ENSCO PLC

FORM 10-K405

(Annual Report (Regulation S-K, item 405))

Filed 02/26/98 for the Period Ending 12/31/97

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Fiscal Year	12/31

ENSCO INTERNATIONAL INC

FORM 10-K405

(Annual Report (Regulation S-K, item 405))

Filed 2/26/1998 For Period Ending 12/31/1997

Address	500 NORTH AKARD STREET SUITE 4300
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Industry	Oil Well Services & Equipment
Sector	Energy
Fiscal Year	12/31

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

1997 FORM 10-K

(Mark One)

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 1997

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from . . . . . to . . . . . .

Commission File Number 1-8097

ENSCO International Incorporated

(Exact name of registrant as specified in its charter)

DELAWARE	76-0232579
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

2700 Fountain Place
1445 Ross Avenue
Dallas, Texas 75202-2792
(Address of principal executive offices)

Registrant's telephone number, including area code: (214) 922-1500

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, par value $.10	New York Stock Exchange
Preferred Share Purchase Right	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:
None

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

As of January 30, 1998, 142,254,446 shares of the registrant's common stock were outstanding. The aggregate market value of the common stock (based upon the closing price on the New York Stock Exchange on January 30, 1998 of $27.125) of ENSCO International Incorporated held by nonaffiliates of the registrant at that date was approximately $2,710,777,535.

DOCUMENTS INCORPORATED BY REFERENCE

Certain sections of the Company's definitive proxy statement, which involves the election of directors and is to be filed under the Securities Exchange Act of 1934 within 120 days of the end of the Company's fiscal year on December 31, 1997, are incorporated by reference into Part III hereof. Except for those portions specifically incorporated by reference herein, such document shall not be deemed to be filed with the Commission as part of this Form 10-K.

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PART I

Item 1. Business

Overview and Operating Strategy

ENSCO International Incorporated ("ENSCO" or the "Company") is an international offshore contract drilling company that also provides marine transportation services in the Gulf of Mexico. The Company's complement of offshore drilling rigs includes 36 jackup rigs, ten barge rigs and eight platform rigs. The Company's marine transportation fleet consists of 37 vessels. The Company's operations are integral to the exploration, development and production of oil and natural gas.

Since 1987, the Company has pursued a strategy of building its fleet of offshore drilling rigs. This strategy was exemplified by the Company's acquisition of the remainder of Penrod Holding Corporation ("Penrod") in August 1993, the construction of eight new barge rigs for the Company's Venezuelan rig fleet during 1993 and 1994 and the addition of three harsh environment jackup rigs to its North Sea fleet, two in 1994 and one in 1995. In June 1996, the Company acquired DUAL DRILLING COMPANY ("Dual") in a transaction which added 20 rigs to the Company's fleet. The Company subsequently purchased two additional jackup rigs, one each in November 1996 and December 1997.

With the Company's increasing emphasis on offshore markets, the Company has disposed of businesses that are not offshore oriented or that management believed would not meet the Company's standards for financial performance. Accordingly, the Company sold its supply business in 1993, substantially all of its land rigs in 1994 and its technical services business in 1995.

The Company was formed as a Texas corporation in 1975 and was reincorporated in Delaware in 1987. The Company's principal office is located at 2700 Fountain Place, 1445 Ross Avenue, Dallas, Texas, 75202-2792 and its telephone number is (214) 922-1500.

Acquisition of Dual Drilling

On June 12, 1996, the Company acquired Dual pursuant to an Agreement and Plan of Merger among the Company, a wholly owned subsidiary of the Company and Dual. The acquisition was approved on that date by Dual stockholders who received 0.625 shares (1.25 shares giving effect to the two-for-one stock split effective September 15, 1997) of the Company's common stock for each share of Dual common stock. The Company issued approximately 10.1 million shares (20.1 million shares post split) of its common stock to Dual stockholders in connection with the acquisition, resulting in an acquisition price of approximately $218.4 million. See Note 2 to the Company's Consolidated Financial Statements.

The acquired Dual operations consisted of a fleet of 20 offshore drilling rigs, including ten jackup rigs and ten platform rigs. Subsequent to the date of acquisition, two platform rigs located off the coast of California were retired.

Contract Drilling Operations

The Company's contract drilling operations are conducted by a number of wholly owned subsidiaries (the "Subsidiaries"). The Subsidiaries engage in the drilling of oil and gas wells in domestic and international markets under contracts with major international oil and gas companies, government owned oil and gas companies and independent oil and gas companies. The Company currently owns 36 jackup rigs, ten barge rigs and seven platform rigs. Of the 36 jackup rigs, 22 are located in the Gulf of Mexico, seven are located in the North Sea and seven are located in the Asia Pacific region. The ten barge rigs are all located in Venezuela and the seven platform rigs are all located in the Gulf of Mexico. An additional platform rig, which is not owned but is operated under a management contract, is located off the coast of China. The Company is currently constructing three barge rigs for operations in Venezuela and one harsh environment jackup rig capable of operating worldwide. Additionally, the Company is actively working on the design of a semisubmersible drilling rig to address deeper water drilling locations both domestically and internationally. The Company's Venezuela contract drilling operations are conducted through its 85% ownership interest in ENSCO Drilling (Caribbean), Inc. ("Caribbean").

The Company's contract drilling services and equipment are used in connection with the process of drilling and completing oil and gas wells. Demand for the Company's drilling services is based upon many factors over which the Company has no control, including the market price of oil and gas, the stability of such prices, the production levels and other activities of OPEC and other oil and gas producers, the regional supply and demand for natural gas, the worldwide expenditures for oil and gas drilling, the level of worldwide economic activity and the long-term effect of worldwide energy conservation measures.

The drilling services provided by the Company are conducted on a contract basis. The Company generally provides drilling services on a "daywork" basis. Under daywork contracts, the Company receives a fixed amount per day for drilling the well, and the customer bears a major portion of the ancillary costs of constructing the well. The customer may pay the cost of moving the equipment to the job site and assembling and dismantling the equipment. In some cases, the Company provides drilling services on a daywork contract basis along with "well management" services which provide additional incentive compensation to the Company for completion of drilling activity ahead of budgeted targets set by the customer.

During the past several years, contracts have typically been short-term, particularly in the U.S. However, due to renewals and extension clauses included in the contracts, approximately 60% of the Company's rigs have worked for the same customer for greater than six months and over 48% of the Company's rigs have worked for the same customer for longer than one year. The backlog of business for the Subsidiaries, excluding operations conducted through Caribbean, at February 1, 1998 was approximately $330.7 million as compared to approximately $220.5 million at February 1, 1997. Approximately $20.7 million of the Subsidiaries contract backlog at February 1, 1998 will be realized in periods subsequent to December 31, 1998. Caribbean has a number of term contracts which terminate in 1998, 1999 and 2004, with a backlog as of February 1, 1998 of approximately $270.6 million as compared to approximately $140.6 million at February 1, 1997. Approximately $215.5 million of Caribbean's contract backlog at February 1, 1998 will be realized in periods subsequent to December 31, 1998.

Marine Transportation Operations

The Company conducts its marine transportation operations through a wholly owned subsidiary, ENSCO Marine Company ("ENSCO Marine"), based in Broussard, Louisiana. The Company has a marine transportation fleet of 37 vessels consisting of five anchor handling tug supply ("AHTS") vessels, 24 supply vessels and eight mini-supply vessels. All of the Company's marine transportation vessels are currently located in the Gulf of Mexico.

The Company's five AHTS vessels ordinarily support semisubmersible drilling rigs and large offshore construction projects or provide towing services. The 24 supply vessels and eight mini-supply vessels support general drilling and production activity by ferrying supplies from land and between offshore rigs. The Company's vessels are typically chartered on a well-to-well basis, or on term contracts which may be terminated on short notice. At February 1, 1998, ENSCO Marine had a backlog of contracts for its services of approximately $39.2 million as compared to $32.3 million for such services at February 1, 1997. The contract backlog at February 1, 1998 that will be realized in periods subsequent to December 31, 1998 is approximately $11.4 million.

Segment Information

The following table provides operational information regarding the Company's contract drilling and marine transportation operations for each of the five years ended December 31, 1997:

	1997	1996(1)	1995	1994	1993(2)
Offshore Drilling Rig Utilization and Day Rates					
Utilization:					
Jackup rigs					
North America	96%	93%	90%	91%	97%
Europe	100%	88%	73%	71%	58%
Asia Pacific	79%	86%	--	29%	10%
South America	--	--	--	62%	100%
Total jackup rigs	93%	92%	87%	83%	84%
Barge rigs - South America	100%	91%	86%	100%	100%
Platform rigs	63%	78%	--	--	--
Total	90%	90%	86%	87%	87%
Average day rates:					
Jackup rigs					
North America	$46,530	$27,793	$20,559	$21,531	$20,035
Europe	79,548	47,714	42,631	24,528	27,014
Asia Pacific	39,363	26,751	--	27,739	20,424
South America	--	--	--	24,629	24,125
Total jackup rigs	51,438	31,505	24,813	22,269	21,572
Barge rigs - South America	22,628	22,608	19,631	16,413	15,432
Platform rigs	19,148	16,913	--	--	--
Total	$42,838	$28,238	$23,196	$20,539	$20,281
Marine Fleet Utilization and Day Rates					
Utilization:					
AHTS (3)	83%	79%	84%	81%	76%
Supply	91%	92%	84%	86%	84%
Mini-supply	95%	87%	65%	93%	95%
Total	91%	89%	79%	86%	84%
Average day rates:					
AHTS (3)	$13,380	$ 9,321	$ 7,732	$ 7,686	$ 6,987
Supply	7,789	4,729	3,136	3,173	3,039
Mini-supply	3,997	2,972	1,985	1,663	1,677
Total	$ 7,687	$ 5,016	$ 3,753	$ 3,826	$ 3,559

(1) Offshore Drilling Rig information includes the results of Dual rigs from the June 12, 1996 acquisition date. The Company acquired its Asia Pacific and Platform rigs in the June 1996 Dual acquisition.
(2) Offshore Drilling Rig and Marine Fleet information includes Penrod rigs and vessels acquired in 1993.
(3) Anchor handling tug supply vessels.

Financial information regarding the Company's operating segments and foreign and domestic operations is presented in Note 9 of the Notes to the Consolidated Financial Statements included in "Item 8. Financial Statements and Supplementary Data." Additional financial information regarding the Company's operating segments is presented in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations."

Major Customers

The Company provides its services to a broad customer base which includes major international oil and gas companies, government owned oil and gas companies and independent oil and gas companies.

During 1997, aggregate revenues provided to the Company's contract drilling operations by Nederlandse Aardolie Maatschappij B.V., a Royal Dutch/Shell affiliate, were $121.0 million, or 15% of total revenues. Additionally, revenues of $82.8 million, or 10% of total revenues, all of which were from contract drilling operations, were provided to the Company by Petroleos de Venezuela, S.A. ("PDVSA"), Venezuela's national oil company.

Industry Conditions and Competition

The market for offshore drilling and marine transportation services is largely determined by the supply of and demand for equipment. From the mid-1980s to the early 1990s, demand for offshore drilling and marine equipment was generally flat, while the over supply of offshore drilling and marine equipment gradually decreased, primarily due to attrition. Between 1994 and the date hereof, demand has steadily improved and, as a result, day rates and utilization for offshore drilling and marine equipment have increased. Technological advancements, such as three dimensional seismic, extended reach drilling, and multilateral drilling techniques, have improved the economics of finding and developing oil and gas reserves. As a result, oil companies have increased their exploration and production budgets, which has led to increased demand for drilling and marine transportation services. Nearly all actively marketed offshore rigs in the world are currently under contract, and the demand for high quality rigs exceeds supply in many markets.

In response to increased demand, several drilling contractors are currently constructing or have announced plans to construct new drilling rigs, most of which are designed to address deep-water applications beyond the capability of jackup rigs. The Company believes that unless oil and natural gas prices are depressed for a sustained period of time, worldwide demand for offshore drilling rigs will remain strong for the foreseeable future, and additional drilling rigs will be needed to meet this increased demand.

The contract drilling business is highly competitive and ENSCO competes with other drilling contractors on the basis of quality of service, price, equipment suitability and availability, reputation and technical expertise. Competition is usually on a regional basis, but drilling rigs are mobile and may be moved from one region to another in response to demand. Drilling operations are generally conducted throughout the year with some seasonal declines in winter months.

As the Company's marine transportation services are used primarily in connection with the process of servicing offshore oil and gas operations, demand for these services is largely dependent on the factors affecting the level of activity in the offshore oil and gas industry. ENSCO Marine competes with numerous vessel operators on the basis of quality of service, price, vessel suitability and availability and reputation. Marine transportation operations are conducted throughout the year, but some reductions in vessel utilization and charter rates may be experienced during winter months due to seasonal declines in offshore activities.

Additional information regarding industry conditions is presented in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere herein.

Governmental Regulation

The Company's businesses are affected by political developments and by federal, state, foreign and local laws and regulations that relate directly to the oil and gas industry. The industry is also affected by changing tax laws, price controls and other laws affecting the energy business. The adoption of laws and regulations curtailing exploration and development drilling for oil and gas for economic, environmental or other policy reasons adversely affects the Company's operations by limiting available drilling and other opportunities in the energy service industry, as well as increasing the costs of operations.

The Company and its rigs and operations are subject to federal, state, local and foreign laws and regulations relating to engineering, design, structural, safety and operational and inspection standards.

Most of the Company's marine transportation operations are conducted in U.S. waters and are subject to the coastwise laws of the United States, principally, the Jones Act. Such laws reserve marine transportation between points in the United States to vessels built and documented under U.S. laws and owned and manned by U.S. citizens. From time to time, interests opposed to the Jones Act have expressed an intent to seek changes to the Jones Act. Although the Company believes it is unlikely that the Jones Act will be substantively modified or repealed, there can be no assurance that the Jones Act may not be modified or repealed. Such changes in the Jones Act could have a material adverse effect on the Company's operations and financial condition.

Environmental Matters

The Company's operations are subject to federal, state and local laws and regulations controlling the discharge of materials into the environment or otherwise relating to the protection of the environment. Laws and regulations specifically applicable to the Company's business activities could impose significant liability on the Company for damages, clean-up costs and penalties in the event of the occurrence of oil spills or similar discharges of pollutants into the environment in the course of the Company's operations, although, to date, such laws and regulations have not had a material adverse effect on the Company's results of operations, nor has the Company experienced an accident that has exposed it to material liability for discharges of pollutants into the environment. In addition, events in recent years have heightened environmental concerns about the oil and gas industry generally. From time to time, legislative proposals have been introduced which would materially limit or prohibit offshore drilling in certain areas. To date, no proposals which would materially limit or prohibit offshore drilling in the Company's principal areas of operation have been enacted into law. If laws are enacted or other governmental action is taken that restrict or prohibit offshore drilling in the Company's areas of operation or impose environmental protection requirements that materially increase the cost of offshore exploration, development or production of oil and gas, the Company could be materially adversely affected.

The United States Oil Pollution Act of 1990 ("OPA 90") and similar legislation in Texas, Louisiana and other coastal states address oil spill prevention and control and significantly expand liability exposure across all segments of the oil and gas industry. OPA 90, such similar legislation and related regulations impose a variety of obligations on the Company related to the prevention of oil spills and liability for resulting damages. OPA 90 imposes strict and, with limited exceptions, joint and several liability upon each responsible party for oil removal costs and a variety of damages. OPA 90 imposes ongoing financial responsibility requirements. A failure to comply with OPA 90 may subject a responsible party to civil or criminal enforcement action.

Operational Risks and Insurance

Contract drilling and oil and gas operations are subject to various risks including blowouts, craterings, fires and explosions, each of which could result in damage to or destruction of drilling rigs and oil and gas wells, personal injury and property damage, suspension of operations or environmental damage through oil spillage or extensive, uncontrolled fires. The Company's marine transportation operations are subject to various risks, which include property and environmental damage and personal injury. The Company generally insures its drilling rigs and marine transportation vessels for amounts not less than the estimated fair market value thereof. The Company also maintains liability insurance coverage in amounts and scope which management believes are comparable to the levels of coverage carried by other energy service companies. To date, the Company has not experienced difficulty in obtaining insurance coverage. While the Company believes its insurance coverages are customary for the energy service industry, the occurrence of a significant event not fully insured against could have a material adverse effect on the Company's financial position. Also, there can be no assurance that any particular insurance claim will be paid or that the Company will be able to procure adequate insurance coverage at commercially reasonable rates in the future.

International Operations

A significant portion of the Company's contract drilling operations are conducted in foreign countries. Revenues from international operations were 41% of the Company's total revenues both in 1997 and 1996. The Company's international operations are subject to political, economic, and other uncertainties, such as the risks of expropriation of its equipment, expropriation of a customer's property or drilling rights, repudiation of contracts, adverse tax policies, general hazards associated with international sovereignty over certain areas in which the Company operates and fluctuations in international economies.

The Company's international operations also face the risk of fluctuating currency values and exchange controls. Occasionally the countries in which the Company operates have enacted exchange controls. Historically, the Company has been able to limit these risks by obtaining compensation in United States dollars or freely convertible international currency and, to the extent possible, by limiting acceptance of foreign currency to amounts which match its expenditure requirements in such currencies.

The Company currently has contract drilling operations in Asian countries that have experienced substantial devaluations of their currency compared to the U.S. dollar over the last several months. However, as the Company's drilling contracts stipulate payment in U.S. dollars, the Company has experienced no significant losses due to the devaluation of such currencies.

Executive Officers of the Registrant

The following table sets forth certain information regarding the executive officers of the Company:

Name	Age	Position with the Company
Carl F. Thorne	57	Chairman of the Board, President, Chief Executive Officer and Director
Richard A. Wilson	60	Senior Vice President, Chief Operating Officer and Director
Marshall Ballard	55	Vice President - Business Development
William S. Chadwick, Jr.	50	Vice President - Administration and Secretary
C. Christopher Gaut	41	Vice President - Finance and Chief Financial Officer
H. E. Malone	54	Vice President - Controller and Chief Accounting Officer
Frank B. Williford	58	Vice President - Engineering
Richard A. LeBlanc	47	Treasurer

Set forth below is certain additional information concerning the executive officers of the Company, including the business experience of each executive officer for at least the last five years.

Carl F. Thorne has been a director of the Company since December 1986. He was elected President and Chief Executive Officer of the Company in May 1987 and was elected Chairman of the Board of Directors in November 1987. Mr. Thorne holds a Bachelor of Science Degree in Petroleum Engineering from The University of Texas and a Juris Doctorate Degree from Baylor University College of Law.

Richard A. Wilson has been a director of the Company since June 1990. Mr. Wilson joined the Company in July 1988 and was elected President of ENSCO Drilling Company in August 1988. Mr. Wilson was elected Senior Vice President - Operations of the Company in October 1989 and to his present position of Senior Vice President and Chief Operating Officer in June 1991. Mr. Wilson holds a Bachelor of Science Degree in Petroleum Engineering from the University of Wyoming.

Marshall Ballard joined the Company in connection with the acquisition of Penrod Holding Corporation and was elected Vice President of Business Development in August 1993. From September 1977 through August 1993, Mr. Ballard served in various capacities as an employee of Penrod Holding Corporation, most recently as President. Mr. Ballard holds a Bachelor of Arts Degree in History from the University of North Carolina and a Law Degree from Tulane University.

William S. Chadwick, Jr. joined the Company as Director of Administration in June 1987, has been a Vice President of the Company since July 1988 and was elected Secretary of the Company in May 1993. Mr. Chadwick holds a Bachelor of Science Degree in Industrial Management from the University of Pennsylvania.

C. Christopher Gaut joined the Company in December 1987 and was elected Treasurer and Chief Financial Officer in February 1988 and Vice President - Finance in January 1991. Mr. Gaut holds a Bachelor of Arts Degree in Engineering Science from Dartmouth College and a Master of Business Administration Degree in Finance from The Wharton School of the University of Pennsylvania.

H. E. Malone joined the Company in August 1987 and was elected Controller and Chief Accounting Officer in January 1988 and Vice President - Controller and Chief Accounting Officer in February 1995. Mr. Malone holds Bachelor of Business Administration Degrees from The University of Texas and Southern Methodist University and a Master of Business Administration Degree from the University of North Texas.

Frank B. Williford joined the Company and was elected Vice President - Engineering in February 1996. From January 1966 through January 1996, Mr. Williford served in various capacities as an employee of Sedco, Inc. and Sedco Forex, most recently as Vice President and General Manager of Engineering. Mr. Williford holds a Bachelor of Science Degree in Structural Engineering from Texas A&M University.

Richard A. LeBlanc joined the Company in July 1989 as Manager of Finance. He assumed responsibilities for the investor relations function in March 1993 and was elected Treasurer in May 1995. Mr. LeBlanc holds a Bachelor of Science Degree in Finance and a Master of Business Administration degree from Louisiana State University.

Officers each serve for a one-year term or until their successors are elected and qualified to serve. Mr. Thorne and Mr. Malone are brothers-in-law.

Employees

The Company had approximately 3,700 full-time employees worldwide as of February 1, 1998. The Company considers relations with its employees to be satisfactory. None of the Company's domestic employees are represented by unions. The Company has not experienced any significant work stoppages or strikes as a result of labor disputes.

Item 2. Properties

Contract Drilling

The following table provides certain information about the Company's drilling rig fleet as of February 1, 1998:

JACKUP RIGS

Rig Name	Year Built/ Rebuilt	Rig Make	Water Depth/ Rated Depth	Current Location	Current Customer
North America					
ENSCO 51	1981	FG-780II-C	300'/25,000'	Gulf of Mexico	Taylor Energy
ENSCO 54	1982/1997	FG-780II-C	300'/25,000'	Gulf of Mexico	Amoco
ENSCO 55	1981/1997	FG-780II-C	300'/25,000'	Gulf of Mexico	Pennzoil
ENSCO 60	1981/1997	Lev-111-C	300'/25,000'	Gulf of Mexico	Amoco
ENSCO 64	1973	MLT-53-S	250'/30,000'	Gulf of Mexico	Newfield
ENSCO 67	1976/1996	MLT-84-S	400'/30,000'	Gulf of Mexico	McMoran
ENSCO 68	1976	MLT-84-S	350'/30,000'	Gulf of Mexico	Murphy
ENSCO 69	1976/1995	MLT-84-S	400'/25,000'	Gulf of Mexico	Sonat
ENSCO 81	1979	MLT-116-C	350'/25,000'	Gulf of Mexico	Coastal
ENSCO 82	1979	MLT-116-C	300'/25,000'	Gulf of Mexico	Coastal
ENSCO 83	1979	MLT-82 SD-C	250'/25,000'	Gulf of Mexico	Enron
ENSCO 84	1981	MLT-82 SD-C	250'/25,000'	Gulf of Mexico	Equitable Resources
ENSCO 86	1981	MLT-82 SD-C	250'/30,000'	Gulf of Mexico	Exxon
ENSCO 87	1982	MLT-116-C	350'/25,000'	Gulf of Mexico	Coastal
ENSCO 88	1982	MLT-82 SD-C	250'/25,000'	Gulf of Mexico	Pennzoil
ENSCO 89	1982	MLT-82 SD-C	250'/25,000'	Gulf of Mexico	Exxon
ENSCO 90	1982	MLT-82 SD-C	250'/25,000'	Gulf of Mexico	Vastar
ENSCO 93	1982	MLT-82 SD-C	250'/25,000'	Gulf of Mexico	Conoco
ENSCO 94	1981	Hitachi-250-C	250'/25,000'	Gulf of Mexico	Mobil
ENSCO 95	1981	Hitachi-250-C	250'/25,000'	Gulf of Mexico	Chevron
ENSCO 98	1977	MLT-82 SD-C	250'/25,000'	Gulf of Mexico	Apache
ENSCO 99	1985	MLT-82 SD-C	250'/30,000'	Gulf of Mexico	Exxon
Europe					
ENSCO 70	1981/1996	Hitachi-300-C NS	250'/30,000'	The Netherlands	NAM (Shell)
ENSCO 71	1982/1995	Hitachi-300-C NS	225'/25,000'	The Netherlands	NAM (Shell)
ENSCO 72	1981/1996	Hitachi-300-C NS	225'/25,000'	The Netherlands	NAM (Shell)
ENSCO 80	1978/1995	MLT-116-CE	225'/30,000'	United Kingdom	Arco
ENSCO 85	1981/1995	MLT-116-C	225'/25,000'	The Netherlands	NAM (Shell)
ENSCO 92	1982/1996	MLT-116-C	225'/25,000'	United Kingdom	Conoco
ENSCO 100	1987	MLT-150-88-C	325'/30,000'	Norway	Smedvig(1)
Asia Pacific					
ENSCO 50	1983/1998	FG-780II-C	300'/25,000'	Singapore	(2)
ENSCO 52	1983/1997	FG-780II-C	300'/25,000'	Malaysia	Petronas
ENSCO 53	1982/1998	FG-780II-C	300'/25,000'	Singapore	(2)
ENSCO 56	1982/1997	FG-780II-C	300'/25,000'	Australia	Apache
ENSCO 57	1982/1997	FG-780II-C	300'/25,000'	Thailand	Unocal
ENSCO 96	1982/1997	Hitachi-250-C	250'/25,000'	Qatar	Ras Laffan
ENSCO 97	1980/1997	MLT-82 SD-C	250'/25,000'	Qatar	Maersk

BARGE RIGS

Rig Name	Year Built/ Rebuilt	Rated Depth	Current Location	Current Customer
ENSCO V	1982/1996	15,000'	Venezuela	PDVSA(3)
ENSCO VI	1991/1996	15,000'	Venezuela	PDVSA
ENSCO VII	1993	20,000'	Venezuela	PDVSA
ENSCO VIII	1993	20,000'	Venezuela	PDVSA
ENSCO IX	1993	20,000'	Venezuela	PDVSA
ENSCO X	1993	20,000'	Venezuela	PDVSA
ENSCO XI	1994	25,000'	Venezuela	PDVSA
ENSCO XII	1994	25,000'	Venezuela	PDVSA
ENSCO XIV	1994	25,000'	Venezuela	PDVSA
ENSCO XV	1994	25,000'	Venezuela	PDVSA

PLATFORM RIGS

Rig Name	Year Built/ Rebuilt	Rated Depth	Current Location	Current Customer
ENSCO 20(4)	1980/1992	25,000'	China	Arco
ENSCO 21	1982/1996	25,000'	Gulf of Mexico	Phillips
ENSCO 22	1982/1997	25,000'	Gulf of Mexico	Mobil
ENSCO 23	1980/1998	25,000'	Gulf of Mexico	Amerada Hess(2)
ENSCO 24	1980/1998	25,000'	Gulf of Mexico	(2)
ENSCO 25	1980/1998	30,000'	Gulf of Mexico	Texaco(2)
ENSCO 26	1982	30,000'	Gulf of Mexico	Marathon
ENSCO 29	1981/1997	30,000'	Gulf of Mexico	Texaco

Notes:
(1) The ENSCO 100 is under a bareboat charter contract to Smedvig asa which the Company expects will last until the year 2000.
(2) In shipyards for modification and enhancement as of February 1, 1998. The ENSCO 23 and ENSCO 25 are under contract and receive standby compensation.
(3) Petroleos de Venezuela, S.A.
(4) ENSCO 20 is managed, but is not owned, by the Company.

The Company operates three types of drilling rigs - jackup rigs, barge rigs and platform rigs.

The Company's drilling rigs consist of engines, drawworks, derricks, pumps to circulate the drilling fluid, blowout preventers, drill string and related equipment. The engines power a drive mechanism that turns the drill string and drill bit so that the hole is drilled by grinding subsurface materials, which are then carried to the surface by the drilling fluid. The intended well depth and the drilling conditions are the principal factors that determine the size and type of rig most suitable for a particular drilling job.

Jackup rigs stand on the ocean floor with their hull and drilling equipment elevated above the water on connected leg supports. Jackup rigs are generally preferred in water depths of 350 feet or less. All of the Company's jackup rigs are of the independent leg design. The majority of the Company's jackup units are equipped with cantilevers, which allow the rigs to extend outward from their hulls over fixed platforms enabling drilling of both exploratory and development wells. The jackup rig hull includes the drilling rig, jacking system, crews' quarters, storage and loading facilities, helicopter landing pad and related equipment.

Barge rigs are towed to the drilling location and are held in place by anchors while drilling activities are conducted. The Company's barge rigs have all of the crews' quarters, storage facilities and related equipment mounted on floating barges, with the drilling equipment cantilevered from the stern of the barge.

Platform rigs are designed to be temporarily installed on permanently constructed offshore platforms. The platform rig sections are lifted onto the offshore platforms with the use of heavy lift cranes. A platform rig typically stays at a location for a longer period of time than a jackup rig, because several wells can be drilled from a single offshore platform.

The Company is currently constructing three barge rigs for operations in Venezuela and a harsh environment jackup rig capable of operating worldwide. Additionally, the Company is actively working on the design of a semisubmersible drilling rig to address deeper water drilling locations both domestically and internationally.

Over the life of a typical rig, several of the major components are replaced due to normal wear and tear. All of the Company's rigs are in good condition.

Marine Transportation

The Company has a marine transportation fleet of 37 vessels consisting of five anchor handling tug supply vessels, 24 supply vessels and eight mini-supply vessels. All of the Company's marine transportation vessels are currently located in the Gulf of Mexico. Substantially all of the Company's marine transportation vessels, which had a combined net book value of $39.5 million at December 31, 1997, are pledged as collateral to secure payment of secured term loans with an outstanding balance of $13.7 million at December 31, 1997.

The following table provides, as of February 1, 1998, certain information regarding the Company's marine transportation vessels:

MARINE FLEET

Vessel Type	No. Of Vessels	Year Built	Horse Power	Length	Location
KODIAK - AHTS	2	1983	12,000	225'	Gulf of Mexico
OTHER- AHTS	3	1975-1983	6,150-8,100	195'-230'	Gulf of Mexico
SUPPLY	24	1976-1985	1,800-5,800	166'-220'	Gulf of Mexico
MINI-SUPPLY	8	1981-1984	1,200	140'-146'	Gulf of Mexico

All of the Company's marine transportation vessels are in good condition.

Other Property

The Company leases its executive offices in Dallas, Texas. The Company owns offices and other facilities in Louisiana and Scotland. The Company rents office space in Australia, India, Malaysia, The Netherlands, Qatar, Singapore, Thailand and Venezuela.

Item 3. Legal Proceedings

The Company is from time to time involved in litigation incidental to the conduct of its business. In the opinion of management, none of such litigation in which the Company is currently involved would, individually or in the aggregate, have a material adverse effect on its financial condition or results of operations.

Item 4. Submission of Matters to a Vote of Security Holders

There were no matters submitted to a vote of security holders in the fourth quarter of 1997.

PART II

Item 5. Market for Registrant's Common Equity and Related Stockholder Matters

The following table sets forth the high and low sales prices for each period indicated for the Company's common stock, $.10 par value (the "common stock"), for each of the last two fiscal years, adjusted for the two-for-one stock split effective September 15, 1997:

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
1997 High.....	$29	$28	$39 3/4	$47	$47
1997 Low.....	$20 1/4	$20 15/16	$26 5/16	$28 3/8	$20 1/4
1996 High.....	$14 9/16	$16 1/2	$18	$25 1/16	$25 1/16
1996 Low.....	$10	$12 11/16	$13 1/4	$15 3/4	$10

The Company's common stock (Symbol: ESV) began trading on the New York Stock Exchange on December 20, 1995, prior to which it was traded on the American Stock Exchange. At February 1, 1998, there were approximately 2,700 stockholders of record of the Company's common stock.

The Company initiated the payment of quarterly cash dividends on its common stock during the third quarter of 1997. Cash dividends paid in each of the third and fourth quarters of 1997 were $.025 per share, for a total of $.05 for the year. The Company currently intends to continue to pay such quarterly dividends for the foreseeable future. However, the final determination of the timing, amount and payment of dividends on the common stock is at the discretion of the Board of Directors and will depend on, among other things, the Company's profitability, liquidity, financial condition and capital requirements.

Item 6. Selected Consolidated Financial Data

The selected consolidated financial data set forth below for the five years in the period ended December 31, 1997 has been derived from the Company's audited consolidated financial statements. This information should be read in conjunction with the audited consolidated financial statements and notes thereto included in "Item 8. Financial Statements and Supplementary Data."

	Year Ended December 31,				
	1997	1996(1)	1995	1994	1993(2)
	(In millions, except per share amounts)				
Statement of Operations Data(3)					
Operating revenues	$ 815.1	$ 468.8	$ 279.1	$ 245.5	$ 227.4
Operating expenses	321.0	238.3	165.5	144.6	151.2
Depreciation and amortization	104.8	81.8	58.4	51.8	41.2
Operating income	389.3	148.7	55.2	49.1	35.0
Other expense	13.5	6.0	7.9	8.8	6.7
Income from continuing operations before income taxes and minority interest	375.8	142.7	47.3	40.3	28.3
Provision for income taxes	137.8	44.0	3.4	3.7	5.9
Minority interest	3.1	3.3	2.1	3.0	6.9
Income from continuing operations	234.9	95.4	41.8	33.6	15.5
Income from discontinued operations(3)	--	--	6.3	3.6	3.5
Income before extraordinary item and cumulative effect of accounting change	234.9	95.4	48.1	37.2	19.0
Extraordinary item - extinguishment of debt	(1.0)	--	--	--	--
Cumulative effect of accounting change, net of minority interest(4)	--	--	--	--	(2.5)
Net income	233.9	95.4	48.1	37.2	16.5
Preferred stock dividend requirements	--	--	--	2.2	4.3
Income applicable to common stock	$ 233.9	$ 95.4	$ 48.1	$ 35.0	$ 12.2
Basic earnings per share:(5)					
Continuing operations	$ 1.67	$ .73	$ .35	$ .27	$ .14
Discontinued operations	--	--	.05	.03	.04
Extraordinary item	(.01)	--	--	--	--
Cumulative effect of accounting change	--	--	--	--	(.03)
Net income per share	$ 1.66	$ .73	$ .40	$ .31	$ .15
Diluted earnings per share:(5)					
Continuing operations	$ 1.64	$ .72	$ .35	$ .27	$ .14
Discontinued operations	--	--	.05	.03	.04
Extraordinary item	(.01)	--	--	--	--
Cumulative effect of accounting change	--	--	--	--	(.03)
Net income per share	$ 1.64	$ .72	$ .40	$ .30	$ .15
Weighted average common shares outstanding:(5)					
Basic	141.0	131.5	119.9	114.4	79.3
Diluted	142.9	133.1	120.8	115.4	79.9
Cash dividends per common share	$ .05	$ --	$ --	$ --	$ --
Balance Sheet Data					
Working capital	$ 316.2	$ 107.5	$ 78.9	$ 129.2	$ 124.6
Total assets	1,772.0	1,315.4	821.5	773.1	689.3
Long-term debt, net of current portion	400.8	258.6	159.2	162.5	126.0
$1.50 preferred stock	--	--	--	--	71.0
Stockholders' equity	1,076.7	845.9	531.2	488.0	383.9

(1) The Company acquired Dual on June 12, 1996. Statement of Operations Data include the results of Dual from the acquisition date.
(2) The Company completed the step acquisition of Penrod Holding Corporation ("Penrod") in August 1993.
(3) The Company sold its technical services segment in 1995 and its supply segment in 1993. Results of the technical services segmentand the supply segment have been reclassified for comparative purposes. The 1995 results include a gain of $5.2 million in connection with the sale of the technical services segment and the 1993 results include a gain of $2.1 million in connection with the sale of the supply segment. See Note 12 to the Company's Consolidated Financial Statements.
(4) Effective January 1, 1993, Penrod adopted Statement of Financial Accounting Standards No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions."
(5) Earnings per share amounts and weighted average common shares outstanding have been restated for the adoption of Statement of Financial Accounting Standards No. 128 "Earnings per Share." These amounts have also been adjusted for the two-for-one stock split effective

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

Business Environment

ENSCO International Incorporated ("ENSCO" or the "Company") is one of the leading international providers of offshore drilling services and marine transportation services to the oil and gas industry. The Company's operations are concentrated in the geographic regions of North America, Europe, Asia Pacific and South America.

Demand for the Company's services is significantly affected by worldwide expenditures for oil and gas drilling. Expenditures for oil and gas drilling activity fluctuate based upon many factors including world economic conditions, the legislative environment in the U.S. and other major countries, production levels and other activities of OPEC and other oil and gas producers, and the impact that these and other events have on the current and expected future pricing of oil and natural gas.

Worldwide drilling activity remained strong in 1997, with industry publications indicating exploration and production spending increases in excess of 10% for the second consecutive year. Demand for offshore drilling rigs exceeded supply in many markets, pushing day rates higher. Technological advancements have played a major role in reducing the cost of finding and developing reserves, thereby contributing to the demand for offshore drilling rigs. In response to increased demand, several drilling contractors are currently constructing or have announced plans to construct new drilling rigs, most of which are designed to address deep-water applications beyond the capability of jackup rigs. The Company believes that unless oil and natural gas prices are depressed for a sustained period of time, worldwide demand for offshore drilling rigs will remain strong for the foreseeable future, and additional drilling rigs will be needed to meet this increased demand.

Results of Operations

The Company achieved another successive year of record results in 1997. Compared to 1996, revenues increased 74% to $815.1 million, operating income increased 162% to $389.3 million and net income increased 145% to $233.9 million. The improved results reflect the contribution from the acquisition of DUAL DRILLING COMPANY ("Dual") in June 1996 and the sustained increase in demand for offshore drilling rigs and marine transportation equipment which propelled day rates and utilization to higher levels in 1997.

In 1996, revenues increased 68% to $468.8 million, operating income increased 169% to $148.7 million and net income increased 98% to $95.4 million as compared to 1995. These improvements are the result of increased day rates and utilization and the added contribution from the Dual acquisition. ENSCO acquired Dual in a purchase acquisition on June 12, 1996. The Company's consolidated financial statements include the results of Dual from the acquisition date. The acquired Dual operations consisted of a fleet of 20 offshore drilling rigs, including ten jackup rigs and ten platform rigs. Two of the platform rigs were retired in 1996 and another platform rig, located off the coast of China, is managed, but not owned, by the Company.

The following table highlights the Company's consolidated operating results for each of the three years in the period ended December 31, 1997 (in millions):

	1997	1996	1995
Operating Results			
Revenues	$ 815.1	$ 468.8	$ 279.1
Operating margin	508.4	241.5	123.2
Operating income	389.3	148.7	55.2
Other expense	13.5	6.0	7.9
Provision for income taxes	137.8	44.0	3.4
Minority interest	3.1	3.3	2.1
Income from continuing operations	234.9	95.4	41.8
Income from discontinued operations	--	--	6.3
Extraordinary item - extinguishment of debt	(1.0)	--	--
Net income	233.9	95.4	48.1

The following is an analysis of the Company's revenues and operating margin for each of the three years in the period ended December 31, 1997 (in millions):

	Year Ended December 31,		
	1997	1996	1995
Revenues			
Contract drilling			
Jackup rigs			
North America	$357.9	$197.2	$119.3
Europe	173.8	91.8	59.5
Asia Pacific(1)	80.0	23.8	--
Total jackup rigs	611.7	312.8	178.8
Barge rigs - South America	82.8	75.5	62.0
Platform rigs (1)	26.4	20.3	--
Total contract drilling	720.9	408.6	240.8
Marine transportation			
AHTS (2)	22.2	16.1	14.4
Supply	60.9	36.5	20.1
Mini-supply	11.1	7.6	3.8
Total marine transportation	94.2	60.2	38.3
Total	$815.1	$468.8	$279.1
Operating Margin (3)			
Contract drilling			
Jackup rigs			
North America	$240.8	$106.4	$ 46.4
Europe	117.7	40.3	23.1
Asia Pacific (1)	36.2	7.9	--
Total jackup rigs	394.7	154.6	69.5
Barge rigs - South America	48.7	49.0	39.0
Platform rigs (1)	8.0	5.5	---
Total offshore rigs	451.4	209.1	108.5
Land rigs (4)	--	.7	(.2)
Total contract drilling	451.4	209.8	108.3
Marine transportation			
AHTS (2)	12.6	8.1	7.4
Supply	38.0	20.0	6.7
Mini-supply	6.4	3.6	.8
Total marine transportation	57.0	31.7	14.9
Total	$508.4	$241.5	$123.2

(1) The Company acquired its Asia Pacific and Platform rigs in the June 1996 Dual acquisition.
(2) Anchor handling tug supply vessels.
(3) Defined as operating revenues less operating expenses, exclusive of depreciation and amortization and general and administrative expenses.

(4)The Company sold all but one of its land rigs in 1994. The remaining land rig was sold in July 1996.

Discussions relative to each of the Company's operating segments and geographic operations are set forth below.

Contract Drilling. The Company's contract drilling segment currently consists of 36 jackup rigs, ten barge rigs and eight platform rigs. The following is an analysis of the geographic locations of the Company's offshore drilling rigs at December 31, 1997, 1996 and 1995.

	1997	1996	1995
Jackup rigs:			
North America	22	23	18
Europe	7	6	6
Asia Pacific	7(1)	6(1)	--
Total jackup rigs	36	35	24
Barge rigs - South America	10	10	10
Platform rigs	8(2)	8(2)	--
Total	54	53	34

(1) Includes one jackup rig operated by the Company that was previously 49% owned. The Company acquired the remaining 51% interest in May 1997.
(2) Seven are located in the Gulf of Mexico and one, which is not owned but is operated under a management contract, is located off the coast of China.

The Company's North America jackup and platform rigs operate under relatively short-term agreements with contract durations normally not exceeding six months. Four of the Company's seven Europe jackup rigs are committed under contract to a joint venture of major oil and gas exploration companies and are expected to continue to work under these contracts at least through 1999, however, the joint venture may terminate any of the contracts with six month's notice. The Company's Asia Pacific jackup rigs generally operate under contracts with one to two year terms. The Company's ten barge rigs in Venezuela operate under long-term contracts for Petroleos de Venezuela, S.A. ("PDVSA"), Venezuela's national oil company, that expire in 1998 and 1999. The contracts on the barge rigs afford PDVSA the option to buy each of the rigs during or at the end of the contracts. The Company is currently in discussions with PDVSA to extend the four contracts expiring in 1998. The Company currently believes that it will be able to secure new contracts with PDVSA or another operator in Venezuela at rates similar to those currently being received. If PDVSA were to exercise their option to purchase any of the rigs, the Company would recognize a gain on the sale.

In 1997, revenues from the contract drilling segment increased $312.3 million, or 76%, and operating margin increased $241.6 million, or 115%, from 1996. The increase in revenues and operating margin is primarily attributable to an increase in average day rates, which increased 52% for the contract drilling segment overall. In addition, revenues increased approximately $90.7 million as a result of a full year of operations of the rigs acquired in the Dual acquisition and other rig acquisitions in 1996 and 1997. The Company's contract drilling operating margin was negatively impacted by an increase in operating expenses of $70.7 million in 1997 as compared to 1996. Approximately $41.3 million, or 58%, of the increase in operating expenses resulted from a full year of operations of the rigs acquired in the Dual acquisition and other rig acquisitions in 1996 and 1997. The remaining increase in operating expenses is primarily due to higher wages, benefits and training costs for offshore rig workers and increased oilfield equipment and materials costs. In general, as the demand for offshore drilling services has increased, so has the demand for qualified personnel and oilfield supply equipment which are fundamental to the Company's operations, therefore, resulting in cost increases. The Company places significant importance on managing its operations efficiently to minimize the effects of these cost increases.

In 1996, revenues from the contract drilling segment increased $167.8 million, or 70%, and operating margin increased $101.5 million, or 94%, from 1995. The increase in revenues and operating margin is primarily attributable to a 22% increase in average day rates and an increase in utilization, to 90% in 1996 from 86% in 1995. In addition, revenues increased approximately $70.7 million as a result of the rigs acquired in the Dual acquisition. Operating expenses in 1996 increased $66.3 million over 1995 levels, with $41.5 million, or 63%, of this increase being attributable to the rigs acquired in the Dual acquisition. Additionally, 1996 operating expenses increased over 1995 levels due primarily to a four percent increase in utilization, higher wages and benefits and increased oilfield equipment and materials costs.

North America Jackup Rigs

In 1997, revenues for North America jackup rigs increased $160.7 million, or 81%, and operating margin increased $134.4 million, or 126%, as compared to 1996. The increase in revenues and operating margin is primarily attributable to a 67% increase in average day rates in 1997, and an increase in utilization to 96% in 1997 from 93% in 1996. In addition, the 1997 results benefitted from a full year of operations from the rigs acquired in the Dual acquisition, contributing an additional $28.0 million in revenues and $18.2 million in operating margin from the prior year results.

In 1996, revenues increased $77.9 million, or 65%, and operating margin increased $60.0 million, or 129%, as compared to 1995. These increases were primarily due to an increase in average day rates of approximately 35% from the prior year. In addition, the North America jackup rigs acquired in the Dual acquisition contributed $26.7 million in revenues and $15.7 million in operating margin in 1996, representing 34% and 26% of the respective increases.

Europe Jackup Rigs

In 1997, revenues for Europe jackup rigs increased $82.0 million, or 89%, and operating margin increased $77.4 million, or 192%, as compared to 1996. The increase in revenues and operating margin is primarily due to an increase in average day rates of 67% in 1997, and an increase in utilization to 100% in 1997 from 88% in 1996. Three of the Europe jackup rigs were in a shipyard for modifications and enhancements during part of 1996 resulting in lower utilization. In December 1997, the Company acquired a harsh environment, Gorilla class, jackup rig currently located in the Norwegian sector of the North Sea. The Company will bareboat charter the rig to Smedvig asa, the seller of the rig, which charter the Company expects will last until the year 2000.

In 1996, revenues increased by $32.3 million, or 54%, and operating margin increased by $17.2 million, or 74%, as compared to 1995. These increases were primarily due to an increase in utilization to 88% in 1996 from 73% in 1995, and a 12% increase in average day rates. Two of the Company's Europe jackup rigs were off contract undergoing modifications and enhancements for the majority of 1995 and an additional jackup rig, acquired in March 1995, was operated under bareboat charter for all of 1995.

Asia Pacific Jackup Rigs

The Company's Asia Pacific jackup rigs are deployed in various locations throughout Southeast Asia, the Middle East and Australia. Prior to the Dual acquisition in June 1996, the Company had no operations in the Asia Pacific region. Consequently, the increase in revenues and operating margin in 1997, as compared to 1996, is significantly enhanced as a result of the partial year of operations in 1996. Additionally, the Company purchased a jackup rig located in Southeast Asia in November 1996, relocated another jackup rig from the Gulf of Mexico to Southeast Asia in the first quarter of 1997, and purchased the remaining 51% interest in a jointly-owned jackup rig in May 1997.

In 1997, revenues for the Asia Pacific jackup rigs increased $56.2 million, or 236%, and operating margin increased $28.3 million, or 358%, from 1996. Average day rates increased 47% in 1997 while utilization decreased to 79% in 1997 from 86% in 1996. The decrease in utilization in 1997 is due to shipyard downtime. During 1997, all of the Asia Pacific jackup rigs were in a shipyard, or mobilizing to a shipyard, for a portion of the year for modifications and enhancements. Two of the Asia Pacific jackup rigs that were previously working off the coast of India entered the shipyard in late 1997 for modifications and enhancements and are expected to return to service by the middle of 1998.

South America Barge Rigs

In 1997, revenues increased $7.3 million, or 10%, while operating margin remained flat as compared to 1996. The lack of increase in operating margin, despite the increase in revenues, is primarily due to the structure of the Company's contracts with PDVSA. Under these contracts, the Company is reimbursed through its day rate for inflationary cost increases in Venezuela, therefore, the increase in revenues effectively reimburses the Company for cost increases. Certain of these contracts expire in 1998 and 1999 as discussed above.

In 1996, revenues increased $13.5 million, or 22%, and operating margin increased $10.0 million, or 26%, as compared to 1995. The increase in revenues and operating margin is primarily due to an increase in utilization, to 91% in 1996 from 86% in 1995, and an increase in average day rates of approximately 15% from the prior year. The increase in utilization primarily results from the return to work of two barge rigs, the ENSCO V and VI, in May and July of 1996, after being in the shipyard for modifications and enhancements for the majority of 1995. The increase in day rates, revenues and operating margin was partially attributable to the receipt of retroactive inflationary cost increases that related to prior periods.

Marine Transportation. The Company currently has a marine transportation fleet of 37 vessels, consisting of five anchor handling tug supply vessels, 24 supply vessels and eight mini-supply vessels. All of the Company's marine transportation vessels are located in the Gulf of Mexico. Contract durations for the Company's marine transportation vessels are relatively short-term and normally do not exceed six months.

In 1997, revenues for the Company's marine transportation segment increased $34.0 million, or 56%, and operating margin increased $25.3 million, or 80%, as compared to 1996. The increase in revenues and operating margin is due to an approximate $2,700, or 53%, increase in average day rates in 1997 and an increase in utilization to 91% in 1997 from 89% in 1996.

Revenues and operating margin for the Company's marine transportation segment increased $21.9 million, or 57%, and $16.8 million, or 113%, respectively, in 1996 as compared to 1995, due primarily to increased utilization and day rates for the Company's supply vessels.

Depreciation and Amortization. In 1997, depreciation and amortization expense increased $23.0 million, or 28%, as compared to 1996. The increase in depreciation and amortization is primarily due to a full year of depreciation and goodwill amortization on the assets acquired in the Dual acquisition, as well as additional depreciation from other asset acquisitions and modifications and enhancements to existing assets. In 1996, depreciation and amortization expense increased by $23.4 million, or 40%, from 1995 due primarily to depreciation and amortization associated with the Dual acquisition, depreciation associated with major modifications and enhancements to various rigs and vessels and depreciation on six supply vessels purchased in late 1995.

The Company recently completed economic and engineering evaluations of its drilling rigs and marine vessels and concluded that the useful lives of its drilling rigs and marine vessels should be extended in order to provide a better matching of revenues and depreciation expense over the economic useful lives of the assets. As a result, effective January 1, 1998, the useful lives of the Company's drilling rigs and marine vessels will be extended, on average, approximately five years, which will result in lower annual depreciation expense.

General and Administrative. General and administrative expenses, as a percentage of revenues, were 1.8%, 2.3% and 3.4% for the three years ended December 31, 1997, 1996 and 1995, respectively. In 1997, general and administrative expenses increased $3.3 million, or 30%, as compared to 1996, due primarily to a full year of expense for the additional personnel added in conjunction with the Dual acquisition and higher performance based compensation and benefits costs. In 1996, general and administrative expenses increased $1.4 million, or 15%, as compared to 1995, due primarily to additional personnel added in the Dual acquisition and increased performance based compensation and benefits costs.

Other Income (Expense). Other income (expense) for each of the three years in the period ended December 31, 1997 is as follows (in millions):

	1997	1996	1995
Interest income	$ 7.4	$ 4.5	$ 6.3
Interest expense, net	(21.4)	(20.8)	(16.6)
Other, net	.5	10.3	2.4
	$(13.5)	$ (6.0)	$ (7.9)

Other expense increased in 1997 as compared to 1996 due primarily to non-recurring income items recorded in "Other, net" in 1996 offset, in part, by additional interest income from higher outstanding cash balances. The 1996 non-recurring income items include a $6.4 million litigation settlement as

discussed in Note 8 to the Consolidated Financial Statements and $2.9 million from the disposition of securities previously received from the sale of the Company's technical services operations as discussed in Note 12 to the Consolidated Financial Statements. Other expense decreased in 1996 as compared to 1995, due primarily to the non-recurring income items discussed above offset, in part, by an increase in net interest expense due primarily to additional debt assumed in the Dual acquisition.

Provision for Income Taxes. For the years ended December 31, 1997, 1996 and 1995 the Company recorded provisions for income taxes of $137.8 million, $44.0 million and $3.4 million, resulting in effective tax rates of 36.7%, 30.8% and 7.2%, respectively. The Company's provision for income taxes increased significantly in 1997 as compared to 1996 due primarily to the increased profitability of the Company and the recognition, in 1996, of the remaining net operating losses for financial reporting purposes. The increase in the provision for income taxes in 1996 as compared to 1995 is due primarily to the increased profitability of the Company and the release of a larger amount of the valuation allowance on the Company's net operating losses in 1995. The Company's effective tax rate varies between years due primarily to the Company's level of profitability, the expected utilization or non-utilization of U.S. net operating loss carryforwards and foreign taxes. See Note 7 to the Company's Consolidated Financial Statements.

Income from Discontinued Operations. Effective September 30, 1995, the Company exited the technical services business through the sale of substantially all of the assets of its wholly owned subsidiary, ENSCO Technology Company, for total consideration of $19.8 million, including liabilities of $1.9 million assumed by the purchaser. As a result of this transaction, the Company's financial statements were reclassified to present the Company's technical services segment as a discontinued operation. Included in the 1995 Income from Discontinued Operations is a gain on the sale of the technical services business of $5.2 million and income from operations of the technical services business for the nine months ended September 30, 1995. Revenues from the technical services operations were $13.4 million in 1995. See Note 12 to the Company's Consolidated Financial Statements.

Liquidity and Capital Resources

Cash Flow from Operations and Capital Expenditures.

	Year Ended December 31,		
	1997	1996	1995
	(in millions)		
Cash flow from operations	$ 336.6	$ 198.6	$ 84.6
Capital expenditures, excluding discontinued operations and Dual acquisition:			
Sustaining	$ 30.6	$ 19.3	$ 11.3
Enhancements	131.8	99.4	109.7
Acquisitions	119.9	57.3	22.2
	$ 282.3	$ 176.0	$ 143.2

In 1997, cash flow from operations increased $138.0 million, or 69%, as compared to 1996. The 1997 increase in cash flow from operations is primarily a result of improved operating results offset, in part, by cash used for working capital changes. In 1996, cash flow from operations increased $114.0 million, or 135%, as compared to 1995, due primarily to improved operating results.

As part of the Company's ongoing enhancement program, approximately $341.0 million has been invested over the last three years in upgrading the capability and extending the service lives of the Company's drilling rigs and marine vessels. In addition, the Company has added to its fleet of drilling rigs through acquisitions. In December 1997, the Company acquired a harsh environment, Gorilla class, jackup rig located in the North Sea and, in May 1997, purchased the remaining 51% interest of a previously jointly-owned jackup rig located in Southeast Asia. In 1996, the Company acquired a jackup rig located in Southeast Asia and made the final payment on a jackup rig, purchased in 1995, which is located in the North Sea. Not included in the cash expenditure amounts above is the 10.1 million shares (20.1 million shares giving effect to the two-for-one stock split effective September 15, 1997) of common stock, valued at $218.4 million, issued in the acquisition of Dual.

The Company recently announced the construction of three new barge rigs for Lake Maracaibo, Venezuela, which are tied to five-year contracts with an affiliate of Chevron Corporation. The drilling rigs will be constructed at an

estimated aggregate cost of $105.0 million and are projected to be delivered in early 1999. The Company also recently announced the construction of a new international class harsh environment jackup rig. The rig, an enhanced KFELS MOD V, is scheduled for delivery by January 2000 at a total cost of approximately $130.0 million.

Management anticipates that capital expenditures will be approximately $40.0 to $50.0 million for existing operations and $150.0 to $200.0 million for upgrades and enhancements in 1998. In addition, the Company plans to spend approximately $150.0 million in 1998 for the new construction projects discussed above. The Company may spend additional funds to construct or acquire rigs or vessels in 1998 depending on market conditions and opportunities.

Financing and Capital Resources. The Company's long-term debt, total capital and debt to capital ratios are summarized below (in millions, except percentages):

	At December 31,		
	1997	1996	1995
Long-term debt	$ 400.8	$ 258.6	$ 159.2
Total capital	1,477.5	1,104.5	690.4
Long-term debt to total capital	27.1%	23.4%	23.1%

The increase in long-term debt in 1997 as compared to 1996 is primarily due to the issuance of $300.0 million of unsecured debt in a November 1997 public debt offering. The debt offering consisted 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"). The Notes and the Debentures were issued pursuant to a $500.0 million universal shelf registration statement filed with the Securities and Exchange Commission in October 1997. The net proceeds from the offering totaled approximately $287.8 million after selling and underwriting discounts and the settlement of interest rate hedges. Approximately $75.0 million of the net proceeds were used to retire the Company's revolving credit facility and $103.2 million of the net proceeds were used to acquire a harsh environment, Gorilla class, jackup rig. The Company recorded an extraordinary charge in the fourth quarter of 1997 for $1.0 million, net of income taxes, to write-off the remaining deferred financing costs associated with the revolving credit facility. The increase in long-term debt in 1996 as compared to 1995 primarily relates to $129.0 million of debt assumed in the acquisition of Dual offset, in part, by scheduled repayments of existing debt. See Note 4 to the Company's Consolidated Financial Statements.

The total capital of the Company increased in 1997 as compared to 1996 due to the profitability of the Company in 1997 and the increase in long-term debt. Total capital increased in 1996 as compared to 1995, due primarily to the issuance of shares of the Company's common stock in the Dual acquisition, the net increase in long-term debt and the profitability of the Company in 1996.

The Company's liquidity position is summarized in the table below (in millions, except ratios):

	At December 31,		
	1997	1996	1995
Cash and short-term investments	$262.2	$ 80.7	$ 82.1
Working capital	316.2	107.5	78.9
Current ratio	3.4	2.0	1.9

Based on the current financial condition of the Company, management believes cash flow from operations and the Company's working capital should be sufficient to fund the Company's ongoing liquidity needs for the foreseeable future. The Company may also obtain a new unsecured revolving line of credit to supplement its existing cash flow for capital spending projects. In addition, the Company has the ability to issue up to $200.0 million in debt securities, preferred stock or common stock under the shelf registration statement filed in October 1997.

Year 2000 Issue

The Company has developed a task force that is currently working to ascertain and resolve the potential problems associated with the Year 2000 and the processing of date sensitive information by the Company's computer and other systems. Based on preliminary information, the Company believes that it will be able to implement successfully the systems and programming changes necessary to address the Year 2000 issues, and does not expect the cost of such changes to have a material impact on the Company's financial position, results of operations or cash flows in future periods.

Market Risk

The Company occasionally uses financial instruments to hedge against its exposure to changes in foreign currencies and interest rates. The Company does not use financial instruments for trading purposes. The Company predominantly structures its contracts in U.S. dollars to mitigate its exposure to fluctuations in foreign currencies. The Company will, however, from time to time, hedge its known liabilities in foreign currencies to reduce the impact of foreign currency gains and losses in its financial results. Management believes that the Company's hedging activities do not expose the Company to any material interest rate risk, foreign currency exchange rate risk, commodity price risk or any other market rate or price risk. See Note 11 to the Consolidated Financial Statements.

Outlook and Forward-Looking Statements

The Company believes the demand for offshore drilling equipment will remain strong through 1998. Published estimates of exploration and production spending by oil and gas companies in 1998 indicate projected increases of approximately 10% over 1997 spending levels. Although the Company believes that demand for its equipment should remain strong, factors beyond the Company's control could adversely affect future market conditions. Such factors include, but are not limited to, a decline in the rate of worldwide economic growth leading to a reduction in demand for energy, and depressed oil and natural gas prices for a sustained period of time resulting in deferrals or cutbacks in exploration and production spending.

In response to the current and anticipated increase in demand, the Company is currently constructing three new barge rigs for Venezuela and one new harsh environment jackup rig. The Company also has an option, which expires in the third quarter of 1998, to build a second harsh environment jackup rig. In addition to new construction, the Company currently intends to perform major upgrades to five of its jackup rigs in 1998. Additionally, the Company is actively working on the design of a semisubmersible drilling rig that the Company intends to market to oil companies for deeper water drilling locations both domestically and internationally.

This report contains forward-looking statements based on current expectations that involve a number of risks and uncertainties. Generally, forward-looking statements include words or phrases such as "management anticipates," "the Company believes," "the Company anticipates," "the Company expects" and words and phrases of similar impact, and include but are not limited to statements regarding future operations and business environment. The forward-looking statements are made pursuant to safe harbor provisions of the Private Securities Litigation Reform Act of 1995. The factors that could cause actual results to differ materially from those in the forward-looking statements include the following: (i) industry conditions and competition, (ii) cyclical nature of the industry, (iii) worldwide expenditures for oil and gas drilling, (iv) operational risks and insurance, (v) risks associated with operating in foreign jurisdictions, (vi) environmental liabilities which may arise in the future which are not covered by insurance or indemnity, (vii) the impact of current and future laws and government regulation, as well as repeal or modification of same, affecting the oil and gas industry and the Company's operations in particular, and (viii) the risks described elsewhere, herein and from time to time in the Company's other reports to the Securities and Exchange Commission.

Item 8. Financial Statements and Supplementary Data

REPORT OF MANAGEMENT

The management of ENSCO International Incorporated and its subsidiaries has responsibility for the preparation, integrity and reliability of the consolidated financial statements and related financial information contained in this report.

The consolidated financial statements included in this report have been prepared in conformity with generally accepted accounting principles and prevailing practices of the industries in which the Company operates. In some instances, these financial statements include amounts that are based on management's best estimates and judgments.

The Company maintains a system of procedures and controls over financial reporting that is designed to provide reasonable assurance to the Company's management and Board of Directors regarding the integrity and the fair and reliable preparation and presentation, in all material respects, of its published financial statements. This system of financial controls and procedures is reviewed, modified, and improved as changes occur in business conditions and operations, and as a result of suggestions from the independent accountants. There are inherent limitations in the effectiveness of any system of internal control and even an effective system of internal control can provide only reasonable assurance with respect to the financial statement preparation and may vary over time. Management believes that, as of December 31, 1997, the Company's internal control system provides reasonable assurance that material errors or irregularities will be prevented or detected within a timely period and is cost effective.

As part of management's responsibility for monitoring compliance with established policies and procedures, it relies on, among other things, audit procedures performed by corporate auditors and independent accountants to give assurance that established policies and procedures are adhered to in all areas subject to their audits. The Board of Directors, operating through its Audit Committee composed solely of outside directors, meets periodically with management and the independent accountants for the purpose of monitoring their activities to ensure that each is properly discharging its responsibilities. The Audit Committee and independent accountants have unrestricted access to one another to discuss their findings.

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Stockholders of ENSCO International Incorporated

In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of income and of cash flows present fairly, in all material respects, the financial position of ENSCO International Incorporated and its subsidiaries at December 31, 1997 and 1996, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1997, in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards which 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

/s/ Price Waterhouse LLP

Dallas, Texas
January 28, 1998

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

	Year Ended December 31,		
	1997	1996	1995
REVENUES			
Contract drilling	$720.9	$408.6	$240.8
Marine transportation	94.2	60.2	38.3
	815.1	468.8	279.1
OPERATING EXPENSES			
Contract drilling	269.5	198.8	132.5
Marine transportation	37.2	28.5	23.4
Depreciation and amortization	104.8	81.8	58.4
General and administrative	14.3	11.0	9.6
	425.8	320.1	223.9
OPERATING INCOME	389.3	148.7	55.2
OTHER INCOME (EXPENSE)			
Interest income	7.4	4.5	6.3
Interest expense, net	(21.4)	(20.8)	(16.6)
Other, net	.5	10.3	2.4
	(13.5)	(6.0)	(7.9)
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES AND MINORITY INTEREST	375.8	142.7	47.3
PROVISION FOR INCOME TAXES			
Current income taxes	82.1	5.4	3.8
Deferred income taxes	55.7	38.6	(.4)
	137.8	44.0	3.4
MINORITY INTEREST	3.1	3.3	2.1
INCOME FROM CONTINUING OPERATIONS	234.9	95.4	41.8
INCOME FROM DISCONTINUED OPERATIONS	--	--	6.3
EXTRAORDINARY ITEM - EXTINGUISHMENT OF DEBT	(1.0)	--	--
NET INCOME	$233.9	$ 95.4	$ 48.1
BASIC EARNINGS PER SHARE			
Continuing operations	$ 1.67	$ .73	$ .35
Discontinued operations	--	--	.05
Extraordinary item	(.01)	--	--
Net income	$ 1.66	$ .73	$ .40
DILUTED EARNINGS PER SHARE			
Continuing operations	$ 1.64	$ .72	$ .35
Discontinued operations	--	--	.05
Extraordinary item	(.01)	--	--
Net income	$ 1.64	$ .72	$ .40
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING			
Basic	141.0	131.5	119.9
Diluted	142.9	133.1	120.8
CASH DIVIDENDS PER COMMON SHARE	$ .05	$ --	$ --

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

ENSCO INTERNATIONAL INCORPORATED AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET
(in millions, except for share amounts)

	December 31,	
	1997	1996
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 262.2	$ 80.7
Accounts and notes receivable, net	157.2	111.0
Prepaid expenses and other	27.7	19.7
Total current assets	447.1	211.4
PROPERTY AND EQUIPMENT, AT COST	1,534.1	1,248.9
Less accumulated depreciation	357.0	257.3
Property and equipment, net	1,177.1	991.6
OTHER ASSETS, NET	147.8	112.4
	$1,772.0	$1,315.4
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	$ 7.8	$ 11.5
Accrued liabilities	93.8	57.5
Current maturities of long-term debt	29.3	34.9
Total current liabilities	130.9	103.9
LONG-TERM DEBT	400.8	258.6
DEFERRED INCOME TAXES	128.2	73.0
OTHER LIABILITIES	24.4	25.5
MINORITY INTEREST	11.0	8.5
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY		
First preferred stock, $1 par value, 5.0 million shares authorized, none issued	--	--
Preferred stock, $1 par value, 15.0 million shares authorized, none issued	--	--
Common stock, $.10 par value, 250.0 million shares authorized, 155.2 million and 77.2 million shares issued	15.5	7.7
Additional paid-in capital	841.3	835.4
Retained earnings	298.6	71.8
Restricted stock (unearned compensation)	(6.8)	(4.9)
Cumulative translation adjustment	(1.1)	(1.1)
Treasury stock, at cost, 13.0 million and 6.3 million shares	(70.8)	(63.0)
Total stockholders' equity	1,076.7	845.9
	$1,772.0	$1,315.4

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

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

	Year Ended December 31,		
	1997	1996	1995
OPERATING ACTIVITIES			
Net income	$233.9	$ 95.4	$ 48.1
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	104.8	81.8	58.4
Deferred income tax provision (benefit)	55.7	38.6	(.4)
Amortization of other assets	8.6	4.4	3.4
Discontinued operations	--	--	(5.0)
Other	(.7)	(.4)	(1.2)
Changes in operating assets and liabilities:			
Increase in accounts receivable	(46.7)	(28.6)	(23.5)
(Increase) decrease in prepaid expenses and other	(33.3)	1.0	4.3
Increase (decrease) in accounts payable	(9.1)	.9	(3.8)
Increase in accrued and other liabilities	23.4	5.5	4.3
Net cash provided by operating activities	336.6	198.6	84.6
INVESTING ACTIVITIES			
Additions to property and equipment	(282.3)	(176.0)	(143.2)
Net cash acquired in Dual acquisition	--	8.5	--
Net proceeds from sales of discontinued operations	--	5.1	11.8
Sale of short-term investments, net	--	5.0	.8
Proceeds from disposition of assets	2.1	5.3	1.1
Other	.6	2.0	(2.4)
Net cash used by investing activities	(279.6)	(150.1)	(131.9)
FINANCING ACTIVITIES			
Long-term borrowings	--	59.0	24.0
Reduction of long-term borrowings	(160.0)	(85.4)	(40.7)
Net proceeds from public debt offering	287.8	--	--
Pre-acquisition purchase of Dual debt	--	(18.1)	--
Repurchase of common stock	--	--	(7.2)
Cash dividends paid	(7.1)	--	--
Tax benefit from stock compensation	5.2	--	--
Reduction in restricted cash	1.6	--	--
Other	(3.0)	(.4)	.4
Net cash provided (used) by financing activities	124.5	(44.9)	(23.5)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	181.5	3.6	(70.8)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	80.7	77.1	147.9
CASH AND CASH EQUIVALENTS, END OF YEAR	$262.2	$ 80.7	$ 77.1

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

ENSCO INTERNATIONAL INCORPORATED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Organization and Business

ENSCO International Incorporated (the "Company") is one of the leading international providers of offshore drilling and marine transportation services to the oil and gas industry. The Company owns or operates 54 offshore drilling rigs including 36 jackup rigs, ten barge rigs and eight platform rigs, as well as a fleet of 37 oilfield support vessels.

The Company's operations are concentrated in the geographic regions of North America, Europe, South America and Asia Pacific. In North America, the Company's offshore fleet consists of 22 jackup rigs, seven platform rigs and 37 oilfield support vessels, all located in the Gulf of Mexico. The Company's European operations consist of seven jackup rigs currently deployed in the United Kingdom, Dutch, and Norwegian sectors of the North Sea. In South America, the Company's fleet consists of ten barge rigs located in Venezuela. In Asia Pacific, the fleet consists of seven jackup rigs deployed in various locations and one platform rig that is not owned, but is operated by the Company under a management contract. All of the Company's domestic and foreign operations are conducted through wholly owned subsidiaries, with the exception of the Company's Venezuelan operations in which the Company holds an 85% interest and a locally owned private company owns the remaining 15%.

The Company's operations are integral to the exploration, development and production of oil and gas. Business levels for the Company, and its corresponding operating results, are significantly affected by worldwide expenditures for oil and gas drilling, particularly in the Gulf of Mexico where the Company has a large concentration of its rigs and vessels. Expenditures for oil and gas drilling activity fluctuate based upon many factors, including world economic conditions, the legislative environment in the U.S. and other major countries, production levels and other activities of OPEC and other oil and gas producers, and the impact that these and other events have on the current and expected future pricing of oil and natural gas.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and its majority owned subsidiaries. All significant intercompany accounts and transactions have been eliminated.

Pervasiveness of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make 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.

Cash Equivalents

The Company considers all highly liquid investments to be cash equivalents if they have maturities of three months or less at the date of purchase.

Foreign Currency Translation

The U.S. dollar is the functional currency of all of the Company's foreign subsidiaries. The financial statements of foreign subsidiaries are remeasured in U.S. dollars based on a combination of both current and historical exchange rates. Gains and losses caused by the remeasurement process applicable to foreign subsidiaries are reflected in the consolidated statement of income. Translation gains and losses were insignificant for all years in the three year period ended December 31, 1997. In prior years, the financial statements of certain foreign subsidiaries were maintained in the local foreign currency. Foreign currency translation adjustments for those subsidiaries were accumulated as a separate component of equity.

Property and Equipment

Depreciation on drilling rigs and related equipment and marine vessels acquired after 1990 is computed using the straight line method over estimated useful lives ranging from 4 to 19 years. Depreciation for other equipment and for buildings and improvements is computed using the straight line method over estimated useful lives ranging from 2 to 6 years and 2 to 30 years, respectively. Depreciation on drilling rigs and related equipment and marine vessels acquired prior to 1991 is computed using the units-of-production method over estimated useful lives ranging from 10 to 15 years. Under the units-of-production method, depreciation is based on the utilization of the drilling rigs and vessels with a minimum provision when the rigs or vessels are idle.

Maintenance and repair costs are charged to expense as incurred. Major renewals and improvements are capitalized. Upon retirement or replacement of assets, the related cost and accumulated depreciation are removed from the accounts and the resulting gain or loss is included in income.

Goodwill

Goodwill arising from acquisitions is amortized on the straight-line basis over periods ranging from 10 to 40 years. Amortization of goodwill was $3.1 million, $1.7 million and $0.5 million for the years ended December 31, 1997, 1996 and 1995, respectively. Goodwill, net of accumulated amortization, was $116.7 million and $106.2 million at December 31, 1997 and 1996, respectively, and is included in Other Assets, Net. Accumulated amortization of goodwill at December 31, 1997 and 1996 was $7.3 million and $4.2 million, respectively. On a periodic basis, the Company estimates the undiscounted future cash flows to be generated by the assets acquired to ensure the carrying value of goodwill has not been impaired.

Impairment of Assets

The Company evaluates the carrying value of its long-lived assets, consisting primarily of property and equipment and goodwill, when events or changes in circumstances indicate that the carrying value of such assets may be impaired. The determination of impairment is based upon expectations of undiscounted future cash flows, before interest, of the related asset.

Revenue Recognition

The Company's drilling and marine services contracts generally provide for payment on a day rate basis, and revenues are recognized as the work is performed.

Income Taxes

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 the Company's 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.

Minority Interest

The Company's Venezuelan operations are conducted through ENSCO Drilling (Caribbean), Inc. ("Caribbean"), in which the Company owns an 85% equity interest. Minority interest expense for the three years in the period ended December 31, 1997 reflects the minority shareholder's 15% equity interest in Caribbean. The minority shareholder is also entitled to an additional 15% of the net proceeds from any future sale of rigs currently owned by Caribbean.

Stock-Based Employee Compensation

The Company adopted Statement of Financial Accounting Standards ("SFAS") No. 123, "Accounting for Stock-Based Compensation," in 1996. Under the provisions of SFAS No. 123, the Company has elected to continue using the intrinsic value method of accounting for employee stock-based compensation in accordance with Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees." Under the intrinsic value method, if the exercise price of the Company's stock options equals the market value of the underlying stock on the date of grant, no compensation expense is recognized. See Note 6 "Employee Benefit Plans" for the required disclosure of pro forma information regarding net income and earnings per share as if the Company had accounted for its employee stock options under the fair value method of SFAS No 123.

Earnings Per Share

In February 1997, the Financial Accounting Standards Board issued SFAS No. 128, "Earnings per Share," which establishes new requirements for computing and presenting earnings per share information. The Company, as required, adopted this statement in the fourth quarter of 1997. Accordingly, all earnings per share and weighted average common shares outstanding information presented in these financial statements and footnotes have been restated to conform to the new statement. For each of the three years in the period ended December 31, 1997, 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 (in millions):

	Year Ended December 31,		
	1997	1996	1995
Weighted average common shares outstanding (basic) ..	141.0	131.5	119.9
Potentially dilutive common shares:			
Restricted stock grants	.5	.5	.4
Stock options	1.4	1.1	.5
Weighted average common shares outstanding (diluted).	142.9	133.1	120.8

All earnings per share amounts and weighted average common shares outstanding have been adjusted to reflect the two-for-one stock split effective September 15, 1997. See Note 5 "Stockholders' Equity."

Reclassifications

Certain previously reported amounts have been reclassified to conform to the 1997 presentation.

2. ACQUISITION OF DUAL DRILLING COMPANY ("DUAL")

On June 12, 1996, the Company acquired Dual pursuant to an Agreement and Plan of Merger among the Company, a wholly owned subsidiary of the Company and Dual. The acquisition was approved on that date by Dual stockholders who received 0.625 shares (1.25 shares giving effect to the two-for-one stock split effective September 15, 1997) of the Company's common stock for each share of Dual common stock. The Company issued approximately 10.1 million shares (20.1 million shares post split) of its common stock to Dual stockholders in connection with the acquisition, resulting in an acquisition price of approximately $218.4 million.

The acquisition of Dual was accounted for as a purchase and the acquisition cost was allocated to the assets acquired and liabilities assumed based on estimates of their respective fair values. The excess of the purchase price over net assets acquired of $114.3 million was allocated to goodwill and is being amortized over 40 years. The Company completed its final purchase price allocation and determination of goodwill, deferred taxes and other accounts in the second quarter of 1997.

The following unaudited pro forma information shows the consolidated results of operations for the years ended December 31, 1996 and 1995 based upon adjustments to the historical financial statements of the Company and the historical financial statements of Dual to give effect to the acquisition by the Company as if such acquisition had occurred January 1, 1995 (in millions, except per share data):

	1996	1995
Operating revenues	$522.4	$370.1
Operating income	149.6	53.2
Income from continuing operations	91.7	30.1
Net income	91.7	36.4
Basic earnings per share	$ .65	$ .26
Diluted earnings per share	.65	.26

The pro forma consolidated results of operations are not necessarily indicative of the actual results that would have occurred had the acquisition been effective on January 1, 1995, or of results that may occur in the future.

3. PROPERTY AND EQUIPMENT

Property and equipment at December 31, 1997 and 1996 consists of the following (in millions):

	1997	1996
Drilling rigs and equipment	$ 1,371.2	$ 1,134.0
Marine vessels	86.5	81.6
Other	20.8	15.2
Work in progress	55.6	18.1
	$ 1,534.1	$ 1,248.9

In May 1997, the Company acquired the remaining 51% interest in a jointly-owned premium jackup rig located in Southeast Asia for approximately $21.7 million. The Company's 49% interest in the jackup rig was previously acquired in the acquisition of Dual.

In December 1997, the Company purchased a harsh environment, Gorilla class, jackup drilling rig and certain related equipment for approximately $103.2 million ($5.0 million of which was recorded as assets held for sale). The drilling rig was renamed the ENSCO 100 and is under bareboat charter to Smedvig asa, the seller of the rig, which charter the Company expects will last until the year 2000.

In November 1996, the Company purchased a jackup rig located in Southeast Asia for approximately $44.0 million.

The Company's additions to property and equipment for the years ended December 31, 1997 and 1996 include approximately $131.8 million and $99.4 million, respectively, in connection with major modifications and enhancements of rigs and vessels.

4. LONG-TERM DEBT

Long-term debt at December 31, 1997 and 1996 consists of the following (in millions):

	1997	1996
6.75% Notes due 2007	$149.0	$ --
7.20% Debentures due 2027	148.1	--
9.875% Senior Subordinated Notes due 2004	74.7	75.2
Secured term loans (non-recourse to the Company)	44.6	74.8
Secured term loans	13.7	18.2
Revolving credit facility	--	125.1
Other	--	.2
	430.1	293.5
Less current maturities	(29.3)	(34.9)
Total long-term debt	$400.8	$258.6

Notes due 2007 and Debentures due 2027

In November 1997, the Company 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"). Interest on the Notes and the Debentures is payable semiannually commencing May 15, 1998. The Notes and the Debentures were issued pursuant to a $500.0 million universal shelf registration statement filed with the Securities and Exchange Commission in October 1997. The net proceeds from the offering totaled approximately $287.8 million after selling and underwriting discounts and the settlement of interest rate hedges. Approximately $75.0 million of the net proceeds were used to retire the Company's revolving credit facility and $103.2 million of the net proceeds were used to acquire a harsh environment, Gorilla class, jackup rig.

The Notes and Debentures may be redeemed at any time at the option of the Company, 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 Notes and 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 Notes and Debentures are not subject to any sinking fund requirements.

Senior Subordinated Notes due 2004

At the June 12, 1996 acquisition date, Dual had outstanding $100.0 million (face amount) of 9.875% Senior Subordinated Notes due 2004 (the "Dual Notes"). In July 1996, $5.0 million (face amount) of the Dual Notes were redeemed pursuant to an offer required to be made under the terms of the indenture. Additionally, the Company purchased $23.2 million (face amount) of the Dual Notes on the open market during 1996. At December 31, 1997 and 1996, the carrying value of the Dual Notes in the Consolidated Financial Statements is net of the amounts redeemed and purchased by the Company, and includes the unamortized premium assigned to the Dual Notes as a result of purchase accounting. The Dual Notes are unsecured obligations and are guaranteed by certain of the former Dual subsidiaries. The Dual Notes' indenture contains certain restrictive covenants relating to debt, restricted payments, disposition of proceeds of asset sales, transactions with affiliates, limitation on the payment of dividends and other payment restrictions, limitations on sale leaseback transactions and restrictions on mergers, consolidations and transfer of assets. Interest on the Dual Notes is payable semiannually and the Dual Notes are redeemable at the option of the Company, in whole or in part, at any time on or after January 15, 1999.

Secured term loans (non-recourse to the Company)

A subsidiary of the Company has two financing arrangements, in an original principal amount totalling $143.0 million, with a subsidiary of a Japanese corporation in connection with the construction of eight barge rigs delivered to Venezuela in 1993 and 1994. The financing arrangements consist of eight secured term loans, one for each barge rig. The eight secured term loans bear interest at an average fixed rate of 8.17% and are each repayable in 60 equal monthly installments of principal and interest ending in April 1998 through January 2000. The term loans are each secured by a specific barge rig, which had an aggregate combined net book value of $107.0 million at December 31, 1997, and the charter contract on each rig. The secured term loans are expected to be repaid from the cash flow generated by the eight barge rigs and are without recourse to the Company.

Secured term loans

In October 1993, the Company entered into a $25.0 million loan agreement with a financial institution. The seven year secured term loan bears interest at a fixed rate of 7.91% per annum, repayable in 28 equal quarterly installments ending October 15, 2000. The term loan is collateralized by certain of the Company's marine transportation vessels which had a combined net book value of $35.4 million at December 31, 1997. The loan agreement requires that the Company maintain a specified minimum tangible net worth and that the Company not exceed a certain ratio of liabilities to tangible net worth.

In December 1995, in connection with the purchase of four supply vessels that were previously leased, the Company entered into a $4.7 million loan agreement with the seller. The five year secured term loan bears interest at a fixed rate of 7.75% per annum, repayable in 20 equal quarterly installments ending January 2001. The term loan is collateralized by the four supply vessels purchased which had a combined net book value of $4.1 million at December 31, 1997.

Revolving credit facility

At December 31, 1996, the Company had $125.1 million outstanding under its revolving credit facility with a group of international banks (the "Facility"). The Facility carried a floating interest rate tied to London InterBank Offered Rates, which was 7.0% at December 31, 1996. The Company had entered into interest rate swap agreements that effectively changed the floating interest rate on $48.0 million of the outstanding Facility to fixed rates ranging from 6.835% to 7.48% per annum. The Facility was collateralized by certain of the Company's jackup rigs, which had a combined net book value of $388.3 million at December 31, 1996. The Facility was retired in November 1997 with proceeds from the Company's Notes and Debentures. Upon retirement, the Company recorded an extraordinary charge in the fourth quarter of 1997 of $1.0 million, net of income taxes, to write-off the remaining deferred financing costs associated with the revolving credit facility.

Maturities

Maturities of long-term debt, excluding amortization of discount or premium, is as follows: $29.3 million in 1998; $23.3 million in 1999; $5.7 million in 2000; none in 2001 or 2002 and $371.8 million thereafter.

5. STOCKHOLDERS' EQUITY

At the Company's annual meeting of stockholders on May 13, 1997, the stockholders approved an increase in the Company's authorized shares of common stock from 125.0 million shares to 250.0 million shares.

In August 1997, the Company's Board of Directors approved a two-for-one stock split of the Company's common stock effective September 15, 1997. Accordingly, all references to weighted average common shares outstanding and earnings per share amounts in the financial statements and footnotes have been adjusted to reflect the two-for-one stock split.

A summary of activity in the various stockholders' equity accounts for each of the three years in the period ended December 31, 1997 is as follows (shares in thousands, dollars in millions):

	Common Stock		Additional Paid-in Capital	Retained Earnings (Deficit)	Restricted Stock (Unearned Compensation)	Treasury Stock
	Shares	Amount				
BALANCE, December 31, 1994	66,571	$ 6.7	$ 612.3	$ (71.7)	$ (5.5)	$(52.6)
Net income	--	--	--	48.1	--	--
Common stock issued under employee incentive plans, net	320	--	3.3	--	(.9)	(1.3)
Repurchase of common stock	--	--	--	--	--	(7.2)
Amortization of unearned stock compensation	--	--	--	--	1.1	--
BALANCE, December 31, 1995	66,891	6.7	615.6	(23.6)	(5.3)	(61.1)
Net income	--	--	--	95.4	--	--
Common stock issued under employee incentive plans, net	215	--	2.4	--	(.7)	(1.9)
Common stock issued in Dual acquisition	10,069	1.0	217.4	--	--	--
Amortization of unearned stock compensation	--	--	--	--	1.1	--
BALANCE, December 31, 1996	77,175	7.7	835.4	71.8	(4.9)	(63.0)
Net income	--	--	--	233.9	--	--
Cash dividends paid	--	--	--	(7.1)	--	--
Common stock issued under employee incentive plans, net	505	0.1	8.4	--	(3.1)	(7.8)
Amortization of unearned stock compensation	--	--	--	--	1.2	--
Tax benefit from stock compensation		--	5.2	--	--	--
Two-for-one stock split	77,494	7.7	(7.7)	--	--	--
BALANCE, December 31, 1997	155,174	$ 15.5	$ 841.3	$ 298.6	$ (6.8)	$ (70.8)

At December 31, 1997 and 1996, the outstanding shares of the Company's common stock, net of treasury shares, were 142.2 million and 70.9 million, respectively.

On February 21, 1995, the Board of Directors of the Company adopted a shareholder rights plan and declared a dividend of one preferred share purchase right (a "Right") for each share of the Company's common stock outstanding on March 6, 1995. Each Right initially entitled its holder to purchase 1/100th of a share of the Company's Series A Junior Participating Preferred Stock for $50.00, subject to adjustment. In March 1997, the plan was amended to increase the purchase price from $50.00 to $250.00. The Rights generally will not become exercisable until 10 days after a public announcement that a person or group has acquired 15% or more of the Company's common stock (thereby becoming an "Acquiring Person") or the commencement of a tender or exchange offer upon consummation of which such person or group would own 15% or more of the Company's common stock (the earlier of such dates being called the "Distribution Date"). Rights will be issued with all shares of the Company's common stock issued from March 6, 1995 to the Distribution Date. Until the Distribution Date, the Rights will be evidenced by the certificates representing the Company's common stock and will be transferrable only with the Company's common stock. If any person or group becomes an Acquiring Person, each Right, other than Rights beneficially owned by the Acquiring Person (which will thereupon become void), will thereafter entitle its holder to purchase, at the Rights' then current exercise price, shares of the Company's common stock having a market value of two times the exercise price of the Right. If, after a person or group has become an Acquiring Person, the Company is acquired in a merger or other business combination transaction or 50% or more of its assets or earning power are sold, each Right (other than Rights owned by an Acquiring Person which will have become void) will entitle its holder to purchase, at the Rights' then current exercise price, that number of shares of common stock of the person with whom the Company has engaged in the foregoing transaction (or its parent) which at the time of such transaction will have a market value of two times the

exercise price of the Right. After any person or group has become an Acquiring Person, the Company's Board of Directors may, under certain circumstances, exchange each Right (other than Rights of the Acquiring Person) for shares of the Company's common stock having a value equal to the difference between the market value of the shares of the Company's common stock receivable upon exercise of the Right and the exercise price of the Right. The Company will generally be entitled to redeem the Rights for $.01 per Right at any time until 10 days after a public announcement that a 15% position has been acquired. The Rights expire on February 21, 2005.

6. EMPLOYEE BENEFIT PLANS

Stock Options

The Company has an employee stock option plan as part of the ENSCO Incentive Plan (the "Incentive Plan"). The maximum number of shares with respect to which awards may be made pursuant to the Incentive Plan is 12.5 million. Of the 12.5 million shares, a minimum of 1.3 million are reserved for issuance of incentive stock grants and a minimum of 1.3 million are reserved for issuance as profit sharing grants. Incentive stock options generally become exercisable in 25% increments over a four-year period. To the extent not exercised, options expire generally on the fifth anniversary of the date of grant.

On February 10, 1998, the Company's Board of Directors voted to adopt a new employee stock option plan, subject to approval by the Company's stockholders. If the new plan is approved by the Company's stockholders, the Incentive Plan will be suspended. The new plan is expected to contain provisions similar to the Incentive Plan regarding stock options and stock grants.

In May 1996, the stockholders approved the Company's 1996 Non-Employee Directors Stock Option Plan ("Directors Plan"). Under the Directors Plan, a maximum of 600,000 shares are reserved for issuance. Options 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 stock options under the Incentive Plan and the Directors Plan is the market value of the stock at the date the option is granted. Accordingly, no compensation expense is recognized by the Company with respect to such grants.

Pro forma information regarding net income and earnings per share is required by SFAS No. 123, and has been determined as if the Company had accounted for its employee stock options under the fair value method of that statement. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions:

	1997	1996	1995
Risk-free interest rate	6.4%	6.3%	6.8%
Expected life (in years)	4.0	4.0	4.0
Expected volatility	36.0%	38.7%	40.2%
Dividend yield	--	--	--

The following table reflects pro forma net income and earnings per share under the fair value approach of SFAS No. 123 (in millions, except per share amounts):

	1997		1996		1995	
	As Reported	Pro forma	As Reported	Pro forma	As Reported	Pro forma
Net income.....	$233.9	$230.9	$95.4	$94.3	$48.1	$47.6
Basic earnings per share.....	1.66	1.64	.73	.72	.40	.40
Diluted earnings per share.....	1.64	1.62	.72	.71	.40	.40

These pro forma amounts may not be representative of future disclosures since the estimated fair value of stock options is amortized to expense over the vesting period, and additional options may be granted in future years.

A summary of stock option transactions under the Incentive Plan and Directors Plan is as follows (shares in thousands):

	1997		1996		1995	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at beginning of year	2,301	$ 8.83	2,242	$ 6.66	2,010	$ 5.44
Granted	1,583	24.74	486	15.51	1,024	8.16
Exercised	(721)	6.39	(376)	4.49	(525)	4.64
Forfeited	(58)	16.59	(51)	9.34	(267)	7.22
Outstanding at end of year	3,105	$17.36	2,301	$ 8.83	2,242	$ 6.66
Exercisable at end of year	773	$ 9.38	948	$ 6.65	754	$ 5.23
Weighted average fair value of options granted during the year		$ 9.34		$ 6.08		$ 3.31

The following table summarizes information about stock options outstanding at December 31, 1997 (shares in thousands):

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding at 12/31/97	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable at 12/31/97	Weighted Average Exercise Price
$ 6.00 - $10.00	1,112	1.8 years	$ 7.68	616	$ 7.33
$10.00 - $15.00	264	3.4 years	14.77	52	14.89
$15.00 - $20.00	151	3.6 years	16.36	64	15.81
$20.00 - $25.00	1,548	4.4 years	24.65	41	23.14
$25.00 - $32.00	30	4.5 years	27.40	--	--
$ 6.00 - $32.00	3,105	3.4 years	$17.36	773	$ 9.38

At December 31, 1997, 1.2 million shares were available for grant as options or incentive grants under the Incentive Plan and 528,000 shares were available for grant as options under the Directors Plan.

Incentive Stock Grants

Key employees, who are in a position to contribute materially to the Company's growth and development and to its long-term success, are eligible for incentive stock grants under the Incentive Plan through February 8, 1998. Shares of common stock subject to incentive grants vest on such a basis as determined by a committee of the Board of Directors. Through 1997, incentive stock grants for 2.5 million shares of common stock were granted, of which 1.7 million were vested at December 31, 1997. During 1997, 1996 and 1995, incentive stock grants for 100,000 shares, 50,000 shares and 105,000 shares, respectively, were granted. The remaining outstanding incentive stock grants vest as follows:
204,500 in 1998, 199,500 in years 1999 and 2000, 37,500 in years 2001 through 2004, 25,500 in 2005, 15,000 in 2006 and 10,000 in 2007.

Savings Plan

The Company has a profit sharing plan (the "ENSCO Savings Plan") which covers eligible employees with more than one year of service, as defined. Profit sharing contributions require Board of Directors approval and may be in cash or grants of the Company's common stock. The Company recorded profit sharing contribution provisions for the years ended December 31, 1997, 1996 and 1995 of $8.4 million, $3.8 million and $1.7 million, respectively.

The ENSCO Savings Plan includes a 401(k) savings plan feature which allows eligible employees with more than three months of service to make tax deferred contributions to the plan. The Company makes matching contributions based on the amount of employee contributions and rates set by the Company's Board of Directors. Matching contributions totaled $2.1 million, $1.1 million and $0.7 million in 1997, 1996 and 1995, respectively. The Company has reserved 1.0 million shares of common stock for issuance as matching contributions under the ENSCO Savings Plan.

Supplemental Executive Retirement Plan

The Company's 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 an unfunded plan and eligibility for participation is determined by the Company's Board of Directors. The contribution and Company matching provisions of the SERP are identical to the ENSCO Savings Plan, except that each participant's contributions and matching contributions under the SERP are further limited by contribution amounts, if any, under the 401(k) savings plan feature of the ENSCO Savings Plan. Matching contributions totaled $56,000 in 1997 and $22,000 in both 1996 and 1995. A SERP liability of $689,000 and $330,000 is included in Other Liabilities at December 31, 1997 and 1996, respectively.

Employee Retirement Plan

Eligible former Penrod employees participate in a noncontributory defined benefit employee retirement plan. However, the plan was frozen effective December 31, 1990. Accordingly, no additional participants may join the plan and no additional benefits have been accrued for participants subsequent to December 31, 1990. The Company's policy is to fund the plan based on the minimum funding requirements of the Employee Retirement Income Security Act of 1974 and tax considerations. The Company has recorded a plan termination liability, net of plan assets, of $3.4 million, which is included in Accrued Liabilities at December 31, 1997. Management intends to terminate the plan when it is in the best financial interest of the Company by purchasing annuities or otherwise providing for participants under the plan. Net periodic pension expense for all years presented was insignificant.

7. INCOME TAXES

The Company had income of $240.5 million, $92.8 million and $33.2 million from its operations before income taxes in the United States and income of $135.3 million, $49.9 million and $14.1 million from its operations before income taxes in foreign countries for the years ended December 31, 1997, 1996 and 1995, respectively.

The components of the provision for income taxes for each of the three years in the period ended December 31, 1997 are as follows (in millions):

	1997	1996	1995
Current:			
Federal	$ 61.2	$ 2.1	$ 1.3
State	1.3	--	--
Foreign	19.6	3.3	2.5
Total current	82.1	5.4	3.8
Deferred:			
Federal	42.9	40.9	.9
Foreign	12.8	7.7	5.2
Total deferred	55.7	48.6	6.1
Deferred tax asset valuation allowance	--	(10.0)	(6.5)
Total	$137.8	$ 44.0	$ 3.4

Significant components of deferred income tax assets (liabilities) as of December 31, 1997 and 1996 are comprised of the following (in millions):

	1997	1996
Deferred tax assets:		
Net operating loss carryforwards	$ 22.5	$ 61.6
Liabilities not deductible for tax purposes	5.9	7.1
Safe harbor leases	3.7	4.9
Accrued benefits	2.0	1.1
Minimum tax credit carryforward	--	2.1
Foreign tax credit carryforward	14.9	2.7
Unfunded pension liability	1.2	1.5
Other	3.8	5.2
Total deferred tax assets	54.0	86.2
Deferred tax liabilities:		
Property	(168.8)	(148.0)
Tax gain recognized on transfer of assets	(3.3)	(3.5)
Other	(6.3)	(2.8)
Total deferred tax liabilities	(178.4)	(154.3)
Net deferred tax liabilities	$(124.4)	$(68.1)
Net current deferred tax asset	$ 3.8	$ 4.9
Net noncurrent deferred tax liability	(128.2)	(73.0)
Net deferred tax liability	$(124.4)	$(68.1)

During 1996, the Company released the remaining $10.0 million of its deferred tax asset valuation allowance based on the assessment of the Company's ability to realize the full benefit of all of its net operating loss carryforwards. In 1995, $38.0 million of the deferred tax asset valuation allowance was released, of which $13.3 million was recorded as an adjustment to goodwill. The adjustment to goodwill represents the amount related to pre-acquisition net operating losses of an acquired entity previously anticipated to expire unutilized.

The consolidated effective income tax rate for each of the three years in the period ended December 31, 1997, differs from the United States statutory income tax rate as follows:

	1997	1996	1995
Statutory income tax rate	35.0%	35.0%	35.0%
Utilization of net operating loss carryforwards	--	--	(26.7)
Change in valuation allowance	--	(7.0)	(13.7)
Foreign taxes	(0.5)	(3.3)	7.8
Alternative minimum tax	--	1.5	2.8
Other	2.2	4.6	2.0
Effective income tax rate	36.7%	30.8%	7.2%

At December 31, 1997, the Company had net operating loss carryforwards of approximately $64.3 million and foreign tax credit carryforwards of $14.9 million. If not utilized, the net operating loss carryforwards expire from 1999 through 2007 and the foreign tax credit carryforwards expire from 2001 through 2002. As a result of certain acquisitions in prior years, the utilization of a portion of the Company's net operating loss carryforwards are subject to limitations imposed by the Internal Revenue Code of 1986. However, the Company does not expect such limitations to have an effect upon its ability to utilize its net operating loss carryforwards.

It is the policy of the Company to consider that income generated in foreign subsidiaries is permanently invested. A significant portion of the Company's undistributed foreign earnings at December 31, 1997 were generated by controlled foreign corporations. A portion of the undistributed foreign earnings were taxed, for U.S. tax purposes, in the year that such earnings arose. Upon distribution of foreign earnings in the form of dividends or otherwise, the Company may be subject to additional U.S. income taxes. However, deferred taxes related to the future remittance of these funds are not expected to be significant to the financial statements of the Company.

8. COMMITMENTS AND CONTINGENCIES

Leases

The Company is obligated under leases for certain of its offices and equipment. Rental expense relating to operating leases was $3.9 million in 1997 and $3.1 million for each of the years 1996 and 1995. Future minimum rental payments under the Company's noncancellable operating lease obligations having initial or remaining lease terms in excess of one year are as follows: $4.6 million in 1998; $2.8 million in 1999; $1.7 million in 2000; $700,000 in 2001; $300,000 in 2002 and none thereafter.

Insurance

Prior to its acquisition by the Company, Dual was self-insured for a substantial portion of its maritime claims exposure, with self-insured limits of up to $500,000 for each claim. Effective June 12, 1996, the Company increased Dual's insurance coverage to levels consistent with the Company's existing policies which, among other things, limits the exposure to maritime claims to $25,000 for each claim. Based on current information, the Company has provided adequate reserves for such claims.

Litigation Settlement

In February 1991, a subsidiary of the Company filed an action against TransAmerican Natural Gas Corporation and related subsidiaries and affiliates ("TransAmerican") seeking damages for breach of contract. On April 5, 1996, the U.S. District court for the Southern District of Texas, Houston Division, entered a judgment against TransAmerican. As a result of the judgment, on April 18, 1996, the subsidiary of the Company entered into a settlement agreement with TransAmerican. Under the terms of the settlement agreement, the subsidiary of the Company received approximately $7.3 million. In the second quarter of 1996, the Company recorded a gain of $6.4 million in Other Income, net, with a corresponding increase in deferred income tax expense of $2.2 million for an after tax gain of $4.2 million.

Letters of Credit

The Company, from time to time, maintains legally restricted cash balances with banks as collateral for letters of credit issued by banks. These letters of credit are required under certain drilling contracts and the Company's insurance arrangement. There were no restricted cash balances at December 31, 1997. Restricted cash balances of $1.6 million at December 31, 1996 are recorded in Prepaid Expenses and Other.

At December 31, 1997, there were no other contingencies, claims or lawsuits against the Company which, in the opinion of management, would have a material effect on its financial condition or results of operations.

9. SEGMENT INFORMATION

Segment and geographic information for each of the three years in the period ended December 31, 1997 is as follows (in millions):

INDUSTRY SEGMENT

	Contract Drilling	Marine Transportation	Corporate & Other	Total
1997				
Revenues	$ 720.9	$ 94.2	$ --	$ 815.1
Operating income (loss)	341.7	48.2	(.6)	389.3
Identifiable assets	1,424.7	77.3	270.0	1,772.0
Capital expenditures	268.8	9.7	3.8	282.3
Depreciation and amortization	96.7	7.4	.7	104.8
1996				
Revenues	$ 408.6	$ 60.2	$ --	$ 468.8
Operating income (loss)	125.8	23.4	(.5)	148.7
Identifiable assets	1,165.6	70.5	79.3	1,315.4
Capital expenditures	170.1	4.2	1.7	176.0
Depreciation and amortization	74.2	7.1	.5	81.8
1995				
Revenues	$ 240.8	$ 38.3	$ --	$ 279.1
Operating income (loss)	48.0	7.9	(.7)	55.2
Identifiable assets	649.5	66.7	105.3	821.5
Capital expenditures	135.1	7.2	.9	143.2
Depreciation and amortization	52.2	5.8	.4	58.4

GEOGRAPHIC REGION

	North America	Europe	Asia Pacific	South America	Corporate & Other	Total
1997						
Revenues	$ 476.9	$ 173.8	$ 81.6	$ 82.8	$ --	$ 815.1
Operating income (loss)	244.4	93.4	16.7	35.4	(.6)	389.3
Identifiable assets	670.8	380.5	292.8	157.9	270.0	1,772.0
1996						
Revenues	$ 276.9	$ 91.8	$ 24.6	$ 75.5	$ --	$ 468.8
Operating income (loss)	91.8	18.4	2.7	36.3	(.5)	148.7
Identifiable assets	647.4	266.5	167.5	154.7	79.3	1,315.4
1995						
Revenues	$ 157.6	$ 59.5	$ --	$ 62.0	$ --	$ 279.1
Operating income (loss)	23.1	7.1	(.8)	26.5	(.7)	55.2
Identifiable assets	358.5	201.8	3.1	152.8	105.3	821.5

For each of the three years in the period ended December 31, 1997, revenues from two customers were in excess of 10% of the Company's total revenues. Revenues from one customer represented 15%, 16% and 22% of the Company's total revenues for the years ended December 31, 1997, 1996 and 1995, respectively. Revenues from another customer represented 10%, 14% and 12% of the Company's total revenues for the years ended December 31, 1997, 1996 and 1995, respectively.

10. TRANSACTIONS WITH RELATED PARTIES

In January 1997, a director of the Company settled a $675,000 note payable to the Company. The note payable related to the director's purchase of 168,750 shares (337,500 shares post split) of restricted common stock of the Company in 1988. The note was settled through the delivery to the Company of restricted shares of the Company's common stock valued at a formula price provided for in the 1988 stock purchase agreement. The director retained 132,998 net shares (265,996 shares post split) of common stock and $238,000 cash after repayment of the note.

11. SUPPLEMENTAL FINANCIAL INFORMATION

Consolidated Balance Sheet Information. Accounts and notes receivable, net at December 31, 1997 and 1996 consists of the following (in millions):

	1997	1996
Trade	$154.3	$101.9
Other	6.6	10.8
	160.9	112.7
Allowance for doubtful accounts	(3.7)	(1.7)
	$157.2	$111.0

Prepaid expenses and other at December 31, 1997 and 1996 consists of the following (in millions):

	1997	1996
Deferred tax asset	$ 3.8	$ 4.9
Prepaid expenses	5.7	5.5
Inventory	3.4	2.1
Deposits	--	1.9
Prepaid taxes	8.8	--
Other	6.0	5.3
	$ 27.7	$ 19.7

Accrued liabilities at December 31, 1997 and 1996 consists of the following (in millions):

	1997	1996
Operating expenses	$ 18.3	$ 16.0
Payroll	21.1	14.3
Taxes	28.1	8.6
Insurance	4.0	4.4
Deferred revenue	6.1	4.2
Accrued interest	5.8	5.6
Accrued work in progress	5.4	--
Other	5.0	4.4
	$ 93.8	$ 57.5

Consolidated Statement of Income Information. Maintenance and repairs expense for the years ended December 31, 1997, 1996 and 1995 is as follows (in millions):

	1997	1996	1995
Maintenance and repairs	$38.3	$30.7	$18.2

Consolidated Statement of Cash Flows Information. The 1996 consolidated statement of cash flows excludes the issuance of approximately 10.1 million shares (20.1 million shares post split) of common stock valued at approximately $218.4 million for the acquisition of Dual. See Note 2 "Acquisition of Dual Drilling Company."

The 1995 consolidated statement of cash flows excludes noncash activities related to a deferred purchase payment on a jackup rig of $13.0 million, the transfer of the Company's $6.6 million investment in a joint venture to property and equipment, the incurrence of $4.7 million in long-term debt associated with the purchase of four supply vessels that were previously leased, a $13.3 million adjustment to goodwill for the release of the valuation allowance on pre-acquisition net operating losses that were previously expected to expire unutilized, and consideration received relative to the sale of the Company's technical services segment as described in Note 12 "Discontinued Operations."

Cash paid for interest and income taxes for each of the three years in the period ended December 31, 1997 is as follows (in millions):

	1997	1996	1995
Interest, net of amounts capitalized.....	$20.4	$20.9	$15.1
Income taxes.....	69.2	3.9	5.0

The Company capitalized interest of approximately $1.4 million in 1997 and none in years 1996 and 1995.

Fair Value of Financial Instruments. The carrying amounts and estimated fair values of the Company's financial instruments at December 31, 1997 and 1996 are as follows (in millions):

	December 31, 1997		December 31, 1996	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
6.75% Notes.....	$149.0	$150.6	$ --	$ --
7.20% Debentures.....	148.1	150.9	--	--
9.875% Senior Subordinated Notes.....	74.7	77.8	75.2	77.8
Other long-term debt, including current maturities.....	58.3	59.2	218.3	218.7

The estimated fair values were determined as follows:

Notes, Debentures and Senior Subordinated Notes - Quoted market price.

Other long-term debt - Interest rates currently available to the Company for issuance of debt with similar terms and remaining maturities.

The estimated fair value of the Company's cash and cash equivalents, receivables, trade payables and other liabilities approximated their carrying values at December 31, 1997 and 1996. The Company has cash, receivables and payables denominated in currencies other than functional currencies. These financial assets and liabilities create exposure to foreign currency exchange risk. When warranted, the Company hedges such risk by entering into purchase options or futures contracts. The Company does not enter into such contracts to engage in speculation. The notional amounts of such contracts outstanding at December 31, 1997 and 1996 was insignificant and approximated market value.

Concentration of Credit Risk. The Company provides services to the offshore oil and gas industry and the Company's customers consist primarily of major and independent oil and gas producers as well as government-owned oil companies. The Company performs ongoing credit evaluations of its customers and generally does not require material collateral. The Company maintains reserves for potential credit losses, which to date have been within management's expectations. The Company's cash and cash equivalents are maintained in major banks and high grade investments. As a result, the Company believes the credit risk in such instruments is minimal.

12. DISCONTINUED OPERATIONS

Effective September 30, 1995, the Company exited the technical services business through the sale of substantially all of the assets of its wholly owned subsidiary, ENSCO Technology Company. The sales price consisted of $11.8 million in cash, an interest-bearing promissory note for $3.6 million, an interest-bearing convertible promissory note for $2.5 million and the assumption of $1.9 million of liabilities. In July 1996, the acquiring company successfully completed a public offering which allowed the Company the right to convert the $2.5 million convertible promissory note into common stock of the purchaser. The Company exercised this right and sold the common stock for $5.4 million in July 1996, realizing a pre-tax gain of approximately $2.9 million on the sale. The pre-tax gain of $2.9 million is recorded in Other Income, net, with a corresponding increase in deferred income tax expense of $1.1 million for an after-tax gain of $1.8 million. Also, as a result of the public offering, the $3.6 million promissory note was paid in full in July 1996.

As a result of the sale of the technical services business, the Company's financial statements have been reclassified to present the net assets and operating results of the Company's technical services operations segment as a discontinued operation. Included in the 1995 Income from Discontinued Operations is a gain on the sale discussed above of $5.2 million and income from operations for the nine months ended September 30, 1995 of $1.1 million. Revenues from the technical services operations were $13.4 million in 1995.

13. UNAUDITED QUARTERLY FINANCIAL DATA

A summary of unaudited quarterly consolidated financial information for 1997 and 1996 is as follows (in millions, except per share amounts):

1997	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
Revenues					
Contract drilling	$ 140.8	$ 172.5	$ 199.5	$ 208.1	$ 720.9
Marine transportation	20.8	22.9	23.8	26.7	94.2
	161.6	195.4	223.3	234.8	815.1
Operating expenses					
Contract drilling	61.9	68.2	70.4	69.0	269.5
Marine transportation	8.2	8.9	10.0	10.1	37.2
	70.1	77.1	80.4	79.1	306.7
Operating margin	91.5	118.3	142.9	155.7	508.4
Depreciation and amortization	24.2	25.8	27.0	27.8	104.8
General and administrative	3.1	3.8	3.5	3.9	14.3
Operating income	64.2	88.7	112.4	124.0	389.3
Interest income	1.4	1.3	1.4	3.3	7.4
Interest expense, net	5.8	4.8	5.0	5.8	21.4
Other income (expense)	.1	--	(.1)	.5	.5
Income before income taxes and minority interest	59.9	85.2	108.7	122.0	375.8
Provision for income taxes	22.7	32.1	40.4	42.6	137.8
Minority interest	.9	.9	.5	.8	3.1
Income before extraordinary item	36.3	52.2	67.8	78.6	234.9
Extraordinary item - extinguishment of debt	--	--	--	(1.0)	(1.0)
Net income	$ 36.3	$ 52.2	$ 67.8	$ 77.6	$ 233.9
Basic earnings per share					
Income before extraordinary item	$ .26	$ .37	$ .48	$ .56	$ 1.67
Extraordinary item	--	--	--	(.01)	(.01)
Net income	$ .26	$ .37	$ .48	$ .55	$ 1.66
Diluted earnings per share					
Income before extraordinary item	$ .25	$ .37	$ .47	$ .55	$ 1.64
Extraordinary item	--	--	--	(.01)	(.01)
Net income	$ .25	$ .37	$ .47	$ .54	$ 1.64

1996	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
Revenues					
Contract drilling	$ 72.8	$ 83.7	$ 118.3	$ 133.8	$ 408.6
Marine transportation	11.7	13.6	16.3	18.6	60.2
	84.5	97.3	134.6	152.4	468.8
Operating expenses					
Contract drilling	37.3	42.5	57.4	61.6	198.8
Marine transportation	6.2	6.8	7.4	8.1	28.5
	43.5	49.3	64.8	69.7	227.3
Operating margin	41.0	48.0	69.8	82.7	241.5
Depreciation and amortization	16.4	17.9	23.6	23.9	81.8
General and administrative	2.2	2.9	2.8	3.1	11.0
Operating income	22.4	27.2	43.4	55.7	148.7
Interest income	1.2	1.1	1.1	1.1	4.5
Interest expense	4.0	4.4	6.3	6.1	20.8
Other income (expense)	.3	7.5	2.7	(.2)	10.3
Income before income taxes and minority interest	19.9	31.4	40.9	50.5	142.7
Provision for income taxes	4.8	8.8	13.0	17.4	44.0
Minority interest	.4	1.0	.7	1.2	3.3
Net income	$ 14.7	$ 21.6	$ 27.2	$ 31.9	$ 95.4
Basic earnings per share	$ .12	$ .17	$ .19	$ .23	$ .73
Diluted earnings per share	$ .12	$ .17	$ .19	$ .22	$ .72

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

PART III

Item 10. Directors and Executive Officers, Item 11. Executive Compensation, Item
12. Security Ownership of Certain Beneficial Owners and Management, and Item 13. Certain Relationships and Related Transactions

Certain information regarding the executive officers of the Company has been presented in "Executive Officers of the Registrant" as included in "Item 1. Business."

Pursuant to General Instruction G(3), the additional information required by these items is hereby incorporated by reference to the Company's definitive proxy statement, which involves the election of directors and will be filed with the Commission not later than 120 days after the end of the fiscal year ended December 31, 1997.

PART IV

Item 14. Exhibits, Financial Statement Schedules and Reports on Form 8-K

(a) Financial statements, financial statement schedules and exhibits filed as part of this report:

(2) Exhibits

The following instruments are included as exhibits to this Report. Exhibits incorporated by reference are so indicated by parenthetical information.

Exhibit No. Document

2.1 - Agreement and Plan of Merger, dated March 21, 1996, between ENSCO International Incorporated, DDC Acquisition Company and DUAL DRILLING COMPANY (incorporated by reference to Exhibit 99.7 to the Registrant's Form 8-K dated March 21, 1996, File No. 1-8097).

2.2 - Principal Stockholder Agreement between ENSCO International Incorporated and Dual Invest AS (incorporated by reference to Exhibit 99.8 to the Registrant's Form 8-K dated March 21, 1996, File No. 1-8097).

2.3 - Amendment No. 1 to Agreement and Plan of Merger, dated May 7, 1996, between ENSCO International Incorporated, DDC Acquisition Company and DUAL DRILLING COMPANY (incorporated by reference to Exhibit 2.2 of Amendment No. 1 to the Registrant's Registration Statement on Form S-4 filed May 10, 1996, Registration No. 333-3411).

3.1 - Amended and Restated Certificate of Incorporation (incorporated by reference to Exhibit 3.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 1997, File No. 1-8097).

3.2 - Bylaws of the Company, as amended (incorporated by reference to Exhibit 3.2 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1992, File No. 1-8097).

4.1 - Indenture, dated November 20, 1997, between the Company and Bankers Trust Company, as Trustee (incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K dated November 24, 1997, File No 1-8097).

4.2 - First Supplemental Indenture, dated November 20, 1997, between the Company and Bankers Trust Company, as trustee, supplementing the Indenture dated as of November 20, 1997 (incorporated by reference to Exhibit 4.2 to the Registrant's Current Report on Form 8-K dated November 24, 1997, File No 1-8097).

4.3 - Form of Note (incorporated by reference to Exhibit 4.3 to the Registrant's Current Report on Form 8-K dated November 24, 1997, File No 1-8097).

4.4 - Form of Debenture (incorporated by reference to Exhibit 4.4 to the Registrant's Current Report on Form 8-K dated November 24, 1997, File No 1-8097).

Exhibit No. Document

4.5 - Rights Agreement, dated February 21, 1995, between the Company and American Stock Transfer & Trust Company, as Rights Agent, which includes as Exhibit A the Form of Certificate of Designations of Series A Junior Participating Preferred Stock of ENSCO International Incorporated, as Exhibit B the Form of Right Certificate, and as Exhibit C the Summary of Rights to Purchase Shares of Preferred Stock of ENSCO International Incorporated (incorporated by reference to Exhibit 4 to Registrant's Form 8-K dated February 21, 1995, File No. 1-8097).

4.6 - First Amendment to Rights Agreement, dated March 3, 1997, between ENSCO International Incorporated and American Stock Transfer & Trust Company, as Rights Agent (incorporated by reference to Exhibit 4.2 to the Registrant's Current Report on Form 8-K dated March 3, 1997, File No. 1-8097).

4.7 - Certificate of Designation of Series A Junior Participating Preferred Stock of the Company (incorporated by reference to Exhibit 4.6 to the Registrant's Annual Report on Form 10-K/A for the year ended December 31, 1995, File No. 1-8097).

10.1 - ENSCO Incentive Plan, as amended (incorporated by reference to Exhibit 10.1 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1993, File No. 1-8097).

***10.2 - Amendment to ENSCO Incentive Plan, dated November 11, 1997.**

10.3 - Restricted Stock Agreement effective as of June 10, 1987 between Morton H. Meyerson and the Company (incorporated by reference to Exhibit 10.6 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 1992, File No. 1-8097).

10.4 - Restricted Stock Agreement effective as of May 31, 1988 between Morton H. Meyerson and the Company (incorporated by reference to Exhibit 19.2 to the Registrant's Quarterly Report on Form 10-Q for the period ended September 30, 1988, File No. 1-8097).

10.5 - Termination of Pledge Agreement and Amendment of Restricted Stock Agreement, dated March 1, 1991, by and between Morton H. Meyerson and the Company (incorporated by reference to Exhibit 10.108 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1990, File No. 1-8097).

10.6 - First Amendment, dated March 1, 1991, to the Promissory Note dated July 19, 1988 in the original principal amount of $675,000 between Morton H. Meyerson and the Company (incorporated by reference to Exhibit 10.109 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1990, File No. 1-8097).

10.7 - Supplemental Compensation Agreement, dated March 1, 1991, between Morton H. Meyerson and the Company (incorporated by reference to Exhibit 10.110 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1990, File No. 1-8097).

10.8 - Second Amendment, dated September 14, 1995, to the Promissory Note dated July 19, 1988 in the original principal amount of $675,000 between Morton H. Meyerson and the Company (incorporated by reference to Exhibit 10.24 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1995, File No. 1-8097).

10.9 - Letter Agreement, dated January 8, 1997, by and between Morton H. Meyerson and the Company (incorporated by reference to Exhibit 10.24 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1996, File No. 1-8097).

10.10 - Construction and Purchase Agreement dated as of February 3, 1992 between Nissho Iwai Hong Kong Corporation Limited as Purchaser and ENSCO Drilling Company as Contractor (incorporated by reference to Exhibit 10.21 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1993, File No. 1-8097).

Exhibit No. Document

10.11 - Sale and Financing Agreement dated as of February 3, 1992 between ENSCO Drilling Venezuela, Inc. as Purchaser and Nissho Iwai Hong Kong Corporation Limited as Seller (incorporated by reference to Exhibit 10.22 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1993, File No. 1-8097).

10.12 - Construction and Purchase Agreement dated November 12, 1993, by and between ENSCO Drilling Company and Nissho Iwai Hong Kong Corporation Limited (incorporated by reference to Exhibit 10.28 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1993, File No. 1-8097).

10.13 - Sale and Financing Agreement dated November 12, 1993, by and between Nissho Iwai Hong Kong Corporation Limited and ENSCO Drilling Venezuela, Inc. (incorporated by reference to Exhibit 10.29 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1993, File No. 1-8097).

10.14 - Loan Agreement dated October 14, 1993, by and among ENSCO Marine Company and The CIT Group/Equipment Financing, Inc. (incorporated by reference to Exhibit 10.27 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1993, File No. 1-8097).

10.15 - Partial Satisfaction of Mortgage, dated November 29, 1994, between Wilmington Trust Company, as trustee for the benefit of The CIT Group/Equipment Financing, Inc., and ENSCO Marine Company (incorporated by reference to Exhibit 10.30 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1994, File No. 1-8097).

10.16 - Modification and Amendment of First Preferred Fleet Ship Mortgage, dated January 23, 1995, by ENSCO Marine Company and Wilmington Trust Company, as trustee for the benefit of The CIT Group/Equipment Financing, Inc. (incorporated by reference to Exhibit 10.31 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1994, File No. 1-8097).

*10.17 - ENSCO Savings Plan, as revised and restated.

*10.18 - ENSCO Supplemental Executive Retirement Plan, as amended and restated.

*10.19 - Indemnification Agreement between the Company and its officers and directors.

***21.1 - Subsidiaries of the Registrant.**

***23.1 - Consent of Price Waterhouse LLP.**

***27.1 - Financial Data Schedule.**

* Filed herewith

Executive Compensation Plans and Arrangements

The following is a list of all executive compensation plans and arrangements required to be filed as an exhibit to this Form 10-K:

1. ENSCO Incentive Plan, as amended (filed as Exhibit 10.1 hereto and incorporated by reference to Exhibit 10.1 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1993, File No. 1-8097).

2. Amendment to ENSCO Incentive Plan, dated November 11, 1997 (filed as Exhibit 10.2 hereto).

3. Restricted Stock Agreement effective as of June 10, 1987 between Morton H. Meyerson and the Company (filed as Exhibit 10.3 hereto and incorporated by reference to Exhibit 10.6 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1992, File No. 1-8097).

4. Restricted Stock Agreement effective as of May 31, 1988 between Morton H. Meyerson and the Company (filed as Exhibit 10.4 hereto and incorporated by reference to Exhibit 19.2 to the Registrant's Quarterly Report on Form 10-Q for the period ended September 30, 1988, File No. 1-8097).

5. Termination of Pledge Agreement and Amendment of Restricted Stock Agreement, dated March 1, 1991, by and between Morton H. Meyerson and the Company (filed as Exhibit 10.5 hereto and incorporated by reference to Exhibit 10.108 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1990, File No. 1-8097).

6. First Amendment, dated March 1, 1991, to the Promissory Note dated July 19, 1988 in the original principal amount of $675,000 between Morton H. Meyerson and the Company (filed as Exhibit 10.6 hereto and incorporated by reference to Exhibit 10.109 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1990, File No. 1-8097).

7. Supplemental Compensation Agreement, dated March 1, 1991, between Morton H. Meyerson and the Company (filed as Exhibit 10.7 hereto and incorporated by reference to Exhibit 10.110 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1990, File No. 1-8097).

8. Second Amendment, dated September 14, 1995, to the Promissory Note dated July 19, 1988 in the original principal amount of $675,000 between Morton H. Meyerson and the Company (filed as Exhibit 10.8 hereto and incorporated by reference to Exhibit 10.24 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1995, File No. 1-8097).

9. Letter Agreement, dated January 8, 1997, by and between Morton H. Meyerson and the Company (filed as Exhibit 10.9 hereto and incorporated by reference to Exhibit 10.15 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1996, File No. 1-8097).

10. ENSCO Supplemental Executive Retirement Plan, as amended and restated (filed as Exhibit 10.18 hereto).

The Company will furnish to the Securities and Exchange Commission upon request, all constituent instruments defining the rights of holders of long-term debt of the Company not filed herewith as permitted by paragraph 4(iii)(A) of Item 601 of Regulation S-K.

(b) Reports on Form 8-K

On November 24, 1997, the Company filed a Current Report on Form 8-K for the purpose of filing certain exhibits related to the Company's public debt offering of $150.0 million of 6.75% Notes due November 15, 2007 and $150.0 million of 7.20% Debentures due November 15, 2027.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on February 24, 1998.

ENSCO International Incorporated
(Registrant)

By /s/ CARL F. THORNE
Carl F. Thorne
Chairman, President and
Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the Registrant and in the capacities and on the date indicated.

Signatures	*Title*	*Date*
/s/ CARL F. THORNE		
Carl F. Thorne	Chairman, President, Chief Executive Officer and Director	
/s/ RICHARD A. WILSON		
Richard A. Wilson	Senior Vice President, Chief Operating Officer and Director	
/s/ C. CHRISTOPHER GAUT		
C. Christopher Gaut	Vice President, Chief Financial Officer	
/s/ H. E. MALONE		
H. E. Malone	Vice President, Chief Accounting Officer and Controller	*February 24, 1998*
/s/ CRAIG I. FIELDS		
Craig I. Fields	Director	
/s/ ORVILLE D. GAITHER, SR.		
Orville D. Gaither, Sr.	Director	
/s/ GERALD W. HADDOCK		
Gerald W. Haddock	Director	
/s/ DILLARD S. HAMMETT		
Dillard S. Hammett	Director	
/s/ THOMAS L. KELLY, II		
Thomas L. Kelly, II	Director	
/s/ MORTON H. MEYERSON		
Morton H. Meyerson	Director	

ARTICLE 5

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE DECEMBER 31, 1997 FINANCIAL STATEMENTS AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS

MULTIPLIER: 1,000

PERIOD TYPE	12 MOS
FISCAL YEAR END	DEC 31 1997
PERIOD START	JAN 01 1997
PERIOD END	DEC 31 1997
CASH	262,200
SECURITIES	0
RECEIVABLES	160,900
ALLOWANCES	3,700
INVENTORY	3,400
CURRENT ASSETS	447,100
PP&E	1,534,100
DEPRECIATION	357,000
TOTAL ASSETS	1,772,000
CURRENT LIABILITIES	130,900
BONDS	400,800
PREFERRED MANDATORY	0
PREFERRED	0
COMMON	15,500
OTHER SE	1,061,200
TOTAL LIABILITY AND EQUITY	1,772,000
SALES	0
TOTAL REVENUES	815,100
CGS	0
TOTAL COSTS	306,700
OTHER EXPENSES	119,100
LOSS PROVISION	0
INTEREST EXPENSE	21,400
INCOME PRETAX	375,800
INCOME TAX	137,800
INCOME CONTINUING	234,900
DISCONTINUED	0
EXTRAORDINARY	(1,000)
CHANGES	0
NET INCOME	233,900
EPS PRIMARY	1.66 [1]
EPS DILUTED	1.64

[1] Represents basic earnings per share.

AMENDMENT TO ENSCO INCENTIVE PLAN

The ENSCO Incentive Plan of ENSCO International Incorporated is hereby amended such that Paragraph 4(c) of the Article V of the Plan is hereby deleted in its entirety and the following is substituted in its place:

(c) Discretionary Withholding. Notwithstanding the foregoing, a participant may satisfy any obligations of the Participant to pay to the Company any amount required to be withheld by the Company under applicable Tax Laws as a result of the exercise of an Option or with respect to a Grant in cash or in such other manner as may be approved by the Board or the Committee.

ENSCO INTERNATIONAL INCORPORATED

Dated: November 11, 1997

By: /s/ WILLIAM S. CHADWICK, JR.
William S. Chadwick, Jr.

ENSCO SAVINGS PLAN

(As Revised and Restated Effective January 1, 1997)

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ENSCO SAVINGS PLAN

(As Revised and Restated Effective January 1, 1997)

THIS AGREEMENT, executed this 11th day of November, 1997, and effective the first day of January, 1997 unless specifically provided elsewhere in this Agreement, by ENSCO International Incorporated, having its principal office in Dallas, Texas (hereinafter referred to as the "Company").

W I T N E S S E T H:

WHEREAS, the Company established the Energy Service Company, Inc. Profit Sharing Plan (the "Plan") effective May 15, 1991 in the form of a plan designed to constitute a profit sharing plan within the meaning of applicable sections of the Internal Revenue Code of 1986, as amended (the "Code"), including Section 401(k) thereof; and

WHEREAS, the Plan was amended effective May 15, 1991 by resolution of the Board of Directors of the Company (the "Board") dated February 16, 1993 to change the name of the Plan to the "ENSCO Savings Plan"; and

WHEREAS, the Company also maintained the ENSCO Profit Sharing Plan which was merged into the Plan effective July 1, 1991; and

WHEREAS, the Company acquired Penrod Drilling Corporation ("Penrod") and the Penrod Thrift Plan maintained by Penrod was merged into the Plan effective December 31, 1993 and Penrod became a participating employer in the Plan effective as of January 1, 1994; and

WHEREAS, the Plan was amended by Amendment No. II effective December 31, 1993 to provide (i) that all matching contributions by the Company to the Plan will be made in shares of common stock of the Company, (ii) that the vesting schedule used by the Plan shall be a six-year schedule pursuant to which a participant is 20% vested after two years of service and an additional 20% for each year thereafter, (iii) for the direct rollover rules of Section 401(a)(31) of the Code, (iv) for the new compensation limitation of Section 401(a)(17) of the Code, (v) for elimination of the requirement that a participant be employed on December 31 of a plan year to receive an allocation of a Company matching contribution made for that plan year and (vi) for such other administrative provisions as the officers of the Company deemed appropriate; and

WHEREAS, the Company appointed T. Rowe Price Trust Company successor trustee of the Plan effective January 1, 1995; and

WHEREAS, the Company acquired Dual Drilling Company ("Dual") effective June 12, 1996 and Dual Holding Company, a wholly-owned subsidiary of the Company, became the successor sponsor to Dual of the Dual Drilling Company Employees Tax Deferred/Thrift Savings Plan and Trust [the "Dual 401(k) Plan"]; and

WHEREAS, the eligible employees of Dual became eligible to participate in the Plan effective July 1, 1996; and

WHEREAS, the Board has approved the merger of the Dual 401(k) Plan into the Plan as soon as administratively practicable following the issuance by the National Office of the Internal Revenue Service of a compliance statement pursuant to the application filed by Dual Holding Company, as successor sponsor to Dual of the Dual 401(k) Plan, under the Voluntary Compliance Resolution program of the Internal Revenue Service; and

WHEREAS, the Plan was amended by Amendment No. III effective July 1, 1996 by resolution of the Board to (i) provide all employees of Dual as of June 12, 1996 with credit for all service with Dual for purposes of the eligibility and vesting provisions of the Plan, (ii) permit participation in the Plan as of July 1, 1996 by all participants in the Dual 401(k) Plan as of June 30, 1996,
(iii) provide that any participant in the Dual 401(k) Plan as of June 30, 1996 shall be fully vested in his account balance in the Plan as of the date he has both attained age 55 and received credit under the Plan for at least five years of vesting service, (iv) eliminate the $500 minimum withdrawal requirement with respect to in-service withdrawals of pre-tax contributions to the Plan, and (v) provide for the same rules in the Plan as are presently contained in the Dual
401(k) Plan with respect to in-service withdrawals of amounts attributable to after-tax contributions which are to be transferred to the trust of the Plan pursuant to the merger of the Dual 401(k) Plan into the Plan; and

WHEREAS, the Plan was amended by Amendment No. IV effective April 1, 1997 to change the "entry dates" for the Plan; and

WHEREAS, the Company now desires to amend and restate the Plan effective January 1, 1997 except for certain provisions for which another effective date is subsequently provided otherwise in the terms of the Plan to (i) incorporate the prior amendments to the Plan, (ii) incorporate such other provisions as are necessary due to the merger of the Penrod Thrift Plan and the Dual 401(k) Plan into the Plan, (iii) clarify the definition of "annual compensation" used for nondiscrimination testing under Sections 401(k) and 401(m) of the Code, and (iv) bring the Plan into compliance with the Small Business Job Protection Act of 1996 and the Uniformed Services Employment and Reemployment Rights Act of 1994;

NOW, THEREFORE, in consideration of the premises and the mutual covenants herein contained, the parties hereto agree as follows:

Article I

DEFINITIONS

Unless by the context hereof a different meaning is clearly indicated, whenever used in this Plan, the following words shall have the meanings hereinafter set forth:

Sec. 1.1 Administrator for the purposes of ERISA means the Company; provided, that the Company, by action of its governing body, may designate another person or entity, including the Trustee, the Recordkeeper or a Committee, as Administrator of the Plan.

Sec. 1.2 Affiliated Company means the Company and any other entity which is, along with the Company, a member of a controlled group of corporations or a controlled group of trades or businesses [as defined in Section 414(b) or (c) of the Code], any entity which along with the Company is included in an affiliated service group as defined in Section 414(m) of the Code, and any other entity which is required to be aggregated with the Company pursuant to Section 414(o) of the Code.

Sec. 1.3 Allocation Date means each payroll period for Employees during the Year or such other date or dates as the Administrator may establish from time to time.

Sec. 1.4 Alternate Payee means a person defined in Section 414(p)(8) of the Code who is entitled to benefits under the Plan pursuant to a Qualified Domestic Relations Order.

Sec. 1.5 Annual Compensation means with respect to an Employee, the base salary or wages, including overtime pay and field bonuses paid to such Employee by an Employer which are includible in the Employee's gross income for the Year, plus amounts applied to purchase benefits pursuant to a salary reduction agreement under a cafeteria plan as defined in Section 125 of the Code sponsored by an Employer, amounts deferred pursuant to a salary reduction agreement authorized in Section 3.1, and amounts deferred pursuant to a salary reduction agreement under any other plan described in Sections 401(k) and 408(k) of the Code sponsored by an Employer, but excluding all other items of compensation. For any Year beginning after December 31, 1996, only $160,000 of Annual Compensation shall be taken into account by the Plan with respect to any Participant [or, beginning January 1, 1998, such other amount as may be determined under Section 401(a)(17)(B) of the Code] (hereinafter referred to as the "Compensation Limitation").

Sec. 1.6 Beneficiary means any person or fiduciary designated by a Participant or Former Participant in accordance with the terms hereof and Section 401(a)(9) of the Code to receive benefits hereunder following the death of such Participant or Former Participant. Each Participant and Former Participant may, from time to time, select one or more Beneficiaries to receive benefits pursuant to Section 12.1 in the event of the death of such Participant or Former Participant. Such selection shall be made in writing by Notice to the Administrator. Unless the provisions of the Plan or a Qualified Domestic Relations Order provide otherwise, the last such selection filed with the Administrator shall control. If at the date of death the Participant or Former Participant is married, the Beneficiary shall be the surviving spouse unless the spouse has consented in writing to the designation of some other Beneficiary, which designation may not be changed without spousal consent unless the voluntary consent of the spouse (i) expressly permits designations by the Participant or Former Participant without any requirement of further consent by the spouse and (ii) acknowledges that the spouse has the right to limit the consent to a specific Beneficiary. Such written consent must acknowledge the effect of such selection and such consent must be witnessed by a Plan representative or a notary public. Spousal consent is not required if it is established to the satisfaction of the Plan representative that the consent may not be obtained (i) because the Participant or Former Participant has no spouse,
(ii) because the spouse cannot be located or (iii) because of such other circumstances as the Secretary of Treasury may by regulations prescribe. Any consent by a spouse (or establishment that the consent of the spouse may not be obtained) shall be effective only with respect to that spouse. If more than one Beneficiary of a particular class (primary or secondary) is entitled to benefits, payments shall be made in equal shares to such Beneficiaries, unless some other specific proportions are clearly designated by the Participant or Former Participant. If more than one Beneficiary of a particular class (primary or secondary) is named, the interest of any deceased Beneficiary of that class shall pass to the surviving Beneficiary or Beneficiaries of that class except to the extent that the designation provides for payment to any secondary Beneficiary or Beneficiaries upon the death of a primary Beneficiary.

If a selection is not made in compliance with these provisions or if such designated persons shall have died, Beneficiary means the first of the following classes of successive preference beneficiaries then surviving: the Participant's or Former Participant's:

(a) surviving spouse,

(b) descendants, per stirpes,

(c) parents in equal shares,

(d) brothers and sisters in equal shares, and

(e) estate.

Sec. 1.7 Code means the Internal Revenue Code of 1986, as it may be amended from time to time. Reference to a section of the Code shall include that section, applicable Treasury regulations promulgated thereunder and any comparable section of any future legislation that amends, supplements or supersedes said section, effective as of the date such comparable section is effective with respect to the Plan.

Sec. 1.8 Committee means the committee appointed under Article XVIII to administer the Plan, as from time to time constituted. If no such committee is appointed, the Company shall constitute the Committee.

Sec. 1.9 Company means ENSCO International Incorporated, formerly Energy Service Company, Inc., a Delaware corporation, or such other organization which, pursuant to a spinoff, merger, consolidation, reorganization, or similar corporate transaction where a significant portion of the Company's employees become employees of such organization, adopts and assumes the Plan and the Trust Agreement as the sponsor with the consent of the Company and agrees to accept the duties, responsibilities and obligations of the sponsor of the Plan and the Trust Agreement. Reference in the Plan to the Company shall refer to any such organization which adopts and assumes the sponsorship of the Plan and the Trust Agreement.

Sec. 1.10 Company Stock means the Common Stock of the Company or any other security that qualifies as a qualifying employer security under ERISA.

Sec. 1.11 Disability means a total and permanent disability suffered by a Participant which, in the opinion of the Administrator (which opinion shall be conclusive for purposes of the Plan) prevents such Participant from continuing his work with all Employers.

Sec. 1.12 Dual 401(k) Plan means the Dual Drilling Company Employees Tax Deferred/Thrift Savings Plan and Trust formerly maintained by Dual Drilling Company. Dual Holding Company, a wholly-owned subsidiary of the Company, became the successor sponsor of the Dual 401 (k) Plan as of June 12, 1996 when the Company acquired Dual Drilling Company. The employees of Dual Drilling Company who were eligible to participate in the Dual 401(k) Plan ceased to be eligible to participate in that plan on June 30, 1996 and became eligible to participate in the Plan on July 1, 1996. The governing body of the Company has approved the merger of the Dual 401(k) Plan into the Plan as soon as administratively practicable following the issuance by the National Office of the Internal Revenue Service of a compliance statement pursuant to the application filed by Dual Holding Company, as successor sponsor to Dual Drilling Company of the Dual 401(k) Plan, under the Voluntary Compliance Resolution program of the Internal Revenue Service.

Sec. 1.13 Employee means any individual in the employ of an Employer who is on an Employer's United States payroll, excluding any Leased Employee that
Section 414(n) of the Code treats as an Employee of an Employer, unless classification of such Leased Employee as an Employee is necessary to maintain the qualification of the Plan.

Sec. 1.14 Employer means the Company and any other Affiliated Company, with respect to its Employees, provided such Affiliated Company is designated by the governing body of the Company as an Employer under the Plan and whose designation as such has become effective and has continued in effect. The designation shall become effective only when it shall have been accepted by the governing body of the Employer. An Employer may revoke its acceptance of such designation at any time, but until such acceptance has been revoked, all of the provisions of the Plan and amendments thereto shall apply to the Employees of the Employer. In the event the designation of the Employer as such is revoked by the governing body of the Employer, such revocation will not be deemed a termination of the Plan.

Sec. 1.15 Employer Account means the portion of the Individual Account maintained by the Trustee or the Recordkeeper for each Participant, Former Participant or Beneficiary, reflecting the monetary value of such person's individual interest in the Trust Fund attributable to an Employer's Matching Contributions under Section 3.2 and the Employer profit sharing contributions, if any, under Section 3.3. If the Participant was a participant in the Penrod Thrift Plan as of December 31, 1993, his Employer Account will also reflect his individual interest in the Trust Fund attributable to the balance in his matching account maintained under the Penrod Thrift Plan as of the Merger Date.

Sec. 1.16 Entry Date means, effective April 1, 1997, (i) with respect to an eligible Employee's ability to make Salary Reduction Contributions, the first business day of any calendar month occurring on or following the date the Employee satisfies the eligibility requirements of Section 2.1 for the 401(k) feature of the Plan [the "401(k) Entry Date"] and (ii) with respect to an eligible Employee's participation in the profit sharing feature of the Plan, the first day of the calendar month coincident with or next following the date the Employee satisfies the eligibility requirements of Section 2.1 for the profit sharing feature of the Plan (the "Profit Sharing Entry Date"). Prior to April 1, 1997, the 401(k) Entry Date was any January 1 or July 1 occurring on or following the date the Employee satisfied the eligibility requirements of
Section 2.1 for the 401(k) feature of the Plan.

Sec. 1.17 ERISA means the Employee Retirement Income Security Act of 1974, as it may be amended from time to time, and applicable regulations promulgated thereunder.

Sec. 1.18 Former Participant means any individual who has been a Participant in the Plan, who is no longer in the employ of an Affiliated Company and who has not yet received the entire benefit to which he is entitled under the Plan.

Sec. 1.19 401(k) Account means the portion of the Individual Account maintained by the Trustee or the Recordkeeper for each Participant, Former Participant or Beneficiary reflecting the monetary value of such person's individual interest in the Trust Fund attributable to Salary Reduction Contributions made on the Participant's behalf pursuant to a salary reduction agreement described in Section 3.1 and attributable to qualified non-elective contributions under Section 3.4. If the Participant was a participant in either the Penrod Thrift Plan as of December 31, 1993 or the Dual 401(k) Plan as of June 30, 1996, his 401(k) Account will also reflect his individual interest in the Trust Fund attributable to (i) the balance in his accelerated retirement account maintained under the Penrod Thrift Plan as of the Merger Date or (ii) the balance in his 401(k) contributions account maintained under the Dual 401(k) Plan as of the Merger Date, whichever is applicable.

Sec. 1.20 Highly Compensated Employee means for any Year any Employee who is determined to be included in subsection (a) after applying the special rules in subsection (b):

(a) any Employee who:

(i) was, at any time during the Year or the preceding Year, a more than five percent owner of any Employer; or

(ii) during the preceding Year received Compensation from all Employers in excess of $80,000, and if the Company elects, was in the top 20% of the Employees for the preceding Year (when ranked on the basis of Compensation for such Year).

(b) For purposes of determining the Employees who are to be included in subsection (a) above, the following special rules shall apply to this Section 1.20:

(i) In determining the top 20% of Employees pursuant to subsection (a)(ii), Employees who (A) have not completed at least six months of service, (B) normally work fewer than 17 1/2 hours per week, (C) normally work during not more than six months during any Year, (D) have not attained age 21 or (E) are covered under a collective bargaining agreement (except to the extent provided in applicable Treasury regulations) shall be excluded from such determination.

(ii) "Compensation" means Annual Compensation as defined in
Section 8.2(f), but including (A) amounts applied to pay for benefits pursuant to a salary reduction agreement under a cafeteria plan as defined in Section 125 of the Code sponsored by an Employer, and (B) amounts deferred pursuant to a salary reduction agreement under the Plan or any other plan described in Sections 401(k) and 408(k) of the Code sponsored by an Employer.

(iii) The dollar amount in subsection (a)(ii) shall be adjusted to such other amount as the Secretary of the Treasury shall prescribe at the same time and in the same manner as provided under Section 415(d) of the Code for adjusting the dollar limitation in effect under Section 415(b)(1)(A) of the Code.

(iv) In determining the number of Employees pursuant to this Section, any Employee who is a nonresident alien and who receives no earned income [within the meaning of Section 911(d)(2) of the Code] from any Employer which constitutes income from sources within the United States [within the meaning of Section 861(a)(3) of the Code] shall be excluded from such determination.

Sec. 1.21 Hours of Service means each hour credited to an individual for which he is either directly or indirectly paid, or entitled to payment, by any Affiliated Company or, to the extent permitted by the governing body of the Company or the Administrator in accordance with Section 401(a)(4) of the Code, by the predecessor company. Effective December 12, 1994, each period of qualified military service (within the meaning of Chapter 43 of Title 38, United States Code) served by an Employee who is reemployed under that chapter by an Affiliated Company following such service shall be considered service with an Affiliated Company for purposes of determining his Hours of Service.

Sec. 1.22 Individual Account means an account or record to be maintained by the Trustee or the Recordkeeper reflecting the monetary value of the undivided interest in the Trust Fund of each Participant, each Former Participant and each Beneficiary and shall include the Employer Account, 401(k) Account, Prior Plan Account, Reinstatement Account, Rollover Account, if any, Transfer Account, if any, and Savings Account, if any, and such other additional account or accounts as the Administrator may establish from time to time.

Sec. 1.23 Interactive Telephone Communication means a communication between a Participant, Former Participant or Beneficiary and the Recordkeeper pursuant to a system maintained by the Recordkeeper and communicated to each Participant, Former Participant and Beneficiary whereby each such individual may obtain financial information regarding his Individual Account and amounts available for withdrawal, and may initiate investment transfer elections and exercise options as described herein with respect to his Individual Account through the use of such system and a personal identification number assigned to the Participant, Former Participant or Beneficiary by the Recordkeeper or the

Administrator. If a Participant, Former Participant or Beneficiary participates in the Plan's Interactive Telephone Communication feature through the use of his personal identification number, the Participant, Former Participant or Beneficiary, as the case may be, will be deemed to have given his written consent and authorization to any action resulting from the use of the Interactive Telephone Communication system by the Participant, Former Participant or Beneficiary.

Sec. 1.24 Investment Fund or Funds means one or more funds designated by the Administrator pursuant to Section 22.8 from time to time and maintained for the purpose of providing a vehicle for the investment of assets of the Trust Fund, in accordance with the directions of each Participant, Former Participant or Beneficiary with respect to his Individual Account, until such Investment Fund or Funds shall be eliminated by action of the Administrator. As of January 1, 1997, the Investment Funds shall be:

Fund 1: Balanced Fund; Fund 2: Spectrum Growth Fund; Fund 3: Spectrum Income Fund; Fund 4: Blended Stable Value Fund; and Fund 5: Company Stock Fund.

The Administrator may direct the Trustee to invest one or more of such funds with a specified insurance company or mutual fund, or appoint an investment advisor as provided in Section 22.5 to manage the same and may also direct the Trustee to establish new Investment Funds or delete existing Investment Funds from time to time. Up to 100% of the assets of the Trust Fund may be invested in Fund 5.

Sec. 1.25 Leased Employee means an individual who is not in the employ of an Employer and who, pursuant to a leasing agreement between an Employer and any other person ("leasing organization"), has performed services for an Employer [or for an Employer and any other person related to an Employer within the meaning of Section 144(a)(3) of the Code] on a substantially full-time basis for at least one year and who performs such services under the primary direction or control by the Employer. Leased Employee shall also include any individual who is deemed to be an employee of an Employer under Section 414(o) of the Code. Notwithstanding the preceding sentence, if individuals described in the preceding sentence constitute less than 20% of an Employer's non-highly compensated work force within the meaning of Section 414(n)(5)(C)(ii) of the Code, the Plan shall not treat an individual as a Leased Employee if the leasing organization covers the individual in a money purchase pension plan providing

immediate participation, full and immediate vesting and a non-integrated contribution formula equal to at least ten percent of the individual's annual compensation [as defined in Section 415(c)(3) of the Code, but including amounts contributed by an Employer pursuant to a salary reduction agreement which are excludable from the individual's gross income under Sections 125, 402(a)(8), 402(h) or 403(b) of the Code]. If any Leased Employee shall be treated as an Employee of an Employer, however, contributions or benefits provided by the leasing organization which are attributable to services of the Leased Employee performed for an Employer shall be treated as provided by the Employer.

Sec. 1.26 Matching Contribution means the contribution made by an Employer pursuant to Section 3.2.

Sec. 1.27 Merger Date means either the effective date of the merger of the Penrod Thrift Plan or the Dual 401(k) Plan into the Plan. For the Penrod Thrift Plan, the Merger Date is December 31, 1993 and for the Dual 401(k) Plan, the Merger Date is the date determined by the Company following the issuance by the National Office of the Internal Revenue Service of a compliance statement pursuant to the application filed by Dual Holding Company, as successor sponsor to Dual Drilling Company of the Dual 401(k) Plan, under the Voluntary Compliance Resolution program of the Internal Revenue Service.

Sec. 1.28 Named Fiduciary means the Company, except to the extent the Company has delegated specific functions to the Committee, if any, appointed by the Company pursuant to Article XVIII. If no Committee is appointed, the Company will perform the functions of the Committee.

Sec. 1.29 Non-Highly Compensated Employee means any Employee who is not a Highly Compensated Employee. The determination of an Employee's status as a Non-Highly Compensated Employee for a Year shall be determined based on the definition of Highly Compensated Employee in Section 1.20 that is applicable for that Year.

Sec. 1.30 Normal Retirement Date means a Participant's or Former Participant's 60th birthday.

Sec. 1.31 Notice means, unless otherwise provided specifically in the Plan,
(i) written Notice on an appropriate form provided by the Administrator, which is properly completed and executed by the party giving such Notice and which is delivered by hand or by mail to the Administrator or to such other party designated by the terms of the Plan or by the Administrator to receive the Notice or (ii) Notice by Interactive Telephone Communication to the Recordkeeper. Notice to the Administrator, the Recordkeeper or to any other person as provided herein shall be deemed to be given when it is actually received (either physically or by Interactive Telephone Communication, as the case may be) by the party to whom such Notice is given.

Sec. 1.32 Participant means an Employee who has met the eligibility requirements of the Plan as provided in Article II hereof and has begun

participating in the Plan. An Employee who elects to make a Rollover Contribution to the Plan or who has a Transfer Contribution made to the Plan on his behalf but who has not met the eligibility requirements of the Plan as provided in Article II hereof, shall, until he satisfies such requirements, be considered a Participant only for purposes of applying the relevant provisions of the Plan relating to the investment and distribution of his Rollover Account or Transfer Account and his rights and responsibilities under ERISA with respect to such contribution.

Sec. 1.33 Penrod Thrift Plan means the Penrod Thrift Plan maintained by Penrod Drilling Corporation as of the Merger Date.

Sec. 1.34 Period of Service means the months and years of an Employee's employment with one or more Affiliated Companies, such employment commencing with the date the Employee first performs an Hour of Service (or following a Period of Severance, again performs an Hour of Service) and ending on his Severance from Service Date.

An Employee shall be given credit for all periods following the date he first becomes an Employee which do not constitute a Period of Severance, except that no credit shall be given (even though no Period of Severance shall occur) for absences referred to in Section 1.45(b). If an Employee terminates his service by reason of quitting, discharge or retirement and thereafter again completes an Hour of Service within 12 months of his Severance from Service Date, the period of absence shall be credited for purposes of eligibility and vesting. All Periods of Service, including noncontinuous periods, shall be aggregated and fractional periods shall be determined on the basis that 365 days equal a year of service.

Effective December 12, 1994, each period of qualified military service (within the meaning of Chapter 43 of Title 38, United States Code) served by an Employee who is reemployed under that chapter by an Affiliated Company following such service shall be considered service with an Affiliated Company for purposes of determining his Period of Service. In addition, an Employee shall be credited with the following periods of service, whichever are applicable:

(a) the service he completed with International Tool and Supply Company, Inc. or Petroleum Rental Services, as the case may be, immediately prior to the date such Employee first completed an Hour of Service;

(b) all service credited to such Employee under the Argosy Offshore, Ltd. Employee Savings Plan as of the date Argosy Offshore, Ltd. became an Affiliated Company;

(c) all service credited to such Employee under the Penrod Thrift Plan as of December 31, 1993, the Merger Date for that plan into the Plan; or

(d) all service credited to such Employee under the Dual 401(k) Plan as of July 1, 1996, the date the employees of Dual Drilling Company ceased to be eligible to participate in the Dual 401(k) Plan and became eligible to participate in the Plan.

Sec. 1.35 Period of Severance means any period of 12 or more consecutive months beginning with an Employee's Severance from Service Date during which an Employee does not perform an Hour of Service for an Affiliated Company.

Sec. 1.36 Plan means the plan embodied herein, as the same may be amended from time to time, and shall be known as the "ENSCO Savings Plan".

Sec. 1.37 Prior Plan Account means the portion of the Individual Account maintained by the Trustee or the Recordkeeper for each Participant who was a participant in the Dual 401(k) Plan as of June 30, 1996, reflecting the monetary value of such person's individual interest in the Trust Fund attributable to the balance in his company matching contributions account and discretionary profit sharing contributions account, if any, maintained under the Dual 401(k) Plan as of the Merger Date.

Sec. 1.38 Qualified Domestic Relations Order means any judgment, decree or order (including approval of a property settlement agreement) which (i) relates to the provision of child support, alimony payments, or marital property rights to a spouse, former spouse, child or other dependent of a Participant or Former Participant, (ii) is made pursuant to a state domestic relations law, (iii) creates or recognizes the existence of an Alternate Payee's right to, or assigns to an Alternate Payee the right to, receive all or a portion of the benefits payable with respect to a Participant or Former Participant under the Plan and
(iv) complies with the requirements of Section 414(p) of the Code.

Sec. 1.39 Recordkeeper means any person or entity appointed by the Company to perform record keeping and other administrative services on behalf of the Plan. If no Recordkeeper is appointed, the Trustee shall perform the duties of the Recordkeeper.

Sec. 1.40 Reinstatement Account means the portion of the Individual Account maintained by the Trustee or the Recordkeeper for each Participant who repays a distribution to the Plan pursuant to Section 14.3 reflecting the monetary value of that Participant's individual interest in the Trust Fund attributable to his repayment.

Sec. 1.41 Rollover Account means the portion of the Individual Account maintained by the Trustee or the Recordkeeper for each Employee or Participant who makes a Rollover Contribution reflecting the monetary value of such person's individual interest in the Trust Fund attributable to his Rollover Contribution. If the Employee or Participant was a participant in either the Penrod Thrift

Plan as of December 31, 1993 or the Dual 401(k) Plan as of July 1, 1996, his Rollover Account will also reflect his individual interest in the Trust Fund attributable to the balance in his rollover account, if any, maintained under the Penrod Thrift Plan or the Dual 401(k) Plan as of the Merger Date.

Sec. 1.42 Rollover Contribution means, in addition to a contribution described in the last sentence of this Section, any amount transferred to the Plan which would constitute a rollover contribution within the meaning of
Section 402(a)(5), 403(a)(4) or 408(d)(3) of the Code. Any such rollover contribution must consist of either (i) all or a portion of the property (in excess of employee contributions) that the Employee received in a distribution from an employee's trust described in Section 401(a) of the Code which is exempt from tax under Section 501(a) thereof or an annuity plan described in Section 403(a) of the Code and any earnings thereon (whether such contribution is paid directly by the Employee, from such other trust or annuity plan, or from an individual retirement account or individual retirement annuity) or (ii) all or a portion of the proceeds from the sale of property received in such a distribution pursuant to Section 402(a)(6)(D) of the Code. To the extent required or permitted by the Code, on or after January 1, 1993, a Rollover Contribution shall include an eligible rollover contribution as described in
Section 402(c)(4) of the Code transferred to the Plan pursuant to an Employee's election as described in Section 401(a)(31)(A) of the Code.

Sec. 1.43 Salary Reduction Contribution means contributions made by an Employer on behalf of each Participant pursuant to a salary reduction agreement described in Section 3.1.

Sec. 1.44 Savings Account means, with respect to any Participant who was a participant in either the Penrod Thrift Plan as of December 31, 1993 or the Dual
401(k) Plan as of July 1, 1996 and while participating in either such Plan made after-tax contributions to that plan, the portion of the Individual Account maintained by the Trustee or the Recordkeeper for each such Participant reflecting the monetary value of that Participant's individual interest in the Trust Fund attributable to (i) the balance in his savings account maintained under the Penrod Thrift Plan as of the Merger Date to reflect the after-tax contributions he made to that plan or (ii) the balance in his participant after-tax employee contributions account maintained under the Dual 401(k) Plan as of the Merger Date to reflect the after-tax contributions to that plan.

Sec. 1.45 Severance from Service Date means the earlier of the date on which an Employee ceases to be employed by an Affiliated Company, or

(a) the first anniversary of the date on which the Employee begins an unpaid leave of absence (other than a military leave) authorized by his

Employer in accordance with standard personnel policies of his Employer applied in a nondiscriminatory manner to all Employees similarly situated;

(b) the second anniversary of the date on which the Employee begins an absence from the service of an Affiliated Company by reason of (i) pregnancy of the individual, (ii) birth of a child of the individual,
(iii) placement of a child with the individual in connection with the adoption of such child by such individual, or (iv) for purposes of caring for such child for a period beginning immediately following such birth or placement, provided that the Employee timely furnishes the Administrator information establishing (i) that the absence from the service of an Affiliated Company was for one or more of the foregoing reasons and (ii) the number of days for which there was an absence; or

(c) the first date on an Employee's qualified military service ends (within the meaning of Chapter 43, Title 38, United States Code) and he is not reemployed under that chapter by an Affiliated Company.

Sec. 1.46 Transfer Account means the portion of the Individual Account maintained by the Trustee or the Recordkeeper for each Employee or Participant who had a Transfer Contribution made on his behalf to the Plan, reflecting the monetary value of such person's individual interest in the Trust Fund attributable to such Transfer Contribution. If the Employee or Participant was a participant in either the Penrod Thrift Plan as of December 31, 1993 or the Dual
401(k) Plan as of July 1, 1996, his Transfer Account will also reflect his individual interest in the Trust Fund attributable to the balance in his transfer account, if any, maintained under the Penrod Thrift Plan or the Dual
401(k) Plan as of the Merger Date.

Sec. 1.47 Transfer Contribution means all or part of the balance to the credit of an Employee in another plan described in Section 401(a) of the Code and exempt from tax under Section 501(a) of the Code, other than after December 31, 1984, a plan described as (i) a defined benefit plan and a defined contribution plan which is subject to the funding standards of Section 412 of the Code or (ii) a defined contribution plan which is subject to the requirements of Section 401(a)(11)(B) of the Code with respect to an Employer, which was transferred directly by the trustee of such other plan to the Trustee.

Sec. 1.48 Trust Agreement means the T. Rowe Price Trust Company Trust Agreement entered into between the Company and the Trustee to carry out the purposes of the Plan and under which the Trust Fund is maintained; provided that if such agreement be amended or supplemented, Trust Agreement, as of a particular date, shall mean such agreement, as amended and supplemented and in force on such date.

Sec. 1.49 Trust Fund means all assets of whatsoever kind and nature from time to time held by the Trustee pursuant to terms and conditions of the Trust Agreement out of which benefits of the Plan are provided. The Trust Fund shall be divided into Investment Funds as provided in Section 22.8.

Sec. 1.50 Trustee means T. Rowe Price Trust Company, or any successor trustee or additional trustee or trustees acting at any time as Trustee under the Trust Agreement.

Sec. 1.51 Valuation Date means each business day of the Year or such other date or dates as the Administrator may establish from time to time.

Sec. 1.52 Year means the 12-month period from January 1 of each year to the next following December 31.

Sec. 1.53 Gender and Number. Except as otherwise indicated by the context, any masculine terminology used herein also includes the feminine and neuter, and vice versa, and the definition of any term herein in a singular shall also include the plural, and vice versa.

Article II

ELIGIBILITY OF EMPLOYEES

Sec. 2.1 Eligibility. Each Employee who was eligible to participate in either or both the 401(k) feature of the Plan and the profit sharing feature of the Plan on December 31, 1996 shall continue to be eligible to participate in those features of the Plan as of January 1, 1997. Each Employee who was eligible to participate in the Dual 401(k) Plan on June 30, 1996 became eligible to participate in both the 401(k) feature and the profit sharing feature of the Plan on July 1, 1996. Each other Employee (i) shall be eligible to participate in the profit sharing feature of the Plan (subject to the allocation requirements of Section 7.4) on the Profit Sharing Entry Date which coincides with or which next follows the date upon which he shall have both attained age 18 and completed a one-year Period of Service and (ii) shall be eligible to become a Participant in the 401(k) feature of the Plan as provided in Section 2.2 hereof on the 401(k) Entry Date which coincides with or which next follows the date upon which he shall have both attained age 18 and completed a three-month Period of Service, provided he is employed by an Employer on the applicable Entry Date.

Sec. 2.2 Election to Participate. An Employee who is eligible to become a Participant in the 401(k) feature of the Plan may do so by completing and returning the enrollment forms provided by the Administrator for that purpose, at least 10 days prior to the 401(k) Entry Date as of which he elects to commence participation in the 401(k) feature of the Plan, including forms which

(i) designate a Salary Reduction Contribution rate and authorize an Employer to reduce his Annual Compensation as provided in Section 3.1, (ii) designate a Beneficiary and (iii) elect the Investment Funds to which his contributions are to be allocated. If an Employee fails to become a Participant when he first becomes eligible, he may become a Participant on any subsequent 401(k) Entry Date by completing such forms and returning them to the Administrator at least 10 days prior to that date. Participation in the 401(k) feature of the Plan shall commence on the effective date of the Employee's enrollment form in accordance with the provisions of Section 3.1 and shall continue in effect until amended or terminated. By signing such enrollment forms, the Employee agrees to be bound by all the terms and conditions of the Plan as then in effect or as thereafter amended.

Sec. 2.3 Eligibility upon Reemployment. Notwithstanding Section 2.1, each Employee who is not employed by an Employer on the Entry Date on which he would have become a Participant in the Plan with respect to either the profit sharing feature or the 401(k) feature of the Plan, shall be eligible to become a Participant hereunder in that feature on the date on which he resumes employment as an Employee with an Employer.

Sec. 2.4 Reemployment of Participant. Except as provided in this Section, if the employment of a Participant is terminated for any reason and he subsequently is reemployed by an Employer, he shall be eligible to become a Participant on the date he resumes employment with an Employer; provided that if the Participant had satisfied the eligibility requirements under Section 2.1 to participate in the 401(k) feature of the Plan but not the profit sharing feature of the Plan as of the date his employment terminated, he shall not be eligible to participate in the profit sharing feature of the Plan until he satisfies the eligibility requirements of Section 2.1 that are applicable to the profit sharing feature of the Plan.

Sec. 2.5 Cessation of Participation. A Participant shall immediately cease to be eligible for any further Matching Contributions in the Plan upon the occurrence of either of the following events:

(a) termination of his salary reduction agreement established pursuant to Section 3.1; or

(b) termination of his status as an Employee with all Employers for any reason.

If a Participant is transferred to a class of employment not eligible for participation in the Plan but continues to be employed by an Affiliated Company, no further contributions to the Trust Fund shall be made by or on behalf of the Participant under the Plan with respect to periods on and after the transfer.

Any Participant described in the preceding sentence may recommence his participation in the features of the Plan for which he was eligible at the time of the transfer to an ineligible class if he is transferred back to eligible employment and a new enrollment form is executed in accordance with Section 3.1. During the period of his employment in such transferred position, the Participant will continue to (i) vest in his Employer Account, (ii) be eligible for withdrawals (subject to the requirements of Section 15.5), (iii) be permitted to transfer his Individual Account among the Investment Funds and (iv) be permitted to change Beneficiaries in accordance with the provisions of the Plan.

Sec. 2.6 Exclusion of Employees Covered by Collective Bargaining. Notwithstanding Section 2.1, an Employee covered by a collective bargaining agreement between an Employer and a collective bargaining representative certified under the Labor Management Relations Act who is otherwise eligible to become a Participant under this Article shall be excluded if retirement benefits were the subject of good faith bargaining between the Employee's representative and the Employer and if the agreement does not require the Employer to include such Employee in this Plan. An Employee who is a Participant in this Plan when he is excluded under the provisions of this Section 2.6 shall cease active participation in this Plan on the effective date of that collective bargaining agreement and shall not participate in Employer contributions while a member of the ineligible class but shall not be considered to have terminated employment.

Sec. 2.7 Eligibility Upon Entry or Reentry into Eligible Class of Employees. In the event a Participant is excluded because he is no longer a member of an eligible class of Employees as specified in this Article II, such Employee shall be eligible to become a Participant immediately upon his return to an eligible class of Employees. In the event that an Employee who is not a former Participant in the Plan becomes a member of the eligible class, such Employee shall be eligible to become a Participant immediately if such Employee has satisfied the eligibility requirements of Section 2.1 and would have previously been eligible to become a Participant had he been in the eligible class.

Article III

CONTRIBUTIONS

Sec. 3.1 Salary Reduction Contributions.

(a) Amount of Contributions. On satisfying the requirements of Article II for participation in the 401(k) feature of the Plan, a Participant may elect to have the Employer make Salary Reduction Contributions to the Trust Fund on his behalf by executing an enrollment form containing a salary reduction agreement as described in Section 3.1(b). The terms of any such salary reduction agreement shall provide that the

Participant agrees to accept a reduction in salary from the Employer in an amount equal to not less than one percent but up to 10% (in whole percentages) of his Annual Compensation per payroll period, subject to the restrictions and limitations of Article IV hereof.

(b) Salary Reduction Agreement.

(i) Nature of Agreement. The salary reduction agreement referred to in Section 3.1(a) shall be a legally binding agreement (on a form prescribed by the Administrator) whereby (A) the Participant agrees that, as of the effective date of the agreement, the Annual Compensation otherwise payable to him thereafter shall be reduced by a whole percentage (as selected by the Participant) not to exceed the maximum percentage permitted under Section 3.1(a), and (B) the Employer agrees to contribute the total amount of such reduction in Annual Compensation to the Trust Fund on behalf of the Participant as a Salary Reduction Contribution under Section 3.1(a). Such contributions may be made by the Employer to the Trust Fund on a monthly or more frequent basis, as determined by the Administrator, provided that in no event shall the Employer's aggregate contribution on behalf of the Participant under
Section 3.1(a) for any Year be made to the Trust Fund later than 90 days after the close of the Year to which such contribution relates or such later date prescribed by the Code or applicable Treasury or Department of Labor regulations. Subject to the provisions of paragraph (iv) of this Section 3.1(b) and Article IV hereof, a Participant's salary reduction agreement shall remain in effect until modified or terminated in accordance with paragraphs (iii) or (iv) of this Section 3.1(b).

(ii) Effective Date of Agreement. The effective date of a Participant's salary reduction agreement shall be no earlier than the 401(k) Entry Date following the date such agreement is timely received in executed form by the Administrator as required by Article II (provided such effective date is no earlier than the 401(k) Entry Date the Participant first becomes eligible to participate in the Plan).

(iii) Amendment of Salary Reduction Contribution Elections. Not more than two times a Year, a Participant may amend his elections authorizing the Employer to make Salary Reduction Contributions as of any Valuation Date with respect to Annual Compensation not yet paid (A) to increase or to decrease the whole percentage of his Annual Compensation [within the limits of Section 3.1(a)] to be used to determine his Salary Reduction

Contributions or (B) to cease entirely such contributions. A Participant's amended Salary Reduction Contribution election shall be effective no earlier than the first day following the Valuation Date an amended salary reduction agreement is timely received in executed form by the Administrator, or such other date as the Administrator may prescribe from time to time. An amendment to a salary reduction agreement, including one to cease Salary Reduction Contributions, is timely received if it is received by the Administrator prior to the applicable Valuation Date. If a Participant elects to cease making Salary Reduction Contributions, the Participant may elect to again participate in the 401(k) feature of the Plan and resume making contributions to the Trust Fund under Section 3.1(a) by executing a new salary reduction agreement, provided that the effective date of such new salary reduction agreement shall be no earlier than the first Valuation Date of the next succeeding calendar month following the date the new salary reduction agreement is timely received in executed form by the Administrator, unless the Participant has previously amended his Salary Reduction Agreement twice during that Year, in which case, it shall be effective as of the first Valuation Date in the next succeeding Year.

(iv) Transfer to Ineligible Employment or Termination of Employment. A Participant's salary reduction election shall terminate automatically if the Participant transfers to a class of employment not eligible for participation in the Plan or if he terminates his employment as an Employee with the Employer. Upon return of the Participant to eligible employment, the Participant shall be permitted to execute a new salary reduction agreement and resume having contributions made to the Trust Fund on his behalf under Section 3.1(a), provided that the effective date of the new salary reduction agreement shall be no earlier than the later of (A) the first Valuation Date after the new salary reduction agreement is received in executed form by the Administrator or (B) the date the Participant resumes eligible employment with an Employer. Transfers of Participants to different payroll systems among the Employers shall be administered by procedures established by the Administrator.

Sec. 3.2 Employer Matching Contributions. For each payroll period, an Employer may contribute hereunder as a Matching Contribution an amount equal to a stated dollar amount or a stated percentage of the Salary Reduction Contribution, if any, made for such payroll period on behalf of each Participant entitled to an allocation under Section 7.3; provided that the Salary Reduction Contribution made on behalf of each Participant for a payroll period for which an Employer shall make a Matching Contribution shall be considered only to the extent that it does not exceed 6% of the portion of the Participant's Annual Compensation paid during such payroll period, unless the governing body of the

Company determines otherwise. The Matching Contributions for a Year shall be determined by the governing body of the Company in its sole and absolute discretion. Matching Contributions made pursuant to this Section shall be subject to the limitations and restrictions of Articles V and VI. The Matching Contributions, if any, made pursuant to this Section 3.2 shall be reduced by the forfeitures for such Year under Articles IV, V, XIV and XV that are designated under Section 14.5 by the Company to be applied to reduce the Matching Contributions for the Year and such forfeitures shall be allocated as provided in Section 7.3 in lieu of such contributions.

Sec. 3.3 Employer Profit Sharing Contributions. In addition to the Matching Contribution under Section 3.2, if any, for any Year, the Employer may elect to make a voluntary profit sharing contribution (after taking into account the Matching Contribution, if any, under Section 3.2) on behalf of the Participants entitled to an allocation under Section 7.4 for that Year in an amount determined and authorized by the governing body of the Company for such Year. The Employer profit sharing contributions, if any, made pursuant to this
Section 3.3 shall be allocated along with the forfeitures for such Year under Articles IV, V, XIV and XV, if any, that are designated by the Company under
Section 14.5 for allocation under Section 7.4 with the Employer profit sharing contributions.

Sec. 3.4 Employer Qualified Non-Elective Contributions. To insure that the Actual Deferral Percentage tests of Section 401(k) of the Code as described in Section 4.2 hereof or the Contribution Percentage tests of Section 401(m) of the Code as described in Section 5.1 hereof are met for any Year, an Employer, under such rules and regulations as the Secretary of the Treasury may prescribe, in addition to the Salary Reduction Contributions made by the Employer pursuant to Section 3.1, the Matching Contributions under Section 3.2, if any, and any Employer profit sharing contributions under Section 3.3, may make additional contributions which shall constitute "qualified non-elective contributions" within the meaning of Section 401(m)(4)(C) of the Code on behalf of any Non-Highly Compensated Employee (as defined in Section 4.2) selected by the Company. Each Year an Employer shall designate the portion, if any, of the qualified non-elective contributions that it made for the Year that shall be considered under Section 4.2 for the Actual Deferral Percentage test and the portion, if any, that shall be considered under Section 5.1 for the Contribution Percentage test.

Sec. 3.5 Time and Form of Contributions. Payments of Employer contributions due with respect to any Year (i) pursuant to Section 3.2 shall be made in Company Stock and (ii) pursuant to Section 3.3 may be made in cash (by check or wire transfer), Company Stock or any combination thereof, as determined by the Company in its discretion. In addition to any other requirements hereunder relating to the timing of contributions, contributions made by an

Employer pursuant to Sections 3.2, 3.3 or 3.4, if any, may be made at any time and from time to time, except that the total contribution for any Year shall be paid in full not later than the time prescribed by law to enable the Employer to obtain a deduction therefor on its federal income tax return for said Year. If in advance of a Year the governing body of the Company authorizes Employer contributions pursuant to Section 3.2 or 3.3 for that Year, such governing body may provide that all or a portion of such contributions shall be allocated monthly, quarterly or on some other basis rather than by payroll period during the Year or at the end of such Year. Contributions made after the last day of the Year but within the time for filing an Employer's federal income tax return (including extensions thereof) shall be deemed made as of the last day of that Year if so directed by the Employer, except such contributions shall not share in increases, decreases, or income to the Trust Fund prior to the date actually made. Notwithstanding the foregoing, upon an Employer's request, a contribution which was made upon a mistake of fact or conditioned upon initial qualification of the Plan (application for which is made by the time prescribed by law for filing the Employer's tax return for the taxable year in which the Plan is adopted, or such later date as the Secretary of the Treasury may prescribe) or upon deductibility of the contribution shall be returned to the Employer within one year after payment of the contribution, denial of the qualification, or disallowance of the deduction (to the extent disallowed), as the case may be; provided, however, the amount returned to an Employer due to mistake of fact or denial of deductibility shall not be increased by any earnings thereon and shall be reduced by any losses attributable to such amount.

Sec. 3.6 Limit on Employer Contributions. Notwithstanding the foregoing provisions of Sections 3.1, 3.2, 3.3 or 3.4, the contribution of an Employer for any Year (whether made pursuant to Sections 3.1, 3.2, 3.3 or 3.4) shall be first authorized by the governing body of the Company and shall in no event exceed an amount which will, under the law then in effect, be deductible by the Employer in computing its federal taxes based on income for that Year. As permitted by
Section 401(a)(27) of the Code, any Employer may make contributions to the Plan without regard to net profits, current or accumulated.

Sec. 3.7 Contributions May be Made with Respect to a Particular Employer. In making its determination of Matching Contributions and Employer profit sharing contributions with respect to any Year, the governing body of the Company may make its determination separately with respect to any Employer or business or operating unit within an Employer; provided, however, that any such determination must be nondiscriminatory within the meaning of the Treasury regulations under Section 401(a)(4) of the Code and must satisfy the minimum coverage requirements of Section 410(b) of the Code. In such case, the contribution to such Employer or business or operating unit within an Employer

shall be allocated only to Participants who are Employees of such Employer or business or operating unit within that Employer.

Sec. 3.8 Manner of Making Contributions. All contributions to the Trust Fund shall be paid directly to the Trustee. In connection with each contribution, the Employer shall provide the Recordkeeper with information that:

(a) identifies each Participant on whose behalf the contribution is being made and the amount thereof;

(b) states whether the amount contributed on behalf of the Participant is a Salary Reduction Contribution, a Matching Contribution, an Employer profit sharing contribution, a qualified non-elective contribution, a Rollover Contribution or a Transfer Contribution; and

(c) directs the investment of the amount contributed on behalf of the Participant.

Sec. 3.9 Rollover and Transfer Contributions. An Employee, regardless of whether he is a Participant in the Plan, may, if authorized by the Administrator and after complying with all applicable laws and filing with the Trustee the form prescribed by the Administrator, make a Rollover Contribution or have a Transfer Contribution made on his behalf to the Plan at any time. If the Employee is not a Participant hereunder, his Rollover Account or Transfer Account shall constitute his entire interest under the Plan. The Recordkeeper shall allocate and credit a Rollover Contribution or Transfer Contribution to the Employee's Rollover Account or Transfer Account as of the Valuation Date immediately following the date on which the Rollover Contribution or Transfer Contribution is made. An investment election on a form prescribed by the Administrator shall be submitted with the Employee's Rollover Contribution or Transfer Contribution and shall direct that such contribution be invested in the Investment Funds in accordance with Section 22.8. In no event shall the existence of a Rollover Contribution or Transfer Contribution held for the benefit of an Employee be construed to entitle the Employee to any amount in the Plan to which such Employee is not otherwise entitled under the other provisions of the Plan.

Article IV

LIMITATIONS AND RESTRICTIONS ON SALARY REDUCTION CONTRIBUTIONS

Sec. 4.1 Dollar Limitation and Excess Elective Deferrals. For any taxable year of a Participant, the aggregate amount of (i) the Participant's Salary Reduction Contributions made pursuant to Section 3.1 for that taxable year, and
(ii) amounts deferred by the Participant for that taxable year pursuant to a salary reduction agreement under any other plan, contract or agreement described

in Sections 401(k), 403(b) or 408(k) of the Code sponsored by an Affiliated Company shall not exceed the Annual Deferral Limitation for that taxable year. The Annual Deferral Limitation for the taxable year beginning in 1997 is $9,500
[or, beginning January 1, 1998, such other amount as the Secretary of the Treasury may prescribe at the same time and in the same manner as provided under
Section 415(d) of the Code for adjusting the dollar limitation in effect under
Section 415(b)(1)(A) of the Code].

If the Salary Reduction Contributions made on behalf of a Participant for a taxable year exceed the Annual Deferral Limitation for that year, the amount of such excess shall be referred to as "Excess Elective Deferrals." Excess Elective Deferrals (adjusted for the income or loss attributable to such excess amount) shall be distributed to the Participant not later than the April 15 immediately following the taxable year of the Participant for which the Excess Elective Deferrals were made to the Plan. The Administrator shall reduce the amount of the Excess Elective Deferrals for a taxable year distributable to the Participant under this Section 4.1 by the amount of Excess Salary Reduction Contributions (as determined under Section 4.3), if any, previously distributed to the Participant for the Year beginning in that taxable year. The Administrator shall determine the net income or net loss in the same manner as described in Section 4.3 for Excess Salary Reduction Contributions, except the numerator of the allocation fraction shall be the amount of the Participant's Excess Elective Deferrals for the taxable year under this Section 4.1 and the denominator of the allocation fraction shall be the balance of the Participant's
401(k) Account attributable to Salary Reduction Contributions as of the end of the taxable year [without regard to the net income or net loss for the taxable year on that portion of the Participant's 401(k) Account]; provided, however, if there is a loss attributable to such excess amount, the amount of the distribution adjusted for such loss shall be limited to an amount which does not exceed the lesser of (i) the balance of the Participant's 401(k) Account or (ii) the Salary Reduction Contributions made on behalf of the Participant for that taxable year. In adjusting a Participant's Excess Elective Deferrals for the income or loss attributable to such Excess Elective Deferrals, effective for the Year beginning January 1, 1997, the income or loss attributable to such excess deferrals for the "gap period" shall not be considered. For purposes of this Section 4.1, "gap period" shall mean the period beginning with the first day of the taxable year next following the taxable year for which the Excess Elective Deferrals were made on behalf of the Participant and ending on the date of the distribution. If Excess Elective Deferrals are distributed to a Participant from the Plan pursuant to this Section 4.1, the Matching Contribution, if any, to which such Excess Elective Deferrals relate (plus any income and minus any loss attributable thereto), determined after the application of Section 5.2, shall be forfeited (whether or not vested) at the time the Excess Elective Deferrals are distributed, and the forfeitures shall be applied as set forth in Section 14.5.

If the Participant also (i) participates in one or more other qualified cash or deferred arrangements within the meaning of Section 401(k) of the Code, including the Dual 401(k) Plan for the period beginning January 1, 1996 and ending June 30, 1996, (ii) has an employer contribution made on his behalf pursuant to a salary reduction agreement under Section 408(k) of the Code, or
(iii) has an employer contribution made on his behalf pursuant to a salary reduction agreement toward the purchase of an annuity contract under Section 403(b) of the Code, and the sum of the elective deferrals [as defined in Section 402(g)(3) of the Code] that are made for the Participant during a taxable year under such other arrangements and this Plan exceeds the Annual Deferral Limitation for that taxable year, the Participant shall, not later than the March 1 following the close of his taxable year for which the excess elective deferrals have been made, notify the Administrator in writing of the portion of the excess elective deferrals that he wishes to be allocated to this Plan, if any, and request that the Salary Reduction Contributions made on his behalf under this Plan be reduced by the allocable amount specified by the Participant. If all plans, contracts and agreements described in Section 401(k), 403(b) and 408(k) of the Code pursuant to which the Participant is able to defer amounts for a taxable year for which excess elective deferrals have been made are sponsored by an Affiliated Company, the Administrator shall determine to which plan, contract or agreement (including the Plan) the excess elective deferrals shall be allocated for that taxable year and if the excess elective deferrals are to be allocated to the Plan, the Administrator shall notify the Trustee and the Participant in writing not later than March 1 following the close of that taxable year. Such notification shall be deemed to be a notification by the Participant to the Administrator. The portion of the excess elective deferrals that is allocated to this Plan, if any, shall be adjusted for income and loss in the manner provided above and shall then be distributed to the Participant no later than the immediately following April 15. If the Salary Reduction Contributions made on behalf of a Participant for a taxable year do not exceed the Annual Deferral Limitation for that taxable year and the Administrator has not received any written Notice from the Participant (or deemed to have received written Notice from the Participant pursuant to the provisions hereof) by the March 1 immediately following that taxable year notifying the Administrator that the Participant allocates a portion of the excess elective deferrals, if any, for that taxable year to the Plan, the Administrator may assume that none of the Salary Reduction Contributions made on behalf of the Participant for that taxable year constitute Excess Elective Deferrals and that no distribution is required to be made from the Participant's 401(k) Account pursuant to this
Section 4.1. Notwithstanding the fact that Excess Elective Deferrals have been (or will be) distributed to a Highly Compensated Employee as provided above, the excess amount of such Salary Reduction Contributions or the portion of such Salary Reduction Contributions that are deemed to constitute Excess Elective Deferrals by reason of the Administrator's or Participant's written Notice of allocation hereunder shall still be treated as a Salary Reduction Contribution

for purposes of applying the Actual Deferral Percentage test described in
Section 4.2 hereof for the Year in which such Excess Elective Deferrals were made, except to the extent provided under rules prescribed by the Secretary of the Treasury.

Sec. 4.2 Actual Deferral Percentage Tests. For each Year, the Administrator shall determine whether the aggregate amount allocated to each Participant's
401(k) Account attributable to Salary Reduction Contributions and qualified non-elective contributions (that are designated under Section 3.4 for consideration under this Section 4.2) made for that Year shall satisfy one of the following tests, in addition to the test set forth in Article VI:

(a) the "Actual Deferral Percentage" for the Year for the group consisting of all eligible Highly Compensated Employees (as defined below) shall not exceed the "Actual Deferral Percentage" for the preceding Year for the group consisting of all eligible Non-Highly Compensated Employees (as defined below) multiplied by 1.25; or

(b) the "Actual Deferral Percentage" for the Year for the group consisting of all eligible Highly Compensated Employees shall not exceed the lesser of (i) 200% of the "Actual Deferral Percentage" for the preceding Year for the group consisting of all eligible Non-Highly Compensated Employees or (ii) the "Actual Deferral Percentage" for the preceding Year for the group consisting of all eligible Non-Highly Compensated Employees plus two percentage points or such lesser amount as the Secretary of the Treasury shall prescribe.

Notwithstanding subsections (a) and (b) above, the Company may elect in accordance with Internal Revenue Service Notice 97-2, 1997-2 IRB for the Year beginning January 1, 1997 and in accordance with Treasury regulations under
Section 401(k) of the Code for Years beginning after December 31, 1997 to determine compliance with either of the tests under subsection (a) or (b) for a Year by reference to the Actual Deferral Percentage of the eligible Non-Highly Compensated Employees for the current Year in lieu of determining such compliance based on the Actual Deferral Percentage of the eligible Non-Highly Compensated Employees for the preceding Year.

For purposes of this Article IV, the following terms shall have the following meanings:

(a) "Actual Deferral Percentage" for a Year or a preceding Year means, with respect to the group consisting of the eligible Highly Compensated

Employees and the group consisting of the eligible Non-Highly Compensated Employees, the average (expressed as a percentage) of the ratios, calculated separately for each Employee in each such group and rounded to the nearest one-hundredth of one percent, of the amount of Salary Reduction Contributions and qualified non-elective contributions (that are designated under Section 3.4 for consideration under this Section 4.2) allocated to each Employee's 401(k) Account under Section 7.2 and Section 7.5, respectively, (unreduced in the case of Highly Compensated Employees by distributions made to any such Employee pursuant to Section 4.1 hereof) for such Year or preceding Year, whichever is applicable, to such Employee's Annual Compensation [as defined in subsection (c) below] paid or accrued during the Year or preceding Year, whichever is applicable, in which the Employee was an eligible Highly Compensated Employee or eligible Non-Highly Compensated Employee.

(b) "Actual Deferral Ratio" means each separately calculated ratio under subsection (a) above. An Employee who is considered a Highly Compensated Employee under Section 1.20 or a Non-Highly Compensated Employee under Section 1.29 shall considered an "eligible Highly Compensated Employee" or an "eligible Non-Highly Compensated Employee" for purposes of this Section 4.2 for each Year he is employed by an Employer if he has satisfied the eligibility requirements of Article II and reached a 401(k) Entry Date on which he could have become a Participant, regardless of whether (i) he has elected to have an Employer make a Salary Reduction Contribution to the Plan on his behalf under Section 3.1 for that Year, (ii) his right to make Salary Reduction Contributions to the Plan for that Year has been totally or partially suspended under Section 15.5(d) due to his receipt of a hardship distribution, or (iii) he is suspended from further contributions during the Year due to the limitations of Section 415 of the Code as described in Article VIII. Moreover, the eligible Non-Highly Compensated Employees for a preceding Year shall be determined for that Year as described in the preceding sentence and shall not be affected by any such Non-Highly Compensated Employee's status as an Employee, Highly Compensated Employee or Non-Highly Compensated Employee for the current Year. Consequently, for purposes of this Section 4.2, the Actual Deferral Ratio for each Highly Compensated Employee and Non-Highly Compensated Employee who is eligible to, but does not elect to have an Employer make a Salary Reduction Contribution on his behalf to the Plan for a Year, shall be zero for that Year, unless the Employer makes a qualified non-elective contribution to the Plan for a Year to satisfy the Actual Deferral Percentage tests, in which case the Actual Deferral Ratio for each such Non-Highly Compensated Employee shall be the ratio of that portion of the qualified non-elective contribution attributable to contributions

made by the Employer to satisfy the Actual Deferral Percentage tests which is allocated to his 401(k) Account under Section 7.5 for the Year to his Annual Compensation paid or accrued during the Year in which the Employee was an eligible Non-Highly Compensated Employee.

If any Employee who is an eligible Highly Compensated Employee is a participant in two or more cash or deferred arrangements described in Section 401(k) of the Code that are maintained by an Affiliated Company, excluding any such arrangement that is part of an employee stock ownership plan [as defined in Section 4975(e)(7) of the Code] for purposes of determining his ratio under this Section 4.2, all such cash or deferred arrangements shall be treated as one cash or deferred arrangement to the extent required under Section 401(k) of the Code. For purposes of this Section 4.2, if two or more plans or arrangements described in Section 401(k) of the Code are considered one plan for the purposes of Sections 401(a)(4) or 410(b) of the Code, such arrangements shall be treated as a single arrangement, and if the plans use different plan years, the Administrator shall determine the combined Salary Reduction Contributions and ratio on the basis of the plan years ending in the same calendar year. The Recordkeeper shall maintain records to demonstrate compliance with the tests under this Section 4.2, including the extent to which the Plan used qualified non-elective contributions made pursuant to Section 3.4 to satisfy a test.

(c) "Annual Compensation" means for a particular Year beginning on or after January 1, 1995, the definition of compensation determined by the Administrator to be used under this Section 4.2 for that Year, provided that any such definition of compensation must satisfy Section 414(s) of the Code as determined under Treas. Reg. ss.1.414(s)-1(c).

Sec. 4.3 Adjustments Required to Satisfy an Actual Deferral Percentage Test. If Salary Reduction Contributions made for any Year do not satisfy one of the tests set forth in Section 4.2, the excess amount that would result in a test being satisfied for that Year if it had not been made to the Plan shall be referred to as an "Excess Salary Reduction Contribution" and the Administrator shall, in its sole and absolute discretion and notwithstanding any other provision of the Plan to the contrary (but subject to the provisions of Sections 4.4 and 4.5), make appropriate adjustments pursuant to one or more of the following provisions:

(a) Within 2 1/2 months following the close of the Year for which an Excess Salary Reduction Contribution was made, if administratively possible, and not later than the close of the Year immediately following the Year for which an Excess Salary Reduction Contribution was made, the Excess Salary Reduction Contribution (plus any income and minus any loss attributable thereto) shall be distributed to the Highly Compensated Employees to whose 401(k) Accounts all or a portion of such Excess Salary Reduction Contribution was allocated first from such Highly

Compensated Employees' unmatched Salary Reduction Contributions, and then if necessary, from such Highly Compensated Employees' matched Salary Reduction Contributions; provided, however, that if matched Salary Reduction Contributions are distributed to correct an Excess Salary Reduction Contribution, the Matching Contribution to which such Excess Salary Reduction Contribution relates (plus any income and minus any loss attributable thereto) shall be forfeited (whether or not vested) at the time the Excess Salary Reduction Contribution is distributed and the forfeiture shall be applied as set forth in Section 14.5; or

(b) Within the time prescribed by law to enable an Employer to obtain a deduction for a contribution on its federal income tax return for the Year for which an Excess Salary Reduction Contribution was made, the Employer shall, if the conditions applicable to qualified non-elective contributions under final Treasury regulations issued by the Secretary of the Treasury are satisfied, make a qualified non-elective contribution pursuant to Section 3.4 on behalf of the eligible Non-Highly Compensated Employees (as defined in Section 4.2) who meet the requirements of Section 7.5 in an amount sufficient to satisfy one of the tests set forth in Section 4.2 [before or after the application of subsection (a) above].

The amount of the Excess Salary Reduction Contributions to be distributed pursuant to subsection (a) hereof shall be determined by a leveling method under which the Actual Deferral Ratio of the Highly Compensated Employee with the highest dollar amount of Salary Reduction Contributions is reduced to the extent required (i) to enable the Plan to satisfy one of the Actual Deferral Percentage tests set forth in Section 4.2 or (ii) to cause such Highly Compensated Employee's dollar amount of Salary Reduction Contributions to equal the dollar amount of Salary Reduction Contributions of the Highly Compensated Employee with the next highest dollar amount of Salary Reduction Contributions. This procedure shall be repeated until the Plan satisfies one of the Actual Deferral Percentage tests set forth in Section 4.2. Once the Plan satisfies one of the Actual Deferral Percentage tests, the amount of the Excess Salary Reduction Contributions for each Highly Compensated Employee who had his Salary Reduction Contributions reduced under the preceding sentences shall be equal to the dollar amount that his Salary Reduction Contributions were reduced under the preceding sentences, reduced by the amount of Excess Elective Deferrals for the Year, if any, that have been previously distributed under Section 4.1 to the Employee for the taxable year ending in that Year.

The income or loss attributable to the portion of the Excess Salary Reduction Contributions for a Year that are to be distributed to a Highly Compensated Employee hereunder shall be determined by multiplying the amount of the income or loss allocable to the Participant's 401(k) Account for the Year by a fraction, the numerator of which is the portion of the Excess Salary Reduction

Contributions for the Year that are to be distributed to that Participant and the denominator of which is the balance of the Participant's 401(k) Account on the last day of the Year after adjustment as of such date under Section 9.2. In adjusting a Participant's Excess Salary Reduction Contributions for the income or loss attributable to such excess contributions, effective for the Year beginning January 1, 1997, the income or loss attributable to such excess contributions for the "gap period" shall not be considered. For purposes of this Section 4.3, "gap period" shall mean the period beginning with the first day of the Year next following the Year for which the Excess Salary Reduction Contributions were made on behalf of the Participant and ending on the date of the distribution.

Sec. 4.4 Additional Adjustments of Salary Reduction Contributions. For purposes of assuring compliance with the Actual Deferral Percentage tests of Section 4.2 hereof, the Administrator may, in its sole and absolute discretion, make such adjustments, reductions or suspensions to Salary Reduction Contribution rates of Participants who are Highly Compensated Employees at such times and in such amounts as the Administrator shall reasonably deem necessary, including prospective reductions of Salary Reduction Contributions at any time prior to or within the Year. The Administrator shall make such adjustments, reductions or suspensions based upon periodic reviews of the Salary Reduction Contribution rates of Highly Compensated Employees during the Year and may make such adjustments, reductions or suspensions in any amount notwithstanding any other provisions hereof. In addition, the Administrator shall take any other action to assure compliance with the Actual Deferral Percentage tests as shall be prescribed by the Secretary of the Treasury.

Sec. 4.5 Other Permissible Methods of Testing and Correction. The provisions of this Article IV are intended to conform with Sections 401(k) and 402(g) of the Code. In the event that the Administrator determines, based on changes to the Code or interpretations or guidance issued by the Internal Revenue Service, that the requirements of such Code sections may be applied in a manner different from that prescribed in this Article IV, the Administrator may make appropriate adjustments to the administration of the Plan to incorporate such changes to the Code or interpretations or guidance. If a change to the Code or interpretations or guidance issued by the Internal Revenue Service results in more than one additional option in the manner in which this Article IV may be administered, the Administrator shall have the limited discretion to select the option to be used, provided that such option, when compared to the other option or options, results in the smallest adjustment to Participants' Individual Accounts.

Article V

LIMITATIONS AND RESTRICTIONS ON MATCHING CONTRIBUTIONS

Sec. 5.1 Contribution Percentage Tests. For each Year, the Employer shall determine, after first applying the provisions of Section 4.3(a), whether the sum of (i) the amounts allocated to each Participant's Employer Account attributable to Matching Contributions, if any, made for that Year and forfeitures that are allocated under Section 7.3 for that Year and (ii) the amount allocated to each Participant's 401(k) Account attributable to qualified non-elective contributions (that are designated under Section 3.4 for consideration under this Section 5.1) for that Year shall satisfy one of the following tests, in addition to the test set forth in Article VI:

(a) the "Contribution Percentage" for the Year for the group consisting of all eligible Highly Compensated Employees (as defined below) shall not exceed the "Contribution Percentage" for the preceding Year for the group consisting of all eligible Non-Highly Compensated Employees (as defined below) multiplied by 1.25; or

(b) the "Contribution Percentage" for the Year for the group consisting of all eligible Highly Compensated Employees shall not exceed the lesser of (i) 200% of the "Contribution Percentage" for the preceding Year for the group consisting of all eligible Non-Highly Compensated Employees or
(ii) the "Contribution Percentage" for the preceding Year for the group consisting of all eligible Non-Highly Compensated Employees plus two percentage points or such lesser amount as the Secretary of the Treasury shall prescribe.

Notwithstanding subsections (a) and (b) above, the Company may elect in accordance with Internal Revenue Service Notice 97-2, 1997-2 IRB for the Year beginning January 1, 1997 and in accordance with Treasury regulations under
Section 401(m) of the Code for Years beginning after December 31, 1997 to determine compliance with either of the tests under subsection (a) or (b) for a Year by reference to the Contribution Percentage of the eligible Non-Highly Compensated Employees for the current Year in lieu of determining such compliance based on the Contribution Percentage of the eligible Non-Highly Compensated Employees for the preceding Year.

For purposes of this Article V, the following terms shall have the following meanings:

(a) "Contribution Percentage" for a Year or a preceding Year means, with respect to the group consisting of the eligible Highly Compensated Employees and the group consisting of the eligible Non-Highly Compensated Employees, the average (expressed as a percentage) of the ratios, calculated separately for each Employee in each such group and

rounded to the nearest one-hundredth of one percent, of the sum of (i) the amount of Matching Contributions, if any, and forfeitures allocated to each Employee's Employer Account under Section 7.3 for such Year or preceding Year, whichever is applicable, after reduction for forfeited Matching Contributions, if any, under Section 4.3(a), and (ii) the amount allocated to each Employee's 401(k) Account under Section 7.5 attributable to qualified non-elective contributions (that are designated under Section 3.4 for consideration under this Section 5.1) for such Year or preceding Year, whichever is applicable, to such Employee's Annual Compensation [as defined in subsection (c) below] paid or accrued during the Year or preceding Year, whichever is applicable, in which the Employee was an eligible Highly Compensated Employee or eligible Non-Highly Compensated Employee.

(b) "Actual Contribution Ratio" means each separately calculated ratio under subsection (a) above. An Employee who is considered a Highly Compensated Employee under Section 1.20 or a Non-Highly Compensated Employee under Section 1.29 shall be considered an "eligible Highly Compensated Employee" or an "eligible Non-Highly Compensated Employee" for purposes of this Section 5.1 for each Year he is employed by an Employer if he has satisfied the eligibility requirements of Article II and reached a 401(k) Entry Date on which he could have become a Participant, regardless of whether he elected to have an Employer make a Salary Reduction Contribution to the Plan on his behalf under Section 3.1 and is eligible to receive an allocation of a Matching Contribution under Section 7.3 for that Year. Moreover, the eligible Non-Highly Compensated Employees for a preceding Year shall be determined for that Year as described in the preceding sentence and shall not be affected by any such Non-Highly Compensated Employee's status as an Employee, Highly Compensated Employee or Non-Highly Compensated Employee for the current Year. Consequently, for purposes of this Section 5.1, the Actual Contribution Ratio for each Highly Compensated Employee and Non-Highly Compensated Employee who is eligible to, but does not elect to have an Employer make a Salary Reduction Contribution on his behalf to the Plan for a Year, shall be zero for that Year, unless an Employer makes a qualified non-elective contribution to the Plan for a Year to satisfy the Contribution Percentage tests, in which case the Actual Contribution Ratio for each such Non-Highly Compensated Employee shall be the ratio of that portion of the qualified non-elective contribution attributable to contributions made by an Employer to satisfy the Contribution Percentage tests which is allocated to his 401(k) Account under Section 7.5 for the Year to his Annual Compensation paid or accrued during the Year in which the Employee was an eligible Non-Highly Compensated Employee.

For purposes of this Section 5.1, if two or more plans of an Employer to which matching contributions within the meaning of Section

401(m)(4)(A) of the Code, employee voluntary after-tax contributions or elective deferrals within the meaning of Section 401(m)(4)(B) of the Code are made are treated as one plan for purposes of Sections 401(a)(4) and 410(b) of the Code, [other than the average benefits test, and excluding allocations under an employee stock ownership plan as defined in Section 4975(e)(7) or 409 of the Code, or the portion of a plan which constitutes an employee stock ownership plan], such plans shall be treated as one plan for purposes of this Section 5.1, and if the plans use different plan years, the Administrator shall determine the combined Matching Contributions and the ratio on the basis of the plan years ending in the same calendar year. The Recordkeeper shall maintain records to demonstrate compliance with the tests under this Section 5.1, including the extent to which the Plan used qualified non-elective contributions made pursuant to Section 3.4 to satisfy a test. In addition, if any Employee who is an eligible Highly Compensated Employee participates in two or more plans described in Section 401(a) of the Code which are maintained by an Affiliated Company to which such contributions are made, all such contributions shall be aggregated for purposes of this Section 5.1 to the extent required under Section 401(m) of the Code.

(c) "Annual Compensation" means for a particular Year beginning on or after January 1, 1995, the definition of compensation determined by the Administrator to be used under this Section 5.1 for that Year, provided that any such definition of compensation must satisfy Section 414(s) of the Code as determined under Treas. Reg. ss.1.414(s)-1(c).

Sec. 5.2 Adjustments Required to Satisfy a Contribution Percentage Test. If Matching Contributions, if any, made for any Year and allocated under Section 7.3 do not satisfy one of the tests set forth in Section 5.1, the excess amount that would result in a test being satisfied for the Year if it had not been made to the Plan shall be referred to as an "Excess Matching Contribution" and the Administrator shall, in its sole and absolute discretion and notwithstanding any other provision hereof, make appropriate adjustments in accordance with Sections 401(a)(4) and 401(m) of the Code (and the Treasury regulations thereunder) pursuant to subsections (a) and (b), or pursuant to subsection (c) in lieu of the application of subsections (a) and (b), or pursuant to subsection (c) in addition to the application of subsections (a) and (b), as determined by the Administrator, as follows:

(a) To the extent that the portion of the Excess Matching Contribution for the Year allocable to an Employer Account of a Highly Compensated Employee is nonforfeitable under Section 14.2, such nonforfeitable portion (plus any income and minus any loss attributable thereto) shall be distributed to the Highly Compensated Employee within 2 1/2 months following the close of that Year, if administratively possible, and not later than the close of the Year immediately following that Year; and

(b) To the extent that the portion of the Excess Matching Contribution for the Year allocable to an Employer Account of a Highly Compensated Employee is forfeitable under Section 14.2, within 2 1/2 months following the close of that Year, if administratively possible, and not later than the close of the Year immediately following that Year such forfeitable portion (plus any income and minus any loss attributable thereto) shall be forfeited and applied as set forth in Section 14.5; or

(c) In lieu of or in addition to the application of subsections (a) and
(b) above, within the time prescribed by law to enable an Employer to obtain a deduction for a contribution on its federal income tax return for the Year for which an Excess Matching Contribution was made, the Employer shall, if the conditions applicable to qualified non-elective contributions under final Treasury regulations issued by the Secretary of the Treasury are satisfied, make a qualified nonelective contribution pursuant to Section 3.4 on behalf of the eligible Non-Highly Compensated Employees (as defined in Section 5.1) in an amount sufficient to satisfy one of the tests set forth in Section 5.1 [before or after the application of subsections (a) and (b)].

The amount of the Excess Matching Contributions to be distributed or forfeited pursuant to subsections (a) and (b) hereof shall be determined by a leveling method under which the Actual Contribution Ratio of the Highly Compensated Employee with the highest dollar amount of Matching Contributions is reduced to the extent required (i) to enable the Plan to satisfy one of the Contribution Percentage tests set forth in Section 5.1 or (ii) to cause such Highly Compensated Employee's dollar amount of Matching Contributions to equal the dollar amount of Matching Contributions of the Highly Compensated Employee with the next highest dollar amount of Matching Contributions. This procedure shall be repeated until the Plan satisfies one of the Contribution Percentage tests set forth in Section 5.1. Once the Plan satisfies one of the Contribution Percentage tests, the amount of the Excess Matching Contributions for each such Highly Compensated Employee who had his Matching Contributions reduced under the preceding sentences shall be equal to the dollar amount that his Matching Contributions were reduced under the preceding sentences.

The income or loss attributable to the portion of the Excess Matching Contributions for a Year that are to be distributed to a Highly Compensated Employee or forfeited from his Employer Account shall be determined by multiplying the amount of the income or loss allocable to the Participant's Employer Account for the Year by a fraction, the numerator of which is the portion of the Excess Matching Contributions for the Year that are to be

distributed to that Participant or forfeited from his Employer Account and the denominator of which is the balance of the Participant's Employer Account on the last day of the Year after adjustment as of such date under Section 9.2.

In adjusting a Participant's Excess Matching Contributions for the income or loss attributable to such excess contributions, effective for the Year beginning January 1, 1997, the income or loss attributable to such excess contributions for the "gap period" shall not be considered. For purposes of this
Section 5.2, "gap period" shall mean the period beginning with the first day of the Year next following the Year for which the Excess Matching Contributions were made on behalf of the Participant and ending on the date of the distribution.

Sec. 5.3 Testing of Salary Reduction Contributions Under Contribution Percentage Test. Notwithstanding the foregoing provisions of this Article V or of Article IV, all or a portion of the Salary Reduction Contributions made on behalf of eligible Non-Highly Compensated Employees may be treated as Matching Contributions made on behalf of such eligible Non-Highly Compensated Employees for the purpose of meeting the Contribution Percentage test set forth in Section 5.1, provided that the Actual Deferral Percentage test of Section 4.2 can be met, both when the Salary Reduction Contributions treated as Matching Contributions hereunder are included in performing such Actual Deferral Percentage test and when such Salary Reduction Contributions are excluded in performing such Actual Deferral Percentage test. Except for purposes of meeting the Contribution Percentage test of Section 5.1 to the extent described hereunder, any such Salary Reduction Contributions shall continue to be treated as Salary Reduction Contributions for all other purposes of the Plan.

Sec. 5.4 Other Permissible Methods of Testing and Corrections. The provisions of this Article V are intended to conform with Section 401(m) of the Code. In the event that the Administrator determines, based on changes to the Code or interpretations or guidance issued by the Internal Revenue Service, that the requirements of such Code section may be applied in a manner different from that prescribed in this Article V, the Administrator may make appropriate adjustments to the administration of the Plan to incorporate such changes to the Code or interpretations or guidance. If a change to the Code or interpretations or guidance issued by the Internal Revenue Service results in more than one additional option in the manner in which this Article V may be administered, the Administrator shall have the limited discretion to select the option to be used, provided that such option, when compared to the other option or options, results in the smallest adjustment to Participants' Individual Accounts.

Article VI

AGGREGATE LIMIT ON ACTUAL DEFERRAL AND CONTRIBUTION PERCENTAGES

Sec. 6.1 General Rules. If at least one Highly Compensated Employee is included in the Actual Deferral Percentage test under Section 4.2 and in the Contribution Percentage test under Section 5.1, in addition to satisfaction of the Actual Deferral Percentage test and the Contribution Percentage test, the sum of the Highly Compensated Group's Actual Deferral Percentage under Section 4.2 and Contribution Percentage under Section 5.1 may not exceed the aggregate limit (the "multiple use limitation") of this Article VI. The multiple use limitation of this Article VI does not apply, however, unless prior to the application of the multiple use limitation, the Actual Deferral Percentage and the Contribution Percentage of the Highly Compensated Group each exceeds 125% of the respective percentages for the Non-Highly Compensated Group.

Sec. 6.2 Multiple Use Limitations. The multiple use limitation is the greater of (i) the sum of (a) and (b) or (ii) the sum of (c) and (d), where:

(a) is 125% of the greater of:

(i) the Actual Deferral Percentage of the Non-Highly Compensated Group under Section 4.2 for the preceding Year; or

(ii) the Contribution Percentage of the Non-Highly Compensated Group under Section 5.1 for the preceding Year; and

(b) is equal to two percent plus the lesser of the percentage in subsection (a)(i) or (a)(ii) above, but not more than twice the lesser of the percentage in subsection (a)(i) or (a)(ii); or

(c) is equal to 125% of the lesser of:

(i) the Actual Deferral Percentage of the Non-Highly Compensated Group under Section 4.2 for the preceding Year; or

(ii) the Contribution Percentage of the Non-Highly Compensated Group under Section 5.1 for the preceding Year; and

(d) is equal to two percent plus the greater of the percentage in subsection (c)(i) or (c)(ii) above, but not more than twice the greater of the percentage in subsection (c)(i) or (c)(ii).

The Administrator shall determine whether the Plan satisfies the multiple use limitation after applying the Actual Deferral Percentage test under Section 4.2 and the Contribution Percentage test under Section 5.1 and after making any

corrective distributions, the use of qualified non-elective contributions, or any other adjustments required or permitted by Articles IV and V. If after applying this Section 6.2, the Administrator determines that the Plan has failed to satisfy the multiple use limitation, the Administrator shall correct the failure by treating the excess amount as Excess Matching Contributions under
Section 5.2. For purposes of this Article VI, "Highly Compensated Group" and "Non-Highly Compensated Group" means the group of Employees who are eligible Highly Compensated Employees and eligible Non-Highly Compensated Employees, respectively, for the Year or preceding Year, whichever is applicable, as defined in Sections 4.2 and 5.1.

Sec. 6.3 Prospective Reduction of Contributions. In the event that it is determined by the Administrator at any time prior to or within a Year that the multiple use limitation prescribed in Section 6.2 could be exceeded with respect to such Year, then the amount of Salary Reduction Contributions (as determined by the Committee in its sole and absolute discretion) made on behalf of Participants who are Highly Compensated Employees may be reduced in a manner similar to the procedures described in Section 4.4.

Article VII

ALLOCATION OF CONTRIBUTIONS

Sec. 7.1 Establishment of Accounts. The Recordkeeper shall establish and maintain a separate account as a record of each Participant's interest in the Trust Fund with respect to each Individual Account in which a Participant has an interest, including, as appropriate, sub-accounts for the Participant's Salary Reduction Contributions, his Matching Contributions, his profit sharing contributions, his after-tax employee contributions to either the Penrod Thrift Plan or the Dual 401(k) Plan, his Rollover Contributions and his Transfer Contributions. Within each such Individual Account, one or more sub-accounts shall be maintained to reflect the Participant's investment elections among the Investment Funds.

Sec. 7.2 Allocation of Salary Reduction Contributions. As of each Allocation Date, but after adjustment of the Individual Accounts as provided in
Section 9.2, the Employer contributions deposited with the Trustee during the period since the last Allocation Date that were made pursuant to a salary reduction agreement entered into with a Participant pursuant to Section 3.1 shall be allocated by the Recordkeeper to the Participant's 401(k) Account; provided however, that the amount allocated hereunder shall be subject to the limitations of Sections 4.1 and 4.2.

Sec. 7.3 Allocation of Matching Contributions and Certain Forfeitures. As of each Allocation Date, but after adjustment of the Individual Accounts as provided in Section 9.2, and after applying the limitations of Section 5.1 and

Article VI, the Administrator shall, to the extent permitted by either of the Contribution Percentage tests of Section 5.1 and the multiple use limitation of Article VI, direct the Recordkeeper to allocate the Matching Contribution made pursuant to Section 3.2 and certain forfeitures under Articles IV, V, XIV and XV, subject to the application of Section 14.5, for the period ending on such Allocation Date and shall credit the same to the Employer Accounts of all Participants as follows:

Each such Participant shall be entitled to have his Employer Account credited with that proportion of the Employer's Matching Contribution and the forfeitures, if any, which were designated by the Company to be applied to reduce Matching Contributions as provided in Section 14.5 for said period which the Salary Reduction Contribution made on his behalf for that period and which is considered under Section 3.2 in determining the Matching Contribution of an Employer for such period shall bear to the aggregate Salary Reduction Contributions made on behalf of all Participants entitled to share in such allocation for that period and which are considered under Section 3.2 for that period.

Sec. 7.4 Allocation of Employer Profit Sharing Contributions Made Under
Section 3.3 and Certain Forfeitures. As of the last day of each Year, but after adjustment of the Individual Accounts as provided in Section 9.2, the Administrator shall direct the Recordkeeper to allocate the profit sharing contribution of the Employer, if any, made pursuant to Section 3.3 and certain forfeitures under Articles IV, V, XIV and XV, subject to the application of
Section 14.5, for the Year and shall credit the same to the Employer Accounts of all Participants in the Plan who either (i) had their service with the Employer terminated by reason of death, retirement on or after age 60 or Disability during the Year, or (ii) were in the service of the Employer on the last day of the Year, as follows:

Each such Participant shall be entitled to have his Employer Account credited with that proportion of the Employer's profit sharing contribution made pursuant to Section 3.3 and the forfeitures, if any, which were designated under Section 14.5 by the Company for allocation pursuant to this Section 7.4 for such Year which his Annual Compensation for such Year shall bear to the aggregate Annual Compensation for that Year of all Participants entitled to share in such allocation.

Sec. 7.5 Allocation of Employer Qualified Non-Elective Contributions. As of the last day of each Year, but after adjustment of the Individual Accounts as provided in Section 9.2, if an Employer made qualified non-elective contributions for a Year under Section 3.4 on behalf of Participants who are Non-Highly Compensated Employees in order to insure that one of the Actual Deferral Percentage tests described in Section 4.2 are met for such Year or that

one of the Contribution Percentage tests described in Section 5.1 are met for such Year, such qualified non-elective contributions shall be allocated to the
401(k) Accounts of the Non-Highly Compensated Employees determined by the governing body of the Company in the manner determined by the governing body of the Company.

Sec. 7.6 Credit of Rollover Contributions and Transfer Contributions. A Rollover Contribution made by an Employee or a Transfer Contribution made on behalf of an Employee during the period since the last Allocation Date shall be credited to his Rollover Account or Transfer Account, as the case may be.

Sec. 7.7 Included Individual Accounts. For the purposes of this Article VII, references to the Individual Accounts of Participants shall include the Individual Accounts of those who die, become disabled, retire, or terminate their services during the Year in question.

Sec. 7.8 Special 410(b) Allocation. The Plan must satisfy the minimum coverage requirements of Section 410(b) of the Code each Year. If the Administrator determines that the Plan is to satisfy Section 410(b) of the Code for a Year by satisfying the ratio percentage test of Treas. Reg. ss.1.410(b)-2(b)(2), then notwithstanding the requirement of Section 7.4 that an individual be in the active service of an Employer on the last day of a Year in order to receive an allocation of Employer profit sharing contributions, if any, for such Year, each such Participant who performed for an Affiliated Company more than 500 Hours of Service during the Year and was not in the active service of an Employer on the last day of such Year shall be eligible to receive a "special allocation" hereunder for such Year to the extent required for the Plan to satisfy the ratio percentage test of Treas. Reg. ss.1.410(b)-2(b)(2) (or its successor). If the Administrator determines to apply this Section 7.8, the Administrator will suspend the accrual requirements of Section 7.4 with respect to certain Participants, beginning first with the Participants in the active service of an Employer on the last day of the Year, then the Participants who have the latest separation from service during the Year, and continuing to suspend in descending order the accrual requirements for each Participant who incurred an earlier separation from service, from the latest to the earliest separation from service date, until the Plan satisfies the ratio percentage test of Treas. Reg. ss.1.410(b)-2(b)(2) for the Year. If two or more Participants have a separation from service on the same day, the Administrator will suspend the accrual requirements for all such Participants, irrespective of whether the Plan can satisfy the ratio percentage test of Treas. Reg. ss.1.410(b)-2(b)(2) by accruing benefits for fewer than all such Participants. If the Plan suspends the accrual requirements for a Participant, that Participant will share in the allocation of Employer profit sharing contributions and forfeitures, if any, designated pursuant to Section 14.5 for allocation under Section 7.4 with the

profit sharing contributions without regard to whether he is in the active service of an Employer on the last day of the Year. The Administrator shall determine the number of Participants, selected in order of ranking, to receive a special allocation, if any. Notwithstanding the above, individuals who are not in the active service of an Employer on the last day of the Year and are excludable from testing under Section 410(b) of the Code shall not be eligible for a special allocation under this Section 7.8.

Article VIII

LIMITATION ON ALLOCATIONS

Sec. 8.1 Limitation on Allocations. Notwithstanding any other provision of the Plan, the following provisions shall be applicable to the Plan:

(a) If this Plan is the only plan maintained by an Employer which covers the class of Employees eligible to participate hereunder and the Participant does not participate in and has never participated in a Related Plan or a welfare benefit fund, as defined in Section 419(e) of the Code, maintained by the Employer, or an individual medical account, as defined in Section 415(1)(2) of the Code, maintained by the Employer, which provides an Annual Addition as defined in Section 8.2(a), the Annual Additions which may be allocated under this Plan to a Participant's Individual Account for a Limitation Year shall not exceed the lesser of:

(i) the Maximum Permissible Amount; or

(ii) any other limitation contained in this Plan.

(b) If an Employer maintains, in addition to this Plan, (i) a Related Plan which covers the same class of Employees eligible to participate hereunder, (ii) a welfare benefit fund, as defined in Section 419(e) of the Code, or (iii) an individual medical account, as defined in Section 415 (l)(2) of the Code, which provides an Annual Addition, the Annual Additions which may be allocated under this Plan to a Participant's Individual Account for a Limitation Year shall not exceed the lesser of:

(i) the Maximum Permissible Amount, reduced by the sum of any Annual Additions allocated to the Participant's accounts for the same Limitation Year under this Plan and such other Related Plan and the welfare plans described in clauses (ii) and (iii) above; or

(ii) any other limitation contained in this Plan.

Sec. 8.2 Definitions. For purposes of this Article VIII, the following terms shall have the meanings set forth below:

(a) "Annual Additions" means the sum of the following amounts allocated to a Participant's Individual Account for a Limitation Year:

(i) all Employer contributions;

(ii) all forfeitures;

(iii) all Employee contributions; and

(iv) amounts described in Sections 415(l)(1) and 419A(d)(2) of the Code.

In addition, Annual Additions shall include Excess Elective Deferrals under Section 4.1 that are not distributed under that section to the Participant before April 15 following the taxable year of deferral, Excess Salary Reduction Contributions within the meaning of Section 4.3 and Excess Matching Contributions within the meaning of Section 5.2.

For purposes of this Article VIII, Employee contributions shall be determined without regard to any (i) rollover contribution within the meaning of Section 402(a)(5), 403(a)(4) or 408(d)(3) of the Code [or, on or after January 1, 1993, an eligible rollover contribution as described in Section 402(c)(4) of the Code], (ii) contribution by the Employee to a simplified employee pension, (iii) contribution to an individual retirement account or individual retirement annuity and (iv) direct transfers of Employee contributions from a plan described in Section 401(a) of the Code to the Plan.

(b) "Excess Amount" means the excess of the Annual Additions allocated to a Participant's Individual Account for the Limitation Year over the Maximum Permissible Amount, less loading and other administrative charges allocable to such excess.

(c) "Limitation Year" means a twelve-consecutive month period ending on the last day of the Year. All qualified plans maintained by the Employer must use the same Limitation Year. If the Limitation Year is amended to a different 12-consecutive month period, the new Limitation Year must begin on a date within the Limitation Year in which the amendment is made.

(d) "Maximum Permissible Amount" for a Limitation Year with respect to any Participant shall be the lesser of:

(i) $30,000 [or, if greater, one-fourth of the dollar limitation in effect under Section 415(b)(1)(A) of the Code as it may be

adjusted under Section 415(d)(1) of the Code by the Secretary of the Treasury for the Limitation Year]; or

(ii) 25% of the Participant's Annual Compensation for the Limitation Year.

(e) "Employer" means for purposes of this Article VIII, any Employer and any Affiliated Company that adopts this Plan; provided, however, the determination under Sections 414(b) and (c) of the Code shall be made as if the phrase "more than 50 percent" were substituted for the phrase "at least 80 percent" each place it is incorporated into Section 414(b) and
(c) of the Code.

(f) "Annual Compensation" means, notwithstanding Section 1.5, for the purposes of this Article VIII, a Participant's earned income, wages, salaries, fees for professional service and other amounts received (without regard to whether an amount is paid in cash) for personal services actually rendered in the course of employment with an Employer maintaining the Plan to the extent that the amounts are includable in gross income (including, but not limited to, commissions paid salesmen, compensation for services on the basis of a percentage of profits, commissions on insurance premiums, tips, bonuses, fringe benefits, reimbursements, and expense allowances) and excluding the following:

(i) Employer contributions to a plan of deferred compensation to the extent contributions are not included in gross income of the Employee for the taxable year in which contributed, or on behalf of an Employee to a simplified employee pension plan to the extent such contributions are deductible under Section 219(b)(2) of the Code, and any distributions from a plan of deferred compensation whether or not includable in the gross income of the Employee when distributed;

(ii) amounts realized from the exercise of a non-qualified stock option, or when restricted stock (or property) held by an Employee becomes freely transferable or is no longer subject to a substantial risk of forfeiture;

(iii) amounts realized from the sale, exchange or other disposition of stock acquired under a qualified stock option; and

(iv) other amounts which receive special tax benefits, or contributions made by an Employer (whether or not under a salary reduction agreement) towards the purchase of a 403(b) annuity contract under Section 403(b) of the Code (whether or not the

contributions are excludable from the gross income of the Employee), contributions made by an Employer for medical benefits [within the meaning of Section 401(h) or 419A(f)(2) of the Code] which is otherwise treated as an Annual Addition, or any amount otherwise treated as an Annual Addition under Section 415(l)(1) or 419A(d)(2) of the Code.

For Limitation Years after December 31, 1991, Annual Compensation for any Limitation Year is the Annual Compensation actually paid or includable in gross income during such Limitation Year. For Limitation Years after December 31, 1997, Annual Compensation shall include amounts contributed by an Employer pursuant to a salary reduction agreement which are excludable from the Participant's gross income under Sections 125, 402(e)(3), 402(h)(1)(B) or 403(b) of the Code.

(g) "Related Plan" means any other defined contribution plan [as defined in Section 415(k) of the Code] maintained by any Employer as defined in
Section 8.2(e).

(h) "Defined Contribution Plan Fraction" means for any Limitation Year:

(i) the sum of the Annual Additions to the Participant's account under this Plan and his accounts under any Related Plan and welfare plans [as described in Section 8.1(b)(ii) and (iii)] as of the close of the Limitation Year,

divided by:

(ii) the sum of the lesser of the following amounts determined for the Limitation Year and for each prior Year of his service for an Employer:

(A) the product of 1.25, multiplied by the dollar limitation in effect under Section 415(c)(1)(A) of the Code for the Limitation Year [determined without regard to Section 415(c)(6) of the Code], or

(B) the product of 1.4, multiplied by an amount equal to 25% of the Participant's Annual Compensation for the Limitation Year.

If the Employee was a Participant as of the end of the first day of the first Limitation Year beginning after December 31, 1986, in one or more defined contribution plans maintained by an Employer which were in existence on May 6, 1986, the numerator of the Defined Contribution Plan Fraction will be adjusted if the sum of that fraction and the Defined Benefit Plan Fraction otherwise would exceed 1.0 under the terms of this Plan. Under the adjustment, an amount equal to the product of (i) the excess of the sum of the fractions over 1.0, times (ii) the denominator

of this fraction, will be permanently subtracted from the numerator of this fraction. The adjustment is calculated using the fractions as they would be computed under this Section 8.2(h) as of the end of the last Limitation Year beginning before January 1, 1987, and disregarding any changes in the terms and conditions of the Plan made after May 6, 1986, but using the Section 415 limitations applicable to the first Limitation Year beginning on or after January 1, 1987. The Annual Addition for any Limitation Year beginning before January 1, 1987, shall not be recomputed to treat all Employee contributions as Annual Additions. The adjustment also will be made if at the end of the last Limitation Year beginning before January 1, 1984, the sum of the fractions exceeds 1.0 because of accruals or additions that were made before the limitations of this Article VIII became effective to any plans of an Employer in existence on July 1, 1982. With respect to any Limitation Year ending after December 31, 1982, the amount taken into account under Section 8.1(h)(ii) above with respect to each Participant for all Limitation Years ending before January 1, 1983, shall be an amount equal to the product of (iii) and (iv), where

(iii) is the amount determined under Section 8.1(h)(ii) [as in effect for the Limitation Year ending in 1982] for the Limitation Year ending in 1982, multiplied by

(iv) a fraction, the numerator of which is the lesser of

(A) $51,875, or

(B) 1.4, multiplied by 25% of the Annual Compensation of the Participant for the Limitation Year ending in 1981, and

the denominator of which is the lesser of

(A) $41,500 or

(B) 25% of the Annual Compensation of the Participant for the Limitation Year ending in 1981.

(i) "Defined Benefit Plan Fraction" means for any Limitation Year:

(i) the projected Annual Benefit of the Participant under the defined benefit plans maintained by an Employer determined as of the close of the Limitation Year,

divided by:

(ii) the lesser of:

(A) the product of 1.25, multiplied by the dollar limitation in effect under Section 415(b)(1)(A) of the Code for the Limitation Year, or

(B) the product of 1.4, multiplied by 100% of the Participant's Average Compensation.

If the Employee was a Participant as of the first day of the first Limitation Year beginning after December 31, 1986, in one or more defined benefit plans maintained by an Employer which were in existence on May 6, 1986, the denominator of this fraction will not be less than 125% of the sum of the annual benefits under such plans which the Participant had accrued as of the close of the last Limitation Year beginning before January 1, 1987, disregarding any changes in the terms and conditions of the Plan after May 5, 1986. The preceding sentence applies only if the defined benefit plans individually and in the aggregate satisfied the requirements of Section 415 of the Code for all Limitation Years beginning before January 1, 1987.

(j) "Average Compensation" means the average Annual Compensation during a Participant's high three years of service, which period is the three consecutive calendar years (or, the actual number of consecutive years of employment for those Employees who are employed for less than three consecutive years with an Employer) during which the Employee had the greatest aggregate Annual Compensation from the Employer, including any adjustments under Section 415(d) of the Code.

(k) "Annual Benefit" means a benefit payable annually in the form of a straight life annuity (with no ancillary benefits) under a plan to which Employees do not contribute and under which no Rollover Contributions are made.

Sec. 8.3 Excess Annual Additions. In the event that, notwithstanding
Section 8.5(a) hereof, the limitations with respect to Annual Additions prescribed hereunder are exceeded with respect to any Participant for the Limitation Year and such Excess Amount arises as a result of the allocation of forfeitures, a reasonable error in estimating a Participant's Annual Compensation [as defined in Section 8.2(f)] for the Year, a reasonable error in determining the amount of Salary Reduction Contributions that may be made by a Participant under the limits of Section 415 of the Code, or as a result of other facts and circumstances as established by the Commissioner of the Internal Revenue Service, the Excess Amounts shall not be deemed an Annual Addition in that Limitation Year, to the extent such Excess Amounts are treated in accordance with any of the following:

(a) Salary Reduction Contributions and earnings thereon shall be distributed to the Participant to the extent necessary to reduce the

Excess Amount as soon as practicable after the close of the Year; provided, however, that in the event Matching Contributions have been made by an Employer against any Salary Reduction Contributions that are returned to the Participant under this Section 8.3(a), then such Matching Contributions shall, to the extent necessary to satisfy Section 401(m) of the Code, be adjusted with respect to the Participant pursuant to the procedures set forth in Section 5.2. The amounts distributed or forfeited are disregarded for purposes of applying Section 402(g) of the Code and the tests set forth in Sections 4.2 and 5.1; or

(b) the Excess Amount attributable to the portion of the Employer profit sharing contributions, if any, made pursuant to Section 3.3 which has been allocated to a Participant under the Plan for a Year but which cannot be allocated to his Employer Account because of the limitation imposed by this Section, shall, subject to the limitations of Section 8.1(a) and Section 5.1, be allocated and reallocated in the current Limitation Year to the Employer Accounts of the other Participants entitled to share in the Employer profit sharing contributions for that Year in accordance with Section 7.4.

(c) If an Excess Amount still exists after application of subsections
(a) and (b) hereof, the Excess Amount attributable to the portion of the Matching Contribution, if any, made pursuant to Section 3.2, which has been allocated to a Participant under the Plan for a Year but which cannot be allocated to his Employer Account because of the limitation imposed by this Section, shall, subject to the limitations of Section 8.1(a) and Section 5.1, be allocated and reallocated in the current Limitation Year to the Employer Accounts of the other Participants entitled to share in the Matching Contributions for that Year in accordance with Section 7.3.

(d) Any Excess Amount that cannot be allocated will be held unallocated in a suspense account. If a balance exists in the suspense account in any Year in which an Employer makes contributions pursuant to Sections 3.2, 3.3 or 3.4, such balance shall be used to reduce the Employer contributions pursuant to such Sections and shall be allocated in the same manner as such contributions would have been allocated; provided, however, if in any such Year contributions are made pursuant to Section 3.2 and either Section 3.3 or 3.4, or both, such balance shall first be used to make the qualified non-elective contribution pursuant to Section 3.4, then the Matching Contribution, if any, pursuant to Section 3.2, before it is used to make the Employer profit sharing contribution, if any, pursuant to Section 3.3. All amounts in the suspense account must be allocated and reallocated to the Participants' 401(k) Accounts or Employer Accounts (as determined by which type or types of Employer

contributions the balance in the suspense account, if any, is used to reduce), subject to the limitations of Section 8.1(a), Section 4.2 and Section 5.1, in succeeding Limitation Years before any qualified non-elective contributions, Matching Contributions, and Employer profit sharing contributions which constitute Annual Additions may be made to the Plan.

(e) in the event of termination of the Plan, the suspense account shall revert to the Employer to the extent it may not then be allocated to any Participants' Individual Account.

Sec. 8.4 Combined Plan Limits.

(a) If an Employer maintains, or has ever maintained, one or more defined benefit plans covering an Employee who is also a Participant in this Plan, the sum of the Defined Contribution Plan Fraction and the Defined Benefit Plan Fraction, cannot exceed 1.0 for any Limitation Year. The Annual Addition for any Limitation Year beginning before January 1, 1987 shall not be recomputed to treat all Employee contributions as an Annual Addition. If the Plan satisfied the applicable requirements of Section 415 of the Code as in effect for all Limitation Years beginning before January 1, 1987, an amount shall be subtracted from the numerator of the Defined Contribution Plan Fraction (not exceeding such numerator) as prescribed by the Secretary of Treasury so that the sum of the Defined Benefit Plan Fraction and the Defined Contribution Plan Fraction computed under Section 415(e)(1) of the Code [as revised by this Section 8.4(a)] does not exceed 1.0 for such Limitation Year.

(b) For purposes of this Section 8.4, Employee contributions to a defined benefit plan are treated as a separate defined contribution plan. In addition, any contributions paid or accrued after December 31, 1985 which are attributable to medical benefits allocated under a welfare benefit fund [as defined in Section 419(e) of the Code] during Years ending after December 31, 1985 to a separate account established for any post-retirement medical benefits provided with respect to a Participant, who, at any time, during the Year or any preceding Year, is or was a Key Employee, shall be treated as Annual Additions to a defined contribution plan. Further, all defined contribution plans of an Employer are to be treated as one defined contribution plan and all defined benefit plans of an Employer are to be treated as one defined benefit plan, whether or not such plans have been terminated.

(c) If the sum of the Defined Contribution Plan Fraction and the Defined Benefit Plan Fraction exceeds 1.0, the sum of the fractions will be reduced to 1.0 as follows:

(i) voluntary nondeductible Employee contributions made by a Participant to the defined benefit plan which constitute an Annual Addition to a defined contribution plan, to the extent

they would reduce the sum of the fractions to 1.0, will be returned to the Participant;

(ii) if additional reductions are required for the sum of the fractions to equal 1.0, voluntary nondeductible Employee contributions made by a Participant to this Plan which constitute an Annual Addition to this Plan, to the extent they would reduce the sum of the fractions to 1.0, will be returned to the Participant;

(iii) if additional reductions are required for the sum of the fractions to equal 1.0, the Annual Benefit of a Participant under the defined benefit plan will be reduced (but not below zero and not below the amount of the Participant's accrued benefit to date) to the extent necessary to prevent the sum of the fractions, computed as of the close of the Limitation Year from exceeding 1.0; and

(iv) if additional reductions are required for the sum of the fractions to equal 1.0, the reductions will then be made to the Annual Additions of this Plan.

Sec. 8.5 Special Rules.

(a) Notwithstanding any other provision of this Article VIII, an Employer shall not contribute any amount that would cause an allocation to the suspense account as of the date the contribution is allocated. In the event the making of any Salary Reduction Contribution, Matching Contribution, or Employer profit sharing or other contribution, or any part thereof, would result in the limitations set forth in this Article VIII being exceeded, the Administrator shall cause such contributions not be made. If the contribution is made prior to the date as of which it is to be allocated, then such contribution shall not exceed an amount that would cause an allocation to the suspense account if the date of the contribution were an Allocation Date. The Administrator shall cause the Recordkeeper to maintain records which reflect the contributions to be allocated to the Individual Account of each Participant in any Limitation Year. In the event that it is determined prior to or within any Limitation Year that the foregoing limitations would be exceeded if the full amount of contributions otherwise allocable would be allocated, the Annual Additions to this Plan for the remainder of the Limitation Year shall be adjusted by reducing (i) first, any unmatched Salary Reduction Contributions, (ii) second, any Employer profit sharing contributions and (iii) third, any matched Salary Reduction Contributions and a corresponding share of Matching Contributions but, in each case, only to the extent necessary to satisfy the limitations.

(b) If the Annual Additions with respect to the Participant under other Related Plans and welfare plans described in Section 8.1(b)(ii) and (iii) are less than the Maximum Permissible Amount and the Employer contribution that otherwise would be contributed or allocated to the Participants' Individual Account under this Plan would cause the Annual Additions for the Limitation Year to exceed the limitation of Section 8.1(b), the amount contributed or allocated will be reduced so that the Annual Additions under all such plans for the Limitation Year will equal the Maximum Permissible Amount. If the Annual Additions with respect to the Participant under the Related Plans and welfare plans described in
Section 8.1(b)(ii) and (iii) in the aggregate are equal to or greater than the Maximum Permissible Amount, no amount will be contributed or allocated to the Participants' Individual Account under this Plan for the Limitation Year. If a Participant's Annual Additions under this Plan and all Related Plans result in an Excess Amount, such Excess Amount shall be deemed to consist of the amounts last allocated, except that Annual Additions attributable to a welfare plan described in Section 8.1(b)(ii) and (iii) will be deemed to have been allocated first regardless of the actual allocation date.

(c) If an Excess Amount was allocated to a Participant on an allocation date of a Related Plan, the Excess Amount attributed to this Plan will be the product of:

(i) the total Excess Amount allocated as of such date [including any amount which would have been allocated but for the limitations of Section 8.1(b)],

multiplied by:

(ii) the ratio of:

(A) the amount allocated to the Participant as of such date under this Plan,

divided by:

(B) the total amount allocated as of such date under this Plan and all Related Plans [determined without regard to Section 8.1(b)].

(d) Prior to the determination of the Participant's actual Annual Compensation for a Limitation Year, the Maximum Permissible Amount may be determined on the basis of the Participant's estimated Annual Compensation for such Limitation Year. Such estimated Annual Compensation shall be determined on a reasonable basis and shall be uniformly determined for all Participants similarly situated. Any

Employer contributions (including allocation of forfeitures) based on estimated Annual Compensation shall be reduced by any Excess Amounts carried over from prior Years.

(e) As soon as is administratively feasible after the end of the Limitation Year, the Maximum Permissible Amount for such Limitation Year shall be determined on the basis of the Participant's actual Annual Compensation for such Limitation Year.

Article IX

ADJUSTMENT OF INDIVIDUAL ACCOUNTS

Sec. 9.1 Trust Fund Valuation. The value of each Investment Fund and of the Trust Fund shall be determined by the Trustee as of the close of business on each Valuation Date, or as soon thereafter as practicable, and shall be the fair market value of all securities or other property held in the Investment Funds, plus cash and the fair market value of other assets held by the Trust Fund, with equitable adjustments for pending trades.

While it is contemplated that the Trust Fund will be valued by the Trustee and allocations made only on the Valuation Date, at any time that the Plan's valuations are not performed on a daily basis, should it be necessary to make distributions under the provisions hereof and the Administrator, in good faith determines that, because of (i) an extraordinary change in general economic conditions, (ii) the occurrence of some casualty materially affecting the value of the Trust Fund or a substantial part thereof, or (iii) a significant fluctuation in the value of the Trust Fund has occurred since the immediately preceding Valuation Date, the Administrator may, in its sole discretion, to prevent the payee from receiving a substantially greater or lesser amount than what he would be entitled to, based on current values, cause a revaluation of the Trust Fund to be made and a reallocation of the interests therein as of the date the payee's right of distribution becomes fixed. The Administrator's determination to make such special valuation and the valuation of the Trust Fund as determined by the Trustee shall be conclusive and binding on all persons ever interested hereunder.

If the Administrator in good faith determines that certain expenses of administration paid by the Trustee during the Year under consideration are not general, ordinary and usual and should not equitably be borne by all Participants, Former Participants and Beneficiaries, but should be borne only by one or more Participants, Former Participants or Beneficiaries, for whom or because of whom such specific expenses were incurred, the net earnings and adjustments in value of the Individual Accounts shall be increased by the amounts of such expenses, and the Administrator shall make suitable adjustments

by debiting the particular Individual Account or Individual Accounts of such one or more Participants, Former Participants or Beneficiaries; provided, however, that any such adjustment must be nondiscriminatory and consistent with the provisions of Section 401(a) of the Code.

Sec. 9.2 Adjustments to Participant's and Former Participant's Individual Accounts. Each Investment Fund shall be valued at fair market value as of the close of business on each Valuation Date. Except as provided below with respect to Fund 5 (as defined in Section 1.24), the value of a Participant's or Former Participant's Individual Account (including for this purpose, the separate value of the sub-accounts of a Participant's or Former Participant's Individual Account, i.e., his Employer Account, his 401(k) Account, his Prior Plan Account, his Reinstatement Account, if any, his Rollover Account, if any, his Transfer Account, if any, and his Savings Account, if any) held in an investment fund maintained hereunder shall be determined as of each Valuation Date by:

(a) First, allocating the Net Gains or Losses of such fund since the preceding Valuation Date to the Participant's Individual Account within such fund in the same ratio as the value of the Participant's or Former Participant's Individual Account in such fund (as adjusted below) bears to the aggregate value of all Individual Accounts in such fund (as adjusted below).

An Individual Account shall be adjusted on the Valuation Date for purposes of allocating Net Gains or Losses under the above paragraph by taking the value of such Individual Account as of the prior Valuation Date and (i) adding thereto (A) all contributions or loan repayments designated for investment in such fund which were made with respect to the immediately prior valuation period but were received by the Trustee after the prior Valuation Date, plus (B) any transfers from any other Investment Fund under the Plan to the Participant's Individual Account within this fund that were made after the prior Valuation Date and were effective as of the first day after such prior Valuation Date and (ii) deducting therefrom (A) any transfers to any other Investment Fund or Funds under the Plan from the Participant's Individual Account within this fund that were made after the prior Valuation Date and were effective as of the first day after such prior Valuation Date and any Participant loans, withdrawals, distributions or forfeitures from the Individual Account made after, but effective as of, the preceding Valuation Date.

(b) Second, crediting the contributions and loan repayments made by or on behalf of the Participant with respect to the valuation period ending on the current Valuation Date and designated for investment in such fund and any transfers from the other Investment Funds under the Plan to the Participant's Individual Account within this fund made since the preceding Valuation Date.

(c) Last, deducting any transfers to the other Investment Funds under the Plan from the Participant's Individual Account maintained within this fund and any loans, withdrawals and distributions (including forfeitures) from his Individual Account maintained within this fund made since the preceding Valuation Date.

An Individual Account invested in Fund 5 shall have allocated to it whole number of shares of Company Stock and cash to the extent share(s) have not been acquired for such fund and the earnings, losses and distributions on shares held in an Individual Account invested in Fund 5 shall be allocated solely to that Individual Account.

For the purpose of this Section, "Net Gains or Losses" shall mean the fair market value of the assets of the Investment Fund (if invested in a group insurance investment contract, such value being determined in accordance with the terms of the contract) as of the current Valuation Date, over such value which was utilized for the prior Valuation Date, less the sum of any deposits plus the sum of any loans, withdrawals, distributions or other deductions, if any, made to pay any expenses incurred with respect to the operations of this fund. The initial Valuation Date for an Investment Fund shall be the date the funds are first invested in such Investment Fund.

Article X

INDIVIDUAL ACCOUNTS

Sec. 10.1 Participant Interest in Individual Accounts. Each Participant and Former Participant shall at all times have a nonforfeitable interest in his
401(k) Account, Prior Plan Account, Savings Account, Reinstatement Account, Rollover Account and Transfer Account, but he shall have no right, title or interest in the balance of his Individual Account except as hereinafter provided. In no event shall his nonforfeitable interest exceed the amount to the credit of his Individual Account as the same may be adjusted from time to time.

Sec. 10.2 Annual Statement to Participant. At least annually, the Administrator shall advise each Participant, Former Participant and Beneficiary for whom an Individual Account is held hereunder of the then fair market value of such Individual Account.

Article XI

RETIREMENT

Sec. 11.1 Normal Retirement. A Participant's Individual Account shall become nonforfeitable on his Normal Retirement Date.

Sec. 11.2 Benefits on Normal Retirement. Upon the retirement of a Participant on or after his Normal Retirement Date, his entire Individual Account shall be held for his benefit. Said Participant shall receive payments from his Individual Account in accordance with Article XV hereof commencing as of the Valuation Date immediately following the date of his retirement that he determines in his advance written election filed with the Administrator.

Sec. 11.3 Commencement of Benefits. Notwithstanding any other provision of this Plan to the contrary, a Participant shall begin receiving distributions from the Plan, as provided in Article XV, by his Required Beginning Date [as defined in Section 15.4(j)(ii)], whether or not he actually retires.

Sec. 11.4 Final Contribution After Distribution of Benefits. If a Participant who has already received a distribution of his Individual Account under this Article is entitled to an allocation of an Employer profit sharing contribution under Section 7.4 or a qualified non-elective contribution under
Section 7.5 for the Year in which such distribution was made, such contributions shall be paid to the Participant as soon as administratively practicable following the completion of the allocations under Article VII for such Year.

Article XII

DEATH

Sec. 12.1 Benefits on Death. Upon the death of a Participant who is in the service of an Employer, his entire Individual Account shall be held for the benefit of his Beneficiary. Upon the death of a Participant whose service with an Employer has terminated, his nonforfeitable interest (determined under
Section 14.2) in his Individual Account which has not been distributed at the time of his death under Articles XI-XIV shall be held for the benefit of his Beneficiary. His Beneficiary shall receive payments from his Individual Account in accordance with Article XV hereof commencing as of the Valuation Date immediately following the date of the Participant's death that the Beneficiary determines in his advance written election filed with the Administrator.

Sec. 12.2 Final Contribution After Payment of Benefits. If the Individual Account of a deceased Participant whose Beneficiary has already received a distribution of the Participant's Individual Account under this Article is entitled to an allocation of an Employer profit sharing contribution under
Section 7.4 or a qualified non-elective contribution under Section 7.5 for the Year in which such distribution was made, such contributions shall be paid to the Beneficiary as soon as administratively practicable following the completion of the allocations under Article VII for such Year.

Article XIII

DISABILITY

Sec. 13.1 Benefits on Disability. In the event of termination of a Participant's employment due to Disability, his entire Individual Account shall be held for his benefit. If the balance of the Participant's Individual Account exceeds $3,500, the Participant shall receive payments from his Individual Account in accordance with Article XV hereof commencing as of the Valuation Date immediately following the date of his Disability that he determines in his advance written election filed with the Administrator. If the balance of the Participant's Individual Account does not exceed $3,500, the Administrator shall direct the Trustee to distribute the entire Individual Account to the Participant in a single lump sum distribution as soon as administratively practicable after the end of the calendar quarter in which the date of his Disability occurs or prior to such date if so directed in writing by the Participant. Effective January 1, 1998, the dollar amount in this Section 13.1 shall automatically be adjusted to $5,000.

Sec. 13.2 Final Contribution After Payment of Benefits. If a Participant who has already received a distribution of his Individual Account under this Article is entitled to an allocation of an Employer profit sharing contribution under Section 7.4 or a qualified non-elective contribution under Section 7.5 for the Year in which the distribution was made, such contributions shall be paid to the Participant as soon as administratively practicable following the completion of the allocations under Article VII for such Year.

Article XIV

TERMINATION BENEFITS

Sec. 14.1 Termination Other than by Reason of Death, Disability or Retirement. If a Participant terminates his employment for any reason other than retirement on or after age 60, death or Disability, such Participant shall be entitled to such benefits as are hereinafter provided in Section 14.2 at the time specified in Section 14.3.

Sec. 14.2 Vested Interest. A Participant to whom the provisions of
Section 14.1 are applicable shall be entitled to receive the entire amount then standing to his credit in his 401(k) Account, his Prior Plan Account, his Savings Account, his Reinstatement Account, his Rollover Account and his Transfer Account. In addition, he shall be entitled (as a vested interest) to receive a percentage of the then balance to his credit in his Employer Account determined in accordance with the following schedule:

Period of Service in Years	Vested Interest
Less than 2	0%
2 but less than 3	20%
3 but less than 4	40%
4 but less than 5	60%
5 but less than 6	80%
6 or more	100%

If a Participant incurs a forfeiture from his Employer Account pursuant to this Article XIV and the forfeiture is subsequently reinstated through the Participant's timely repayment or deemed repayment of the distribution, thereafter the vested portion of his restored Employer Account shall, until such time as he may become 100% vested therein or such Employer Account is again forfeited, be an amount ("X") determined by the formula: X=P(AB+D)-D. For purposes of applying this formula: P is the vested percentage at the relevant time; AB is the account balance at the relevant time; and D is the amount of the prior distribution (or deemed distribution).

Sec. 14.3 Time of Distribution. If a Participant terminates his employment for a reason other than retirement, death or Disability, and the value of the vested portion of his Individual Account exceeds $3,500 (adjusted as provided below), then the Administrator shall direct the Trustee, with such Participant's written consent, to distribute to such Participant the portion of his Individual Account to which he is entitled under Section 14.2 in accordance with Article XV hereof as soon as administratively practicable after the later of (i) the Participant's termination of employment or (ii) the earlier of (A) the Valuation Date immediately following the date determined by such Participant in his advance written election filed with the Administrator or (B) the date on which such Participant attains age 62 or his earlier death occurs, but not later than the time specified in Section 15.4. If such Participant does not consent to an early distribution, the vested portion of his Individual Account shall continue to be invested in the Investment Funds or Funds selected by the Participant pursuant to his current investment direction.

However, if the vested balance of a terminated Participant's Individual Account does not exceed $3,500, the Administrator shall direct the Trustee to distribute the vested balance of the Individual Account to such Participant in a single lump sum distribution as soon as administratively practicable after the end of the calendar quarter in which the Participant's termination of employment occurs or prior to such date if so directed in writing by the Participant. Effective January 1, 1998, the dollar amount in this Section 14.3 shall automatically be adjusted to $5,000. The balance to the credit of a terminated Participant in his Employer Account which is not vested under the schedule in Section 14.2, if not previously forfeited, shall be forfeited as of the earlier

of (i) the date his entire vested Individual Account balance has been distributed under Article XV or (ii) the last day of the Year in which such Participant incurs a 60-consecutive month Period of Severance. If the Participant is not entitled to any portion of his Individual Account, he shall be deemed to have received a distribution and shall forfeit the balance of his Employer Account on the date of his termination of service. The forfeited amount under this Section 14.3 shall remain in the Trust Fund and shall be applied as provided in Section 14.5. If a Former Participant is reemployed by an Affiliated Company without incurring a 60-consecutive month Period of Severance, he shall have the right to restore in full the portion of his Employer Account which was forfeited hereunder upon repayment to the Plan of the full amount of the distribution from such account. Such repayment must be made not later than the earlier of the fifth anniversary of his return to employment or the last day of the Year in which the Participant incurs a 60-consecutive month Period of Severance after the date of his distribution. The Participant's repayment, if any, shall be held in the Participant's Reinstatement Account and the reinstated forfeiture shall be held in the Participant's Employer Account. If the Participant resumes active employment with an Affiliated Company and does not repay a prior distribution prior to the time specified above, the portion of his Employer Account which was forfeited hereunder shall not be restored. If the Participant was deemed to receive a distribution as provided in this Section, the forfeited portion of his Employer Account shall be automatically reinstated upon his reemployment. If currently unallocated forfeitures are not adequate to effect the restoration, the Company or the Affiliated Company shall make such additional contribution to the Plan as is necessary to restore the forfeited portion of his Employer Account.

Sec. 14.4 Forfeiture and Return to Service Prior to Complete Distribution. After a 60-consecutive month Period of Severance, a Participant to whom this Article XIV is applicable, other than a Participant described in
Section 14.3, shall forfeit that portion of the amount of his Employer Account to which he is not entitled under Section 14.2 and the amount thus forfeited shall remain in the Trust Fund and shall be applied as provided in Section 14.5. The amount forfeited by a Participant hereunder shall be charged to his Employer Account on the last day of the Year as of which he shall incur a 60-consecutive month Period of Severance. If the Participant returns to the service of the Employer after a 60-consecutive month Period of Severance, but before the full payment of his Individual Account, Employer contributions after such 60-consecutive month Period of Severance shall be allocated to an Employer Account established on behalf of such Participant which is separate from the Individual Account of such Participant to which is allocated his account balance attributable to service prior to the 60-consecutive month Period of Severance.

Sec. 14.5 Application of Forfeitures. The forfeitures occurring as provided in Articles IV, V, XIV and XV shall first be used to restore the

account of a Former Participant who has been located as provided in Section 15.9. If additional forfeitures remain after full restorations under Section 15.9, then remaining forfeitures shall be used to restore accounts of Former Participants under Section 14.3. If additional forfeitures remain thereafter, the forfeitures for a Year may be designated by the Company (i) to be used to reduce the Matching Contribution of any Employer under Section 3.2 and for allocation under Section 7.3 as of any Allocation Date as a Matching Contribution or (ii) for allocation under Section 7.4 in addition to the Employer profit sharing contribution, if any, made for such Year under Section 3.3.

Article XV

DISTRIBUTIONS AND WITHDRAWALS

Sec. 15.1 Payment Options. Whenever a Participant, Former Participant, or Beneficiary is entitled to receive benefits hereunder as provided in Articles XI to XIV, inclusive, the Administrator shall direct the Trustee, if so directed in writing signed by the Participant, to pay such benefits in any one or more of the following ways:

(a) A lump sum, payable in cash (except that any distribution from Fund 5 shall be made in whole shares of Company Stock, with the value of any fractional share allocated thereto being distributed in cash unless the Participant (or Beneficiary) elects for all or a portion of such distribution to be made in cash), at the fair market value as of the Valuation Date immediately preceding the date of distribution plus the actual amount of any contributions made by the Participant subsequent to such Valuation Date, provided that a life annuity may not be a part of a lump sum distribution;

(b) Periodic installments not more frequently than monthly over such period of time as the Participant shall determine in accordance with the provisions of Section 15.4; provided, that in no event may the period of installment payments exceed the lesser of (i) ten years or (ii) the joint life expectancy of the Participant whose account is being distributed and his Beneficiary. If benefits are payable over the joint life expectancy of the Participant and his Beneficiary, the present value of the payments to be made over the Participant's life expectancy must be more than 50% of the present value of the payments to be made over the Participant's and his Beneficiary's joint life expectancy. If benefits are payable with respect to the life expectancy of the Participant and his spouse, such life expectancy may be redetermined but not more frequently than annually. If distributions are made in installments, the amount of the monthly installment shall be adjusted each year by determining the value of the Individual Account as of the

end of the preceding Year and dividing such amount by the remaining life expectancy. If the Trust Fund is adjusted to reflect the allocation of gains and losses after the time of the adjustment in the amount of the monthly installment payments due to the change in the life expectancy, the remaining monthly payments for such Year shall be adjusted to reflect any increase or decrease in the value of the Individual Account. Any adjustment which would decrease the amount of the remaining monthly payments shall be mutually agreed to by the affected Participant and the Administrator; or

(c) by electing a direct rollover to an eligible retirement plan as described in Section 402(c)(8)(B) of the Code pursuant to the provisions of Section 15.11.

Sec. 15.2 Determination of Form and Timing of Payment. In determining which method or methods permitted in Section 15.1 shall be used in any case, the Administrator shall follow the directions of the Participant, Former Participant or Beneficiary involved. Notwithstanding the foregoing or any other provision of the Plan to the contrary, if the vested balance of the Participant's Individual Account does not exceed $3,500, then subject to the requirements of Section 15.11, the Administrator shall direct the Trustee to pay the vested balance to the Participant, Former Participant or Beneficiary, as the case may be, in a single lump sum distribution. Effective January 1, 1998, the dollar amount in the preceding sentence shall automatically be adjusted to $5,000. If the vested balance of the Participant's Individual Account could be distributed to the Participant before the Participant attains (or would have attained if not deceased) age 62, the Participant must consent in writing to any distribution of such Individual Account. The consent must be obtained in writing within the 90-day period prior to the date benefit payments are to commence. The Administrator shall notify the Participant of the right to defer any distribution until age 62. Such notification shall be provided no less than 30 days and no more than 90 days before benefit payments are to commence and shall include a general description of the material features, and an explanation of the relative values of, the forms of benefit available under Section 15.1 in a manner that would satisfy the notice requirements of Section 417(a)(3) of the Code and a description of his direct rollover rights under Section 15.11. Such distribution may commence less than 30 days after the notice required under Treas. Reg.ss.1.411(a)-11(c) is given, provided that (i) the Administrator clearly informs the Participant that the Participant has a right to a period of at least 30 days after receiving the notice to consider the decision of whether or not to elect a distribution (and, if applicable, a particular distribution option) and (ii) the Participant, after receiving the notice, affirmatively elects a distribution. The consent of the Participant is not required to the extent that a distribution is required to satisfy Section 401(a)(9) or Section 415 of the Code.

Sec. 15.3 Minority or Disability of Distributee. During the minority or disability of a person entitled to receive benefits hereunder, the Trustee may make payments due such person directly to him or to his spouse or a relative or to any individual or institution having custody of such person. Neither an Employer, the Committee, the Administrator, the Named Fiduciary nor the Trustee shall be required to see to the application of any payments so made and the receipt of the payee (including the endorsement of a check or checks) shall be conclusive as to all interested parties.

Sec. 15.4 Time of Payment and Payment on Death. Notwithstanding any other provisions of the Plan, the following provisions shall be applicable to the Plan:

(a) Payment of benefits shall begin, unless the Participant otherwise elects, not later than the 60th day after the last day of the Year in which the latest of the following events occurs:

(i) the Participant reaches the earlier of age 65 or his Norma Retirement Date;

(ii) the tenth anniversary of the date on which the Participant commenced participation in the Plan occurs, but not later than the April 1 of the calendar year following the calendar year in which the Participant attains age 70 1/2; or

(iii) the Participant terminates his service with the Employer, but in no event later than the April 1 of the calendar year following the calendar year in which the Participant attains age 70 1/2 if such Participant is a five percent owner as defined in Section 15.4(j)(ii) with respect to the Year ending in the calendar year in which he attains age 70 1/2.

If the Participant fails to consent to a distribution at a time when any part of the balance of the Individual Account could be distributed prior to the Participant's Normal Retirement Date or age 62, such failure shall be deemed to be an election to defer commencement of payment of any benefit under this Section 15.4(a).

(b) All distributions required under this Article XV shall be determined and made in accordance with Section 401(a)(9) of the Code and the Treasury regulations thereunder, including the minimum distribution incidental benefit requirements of Treas. Reg. ss.1.401(a)(9)-2.

(c) An election of a Participant to defer receipt of benefits shall be made by submitting to the Administrator a written statement signed by the Participant, describing the benefits and the date on which the

Participant requests that the payments commence; provided, however, a Participant may not elect to defer receipt or commencement of receipt of benefits beyond his Required Beginning Date.

(d) If the Individual Account of a Participant is to be distributed other than in a lump sum under Section 15.1(a) after the Required Beginning Date, the following minimum distribution rules shall apply:

(i) As of the first Distribution Calendar Year, distributions if not made in a single lump sum under Section 15.1(a), may only be made over one of the following periods (or combinations thereof): (A) the life of the Participant; (B) the life of the Participant and a Designated Beneficiary; (C) a period certain not extending beyond the Life Expectancy of the Participant; or (D) a period certain not extending beyond the Joint and Last Survivor Expectancy of the Participant and a Designated Beneficiary;

(ii) If a Participant's Benefit is to be distributed over either (A) a period not extending beyond the Life Expectancy of the Participant or the Joint and Last Survivor Expectancy of the Participant and the Participant's Designated Beneficiary or (B) a period not extending beyond the Life Expectancy of the Designated Beneficiary, the amount required to be distributed for each calendar year, beginning with distributions for the first Distribution Calendar Year, must at least equal the quotient obtained by dividing the Participant's Benefit by the Applicable Life Expectancy;

(iii) The amount to be distributed each year, beginning with distributions for the first Distribution Calendar Year shall not be less than the quotient obtained by dividing the Participant's Benefit by the lesser of (A) the Applicable Life Expectancy or (B) the applicable divisor, in the event the Participant's spouse is not the Designated Beneficiary, determined from the tables set forth in Q & A-4 of Section 1.401(a)(9)-2 of the Treasury regulations. Distributions after the death of a Participant shall be distributed using the Applicable Life Expectancy in Section 15.4(d) (ii) above as the relevant divisor without regard to Section 1.401(a)(9)-2 of the Treasury regulations; and

(iv) The minimum distribution required for the Participant's First Distribution Calendar Year must be made on or before the Participant's Required Beginning Date. The minimum distribution for other calendar years, including the minimum distribution for the Distribution Calendar Year in which the Participant's

Required Beginning Date occurs, must be made on or before December 31 of that Distribution Calendar Year.

(e) If distribution of benefits to a Participant has begun under Section 15.1 and the Participant dies before his entire Individual Account has been distributed to him, the remaining portion of such Participant's Individual Account must be distributed to his Beneficiary at least as rapidly as under the method of distributions being used under Section 15.1 as of the date of his death.

(f) If a Participant dies before the distribution of benefits to him has begun under Section 15.1, distribution to his Beneficiary of his entire Individual Account must be completed by December 31 of the calendar year containing the fifth anniversary of the death of such Participant. The provisions of this Section 15.4(f) shall not apply to the portion of the Participant's Individual Account which is payable:

(i) to a Designated Beneficiary other than the Participant's surviving spouse under Section 15.1 of distributions made over the life or over a period certain not greater than the Life Expectancy of the Designated Beneficiary commencing on or before December 31 of the calendar year immediately following the calendar year in which the Participant died; or

(ii) under Section 15.1 to a Designated Beneficiary who is the surviving spouse of the Participant if the distributions begin at least by the later of (A) the December 31 of the calendar year immediately following the calendar year in which the Participant died and (B) the December 31 of the calendar year in which the Participant would have attained age 70 1/2.

If the Participant has not made an election pursuant to this Section 15.4(f) by the time of his death, the Participant's Designated Beneficiary must elect the method of distribution no later than the earlier of (1) December 31 of the calendar year in which distributions would be required to begin under this Section 15.4(f), or (2) December 31 of the calendar year which contains the fifth anniversary of the date of death of the Participant. If the Participant has no Designated Beneficiary, or if the Designated Beneficiary does not elect a method of distribution, distribution of the Participant's entire Individual Account must be completed by December 31 of the calendar year containing the fifth anniversary of the Participant's death.

(g) If a portion of the Participant's Individual Account is payable to the Participant's surviving spouse and such spouse dies before distributions to such spouse begin, the spouse shall be treated as the

Participant under Section 15.4(f) with the exception of the provisions of subsection (ii) thereof.

(h) Any portion of a Participant's Individual Account paid to a child shall be treated as if such portion has been paid to the Participant's surviving spouse if such portion will become payable to the surviving spouse upon the date the child reaches majority (or other designated event permitted under regulations prescribed by the Secretary of the Treasury).

(i) Distribution of a Participant's Individual Account is considered to begin on the Participant's Required Beginning Date or, if Section 15.4(g) is applicable, the date distribution is required to begin to the surviving spouse pursuant to Section 15.4(f)(ii).

(j) Definitions:

(i) Designated Beneficiary is the individual who is designated as the Beneficiary under the Plan in accordance with Section 401(a)(9) of the Code and the Treasury regulations thereunder.

(ii) The Required Beginning Date of a Participant shall be determined as follows:

(A) If the Participant is not a five percent owner of the Company (as defined below), his Required Beginning Date is the April 1 of the calendar year following the later of (1) the calendar year in which the Participant attains age 70 1/2 or (2) the calendar year in which the Participant retires; or

(B) If the Participant is a five percent owner of the Company (as defined below), his Required Beginning Date is the April 1 of the calendar year following the calendar year in which the Participant attains age 70 1/2.

A Participant who is not a five percent owner of the Company and who commenced receiving benefit payments from the Plan after he attained age 70 1/2 under the rules applicable to the Plan prior to January 1, 1997 may elect to stop receiving such payments until his Required Beginning Date under this subsection (j)(ii).

A Participant is treated as a five percent owner of the Company for purposes of this Section 15.4(j)(ii) if such Participant is a five percent owner as defined in Section 416(i) of the Code (determined in accordance with Section 416 of the Code but without regard to whether the Plan is top heavy) at any time during the Year ending with or within the calendar year in which such owner attains age 66 1/2 or any subsequent Year. Once

distributions have begun to a five percent owner after his Required Beginning Date, they must continue to be distributed, even if the Participant ceases to be a five percent owner in a subsequent Year.

(iii) Applicable Life Expectancy means the Life Expectancy (or Joint and Last Survivor Expectancy) computed (by use of the expected return multiples in Tables V and VI of Section 1.72-9 of the Treasury regulations) using the attained age of the Participant (or Designated Beneficiary) as of the Participant's (or Designated Beneficiary's) birthday in the applicable calendar year reduced by one for each calendar year which has elapsed since the date Life Expectancy was first calculated. If the Life Expectancy is being recalculated, the Applicable Life Expectancy shall be the Life Expectancy as so recalculated. The Life Expectancy of a nonspouse beneficiary may not be recalculated. The method of calculating the Applicable Life Expectancy is irrevocable after the Required Beginning Date. The Participant may elect whether the Applicable Life Expectancy (to be used in calculating distributions commencing during his lifetime) is his Life Expectancy or the Joint and Last Survivor Expectancy of him and his Designated Beneficiary and whether such Life Expectancy (or Joint and Last Survivor Expectancy) are to be recalculated. If the Participant fails to elect before the Required Beginning Date, the Applicable Life Expectancy shall be the Life Expectancy of the Participant (irrespective of whether the Participant has a Designated Beneficiary) and such Life Expectancy shall be recalculated. The applicable calendar year shall be the first Distribution Calendar Year, and if Life Expectancy is being recalculated, such succeeding calendar year. If annuity payments commence in accordance with Article XV before the Required Beginning Date, the applicable calendar year is the year such payments commence. If distribution is in the form of an immediate annuity purchased after the Participant's death with the Participant's remaining interest, the applicable calendar year is the year of purchase.

(iv) Participant's Benefit means the balance of the Participant's Individual Account as of the last valuation date in the calendar year immediately preceding the Distribution Calendar Year (valuation calendar year) increased by the amount of any contributions or forfeitures allocated to the Individual Account as of dates in the valuation calendar year after the valuation date and decreased by distributions made in the valuation calendar year after the valuation date. For purposes of this Section 15.4(j)(iv), if any portion of the minimum

distribution for the first Distribution Calendar Year is made in the second Distribution Calendar Year on or before the Required Beginning Date, the amount of the minimum distribution made in the second Distribution Calendar Year shall be treated as if it had been made in the immediately preceding Distribution Calendar Year.

(v) Distribution Calendar Year means a calendar year for which a minimum distribution is required. For distributions beginning before the Participant's death, the first Distribution Calendar Year is the calendar year immediately preceding the calendar year which contains the Participant's Required Beginning Date. For distributions beginning after the Participant's death, the first Distribution Calendar Year is the calendar year in which distributions are required to begin pursuant to this Section 15.4.

Sec. 15.5 Withdrawals. Except as provided in subsections (a), (b), (c) and (d) below, no amounts may be withdrawn by a Participant from his 401(k) Account, Savings Account, Reinstatement Account, Employer Account, Prior Plan Account, Rollover Account or Transfer Account until the Participant's employment with an Employer has terminated.

(a) A Participant, by giving at least ten days' written Notice in the manner prescribed by the Administrator, may withdraw from the Trust Fund all or any part of his Savings Account, determined as of the Valuation Date immediately preceding such written Notice. The Participant shall determine the amount of the withdrawal pursuant to this subsection (a) and shall designate to the Administrator the Investment Fund or Funds from which the withdrawal shall be made. A Participant making a withdrawal pursuant to this subsection (a) shall continue to be eligible to make Salary Reduction Contributions pursuant to Section 3.1;

(b) After withdrawal of the entire balance of his Savings Account, if any, pursuant to subsection (a) above, a Participant, by giving at least ten days' written Notice in the manner prescribed by the Administrator, may withdraw from the Trust Fund all or any part of his Rollover Account, determined as of the Valuation Date immediately preceding such written Notice. The Participant shall determine the amount of the withdrawal pursuant to this subsection (b) and shall designate to the Administrator the Investment Fund or Funds from which the withdrawal shall be made. In no event may more than one such withdrawal be made with respect to any Year. A Participant making a withdrawal pursuant to this subsection (b) shall continue to be eligible to make Salary Reduction Contributions pursuant to Section 3.1;

(c) After withdrawal of the entire balance of his Savings Account, if any, pursuant to subsection (a) above and the entire balance of his

Rollover Account, if any, pursuant to subsection (b) above, a Participant who is an Employee and at least age 59 1/2 or older, by giving at least ten days' written Notice in the manner prescribed by the Administrator, may withdraw from the Trust Fund all or any part of his 401(k) Account, determined as of the Valuation Date immediately preceding such written Notice. The Participant shall determine the amount of the withdrawal pursuant to this subsection (c) and shall designate to the Administrator the Investment Fund or Funds from which the withdrawal shall be made. In no event may more than one such withdrawal be made with respect to any Year. A Participant making a withdrawal pursuant to this subsection (c) shall continue to be eligible to make Salary Reduction Contributions pursuant to Section 3.1;

(d) Except as provided in subsections (a)-(c) above, no amounts may be withdrawn by a Participant from his 401(k) Account, Employer Account and Rollover Account unless the Participant is able to demonstrate financial hardship satisfying the requirements of Section 401(k) of the Code and the applicable Treasury regulations thereunder prior to his (1) separation from service with the Employer, (2) his disability, (3) termination of the Plan without establishment of a successor defined contribution plan [other than an employee stock ownership plan as defined in Section 4975(e)(7) of the Code or a simplified employee pension plan as defined in Section 408(k) of the Code] by the Employer, (4) the date of the sale or disposition by the Employer to an entity that is not an Affiliated Company of substantially all of the assets [within the meaning of Section 409(d)(2) of the Code] used by the Employer in a trade or business of the Employer with respect to a Participant who continues employment with the entity acquiring such assets, or (5) the date of the sale or disposition by the Employer of its interest in a subsidiary [within the meaning of Section 409(d)(3) of the Code] to an entity which is not an Affiliated Company with respect to a Participant who continues employment with such subsidiary. Subject to the foregoing and after withdrawal of the entire balance of his Savings Account, if any, pursuant to subsection (a) above and the entire balance of his Rollover Account, if any, pursuant to subsection (b) above, a Participant, by giving at least ten days' written Notice on or before December 21, 1997 in the manner prescribed by the Administrator may withdraw prior to January 1, 1998 all or any part of his 401(k) Account and the vested portion of his Employer Account for a financial hardship only if, under uniform rules and regulations, the Administrator determines that (i) the purpose of the withdrawal is to meet the Immediate and Heavy Financial Need (as defined below) of the Participant, (ii) the withdrawal is necessary to satisfy the need, and (iii) the amount of the withdrawal does not exceed the lesser of (A) the aggregate value of the Participant's 401(k) Account and vested Employer Account as of the Valuation Date immediately preceding the date of the withdrawal, (B) the aggregate of the actual dollar amount of Salary Reduction Contributions made on behalf of the Participant pursuant to Section 3.1 and the value of the Participant's vested Employer Account as of the Valuation Date immediately preceding the date of the

withdrawal or (C) the amount of such financial need (including amounts necessary to pay any federal, state or local income taxes or penalties reasonably anticipated to result from the distribution). Hardship withdrawals shall be taken from a Participant's Individual Account in the following order: 401(k) Account, excluding earnings as provided in this paragraph above; and then Employer Account.

For purposes of this subsection (d), "Immediate and Heavy Financial Need" shall mean (i) expenses for medical care described in Section 213(d) of the Code previously incurred by the Participant, his spouse or his dependents (as defined in Section 152 of the Code), or the amount necessary for such persons to obtain medical care described in Section 213(d) of the Code, (ii) the purchase (excluding mortgage payments) of a principal residence of the Participant, (iii) the payment of tuition, related educational expenses, fees and room and board expenses for the next 12 months of post-secondary education for the Participant or his spouse, children or dependents (as defined in Section 152 of the Code), (iv) the need by the Participant to prevent eviction from his principal residence or foreclosure on the mortgage of his principal residence and (v) such other circumstances determined by the Commissioner of Internal Revenue in revenue rulings, notices and other promulgated documents of general applicability.

For purposes of this subsection (d), a withdrawal shall be considered necessary to satisfy a Participant's Immediate and Heavy Financial Need if (i) the amount of the withdrawal does not exceed the amount of the Participant's Immediate and Heavy Financial Need (increased if requested by the Participant by any amounts necessary to pay any federal, state or local income taxes or penalties reasonably anticipated to result from the withdrawal), (ii) the Participant has obtained all distributions, other than hardship withdrawals under this subsection (d), and all nontaxable loans (determined at the time of the loan) currently available to the Participant under the Plan and all other qualified plans maintained by the Employer in which he participates, (iii) all elective deferrals [as defined in Section 402(g)(3) of the Code] and after-tax employee contributions by the Participant to the Plan and all other plans (as described in the next sentence) maintained by the Employer are suspended for a period of 12 months after receipt of the hardship withdrawal hereunder, and (iv) the Participant's elective deferrals [as defined in Section 402(g)(3) of the Code] under the Plan and all other plans maintained by the Employer for the taxable year immediately following the taxable year of the hardship withdrawal may not exceed the applicable dollar limit under Section 3.1 for such following taxable year reduced by the amount of such Participant's elective deferrals for the taxable year of the hardship

withdrawal. The suspension of elective deferrals and after-tax employee contributions described in clause (iii) in the immediately preceding sentence also must apply to all other qualified plans and to all nonqualified plans of deferred compensation maintained by the Employer, other than any mandatory employee contribution portion of a defined benefit plan, including stock option, stock purchase and other similar plans, but not including health or welfare benefit plans (other than the cash or deferred arrangement portion of a cafeteria plan). The application of clauses (iii) and (iv) of this paragraph shall cease as of December 31, 1997 notwithstanding the date of the hardship withdrawal.

Except as provided in clause (iii) of the immediately preceding paragraph, a withdrawal pursuant to this subsection (d) shall not result in a suspension of participation in the Plan.

No withdrawal may be made under this subsection (d) by reason of an event described in (3), (4) or (5) of the first paragraph of this subsection (d) unless the distribution is in the form of a "lump sum distribution" within the meaning of Section 401(k)(10)(B)(ii) of the Code. In addition, no withdrawal may be made by reason of an event described in (3) or (4) of the first paragraph of this subsection (d) unless the transferor corporation continues to maintain the Plan after the disposition. Each withdrawal under this subsection (d) at the time it is paid shall be charged to the Individual Account of the Participant from which the withdrawal is made.

All withdrawals under this Section 15.5 shall be made as soon as administratively practicable following the date Notice of withdrawal is received by the Administrator. The advance Notice requirement of this Section 15.5 may be waived by the Administrator in its sole discretion. All withdrawals under this
Section 15.5 shall be based on the value of the Participant's 401(k) Account, Savings Account, Employer Account and Rollover Account, as the case might be, as of the Valuation Date for which the withdrawal is to be made. Withdrawals under this Section 15.5 shall, to the extent required by the Code, be subject to the provisions of Section 15.11. A Participant may, subject to any restrictions and limitations imposed on a particular Investment Fund, direct withdrawals under this Section 15.5 which are less than the full value of any Individual Account from which an amount is withdrawn to be charged to any one or more of the Investment Funds in which such Individual Account is invested. Such direction shall be given by the Participant with his Notice to withdraw and shall specify the manner in which the withdrawal will be allocated among the Investment Funds. If a Participant does not specify the manner in which a withdrawal shall be

allocated among Investment Funds, the Administrator shall allocate the withdrawal on a pro rata basis among the Participant's Investment Fund elections, subject to any restrictions or limitations applicable to a particular Investment Fund. Payments under this Section 15.5 shall be made in a single sum payment in cash.

Sec. 15.6 Claims Procedure. The Administrator shall make all determinations as to the right of any person to receive a benefit. The denial by the Administrator of a claim for benefits under the Plan shall be stated in a written instrument signed by the Administrator and delivered to or mailed to the claimant within 60 days after receipt of the claim by the Administrator, unless special circumstances require an extension of time for processing the claim, in which case a determination shall be made as soon as possible, but in no event later than 120 days after receipt of the claim. Written notice of the extension shall be furnished to the claimant prior to the termination of the initial 60-day period and shall indicate the circumstances requiring the extension and the date by which the Administrator expects to render its decision. The written decision shall set forth:

(a) the specific reason or reasons for the denial;

(b) a specific reference to the pertinent provisions of the Plan on which the denial is based;

(c) a description of any additional material or information necessary for the claimant to perfect a claim and an explanation of why such material or information is necessary; and

(d) a statement that the claimant may:

(i) request a review upon written application to the Administrator;

(ii) review pertinent plan documents; and

(iii) submit issues and comments in writing.

If notice of the denial is not furnished in accordance with the above procedure, the claim shall be deemed denied and the claimant shall be permitted to proceed with the review procedure. A request by the claimant for a review of the denied claim must be delivered to the Administrator within 60 days after receipt by such claimant of written notification of the denial of such claim. The Administrator shall, not later than 60 days after receipt of a request for a review, make a determination concerning the claim. If special circumstances require, the Administrator shall notify the claimant that an extension of time for processing, not in excess of 120 days after receipt of the request for review, is necessary. A written statement stating the decision on review, the specific reasons for the decision, and the specific provisions of the Plan on

which the decision is based shall be mailed or delivered to the claimant within such 60 (or 120) day period. If the decision on review is not furnished within the appropriate time, the claim shall be deemed denied on review. All communications from the Administrator to the claimant shall be written in a manner calculated to be understood by the claimant.

Sec. 15.7 Administrator's Duty to Trustee. The Administrator will notify the Trustee at the appropriate time of all facts which may be necessary hereunder for the proper allocation of increases, decreases, expenses, and contributions for Participants, the proper payment or distribution of benefits, or the proper performance of any other act required of the Trustee hereunder. The Administrator will notify the Trustee of such facts as are needed by the Trustee to perform its functions under the Plan. The Administrator will secure appropriate elections, directions, and designations for Participants, Former Participants and Beneficiaries provided for in the Plan.

Sec. 15.8 Duty to Keep Administrator Informed of Distributee's Current Address. Each Participant and Beneficiary must file with the Administrator from time to time in writing his post office address and each change of post office address. Any communication, statement or notice addressed to a Participant, Former Participant or Beneficiary at his last post office address filed with the Administrator or if no address is filed with the Administrator then at his last post office address as shown on an Employer's records, will be binding on the Participant or Former Participant, and his Beneficiary, for all purposes of the Plan. Neither the Administrator nor the Trustee shall be required to search for or locate a Participant, Former Participant or Beneficiary.

Sec. 15.9 Failure to Claim Benefits. If the Administrator notifies the Participant, Former Participant or Beneficiary by registered or certified mail at his last known address that he is entitled to a distribution and also notifies him of the provisions of this Section 15.9, and the Participant, Former Participant or Beneficiary fails to claim his benefits under the Plan or make his current address known to the Administrator within a reasonable period of time after such notification, the Administrator shall direct that all unpaid amounts which would have been payable to such Participant, Former Participant or Beneficiary will be forfeited and applied as provided in Section 14.5. In the event that the Participant, Former Participant or Beneficiary is subsequently located, the amounts which were forfeited shall be distributed to the Participant, Former Participant or Beneficiary, and an Employer shall contribute an amount to the Plan which is equal to the amount distributed under the terms of this Section 15.9 to the extent that such amount cannot be reinstated through forfeitures occurring during the Year of payment. Notwithstanding the preceding sentences, if the Administrator is trying to locate a Participant, Former Participant or Beneficiary in connection with (i) a minimum required distribution under Section 15.4 or (ii) a return of Excess Elective Deferrals

under Section 4.1, Excess Salary Reduction Contributions under Section 4.3, or Excess Matching Contributions under Section 5.2, and the Administrator determines that such Participant, Former Participant or Beneficiary cannot be located, the Administrator shall establish an escrow account outside of the Plan in the name of that Participant, Former Participant or Beneficiary and direct the Trustee to distribute such amount to that account.

Sec. 15.10 Distribution Pursuant to Qualified Domestic Relations Orders. The Administrator shall establish policies and procedures for reviewing domestic relations orders relating to a Participant's interest in the Plan. The Administrator or its delegate shall determine whether any such domestic relations order is a Qualified Domestic Relations Order. Notwithstanding any other provision of the Plan to the contrary, effective September 1, 1997, if the provisions of a Qualified Domestic Relations Order provide that distributions shall be made to an Alternate Payee prior to the time that the Participant with respect to whom the Alternate Payee's benefits are derived attains age 50 or would be entitled to a distribution of assets from the Plan, the Administrator shall direct the Trustee to commence payments to the Alternate Payee as soon as administratively practicable following the later of (i) the receipt of such Qualified Domestic Relations Order by the Administrator or (ii) the date the Administrator receives the Alternate Payee's written consent to such distribution. Until such time as payment is made to an Alternate Payee pursuant to this Section 15.10, the Alternate Payee shall have no rights under the Plan other than the rights of a Beneficiary and the right to direct the investment of amounts awarded to the Alternate Payee. If an Alternate Payee does not receive an immediate distribution pursuant to this Section 15.10, the Administrator shall direct the Recordkeeper to identify the Alternate Payee's interest in the Trust Fund pending a distribution to the Alternate Payee and the Alternate Payee may direct the investment of the Alternate Payee's interest in the Trust Fund pursuant the provisions of Section 22.8.

Sec. 15.11 Tax Withholding and Participant's Direct Rollover. Unless provided otherwise in regulations promulgated by Secretary of the Treasury, to the extent required under Section 3405 of the Code, the Trustee shall withhold 20% of the taxable portion of the Plan distribution or withdrawal made to a Participant, Former Participant or Beneficiary after December 31, 1992 which constitutes an eligible rollover distribution within the meaning of Section 402(c)(4) of the Code. Any amount withheld shall be deposited by the Trustee with the Internal Revenue Service for the purpose of paying the distributee's federal income tax liability associated with the distribution or withdrawal. Notwithstanding the foregoing provisions, commencing on and after January 1, 1993, each Participant, each Former Participant and each spouse (or former spouse under a Qualified Domestic Relations Order) of a Participant or Former Participant shall be given the right to elect [pursuant to Section 401(a)(31) of

the Code] to rollover all or any portion of the taxable amount of such person's distribution or withdrawal (subject to limitations and restrictions, if any, adopted by the Administrator in accordance with applicable Treasury regulations) directly to an eligible retirement plan as defined in Section 402(c)(8)(B) of the Code as limited by Section 402(c)(9) of the Code and, to the extent a direct rollover is elected by any such person, the withholding requirements of this
Section 15.11 will not apply. If permitted by the Code or applicable Treasury regulations, a direct rollover as described in the preceding sentence may be accomplished by delivering a check from the Plan to the distributee payable to the trustee or custodian of the eligible retirement plan. Each such election shall be in writing on a form prescribed by the Administrator for such purpose and given to the Participant, Former Participant or spouse within a reasonable period of time prior to the distribution or withdrawal.

Article XVI

NOTICES

Sec. 16.1 Notice. As soon as practicable after a Participant, Former Participant or Beneficiary makes a request for payment, the Administrator shall notify the Recordkeeper of the following information and give such directions as are necessary or advisable under the circumstances:

(a) name and address of the Participant, Former Participant or Beneficiary, and

(b) amount to be distributed.

In addition to the information described above, for distributions and withdrawals occurring after December 31, 1992, the Administrator shall notify the Recordkeeper and/or the Trustee, if applicable, as to the identity, address and other pertinent information of eligible retirement plans as described in
Section 402(c)(8)(B) of the Code to which the payee has elected to rollover directly such distribution or withdrawal pursuant to Section 15.11 of the Plan.

Sec. 16.2 Modification of Notice. At any time and from time to time after giving the Notice as provided for in Section 16.1, the Administrator may modify such original Notice or any subsequent Notice by means of a further Notice or notices to the Trustee but any action taken or payments made by the Trustee pursuant to a prior Notice shall not be affected by a subsequent Notice.

Sec. 16.3 Reliance on Notice. Upon receipt of any Notice as provided in this Article XVI, the Recordkeeper and/or the Trustee, as applicable, shall promptly take whatever action and make whatever payments are called for therein, it being intended that the Trustee may rely upon the information and directions in such Notice absolutely and without question. However, the Trustee may call to the attention of the Administrator any error or oversight which the Trustee believes to exist in any Notice.

Article XVII

AMENDMENT OR TERMINATION OF PLAN

Sec. 17.1 Amendment or Termination by Company. At any time the Company acting through its governing body may amend or modify the Plan, retroactively or otherwise, or may terminate the Plan, subject, however, to the other provisions of this Article XVII. Such termination may be made without consent being obtained from the Trustee, the Recordkeeper, any Employer or Affiliated Company, the Administrator, the Committee, the Participants or their Beneficiaries, the Employees or any other interested person. Also the Plan shall be considered terminated if the Company ceases business operations or if there is a complete discontinuance of Employer contributions to the Plan.

Sec. 17.2 Effect of Amendment. No amendment or modification hereof by the Company, unless made to secure the approval of the Commissioner of Internal Revenue or other governmental bureau or agency, shall:

(a) operate retroactively to reduce or divest the then vested interest in any Individual Account or to reduce or divest any benefit then payable hereunder; or

(b) change the duties or responsibilities of the Trustee without the written consent or approval of the Trustee.

Each such amendment shall be in writing signed by duly authorized officers of the Company with such consents or approval, if any, as provided above and shall become effective as designated in such amendment.

Sec. 17.3 Distribution on Termination or Discontinuance of Contributions. Upon termination of the Plan or complete discontinuance of contributions to the Plan, any amount of the Trust Fund previously unallocated, including any amounts in a suspense account established under Article VIII, shall be allocated (unless such allocation would violate Article VIII), and the Individual Accounts of all Participants, Former Participants, and Beneficiaries shall thereupon be and become fully vested and nonforfeitable to the extent then funded. The Trustee shall deduct from the Trust Fund all unpaid charges and expenses including those relating to said termination, except as the same may be paid by an Employer. The Trustee shall then adjust the balance of all Individual Accounts on the basis of the net value of the Trust Fund. The Trustee shall distribute the amount to the credit of each Participant, Former Participant and Beneficiary when all appropriate administrative procedures have been completed. If any amount in a suspense account shall not be allocable because of the provisions of Article VIII, such amount shall be returned to the Employer. Upon any complete discontinuance of contributions by an Employer, the assets of the Trust Fund shall be held and administered by the Trustee for the benefit of the Participants employed by such Employer discontinuing contributions in the same

manner and with the same powers, rights, duties and privileges herein described until the Trust Fund with respect to such Employer has been fully distributed. Upon the partial termination of the Plan, the Individual Accounts of affected Participants, Former Participants and Beneficiaries shall thereupon be and become fully vested and nonforfeitable to the extent then funded and shall be distributed to such Participants, Former Participants and Beneficiaries by the Trustee when all appropriate administrative procedures have been completed. If no other defined contribution plan [other than an employee stock ownership plan as defined in Section 4975(e)(7) of the Code or a simplified employee pension plan as defined in Section 408(k) of the Code] is maintained by the Company or any other Affiliated Company as of the Plan termination date, subject to the requirements of Section 15.11, the Administrator shall direct the Trustee to distribute each Participant's entire Individual Account in a single lump sum distribution without his consent as soon as administratively practicable after the later of (i) the termination date of the Plan or (ii) the receipt following application of a favorable determination letter from the Internal Revenue Service with respect to the termination of the Plan. If, however, the Company or any Affiliated Company maintains another defined contribution plan [other than an employee stock ownership plan as defined in Section 4975(e)(7) of the Code or a simplified employee pension plan as defined in Section 408(k) of the Code] as of the Plan termination date, then except as provided in the next sentence, each Participant's entire Individual Account shall be transferred by the Trustee, without the Participant's consent, to such other defined contribution plan. A Participant may request in writing that the Trustee distribute his Individual Account, excluding the balance attributable to his 401(k) Account unless distribution of such accounts would be permitted under Section 401(k)(2)(B) of the Code and the applicable Treasury regulations thereunder, in a single lump sum distribution, subject to the requirements of Section 15.11, as soon as administratively practicable after the later of (i) the termination date of the Plan or (ii) the receipt following application of a favorable determination letter from the Internal Revenue Service with respect to the termination of the Plan.

Sec. 17.4 Reversion of Contributions to Employer. Except as provided in
Section 3.5 and Section 17.3, under no circumstances or conditions shall the Trust Fund or any portion thereof revert to any Employer or be used for or diverted to the benefit of anyone other than Participants, Former Participants and Beneficiaries, it being understood that the Trust Fund shall be for the exclusive benefit of Participants, Former Participants and Beneficiaries.

Sec. 17.5 Amendment of Vesting Schedule. At any time that the vesting schedule of the Plan is amended, or the Plan is amended in any way that directly or indirectly affects the computation of the Participant's nonforfeitable

interest in his Individual Account, each Participant who has completed a Period of Service of at least three years, whether or not consecutive, may elect to have his vested interest in his Employer Account determined under the vesting schedule in effect prior to such amendment. An election made under the preceding sentence may be made at any time within 60 days after the later of the date:

(a) the amendment is adopted;

(b) the amendment becomes effective; or

(c) the Participant is issued written notice of the amendment by the Administrator.

An election under this Section shall be made in a written instrument delivered to the Administrator and once made, shall be irrevocable. For the purposes of this Section, a Participant shall be considered to have completed a Period of Service of at least three years, described in this Section if he shall have completed such years prior to the end of the period during which he could make an election hereunder.

Sec. 17.6 Merger or Consolidation of Plan. In the event of any merger or consolidation of the Plan with, or transfer in whole or in part of the assets and liabilities of the Trust Fund to, another trust fund held under any other plan of deferred compensation maintained or to be established for the benefit of all or some of the Participants in this Plan, the assets of the Trust Fund applicable to such Participants shall be transferred to the other trust fund only if:

(a) each Participant would (if either this Plan or the other plan had then terminated) receive a benefit immediately after the merger, consolidation, or transfer which is equal to or greater than the benefit he would have been entitled to receive immediately before the merger, consolidation, or transfer (if this Plan had then terminated); and

(b) such other plan and trust fund are qualified under Section 401(a) of the Code and exempt from tax under Section 501(a) of the Code.

Article XVIII

COMMITTEE

Sec. 18.1 Committee Composition. The Company may appoint a Committee consisting of any number of members as determined by the Company. The Company may remove any member of the Committee at any time and a member may resign by written notice to the Company. Any vacancy in the membership of the Committee shall be filled by appointment of the governing body of the Company, but pending

the filling of any such vacancy the then members of the Committee may act hereunder as though they alone constitute the full Committee.

Sec. 18.2 Committee Actions. Any and all acts and decisions of the Committee shall be by at least a majority of the then members, but the Committee may delegate to any one or more of its members the authority to sign notices or other documents on its behalf or to perform ministerial acts for it, in which event the Trustee and any other person may accept such notice, document or act without question as having been authorized by the Committee.

Sec. 18.3 Committee Procedure. The Committee may, but need not, call or hold formal meetings and any decisions made or action taken pursuant to written approval of a majority of the then members shall be sufficient. The Committee shall maintain adequate records of its decisions which records shall be subject to inspection by the Company, Employer, any Participant, Former Participant, Beneficiary, and any other person to the extent required by law, but only to the extent that they apply to such person. Also the Committee may designate one of its members as Chairman and one of its members as Secretary and may establish policies and procedures governing it as long as the same are not inconsistent with the terms of the Plan.

Sec. 18.4 Delegation to Committee and Company's Duty to Furnish Information. The Committee shall perform the duties and may exercise the powers and discretion given to it in this Plan and its decisions and actions may be relied upon by all persons affected thereby. The Trustee and the Recordkeeper may rely without question upon any notices, directions, or other documents received from the Committee. The Company and each Employer shall furnish the Committee with all data and information available to the Company which the Committee may reasonably require in order to perform its duties. The Committee may rely without question upon any such data or information furnished by the Company and each Employer.

Sec. 18.5 Construction of Plan and Trustee's and Recordkeeper's Reliance. Any and all matters involving the Plan, including but not limited to any and all disputes which may arise involving Participants, Former Participants, and Beneficiaries and/or the Trustee or the Recordkeeper shall be referred to the Committee. The Committee has the exclusive discretionary authority to construe the terms of the Plan and the exclusive discretionary authority to determine eligibility for all benefits hereunder. Any such determinations or interpretations of the Plan adopted by the Committee shall be final and conclusive and shall bind all parties. The Trustee and the Recordkeeper may rely upon the decision of the Committee with respect to any question concerning the meaning, interpretation, or application of any provision of the Plan.

Sec. 18.6 Committee Member's Abstention in Cases Involving Own Rights. Notwithstanding any other provision of this Article XVIII, no Committee member shall vote or act upon any matter involving his own rights, benefits, or participation in the Plan.

Sec. 18.7 Counsel to Committee. The Committee may engage agents to assist it and may engage legal counsel who may be legal counsel for the Company. All reasonable expenses incurred by the Committee may be paid from the Trust Fund.

Article XIX

MISCELLANEOUS

Sec. 19.1 No Employment or Compensation Agreement. Nothing contained in the Plan shall be construed as giving any person or entity any legal or equitable right against the Company, any Employer, any Affiliated Company, their stockholders or partners, officers or directors, the Named Fiduciary, the Committee, the Administrator, the Trustee or the Recordkeeper, except as the same shall be specifically provided in the Plan. Nor shall anything in the Plan give any Participant or other Employee the right to be retained in the service of an Employer. The employment of all persons by an Employer shall remain subject to termination by such Employer to the same extent as if the Plan had never been executed.

Sec. 19.2 Spendthrift Provision. Except as provided by the terms of a domestic relations order which is determined to be qualified under Section 414(p) of the Code, no Participant, Former Participant, or Beneficiary shall have the right to assign or transfer his interest hereunder, nor shall his interest be subject to claims of his creditors or others, it being understood that all provisions of the Plan shall be for the exclusive benefit of those designated herein.

Sec. 19.3 Construction. It is the intention of each Employer that the Plan be qualified under Section 401 of the Code, and all provisions hereof should be construed to that result.

Sec. 19.4 Titles. Titles of Articles and Sections hereof are for convenience only and shall not be considered in construing the Plan.

Sec. 19.5 Texas Law Applicable. The Plan and each of its provisions shall be construed andtheir validity determined by the laws of the State of Texas.

Sec. 19.6 Successors and Assigns. The Plan shall be binding upon the successors and assigns of the Company and each Employer and the Trustee and upon the heirs and personal representatives of those individuals who become Participants hereunder.

Sec. 19.7 Allocation of Fiduciary Responsibility by Named Fiduciary. The Named Fiduciary may, by written instrument, allocate some or all of its responsibilities to another fiduciary, including the Trustee, or designate another person to carry out some or all of its fiduciary responsibilities. Each fiduciary to whom responsibilities are allocated by the Named Fiduciary will be furnished a copy of the Plan and their acceptance of such responsibility will be made by agreeing in writing to act in the capacity designated. The Named Fiduciary shall not be liable for an act or omission of any person (who is allocated a fiduciary responsibility or who is designated to carry out such responsibility) in carrying out a fiduciary responsibility except to the extent that with respect to the allocation or designation, continuation thereof, or implementation or establishment of the allocation or designation procedures the Named Fiduciary (i) did not perform all of his duties and responsibilities and exercise his powers hereunder with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent man acting in like capacity and familiar with such matters would use in the conduct of an enterprise of like character and with like aims, (ii) knowingly participates in or knowingly undertakes to conceal an act or omission of another fiduciary of the Plan, with the knowledge that such act or omission is a breach of fiduciary responsibility, (iii) did not make reasonable efforts under the circumstances to remedy a breach of fiduciary responsibility of which the Named Fiduciary has knowledge, or (iv) did not carry out its specific responsibilities, in accordance with the standard set forth in (i) above, and as a result, it has enabled another fiduciary of the Plan to commit a breach. Any person or group of persons may serve in more than one fiduciary capacity with respect to the Plan.

Sec. 19.8 Expenses of Administration. Except to the extent paid by an Employer, the Administrator shall cause the Trustee to pay all expenses incurred in the administration of the Plan, including expenses of the Committee, the Recordkeeper and the Administrator, and expenses and compensation of the Trustee and the expenses of counsel.

Article XX

ADOPTION BY AFFILIATED COMPANIES

Sec. 20.1 Transfer of Employment to Another Employer. When an Employee's employment with any Employer is terminated, but such Employee continues to be a Participant by reason of continued employment by another Employer, the Participant concerned shall not be considered to have changed employers for purposes of determining the Participant's eligibility, vesting rights, participation, and Plan benefits.

Sec. 20.2 Contributions and Forfeitures. Each Participant shall have his Employer Account credited with his share of his former Employer's contributions

and with his share of his new Employer's contributions. The aggregate of the Salary Reduction Contributions by such Participant during the portion of the Year employed by an Employer shall constitute the basis for his allocation of that particular Employer's Matching Contribution, if any, for that Year and the aggregate of the Participant's Annual Compensation during the portion of the Year employed by an Employer shall constitute the basis for his allocation of that particular Employer's profit sharing contribution, if any, for that Year. Forfeitures shall be applied as provided in Section 14.5 (as determined by the Company) to reduce the contribution of any or all Employers during the Year.

Sec. 20.3 Action by Company. The Employers delegate to the Company the authority to amend the Plan, remove the Trustee, Administrator and Recordkeeper, or a Committee member, appoint a new or additional Trustee or Committee member, appoint a new Administrator or Recordkeeper, or take all other actions concerning the Plan without joinder or approval of the other Employers.

Article XXI

THE TRUSTEE

Sec. 21.1 Trust Fund. A Trust Fund has been created and will be maintained for the purposes of the Plan, and the monies thereof will be invested in accordance with the terms of the Trust Agreement which forms a part of the Plan. All Salary Reduction Contributions, Matching Contributions, Employer profit sharing contributions, and Employer qualified non-elective contributions will be paid into the Trust Fund, and all benefits under the Plan will be paid from the Trust Fund.

Sec. 21.2 Trustee's Duties. Except as otherwise specifically provided in the Trust Agreement, the Trustee's obligations, duties and responsibilities are governed solely by the terms of the Trust Agreement, reference to which is hereby made for all purposes.

Sec. 21.3 Benefits Only from Trust Fund. Any person having any claim under the Plan will look solely to the assets of the Trust Fund for satisfaction. In no event will any Employer or any of its officers, Employees, agents, members of its board of directors, the Trustee, any successor trustee, the Administrator, the Recordkeeper or any member of the Committee, be liable in their individual capacities to any person whomsoever, under the provisions of the Plan or Trust Agreement, absent a breach of fiduciary responsibility determined pursuant to the applicable provisions of ERISA.

Sec. 21.4 Trust Fund Applicable Only to Payment of Benefits. The Trust Fund will be used and applied only in accordance with the provisions of the Plan, to provide the benefits thereof, except as provided in Section 19.8

regarding payment of administrative expenses, and no part of the corpus or income of the Trust Fund will be used for, or diverted to, purposes other than for the exclusive benefit of Participants and other persons thereunder entitled to benefits.

Sec. 21.5 Texas Trust Code. Although it is intended that the foregoing powers of the Trustee be applicable hereunder, it is also intended that all provisions of the Texas Trust Code, and any amendments thereto, not inconsistent with the above enumerated powers or other provisions of the Plan, shall be applicable in the administration of the Trust Fund.

Sec. 21.6 Voting of Company Stock. The Trustee shall, upon notice to it of any stockholders' meeting of the Company, promptly cause the Transfer Agent for the Company (the "Transfer Agent") to send each Participant and Former Participant a copy of the proxy solicitation materials, together with a form requesting confidential voting instructions to the Transfer Agent regarding shares of Company Stock allocated to his Individual Account. Each Participant and Former Participant shall be entitled to direct the Trustee as to the manner in which all shares (including fractional shares) of Company Stock allocated to his Individual Account are to be voted, provided he delivers instructions to the Transfer Agent directing it how to vote such shares at least five business days prior to the date such vote shall be required. In the event a Participant or Former Participant delivers conflicting instructions, the instructions delivered last in time shall control. In the event a Participant or Former Participant fails to deliver such instructions, the Trustee shall vote such shares proportionately to the ratio of the votes of the Participants and Former Participants who have delivered voting instructions to the Transfer Agent. All instructions shall be maintained by the Transfer Agent to safeguard the confidentiality of the instructions.

Sec. 21.7 Tender and Exchange Offers. The provisions of this Section 21.7 shall apply in the event that a tender offer, which is subject to Section 14(d)(1) of the Securities Exchange Act of 1934, as amended, is made for shares of Company Stock or an offer to exchange securities of another company for shares of Company Stock, which is the subject to the Securities Act of 1933, as amended, is made. Upon such a tender or exchange offer occurring, the Company and the Trustee shall utilize their best efforts to cause the Transfer Agent to notify each affected Participant and Former Participant and to cause to be distributed to him such information as will be distributed to the stockholders of the Company generally in connection with any such tender or exchange offer and a form by which the Participant or Former Participant may direct the Transfer Agent in writing as to what action, as set forth below, to take on behalf of that Participant or Former Participant with respect to the shares of

Company Stock allocated to his Individual Account under the Plan. If the Transfer Agent does not receive such written directions from a Participant or Former Participant, the Transfer Agent shall not tender or offer to exchange any shares of the Company Stock held in that Participant's or Former Participant's Individual Account.

(a) Cash Tender Offer. In connection with a cash tender offer, a Participant or Former Participant may direct the Transfer Agent to tender any or all shares of Company Stock held in the Participant's or Former Participant's Individual Account. Any cash received by the Trustee as a result of such tender shall be invested by the Trustee in such short-term interest bearing investments as it deems appropriate pending direction from Participants and Former Participants regarding the reinvestment of such cash in the Investment Funds then available under the Plan.

(b) Exchange Offer. In connection with an exchange offer, a Participant or Former Participant may direct the Transfer Agent to offer for exchange any or all shares of Company Stock held in the Participant's or Former Participant's Individual Account. Any property received by the Trustee in connection with such exchange shall be held by the Trustee in separate accounts for the affected Participants and Former Participants pending directions from them regarding the reinvestment of such property in the Investment Funds that are available under the Plan.

(c) Tender and Exchange Offer. In connection with a combination tender and exchange offer, a Participant or Former Participant may direct the Transfer Agent to tender and offer for exchange any or all shares of Company Stock held in the Participant's or Former Participant's Individual Account with any cash received by the Trustee as a result of such tender treated as provided in subsection (a) above and any property received by the Trustee in connection with the exchange treated as provided in subsection (b) above.

A tender or exchange offer direction given by a Participant or Former Participant may be revoked by the Participant or Former Participant by completion of the form prescribed therefor by the Administrator, provided such form is filed with the Transfer Agent at least two business days prior to the withdrawal-date-deadlines provided for in the regulations with respect to tender or exchange offers prescribed by the Securities and Exchange Commission.

The Transfer Agent shall use its best efforts to effect on a uniform and nondiscriminatory basis the sale or exchange of the shares of Company Stock as directed by the Participants and Former Participants. However, neither the Transfer Agent, the Administrator, the Committee nor the Trustee insures that all or any part of the shares of the Company Stock directed by a Participant or

Former Participant to be tendered or exchanged will be accepted under the tender or exchange offer. Any such shares of Company Stock not so accepted shall remain in the Participant's or Former Participant's Individual Account and the Participant or Former Participant shall continue to have the same rights with respect to such shares of Company Stock as he had immediately prior to the Transfer Agent's tendering of the shares.

If a tender or exchange offer is made, the Administrator shall adopt such rules, prescribe the use of such special administrative forms and procedures, delegate such authority, take such action and execute such instruments or documents and do every other act or thing as shall be necessary or in its judgment proper for the implementation of this Section 21.7. All instructions from Participants and Former Participants regarding a tender or exchange offer shall be maintained by the Transfer Agent to safeguard the confidentiality of the instructions.

Notwithstanding anything in the Plan to the contrary, in administering the tendering or exchange of shares pursuant to the applicable provisions of the Plan, it is intended that the confidentiality of the tenders or exchanges, as the case may be, made by Participants or Former Participants pursuant to the provisions of the Plan shall be maintained by the Transfer Agent as contemplated in Section 203 of the General Corporation Law of the State of Delaware.

Article XXII

INVESTMENTS AND CONTRACTS

Sec. 22.1 Permitted Investments. The investments permitted under the provisions of this Article XXII shall be in addition to any investments authorized pursuant to the provisions of the Trust Agreement.

Sec. 22.2 Investment of Trust Assets. In addition to all investments allowable under the Texas Trust Code, and subject to the instructions of an Investment Advisor who is duly appointed as provided in Section 22.5, the Trustee may invest and reinvest the principal and income of the Trust Fund and shall keep such assets invested, without distinction between principal and income, in such property, real or personal, or part interests therein, wherever situated, as the Trustee may deem suitable without regard to the proportion such property or property of a similar character held in the Trust Fund may bear to the entire amount so held, including, but not limited to, capital, common and preferred stocks; personal, corporate, and governmental obligations; trust and participation certificates, oil, mineral, or gas properties, fee simple interests in real property; royalty interests or rights (including equipment pertaining thereto); machinery, equipment, leaseholds; mortgages (including mortgages inferior to other liens); other interests in real or personal

property; notes and other evidences of indebtedness or ownership, secured or unsecured; partnership interests; contracts, and chooses in action. In addition, the Trustee shall, upon direction of the Named Fiduciary, make a loan to a Participant to the extent permitted in Section 22.11. Also, the Trustee may purchase life insurance or annuity contracts as hereinafter provided in this Article. The Trustee shall be obliged to use good faith and to exercise its honest judgment as to what investments are from time to time in the best interests of the Trust Fund and those entitled to benefit under the Plan. Furthermore, the Trustee may hold any portion of the Trust Fund in cash and uninvested whenever it deems such holding necessary or advisable.

Sec. 22.3 Investment in Qualifying Employer Real Property and Qualifying Employer Securities. If directed by the Named Fiduciary, the Trustee is permitted to hold or to lease or to purchase from or to sell or lease to an Employer or any other person or entity "qualifying employer real property," and to hold, or to purchase from or sell to an Employer or any other person or entity "qualifying employer securities," as each term is defined in Section 407(d) of ERISA. Up to 100% of the fair market value of the assets of the Trust Fund may be invested in qualifying employer real property and qualifying employer securities. The Trustee shall purchase and sell securities only in compliance with applicable state and federal securities laws and in accordance with directions of the Named Fiduciary.

Sec. 22.4 Investment in Certificate of Deposit. The Trustee, if a bank, may invest in certificates of deposit issued by the Trustee provided such certificates of deposit bear both a competitive and reasonable rate of interest.

Sec. 22.5 Appointment of Investment Advisor. The Named Fiduciary may appoint an investment advisor as permitted by Section 402(c)(3) of ERISA to direct the Trustee with regard to the investment of the assets held under the Plan. For purposes of this Section 22.5, "investment advisor" shall mean a fiduciary of the Plan who (i) is registered as an investment advisor under the Investment Advisors Act of 1940, (ii) is a bank, as defined in the Investment Advisors Act of 1940, or (iii) an insurance company qualified under the laws of more than one state to manage, acquire, or dispose of any asset of the Plan. If such an investment advisor be so appointed, the Trustee shall invest the assets held under the Plan in accordance with the written directions received from such investment advisor. The Trustee shall not be obligated to accept direction from the investment advisor until such investment advisor acknowledges in writing that it is a fiduciary of the Plan.

Sec. 22.6 Named Fiduciary's Control of Investments. Notwithstanding any other provision in this Article XXII, the Named Fiduciary is hereby given the right and power to direct the Trustee in writing to purchase, sell, lease, or otherwise act for the Trust Fund in regard to any property, whether real, personal, tangible or intangible, and to the extent that the Named Fiduciary so directs the Trustee, all rights, duties, and obligations with respect to said

investment shall have been allocated to the Named Fiduciary within the meaning of Section 405 of ERISA, unless the direction is contrary to ERISA, and the Trustee shall carry out said directions without being liable or responsible in any way for any losses or unfavorable results resulting therefrom. However, the Named Fiduciary may specifically abdicate part or all of such right and power in a written instrument so stating delivered to the Trustee. Furthermore, it is not intended that the Trustee be required to ascertain whether the Named Fiduciary desires to give written directions pursuant to this Section before the Trustee exercises any power, right, or discretion granted to the Trustee hereunder.

Sec. 22.7 Investment in Collective Investment Trust. The Trustee may invest the assets of the Trust Fund in any common or collective investment trust or pooled investment fund maintained by a bank or trust company supervised by a state or federal agency or pooled investment fund maintained by an Insurance Company licensed to do business in a state, including any bank, trust company or Insurance Company which may be a fiduciary or an affiliate of a fiduciary of the Plan, which fund or funds then provide for the pooling of the assets of plans described in Section 401(a) of the Code and exempt from tax under Section 501(a) of the Code. The provisions of the document governing such common or collective investment trust or pooled investment fund, as it may be amended from time to time, shall govern any investment therein and are hereby made a part of the Plan.

Furthermore, the Trustee, for collective investment purposes, may combine into one trust fund the Trust and the trust created under any other qualified retirement plan of an Affiliated Company. However, the Trustee shall maintain separate records of account for the assets of each trust in order to properly reflect each Participant's interest under each such plan.

Sec. 22.8 Participant Direction of Investments. To the extent permitted by the Administrator from time to time, based on a non-discriminatory policy, each Participant and Former Participant may direct the Trustee concerning the investment of his Individual Account among Investment Funds made available to the Participants and Former Participants by the Administrator from time to time. Except with respect to the Employer's Matching Contributions, a Participant or Former Participant may elect to invest the balance of his Individual Account in any one or more of the Investment Funds, but any such election of the Investment Funds must be in 10% increments totaling 100%. The Matching Contributions and the portion of a Participant's or Former Participant's Reinstatement Account attributable to Matching Contributions, if any, shall be invested solely in Fund
5. At the time an Employee becomes a Participant, he shall complete and file with the Administrator using the form furnished by the Administrator designating

the Investment Funds under which his Salary Reduction Contributions, accounts under a plan merged into the Plan, Rollover Contributions, if any, and Employer profit sharing contributions allocated to his Individual Account, if any, are to be initially invested. Separate elections may not be made with respect to different types of contributions. The Employer's profit sharing contributions pursuant to Section 3.3, if any, shall be invested in accordance with the Participant's election in effect at the time that such Employer contributions are actually made to the Plan. The directions, and any change thereto, must be in writing, or, if permitted by the Administrator, by Interactive Telephone Communication. If a Participant fails to direct the investment of his Individual Account, the entire balance of his Individual Account shall be invested in Fund 4.

Sec. 22.9 Changes to Prior Participant Direction of Investments. A Participant's direction of the investment of his Individual Account shall remain the same until changed by such Partici-pant pursuant to this Section. Except with respect to the balance of his Individual Account attributable to Matching Contributions, a Participant may change the direction of the investment of the current balance of his Individual Account or future contributions allocated to his Individual Account, or both, other than Matching Contributions, effective as of any day following any Valuation Date by filing the appropriate form, or by Interactive Telephone Communication (if applicable), prior to such Valuation Date. Only one investment change (whether for future contributions, past contributions or both) may be made with respect to his Individual Account during any calendar quarter.

Sec. 22.10 Effect of Participant Direction of Investments. If the Participant shall exercise any such right to direct the investment of his Individual Account, then, to that extent, the obligations, discretion, and duties with respect to such investments shall be deemed to have been allocated to the Participant within the meaning of Section 404(c) of ERISA, and unless the direction is contrary to ERISA or the Administrator shall determine that such investment would be administratively infeasible and so notify the Participant, such directions shall be followed and no fiduciary with respect to the Plan shall be liable or responsible in any way for any losses or unfavorable results resulting therefrom. It is not intended that the Administrator be required to ascertain whether the Participant desires to give written or Interactive Telephone Communication directions pursuant to this Section before the Trustee exercises any power, right, or discretion granted the Trustee under the Trust Agreement.

Sec. 22.11 Participant Loans. The Administrator may, in its sole discretion and in accordance with a uniform and nondiscriminatory policy established by it, permit loans to be made to a Participant, former Participant or Beneficiary provided that any such loan (i) shall be made available to all such Participants, former Participants and Beneficiaries on a reasonably equivalent basis, (ii) shall not be made available to Highly Compensated Employees in an amount greater than the amount made available to other Participants, (iii) shall

bear a reasonable rate of interest, (iv) shall be adequately secured, and (v) shall provide for periodic repayment over a reasonable period of time. In addition, loans granted or renewed pursuant to this Section 22.11 shall be granted or renewed in accordance with a written loan policy established by the Administrator (which policy, when properly adopted, is hereby incorporated by reference and made a part of this Plan). Such written loan policy, once established may be modified or amended in writing from time to time without the necessity of amending this Section 22.11. The loan policy established by the Administrator shall comply with the applicable provisions of ERISA and regulations promulgated pursuant thereto and with any limitations imposed by the Code and regulations promulgated pursuant thereto to prevent the loan from being deemed to be a taxable distribution to the Participant.

Article XXIII

TOP HEAVY PROVISIONS

Sec. 23.1 Minimum Allocation Requirements. For any Year in which the Plan is a Top Heavy Plan, Employer contributions (excluding Employer contributions to Social and Salary Reduction Contributions made to the Plan for any Year under Section 7.2 and Matching Contributions included in the Contribution Percentage test for the Year under Section 5.1) and forfeitures which are allocated to any Employee who has satisfied the eligibility requirements of Section 2.1, without regard to whether he has elected to participate in the Plan pursuant to Section 2.2, and who on the last day of the Year is a Non-Key Employee shall not be less than the lesser of (i) three percent of such Participant's Annual Compensation [as defined in Section 8.2(f)] or (ii) the largest percentage of Employer contributions (including Salary Reduction Contributions and Matching Contributions), as a percentage of the amount of the Annual Compensation [as defined in Section 8.2 (f)] of Participants who are Key Employees, but not in excess of the Compensation Limitation as defined in Section 1.5 allocated to any such Participant who is a Key Employee for that Year; provided, however, if an Employer maintains a defined benefit plan which designates this Plan to satisfy Section 401 or 410 of the Code, (ii) above shall not apply. No Employer contributions allocated to a Non-key Employee under this Section may be forfeited as a result of such Employee's withdrawal of his Salary Reduction Contributions under Section 15.5(d).

Sec. 23.2 Adjustment to Limitation on Allocations. Notwithstanding the provisions of Sections 8.2(h)(ii)(A) and 8.2(i)(ii)(A), beginning with the first Year beginning after December 31, 1983 in which the Plan is a Top Heavy Plan, the following provisions shall be applicable to Section 8.2 of the Plan:

(a) Section 8.2(h)(ii)(A) shall be revised by substituting "1.0" for "1.25" and the numerator of the fraction described in Section 8.2(h)(iv)(A) shall be revised by substituting "$41,500" for "$51,875" unless (i) the Plan would not be a Top Heavy Plan as defined in Section 23.3(f) if "90%" were substituted for 60% in such definition, and (ii) the minimum allocation requirements of Section 23.1 for a Participant who is a Non-Key Employee are satisfied and, in applying such provisions, "four percent" is substituted for "three percent;" and

(b) Section 8.2(i)(ii)(A) shall be revised by substituting "1.0" for "1.25" unless (i) the Plan would not be a Top Heavy Plan as defined in Section 23.3(f) if "90%" were substituted for 60% in such definition, and (ii) the minimum benefit requirements of Section 416(h)(2)(A) of the Code are satisfied for all participants in the defined benefit pension plan who are Non-Key Employees.

Sec. 23.3 Definitions.

(a) "Determination Date" means for any Year the Anniversary Date of the preceding Year, or in the case of the first Year of the Plan, the Anniversary Date of that Year.

(b) "Key Employee" means, as of any Determination Date [as defined in Section 23.3(a)], any Employee or former Employee (or Beneficiary of such Employee) who, at any time during the Year which includes the Determination Date, or during the preceding four Years, is:

(i) an officer of any Employer having Annual Compensation greater than 50% of the amount in effect under Section 415(b)(1)(A) of the Code for any such Year;

(ii) one of the ten Employees having Annual Compensation from any Employer of more than the dollar limitation in effect under Section 415(c)(1)(A) of the Code and owning the largest interests in such Employer;

(iii) a more than five percent owner of any Employer; or

(iv) a more than one percent owner of any Employer having Annual Compensation from all Employers of more than $150,000.

For purposes of this subsection (b), Annual Compensation shall mean annual compensation as defined in Section 415(c)(3) of the Code, but including amounts contributed by the Employer pursuant to a salary reduction agreement which are excludable from the Participant's gross income under Sections 125, 402(e)(3), 402(h)(1)(B) or 403(b) of the Code. For purposes of subsection (b)(i), no more than 50 Employees (or, if lesser, the greater of three or ten percent of the Employees) shall be treated as officers. For purposes of subsection (b)(ii) above, if two

Employees have the same interest in an Employer, the Employee having the greater Annual Compensation shall be treated as having the larger interest. The constructive ownership rules of Section 318 of the Code (or the principles of that section, in the case of an unincorporated Employer) will apply to determine ownership in each Employer.

(c) "Non-Key Employee" means any Employee who is not a Key Employee.

(d) "Permissive Aggregation Group" means the Required Aggregation Group plus any other qualified plans maintained by an Employer which, when considered as a group with the Required Aggregation Group, would continue to satisfy the requirements of Sections 401(a)(4) and 410 of the Code.

(e) "Required Aggregation Group" means (i) each qualified plan of an Employer in which at least one Key Employee participates, and (ii) any other qualified plan of an Employer which enables a plan described in
(i) to meet the requirements of Sections 401(a)(4) or 410 of the Code.

(f) "Top Heavy Plan" means the Plan for a Year beginning after December 31, 1983, if the Plan is the only plan maintained by an Employer and the top heavy ratio as of the Determination Date exceeds 60%. The top heavy ratio is a fraction, the numerator of which is the sum of the present value of the Individual Accounts of all Key Employees as of the Determination Date, the contributions due as of the Determination Date, and distributions made within the five-year period immediately preceding the Determination Date (including distributions under a terminated plan which if it had not been terminated would have been required to be included in an aggregation group), and the denominator of which is a similar sum determined for all Employees. The top heavy ratio shall be calculated without regard to (i) the Individual Account of a Participant who is not a Key Employee but who was a Key Employee in a prior Year,
(ii) the Individual Account of any individual who has not performed any services for an Employer at any time during the five-year period ending on the Determination Date, and (iii) voluntary deductible Employee contributions, if any. The top heavy ratio, including distributions, rollover and transfers, to the extent such items must be taken into account, shall be calculated in accordance with Section 416 of the Code and the regulations thereunder. If an Employer maintains other qualified plans (including a simplified employee pension plan) or has ever maintained one or more defined benefit plans which have covered or could cover a Participant in this Plan, this Plan is top heavy for a Year beginning after December 31, 1983 only if it is part of the Required Aggregation Group, and the top heavy ratio for both the Required Aggregation Group and the Permissive Aggregation Group exceeds 60%. The top heavy ratio shall be calculated as described above, taking into account all plans within the aggregation group and with reference to

Determination Dates that fall within the same calendar year; provided that if a defined benefit plan is included in the aggregation group, the present value of accrued benefits (instead of account balances) of participants in that plan shall be computed for purposes of calculating the top heavy ratio. The accrued benefit under a defined benefit plan in both the numerator and the denominator of the top heavy ratio are increased for any distribution of an accrued benefit made in the five-year period ending on the Determination Date. The accrued benefit of a Participant other than a Key Employee shall be determined under (i) the method, if any, that uniformly applies for accrual purposes under all defined benefit plans maintained by the Employer, or (ii) if there is no such method, as if such benefit accrued not more rapidly than the slowest accrual rate permitted under the fractional rule of Section 411(b)(1)(C) of the Code. The value of account balances and the present value of accrued benefits will be determined as of the most recent Allocation Date that falls within or ends with the 12-month period ending on the Determination Date, except as provided in Section 416 of the Code and the Treasury regulations thereunder for the first and second plan years of a defined benefit plan. The actuarial assumptions (interest rate and mortality only) used by the actuary under the defined benefit plan shall be used to calculate the present value of accrued benefits from the defined benefit plan.

IN WITNESS WHEREOF, ENSCO International Incorporated, the Company, acting by and through its duly authorized officers, has caused this Agreement to be executed as of the day and year first above written.

ENSCO INTERNATIONAL INCORPORATED

By: /s/ WILLIAM S. CHADWICK. JR.
---------- William S. Chadwick, Jr.

LOAN POLICY
FOR THE
ENSCO SAVINGS PLAN
AND THE
DUAL DRILLING COMPANY
EMPLOYEES TAX DEFERRED/THRIFT SAVINGS PLAN AND TRUST

ENSCO International Incorporated ("ENSCO") and DUAL Holding Company ("DUAL") hereby establish, effective January 1, 1998, the following loan policy pursuant to the provisions of Section 22.11 of the ENSCO Savings Plan and Section 8.4(j) of the Dual Drilling Company Employees Tax Deferred/Thrift Savings Plan and Trust (the "DUAL Savings Plan") (collectively the "Plans"). This loan policy is intended to form part of the Plans and satisfy the procedures of Department of Labor ("DOL") Regulation section 2550.408b-1(d), as clarified by DOL Advisory Opinion 89-30A. A "Participant," as defined below, may receive a loan under the Plans only as permitted by this loan policy. Pursuant to DOL regulations, a copy of this loan policy will be provided to each "Participant."

Administration of Loan Program. ENSCO and DUAL have appointed Brian Gifford to administer participant loans under the Plans (the "Loan Administrator"). The Loan Administrator may, from time to time, delegate certain ministerial or other nondiscretionary duties regarding the administration of the loan program to additional persons.

Loan Application and Terms. A "Participant" may apply for a loan from the Plans by completing a loan application and submitting it to the Loan Administrator. Subject to the limitations set forth below, a "Participant" may only have one (1) loan outstanding under the ENSCO Savings Plan and/or the DUAL Savings Plan at any time during a calendar year. In addition, a "Participant" may only receive one (1) loan under the ENSCO Savings Plan and/or the DUAL Savings Plan during the calendar year. For purposes of this loan policy, the term "Participant" means an active participant, a former participant or beneficiary who is a "party in interest" [within the meaning of section 3(14) of the Employee Retirement Income Security Act of 1974, as amended ("ERISA")] or who is otherwise mandatorily eligible for plan loans under ERISA, the Internal Revenue Code of 1986, as amended (the "Code") or regulations and rulings promulgated thereunder.

All loans under the ENSCO Savings Plan and/or the DUAL Savings Plan shall be granted from the Participant's vested accounts under the applicable plan on a pro-rata basis in proportion to the size of the account in accordance with the applicable plan's most recently completed valuation. The funds from each vested account shall be withdrawn on a pro-rata basis from each of the investment funds in which the account is invested other than the ENSCO Company Stock Fund. All loans must be amortized in level payments at least quarterly over the term of the loan. Loan payments will be made through payroll deduction unless the Participant is on an unpaid leave of absence or his employment has terminated, in which case loan payments shall be made by check during such leave of absence. Each loan, by its terms, must be repaid within five (5) years except that loans for the purchase of a primary residence may have a term not to exceed ten (10) years.

Loan Approval. The Loan Administrator will approve loans on a uniform and nondiscriminatory basis without regard to a Participant's race, color, religion, age, sex or national origin, and Plan loans shall be available to all Participants on a reasonably equivalent basis.

Limitation on Loan Amount. No loan shall be granted by the Loan Administrator in an amount (when added to the outstanding balance of all other loans to the Participant under the Plans or any other plan maintained by ENSCO or its affiliates [within the meaning of sections 414(b), (c) or (m) of the Code]) in excess of the lesser of:

(a) $50,000 minus the excess, if any, of the Participant's highest plan loan balance within the immediately preceding twelve (12) months, over the outstanding balance of loans from the Plans to the Participant on the date the loan is made, or

(b) fifty percent (50%) of the Participant's vested accounts under the applicable plan.

Each loan under the ENSCO Savings Plan and/or the DUAL Savings Plan shall be made from the Participant's applicable plan accounts and the income or loss associated with the loan shall be allocated to the Participant's accounts. The minimum amount of any loan shall be $1,000.

Interest Rate. All loans shall be granted at a fixed interest rate equal to the prime rate of interest published in the Wall Street Journal plus one percent (1%) on the first working day of each month, unless such rate is not "reasonable" within the meaning of the DOL Regulations, in which case a reasonable rate of interest shall be used. Further, in the event that the interest rate charged by the Plans is limited by state usury law at a time when rates charged on similar loans by commercial lenders are not so limited, the Loan Administrator will suspend granting loans under the program until this situation changes.

Security for Loan. All loans granted under the ENSCO Savings Plan and/or the DUAL Savings Plan shall be secured with an irrevocable pledge and assignment of fifty percent (50%) of the Participant's vested accounts under the applicable plan, determined as of the date the loan is made. Such security shall be derived from the remainder of the Participant's vested accounts used to fund the loan on a pro-rata basis in proportion to the size of the account. The Loan Administrator shall take all actions it deems necessary, including requiring the Participant to execute additional documents to perfect the ENSCO Savings Plan's and/or the DUAL Savings Plan's security interest in the Participant's vested accounts.

Default. The Loan Administrator will treat this loan in default upon the occurrence of any of the following:

(a) any scheduled loan payment remains unpaid more than ninety (90) days following the due date;

(b) the making or furnishing of any representation or statement to the ENSCO Savings Plan or the DUAL Savings Plan by or on behalf of the Participant which proves to have been false in any material respect when made or furnished;

(c) the making of any levy, seizure or attachment (other than a qualified domestic relations order) on the Participant's accounts used as collateral for the loan; or

(d) the commencement of any proceeding under any bankruptcy or insolvency laws of, by or against the Participant.

The Participant will have the opportunity to take the following actions, as appropriate, (i) repay the loan, (ii) resume current status of the loan by paying any missed payment plus interest, or (iii) if distribution is available under the ENSCO Savings Plan or DUAL Savings Plan, as applicable, request distribution of the note. If the loan remains in default, the Loan Administrator will offset the Participant's vested accounts by the amount of the outstanding loan to the extent a distribution to the Participant is permissible under the ENSCO Savings Plan or DUAL Savings Plan, as applicable. The Loan Administrator will treat the note as repaid to the extent of any permissible offset. Pending final disposition of the loan, the Participant remains obligated for any unpaid principal and accrued interest.

Upon default of the loan, the Participant shall be deemed to have received a taxable distribution equal to the outstanding balance of the loan at the time of default in accordance with section 72(p) of the Code. In addition, if the Participant fails to make interest payments on the loan following such default and offset of the loan is not permissible, the Participant will be treated as having received a taxable distribution each year the loan remains outstanding equal to the amount of accrued interest for such year. Finally, to the extent that the ENSCO Savings Plan or DUAL Savings Plan, as applicable, may not foreclose immediately on security held by the Plan in the event of a default, the Loan Administrator and Trustee shall take whatever actions they deem necessary and appropriate to protect the security pending a foreclosure to prevent a loss of principal or interest from occurring with respect to the Plan's interest in the loan.

Acceleration of Loans Upon Termination of Employment. All loans shall be accelerated and immediately due and payable upon a Participant's termination of employment with the Employer [unless such Participant is a "party in interest" as defined in section 3(14) of ERISA or is otherwise mandatorily eligible for Plan loans under ERISA, the Code or regulations and rulings promulgated thereunder]. If a Participant does not repay the loan within thirty (30) days of his termination of employment, the Loan Administrator shall direct the Trustee to offset the vested portion of the Participant's accounts by the outstanding amount of the loan.

Compliance With Internal Revenue Code. No loans shall be granted, renewed, renegotiated or extended which at the time of such grant, renewal, renegotiation or extension would result in a loan being deemed to be a taxable distribution under section 72(p) of the Code.

IN WITNESS WHEREOF, ENSCO and DUAL have adopted the foregoing loan policy, effective as set forth above.

ENSCO International Incorporated

Dated: November 11, 1997 *By: /s/ WILLIAM S. CHADWICK, JR.*
William S. Chadwick, Jr.

DUAL Holding Company

Dated: November 11, 1997 *By: /s/ WILLIAM S. CHADWICK, JR.*
William S. Chadwick, Jr.

ENSCO

SUPPLEMENTAL EXECUTIVE

RETIREMENT PLAN

As Amended and Restated

Effective January 1, 1997

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ENSCO
SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN

THIS AGREEMENT, executed this 25th day of November, 1997, and effective the first day of January, 1997 unless specifically provided elsewhere in the Agreement, by ENSCO International Incorporated, having its principal office in Dallas, Texas (hereinafter referred to as the "Company").

W I T N E S S E T H:

WHEREAS, effective April 1, 1995, Energy Service Company, Inc. adopted the Energy Service Company, Inc. Select Executive Retirement Plan (the "Plan");

WHEREAS, the name of the company was changed to ENSCO International Incorporated;

WHEREAS, on November 11, 1997, the Company amended the Plan retroactive to January 1, 1997 to provide a discretionary profit sharing contribution and to rename the Plan the ENSCO Supplemental Executive Retirement Plan;

WHEREAS, the Company desires to amend and restate the Plan effective January 1, 1998 to clarify that eligible employees must contribute the maximum amount permitted by the Internal Revenue Code to the ENSCO Savings Plan before they may participate in basic and automatic deferral features of the Plan and to modify the operation of the Plan so it will act as a wrap-around plan to the ENSCO Savings Plan;

NOW THEREFORE, the Plan is hereby amended and restated to read as follows:

ARTICLE I

PURPOSE

The objective and purpose of this Plan is to attract and retain competent officers and key executives by offering flexible compensation opportunities to officers and key executives of the Company and to offer them an opportunity to build an estate or supplement income for use after retirement. In addition to this Plan, the Company sponsors certain broad-based employee benefit plans covering its employees.

Through this Plan, the Company intends to permit the deferral of compensation and to provide additional benefits to a select group of management or highly compensated employees of the Company. Accordingly, it is intended that this Plan shall not constitute a "qualified plan" subject to the limitations of section 401(a) of the Internal Revenue Code of 1986, as amended (the "Code"), nor shall it constitute a "funded plan", for purposes of such requirements. It

is also intended that this Plan shall be exempt from the participation and vesting requirements of Part 2 of Title I of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), the funding requirements of Part 3 of Title I of ERISA, and the fiduciary requirements of Part 4 of Title I of ERISA by reason of the exclusions afforded plans which are unfunded and maintained by an employer primarily for the purpose of providing deferred compensation for a select group of management or highly compensated employees.

ARTICLE II

DEFINITIONS AND CONSTRUCTION

2.1 Definitions. When a word or phrase shall appear in this Plan with the initial letter capitalized, and the word or phrase does not commence a sentence, the word or phrase shall generally be a term defined in this Section
2.1. The following words and phrases with the initial letter capitalized shall have the meaning set forth in this Section 2.1, unless a different meaning is required by the context in which the word or phrase is used.

(a) "Account" means the individual bookkeeping account established for each Participant in the Plan, as described in Section 4.5.

(b) "Administrator" means the Board, except to the extent that the Board has appointed another person or persons to serve as the Administrator with respect to the Plan.

(c) "Affiliate" means a corporation that is a member of a controlled group of corporations (as defined in section 414(b) of the Code) which includes the Company, any trade or business (whether or not incorporated) which are in common control (as defined in section 414(c) of the Code) with the Company, or any entity that is a member of the same affiliated service group (as defined in section 414(m) of the Code) as the Company.

(d) "Automatic Deferral" means the automatic Compensation deferral described in Section 4.1(b) made by a Participant who has elected to defer the 401(k) Max under the 401(k) Plan.

(e) "Basic Deferral" means the additional Compensation deferral described in Section 4.1(a) made by a Participant who has elected to defer the 401(k) Max under the 401(k) Plan.

(f) "Beneficiary" means the person designated in writing by the Participant pursuant to Section 5.4 to receive Benefits in the event of his death.

(g) "Board" means the Board of Directors of the Company, or any committee of the Board authorized to act on its behalf.

(h) "Benefits" means the sum of amounts representing the Participant's Automatic Deferrals, if any; Basic Deferrals; Discretionary Deferrals, if any; vested Employer Discretionary Contributions; and vested Matching Contributions credited to the Participant's Account, plus earnings thereon and less losses allocable thereto, if any, attributable to the investment of such amounts.

(i) "Code" means the Internal Revenue Code of 1986, as amended from time to time.

(j) "Company" means ENSCO International Incorporated or any subsidiary or successor thereto.

(k) "Compensation" means, effective April 1, 1995, the base salary or wages, including overtime pay and field bonuses, paid to the Employee by an Employer for a Plan Year plus amounts applied to purchase benefits pursuant to a salary reduction agreement under a cafeteria plan as defined in section 125 of the Code sponsored by an Employer, amounts deferred pursuant to a salary reduction agreement authorized under the 401(k) Plan, and amounts deferred pursuant to a salary reduction agreement under any other plan described in sections 401(k) and 408(k) of the Code sponsored by an Employer, but excluding all other items of compensation.

(l) "Deferred Compensation" means the amount credited to a Participant's Account pursuant to a Participant's Deferred Compensation Election in accordance with Section 4.1 hereof and shall include Basic Deferrals under
Section 4.1(a), Automatic Deferrals under Section 4.1(b) and Discretionary Deferrals under Section 4.1(c).

(m) "Deferred Compensation Election" means the election by a Participant to defer his Compensation as an Automatic Deferral, Basic Deferral and/or Discretionary Deferral in accordance with Section 4.1.

(n) "Deferred Compensation/Participation Agreement" means the written agreement between the Company or an Affiliate and a Participant pursuant to which the Participant consents to participation in the Plan and the deferral of Compensation hereunder.

(o) "Disability" means the Participant's disability which, in the opinion of a physician approved by the Administrator, renders the Participant unable to perform his normal duties for the Employer.

(p) "Discretionary Deferral" means the Compensation deferral described in Section 4.1(c) made by a Participant.

(q) "Effective Date" means January 1, 1997, except as expressly provided otherwise herein.

(r) "Eligible Employee" means an Employee who is selected by the Board pursuant to Section 3.1 hereof as eligible to participate in the Plan.

(s) "Employee" means any person employed by an Employer who is on the Employer's U.S. dollar payroll.

(t) "Employer" means the Company and any other Affiliate, with respect to its Employees, provided that the Board approves participation in the Plan by any such Affiliate and the governing body of each such Affiliate adopts the Plan on behalf of its Employees and authorizes the execution of an agreement to participate in the Plan.

(u) "Employer Discretionary Contributions" means amounts credited to a Participant's Account pursuant to Section 4.3 hereof.

(v) "ERISA" means the Employee Retirement Income Security Act of 1974, as amended from time to time.

(w) "401(k) Max" means the maximum amount of Compensation that may be deferred under the 401(k) Plan on account of any of the following statutory limitations: (i) the $150,000 limitation on Compensation under section 401(a)(17) of the Code, as it may be adjusted pursuant to section 401(a)(17)(B) of the Code; (ii) the $7,000 limitation imposed on elective deferrals under section 402(g) of the Code, or such other amount prescribed by the Secretary of the Treasury at the same time and in the same manner as provided under section 415(d) of the Code for adjusting the dollar limitation in effect under section 415(b)(1)(A) of the Code; (iii) the percentage limitations on elective deferrals under section 401(k) of the Code; or (iv) the limitations on contributions and benefits under section 415 of the Code.

(x) "401(k) Plan" means the ENSCO Savings Plan, as such plan may be amended from time to time.

(y) "Insolvent" means with respect to each Employer, such Employer being unable to pay its debts as they mature or being subject to a pending proceeding as a debtor under the United States Bankruptcy Code.

(z) "Matching Contributions" means the contribution made by the Company on behalf of a Participant who makes Automatic Deferrals and/or Basic Deferrals to the Plan as described in Section 4.2.

(aa) "Normal Retirement Age" means the date a Participant attains age 65.

(ab) "Participant" means an Eligible Employee who has elected to participate in the Plan by executing a Deferral Compensation/Participation Agreement in accordance with Section 4.1 hereof.

(ac) "Plan" means the ENSCO Supplemental Executive Retirement Plan, as described in this document, and as it may hereafter be amended.

(ad) "Plan Year" means the fiscal year of this Plan, which shall commence on January 1 each year and end on December 31 of such year.

(ae) "Period of Service" means for each Employee eligible to participate in the Plan on and after April 1, 1995, the period commencing April 1, 1995 and ending December 31, 1995 and thereafter, the twelve-month period ending each December 31. For an Employee who first becomes eligible to participate in the Plan after April 1, 1995, his first Period of Service shall commence on his eligibility date and shall end on the following December 31st.

(af) "Year of Service" means each calendar year during which an Employee performs 1,000 hours of service for an Affiliate (and any other entity, if the Employee's service with such entity would be recognized for purposes of the 401(k) Plan), including all Years of Service prior to the Effective Date of the Plan.

2.2 Construction. If any provision of this Plan is determined to be for any reason invalid or unenforceable, the remaining provisions of this Plan shall continue in full force and effect. All of the provisions of this Plan shall be construed and enforced in accordance with the laws of the State of Texas and shall be administered according to the laws of such state, except as otherwise required by ERISA, the Code or other applicable federal law. The masculine gender, where appearing in this Plan, shall include the feminine gender, and vice versa.

ARTICLE III

PARTICIPATION AND VESTING

3.1 Eligibility and Participation. The Board shall meet at least once prior to each Period of Service during the term of this Agreement and irrevocably specify the name of each Employee who shall be entitled to participate in the Plan for the immediately following Period of Service. In addition, the Board may meet during a Period of Service for the purpose of designating an individual who has become an Employee during that Period of

Service as eligible to participate in the Plan for the remaining portion of that Period of Service. An Employee shall be eligible to receive a Benefit hereunder if such Employee has been designated as an Eligible Employee pursuant to this Section 3.1, and, with respect to the ability to make Automatic Deferrals and Basic Deferrals, has elected to defer the 401(k) Max under the 401(k) Plan and has entered into a Deferred Compensation/Participation Agreement with the Employer in accordance with Section 4.1 hereof. If the Board fails to designate an Employee as eligible to participate in the Plan for a particular Period of Service and such Employee was eligible to participate in the Plan for the immediately preceding Period of Service, the Board shall notify the Employee in writing of his ineligibility to participate in the Plan as soon as administratively possible after making its decision regarding his eligibility.

3.2 Cessation of Participation. A Participant will cease to be a Participant as of the earlier of (i) the date on which the Plan terminates or (ii) the date on which he ceases to be an Eligible Employee under Section 3.1 and has received a distribution of his Account.

ARTICLE IV

CONTRIBUTIONS AND ACCOUNTING

4.1 Deferred Compensation. An Eligible Employee may become a Participant and make Automatic Deferrals, Basic Deferrals and/or Discretionary Deferrals, as specified by the Board, by electing to defer Compensation pursuant to a Deferred Compensation/Participation Agreement. Such Deferred Compensation/Participation Agreement shall be entered into prior to the first day of the Period of Service for which the Deferred Compensation/Participation Agreement is effective or, in the case of an Employee who is hired during such Plan Year and designated as eligible to participate in the Plan for such Plan Year, such Deferred Compensation/Participation Agreement shall be entered into within 30 days after such date of hire and shall only be effective with respect to Compensation earned after the date such Deferred Compensation/ Participation Agreement is received by the Administrator. A Participant's Deferred Compensation/Participation Agreement shall only be effective with respect to a single Plan Year and shall be irrevocable for the duration of such Plan Year. Deferral elections for each subsequent Plan Year of participation shall be made pursuant to new Deferred Compensation/Participation Agreements.

(a) Basic Deferrals. Prior to each Period of Service, the Board shall determine the maximum percentage of Compensation that each Eligible Employee may elect to defer under the Plan as a Basic Deferral for the immediately following Period of Service. An Eligible Employee shall only be able to make Basic Deferrals under the Plan if he has elected to defer the 401(k) Max under the 401(k) Plan.

(b) Automatic Deferral. Effective January 1, 1998, such Eligible Employee may elect to automatically have a percentage of his Compensation deferred under the Plan as an Automatic Deferral when his deferrals under the 401(k) Plan reach the 401(k) Max. An Eligible Employee may elect to make Automatic Deferrals in addition to or in lieu of Basic Deferrals under Section 4.1(a).

(c) Discretionary Deferrals. Prior to each Period of Service, the Board shall determine the maximum percentage of Compensation that each Eligible Employee may elect to defer under the Plan as a Discretionary Deferral for the immediately following Period of Service. The requirement to defer the 401(k) Max under the 401(k) Plan shall not apply with respect to the ability to make Discretionary Deferrals under the Plan.

(d) Limit on Deferrals. A Participant may only make Basic Deferrals and Automatic Deferrals to the Plan if he has elected to defer the 401(k) Max under the 401(k) Plan. The maximum amount of Automatic Deferrals and Basic Deferrals made by such a Participant, for any calendar year, shall not exceed ten percent of his Compensation for the calendar year, as reduced by the 401(k) Max for such year. Notwithstanding the preceding provisions of this Section 4.1(d), for the first Period of Service in which an Employee becomes eligible to participate in the Plan, the Eligible Employee may elect to make Basic Deferrals or Automatic Deferrals up to the maximum percentage of Compensation permitted by the Board for that Period of Service with respect to Compensation for services performed subsequent to the election. The amount of Discretionary Deferrals a Participant may make to the Plan shall be determined by the Board.

(e) Failure to Elect. If an Eligible Employee does not execute a Deferred Compensation/Participation Agreement and elect to defer an amount of his Compensation, for a particular Period of Service in accordance with this Section 4.1, he may not participate in the Plan for that Period of Service. Thereafter, he may elect to participate in the Plan with respect to future Periods of Service, if he is then an Eligible Employee, by executing a Deferred Compensation/Participation Agreement in accordance with the requirements of this Section 4.1 and irrevocably electing to defer a percentage of his Compensation prior to any such future Period of Service.

4.2 Matching Contributions. For each calendar year, the Employer will credit each Participant's Account with amounts that represent Matching Contributions equal to such percentage, as determined from time to time by the Board under the 401(k) Plan, of the Participant's Deferred Compensation Election for that calendar year up to six percent of the Participant's Compensation, reduced by the amount of employer matching contributions, if any, made on behalf of the Participant to the 401(k) Plan for that calendar year. No Matching Contributions will be made on behalf of the Participant under the Plan until the maximum amount of employer matching contributions permitted under the Code have

been made on the Participant's behalf to the 401(k) Plan. The value of Matching Contributions credited to a Participant's Account will be used, along with the value of the Participant's Employer Discretionary Contributions, if any, and Deferred Compensation credited to his Account, to determine his Benefits as specified herein.

4.3 Employer Discretionary Contribution. Effective January 1, 1997, an Employer may contribute hereunder as an Employer Discretionary Contribution for a Plan Year such amount, if any, as shall be determined by the Board from time to time. The Employer Discretionary Contribution, if any, may be made with respect to active Participants and inactive Participants, as determined by the Board. Amounts representing Employer Discretionary Contributions, if any, for a Plan Year shall be determined and credited to each Participant's Account at such times and in such amounts as determined by the Board for the Plan Year. Such contributions shall be vested at such time as determined by the Board in accordance with the resolutions of the Board authorizing the contribution. The value of Employer Discretionary Contributions credited to a Participant's Account will be used, along with the value of the Participant's Matching Contributions, if any, and Deferral Compensation credited to his Account, to determine his Benefits as specified herein.

4.4 Vesting. Participants shall be 100 percent vested in the Automatic Deferrals, Basic Deferrals and Discretionary Deferrals credited to his Account, including the earnings thereon if such amounts are invested pursuant to Section 7.2 hereof. A Participant will become vested in the Employer Discretionary Contributions, if any, credited to his Account, including the earnings thereon if such amounts are invested pursuant to Section 7.2, in accordance with the resolutions of the Board authorizing the contribution. A Participant will become vested in the Matching Contributions credited to his Account, including the earnings thereon if such amounts are invested pursuant to Section 7.2 hereof, as follows:

Year of Service	Vested Percentage
less than 2	0
2 but less than 3	20%
3 but less than 4	40%
4 but less than 5	60%
5 but less than 6	80%
6 or more	100%

In addition, a Participant will become 100 percent vested in the Employer Discretionary Contributions, if any, and Matching Contributions credited to his Account, including the earnings thereon if such amounts are invested pursuant to Section 7.2 hereof, regardless of his Years of Service upon the occurrence, while employed by an Employer, of his death or Disability, attainment of his Normal Retirement Age or termination of the Plan.

4.5 Accounting for Deferred Compensation. The Administrator shall establish and maintain an individual Account under the name of each Participant under the Plan. Each Account shall be adjusted at least quarterly to reflect the Basic Deferrals, Automatic Deferrals, Discretionary Deferrals, Matching Contributions and Employer Discretionary Contributions credited thereto, if any; earnings credited on such Basic Deferrals, Automatic Deferrals, Discretionary Deferrals, Matching Contributions and Employer Discretionary Contributions pursuant to Section 7.1; and any payment of amounts attributable to such Basic Deferrals, Automatic Deferrals, Discretionary Deferrals, Matching Contributions and Employer Contributions under this Plan. The amounts of Basic Deferrals, Automatic Deferrals, Discretionary Deferrals, Matching Contributions, and Employer Discretionary Contributions shall be credited to the Participant's Account at such time as such Compensation would have been paid to the Participant had the Participant not elected to defer such Compensation pursuant to the terms and provisions of the Plan. Each such Account shall be credited with earnings and/or losses computed pursuant to Section 7.1 in the manner specified by Section 7.1. In the sole discretion of the Administrator, more than one Account may be established for each Participant to facilitate record keeping convenience and accuracy. Each such Account shall be credited and adjusted as provided in this Plan. Amounts credited to such Accounts shall be held with the general assets of the Company.

Establishment and maintenance of a separate Account or Accounts for each Participant shall not be construed as giving any person any interest in assets of the Company or an Affiliate, or a right to payment other than as provided hereunder. Such Accounts shall be maintained until all amounts credited as such Account have been distributed in accordance with the terms and provisions of this Plan.

4.6 Plan Benefits. Subject to the vesting provisions of Section 4.4 hereof and the provisions of Article V, the Benefits to which a Participant and, if applicable, his Beneficiary shall be entitled under the Plan will consist of Deferred Compensation, Employer Discretionary Contributions and Matching Contributions credited to such Participant's Account, plus earnings thereon and less losses allocable thereto, if any, attributable to the investment of such amounts pursuant to Section 7.2 hereof.

ARTICLE V

DISTRIBUTION OF BENEFITS

5.1 Payment of Benefits. The amount credited to a Participant's Account pursuant to Article IV hereof, to the extent vested pursuant to Section 4.4, shall be payable to the Participant or, if applicable, to his Beneficiary in accordance with the provisions of this Article V. If the Employer has obtained life insurance policies as a reserve for the discharge of its obligations under

the Plan, the Employer acting through its governing body may, in its discretion, distribute any such policy to a Participant when the Participant's Benefits become payable to satisfy all or a portion of the Employer's obligation to the Participant hereunder. Unless paid earlier pursuant to Section 5.2, payment of a Participant's Benefit under the Plan shall commence in the form elected by the Participant pursuant to Section 5.3 hereof within 30 days following the Participant's death, Disability or other termination of employment with the Employer.

5.2 Timing of Certain Payments. Notwithstanding any other provision of this Plan to the contrary, the Board shall have the right to pay Benefits to Participants prior to the time such Benefits otherwise would be payable hereunder if the Board in good faith determines that either of the following conditions or events has occurred:

(a) Change in Circumstances. A change in circumstances relating to the operation of the Plan or the taxation of Participants, arising from a change in the federal or applicable state tax or revenue laws, a published ruling or similar announcement by the Internal Revenue Service, a regulation issued by the Secretary of the Treasury, a change in securities laws or regulations, the issuance of an advisory opinion, regulation or other published position by the Department of Labor, or a change in accounting requirements which causes (i) Participants to be taxable on their Benefits prior to the time Benefits otherwise would be payable hereunder, (ii) the Plan to be considered as funded for purposes of Title I of ERISA, or (iii) a material change regarding the tax or financial accounting consequences of maintaining the Plan to the Company or any Employer.

(b) An unforeseeable emergency of the Participant. An unforeseeable emergency is a severe financial hardship to the Participant resulting from a sudden and unexpected illness or accident of the Participant or a dependent (as defined in section 152(a) of the Code) of the Participant, loss of the Participant's property due to casualty, or other similar extraordinary and unforeseeable circumstances arising as a result of events beyond the control of the Participant. An unforeseeable emergency will not exist, however, if the emergency may be relieved through reimbursement or compensation by insurance or otherwise, or by liquidation of the Participant's assets, to the extent the liquidation of such assets would not itself cause a severe financial hardship. In addition, an unforeseeable emergency will not exist, as a result of the Participant's need to send a child to college or desire to purchase a home. The amount distributed to a Participant on account of an unforeseeable emergency may not exceed the amount reasonably necessary to satisfy such emergency.

5.3 Form of Payment. Each Participant may elect on his Deferred Compensation/Participation Agreement whether his Benefits will be paid in the form of a single sum payment or substantially equal monthly installments over a period of 60 months. For this purpose, the Participant's most recent Deferred Compensation/Participation Agreement will be controlling. The Participant may change the form in which his Benefits will be paid at any time before the one-year period ending on the date on which payment of his Benefits commence and once payments commence, the form of payment shall be irrevocable. If a

Participant has not elected a form of payment for his Benefits pursuant to this Section 5.3, the Participant's Benefits will be paid in a single sum payment. If such Participant is receiving installment payments hereunder and dies prior to the payment of all monthly installments, the remaining portion of the Participant's Benefits will continue to be paid in monthly installments to his Beneficiary for the remaining installment period in the same amount and manner as they would have been paid to the Participant.

5.4 Designation of Beneficiary. Each Participant must designate a Beneficiary to receive his Benefits in the event of his death, by completing his Deferred Compensation/Participation Agreement and filing it with the Administrator. The Administrator will recognize the most recent written Beneficiary designation on file prior to a Participant's death. If a designated Beneficiary is not living at the time of the Participant's death, then the Administrator will pay Participant's Benefits to the Participant's personal representative, executor, or administrator, as specified by the appropriate legal jurisdiction. Any such payment to the Participant's Beneficiary or, if applicable, to his personal representative, executor or administrator shall operate as a complete discharge of all obligations of the Administrator and the Employer to the extent of the payment so made.

ARTICLE VI

PAYMENT LIMITATIONS

6.1 Payment Due an Incompetent. If the Administrator shall find that any person to whom any payment is payable under the Plan is unable to care for his affairs because of mental or physical illness, accident or death, or is a minor, any payment due (unless a prior claim therefor shall have been made by a duly appointed guardian, committee or other legal representative) may be paid to the spouse, a child, a parent, a brother or sister or any person deemed by the Administrator, in its sole discretion, to have incurred expenses for such person otherwise entitled to payment, in such manner and proportions as the Administrator may determine. Any such payment shall be a complete discharge of the liabilities of the Employer under this Plan, and the Employer shall have no further obligation to see to the application of any money so paid.

6.2 Spendthrift Clause. No right, title or interest of any kind in the Plan shall be transferable or assignable by any Participant or Beneficiary or be subject to alienation, anticipation, encumbrance, garnishment, attachment, execution or levy of any kind, whether voluntary or involuntary, nor subject to the debts, contracts, liabilities, engagements, or torts of the Participant or Beneficiary. Any attempt to alienate, anticipate, encumber, sell, transfer, assign, pledge, garnish, attach or otherwise subject to legal or equitable process or encumber or dispose of any interest in the Plan shall be void.

ARTICLE VII

FUNDING

7.1 Funding. All Benefits under this Plan shall be paid or provided directly by the Employer. Such Benefits shall be general obligations of the Employer which shall not require the segregation of any funds or property therefor.

Notwithstanding the foregoing, in the discretion of the Employer, the Employer's obligations hereunder may be satisfied from a grantor trust established by the Employer, the terms of which will be substantially similar to the terms of the model trust issued by the Internal Revenue Service in Revenue Procedure 92-64, from an escrow account established at a bank or trust company, or from an insurance contract or contracts owned by the Employer. The assets of any such trust, escrow account and any such insurance policy shall continue for all purposes to be a part of the general funds of the Employer, shall be considered solely a means to assist the Employer to meet its contractual obligations under this Plan and shall not create a funded account or security interest for the benefit of any Participant under this Plan. All such assets shall be subject to the claims of the general creditors of the Employer in the event the Employer is Insolvent.

If a single trust or other funding vehicle is established as a reserve for the obligations hereunder of more than one Employer, the assets of any such trust or funding vehicle shall, to the extent attributable to contributions made by a particular Employer, be subject to the claims of the general creditors of that Employer in the event such Employer is Insolvent, and each Employer will be treated as a separate grantor to the extent of its participation in any trust so established. To the extent that any person acquires a right to receive a payment from an Employer under the Plan, such right shall be no greater than the right of any unsecured general creditor of that Employer.

7.2 Investments. If a trust is established as provided for in Section 7.1, earnings and/or losses of the trust attributable to amounts credited to a Participant's Account shall increase or, if applicable, decrease such Participant's Account for purposes of determining the Participant's Benefits payable hereunder.

ARTICLE VIII

ADMINISTRATION

8.1 Authority of the Administrator. The Administrator shall have full power and authority to interpret, construe and administer the Plan. The Administrator's interpretation and construction hereof, and actions hereunder, including any determination of the amount or recipient of any payment to be made under the Plan, shall be binding and conclusive on all persons and for all purposes. In addition, the Administrator may employ attorneys, accountants, and

other professional advisors to assist the Administrator in its administration of the Plan. The Company shall pay the reasonable fees of any such advisor employed by the Administrator. To the extent permitted by law, the Administrator, any member of the Board and any employee of an Employer shall not be liable to any person for any action taken or omitted in connection with the interpretation and administration of the Plan unless attributable to his own wilful misconduct or lack of good faith.

8.2 Claims Procedure. The Administrator shall be responsible for administering claims for Benefits under the Plan pursuant to the procedures contained in this Section 8.2. All communications from the Administrator to the claimant shall be written in a manner calculated to be understood by the claimant. All interpretations, determinations and decisions by the Administrator in respect of any matter hereunder will be final, conclusive, and binding upon the Employer, Participants, Eligible Employees, Employees, Beneficiaries, and all other persons claiming an interest in the Plan.

(a) Claim for Benefits. In the event that Benefits are not paid to a Participant (or to his Beneficiary in the case of the Participant's death) and such claimant believes he is entitled to receive Benefits, then a written claim must be made to the Administrator within 60 days from the date payments are refused. The Administrator will review the written claim, and if the claim is denied in whole or in part, the Administrator will provide in writing within 90 days of receipt of the claim the specific reasons for such denial, reference to the pertinent provisions of the Plan upon which the denial is based, and a description of any additional material or information necessary to perfect the claim. Such written notice will further indicate the additional steps to be taken by the claimant if a further review of the claim denial is desired, including a statement that the claimant may (i) request a review upon written application to the Administrator, (ii) review pertinent plan documents, and (iii) submit issues and comments in writing. If notice of the denial is not furnished in accordance with the above procedure, the claim shall be deemed denied and the claimant shall be permitted to proceed with the review procedure described in Section 8.2(b) below. A claim will be deemed denied if the Administrator fails to take any action within the said 90-day period.

(b) Request for Review. A request by the claimant for a review of the denied claim must be delivered to the Administrator within 60 days after receipt by such claimant of written notification of the denial of such claim (or the date that the claim is deemed denied). The Administrator shall, not later than 60 days after receipt of a request for a review, make a determination concerning the claim. A written statement stating the decision on review, the specific reasons for the decision, and the specific provisions of the Plan on which the decision is based shall be mailed or delivered to the claimant within such 60-day period. If the decision on review is not furnished within the appropriate time, the claim shall be deemed denied on review.

8.3 Cost of Administration. The cost of this Plan and the expenses of administering the Plan shall be paid by the Employer.

8.4 Limitations on Plan Administration. No person to whom discretionary authority is granted hereunder shall vote or act upon any matter involving his own rights, benefits or participation in the Plan.

ARTICLE IX

OTHER BENEFIT PLANS OF THE COMPANY

9.1 Other Plans. Nothing contained in this Plan shall prevent a Participant prior to his death, or his spouse or other Beneficiary after his death, from receiving, in addition to any payments provided for under this Plan, any payments provided for under any other plan or benefit program of the Company or an Affiliate, or which would otherwise be payable or distributable to him, his surviving spouse or Beneficiary under any plan or policy of the Company or otherwise. Nothing in this Plan shall be construed as preventing the Company or any of its Affiliates from establishing any other or different plans providing for current or deferred compensation for employees. Unless specifically provided otherwise in any plan of the Company intended to "qualify" under section 401 of the Code, Compensation deferrals made under this Plan shall constitute earnings or compensation for purposes of determining contributions or benefits under such qualified plan.

ARTICLE X

AMENDMENT AND TERMINATION OF THE PLAN

10.1 Amendment. The Board shall have the right to amend this Plan at any time and from time to time, including a retroactive amendment. Any such amendment shall become effective upon the date stated therein, and shall be binding on all Employers then participating in the Plan, except as otherwise provided in such amendment; provided, however, that no such action shall affect any Benefit adversely to which a Participant would be entitled had his employment been terminated immediately before such amendment was effective.

10.2 Termination. The Company has established this Plan with the bona fide intention and expectation that from year to year it will deem it advisable to continue it in effect. However, the Board, in its sole discretion, reserves the right to terminate the Plan in its entirety at any time; provided, however, that no such action shall affect any Benefit adversely to which a Participant would be entitled had his employment been terminated immediately before such termination was effective.

10.3 Continuation. The Company intends to continue this Plan indefinitely, but nevertheless assumes no contractual obligation beyond the promise to pay the benefits described in this Plan.

ARTICLE XI

MISCELLANEOUS

11.1 Rights Against Employer. The Plan shall not be deemed to be a consideration for, or an inducement for, the employment of any Employee by the Employer. Nothing contained in the Plan shall be deemed to give any Employee the right to be retained in the service of the Employer or to interfere with the right of the Employer to discharge any Employee at any time, without regard to the effect such discharge may have on any rights under the Plan.

11.2 Action Taken in Good Faith. To the extent permitted by ERISA, the Administrator and each employee, officer and director of an Affiliate who have duties and responsibilities with respect to the establishment or administration of the Plan shall be fully protected with respect to any action taken or omitted to be taken by them in good faith.

11.3 Indemnification of Employees and Directors. The Company hereby indemnifies the Administrator and each employee, officer and director of an Affiliate to whom responsibilities are delegated under the Plan against any and all liabilities and expenses, including attorney's fees, actually and reasonably incurred by them in connection with any threatened, pending or completed legal action or judicial or administrative proceeding to which they may be a party, or may be threatened to be made a party, by reason of any delegation of responsibilities hereunder, except with regard to any matters as to which they shall be adjudged in such action or proceeding to be liable for gross negligence or willful misconduct in connection therewith.

11.4 Severability. In the event that any provision of this Plan shall be declared illegal or invalid for any reason, said illegality or invalidity shall not affect the remaining provisions of this Plan but shall be fully severable and this Plan shall be construed and enforced as if said illegal or invalid provision had never been inserted herein.

IN WITNESS WHEREOF, the Company has executed this ENSCO Supplemental Executive Retirement Plan as of this 25th day of November, 1997.

ENSCO INTERNATIONAL INCORPORATED

By: /s/ William S. Chadwick, Jr.

Its: Vice President

FORM OF INDEMNITY AGREEMENT BETWEEN THE COMPANY AND ITS OFFICERS AND DIRECTORS

AGREEMENT, as of August 20, 1997, (the "Agreement"), between ENSCO International Incorporated, a Delaware corporation (the "Company"), and (the "Indemnitee").

WHEREAS, it is essential to the Company to retain and attract as directors, officers and employees the most capable persons available;

WHEREAS, both the Company and Indemnitee recognize the increased risk of litigation and other claims being asserted against directors, officers and employees of public companies in today's environment;

WHEREAS, the Bylaws of the Company require the Company to indemnify its directors, officers and employees to the fullest extent permitted by law;

WHEREAS, the Indemnitee has been serving and continues to serve as a director, officer or employee of the Company in part in reliance on such Bylaws; and

WHEREAS, in recognition of Indemnitee's need for substantial protection against personal liability in order to enhance Indemnitee's continued service to the Company in an effective manner and Indemnitee's reliance on the aforesaid Bylaws, and in part to provide Indemnitee with specific contractual assurance that the protection promised by such Bylaws will be available to Indemnitee (regardless of, among other things, any amendment to or revocation of such Bylaws or any change in the composition of the Company's Board of Directors or acquisition transaction relating to the Company), the Company wishes to provide in this Agreement for the indemnification of and the advancing of expenses to Indemnitee to the fullest extent permitted by law and as set forth in this Agreement, and, to the extent insurance is maintained, for the continued coverage of Indemnitee under the Company's directors' and officers' liability insurance policies.

NOW, THEREFORE, in consideration of the premises and of Indemnitee continuing to serve the Company directly or, at its request, with another enterprise, and intending to be legally bound hereby, the parties hereto agree as follows:

1. Certain Definitions:

(a) Change in Control: For purposes of this Agreement, a "Change in Control" shall mean any of the following events:

(i) An acquisition (other than directly from the Company) of any voting securities of the Company (the "Voting Securities") by any "Person" [as the term person is used for purposes of Section 13(d) or 14(d) of the Securities Exchange Act of 1934, as amended (the "1934 Act")] immediately after which such Person has "Beneficial Ownership" (within the meaning of Rule 13d-3

promulgated under the 1934 Act) of fifteen percent (15%) or more of the combined voting power of the Company's then outstanding Voting Securities; provided, however, that in determining whether a Change in Control has occurred, Voting Securities which are acquired in a "Non-Control Acquisition" (as hereinafter defined) shall not constitute an acquisition which would cause a Change in Control. A "Non-Control Acquisition" shall mean an acquisition by (1) an employee benefit plan (or a trust forming a part thereof) maintained by (x) the Company or (y) any corporation or other person of which a majority of its voting power or its equity securities or equity interest is owned directly or indirectly by the Company (a "Subsidiary"), (2) the Company or any Subsidiary, or (3) any Person in connection with a "Non-Control Transaction" (as hereinafter defined).

(ii) The individuals who, as of August 18, 1997, are members of the Board (the "Incumbent Board") cease for any reason to constitute at least two-thirds of the Board; provided, however, that if the election, or nomination for election by the Company's stockholders, of any new director was approved by a vote of at least two-thirds of the Incumbent Board, such new director shall, for purposes of this Agreement, be considered as a member of the Incumbent Board; provided further, however, that no individual shall be considered a member of the Incumbent Board if such individual initially assumed office as a result of either an actual or threatened "Election Contest" (as described in Rule 14a-11 promulgated under the 1934 Act) or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board (a "Proxy Contest") including by reason of any agreement intended to avoid or settle any Election Contest or Proxy Contest; or

(iii) Approval by stockholders of the Company of:

(A) a merger or consolidation involving the Company unless (1) the stockholders of the Company, immediately before such merger, consolidation or reorganization, own, directly or indirectly immediately following such merger, consolidation or reorganization, at least sixty percent (60%) of the combined voting power of the outstanding voting securities of the corporation resulting from such merger or consolidation or reorganization (the "Surviving Corporation") in substantially the same proportion as their ownership of the Voting Securities immediately before such merger, consolidation or reorganization, (2) the individuals who were members of the Incumbent Board immediately prior to the execution of the agreement providing for such merger, consolidation or reorganization constitute at least two-thirds of the members of the board of directors of the Surviving Corporation, and (3) no Person (other than the Company, any Subsidiary, any employee benefit plan (or any trust forming a part thereof) maintained by the Company, the Surviving Corporation or any Subsidiary, or any Person who, immediately prior to such merger, consolidation or reorganization had Beneficial Ownership of fifteen percent (15%) or more of the then outstanding Voting Securities) has Beneficial Ownership of fifteen percent (15%) or more of the combined voting power of the Surviving Corporation's then outstanding voting securities. A transaction described in clauses (1) through (3) shall herein be referred to as a "Non-Control Transaction;"

(B) A complete liquidation or dissolution of the Company; or

(C) An agreement for the sale or other disposition of all or substantially all of the assets of the Company to any Person (other than a transfer to a Subsidiary).

Notwithstanding the foregoing, a Change in Control shall not be deemed to occur solely because any Person (the "Subject Person") acquired Beneficial Ownership of more than the permitted amount of the outstanding Voting Securities as a result of the acquisition of Voting Securities by the Company which, by reducing the number of Voting Securities outstanding, increases the proportional number of shares Beneficially Owned by the Subject Person, provided that if a Change in Control would occur (but for the operation of this sentence) as a result of the acquisition of Voting Securities by the Company, and after such share acquisition by the Company, the Subject Person becomes the Beneficial Owner of any additional Voting Securities which increases the percentage of the then outstanding Voting Securities Beneficially Owned by the Subject Person, then a Change in Control shall occur.

(b) Claim: any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative or other, including, without limitation, an action by or in the right of any other corporation of any type or kind, domestic or foreign, or any partnership, joint venture, trust, employee benefit plan or other enterprise, whether predicated on foreign, federal, state or local law and whether formal or informal.

(c) Expenses: include attorney's fees and all other costs, charges and expenses paid or incurred in connection with investigating, defending, being a witness in or participating in (including on appeal), or preparing to defend, be a witness in or participate in any Claim relating to any Indemnifiable Event.

(d) Indemnifiable Event: any event or occurrence related to the fact that Indemnitee is or was or has agreed to become a director, officer, employee, agent or fiduciary of the Company, or is or was serving or has agreed to serve in any capacity, at the request of the Company, in any other corporation, partnership, joint venture, employee benefit plan, trust or other enterprise, or by reason of anything done or not done by Indemnitee in any such capacity.

(e) Potential Change of Control: shall be deemed to have occurred if

(i) the Company enters into an agreement or arrangement, the consummation of which would result in the occurrence of a Change in control; or

(ii) the Board adopts a resolution to the effect that, for purposes of this Agreement, a Potential Change in control has occurred.

(f) Voting Securities: any securities of the Company which vote generally in the election of directors.

2. Basic Indemnification Arrangement:

(a) In the event Indemnitee was, is or becomes a party to or witness or other participant in, or is threatened to be made a party to or witness or other participant in, a Claim by reason of (or arising in part out of) an Indemnifiable Event, the Company shall indemnify Indemnitee (without regard to the negligence or other fault of the Indemnitee) to the fullest extent permitted by applicable law, as soon as practicable but in no event later than thirty days after written demand is presented to the Company, against any and all Expenses, judgments, fines, penalties, excise taxes and amounts paid or to be paid in settlement (including all interest, assessments and other charges paid or payable in connection with or in respect of such Expenses, judgments, fines, penalties, excise taxes or amounts paid or to be paid in settlement) of such Claim. If Indemnitee makes a request to be indemnified under this Agreement, the Board of Directors (i) acting by a majority vote of the directors who are not parties to the Claim with respect to an Indemnifiable Event, even if less than a quorum, (ii) acting by a committee of such directors appointed by a majority vote of such directors, even if less than a quorum, or (iii) acting upon an opinion in writing of independent legal counsel, if there are no such directors of if such directors so direct ("Board Action") shall, as soon as practicable but in no event later than thirty days after such request, authorize such indemnification. Notwithstanding anything in the Amended and Restated Certificate of Incorporation of the Company (the "Certificate of Incorporation"), the Bylaws of the Company or this Agreement to the contrary, following a Change in Control, Indemnitee shall, unless prohibited by law, be entitled to indemnification pursuant to this Agreement in connection with any Claim initiated by Indemnitee.

(b) Notwithstanding anything in the Certificate of Incorporation, the Bylaws or this Agreement to the contrary, if so requested by Indemnitee, the Company shall advance (within two business days of such request) any and all Expenses relating to a Claim to Indemnitee (an "Expense Advance"), upon the receipt of a written undertaking by or on behalf of Indemnitee to repay such Expense Advance if a judgment or other final adjudication adverse to Indemnitee
(as to which all rights or appeal therefrom have been exhausted or lapsed) establishes that Indemnitee, with respect to such Claim, is not eligible for indemnification.

(c) Notwithstanding anything in the Certificate of Incorporation, the Bylaws or this Agreement to the contrary, if Indemnitee has commenced legal proceedings in a court of competent jurisdiction to secure a determination that Indemnitee should be indemnified under this Agreement, the Bylaws of the Company or applicable law, any Board Action or Arbitration (as defined in Section 3) that Indemnitee would not be permitted to be indemnified in accordance with
Section 2(a) of this Agreement shall not be binding. If there has been no Board Action or Arbitration, or if Board Action or Arbitration determines that Indemnitee would not be permitted to be indemnified, in any respect, in whole or in part, in accordance with Section 2(a) of this Agreement, Indemnitee shall have the right to commence litigation in the court which is hearing the action or proceeding relating to the Claim for which indemnification is sought or in any court in the States of Delaware or Texas having subject matter jurisdiction thereof and in which venue is proper seeking an initial determination by the court or challenging any such Board Action or Arbitration or any aspect thereof,

and the Company thereby consents to service of process and to appear in any such proceeding. Any Board Action not followed by Arbitration or such litigation, and any Arbitration not followed by such litigation, shall be conclusive and binding on the Company and Indemnitee.

3. Change in Control.

The Company agrees that if there is a Change in Control, Indemnitee, by giving written notice to the Company and the American Arbitration Association (the "Notice"), may require that any controversy or claim arising out of or relating to this Agreement, or the breach thereof, shall be settled by arbitration (the "Arbitration"), in Dallas, Texas, in accordance with the Rules of the American Arbitration Association (the "Rules"). The Arbitration shall be conducted by a panel of three arbitrators selected in accordance with the Rules within thirty days of delivery of the Notice. The decision of the panel shall be made as soon as practicable after the panel has been selected, and the parties agree to use their reasonable efforts to cause the panel to deliver its decision within ninety days of its selection. The Company shall pay all fees and expenses of the Arbitration. The Arbitration shall be conclusive and binding on the Company and Indemnitee, and Indemnitee may cause judgment upon the award rendered by the arbitrators to be entered in any court having jurisdiction thereof; provided, however, that any Arbitration shall have no effect on Indemnitee's right to commence litigation pursuant to Section 2(c) of this Agreement, in which case, such Arbitration shall not be conclusive and binding on Indemnitee or the Company.

4. Establishment of Trust.

In the event of a Potential Change in Control or a Change in Control, the Company shall, promptly upon written request by Indemnitee, create a Trust for the benefit of Indemnitee and from time to time, upon written request of Indemnitee to the Company, shall fund such Trust in an amount, as set forth in such request, sufficient to satisfy any and all Expenses reasonably anticipated at the time of each such request to be incurred in connection with investigating, preparing for and defending any claim relating to an Indemnifiable Event, and any and all judgments, fines, penalties and settlement amounts of any and all claims relating to an Indemnifiable Event from time to time actually paid or claimed, reasonably anticipated or proposed to be paid. The terms of the Trust shall provide that upon a Change in Control:

(i) the Trust shall not be revoked or the principal thereof invaded, without the written consent of Indemnitee;

(ii) the Trustee shall advance, within two business days of a request by Indemnitee, any and all Expenses to Indemnitee, not advanced directly by the Company to Indemnitee (and Indemnitee hereby agrees to reimburse the Trust under the circumstances under which Indemnitee would be required to reimburse the Company under Section 2(b) of this Agreement);

(iii) the Trust shall continue be to funded by the Company in accordance with the funding obligation set forth above;

(iv) the Trustee shall promptly pay to Indemnitee all amounts for which Indemnitee shall be entitled to indemnification pursuant to this Agreement or otherwise; and

(v) all unexpended funds in such Trust shall revert to the Company upon a final determination by Board Action or Arbitration or a court of competent jurisdiction, as the case may be, that Indemnitee has been fully indemnified under the terms of this Agreement. The Trustee shall be chosen by Indemnitee. Nothing in this Section 4 shall relieve the Company of any of its obligations under this Agreement.

5. Indemnification for Additional Expenses.

The Company shall indemnify Indemnitee against any and all expenses (including attorney's fees) and, if requested by Indemnitee, shall (within two business days of such request) advance such expenses to Indemnitee, which are incurred by Indemnitee in connection with any claim asserted by or action brought by Indemnitee for:

(i) indemnification or advance payment of Expenses by the Company under this Agreement or any other agreement or Company Bylaw now or hereafter in effect relating to Claims for Indemnifiable Events and/or

(ii) recovery under any directors' and officers' liability insurance policies maintained by the Company, regardless of whether Indemnitee ultimately is determined to be entitled to such indemnification, advance expense payment or insurance recovery, as the case may be.

6. Partial Indemnity, Etc.

If Indemnitee is entitled, under any provisions of this Agreement to indemnification by the Company for some or a portion of the Expenses, judgments, fines, penalties, excise taxes and amounts paid or to be paid in settlement of a Claim but not, however, for all of the total amount thereof, the Company shall nevertheless indemnify Indemnitee for the portion thereof to which Indemnitee is entitled. Moreover, notwithstanding any other provision of this Agreement, to the extent that Indemnitee has been successful on the merits or otherwise in defense of any or all Claims relating in whole or in part to an Indemnifiable Event or in defense of any issue or matter therein, including, without limitation, dismissal without prejudice, Indemnitee shall be indemnified against any and all Expenses, judgments, fines, penalties, excise taxes and amounts paid or to be paid in settlement of such Claim. In connection with any determination by Board Action, Arbitration or a court of competent jurisdiction that Indemnitee is not entitled to be indemnified hereunder, the burden of proof shall be on the Company to establish that Indemnitee is not so entitled.

7. No Presumption.

For purposes of this Agreement, the termination of any claim, action, suit or proceeding, by judgment, order, settlement (whether with or without court approval) or conviction, or upon a plea of nolo contendere, or its equivalent, shall not create a presumption that Indemnitee did not meet any particular standard of conduct or have any particular belief or that a court has determined that indemnification is not permitted by applicable law or this Agreement.

8. Contribution.

In the event that the indemnification provided for in this Agreement is unavailable to Indemnitee for any reason whatsoever, the Company, in lieu of indemnifying Indemnitee, shall contribute to the amount incurred by Indemnitee, whether for judgments, fines, penalties, excise taxes, amounts paid or to be paid in settlement and/or for Expenses, in connection with any Claim relating to an Indemnifiable Event, in such proportion as is deemed fair and reasonable in light of all of the circumstances of such action by Board Action or Arbitration or by the court before which such action was brought in order to reflect:

(i) the relative benefits received by the Company and Indemnitee as a result of the event(s) and/or transactions(s) giving cause to such action; and/or

(ii) the relative fault of the Company (and its other directors, officers, employees and agents) and Indemnitee in connection with such event(s) and/or transaction(s). Indemnitee's right to contribution under this Section 8 shall be determined in accordance with, pursuant to and in the same manner as, the provisions in Sections 2 and 3 hereof relating to Indemnitee's right to indemnification under this Agreement.

9. Notice to the Company by Indemnitee.

Indemnitee agrees to promptly notify the Company in writing upon being served with or having actual knowledge of any citation, summons, complaint, indictment or any other similar document relating to any action which may result in a claim of indemnification or contribution hereunder.

10. Non-exclusivity, Etc.

The rights of the Indemnitee hereunder shall be in addition to any other rights Indemnitee may have under the Company's Certificate of Incorporation or Bylaws or the Delaware General Corporation Law or otherwise, and nothing herein shall be deemed to diminish or otherwise restrict Indemnitee's right to indemnification under any such other provision. To the extent applicable law or the Certificate of Incorporation or the Bylaws of Company, as in effect on the date hereof or at any time in the future, permit greater indemnification than as provided for in this Agreement, the parties

hereto agree that Indemnitee shall enjoy by this Agreement the greater benefits so afforded by such law or provision of the Certificate of Incorporation or Bylaws and this Agreement shall be deemed amended without any further action by the Company or Indemnitee to grant such greater benefits. Indemnitee may elect to have Indemnitee's rights hereunder interpreted on the basis of applicable law in effect at the time of execution of this Agreement, at the time of the occurrence of the Indemnifiable Event giving rise to a Claim or at the time indemnification is sought.

11. Liability Insurance.

To the extent the Company maintains at any time an insurance policy or policies providing directors' and officers' liability insurance, Indemnitee shall be covered by such policy or policies, in accordance with its or their terms, to the maximum extent of the coverage available for any other Company director or officer under such insurance policy. The purchase and maintenance of such insurance shall not in any way limit or affect the rights and obligations of the parties hereto, and the execution and delivery of this Agreement shall not in any way be construed to limit or affect the rights and obligations of the Company and/or of the other parties under any such insurance policy.

12. Period of Limitations.

No legal action shall be brought and no cause of action shall be asserted by or on behalf of the Company or any affiliate of the Company against Indemnitee, Indemnitee's spouse, heirs, executors or personal or legal representatives after the expiration of two years from the date of accrual of such cause of action, and any claim or cause of action of the Company or its affiliate shall be extinguished and deemed released unless asserted by the timely filing of a legal action within such two-year period; provided, however, that if any shorter period of limitations is otherwise applicable to any such cause of action such shorter period shall govern.

13. Amendments, Etc.

No supplement, modification or amendment of this Agreement shall be binding unless executed in writing by both of the parties hereto. No waiver of any of the provisions of this Agreement shall be deemed or shall constitute a waiver of any other provisions hereof (whether or not similar) nor shall such waiver constitute a continuing waiver.

14. Subrogation.

In the event of payment under this Agreement, the Company shall be subrogated to the extent of such payment to all of the rights of recovery with respect to such payment of Indemnitee, who shall execute all papers required and shall do everything that may be necessary to secure such rights, including the execution of such documents necessary to enable the Company effectively to bring suit to enforce such rights.

15. No-Duplication of Payments.

The Company shall not be liable under this Agreement to make any payment in connection with any claim made against Indemnitee to the extent Indemnitee has otherwise actually received payment (under any insurance policy, Bylaw or otherwise) of the amounts otherwise Indemnifiable hereunder.

16. Binding Effect, Etc.

This Agreement shall be binding upon and inure to the benefit of and be enforceable against and by the parties hereto and their respective successors, assigns (including any direct or indirect successor by purchase, merger, consolidation or otherwise to all of substantially all of the business and/or assets of the Company), spouses, heirs and personal and legal representatives. The Company shall require and cause any successor (whether direct or indirect by purchase, merger, consolidation or otherwise) to all, substantially all, or a substantial part of the business and/or assets of the Company, by written agreement in form and substance satisfactory to Indemnitee, expressly to assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform if no such succession had taken place. This Agreement shall continue in effect regardless of whether Indemnitee continues to serve as a director and/or officer of the Company or of any other enterprise at the Company's request.

17. Severability.

The provisions of this Agreement shall be severable in the event that any of the provisions thereof (including any provision within a single section, paragraph or sentence) are held by a court of competent jurisdiction to be invalid, void or otherwise unenforceable, and the remaining provisions shall remain enforceable to the fullest extent permitted by law.

18. Notices.

All notices, requests, demands and other communications required or permitted hereunder shall be in writing and shall be deemed to have been duly given when delivered by hand or when mailed by certified registered mail, return receipt requested, with postage prepaid:

A. If to Indemnitee, to: , 1445 Ross Avenue, Suite 2700, Dallas, Texas 75202, or to such other person or address which Indemnitee shall furnish to the Company in writing pursuant to the above.

B. If to the Company, to: ENSCO International Incorporated, 1445 Ross Avenue, Suite 2700, Dallas, Texas 75202, Attention: Corporate Secretary or to such person or address as the Company shall furnish to Indemnitee in writing pursuant to the above.

19. Governing Law. This Agreement shall be governed by and construed and enforced in accordance with the laws of the State of Delaware applicable to contracts made and to be performed in such State without giving effect to the principles of conflicts of laws.

IN WITNESS WHEREOF, the parties hereto have duly executed and delivered this Agreement as of the 20th day of August, 1997.

COMPANY

ENSCO International Incorporated

By:

Name: William S. Chadwick, Jr.

Title: Secretary

INDEMNITEE

By

Name:

SUBSIDIARIES OF THE REGISTRANT

The following list sets forth the name and jurisdiction of incorporation of each subsidiary of the Registrant (other than certain subsidiaries that, considered in the aggregate as a single subsidiary, would not constitute a significant subsidiary) and the percentage of voting securities owned by each subsidiary's immediate parent. Each such subsidiary is included in the Consolidated Financial Statements.

	Percentage of Voting Securities Owned by Registrant	Percentage of Voting Securities Owned by Immediate Parent
ENSCO Drilling Company (Delaware)	100%	
ENSCO Drilling (Caribbean), Inc. (Cayman Islands)		85%
ENSCO Drilling Venezuela, Inc. (Cayman Islands)		100%
ENSCO Engineering Company (Delaware)	100%	
ENSCO Holding Corporation (Delaware)		100%
ENSCO Delaware, Inc. (Delaware)		100%
ENSCO Offshore Company (Delaware)		100%
ENSCO Offshore U.K. Limited (U.K.)		100%
ENSCO Australia Corporation I (Delaware)		100%
ENSCO Offshore Partnership (Australia)		1%
ENSCO Australia Corporation II (Delaware)		100%
ENSCO Offshore Partnership (Australia)		99%
ENSCO Incorporated (Texas)	100%	
ENSCO Limited (Cayman Islands)	100%	
ENSCO Marine Company (Delaware)	100%	
ENSCO Oceanics Company (Delaware)	100%	
ENSCO Netherlands Ltd. (Cayman Islands)		100%
ENSCO Asia Pacific PTE. Limited (Singapore)		100%
Petroleum Finance Corporation (Cayman Islands)		100%
ENSCO Brazil Servicos de Petroleo Limitada (Brazil)	99%	
ENSCO Drilling Company (Nigeria), Ltd. (Nigeria)		99%
ENSCO Acquisition Company (Delaware)	100%	
Dual Holding Company (Delaware)	100%	
ENSCO Offshore Company II (Delaware)		100%
ENSCO Qatar Company (Delaware)		100%
ENSCO Oceanics Company II (Delaware)		100%
ENSCO Maritime Limited (Bermuda)		100%
Dual Drilling Arabia, Ltd. (Saudi Arabia)		50%
ENSCO Asia Company (Texas)		100%
P. T. Dual Perkasa Offshore (Indonesia)		80%
Sociedada Brasiliero de Perfuacoes (Brazil)		99%
ENSCO Platform Company (Texas)		100%
Dual Drilling Nigeria Ltd.(Nigeria)		100%
Dual Drilling de Venezuela (Venezuela)		100%
ENSCO Platform AS (Norway)		100%
ENSCO Malaysia Company (Delaware)		100%
Sime ENSCO Sdn. Bhd.(Malaysia)		49%
Sime Dual Drilling Ltd.(Bermuda)		100%

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in the Prospectuses constituting parts of the Registration Statements on Form S-3 (Nos. 333-37897, 333-03575, 33-64642, 33-49590, 33-46500, 33-43756 and 33-42965), and any existing amendments thereto, and Form S-8 (Nos. 33-40282, 33-41294, 33-35862, 33-32447 and 33-14714) of ENSCO International Incorporated of our report for ENSCO International Incorporated dated January 28, 1998 as referenced by Item 14(a) of this Form 10-K.

/s/ PRICE WATERHOUSE LLP

Price Waterhouse LLP

Dallas, Texas
February 24, 1998