generally seek, among other remedies, to enjoin the defendants from consummating the merger on the agreed-upon terms.

Three of these actions recently were consolidated in Delaware and the remaining three recently were consolidated in Texas. We intend to vigorously defend against all of these claims. At this time, we are unable to predict the outcome of these matters or estimate the extent to which we may be exposed to any resulting liability. Although the outcome cannot be predicted, we do not expect these matters to have a material adverse effect on our financial position, operating results or cash flows.

### *FCPA Internal Investigation*

Following disclosures by other offshore service companies announcing internal investigations involving the legality of amounts paid to and by customs brokers in connection with temporary importation of rigs and vessels into Nigeria, the Audit Committee of our Board of Directors and management commenced an internal investigation in July 2007. The investigation initially focused on our payments to customs brokers relating to the temporary importation of ENSCO 100, our only rig that operated offshore Nigeria during the pertinent period.

As is customary for companies operating offshore Nigeria, we had engaged independent customs brokers to process customs clearance of routine shipments of equipment, materials and supplies and to process the ENSCO 100 temporary importation permits, extensions and renewals. One or more of the customs brokers that our subsidiary in Nigeria used to obtain the ENSCO 100 temporary import permits, extensions and renewals also provided this service to other offshore service companies that have undertaken Foreign Corrupt Practices Act ("FCPA") compliance internal investigations.

The principal purpose of our investigation was to determine whether any of the payments made to or by our customs brokers were inappropriate under the anti-bribery provisions of the FCPA or whether any violations of the recordkeeping or internal accounting control provisions of the FCPA occurred. Our Audit Committee engaged a Washington, D.C. law firm with significant experience in investigating and advising upon FCPA matters to assist in the internal investigation.

Following notification to the Audit Committee and to KPMG LLP, our independent registered public accounting firm, in consultation with the Audit Committee's external legal counsel, we voluntarily notified the United States Department of Justice and SEC that we had commenced an internal investigation. We expressed our intention to cooperate with both agencies, comply with their directives and fully disclose the results of the investigation. The internal investigation process has involved extensive reviews of documents and records, as well as production to the authorities, and interviews of relevant personnel. In addition to the temporary importation of ENSCO 100, the investigation has examined our customs clearance of routine shipments and immigration activities in Nigeria.

Our internal investigation has essentially been concluded. Discussions were held with the authorities to review the results of the investigation and discuss associated matters during 2009 and the first half of 2010. In May 2010, we received notification from the SEC Division of Enforcement advising that it does not intend to recommend any enforcement action. We expect to receive a determination by the United States Department of Justice in the near-term.

Although we believe the United States Department of Justice will take into account our voluntary disclosure, our cooperation with the agency and the remediation and compliance enhancement activities that are underway, we are unable to predict the ultimate disposition of this matter, whether we will be charged with violation of the anti-bribery, recordkeeping or internal accounting control provisions of the FCPA or whether the scope of the investigation will be extended to other issues in Nigeria or to other countries. We also are unable to predict what potential corrective measures, fines, sanctions or other remedies, if any, the United States Department of Justice may seek against us or any of our employees.

In November 2008, our Board of Directors approved enhanced FCPA compliance recommendations issued by the Audit Committee's external legal counsel, and the Company embarked upon an enhanced compliance initiative that included appointment of a Chief Compliance Officer and a Director - Corporate Compliance. We engaged consultants to assist us in implementing the compliance recommendations approved by our Board of Directors, which include an enhanced compliance policy, increased training and testing, prescribed contractual provisions for our service providers that interface with foreign government officials, due diligence for the selection of such service providers and an increased Company-wide awareness initiative that includes periodic issuance of FCPA Alerts.

Since ENSCO 100 completed its contract commitment and departed Nigeria in August 2007, this matter is not expected to have a material effect on or disrupt our current operations. As noted above, we are unable to predict the outcome of this matter or estimate the extent to which we may be exposed to any resulting potential liability, sanctions or significant additional expense.

#### *ENSCO 74 Loss*

In September 2008, ENSCO 74 was lost as a result of Hurricane Ike in the Gulf of Mexico. Portions of its legs remained underwater adjacent to the customer's platform, and the sunken rig hull of ENSCO 74 was located approximately 95 miles from the original drilling location when it was struck by an oil tanker in March 2009. During the fourth quarter of 2010, wreck removal operations on the sunken rig hull of ENSCO 74 were completed.

We believe it is probable that we are required to remove the leg sections of ENSCO 74 remaining adjacent to the customer's platform because they may interfere with the customer's future operations, in addition to the removal of related debris. We estimate the leg and related debris removal costs to range from \$21.0 million to \$35.0 million. We expect the cost of removal of the legs and related debris to be fully covered by our insurance.

Physical damage to our rigs caused by a hurricane, the associated "sue and labor" costs to mitigate the insured loss and removal, salvage and recovery costs are all covered by our property insurance policies subject to a \$50.0 million per occurrence self-insured retention. Coverage for ENSCO 74 sue and labor costs and wreckage and debris removal costs under our property insurance policies is limited to \$25.0 million and \$50.0 million, respectively. Supplemental wreckage and debris removal coverage is provided under our liability insurance policies, subject to an annual aggregate limit of \$500.0 million. We also have a customer contractual indemnification that provides for reimbursement of any ENSCO 74 wreckage and debris removal costs that are not recovered under our insurance policies.

A \$21.0 million liability, representing the low end of the range of estimated leg and related debris removal costs, and a corresponding receivable for recovery of those costs was recorded as of March 31, 2011 and included in accrued liabilities and other and other assets, net, on our condensed consolidated balance sheet.

In March 2009, we received notice from legal counsel representing certain underwriters in a subrogation claim alleging that ENSCO 74 caused a pipeline to rupture during Hurricane Ike. In September 2009, civil litigation was filed seeking damages for the cost of repairs and business interruption in an amount in excess of \$26.0 million. Based on information currently available, primarily the adequacy of available defenses, we have not concluded that it is probable a liability exists with respect to this matter.

In March 2009, the owner of the oil tanker that struck the hull of ENSCO 74 commenced civil litigation against us seeking monetary damages of \$10.0 million for losses incurred when the tanker struck the sunken hull of ENSCO 74. Based on information currently available, primarily the adequacy of available defenses, we have not concluded that it is probable a liability exists with respect to this matter.

We filed a petition for exoneration or limitation of liability under U.S. admiralty and maritime law in September 2009. The petition seeks exoneration from or limitation of liability for any and all injury, loss or damage caused, occasioned or occurred in relation to the ENSCO 74 loss in September 2008. The owner of the tanker that struck the hull of ENSCO 74 and the owners of four subsea pipelines have presented claims in the exoneration/limitation proceedings. The matter is scheduled for trial in March 2012.

We have liability insurance policies that provide coverage for claims such as the tanker and pipeline claims as well as removal of wreckage and debris in excess of the property insurance policy sublimit, subject to a \$10.0 million per occurrence self-insured retention for third-party claims and an annual aggregate limit of \$500.0 million. We believe all liabilities associated with the ENSCO 74 loss during Hurricane Ike resulted from a single occurrence under the terms of the applicable insurance policies. However, legal counsel for certain liability underwriters have asserted that the liability claims arise from separate occurrences. In the event of multiple occurrences, the self-insured retention is \$15.0 million for two occurrences and \$1.0 million for each occurrence thereafter.

Although we do not expect final disposition of the claims associated with the ENSCO 74 loss to have a material adverse effect upon our financial position, operating results or cash flows, there can be no assurances as to the ultimate outcome.

#### *ENSCO 69*

We have filed an insurance claim under our package policy, which includes coverage for certain political risks, and are evaluating legal remedies against Petrosucre, a subsidiary of Petr 6leos de Venezuela S.A., the national oil company of Venezuela, for contractual and other ENSCO 69 related damages. ENSCO 69 has an insured value of \$65.0 million under our package policy, subject to a \$10.0 million deductible.

In September 2009, legal counsel acting for the package policy underwriters denied coverage under the package policy and reserved rights. In March 2010, we commenced litigation to recover on our political risk package policy claim. Our lawsuit seeks recovery under the policy for the loss of ENSCO 69 and includes claims for wrongful denial of coverage, breach of contract, breach of the Texas insurance code, failure to timely respond to the claim and bad faith. Our lawsuit seeks actual damages in the amount of \$55.0 million (insured value of \$65.0 million less a \$10.0 million deductible), punitive damages and attorneys' fees. In July 2010, we agreed with underwriters to submit the matter to arbitration which is expected to commence in the near-term.

We were unable to conclude that collection of insurance proceeds associated with ENSCO 69 was probable as of March 31, 2011. Accordingly, no ENSCO 69 related insurance receivables were recorded on our condensed consolidated balance sheet as of March 31, 2011.

### *ENSCO 29 Wreck Removal*

A portion of the ENSCO 29 platform drilling rig was lost over the side of a customer's platform as a result of Hurricane Katrina during 2005. Although beneficial ownership of ENSCO 29 was transferred to our insurance underwriters when the rig was determined to be a total loss, management believes we may be legally required to remove ENSCO 29 wreckage and debris from the seabed and currently estimates the removal cost could range from \$5.0 million to \$15.0 million. Our property insurance policies include coverage for ENSCO 29 wreckage and debris removal costs up to \$3.8 million. We also have liability insurance policies that provide specified coverage for wreckage and debris removal costs in excess of the \$3.8 million coverage provided under our property insurance policies.

Our liability insurance underwriters have issued letters reserving rights and effectively denying coverage by questioning the applicability of coverage for the potential ENSCO 29 wreckage and debris removal costs. During 2007, we commenced litigation against certain underwriters alleging breach of contract, wrongful denial, bad faith and other claims which seek a declaration that removal of wreckage and debris is covered under our liability insurance, monetary damages, attorneys' fees and other remedies. The matter is scheduled for trial in June 2011.

While we anticipate that any ENSCO 29 wreckage and debris removal costs incurred will be largely or fully covered by insurance, a \$1.2 million provision, representing the portion of the \$5.0 million low end of the range of estimated removal cost we believe is subject to liability insurance coverage, was recognized during 2006.

### *Asbestos Litigation*

During 2004, we and certain current and former subsidiaries were named as defendants, along with numerous other third-party companies as co-defendants, in three multi-party lawsuits filed in Mississippi. The lawsuits sought an unspecified amount of monetary damages on behalf of individuals alleging personal injury or death, primarily under the Jones Act, purportedly resulting from exposure to asbestos on drilling rigs and associated facilities during the period 1965 through 1986.

In compliance with the Mississippi Rules of Civil Procedure, the individual claimants in the original multi-party lawsuits whose claims were not dismissed were ordered to file either new or amended single plaintiff complaints naming the specific defendant(s) against whom they intended to pursue claims. As a result, out of more than 600 initial multi-party claims, we have been named as a defendant by 65 individual plaintiffs. Of these claims, 62 claims or lawsuits are pending in Mississippi state courts and three are pending in the U.S. District Court as a result of their removal from state court.

To date, written discovery and plaintiff depositions have taken place in eight cases involving us. None of the cases pending against us in Mississippi state court are included within those selected cases.

We intend to continue to vigorously defend against these claims and have filed responsive pleadings preserving all defenses and challenges to jurisdiction and venue. However, discovery is still ongoing and, therefore, available information regarding the nature of all pending claims is limited. At present, we cannot reasonably determine how many of the claimants may have valid claims under the Jones Act or estimate a range of potential liability exposure, if any.

In addition to the pending cases in Mississippi, we have two other asbestos or lung injury claims pending against us in litigation in other jurisdictions. Although we do not expect the final disposition of the Mississippi and other asbestos or lung injury lawsuits to have a material adverse effect upon our financial position, operating results or cash flows, there can be no assurances as to the ultimate outcome of the lawsuits.

### *Working Time Directive*

Legislation known as the U.K. Working Time Directive ("WTD") was introduced during 2003 and may be applicable to our employees and employees of other drilling contractors that work offshore in U.K. territorial waters or in the U.K. sector of the North Sea. Certain trade unions representing offshore employees have claimed that drilling contractors are not in compliance with the WTD in respect of paid time off (vacation time) for employees working offshore on a rotational basis (generally equal time working and off).

A Labor Tribunal in Aberdeen, Scotland, rendered decisions in claims involving other offshore drilling contractors and offshore service companies in February 2008. The Tribunal decisions effectively held that employers of offshore workers in the U.K. sector employed on an equal time on/time off rotation are obligated to accord such rotating personnel two-weeks annual paid time off from their scheduled offshore work assignment period. Both sides of the matter, employee and employer groups, appealed the Tribunal decision. The appeals were heard by the Employment Appeal Tribunal ("EAT") in December 2008.

In an opinion rendered in March 2009, the EAT determined that the time off work enjoyed by U.K. offshore oil and gas workers, typically 26 weeks per year, meets the amount of annual leave employers must provide to employees under the WTD. The employer group was successful in all arguments on appeal, as the EAT determined that the statutory entitlement to annual leave under the WTD can be discharged through normal field break arrangements for offshore workers. As a consequence of the EAT decision, an equal time on/time off offshore rotation has been deemed to be fully compliant with the WTD. The employee group (led by a trade union) was granted leave to appeal to the highest civil court in Scotland (the Court of Session). A hearing on the appeal occurred in June 2010, and a decision was rendered in October 2010 in favor of the employer group. The employee group has appealed to the U.K. Supreme Court, and a hearing is scheduled in October 2011.

Based on information currently available, we do not expect the ultimate resolution of these matters to have a material adverse effect on our financial position, operating results or cash flows.

### *Other Matters*

In addition to the foregoing, we are named defendants or parties in certain other lawsuits, claims or proceedings incidental to our business and are involved from time to time as parties to governmental investigations or proceedings, including matters related to taxation, arising in the ordinary course of business. Although the outcome of such lawsuits or other proceedings cannot be predicted with certainty and the amount of any liability that could arise with respect to such lawsuits or other proceedings cannot be predicted accurately, we do not expect these matters to have a material adverse effect on our financial position, operating results or cash flows.

### **Note 13 - Segment Information**

In connection with the Merger and resulting management reorganization, we evaluated our then-current core assets and operations and organized them into three segments based on water depth operating capabilities. Accordingly, we now consider our business to consist of three reportable segments: (1) Deepwater, which consists of our rigs capable of drilling in water depths of 4,500 feet or greater, (2) Midwater, which consists of our semisubmersible rigs capable of drilling in water depths of 4,499 feet or less and (3) Jackup, which consists of our jackup rigs capable of operating in water depths up to 400 feet. Each of our three reportable segments provides one service, contract drilling. We also own one barge rig, which is included in "Other."

As a result of our reorganization to three reportable segments, we retrospectively reclassified the segment information included herein to conform to the post-Merger presentation. Reclassified segment information for the quarters ended March 31, 2011 and 2010 is presented below (in millions). General and administrative expense and depreciation expense incurred by our corporate office are not allocated to our operating segments for purposes of measuring segment operating income and were included in "Reconciling Items." We measure segment assets as property and equipment.

*Three Months Ended March 31, 2011*

	<u>Deepwater</u>	<u>Midwater</u>	<u>Jackup</u>	<u>Other</u>	<u>Operating Segments Total</u>	<u>Reconciling Items</u>	<u>Consolidated Total</u>
Revenues	\$ 98.2	\$ --	\$ 263.3	\$ --	\$ 361.5	\$ --	\$ 361.5
Operating expenses							
Contract drilling (exclusive of depreciation)	40.9	--	150.3	0.4	191.6	--	191.6
Depreciation	16.3	--	42.4	0.4	59.1	.4	59.5
General and administrative	--	--	--	--	--	30.1	30.1
Operating income (loss)	\$ 41.0	\$ --	\$ 70.6	\$(0.8)	\$ 110.8	\$(30.5)	\$ 80.3
Property and equipment, net	\$3,008.7	\$ --	\$2,232.8	\$14.0	\$5,255.5	\$ 3.6	\$5,259.1

*Three Months Ended March 31, 2010*

	<u>Deepwater</u>	<u>Midwater</u>	<u>Jackup</u>	<u>Other</u>	<u>Operating Segments Total</u>	<u>Reconciling Items</u>	<u>Consolidated Total</u>
Revenues	\$ 130.4	\$ --	\$ 318.2	\$ --	\$ 448.6	\$ --	\$ 448.6
Operating expenses							
Contract drilling (exclusive of depreciation)	45.0	--	137.0	0.4	182.4	--	182.4
Depreciation	9.8	--	40.9	0.7	51.4	.3	51.7
General and administrative	--	--	--	--	--	20.6	20.6
Operating income (loss)	\$ 75.6	\$ --	\$ 140.3	\$(1.1)	\$ 214.8	\$(20.9)	\$ 193.9
Property and equipment, net	\$2,341.5	\$ --	\$2,108.8	\$28.1	\$4,478.4	\$ 4.2	\$4,482.6

*Information about Geographic Areas*

As of March 31, 2011, our Deepwater operating segment consisted of three ultra-deepwater semisubmersible rigs located in the U.S. Gulf of Mexico, one ultra-deepwater semisubmersible rig located offshore French Guiana, one ultra-deepwater semisubmersible rig located in Singapore and three ultra-deepwater semisubmersible rigs under construction in Singapore. Our Jackup operating segment consisted of 40 jackup rigs deployed in various locations throughout Asia Pacific, Europe and Africa, North and South America and two ultra-high specification jackup rigs under construction in Singapore. We also own one barge rig, which is included in "Other."

Certain of our drilling rigs in the U.S. Gulf of Mexico have been or may be further affected by the regulatory developments and other actions that have or may be imposed by the U.S. Department of the Interior, including the regulations issued on September 30, 2010. The moratoriums/suspensions (which have been lifted), related Notices to Lessees ("NTLs"), delays in processing drilling permits and other actions are being challenged in litigation by EnSCO and others. Utilization and day rates for certain of our drilling rigs have been negatively influenced due to regulatory requirements and delays in our customers' ability to secure permits. Current or future NTLs or other directives and regulations may further impact our customers' ability to obtain permits and commence or continue deepwater or shallow-water operations in the U.S. Gulf of Mexico.

During the quarter ended March 31, 2011, revenues provided by our drilling operations in the U.S. Gulf of Mexico totaled \$132.1 million, or 37%, of our consolidated revenues. Of this amount, 63% was provided by our deepwater drilling operations in the U.S. Gulf of Mexico. Prolonged actual or de facto delays, moratoria or suspensions of drilling activity in the U.S. Gulf of Mexico and associated new regulatory, legislative or permitting requirements in the U.S. or elsewhere could materially adversely affect our financial condition, operating results or cash flows.

The following "Management's Discussion and Analysis of Financial Condition and Results of Operations" should be read in conjunction with our condensed consolidated financial statements included in "Item 1. Financial Statements." Any references to Notes in the following "Management's Discussion and Analysis of Financial Condition and Results of Operations" refer to the Notes to Condensed Consolidated Financial Statements included in "Item 1. Financial Statements" (attached as Exhibit 99.1 to this Report).

As further discussed in Note 13 to our condensed consolidated financial statements included in "Item 1. Financial Statements" (attached as Exhibit 99.1 to this Report), our condensed consolidated financial statements for all periods presented herein have been updated to retrospectively reflect the reorganization of our reportable segments resulting from the merger transaction with Pride International, Inc. (the "Merger") completed on May 31, 2011, pursuant to which Pride International became an indirect, wholly-owned subsidiary of EnscO plc. This filing includes updates only to the portions of Item 1 and Item 2 of the Form 10-Q that specifically relate to the updated segment disclosures resulting from the Merger and reorganization and does not otherwise modify or update any other disclosures set forth in the Form 10-Q.

## **Item 2. *Management's Discussion and Analysis of Financial Condition and Results of Operations***

### **BUSINESS ENVIRONMENT**

Demand for ultra-deepwater semisubmersible rigs in the U.S. Gulf of Mexico remained stable during the first half of 2010 but came under pressure as a result of delays in operators' ability to secure permits due to regulatory developments and other actions imposed by the U.S. Department of the Interior. During the first quarter of 2011, several drilling permits were issued in the U.S. Gulf of Mexico related to deepwater programs that were interrupted by the Macondo well incident. In February 2011, the U.S. District Court for the Eastern District of Louisiana issued a preliminary injunction compelling the Bureau of Ocean Energy Management, Regulation and Enforcement ("BOEM") to process five pending drilling permit applications related to EnscO rigs within 30 days, but the U.S. Court of Appeal for the Fifth Circuit issued a stay of the injunction pending appeal. Since then the BOEM has issued a permit to one of our customers, which was the first permit issued by the BOEM to drill a deepwater well since the moratoriums/suspensions were issued.

The issuance of deepwater drilling permits in the U.S. Gulf of Mexico continues to be protracted. However, demand for deepwater drilling in the region is expected to increase in the near-term as additional permits are issued. We also are encouraged by increases in tender activity outside the U.S. Gulf of Mexico that has resulted from strengthening demand for work in 2011 and beyond for deepwater drilling in various other regions as well as the recent increase in oil prices, both of which are expected to have a positive impact on future ultra-deepwater semisubmersible rig demand.

Semisubmersible rig supply continues to increase as a result of newbuild construction programs. It has been reported that over 20 newbuild semisubmersible rigs currently are under construction, over half of which are scheduled for delivery during 2011. The majority of semisubmersible rigs scheduled for delivery are contracted. We expect newbuild semisubmersible rigs will be absorbed into the global market without a significant effect on utilization and day rates.

Although oil prices increased, incremental drilling activity during 2010 was limited, resulting in continued softness in day rates for standard duty jackup rigs. We are encouraged by improving tender activity due to an increase in both standard duty and heavy duty jackup rig demand for work in 2011 and beyond across various regions as well as the positive effect the recent increase in oil prices are expected to have on future jackup rig demand.

Jackup rig supply also continues to increase as a result of newbuild construction programs. It has been reported that over 35 newbuild jackup rigs currently are under construction, nearly half of which are scheduled for delivery during 2011. The majority of jackup rigs scheduled for delivery are not contracted. It is uncertain whether the market in general or any geographic region in particular will be able to fully absorb newbuild jackup rig deliveries in the near-term, especially in consideration of the existing oversupply of standard duty jackup rigs.

For additional information concerning the potential impact the aforementioned events and circumstances may have on our business, our industry and global supply, see "Item 1A. Risk Factors" in Part I and "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" in Part II of our Annual Report on Form 10-K for the year ended December 31, 2010, as updated in this Report.

### **Deepwater**

Although utilization and day rates for ultra-deepwater semisubmersible rigs remained stable during the first half of 2010, a significant number of U.S. Gulf of Mexico deepwater projects were delayed or terminated later in the year as a result of delays in operators' ability to secure permits. During the first quarter of 2011, several drilling permits were issued in the U.S. Gulf of Mexico related to programs that were interrupted by the Macondo well incident as offshore drilling contractors continued to work with operators and government regulators to address new regulatory requirements and secure drilling permits. Although deepwater drilling activity remains limited in the U.S. Gulf of Mexico, demand in the region is expected to increase in the near-term as additional permits are issued. Ultra-deepwater semisubmersible rig utilization and day rates will, in large part, depend on expectations of future oil and gas prices, coupled with the continued near-term impact of the Macondo well incident and associated new regulatory, legislative or permitting requirements in the U.S. Gulf of Mexico.

### **Jackup**

Demand for drilling rigs in the jackup segment was limited during the latter half of 2010, resulting in continued softness in day rates for standard duty jackup rigs. We are encouraged by improving tender activity due to an increase in both standard duty and heavy duty jackup rig demand for work in 2011 and beyond across various regions. In addition, the increase in oil prices over the past year is expected to have a positive effect on future jackup rig demand.

The Asia Pacific Rim, including Vietnam, Malaysia, Indonesia and Australia, began to stabilize during 2010 with incremental demand seen as multiple tenders were issued in the latter part of the year for work in 2011 and beyond. During the first quarter of 2011, tender activity in the region continued to improve as a result of strengthening demand. Although the supply of available jackup rigs is expected to further increase from newbuild deliveries, jackup rig utilization and day rates in the Asia Pacific Rim are expected to remain stable in the near-term.

In the North Sea, tender activity during the first half of 2010 was limited although an increase in inquiries was seen late in the year. During the first quarter of 2011, tender activity improved for work beginning in mid-2011 and beyond resulting from incremental demand for both standard duty and heavy duty jackup rigs in the region. Jackup rig utilization and day rates in the North Sea are expected to improve in the near-term.

A portion of our jackup rig operations are conducted in Mexico for Petróleos Mexicanos ("PEMEX"), the national oil company of Mexico. During 2010, the number of jackup rigs contracted in Mexico declined as contracts expired. During the first quarter of 2011, tender activity increased for work beginning in 2011 and is expected to continue in the near-term as PEMEX attempts to increase its jackup rig fleet. Future day rates in Mexico may face pressure as jackup rig contracts in the region continue to expire and drilling contractors with idle rigs in the U.S. Gulf of Mexico and other geographic regions pursue the available contract opportunities.

We also conduct a portion of our jackup rig operations in the U.S. Gulf of Mexico. Although tender activity in the U.S. Gulf of Mexico improved as operators capitalized on cost-effective terms offered by drilling contractors during early 2010, certain operators experienced an inability to timely obtain drilling permits later in the year which negatively influenced utilization and day rates in the region. During 2011, tender activity in the U.S. Gulf of Mexico improved resulting in a modest increase in rig utilization in the region. U.S. Gulf of Mexico jackup rig utilization and day rates are expected to remain stable in the near-term.

## RESULTS OF OPERATIONS

The following table summarizes our condensed consolidated operating results for the quarters ended March 31, 2011 and 2010 (in millions):

	<u>2011</u>	<u>2010</u>
Revenues	\$361.5	\$448.6
Operating expenses		
Contract drilling (exclusive of depreciation)	191.6	182.4
Depreciation	59.5	51.7
General and administrative	30.1	20.6
Operating income	80.3	193.9
Other income, net	2.2	3.1
Provision for income taxes	17.0	35.0
Income from continuing operations	65.5	162.0
Income from discontinued operations, net	--	29.6
Net income	65.5	191.6
Net income attributable to noncontrolling interests	(.9)	(1.8)
Net income attributable to Ensco	\$ 64.6	\$189.8

During the quarter ended March 31, 2011, revenues declined by \$87.1 million, or 19%, and operating income declined by \$113.6 million, or 59%, as compared to the prior year quarter. These declines were primarily due to a decline in jackup rig average day rates in the Asia Pacific Rim market coupled with a decline in jackup rig utilization in the Europe and Mediterranean markets, in addition to a decline in utilization of our ultra-deepwater semisubmersible rig fleet due to downtime on the ENSCO 7500 as the rig was undergoing an enhancement project in a shipyard in Singapore.

A significant number of our drilling contracts are of a long-term nature. Accordingly, a decline in demand for contract drilling services typically affects our operating results and cash flows gradually over many quarters as long-term contracts expire. The significant decline in oil and natural gas prices during the latter half of 2008 and the deterioration of the global economy continued to result in a decline in demand for contract drilling services during 2010, which may continue to negatively impact our operating results during 2011.

Certain of our drilling rigs in the U.S. Gulf of Mexico have been or may be further affected by the regulatory developments and other actions that have or may be imposed by the U.S. Department of the Interior, including the regulations issued on September 30, 2010. The moratoriums/suspensions (which have been lifted), related Notices to Lessees ("NTLs"), delays in processing drilling permits and other actions are being challenged in litigation by EnSCO and others. Utilization and day rates for certain of our drilling rigs have been negatively influenced due to regulatory requirements and delays in our customers' ability to secure permits. Current or future NTLs or other directives and regulations may further impact our customers' ability to obtain permits and commence or continue deepwater or shallow-water operations in the U.S. Gulf of Mexico.

While we have substantial contract backlog for 2011, it is uncertain whether revenue, operating income and cash flow levels achieved during 2010 will be sustained during 2011.

### Rig Locations, Utilization and Average Day Rates

The following table summarizes our offshore drilling rigs by reportable segment and rigs under construction as of March 31, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Deepwater <sup>(1)</sup>	5	4
Midwater <sup>(2)</sup>	--	--
Jackup <sup>(3)</sup>	40	39
Under construction <sup>(1)(4)</sup>	5	4
<b>Total <sup>(5)</sup></b>	<b>50</b>	<b>47</b>

(1) ENSCO 8503 was delivered in September 2010 and commenced drilling operations in French Guiana under a short-term sublet agreement during the first quarter of 2011. ENSCO 8503 is expected to commence drilling operations in the U.S. Gulf of Mexico under a two-year contract during 2011.

(2) In May 2011, midwater rigs were acquired in connection with the Merger. Therefore, our rig fleet did not consist of midwater rigs as of March 31, 2011 and 2010.

(3) In July 2010, we acquired an ultra-high specification jackup rig. The rig was renamed ENSCO 109 and is currently operating offshore Australia.

(4) In February 2011, we entered into agreements with Keppel FELS Limited ("KFELS") to construct two ultra-high specification harsh environment jackup rigs. These rigs currently are uncontracted and scheduled for delivery during the first and second half of 2013, respectively.

(5) The total number of rigs for each period excludes rigs reclassified as discontinued operations.

The following table summarizes our rig utilization and average day rates from continuing operations by reportable segment for the quarters ended March 31, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
<b>Rig utilization <sup>(1)</sup></b>		
Deepwater	77%	99%
Midwater <sup>(3)</sup>	N/A	N/A
Jackup <sup>(4)</sup>	72%	79%
<b>Total</b>	<b>72%</b>	<b>80%</b>
<b>Average day rates <sup>(2)</sup></b>		
Deepwater	\$304,220	\$ 411,090
Midwater <sup>(3)</sup>	N/A	N/A
Jackup <sup>(4)</sup>	96,766	111,706
<b>Total</b>	<b>\$118,447</b>	<b>\$138,684</b>

(1) Rig utilization is derived by dividing the number of days under contract by the number of days in the period. Days under contract equals the total number of days that rigs have earned a day rate, including days associated with compensated downtime and mobilizations. For newly constructed or acquired rigs, the number of days in the period begins upon commencement of drilling operations for rigs with a contract or when the rig becomes available for drilling operations for rigs without a contract.

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

(3) Rig utilization and average day rates were not applicable for the Midwater segment as our rig fleet did not consist of midwater rigs during the quarters ended March 31, 2011 and 2010.

(4) ENSCO 69 has been excluded from rig utilization and average day rates for our Jackup operating segment during the period the rig was controlled and operated by Petrosucre, a subsidiary of Petróleos de Venezuela S.A., the national oil company of Venezuela (January 2009 - August 2010). For additional information on ENSCO 69, see Note 11 to our audited consolidated financial statements for the year ended December 31, 2010 included in our Annual Report on Form 10-K.

Detailed explanations of our operating results, including discussions of revenues, contract drilling expense and depreciation expense by segment, are provided below.

## Operating Income

In connection with the Merger and resulting management reorganization, we evaluated our then-current core assets and operations and organized them into three segments based on water depth operating capabilities. Accordingly, we now consider our business to consist of three reportable segments: (1) Deepwater, which consists of our rigs capable of drilling in water depths of 4,500 feet or greater, (2) Midwater, which consists of our semisubmersible rigs capable of drilling in water depths of 4,499 feet or less and (3) Jackup, which consists of our jackup rigs capable of operating in water depths up to 400 feet. Each of our three reportable segments provides one service, contract drilling. We also own one barge rig, which is included in "Other."

As a result of our reorganization to three reportable segments, we retrospectively reclassified the segment information included herein to conform to the post-Merger presentation. Segment information for the quarters ended March 31, 2011 and 2010 is present below (in millions). General and administrative expense and depreciation expense incurred by our corporate office are not allocated to our operating segments for purposes of measuring segment operating income and were included in "Reconciling Items."

### *Three Months Ended March 31, 2011*

	<u>Deepwater</u>	<u>Midwater</u>	<u>Jackup</u>	<u>Other</u>	<u>Operating Segments Total</u>	<u>Reconciling Items</u>	<u>Consolidated Total</u>
Revenues	\$98.2	\$ --	\$263.3	\$ --	\$361.5	\$ --	\$361.5
Operating expenses							
Contract drilling (exclusive of depreciation)	40.9	--	150.3	.4	191.6	--	191.6
Depreciation	16.3	--	42.4	.4	59.1	.4	59.5
General and administrative	--	--	--	--	--	30.1	30.1
Operating income (loss)	\$41.0	\$ --	\$ 70.6	\$(0.8)	\$110.8	\$(30.5)	\$ 80.3

### *Three Months Ended March 31, 2010*

	<u>Deepwater</u>	<u>Midwater</u>	<u>Jackup</u>	<u>Other</u>	<u>Operating Segments Total</u>	<u>Reconciling Items</u>	<u>Consolidated Total</u>
Revenues	\$130.4	\$ --	\$318.2	\$ --	\$448.6	\$ --	\$448.6
Operating expenses							
Contract drilling (exclusive of depreciation)	45.0	--	137.0	.4	182.4	--	182.4
Depreciation	9.8	--	40.9	.7	51.4	.3	51.7
General and administrative	--	--	--	--	--	20.6	20.6
Operating income (loss)	\$ 75.6	\$ --	\$140.3	\$(1.1)	\$214.8	\$(20.9)	\$193.9

### *Deepwater*

Deepwater revenues for the quarter ended March 31, 2011 declined by \$32.2 million, or 25%, as compared to the prior year quarter. The decline in revenues was primarily due to a decline in utilization to 77% from 99% in the prior year quarter. The decline in utilization occurred due to downtime on ENSCO 7500 as the rig was undergoing an enhancement project in a shipyard in Singapore, partially offset by ENSCO 8502 and ENSCO 8503 which were added to our Deepwater fleet and commenced drilling operations during the third quarter of 2010 and first quarter of 2011, respectively. Contract drilling expense declined by \$4.1 million, or 9%, primarily due to downtime on ENSCO 7500, partially offset by the commencement of ENSCO 8502 and ENSCO 8503 drilling operations. Depreciation expense increased by \$6.5 million, or 66%, due to the addition of ENSCO 8502 and ENSCO 8503 to our Deepwater fleet as previously noted.

### *Midwater*

In connection with the Merger, we acquired six midwater rigs. Prior to the Merger Date, our rig fleet did not consist of midwater rigs.

### *Jackup*

Jackup revenues for the quarter ended March 31, 2011 declined by \$54.9 million, or 17%, as compared to the prior year quarter. The decline in revenues was primarily due to a 13% decline in average day rates and a decline in utilization to 72% from 79% in the prior year quarter. These declines were due to lower levels of spending by oil and gas companies across all regions coupled with excess rig availability. Contract drilling expense increased by \$13.3 million, or 10%, as compared to the prior year quarter primarily due to increased repair and maintenance expense and personnel costs. Depreciation expense increased by \$1.5 million, or 4%, as compared to the prior year quarter primarily due to the addition of ENSCO 109 to our jackup fleet during the third quarter of 2010.

### *Other*

Contract drilling expense and depreciation expense for the quarters ended March 31, 2011 and 2010 were attributable to ENSCO I, our only barge rig.

### *Reconciling Items*

General and administrative expense for the quarter ended March 31, 2011 increased by \$9.5 million, or 46%, as compared to the prior year quarter primarily due to increased professional fees incurred in connection with our proposed merger with Pride International, Inc. ("Pride"), increased share-based compensation and costs related to operating our new London headquarters. These increases were partially offset by professional fees incurred during the quarter ended March 31, 2010 in connection with various reorganization efforts undertaken as a result of our redomestication to the U.K. in December 2009.

### **Other Income, Net**

The following summarizes other income, net, for the quarters ended March 31, 2011 and 2010 (in millions):

	<b><u>2011</u></b>	<b><u>2010</u></b>
Interest income	\$ .2	\$ .1
Interest expense, net:		
Interest expense	(18.5)	(5.0)
Capitalized interest	14.4	5.0
	(4.1)	--
Other, net	6.1	3.0
	<u>\$ 2.2</u>	<u>\$ 3.1</u>

Interest income for the quarter ended March 31, 2011 increased as compared to the prior year quarter due to an increase in amounts invested. Interest expense increased over the same period due to \$8.8 million of fees incurred with respect to a bridge term facility and an increase in outstanding debt resulting from our public offering on March 17, 2011 of \$1,000.0 million aggregate principal amount of 3.25% senior notes due 2016 and \$1,500.0 million aggregate principal amount of 4.70% senior notes due 2021. Interest expense of \$14.4 million and \$5.0 million was capitalized in connection with our newbuild construction during the quarters ended March 31, 2011 and 2010, respectively. See Note 6 to our condensed consolidated financial statements for additional information on the bridge term facility and our senior notes.

Our functional currency is the U.S. dollar, and a portion of the revenues earned and expenses incurred by some of our subsidiaries are denominated in currencies other than the U.S. dollar ("foreign currencies"). These transactions are remeasured in U.S. dollars based on a combination of both current and historical exchange rates. Other, net, included \$300,000 and \$2.1 million of net foreign currency exchange gains for the quarters ended March 31, 2011 and 2010, respectively.

Other, net, also included net gains of \$4.8 million and \$300,000 associated with our auction rate securities during the quarters ended March 31, 2011 and 2010, respectively. See Note 9 to our condensed consolidated financial statements for additional information on our auction rate securities.

### **Provision for Income Taxes**

Income tax rates imposed in the tax jurisdictions in which our subsidiaries conduct operations vary, as does the tax base to which the rates are applied. In some cases, tax rates may be applicable to gross revenues, statutory or negotiated deemed profits or other bases utilized under local tax laws, rather than to net income. Our drilling rigs frequently move from one taxing jurisdiction to another to perform contract drilling services. In some instances, the movement of drilling rigs among taxing jurisdictions will involve the transfer of ownership of the drilling rigs among our subsidiaries. As a result of the frequent changes in taxing jurisdictions in which our drilling rigs are operated and/or owned, our consolidated effective income tax rate may vary substantially from one reporting period to another, depending on the relative components of our earnings generated in tax jurisdictions with higher tax rates or lower tax rates.

Subsequent to our redomestication to the U.K. in December 2009, we reorganized our worldwide operations, which included, among others, the transfer of ownership of several of our drilling rigs among our subsidiaries in April 2010 and December 2010.

Income tax expense was \$17.0 million and \$35.0 million for the quarters ended March 31, 2011 and 2010, respectively. The \$18.0 million decline in income tax expense as compared to the prior year quarter was primarily due to reduced profitability, partially offset by an increase in our consolidated effective income tax rate to 20.6% from 17.8% in the prior year quarter. Our consolidated effective income tax rate for the quarter ended March 31, 2011 of 20.6% reflects the impact of \$4.7 million of net income tax expense attributable to prior years, \$3.2 million of which resulted from the recognition of a liability for unrecognized tax benefits associated with a tax position taken in a prior year. Excluding the impact of the aforementioned items, our consolidated effective income tax rate for the quarter ended March 31, 2011 was 14.9%. The decrease compared to the prior year quarter was primarily attributable to the transfer of ownership of several of our drilling rigs among our subsidiaries in April 2010 and December 2010, which resulted in an increase in the relative components of our earnings generated in tax jurisdictions with lower tax rates.

## LIQUIDITY AND CAPITAL RESOURCES

Although our business historically has been very cyclical, we have relied on our cash flow from continuing operations to meet liquidity needs and fund the majority of our cash requirements. We have maintained a strong financial position through the disciplined and conservative use of debt. A substantial portion of our cash flow has been invested in the expansion and enhancement of our fleet of drilling rigs in general and construction of our ENSCO 8500 Series® rigs and two new jackup rigs in particular.

During the first quarter of 2011, our cash flows from operations were negatively influenced by the Macondo well incident and associated new regulatory, legislative or permitting requirements, which is expected to continue during 2011. However, based on \$3,432.1 million of cash and cash equivalents on hand as of March 31, 2011 and our current contractual backlog, we believe our future operations and obligations associated with our newbuild construction and the cash portion of the consideration related to the proposed merger with Pride primarily will be funded from existing cash and cash equivalents, future operating cash flow and additional short-term debt financing.

On February 6, 2011, we entered into a definitive merger agreement with Pride. The merger is expected to close during the second quarter of 2011 and will be financed through a combination of existing cash and cash equivalents, including proceeds from our public offering on March 17, 2011 of \$1,000.0 million aggregate principal amount of 3.25% senior notes due 2016 and \$1,500.0 million aggregate principal amount of 4.70% senior notes due 2021, and additional short-term debt financing. Total consideration to be paid to Pride shareholders will be approximately \$2,800.0 million of cash and the delivery of approximately 86.0 million EnSCO American depositary shares, each representing one Class A ordinary share ("ADS" or "share"). Given the number of rigs under construction by both EnSCO and Pride, it is contemplated that subsequent to closing of the merger, our cash flows initially will primarily be dedicated to finance newbuild construction.

During the quarter ended March 31, 2011, our primary source of cash was \$2,462.8 million in proceeds from the issuance of our senior notes and \$125.2 million generated from operating activities of continuing operations. Our primary use of cash for the same period was \$131.0 million for the construction, enhancement and other improvement of our drilling rigs, including \$88.6 million invested in the construction of two ultra-high specification harsh environment jackup rigs, and \$50.2 million for the payment of dividends.

During the quarter ended March 31, 2010, our primary source of cash was \$159.7 million generated from operating activities of continuing operations and \$90.0 million of proceeds from the sale of ENSCO 50 and ENSCO 51. Our primary use of cash for the same period was \$167.5 million for the construction, enhancement and other improvement of our drilling rigs, including \$151.5 million invested in the construction of our ENSCO 8500 Series® rigs.

### Cash Flow and Capital Expenditures

Our cash flow from operating activities of continuing operations and capital expenditures on continuing operations for the quarters ended March 31, 2011 and 2010 were as follows (in millions):

	<u>2011</u>	<u>2010</u>
Cash flow from operating activities of continuing operations	\$125.2	\$159.7
Capital expenditures on continuing operations		
New rig construction	\$ 97.1	\$151.5
Rig enhancements	22.7	1.9
Minor upgrades and improvements	11.2	14.1
	<u>\$131.0</u>	<u>\$167.5</u>

Cash flow from continuing operations declined by \$34.5 million, or 22%, during the quarter ended March 31, 2011 as compared to the prior year quarter. The decline resulted primarily from a \$119.0 million decline in cash receipts from drilling services, partially offset by a \$51.4 million decline in tax payments and a \$43.9 million increase in cash receipts from repurchases/redemptions of our auction rate securities.

We continue to expand the size and quality of our drilling rig fleet. ENSCO 8503 was delivered in September 2010 and commenced drilling operations in French Guiana under a short-term sublet agreement during the first quarter of 2011. ENSCO 8503 is expected to commence drilling operations in the U.S. Gulf of Mexico under a two-year contract during 2011.

We also have three ENSCO 8500 Series® ultra-deepwater semisubmersible rigs under construction with scheduled delivery dates during the third quarter of 2011 and the first and second half of 2012. ENSCO 8504 is committed under a drilling contract in Brunei, while the other two ENSCO 8500 Series® rigs under construction currently are uncontracted. Our ENSCO 7500 ultra-deepwater semisubmersible rig currently is undergoing an enhancement project in a shipyard in Singapore and is expected to commence drilling operations in Brazil under a two-and-a-half year contract during the third quarter of 2011.

In conjunction with our long-established strategy of high-grading our jackup rig fleet by investing in newer equipment, we entered into agreements with KFELS in February 2011 to construct two ultra-high specification harsh environment jackup rigs for estimated total construction costs of approximately \$230.0 million per rig. These rigs currently are uncontracted and scheduled for delivery during the first and second half of 2013, respectively.

Based on our current projections, without taking into consideration the proposed merger with Pride, we expect capital expenditures during 2011 to include approximately \$220.0 million for construction of our ENSCO 8500 Series® rigs, approximately \$95.0 million for construction of two ultra-high specification harsh environment jackup rigs, approximately \$190.0 million for rig enhancement projects and approximately \$100.0 million for minor upgrades and improvements. Depending on market conditions and opportunities, we may make additional capital expenditures to upgrade rigs for customer requirements and construct or acquire additional rigs.

## Financing and Capital Resources

Our long-term debt, total capital and long-term debt to total capital ratios as of March 31, 2011 and December 31, 2010 are summarized below (in millions, except percentages):

	<u>March 31,</u> <u>2011</u>	<u>December 31,</u> <u>2010</u>
Long -term debt	\$ 240.1	\$ 240.1
Total capital <sup>(1)</sup>	6,226.8	6,199.6
Long-term debt to total capital <sup>(2)</sup>	3.9%	3.9%

(1) Total capital includes long-term debt and Ensco shareholders' equity.

(2) Due to the redemption features of our senior notes issued in March 2011, as described below, the senior notes were classified as short-term debt on our condensed consolidated balance sheet as of March 31, 2011 and will be reclassified as long-term debt in the event the merger is consummated within the proposed timeframe.

### Senior Notes

On March 17, 2011, we issued \$1,000.0 million aggregate principal amount of unsecured 3.25% senior notes due 2016 at a discount of \$7.6 million and \$1,500.0 million aggregate principal amount of unsecured 4.70% senior notes due 2021 at a discount of \$29.6 million (collectively the "Notes") in a public offering. Interest on the Notes is payable semiannually in March and September of each year. The Notes were issued pursuant to an Indenture between us and Deutsche Bank Trust Company Americas, as trustee (the "Trustee"), dated March 17, 2011 (the "Indenture"), and a Supplemental Indenture between us and the Trustee, dated March 17, 2011 (the "Supplemental Indenture").

We intend to use the proceeds from the sale of the Notes to fund a portion of the cash consideration payable in connection with the proposed merger with Pride. However, in the event that, for any reason, (i) we do not consummate the merger prior to 5:00 p.m., New York City time, on February 3, 2012 or (ii) the merger agreement with Pride is terminated at any time before such time but after September 17, 2011, the Company must redeem all of the Notes at a redemption price equal to 102% of the aggregate principal amount of the Notes, plus accrued and unpaid interest to the special mandatory redemption date. If the merger agreement with Pride is terminated at any time on or before September 17, 2011, we must redeem the Notes at a redemption price equal to 101% of the aggregate principal amount of the Notes, plus accrued and unpaid interest to the special mandatory redemption date. "Special mandatory redemption date" means the earlier to occur of (1) March 9, 2012, if the merger has not been consummated prior to 5:00 p.m., New York City time, on February 3, 2012, or (2) the 35th day (or if such day is not a business day, the first business day thereafter) following the termination of the merger agreement with Pride for any reason.

Due to the aforementioned redemption features, the Notes were classified as short-term debt on our condensed consolidated balance sheet as of March 31, 2011 and will be reclassified as long-term debt in the event the merger is consummated within the above described timeframe. Moreover, interest payments on the Notes will total \$82.7 million for the year ended 2011 and \$103.0 million on an annual basis thereafter.

We may also redeem each series of the Notes, in whole or in part, at any time, at a price equal to 100% of their principal amount, plus accrued and unpaid interest and a "make-whole" premium. The Notes, the Indenture and the Supplemental Indenture also contain customary events of default, including failure to pay principal or interest on the Notes when due, among others. The Supplemental Indenture contains certain restrictions, including, among others, restrictions on our ability and the ability of our subsidiaries to create or incur secured indebtedness, enter into certain sale/leaseback transactions and enter into certain merger or consolidation transactions.

#### *Revolving Credit Facility*

We have a \$700.0 million unsecured revolving credit facility (the "Credit Facility") with a syndicate of banks. The Credit Facility has a four-year term, expiring in May 2014. Advances under the Credit Facility generally bear interest at LIBOR plus an applicable margin rate (currently 2.0% per annum), depending on our credit rating. We are required to pay an annual undrawn facility fee (currently .25% per annum) on the total \$700.0 million commitment, which is also based on our credit rating. We also are required to maintain a debt to total capitalization ratio less than or equal to 50% under the Credit Facility. We have the right, subject to lender consent, to increase the commitments under the Credit Facility up to \$850.0 million. We had no amounts outstanding under the Credit Facility as of March 31, 2011 and December 31, 2010.

#### *Other Financing*

On February 6, 2011, we entered into a bridge commitment letter (the "Commitment Letter") with Deutsche Bank AG Cayman Islands Branch ("DBCI"), Deutsche Bank Securities Inc. and Citigroup Global Markets Inc. ("Citi"). Pursuant to the Commitment Letter, DBCI and Citi committed to provide a \$2,750.0 million unsecured bridge term loan facility (the "Bridge Term Facility") to fund a portion of the cash consideration in the merger with Pride. Upon receipt of the proceeds from the issuance of the Notes, we determined that we had adequate cash resources to fund the cash component of the consideration payable in connection with the proposed merger with Pride, and accordingly the Bridge Term Facility was terminated.

We filed a Form S-3 Registration Statement with the Securities and Exchange Commission ("SEC") in January 2009, which provides us the ability to issue debt and/or equity securities in one or more offerings. The registration statement was immediately effective and expires in January 2012.

As of March 31, 2011, we had an aggregate \$108.4 million outstanding under two separate bond issues guaranteed by the United States of America, acting by and through the United States Department of Transportation, Maritime Administration, that require semiannual principal and interest payments. We also make semiannual interest payments on \$150.0 million of 7.20% debentures due in 2027.

The Board of Directors of our U.S. subsidiary and predecessor, ENSCO International Incorporated ("Enesco Delaware"), previously authorized the repurchase of up to \$1,500.0 million of our ADSs. In December 2009, the then-Board of Directors of Enesco International Limited, a predecessor of Enesco plc, continued the prior authorization and, subject to shareholder approval, authorized management to repurchase up to \$562.4 million of ADSs from time to time pursuant to share repurchase agreements with two investment banks. The then-sole shareholder of Enesco International Limited approved such share repurchase agreements for a five-year term. From inception of our share repurchase programs during 2006 through December 31, 2008, we repurchased an aggregate 16.5 million shares at a cost of \$937.6 million (an average cost of \$56.79 per share). No shares were repurchased under the share repurchase programs during the quarter ended March 31, 2011. Although \$562.4 million remained available for repurchase as of March 31, 2011, we will not repurchase any shares under our share repurchase program without further consultation with and approval by the Board of Directors of Enesco plc.

## Liquidity

Our liquidity position as of March 31, 2011 and December 31, 2010 is summarized in the table below (in millions, except ratios):

	<b>March 31, 2011</b>	<b>December 31, 2010</b>
Cash and cash equivalents	\$3,432.1	\$1,050.7
Working capital	952.8	1,087.7
Current ratio*	1.3	4.1

- \* Due to the redemption features of our senior notes issued in March 2011, as described above, the Notes were classified as short-term debt on our condensed consolidated balance sheet as of March 31, 2011 and will be reclassified as long-term debt in the event the merger is consummated within the proposed timeframe.

We expect to fund the cash component of the merger consideration payable in connection with the proposed merger with Pride from existing cash and cash equivalents, including proceeds from the issuance of our Notes, and additional short-term debt financing. In addition, we intend to use such internal cash resources and financing as well as cash and cash equivalents of Pride following the merger to pay advisory, legal, valuation and other professional fees incurred by both Enesco and Pride of approximately \$83.0 million, ADS issuance costs of approximately \$70.0 million, as well as change in control severance payments to certain Pride employees of approximately \$44.0 million. Upon completion of the proposed merger, we will increase our indebtedness, which will include Pride's debt obligations that will remain outstanding after the merger. In addition, various commitments and contractual obligations in connection with Pride's normal course of business will remain outstanding after the merger, including obligations associated with Pride's newbuild program.

Without taking into consideration the proposed merger with Pride, we expect to fund our short-term liquidity needs, including contractual obligations and anticipated capital expenditures, as well as any dividends, stock repurchases or working capital requirements, from our cash and cash equivalents and operating cash flow. We expect to fund our long-term liquidity needs, including contractual obligations, anticipated capital expenditures and dividends, from our cash and cash equivalents, operating cash flow and, if necessary, funds borrowed under our Credit Facility or other future financing arrangements. We may decide to access debt markets to raise additional capital or increase liquidity as necessary.

## Effects of Climate Change and Climate Change Regulation

Greenhouse gas emissions have increasingly become the subject of international, national, regional, state and local attention. Cap and trade initiatives to limit greenhouse gas emissions have been introduced in the European Union. Similarly, numerous bills related to climate change have been introduced in the U.S. Congress, which could adversely impact most industries. In addition, future regulation of greenhouse gas could occur pursuant to future treaty obligations, statutory or regulatory changes or new climate change legislation in the jurisdictions in which we operate. It is uncertain whether any of these initiatives will be implemented. However, based on published media reports, we believe that it is not reasonably likely that the current proposed initiatives in the U.S. will be implemented without substantial modification. If such initiatives are implemented, we do not believe that such initiatives would have a direct, material adverse effect on our operating results.

Restrictions on greenhouse gas emissions or other related legislative or regulatory enactments could have an indirect effect in those industries that use significant amounts of petroleum products, which could potentially result in a reduction in demand for petroleum products and, consequently, our offshore contract drilling services. We are currently unable to predict the manner or extent of any such effect. Furthermore, one of the long-term physical effects of climate change may be an increase in the severity and frequency of adverse weather conditions, such as hurricanes, which may increase our insurance costs or risk retention, limit insurance availability or reduce the areas in which, or the number of days during which, our customers would contract for our drilling rigs in general and in the Gulf of Mexico in particular. We are currently unable to predict the manner or extent of any such effect.

## **MARKET RISK**

We use foreign currency forward contracts ("derivatives") to reduce our exposure to foreign currency exchange rate risk. Our functional currency is the U.S. dollar. As is customary in the oil and gas industry, a majority of our revenues are denominated in U.S. dollars, however, a portion of the expenses incurred by certain of our subsidiaries are denominated in currencies other than the U.S. dollar. We maintain a foreign currency exchange rate risk management strategy that utilizes derivatives to reduce our exposure to unanticipated fluctuations in earnings and cash flows caused by changes in foreign currency exchange rates. We occasionally employ an interest rate risk management strategy that utilizes derivative instruments to minimize or eliminate unanticipated fluctuations in earnings and cash flows arising from changes in, and volatility of, interest rates.

We utilize derivatives to hedge forecasted foreign currency denominated transactions, primarily to reduce our exposure to foreign currency exchange rate risk associated with the portion of our remaining ENSCO 8500 Series® construction obligations denominated in Singapore dollars and contract drilling expenses denominated in various foreign currencies. As of March 31, 2011, \$176.6 million of the aggregate remaining contractual obligations associated with our ENSCO 8500 Series® construction projects was denominated in Singapore dollars, of which \$118.4 million was hedged through derivatives.

We have net assets and liabilities denominated in numerous foreign currencies and use various methods to manage our exposure to changes in foreign currency exchange rates. We predominantly structure our drilling contracts in U.S. dollars, which significantly reduces the portion of our cash flows and assets denominated in foreign currencies. We also employ various strategies, including the use of derivatives, to match foreign currency denominated assets with equal or near equal amounts of foreign currency denominated liabilities, thereby minimizing exposure to earnings fluctuations caused by changes in foreign currency exchange rates.

We utilize derivatives and undertake foreign currency exchange rate hedging activities in accordance with our established policies for the management of market risk. We minimize our credit risk relating to the counterparties of our derivatives by transacting with multiple, high-quality financial institutions, thereby limiting exposure to individual counterparties, and by monitoring the financial condition of our counterparties. We do not enter into derivatives for trading or other speculative purposes. We believe that our use of derivatives and related hedging activities reduces our exposure to foreign currency exchange rate risk and interest rate risk and does not expose us to material credit risk or any other material market risk.

As of March 31, 2011, we had derivatives outstanding to exchange an aggregate \$275.5 million for various foreign currencies, including \$135.4 million for Singapore dollars. If we were to incur a hypothetical 10% adverse change in foreign currency exchange rates, net unrealized losses associated with our foreign currency denominated assets and liabilities and related derivatives as of March 31, 2011 would approximate \$26.8 million, including \$9.3 million related to our Singapore dollar exposures. A portion of these unrealized losses generally would be offset by corresponding gains on certain underlying expected future transactions being hedged. All of our derivatives mature during the next 17 months. See Note 4 to our condensed consolidated financial statements for additional information on our derivative instruments.

## CRITICAL ACCOUNTING POLICIES

The preparation of financial statements and related disclosures in conformity with accounting principles generally accepted in the United States of America requires our management to make estimates, judgments and assumptions that affect the amounts reported in our consolidated financial statements and accompanying notes. Our significant accounting policies are included in Note 1 to our audited consolidated financial statements for the year ended December 31, 2010 included in our Annual Report on Form 10-K filed with the SEC on February 24, 2011. These policies, along with our underlying judgments and assumptions made in their application, have a significant impact on our consolidated financial statements. We identify our critical accounting policies as those that are the most pervasive and important to the portrayal of our financial position and operating results, and that require the most difficult, subjective and/or complex judgments by management regarding estimates in matters that are inherently uncertain. Our critical accounting policies are those related to property and equipment, impairment of long-lived assets and goodwill and income taxes.

### *Property and Equipment*

As of March 31, 2011, the carrying value of our property and equipment totaled \$5,259.1 million, which represented 54% of total assets. This carrying value reflects the application of our property and equipment accounting policies, which incorporate management's estimates, judgments and assumptions relative to the capitalized costs, useful lives and salvage values of our rigs.

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

For additional information on the useful lives of our drilling rigs, including an analysis of the impact of various changes in useful life assumptions, see "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Critical Accounting Policies and Estimates" in Part II of our Annual Report on Form 10-K for the year ended December 31, 2010.

### *Impairment of Long-Lived Assets and Goodwill*

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

For property and equipment used in our operations, recoverability is generally determined by comparing the carrying value of an asset to the expected undiscounted future cash flows of the asset. If the carrying value of an asset is not recoverable, the amount of impairment loss is measured as the difference between the carrying value of the asset and its estimated fair value. The determination of expected undiscounted cash flow amounts requires significant estimates, judgments and assumptions, including utilization, day rates, expense levels and capital requirements, as well as cash flows generated upon disposition, for each of our drilling rigs. Due to the inherent uncertainties associated with these estimates, we perform sensitivity analysis on key assumptions as part of our recoverability test.

If the global economy deteriorates and/or other events or changes in circumstances indicate that the carrying value of one or more drilling rigs may not be recoverable, we will conclude that a triggering event has occurred and perform a recoverability test. If, at the time of the recoverability test, management's judgments and assumptions regarding future industry conditions and operations have diminished, it is reasonably possible that we could conclude that one or more of our drilling rigs are impaired.

We test goodwill for impairment on an annual basis or when events or changes in circumstances indicate that a potential impairment exists. The goodwill impairment test requires us to identify reporting units and estimate each unit's fair value as of the testing date. Our three reportable segments represent our reporting units. In most instances, our calculation of the fair value of our reporting units is based on estimates of future discounted cash flows to be generated by our drilling rigs, which reflect management's judgments and assumptions regarding the appropriate risk-adjusted discount rate, as well as future industry conditions and operations, including expected utilization, day rates, expense levels, capital requirements and terminal values for each of our rigs. Due to the inherent uncertainties associated with these estimates, we perform sensitivity analysis on key assumptions as part of our goodwill impairment test.

If the aggregate fair value of our reporting units exceeds our market capitalization, we evaluate the reasonableness of the implied control premium which includes a comparison to implied control premiums from recent market transactions within our industry or other relevant benchmark data. To the extent that the implied control premium based on the aggregate fair value of our reporting units is not reasonable, we adjust the discount rate used in our discounted cash flow model and reduce the estimated fair values of our reporting units.

If the estimated fair value of a reporting unit exceeds its carrying value, its goodwill is considered not impaired. If the estimated fair value of a reporting unit is less than its carrying value, we estimate the implied fair value of the reporting unit's goodwill. If the carrying amount of the reporting unit's goodwill exceeds the implied fair value of the goodwill, an impairment loss is recognized in an amount equal to such excess. In the event we dispose of drilling rig operations that constitute a business, goodwill would be allocated in the determination of gain or loss on disposal. Based on our annual goodwill impairment test performed as of December 31, 2010, there was no impairment of goodwill, and none of our reporting units were determined to be at risk of a goodwill impairment in the near-term under the current circumstances.

If the global economy deteriorates and/or our expectations relative to future offshore drilling industry conditions decline, we may conclude that the fair value of one or more of our reporting units has more-likely-than-not declined below its carrying amount and perform an interim period goodwill impairment test. If, at the time of the goodwill impairment test, management's judgments and assumptions regarding future industry conditions and operations have diminished, or if the market value of our shares has declined, we could conclude that the goodwill of one or more of our reporting units has been impaired. It is reasonably possible that the judgments and assumptions inherent in our goodwill impairment test may change in response to future market conditions.

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

### *Income Taxes*

We conduct operations and earn income in numerous countries and are subject to the laws of numerous tax jurisdictions. As of March 31, 2011, our condensed consolidated balance sheet included a \$340.6 million net deferred income tax liability, a \$13.7 million liability for income taxes currently payable and a \$20.2 million liability for unrecognized tax benefits.

The carrying values of deferred income tax assets and liabilities reflect the application of our income tax accounting policies and are based on management's estimates, judgments and assumptions regarding future operating results and levels of taxable income. Carryforwards and tax credits are assessed for realization as a reduction of future taxable income by using a more-likely-than-not determination.

We do not provide deferred taxes on the undistributed earnings of Ensc0 Delaware because our policy and intention is to reinvest such earnings indefinitely or until such time that they can be distributed in a tax-free manner. We do not provide deferred taxes on the undistributed earnings of Ensc0 Delaware's non-U.S. subsidiaries because our policy and intention is to reinvest such earnings indefinitely.

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

We operate in many jurisdictions where tax laws relating to the offshore drilling industry are not well developed. In jurisdictions where available statutory law and regulations are incomplete or underdeveloped, we obtain professional guidance and consider existing industry practices before utilizing tax planning strategies and meeting our tax obligations.

Tax returns are routinely subject to audit in most jurisdictions and tax liabilities are occasionally finalized through a negotiation process. While we have not historically experienced significant adjustments to previously recognized tax assets and liabilities as a result of finalizing tax returns, there can be no assurance that significant adjustments will not arise in the future. In addition, there are several factors that could cause the future level of uncertainty relating to our tax liabilities to increase, including the following:

- The Internal Revenue Service and/or Her Majesty's Revenue and Customs may disagree with our interpretation of tax laws, treaties, or regulations with respect to our redomestication to the U.K. in December 2009.
- During recent years, the number of tax jurisdictions in which we conduct operations has increased, and we currently anticipate that this trend will continue.
- In order to utilize tax planning strategies and conduct operations efficiently, our subsidiaries frequently enter into transactions with affiliates that are generally subject to complex tax regulations and are frequently reviewed by tax authorities.
- We may conduct future operations in certain tax jurisdictions where tax laws are not well developed, and it may be difficult to secure adequate professional guidance.
- Tax laws, regulations, agreements and treaties change frequently, requiring us to modify existing tax strategies to conform to such changes.