

Transocean Ltd.
Form 10-Q
November 04, 2015

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

FORM 10 Q
(Mark one)

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

For the quarterly period ended September 30, 2015

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 000 53533

TRANSOCEAN LTD.
(Exact name of registrant as specified in its charter)

Zug, Switzerland 98 0599916
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

10 Chemin de Blandonnet 1214
Vernier, Switzerland
(Address of principal executive offices) (Zip Code)

+41 (22) 930 9000
(Registrant's telephone number, including area code)

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 No
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes

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No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non accelerated filer (do not check if a smaller reporting company)
Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of October 26, 2015, 363,735,543 shares were outstanding.

TRANSOCEAN LTD. AND SUBSIDIARIES
 INDEX TO FORM 10 Q
 QUARTER ENDED SEPTEMBER 30, 2015

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

TRANSOCEAN LTD. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In millions, except per share data)

(Unaudited)

| | Three months ended September 30, | | Nine months ended September 30, | |
|--|--|-----------|---------------------------------------|-----------|
| | 2015 | 2014 | 2015 | 2014 |
| Operating revenues | | | | |
| Contract drilling revenues | \$1,569 | \$2,215 | \$5,346 | \$6,785 |
| Other revenues | 39 | 55 | 189 | 152 |
| | 1,608 | 2,270 | 5,535 | 6,937 |
| Costs and expenses | | | | |
| Operating and maintenance | 880 | 1,318 | 2,161 | 3,800 |
| Depreciation | 210 | 288 | 750 | 849 |
| General and administrative | 45 | 52 | 135 | 172 |
| | 1,135 | 1,658 | 3,046 | 4,821 |
| Loss on impairment | (13) | (2,768) | (1,839) | (2,833) |
| Loss on disposal of assets, net | (15) | (12) | (20) | (14) |
| Operating income (loss) | 445 | (2,168) | 630 | (731) |
| Other income (expense), net | | | | |
| Interest income | 5 | 6 | 17 | 31 |
| Interest expense, net of amounts capitalized | (109) | (122) | (345) | (360) |
| Other, net | 3 | 6 | 45 | 12 |
| | (101) | (110) | (283) | (317) |
| Income (loss) from continuing operations before income tax expense | 344 | (2,278) | 347 | (1,048) |
| Income tax expense (benefit) | 17 | (16) | 140 | 136 |
| Income (loss) from continuing operations | 327 | (2,262) | 207 | (1,184) |
| Income (loss) from discontinued operations, net of tax | 3 | (1) | 2 | (16) |
| Net income (loss) | 330 | (2,263) | 209 | (1,200) |
| Net income (loss) attributable to noncontrolling interest | 9 | (46) | 29 | (26) |
| Net income (loss) attributable to controlling interest | \$321 | \$(2,217) | \$180 | \$(1,174) |
| Earnings (loss) per share basic | | | | |
| Earnings (loss) from continuing operations | \$0.87 | \$(6.12) | \$0.48 | \$(3.20) |
| Earnings (loss) from discontinued operations | 0.01 | — | 0.01 | (0.04) |
| Earnings (loss) per share | \$0.88 | \$(6.12) | \$0.49 | \$(3.24) |
| Earnings (loss) per share diluted | | | | |
| Earnings (loss) from continuing operations | \$0.87 | \$(6.12) | \$0.48 | \$(3.20) |
| Earnings (loss) from discontinued operations | 0.01 | — | 0.01 | (0.04) |
| Earnings (loss) per share | \$0.88 | \$(6.12) | \$0.49 | \$(3.24) |
| Weighted average shares outstanding | | | | |

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| | | | | |
|---------|-----|-----|-----|-----|
| Basic | 364 | 362 | 363 | 362 |
| Diluted | 364 | 362 | 363 | 362 |

See accompanying notes.

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TRANSOCEAN LTD. AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(In millions)

(Unaudited)

| | Three months ended September 30, 2015 2014 | | Nine months ended September 30, 2015 2014 | |
|---|---|-----------|--|-----------|
| Net income (loss) | \$330 | \$(2,263) | \$209 | \$(1,200) |
| Net income (loss) attributable to noncontrolling interest | 9 | (46) | 29 | (26) |
| Net income (loss) attributable to controlling interest | 321 | (2,217) | 180 | (1,174) |
| Other comprehensive income (loss) before reclassifications | | | | |
| Components of net periodic benefit costs | 33 | (3) | 19 | 70 |
| Reclassifications to net income | | | | |
| Components of net periodic benefit costs | 9 | 7 | 19 | 13 |
| Gain on derivative instruments | — | — | — | (2) |
| Other comprehensive income before income taxes | 42 | 4 | 38 | 81 |
| Income taxes related to other comprehensive income | — | (1) | (2) | (4) |
| Other comprehensive income | 42 | 3 | 36 | 77 |
| Other comprehensive income attributable to noncontrolling interest | — | — | — | — |
| Other comprehensive income attributable to controlling interest | 42 | 3 | 36 | 77 |
| Total comprehensive income (loss) | 372 | (2,260) | 245 | (1,123) |
| Total comprehensive income (loss) attributable to noncontrolling interest | 9 | (46) | 29 | (26) |
| Total comprehensive income (loss) attributable to controlling interest | \$363 | \$(2,214) | \$216 | \$(1,097) |

See accompanying notes.

TRANSOCEAN LTD. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

(In millions, except share data)

(Unaudited)

| | September 30, 2015 | December 31, 2014 |
|---|--------------------------|-------------------------|
| Assets | | |
| Cash and cash equivalents | \$ 2,234 | \$ 2,635 |
| Accounts receivable, net of allowance for doubtful accounts of \$15 and \$14 at September 30, 2015 and December 31, 2014, respectively | 1,482 | 2,120 |
| Materials and supplies, net of allowance for obsolescence of \$139 and \$109 at September 30, 2015 and December 31, 2014, respectively | 696 | 818 |
| Assets held for sale | 9 | 25 |
| Deferred income taxes, net | 99 | 161 |
| Other current assets | 386 | 242 |
| Total current assets | 4,906 | 6,001 |
| Property and equipment | 25,612 | 28,516 |
| Less accumulated depreciation | (5,260) | (6,978) |
| Property and equipment, net | 20,352 | 21,538 |
| Deferred income taxes, net | 84 | — |
| Other assets | 493 | 874 |
| Total assets | \$ 25,835 | \$ 28,413 |
| Liabilities and equity | | |
| Accounts payable | \$ 432 | \$ 784 |
| Accrued income taxes | 82 | 131 |
| Debt due within one year | 123 | 1,033 |
| Other current liabilities | 1,193 | 1,822 |
| Total current liabilities | 1,830 | 3,770 |
| Long term debt | 8,630 | 9,059 |
| Deferred income taxes, net | 172 | 237 |
| Other long term liabilities | 1,162 | 1,354 |
| Total long term liabilities | 9,964 | 10,650 |
| Commitments and contingencies | | |
| Redeemable noncontrolling interest | 15 | 11 |
| Shares, CHF 15.00 par value, 396,260,487 authorized, 167,617,649 conditionally authorized, 373,830,649 issued at September 30, 2015 and December 31, 2014 and 363,719,800 and 362,279,530 outstanding at September 30, 2015 and December 31, 2014, respectively | 5,189 | 5,169 |
| Additional paid in capital | 5,610 | 5,797 |
| Treasury shares, at cost, 2,863,267 held at September 30, 2015 and December 31, 2014 | (240) | (240) |
| Retained earnings | 3,529 | 3,349 |
| Accumulated other comprehensive loss | (368) | (404) |
| Total controlling interest shareholders' equity | 13,720 | 13,671 |
| Noncontrolling interest | 306 | 311 |

| | | |
|------------------------------|-----------|-----------|
| Total equity | 14,026 | 13,982 |
| Total liabilities and equity | \$ 25,835 | \$ 28,413 |

See accompanying notes.

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TRANSOCEAN LTD. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF EQUITY

(In millions)

(Unaudited)

| | Nine months ended September 30, 2015 | | Nine months ended September 30, 2014 | |
|--|--------------------------------------|--------|--------------------------------------|----------|
| | Shares | Amount | Shares | Amount |
| Shares | | | | |
| Balance, beginning of period | 362 | 361 | \$5,169 | \$5,147 |
| Issuance of shares under share based compensation plans | 2 | 1 | 20 | 21 |
| Balance, end of period | 364 | 362 | \$5,189 | \$5,168 |
| Additional paid in capital | | | | |
| Balance, beginning of period | | | \$5,797 | \$6,784 |
| Share based compensation | | | 47 | 75 |
| Issuance of shares under share based compensation plans | | | (20) | (20) |
| Reclassification of obligation for distribution of qualifying additional paid in capital | | | (218) | (1,088) |
| Allocated capital for sale of noncontrolling interest | | | 9 | 33 |
| Other, net | | | (5) | (9) |
| Balance, end of period | | | \$5,610 | \$5,775 |
| Treasury shares, at cost | | | | |
| Balance, beginning of period | | | \$(240) | \$(240) |
| Balance, end of period | | | \$(240) | \$(240) |
| Retained earnings | | | | |
| Balance, beginning of period | | | \$3,349 | \$5,262 |
| Net income (loss) attributable to controlling interest | | | 180 | (1,174) |
| Balance, end of period | | | \$3,529 | \$4,088 |
| Accumulated other comprehensive loss | | | | |
| Balance, beginning of period | | | \$(404) | \$(262) |
| Other comprehensive income attributable to controlling interest | | | 36 | 77 |
| Balance, end of period | | | \$(368) | \$(185) |
| Total controlling interest shareholders' equity | | | | |
| Balance, beginning of period | | | \$13,671 | \$16,691 |
| Total comprehensive income (loss) attributable to controlling interest | | | 216 | (1,097) |
| Share based compensation | | | 47 | 75 |
| Issuance of shares under share based compensation plans | | | — | 1 |
| Reclassification of obligation for distribution of qualifying additional paid in capital | | | (218) | (1,088) |
| Allocated capital for sale of noncontrolling interest | | | 9 | 33 |
| Other, net | | | (5) | (9) |
| Balance, end of period | | | \$13,720 | \$14,606 |
| Noncontrolling interest | | | | |
| Balance, beginning of period | | | \$311 | \$(6) |
| Total comprehensive income (loss) attributable to noncontrolling interest | | | 25 | (31) |
| Sale of noncontrolling interest, net of issue costs | | | — | 416 |
| Allocated capital for sale of noncontrolling interest | | | (9) | (33) |
| Distributions to holders of noncontrolling interest | | | (21) | — |
| Balance, end of period | | | \$306 | \$346 |

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| | | |
|--|----------|----------|
| Total equity | | |
| Balance, beginning of period | \$13,982 | \$16,685 |
| Total comprehensive income (loss) | 241 | (1,128) |
| Share based compensation | 47 | 75 |
| Issuance of shares under share based compensation plans | — | 1 |
| Reclassification of obligation for distribution of qualifying additional paid in capital | (218) | (1,088) |
| Sale of noncontrolling interest, net of issue costs | — | 416 |
| Distributions to holders of noncontrolling interest | (21) | — |
| Other, net | (5) | (9) |
| Balance, end of period | \$14,026 | \$14,952 |

See accompanying notes.

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TRANSOCEAN LTD. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In millions)

(Unaudited)

| | Three months ended September 30, 2015 | | Nine months ended September 30, 2014 | |
|---|--|-----------|---|-----------|
| Cash flows from operating activities | | | | |
| Net income (loss) | \$330 | \$(2,263) | \$209 | \$(1,200) |
| Adjustments to reconcile to net cash provided by operating activities | | | | |
| Amortization of drilling contract intangibles | (4) | (4) | (11) | (12) |
| Depreciation | 210 | 288 | 750 | 849 |
| Share-based compensation expense | 14 | 24 | 47 | 75 |
| Loss on impairment | 13 | 2,768 | 1,839 | 2,833 |
| Loss on disposal of assets, net | 15 | 12 | 20 | 14 |
| Loss on disposal of assets in discontinued operations, net | — | — | — | 10 |
| Deferred income taxes | (14) | (94) | (104) | (134) |
| Other, net | 31 | 10 | 59 | 27 |
| Changes in deferred revenues, net | (11) | 10 | (118) | 80 |
| Changes in deferred costs, net | 26 | (52) | 142 | (32) |
| Changes in operating assets and liabilities | 38 | 183 | (348) | (856) |
| Net cash provided by operating activities | 648 | 882 | 2,485 | 1,654 |
| Cash flows from investing activities | | | | |
| Capital expenditures | (940) | (365) | (1,336) | (1,847) |
| Proceeds from disposal of assets, net | 3 | 102 | 33 | 203 |
| Proceeds from disposal of assets in discontinued operations, net | — | (1) | 3 | 35 |
| Investment in loans receivable | — | — | — | (15) |
| Proceeds from repayment of loans and notes receivable | — | — | 15 | 101 |
| Net cash used in investing activities | (937) | (264) | (1,285) | (1,523) |
| Cash flows from financing activities | | | | |
| Repayments of debt | (1,237) | (75) | (1,306) | (318) |
| Proceeds from restricted cash investments | 53 | 69 | 110 | 176 |
| Deposits to restricted cash investments | — | — | — | (20) |
| Proceeds from sale of noncontrolling interest | — | 443 | — | 443 |
| Distributions of qualifying additional paid in capital | (54) | (272) | (381) | (746) |
| Distributions to holders of noncontrolling interest | (7) | — | (21) | — |
| Other, net | (1) | (27) | (3) | (36) |
| Net cash provided by (used in) financing activities | (1,246) | 138 | (1,601) | (501) |
| Net increase (decrease) in cash and cash equivalents | (1,535) | 756 | (401) | (370) |
| Cash and cash equivalents at beginning of period | 3,769 | 2,117 | 2,635 | 3,243 |
| Cash and cash equivalents at end of period | \$2,234 | \$2,873 | \$2,234 | \$2,873 |

See accompanying notes.

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TRANSOCEAN LTD. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—continued
(Unaudited)

Note 1—Business

Transocean Ltd. (together with its subsidiaries and predecessors, unless the context requires otherwise, "Transocean," "we," "us" or "our") is a leading international provider of offshore contract drilling services for oil and gas wells. We specialize in technically demanding sectors of the offshore drilling business with a particular focus on deepwater and harsh environment drilling services. Our mobile offshore drilling fleet is considered one of the most versatile fleets in the world. We contract our drilling rigs, related equipment and work crews predominantly on a dayrate basis to drill oil and gas wells. At September 30, 2015, we owned or had partial ownership interests in and operated 62 mobile offshore drilling units, including 27 Ultra Deepwater Floaters, seven Harsh Environment Floaters, six Deepwater Floaters, 12 Midwater Floaters and 10 High Specification Jackups. At September 30, 2015, we also had seven Ultra Deepwater drillships and five High Specification Jackups under construction or under contract to be constructed. See Note 9—Drilling Fleet.

On August 5, 2014, we completed an initial public offering to sell a noncontrolling interest in Transocean Partners LLC ("Transocean Partners"), a Marshall Islands limited liability company, which was formed on February 6, 2014, by Transocean Partners Holdings Limited, a Cayman Islands company and our wholly owned subsidiary, to own, operate and acquire modern, technologically advanced offshore drilling rigs. See Note 15—Noncontrolling Interest.

Note 2—Significant Accounting Policies

Presentation—We have prepared our accompanying unaudited condensed consolidated financial statements in accordance with accounting principles generally accepted in the United States ("U.S.") for interim financial information and with the instructions to Form 10 Q and Article 10 of Regulation S X of the U.S. Securities and Exchange Commission ("SEC"). Pursuant to such rules and regulations, these financial statements do not include all disclosures required by accounting principles generally accepted in the U.S. for complete financial statements. The condensed consolidated financial statements reflect all adjustments, which are, in the opinion of management, necessary for a fair presentation of financial position, results of operations and cash flows for the interim periods. Such adjustments are considered to be of a normal recurring nature unless otherwise noted. Operating results for the three and nine months ended September 30, 2015 are not necessarily indicative of the results that may be expected for the year ending December 31, 2015 or for any future period. The accompanying condensed consolidated financial statements and notes thereto should be read in conjunction with the audited consolidated financial statements and notes thereto as of December 31, 2014 and 2013 and for each of the three years in the period ended December 31, 2014 included in our annual report on Form 10 K filed on February 26, 2015.

Accounting estimates—To prepare financial statements in accordance with accounting principles generally accepted in the U.S., we are required to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and the disclosures of contingent assets and liabilities. On an ongoing basis, we evaluate our estimates and assumptions, including those related to our allowance for doubtful accounts, materials and supplies obsolescence, assets held for sale, property and equipment, investments, income taxes, contingencies, share based compensation, defined benefit pension plans and other postretirement benefits. We base our estimates and assumptions on historical experience and on various other factors we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying amounts of assets and liabilities that are not readily apparent from other sources. Actual results could differ from such estimates.

Fair value measurements—We estimate fair value at a price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the principal market for the asset or liability. Our valuation techniques require inputs that we categorize using a three level hierarchy, from highest to lowest level of observable inputs, as follows: (1) significant observable inputs, including unadjusted quoted prices for identical assets or liabilities in active markets ("Level 1"), (2) significant other observable inputs, including direct or indirect market data for similar assets or liabilities in active markets or identical assets or liabilities in less active markets ("Level 2") and (3) significant unobservable inputs, including those that require considerable judgment for which there is little or no market data ("Level 3"). When multiple input levels are required for a valuation, we categorize the entire fair value

measurement according to the lowest level of input that is significant to the measurement even though we may have also utilized significant inputs that are more readily observable.

Consolidation—We consolidate entities in which we have a majority voting interest and entities that meet the criteria for variable interest entities for which we are deemed to be the primary beneficiary for accounting purposes. We eliminate intercompany transactions and accounts in consolidation. We apply the equity method of accounting for an investment in an entity if we have the ability to exercise significant influence over the entity that (a) does not meet the variable interest entity criteria or (b) meets the variable interest entity criteria, but for which we are not deemed to be the primary beneficiary. We apply the cost method of accounting for an investment in an entity if we do not have the ability to exercise significant influence over the unconsolidated entity. We separately present within equity on our condensed consolidated balance sheets the ownership interests attributable to parties with noncontrolling interests in our consolidated subsidiaries, and we separately present net income attributable to such parties on our condensed consolidated statements of operations. See Note 4—Variable Interest Entities and Note 15—Noncontrolling Interest.

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TRANSOCEAN LTD. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—continued
(Unaudited)

Property and equipment—The carrying amounts of our property and equipment, consisting primarily of offshore drilling rigs and related equipment, are based on our estimates, assumptions and judgments relative to capitalized costs, useful lives and salvage values of our rigs. These estimates, assumptions and judgments reflect both historical experience and expectations regarding future industry conditions and operations. At September 30, 2015, the aggregate carrying amount of our property and equipment represented approximately 79 percent of our total assets.

We compute depreciation using the straight line method after allowing for salvage values. In December 2014, we reduced the salvage values of certain drilling units due to existing market conditions. In the three and nine months ended September 30, 2015, this change in estimate resulted in increased depreciation expense of \$4 million (\$4 million, or \$0.01 per diluted share, net of tax) and \$48 million (\$45 million, or \$0.12 per diluted share, net of tax), respectively. For the year ending December 31, 2015, we expect this change in estimate to result in increased depreciation expense of approximately \$51 million (\$48 million, net of tax).

Share based compensation—In the three and nine months ended September 30, 2015, we recognized share based compensation expense of \$14 million and \$47 million, respectively. In the three and nine months ended September 30, 2014, we recognized share based compensation expense of \$24 million and \$75 million, respectively.

Capitalized interest—We capitalize interest costs for qualifying construction and upgrade projects. In the three and nine months ended September 30, 2015, we capitalized interest costs on construction work in progress of \$36 million and \$91 million, respectively. In the three and nine months ended September 30, 2014, we capitalized interest costs on construction work in progress of \$33 million and \$109 million, respectively.

Reclassifications—We have made certain reclassifications to prior period amounts to conform with the current period's presentation. Such reclassifications did not have a material effect on our condensed consolidated statement of financial position, results of operations or cash flows.

Subsequent events—We evaluate subsequent events through the time of our filing on the date we issue our financial statements. See Note 18—Subsequent Events.

Note 3—New Accounting Pronouncements

Recently adopted accounting standards

Presentation of financial statements—Effective January 1, 2015, we adopted the accounting standards update that changes the criteria for reporting discontinued operations. The update expands the disclosures for discontinued operations and requires new disclosures related to the disposal of individually significant components of an entity that do not qualify for discontinued operations. The update is effective for interim and annual periods beginning on or after December 15, 2014 and does not apply to components, such as our discontinued operations, that have been evaluated and reported as discontinued operations under previous guidance. Our adoption did not have an effect on our condensed consolidated financial statements or the disclosures contained in our notes to condensed consolidated financial statements.

Recently issued accounting standards

Interest—Effective January 1, 2016, we will adopt the accounting standards update that requires debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The update is effective for interim and annual periods beginning after December 15, 2015, and early adoption is permitted. At September 30, 2015 and December 31, 2014, the aggregate carrying amount of the debt issue costs related to our recognized debt liabilities was \$35 million and \$42 million, respectively, recorded in other assets. We do not expect that our adoption will have a material effect on our condensed consolidated balance sheets or the disclosures contained in our notes to condensed consolidated financial statements.

Presentation of financial statements—Effective with our annual report for the period ending December 31, 2016, we will adopt the accounting standards update that requires us to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about our ability to continue as a going concern within one year after the date that the financial statements are issued. The update is effective for the annual period ending after December 15, 2016 and for interim and annual periods thereafter. We do not expect that our adoption will have a material effect on

the disclosures contained in our notes to condensed consolidated financial statements.

Revenue from contracts with customers—Effective January 1, 2018, we will adopt the accounting standards update that requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The update was originally effective for interim and annual periods beginning on or after December 15, 2016, but has since been approved for a one year deferral, effective for interim and annual periods beginning on or after December 15, 2017, and permits adoption as early as the original effective date. We are evaluating the requirements to determine the effect such requirements may have on our revenue recognition policies.

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TRANSOCEAN LTD. AND SUBSIDIARIES
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—continued
 (Unaudited)

Note 4—Variable Interest Entities

Consolidated variable interest entities— Angola Deepwater Drilling Company Limited ("ADDCL"), a consolidated Cayman Islands company, and Transocean Drilling Services Offshore Inc. ("TDSOI"), a consolidated British Virgin Islands company, are variable interest entities for which we are the primary beneficiary. Accordingly, we consolidate the operating results, assets and liabilities of ADDCL and TDSOI. The carrying amounts associated with our consolidated variable interest entities, after eliminating the effect of intercompany transactions, were as follows (in millions):

| | September 30, 2015 | December 31, 2014 |
|---------------------|--------------------------|-------------------------|
| Assets | \$ 1,274 | \$ 1,257 |
| Liabilities | 54 | 74 |
| Net carrying amount | \$ 1,220 | \$ 1,183 |

Note 5—Impairments

Assets held and used—During the three months ended March 31, 2015, we identified indicators that the asset groups in our contract drilling services reporting unit may not be recoverable. Such indicators included a reduction in the number of new contract opportunities, recent low dayrate fixtures and contract terminations. Our Deepwater Floater asset group, in particular, experienced further declines in projected dayrates and utilization partly caused by more technologically advanced drilling units aggressively competing with less capable drilling units. During the three months ended June 30, 2015, we identified additional indicators that the asset groups in our contract drilling services reporting unit may not be recoverable. Such indicators included additional customer suspensions of drilling programs and cancellations of contracts, further reduction in the number of new contract opportunities, resulting in reduced dayrate fixtures. Our Midwater Floater asset group, specifically, experienced further declines in projected dayrates and utilization as drilling activity has sharply declined in the United Kingdom ("U.K.") and Norwegian North Sea, which has accelerated the marginalization of some of the less capable drilling units in this asset group. As a result of our testing, we determined that the carrying amounts of the Deepwater Floater and the Midwater Floater asset groups were impaired. In the nine months ended September 30, 2015, we recognized a loss of \$507 million (\$481 million, or \$1.32 per diluted share, net of tax) and \$668 million (\$654 million, or \$1.79 per diluted share, net of tax), associated with the impairment of the Deepwater Floater asset group and the Midwater Floater asset group, respectively, including a loss of \$52 million associated with construction in progress. In each case, we measured the fair value of the asset group by applying a combination of income and cost approaches, using projected discounted cash flows and estimates of the exchange price that would be received for the assets in the principal or most advantageous market for the assets in an orderly transaction between market participants as of the measurement date. Our estimates of fair value required us to use significant unobservable inputs, representative of a Level 3 fair value measurement, including assumptions related to the future performance of our contract drilling services reporting unit, such as future commodity prices, projected demand for our services, rig availability and dayrates.

During the three months ended September 30, 2014, we identified indicators that the asset groups in our contract drilling services reporting unit may be impaired as a result of market developments, including lower dayrate fixtures, partly caused by more technologically advanced drilling units competing with less capable drilling units, and projected declines in dayrates and utilization, particularly for the Deepwater Floater asset group. We conducted testing for impairment, and as a result, we determined that the carrying amount of the Deepwater Floater asset group exceeded its fair value. In the three and nine months ended September 30, 2014, we recognized a loss of \$788 million (\$693 million, or \$1.91 per diluted share from continuing operations, net of tax) associated with the impairment of these held and used assets. We measured the fair value of the asset group by applying a combination of income, market and cost approaches, using projected discounted cash flows and estimates of the exchange price that would be received for the assets in the principal or most advantageous market for the assets in an orderly transaction between

market participants as of the measurement date. Our estimate of fair value required us to use significant unobservable inputs, representative of a Level 3 fair value measurement, including assumptions related to the future performance of our contract drilling services reporting unit, such as future commodity prices, projected demand for our services, rig availability and dayrates.

If we experience increasingly unfavorable changes to actual or anticipated dayrates or other impairment indicators, or if we are unable to secure new or extended contracts for our active units or the reactivation of any of our stacked units, we may be required to recognize additional losses in future periods as a result of impairments of the carrying amount of one or more of our asset groups.

Assets held for sale—In the three months ended September 30, 2015, we recognized an aggregate loss of \$13 million (\$0.03 per diluted share), which had no tax effect, associated with the impairment of the Midwater Floater GSF Rig 135 along with related equipment, which was classified as held for sale at the time of impairment. In the nine months ended September 30, 2015, we recognized an aggregate loss of \$664 million (\$550 million, or \$1.50 per diluted share, net of tax), associated with the impairment of the Ultra Deepwater Floaters Deepwater Expedition and GSF Explorer, the Deepwater Floaters GSF Celtic Sea, Sedco 707 and Transocean Rather and the Midwater Floaters, GSF Aleutian Key, GSF Arctic III, GSF Rig 135, Transocean Amirante and Transocean Legend, along with related equipment, which were classified as assets held for sale at the time of impairment. We measured the impairment of the drilling units and related equipment as the amount by which the carrying amount exceeded the estimated fair value less costs to sell. We estimated the fair value of the assets using significant other observable inputs, representative of Level 2 fair value measurements, including indicative market values for the drilling units and related equipment to be sold for scrap value.

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In the three and nine months ended September 30, 2014, we recognized an aggregate loss of \$7 million (\$0.02 per diluted share) and \$72 million (\$0.20 per diluted share), respectively, which had no tax effect, associated with the impairment of the Deepwater Floater Sedco 709, the Midwater Floaters C. Kirk Rhein, Jr., Sedco 703 and Sedneth 701 and the High Specification Jackups GSF Magellan and GSF Monitor, along with related equipment, which were classified as assets held for sale at the time of impairment. We measured the impairments of the drilling units and related equipment as the amount by which the carrying amount exceeded the estimated fair value less costs to sell. We estimated the fair value of the assets using significant other observable inputs, representative of Level 2 fair value measurements, including a binding sale and purchase agreement for the drilling unit and related equipment or indicative market values for the drilling unit and related equipment to be sold for scrap value.

If we commit to plans to sell additional rigs for values below the respective carrying amounts, we may be required to recognize additional losses in future periods associated with the impairment of such assets.

Goodwill—During the three months ended September 30, 2014, we noted rapid and significant declines in the market value of our stock, oil and natural gas prices and the actual and projected declines in dayrates and utilization. We identified these as indicators that the fair value of our goodwill could have fallen below its carrying amount. As a result, we performed a goodwill impairment test as of September 30, 2014 and determined that the goodwill associated with our contract drilling services reporting unit was impaired. In the three months ended September 30, 2014, we recognized a loss of \$2.0 billion, representing our best estimate of the loss associated with the impairment of our goodwill, which had no tax effect. We determined that, of the \$2.0 billion estimated loss, \$1.9 billion was attributable to controlling interest (\$5.29 per diluted share) and \$52 million was attributable to noncontrolling interest. We estimated the implied fair value of the goodwill using a variety of valuation methods, including the income and market approaches. Our estimate of fair value required us to use significant unobservable inputs, representative of a Level 3 fair value measurement, including assumptions related to the future performance of our contract drilling services reporting unit, such as future oil and natural gas prices, projected demand for our services, rig availability and dayrates. Subsequent to September 30, 2014, we completed the measurement of our goodwill impairment and we identified additional indicators that the remaining goodwill associated with our contract drilling services reporting unit may have again fallen below its carrying amount. In the three months ended December 31, 2014, we recognized an incremental loss of \$1.0 billion, which had no tax effect, associated with the impairment of our then remaining goodwill.

Note 6—Income Taxes

Tax rate—Transocean Ltd., a holding company and Swiss resident, is exempt from cantonal and communal income tax in Switzerland, but is subject to Swiss federal income tax. At the federal level, qualifying net dividend income and net capital gains on the sale of qualifying investments in subsidiaries are exempt from Swiss federal income tax.

Consequently, Transocean Ltd. expects dividends from its subsidiaries and capital gains from sales of investments in its subsidiaries to be exempt from Swiss federal income tax.

Our provision for income taxes is based on the tax laws and rates applicable in the jurisdictions in which we operate and earn income. The relationship between our provision for or benefit from income taxes and our income or loss before income taxes can vary significantly from period to period considering, among other factors, (a) the overall level of income before income taxes, (b) changes in the blend of income that is taxed based on gross revenues rather than income before taxes, (c) rig movements between taxing jurisdictions and (d) our rig operating structures. Generally, our annual marginal tax rate is lower than our annual effective tax rate. In the nine months ended September 30, 2015 and 2014, our estimated annual effective tax rates were 18.0 percent and 16.7 percent, respectively, based on estimated annual income from continuing operations before income taxes, after excluding certain items, such as losses on impairment and gains and losses on certain asset disposals. The tax effect, if any, of the excluded items as well as settlements of prior year tax liabilities and changes in prior year tax estimates are all treated as discrete period tax expenses or benefits.

In December 2014, the U.K. Treasury released a draft proposal that would impose tax on groups that use certain tax planning techniques that are perceived as diverting profits from the U.K. The Diverted Profit Tax rule was included in

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the 2015 Finance Bill and on March 26, 2015, the legislation received Royal Assent with an effective date of April 1, 2015. The change in the law did not affect our existing annual income tax rate or deferred tax balances.

Deferred taxes—The valuation allowance for our non-current deferred tax assets was as follows (in millions):

| | September | December |
|---|-----------|----------|
| | 30, | 31, |
| | 2015 | 2014 |
| Valuation allowance for non-current deferred tax assets | \$ 393 | \$ 340 |

The increase in the valuation allowance for our non-current deferred tax assets was primarily related to the current net operating losses generated in Norway and the U.K. carryforward deductions related to charter payments.

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TRANSOCEAN LTD. AND SUBSIDIARIES
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Unrecognized tax benefits—The liabilities related to our unrecognized tax benefits, including related interest and penalties that we recognize as a component of income tax expense, were as follows (in millions):

| | September 30, 2015 | December 31, 2014 |
|---|--------------------------|-------------------------|
| Unrecognized tax benefits, excluding interest and penalties | \$ 273 | \$ 265 |
| Interest and penalties | 118 | 120 |
| Unrecognized tax benefits, including interest and penalties | \$ 391 | \$ 385 |

In the year ending December 31, 2015, it is reasonably possible that our existing liabilities for unrecognized tax benefits may increase or decrease primarily due to the progression of open audits or the expiration of statutes of limitation. However, we cannot reasonably estimate a range of potential changes in our existing liabilities for unrecognized tax benefits due to various uncertainties, such as the unresolved nature of various audits.

Tax returns—We file federal and local tax returns in several jurisdictions throughout the world. With few exceptions, we are no longer subject to examinations of our U.S. and non U.S. tax matters for years prior to 2010.

Our tax returns in the major jurisdictions in which we operate, other than the U.S., Norway and Brazil, which are mentioned below, are generally subject to examination for periods ranging from three to six years. We have agreed to extensions beyond the statute of limitations in two major jurisdictions for up to 20 years. Tax authorities in certain jurisdictions are examining our tax returns and in some cases have issued assessments. We are defending our tax positions in those jurisdictions. While we cannot predict or provide assurance as to the timing or the outcome of these proceedings, we do not expect the ultimate liability to have a material adverse effect on our consolidated statement of financial position or results of operations, although it may have a material adverse effect on our consolidated statement of cash flows.

U.S. tax investigations—In January 2014, we received a draft assessment from the U.S. tax authorities related to our 2010 and 2011 U.S. federal income tax returns. The significant issue raised in the assessment relates to transfer pricing for certain charters of drilling rigs between our subsidiaries. This issue, if successfully challenged, would result in net adjustments of approximately \$290 million of additional taxes, excluding interest and penalties. We believe our U.S. federal income tax returns are materially correct as filed, and we intend to continue to vigorously defend against all such claims to the contrary. An unfavorable outcome on these adjustments could result in a material adverse effect on our consolidated statement of financial position, results of operations or cash flows. Furthermore, if the authorities were to continue to pursue these positions with respect to subsequent years and were successful in such assertions, our effective tax rate on worldwide earnings with respect to years following 2011 could increase substantially, and could have a material adverse effect on our consolidated results of operations or cash flows.

Norway tax investigations and trial—Norwegian civil tax and criminal authorities are investigating various transactions undertaken by our subsidiaries in 1999, 2001 and 2002 as well as the actions of certain employees of our former external tax advisors on these transactions. Of three original tax assessments issued by the tax authorities, the following two remain outstanding: (a) NOK 412 million, equivalent to approximately \$48 million, plus interest, related to a 2001 dividend payment and (b) NOK 43 million, equivalent to approximately \$5 million, plus interest, related to certain foreign exchange deductions and dividend withholding tax. In November 2012, the Norwegian district court in Oslo heard the civil tax case regarding the disputed tax assessment of NOK 684 million related to the migration of our subsidiary. On March 1, 2013, the Norwegian district court in Oslo overturned the initial civil tax assessment and ruled in our favor, and the tax authorities filed an appeal. On June 26, 2014, the Norwegian district court in Oslo ruled that our subsidiary was liable for the civil tax assessment of NOK 412 million, equivalent to approximately \$48 million, but waived all penalties and interest. On September 12, 2014, we filed an appeal. We intend to take all other appropriate action to continue to support our position that our Norwegian tax returns are materially correct as filed.

In June 2011, the Norwegian authorities issued criminal indictments against two of our subsidiaries alleging misleading or incomplete disclosures in Norwegian tax returns for the years 1999 through 2002, as well as inaccuracies in Norwegian statutory financial statements for the years ended December 31, 1996 through 2001. Two employees of our former external tax advisors were also issued criminal indictments with respect to the disclosures in our tax returns, and our former external Norwegian tax attorney was issued criminal indictments related to certain of our restructuring transactions and the 2001 dividend payment. In January 2012, the Norwegian authorities supplemented the previously issued criminal indictments by issuing a financial claim of NOK 1.8 billion, equivalent to approximately \$211 million, jointly and severally, against our two subsidiaries, the two external tax advisors and the external tax attorney. In February 2012, the authorities dropped the previously existing civil tax claim related to a certain restructuring transaction. In April 2012, the Norwegian tax authorities supplemented the previously issued criminal indictments against our two subsidiaries by extending a criminal indictment against a third subsidiary, alleging misleading or incomplete disclosures in Norwegian tax returns for the years 2001 and 2002. The criminal trial commenced in December 2012. In May 2013, the Norwegian authorities dropped the financial claim of NOK 1.8 billion against one of our subsidiaries and the criminal case related to the migration case of another subsidiary. The criminal trial proceedings ended in September 2013. The Norwegian authorities subsequently suggested, if we were found guilty, that the court assess criminal penalties of NOK 230 million, equivalent to approximately \$27 million, against three of our subsidiaries in addition to any civil tax penalties and the financial claim.

TRANSOCEAN LTD. AND SUBSIDIARIES
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On July 2, 2014, the Norwegian district court in Oslo acquitted our three subsidiaries, two external tax attorneys and an external tax advisor of all criminal charges related to the disclosures in our Norwegian tax returns for the years 1999 through 2002 and statutory financial statements for the years ended December 31, 1996 through 2001. On July 16, 2014, the Norwegian authorities dropped the financial claim of NOK 1.8 billion, equivalent to approximately \$211 million, against two of our subsidiaries, fully closing this matter, and on the same date, filed an appeal with respect to the following charges: (a) disclosures in our Norwegian tax returns related to a dividend payment in 2001, (b) disclosures in our Norwegian tax returns related to an intercompany rig sale in 1999 and (c) certain inaccuracies in Norwegian statutory financial statements for the years ended December 31, 1996 through 2001. We believe our Norwegian tax returns are materially correct as filed, and we intend to continue to vigorously contest any assertions to the contrary by the Norwegian civil and criminal authorities in connection with the various transactions being investigated. An unfavorable outcome on the Norwegian civil or criminal tax matters could result in a material adverse effect on our consolidated statement of financial position, results of operations or cash flows.

Brazil tax investigations—Certain of our Brazilian income tax returns for the years 2000 through 2004 are currently under examination. In December 2005, the Brazilian tax authorities issued an aggregate tax assessment of BRL 751 million, equivalent to approximately \$190 million, including a 75 percent penalty and interest. On January 25, 2008, we filed a protest letter with the Brazilian tax authorities, and we are currently engaged in the appeals process. On May 19, 2014, with respect to our Brazilian income tax returns for the years 2009 and 2010, the Brazilian tax authorities issued an aggregate tax assessment of BRL 130 million, equivalent to approximately \$33 million, including a 75 percent penalty and interest. On June 18, 2014, we filed a protest letter with the Brazilian tax authorities. We believe our returns are materially correct as filed, and we are vigorously contesting these assessments. An unfavorable outcome on these proposed assessments could result in a material adverse effect on our consolidated statement of financial position, results of operations or cash flows.

Other tax matters—We conduct operations through our various subsidiaries in a number of countries throughout the world. Each country has its own tax regimes with varying nominal rates, deductions, employee contribution requirements and tax attributes. From time to time, we may identify changes to previously evaluated tax positions that could result in adjustments to our recorded assets and liabilities. Although we are unable to predict the outcome of these changes, we do not expect the effect, if any, resulting from these adjustments to have a material adverse effect on our consolidated statement of financial position, results of operations or cash flows.

Note 7—Discontinued Operations

Summarized results of discontinued operations

The summarized results of operations included in income from discontinued operations were as follows (in millions):

| | Three months ended September 30, 2015 | | Nine months ended September 30, 2014 | |
|--|--|---------|---|----------|
| Operating revenues | \$ — | \$ 20 | \$ — | \$ 153 |
| Operating and maintenance expense | 2 | (15) | 2 | (146) |
| Loss on disposal of assets in discontinued operations, net | — | — | — | (10) |
| Income (loss) from discontinued operations before income tax expense | 2 | 5 | 2 | (3) |
| Income tax (expense) benefit | 1 | (6) | — | (13) |
| Income (loss) from discontinued operations, net of tax | \$ 3 | \$ (1) | \$ 2 | \$ (16) |

Standard jackup and swamp barge contract drilling services

Overview—In September 2012, in connection with our efforts to dispose of non-strategic assets and to reduce our exposure to low specification drilling units, we committed to a plan to discontinue operations associated with the

standard jackup and swamp barge asset groups, components of our contract drilling services operating segment. Sale transactions with Shelf Drilling—In November 2012, we completed the sale of 38 drilling units to Shelf Drilling Holdings, Ltd. ("Shelf Drilling"). For a transition period following the completion of the sale transactions, we agreed to continue to operate a substantial portion of the standard jackups under operating agreements with Shelf Drilling and to provide certain other transition services to Shelf Drilling. Under the operating agreements, we agreed to remit the collections from our customers under the associated drilling contracts to Shelf Drilling, and Shelf Drilling agreed to reimburse us for our direct costs and expenses incurred while operating the standard jackups on behalf of Shelf Drilling with certain exceptions. Amounts due to Shelf Drilling under the operating agreements and transition services agreement may be contractually offset against amounts due from Shelf Drilling. The costs to us for providing such operating and transition services, including allocated indirect costs, exceeded the amounts we received from Shelf Drilling for providing such services.

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Under the operating agreements, we agreed to operate the standard jackups on behalf of Shelf Drilling for periods ranging from nine months to 27 months, until expiration or novation of the underlying drilling contracts by Shelf Drilling, the last of which was completed in January 2015. Until the expiration or novation of such drilling contracts, we retained possession of the materials and supplies associated with the standard jackups that we operated under the operating agreements. In the nine months ended September 30, 2015, we received cash proceeds of \$3 million, associated with the sale of equipment and materials and supplies to Shelf Drilling upon expiration or novation of the drilling contracts. In the nine months ended September 30, 2014, we received cash proceeds of \$25 million and recognized a net gain of \$2 million, which had no tax effect, associated with the sale of equipment and materials and supplies to Shelf Drilling upon expiration or novation of the drilling contracts.

For a period through November 2015, we agreed to provide to Shelf Drilling up to \$125 million of financial support by maintaining letters of credit, surety bonds and guarantees for various contract bidding and performance activities associated with the drilling units sold to Shelf Drilling and in effect at the closing of the sale transactions. At the time of the sale transactions, we had \$113 million of outstanding letters of credit, issued under our committed and uncommitted credit lines, in support of rigs sold to Shelf Drilling. Included within the \$125 million maximum amount, we agreed to provide up to \$65 million of additional financial support in connection with any new drilling contracts related to such drilling units. Shelf Drilling is required to reimburse us in the event that any of these instruments are called. At September 30, 2015 and December 31, 2014, we had \$66 million and \$91 million, respectively, of outstanding letters of credit, issued under our committed and uncommitted credit lines, in support of drilling units sold to Shelf Drilling. See Note 13—Commitments and Contingencies.

Drilling management services

Overview—In February 2014, in connection with our efforts to discontinue non strategic operations, we completed the sale of ADTI, which performs drilling management services in the North Sea. As a result of the sale, we reclassified the results of operations of our drilling management services operating segment to discontinued operations for all periods presented.

Disposition—In the nine months ended September 30, 2014, we received net cash proceeds of \$10 million and recognized a net loss of \$12 million (\$0.04 per diluted share), which had no tax effect, associated with the sale of the drilling management services business. We also agreed to provide a \$15 million working capital line of credit to the buyer through March 2016. At December 31, 2014, ADTI owed to us borrowings of \$15 million outstanding under the working capital line of credit, recorded in other assets. In May 2015, ADTI repaid the borrowings and terminated the credit agreement.

Note 8—Earnings (Loss) Per Share

The numerator and denominator used for the computation of basic and diluted per share earnings (loss) from continuing operations were as follows (in millions, except per share data):

| | Three months ended September 30, | | Nine months ended September 30, | | | | | |
|---|----------------------------------|---------|---------------------------------|-----------|--------|---------|-----------|-----------|
| | 2015 | 2014 | 2015 | 2014 | | | | |
| | Basic | Diluted | Basic | Diluted | Basic | Diluted | Basic | Diluted |
| Numerator for earnings (loss) per share | | | | | | | | |
| Income (loss) from continuing operations attributable to controlling interest | \$ 318 | \$ 318 | \$(2,216) | \$(2,216) | \$ 178 | \$ 178 | \$(1,158) | \$(1,158) |
| Undistributed earnings allocable to participating securities | (1) | (1) | — | — | (2) | (2) | — | — |
| Income (loss) from continuing operations available to shareholders | \$ 317 | \$ 317 | \$(2,216) | \$(2,216) | \$ 176 | \$ 176 | \$(1,158) | \$(1,158) |
| Denominator for earnings (loss) per share | | | | | | | | |
| Weighted average shares outstanding | 364 | 364 | 362 | 362 | 363 | 363 | 362 | 362 |

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Effect of stock options and other
share based awards

Weighted average shares for per share
calculation

364 364 362 362 363 363 362 362

Per share earnings (loss) from continuing
operations

\$0.87 \$ 0.87 \$(6.12) \$(6.12) \$0.48 \$ 0.48 \$(3.20) \$(3.20)

In the three and nine months ended September 30, 2015, we excluded from the calculation 5.5 million and 3.6 million share based awards, respectively, since the effect would have been anti-dilutive. In the three and nine months ended September 30, 2014, we excluded from the calculation 2.9 million and 2.3 million share based awards, respectively, since the effect would have been anti-dilutive.

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TRANSOCEAN LTD. AND SUBSIDIARIES
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Note 9—Drilling Fleet

Construction work in progress—For the nine months ended September 30, 2015 and 2014, the changes in our construction work in progress, including capital expenditures and capitalized interest, were as follows (in millions):

| | Nine months ended September 30, | |
|---|---------------------------------------|---------|
| | 2015 | 2014 |
| Construction work in progress, at beginning of period | \$2,451 | \$2,710 |
| Newbuild construction program | | |
| Deepwater Invictus (a) (b) | — | 492 |
| Deepwater Asgard (a) (b) | — | 291 |
| Deepwater Thalassa (c) | 423 | 69 |
| Deepwater Proteus (c) | 175 | 56 |
| Deepwater Conqueror (d) | 64 | 113 |
| Deepwater Pontus (c) | 36 | 148 |
| Deepwater Poseidon (c) | 47 | 84 |
| Transocean Cassiopeia (e) | 3 | 4 |
| Transocean Centaurus (e) | 3 | 3 |
| Transocean Cepheus (e) | 3 | 3 |
| Ultra Deepwater drillship TBN1 (f) | 168 | 30 |
| Transocean Cetus (e) | 3 | 3 |
| Transocean Circinus (e) | 3 | 3 |
| Ultra Deepwater drillship TBN2 (f) | 126 | 27 |
| Other construction projects and capital additions | 282 | 521 |
| Total capital expenditures | 1,336 | 1,847 |
| Changes in accrued capital additions | (57) | (36) |
| Impairment of construction work in progress | (52) | — |
| Property and equipment placed into service | | |
| Deepwater Invictus (a) (b) | — | (736) |
| Deepwater Asgard (a) (b) | — | (786) |
| Other property and equipment | (398) | (608) |
| Construction work in progress, at end of period | \$3,280 | \$2,391 |

(a) The accumulated construction costs of this rig are no longer included in construction work in progress, as the construction project had been completed as of September 30, 2015.

The Ultra Deepwater drillships Deepwater Invictus and Deepwater Asgard, commenced operations in July 2014 and August 2014, respectively. The total carrying amount included capitalized costs of \$272 million, representing the estimated fair value of construction in progress acquired in connection with our acquisition of Aker Drilling ASA in October 2011.

Deepwater Thalassa, Deepwater Proteus, Deepwater Pontus and Deepwater Poseidon, four newbuild Ultra Deepwater drillships under construction at the Daewoo Shipbuilding & Marine Engineering Co. Ltd. shipyard in Korea, are expected to commence operations in the fourth quarter of 2015, the second quarter of 2016, the fourth quarter of 2017 and the first quarter of 2018, respectively.

Deepwater Conqueror, a newbuild Ultra Deepwater drillship under construction at the Daewoo Shipbuilding & Marine Engineering Co. Ltd. shipyard in Korea, is expected to commence operations in the fourth quarter of 2016.

Transocean Cassiopeia, Transocean Centaurus, Transocean Cepheus, Transocean Cetus and Transocean Circinus, five Keppel FELS Super B 400 Bigfoot class design newbuild High Specification Jackups under construction at (e)Keppel FELS' shipyard in Singapore do not yet have drilling contracts and are expected to be delivered in the first quarter of 2018, the third quarter of 2018, the first quarter of 2019, the third quarter of 2019 and the first quarter of 2020, respectively.

Our two unnamed dynamically positioned Ultra Deepwater drillships under construction at the Jurong Shipyard (f)Pte Ltd. in Singapore do not yet have drilling contracts and are expected to be delivered in the second quarter of 2019 and the first quarter of 2020, respectively.

Dispositions—During the nine months ended September 30, 2015, in connection with our efforts to dispose of non strategic assets, we completed the sale of the Ultra Deepwater Floaters Deepwater Expedition and GSF Explorer, the Deepwater Floaters Discoverer Seven Seas, Sedco 707, Sedco 710 and Sovereign Explorer and the Midwater Floaters C. Kirk Rhein, Jr., GSF Arctic I, GSF Arctic III, J.W. McLean, Sedco 601, Sedco 700 and Transocean Legend, along with related equipment. In the three and nine months ended September 30, 2015, we received aggregate net cash proceeds of \$1 million and \$25 million, respectively, and recognized an aggregate net gain of \$1 million and \$7 million, respectively, associated with the disposal of these assets. In the three and nine months ended September 30, 2015, we received cash proceeds of \$2 million and \$8 million, respectively, and recognized an aggregate net loss of \$16 million and \$27 million, respectively, associated with the disposal of assets unrelated to rig sales.

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During the nine months ended September 30, 2014, in connection with our efforts to dispose of non strategic assets, we completed the sale of the High Specification Jackups GSF Magellan and GSF Monitor along with related equipment. In the three and nine months ended September 30, 2014, we received aggregate net cash proceeds of \$99 million and \$182 million, respectively, and recognized an aggregate net loss of \$2 million associated with the disposal of these assets. In the three and nine months ended September 30, 2014, we received cash proceeds of \$3 million and \$21 million, respectively, and recognized an aggregate net loss of \$10 million and \$12 million, respectively, associated with the disposal of assets unrelated to rig sales.

During the nine months ended September 30, 2015, we committed to a plan to sell the Ultra Deepwater Floaters Deepwater Expedition and GSF Explorer, the Deepwater Floaters GSF Celtic Sea, Sedco 707 and Transocean Rather and the Midwater Floaters GSF Aleutian Key, GSF Arctic III, GSF Rig 135, Transocean Amirante and Transocean Legend along with related equipment. At September 30, 2015, the aggregate carrying amount of our assets held for sale was \$9 million, including the Deepwater Floaters GSF Celtic Sea and Transocean Rather and the Midwater Floaters Falcon 100, GSF Aleutian Key, GSF Rig 135, Sedneth 701 and Transocean Amirante, along with related equipment. At December 31, 2014, the aggregate carrying amount of our assets held for sale was \$25 million, including an aggregate carrying amount of \$23 million for the Deepwater Floaters Discoverer Seven Seas, Sedco 710 and Sovereign Explorer and the Midwater Floaters C. Kirk Rhein, Jr., Falcon 100, GSF Arctic I, J.W. McLean, Sedco 601, Sedco 700 and Sedneth 701, along with related equipment, and an aggregate carrying amount of \$2 million for the then remaining assets of our discontinued operations.

See Note 5—Impairments and Note 7—Discontinued Operations.

Note 10—Debt

Debt, net of unamortized discounts, premiums and fair value adjustments, was comprised of the following (in millions):

| | September 30, 2015 | December 31, 2014 |
|---|--------------------------|-------------------------|
| 4.95% Senior Notes due November 2015 (a) | \$ — | \$ 898 |
| 5.05% Senior Notes due December 2016 (a) | 995 | 999 |
| 2.5% Senior Notes due October 2017 (a) | 642 | 748 |
| Eksportfinans Loans due January 2018 | 223 | 369 |
| 6.00% Senior Notes due March 2018 (a) | 874 | 1,001 |
| 7.375% Senior Notes due April 2018 (a) | 247 | 247 |
| 6.50% Senior Notes due November 2020 (a) | 915 | 911 |
| 6.375% Senior Notes due December 2021 (a) | 1,169 | 1,199 |
| 3.8% Senior Notes due October 2022 (a) | 731 | 745 |
| 7.45% Notes due April 2027 (a) | 97 | 97 |
| 8% Debentures due April 2027 (a) | 57 | 57 |
| 7% Notes due June 2028 | 309 | 309 |
| Capital lease contract due August 2029 | 597 | 615 |
| 7.5% Notes due April 2031 (a) | 598 | 598 |
| 6.80% Senior Notes due March 2038 (a) | 999 | 999 |
| 7.35% Senior Notes due December 2041 (a) | 300 | 300 |
| Total debt | 8,753 | 10,092 |
| Less debt due within one year | | |
| 4.95% Senior Notes due November 2015 (a) | — | 898 |
| Eksportfinans Loans due January 2018 | 100 | 114 |
| Capital lease contract due August 2029 | 23 | 21 |
| Total debt due within one year | 123 | 1,033 |

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| | | |
|----------------------|----------|----------|
| Total long term debt | \$ 8,630 | \$ 9,059 |
|----------------------|----------|----------|

Transocean Inc., a 100 percent owned subsidiary of Transocean Ltd., is the issuer of the notes and debentures, which have been guaranteed by Transocean Ltd. Transocean Ltd. has also guaranteed borrowings under the (a) Five Year Revolving Credit Facility. Transocean Ltd. and Transocean Inc. are not subject to any significant restrictions on their ability to obtain funds from their consolidated subsidiaries by dividends, loans or return of capital distributions. See Note 17—Condensed Consolidating Financial Information.

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TRANSOCEAN LTD. AND SUBSIDIARIES
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—continued
 (Unaudited)

Scheduled maturities—At September 30, 2015, the scheduled maturities of our debt were as follows (in millions):

| | Total |
|--|---------|
| Twelve months ending September 30, | |
| 2016 | \$ 116 |
| 2017 | 1,113 |
| 2018 | 1,826 |
| 2019 | 32 |
| 2020 | 34 |
| Thereafter | 5,612 |
| Total debt, excluding unamortized discounts, premiums and fair value adjustments | 8,733 |
| Total unamortized discounts, premiums and fair value adjustments, net | 20 |
| Total debt | \$8,753 |

Five Year Revolving Credit Facility—In June 2014, we entered into an amended and restated bank credit agreement, which established a \$3.0 billion unsecured five year revolving credit facility, that is scheduled to expire on June 28, 2019 (the "Five Year Revolving Credit Facility"). Among other things, the Five Year Revolving Credit Facility includes limitations on creating liens, incurring subsidiary debt, transactions with affiliates, sale/leaseback transactions, mergers and the sale of substantially all assets. The Five Year Revolving Credit Facility also includes a covenant imposing a maximum debt to tangible capitalization ratio of 0.6 to 1.0. Borrowings under the Five Year Revolving Credit Facility are subject to acceleration upon the occurrence of an event of default, borrowings are guaranteed by Transocean Ltd. and may be prepaid in whole or in part without premium or penalty.

We may borrow under the Five Year Revolving Credit Facility at either (1) the adjusted London Interbank Offered Rate ("LIBOR") plus a margin (the "Five Year Revolving Credit Facility Margin"), which ranges from 1.125 percent to 2.0 percent based on the credit rating of our non credit enhanced senior unsecured long term debt ("Debt Rating"), or (2) the base rate specified in the credit agreement plus the Five Year Revolving Credit Facility Margin, less one percent per annum. Throughout the term of the Five Year Revolving Credit Facility, we pay a facility fee on the daily unused amount of the underlying commitment which ranges from 0.15 percent to 0.35 percent depending on our Debt Rating. Effective March 19, 2015, as a result of a reduction of our Debt Rating, the Five Year Revolving Credit Facility Margin increased to 1.75 percent from 1.5 percent and the facility fee increased to 0.275 percent from 0.225 percent. At September 30, 2015, we had no borrowings outstanding or letters of credit issued, and we had \$3.0 billion of available borrowing capacity under the Five Year Revolving Credit Facility.

4.95% Senior Notes—In September 2010, we issued \$1.1 billion aggregate principal amount of 4.95% Senior Notes due November 2015 (the "4.95% Senior Notes"). At December 31, 2014, the aggregate outstanding principal amount of the 4.95% Senior Notes was \$893 million. On July 30, 2015, we redeemed the aggregate principal amount of \$893 million of the outstanding 4.95% Senior Notes with an aggregate cash payment of \$904 million for the full redemption of the outstanding notes. In the three and nine months ended September 30, 2015, we recognized a loss of \$10 million associated with retirement of the debt.

5.05% Senior Notes, 6.375% Senior Notes and 7.35% Senior Notes—In December 2011, we issued \$1.0 billion aggregate principal amount of 5.05% Senior Notes due December 2016 (the "5.05% Senior Notes"), \$1.2 billion aggregate principal amount of 6.375% Senior Notes due December 2021 (the "6.375% Senior Notes") and \$300 million aggregate principal amount of 7.35% Senior Notes due December 2041 (the "7.35% Senior Notes"). The interest rates for the notes are subject to adjustment from time to time upon a change to our Debt Rating. Effective June 15, 2015, as a result of a reduction of our Debt Rating, the interest rates on the 5.05% Senior Notes, the 6.375% Senior Notes and the 7.35% Senior Notes increased 0.5 percent from the stated rate to 5.55 percent, 6.875 percent and 7.85 percent, respectively.

In the three and nine months ended September 30, 2015, we repurchased an aggregate principal amount of \$5 million of the 5.05% Senior Notes and \$30 million of the 6.375% Senior Notes with aggregate cash payments of \$5 million

and \$24 million, respectively, and recognized a loss of less than \$1 million and a gain of \$6 million, respectively, associated with the retirement of debt. At September 30, 2015, the aggregate outstanding principal amount of the 5.05% Senior Notes, the 6.375% Senior Notes and the 7.35% Senior Notes was \$995 million, \$1.17 billion and \$300 million, respectively. At December 31, 2014, the aggregate outstanding principal amount of the 5.05% Senior Notes, the 6.375% Senior Notes and the 7.35% Senior Notes was \$1.0 billion, \$1.2 billion and \$300 million, respectively.

2.5% Senior Notes and 3.8% Senior Notes—In September 2012, we issued \$750 million aggregate principal amount of 2.5% Senior Notes due October 2017 (the "2.5% Senior Notes") and \$750 million aggregate principal amount of 3.8% Senior Notes due October 2022 (the "3.8% Senior Notes"). The interest rates for the notes are subject to adjustment from time to time upon a change to our Debt Rating. Effective April 15, 2015, as a result of a reduction of our Debt Rating, the interest rates on the 2.5% Senior Notes and the 3.8% Senior Notes increased 0.5 percent from the stated rate to 3.0 percent and 4.3 percent, respectively.

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TRANSOCEAN LTD. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—continued

(Unaudited)

In the three and nine months ended September 30, 2015, we repurchased an aggregate principal amount of \$107 million of the 2.5% Senior Notes and \$16 million of the 3.8% Senior Notes with an aggregate cash payment of \$103 million and \$11 million, respectively, and recognized an aggregate gain of \$4 million and \$5 million, respectively, associated with the retirement of debt. At September 30, 2015, the aggregate outstanding principal amount of the 2.5% Senior Notes and the 3.8% Senior Notes was \$643 million and \$734 million, respectively. At December 31, 2014, the aggregate outstanding principal amount of the 2.5% Senior Notes and the 3.8% Senior Notes was \$750 million each.

6.00% Senior Notes—In December 2007, we issued \$1.0 billion aggregate principal amount of 6.00% Senior Notes due March 2018 (the "6.00% Senior Notes"). In the three and nine months ended September 30, 2015, we repurchased an aggregate principal amount of \$134 million of the 6.00% Senior Notes with an aggregate cash payment of \$131 million and recognized an aggregate gain of \$2 million associated with the retirement of debt. At September 30, 2015 and December 31, 2014, the aggregate outstanding principal amount of the 6.00% Senior Notes was \$866 million and \$1.0 billion, respectively.

Eksportfinans Loans—We have borrowings under the Loan Agreement dated September 12, 2008 and the Loan Agreement dated November 18, 2008, between one of our subsidiaries and Eksportfinans ASA (together, the "Eksportfinans Loans"). At September 30, 2015 and December 31, 2014, aggregate borrowings of NOK 1.9 billion and NOK 2.8 billion, respectively, equivalent to approximately \$224 million and \$370 million, respectively, were outstanding under the Eksportfinans Loans.

The Eksportfinans Loans require collateral to be held by a financial institution through expiration (the "Eksportfinans Restricted Cash Investments"). At September 30, 2015 and December 31, 2014, the aggregate principal amount of the Eksportfinans Restricted Cash Investments was NOK 1.9 billion and NOK 2.8 billion, respectively, equivalent to approximately \$224 million and \$370 million, respectively.

Note 11—Derivatives and Hedging

During the nine months ended September 30, 2014, we entered into interest rate swaps, which qualified for and we designated as a fair value hedge to reduce our exposure to changes in the fair value of the 6.0% Senior Notes due March 2018 and the 6.5% Senior Notes due November 2020. During the nine months ended September 30, 2015, we terminated the interest rate swaps previously designated as a fair value hedge of the 6.5% Senior Notes, and in the nine months ended September 30, 2015, we received an aggregate net cash payment of \$24 million in connection with the settlement.

Our interest rate swaps have aggregate notional amounts equal to the corresponding face values of the hedged instruments and have stated maturities that coincide with those of the hedged instruments. We determined that the hedging relationships qualify for and we have applied the shortcut method of accounting, under which the interest rate swaps are considered to have no ineffectiveness and no ongoing assessment of effectiveness is required. Accordingly, changes in the fair value of the interest rate swaps recognized in interest expense offset the changes in the fair value of the hedged fixed-rate notes.

At September 30, 2015, the aggregate notional amounts and the weighted average interest rates associated with our derivatives designated as hedging instruments were as follows (in millions, except weighted average interest rates):

| | Pay Aggregate notional amount | Fixed or variable rate | Weighted average rate | Receive Aggregate notional amount | Fixed or variable rate | Weighted average rate |
|---------------------------------------|--|------------------------------|-----------------------------|--|------------------------------|-----------------------------|
| Interest rate swaps, fair value hedge | \$750 | Variable | 4.91 | % \$750 | Fixed | 6 % |

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The balance sheet classification and aggregate carrying amount of our derivatives designated as hedging instruments, measured at fair value, were as follows (in millions):

| | | September | December |
|---------------------------------------|------------------------------|-----------|----------|
| | Balance sheet classification | 30, | 31, |
| | | 2015 | 2014 |
| Interest rate swaps, fair value hedge | Other current assets | \$ — | \$ 4 |
| Interest rate swaps, fair value hedge | Other assets | 9 | 11 |

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TRANSOCEAN LTD. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—continued

(Unaudited)

Note 12—Postemployment Benefit Plans

Effective January 1, 2015, we froze the benefits of our qualified defined benefit pension plan in the U.S., which covered substantially all U.S. employees, and one of our unfunded supplemental benefit plans. Including these plans, we have several frozen defined benefit pension plans, both funded and unfunded, that cover certain current and former U.S. employees and certain former directors of our predecessors (the "U.S. Plans"). We also have various defined benefit plans in the U.K., Norway, Nigeria, Egypt and Indonesia that cover certain current and former employees in those areas (the "Non U.S. Plans").

On August 25, 2015, we announced an amendment to our other postretirement employee benefit plans covering substantially all of our U.S. employees (the "OPEB Plans") that provides for benefits to eligible participants during a ten year phase out period ending December 31, 2026. In the three months ended September 30, 2015, as a result of this remeasurement event, we reduced the aggregate liability for the OPEB Plans by \$33 million with a corresponding entry to accumulated other comprehensive loss.

The components of net periodic benefit costs, before tax, and funding contributions for these plans were as follows (in millions):

| | Three months ended September 30, 2015 | | | | Three months ended September 30, 2014 | | | |
|--------------------------------|--|-------------------|---------------|-------|--|-------------------|---------------|-------|
| | U.S. Plans | Non-U.S. Plans | OPEB Plans | Total | U.S. Plans | Non-U.S. Plans | OPEB Plans | Total |
| | Net periodic benefit costs | | | | | | | |
| Service cost | \$1 | \$ 7 | \$ 1 | \$9 | \$9 | \$ 8 | \$ — | \$17 |
| Interest cost | 17 | 4 | 1 | 22 | 15 | 6 | 1 | 22 |
| Expected return on plan assets | (22) | (7) | — | (29) | (19) | (7) | — | (26) |
| Settlements and curtailments | 2 | 1 | 1 | 4 | — | 2 | — | 2 |
| Actuarial losses, net | 3 | 2 | — | 5 | 3 | 2 | — | 5 |
| Prior service cost, net | — | — | (1) | (1) | — | — | — | — |
| Net periodic benefit costs | \$1 | \$ 7 | \$ 2 | \$10 | \$8 | \$ 11 | \$ 1 | \$20 |
| Funding contributions | \$9 | \$ 2 | \$ 3 | \$14 | \$— | \$ 4 | \$ — | \$4 |
| | | | | | | | | |
| | Nine months ended September 30, 2015 | | | | Nine months ended September 30, 2014 | | | |
| | U.S. Plans | Non-U.S. Plans | OPEB Plans | Total | U.S. Plans | Non-U.S. Plans | OPEB Plans | Total |
| | Net periodic benefit costs | | | | | | | |
| Service cost | \$4 | \$ 20 | \$ 1 | \$25 | \$30 | \$ 23 | \$ — | \$53 |
| Interest cost | 49 | 14 | 2 | 65 | 49 | 20 | 2 | 71 |
| Expected return on plan assets | (65) | (21) | — | (86) | (56) | (22) | — | (78) |
| Settlements and curtailments | 2 | 1 | 1 | 4 | (6) | 3 | — | (3) |
| Actuarial losses, net | 8 | 7 | — | 15 | 13 | 4 | — | 17 |
| Net transition obligation | — | 1 | — | 1 | — | — | — | — |
| Prior service cost, net | — | — | (1) | (1) | (1) | — | — | (1) |
| Net periodic benefit costs | \$(2) | \$ 22 | \$ 3 | \$23 | \$29 | \$ 28 | \$ 2 | \$59 |
| Funding contributions | \$10 | \$ 14 | \$ 6 | \$30 | \$42 | \$ 28 | \$ — | \$70 |

TRANSOCEAN LTD. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—continued
(Unaudited)

Note 13—Commitments and Contingencies

Macondo well incident settlement obligations

Overview—On April 22, 2010, the Ultra Deepwater Floater Deepwater Horizon sank after a blowout of the Macondo well caused a fire and explosion on the rig. Eleven persons died in, and others were injured as a result of, the incident. At the time of the explosion, Deepwater Horizon was located approximately 41 miles off the coast of Louisiana in Mississippi Canyon Block 252 and was contracted to an affiliate of BP plc (together with its affiliates, "BP"). Litigation commenced shortly after the incident, and most claims against us were consolidated by the U.S. Judicial Panel on Multidistrict Litigation and transferred to the U.S. District Court for the Eastern District of Louisiana (the "MDL Court"). A significant portion of the contingencies arising from the Macondo well incident has now been resolved as a result of settlements with the U.S. Department of Justice (the "DOJ"), BP, and the Plaintiffs' Steering Committee (the "PSC").

U.S. Department of Justice settlement agreements—On January 3, 2013, we reached an agreement with the DOJ to resolve certain outstanding civil and potential criminal charges against us arising from the Macondo well incident. As part of this resolution, we agreed to a guilty plea ("Plea Agreement") and a civil consent decree ("Consent Decree") by which, among other things, we agreed to pay \$1.4 billion in fines, recoveries and civil penalties, excluding interest, in scheduled installments through February 2017. In the nine months ended September 30, 2015 and 2014, we paid an aggregate installment of \$264 million and \$472 million, respectively, including interest, towards our obligations under the Plea Agreement and Consent Decree. At September 30, 2015, we had satisfied our financial obligations under the Consent Decree and had \$120 million outstanding under the Plea Agreement. At December 31, 2014, our outstanding obligations under the Consent Decree and the Plea Agreement were \$200 million and \$180 million, respectively.

Macondo well incident contingencies

Overview—During the nine months ended September 30, 2015, in connection with the settlements, as further described below, we adjusted our assets and liabilities associated with contingencies resulting from the Macondo well incident. In the nine months ended September 30, 2015, we recognized income of \$788 million (\$735 million, or \$2.02 per diluted share, net of tax), recorded as a net reduction to operating and maintenance costs and expenses, including \$538 million associated with recoveries from insurance for our previously incurred losses, \$125 million associated with partial reimbursement from BP for our previously incurred legal costs, and \$125 million associated with a net reduction to certain related contingent liabilities, primarily associated with contingencies that have either been settled or otherwise resolved as a result of settlements with BP and the PSC. We made such adjustments with corresponding entries to increase accounts receivable by \$663 million and decrease other current liabilities by \$125 million. In the three and nine months ended September 30, 2015, we received cash proceeds of \$218 million and \$663 million, respectively, associated with reimbursement for or recoveries of previously incurred losses, including \$125 million from BP and \$538 million from insurance.

We have recognized a liability for the remaining estimated loss contingencies associated with litigation resulting from the Macondo well incident that we believe are probable and for which a reasonable estimate can be made. At September 30, 2015 and December 31, 2014, the liability for estimated loss contingencies that we believe are probable and for which a reasonable estimate can be made was \$285 million and \$426 million, respectively, recorded in other current liabilities. The liability for estimated loss contingencies at September 30, 2015, included, among others, the amount we have agreed to pay as a result of our settlement with the PSC (see "—PSC Settlement Agreement" below), which is subject to approval by the MDL Court. The remaining litigation could result in certain loss contingencies that we believe are either reasonably possible or probable but for which we do not believe a reasonable estimate can be made. Although we have not recognized a liability for such loss contingencies, these contingencies could result in liabilities that we ultimately recognize.

We believe the remaining most notable claims against us arising from the Macondo well incident are the potential settlement class opt outs from the PSC Settlement Agreement. See Note 18—Subsequent Events.

We recognize an asset associated with the portion of our estimated losses that we believe is probable of recovery from insurance and for which we had received from underwriters' confirmation of expected payment. At December 31,

2014, the insurance recoverable asset was \$10 million, recorded in other assets. Although we have available policy limits that could result in additional amounts recoverable from insurance, recovery of such additional amounts is not probable and we are not currently able to estimate such amounts (see "—Insurance coverage"). Our estimates involve a significant amount of judgment. As a result of new information or future developments, we may increase our estimated loss contingencies arising out of the Macondo well incident or reduce our estimated recoveries from insurance, and the resulting losses could have a material adverse effect on our consolidated statement of financial position, results of operations or cash flows.

The Consent Decree resolved the claim by the U.S. for civil penalties under the Clean Water Act. The Consent Decree did not resolve United States' claim under the Oil Pollution Act ("OPA") for natural resource damages ("NRD") or for removal costs. However, BP has agreed to indemnify us for NRD and most removal costs as further discussed under "—BP Settlement Agreement" and "—Pending Claims" below.

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TRANSOCEAN LTD. AND SUBSIDIARIES
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—continued
 (Unaudited)

BP Settlement Agreement—On May 20, 2015, we entered into a settlement agreement with BP (the "BP Settlement Agreement"). We believe the BP Settlement Agreement resolves all Macondo well-related litigation between BP and us, and the indemnity BP has committed to provide will generally address claims by third parties, including claims for economic and property damages, economic loss and NRD. However, the indemnity obligations do not extend to fines, penalties, or punitive damages. The BP Settlement Agreement generally provides that:

§ BP agreed to pay and has paid us \$125 million, as noted above, as partial reimbursement of the legal costs we have incurred in connection with the Macondo well incident;

§ BP will indemnify us for compensatory damages, including all natural resource damages and all cleanup and removal costs incurred before the date of the settlement and any future cleanup and removal costs for oil or pollutants originating from the Macondo well;

§ We will indemnify BP for personal and bodily injury claims of our employees and for any future costs for the cleanup or removal of pollutants stored on the Deepwater Horizon vessel;

§ BP will no longer attempt to recover as an "additional insured" under our excess liability insurance policies, and BP will be bound to the MDL Court's and Texas Supreme Court's insurance reimbursement rulings for the Macondo well litigation;

§ BP and we will each release and withdraw all claims we have against each other arising from the Macondo well litigation; and

§ Neither BP nor we will make statements asserting the other company's conduct was grossly negligent in the Macondo well incident.

BP settlement with U.S. and States—On July 2, 2015, BP announced it had reached an agreement in principle to settle certain claims with the U.S.; the States of Alabama, Florida, Louisiana, Mississippi, and Texas (collectively, the "States") and local governments in the Gulf region. Among other things, the announced agreement, if finalized and approved by the MDL Court, will resolve the claims of the U.S. and the States for NRD under OPA. In the BP Settlement Agreement, BP has agreed to indemnify us for all NRD claims, and in the July 2, 2015 agreement, which is still subject to completion, the DOJ and the states that are party to the agreement, have agreed to release any such claims against us. In light of these facts, we believe that our likelihood of loss resulting from any NRD claims is remote.

PSC Settlement Agreement—On May 29, 2015, together with the PSC, we filed a settlement agreement (the "PSC Settlement Agreement") with the MDL Court finalizing the terms as initially agreed to by us and the PSC in a Term Sheet Agreement on May 20, 2015. The PSC Settlement Agreement is subject to approval by the MDL Court. Through the PSC Settlement Agreement, we agreed to pay a total of \$212 million, plus up to \$25 million for partial reimbursement of attorneys' fees, to be allocated between two classes of plaintiffs as follows: (1) private plaintiffs, businesses, and local governments who could have asserted punitive damages claims against us under general maritime law (the "Punitive Damages Class"); and (2) private plaintiffs who previously settled economic damages claims against BP and were assigned certain claims BP had made against us. A court appointed neutral representative will allocate the payment between the two classes. In exchange for these payments, each of the classes agreed to release all respective claims it has against us. Members of the Punitive Damages Class may opt out of the PSC Settlement Agreement and continue to pursue punitive damages claims against us, but we may terminate the PSC Settlement Agreement if the number of opt outs exceeds the specified threshold amount. In August 2015, we made a cash deposit of \$212 million into an escrow account pending approval of the settlement by the MDL Court. At September 30, 2015, the balance of the escrow account was \$212 million, recorded in other current assets.

Multidistrict litigation proceeding—Most Macondo well-related claims against us have been resolved under various settlements. There are, however, still pending claims by potential opt outs from the settlement with the PSC and a number of other parties. As of September 30, 2015, the MDL Court has completed two trials involving us, and additional litigation and appeals continue.

The Phase One trial in 2013 addressed fault for the Macondo blowout and resulting oil spill. The MDL Court's September 2014 Phase One ruling concluded that BP was grossly negligent and reckless and 67 percent at fault for the blowout, explosion, and spill; that we were negligent and 30 percent at fault; and that Halliburton Company ("Halliburton") was negligent and three percent at fault. The finding that we were negligent, but not grossly negligent, meant that, subject to a successful appeal, we would not be held liable for punitive damages and that BP was required to honor its contractual agreements to indemnify us for compensatory damages and release its claims against us. Our settlements with BP and the PSC finally resolve the indemnity and release issues (see "—BP Settlement Agreement" and "—PSC Settlement Agreement") and largely eliminate our risk should these determinations be reversed through the appeal process. The MDL Court also concluded that we were an "operator" of the Macondo well for purposes of 33 U.S.C. § 2704(c)(3), a provision of OPA that permits government entities to recover removal costs by owners and operators of a facility or vessel that caused a discharge. The MDL Court, however, found that "Transocean's liability to government entities for removal costs is ultimately shifted to BP by virtue of contractual indemnity," and BP has agreed to indemnify removal costs through the BP Settlement Agreement (see "—BP Settlement Agreement"). The Phase One ruling did not quantify damages or result in a final monetary judgment. However, because it is a determination of liability under maritime law, the Phase One ruling is appealable, and we, along with BP, the PSC, Halliburton and the State of Alabama have each appealed or cross-appealed aspects of the ruling. These appeals have been stayed pending the finalization of BP's settlement with the U.S. and the States. As a result of our settlements, we do not expect any party to challenge the ruling with respect to Transocean when the appeals resume, and we expect that any remaining issues in the appeal would be addressed to the other parties. We can provide no assurances as to the outcome of these appeals, as to the timing of any further rulings, or that we will not enter into additional settlements as to some or all of the matters related to the Macondo well incident, including those to be determined at a trial, or the timing or terms of any such settlements.

TRANSOCEAN LTD. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—continued
(Unaudited)

Pending claims—As of September 30, 2015, approximately 1,398 actions or claims are pending against us, along with other unaffiliated defendants arising from individual complaints as well as putative class-action complaints that were filed in the federal and state courts in Louisiana, Texas, Mississippi, Alabama, Georgia, Kentucky, South Carolina, Tennessee, Florida and other courts. These claims were originally filed in various state and federal courts, and most have been consolidated in the MDL Court. We believe our settlement with the PSC, if approved by the MDL Court, will resolve many of these pending actions. As for any actions not resolved by these settlements, including any remaining personal injury claims, any claims by individuals who opt out of the PSC Settlement Agreement, claims by State governments, claims by private environmental groups, and securities actions, we are vigorously defending those claims and pursuing any and all defenses available.

Wrongful death and personal injury claims—As of September 30, 2015, all personal injury claims have been settled. **State and other government claims**—Claims have been filed against us by over 200 state, local and foreign governments, including the States of Alabama, Florida, Louisiana, Mississippi and Texas; the Mexican States of Veracruz, Quintana Roo, Tamaulipas and Yucatan; the federal government of Mexico and other local governments by and on behalf of multiple towns and parishes. See Note 18—Subsequent Events.

The remaining government claims include claims under OPA for economic damages, natural resource damages and removal costs. As noted above, BP has agreed to indemnify us for these damages (see "—Macondo well incident settlement obligations"). The OPA claims of the Mexican States of Veracruz, Quintana Roo, Tamaulipas and Yucatan were dismissed for failure to demonstrate that recovery under OPA was authorized by treaty or executive agreement. The MDL Court subsequently granted summary judgment and the Fifth Circuit upheld the decision on the Mexican States' general maritime law claims on the ground that the federal government of Mexico, rather than the Mexican States, had the proprietary interest in the claims. The Mexican States have sought review in the U.S. Supreme Court, which has not yet acted on the petition.

Citizen suits under environmental statutes—The Center for Biological Diversity (the "Center"), a private environmental group, sued BP and us under multiple federal environmental statutes seeking monetary penalties and injunctive relief. The MDL Court dismissed all of the claims, and in January 2013, the Fifth Circuit affirmed the dismissal with one exception: the Fifth Circuit remanded to the MDL Court the Center's claim for injunctive relief, but not for penalties, based on BP and our alleged failure to make certain reports about the constituents of oil spilled into the U.S. Gulf of Mexico as required by the Emergency Planning and Community Right-to-Know Act of 1986. In September 2015, the MDL Court granted summary judgment in favor of us and BP on the one remaining claim.

Federal securities claims—On September 30, 2010, a proposed federal securities class action was filed in the U.S. District Court for the Southern District of New York, naming us, former chief executive officers of Transocean Ltd. and one of our acquired companies as defendants. In the action, a former shareholder of the acquired company alleged that the joint proxy statement relating to our shareholder meeting in connection with the merger with the acquired company violated Section 14(a) of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act"), Rule 14a-9 promulgated thereunder and Section 20(a) of the Exchange Act. The plaintiff claimed that the acquired company's shareholders received inadequate consideration for their shares as a result of the alleged violations and sought compensatory and rescissory damages and attorneys' fees on behalf of the plaintiff and the proposed class members. In connection with this action, we are obligated to pay the defense fees and costs for the individual defendants, which may be covered by our directors' and officers' liability insurance, subject to a deductible. On March 11, 2014, the District Court for the Southern District of New York dismissed the claims as time-barred. Plaintiffs appealed to the U.S. Court of Appeals for the Second Circuit, which heard oral argument on August 18, 2015. The court has not yet issued a ruling.

Wreck removal—By letter dated December 6, 2010, the U.S. Coast Guard requested that we formulate and submit a comprehensive oil removal plan to remove any diesel fuel that can be recovered from Deepwater Horizon. We have conducted a survey of the rig wreckage and have confirmed that no diesel fuel remains on the rig. The U.S. Coast Guard has not requested that we remove the rig wreckage from the sea floor. In February 2013, the U.S. Coast Guard submitted a request seeking analysis and recommendations as to the potential life of the rig's riser and cofferdam,

which are resting on the seafloor, and potential remediation or removal options. We have insurance coverage for wreck removal for up to 25 percent of Deepwater Horizon's insured value, or \$140 million, with any excess wreck removal liability generally covered to the extent of our remaining excess liability limits. Under the BP Settlement Agreement, we have agreed to indemnify BP for any costs associated with wreck removal.

Insurance coverage—At the time of the Macondo well incident, our excess liability insurance program offered aggregate insurance coverage of \$950 million, excluding a \$15 million deductible and a \$50 million self-insured layer through our wholly owned captive insurance subsidiary. This excess liability insurance coverage consisted of a first and a second layer of \$150 million each, a third and fourth layer of \$200 million each and a fifth layer of \$250 million. We have recovered costs under the first four excess layers, the limits of which are now fully exhausted. We have submitted claims to the \$250 million fifth layer, which is comprised of Bermuda market insurers (the "Bermuda Insurers"). The Bermuda Insurers have asserted various coverage defenses to our claims and we have issued arbitration notices to the Bermuda Insurers.

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TRANSOCEAN LTD. AND SUBSIDIARIES
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(Unaudited)

Other legal proceedings

Asbestos litigation—In 2004, several of our subsidiaries were named, along with numerous other unaffiliated defendants, in 21 complaints filed on behalf of 769 plaintiffs in the Circuit Courts of the State of Mississippi and which claimed injuries arising out of exposure to asbestos allegedly contained in drilling mud during these plaintiffs' employment in drilling activities between 1965 and 1986. The complaints generally allege that the defendants used or manufactured asbestos containing drilling mud additives for use in connection with drilling operations and have included allegations of negligence, products liability, strict liability and claims allowed under the Jones Act and general maritime law. In each of these cases, the complaints have named other unaffiliated defendant companies, including companies that allegedly manufactured the drilling-related products that contained asbestos. The plaintiffs generally seek awards of unspecified compensatory and punitive damages, but the court-appointed special master has ruled that a Jones Act employer defendant, such as us, cannot be sued for punitive damages. After ten years of litigation, this group of cases has been winnowed to the point where now only 15 plaintiffs' individual claims remain pending in Mississippi in which we have or may have an interest.

During the year ended December 31, 2014, a group of lawsuits premised on the same allegations as those in Mississippi were filed in Louisiana. As of September 30, 2015, eight plaintiffs have claims pending against one or more of our subsidiaries in four different lawsuits filed in Louisiana. We intend to defend these lawsuits vigorously, although we can provide no assurance as to the outcome. We historically have maintained broad liability insurance, although we are not certain whether insurance will cover the liabilities, if any, arising out of these claims. Based on our evaluation of the exposure to date, we do not expect the liability, if any, resulting from these claims to have a material adverse effect on our consolidated statement of financial position, results of operations or cash flows.

One of our subsidiaries was involved in lawsuits arising out of the subsidiary's involvement in the design, construction and refurbishment of major industrial complexes. The operating assets of the subsidiary were sold and its operations were discontinued in 1989, and the subsidiary has no remaining assets other than the insurance policies involved in its litigation, with its insurers and, either directly or indirectly through a qualified settlement fund. The subsidiary has been named as a defendant, along with numerous other companies, in lawsuits alleging bodily injury or personal injury as a result of exposure to asbestos. As of September 30, 2015, the subsidiary was a defendant in approximately 247 lawsuits, some of which include multiple plaintiffs, and we estimate that there are approximately 286 plaintiffs in these lawsuits. For many of these lawsuits, we have not been provided with sufficient information from the plaintiffs to determine whether all or some of the plaintiffs have claims against the subsidiary, the basis of any such claims, or the nature of their alleged injuries. The first of the asbestos related lawsuits was filed against the subsidiary in 1990. Through September 30, 2015, the costs incurred to resolve claims, including both defense fees and expenses and settlement costs, have not been material, all known deductibles have been satisfied or are inapplicable, and the subsidiary's defense fees and expenses and settlement costs have been met by insurance made available to the subsidiary. The subsidiary continues to be named as a defendant in additional lawsuits, and we cannot predict the number of additional cases in which it may be named a defendant nor can we predict the potential costs to resolve such additional cases or to resolve the pending cases. However, the subsidiary has in excess of \$1.0 billion in insurance limits potentially available to the subsidiary. Although not all of the policies may be fully available due to the insolvency of certain insurers, we believe that the subsidiary will have sufficient funding directly or indirectly from settlements and claims payments from insurers, assigned rights from insurers and coverage in place settlement agreements with insurers to respond to these claims. While we cannot predict or provide assurance as to the outcome of these matters, we do not believe that the ultimate liability, if any, arising from these claims will have a material impact on our consolidated statement of financial position, results of operations or cash flows.

Rio de Janeiro tax assessment—In the third quarter of 2006, we received tax assessments of BRL 443 million, equivalent to approximately \$112 million, including interest and penalties, from the state tax authorities of Rio de Janeiro in Brazil against one of our Brazilian subsidiaries for taxes on equipment imported into the state in connection with our operations. The assessments resulted from a preliminary finding by these authorities that our record keeping practices were deficient. We currently believe that the substantial majority of these assessments are without merit. We filed an

initial response with the Rio de Janeiro tax authorities on September 9, 2006 refuting these additional tax assessments. In September 2007, we received confirmation from the state tax authorities that they believe the additional tax assessments are valid, and as a result, we filed an appeal on September 27, 2007 to the state Taxpayer's Council contesting these assessments. While we cannot predict or provide assurance as to the final outcome of these proceedings, we do not expect it to have a material adverse effect on our consolidated statement of financial position, results of operations or cash flows.

Brazilian import license assessment—In the fourth quarter of 2010, we received an assessment from the Brazilian federal tax authorities in Rio de Janeiro of BRL 563 million, equivalent to approximately \$143 million, including interest and penalties, based upon the alleged failure to timely apply for import licenses for certain equipment and for allegedly providing improper information on import license applications. We believe that a substantial majority of the assessment is without merit and are vigorously pursuing legal remedies. The case was decided partially in favor of our Brazilian subsidiary in the lower administrative court level. The decision cancelled the majority of the assessment, reducing the total assessment to BRL 37 million, equivalent to approximately \$9 million. On July 14, 2011, we filed an appeal to eliminate the assessment. On May 23, 2013, a ruling was issued that eliminated all assessment amounts. A further appeal by the taxing authorities was filed in November 2014 and accepted for review in April 2015. While we cannot predict or provide assurance as to the outcome of these proceedings, we do not expect it to have a material adverse effect on our consolidated statement of financial position, results of operations or cash flows.

TRANSOCEAN LTD. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—continued
(Unaudited)

Nigerian Cabotage Act litigation—In October 2007, three of our subsidiaries were each served a Notice and Demand from the Nigeria Maritime Administration and Safety Agency, imposing a two percent surcharge on the value of all contracts performed by us in Nigeria pursuant to the Coastal and Inland Shipping (Cabotage) Act 2003 (the "Cabotage Act"). Our subsidiaries each filed an originating summons in the Federal High Court in Lagos challenging the imposition of this surcharge on the basis that the Cabotage Act and associated levy is not applicable to drilling rigs. The respondents challenged the competence of the suits on several procedural grounds. The court upheld the objections and dismissed the suits. In December 2010, our subsidiaries filed a new joint Cabotage Act suit. While we cannot predict or provide assurance as to the outcome of these proceedings, we do not expect it to have a material adverse effect on our consolidated statement of financial position, results of operations or cash flows.

Other matters—We are involved in various tax matters, various regulatory matters, and a number of claims and lawsuits, asserted and unasserted, all of which have arisen in the ordinary course of our business. Such matters include a certain claim asserted by Petróleo Brasileiro S.A. that it will seek to recover from its contractors, including us, any taxes, penalties, interest and fees, if any, that it must pay to the Brazilian Federal Revenue Service for withholding taxes related to its charter agreements with its contractors. We do not expect the liability, if any, resulting from these other matters to have a material adverse effect on our consolidated statement of financial position, results of operations or cash flows. We cannot predict with certainty the outcome or effect of any of the litigation matters specifically described above or of any such other pending, threatened, or possible litigation or liability. We can provide no assurance that our beliefs or expectations as to the outcome or effect of any tax, regulatory, lawsuit or other litigation matter will prove correct and the eventual outcome of these matters could materially differ from management's current estimates.

Other environmental matters

Hazardous waste disposal sites—We have certain potential liabilities under the Comprehensive Environment Response, Compensation and Liability Act ("CERCLA") and similar state acts regulating cleanup of various hazardous waste disposal sites, including those described below. CERCLA is intended to expedite the remediation of hazardous substances without regard to fault. Potentially responsible parties ("PRPs") for each site include present and former owners and operators of, transporters to and generators of the substances at the site. Liability is strict and can be joint and several.

We have been named as a PRP in connection with a site located in Santa Fe Springs, California, known as the Waste Disposal, Inc. site. We and other PRPs have agreed with the Environmental Protection Agency (the "EPA") and the DOJ to settle our potential liabilities for this site by agreeing to perform the remaining remediation required by the EPA. The form of the agreement is a consent decree, which has been entered by the court. The parties to the settlement have entered into a participation agreement, which makes us liable for approximately eight percent of the remediation and related costs. The remediation is complete, and we believe our share of the future operation and maintenance costs of the site is not material. There are additional potential liabilities related to the site, but these cannot be quantified, and we have no reason at this time to believe that they will be material.

One of our subsidiaries has been ordered by the California Regional Water Quality Control Board ("CRWQCB") to develop a testing plan for a site known as Campus 1000 Fremont in Alhambra, California. This site was formerly owned and operated by certain of our subsidiaries. It is presently owned by an unrelated party, which has received an order to test the property. We have also been advised that one or more of our subsidiaries is likely to be named by the EPA as a PRP for the San Gabriel Valley, Area 3, Superfund site, which includes this property. Testing has been completed at the property, but no contaminants of concern were detected. In discussions with CRWQCB staff, we were advised of their intent to issue us a "no further action" letter, but it has not yet been received. Based on the test results, we would contest any potential liability. We have no knowledge at this time of the potential cost of any remediation, who else will be named as PRPs, and whether in fact any of our subsidiaries is a responsible party. The subsidiaries in question do not own any operating assets and have limited ability to respond to any liabilities. Resolutions of other claims by the EPA, the involved state agency or PRPs are at various stages of investigation. These investigations involve determinations of (a) the actual responsibility attributed to us and the other PRPs at the

site, (b) appropriate investigatory or remedial actions and (c) allocation of the costs of such activities among the PRPs and other site users. Our ultimate financial responsibility in connection with those sites may depend on many factors, including (i) the volume and nature of material, if any, contributed to the site for which we are responsible, (ii) the number of other PRPs and their financial viability and (iii) the remediation methods and technology to be used. It is difficult to quantify with certainty the potential cost of these environmental matters, particularly in respect of remediation obligations. Nevertheless, based upon the information currently available, we believe that our ultimate liability arising from all environmental matters, including the liability for all other related pending legal proceedings, asserted legal claims and known potential legal claims which are likely to be asserted, is adequately accrued and should not have a material effect on our consolidated statement of financial position or results of operations.

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TRANSOCEAN LTD. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—continued

(Unaudited)

Retained risk

Overview—Our hull and machinery and excess liability insurance program is comprised of commercial market and captive insurance policies that we renew annually on May 1. We periodically evaluate our insurance limits and self insured retentions. At September 30, 2015, the insured value of our drilling rig fleet was approximately \$25.7 billion, excluding our rigs under construction. We generally do not carry commercial market insurance coverage for loss of revenues or for losses resulting from physical damage to our fleet caused by named windstorms in the U.S. Gulf of Mexico, including liability for wreck removal costs.

Hull and machinery coverage—At September 30, 2015, under the hull and machinery program, we generally maintained a \$125 million per occurrence deductible, limited to a maximum of \$200 million per policy period. Subject to the same shared deductible, we also had coverage for an amount equal to 50 percent of a rig's insured value for combined costs incurred to mitigate rig damage, wreck or debris removal and collision liability. Any excess wreck or debris removal costs and excess collision liability costs are generally covered to the extent of our remaining excess liability coverage.

Excess liability coverage—At September 30, 2015, we carried excess liability coverage of \$700 million in the commercial market excluding the deductibles and self insured retention noted below, which generally covers offshore risks such as personal injury, third party property claims, and third party non crew claims, including wreck removal and pollution. Our excess liability coverage had separate \$10 million per occurrence deductibles on collision liability claims and \$5 million per occurrence deductibles on crew personal injury claims and on other third party non crew claims. Through our wholly owned captive insurance company, we retained the risk of the primary \$50 million excess liability coverage. In addition, we generally retained the risk for any liability losses in excess of \$750 million.

Other insurance coverage—At September 30, 2015, we also carried \$100 million of additional insurance that generally covers expenses that would otherwise be assumed by the well owner, such as costs to control the well, redrill expenses and pollution from the well. This additional insurance provides coverage for such expenses in circumstances in which we have legal or contractual liability arising from our gross negligence or willful misconduct.

Letters of credit and surety bonds

At September 30, 2015 and December 31, 2014, we had outstanding letters of credit totaling \$244 million and \$338 million, respectively, issued under various committed and uncommitted credit lines provided by several banks to guarantee various contract bidding, performance activities and customs obligations, including letters of credit totaling \$66 million and \$91 million, respectively, that we agreed to maintain in support of the operations for Shelf Drilling (see Note 7—Discontinued Operations).

As is customary in the contract drilling business, we also have various surety bonds in place that secure customs obligations relating to the importation of our rigs and certain performance and other obligations. At September 30, 2015 and December 31, 2014, we had outstanding surety bonds totaling \$30 million and \$6 million, respectively.

Note 14—Shareholders' Equity

Par value reduction—In August 2015, our board of directors recommended that shareholders at the extraordinary general meeting, scheduled to be held on October 29, 2015, (the "extraordinary general meeting") approve the reduction of the par value of each of our shares to CHF 0.10 from the original par value of CHF 15.00. See Note 18—Subsequent Events.

Distributions of qualifying additional paid in capital—In May 2015, at our annual general meeting, our shareholders approved the distribution of qualifying additional paid in capital in the form of a U.S. dollar denominated dividend of \$0.60 per outstanding share, payable in four quarterly installments of \$0.15 per outstanding share, subject to certain limitations. We do not pay the distribution of qualifying additional paid in capital with respect to our shares held in treasury or held by our subsidiary. In May 2015, we recognized a liability of \$218 million for the distribution payable, recorded in other current liabilities, with a corresponding entry to additional paid in capital. On June 17 and September 23, 2015, we paid the first two installments in the aggregate amount of \$109 million to shareholders of record as of May 29 and August 25, 2015. In August 2015, our board of directors recommended that shareholders at the extraordinary general meeting approve the cancellation of the third and fourth installments of the dividend. At

September 30, 2015, the aggregate carrying amount of the distribution payable was \$109 million. See Note 18—Subsequent Events.

In May 2014, at our annual general meeting, our shareholders approved the distribution of qualifying additional paid in capital in the form of a U.S. dollar denominated dividend of \$3.00 per outstanding share, payable in four quarterly installments of \$0.75 per outstanding share, subject to certain limitations. In May 2014, we recognized a liability of \$1.1 billion for the distribution payable with a corresponding entry to additional paid in capital. On June 18 and September 17, 2014 we paid the first two installments in the aggregate amount of \$544 million to shareholders of record as of May 30 and August 22, 2014. At December 31, 2014, the aggregate carrying amount of the distribution payable was \$272 million. On March 18, 2015, we paid the final installment in the aggregate amount of \$272 million to shareholders of record as of February 20, 2015.

In May 2013, at our annual general meeting, our shareholders approved the distribution of qualifying additional paid in capital in the form of a U.S. dollar denominated dividend of \$2.24 per outstanding share, payable in four quarterly installments of \$0.56 per outstanding share, subject to certain limitations. On March 19, 2014, we paid the final installment in the aggregate amount of \$202 million to shareholders of record as of February 21, 2014.

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TRANSOCEAN LTD. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—continued
(Unaudited)

Shares held in treasury—At September 30, 2015 and December 31, 2014, we held 2.9 million shares in treasury, recorded at cost. In August 2015, our board of directors recommended that shareholders at our extraordinary general meeting approve the cancellation of all shares held in treasury. See Note 18—Subsequent Events.

Shares held by subsidiary—One of our subsidiaries holds our shares for future use to satisfy our obligations to deliver shares in connection with awards granted under our incentive plans or other rights to acquire our shares. At September 30, 2015 and December 31, 2014, our subsidiary held 7.2 million shares and 8.7 million shares, respectively.

Accumulated other comprehensive loss—The changes in accumulated other comprehensive loss, presented net of tax, were as follows (in millions):

| | Three months ended September 30, 2015 | | | Three months ended September 30, 2014 | | |
|---|--|---------------------------|---------|--|---------------------------|---------|
| | Defined benefit pension plans | Derivative instruments | Total | Defined benefit pension plans | Derivative instruments | Total |
| Balance, beginning of period | \$(410) | \$ — | \$(410) | \$(188) | \$ — | \$(188) |
| Other comprehensive income before reclassifications | 33 | — | 33 | (3) | — | (3) |
| Reclassifications to net income | 9 | — | 9 | 6 | — | 6 |
| Other comprehensive income, net | 42 | — | 42 | 3 | — | 3 |
| Balance, end of period | \$(368) | \$ — | \$(368) | \$(185) | \$ — | \$(185) |

| | Nine months ended September 30, 2015 | | | Nine months ended September 30, 2014 | | |
|--|---|---------------------------|---------|---|---------------------------|---------|
| | Defined benefit pension plans | Derivative instruments | Total | Defined benefit pension plans | Derivative instruments | Total |
| Balance, beginning of period | \$(404) | \$ — | \$(404) | \$(264) | \$ 2 | \$(262) |
| Other comprehensive income (loss) before reclassifications | 22 | — | 22 | 70 | — | 70 |
| Reclassifications to net income | 14 | — | 14 | 9 | (2) | 7 |
| Other comprehensive income (loss), net | 36 | — | 36 | 79 | (2) | 77 |
| Balance, end of period | \$(368) | \$ — | \$(368) | \$(185) | \$ — | \$(185) |

Note 15—Noncontrolling interest

Transocean Partners—On August 5, 2014, we completed an initial public offering of Transocean Partners. In the three and nine months ended September 30, 2014, in connection with the transaction, we received cash proceeds of \$416 million, net of \$27 million for underwriting discounts and commissions and other offering costs, and we recorded an allocation of capital, which resulted in a decrease of \$44 million to noncontrolling interest with a corresponding increase to additional paid in capital.

In the three and nine months ended September 30, 2015, Transocean Partners declared and paid an aggregate distribution of \$25 million and \$75 million, respectively, to its unitholders, of which \$7 million and \$21 million, respectively, was paid to the holders of noncontrolling interest and \$18 million and \$54 million, respectively, was paid to us and was eliminated in consolidation.

Other subsidiaries—During the nine months ended September 30, 2015 and 2014, as a result of transactions with holders of noncontrolling interest in other subsidiaries, we recorded an allocation of capital, which resulted in a decrease of \$9 million and an increase of \$11 million, respectively, to noncontrolling interest with corresponding adjustments to

additional paid in capital. See Note 5—Impairments.

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TRANSOCEAN LTD. AND SUBSIDIARIES
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—continued
 (Unaudited)

Note 16—Financial Instruments

The carrying amounts and fair values of our financial instruments were as follows (in millions):

| | September 30, 2015 | | December 31, 2014 | |
|--|-----------------------|---------------|----------------------|---------------|
| | Carrying amount | Fair value | Carrying amount | Fair value |
| Cash and cash equivalents | \$2,234 | \$2,234 | \$2,635 | \$2,635 |
| Notes and other loans receivable | — | — | 15 | 15 |
| Restricted cash investments | 443 | 485 | 377 | 394 |
| Long term debt, including current maturities | 8,753 | 7,099 | 10,092 | 9,778 |
| Derivative instruments, assets | 9 | 9 | 15 | 15 |

We estimated the fair value of each class of financial instruments, for which estimating fair value is practicable, by applying the following methods and assumptions:

Cash and cash equivalents—The carrying amount of cash and cash equivalents represents the historical cost, plus accrued interest, which approximates fair value because of the short maturities of those instruments. We measured the estimated fair value of our cash equivalents using significant other observable inputs, representative of a Level 2 fair value measurement, including the net asset values of the investments. At September 30, 2015 and December 31, 2014, the aggregate carrying amount of our cash equivalents was \$1.5 billion and \$1.7 billion, respectively.

Loans receivable—We held certain loans receivable, which originated in connection with certain asset dispositions. The carrying amount represents the amortized cost of our investments. We measured the estimated fair value using significant unobservable inputs, representative of a Level 3 fair value measurement, including the credit ratings of the borrowers. At December 31, 2014, the aggregate carrying amount of our loans receivable was \$15 million, recorded in other assets.

Restricted cash investments—The carrying amount of the Eksportfinans Restricted Cash Investments represents the amortized cost of our investment. We measured the estimated fair value of the Eksportfinans Restricted Cash Investments using significant other observable inputs, representative of a Level 2 fair value measurement, including the terms and credit spreads of the instruments. At September 30, 2015 and December 31, 2014, the aggregate carrying amount of the Eksportfinans Restricted Cash Investments was \$223 million and \$369 million, respectively. At September 30, 2015 and December 31, 2014, the estimated fair value of the Eksportfinans Restricted Cash Investments was \$265 million and \$386 million, respectively.

The carrying amount of the restricted cash investments for our settlement with PSC pending court approval and certain contingent obligations approximates fair value due to the short term nature of the instruments in which the restricted cash investments are held. At September 30, 2015 and December 31, 2014, the aggregate carrying amount of the restricted cash investments for these contingent obligations was \$220 million and \$8 million, respectively, recorded in other current assets.

Debt—We measured the estimated fair value of our fixed rate debt using significant other observable inputs, representative of a Level 2 fair value measurement, including the terms and credit spreads for the instruments. At September 30, 2015 and December 31, 2014, the aggregate carrying amount of our fixed rate debt was \$8.8 billion and \$10.1 billion, respectively. At September 30, 2015 and December 31, 2014, the aggregate estimated fair value of our fixed rate debt was \$7.1 billion and \$9.8 billion, respectively.

Derivative instruments—The carrying amount of our derivative instruments represents the estimated fair value. We measured the estimated fair value using significant other observable inputs, representative of a Level 2 fair value measurement, including the interest rates and terms of the instruments.

Note 17—Condensed Consolidating Financial Information

Transocean Inc., a wholly owned subsidiary of Transocean Ltd., is the issuer of certain notes and debentures, which have been guaranteed by Transocean Ltd. Transocean Ltd.'s guarantee of debt securities of Transocean Inc. is full and

unconditional. Transocean Ltd. is not subject to any significant restrictions on its ability to obtain funds by dividends, loans or return of capital distributions from its consolidated subsidiaries.

The following tables present condensed consolidating financial information for (a) Transocean Ltd. (the "Parent Guarantor"), (b) Transocean Inc. (the "Subsidiary Issuer"), and (c) the other direct and indirect wholly owned and partially owned subsidiaries of the Parent Guarantor, none of which guarantee any indebtedness of the Subsidiary Issuer (the "Other Subsidiaries"). The condensed consolidating financial information may not be indicative of the results of operations, financial position or cash flows had the subsidiaries operated as independent entities.

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TRANSOCEAN LTD. AND SUBSIDIARIES
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—continued
 (Unaudited)

The following tables include the consolidating adjustments necessary to present the condensed financial statements on a consolidated basis (in millions):

| | Three months ended September 30, 2015 | | | | |
|--|---------------------------------------|----------------------|-----------------------|------------------------------|--------------|
| | Parent Guarantor | Subsidiary Issuer | Other Subsidiaries | Consolidating adjustments | Consolidated |
| Operating revenues | \$— | \$ — | \$ 1,608 | \$ — | \$ 1,608 |
| Cost and expenses | 4 | 1 | 1,130 | — | 1,135 |
| Loss on impairment | — | — | (13) | — | (13) |
| Loss on disposal of assets, net | — | — | (15) | — | (15) |
| Operating income (loss) | (4) | (1) | 450 | — | 445 |
| Other income (expense), net | | | | | |
| Interest income (expense), net | (2) | (189) | 87 | — | (104) |
| Equity in earnings | 327 | 512 | — | (839) | — |
| Other, net | — | 6 | (3) | — | 3 |
| | 325 | 329 | 84 | (839) | (101) |
| Income from continuing operations before income tax expense | 321 | 328 | 534 | (839) | 344 |
| Income tax expense | — | — | 17 | — | 17 |
| Income from continuing operations | 321 | 328 | 517 | (839) | 327 |
| Income from discontinued operations, net of tax | — | 1 | 2 | — | 3 |
| Net income | 321 | 329 | 519 | (839) | 330 |
| Net income attributable to noncontrolling interest | — | — | 9 | — | 9 |
| Net income attributable to controlling interest | 321 | 329 | 510 | (839) | 321 |
| Other comprehensive income before income taxes | 2 | 36 | 4 | — | 42 |
| Income taxes related to other comprehensive income | — | — | — | — | — |
| Other comprehensive income | 2 | 36 | 4 | — | 42 |
| Total comprehensive income | 323 | 365 | 523 | (839) | 372 |
| Total comprehensive income attributable to noncontrolling interest | — | — | 9 | — | 9 |
| Total comprehensive income attributable to controlling interest | \$323 | \$ 365 | \$ 514 | \$ (839) | \$ 363 |

| | Three months ended September 30, 2014 | | | | |
|---------------------------------|---------------------------------------|----------------------|-----------------------|------------------------------|--------------|
| | Parent Guarantor | Subsidiary Issuer | Other Subsidiaries | Consolidating adjustments | Consolidated |
| Operating revenues | \$— | \$— | \$ 2,273 | \$ (3) | \$ 2,270 |
| Cost and expenses | 7 | — | 1,654 | (3) | 1,658 |
| Loss on impairment | — | — | (2,768) | — | (2,768) |
| Loss on disposal of assets, net | — | — | (12) | — | (12) |
| Operating loss | (7) | — | (2,161) | — | (2,168) |
| Other income (expense), net | | | | | |
| Interest income (expense), net | — | (145) | 29 | — | (116) |

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| | | | | | |
|--|-----------|------------|------------|----------|-------------|
| Equity in earnings | (2,210) | (1,995) | — | 4,205 | — |
| Other, net | — | — | 6 | — | 6 |
| | (2,210) | (2,140) | 35 | 4,205 | (110) |
| Loss from continuing operations before income tax expense | (2,217) | (2,140) | (2,126) | 4,205 | (2,278) |
| Income tax expense | — | — | (16) | — | (16) |
| Loss from continuing operations | (2,217) | (2,140) | (2,110) | 4,205 | (2,262) |
| Income (loss) from discontinued operations, net of tax | — | (16) | 15 | — | (1) |
| Net loss | (2,217) | (2,156) | (2,095) | 4,205 | (2,263) |
| Net loss attributable to noncontrolling interest | — | — | (46) | — | (46) |
| Net loss attributable to controlling interest | (2,217) | (2,156) | (2,049) | 4,205 | (2,217) |
| Other comprehensive income before income taxes | — | 2 | 2 | — | 4 |
| Income taxes related to other comprehensive income | — | — | (1) | — | (1) |
| Other comprehensive income | — | 2 | 1 | — | 3 |
| Total comprehensive loss | (2,217) | (2,154) | (2,094) | 4,205 | (2,260) |
| Total comprehensive loss attributable to noncontrolling interest | — | — | (46) | — | (46) |
| Total comprehensive loss attributable to controlling interest | \$(2,217) | \$(2,154) | \$(2,048) | \$ 4,205 | \$ (2,214) |

TRANSOCEAN LTD. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—continued
(Unaudited)

| | Nine months ended September 30, 2015 | | | | |
|--|--------------------------------------|----------------------|-----------------------|------------------------------|--------------|
| | Parent Guarantor | Subsidiary Issuer | Other Subsidiaries | Consolidating adjustments | Consolidated |
| Operating revenues | \$— | \$ — | \$ 5,539 | \$ (4) | \$ 5,535 |
| Cost and expenses | 16 | 5 | 3,029 | (4) | 3,046 |
| Loss on impairment | — | — | (1,839) | — | (1,839) |
| Loss on disposal of assets, net | — | — | (20) | — | (20) |
| Operating income (loss) | (16) | (5) | 651 | — | 630 |
| Other income (expense), net | | | | | |
| Interest income (expense), net | (4) | (548) | 224 | — | (328) |
| Equity in earnings (loss) | 200 | 686 | — | (886) | — |
| Other, net | — | 34 | 11 | — | 45 |
| | 196 | 172 | 235 | (886) | (283) |
| Income from continuing operations before income tax expense | 180 | 167 | 886 | (886) | 347 |
| Income tax expense | — | — | 140 | — | 140 |
| Income from continuing operations | 180 | 167 | 746 | (886) | 207 |
| Income (loss) from discontinued operations, net of tax | — | 5 | (3) | — | 2 |
| Net income | 180 | 172 | 743 | (886) | 209 |
| Net income attributable to noncontrolling interest | — | — | 29 | — | 29 |
| Net income attributable to controlling interest | 180 | 172 | 714 | (886) | 180 |
| Other comprehensive income before income taxes | — | 28 | 10 | — | 38 |
| Income taxes related to other comprehensive income | — | — | (2) | — | (2) |
| Other comprehensive income | — | 28 | 8 | — | 36 |
| Total comprehensive income | 180 | 200 | 751 | (886) | 245 |
| Total comprehensive loss attributable to noncontrolling interest | — | — | 29 | — | 29 |
| Total comprehensive income attributable to controlling interest | \$180 | \$ 200 | \$ 722 | \$ (886) | \$ 216 |

| | Nine months ended September 30, 2014 | | | | |
|---------------------------------|--------------------------------------|----------------------|-----------------------|------------------------------|--------------|
| | Parent Guarantor | Subsidiary Issuer | Other Subsidiaries | Consolidating adjustments | Consolidated |
| Operating revenues | \$— | \$ — | \$ 6,949 | \$ (12) | \$ 6,937 |
| Cost and expenses | 25 | 2 | 4,806 | (12) | 4,821 |
| Loss on impairment | — | — | (2,833) | — | (2,833) |
| Loss on disposal of assets, net | — | — | (14) | — | (14) |
| Operating loss | (25) | (2) | (704) | — | (731) |
| Other income (expense), net | | | | | |
| Interest income (expense), net | (10) | (423) | 104 | — | (329) |

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| | | | | | |
|--|-----------|------------|----------|----------|-------------|
| Equity in loss | (1,139) | (689) | — | 1,828 | — |
| Other, net | — | 1 | 11 | — | 12 |
| | (1,149) | (1,111) | 115 | 1,828 | (317) |
| Loss from continuing operations before income tax expense | (1,174) | (1,113) | (589) | 1,828 | (1,048) |
| Income tax expense | — | — | 136 | — | 136 |
| Loss from continuing operations | (1,174) | (1,113) | (725) | 1,828 | (1,184) |
| Loss from discontinued operations, net of tax | — | (13) | (3) | — | (16) |
| Net loss | (1,174) | (1,126) | (728) | 1,828 | (1,200) |
| Net loss attributable to noncontrolling interest | — | — | (26) | — | (26) |
| Net loss attributable to controlling interest | (1,174) | (1,126) | (702) | 1,828 | (1,174) |
| Other comprehensive income before income taxes | 12 | 59 | 10 | — | 81 |
| Income taxes related to other comprehensive income | — | — | (4) | — | (4) |
| Other comprehensive income | 12 | 59 | 6 | — | 77 |
| Total comprehensive loss | (1,162) | (1,067) | (722) | 1,828 | (1,123) |
| Total comprehensive loss attributable to noncontrolling interest | — | — | (26) | — | (26) |
| Total comprehensive loss attributable to controlling interest | \$(1,162) | \$(1,067) | \$(696) | \$ 1,828 | \$ (1,097) |

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TRANSOCEAN LTD. AND SUBSIDIARIES
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—continued
 (Unaudited)

| | September 30, 2015 | | | | |
|------------------------------------|---------------------|----------------------|-----------------------|------------------------------|--------------|
| | Parent Guarantor | Subsidiary Issuer | Other Subsidiaries | Consolidating adjustments | Consolidated |
| Assets | | | | | |
| Cash and cash equivalents | \$ 8 | \$ 618 | \$ 1,608 | \$ — | \$ 2,234 |
| Other current assets | 5 | 711 | 4,592 | (2,636) | 2,672 |
| Total current assets | 13 | 1,329 | 6,200 | (2,636) | 4,906 |
| Property and equipment, net | — | — | 20,352 | — | 20,352 |
| Investment in affiliates | 13,851 | 31,609 | — | (45,460) | — |
| Other assets | — | 4,790 | 29,367 | (33,580) | 577 |
| Total assets | 13,864 | 37,728 | 55,919 | (81,676) | 25,835 |
| Liabilities and equity | | | | | |
| Debt due within one year | — | — | 123 | — | 123 |
| Other current liabilities | 127 | 356 | 3,860 | (2,636) | 1,707 |
| Total current liabilities | 127 | 356 | 3,983 | (2,636) | 1,830 |
| Long-term debt | — | 23,951 | 18,259 | (33,580) | 8,630 |
| Other long-term liabilities | 17 | 266 | 1,051 | — | 1,334 |
| Total long-term liabilities | 17 | 24,217 | 19,310 | (33,580) | 9,964 |
| Commitments and contingencies | | | | | |
| Redeemable noncontrolling interest | — | — | 15 | — | 15 |
| Total equity | 13,720 | 13,155 | 32,611 | (45,460) | 14,026 |
| Total liabilities and equity | \$ 13,864 | \$ 37,728 | \$ 55,919 | \$ (81,676) | \$ 25,835 |
| December 31, 2014 | | | | | |
| | Parent Guarantor | Subsidiary Issuer | Other Subsidiaries | Consolidating adjustments | Consolidated |
| Assets | | | | | |
| Cash and cash equivalents | \$ 16 | \$ 842 | \$ 1,777 | \$ — | \$ 2,635 |
| Other current assets | 12 | 757 | 5,228 | (2,631) | 3,366 |
| Total current assets | 28 | 1,599 | 7,005 | (2,631) | 6,001 |
| Property and equipment, net | — | — | 21,538 | — | 21,538 |
| Investment in affiliates | 13,952 | 30,925 | — | (44,877) | — |
| Other assets | — | 3,899 | 25,883 | (28,908) | 874 |
| Total assets | 13,980 | 36,423 | 54,426 | (76,416) | 28,413 |
| Liabilities and equity | | | | | |
| Debt due within one year | — | 898 | 135 | — | 1,033 |
| Other current liabilities | 287 | 473 | 4,608 | (2,631) | 2,737 |
| Total current liabilities | 287 | 1,371 | 4,743 | (2,631) | 3,770 |

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| | | | | | | |
|------------------------------------|----------|-----------|-----------|------------|---|-----------|
| Long-term debt | — | 21,486 | 16,481 | (28,908 |) | 9,059 |
| Other long-term liabilities | 22 | 280 | 1,289 | — | | 1,591 |
| Total long-term liabilities | 22 | 21,766 | 17,770 | (28,908 |) | 10,650 |
| Commitments and contingencies | | | | | | |
| Redeemable noncontrolling interest | — | — | 11 | — | | 11 |
| Total equity | 13,671 | 13,286 | 31,902 | (44,877 |) | 13,982 |
| Total liabilities and equity | \$13,980 | \$ 36,423 | \$ 54,426 | \$ (76,416 |) | \$ 28,413 |

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TRANSOCEAN LTD. AND SUBSIDIARIES
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—continued
 (Unaudited)

| | Nine months ended September 30, 2015 | | | | |
|--|--------------------------------------|----------------------|-----------------------|------------------------------|--------------|
| | Parent Guarantor | Subsidiary Issuer | Other Subsidiaries | Consolidating adjustments | Consolidated |
| Cash flows from operating activities | \$ (11) | \$ (413) | \$ 2,909 | \$ — | \$ 2,485 |
| Cash flows from investing activities | | | | | |
| Capital expenditures | — | — | (1,336) | — | (1,336) |
| Proceeds from disposal of assets, net | — | — | 33 | — | 33 |
| Proceeds from disposal of assets in discontinued operations, net | — | — | 3 | — | 3 |
| Proceeds from repayment of notes receivable | — | — | 15 | — | 15 |
| Investing activities with affiliates, net | — | (1,394) | (2,744) | 4,138 | — |
| Net cash used in investing activities | — | (1,394) | (4,029) | 4,138 | (1,285) |
| Cash flows from financing activities | | | | | |
| Repayments of debt | — | (1,178) | (128) | — | (1,306) |
| Proceeds from restricted cash investments | — | — | 110 | — | 110 |
| Distribution of qualifying additional paid in capital | (381) | — | — | — | (381) |
| Distribution to holders of noncontrolling interest | — | — | (21) | — | (21) |
| Financing activities with affiliates, net | 387 | 2,761 | 990 | (4,138) | — |
| Other, net | (3) | — | — | — | (3) |
| Net cash provided by (used in) financing activities | 3 | 1,583 | 951 | (4,138) | (1,601) |
| Net decrease in cash and cash equivalents | (8) | (224) | (169) | — | (401) |
| Cash and cash equivalents at beginning of period | 16 | 842 | 1,777 | — | 2,635 |
| Cash and cash equivalents at end of period | \$ 8 | \$ 618 | \$ 1,608 | \$ — | \$ 2,234 |

| | Nine months ended September 30, 2014 | | | | |
|--|--------------------------------------|----------------------|-----------------------|------------------------------|--------------|
| | Parent Guarantor | Subsidiary Issuer | Other Subsidiaries | Consolidating adjustments | Consolidated |
| Cash flows from operating activities | \$ 534 | \$ (1,019) | \$ 2,139 | \$ — | \$ 1,654 |
| Cash flows from investing activities | | | | | |
| Capital expenditures | — | — | (1,847) | — | (1,847) |
| Proceeds from disposal of assets, net | — | — | 203 | — | 203 |
| Proceeds from disposal of discontinued operations, net | — | — | 35 | — | 35 |
| Investment in loans receivable | — | — | (15) | — | (15) |
| Proceeds from repayment of notes receivable | — | — | 101 | — | 101 |
| Investing activities with affiliates, net | 19 | 1,188 | 497 | (1,704) | — |
| Net cash provided by (used in) investing activities | 19 | 1,188 | (1,026) | (1,704) | (1,523) |
| Cash flows from financing activities | | | | | |
| Repayments of debt | — | — | (318) | — | (318) |

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| | | | | | |
|---|-------|----------|----------|--------|----------|
| Proceeds from restricted cash investments | — | — | 176 | — | 176 |
| Deposits to restricted cash investments | — | — | (20 |) | (20 |
| Proceeds from sale of noncontrolling interest | — | — | 443 | — | 443 |
| Distribution of qualifying additional paid in capital | (746) | — | — | — | (746 |
| Financing activities with affiliates, net | 217 | (506 |) | (1,415 |) |
| Other, net | (3 |) | (6 |) | (27 |
| Net cash used in financing activities | (532) | (512 |) | (1,161 |) |
| Net increase (decrease) in cash and cash equivalents | 21 | (343 |) | (48 |) |
| Cash and cash equivalents at beginning of period | 4 | 1,617 | 1,622 | — | 3,243 |
| Cash and cash equivalents at end of period | \$25 | \$ 1,274 | \$ 1,574 | \$ — | \$ 2,873 |

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TRANSOCEAN LTD. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—continued

(Unaudited)

Note 18—Subsequent Events

States settlement agreement—Effective October 13, 2015, we finalized a settlement agreement with the States, pursuant to which the States agreed to release all of their claims against us arising from the Macondo well incident. At September 30, 2015, in connection with the settlement, we had a liability of \$35 million, recorded in other current liabilities, and on October 22, 2015, we made an aggregate cash payment of \$35 million to the States.

Extraordinary general meeting—In August 2015, we announced that we would convene an extraordinary general meeting of shareholders for approval of certain proposed items. On October 29, 2015, shareholders at the extraordinary general meeting approved the following items: (a) the election of Jeremy D. Thigpen, our President and Chief Executive Officer, as a member of our board of directors for a term extending until completion of the 2016 annual general meeting, (b) the cancellation of the third and fourth installments of the dividend approved at the annual general meeting held on May 15, 2015, (c) the reduction of the par value of each of our shares to CHF 0.10 from the original par value of CHF 15.00 and (d) the cancellation of all shares that have been repurchased to date under our share repurchase program, which was approved by shareholders at the annual general meeting held on May 15, 2009.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations
Forward Looking Information

The statements included in this quarterly report regarding future financial performance and results of operations and other statements that are not historical facts are forward looking statements within the meaning of Section 27A of the United States ("U.S.") Securities Act of 1933, as amended, and Section 21E of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act"). Forward looking statements in this quarterly report include, but are not limited to, statements about the following subjects:

- § our results of operations and cash flow from operations, including revenues, revenue efficiency, costs and expenses, the offshore drilling market, including the impact of enhanced regulations in the jurisdictions in which we operate, supply and demand, utilization rates, dayrates, customer drilling programs, commodity prices, stacking of rigs, § reactivation of rigs, effects of new rigs on the market and effects of declines in commodity prices and a downturn in the global economy or market outlook for our various geographical operating sectors and classes of rigs, customer drilling contracts, including contract backlog, force majeure provisions, contract commencements, contract § extensions, contract terminations, contract option exercises, contract revenues, indemnity provisions, contract awards and rig mobilizations,
- § liquidity and adequacy of cash flows for our obligations,
- § debt levels, including impacts of a financial and economic downturn, uses of excess cash, including the payment of dividends and other distributions, share repurchases and debt § retirement, including the amounts, timing and, as applicable shareholder proposals or approvals associated with uses of excess cash,
- newbuild, upgrade, shipyard and other capital projects, including completion, delivery and commencement of § operation dates, expected downtime and lost revenue, the level of expected capital expenditures and the timing and cost of completion of capital projects,
- § the cost and timing of acquisitions and the proceeds and timing of dispositions,
- § the optimization of rig based spending,
- § the impact of the Macondo well incident, claims, settlement and related matters,
- tax matters, including our effective tax rate, changes in tax laws, treaties and regulations, tax assessments and § liabilities for tax issues, including those associated with our activities in Brazil, Norway, the United Kingdom ("U.K.") and the U.S.,
- § legal and regulatory matters, including results and effects of legal proceedings and governmental audits and § assessments, outcomes and effects of internal and governmental investigations, customs and environmental matters,
- § insurance matters, including adequacy of insurance, renewal of insurance, insurance proceeds and cash investments § of our wholly owned captive insurance company,
- § effects of accounting changes and adoption of accounting policies, and
- § investments in recruitment, retention and personnel development initiatives, pension plan and other postretirement § benefit plan contributions, the timing of severance payments and benefit payments.

Forward looking statements in this quarterly report are identifiable by use of the following words and other similar expressions:

§ "anticipates" § "could" § "forecasts" § "might" § "projects"
 § "believes" § "estimates" § "intends" § "plans" § "scheduled"
 § "budgets" § "expects" § "may" § "predicts" § "should"

Such statements are subject to numerous risks, uncertainties and assumptions, including, but not limited to:

- § those described under "Item 1A. Risk Factors" included in Part I of our annual report on Form 10 K for the year § ended December 31, 2014,
- § the adequacy of and access to sources of liquidity,
- § our inability to obtain drilling contracts for our rigs that do not have contracts,
- § our inability to renew drilling contracts at comparable dayrates,
- § operational performance,

§ the impact of regulatory changes,
§ the cancellation of drilling contracts currently included in our reported contract backlog,
§ losses on impairment of long lived assets,
§ shipyard, construction and other delays,
§ the results of meetings of our shareholders,
§ changes in political, social and economic conditions,
§ the effect and results of litigation, regulatory matters, settlements, audits, assessments and contingencies, and
§ other factors discussed in this quarterly report and in our other filings with the U.S. Securities and Exchange Commission ("SEC"), which are available free of charge on the SEC website at www.sec.gov.

The foregoing risks and uncertainties are beyond our ability to control, and in many cases, we cannot predict the risks and uncertainties that could cause our actual results to differ materially from those indicated by the forward looking statements. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those indicated. All subsequent written and oral forward looking statements attributable to us or to persons acting on our behalf are expressly qualified in their entirety by reference to these risks and uncertainties. You should not place undue reliance on forward looking statements. Each forward looking statement speaks only as of the date of the particular statement. We expressly disclaim any obligations or undertaking to release publicly any updates or revisions to any forward looking statement to reflect any change in our expectations or beliefs with regard to the statement or any change in events, conditions or circumstances on which any forward looking statement is based, except as required by law.

Business

Transocean Ltd. (together with its subsidiaries and predecessors, unless the context requires otherwise, "Transocean," "we," "us" or "our") is a leading international provider of offshore contract drilling services for oil and gas wells. As of October 26, 2015, we owned or had partial ownership interests in and operated 62 mobile offshore drilling units, including 27 Ultra Deepwater Floaters, seven Harsh Environment Floaters, six Deepwater Floaters, 12 Midwater Floaters and 10 High Specification Jackups. At October 26, 2015, we also had seven Ultra-Deepwater drillships and five High Specification Jackups under construction or under contract to be constructed.

We provide contract drilling services, in a single, global operating segment, which involves contracting our mobile offshore drilling fleet, related equipment and work crews primarily on a dayrate basis to drill oil and gas wells. We specialize in technically demanding regions of the offshore drilling business with a particular focus on deepwater and harsh environment drilling services. We believe our drilling fleet is one of the most versatile fleets in the world, consisting of floaters and high specification jackups used in support of offshore drilling activities and offshore support services on a worldwide basis.

Our contract drilling services operations are geographically dispersed in oil and gas exploration and development areas throughout the world. Although rigs can be moved from one region to another, the cost of moving rigs and the availability of rig moving vessels may cause the supply and demand balance to fluctuate somewhat between regions. Still, significant variations between regions do not tend to persist long term because of rig mobility. Our fleet operates in a single, global market for the provision of contract drilling services. The location of our rigs and the allocation of resources to build or upgrade rigs are determined by the activities and needs of our customers.

On August 5, 2014, we completed an initial public offering to sell a noncontrolling interest in Transocean Partners LLC ("Transocean Partners"), a Marshall Islands limited liability company, which was formed on February 6, 2014, by Transocean Partners Holdings Limited, a Cayman Islands company and our wholly owned subsidiary, to own, operate and acquire modern, technologically advanced offshore drilling rigs. See Notes to Condensed Consolidated Financial Statements—Note 15—Noncontrolling Interest.

Significant Events

Macondo well incident litigation and settlements and insurance recoveries—On May 20, 2015, we entered into a confidential settlement agreement with BP to settle various disputes remaining between the parties with respect to the Macondo well incident (the "BP Settlement Agreement"). On May 29, 2015, together with the Plaintiff's Steering Committee (the "PSC"), we filed a settlement agreement (the "PSC Settlement Agreement") with the U.S. District Court for the Eastern District of Louisiana (the "MDL Court") through which we have agreed to pay, subject to the MDL Court approval, a total of \$212 million, plus up to \$25 million for partial reimbursement of attorneys' fees. During the nine months ended September 30, 2015, in connection with the settlements, we adjusted our assets and liabilities associated with contingencies resulting from the Macondo well incident. In the nine months ended September 30, 2015, we recognized income of \$788 million (\$735 million, net of tax), recorded as a net reduction to operating and maintenance costs and expenses, including \$538 million associated with recoveries from insurance for our previously incurred losses, \$125 million associated with partial reimbursement from BP for our previously incurred legal costs, and \$125 million associated with a net reduction to certain related contingent liabilities, either settled, otherwise resolved or increased as a result of such settlements. In the three and nine months ended September 30, 2015, we received cash proceeds of \$93 million and \$538 million, respectively, associated with recoveries from insurance. In the three and nine months ended September 30, 2015, we received cash proceeds of \$125 million associated with the partial reimbursement from BP for previously incurred legal costs, and we made a cash deposit of \$212 million into an escrow account associated with the pending court approval of our settlement with the PSC.

Effective October 13, 2015, we finalized a settlement agreement with the States of Alabama, Florida, Louisiana, Mississippi, and Texas (collectively, the "States"), pursuant to which the States agreed to release all of their claims against us arising from the Macondo well incident. At September 30, 2015, in connection with the settlement, we had a liability of \$35 million, recorded in other current liabilities, and on October 22, 2015, we made an aggregate cash payment of \$35 million to the States.

See "—Operating Results," "—Liquidity and Capital Resources—Sources and uses of liquidity" and "—Contingencies—Macondo well incident."

Debt redemption—On July 30, 2015, we redeemed the aggregate principal amount of \$893 million of the outstanding 4.95% Senior Notes with an aggregate cash payment of \$904 million for the full redemption of the notes. In the three and nine months ended September 30, 2015, we recognized a loss of \$10 million associated with the retirement of the debt. See "—Liquidity and Capital Resources—Sources and uses of liquidity."

Debt repurchases—In the three and nine months ended September 30, 2015, we made an aggregate cash payment of \$274 million and recognized an aggregate gain of \$17 million associated with the open market repurchases of an aggregate principal amount of \$292 million of certain of our publicly traded debt securities. See "—Liquidity and Capital Resources—Sources and uses of liquidity."

Distributions of qualifying additional paid-in capital—In May 2015, at our annual general meeting, our shareholders approved the distribution of qualifying additional paid in capital in the form of a U.S. dollar denominated dividend of \$0.60 per outstanding share, payable in four quarterly installments of \$0.15 per outstanding share, subject to certain limitations. On June 17 and September 23, 2015, we paid the first two installments in the aggregate amount of \$109 million to shareholders of record as of May 29 and August 25, 2015. On October 29, 2015, shareholders at the extraordinary general meeting approved the cancellation of the third and fourth installments of the dividend.

In May 2014, at our annual general meeting, our shareholders approved the distribution of qualifying additional paid in capital in the form of a U.S. dollar denominated dividend of \$3.00 per outstanding share, payable in four quarterly installments of \$0.75 per outstanding share, subject to certain limitations. On June 18 and September 17, 2014, we paid the first two installments in the aggregate amount of \$544 million to shareholders of record as of May 30 and August 22, 2014. On March 18, 2015, we paid the final installment in the aggregate amount of \$272 million to shareholders of record as of February 20, 2015.

In May 2013, at our annual general meeting, our shareholders approved the distribution of qualifying additional paid in capital in the form of a U.S. dollar denominated dividend of \$2.24 per outstanding share, payable in four quarterly installments, subject to certain limitations. On March 19, 2014, we paid the final installment in the aggregate amount of \$202 million to shareholders of record as of February 21, 2014.

See "—Liquidity and Capital Resources—Sources and uses of liquidity."

Impairments of long lived assets—During the nine months ended September 30, 2015, we identified indicators that our Deepwater Floater and Midwater Floater asset groups may not be recoverable. As a result of our impairment testing, in the nine months ended September 30, 2015, we recognized a loss of \$1.2 billion (\$1.1 billion, net of tax) associated with the impairment of these held and used assets. See "—Operating Results" and Notes to Condensed Consolidated Financial Statements—Note 5—Impairments.

During the nine months ended September 30, 2015, we committed to a plan to sell for scrap value the Ultra Deepwater Floaters Deepwater Expedition and GSF Explorer, the Deepwater Floaters GSF Celtic Sea, Sedco 707 and Transocean Rather and the Midwater Floaters GSF Aleutian Key, GSF Arctic III, GSF Rig 135, Transocean Amirante and Transocean Legend along with related equipment. As a result, we recognized an aggregate loss of \$664 million (\$550 million, net of tax) associated with the impairment of these held for sale assets. See "—Operating Results", "—Liquidity and Capital Resources—Drilling fleet" and Notes to Condensed Consolidated Financial Statements—Note 5—Impairments.

Dispositions—During the nine months ended September 30, 2015, we completed the sale of the Ultra Deepwater Floaters Deepwater Expedition and GSF Explorer, the Deepwater Floaters Discoverer Seven Seas, Sedco 707, Sedco 710 and Sovereign Explorer and the Midwater Floaters C. Kirk Rhein, Jr., GSF Arctic I, GSF Arctic III, J.W. McLean, Sedco 601, Sedco 700 and Transocean Legend along with related equipment and we received net cash proceeds of \$25 million. See "—Liquidity and Capital Resources—Drilling fleet."

Outlook

Drilling market—Although our long-term view of the offshore drilling market remains positive, particularly for high specification assets, we expect the near to medium term to be especially challenging given the sustained weak commodity pricing, coupled with our customers' focus on reducing costs, spending within their cash flow and maintaining capital allocation policies resulting in delays of many exploration and development programs. Oil and natural gas prices do not currently support sustained demand for drilling rigs across all asset classes and regions. As a result of this reduced demand, we have seen a sharp decline in the execution of drilling contracts for the global offshore drilling fleet. We do not currently expect the number of drilling contract awards to increase in 2016, exacerbating the current excess rig capacity, leading to lower utilization and dayrates. In this environment, older and less capable assets are more likely to be permanently retired, ultimately reducing the available supply of drilling rigs. As of October 26, 2015, our contract backlog was \$16.9 billion compared to \$18.6 billion as of July 15, 2015.

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Fleet status—As of October 26, 2015, uncommitted fleet rates for the remainder of 2015 and for 2016, 2017, 2018 and 2019 were as follows:

| | 2015 | 2016 | 2017 | 2018 | 2019 |
|---------------------------------------|------|------|-------|-------|-------|
| <u>Uncommitted fleet rate (a) (b)</u> | | | | | |
| Ultra Deepwater Floaters | 37 % | 50 % | 64 % | 73 % | 76 % |
| Harsh Environment Floaters | 43 % | 54 % | 72 % | 86 % | 92 % |
| Deepwater Floaters | 33 % | 82 % | 100 % | 100 % | 100 % |
| Midwater Floaters | 42 % | 79 % | 100 % | 100 % | 100 % |
| High Specification Jackups | 30 % | 43 % | 72 % | 90 % | 100 % |

The uncommitted fleet rate is defined as the number of uncommitted days divided by the total number of rig (a) calendar days in the measurement period, expressed as a percentage. An uncommitted day is defined as a calendar day during which a rig is idle or stacked, is not contracted to a customer and is not committed to a shipyard. (b) Uncommitted fleet rates exclude the effect of priced options.

Ultra Deepwater Floaters—During the third quarter of 2015, four contracts and extensions for Ultra Deepwater Floaters were entered into worldwide, including our contract extension for Dhirubhai Deepwater KG2. As of October 26, 2015, we had 17 of our 27 Ultra-Deepwater Floaters contracted through the end of 2015.

Harsh Environment Floaters—In the third quarter of 2015, we had one extension for Transocean Barents. As of October 26, 2015, we had four of our seven Harsh Environment Floaters contracted through the end of 2015.

Deepwater Floaters—As of October 26, 2015, we had four of our six Deepwater Floaters contracted through the end of 2015.

Midwater Floaters—As of October 26, 2015, we had seven of our 12 Midwater Floaters contracted through the end of 2015.

High Specification Jackups—As of October 26, 2015, we had seven of our 10 High Specification Jackups contracted through the end of 2015.

Performance and Other Key Indicators

Contract backlog—Contract backlog is defined as the maximum contractual operating dayrate multiplied by the number of days remaining in the firm contract period, excluding revenues for mobilization, demobilization and contract preparation or other incentive provisions, which are not expected to be significant to our contract drilling revenues. The contract backlog represents the maximum contract drilling revenues that can be earned considering the contractual operating dayrate in effect during the firm contract period and represents the basis for the maximum revenues in our revenue efficiency measurement. To determine maximum revenues for purposes of calculating revenue efficiency, however, we include the revenues earned for mobilization, demobilization and contract preparation, which are excluded from the amounts presented for contract backlog.

The contract backlog for our contract drilling services was as follows:

| | October 26, 2015 | July 15, 2015 | February 17, 2015 |
|----------------------------|------------------------|------------------|-------------------------|
| <u>Contract backlog</u> | (In millions) | | |
| Ultra Deepwater Floaters | \$14,444 | \$15,346 | \$16,529 |
| Harsh Environment Floaters | 1,146 | 1,241 | 1,591 |
| Deepwater Floaters | 222 | 402 | 673 |
| Midwater Floaters | 530 | 870 | 1,613 |
| High Specification Jackups | 595 | 698 | 834 |
| Total | \$16,937 | \$18,557 | \$21,240 |

Our contract backlog includes only firm commitments, which are represented by signed drilling contracts or, in some cases, by other definitive agreements awaiting contract execution. Our contract backlog includes amounts associated with our newbuild units that are currently under construction. The contractual operating dayrate may be higher than

the actual dayrate we ultimately receive or an alternative contractual dayrate, such as a waiting on weather rate, repair rate, standby rate or force majeure rate, may apply under certain circumstances. The contractual operating dayrate may also be higher than the actual dayrate we ultimately receive because of a number of factors, including rig downtime or suspension of operations. In certain contracts, the dayrate may be reduced to zero if, for example, repairs extend beyond a stated period of time.

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Average daily revenue—Average daily revenue is defined as contract drilling revenues earned per operating day. An operating day is defined as a calendar day during which a rig is contracted to earn a dayrate during the firm contract period after commencement of operations. The average daily revenue for our contract drilling services was as follows:

| | Three months ended | | |
|-----------------------------------|--------------------|---------------|--------------------|
| | September 30, 2015 | June 30, 2015 | September 30, 2014 |
| <u>Average daily revenue</u> | | | |
| Ultra Deepwater Floaters | \$475,800 | \$531,400 | \$524,100 |
| Harsh Environment Floaters | 493,400 | 513,300 | 493,800 |
| Deepwater Floaters | 368,600 | 364,000 | 357,700 |
| Midwater Floaters | 350,000 | 338,800 | 353,000 |
| High Specification Jackups | 172,700 | 172,100 | 167,800 |
| Total fleet average daily revenue | 385,300 | 399,700 | 403,100 |

Our average daily revenue fluctuates relative to market conditions and our revenue efficiency. Our total fleet average daily revenue is also affected by the mix of rig classes being operated, as Midwater Floaters and High Specification Jackups are typically contracted at lower dayrates compared to Ultra-Deepwater Floaters, Harsh Environment Floaters and Deepwater Floaters. We include newbuilds in the calculation when the rigs commence operations upon acceptance by the customer. We remove rigs from the calculation upon disposal, classification as held for sale or classification as discontinued operations.

Revenue efficiency—Revenue efficiency is defined as actual contract drilling revenues for the measurement period divided by the maximum revenue calculated for the measurement period, expressed as a percentage. Maximum revenue is defined as the greatest amount of contract drilling revenues the drilling unit could earn for the measurement period, excluding amounts related to incentive provisions. The revenue efficiency rates for our contract drilling services were as follows:

| | Three months ended | | | | |
|--------------------------------|--------------------|---------------|---|--------------------|---|
| | September 30, 2015 | June 30, 2015 | | September 30, 2014 | |
| <u>Revenue efficiency</u> | | | | | |
| Ultra Deepwater Floaters | 92% | 97% | % | 92% | % |
| Harsh Environment Floaters | 99% | 98% | % | 95% | % |
| Deepwater Floaters | 99% | 100% | % | 93% | % |
| Midwater Floaters | 98% | 95% | % | 92% | % |
| High Specification Jackups | 99% | 99% | % | 97% | % |
| Total fleet revenue efficiency | 95% | 97% | % | 93% | % |

Our revenue efficiency rate varies due to revenues earned under alternative contractual dayrates, such as a waiting on weather rate, repair rate, standby rate, force majeure rate or zero rate, that may apply under certain circumstances. We include newbuilds in the calculation when the rigs commence operations upon acceptance by the customer. We exclude rigs that are not operating under contract, such as those that are stacked.

Rig utilization—Rig utilization is defined as the total number of operating days divided by the total number of rig calendar days in the measurement period, expressed as a percentage. The rig utilization rates for our fleet were as follows:

| | Three months ended | | | | |
|--------------------------|--------------------|---------------|---|--------------------|---|
| | September 30, 2015 | June 30, 2015 | | September 30, 2014 | |
| <u>Rig utilization</u> | | | | | |
| Ultra Deepwater Floaters | 65% | 65% | % | 84% | % |

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| | | | | | |
|-----------------------------|-----|----|---|----|---|
| Harsh Environment Floaters | 66% | 74 | % | 77 | % |
| Deepwater Floaters | 67% | 71 | % | 59 | % |
| Midwater Floaters | 78% | 89 | % | 65 | % |
| High Specification Jackups | 78% | 87 | % | 99 | % |
| Total fleet rig utilization | 70% | 75 | % | 76 | % |

Our rig utilization rate declines as a result of idle and stacked rigs and during shipyard and mobilization periods to the extent these rigs are not earning revenues. We include newbuilds in the calculation when the rigs commence operations upon acceptance by the customer. We remove rigs from the calculation upon disposal, classification as held for sale or classification as discontinued operations. Accordingly, our rig utilization can increase when idle or stacked units are removed from our drilling fleet.

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Operating Results

Three months ended September 30, 2015 compared to three months ended September 30, 2014

The following is an analysis of our operating results. See "—Performance and Other Key Indicators" for definitions of operating days, average daily revenue, revenue efficiency and rig utilization.

| | Three months ended September 30, | | | | % |
|--|---|------------|------------|--------|---|
| | 2015 | 2014 | Change | Change | |
| | (In millions, except day amounts and percentages) | | | | |
| Operating days | 4,063 | 5,484 | (1,421) | (26) | % |
| Average daily revenue | \$385,300 | \$403,100 | \$(17,800) | (4) | % |
| Revenue efficiency | 95 | % 93 | % | | |
| Rig utilization | 70 | % 76 | % | | |
| Contract drilling revenues | \$1,569 | \$2,215 | \$(646) | (29) | % |
| Other revenues | 39 | 55 | (16) | (29) | % |
| Total revenues | 1,608 | 2,270 | (662) | (29) | % |
| Operating and maintenance expense | (880) | (1,318) | 438 | 33 | % |
| Depreciation expense | (210) | (288) | 78 | 27 | % |
| General and administrative expense | (45) | (52) | 7 | 13 | % |
| Loss on impairment | (13) | (2,768) | 2,755 | 100 | % |
| Loss on disposal of assets, net | (15) | (12) | (3) | (25) | % |
| Operating income (loss) | 445 | (2,168) | 2,613 | n/m | |
| Other income (expense), net | | | | | |
| Interest income | 5 | 6 | (1) | (17) | % |
| Interest expense, net of amounts capitalized | (109) | (122) | 13 | 11 | % |
| Other, net | 3 | 6 | (3) | (50) | % |
| Income (loss) from continuing operations before income tax expense | 344 | (2,278) | 2,622 | n/m | |
| Income tax (expense) benefit | (17) | 16 | (33) | n/m | |
| Income (loss) from continuing operations | \$327 | \$(2,262) | \$2,589 | n/m | |

"n/m" means not meaningful.

Operating revenues—Contract drilling revenues decreased for the three months ended September 30, 2015 compared to the three months ended September 30, 2014 primarily due to the following: (a) approximately \$555 million of decreased revenues resulting from additional rigs idle or stacked, (b) approximately \$260 million of decreased revenues resulting from rigs sold or classified as held for sale and (c) approximately \$95 million of decreased revenues resulting from lower dayrates. These decreases were partially offset by increased revenues due to the following: (a) approximately \$170 million of increased revenues resulting from fewer shipyard and mobilization days for the active fleet, (b) approximately \$50 million of increased revenues associated with our two newbuild Ultra Deepwater drillships that commenced operations subsequent to September 30, 2014, and (c) approximately \$40 million of increased revenues resulting from improved efficiency.

Costs and expenses—Operating and maintenance costs and expenses decreased for the three months ended September 30, 2015 compared to the three months ended September 30, 2014 primarily due to the following: (a) approximately \$150 million of decreased costs and expenses resulting from fewer shipyards and mobilizations, (b) approximately \$140 million of decreased costs and expenses resulting from rigs sold or classified as held for sale, (c) approximately \$130 million of decreased costs and expenses resulting from cost reductions for our idle or stacked rigs and (d) approximately \$45 million of other decreased costs and expenses, primarily personnel related, both

offshore and onshore. Partially offsetting these decreases was approximately \$30 million of increased costs associated with adjustments to the allowance for obsolescence on our excess materials and supplies, both onshore and offshore, as a result of reduced opportunities to utilize such assets.

Depreciation expense decreased for the three months ended September 30, 2015 compared to the three months ended September 30, 2014 primarily due to the following: (a) approximately \$56 million of decreased depreciation resulting from rigs sold or classified as held for sale and (b) approximately \$43 million of decreased depreciation resulting from the impairment of our Deepwater Floater and Midwater Floater asset groups. This decrease was partially offset by the following: (a) approximately \$6 million of increased depreciation associated with our two newbuild Ultra Deepwater drillships that commenced operations in the three months ended September 30, 2014 and (b) approximately \$4 million of increased depreciation resulting from the reduction of the salvage values for certain drilling units.