ENSCO PLC

FORM 8-K
(Current report filing)

Filed 01/13/09 for the Period Ending 01/13/09

Telephone	4402076594660
CIK	0000314808
Symbol	ESV
SIC Code	1381 - Drilling Oil and Gas Wells
Industry	Oil Well Services & Equipment
Sector	Energy
Fiscal Year	12/31

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, 2009

ENSCO International Incorporated

(Exact name of registrant as specified in its charter)

Delaware	**1-8097**	**76-0232579**
(State or other jurisdiction of incorporation)	(Commission File Number)	(I.R.S. Employer Identification No.)

500 North Akard Street
Suite 4300
Dallas, Texas 75201-3331
(Address of Principal Executive Offices and Zip Code)

Registrant's telephone number, including area code: **(214) 397-3000**

Not Applicable
(Former name or former address, if changed since last report)

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))

TABLE OF CONTENTS

INFORMATION TO BE INCLUDED IN THE REPORT

Item 8.01 Other Events

As previously reported, we are in the process of developing a fleet of deepwater semisubmersible rigs. In connection therewith, we contracted Keppel FELS Limited ("KFELS"), a major international shipyard based in Singapore, to construct seven ultra-deepwater semisubmersible rigs (the "ENSCO 8500 Series®"). The first ENSCO 8500 Series® rig has been delivered by KFELS and arrived in the Gulf of Mexico in mid-December 2008. The rig is currently undergoing final outfitting and preparing for deepwater sea trials and is projected to commence operations in February 2009. In connection with the arrival of our first ENSCO 8500 Series® rig, we have reorganized the management of our operations, establishing a separate business unit to manage our fleet of deepwater semisubmersible rigs.

As part of this reorganization, we evaluated our remaining assets and operations, consisting of 43 jackup rigs and one barge rig organized into three business units based on major geographic region, and now consider these three business units as operating segments. Accordingly, our business now consists of four operating segments: (1) Deepwater, (2) Asia Pacific, (3) Europe/Africa and (4) North and South America. Each of our four operating segments provides one service, contract drilling.

We are filing this Current Report on Form 8-K (the "Report") for the purpose of, among other things, incorporating its contents into the Registration Statement on Form S-3 that we will file today. This report includes updates to certain disclosures contained in our Annual Report on Form 10-K for the year ended December 31, 2007 ("Form 10-K"), filed with the Securities and Exchange Commission ("SEC") on February 26, 2008, and our Quarterly Report on Form 10-Q for the period ended September 30, 2008 ("Form 10-Q"), filed with the SEC on October 23, 2008, to retrospectively reflect our management reorganization from one operating segment to four operating segments. Each Item being updated in our Form 10-K and Form 10-Q is filed as a separate exhibit to this Report. The specific disclosures updated within those items are as follows:

- Note 11 to our audited consolidated financial statements as of December 31, 2007 and 2006 and for each of the three years in the period ended December 31, 2007, included in Part II, Item 8 "Financial Statements and Supplementary Data" of our Form 10-K (filed as Exhibit 99.1 hereto);
- The Results of Operations section included in Part II, Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations" of our Form 10-K (filed as Exhibit 99.2 hereto);
- Note 13 to our unaudited condensed consolidated financial statements as of September 30, 2008 and for the three-month and nine-month periods ended September 30, 2008 and 2007, included in Part I, Item 1 "Financial Statements" of our Form 10-Q (filed as Exhibit 99.3 hereto); and
- The Results of Operations section included in Part I, Item 2 "Management's Discussion and Analysis of Financial Condition and Results of Operations" of our Form 10-Q (filed as Exhibit 99.4 hereto).

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

FORWARD-LOOKING STATEMENTS

This Report and the exhibits hereto contain forward-looking statements that are subject to a number of risks and uncertainties and are based on information as of the date of this Report or the respective dates the Form 10-K and Form 10-Q were originally filed, as applicable. We assume no obligation to update these statements based on information after the date of this Report or the respective dates the Form 10-K and Form 10-Q were originally filed, as applicable.

Forward-looking statements include words or phrases such as "anticipate," "believe," "estimate," "expect," "intend," "plan," "project," "could," "may," "might," "should," "will" and words and phrases of similar import. The forward-looking statements include, but are not limited to, statements regarding future operations, industry trends or conditions and the business environment; statements regarding future levels of, or trends in, day rates, utilization, revenues, operating expenses, contract backlog, capital expenditures, insurance, financing and funding; statements regarding future construction (including construction in progress and completion thereof), enhancement, upgrade or repair of rigs and timing thereof; future mobilization, relocation or other movement of rigs and timing thereof; future availability or suitability of rigs and timing thereof; and statements regarding the likely outcome of litigation, legal proceedings, investigations or claims and timing thereof.

Forward-looking statements are made pursuant to safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Numerous factors could cause actual results to differ materially from those in the forward-looking statements, including:

- industry conditions and competition, including changes in rig supply and demand or new technology,
- risks associated with the current global economic crisis and its impact on capital markets and liquidity,
- prices of oil and natural gas in general, and the recent precipitous decline in prices in particular, and the impact of commodity prices upon future levels of drilling activity and expenditures,
- material changes in recognition of revenue resulting from the deferral of revenues payable by our customers for mobilization of our drilling rigs, waiting on weather or time in shipyards that are deferred until we commence drilling operations,
- excess rig availability or supply resulting from delivery of new drilling rigs,
- heavy concentration of our rig fleet in premium jackups,
- cyclical nature of the industry,
- worldwide expenditures for oil and gas drilling,
- operational risks, including hazards created by severe storms and hurricanes,
- risks associated with offshore rig operations or rig relocations in general, and in foreign jurisdictions in particular,
- renegotiation, nullification or breach of contracts or letters of intent with customers or other parties, including failure to negotiate definitive contracts following announcements or receipt of letters of intent,

- changes in the dates new contracts actually commence,
- changes in the dates our rigs will enter a shipyard, be delivered, return to or enter service,
- risks inherent to domestic and foreign shipyard rig construction, repair or enhancement, including risks associated with concentration of our ENSCO 8500 Series® rig construction contracts in a single foreign shipyard, unexpected delays in equipment delivery and engineering or design issues following shipyard delivery,
- availability of transport vessels to relocate rigs,
- environmental or other liabilities, risks or losses, whether related to hurricane equipment damage, losses or liabilities (including wreckage or debris removal) in the Gulf of Mexico or otherwise, that may arise in the future which are not covered by insurance or indemnity in whole or in part,
- limited availability of economic insurance coverage for certain perils such as hurricanes in the Gulf of Mexico or associated removal of wreckage or debris,
- self-imposed or regulatory limitations on drilling locations in the Gulf of Mexico during hurricane season,
- impact of current and future government laws and regulation affecting the oil and gas industry in general and our operations in particular, including taxation as well as repeal or modification of same,
- political and economic uncertainties,
- our ability to attract and retain skilled personnel,
- expropriation, nationalization, deprivation, terrorism or military action impacting our operations, assets or financial performance,
- outcome of litigation, legal proceedings, investigations or claims,
- adverse changes in foreign currency exchange rates, and;
- potential reduction in fair value of our auction rate securities.

In addition to the numerous factors described above, you should 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 the Form 10-K and "Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations" in Part I and "Item 1A. Risk Factors" in Part II of the Form 10-Q, each as updated in this Report and the exhibits hereto.

Item 9.01 Financial Statements and Exhibits

(d) Exhibits

Exhibit No.	Description
15.1	Letter regarding unaudited interim information.
23.1	Consent of Independent Registered Public Accounting Firm.
99.1	Part II, Item 8 "Financial Statements and Supplementary Data" of our Annual Report on Form 10-K for the year ended December 31, 2007.
99.2	Part II, Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations" of our Anual Report on Form 10-K for the year ended December 31, 2007.
99.3	Part I, Item 1 "Financial Statements" of our Quarterly Report on Form 10-Q for the period ended September 30, 2008.
99.4	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 September 30, 2008.

SIGNATURES

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.

ENSCO International Incorporated

Date: January 13, 2009

/s/ DAVID A. ARMOUR
David A. Armour
Vice President - Finance

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

EXHIBIT INDEX

Exhibit No.	Description
15.1	Letter regarding unaudited interim information.
23.1	Consent of Independent Registered Public Accounting Firm.
99.1	Part II, Item 8 "Financial Statements and Supplementary Data" of our Annual Report on Form 10-K for the year ended December 31, 2007.
99.2	Part II, Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations" of our Annual Report on Form 10-K for the year ended December 31, 2007.
99.3	Part I, Item 1 "Financial Statements" of our Quarterly Report on Form 10-Q for the period ended September 30, 2008.
99.4	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 September 30, 2008.

Exhibit 15.1

January 13, 2009

ENSCO International Incorporated
500 North Akard Street
Suite 4300
Dallas, Texas 75201-3331

Re: Registration Statements on Form S-3 (No. 333-37897) and Form S-8 (Nos. 333-58625, 333-10733, 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 October 23, 2008 (except for the updated disclosures pertaining to the resegmenting as described in Note 13 as to which the date is January 13, 2009) 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 October 23, 2008 (except for the updated disclosures pertaining to the resegmenting as described in Note 13 as to which the date is January 13, 2009).

/s/ KPMG LLP

Dallas, Texas

Exhibit 23.1

Consent of Independent Registered Public Accounting Firm

The Board of Directors
ENSCO International Incorporated:

We consent to the incorporation by reference in the registration statements on Form S-8 (Nos. 333-58625, 333-10733, 33-40282, 333-97757, 333-125048 and 333-156530) and on Form S-3 (No. 333-37897) of ENSCO International Incorporated of our reports dated February 26, 2008 (except for the updated disclosure pertaining to the resegmenting as described in Note 11, as to which the date is January 13, 2009), with respect to the consolidated balance sheets of ENSCO International Incorporated as of December 31, 2007 and 2006, and the related consolidated statements of income and cash flows for each of the years in the three-year period ended December 31, 2007, and the effectiveness of internal control over financial reporting as of December 31, 2007, which reports appear in this Current Report on Form 8-K of ENSCO International Incorporated. Our report covering the December 31, 2007 consolidated financial statements refers to the adoption, effective January 1, 2007, of the provisions of Financial Accounting Standards Board Interpretation No. 48, Accounting for Uncertainty in Income Taxes, the adoption, effective January 1, 2006, of Statement of Financial Accounting Standards No. 123 (revised 2004), Share-Based Payment, and to a change in the method of quantifying errors in 2006.

/s/ KPMG LLP

Dallas, Texas
January 13, 2009

Item 8. ***Financial Statements and Supplementary Data***

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) or 15d-15(f). Our internal control over financial reporting system is designed to provide reasonable assurance to our management and Board of Directors regarding the preparation and fair presentation of published financial statements. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. Under the supervision and with the participation of management, including the Chief Executive Officer and Chief Financial Officer, we have conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, we have concluded that our internal control over financial reporting is effective as of December 31, 2007 to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

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

February 26, 2008

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders
ENSCO International Incorporated:

We have audited the accompanying consolidated balance sheets of ENSCO International Incorporated and subsidiaries as of December 31, 2007 and 2006, and the related consolidated statements of income and cash flows for each of the years in the three-year period ended December 31, 2007. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of ENSCO International Incorporated and subsidiaries as of December 31, 2007 and 2006, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2007, in conformity with U.S. generally accepted accounting principles.

As discussed in note 8 to the consolidated financial statements, effective January 1, 2007, the Company adopted the provisions of Financial Accounting Standards Board Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* . As discussed in note 1 to the consolidated financial statements, effective January 1, 2006, the Company adopted the provisions of Statement of Financial Accounting Standards No. 123 (revised 2004), *Share Based Payment* . Also, as discussed in note 1 to the consolidated financial statements, the Company changed its method of quantifying errors in 2006.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), ENSCO International Incorporated and subsidiaries' internal control over financial reporting as of December 31, 2007, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 26, 2008 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ KPMG LLP

Dallas, Texas
February 26, 2008, except for the updated disclosure
pertaining to the resegmenting as described in Note 11,
as to which the date is January 13, 2009

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders
ENSCO International Incorporated:

We have audited ENSCO International Incorporated and subsidiaries' (ENSCO) internal control over financial reporting as of December 31, 2007, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). ENSCO's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

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

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

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

In our opinion, ENSCO maintained, in all material respects, effective internal control over financial reporting as of December 31, 2007, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of ENSCO International Incorporated and subsidiaries as of December 31, 2007 and 2006, and the related consolidated statements of income and cash flows for each of the years in the three-year period ended December 31, 2007, and our report dated February 26, 2008 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

Dallas, Texas
February 26, 2008

ENSCO INTERNATIONAL INCORPORATED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(in millions, except per share amounts)

	Year Ended December 31, 2007	2006	2005
OPERATING REVENUES	$2,143.8	$1,813.5	$1,034.3
OPERATING EXPENSES			
Contract drilling	684.1	576.7	454.4
Depreciation	184.3	175.0	153.4
General and administrative	59.5	44.6	32.0
	927.9	796.3	639.8
OPERATING INCOME	1,215.9	1,017.2	394.5
OTHER INCOME (EXPENSE)			
Interest income	26.3	14.9	7.0
Interest expense, net	(1.9)	(16.5)	(28.8)
Other, net	13.4	(4.3)	(2.2)
	37.8	(5.9)	(24.0)
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES AND CUMULATIVE EFFECT OF ACCOUNTING CHANGE	1,253.7	1,011.3	370.5
PROVISION FOR INCOME TAXES			
Current income tax expense	261.3	236.8	93.6
Deferred income tax expense	.4	15.9	6.9
	261.7	252.7	100.5
INCOME FROM CONTINUING OPERATIONS	992.0	758.6	270.0
DISCONTINUED OPERATIONS			
Income from discontinued operations, net	--	3.3	1.0
Gain on disposal of discontinued operations, net	--	7.2	13.9
	--	10.5	14.9
INCOME BEFORE CUMULATIVE EFFECT OF ACCOUNTING CHANGE	992.0	769.1	284.9
CUMULATIVE EFFECT OF ACCOUNTING CHANGE FOR ADOPTION OF SFAS 123(R), NET	--	.6	--
NET INCOME	$ 992.0	$ 769.7	$ 284.9
EARNINGS PER SHARE - BASIC			
Continuing operations	$ 6.76	$ 4.98	$ 1.78
Discontinued operations	--	.07	.10
Cumulative effect of accounting change	--	.00	--
	$ 6.76	$ 5.06	$ 1.88
EARNINGS PER SHARE - DILUTED			
Continuing operations	$ 6.73	$ 4.96	$ 1.77

Discontinued operations	--	.07	.10
Cumulative effect of accounting change	--	.00	--
	$ 6.73	$ 5.04	$ 1.87
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING			
Basic	146.7	152.2	151.7
Diluted	147.3	152.8	152.4
CASH DIVIDENDS PER COMMON SHARE	$ .10	$ .10	$ .10

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

ENSCO INTERNATIONAL INCORPORATED AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(in millions, except par value amounts)

	December 31, 2007	December 31, 2006
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 629.5	$ 565.8
Accounts receivable, net	383.2	338.8
Other	116.6	82.6
Total current assets	1,129.3	987.2
PROPERTY AND EQUIPMENT, AT COST	4,704.7	4,129.5
Less accumulated depreciation	1,345.8	1,169.1
Property and equipment, net	3,358.9	2,960.4
GOODWILL	336.2	336.2
OTHER ASSETS, NET	144.4	50.6
	$4,968.8	$4,334.4
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	$ 18.8	$ 12.4
Accrued liabilities and other	465.6	205.4
Current maturities of long-term debt	19.1	167.1
Total current liabilities	503.5	384.9
LONG-TERM DEBT	291.4	308.5
DEFERRED INCOME TAXES	352.0	356.5
OTHER LIABILITIES	69.9	68.5
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY		
Preferred stock, $1 par value, 20.0 million shares authorized and none issued	--	--
Common stock, $.10 par value, 250.0 million shares authorized, 180.3 million and 178.7 million shares issued	18.0	17.9
Additional paid-in capital	1,700.5	1,621.3
Retained earnings	2,977.5	1,994.5
Accumulated other comprehensive loss	(4.2)	(5.5)
Treasury stock, at cost, 36.4 million shares and 26.9 million shares	(939.8)	(412.2)
Total stockholders' equity	3,752.0	3,216.0
	$4,968.8	$4,334.4

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

ENSCO INTERNATIONAL INCORPORATED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in millions)

	Year Ended December 31,		
	2007	**2006**	**2005**
OPERATING ACTIVITIES			
Net income	$ 992.0	$ 769.7	$ 284.9
Adjustments to reconcile net income to net cash provided by operating activities of continuing operations:			
Depreciation expense	184.3	175.0	153.4
Deferred income tax expense	.4	15.9	6.9
Share-based compensation expense	36.9	21.9	15.9
Excess tax (benefit) deficiency from share-based compensation	(6.6)	(3.6)	4.9
Amortization of other assets	8.1	6.2	6.0
Income from discontinued operations, net	--	(3.3)	(1.0)
Gain on disposal of discontinued operations, net	--	(7.2)	(13.9)
Other	.1	6.7	4.6
Changes in operating assets and liabilities:			
Increase in accounts receivable	(44.4)	(69.8)	(86.0)
Increase in other assets	(130.9)	(23.8)	(16.8)
Increase (decrease) in accounts payable	6.5	(6.7)	3.5
Increase (decrease) in accrued liabilities and other	195.6	62.8	(10.8)
Net cash provided by operating activities of continuing operations	1,242.0	943.8	351.6
INVESTING ACTIVITIES			
Additions to property and equipment	(519.9)	(528.6)	(477.1)
Net proceeds from disposal of discontinued operations	--	23.7	132.9
Other	7.7	2.9	2.5
Net cash used in investing activities	(512.2)	(502.0)	(341.7)
FINANCING ACTIVITIES			
Repurchase of common stock under authorized program	(521.6)	(160.0)	--
Reduction of long-term borrowings	(167.2)	(17.1)	(58.3)
Cash dividends paid	(14.8)	(15.3)	(15.2)
Proceeds from exercise of share options	35.8	41.8	67.2
Excess tax benefit (deficiency) from share-based compensation	6.6	3.6	(4.9)
Other	(4.1)	(1.0)	(3.2)
Net cash used in financing activities	(665.3)	(148.0)	(14.4)
Effect of exchange rate changes on cash and cash equivalents	(.8)	(.2)	(.7)
Net cash provided by operating activities of discontinued operations	--	3.7	6.7
INCREASE IN CASH AND CASH EQUIVALENTS	63.7	297.3	1.5
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	565.8	268.5	267.0
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 629.5	$ 565.8	$ 268.5

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

ENSCO INTERNATIONAL INCORPORATED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Business

ENSCO International Incorporated is one of the leading providers of offshore contract drilling services to the international oil and gas industry. We have one of the largest and most capable offshore drilling rig fleets in the world which is comprised of 46 drilling rigs, including 44 jackup rigs, one ultra-deepwater semisubmersible rig and one barge rig. Additionally, we have four ultra-deepwater semisubmersible rigs under construction. We drill and complete offshore oil and gas wells for major international, government-owned and independent oil and gas companies on a "day rate" contract basis, under which we provide our drilling rigs and rig crews and receive a fixed amount per day for drilling the well. Our customers bear substantially all of the ancillary costs of constructing the well and supporting drilling operations, as well as the economic risk relative to the success of the well.

Our contract drilling operations are integral to the exploration, development and production of oil and gas. Our business levels and corresponding operating results are significantly affected by worldwide levels of offshore exploration and development spending by oil and gas companies. Levels of offshore exploration and development spending may fluctuate substantially from year to year and from region to region. Such fluctuations result from many factors, including demand for oil and gas, regional and global economic conditions, political, social and legislative environments in the U.S. and other major oil-producing countries, the production levels and related activities of OPEC and other oil and gas producers, technological advancements that impact the methods or cost of oil and gas exploration and development, disruption to exploration and development activities due to hurricanes and other severe weather conditions, and the impact that these and other events have on the current and expected future pricing of oil and natural gas (see Note 11 "Segment Information" for additional information concerning our operations by geographic region).

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of ENSCO International Incorporated and its majority owned subsidiaries. All significant intercompany accounts and transactions have been eliminated. Certain previously reported amounts have been reclassified to conform to the current-year presentation. Unless the context otherwise requires, the terms "we," "us" and "our" refer to ENSCO International Incorporated and its consolidated subsidiaries.

Pervasiveness of Estimates

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

Foreign Currency Translation

The U.S. dollar is the functional currency of all our non-U.S. subsidiaries. The financial statements of these subsidiaries are remeasured in U.S. dollars based on a combination of both current and historical exchange rates. Currency translation adjustments and transaction gains and losses, including certain gains and losses on our derivative instruments, are included in other, net, on our consolidated statements of income. We had net foreign currency exchange gains of $9.2 million for the year ended December 31, 2007, net foreign currency exchange losses of $2.8 million for the year ended December 31, 2006 and net foreign currency exchange gains of $700,000 for the year ended December 31, 2005.

Cash Equivalents and Short-Term Investments

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

Property and Equipment

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

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

We evaluate the carrying value of our property and equipment for impairment when events or changes in circumstances indicate that the carrying value of such assets may not be recoverable. For property and equipment used in our operations, recoverability is determined by comparing the net carrying value of an asset to either an independent fair value appraisal of the asset or the expected undiscounted future cash flows, before interest, of the asset. The amount of impairment loss, if any, is measured as the difference between the net book value of the asset and its estimated fair value. We recorded no impairment charges during the three-year period ended December 31, 2007. Property and equipment held for sale is recorded at the lower of net book value or net realizable value.

Goodwill

We test goodwill for impairment on an annual basis, or when events or changes in circumstances indicate that a potential impairment exists. Based on our goodwill impairment analysis performed as of December 31, 2007, there was no impairment of goodwill.

Operating Revenues and Expenses

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

In connection with some contracts, we receive lump-sum fees or similar compensation for the mobilization of equipment and personnel prior to the commencement of drilling services or the demobilization of equipment and personnel upon contract completion. Fees received for the mobilization or demobilization of equipment and personnel are included in operating revenue. The costs incurred in connection with the mobilization and demobilization of equipment and personnel are included in contract drilling expense. Mobilization fees received and costs incurred are deferred and recognized over the period that the related drilling services are performed on a straight-line basis.

Demobilization fees and related costs are recognized as incurred, upon contract completion. Costs associated with the mobilization of equipment and personnel to more promising market areas without contracts are expensed as incurred.

Deferred mobilization costs are included in other current assets and other assets, net, and totaled $29.2 million and $15.0 million, at December 31, 2007 and 2006, respectively. Deferred mobilization revenue is included in accrued liabilities and other, and other liabilities and totaled $53.3 million and $29.2 million at December 31, 2007 and 2006, respectively.

In connection with some contracts, we receive up-front, lump-sum fees or similar compensation for capital improvements to our rigs. Such compensation is deferred and recognized as revenue over the related contract period. The cost of such capital improvements is capitalized and depreciated over the useful life of the asset. Deferred revenue associated with capital improvements is included in accrued liabilities and other, and other liabilities and totaled $1.5 million and $2.7 million at December 31, 2007 and 2006, respectively.

We must obtain certifications from various regulatory bodies in order to operate our drilling rigs and must maintain such certifications through periodic inspections and surveys. The costs incurred in connection with maintaining such certifications, including inspections, tests, surveys and drydock, as well as remedial structural work and other compliance costs, are deferred and amortized over the corresponding certification periods. Deferred regulatory certification and compliance costs are included in other current assets and other assets, net, and totaled $10.4 million and $4.1 million at December 31, 2007 and 2006, respectively.

In certain countries in which we operate, taxes such as sales, use, value added, gross receipts, and excise may be assessed by the local government on our revenues. We generally record our tax-assessed revenue transactions on a net basis in our consolidated statements of income.

Derivative Financial Instruments

We use derivative financial instruments ("derivatives") to reduce our exposure to various market risks, primarily interest rate risk and foreign currency risk. We employ an interest rate risk management strategy that occasionally utilizes derivatives to minimize or eliminate unanticipated fluctuations in earnings and cash flows arising from changes in, and volatility of, interest rates. We maintain a foreign currency 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 do not enter into derivatives for trading or other speculative purposes.

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

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

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

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

Derivatives with asset fair values are reported in other current assets or other assets, net, depending on maturity date. Derivatives with liability fair values are reported in accrued liabilities and other, or other liabilities, depending on maturity date. At December 31, 2007 and 2006, the fair value of our foreign currency derivatives was a net asset of $4.6 million and $4.0 million, respectively.

Income Taxes

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

Deferred tax assets and liabilities are recognized for the anticipated future tax effects of temporary differences between the financial statement basis and the tax basis of our assets and liabilities using the enacted tax rates in effect at year end. A valuation allowance for deferred tax assets is recorded when it is more-likely-than-not that the benefit from the deferred tax asset will not be realized.

In many of the international jurisdictions where we operate, tax laws relating to the offshore drilling industry are not well developed and change frequently. Furthermore, we may enter into transactions with affiliates or employ other tax planning strategies that generally are subject to complex tax regulations. As a result of the foregoing, the tax liabilities and assets we recognize in our financial statements may differ from the tax positions taken, or expected to be taken, in our tax returns. We adopted the provisions of FASB Interpretation No. 48, "Accounting for Uncertainty in Income Tax - an interpretation of FASB Statement No. 109" on January 1, 2007 (see Note 8 "Income Taxes"). Under FIN 48, our tax positions are evaluated for recognition using a more-likely-than-not threshold, and those tax positions requiring recognition are measured as the largest amount of tax benefit that is greater than 50 percent likely of being realized upon ultimate settlement with a taxing authority that has full knowledge of all relevant information. Interest and penalties relating to income taxes are included in current income tax expense.

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

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

In December 2007, substantially all of the undistributed earnings of our non-U.S. subsidiaries were distributed to our U.S. parent (see Note 8 "Income Taxes"). It is our policy and intention to indefinitely reinvest all remaining and future undistributed earnings of our non-U.S. subsidiaries in such subsidiaries. Accordingly, no U.S. deferred taxes are provided on the undistributed earnings of our non-U.S. subsidiaries.

Share-Based Employee Compensation

We sponsor several share-based compensation plans that provide equity compensation to our employees, officers and directors. Effective January 1, 2006, we adopted the fair value recognition provisions of Financial Accounting Standards No. 123, (revised 2004) "Share-Based Payment" ("SFAS 123(R)"), using the modified-retrospective transition method. Under that transition method, compensation cost recognized in prior periods was restated to include share option compensation cost previously reported in our pro forma footnote disclosures. Share-based compensation cost is measured at fair value on the date of grant and recognized on a straight line basis over the requisite service period (usually the vesting period). Beginning in 2006, the amount of compensation cost recognized in the consolidated statements of income is based on the awards ultimately expected to vest, and therefore, reduced for estimated forfeitures. (See Note 7 "Employee Benefit Plans" for information concerning the adoption of SFAS 123(R) and its impact on our consolidated financial statements.)

Earnings Per Share

For each of the years in the three-year period ended December 31, 2007, there were no adjustments to net income for purposes of calculating basic and diluted earnings per share. The following is a reconciliation of the weighted average common shares used in the basic and diluted earnings per share computations for each of the years in the three-year period ended December 31, 2007 (in millions):

	2007	2006	2005
Weighted average common shares - basic	146.7	152.2	151.7
Potentially dilutive common shares:			
Non-vested share awards	.1	.0	.1
Share options	.5	.6	.6
Weighted average common shares - diluted	147.3	152.8	152.4

Options to purchase 503,250 shares of common stock in 2007, 684,000 shares of common stock in 2006 and 15,000 shares of common stock in 2005 were not included in the computation of diluted earnings per share because the exercise price of the options exceeded the average market price of the common stock for the respective periods.

Adoption of SAB 108

In September 2006, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 108, "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements" ("SAB 108"). SAB 108 became effective for our fiscal year ended December 31, 2006. SAB 108 provides guidance on how prior year financial statement misstatements should be taken into consideration when quantifying misstatements in current year financial statements for purposes of determining whether current year financial statements are materially misstated. The techniques most commonly used to accumulate and quantify misstatements were generally referred to as the "rollover" and "iron curtain" approaches. The rollover approach quantifies a misstatement based on the amount of error originating in the current year income statement. The iron curtain approach quantifies a misstatement based on the effects of correcting the misstatement existing in the balance sheet at the end of the current year, irrespective of the misstatement's year of origination. SAB 108 requires consideration of both the rollover and iron curtain approaches in quantifying and evaluating the effects of financial statement misstatements.

During years prior to 2006, we used the rollover approach to quantify and evaluate the effects of financial statement misstatements. In applying the guidance of SAB 108 during 2006, we concluded the two misstatements described below, when evaluated using the iron curtain approach, were material to our December 31, 2006 financial statements.

In 1997, we adopted a policy pursuant to which the depreciation of a rig was suspended during periods it was out of service while undergoing major upgrade and enhancement procedures. In 2005, we discontinued this policy after concluding it was not in accordance with U.S. generally accepted accounting principles. We evaluated the financial statement misstatements resulting from the application of this policy and concluded their impact on each of our prior period financial statements was immaterial. In accordance with SAB 108, we elected to report the cumulative effect of the financial statement misstatements, a $17.6 million increase in accumulated depreciation, $2.6 million decrease in deferred tax liabilities and $15.0 million decrease in retained earnings, effective January 1, 2006.

We maintain relatively constant levels of consumable supplies and spare parts on each of our drilling rigs for use in our operations ("inventory"). Prior to the fourth quarter of 2006, we utilized an accounting policy under which inventory was charged to contract drilling expense at the time it was shipped to a drilling rig, although some of it was temporarily stored and consumed later. We had previously evaluated and concluded the impact of the financial statement misstatements resulting from the difference between the amounts of inventory charged to contract drilling expense and the estimated amounts of inventory consumed was immaterial to our prior period financial statements. During the fourth quarter of 2006, we adopted an inventory accounting policy that recorded the inventory on our drilling rigs at the lower of cost or estimated value in accordance with U.S. generally accepted accounting principles. As part of the adoption of this accounting policy and in accordance with SAB 108, we elected to report the cumulative effect of the financial statement misstatements relating to accounting for inventory, a $32.3 million increase in other current assets, $6.7 million increase in deferred tax liabilities and $25.6 million increase in retained earnings, effective January 1, 2006. The inventory accounting policy discussed above did not have a material impact on our December 31, 2006 financial statements.

2. PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2007 and 2006 consists of the following (in millions):

	2007	**2006**
Drilling rigs and equipment	$3,816.4	$3,586.5
Other	40.4	39.4
Work in progress	847.9	503.6
	$4,704.7	$4,129.5

Work in progress at December 31, 2007 primarily consisted of $760.4 million related to the construction of our four ultra-deepwater semisubmersible rigs, ENSCO 8500, ENSCO 8501, ENSCO 8502 and ENSCO 8503 and costs associated with various modification and enhancement projects. Work in progress at December 31, 2006 primarily consisted of $455.0 million related to the construction of ENSCO 108 and three ultra-deepwater semisubmersible rigs, ENSCO 8500, ENSCO 8501 and ENSCO 8502 and costs associated with various modification and enhancement projects.

3. LONG-TERM DEBT

Long-term debt at December 31, 2007 and 2006 consists of the following (in millions):

	2007	**2006**
4.65% Bonds due 2020	$ 58.5	$ 63.0
6.36% Bonds due 2015	101.4	114.0
6.75% Notes due 2007	--	149.9
7.20% Debentures due 2027	148.7	148.7
Other	1.9	--
	310.5	475.6
Less current maturities	(19.1)	(167.1)
Total long-term debt	$291.4	$308.5

Bonds Due 2020 and 2015

In October 2003, we issued $76.5 million of 17-year bonds to provide long-term financing for ENSCO 105. The bonds are guaranteed by MARAD and will be repaid in 34 equal semiannual principal installments of $2.3 million ending in October 2020. Interest on the bonds is payable semiannually, in April and October, at a fixed rate of 4.65%. The bonds are collateralized by ENSCO 105 and we have guaranteed the performance of our obligations under the bonds to MARAD.

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

Notes Due 2007 and Debentures Due 2027

In November 1997, we issued $300.0 million of unsecured debt in a public offering, consisting of $150.0 million of 6.75% Notes due November 15, 2007 (the “Notes”) and $150.0 million of 7.20% Debentures due November 15, 2027 (the “Debentures”). In November 2007, the Notes and accrued interest of $5.1 million were paid in full. Interest on the Debentures is payable semiannually in May and November and may be redeemed at any time at our option, in whole or in part, at a price equal to 100% of the principal amount thereof plus accrued and unpaid interest, if any, and a make-whole premium. The indenture under which the Debentures were issued contains limitations on the incurrence of indebtedness secured by certain liens, and limitations on engaging in certain sale/leaseback transactions and certain merger, consolidation or reorganization transactions. The Debentures are not subject to any sinking fund requirements.

Revolving Credit Facility

We have a $350.0 million unsecured revolving credit facility (the "Credit Facility") with a syndicate of lenders for general corporate purposes. The Credit Facility has a five-year term, expiring in June 2010. Advances under the Credit Facility bear interest at LIBOR plus an applicable margin rate (currently .35% per annum), depending on our credit rating. We pay a facility fee (currently .10% per annum) on the total $350.0 million commitment, which is also based on our credit rating, and pay an additional utilization fee on outstanding advances if such advances equal or exceed 50% of the total $350.0 million commitment. We had no amounts outstanding under the Credit Facility at December 31, 2007 or 2006.

Maturities

The aggregate maturities of our long-term debt, excluding un-amortized discounts of $1.3 million, for each of the five years subsequent to December 31, 2007, are as follows (in millions):

2008	$ 19.1
2009	17.2
2010	17.2
2011	17.2
2012	17.2
Thereafter	223.9
Total	$311.8

4. DERIVATIVE FINANCIAL INSTRUMENTS

The estimated amount of unrealized gains and losses on derivative instruments, net of tax at December 31, 2007, that will be reclassified to earnings during the next twelve months is as follows (in millions):

Net unrealized gains to be reclassified to contract drilling expenses	$ 2.8
Net unrealized losses to be reclassified to interest expense	(.7)
Net unrealized gains to be reclassified to earnings	$ 2.1

We utilize derivative instruments and undertake hedging activities in accordance with our established policies for the management of market risk. We do not enter into derivative instruments for trading or other speculative purposes. All of our outstanding hedge contracts mature during the next fourteen months. Our management believes that our use of derivative instruments and related hedging activities do not expose us to any material interest rate risk, foreign currency exchange rate risk, commodity price risk, credit risk or any other material market rate or price risk.

5. COMPREHENSIVE INCOME

The components of our comprehensive income for each of the years in the three-year period ended December 31, 2007, are as follows (in millions):

	2007	2006	2005
Net Income	$992.0	$769.7	$284.9
Other comprehensive income (loss)			
Net change in fair value of derivatives	8.2	5.8	(6.3)
Reclassification of unrealized gains and losses on derivatives from other comprehensive (income) loss into net income	(6.9)	(.4)	3.3
Foreign currency translation adjustment	--	--	1.1
Net other comprehensive income (loss)	1.3	5.4	(1.9)
Comprehensive income	$993.3	$775.1	$283.0

Accumulated other comprehensive loss at December 31, 2007 and 2006 is comprised of net unrealized losses on derivative instruments, net of tax.

6. STOCKHOLDERS' EQUITY

In March 2006, our Board of Directors authorized the repurchase of up to $500.0 million of our outstanding common stock. In August 2007, following completion of the authorized repurchase of $500.0 million of common stock, our Board of Directors authorized the repurchase of an additional $500.0 million of our outstanding common stock. Aggregate repurchases of common stock during the year ended December 31, 2007 totaled 9.4 million shares at a cost of $521.6 million (an average cost of $55.56 per share).

At December 31, 2007 and December 31, 2006, the outstanding shares of our common stock, net of treasury shares, were 143.9 million and 151.8 million, respectively.

A summary of activity in the various stockholders' equity accounts for each of the years in the three-year period ended December 31, 2007 is as follows (in millions):

	Common Stock Shares	Common Stock Amounts	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock
BALANCE, December 31, 2004	174.5	$17.5	$1,476.0	$ 959.8	$ (9.0)	$(250.4)
Net income	--	--	--	284.9	--	--
Cash dividends paid	--	--	--	(15.2)	--	--
Common stock issued under share-based compensation plans, net	2.3	.2	67.6	--	--	(.8)
Tax deficiency from share-based compensation expense	--	--	(4.8)	--	--	--
Share-based compensation expense	--	--	16.1	--	--	--
Net other comprehensive loss	--	--	--	--	(1.9)	--
BALANCE, December 31, 2005	176.8	17.7	1,554.9	1,229.5	(10.9)	(251.2)
Cumulative effect for adoption of SAB 108	--	--	--	10.6	--	--
Cumulative effect for adoption of SFAS 123(R)	--	--	(.8)	--	--	--
Net income	--	--	--	769.7	--	--
Cash dividends paid	--	--	--	(15.3)	--	--
Common stock issued under share-based compensation plans, net	1.9	.2	41.7	--	--	(1.0)
Tax benefit from share-based compensation	--	--	3.6	--	--	--
Repurchase of common stock	--	--	--	--	--	(160.0)
Share-based compensation expense	--	--	21.9	--	--	--
Net other comprehensive income	--	--	--	--	5.4	--
BALANCE, December 31, 2006	178.7	17.9	1,621.3	1,994.5	(5.5)	(412.2)
Cumulative effect for adoption of FIN 48	--	--	--	5.8	--	--
Net income	--	--	--	992.0	--	--
Cash dividends paid	--	--	--	(14.8)	--	--
Common stock issued under share-based compensation plans, net	1.6	.1	35.7	--	--	(6.0)
Tax benefit from share-based compensation	--	--	6.6	--	--	--
Repurchase of common stock	--	--	--	--	--	(521.6)
Share-based compensation expense	--	--	36.9	--	--	--
Net other comprehensive income	--	--	--	--	1.3	--
BALANCE, December 31, 2007	180.3	$18.0	$1,700.5	$2,977.5	$ (4.2)	$(939.8)

7. EMPLOYEE BENEFIT PLANS

Adoption of New Accounting Standard

We grant share options and non-vested share awards to our employees, officers and directors. Prior to January 1, 2006, we accounted for share options using the recognition and measurement provisions of Accounting Principals Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25"), as permitted by Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123"). No compensation cost for share options was recognized in net income for periods prior to January 1, 2006, as all share options granted had an exercise price equal to the market value of the underlying common stock on the date of grant. Non-vested share awards were accounted for under the provisions of SFAS 123. Accordingly, compensation cost for non-vested share awards was measured using the market value of the common stock on the date of grant and was recognized on a straight line basis over the requisite service period (usually the vesting period).

Effective January 1, 2006, we adopted the fair value recognition provisions of Financial Accounting Standards No. 123, (revised 2004) "Share-Based Payment" ("SFAS 123(R)"), using the modified-retrospective transition method. Under that transition method, compensation cost recognized in prior periods was restated to include share option compensation cost previously reported in our pro forma footnote disclosures required by SFAS 123. Compensation cost recognized in the year ended December 31, 2005 was restated to include: (a) compensation cost for all share options granted prior to, but not yet vested as of January 1, 2005, based on the grant date fair value estimated in accordance with the original provisions of SFAS 123, and (b) compensation cost for all share options granted during the year ended December 31, 2005, based on the grant-date fair value estimated in accordance with the original provisions of SFAS 123. The December 31, 2005 consolidated balance sheet was restated to reflect all share option compensation cost recognized in periods prior to January 1, 2005, and to reflect compensation cost recognized during the year ended December 31, 2005.

No restatement was necessary in relation to our non-vested share awards upon adoption of SFAS 123(R), as compensation cost related to those awards, based on the fair value of our stock on the date of grant, was previously recognized in the financial statements. Under SFAS 123(R), non-vested share awards will continue to be measured using the market value of the common stock on the date of grant and recognized on a straight line basis over the requisite service period (usually the vesting period).

The following table summarizes share option compensation expense recognized during the year ended December 31, 2005 resulting from the adoption of SFAS 123(R) on January 1, 2006 (in millions, except per share amounts):

Contract Drilling	$ 7.1
General and administrative	6.2
Share option compensation expense included in operating expenses	13.3
Tax benefit	(4.2)
Share option compensation expense included in income from continuing operations	9.1
Share option compensation expense included in discontinued operations, net	.1
Total share option compensation expense included in net income	$ 9.2
Earnings per share impact - Basic	$.06
Earnings per share impact - Diluted	$.06

To reflect share option compensation cost recognized during periods prior to January 1, 2006, the December 31, 2005 balance sheet was adjusted upon adoption of SFAS 123(R) to increase deferred tax assets by $6.8 million and additional paid-in capital by $72.6 million, and to decrease retained earnings by $65.8 million.

Prior to the adoption of SFAS 123(R), tax benefits from share-based compensation plans were reported as cash provided by operating activities of continuing operations in the consolidated statements of cash flows. Under SFAS 123(R), the excess or shortfall of tax deductions, resulting from the exercise of share options and vesting of share awards, compared to the tax benefits resulting from the compensation expense recognized in connection with such exercised share options and vested share awards is reported as an excess tax benefit or tax deficiency, as applicable, under financing activities in the consolidated statements of cash flows. As a result of adopting SFAS 123(R) using the modified-retrospective transition method, both the previously reported amounts of cash provided by operating activities of continuing operations and cash used in financing activities in the consolidated statement of cash flows for the year ended December 31, 2005, increased by $4.9 million.

Share-based compensation expense recognized in the consolidated statements of income is based on awards ultimately expected to vest, and therefore, has been reduced for estimated forfeitures. SFAS 123(R) requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. Estimated forfeitures were based on historical experience. Prior to the adoption of SFAS 123(R), we accounted for forfeitures as they occurred. On January 1, 2006, we estimated that 13.7% of share options and 8.2% of non-vested share awards were not expected to vest. Accordingly, we recognized a cumulative adjustment to reduce share-based compensation expense by $600,000, net of tax, for unvested share options and non-vested share awards that were recognized in the financial statements as a result of applying the modified-retrospective transition method. The estimate is included in "Cumulative effect of accounting change for adoption of SFAS 123(R), net" on the consolidated statement of income for the year ended December 31, 2006.

Subsequent to the adoption of SFAS 123(R), compensation cost for all equity awards, regardless of when they were granted, is recognized based on the number of awards expected to vest. All subsequent changes in estimated forfeitures, including changes in estimates relating to share options and non-vested share awards granted prior to the adoption of SFAS 123(R), are based on historical experience and will be recognized as a cumulative adjustment to compensation cost in the period in which they occur.

Share Options

In May 2005, our stockholders approved the 2005 Long-Term Incentive Plan (the "2005 Plan"). The 2005 Plan is similar to and essentially replaces our previously adopted 1998 Incentive Plan (the "1998 Plan") and 1996 Non-Employee Directors' Stock Option Plan (the "Directors' Plan"). No further awards will be granted under the previously adopted plans, however, those plans shall continue to apply to and govern awards made thereunder. Under the 2005 Plan, a maximum of 7.5 million new shares are reserved for issuance as awards of share options to officers, non-employee directors and key employees who are in a position to contribute materially to our growth, development and our long-term success. Share options granted to officers and employees generally become exercisable in 25% increments over a four-year period and to the extent not exercised, expire on the seventh anniversary of the date of grant. Share options granted to non-employee directors are immediately exercisable and to the extent not exercised, expire on the seventh anniversary of the date of grant. The exercise price of share options granted under the 2005 Plan equals the market value of the underlying stock on the date of grant. At December 31, 2007, options to purchase 1.9 million shares of our common stock were outstanding under the 2005 Plan.

Share options previously granted under the 1998 Plan become exercisable in 25% increments over a four-year period and to the extent not exercised, expire on the fifth anniversary of the date of grant. Share options previously granted under the Directors' Plan become exercisable six months after the date of grant and expire, if not exercised, five years thereafter. The exercise price of share options granted under the 1998 Plan and the Directors' Plan equals the market value of the underlying stock on the date of grant. At December 31, 2007, options to purchase 600,000 shares of our common stock were outstanding under the 1998 Plan and the Directors' Plan.

The following table summarizes share option compensation expense recognized during each of the years in the three-year period ended December 31, 2007 (in millions):

	2007	2006	2005
Contract drilling	$ 5.8	$ 6.5	$ 7.1
General and administrative	7.8	8.7	6.2
Share option compensation expense included in operating expenses	13.6	15.2	13.3
Tax benefit	(3.8)	(4.2)	(4.2)
Share option compensation expense included in income from continuing operations	9.8	11.0	9.1
Share option compensation expense included in discontinued operations, net	--	--	.1
Total share option compensation expense included in net income	$ 9.8	$11.0	$ 9.2

The fair value of each option award is estimated on the date of grant using the Black-Scholes option valuation model with the following weighted average assumptions for each of the years in the three-year period ended December 31, 2007:

	2007	2006	2005
Risk-free interest rate	4.8%	4.9%	3.5%
Expected life (in years)	4.7	4.8	5.1
Expected volatility	29.8%	35.4%	38.8%
Dividend yield	.2%	.2%	.3%

Expected volatility is based on the historical volatility of the market price of our common stock 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 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.

A summary of share option activity for the year ended December 31, 2007, is as follows (shares and intrinsic value in thousands, term in years):

Share Options	Shares	Weighted Exercise Price	Weighted Average Contractual Term	Intrinsic Value
Outstanding at January 1, 2007	3,204	$36.25		
Granted	535	60.43		
Exercised	(1,140)	31.46		
Forfeited	(104)	42.60		
Outstanding at December 31, 2007	2,495	$43.37	4.5	$41,139
Exercisable at December 31, 2007	862	$37.13	3.6	$19,418

The following table summarizes the value of options granted and exercised during each of the years in the three-year period ended December 31, 2007:

	2007	2006	2005
Weighted-average grant-date fair value of share options granted (per share)	$20.44	$18.54	$13.02
Intrinsic value of share options exercised during the year (in millions)	$ 30.0	$ 28.9	$ 20.4

The following table summarizes information about share options outstanding at December 31, 2007 (shares in thousands):

	Options Outstanding			Options Exercisable	
Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$23.40 - $27.85	504	1.6 years	$27.29	247	$27.28
29.55 - 33.55	555	3.7 years	32.91	300	32.49
43.64 - 47.12	345	5.4 years	46.51	167	46.45
50.09 - 62.99	1,091	5.9 years	55.12	148	52.53
	2,495	4.5 years	$43.37	862	$37.13

As of December 31, 2007, there was $21.1 million of total unrecognized compensation cost related to share options granted, which is expected to be recognized over a weighted-average period of 2.5 years.

Non-Vested Share Awards

Under the 2005 Plan, non-vested share awards may be issued to our officers, non-employee directors and key employees who are in a position to contribute materially to our growth, development and our long-term success. Prior to the adoption of the 2005 Plan, non-vested share awards were issued under the 1998 Plan and generally vested at a rate of 10% per year, as determined by a committee of the Board of Directors. No further non-vested share awards will be granted under the 1998 Plan, however, that plan shall continue to apply to and govern awards issued thereunder. The 2005 Plan provides for the issuance of non-vested share awards up to a maximum of 2.5 million new shares. Under the 2005 Plan, 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. Compensation expense is measured using the market value of the common stock on the date of grant and is recognized on a straight-line basis over the requisite service period (usually the vesting period). At December 31, 2007, there were 1.3 million shares of common stock available for non-vested share awards under the 2005 Plan.

During the first quarter of 2007, we entered into a retirement agreement with our former CEO and non-executive Chairman of our Board of Directors, the cost of which was recognized through his May 22, 2007 retirement date. The agreement provided that upon retirement, he would receive a grant of 92,000 non-vested share awards which will vest at a rate of one-third per year upon each of the first three anniversaries of his retirement date. Furthermore, the agreement modified the vesting term of 28,750 unvested share options and 105,000 non-vested share awards previously granted to him so that such awards would become fully vested upon his retirement. We recognized an additional $10.1 million of non-vested share award compensation expense during 2007 as a result of the retirement agreement, of which $5.0 million related to the modification of his previous awards.

The following table summarizes non-vested share award compensation expense recognized during each of the years in the three-year period ended December 31, 2007 (in millions):

	2007	2006	2005
Contract drilling	$ 5.5	$2.7	$1.0
General and administrative	17.5	4.0	1.6
Non-vested share award compensation expense included in operating expenses	23.0	6.7	2.6
Tax benefit	(7.1)	(2.0)	(.8)
Total non-vested share award compensation expense included in net income	$15.9	$4.7	$1.8

The following table summarizes the value of non-vested share awards granted and vested during each of the years in the three-year period ended December 31, 2007:

	2007	2006	2005
Weighted-average grant-date fair value of non-vested share awards granted (per share)	$60.18	$49.09	$35.34
Total fair value of non-vested share awards vested during the period (in millions)	$ 19.8	$ 4.8	$ 2.9

A summary of non-vested share award activity for the year ended December 31, 2007, is as follows (shares in thousands):

Non-Vested Share Award	Shares	Weighted Average Grant-Date Fair Value
Non-vested at January 1, 2007	989	$39.83
Granted	548	60.18
Vested	(334)	36.56
Forfeited	(50)	47.98
Non-vested at December 31, 2007	1,153	$50.11

As of December 31, 2007, there was $44.9 million of total unrecognized compensation cost related to non-vested share awards granted, which is expected to be recognized over a weighted-average period of 4.5 years.

Savings Plan

We have a profit sharing plan (the "ENSCO Savings Plan") which covers eligible employees, as defined. Profit sharing contributions require Board of Directors approval and may be in cash or grants of our common stock. We recorded profit sharing contribution provisions of $14.2 million, $12.6 million and $5.0 million for the years ended December 31, 2007, 2006 and 2005, respectively.

The ENSCO Savings Plan includes a 401(k) savings plan feature which allows eligible employees to make tax deferred contributions to the plan. We make matching cash contributions which vest over a three year period based on the amount of employee contributions and rates set by our Board of Directors. We match 100% of the amount contributed by the employee up to a maximum of 5% of eligible salary. Matching contributions totaled $5.0 million, $4.7 million and $4.2 million in 2007, 2006 and 2005, respectively. We also have reserved 1.0 million shares of common stock for issuance as matching contributions under the ENSCO Savings Plan.

Supplemental Executive Retirement Plan

The ENSCO 2005 Supplemental Executive Retirement Plan (the "SERP") provides a tax deferred savings plan for certain highly compensated employees whose participation in the profit sharing and 401(k) savings plan features of the ENSCO Savings Plan is restricted due to funding and contribution limitations of the Internal Revenue Code. The SERP is a non-qualified plan where eligible employees may defer a portion of their compensation for use after retirement. Eligibility for participation is determined by our Board of Directors or a Board committee. The matching provisions of the SERP are identical to the ENSCO Savings Plan, except that matching contributions under the SERP are further limited by contribution amounts under the 401(k) savings plan feature of the ENSCO Savings Plan. In conjunction with the employment of our new Chief Executive Officer in February of 2006, we made a discretionary $1.1 million cash contribution to the officer's SERP account for pension and other benefits forfeited at his previous employer. The contribution is fully vested and included in our matching contributions for 2006. Matching cash contributions totaled $79,000 in 2007, $1.2 million in 2006 and $52,000 in 2005. A SERP liability of $15.2 million and $13.2 million is included in other liabilities at December 31, 2007 and 2006, respectively.

8. INCOME TAXES

We had income of $357.7 million, $500.2 million and $208.2 million from our continuing operations before income taxes in the U.S. and income of $896.0 million, $511.1 million and $162.3 million from our continuing operations before income taxes in non-U.S. countries for the years ended December 31, 2007, 2006 and 2005, respectively.

The components of the provision for income taxes from continuing operations for each of the years in the three-year period ended December 31, 2007 are as follows (in millions):

	2007	2006	2005
Current income tax expense:			
Federal	$113.4	$144.5	$ 59.9
State	4.8	1.0	1.3
International	143.1	91.3	32.4
	261.3	236.8	93.6
Deferred income tax expense (benefit):			
Federal	4.3	15.8	11.5
International	(3.9)	.1	(4.6)
	.4	15.9	6.9
Total income tax expense	$261.7	$252.7	$100.5

Significant components of deferred income tax assets (liabilities) as of December 31, 2007 and 2006 are comprised of the following (in millions):

	2007	2006
Deferred tax assets:		
Accrued liabilities	$ 13.7	$ 7.8
Share-based compensation	9.3	6.6
Deferred revenue	9.0	3.6
Other	2.7	.7
Total deferred tax assets	34.7	18.7
Deferred tax liabilities:		
Property and equipment	(311.4)	(322.7)
Intercompany transfers of property	(43.7)	(31.2)
Deferred costs	(15.6)	(7.1)
Other	(2.9)	(2.0)
Total deferred tax liabilities	(373.6)	(363.0)
Net deferred tax liability	$(338.9)	$(344.3)
Net current deferred tax asset	$ 13.1	$ 12.2
Net noncurrent deferred tax liability	(352.0)	(356.5)
Net deferred tax liability	$(338.9)	$(344.3)

The income tax rates imposed in the taxing jurisdictions in which our non-U.S. subsidiaries conduct operations vary, as does the tax base to which the rates are applied. In some cases, tax rates may be applicable to gross revenue, statutory or negotiated deemed profits, or other bases utilized under local tax laws, rather than to net income. In addition, our drilling rigs are frequently moved from one taxing jurisdiction to another. As a result, our consolidated effective income tax rate may vary substantially from year to year, depending on the relative components of our earnings generated in taxing jurisdictions with higher tax rates and lower tax rates. The consolidated effective income tax rate on continuing operations for each of the years in the three-year period ended December 31, 2007, differs from the U.S. statutory income tax rate as follows:

	2007	**2006**	**2005**
Statutory income tax rate	35.0%	35.0%	35.0%
Foreign taxes	(13.6)	(8.6)	(7.0)
Net benefit in connection with settlements with tax authorities and other resolutions of tax issues relating to prior years	(1.1)	(.5)	(1.2)
Change in valuation allowance	--	(.2)	.4
Other	.6	(.7)	(.1)
Effective income tax rate	20.9%	25.0%	27.1%

The income tax provisions for the years ended December 31, 2007, 2006 and 2005 include net benefits of $14.5 million, $7.3 million and $4.6 million, respectively, relating to settlements with tax authorities or other resolutions of prior year tax issues. During 2006, we reversed a $1.7 million valuation allowance established in 2005 against a $5.5 million deferred tax asset for net operating loss carryforwards in Denmark, after determining it was more-likely-than-not that the net operating loss carryforwards would be fully utilized. We utilized the remaining $1.3 million of these net operating loss carryforwards during 2007 and at December 31, 2007, we had no net operating loss carryforwards.

Unrecognized Tax Benefits

On January 1, 2007, we adopted the recognition and disclosure provisions of FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109" ("FIN 48"). Under FIN 48, tax positions are evaluated for recognition using a more-likely-than-not threshold, and those tax positions requiring recognition are measured as the largest amount of tax benefit that is greater than 50 percent likely of being realized upon ultimate settlement with a taxing authority that has full knowledge of all relevant information. As a result of adopting FIN 48, we reported a $5.8 million increase to our January 1, 2007, balance of retained earnings. At December 31, 2007, we had $13.5 million of unrecognized tax benefits, of which $10.0 million would impact our effective tax rate if recognized. A reconciliation of the beginning and ending amount of unrecognized tax benefits for the year ended December 31, 2007, is as follows (in millions):

Balance at January 1, 2007	$19.3
Increases in unrecognized tax benefits as a result of tax positions taken during the current year	1.3
Increases in unrecognized tax benefits as a result of tax positions taken during prior years	4.5
Decreases in unrecognized tax benefits as a result of tax positions taken during prior years	(11.0)
Settlements with taxing authorities	(.5)
Lapse of applicable statutes of limitations	(.6)
Impact of foreign currency exchange rates	.5
Balance at December 31, 2007	$13.5

Current income tax expense for the year ended December 31, 2007, includes $2.3 million of interest and penalties. Accrued interest and penalties at December 31, 2007, totaled $19.2 million and is included in other liabilities.

Our U.S. tax returns for 2004 and subsequent years remain subject to examination by tax authorities. In our international tax jurisdictions, numerous tax years remain subject to examination by tax authorities, including tax returns for either 2002 and subsequent years or 2003 and subsequent years in most of our major international tax jurisdictions.

During the second quarter of 2007, the taxing authority in an international jurisdiction in which we operate issued a draft interpretation of certain tax laws that was inconsistent with a tax position we have taken and previously recognized approximately $41.3 million of aggregate tax benefits during the current and previous years. Upon evaluation of the draft interpretation, we concluded that our uncertain tax position in this jurisdiction continued to meet the more-likely-than-not recognition threshold of FIN 48. However, we also concluded it was reasonably possible that certain events could occur within the following twelve months that would have caused us to re-evaluate our tax position. During the fourth quarter of 2007, the taxing authority issued a final interpretation that differed from the draft interpretation issued previously and that reaffirmed our previous conclusion that our uncertain tax position met the more-likely-than-not recognition threshold of FIN 48. Furthermore, based on an evaluation of the final ruling, in conjunction with professional guidance and other available qualitative information, we determined the likelihood that we will re-evaluate this tax position within the next twelve months is remote.

During the third quarter of 2007, new information became available in one of our international tax jurisdictions that enabled us to conclude an uncertain tax position established in prior years had been effectively settled. As a result, we recognized an aggregate $11.1 million current tax benefit during the year ended December 31, 2007, consisting of $9.0 million for the previously unrecognized tax benefit and $2.1 million of previously accrued penalties and interest. The $9.0 million tax benefit is included above in the reconciliation of unrecognized tax benefits for the year ended December 31, 2007, under "Decreases in unrecognized tax benefits as a result of tax positions taken during prior years."

Statutes of limitations applicable to certain of our tax positions will lapse during 2008 and, therefore, it is reasonably possible that our unrecognized tax benefits will decrease during the next twelve months for the aggregate $3.2 million of unrecognized tax benefits associated with these tax positions. At December 31, 2007, $16.0 million of accrued interest and penalties related to these unrecognized tax benefits.

Intercompany transfer of drilling rigs

In December 2007, we transferred ownership of three drilling rigs among two of our subsidiaries. The income tax liability attributable to the gain resulting from the intercompany sale of the three rigs totaled $96.5 million and will be paid by the selling subsidiary in 2008. However, recognition of the $96.5 million of income taxes payable has been deferred and is being amortized on a straight-line basis over the remaining useful lives of the associated drilling rigs, which range from three to eight years. Similarly, the tax effects of $54.8 million of reversing temporary differences of the selling subsidiary have also been deferred and are being amortized on the same basis and over the same periods as described above.

Undistributed Earnings of our Non-U.S. Subsidiaries

We do not provide U.S. deferred taxes on the undistributed earnings of our non-U.S. subsidiaries because our policy and intention is to reinvest such earnings indefinitely.

In December 2007, our primary non-U.S. subsidiary declared a $1,200.0 million dividend to its U.S. parent, which included the distribution of its $922.1 million of earnings and the return of $277.9 million of previously invested capital. The U.S. tax liability on the earnings repatriation was only $4.1 million, as we utilized foreign tax credits to offset substantially all previously untaxed earnings distributed. At December 31, 2007, $500.0 million of the dividend had been paid and the remaining $700.0 million is scheduled to be paid during 2008.

The earnings distribution was undertaken because it provided, with minimal U.S. tax impact, substantial funding flexibility for management initiatives, including the continuation and/or extension of our ongoing stock repurchase program and greater options relative to future fleet expansion efforts. This distribution was made in consideration of unique circumstances and, accordingly, it does not change our intention to reinvest the undistributed earnings of our non-U.S. subsidiaries indefinitely. Furthermore, both our U.S. and non-U.S. subsidiaries have significant net assets, liquidity, contract backlog and other financial resources available to meet their operational and capital investment requirements and otherwise allow management to continue to maintain its policy of reinvesting the undistributed earnings of its non-U.S. subsidiaries indefinitely.

At December 31, 2007, the undistributed earnings of our non-U.S. subsidiaries totaled $14.7 million and are indefinitely reinvested. Should we make a distribution of these earnings in the form of dividends or otherwise, we may be subject to additional U.S. income taxes.

9. DISCONTINUED OPERATIONS

In December 2006, we sold the ENSCO 25 platform rig for $13.7 million and recognized a pre-tax gain of $5.0 million, which is included in "Gain on disposal of discontinued operations, net" in the consolidated statement of income for the year ended December 31, 2006. The operating results of ENSCO 25 have been reclassified as discontinued operations in the consolidated statements of income for each of the years in the two-year period ended December 31, 2006.

The ENSCO 29 platform rig sustained substantial damage as a consequence of Hurricane Katrina in the third quarter of 2005. In January 2006, beneficial ownership of ENSCO 29 effectively transferred to our insurance underwriters when the rig was declared a constructive total loss under the terms of our insurance policies. Accordingly, we received the rig's net insured value of $10.0 million and recognized a pre-tax gain of $7.5 million, which consists of the $2.5 million excess of insurance proceeds over the $7.5 million net book value of the rig, plus $5.0 million for the de-recognition of a loss provision in the amount of an insurance deductible accrued upon hurricane damage in 2005. The gain is included in "Gain on disposal of discontinued operations, net" in the consolidated statement of income for the year ended December 31, 2006. During the third quarter of 2006, we recognized a $1.2 million provision ($800,000 net of tax) relating to issues involving ENSCO 29 wreckage and debris removal liability insurance coverage. (See Note 10 "Commitments and Contingencies".) The operating results of ENSCO 29 and the $1.2 million provision for wreckage and debris removal have been reclassified as discontinued operations in the consolidated statements of income for each of the years in the two-year period ended December 31, 2006.

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

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

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

Following is a summary of income from discontinued operations for each of the years in the two-year period ended December 31, 2006 (in millions):

	2006	2005
Revenues	$14.9	$27.5
Operating expenses and other	9.7	25.6
Operating income before income taxes	5.2	1.9
Income tax expense	(1.9)	(.9)
Gain on disposal of discontinued operations, net	7.2	13.9
Income from discontinued operations	$10.5	$14.9

There is no debt or interest expense allocated to our discontinued operations.

10. COMMITMENTS AND CONTINGENCIES

Leases

We are obligated under leases for certain of our offices and equipment. Rental expense relating to operating leases was $12.0 million in 2007, $11.3 million in 2006 and $8.9 million in 2005. Future minimum rental payments under our noncancellable operating lease obligations having initial or remaining lease terms in excess of one year are as follows: $6.4 million in 2008; $3.6 million in 2009; $1.7 million in 2010; $1.5 million in 2011 and $9.2 million thereafter.

Capital Commitments

As of December 31, 2007, we had an aggregate contractual commitment of $719.9 million related to the construction of our four ENSCO 8500 Series® rigs. We anticipate that approximately $353.1 million and $248.3 million of the total commitment will be paid in 2008 and 2009, respectively. However, the actual timing of these expenditures may vary based on the completion of various construction milestones, which are beyond our control.

Contingencies

Following disclosures by other offshore oil 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 focusing on our payments to customs brokers relating to the temporary importation of ENSCO 100, our only rig recently operating offshore Nigeria. The principal purpose of the investigation is to determine whether any of the payments made to or by our customs brokers were inappropriate under the U.S. Foreign Corrupt Practices Act ("FCPA"). Our Audit Committee has engaged Miller & Chevalier, a Washington, D.C. law firm with significant experience in investigating and advising upon FCPA matters, to assist the Audit Committee and management in the internal investigation.

As is customary for companies operating offshore Nigeria, we engaged independent customs brokers to process ENSCO 100 temporary importation permits, extensions and renewal thereof. One or more of the customs brokers that our subsidiary in Nigeria used to obtain these permits, extensions and renewal also provided services to other offshore oil service companies that have commenced similar investigations.

Following consultation with outside legal counsel, notification to the Audit Committee, and notification to KPMG LLP, our independent registered public accounting firm, we voluntarily notified the United States Securities and Exchange Commission and the United States Department of Justice that an internal investigation is underway and that we intend to cooperate fully with both agencies. The internal investigation is in early stage, and we are unable to predict whether either agency will initiate a separate investigation of this matter, expand the scope of the investigation to other issues in Nigeria or to other countries or, if an agency investigation is initiated, what potential corrective measures, sanctions or other remedies, if any, the agencies may seek against us or any of our employees.

This matter is not expected to have any material effect on or disrupt our current operations because ENSCO 100 completed its contract commitment and departed Nigeria in August of 2007. At this time, we cannot predict the effect of this matter upon any potential future operations in Nigeria or elsewhere.

Inasmuch as our internal investigation is in an early stage, we are unable to predict the outcome of the investigation or to determine whether the nature and scope of the investigation will be expanded or the extent to which we may be exposed to any resulting potential liability or significant additional expense.

A portion of the ENSCO 29 platform drilling rig was lost over the side of a customer's platform during Hurricane Katrina in the third quarter of 2005. Although beneficial ownership of ENSCO 29 was subsequently transferred to our insurance underwriters when the rig was determined to be a constructive total loss, management believes we may be contractually required to remove the ENSCO 29 wreckage and debris from the seabed and currently estimates that 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 coverage for wreckage and debris removal costs in excess of the $3.8 million coverage provided under the 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 August 2007, we commenced litigation against underwriters alleging breach of contract, wrongful denial, bad faith and other claims which seek a declaration that the removal of wreckage and debris is covered under our liability insurance, monetary damages, attorneys' fees and other remedies. While we believe it is likely that any ENSCO 29 wreckage and debris removal costs incurred will be fully covered by insurance, a $1.2 million provision, representing the portion of the $5.0 million low range of the estimated removal cost we believe is subject to liability insurance coverage, was recognized during the third quarter of 2006.

In August 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 the Circuit Courts of Jones County (Second Judicial District) and Jasper County (First Judicial District), 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 66 individual plaintiffs. Of these claims, 63 claims or lawsuits are pending in Mississippi state courts and three are pending in the United States District Court as a result of their removal from state court.

We intend to vigorously defend against these claims and have filed responsive pleadings preserving all defenses and challenges to jurisdiction and venue. However, inasmuch as discovery is in the very early stages and available information regarding the nature of these claims is limited, we cannot reasonably determine if the claimants have valid claims under the Jones Act or estimate a range of potential liability exposure, if any. At present, none of the pending Mississippi asbestos lawsuits against us have been set for trial. Although we do not expect the final disposition of these 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.

In addition to the pending cases in Mississippi, we recently received a letter demanding that we defend and indemnify two parties that formerly held an interest in a predecessor company named in a lawsuit pending in the Superior Court of the State of California. The demand arises pursuant to the terms and conditions of an Assumption Agreement given by the Company's predecessor, Penrod Drilling Corporation ("Penrod"). The plaintiff seeks monetary damages allegedly arising from exposure to asbestos or products containing asbestos while employed by Penrod. Inasmuch as the Company has yet to conduct discovery, and because the allegations are vague, it is difficult to assess the exposure or predict the outcome of this lawsuit. While management does not expect the final disposition of the lawsuit to have a material adverse effect upon ENSCO's financial position, operating results or cash flows, there can be no assurances as to the ultimate outcome.

Legislation known as the U.K. Working Time Directive ("WTD") was introduced in August 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). The related issues are subject to pending or potential judicial, administrative and legislative review. A Labor Tribunal in Aberdeen, Scotland rendered decisions in claims involving other offshore service companies on February 21, 2008 and we are currently evaluating the extent to which the decisions will impact us. We also have received inquiries from the Danish and Dutch authorities regarding applicability of the WTD as adopted by Denmark and The Netherlands to our employees on our rigs operating in the Danish and Dutch sectors of the North Sea. Based on information currently available, we do not expect the resolution of these matters to have a material adverse effect on our financial position, operating results or cash flows.

In addition to the foregoing, we and our subsidiaries are named defendants 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 lawsuits or other proceedings involving us and our subsidiaries cannot be predicted with certainty and the amount of any liability that could arise with respect to such lawsuits or other proceedings cannot be predicted accurately, management does not expect these matters will have a material effect on our financial position, operating results or cash flows.

11. SEGMENT INFORMATION

We are in the process of developing a fleet of deepwater semisubmersible rigs. In connection therewith, we contracted a major international shipyard based in Singapore to construct seven ultra-deepwater semisubmersible rigs (the "ENSCO 8500 Series®"). The first ENSCO 8500 Series® rig has been delivered by the shipyard and arrived in the Gulf of Mexico in mid-December 2008. The rig is currently undergoing final outfitting and preparing for deepwater sea trials and is projected to commence operations in February 2009. In connection with the arrival of our first ENSCO 8500 Series® rig, we have reorganized the management of our operations, establishing a separate business unit to manage our fleet of deepwater semisubmersible rigs.

As part of this reorganization, we evaluated our remaining assets and operations, consisting of 44 jackup rigs and one barge rig organized into three business units based on major geographic region, and now consider these three business units as operating segments. Accordingly, our business now consists of four operating segments: (1) Deepwater, (2) Asia Pacific, (3) Europe/Africa and (4) North and South America. Each of our four operating segments provides one service, contract drilling.

Segment information for each of the years in the three-year period ended December 31, 2007 is presented below. 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 are included in "Reconciling Items." Assets not allocated to our operating segments are also included in "Reconciling Items." As of December 31, 2007, total asset reconciling items consisted primarily of cash and cash equivalents of $525.6 million, goodwill of $336.2 million and other assets, net, of $134.1 million. As of December 31, 2006, total asset reconciling items consisted primarily of cash and cash equivalents of $474.1 million and goodwill of $336.2 million. As of December 31, 2005, total asset reconciling items consisted primarily of goodwill of $336.2 million and cash and cash equivalents of $215.2 million.

Year Ended December 31, 2007
(in millions)

	Deepwater	Asia Pacific	Europe/ Africa	North and South America	Operating Segments Total	Reconciling Items	Consolidated Total
Revenue	$72.8	$912.7	$670.8	$487.5	$2,143.8	$ --	$2,143.8
Operating expenses							
Contract drilling (exclusive of depreciation)	28.8	271.9	208.4	175.0	684.1	--	684.1
Depreciation	9.3	81.1	40.4	49.4	180.2	4.1	184.3
General and administrative	--	--	--	--	--	59.5	59.5
Operating income	$34.7	$559.7	$422.0	$263.1	$1,279.5	$(63.6)	$1,215.9
Total assets	$973.8	$1,386.6	$773.6	$808.8	$3,942.8	$1,026.0	$4,968.8
Capital expenditures	352.4	50.6	22.0	93.5	518.5	1.4	519.9

Year Ended December 31, 2006
(in millions)

	Deepwater	Asia Pacific	Europe/ Africa	North and South America	Operating Segments Total	Reconciling Items	Consolidated Total
Revenue	$60.9	$585.5	$497.1	$670.0	$1,813.5	$ --	$1,813.5
Operating expenses							
Contract drilling (exclusive of depreciation)	26.3	226.0	158.0	166.4	576.7	--	576.7
Depreciation	8.9	75.3	36.4	50.7	171.3	3.7	175.0
General and administrative	--	--	--	--	--	44.6	44.6
Operating income	$25.7	$284.2	$302.7	$452.9	$1,065.5	$(48.3)	$1,017.2
Total assets	$564.6	$1,358.6	$640.4	$891.7	$3,455.3	$879.1	$4,334.4
Capital expenditures	299.5	128.9	9.5	88.7	526.6	2.0	528.6

Year Ended December 31, 2005
(in millions)

	Deepwater	Asia Pacific	Europe/ Africa	North and South America	Operating Segments Total	Reconciling Items	Consolidated Total
Revenue	$52.0	$374.6	$241.5	$366.2	$1,034.3	$ --	$1,034.3
Operating expenses							
Contract drilling (exclusive of depreciation)	21.8	182.6	114.1	135.9	454.4	--	454.4
Depreciation	8.0	64.6	31.7	45.5	149.8	3.6	153.4
General and administrative	--	--	--	--	--	32.0	32.0
Operating income	$22.2	$127.4	$ 95.7	$184.8	$ 430.1	$(35.6)	$ 394.5
Total assets	$269.4	$1,326.2	$499.3	$908.3	$3,003.2	$614.7	$3,617.9
Capital expenditures	63.9	293.3	8.5	110.4	476.1	1.0	477.1

Information about Geographic Areas

As of December 31, 2007, our Deepwater segment consisted of one ultra-deepwater semisubmersible rig operating in the Gulf of Mexico and four ultra-deepwater semisubmersible rigs under construction in Singapore. Our Asia Pacific segment consisted of 19 jackup rigs and one barge rig deployed in various locations throughout Asia, the Middle East, Australia and New Zealand. Our Europe/Africa segment consisted of eight jackup rigs deployed in various territorial waters of the North Sea and two jackup rigs located offshore Tunisia. Our North and South America segment consisted of fourteen jackup rigs located in the Gulf of Mexico and one jackup rig located offshore Venezuela.

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

	Revenues			Long-lived Assets		
	2007	2006	2005	2007	2006	2005
United States	$ 529.9	$ 709.9	$414.2	$1,637.1	$1,219.5	$1,060.0
United Kingdom	392.5	325.9	157.8	425.5	242.7	381.3
Other foreign countries	1,221.4	777.7	462.3	1,296.3	1,498.2	1,222.3
Total	$2,143.8	$1,813.5	$1,034.3	$3,358.9	$2,960.4	$2,663.6

Assigning Goodwill to Reporting Units

Our four operating segments represent our reporting units in accordance with SFAS No. 142, "Goodwill and Other Intangible Assets (as amended)." As a result of our management reorganization from one operating segment and reporting unit to four operating segments and reporting units, we reassigned goodwill to our four reporting units based on a relative fair value allocation approach as follows (in millions):

Deepwater	$143.6
Asia Pacific	84.6
Europe/Africa	61.4
North and South America	46.6
	$336.2

Goodwill is not allocated to operating segments in the measure of segment assets regularly reported to and used by management. No goodwill was acquired or disposed of during the years ended December 31, 2007, 2006 and 2005. No goodwill impairments were recognized during the years ended December 31, 2007, 2006 and 2005.

12. SUPPLEMENTAL FINANCIAL INFORMATION

Consolidated Balance Sheet Information

Accounts receivable, net at December 31, 2007 and 2006 consists of the following (in millions):

	2007	2006
Trade	$372.2	$332.0
Other	16.4	10.8
	388.6	342.8
Allowance for doubtful accounts	(5.4)	(4.0)
	$383.2	$338.8

Other current assets at December 31, 2007 and 2006 consists of the following (in millions):

	2007	2006
Inventory	$ 39.7	$35.4
Deferred mobilization costs	26.3	9.9
Deferred tax assets	15.1	12.2
Prepaid taxes	9.5	4.3
Prepaid expenses	8.3	9.3
Deferred regulatory certification and compliance costs	7.0	2.4
Derivative assets	6.2	3.9
Other	4.5	5.2
	$116.6	$82.6

Other assets, net at December 31, 2007 and 2006 consists of the following (in millions):

	2007	2006
Prepaid taxes on intercompany transfers of property	$114.4	$20.8
Supplemental executive retirement plans	15.8	13.7
Deferred finance costs	3.9	4.9
Deferred regulatory certification and compliance costs	3.4	1.7
Deferred mobilization costs	2.9	5.1
Other	4.0	4.4
	$144.4	$50.6

Accrued liabilities and other at December 31, 2007 and 2006 consists of the following (in millions):

	2007	2006
Taxes	$195.1	$ 58.4
Personnel	49.6	44.8
Other operating expenses	58.8	42.3
Capital expenditures	96.1	27.2
Deferred and prepaid revenue	61.2	27.2
Other	4.8	5.5
	$465.6	$205.4

Consolidated Statement of Income Information

Maintenance and repairs expense related to continuing operations for each of the years in the three-year period ended December 31, 2007 is as follows (in millions):

	2007	2006	2004
Maintenance and repairs expense	$100.4	$74.5	$62.2

Consolidated Statement of Cash Flows Information

Cash paid for interest and income taxes for each of the years in the three-year period ended December 31, 2007 is as follows (in millions):

	2007	2006	2005
Interest, net of amounts capitalized	$ 4.6	$ 15.3	$ 29.7
Income taxes	214.3	206.3	143.1

Capitalized interest totaled $30.4 million in 2007, $18.9 million in 2006 and $8.9 million in 2005. Excluded from investing activities on our consolidated statements of cash flows were capital expenditure accruals of $96.1 million in 2007, $27.2 million in 2006, and $36.8 million in 2005.

Financial Instruments

The carrying amounts and estimated fair values of our debt instruments at December 31, 2007 and 2006 are as follows (in millions):

	2007		**2006**	
	Carrying Amount	**Estimated Fair Value**	**Carrying Amount**	**Estimated Fair Value**
4.65% Bonds, including current maturities	$ 58.5	$ 54.7	$ 63.0	$ 60.4
6.36% Bonds, including current maturities	101.4	108.7	114.0	118.7
6.75% Notes	--	--	149.9	151.4
7.20% Debentures	148.7	165.3	148.7	169.3

The estimated fair values of our debt instruments were determined using quoted market prices or third party valuations. The estimated fair value of our cash and cash equivalents, receivables, trade payables and other liabilities approximated their carrying values at December 31, 2007 and 2006. We have cash, receivables and payables denominated in foreign currencies. These financial assets and liabilities create exposure to foreign currency exchange risk. When warranted, we hedge such risk by purchasing options or futures contracts. We do not enter into such contracts for trading purposes or to engage in speculation. At December 31, 2007 and 2006, the fair value of such contracts was a net asset of $4.6 million and $4.0 million, respectively.

Concentration of Credit Risk

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

During 2007 and 2006, no customer provided more than 10% of consolidated revenues. During 2005, one customer provided 12%, or $127.0 million, of consolidated revenues.

13. UNAUDITED QUARTERLY FINANCIAL DATA

A summary of unaudited quarterly consolidated income statement data for the years ended December 31, 2007 and 2006 is as follows (in millions, except per share amounts):

2007	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
Operating revenues	$514.1	$548.6	$551.9	$529.2	$2,143.8
Operating expenses					
Contract drilling	162.8	168.8	178.7	173.8	684.1
Depreciation	45.1	46.8	47.1	45.3	184.3
General and administrative	16.0	19.1	11.5	12.9	59.5
Operating income	290.2	313.9	314.6	297.2	1,215.9
Interest income	6.2	6.3	7.1	6.7	26.3
Interest expense, net	(1.1)	(.8)	--	--	(1.9)
Other income, net	4.5	2.3	2.7	3.9	13.4
Income from continuing operations before income taxes	299.8	321.7	324.4	307.8	1,253.7
Provision for income taxes	67.5	67.3	57.7	69.2	261.7
Net income	$232.3	$254.4	$266.7	$238.6	$992.0
Earnings per share					
Basic	$ 1.55	$ 1.72	$ 1.83	$ 1.66	$ 6.76
Diluted	$ 1.54	$ 1.72	$ 1.82	$ 1.66	$ 6.73

2006	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
Operating revenues	$381.6	$475.2	$486.1	$470.6	$1,813.5
Operating expenses					
Contract drilling	127.9	146.4	150.5	151.9	576.7
Depreciation	42.0	44.1	44.3	44.6	175.0
General and administrative	10.4	10.5	11.3	12.4	44.6
Operating income	201.3	274.2	280.0	261.7	1,017.2
Interest income	2.3	2.7	4.3	5.6	14.9
Interest expense, net	(4.2)	(4.9)	(4.5)	(2.9)	(16.5)
Other expense, net	(1.7)	(1.2)	(.4)	(1.0)	(4.3)
Income from continuing operations before income taxes and cumulative effect of accounting change	197.7	270.8	279.4	263.4	1,011.3
Provision for income taxes	53.5	76.8	64.7	57.7	252.7
Income from continuing operations	144.2	194.0	214.7	205.7	758.6
Income from discontinued operations, net	5.0	.7	.1	4.7	10.5
Cumulative effect of accounting change, net	.6	--	--	--	.6
Net income	$149.8	$194.7	$214.8	$210.4	$ 769.7
Earnings per share - basic					
Continuing operations	$ .94	$ 1.27	$ 1.41	$ 1.36	$ 4.98
Discontinued operations	.03	.00	.00	.03	.07
Cumulative effect of accounting change	.00	--	--	--	.00
	$ .98	$ 1.27	$ 1.41	$ 1.39	$ 5.06
Earnings per share - diluted					
Continuing operations	$ .94	$ 1.26	$ 1.40	$ 1.36	$ 4.96
Discontinued operations	.03	.00	.00	.03	.07
Cumulative effect of accounting change	.00	--	--	--	.00
	$ .97	$ 1.27	$ 1.40	$ 1.39	$ 5.04

14. SUBSEQUENT EVENT

At February 25, 2008, we held $84.1 million of long-term debt instruments with variable interest rates periodically reset through an auction process ("auction rate securities"). Recent auctions associated with $57.8 million of our auction rate securities failed and the remaining $26.3 million of our auction rate securities that have not experienced auction failures are scheduled to undergo auctions in the next few days. An auction failure, which is not a default in the underlying debt instrument, occurs when there are more sellers than buyers at a scheduled interest rate auction date and parties desiring to sell their securities are unable to do so.

When an auction fails, the interest rate is adjusted according to the provisions of the associated security agreement, which generally results in an interest rate that is significantly higher than the interest rate the issuer pays in connection with successful auctions. Accordingly, issuers of auction rate securities generally have a strong incentive to refinance their auction rate securities if they believe future auction failures are likely. All of our auction rate securities are currently rated Aaa by Moody's, AAA by Standard & Poor's and/or AAA by Fitch, which is the highest rating issued by each respective rating agency. An aggregate $75.3 million of our auction rate securities were issued by state agencies and are supported by student loans whose repayment is substantially guaranteed by the U.S. government under the Federal Family Education Loan Program. The remaining $8.8 million of our auction rate securities were issued by municipalities and their repayment is insured by a bond insurance company that currently maintains a financial strength rating of Aaa by Moody's, AAA by Standard & Poor's and AAA by Fitch.

The auction failures and resulting lack of liquidity have developed very recently and are affecting the entire auction rate securities market. We are currently unable to determine whether the current situation will be temporary, whether issuers of auction rate securities will attempt and/or be able to refinance their debt, whether the credit ratings of our auction rate securities and insurer will deteriorate, or the impact that these and other events will have on the valuations of our auction rate securities. While we acquired our auction rate securities with the intention of holding them for a very short period of time, we do not expect to experience any liquidity problems or alter any business plans if we maintain our investment in these auction rate securities indefinitely.

All of our auction rate securities were originally acquired in January 2008 and we did not own any auction rate securities at December 31, 2007.

Item 7. ***Management's Discussion and Analysis of Financial Condition and Results of Operations***

INTRODUCTION

Our Business

We are a leading provider of offshore contract drilling services to the international oil and gas industry. We own and operate a fleet of 46 drilling rigs and have four ultra-deepwater semisubmersible rigs under construction. Our drilling rigs are located throughout the world and concentrated in the major geographic regions of Asia Pacific (which includes Asia, the Middle East, Australia and New Zealand), Europe/Africa, and North and South America.

We provide our drilling services to major international, government-owned and independent oil and gas companies on a "day rate" contract basis. Under day rate contracts, we provide the drilling rig and rig crews and receive a fixed amount per day for drilling the well. Our customers bear substantially all of the ancillary costs of constructing the well and supporting drilling operations, as well as the economic risk relative to the success of the well. Drilling contracts are, for the most part, awarded on a competitive bid basis. We do not provide "turnkey" or other risk-based drilling services.

In 2007, our revenues and net income increased significantly to record levels as we continued to experience strong rig demand, high utilization and escalating day rates in a majority of the geographic regions in which we operate. We added our tenth new ultra high-specification jackup rig, ENSCO 108, to our fleet and commenced construction of ENSCO 8503, our fourth ENSCO 8500 Series® ultra-deepwater semisubmersible rig. We entered into a long-term drilling contract for ENSCO 8502 in the Gulf of Mexico that is scheduled to commence upon its delivery from the shipyard in 2009. In addition to the substantial capital investment being made to our deepwater fleet, our Board of Directors authorized an additional $500.0 million of stock repurchases following the completion of our initial $500.0 million stock repurchase authorization.

We are looking forward to the positive impact our deepwater initiative will have in 2008 as ENSCO 7500, our semisubmersible rig currently operating in the Gulf of Mexico, rolled to a significantly higher day rate in February. Furthermore, ENSCO 8500 is expected to commence its initial four-year contract in the Gulf of Mexico by late 2008 following completion of commissioning, mobilization and final outfitting.

Our Industry

Financial operating results in the offshore contract drilling industry have historically been very cyclical and are primarily related to the demand for drilling rigs and the available supply of rigs.

Drilling Rig Demand

Demand for rigs is directly related to the regional and worldwide levels of offshore exploration and development spending by oil and gas companies, which is beyond our control. Offshore exploration and development spending may fluctuate substantially from year to year and from region to region. Such spending fluctuations result from many factors, including:

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

During 2007, jackup rig demand continued to meet or exceed supply in all major geographical regions except the Gulf of Mexico, where there continued to be an excess supply of available jackup rigs due to a decline in shallow-water drilling activity over recent years, especially during the June through November hurricane season. Throughout the year, major international and large independent oil and gas companies diverted spending to areas outside of the shallow waters of the Gulf of Mexico in search of more productive oil and gas fields. However, late in the fourth quarter it appeared that shallow-water activity among the Gulf of Mexico operators began to generate a slight pick-up in demand as the hurricane season came to an end and operator budgets and drilling plans were established for 2008.

Due to the high demand for jackup rigs on a global basis, leading day rates in 2007 were near record levels for most rig classes, utilization remained high and recently executed contracts typically had favorable terms and conditions for drilling companies. The unprecedented demand was derived, for the most part, from increased exploration and development spending by oil and gas companies as they took advantage of high oil and gas prices and the rapid growth of global energy consumption.

The demand for ultra-deepwater drilling rigs in 2007 exceeded the available supply, both internationally and in the Gulf of Mexico. The limited availability of deepwater rigs and intense competition among oil and gas companies to contract them has increased day rates to record highs. As oil and gas companies continue to increase their investment in deepwater projects, it is anticipated that demand and utilization of the global deepwater rig fleet will remain elevated sustaining the upward pressure on day rates.

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

Drilling Rig Supply

Although an estimated 50 newly constructed jackup and semisubmersible rigs are scheduled for delivery during 2008, the current supply of offshore drilling rigs is limited and new rigs require a substantial capital investment and a long period of time to construct. In addition, it is time consuming to move offshore rigs between markets. Accordingly, as demand changes in a particular market, the supply of rigs may not adjust quickly, and therefore the utilization and day rates of rigs in specific markets could fluctuate significantly. Certain events, such as limited availability of insurance for certain perils in some geographical areas, rig loss or damage due to hurricanes, blowouts, craterings, punchthroughs, and other operational events may impact the supply of rigs in a particular market and cause rapid fluctuations in rig demand, utilization and day rates.

During the past several years, the supply of available offshore drilling rigs has been unable to meet the increasing demand of oil and gas companies on a global basis. As a result of this global supply imbalance and other commercial considerations, various industry participants ordered the construction of over 120 new offshore rigs, approximately 50 of which are scheduled for delivery in 2008. The deliveries scheduled for 2008 include approximately 35 jackup rigs, the majority of which are not contracted for work upon delivery from the shipyard. The completion of these new drilling rigs will increase supply and could reduce day rates and/or utilization as a result of softening of the affected markets as rigs are absorbed into the active fleet.

The new rigs to be delivered in 2008 will require new skilled and other personnel to operate and it is estimated that competition for skilled and other labor will continue to intensify as a result. Furthermore, periods of high utilization, such as the current period, make it more difficult and costly to recruit and retain qualified employees. Although competition for skilled and other labor has not materially affected us to date, competition for such personnel could increase our future operating expenses with a resulting reduction in net income, or impact our ability to fully staff and operate our rigs.

BUSINESS ENVIRONMENT

Asia Pacific

Demand for jackup rigs in 2005 strengthened and day rates improved as increased activity levels absorbed the additional rigs that mobilized to this region in the prior year. During 2006, demand for jackup rigs in this region exceeded the supply of available rigs. As a result, jackup rig utilization levels remained high and day rates continued to increase. During 2007, the prevailing demand, coupled with limited rig availability, enabled drilling contractors to continue experiencing high day rates and utilization. Jackup rig drilling contracts in the Asia Pacific region historically have been for substantially longer durations than those in other geographical regions. Since day rates for such contracts generally are fixed, or fixed subject to adjustment for variations in the contractor's costs, our Asia Pacific operations generally are not subject to the same level of day rate volatility as other regions where shorter term contracts are more prevalent.

Europe/Africa

Our Europe/Africa offshore drilling operations are mainly conducted in northern Europe where moderate duration jackup rig contracts are prevalent. Beginning in 2005, oil and gas companies increased their spending as a result of higher oil and natural gas prices and the growing demand for oil. This led to an increase in jackup rig demand and average day rates. The trend continued into 2006, when a strong backlog of firm commitments and options in northern Europe resulted in little or no availability of jackup rigs. This caused demand to exceed the supply of available rigs and resulted in a substantial increase in day rates from the prior year. During 2007, oil and gas companies continued to increase their spending in this region and, with the shortfall of available jackup rigs, the additional demand increased average day rates further.

Many of our jackup rig contracts in the Europe/Africa and Asia Pacific regions contain cost adjustment provisions. These provisions are designed to protect our operating margin during times when contract drilling expenses are increasing. The cost adjustment provisions usually result in an increase in contract day rates or cost reimbursement to offset operating cost increases since the inception of a contract, and may also include rate adjustment provisions addressing rate reductions in the event of a decrease in operating costs. A small portion of our average day rate increases experienced in the Europe/Africa and Asia Pacific regions are attributable to contractual cost adjustment provisions.

North and South America

Our North and South America offshore drilling operations are mainly conducted in the Gulf of Mexico where jackup rig contracts are normally entered into for relatively short durations and day rates are adjusted to current market rates upon contract renewal. Therefore, average day rates in this region appear more volatile than in regions where longer duration contracts are more prevalent.

During 2005, jackup rig day rates continued to increase from prior year levels as a result of a further reduction in the supply of rigs after several jackup rigs were relocated to international markets. Furthermore, two hurricanes in the region disrupted drilling operations and severely damaged or destroyed several rigs, which reduced the number of available rigs even further. Day rates continued to increase through the first half of 2006 as drilling contractors moved additional rigs out of the Gulf of Mexico to take advantage of longer duration international contracts. However, day rates began to moderate in the second half of 2006 due to a decrease in demand as oil and gas companies were reluctant to start new projects during the hurricane season. Additionally, a decrease in the price of natural gas as well as increased cost and limited availability of insurance coverage for hurricane (windstorm) loss or damage also made this region less attractive to oil and gas companies.

During the first half of 2007, demand continued to decrease and day rates softened as a result of competition for work among drilling contractors, particularly related to smaller premium jackup rigs. In the latter half of the year, oil and gas companies remained cautious during the hurricane season and continued to shift their focus to more economically attractive prospects in the deeper waters of the Gulf of Mexico and elsewhere. As a result, jackup rig demand decreased further, resulting in an adverse impact on utilization and day rates. Drilling contractors continued to pursue international opportunities and, despite the relocation of several jackup rigs from the region in 2007, rig demand decreased at a faster pace than supply. We anticipate that drilling contractors will continue to market their Gulf of Mexico jackup rigs for longer term international contracts which, in turn, will help bring rig supply more into balance with demand.

Our North and South America offshore drilling operations are also conducted in the Latin American countries of Mexico and Venezuela. In 2007, the demand for rigs increased as the national oil company in Mexico increased its drilling requirements in an attempt to offset continued depletion of its oil reserve. As a result, to entice rigs into this market, drilling contractors were able to obtain pricing at international day rates. Day rates moderated in the later part of 2007 as drillings rigs in the Gulf of Mexico became idle and available for service in Mexico. The national oil company in Mexico has indicated that it plans to continue its increased drilling requirements during 2008. Day rates will depend on the magnitude of their drilling requirements and the availability of drilling rigs from the Gulf of Mexico.

Demand for deepwater semisubmersible rigs in the Gulf of Mexico continues to outpace supply resulting in high day rates and utilization for deepwater rigs. In addition to the ENSCO 7500 deepwater semisubmersible rig currently operating in the Gulf of Mexico, we have four ultra-deepwater semisubmersible rigs under construction with scheduled delivery dates in the third quarter of 2008, the first and fourth quarters of 2009 and the third quarter of 2010. The first three rigs to be delivered have secured long-term drilling contracts in the Gulf of Mexico and we are marketing ENSCO 8503 and anticipate that it will be contracted in advance of delivery. As oil and gas companies continue to increase their investment in deepwater projects, it is anticipated that the semisubmersible rigs in the Gulf of Mexico, as well as other geographical regions of the world, will remain at near full utilization for the next several years.

RESULTS OF OPERATIONS

The following analysis highlights our consolidated operating results for each of the years in the three-year period ended December 31, 2007 (in millions):

	2007	2006	2005
Revenues	$2,143.8	$1,813.5	$1,034.3
Operating expenses			
Contract drilling (exclusive of depreciation)	684.1	576.7	454.4
Depreciation	184.3	175.0	153.4
General and administrative	59.5	44.6	32.0
Operating income	1,215.9	1,017.2	394.5
Other income (expense), net	37.8	(5.9)	(24.0)
Provision for income taxes	261.7	252.7	100.5
Income from continuing operations	992.0	758.6	270.0
Income from discontinued operations, net	--	10.5	14.9
Cumulative effect of accounting change, net	--	.6	--
Net income	$ 992.0	$ 769.7	$ 284.9

In 2007, our net income increased by $222.3 million, or 29%, and operating income increased by $198.7 million, or 20%, as compared to 2006. The increases were primarily due to improved average day rates of our jackup rigs in the Europe/Africa and Asia Pacific regions, partially offset by a reduction in average day rates and utilization of our Gulf of Mexico jackup rigs, as compared to the prior year.

In 2006, our net income increased by $484.8 million, or 170%, and operating income increased by $622.7 million, or 158%, as compared to 2005. The increases were primarily due to improved average day rates in all operating areas and improved utilization of Europe/Africa and Asia Pacific jackup rigs, as compared to the prior year.

Rig Locations, Utilization and Average Day Rates

As discussed below, we manage our business through four operating segments. However, our rigs are mobile and frequently move between segments. The following table summarizes our offshore drilling rigs by type and location as of December 31, 2007, 2006 and 2005:

	2007	2006	2005
Jackup rigs:			
Asia Pacific [(1)] [(2)]	19	18	16
Europe/Africa [(3)]	10	9	9
North and South America [(2)] [(3)]	15	16	17
Under construction [(1)]	--	1	2
Total jackup rigs	44	44	44
Semisubmersible rigs:			
North America	1	1	1
Under construction [(4)]	4	3	1
Total semisubmersible rigs	5	4	2
Barge rig - Asia Pacific	1	1	1
Total [(5)]	50	49	47

(1) Upon completion of its construction in the first quarter of 2007, we accepted delivery of ENSCO 108, an ultra-high specification jackup rig that commenced drilling operations in Indonesia. Upon completion of its construction in the first quarter of 2006, we accepted delivery of ENSCO 107, an ultra-high specification jackup rig that commenced drilling operations in Vietnam.

(2) During 2006, we mobilized ENSCO 84 from the Gulf of Mexico to Qatar.

(3) During 2007, we mobilized ENSCO 105 from the Gulf of Mexico to Tunisia.

(4) During 2007, we entered into an agreement to construct ENSCO 8503 with delivery expected in the third quarter of 2010. During 2006, we entered into agreements to construct ENSCO 8502 and ENSCO 8501 with deliveries expected in the first and fourth quarters of 2009, 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 for each of the years in the three-year period ended December 31, 2007:

	2007	2006	2005
Rig utilization [(1)]			
Jackup rigs			
Asia Pacific	99%	98%	84%
Europe/Africa	93%	100%	96%
North and South America	80%	90%	85%
Total jackup rigs	91%	95%	87%
Semisubmersible rig - North America	97%	87%	86%
Barge rig - Asia Pacific	95%	98%	98%
Total	91%	95%	87%
Average day rates [(2)]			
Jackup rigs			
Asia Pacific	$131,384	$ 89,568	$ 69,506
Europe/Africa	198,551	149,072	84,441
North and South America	108,883	122,058	67,801
Total jackup rigs	140,042	114,587	71,694
Semisubmersible rig - North America	199,432	191,163	161,527
Barge rig - Asia Pacific	66,699	57,168	52,684
Total	$139,882	$114,762	$ 73,553

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

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

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

Operating Income

We are in the process of developing a fleet of deepwater semisubmersible rigs. In connection therewith, we contracted Keppel FELS Limited ("KFELS"), a major international shipyard based in Singapore, to construct seven ultra-deepwater semisubmersible rigs (the "ENSCO 8500 Series®"). The first ENSCO 8500 Series® rig has been delivered by KFELS and arrived in the Gulf of Mexico in mid-December 2008. The rig is currently undergoing final outfitting and preparing for deepwater sea trials and is projected to commence operations in February 2009. In connection with the arrival of our first ENSCO 8500 Series® rig, we have reorganized the management of our operations, establishing a separate business unit to manage our fleet of deepwater semisubmersible rigs.

As part of this reorganization, we evaluated our remaining assets and operations, consisting of 44 jackup rigs and one barge rig organized into three business units based on major geographic region, and now consider these three business units as operating segments. Accordingly, our business now consists of four operating segments: (1) Deepwater, (2) Asia Pacific, (3) Europe/Africa and (4) North and South America. Each of our four operating segments provides one service, contract drilling.

The following tables summarize our operating income for each of the years in the three-year period ended December 31, 2007. 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 are included in "Reconciling Items."

Year Ended December 31, 2007
(in millions)

	Deepwater	Asia Pacific	Europe/ Africa	North and South America	Operating Segments Total	Reconciling Items	Consolidated Total
Revenue	$72.8	$912.7	$670.8	$487.5	$2,143.8	$ --	$2,143.8
Operating expenses							
Contract drilling (exclusive of depreciation)	28.8	271.9	208.4	175.0	684.1	--	684.1
Depreciation	9.3	81.1	40.4	49.4	180.2	4.1	184.3
General and administrative	--	--	--	--	--	59.5	59.5
Operating income	$34.7	$559.7	$422.0	$263.1	$1,279.5	$(63.6)	$1,215.9

Year Ended December 31, 2006
(in millions)

	Deepwater	Asia Pacific	Europe/ Africa	North and South America	Operating Segments Total	Reconciling Items	Consolidated Total
Revenue	$60.9	$585.5	$497.1	$670.0	$1,813.5	$ --	$1,813.5
Operating expenses							
Contract drilling (exclusive of depreciation)	26.3	226.0	158.0	166.4	576.7	--	576.7
Depreciation	8.9	75.3	36.4	50.7	171.3	3.7	175.0
General and administrative	--	--	--	--	--	44.6	44.6
Operating income	$25.7	$284.2	$302.7	$452.9	$1,065.5	$(48.3)	$1,017.2

Year Ended December 31, 2005
(in millions)

	Deepwater	Asia Pacific	Europe/ Africa	North and South America	Operating Segments Total	Reconciling Items	Consolidated Total
Revenue	$52.0	$374.6	$241.5	$366.2	$1,034.3	$ --	$1,034.3
Operating expenses							
Contract drilling (exclusive of depreciation)	21.8	182.6	114.1	135.9	454.4	--	454.4
Depreciation	8.0	64.6	31.7	45.5	149.8	3.6	153.4
General and administrative	--	--	--	--	--	32.0	32.0
Operating income	$22.2	$127.4	$ 95.7	$184.8	$ 430.1	$(35.6)	$ 394.5

Deepwater

In 2007, revenues for ENSCO 7500 increased $11.9 million, or 20%, as compared to 2006. The increase in revenues was primarily due to a 4% increase in the average day rate which resulted from a cost escalation rate adjustment provision in the contract, and an increase in utilization to 97% in 2007 from 87% in 2006, as ENSCO 7500 was idle for approximately one month in the prior year while undergoing minor enhancement and preparatory work for its current contract. Contract drilling expense increased by $2.5 million, or 10%, as compared to 2006, primarily due to increased personnel costs and reimbursable expense partially offset by a reduction in repair and maintenance expense. Depreciation expense increased by $400,000, or 4%, as compared to 2006. The increase was primarily attributable to depreciation on minor upgrades and improvements of ENSCO 7500 completed during 2007 and 2006.

In 2006, revenues for ENSCO 7500 increased by $8.9 million, or 17%, and contract drilling expense increased $4.5 million, or 21%, as compared to 2005. The increase in revenues was primarily due to an 18% increase in the average day rate and the increase in contract drilling expense was mainly attributable to increased personnel costs. Depreciation expense increased by $900,000, or 11%, as compared to 2005. The increase was primarily attributable to depreciation on minor upgrades and improvements of ENSCO 7500 completed during 2006 and 2005.

Asia Pacific

In 2007, Asia Pacific revenues increased by $327.2 million, or 56%, as compared to 2006. The increase in revenues was primarily due to a 47% increase in jackup rig average day rates and the increased size of our Asia Pacific fleet as ENSCO 84 mobilized to the region in late September 2006 and ENSCO 108 was delivered by a shipyard in the first quarter of 2007. The two rigs accounted for $101.5 million of the increase from prior year. The increase in average day rates resulted from stronger demand due to higher levels of spending by oil and gas companies coupled with limited rig availability in the region. Contract drilling expense increased by $45.9 million, or 20%, as compared to 2006, primarily due to the increased size of our Asia Pacific fleet. Excluding the impact of the two additional rigs, contract drilling expense increased by $24.7 million, or 11%, as compared to the prior year due to increased personnel costs and repair and maintenance expense. The increased costs were partially offset by a $2.7 million estimated loss recognized in the prior year related to damage sustained by ENSCO 107 while pre-loading on a drilling location offshore Vietnam. Depreciation expense increased by $5.8 million, or 8%, as compared to 2006. The increase was primarily attributable to depreciation associated with ENSCO 108 and ENSCO 84 and depreciation on minor upgrades and improvements to the Asia Pacific fleet completed during 2007 and 2006.

In 2006, Asia Pacific revenues increased by $210.9 million, or 56%, as compared to 2005. The increase in revenues was primarily due to a 29% increase in jackup rig average day rates and an increase in jackup rig utilization to 98% in 2006 from 84% in the prior year as a result of increased demand caused by higher levels of spending by oil and gas companies. Contract drilling expense increased by $43.4 million, or 24%, as compared to 2005, primarily due to increased utilization, personnel costs and repair and maintenance expense and a $2.7 million loss related to leg damage sustained by ENSCO 107 as noted above. Depreciation expense increased by $10.7 million, or 17%, as compared to 2005. The increase was primarily attributable to depreciation associated with ENSCO 107 and ENSCO 84 and depreciation associated with capital enhancement and upgrade projects on ENSCO 67, ENSCO 76, ENSCO 56 and ENSCO 96 completed during 2006 or 2005.

Europe/Africa

In 2007, Europe/Africa revenues increased by $173.7 million, or 35%, as compared to 2006. The increase in revenues was primarily attributable to the addition of ENSCO 105 to the Europe/Africa jackup fleet in the first quarter of 2007, which provided $55.7 million of revenue in the current year, and to a 33% increase in average day rates. The increase in revenues was partially offset by a decrease in utilization to 93% in 2007 from 100% in 2006 primarily due to the mobilization of ENSCO 100 from Nigeria to the North Sea, which commenced in late August of 2007. The improvement in average day rates was attributable to improved demand resulting from increased spending by oil and gas companies. Contract drilling expense increased by $50.4 million, or 32%, as compared to 2006, with the majority of the increase due to the relocation of ENSCO 105, $5.5 million of costs associated with the departure of ENSCO 100 from Nigeria and a $4.2 million increase in reimbursable costs associated with ENSCO 100. Excluding the impact of the three items above, contract drilling expense increased by $19.6 million, or 13%, as compared to the prior year due to increased personnel costs and repair and maintenance expense, partially offset by a reduction in fleet-wide mobilization expense. Depreciation expense increased by $4.0 million, or 11%, as compared to 2006. The increase was primarily attributable to depreciation associated with ENSCO 105, depreciation associated with the addition of ENSCO 102 to the Europe/Africa fleet during the first quarter of 2006 and depreciation on minor upgrades and improvements to the Europe/Africa fleet completed during 2007 and 2006.

In 2006, Europe/Africa revenues increased by $255.6 million, or 106%, as compared to 2005. The increase in revenues was primarily attributable to a 77% increase in average day rates and, to a lesser extent, the addition of ENSCO 102 to the Europe/Africa jackup fleet in February 2006, which provided $57.2 million of revenue in 2006. The improvement in day rates and utilization was primarily attributable to increased spending by oil and gas companies and a decrease in the supply of available jackup rigs. Contract drilling expense increased by $43.9 million, or 38%, as compared to 2005, primarily due to the addition of ENSCO 102, which added $25.2 million of expense in 2006, and to increased personnel costs, mobilization expense, and repair and maintenance expense. Depreciation expense increased by $4.7 million, or 15%, as compared to 2005. The increase was primarily attributable to depreciation associated with ENSCO 102 and depreciation on minor upgrades and improvements to the Europe/Africa fleet completed during 2006 and 2005.

North and South America

In 2007, North and South America revenues decreased by $182.5 million, or 27%, as compared to 2006. The decrease in revenues was partially due to the reduced size of our North and South America jackup fleet as ENSCO 105 relocated from the Gulf of Mexico during the first quarter of 2007 and ENSCO 84 relocated from the region during the third quarter of 2006. Excluding the impact of these two rigs, revenues decreased $114.4 million, or 19%, as compared to the prior year. An 11% decrease in average day rates and a decrease in utilization to 80% in 2007 from 90% in 2006 also contributed to the reduction in revenue from the prior year. The decrease in utilization and average day rates was due to a decrease in demand by oil and gas companies as they reduced spending on shallow water drilling in the region. Contract drilling expense increased by $8.6 million, or 5%, as compared to 2006. Excluding the impact of the two rigs relocated from the region, contract drilling expense increased $24.3 million or 16%, primarily due to increased personnel costs, insurance costs, and repair and maintenance expense. Depreciation expense decreased by $1.3 million, or 3%, as compared to 2006. The decrease was primarily attributable to the reduced size of the North and South America fleet, offset by depreciation on capital enhancement and upgrade projects completed during 2007 and 2006.

In 2006, North and South America revenues increased by $303.8 million, or 83%, as compared to 2005. The increase in revenues was primarily due to an 80% increase in average day rates attributable to the reduced supply of Gulf of Mexico jackup rigs as we, and several of our competitors, mobilized rigs contracted for work in international markets out of the Gulf of Mexico. Contract drilling expense increased by $30.5 million, or 22%, as compared to 2005, primarily due to increased personnel costs, insurance costs and rig mobilization expense as compared to the prior year. Depreciation expense increased by $5.2 million, or 11%, as compared to 2005. The increase was primarily attributable to depreciation associated with capital enhancement and upgrade projects completed during 2006 on ENSCO 87 and ENSCO 86, partially offset by the reduced size of the North and South America fleet.

Other

Our general and administrative expense for 2007 increased by $14.9 million, or 33%, as compared to 2006. The increase was primarily attributable to an $11.3 million expense incurred during the current year in connection with a retirement agreement entered into in February of 2007 with our former CEO and to an increase in professional fees, salary expense and share-based compensation expense as compared to the prior year.

Our general and administrative expense for 2006 increased by $12.6 million, or 39%, as compared to 2005. The increase was primarily attributable to an increase in salary expense and share-based compensation expense.

Other Income (Expense)

The following is an analysis of other income (expense) for each of the years in the three-year period ended December 31, 2007 (in millions):

	2007	2006	2005
Interest income	$ 26.3	$ 14.9	$ 7.0
Interest expense, net:			
Interest expense	(32.3)	(35.4)	(37.7)
Capitalized interest	30.4	18.9	8.9
	(1.9)	(16.5)	(28.8)
Other, net	13.4	(4.3)	(2.2)
	$ 37.8	$ (5.9)	$(24.0)

The increase in our interest income from 2006 to 2007 was primarily due to an increase in cash balances invested. The increase in our interest income from 2005 to 2006 was primarily due to higher average interest rates. Our interest expense decreased during the same periods due to a decrease in outstanding debt. Capitalized interest for 2007 and 2006 increased as compared to the prior year periods due to an increase in the amount invested in new rig construction projects.

Foreign currency translation adjustments and foreign currency transaction gains and losses, including certain gains and losses on derivative instruments, are included in other, net, on our consolidated statements of income. We had net foreign currency exchange gains of $9.2 million during 2007, net foreign currency exchange losses of $2.8 million during 2006, and net foreign currency exchange gains of $700,000 during 2005.

Provision for Income Taxes

The income tax rates imposed in the tax jurisdictions in which our non-U.S. subsidiaries conduct operations vary, as does the tax base to which the rates are applied. In some cases, tax rates may be applicable to gross revenue, statutory or negotiated deemed profits, or other bases utilized under local tax laws, rather than to net income. In addition, our drilling rigs are frequently moved from one tax jurisdiction to another. As a result, 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.

Our income tax expense was $261.7 million, $252.7 million and $100.5 million in the years ended December 31, 2007, 2006 and 2005, respectively. Our effective income tax rates during those years were 20.9%, 25.0% and 27.1%, respectively.

Income tax expense for the years ended December, 31 2007, 2006 and 2005 includes net benefits of $14.5 million, $7.3 million and $4.6 million, respectively, relating to settlements with tax authorities or other resolutions of prior year tax issues. Excluding the impact of these net benefits, our effective income tax rates for 2007, 2006 and 2005 would have been 22.0%, 25.7% and 28.4%, respectively.

The reductions in our effective tax rate were primarily due to an increase in the relative portion of our earnings generated by foreign subsidiaries whose earnings are taxed at lower rates.

LIQUIDITY AND CAPITAL RESOURCES

Although our business has historically 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. Our management believes we have maintained a strong financial position through the disciplined and conservative use of debt. A substantial amount of our cash flow is invested in the expansion and enhancement of our fleet of drilling rigs.

During the three-year period ended December 31, 2007, our primary sources of cash included an aggregate $2,537.4 million generated from continuing operations and $144.8 million from the exercise of stock options. Our primary uses of cash included an aggregate $681.6 million for the repurchase of common stock, $1,525.6 million for the acquisition, construction, enhancement and other improvement of our drilling rigs and $242.6 million for the repayment of debt.

Detailed explanations of our liquidity and capital resources for each of the years in the three-year period ended December 31, 2007 are set forth below.

Cash Flow and Capital Expenditures

Our cash flow from continuing operations and capital expenditures on continuing operations for each of the years in the three-year period ended December 31, 2007 are as follows (in millions):

	2007	2006	2005
Cash flow from continuing operations	$1,242.0	$943.8	$351.6
Capital expenditures on continuing operations:			
New rig construction	$367.7	$379.9	$139.3
Rig acquisition	--	--	80.5
Rig enhancements	65.0	92.7	207.0
Minor upgrades and improvements	87.2	56.0	50.3
	$ 519.9	$528.6	$477.1

Our cash flow from continuing operations in 2007 increased by $298.2 million, or 32%, from 2006. The increase resulted primarily from a $390.5 million increase in cash receipts from drilling services offset by a $99.9 million increase in cash payments related to contract drilling expenses.

Cash flow from our continuing operations in 2006 increased by $592.2 million, or 168%, from 2005. The increase resulted primarily from a $771.1 million increase in cash receipts from drilling services offset by a $126.9 million increase in cash payments related to contract drilling expenses and a $72.2 million increase in cash payments related to income taxes.

We continue to expand the size and quality of our drilling rig fleet. During the three-year period ended December 31, 2007, we invested $967.4 million in the acquisition and construction of new drilling rigs and an additional $364.7 million upgrading the capability and extending the service lives of our existing drilling rigs. We have added three new ultra-high specification jackup rigs to our fleet during the past three years, including ENSCO 106 in February 2005, ENSCO 107 in January 2006 and ENSCO 108 in March 2007.

In June 2007, we entered into an agreement with KFELS in Singapore to construct ENSCO 8503 for a total project construction cost of approximately $427.0 million, with delivery expected in the third quarter of 2010. ENSCO 8503 is our fourth ultra-deepwater semisubmersible rig in the ENSCO 8500 Series®. The first three 8500 Series rigs (ENSCO 8500, ENSCO 8501 and ENSCO 8502) are under construction by KFELS with expected deliveries in the third quarter of 2008, first quarter of 2009 and fourth quarter of 2009, respectively, with an aggregate construction cost of approximately $1,035.0 million. The ENSCO 8500, ENSCO 8501 and ENSCO 8502 are subject to long-term drilling contracts upon completion of their construction.

Based on our current projections, we expect capital expenditures in 2008 to include approximately $430.0 million for progress payments on the construction of the four ENSCO 8500 Series® rigs, approximately $25.0 million for rig enhancement projects and $110.0 million for minor upgrades and improvements. Depending on market conditions and opportunities, we may also 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 at December 31, 2007, 2006 and 2005 are summarized below (in millions, except percentages):

	2007	**2006**	**2005**
Long-term debt	$ 291.4	$ 308.5	$ 475.4
Total capital *	4,043.4	3,524.5	3,015.4
Long-term debt to total capital	7.2%	8.8%	15.8%

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

We have a $350.0 million unsecured revolving credit facility (the "Credit Facility") with a syndicate of banks that matures in June 2010. We had no amounts outstanding under the Credit Facility at December 31, 2007, 2006 or 2005 and do not currently anticipate borrowing under the Credit Facility during 2008. We maintain an investment grade credit rating of Baa1 from Moody's.

In November 2007, we repaid our $150.0 million of 6.75% Notes, which were classified in "Current maturities of long-term debt" on our December 31, 2006, consolidated balance sheet. At December 31, 2007, we have an aggregate $159.9 million outstanding under two separate bond issues guaranteed by the United States Maritime Administration ("MARAD") that require semiannual principal and interest payments. We also make semiannual interest payments on $150.0 million of debentures due in 2027.

In March 2006, our Board of Directors authorized the repurchase of up to $500.0 million of our outstanding common stock. In August 2007, following completion of the authorized repurchase of $500.0 million of common stock, our Board of Directors authorized the repurchase of an additional $500.0 million of our outstanding common stock (the "supplemental authorization"). Aggregate repurchases of common stock during the year ended December 31, 2007 totaled 9.4 million shares at a cost of $521.6 million (an average cost of $55.56 per share).

Since the inception of our stock repurchase programs in March 2006, we have repurchased an aggregate 12.8 million shares at a cost of $681.6 million (an average cost of $53.05 per share). As of December 31, 2007, approximately $318.4 million of the supplemental authorization remained available for repurchases of our outstanding common stock.

Contractual Obligations

We have various contractual commitments related to our debt, operating leases and new rig construction agreements. We expect to fund these commitments from our existing cash and cash equivalents and future operating cash flow. The table below summarizes our significant contractual obligations at December 31, 2007, and the periods in which such obligations are due (in millions):

	Payments due by period				
	2008	**2009 and 2010**	**2011 and 2012**	**After 2012**	**Total**
Principal payments on long-term debt	$ 19.1	$ 34.4	$34.4	$223.9	$ 311.8
Interest payments on long-term debt	19.7	36.4	32.4	173.4	261.9
Operating leases	6.4	5.3	2.9	7.8	22.4
New rig construction agreements	353.1	366.8	--	--	719.9
Total contractual cash obligations	$398.3	$442.9	$69.7	$405.1	$1,316.0

The contractual obligations table above does not include unrecognized tax benefits. We adopted the recognition and disclosure provisions of FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109," on January 1, 2007 and had $13.5 million of unrecognized tax benefits as of December 31, 2007. Substantially all of our unrecognized tax benefits related to uncertain tax positions that were not under review by taxing authorities and therefore we are unable to specify the future periods in which we may be obligated to settle such amounts.

Liquidity

Our liquidity position at December 31, 2007, 2006 and 2005 is summarized below (in millions, except ratios):

	2007	2006	2005
Cash and cash equivalents	$629.5	$565.8	$268.5
Working capital	625.8	602.3	347.0
Current ratio	2.2	2.6	2.5

We expect to fund our short-term liquidity needs, including an aggregate $610.2 million of contractual obligations and anticipated capital expenditures during 2008, as well as any stock repurchases, dividends and 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 and anticipated capital expenditures, from our cash and cash equivalents, operating cash flow and, if necessary, funds borrowed under our $350.0 million unsecured revolving credit facility or other future financing arrangements.

We historically have funded the majority of our liquidity from operating cash flow. We anticipate a substantial amount of our cash flow in the near to intermediate-term will continue to be invested in the expansion of our deepwater drilling fleet and used to repurchase our outstanding common stock under the $500.0 million supplemental authorization, of which, approximately $318.4 million remained available for repurchases as of December 31, 2007. While future operating cash flow cannot be accurately predicted, based on our contractual backlog and current industry conditions, management expects our long-term liquidity will continue to be funded primarily by operating cash flow.

MARKET RISK

We have net assets and liabilities denominated in numerous foreign currencies and use various methods to manage our exposure to foreign currency exchange risk. We predominantly structure our 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 derivative instruments, to match foreign currency denominated assets with equal or near equal amounts of foreign currency denominated liabilities, thereby minimizing exposure to earnings fluctuations caused by changes in foreign currency exchange rates. We also utilize derivative instruments to hedge forecasted foreign currency denominated transactions. At December 31, 2007, we had contracts outstanding to exchange an aggregate $297.2 million U.S. dollars for various foreign currencies, all of which mature during the next fourteen months. If we were to incur a hypothetical 10% adverse change in foreign currency exchange rates, the net unrealized loss associated with our foreign currency denominated assets and liabilities and related foreign currency exchange contracts as of December 31, 2007 would approximate $13.0 million.

We use various derivative financial instruments to manage our exposure to interest rate risk. We occasionally use interest rate swap agreements to effectively convert the variable interest rate on debt to a fixed rate or the fixed rate on debt to a variable rate, and interest rate lock agreements to hedge against increases in interest rates on pending financing. At December 31, 2007, we had no outstanding interest rate swap agreements or interest rate lock agreements.

We utilize derivative instruments and undertake foreign currency hedging activities in accordance with our established policies for the management of market risk. We do not enter into derivative instruments for trading or other speculative purposes. We believe that our use of derivative instruments and related hedging activities does not expose us to any material interest rate risk, foreign currency exchange rate risk, commodity price risk, credit risk or any other material market rate or price risk.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of financial statements and related disclosures in conformity with U.S. generally accepted accounting principles requires our management to make estimates, judgments and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Our significant accounting policies are included in Note 1 to the Consolidated Financial Statements. These policies, along with our underlying assumptions and judgments made in their application, have a significant impact on our consolidated financial statements. We identify our most 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 our management regarding estimates in matters that are inherently uncertain. Our most critical accounting policies are those related to property and equipment, impairment of long-lived assets and goodwill, and income taxes.

Property and Equipment

At December 31, 2007, the carrying value of our property and equipment totaled $3,358.9 million, which represents 68% of total assets. This carrying value reflects the application of our property and equipment accounting policies, which incorporate our management's estimates, assumptions and judgments 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 judgment and assumptions by our 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 assumptions and judgments used by our management in determining the estimated 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, assumptions and judgments 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 carrying values of assets and operating results.

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

Our fleet of 44 jackup rigs comprises over 66% of both the gross cost and net carrying amount of our property and equipment at December 31, 2007 and is depreciated over useful lives ranging from 15 to 30 years. Our ultra-deepwater semisubmersible rig is depreciated over a 30-year useful life. The following table provides an analysis of estimated increases and decreases in depreciation expense that would have been recognized for the year ended December 31, 2007 for various assumed changes in the useful lives of our drilling rigs effective January 1, 2007:

Increase (decrease) in useful lives of our drilling rigs	Estimated increase (decrease) in depreciation expense that would have been recognized (in millions)
10%	$(18.3)
20%	(33.4)
(10%)	19.0
(20%)	44.6

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 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 rigs and ultra-deepwater semisubmersible rig are suited for, and accessible to, broad and numerous markets throughout the world. However, there are fewer economically feasible markets available to our barge rig.

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 the fair value of those units as of the testing date. If the estimated fair value of a reporting unit exceeds its carrying value, its goodwill is considered not impaired. If the estimated fair value of a reporting unit is less than its carrying value, 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 sale. Based on our goodwill impairment analysis performed as of December 31, 2007, there was no impairment of goodwill.

Asset impairment evaluations are, by nature, highly subjective. In most instances they involve expectations of future cash flows to be generated by our drilling rigs, and are based on our management's assumptions and judgments regarding future industry conditions and operations, as well as our management's estimates of future expected utilization, contract rates, expense levels and capital requirements of our drilling rigs. The estimates, assumptions and judgments used by our 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, assumptions, judgments and expectations regarding future industry conditions and operations would likely result in materially different carrying values of assets and operating results.

Income Taxes

We conduct operations and earn income in numerous international countries and are subject to the laws of tax jurisdictions within those countries, as well as U.S. federal and state tax laws. At December 31, 2007, we had a $338.9 million net deferred income tax liability, a $181.4 million liability for income taxes currently payable and a $13.5 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 in accordance with Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" ("SFAS 109"), and are based on our assumptions and estimates regarding future operating results and levels of taxable income, as well as our judgments regarding the interpretation of the provisions of SFAS 109. Carryforwards and tax credits are assessed for realization as a reduction of future taxable income by using a more-likely-than-not determination. In December 2007, substantially all of the undistributed earnings of our non-U.S. subsidiaries were distributed to our U.S. parent (see Note 8 to the Consolidated Financial Statements). A U.S. deferred tax liability has not been recognized for the remaining undistributed earnings of our non-U.S. subsidiaries because it is our intention to reinvest such earnings indefinitely. Should we elect to make a distribution of these earnings, or be deemed to have made a distribution of them through application of various provisions of the Internal Revenue Code, we may be subject to additional U.S. income taxes.

The carrying values of liabilities for income taxes currently payable and unrecognized tax benefits reflect our application of the provisions of FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes - an interpretation of SFAS 109" and are based on management's interpretation of applicable tax laws, and incorporate our assumptions and judgments regarding the use of tax planning strategies in various taxing jurisdictions. The use of different estimates, assumptions and judgments in connection with accounting for income taxes, especially those involving the deployment of tax planning strategies, may result in materially different carrying values of income tax assets and liabilities and operating results.

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

- During recent years the portion of our overall operations conducted in international tax jurisdictions has been increasing and we currently anticipate this trend will continue.

- In order to utilize tax planning strategies and conduct international operations efficiently, our subsidiaries frequently enter into transactions with affiliates, which are generally subject to complex tax regulations and frequently are 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.

NEW ACCOUNTING PRONOUNCEMENTS

In December 2007, the FASB issued SFAS No. 141 (revised 2007), "Business Combinations" ("SFAS 141 (R)"). This standard establishes principles and requirements for how an acquirer in a business combination recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree. SFAS 141(R) also establishes principles and requirements for how an acquirer recognizes and measures the goodwill acquired in a business combination and it establishes disclosure requirements to facilitate an evaluation of the nature and financial effects of a business combination. SFAS 141(R) is effective for business combinations which occur during the first annual reporting period beginning on or after December 15, 2008. We expect the effect of adoption of this statement will be limited to any future acquisitions anticipated to close subsequent to December 31, 2008.

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements" ("SFAS 160"). This standard amends Accounting Research Bulletin 51, "Consolidated Financial Statements", to establish accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. It clarifies that a noncontrolling interest should be reported as equity in the consolidated financial statements. SFAS 160 also requires net income attributable to both the parent and the noncontrolling interest to be disclosed separately on the face of the consolidated statement of income. SFAS 160 is effective for fiscal years beginning after December 15, 2008. We do not expect this statement to have a material effect on our consolidated financial position, operating results or cash flows.

In March 2007, the FASB ratified EITF Issue No. 06-11, "Accounting for Income Tax Benefits of Dividends on Share-Based Payment Awards" ("EITF 06-11"). This statement establishes the requirement to recognize the income tax benefit realized from dividends paid to employees for equity classified non-vested shares, non-vested equity share units, and outstanding equity share options as an increase to additional paid-in capital. EITF 06-11 is effective for fiscal years beginning after December 15, 2007. We do not expect EITF 06-11 to have a material effect on our consolidated financial position, operating results or cash flows.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities - Including an amendment of FASB Statement No. 115" ("SFAS 159"). This standard permits entities to choose to measure certain financial assets and liabilities and other eligible items at fair value, which are not otherwise currently required to be measured at fair value. Under SFAS 159, the decision to measure items at fair value is made at specified election dates on an irrevocable instrument-by-instrument basis. Entities electing the fair value option would be required to recognize changes in fair value in earnings and to expense upfront cost and fees associated with the item for which the fair value option is elected. Entities may elect the fair value option provided for in this standard and adopt SFAS 159 on January 1, 2008. We do not expect this statement to have a material effect on our consolidated financial position, operating results or cash flows.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" ("SFAS 157"). SFAS 157 defines fair value, provides a framework for measuring fair value in accordance with U.S. generally accepted accounting principles, and expands the disclosures required for fair value measurements. This statement applies to other accounting pronouncements that require fair value measurements; it does not require any new fair value measurements. FAS 157 is effective for fiscal years beginning after November 15, 2007, but was amended on February 6, 2008 to defer the effective date for one year for certain nonfinancial assets and liabilities. We do not expect this statement to have a material effect on our consolidated financial position, operating results or cash flows.

PART I - FINANCIAL INFORMATION

Item 1. ***Financial Statements***

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders
ENSCO International Incorporated:

We have reviewed the accompanying condensed consolidated balance sheet of ENSCO International Incorporated and subsidiaries as of September 30, 2008, the related condensed consolidated statements of income for the three-month and nine-month periods ended September 30, 2008 and 2007, and the related condensed consolidated statements of cash flows for the nine-month periods ended September 30, 2008 and 2007. 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 ENSCO International Incorporated and subsidiaries as of December 31, 2007, and the related consolidated statements of income and cash flows for the year then ended (not presented herein); and in our report dated February 26, 2008, 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, 2007 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
October 23, 2008, except for the updated disclosure
pertaining to the resegmenting as described in Note 13,
as to which the date is January 13, 2009

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

	Three Months Ended September 30,	
	2008	**2007**
OPERATING REVENUES	$635.8	$536.4
OPERATING EXPENSES		
Contract drilling (exclusive of depreciation)	193.4	175.5
Depreciation	47.7	46.2
General and administrative	15.2	11.5
	256.3	233.2
OPERATING INCOME	379.5	303.2
OTHER INCOME (EXPENSE)		
Interest income	3.2	7.1
Interest expense, net	--	--
Other, net	(9.7)	2.7
	(6.5)	9.8
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	373.0	313.0
PROVISION FOR INCOME TAXES		
Current income tax expense	61.7	47.4
Deferred income tax expense	10.1	6.2
	71.8	53.6
INCOME FROM CONTINUING OPERATIONS	301.2	259.4
DISCONTINUED OPERATIONS		
Income from discontinued operations, net	4.6	7.3
Loss on disposal of discontinued operations, net	(23.5)	--
	(18.9)	7.3
NET INCOME	$282.3	$266.7
EARNINGS (LOSS) PER SHARE - BASIC		
Continuing operations	$ 2.13	$ 1.78
Discontinued operations	(.13)	.05
	$ 2.00	$ 1.83
EARNINGS (LOSS) PER SHARE - DILUTED		
Continuing operations	$ 2.13	$ 1.77
Discontinued operations	(.13)	.05
	$ 1.99	$ 1.82

WEIGHTED-AVERAGE COMMON SHARES OUTSTANDING

Basic	141.1	145.9
Diluted	141.6	146.6
CASH DIVIDENDS PER COMMON SHARE	$ .025	$ .025

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

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

	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2007
OPERATING REVENUES	$1,828.3	$1,570.9
OPERATING EXPENSES		
Contract drilling (exclusive of depreciation)	591.5	500.6
Depreciation	141.6	136.0
General and administrative	41.7	46.6
	774.8	683.2
OPERATING INCOME	1,053.5	887.7
OTHER INCOME (EXPENSE)		
Interest income	11.9	19.6
Interest expense, net	--	(1.9)
Other, net	(7.1)	9.5
	4.8	27.2
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	1,058.3	914.9
PROVISION FOR INCOME TAXES		
Current income tax expense	182.3	178.0
Deferred income tax expense	16.5	3.6
	198.8	181.6
INCOME FROM CONTINUING OPERATIONS	859.5	733.3
DISCONTINUED OPERATIONS		
Income from discontinued operations, net	15.0	20.1
Loss on disposal of discontinued operations, net	(23.5)	--
	(8.5)	20.1
NET INCOME	$ 851.0	$ 753.4
EARNINGS (LOSS) PER SHARE - BASIC		
Continuing operations	$ 6.04	$ 4.96
Discontinued operations	(.06)	.14
	$ 5.98	$ 5.10
EARNINGS (LOSS) PER SHARE - DILUTED		
Continuing operations	$ 6.03	$ 4.94
Discontinued operations	(.06)	.14
	$ 5.97	$ 5.08
WEIGHTED-AVERAGE COMMON SHARES OUTSTANDING		
Basic	142.2	147.8
Diluted	142.6	148.4

CASH DIVIDENDS PER COMMON SHARE	$ .075	$ .075

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

ENSCO INTERNATIONAL INCORPORATED AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(In millions, except par value amounts)

	September 30, 2008 (Unaudited)	December 31, 2007
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 447.6	$ 629.5
Short-term investments	38.4	--
Accounts receivable, net	519.5	383.2
Other	126.3	116.6
Total current assets	1,131.8	1,129.3
PROPERTY AND EQUIPMENT, AT COST	5,233.0	4,704.7
Less accumulated depreciation	1,458.6	1,345.8
Property and equipment, net	3,774.4	3,358.9
GOODWILL	336.2	336.2
LONG-TERM INVESTMENTS	70.2	--
OTHER ASSETS, NET	144.6	144.4
	$5,457.2	$4,968.8
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	$ 24.7	$ 18.8
Accrued liabilities and other	320.5	465.6
Current maturities of long-term debt	17.2	19.1
Total current liabilities	362.4	503.5
LONG-TERM DEBT	282.9	291.4
DEFERRED INCOME TAXES	346.7	352.0
OTHER LIABILITIES	89.1	69.9
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY		
Preferred stock, $1 par value, 20.0 million shares authorized, none issued	--	--
Common stock, $.10 par value, 250.0 million shares authorized, 181.9 million and 180.3 million shares issued	18.2	18.0
Additional paid-in capital	1,753.9	1,700.5
Retained earnings	3,817.8	2,977.5
Accumulated other comprehensive loss	(14.5)	(4.2)
Treasury stock, at cost, 40.1 million shares and 36.4 million shares	(1,199.3)	(939.8)
Total stockholders' equity	4,376.1	3,752.0

	$5,457.2	$4,968.8

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

ENSCO INTERNATIONAL INCORPORATED AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In millions)
(Unaudited)

	Nine Months Ended September 30, 2008	2007
OPERATING ACTIVITIES		
Net income	$851.0	$753.4
Adjustments to reconcile net income to net cash provided by operating activities of continuing operations:		
Depreciation expense	141.6	136.0
Amortization expense	24.6	7.0
Share-based compensation expense	21.1	30.1
Deferred income tax expense	16.5	3.6
Excess tax benefit from share-based compensation	(5.3)	(5.5)
Unrealized loss on trading securities	3.0	--
Income from discontinued operations, net	(15.0)	(20.1)
Loss on disposal of discontinued operations, net	23.5	--
Other	.1	.1
Changes in operating assets and liabilities:		
Increase in accounts receivable	(86.6)	(97.0)
Increase in investments designated as trading securities	(73.2)	--
Increase in other assets	(31.2)	(25.7)
Increase in accounts payable	5.9	15.4
(Decrease) increase in accrued liabilities and other	(132.6)	46.7
Net cash provided by operating activities of continuing operations	743.4	844.0
INVESTING ACTIVITIES		
Additions to property and equipment	(654.1)	(407.6)
Purchases of short-term investments	(38.4)	--
Proceeds from disposition of assets	5.1	5.6
Net cash used in investing activities	(687.4)	(402.0)
FINANCING ACTIVITIES		
Repurchases of common stock	(259.5)	(423.3)
Proceeds from exercise of stock options	27.3	29.8
Cash dividends paid	(10.7)	(11.2)
Reduction of long-term borrowings	(10.5)	(8.6)
Excess tax benefit from share-based compensation	5.3	5.5
Net cash used in financing activities	(248.1)	(407.8)
Effect of exchange rate changes on cash and cash equivalents	(7.6)	(.1)
Net cash provided by operating activities of discontinued operations	17.8	23.0
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(181.9)	57.1
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	629.5	565.8
CASH AND CASH EQUIVALENTS, END OF PERIOD	$447.6	$622.9

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

Note 1 - Unaudited Condensed Consolidated Financial Statements

We prepared the accompanying condensed consolidated financial statements of ENSCO International Incorporated and subsidiaries (the "Company") 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, 2007 condensed consolidated balance sheet data were derived from the 2007 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 the 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 at the date of the financial statements. Actual results could differ from those estimates.

The financial data for the three-month and nine-month periods ended September 30, 2008 and 2007 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 three-month and nine-month periods ended September 30, 2008 are not necessarily indicative of the results of operations that will be realized for the year ending December 31, 2008. 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, 2007 included in our Annual Report on Form 10-K filed with the SEC on February 26, 2008.

Note 2 - Earnings Per Share

For the three-month and nine-month periods ended September 30, 2008 and 2007, there were no adjustments to net income for purposes of computing basic and diluted earnings per share ("EPS"). The following table is a reconciliation of the weighted-average common shares used in the basic and diluted EPS computations for the three-month and nine-month periods ended September 30, 2008 and 2007 (in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Weighted-average common shares - basic	141.1	145.9	142.2	147.8
Potentially dilutive common shares:				
Non-vested share awards	.2	.2	--	.1
Share options	.3	.5	.4	.5
Weighted-average common shares - diluted	141.6	146.6	142.6	148.4

Antidilutive shares of 832,000 and 511,000 for the three-month periods ended September 30, 2008 and 2007, respectively, were excluded from the computation of diluted earnings per share. Antidilutive shares of 758,000 and 519,000 for the nine-month periods ended September 30, 2008 and 2007, respectively, were excluded from the computation of diluted earnings per share.

In June 2008, the FASB issued Staff Position EITF 03-6-1, "Determining Whether Instruments Granted in Share-Based Payment Transactions are Participating Securities" ("FSP EITF 03-6-1"). FSP EITF 03-6-1 addresses determinations as to whether instruments granted in share-based payment transactions are participating securities prior to vesting and, therefore, need to be included in the earnings allocation in computing EPS under the two-class method described in paragraphs 60 and 61 of SFAS No. 128, "Earnings Per Share". FSP EITF 03-6-1 is effective for fiscal years and interim periods beginning after December 15, 2008 and will require retrospective adjustment for all comparable prior periods presented. We do not expect adoption of FSP EITF 03-6-1 to have a material effect on our EPS computations or disclosures.

Note 3 - Cash Equivalents and Short-Term Investments

As of September 30, 2008, we held $194.6 million of Singapore dollar denominated time deposits, of which $38.4 million had initial maturities in excess of three months and were classified as short-term investments on our September 30, 2008 condensed consolidated balance sheet. The remaining $156.2 million of Singapore dollar denominated time deposits, with initial maturities of three months or less, were included in cash and cash equivalents on our September 30, 2008 condensed consolidated balance sheet. Cash flows from purchases of short-term investments were classified as investing activities in our condensed consolidated statement of cash flows for the nine-month period ended September 30, 2008.

Our investment in time deposits is diversified across six major international banks. Each of these institutions maintains long-term credit ratings of Aa or Aaa from Moody's Investor Service. Our time deposits are held to fund future Singapore dollar denominated payment obligations under our shipyard contracts for the construction of our ENSCO 8500 Series® rigs.

Due to recent strengthening of the U.S. dollar relative to the Singapore dollar, we recognized foreign currency exchange losses on our Singapore dollar denominated time deposits of $10.4 million during the third quarter of 2008, which were included in other, net, in the condensed consolidated statements of income for the three-month and nine-month periods ended September 30, 2008.

Note 4 - Accounts Receivable

Accounts receivable, net, as of September 30, 2008 included a $50.0 million receivable for recovery of costs from insurance and contractual indemnity associated with ENSCO 74, which was presumed to be an actual loss or constructive total loss as a result of Hurricane Ike in September 2008. See "Note 11 - Discontinued Operations" for additional information concerning ENSCO 74.

Note 5 - Long-Term Investments

As of September 30, 2008, we held $73.2 million (par value) of long-term debt instruments with variable interest rates that periodically reset through an auction process ("auction rate securities"). Our auction rate securities were originally acquired in January 2008 and have final maturity dates ranging from 2025 to 2047. We did not own auction rate securities as of December 31, 2007.

Auctions for our auction rate securities failed beginning in February 2008. An auction failure, which is not a default in the underlying debt instrument, occurs when there are more sellers than buyers at a scheduled interest rate auction date and parties desiring to sell their auction rate securities are unable to do so. When an auction fails, the interest rate is adjusted according to the provisions of the associated security agreement, which may result in an interest rate that is higher than the interest rate the issuer pays in connection with successful auctions. Auctions for our auction rate securities continued to fail during the second and third quarters, with the exception of the successful auction of $4.7 million of our securities in June 2008.

Our investments in auction rate securities as of September 30, 2008 were diversified across sixteen separate issues and each issue maintains scheduled interest rate auctions in either 28-day or 35-day intervals. All of our auction rate securities are currently rated Aaa by Moody's, AAA by Standard & Poor's and/or AAA by Fitch, which is the highest rating issued by each respective rating agency. An aggregate $69.5 million (par value) of our auction rate securities were issued by state agencies and are supported by student loans for which repayment is substantially guaranteed by the U.S. government under the Federal Family Education Loan Program ("FFELP"). The remaining $3.7 million (par value) of our auction rate securities were issued by municipalities and repayment is insured by Financial Security Assurance Inc., a monoline bond insurance company that currently maintains a financial strength rating of Aaa by Moody's, AAA by Standard & Poor's and AAA by Fitch.

Auction failures and the resulting lack of liquidity have affected the entire auction rate securities market, and we are currently unable to determine whether these conditions will be temporary. While it is estimated that approximately one third of the $330.0 billion auction rate securities market has been refinanced, student loan supported auction rate securities remain mostly constrained and illiquid. Although $5.1 million of our student loan supported auction rate securities were redeemed at par value during the nine-month period ended September 30, 2008, we are currently unable to determine whether other issuers of our auction rate securities will attempt and/or be able to refinance.

Some broker/dealers previously indicated that they planned to develop secondary markets for auction rate securities, but no such market has materialized. Consequently, we are currently unable to determine if alternate markets that provide for orderly purchases and sales of auction rate securities will develop. Several major brokerage firms recently announced regulatory settlements in which they will initially offer to repurchase auction rate securities from retail investors, charities and small businesses, and use best efforts to provide liquidity to institutional investors within the next several years. However, we are currently unable to determine whether these brokerage firms will be able to comply with the terms of their regulatory settlements. Although we acquired our auction rate securities with the intention of selling them in the near term, due to the aforementioned uncertainties, our auction rate securities were classified as long-term investments on our condensed consolidated balance sheet as of September 30, 2008.

Upon acquisition in January 2008, we designated our auction rate securities as trading securities in accordance with SFAS No. 115, "Accounting for Certain Debt and Equity Securities (as amended)" ("SFAS 115") as it was our intent to sell them in the near term. Due to illiquidity in the auction rate securities market, as discussed above, we intend to hold our auction rate securities until they can be redeemed by issuers, repurchased by brokerage firms or sold in a market that facilitates orderly transactions. Although we will hold our auction rate securities longer than originally anticipated, we continue to designate them as trading securities.

Our auction rate securities were measured at fair value as of September 30, 2008, and unrealized gains of $300,000 for the three-month period ended September 30, 2008 and unrealized losses of $3.0 million for the nine-month period ended September 30, 2008 were included in other, net, in our condensed consolidated statements of income. The carrying value of our auction rate securities was $70.2 million as of September 30, 2008. Cash flows from purchases and sales of our auction rate securities were classified as operating activities in our condensed consolidated statement of cash flows for the nine-month period ended September 30, 2008. See "Note 9 - Fair Value Measurements" for additional information concerning fair value measurement of our auction rate securities.

Note 6 - Accrued Liabilities and Other

Accrued liabilities and other as of September 30, 2008 and December 31, 2007 consisted of the following (in millions):

	September 30, 2008	December 31, 2007
Taxes	$ 54.0	$195.1
Capital expenditures	87.6	96.1
Personnel	46.0	49.6
Deferred and prepaid revenue	44.8	61.2
Other operating expenses	80.4	58.8
Other	7.7	4.8
	$320.5	$465.6

Note 7 - Stockholders' Equity

In March 2006, our Board of Directors authorized the repurchase of up to $500.0 million of our outstanding common stock. In August 2007, following completion of the authorized repurchase, our Board of Directors authorized the repurchase of an additional $500.0 million of our outstanding common stock (the "2007 authorization"). In September 2008, our Board of Directors authorized the repurchase of an additional $500.0 million of our outstanding common stock (the "2008 authorization").

During the nine-month period ended September 30, 2008, we repurchased 3.7 million shares of our common stock at a cost of $256.0 million (an average cost of $69.92 per share) under the 2007 authorization, including 2.2 million shares of our common stock at a cost of $148.0 million (an average cost of $68.20 per share) during the quarter ended September 30, 2008. As of September 30, 2008 and December 31, 2007, the outstanding shares of our common stock, net of treasury shares, were 141.8 million and 143.9 million, respectively.

Note 8 - Comprehensive Income

The components of comprehensive income for the three-month and nine-month periods ended September 30, 2008 and 2007 were as follows (in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Net income	$282.3	$266.7	$851.0	$753.4
Other comprehensive income:				
Net change in fair value of derivatives	(11.7)	1.2	(6.3)	4.7
Reclassification of unrealized gains and losses on derivatives from other comprehensive loss (income) into net income	.2	(.1)	(4.0)	(1.2)
Net other comprehensive (loss) income	(11.5)	1.1	(10.3)	3.5
Comprehensive income	$270.8	$267.8	$840.7	$756.9

Accumulated other comprehensive loss as of September 30, 2008 and December 31, 2007 was comprised of net unrealized losses on derivative instruments, net of tax. As of September 30, 2008, the estimated amount of net unrealized losses on derivative instruments, net of tax, that will be reclassified to earnings during the next twelve months was as follows (in millions):

Net unrealized losses to be reclassified to contract drilling expense	$7.6
Net unrealized losses to be reclassified to interest expense	.7
Net unrealized losses to be reclassified to earnings	$8.3

Note 9 - Fair Value Measurements

On January 1, 2008, we adopted SFAS No. 157, "Fair Value Measurements" ("SFAS 157"), which refines the definition of fair value, provides a framework for measuring fair value and expands disclosures about fair value measurements. SFAS 157 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy assigns the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities ("Level 1") and the lowest priority to unobservable inputs ("Level 3"). Level 2 measurements are inputs that are observable for assets or liabilities, either directly or indirectly, other than quoted prices included within Level 1.

In October 2008, the FASB issued Staff Position No. FAS 157-3, "Determining the Fair Value of a Financial Asset in a Market That Is Not Active" ("FSP FAS 157-3"), which amended SFAS 157 by clarifying the application of SFAS 157 when the market for a financial asset is inactive. FSP FAS 157-3 became effective upon issuance, including prior periods for which financial statements had not been issued. Adoption of FSP FAS 157-3 did not have a material effect on our fair value measurements as of September 30, 2008.

The following fair value hierarchy table categorizes information regarding our assets and liabilities measured at fair value on a recurring basis as of September 30, 2008 and December 31, 2007 (in millions):

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
As of September 30, 2008				
Trading securities	$ --	$ --	$70.2	$70.2
Total financial assets	$ --	$ --	$70.2	$70.2
Derivative instruments, net	$ --	$13.9	$ --	$13.9
Total financial liabilities	$ --	$13.9	$ --	$13.9
As of December 31, 2007				
Derivative instruments, net	$ --	$ 4.6	$ --	$ 4.6
Total financial assets	$ --	$ 4.6	$ --	$ 4.6

Our auction rate securities were measured at fair value on a recurring basis using significant Level 3 inputs as of September 30, 2008. See "Note 5 - Long-Term Investments" for additional information on our auction rate securities, including a description of the securities and underlying collateral, a discussion of the uncertainties relating to their liquidity and our accounting treatment under SFAS 115. The following table summarizes our fair value measurements using significant Level 3 inputs, and changes therein, for the three-month and nine-month periods ended September 30, 2008 (in millions):

	Three Months Ended September 30, 2008	**Nine Months Ended September 30, 2008**
Beginning Balance	$70.0	$ --
(Sales) purchases, net	(.1)	73.2
Unrealized gains (losses) (*)	.3	(3.0)
Realized losses	--	--
Transfers in and/or out of Level 3	--	--
Balance as of September 30, 2008	$70.2	$70.2

(*) Unrealized gains (losses) are included in other, net, in the condensed consolidated statements of income.

Before utilizing Level 3 inputs in our fair value measurements, we considered whether observable inputs were available. As a result of continued auction failures, quoted prices for our auction rate securities did not exist as of September 30, 2008. Accordingly, we concluded that Level 1 inputs were not available. Brokerage statements received from the five broker/dealers that held our auction rate securities included their estimated market value as of September 30, 2008. Four broker/dealers valued our auction rate securities at par and the fifth valued our auction rate securities at 97% of par. Due to the lack of transparency into the methodologies used to determine the estimated market values, we concluded that estimated market values provided on our brokerage statements did not constitute valid inputs and, therefore, we did not utilize them in measuring the fair value of our auction rate securities as of September 30, 2008.

We determined that use of a valuation model was the best available technique for measuring the fair value of our auction rate securities. We used an income approach valuation model to estimate the price that would be received in exchange for our auction rate securities in an orderly transaction between market participants ("exit price") as of September 30, 2008. The exit price was derived as the weighted-average present value of expected cash flow over various periods of illiquidity, using a risk adjusted discount rate that was based on the credit risk and liquidity risk of our auction rate securities.

While our valuation model was based on both Level 2 (credit quality and interest rates) and Level 3 inputs, we determined that our Level 3 inputs were most significant to the overall fair value measurement, particularly the estimates of risk adjusted discount rates and ranges of expected periods of illiquidity. The valuation model also reflected our intention to hold our auction rate securities until they can be redeemed by issuers, repurchased by brokerage firms or sold in a market that facilitates orderly transactions and our belief that we have the ability to maintain our investment in these securities indefinitely.

Note 10 - Income Taxes

We conduct operations, earn income and are subject to tax in the U.S. and numerous international countries. In many of the international jurisdictions where we operate, tax laws relating to the offshore drilling industry are not well developed and change frequently. Furthermore, in most of the tax jurisdictions where we operate, we enter into transactions with affiliates or employ other tax planning strategies that generally are subject to complex tax regulations. Due to the foregoing, the tax liabilities and benefits we recognize in our financial statements may differ from the tax positions taken, or expected to be taken, in our tax returns.

In accordance with FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109" ("FIN 48"), tax positions are evaluated for recognition using a more-likely-than-not threshold. Tax positions requiring recognition are measured as the largest amount of tax benefit that is greater than 50 percent likely of being realized upon ultimate settlement with a taxing authority that has full knowledge of all relevant information. Unrecognized tax benefits totaled $27.2 million and $13.5 million as of September 30, 2008 and December 31, 2007, respectively, and were included in other liabilities on our condensed consolidated balance sheets. As of September 30, 2008, $21.8 million of the $27.2 million of unrecognized tax benefits would impact our effective tax rate if recognized.

Accrued interest and penalties totaled $13.7 million and $19.2 million as of September 30, 2008 and December 31, 2007, respectively, and were included in other liabilities on our condensed consolidated balance sheets. We recognized net expense of $700,000 and a net benefit of $6.2 million associated with interest and penalties for the three-month and nine-month periods ended September 30, 2008, respectively. Interest and penalties are included in current income tax expense in our condensed consolidated statements of income.

In connection with an examination of a prior period tax return, we recognized a $5.4 million liability for unrecognized tax benefits associated with certain tax positions taken in prior years, which resulted in an $8.9 million net income tax expense, inclusive of interest and penalties, during the nine-month period ended September 30, 2008.

Statutes of limitations applicable to certain of our tax positions lapsed resulting in a $2.9 million decrease in unrecognized tax benefits and an $11.5 million net income tax benefit, inclusive of interest and penalties, during the nine-month period ended September 30, 2008.

Statutes of limitations applicable to certain of our remaining tax positions may lapse during the next twelve months, therefore, it is reasonably possible that our unrecognized tax benefits will decrease by an aggregate $3.0 million associated with these tax positions during the next twelve months. Accrued interest and penalties related to these tax positions totaled $5.2 million as of September 30, 2008.

Intercompany Transfer of Drilling Rigs

In December 2007, we transferred ownership of three drilling rigs among two of our subsidiaries. The income tax liability attributable to the gain resulting from the intercompany sale totaled $96.5 million and was paid by the selling subsidiary during 2008. The pre-tax profit of the selling subsidiary resulting from the intercompany sale was eliminated from our condensed consolidated financial statements. Similarly, the carrying value of the rigs in our condensed consolidated financial statements remained at the historical net depreciated cost prior to the intercompany sale and did not reflect the asset disposition transaction of the selling subsidiary or the asset acquisition transaction of the acquiring subsidiary.

The expense associated with the $96.5 million of income taxes paid was deferred and is being amortized on a straight-line basis over the remaining useful lives of the associated rigs, which range from three to eight years. Similarly, the tax effects of $54.8 million of reversing temporary differences of the selling subsidiary were also deferred and are being amortized on the same basis and over the same periods as described above.

As of September 30, 2008, the unamortized balance associated with the deferred charge for income taxes paid in connection with the intercompany transfer of drilling rigs totaled $80.0 million and was included in other assets, net, on our condensed consolidated balance sheet. Current income tax expense for the three-month and nine-month periods ended September 30, 2008 included $5.2 million and $15.7 million, respectively, of amortization of the deferred charge for income taxes paid.

Note 11 - Discontinued Operations

In September 2008, ENSCO 74 was lost as a result of Hurricane Ike and is now presumed to have sunk in the Gulf of Mexico. Portions of the rig's legs remain underwater adjacent to the customer's platform and the hull has not been located despite search efforts by us and third parties. Management has concluded the rig to be an actual loss or constructive total loss under the terms of our insurance policies based on the condition of the legs and the inability to locate the rig's hull.

Physical damage to our rigs caused by a hurricane, the associated costs to mitigate the insured loss ("sue and labor"), and removal, salvage and recovery costs, are all covered by our property insurance policies subject to a $50.0 million per occurrence retention (deductible). The insured value of ENSCO 74 is $100.0 million. Additional 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.

Management believes it is probable that we will be required to remove the remaining leg sections of ENSCO 74 from the drill site because the legs are adjacent to the customer's platform and may interfere with future operations. Management estimates that the leg removal costs could range from $15.0 million to $30.0 million. Therefore, a $15.0 million liability, representing the low end of the range of estimated leg removal costs, and a corresponding receivable for recovery of those costs, was recognized during the third quarter of 2008. The liability was included in accrued liabilities and other and the receivable was included in other assets, net, on our September 30, 2008 condensed consolidated balance sheet.

The following table summarizes the pre-tax loss incurred on the disposal of ENSCO 74 during the three-month period ended September 30, 2008 (in millions):

ENSCO 74 net book value	$ 86.2
Leg removal costs	15.0
Sue and labor costs	.5
	101.7
Less recoveries:	
Rig	100.0
Leg removal	15.0
Sue and labor	.5
Insurance retention	(50.0)
	65.5
Pre-tax loss on disposal of discontinued operations	$ 36.2

The loss was included in loss on disposal of discontinued operations, net, in the condensed consolidated statements of income for the three-month and nine-month periods ended September 30, 2008. The operating results of ENSCO 74 were reclassified as discontinued operations in the condensed consolidated statements of income for the three-month and nine-month periods ended September 30, 2008 and 2007.

We may incur additional costs or liabilities associated with the ENSCO 74 hull, including costs for removal of wreckage or debris. As the ENSCO 74 hull has not been located, these potential costs or liabilities are not currently considered probable or reasonably estimable and, therefore, no provision for such costs has been recognized as of September 30, 2008.

The following table summarizes (loss) income from discontinued operations for the three-month and nine-month periods ended September 30, 2008 and 2007 (in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Revenues	$ 11.3	$15.6	$36.2	$43.8
Operating expenses	4.2	4.2	13.2	12.8
Operating income before income taxes	7.1	11.4	23.0	31.0
Income tax expense	2.5	4.1	8.0	10.9
Loss on disposal of discontinued operations, net	(23.5)	--	(23.5)	--
(Loss) income from discontinued operations	$(18.9)	$ 7.3	$ (8.5)	$20.1

There is no debt or interest expense allocated to our discontinued operations.

Note 12 - Contingencies

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 focuses on our payments to customs brokers relating to the temporary importation of ENSCO 100, our only rig recently operating offshore Nigeria. The principal purpose of the investigation is to determine whether any of the payments made to or by our customs brokers were inappropriate under the U.S. Foreign Corrupt Practices Act ("FCPA"). Our Audit Committee has engaged a Washington, D.C. law firm with significant experience in investigating and advising upon FCPA matters to assist in the internal investigation.

As is customary for companies operating offshore Nigeria, we engaged independent customs brokers to process ENSCO 100 temporary importation permits, extensions and renewals. One or more of the customs brokers that our subsidiary in Nigeria used to obtain these permits, extensions and renewals also provided services to other offshore service companies that have commenced similar investigations.

Following consultation with outside legal counsel, notification to the Audit Committee and notification to KPMG LLP, our independent registered public accounting firm, we voluntarily notified the SEC and the United States Department of Justice that an internal investigation was underway and that we intended to cooperate fully with both agencies. The internal investigation process has involved extensive reviews of documents and records, as well as production to the authorities, and interviews of selected personnel. In addition to the temporary import of ENSCO 100, the investigation has examined our customs clearance of routine shipments and immigration activities in Nigeria.

We are unable to predict whether either agency will initiate a separate investigation of this matter, further expand the scope of the investigation to other issues in Nigeria or to other countries or, if an agency investigation is initiated, what potential corrective measures, sanctions or other remedies, if any, the agencies may seek against us or any of our employees.

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

ENSCO 29 Wreck Removal

A portion of the ENSCO 29 platform drilling rig was lost over the side of a customer's platform during Hurricane Katrina in the third quarter of 2005. Although beneficial ownership of ENSCO 29 was transferred to our insurance underwriters when the rig was determined to be a constructive total loss, management believes we may be legally required to remove ENSCO 29 wreckage and debris from the seabed and currently estimates that 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. In August 2007, we commenced litigation against 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. 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 the third quarter of 2006.

Asbestos Litigation

In August 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 the Circuit Courts of Jones County (Second Judicial District) and Jasper County (First Judicial District), 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 66 individual plaintiffs. Of these claims, 63 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. Currently, none of the pending Mississippi asbestos lawsuits against us has been set for trial.

We intend 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.

Although we do not expect the final disposition of the Mississippi asbestos lawsuits to have a material adverse effect on our financial position, operating results or cash flows, there can be no assurances as to the ultimate outcome of the lawsuits.

In addition to the pending cases in Mississippi, in January 2008 we assumed the defense of two parties that formerly held an interest in a predecessor company named in a lawsuit that was pending in the Superior Court of the State of California. The assumption of these parties' defense arose pursuant to the terms and conditions of a prior Assumption Agreement entered into by Penrod Drilling Corporation ("Penrod"), the predecessor of one of the Company's subsidiaries, which included an indemnification obligation. The plaintiff sought monetary damages allegedly arising from exposure to asbestos or products containing asbestos while employed by Penrod and several other named defendants between 1960 and the early 1990s. Following mediation and settlement on September 18, 2008, the Company and its related subsidiaries and affiliates were dismissed with prejudice from the lawsuit. The final disposition of this matter did not have a material adverse effect on our financial position, operating results or cash flows.

Working Time Directive

Legislation known as the U.K. Working Time Directive ("WTD") was introduced in August 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). The related issues are subject to pending or potential judicial, administrative and legislative review.

A Labor Tribunal in Aberdeen, Scotland, rendered decisions in claims involving other offshore drilling contractors and offshore service companies on February 21, 2008. We understand these decisions will be reviewed on appeal, and that a ruling on the appeals is expected in early 2009. The extent to which the decisions will impact us financially or cause us to modify our employment or compensation practices is uncertain.

We also have received inquiries from the Danish and Dutch authorities regarding applicability of the WTD as adopted by Denmark and The Netherlands to employees on our rigs operating in the Danish and Dutch sectors of the North Sea.

Based on information currently available, we do not expect the 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 and our subsidiaries are named defendants 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, management does not expect these matters to have a material adverse effect on our financial position, operating results or cash flows.

Note 13 - Segment Information

We are in the process of developing a fleet of deepwater semisubmersible rigs. In connection therewith, we contracted a major international shipyard based in Singapore to construct seven ultra-deepwater semisubmersible rigs (the "ENSCO 8500 Series®"). The first ENSCO 8500 Series® rig has been delivered by the shipyard and arrived in the Gulf of Mexico in mid-December 2008. The rig is currently undergoing final outfitting and preparing for deepwater sea trials and is projected to commence operations in February 2009. In connection with the arrival of our first ENSCO 8500 Series® rig, we have reorganized the management of our operations, establishing a separate business unit to manage our fleet of deepwater semisubmersible rigs.

As part of this reorganization, we evaluated our remaining assets and operations, consisting of 43 jackup rigs and one barge rig organized into three business units based on major geographic region, and now consider these three business units as operating segments. Accordingly, our business now consists of four operating segments: (1) Deepwater, (2) Asia Pacific, (3) Europe/Africa and (4) North and South America. Each of our four operating segments provides one service, contract drilling.

Segment information for the three-month and nine-month periods ended September 30, 2008 and 2007 is presented below. 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 are included in "Reconciling Items." Assets not allocated to our operating segments are also included in "Reconciling Items." As of September 30, 2008, total asset reconciling items consisted primarily of cash and cash equivalents of $378.4 million, goodwill of $336.2 million, other assets, net, of $117.0 million and long-term investments of $70.2 million. As of September 30, 2007, total asset reconciling items consisted primarily of cash and cash equivalents of $548.3 million and goodwill of $336.2 million.

Three months ended September 30, 2008
(in millions)

	Deepwater	Asia Pacific	Europe/ Africa	North and South America	Operating Segments Total	Reconciling Items	Consolidated Total
Revenue	$27.1	$260.8	$209.3	$138.6	$635.8	$ --	$635.8
Operating expenses							
Contract drilling (exclusive of depreciation)	8.3	76.7	62.8	45.6	193.4	--	193.4
Depreciation	2.3	21.4	10.8	12.7	47.2	.5	47.7
General and administrative	--	--	--	--	--	15.2	15.2
Operating income	$16.5	$162.7	$135.7	$ 80.3	$395.2	$(15.7)	$379.5
Total assets	$1,602.0	$1,310.7	$747.2	$801.3	$4,461.2	$996.0	$5,457.2
Capital expenditures	219.5	8.1	6.2	5.0	238.8	0.6	239.4

Three months ended September 30, 2007
(in millions)

	Deepwater	Asia Pacific	Europe/ Africa	North and South America	Operating Segments Total	Reconciling Items	Consolidated Total
Revenue	$18.7	$236.2	$174.3	$107.2	$536.4	$ --	$536.4
Operating expenses							
Contract drilling (exclusive of depreciation)	8.3	68.1	57.1	42.0	175.5	--	175.5
Depreciation	2.4	20.7	10.4	11.6	45.1	1.1	46.2
General and administrative	--	--	--	--	--	11.5	11.5
Operating income	$ 8.0	$147.4	$106.8	$ 53.6	$315.8	$(12.6)	$303.2
Total assets	$845.2	$1,387.5	$781.4	$794.5	$3,808.6	$955.8	$4,764.4
Capital expenditures	85.7	5.2	3.3	23.1	117.3	0.0	117.3

Nine months ended September 30, 2008
(in millions)

	Deepwater	Asia Pacific	Europe/ Africa	North and South America	Operating Segments Total	Reconciling Items	Consolidated Total
Revenue	$84.3	$779.5	$602.9	$361.6	$1,828.3	$ --	$1,828.3
Operating expenses							
Contract drilling (exclusive of depreciation)	26.5	243.7	184.9	136.4	591.5	--	591.5
Depreciation	6.8	63.7	32.1	37.6	140.2	1.4	141.6
General and administrative	--	--	--	--	--	41.7	41.7
Operating income	$51.0	$472.1	$385.9	$187.6	$1,096.6	$(43.1)	$1,053.5
Total assets	$1,602.0	$1,310.7	$747.2	$801.3	$4,461.2	$996.0	$5,457.2
Capital expenditures	567.3	26.1	18.9	40.4	652.7	1.4	654.1

Nine months ended September 30, 2007
(in millions)

	Deepwater	Asia Pacific	Europe/ Africa	North and South America	Operating Segments Total	Reconciling Items	Consolidated Total
Revenue	$54.4	$668.3	$495.8	$352.4	$1,570.9	$ --	$1,570.9
Operating expenses							
Contract drilling (exclusive of depreciation)	21.0	198.3	157.1	124.2	500.6	--	500.6
Depreciation	7.0	61.5	30.1	34.2	132.8	3.2	136.0
General and administrative	--	--	--	--	--	46.6	46.6
Operating income	$26.4	$408.5	$308.6	$194.0	$937.5	$(49.8)	$887.7
Total assets	$845.2	$1,387.5	$781.4	$794.5	$3,808.6	$955.8	$4,764.4
Capital expenditures	275.4	46.0	14.6	70.7	406.7	0.9	407.6

Assigning Goodwill to Reporting Units

Our four operating segments represent our reporting units in accordance with SFAS No. 142, "Goodwill and Other Intangible Assets (as amended)." As a result of our management reorganization from one operating segment and reporting unit to four operating segments and reporting units, we reassigned goodwill to our four reporting units based on a relative fair value allocation approach as follows (in millions):

Deepwater	$143.6
Asia Pacific	84.6
Europe/Africa	61.4
North and South America	46.6
	$336.2

Goodwill is not allocated to operating segments in the measure of segment assets regularly reported to and used by management. No goodwill was acquired or disposed of during the three-month and nine-month periods ended September 30, 2008 and 2007. No goodwill impairments were recognized during the three-month and nine-month periods ended September 30, 2008 and 2007.

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

BUSINESS ENVIRONMENT

During the first nine months of 2008, day rates remained at or near record levels for most jackup rig classes, utilization remained high and recently executed contracts continued to include favorable terms and conditions for drilling contractors. In addition, limited rig availability and strong demand have continued to push day rates higher for deepwater drilling rigs on a global basis.

During recent months, there has been substantial volatility and a decline in oil and gas prices due to the deteriorating global economic environment. In addition, there has been substantial uncertainty in the capital markets and access to financing is uncertain. These conditions could have an adverse effect on our business environment. Our customers may curtail their drilling programs, which could result in a decrease in demand for drilling rigs and a reduction in day rates and/or utilization. In addition, certain of our customers could experience an inability to pay suppliers, including our Company, in the event they are unable to access the capital markets to fund their business operations. During the first nine months of 2008, more than 20 new jackup and semisubmersible rigs were delivered and another 125 are reported to be on order or under construction. It is uncertain whether current volatility in oil and gas prices and uncertainty in the capital markets will affect the delivery of rigs currently on order or under construction.

For additional information concerning the effects of the volatility in oil and gas prices and uncertainty in the capital markets, see "Item 1A. Risk Factors" in Part II of this report. For additional information concerning the effects new drilling rigs may have on our business, our industry, global supply, day rates and utilization, including potential risks and uncertainties, 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, 2007, as updated in this report.

Asia Pacific Jackup Rigs

Jackup rig drilling contracts in the Asia Pacific region have historically been for substantially longer durations than those in other geographic regions. Since day rates for such contracts generally are fixed, or fixed subject to adjustment for variations in the drilling contractor's costs, our Asia Pacific operations generally are not subject to the same level of day rate volatility as other regions where shorter term contracts are more prevalent. During 2007, demand for jackup rigs in the region exceeded the supply of available rigs, enabling drilling contractors to realize high day rates and utilization. During the first nine months of 2008, day rates stabilized and utilization rates remained high as increased rig demand was largely offset by new rig deliveries. We are uncertain how continued new rig deliveries will impact the region during the remainder of the year.

Europe/Africa Jackup Rigs

Our Europe/Africa offshore drilling operations are mainly conducted in northern Europe (North Sea) where moderate duration jackup rig contracts are prevalent. During 2007, a shortfall of available jackup rigs combined with the continued increase in spending by oil and gas companies in the region led to increased day rates. During the first nine months of 2008, shortfalls in rig availability continued, causing a slight increase in day rates over the prior year. Although several newbuild jackup rigs are expected to be added to the region, we anticipate a balanced market and relatively stable day rates through the remainder of the year.

North and South America Jackup Rigs

Our North and South America offshore drilling operations are mainly conducted in the Gulf of Mexico where jackup rig contracts are normally entered into for relatively short durations and day rates are adjusted to current market rates upon contract extension or renewal. Therefore, jackup rig day rates in the region are more volatile than in regions where longer duration contracts are more prevalent. During 2007, day rates softened compared to prior levels as a result of decreased demand and competition for work among drilling contractors as oil and gas companies shifted their focus to more economically attractive prospects in the deeper waters of the Gulf of Mexico and elsewhere. Drilling contractors continued to pursue international opportunities but, despite the relocation of several jackup rigs from the region in 2007, jackup rig demand decreased at a faster pace than supply.

Demand for jackup rigs in the Gulf of Mexico has increased steadily during the first nine months of 2008 as compared to year-end 2007 levels. As a result, utilization levels began to improve in early 2008 and day rates began to increase during the second quarter. In September 2008, Hurricane Gustav and Hurricane Ike forced more than two weeks of work stoppages and damaged or destroyed several rigs and platforms in the Gulf of Mexico, thereby reducing the supply of available jackup rigs. It is uncertain how the disruption from these two hurricanes, the reduced supply of available rigs and the recent reduction in oil and natural gas prices will affect demand in the region during the remainder of the year.

Semisubmersible Rigs

Demand for deepwater semisubmersible rigs continued to outpace supply resulting in high day rates and utilization during the first nine months of 2008. Despite two hurricanes striking the Gulf of Mexico in September, the deepwater semisubmersible rig fleet suffered relatively little damage. Increased deepwater exploration and development activity continues to drive strong demand for deepwater drilling rigs on a global basis, and we expect semisubmersible rig utilization to remain near 100% for the remainder of the year and into 2009.

The ENSCO 8500 ultra-deepwater semisubmersible rig was delivered during the third quarter and is currently mobilizing to the Gulf of Mexico to commence operations under a long-term drilling contract. We have six additional ENSCO 8500 Series® rigs under construction with scheduled delivery dates in the second and fourth quarter of 2009, the third quarter of 2010, the second half of 2011 and the first and second half of 2012. Three of the six ENSCO 8500 Series® rigs under construction have secured long-term drilling contracts in the Gulf of Mexico. Our ENSCO 7500 ultra-deepwater semisubmersible rig secured a new long-term contract for work offshore Australia during the third quarter of 2008 and is expected to mobilize from the Gulf of Mexico to Australia during the fourth quarter of 2008.

RESULTS OF OPERATIONS

The following table highlights our condensed consolidated results of operations for the three-month and nine-month periods ended September 30, 2008 and 2007 (in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Revenues	$635.8	$536.4	$1,828.3	$1,570.9
Operating expenses				
Contract drilling (exclusive of depreciation)	193.4	175.5	591.5	500.6
Depreciation	47.7	46.2	141.6	136.0
General and administrative	15.2	11.5	41.7	46.6
Operating income	379.5	303.2	1,053.5	887.7
Other income (expense)	(6.5)	9.8	4.8	27.2
Provision for income taxes	71.8	53.6	198.8	181.6
Income from continuing operations	301.2	259.4	859.5	733.3
(Loss) income from discontinued operations, net	(18.9)	7.3	(8.5)	20.1
Net income	$282.3	$266.7	$ 851.0	$ 753.4

For the quarter ended September 30, 2008, revenues increased by $99.4 million, or 19%, and operating income increased by $76.3 million, or 25%, as compared to the prior year quarter. For the nine-month period ended September 30, 2008, revenues increased by $257.4 million, or 16%, and operating income increased by $165.8 million, or 19%, as compared to the prior year period. The increases were primarily due to improved average day rates earned by our international jackup rigs and ENSCO 7500 ultra-deepwater semisubmersible rig and improved utilization of our Gulf of Mexico jackup rigs, partially offset by increased personnel costs and repair and maintenance expense across the majority of our fleet. Revenues and operating income increases realized during the nine-month period ended September 30, 2008 were also partially offset by a reduction in day rates earned by our Gulf of Mexico jackup rigs as compared to the prior year period.

Rig Locations, Utilization and Average Day Rates

As discussed below, we manage our business through four operating segments. However, our rigs are mobile and frequently move between segments. The following table summarizes our offshore drilling rigs by type and location as of September 30, 2008 and 2007:

	Number of Rigs	
	2008	**2007**
Jackup rigs:		
Asia Pacific	19	19
Europe/Africa	10	10
North and South America (1)	14	14
Total jackup rigs	43	43
Semisubmersible rigs:		
North America (2)	2	1
Under construction (2) (3)	6	4
Total semisubmersible rigs	8	5
Barge rig - Asia Pacific	1	1
Total (1)	52	49

(1) Excludes rigs classified as discontinued operations.

(2) During the third quarter of 2008, we accepted delivery of ENSCO 8500 which is currently mobilizing to the Gulf of Mexico from Singapore and is expected to commence drilling operations in the Gulf of Mexico during the first quarter of 2009.

(3) During the first nine months of 2008, we entered into agreements to construct ENSCO 8504, ENSCO 8505 and ENSCO 8506 with delivery expected in the second half of 2011 and the first and second half of 2012, respectively.

The following table summarizes our rig utilization and average day rates from continuing operations for the three-month and nine-month periods ended September 30, 2008 and 2007:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Rig Utilization (1)				
Jackup rigs:				
Asia Pacific	96%	99%	95%	99%
Europe/Africa	96%	90%	97%	95%
North and South America	98%	77%	96%	81%
Total jackup rigs	97%	90%	96%	92%
Semisubmersible rig - North America	87%	97%	93%	97%
Barge rig - Asia Pacific	50%	100%	81%	93%
Total	96%	90%	96%	92%
Average Day Rates (2)				
Jackup rigs:				
Asia Pacific	$156,951	$132,876	$150,956	$129,563
Europe/Africa	226,080	203,117	219,021	193,882
North and South America	108,174	106,183	96,810	110,482
Total jackup rigs	156,860	142,118	149,436	139,133
Semisubmersible rig - North America	361,612	200,716	334,688	198,900
Barge rig - Asia Pacific	73,080	71,496	72,576	64,439
Total	$160,077	$141,785	$152,288	$138,977

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

(2) Average day rates were 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.

Detailed explanations of our operating results for the three-month and nine-month periods ended September 30, 2008 and 2007, including discussions of revenues, contract drilling expense and depreciation by operating segment, are set forth below.

Operating Income

We are in the process of developing a fleet of deepwater semisubmersible rigs. In connection therewith, we contracted Keppel FELS Limited ("KFELS"), a major international shipyard based in Singapore, to construct seven ultra-deepwater semisubmersible rigs (the "ENSCO 8500 Series®"). The first ENSCO 8500 Series® rig has been delivered by KFELS and arrived in the Gulf of Mexico in mid-December 2008. The rig is currently undergoing final outfitting and preparing for deepwater sea trials and is projected to commence operations in February 2009. In connection with the arrival of our first ENSCO 8500 Series® rig, we have reorganized the management of our operations, establishing a separate business unit to manage our fleet of deepwater semisubmersible rigs.

As part of this reorganization, we evaluated our remaining assets and operations, consisting of 43 jackup rigs and one barge rig organized into three business units based on major geographic region, and now consider these three business units as operating segments. Accordingly, our business now consists of four operating segments: (1) Deepwater, (2) Asia Pacific, (3) Europe/Africa and (4) North and South America. Each of our four operating segments provides one service, contract drilling.

The following table summarizes our operating income for the three-month and nine-month periods ended September 30, 2008 and 2007. 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 are included in "Reconciling Items."

Three months ended September 30, 2008
(in millions)

	Deepwater	Asia Pacific	Europe/ Africa	North and South America	Operating Segments Total	Reconciling Items	Consolidated Total
Revenue	$27.1	$260.8	$209.3	$138.6	$635.8	$ --	$635.8
Operating expenses							
Contract drilling (exclusive of depreciation)	8.3	76.7	62.8	45.6	193.4	--	193.4
Depreciation	2.3	21.4	10.8	12.7	47.2	.5	47.7
General and administrative	--	--	--	--	--	15.2	15.2
Operating income	$16.5	$162.7	$135.7	$ 80.3	$395.2	$(15.7)	$379.5

Three months ended September 30, 2007
(in millions)

	Deepwater	Asia Pacific	Europe/ Africa	North and South America	Operating Segments Total	Reconciling Items	Consolidated Total
Revenue	$18.7	$236.2	$174.3	$107.2	$536.4	$ --	$536.4
Operating expenses							
Contract drilling (exclusive of depreciation)	8.3	68.1	57.1	42.0	175.5	--	175.5
Depreciation	2.4	20.7	10.4	11.6	45.1	1.1	46.2
General and administrative	--	--	--	--	--	11.5	11.5
Operating income	$ 8.0	$147.4	$106.8	$ 53.6	$315.8	$(12.6)	$303.2

Nine months ended September 30, 2008
(in millions)

	Deepwater	**Asia Pacific**	**Europe/ Africa**	**North and South America**	**Operating Segments Total**	**Reconciling Items**	**Consolidated Total**
Revenue	$84.3	$779.5	$602.9	$361.6	$1,828.3	$ --	$1,828.3
Operating expenses							
Contract drilling (exclusive of depreciation)	26.5	243.7	184.9	136.4	591.5	--	591.5
Depreciation	6.8	63.7	32.1	37.6	140.2	1.4	141.6
General and administrative	--	--	--	--	--	41.7	41.7
Operating income	$51.0	$472.1	$385.9	$187.6	$1,096.6	$(43.1)	$1,053.5

Nine months ended September 30, 2007
(in millions)

	Deepwater	**Asia Pacific**	**Europe/ Africa**	**North and South America**	**Operating Segments Total**	**Reconciling Items**	**Consolidated Total**
Revenue	$54.4	$668.3	$495.8	$352.4	$1,570.9	$ --	$1,570.9
Operating expenses							
Contract drilling (exclusive of depreciation)	21.0	198.3	157.1	124.2	500.6	--	500.6
Depreciation	7.0	61.5	30.1	34.2	132.8	3.2	136.0
General and administrative	--	--	--	--	--	46.6	46.6
Operating income	$26.4	$408.5	$308.6	$194.0	$937.5	$(49.8)	$887.7

Deepwater

Revenues for the quarter ended September 30, 2008 for ENSCO 7500 increased by $8.4 million, or 45%, as compared to the prior year quarter. The increase in revenues was primarily due to an 80% increase in the average day rate as compared to the prior year quarter, as ENSCO 7500 began earning a significantly higher day rate during February 2008. Contract drilling expense totaled $8.3 million for the quarters ended September 30, 2008 and 2007, as increased personnel costs were offset by decreased repair and maintenance expense.

For the nine-month period ended September 30, 2008, revenues for ENSCO 7500 increased by $29.9 million, or 55%, and contract drilling expense increased by $5.5 million, or 26%, as compared to the prior year period. The increase in revenues was primarily due to a 68% increase in the average day rate as compared to the prior year period. The increase in contract drilling expense was primarily due to increased personnel costs and repair and maintenance expense. Beginning in the second quarter of 2007, ENSCO 7500 staffing levels were increased to facilitate training in preparation for delivery of our ENSCO 8500 Series® rigs.

Asia Pacific

Asia Pacific revenues for the quarter ended September 30, 2008 increased by $24.6 million, or 10%, as compared to the prior year quarter. The increase in revenues was primarily due to an 18% increase in jackup rig average day rates, partially offset by a decline in jackup rig utilization to 96% from 99% during the comparable prior year quarter. The increase in average day rates resulted from an increase in demand due to higher levels of spending by oil and gas companies coupled with relatively limited rig availability in the region. The decline in jackup rig utilization was primarily the result of scheduled maintenance on ENSCO 54 during the current year quarter. Contract drilling expense increased by $8.6 million, or 13%, as compared to the prior year quarter primarily due to increased personnel costs and, to a lesser extent, increased repair and maintenance expense associated with the aforementioned maintenance project. Depreciation expense increased by $700,000, or 3%, as compared to the prior year quarter. The increase was primarily attributable to depreciation associated with the ENSCO 96 capital enhancement project completed during the second quarter of 2008 and depreciation on minor upgrades and improvements to the Asia Pacific fleet completed subsequent to the third quarter of 2007.

For the nine-month period ended September 30, 2008, Asia Pacific revenues increased by $111.2 million, or 17%, as compared to the prior year period. The increase in revenues was primarily due to a 17% increase in jackup rig average day rates and the increased size of the Asia Pacific fleet, partially offset by a decline in jackup rig utilization to 95% from 99% during the comparable prior year period. The increase in average day rates resulted from an increase in demand due to higher levels of spending by oil and gas companies coupled with relatively limited rig availability in the region. The addition of ENSCO 108 to the fleet late in the first quarter of 2007 resulted in an additional $28.0 million of revenues and $5.8 million of contract drilling expense as compared to the prior year period. The decline in utilization was the result of scheduled maintenance projects on ENSCO 54, ENSCO 56, ENSCO 57 and ENSCO 96. Contract drilling expense increased by $45.4 million, or 23%, as compared to the prior year period primarily due to increased personnel costs, the aforementioned maintenance projects and the addition of ENSCO 108 to the fleet. Depreciation expense increased by $2.2 million, or 4%, as compared to the prior year quarter. The increase was primarily attributable to depreciation associated with ENSCO 108 and ENSCO 96 and depreciation on minor upgrades and improvements to the Asia Pacific fleet completed subsequent to the third quarter of 2007.

Europe/Africa

Europe/Africa revenues for the quarter ended September 30, 2008 increased by $35.0 million, or 20%, as compared to the prior year quarter. The increase in revenues was primarily due to an 11% increase in average day rates and an increase in utilization to 96% from 90% during the comparable prior year quarter. The increase in average day rates was attributable to limited rig availability in the region coupled with improved demand resulting from increased spending by oil and gas companies. The increase in utilization was primarily due to the mobilization of ENSCO 100 from Nigeria to the North Sea during the comparable prior year quarter. ENSCO 100 was fully utilized during the quarter ended September 30, 2008. Contract drilling expense increased by $5.7 million, or 10%, as compared to the prior year quarter primarily due to increased mobilization expense and repair and maintenance expense, partially offset by costs incurred in the prior year quarter related to the departure of ENSCO 100 from Nigeria. Depreciation expense increased by $400,000, or 4%, as compared to the prior year quarter. The increase was primarily attributable to depreciation associated with the ENSCO 85 capital enhancement project completed during the first quarter of 2008 and depreciation on minor upgrades and improvements to the Europe/Africa fleet completed subsequent to the third quarter of 2007.

For the nine-month period ended September 30, 2008, Europe/Africa revenues increased by $107.1 million, or 22%, as compared to the prior year period. The increase was primarily due to a 13% increase in average day rates and an increase in utilization to 97% from 95% during the comparable prior year period. The improvement in average day rates was attributable to limited rig availability in the region coupled with improved demand resulting from increased spending by oil and gas companies. The increase in utilization was due to the mobilization of ENSCO 100 during the comparable prior year period as discussed in the preceding paragraph. In addition, the relocation of ENSCO 105 to the Europe/Africa region during the second quarter of 2007 contributed an additional $32.4 million of revenues and $8.8 million of contract drilling expense as compared to the prior year period. Contract drilling expense increased by $27.8 million, or 18%, as compared to the prior year period. The increase in contract drilling expense was primarily due to increased mobilization expense, the addition of ENSCO 105 to the fleet and increased repair and maintenance expense and personnel costs, partially offset by a reduction in reimbursable expenses. Depreciation expense increased by $2.0 million, or 7%, as compared to the prior year period. The increase was primarily attributable to depreciation associated with ENSCO 105 and ENSCO 85 and depreciation on minor upgrades and improvements to the Europe/Africa fleet completed subsequent to the third quarter of 2007.

North and South America

North and South America revenues for the quarter ended September 30, 2008 increased by $31.4 million, or 29%, as compared to the prior year quarter. The increase in revenues was primarily due to an increase in utilization to 98% from 77% in the comparable prior year quarter and, to a lesser extent, a 2% increase in average day rates. The increase in utilization was attributable to decreased rig supply, as drilling contractors mobilized rigs to international locations, and an increase in customer demand. Contract drilling expense increased by $3.6 million, or 9%, as compared to the prior year quarter, primarily due to increased personnel costs and the impact of increased utilization, partially offset by decreased mobilization expense and repair and maintenance expense. Depreciation expense increased by $1.1 million, or 9%, as compared to the prior year quarter. The increase was primarily attributable to depreciation associated with the ENSCO 93 capital enhancement and upgrade project completed during the first quarter of 2008 and depreciation on minor upgrades and improvements to the North and South America fleet completed subsequent to the third quarter of 2007.

For the nine-month period ended September 30, 2008, North and South America revenues increased by $9.2 million, or 3%, as compared to the prior year period. The increase in revenues was primarily due to an increase in utilization to 96% from 81% in the comparable prior year period, partially offset by a 12% decrease in average day rates. The increase in utilization was primarily attributable to the improvement in market conditions during 2008, as discussed in the previous paragraph. Although we realized day rate increases during the second and third quarter of 2008, day rates earned during the current year were generally lower than day rates earned during the early portions of 2007. The increase in revenues was also partially offset by ENSCO 105, which generated $7.1 million of revenues and $2.0 million of contract drilling expense during the first quarter of 2007 prior to relocation from the region. Contract drilling expense increased by $12.2 million, or 10%, as compared to the prior year period. The increase was primarily due to increased personnel costs and the impact of increased utilization, partially offset by decreased mobilization expense and the relocation of ENSCO 105 during the comparable prior year period. Depreciation expense increased by $3.4 million, or 10%, as compared to the prior year period. The increase was primarily attributable to depreciation associated with the ENSCO 83 and ENSCO 93 capital enhancement projects completed during the second quarter of 2007 and first quarter of 2008, respectively, and depreciation on minor upgrades and improvements to the North and South America fleet completed subsequent to the third quarter of 2007, partially offset by the reduced size of the North and South America fleet.

Other

General and administrative expense for the quarter ended September 30, 2008 increased by $3.7 million, or 32%, as compared to the prior year quarter. The increase was primarily attributable to increased professional fees, increased personnel costs and costs associated with our branding initiative launched in August 2008.

General and administrative expense for the nine-month period ended September 30, 2008 decreased by $4.9 million, or 11%, as compared to the prior year period. The decrease was primarily attributable to a $10.7 million expense incurred during the prior year period in connection with a retirement agreement with our former Chairman and Chief Executive Officer, partially offset by increased professional fees, increased personnel costs and costs associated with our branding initiative.

Other Income (Expense)

The following table summarizes other income (expense) for the three-month and nine-month periods ended September 30, 2008 and 2007 (in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	**2007**	**2008**	**2007**
Interest income	$3.2	$7.1	$11.9	$19.6
Interest expense, net:				
Interest expense	(5.5)	(8.6)	(16.3)	(25.4)
Capitalized interest	5.5	8.6	16.3	23.5
	--	--	--	(1.9)
Other, net	(9.7)	2.7	(7.1)	9.5
	$(6.5)	$9.8	$ 4.8	$27.2

Interest income for the three-month and nine-month periods ended September 30, 2008 decreased as compared to the respective prior year periods due to lower average interest rates, partially offset by an increase in amounts invested. Interest expense decreased during the same periods due to a decrease in outstanding debt.

Other, net, for the quarter ended September 30, 2008 included net foreign currency exchange losses of $10.1 million. Our net foreign currency exchange losses were primarily due to the strengthening of the U.S. dollar relative to the Singapore dollar. We hold significant amounts of Singapore dollar denominated time deposits to fund future Singapore dollar denominated payment obligations under our shipyard contracts for the construction of the ENSCO 8500 Series® rigs. See Note 3 to our condensed consolidated financial statements for additional information concerning our Singapore dollar denominated time deposits.

Other, net, for the nine-month period ended September 30, 2008 included net foreign currency exchange losses of $4.3 million and unrealized losses of $3.0 million associated with the valuation of our auction rate securities. Our fair value measurements are discussed in Note 9 to the condensed consolidated financial statements.

Other, net, for the three-month and nine-month periods ended September 30, 2007 included net foreign currency exchange gains of $2.7 million and $5.4 million, respectively. Other, net, for the nine-month period ended September 30, 2007 also included a $3.1 million net gain resulting from the settlement of litigation we initiated in relation to a non-operational dispute with a third party service provider.

Provision for Income Taxes

Our effective income tax rates for the three-month periods ended September 30, 2008 and 2007 were 19.2% and 17.1%, respectively. The income tax provision for the three-month period ended September 30, 2007 included an $11.1 million benefit from the recognition of a prior period uncertain tax position. Excluding the impact of the aforementioned net benefit, our effective income tax rate for the three-month period ended September 30, 2007 would have been 20.7%.

Our effective income tax rates for the nine-month periods ended September 30, 2008 and 2007 were 18.8% and 19.8%, respectively. The income tax provision for the nine-month period ended September 30, 2007 included an $11.1 million benefit from the recognition of a prior period uncertain tax position as noted above. Excluding the impact of the aforementioned net benefit, our effective income tax rate for the nine-month period ended September 30, 2007 would have been 21.1%.

The reduction in our effective tax rates was primarily due to an increase in the relative portion of our earnings generated by foreign subsidiaries whose earnings are permanently reinvested and taxed at lower rates.

Discontinued Operations

In September 2008, ENSCO 74 was lost as a result of Hurricane Ike and is now presumed to have sunk in the Gulf of Mexico. Portions of the rig's legs remain underwater adjacent to the customer's platform and the hull has not been located despite search efforts by us and third parties. Management has concluded the rig to be an actual loss or constructive total loss under the terms of our insurance policies based on the condition of the legs and the inability to locate the rig's hull.

We recognized a $36.2 million pre-tax loss in connection with the disposal of ENSCO 74 which was included in loss on disposal of discontinued operations, net, in the condensed consolidated statements of income for the three-month and nine-month periods ended September 30, 2008. The operating results of ENSCO 74 were reclassified as discontinued operations in the condensed consolidated statements of income for the three-month and nine-month periods ended September 30, 2008 and 2007. See Note 11 to our condensed consolidated financial statements for discussion of our insurance coverage and a summary of the pre-tax loss on disposal of discontinued operations.

The following table summarizes (loss) income from discontinued operations for the three-month and nine-month periods ended September 30, 2008 and 2007 (in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	**2007**	**2008**	**2007**
Revenues	$ 11.3	$15.6	$36.2	$43.8
Operating expenses	4.2	4.2	13.2	12.8
Operating income before income taxes	7.1	11.4	23.0	31.0
Income tax expense	2.5	4.1	8.0	10.9
Loss on disposal of discontinued operations, net	(23.5)	--	(23.5)	--
(Loss) income from discontinued operations	$(18.9)	$ 7.3	$ (8.5)	$20.1

Fair Value Measurements

Our auction rate securities were measured at fair value using significant Level 3 inputs as of September 30, 2008. See Note 5 to our condensed consolidated financial statements for additional information on our auction rate securities, including a description of the securities and underlying collateral, a discussion of the uncertainties relating to their liquidity and our accounting treatment under SFAS 115. As a result of continued auction failures, quoted prices for our auction rate securities did not exist as of September 30, 2008 and, accordingly, we concluded that Level 1 inputs were not available.

We determined that use of a valuation model was the best available technique for measuring the fair value of our auction rate securities. We used an income approach valuation model to estimate the price that would be received in exchange for our auction rate securities in an orderly transaction between market participants ("exit price") as of September 30, 2008. The exit price was derived as the weighted-average present value of expected cash flow over various periods of illiquidity, using a risk adjusted discount rate that was based on the credit risk and liquidity risk of our auction rate securities.

While our valuation model was based on both Level 2 (credit quality and interest rates) and Level 3 inputs, we determined that the Level 3 inputs were most significant to the overall fair value measurement, particularly the estimates of risk adjusted discount rates and ranges of expected periods of illiquidity. The valuation model also reflected our intention to hold our auction rate securities until they can be redeemed by issuers, repurchased by brokerage firms or sold in a market that facilitates orderly transactions and our belief that we have the ability to maintain our investment in these securities indefinitely. We reviewed these inputs to our valuation model, evaluated the results and performed sensitivity analysis on key assumptions. Based on our review, we concluded that the fair value measurement of our auction rate securities as of September 30, 2008 was appropriate.

Based on the results of our fair value measurement, we recognized unrealized gains of $300,000 for the three-month period ended September 30, 2008 and unrealized losses of $3.0 million for the nine-month period ended September 30, 2008, included in other, net, in our condensed consolidated statements of income. The carrying value of our auction rate securities classified as long-term investments on our condensed consolidated balance sheet was $70.2 million as of September 30, 2008.

The $3.0 million of unrealized losses recognized for the nine-month period ended September 30, 2008 resulted primarily from the liquidity risk (rather than credit risk) of our auction rate securities. We anticipate realizing the par value of our auction rate securities because we intend to hold them until they are redeemed, repurchased or until they can be sold in a market that facilitates orderly transactions.

Assets measured at fair value using significant Level 3 inputs constituted 1.3% of our total assets as of September 30, 2008. No assets or liabilities were valued using Level 3 inputs as of December 31, 2007.

LIQUIDITY AND CAPITAL RESOURCES

Although our business is cyclical, we have historically relied on our cash flow from 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 amount of our cash flow is invested in the expansion and enhancement of our fleet of drilling rigs in general, and in our ENSCO 8500 Series® rigs in particular.

During the nine-month period ended September 30, 2008, our primary source of cash was $743.4 million generated from operating activities of continuing operations. Our primary uses of cash for the same period included $654.1 million for the construction, enhancement and other improvement of our drilling rigs and $259.5 million for the repurchase of common stock.

During the nine-month period ended September 30, 2007, our primary source of cash was $844.0 million generated from operating activities of continuing operations. Our primary uses of cash for the same period included $407.6 million for the construction, enhancement and other improvement of drilling rigs and $423.3 million for the repurchase of common stock.

Detailed explanations of our liquidity and capital resources for the nine-month periods ended September 30, 2008 and 2007 are set forth below.

Cash Flow and Capital Expenditures

Our cash flow from continuing operations and capital expenditures on continuing operations for the nine-month periods ended September 30, 2008 and 2007 were as follows (in millions):

	Nine Months Ended September 30,	
	2008	**2007**
Cash flow from continuing operations	$743.4	$844.0
Capital expenditures on continuing operations		
New rig construction	$562.4	$298.7
Rig enhancements	24.0	47.7
Minor upgrades and improvements	67.7	61.2
	$654.1	$407.6

Cash flow from continuing operations decreased by $100.6 million, or 12%, for the nine-month period ended September 30, 2008 as compared to the prior year period. The decrease resulted primarily from a $73.2 million increase in our investment in trading securities, a $153.2 million increase in cash payments related to income taxes and a $106.2 million increase in cash payments related to contract drilling expenses, partially offset by a $227.3 million increase in cash receipts from drilling services.

We continue to expand the size and quality of our drilling rig fleet. In addition to the ENSCO 8500, which was delivered in September 2008, we have six other ENSCO 8500 Series® ultra-deepwater semisubmersible rigs under construction with scheduled delivery dates in the second and fourth quarter of 2009, the third quarter of 2010, the second half of 2011 and the first and second half of 2012. Three of the six rigs to be delivered have secured long-term drilling contracts in the Gulf of Mexico.

Based on our current projections, we expect capital expenditures in 2008 to include approximately $670.0 million for construction of our seven ENSCO 8500 Series® rigs, approximately $40.0 million for rig enhancement projects and approximately $110.0 million for minor upgrades and improvements. Depending on market conditions and opportunities, we may make additional capital expenditures to upgrade rigs and construct or acquire additional rigs.

Contractual Obligations

During the nine-month period ended September 30, 2008, we entered into agreements to construct three new ENSCO 8500 Series® rigs. The table below summarizes the total remaining contractual commitments under these new contracts as of September 30, 2008, and the periods in which such obligations are due (in millions):

	Remaining Payments due by period			
	2008	2009	2010	2011 and 2012
ENSCO 8504	$ --	$141.9	$154.8	$ 83.4
ENSCO 8505	--	75.0	151.2	201.6
ENSCO 8506	--	--	129.6	311.0
	$ --	$216.9	$435.6	$596.0

We expect to fund these commitments from our existing cash and cash equivalents, investments, operating cash flow and, if necessary, funds borrowed under our $350.0 million unsecured revolving credit facility or other future financing arrangements.

Financing and Capital Resources

Our long-term debt, total capital and long-term debt to total capital ratio as of September 30, 2008 and December 31, 2007 are summarized below (in millions, except percentages):

	September 30, 2008	December 31, 2007
Long-term debt	$ 282.9	$ 291.4
Total capital*	4,659.0	4,043.4
Long-term debt to total capital	6.1%	7.2%

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

In March 2006, our Board of Directors authorized the repurchase of up to $500.0 million of our outstanding common stock. In August 2007, following completion of the authorized repurchase, our Board of Directors approved the 2007 authorization to repurchase an additional $500.0 million of our outstanding common stock. In September 2008, our Board of Directors approved the 2008 authorization to repurchase an additional $500.0 million of our outstanding common stock.

From inception of our stock repurchase programs in March 2006 through December 31, 2007, we repurchased an aggregate 12.8 million shares at a cost of $681.6 million (an average cost of $53.05 per share). During the nine-month period ended September 30, 2008, we repurchased 3.7 million shares of our common stock at a cost of $256.0 million (an average cost of $69.92 per share) under the 2007 authorization. As of September 30, 2008, $562.4 million remained available for repurchases of our outstanding common stock under the 2007 and 2008 authorizations.

Liquidity

Our liquidity position as of September 30, 2008 and December 31, 2007 is summarized in the table below (in millions, except ratios):

	September 30, 2008	December 31, 2007
Cash and cash equivalents	$447.6	$629.5
Short-term investments	38.4	--
Working capital	769.4	625.8
Current ratio	3.1	2.2

We expect to fund our short-term liquidity needs, including contractual obligations, anticipated capital expenditures, dividends and potential stock repurchases, as well as any working capital requirements, from our cash and cash equivalents, short-term investments 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, investments, operating cash flow and, if necessary, funds borrowed under our $350.0 million unsecured revolving credit facility or other future financing arrangements.

We have historically funded the majority of our liquidity from operating cash flow. We anticipate a substantial amount of our cash flow in the near to intermediate-term will continue to be invested in the expansion of our ultra-deepwater semisubmersible rig fleet and will remain available to repurchase our outstanding common stock under the 2007 and 2008 authorizations, under which an aggregate $562.4 million remained available for repurchases as of September 30, 2008. While future operating cash flow cannot be accurately predicted, based on our current contractual backlog and current industry conditions, management expects our long-term liquidity will continue to be funded primarily from operating cash flow.

In addition to $447.6 million of cash and cash equivalents and $38.4 million of short-term investments, we also held $73.2 million (par value) of investments in auction rate securities as of September 30, 2008, classified as long-term investments on our condensed consolidated balance sheet. Although we acquired these securities with the intention of selling them in the near term, we plan to hold them until they can be redeemed by issuers, repurchased by brokerage firms or sold in a market that facilitates orderly transactions. We do not expect to experience liquidity problems if we hold these securities indefinitely. See Note 5 to the condensed consolidated financial statements for additional information on our auction rate securities.

MARKET RISK

We have net assets and liabilities denominated in numerous foreign currencies and use various methods to manage our exposure to foreign currency exchange 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 also employ various strategies, including the use of derivative instruments, to match foreign currency denominated assets with equal or near equal amounts of foreign currency denominated liabilities, thereby minimizing exposure to earnings fluctuations caused by changes in foreign currency exchange rates.

We also utilize derivative instruments to hedge forecasted foreign currency denominated transactions. As of September 30, 2008, we had contracts outstanding to exchange an aggregate $274.3 million U.S. dollars for various foreign currencies, all of which mature during the next fifteen months. 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 foreign currency exchange contracts as of September 30, 2008 would approximate $38.0 million.

We currently have six ultra-deepwater semisubmersible rigs under construction with a major international shipyard in Singapore. As of September 30, 2008, approximately $354.8 million of the aggregate remaining contractual obligations associated with these construction projects were denominated in Singapore dollars and only $95.7 million of the Singapore dollar denominated contractual obligations were hedged through foreign currency exchange contracts. However, we held $168.6 million of cash and cash equivalents and $38.4 million of short-term investments denominated in Singapore dollars as of September 30, 2008. See Note 3 to our condensed consolidated financial statements for additional information on our cash equivalents and short-term investments. We intend to use these funds to meet our Singapore dollar denominated contractual obligations. Our earnings will be subject to fluctuations caused by changes in the U.S. dollar to Singapore dollar exchange rate until the Singapore dollar denominated contractual obligations have been satisfied.

We utilize derivative instruments and undertake foreign currency hedging activities in accordance with our established policies for the management of market risk. We do not enter into derivative instruments for trading or other speculative purposes. We believe that our use of derivative instruments and related hedging activities does not expose us to material interest rate risk, foreign currency exchange rate risk, commodity price risk, credit risk or any other material market or price risk.

We have generated substantial cash balances, portions of which are invested in securities that meet our requirements for quality and return. Investment of our cash balances exposes us to market risk. We held $73.2 million (par value) of auction rate securities with a carrying value of $70.2 million as of September 30, 2008. During 2008, auctions for our auction rate securities failed. An auction failure, which is not a default in the underlying debt instrument, occurs when there are more sellers than buyers at a scheduled interest rate auction date and parties desiring to sell their auction rate securities are unable to do so. We intend to hold these securities until they can be redeemed by issuers, repurchased by brokerage firms or sold in a market that facilitates orderly transactions and, due to significant uncertainties related to the auction rate securities market, we will be exposed to the risk of changes in the fair value of these securities in future periods. See Note 5 to the condensed consolidated financial statements for additional information on our auction rate securities.

CRITICAL ACCOUNTING POLICIES

The preparation of our consolidated financial statements and related disclosures in conformity with GAAP requires management to make estimates, judgments and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Our significant accounting policies are included in Note 1 to the Consolidated Financial Statements of our Annual Report on Form 10-K for the year ended December 31, 2007. 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 results of operations, 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 September 30, 2008, the carrying value of our property and equipment totaled $3,774.4 million, which represented 69% 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 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 estimated 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 carrying values of assets and operating results.

For additional information concerning 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, 2007.

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 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 region. Our rigs are mobile and may generally be moved from markets with excess supply, if economically feasible. Our jackup rigs and semisubmersible rigs are suited for, and accessible to, broad and numerous markets throughout the world.

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 the fair value of those units as of the testing date. If the estimated fair value of a reporting unit exceeds its carrying value, its goodwill is considered not impaired. If the estimated fair value of a reporting unit is less than its carrying value, 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 sale. Based on our goodwill impairment analysis performed as of December 31, 2007, there was no impairment of goodwill. No events or changes in circumstances indicating a potential impairment were identified during the nine-month period ended September 30, 2008.

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 and are based on management's judgments and assumptions regarding future industry conditions and operations, as well as management's estimates of future expected utilization, contract rates, expense levels and capital requirements of our drilling rigs. 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 carrying values of assets and operating results.

Income Taxes

We conduct operations and earn income in numerous international countries and are subject to the laws of tax jurisdictions within those countries, as well as U.S. federal and state tax laws. As of September 30, 2008, we had a $336.1 million net deferred income tax liability, a $45.5 million liability for income taxes currently payable and a $27.2 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 in accordance with SFAS No. 109, "Accounting for Income Taxes" ("SFAS 109"), and are based on management's assumptions and estimates regarding future operating results and levels of taxable income, as well as management's judgments regarding the interpretation of the provisions of SFAS 109. Carryforwards and tax credits are assessed for realization as a reduction of future taxable income by using a more-likely-than-not determination. In December 2007, substantially all of the undistributed earnings of our non-U.S. subsidiaries were distributed to our U.S. parent. A U.S. deferred tax liability has not been recognized for the remaining undistributed earnings of our non-U.S. subsidiaries because it is the intention of these subsidiaries to reinvest such earnings indefinitely. Should our non-U.S. subsidiaries elect to make a distribution of these earnings, or be deemed to have made a distribution of them through application of various provisions of the Internal Revenue Code, we may be subject to additional U.S. income taxes.

The carrying values of liabilities for income taxes currently payable and unrecognized tax benefits reflect our application of the provisions of FIN 48 and are based on management's interpretation of applicable tax laws and incorporate management's 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 international 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 frequently 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:

- During recent years, the portion of our overall operations conducted in international tax jurisdictions has increased.

- In order to utilize tax planning strategies and conduct international 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.

NEW ACCOUNTING PRONOUNCEMENTS

In June 2008, the FASB issued Staff Position EITF 03-6-1 "Determining Whether Instruments Granted in Share-Based Payment Transactions are Participating Securities" ("FSP EITF 03-6-1"). FSP EITF 03-6-1 addresses whether instruments granted in share-based payment transactions are participating securities prior to vesting and, therefore, need to be included in the earnings allocation in computing EPS under the two-class method described in paragraphs 60 and 61 of SFAS No. 128, "Earnings Per Share". FSP EITF 03-6-1 is effective for fiscal years and interim periods beginning after December 15, 2008 and requires retrospective adjustment for all comparable prior periods presented. We do not expect adoption of FSP EITF 03-6-1 to have a material effect on our EPS computations or disclosures.

In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative and Hedging Activities" ("SFAS 161"). This standard amends SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133"), to change the disclosure requirements for derivative instruments and hedging activities. This standard requires enhanced disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under SFAS 133 and its related interpretations and (c) how derivative instruments and related hedged items affect an entity's financial position, operating results and cash flows. SFAS 161 is effective for fiscal years and interim periods beginning after November 15, 2008. Adoption of SFAS 161 will result in increased financial statement disclosures, but will not affect our financial position, operating results or cash flows.

In February 2008, the FASB issued Staff Position 157-2 "Partial Deferral of the Effective Date of Statement 157" ("FSP 157-2"). FSP 157-2 delays the effective date of SFAS 157 for nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually), to fiscal years beginning after November 15, 2008. The adoption of SFAS 157 for financial assets and financial liabilities, effective January 1, 2008, did not have a material effect on our financial position, operating results or cash flows. See Note 9 to the condensed consolidated financial statements. We do not expect adoption of SFAS 157 for nonfinancial assets and liabilities on January 1, 2009 to have a material effect on our financial position, operating results or cash flows.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), "Business Combinations" ("SFAS 141 (R)"). This standard establishes principles and requirements for how an acquirer in a business combination recognizes and measures the identifiable assets acquired, the liabilities assumed and any noncontrolling interest in the acquiree in its financial statements. SFAS 141(R) also establishes principles and requirements for how an acquirer recognizes and measures goodwill acquired in a business combination and establishes disclosure requirements to facilitate an evaluation of the nature and financial effects of a business combination. SFAS 141(R) is effective for business combinations that occur during the first annual reporting period beginning on or after December 15, 2008. The effect of adoption of this standard will be limited to any acquisitions that close subsequent to December 31, 2008.

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements" ("SFAS 160"). This standard amends Accounting Research Bulletin No. 51, "Consolidated Financial Statements", to establish accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS 160 clarifies that a noncontrolling interest should be reported as equity in the consolidated financial statements and requires net income attributable to both the parent and the noncontrolling interest to be disclosed separately on the face of the consolidated statement of income. SFAS 160 is effective for fiscal years beginning after December 15, 2008. We do not expect adoption of this standard to have a material effect on our consolidated financial position, operating results or cash flows.