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PACD - Q3 2013 Pacific Drilling SA Earnings Conference Call

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PRESENTATION

Operator

Good day and welcome to the Pacific Drilling Services third quarter 2013 results conference call. Today's conference is being recorded. At this time I would like to turn the conference over to the Vice President of Investor Relations, Amy Roddy. You may begin.

Amy Roddy - *Pacific Drilling S.A. - VP of IR*

Thank you, Aaron and welcome everyone to Pacific Drilling's third quarter 2013 earnings conference call. Joining me on this morning's call are Chris Beckett, our CEO, and William Restrepo, CFO.

Before I turn the call over to Chris I would like to remind everyone that any statements we make about our plans, expectations, estimates, predictions or other statements about the future, including but not limited to, those concerning future financial and operating performance, contract commencement dates and durations, revenue efficiency, operating costs, contract backlog, day rate, rig downtime, market outlook, options and extensions, new build delivery costs and dates, capital expenditures and plans and objectives of management for future operations are all forward-looking statements.

These statements are not guarantees of future performance and are subject to risks and uncertainties. Our filings with the US Securities and Exchange Commission, which are posted on our website and the SEC's website discuss the risks and uncertainties in our business and industry, and other factors which could prevent us from realizing the outcome of any forward-looking statement. Our actual results could differ materially from any forward-looking statements made during this conference call.

Also note that we reference non-GAAP financial measures during this call. You will find the required supplemental disclosures for these measures, including the most likely comparable GAAP measures and associated reconciliation in our results press release which is available on our website. I will now turn the call over to Chris Beckett, Chief Executive Officer of Pacific Drilling.

Chris Beckett - *Pacific Drilling S.A. - CEO*

Good morning, thank you, Amy, and thanks, everyone for joining us. I'm very proud to sit here today and report on our results for the quarter. Obviously we're very pleased with the financial results and I'm going to let William expand upon that in a few minutes. But I would like to start with an overview of our outstanding operational performance and some of the drivers behind that. I will also talk about the status of the new build



market and our new build rigs, and in particular the Pacific Khamsin, and then I would like to conclude with a discussion on the markets and our contracting activities.

Turning to operations for the fourth consecutive quarter we've reported exceptional and improving operational performance. The revenue for the quarter was \$193.2 million which represents a revenue efficiency of 96.9%. This is a result of our strategic focus on operational excellence in the ultra deep water market using the most modern assets. We believe it's the result of the industry's leading combination of operational up time and cost control.

And we've achieved that with very safe operations. We have had no lost time incident on any rig during the quarter and the entire fleet has now operated for more than a year without an LTI, In fact, the Pacific Bora has now exceeded 1,000 days without an LTI, so we're very proud of the guys' performance there.

We are particularly proud that the entire fleet are amongst the highest performing, if not the highest performing, rigs in each of their respective clients' fleets. I think we are building the reputation that we target to be the preferred ultra deep water driller.

This success has been achieved through our continual emphasis on operational excellence, and in particular, our focus on a religious adherence to preventative maintenance, a strong focus on employee training and best practice sharing across the fleets, excellent procurement and supply chain execution, and an attention to detail from all levels of the organization from senior management down. All of these are easier to achieve and really represent the benefit of the uniformity and focus of our fleet on the ultra deep water.

Turning to our new builds, the industry has obviously been very challenged by supply chain limitations and especially in the subsea and drilling systems and we're not immune. But we have taken some very specific steps to minimize the impacts. Firstly, and perhaps most importantly, I think we have very strong relationships with our vendors and that allows us to get better service quality and performance from them than is the norm.

We've instituted a 24/7 oversight of our subsea equipment manufacturing construction from some of the best experts in the industry. And we have enhanced our delivery criteria and quality assurance in the yard to ensure that our rigs are fully completed and tested before delivery.

I think the Pacific Khamsin gives a great example of how our approach is benefiting us. The rig was delivered on August 31st, on budget, and it is scheduled to arrive in Nigeria tomorrow. That means we expect contract start up within 90 days of delivery. That's essentially better than our earlier new build deliveries and I think substantially better than the industry norm.

The biggest challenge in the shipyard is on commissioning these ever more complex drilling systems. In the case of the Pacific Sharav, this process will take over 200 days versus 100 days on some of our earlier rigs. That's because our latest new builds have some of the most advanced control systems ever delivered. And both the shipyards and the equipment manufacturers have got learning curves to support these commissioning challenges, which they are struggling with, but I believe they're getting a good grasp on it and we expect the commissioning period to revert to about 100 days on a go forward basis.

In the case of Sharav we expect delivery in late Q1 next year which represents about a quarter delay over our original plan, but it's already been addressed with the client and doesn't create a risk to the contract. In the case of Pacific Meltem, the construction progresses on target, we're expecting delivery in late in the second quarter of 2014, and we're applying all the lessons learned from the earlier deliveries to ensure that we've achieved first revenue as soon as possible after delivery. Pacific Zonda has only just cut steel last month, so it's a bit premature to forecast any sort of delivery dates, other than the contracted date.

Turning to the market. As we predicted for some time our customers continue to demonstrate their preference for the newest and most capable assets. We are very pleased to see the market develop in a way that's consistent with our strategy and vision when we started Pacific drilling.

Derrick bifurcation has become more pronounced through the year with derricks and modern high-spec assets stable in the high \$500,000 to low \$600,000 a day range, and rigs as new as 10 years old are being replaced by these newer assets. We believe this trend will continue to persist through 2014 and beyond. We continue to see demand for modern ultra deep water drillships exceed forecast supply over the next several years.



We are seeing continued strong tendering in the third quarter, we have 32 ultra deep water rig years of contract awards, and we expect multiple contract awards in the fourth quarter. With that backdrop, we are finalizing the contract extension on the Pacific Bora. And expect to be able to announce details fairly shortly and we expect that to be a two-year extension.

We are continuing discussions regarding the extension of the Pacific Mistral with Petrobras. And that extension is likely to include upgrades to modify the rig to be able to perform managed pressure drilling. We consider this very much consistent with our strategy to implement leading edge technologies where it adds capabilities to our rigs or the value bar climbs.

And we're further advancing our negotiations on the Pacific Meltem, which is one of the few remaining new builds with 2014 availability. We are very comfortable with the opportunities available to us. This is one of the highest spec rigs ever built and we are sure we will achieve a significantly attractive day rate.

To wrap up, I'd say I'm very proud of what the Pacific drilling team has achieved this last quarter and our continued improvement in operating performance. This isn't an easy business but we are showing what's possible. The performance levels are already industry-leading but we can do better. And I think that opportunity to enhance our performance and our financial results further will become evident as we deliver the next three rigs over the next year and a half.

We will continue to focus on the challenges ahead on leading the industry in execution. Now I'm going to turn it over to William to discuss the financial details.

William Restrepo - Pacific Drilling S.A. - CFO

Thank you, Chris. Good morning, everyone.

As Chris mentioned, our fleet delivered a fourth consecutive quarter of strong operating performance with our highest ever revenue efficiency and the lowest ever rig operating expenses per day. As a result, our third quarter net income reached \$30.3 million or \$0.14 per diluted share. This represented a 44% increase over the second quarter's net income, before charges related to our June 3rd debt refinancing.

Contract billing revenue for the third quarter was \$193.2 million as compared to \$176.8 million during the second quarter. Revenue efficiency for the quarter was 96.9%, significant improvement over the prior quarter efficiency of 90.2%. The sharp increase in revenue efficiency was primarily the result of strong operational uptime driven by subsea equipment reliability and by a generally low incidence of equipment breakdowns. These trends indicate that we begin to experience the benefits of our preventative maintenance and employee training programs.

During the quarter we also experienced limited periods of reduced day rate attributable to standby or mobile times. Contract drilling expenses for the third quarter were \$82.7 million as compared to \$79.5 million for the second quarter. The sequential increase was primarily the result of higher reimbursable expenses which are recharged to our customers and thus have limited impact on our margins.

Additionally our shore-based and support costs increased by \$700,000 as compared to the prior quarter. The majority of these costs related to onshore resources added to our Nigerian operation intended to support the arrival of the Khamsin. And to increased overall technical support in anticipation of the addition of three more rigs to our operating fleet over the next 12 months.

Rig related OpEx, excluding reimbursable costs, averaged \$163,400 per day in the third quarter. A slight reduction as compared to the \$164,000 for the prior quarter. Our operating expenses continued to come in at the lower expectations as equipment repair costs have fallen versus prior quarters. As with our revenues, our operating expenses have benefited from our sustained focus on maintenance and employee training programs.

General and administrative expenses for the third quarter were \$13.1 million as compared to \$11.6 million in the second quarter. As we noted in last quarter's call, this planned gradual strengthening of our corporate structure takes us closer to the target level we believe is required to manage our expanding fleet.



EBITDA for the third quarter was \$96.6 million as compared to \$85.5 million in the second quarter. After adjusting for costs related to our June 3rd refinancing transaction. Our EBITDA margins in the third quarter reached 50%.

As we've mentioned before, we consider this an important metric of operational performance as it measures the combined effect of day rates, operational uptime and operating cost management. Our objective is to continue improving this metric from 2014 onwards as we bring new rigs online with day rates that have benefited from the stronger environment, as we reprice our currently operating drillships to the market, and as we benefit from more efficient use of our fixed cost structure by doubling the size of our operating fleet.

I will now turn to our financing and capital investment programs. Interest expense for the third quarter was \$23.8 million as compared to \$21.7 million for the second quarter. The increase reflected higher average debt for the third quarter as a result of incremental liquidity from our June 3rd debt refinancing. Cash flow from operations for the quarter reached \$87.3 million and strong financial results and improved customer collections.

We continue to work closely with our high credit quality customers to improve approval and payment processes ensuring we minimize the working capital required to support our operations. As such, to date, we are able to finance pre-delivery construction payments on the Sharav and Meltem using cash flow from operations rather than drawing down on our \$1 billion senior secured credit facility as we had initially forecast. At this point, we expect the main draw downs in our facility to occur closer to the 2014 delivery dates for Pacific Sharav and Pacific Meltem.

During the third quarter we invested \$555 million in our fleet, of which \$506 million related to the construction of our new build drillships, including payment for delivery of Pacific Khamsin. Capitalized interest was \$18 million. The remaining expenditures primarily related to fleet spares, including payments on additional subsea equipment capacity, which we announced previously, as well as contractually required upgrades on our operating rigs that are substantially reimbursed by our customers. The remaining capital expenditures required to complete construction of our three new build drillships and develop spare subsea equipment and riser capacity is estimated at approximately \$1.5 billion, excluding capitalized interest and client reimbursed asset upgrades.

Finally, we reiterate our guidance range for full-year 2013 revenue efficiency at 91% to 94%. And have updated guidance on certain expenses as a result of our lower than expected costs year to date. The updated guidance was included in our November 6th earnings press release and is posted on our website.

Our revenue efficiency guidance includes an assumption of Pacific Khamsin contract commencement on December 1, 2013. Our guidance is also reflective of the initial stages of Pacific Khamsin's shakedown process during which we expect its revenue efficiency to lag that of our currently operating rigs and its operating expenses to exceed those of our other rigs in Nigeria by approximately \$20,000 per day. As we previously stated we expect an average revenue efficiency of 90% during the rig's first six months of operations.

Additionally, our guidance includes planned downtime of five days on Pacific Mistral for unpaid BOP maintenance between wells. We have also updated our investor toolkit to reflect our current expectations of new build delivery and startup. It's important to note that for the fourth quarter we show an increase compared to the third quarter for amortization of deferred revenue and deferred costs, as well as higher depreciation and interest expense as a result of Pacific Khamsin's contract commencement. The investor toolkit is posted on our website under investor relations. With that I will turn the call back to Amy.

Amy Roddy - Pacific Drilling S.A. - VP of IR

Thank you, William. Aaron, we are now ready to begin the question-and-answer portion of the call.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)



Dave Wilson.

Dave Wilson - *Howard Weil Incorporated - Analyst*

Thanks for taking my questions. William, given where we are in the budgeting season for next year, I know it might be a little bit early to ask, but on the cost front, is there anything we should be considering as far as some down time for equipment upgrades or something like that, anything identifiable that we should be considering when looking at 2014?

William Restrepo - *Pacific Drilling S.A. - CFO*

Not at this point, Dave. I think the biggest factor that we will see that will affect efficiency and costs is we will be introducing two more rigs next year. We have been getting better at doing that so we tend to fully apply the lessons learned not only to the Khamsin, but to the Sharav and the Meltem which will be introduced into our fleet next year.

Dave Wilson - *Howard Weil Incorporated - Analyst*

Okay. And Chris a follow-up for you, you have a slide in your deck, the bar chart showing the ultra deep water demand expecting to exceed supply in 2014, 2015, and you mentioned in the press release, so I sense some confidence there, but has anything changed in your views on these supply demand dynamics over the past month or so. I'm guessing I'm really asking on the demand side, and has there been any developments one way or the other that has change your view, even at the margin about the level of demand?

Chris Beckett - *Pacific Drilling S.A. - CEO*

Not really. I think that the fundamentals continue to be extremely strong. There was an interesting report that they put together with a set of reasoning as to why they think the market is going to be extremely strong. I think that that analysis, whether you agree with all of the timing in it, is broadly correct. In other words the market is more than capable of absorbing every new build that is under construction in fairly short order after delivery, so we're extremely confident still on the state of the market.

I think that many or most of the new builds that are to be delivered next year are already spoken for one way or another and I think we continue to see a fairly strong market, at least for the new deliveries well into the future. Obviously the question of bifurcation and how far it goes is one that's going to be on everyone's mind, but obviously from our standpoint it's less influential. We see no reason for day rates to deviate from the current stability for new build assets.

Dave Wilson - *Howard Weil Incorporated - Analyst*

Sure. Great. Thanks for that update, Chris and I will turn the call back over. Thanks a lot.

Chris Beckett - *Pacific Drilling S.A. - CEO*

Thanks.

Operator

Darren Hicks.



Darren Hicks - *Evercore Partners - Analyst*

You mentioned in your prepared remarks that operationally you are doing great but you can do better. Where would you say you have the most opportunity? Is it on the revenue side with even better efficiency or would you say it's on the cost side with controlling the cost structure even more? And also with respect to costs, on the last couple of quarters operating costs have been down year over year. Would you attribute that downside to company specific initiatives or would you say the overall market trend has come slightly down?

Chris Beckett - *Pacific Drilling S.A. - CEO*

Let's talk about the revenue side first. I think the simple answer is we think we can do better on the margin on both revenue capture and cost control. I think we are doing extremely well and I think the guys in the field have really been working on this. But we would like to get to the point where we consistently deliver average revenue efficiency on operating rigs in excess of 95% and we are, obviously we managed to exceed that in the third quarter. But I think there's room for us to, when I say better expected than year to date if you like, so there's a little bit of room for continued improvement there and that's about making sure that we don't have any unplanned events.

On the cost side, I think that we've got a very good grasp on things today. I think as we add more rigs to the fleet you will see some incremental benefits from sharing the overhead structure and the fixed cost structure that we have across the fleet so that the effective impact of those fixed costs is lower per rig, and so that's one area where I think we can see some improvements. And frankly the more you use these rigs and you get the experience and the teams operating them, and as we introduce new rigs and they go through the start up and shakedown periods, their performance will improve as well, so I think it's a little bit on both sides. I think it's a marginal improvement at this point, we're not talking wholesale changes, because frankly, we're pretty close to the top already, but maintaining that for an extended period. One quarter we're very proud of that, we want to be able to deliver that same level of performance quarter on quarter.

Darren Hicks - *Evercore Partners - Analyst*

Okay. Thanks.

William Restrepo - *Pacific Drilling S.A. - CFO*

I will make a quick comment on that as well. We have placed two more rigs at market day rates, of course the initial four rigs were all contracted during the bottom of the cycle and those are going to be repricing in the future. We will see the other component of performance and EBITDA margins is the average day rate, and that will certainly go up over the quarters to come. Also Chris and the marketing team and our operations team have been working very hard modifying certain conditions in some of our contracts, which again, will improve our chances of capturing most of our day rate through better maintenance policies and so forth. So we won't stop, there's still lots of areas for improvement, we'll start looking at all the superfluous costs that we have out there as well to try to eliminate those.

Darren Hicks - *Evercore Partners - Analyst*

Understood. And if I could just ask one more follow-up question. Your interest expense guidance move somewhat meaningfully since last quarter, and I think William touched on it a little bit, but could you talk about what specifically drove the changes and if there is a chance that the guidance can move the other way in future quarters?

William Restrepo - *Pacific Drilling S.A. - CFO*

(laughter) There's always a chance, Darren of course. The guidance can go either way. But what we expect today is that given the strength of our results, which really are resulting in higher cash flow from operations, and the fact that we have been better at reducing our receivables on the balance sheet, and our days sales outstanding, we generated more cash than we anticipated, and therefore we have been able to avoid increasing



our debt as we had forecast initially. We will continue to work hard to maintain those, that level of success so we minimize the amount of debt. I can't give you at this point a prediction of whether we will be better or worse, but we will certainly work to make interest expense lower than what we have forecast and our debt lower than we have forecast.

Darren Hicks - *Evercore Partners - Analyst*

Very helpful. Thanks a lot, guys.

Operator

Lukas Daul.

Lukas Daul - *SEB Enskilda Inc. - Analyst*

Thank you, good evening, guys. Congrats on a good quarter.

Chris Beckett - *Pacific Drilling S.A. - CEO*

Thank you.

Lukas Daul - *SEB Enskilda Inc. - Analyst*

Wanted to touch up on the Bora extension that you sort of talked about in your prepared comments. Is that a contract which is, is there sort of an extension of the contract or are you negotiating a brand-new contract? I'm thinking more of the contractual provisions which was a big theme even for you a couple of quarters back.

Chris Beckett - *Pacific Drilling S.A. - CEO*

Lukas, it's obviously the exercise of an option against the original contract. We do have the opportunity to both reprice and adjust some of the terms, and what we are looking to do is move that contract, which was obviously one of the first contract we signed under the existing master agreement that we have in place and we'll be able to give you some more details hopefully in a couple of weeks. But we wanted to save that until we are sure that the client is comfortable and has all of their ducks lined up, but I think we're, let me put it this way, we are extremely comfortable with where we think that process is going to end?

Lukas Daul - *SEB Enskilda Inc. - Analyst*

And are you getting, are you sort of getting your way also on the extensions being negotiated with Petrobras? Or is there more of a hard not?

Chris Beckett - *Pacific Drilling S.A. - CEO*

I'm not sure you ever get your way with Petrobras. We are, obviously that's been an ongoing discussion for an extended period, and the reason it's taken a long time is because both sides have fairly strong views on what they want to achieve out of that contact and we continue to progress in trying to close the gaps. But I certainly wouldn't describe it as getting our way. Frankly, I don't think we get our way with any of our clients, but we do expect to get some improvement.



Lukas Daul - *SEB Enskilda Inc. - Analyst*

Okay. And then you have a very confident view, which is sort of justified by the quality of your fleet on the utilization going forward, but I'm wondering if, do see sort of an inflection point in day rates where pricing could become more of a sort of a theme for oil companies when deciding what assets to go for? Or is it just so technically different 5G and 6G that it's not really the same competition?

Chris Beckett - *Pacific Drilling S.A. - CEO*

Yes, I think what you see through every cycle, and frankly the market's been behaving as if it's not cyclic for the last 18 months. We've been very fairly stable at these very attractive high fives, low six rates. But if you consider this to be a high point in the cycle, what you tend to find is at the peak of the cycle everything rises to the top.

Once the new builds or the latest, most capable rigs sellout, then the less capable rigs are able to demand high rates, and as the market moves forward, and more new builds are introduced, you'll see some of the weaker rigs having to moderate their day rates in order to secure work. But I think in the eyes of most of the clients there are sufficient technical differentiations between the sixth and seventh gens and any previous generation rigs, that they clearly have a willingness to pay more in the form of day rates because they get more in the form of efficiency and drilling the well and frankly, quality of the well bore delivered. There is a fundamental technical benefit to the latest generation of rigs with off-line handling and other efficiency improvements that the clients are clearly recognize now and are willing to pay for and I think you will continue to see a gap that's driven by that on a go forward basis.

Lukas Daul - *SEB Enskilda Inc. - Analyst*

Okay. Very helpful. Thank you, guys.

William Restrepo - *Pacific Drilling S.A. - CFO*

Thank you.

Operator

J.B. Lowe.

J.B. Lowe - *Cowen and Company - Analyst*

Sorry if you guys touched on this earlier, but given your outlook into the supply demand scenario in the ultra deep sector going forward, have you guys been trying to press day rates a little bit higher? And if so, how are your clients kind of coming back to you? Do they see this -- if they see the same sort of supply demand situation that you do, are they getting more, are they speeding up their process to try to sign up your rigs? I guess my question is, we've seen some flat day rates over the past year or so, do you see the risk more to the upside given your supply demand outlook?

Chris Beckett - *Pacific Drilling S.A. - CEO*

I think the fundamentals would suggest that there may be room for some pricing increase but I think the reality of where the market discussions are today is we see the current rate structure remaining consistent certainly for the next 12 months or so. I think we are seeing some plants accelerate their market inquiry process to sort of make commitments, or at least explore market opportunities in advance of the confirmed sanctioning of those requirements, which is typically driven by a fear of not being able to get a rig if they wait until after they have got everything signed up. We are seeing a little bit of that, we're seeing clients inquiring about rigs that they're not yet ready to commit to because they haven't sanctioned the

projects where they used them, but where they want to get all the paper done ahead of time, or the process done ahead of time so that they can act quickly when it happens. So I think the fundamental dynamics are still very positive.

I don't think we're going to see any big steps forward in terms of increased day rate over the next 12 months or so, but I think the delivery profile for new rigs added to the fleet is fairly well set for the next couple of years, so the supply side is pretty well fixed. The demand side is very much in the hands of the clients and how fast they want to develop some of these projects. I think there's been a lot of exploration success that's going to lead to development work going forward, and that's what gives us a great deal of comfort that the mid to longer term viability of the market is strong. We will have to see whether that leads to an ability to increase our day rates going forward but I've got to be honest, at \$600,000 a day rate we are making extremely attractive returns and we don't need to push rates very hard.

J.B. Lowe - *Cowen and Company - Analyst*

Okay. Fair enough. And just one other one. Outlook for initiating a dividend, and I'm sorry again if you guys already mentioned this, but are you guys looking for, first of all, is that in the plans? And second, when would you look to initiate one if you were to do that?

Chris Beckett - *Pacific Drilling S.A. - CEO*

Yes, J.B., we have in fact come out and said that we intend to initiate dividends during 2015. Of course those discussions are ongoing with the board and the board is behind -- certainly behind initiating dividends and have given us a green light to communicate that to investors. The process as I would expect it would be that we will finalize the size of the dividends and the specific timing and the formula for how we would go forward in terms of growth of that dividend with the board in the next few months, and then around our shareholder meeting we would ask for approval of shareholders for that policy to be implemented. So that's what I would expect the timing to be going forward.

J.B. Lowe - *Cowen and Company - Analyst*

Okay. Great. And any sort of target metric you guys think you're going to use as to the level of the dividend?

Chris Beckett - *Pacific Drilling S.A. - CEO*

We have some in mind, but obviously that requires board approval and we're not ready to share with our investors yet.

J.B. Lowe - *Cowen and Company - Analyst*

Okay. Fair enough. Thanks so much.

Chris Beckett - *Pacific Drilling S.A. - CEO*

Thanks.

Operator

Andreas Stubrud.



Andreas Stubsrud - *Pareto/Nordic Partners - Analyst*

Good afternoon from Norway, here. First of all, you said something, Chris, about Mistral and maybe some upgrades to managed pressure drilling. Does this mean the shipyard stay and some investments or did I misunderstand you?

Chris Beckett - *Pacific Drilling S.A. - CEO*

No you understood me that we are talking about -- looking at increasing the capability of the rig by adding managed pressure drilling, but we are not talking about a shipyard state. These are modifications we can make while we are out. Any costs associated with that would obviously be borne by the client in this case, so the way we view it is, it is a way to increase the incremental capabilities of our rigs. It's a technology that I think is becoming increasingly interesting to many clients because of its enhanced safety and operational performance benefits. So we're certainly interested in looking to employ that on the Mistral, but it wouldn't lead to any other service time or negative cost implications from our standpoint.

Andreas Stubsrud - *Pareto/Nordic Partners - Analyst*

Okay, so most likely when we see a potentially a new contract from Petrobras for Mistral we will see that maybe the day rate includes compensation for that. Is that what you're telling me?

Chris Beckett - *Pacific Drilling S.A. - CEO*

You should see a structure that includes, at least in terms of the way we recognize revenue compensation for the cost of any upgrades we make or improvements to the rig.

Andreas Stubsrud - *Pareto/Nordic Partners - Analyst*

Okay. Great. And just on the topic, the dual grade and drilling on Santa Ana, any update on that? Is that going well or?

Chris Beckett - *Pacific Drilling S.A. - CEO*

Things are going as planned. We've run the pump for the first time, it's back on surface right now. The current plan, obviously it's in the hands of Chevron to decide how they want to run their well plan. I know they've discussed the idea of drilling the next well in gradient mode, but that decision isn't firm yet. It's an ongoing process, it's a complex piece of equipment that everyone wants to make sure we are comfortable will perform exactly as planned before we use it in anger as it were, but everything is progressing well.

Andreas Stubsrud - *Pareto/Nordic Partners - Analyst*

Okay. Great, thank you. That's all for me.

Chris Beckett - *Pacific Drilling S.A. - CEO*

Thanks.

Operator

(Operator Instructions)



At this time there are no additional questions. I would like to turn the program back over to our presenters.

Amy Roddy - *Pacific Drilling S.A. - VP of IR*

Thank you everyone, for participating in Pacific Drilling's third quarter 2013 results conference call. William and I will be available for additional questions throughout the day. Thank you.

Operator

This does conclude today's program. You may disconnect at any time.

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