

Transocean Ltd.
Form 10-Q
November 03, 2010

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, 2010

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
(State or other jurisdiction of
incorporation or organization)

98-0599916
(I.R.S. Employer Identification No.)

Chemin de Blandonnet 10
Vernier, Switzerland
(Address of principal executive

1214
(Zip Code)

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offices)

+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 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, 2010, 319,020,214 shares were outstanding.

TRANSOCEAN LTD.
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QUARTER ENDED SEPTEMBER 30, 2010

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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,	
	2010	2009	2010	2009
Operating revenues				
Contract drilling revenues	\$ 2,204	\$ 2,602	\$ 6,935	\$ 8,061
Contract drilling intangible revenues	23	58	85	237
Other revenues	82	163	396	525
	2,309	2,823	7,416	8,823
Costs and expenses				
Operating and maintenance	1,213	1,396	3,767	3,844
Depreciation, depletion and amortization	394	367	1,195	1,082
General and administrative	59	54	180	163
	1,666	1,817	5,142	5,089
Loss on impairment	—	(46)	(2)	(334)
Gain (loss) on disposal of assets, net	2	(3)	256	(3)
Operating income	645	957	2,528	3,397
Other income (expense), net				
Interest income	7	—	17	2
Interest expense, net of amounts capitalized	(142)	(115)	(415)	(365)
Loss on retirement of debt	(22)	(7)	(20)	(17)
Other, net	8	9	18	9
	(149)	(113)	(400)	(371)
Income before income tax expense	496	844	2,128	3,026
Income tax expense	118	138	345	573
Net income	378	706	1,783	2,453
Net income (loss) attributable to noncontrolling interest	10	(4)	23	(5)
Net income attributable to controlling interest	\$ 368	\$ 710	\$ 1,760	\$ 2,458
Earnings per share				

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Basic	\$ 1.15	\$ 2.20	\$ 5.47	\$ 7.63
Diluted	\$ 1.15	\$ 2.19	\$ 5.47	\$ 7.61
Weighted average shares outstanding				
Basic	319	321	320	320
Diluted	319	322	320	321

See accompanying notes.

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TRANSOCEAN LTD. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In millions)
(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2010	2009	2010	2009
Net income	\$ 378	\$ 706	\$ 1,783	\$ 2,453
Other comprehensive income (loss) before income taxes				
Unrecognized components of net periodic benefit cost	1	—	(9)	(39)
Recognized components of net periodic benefit cost	7	4	16	13
Unrealized loss on derivative instruments	(11)	(10)	(34)	(3)
Other, net	2	2	5	4
Other comprehensive loss before income taxes	(1)	(4)	(22)	(25)
Income taxes related to other comprehensive loss	—	—	(1)	3
Other comprehensive loss, net of income taxes	(1)	(4)	(23)	(22)
Total comprehensive income	377	702	1,760	2,431
Total comprehensive loss attributable to noncontrolling interest	—	(14)	(8)	(4)
Total comprehensive income attributable to controlling interest	\$ 377	\$ 716	\$ 1,768	\$ 2,435

See accompanying notes.

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TRANSOCEAN LTD. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(In millions, except share data)

	September 30, 2010 (Unaudited)	December 31, 2009
Assets		
Cash and cash equivalents	\$ 4,636	\$ 1,130
Accounts receivable, net of allowance for doubtful accounts of \$39 and \$65 at September 30, 2010 and December 31, 2009, respectively	2,299	2,385
Materials and supplies, net of allowance for obsolescence of \$69 and \$66 at September 30, 2010 and December 31, 2009, respectively	501	462
Deferred income taxes, net	100	104
Assets held for sale	—	186
Other current assets	234	209
Total current assets	7,770	4,476
Property and equipment	27,644	27,383
Property and equipment of consolidated variable interest entities	2,192	1,968
Less accumulated depreciation	7,423	6,333
Property and equipment, net	22,413	23,018
Goodwill	8,132	8,134
Other assets	1,015	808
Total assets	\$ 39,330	\$ 36,436
Liabilities and equity		
Accounts payable	\$ 791	\$ 780
Accrued income taxes	226	240
Debt due within one year	1,635	1,568
Debt of consolidated variable interest entities due within one year	82	300
Other current liabilities	2,030	730
Total current liabilities	4,764	3,618
Long-term debt	10,237	8,966
Long-term debt of consolidated variable interest entities	886	883
Deferred income taxes, net	652	726
Other long-term liabilities	1,752	1,684
Total long-term liabilities	13,527	12,259
Commitments and contingencies		
Shares, CHF 15.00 par value, 502,852,947 authorized, 167,617,649 conditionally authorized,	4,481	4,472

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335,235,298 issued at September 30, 2010 and December 31, 2009; 319,017,904 and 321,223,882 outstanding at September 30, 2010 and December 31, 2009, respectively		
Additional paid-in capital	6,354	7,407
Treasury shares, at cost, 2,863,267 and none held at September 30, 2010 and December 31, 2009, respectively	(240)	—
Retained earnings	10,768	9,008
Accumulated other comprehensive loss	(327)	(335)
Total controlling interest shareholders' equity	21,036	20,552
Noncontrolling interest	3	7
Total equity	21,039	20,559
Total liabilities and equity	\$ 39,330	\$ 36,436

See accompanying notes.

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TRANSOCEAN LTD. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF EQUITY
(In millions)
(Unaudited)

	Nine months ended September 30,	
	2010	2009
Shares outstanding		
Balance, beginning of period	321	319
Issuance of shares under share-based compensation plans	1	2
Purchases of shares held in treasury	(3)	—
Balance, end of period	319	321
Shares		
Balance, beginning of period	\$ 4,472	\$ 4,444
Issuance of shares under share-based compensation plans	9	26
Balance, end of period	\$ 4,481	\$ 4,470
Additional paid-in capital		
Balance, beginning of period	\$ 7,407	\$ 7,313
Share-based compensation expense	79	66
Issuance of shares under share-based compensation plans	(13)	7
Obligation for cash distribution	(1,123)	—
Repurchases of convertible senior notes	11	19
Changes in ownership of noncontrolling interest and other, net	(7)	(11)
Balance, end of period	\$ 6,354	\$ 7,394
Treasury shares, at cost		
Balance, beginning of period	\$ —	\$ —
Purchases of shares held in treasury	(240)	—
Balance, end of period	\$ (240)	\$ —
Retained earnings		
Balance, beginning of period	\$ 9,008	\$ 5,827
Net income attributable to controlling interest	1,760	2,458
Balance, end of period	\$ 10,768	\$ 8,285
Accumulated other comprehensive loss		
Balance, beginning of period	\$ (335)	\$ (420)
Other comprehensive loss attributable to controlling interest	8	(23)
Balance, end of period	\$ (327)	\$ (443)
Total controlling interest shareholders' equity		
Balance, beginning of period	\$ 20,552	\$ 17,164
Total comprehensive income attributable to controlling interest	1,768	2,435
Share-based compensation expense	79	66
Issuance of shares under share-based compensation plans	(4)	33
Purchases of shares held in treasury	(240)	—
Obligation for cash distribution	(1,123)	—
Repurchases of convertible senior notes	11	19
	(7)	(11)

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Changes in ownership of noncontrolling interest and other, net		
Balance, end of period	\$ 21,036	\$ 19,706
Total noncontrolling interest		
Balance, beginning of period	\$ 7	\$ 3
Net income (loss) attributable to noncontrolling interest	23	(5)
Other comprehensive income (loss) attributable to noncontrolling interest	(31)	1
Changes in ownership of noncontrolling interest and other, net	4	—
Balance, end of period	\$ 3	\$ (1)
Total equity		
Balance, beginning of period	\$ 20,559	\$ 17,167
Total comprehensive income	1,760	2,431
Share-based compensation expense	79	66
Issuance of shares under share-based compensation plans	(4)	33
Purchases of shares held in treasury	(240)	—
Obligation for cash distribution	(1,123)	—
Repurchases of convertible senior notes	11	19
Changes in ownership of noncontrolling interest and other, net	(3)	(11)
Balance, end of period	\$ 21,039	\$ 19,705

See accompanying notes.

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TRANSOCEAN LTD. AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
 (In millions)
 (Unaudited)

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2010	2009	2010	2009
Cash flows from operating activities				
Net income	\$ 378	\$ 706	\$ 1,783	\$ 2,453
Adjustments to reconcile net income to net cash provided by operating activities				
Amortization of drilling contract intangibles	(23)	(58)	(85)	(237)
Depreciation, depletion and amortization	394	367	1,195	1,082
Share-based compensation expense	26	23	79	66
Excess tax benefit from share-based compensation plans	—	(9)	(1)	(10)
(Gain) loss on disposal of assets, net	(2)	3	(256)	3
Loss on impairment	—	46	2	334
Loss on retirement of debt	22	7	20	17
Amortization of debt issue costs, discounts and premiums, net	48	51	148	160
Deferred income taxes	(40)	24	(74)	50
Other, net	2	7	1	30
Deferred revenue, net	47	29	205	72
Deferred expenses, net	(18)	(3)	(55)	(38)
Changes in operating assets and liabilities	(125)	213	188	441
Net cash provided by operating activities	709	1,406	3,150	4,423
Cash flows from investing activities				
Capital expenditures	(304)	(540)	(983)	(2,195)
Proceeds from disposal of assets, net	—	2	51	10
Proceeds from insurance recoveries for loss of drilling unit	—	—	560	—
Proceeds from payments on notes receivable	10	—	31	—
Proceeds from short-term investments	—	29	5	422
Purchases of short-term investments	—	(34)	—	(268)
Joint ventures and other investments, net	(4)	5	(5)	5
Net cash used in investing activities	(298)	(538)	(341)	(2,026)

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Cash flows from financing activities				
Change in short-term borrowings, net	46	254	(131)	(246)
Proceeds from debt	2,000	26	2,054	345
Repayments of debt	(691)	(1,173)	(966)	(2,583)
Purchases of shares held in treasury	—	—	(240)	—
Financing costs	(15)	—	(15)	(2)
Proceeds from (taxes paid for) share-based compensation plans, net	(2)	(6)	(3)	16
Excess tax benefit from share-based compensation plans	—	9	1	10
Other, net	(1)	1	(3)	(14)
Net cash provided by (used in) financing activities	1,337	(889)	697	(2,474)
Net increase (decrease) in cash and cash equivalents				
	1,748	(21)	3,506	(77)
Cash and cash equivalents at beginning of period	2,888	907	1,130	963
Cash and cash equivalents at end of period	\$ 4,636	\$ 886	\$ 4,636	\$ 886

See accompanying notes.

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

Note 1—Nature of Business

Transocean Ltd. (together with its subsidiaries and predecessors, unless the context requires otherwise, “Transocean,” the “Company,” “we,” “us” or “our”) is a leading international provider of offshore contract drilling services for oil and gas wells. Our mobile offshore drilling fleet is considered one of the most modern and versatile fleets in the world. Specializing in technically demanding sectors of the offshore drilling business with a particular focus on deepwater and harsh environment drilling services, we contract our drilling rigs, related equipment and work crews predominantly on a dayrate basis to drill oil and gas wells. At September 30, 2010, we owned, had partial ownership interests in or operated 139 mobile offshore drilling units. As of this date, our fleet consisted of 45 High-Specification Floaters (Ultra-Deepwater, Deepwater and Harsh Environment semisubmersibles and drillships), 26 Midwater Floaters, 10 High-Specification Jackups, 55 Standard Jackups and three Other Rigs. We also have three Ultra-Deepwater Floaters under construction (see Note 8—Drilling Fleet).

We also provide oil and gas drilling management services, drilling engineering and drilling project management services, and we participate in oil and gas exploration and production activities. Drilling management services are provided through Applied Drilling Technology Inc., our wholly owned subsidiary, and through ADT International, a division of one of our U.K. subsidiaries (together, “ADTI”). ADTI conducts drilling management services primarily on either a dayrate or a completed-project, fixed-price (or “turnkey”) basis. Oil and gas properties consist of exploration, development and production activities performed by Challenger Minerals Inc. and Challenger Minerals (North Sea) Limited (together, “CMI”), our oil and gas subsidiaries.

Note 2—Significant Accounting Policies

Basis of presentation—We have prepared our accompanying condensed consolidated financial statements without audit 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 identified. Operating results for the three and nine months ended September 30, 2010 are not necessarily indicative of the results that may be expected for the year ending December 31, 2010 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, 2009 and 2008 and for each of the three years ended December 31, 2009 included in our current report on Form 8-K filed on September 16, 2010.

Accounting estimates—The preparation of financial statements in accordance with accounting principles generally accepted in the U.S. requires us 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, property and equipment, investments, notes receivable, goodwill and other intangible assets, income taxes, share-based compensation, defined benefit pension plans and other postretirement benefits and contingencies. 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) unadjusted quoted prices for identical assets or liabilities in active markets (“Level 1”), (2) direct or indirect observable inputs, including quoted prices or other market data, for similar assets or liabilities in active markets or identical assets or liabilities in less active markets (“Level 2”) and (3) unobservable inputs that require significant 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.

Principles of consolidation—We consolidate those investments that meet the criteria of a variable interest entity where we are deemed to be the primary beneficiary for accounting purposes and for entities in which we have a majority voting interest. Intercompany transactions and accounts are eliminated in consolidation. We apply the equity method of accounting for investments in joint ventures and other entities when we have the ability to exercise significant influence over an 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 investments in joint ventures and other entities if we do not have the ability to exercise significant influence over the unconsolidated affiliate. See Note 4—Variable Interest Entities.

Share-based compensation—Share-based compensation expense was \$26 million and \$79 million for the three and nine months ended September 30, 2010, respectively. Share-based compensation expense was \$23 million and \$66 million for the three and nine months ended September 30, 2009, respectively.

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

Capitalized interest—We capitalize interest costs for qualifying construction and upgrade projects. We capitalized interest costs on construction work in progress of \$20 million and \$67 million for the three and nine months ended September 30, 2010, respectively. We capitalized interest costs on construction work in progress of \$48 million and \$143 million for the three and nine months ended September 30, 2009, respectively.

Reclassifications—We have made certain reclassifications to prior period amounts to conform with the current period's presentation. These 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 15—Subsequent Events.

Note 3—New Accounting Pronouncements

Recently adopted accounting standards

Consolidation—Effective January 1, 2010, we adopted the accounting standards update that requires enhanced transparency of our involvement with variable interest entities, which (a) amends certain guidance for determining whether an enterprise is a variable interest entity, (b) requires a qualitative rather than a quantitative analysis to determine the primary beneficiary, and (c) requires continuous assessments of whether an enterprise is the primary beneficiary of a variable interest entity. We evaluated these requirements, particularly with regard to our interests in Transocean Pacific Drilling Inc. (“TPDI”) and Angola Deepwater Drilling Company Limited (“ADDCL”) and our adoption did not have a material effect on our condensed consolidated statement of financial position, results of operations or cash flows. See Note 4—Variable Interest Entities.

Fair value measurements and disclosures—Effective January 1, 2010, we adopted the effective provisions of the accounting standards update that clarifies existing disclosure requirements and introduces additional disclosure requirements for fair value measurements. The update requires entities to disclose the amounts of and reasons for significant transfers between Level 1 and Level 2, the reasons for any transfers into or out of Level 3, and information about recurring Level 3 measurements of purchases, sales, issuances and settlements on a gross basis. The update also clarifies that entities must provide (a) fair value measurement disclosures for each class of assets and liabilities and (b) information about both the valuation techniques and inputs used in estimating Level 2 and Level 3 fair value measurements. We have applied the effective provisions of this accounting standards update in preparing the disclosures in our notes to condensed consolidated financial statements and our adoption did not have a material effect on such disclosures. See Note 2—Significant Accounting Policies.

Subsequent events—Effective for financial statements issued after February 2010, we adopted the accounting standards update regarding subsequent events, which clarifies that SEC filers are not required to disclose the date through which management evaluated subsequent events in the financial statements. Our adoption did not have a material effect on the disclosures contained within our notes to condensed consolidated financial statements. See Note 2—Significant Accounting Policies.

Recently issued accounting standards

Fair value measurements and disclosures—Effective January 1, 2011, we will adopt the remaining provisions of the accounting standards update that clarifies existing disclosure requirements and introduces additional disclosure requirements for fair value measurements. The update requires entities to separately disclose information about purchases, sales, issuances, and settlements in the reconciliation of recurring Level 3 measurements on a gross basis. The update is effective for interim and annual periods beginning after December 15, 2010. We do not expect that our adoption will have a material effect on the disclosures contained in our notes to consolidated financial statements.

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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—TPDI and ADDCL, two joint venture companies in which we hold interests, were formed to own and operate certain ultra-deepwater drillships. We have determined that each of these joint venture companies meets the criteria of a variable interest entity for accounting purposes because their equity at risk is insufficient to permit them to carry on their activities without additional subordinated financial support from us. We have also determined, in each case, that we are the primary beneficiary for accounting purposes since (a) we have the power to direct the construction, marketing and operating activities, which are the activities that most significantly impact each entity’s economic performance, and (b) we have the obligation to absorb a majority of the losses or the right to receive a majority of the benefits that could be potentially significant to the variable interest entity. As a result, we consolidate TPDI and ADDCL in our condensed consolidated financial statements, we eliminate intercompany transactions, and we present the interests that are not owned by us as noncontrolling interest on our condensed consolidated balance sheets. The carrying amounts associated with these two joint venture companies, after eliminating the effect of intercompany transactions, were as follows (in millions):

	September 30, 2010			December 31, 2009		
	Assets	Liabilities	Net carrying amount	Assets	Liabilities	Net carrying amount
Variable interest entity						
TPDI	\$ 1,609	\$ 793	\$ 816	\$ 1,500	\$ 763	\$ 737
ADDCL	881	352	529	582	482	100
Total	\$ 2,490	\$ 1,145	\$ 1,345	\$ 2,082	\$ 1,245	\$ 837

Pacific Drilling Limited (“Pacific Drilling”), a Liberian company, owns the 50 percent interest in TPDI that is not owned by us, and we present its interest in TPDI as noncontrolling interest on our condensed consolidated balance sheets. Beginning on October 18, 2010, Pacific Drilling will have the unilateral right to exchange its interest in TPDI for our shares or cash, at its election, measured at an amount based on an appraisal of the fair value of the drillships, subject to certain adjustments. Accordingly, when this option becomes exercisable, we will reclassify the carrying amount of Pacific Drilling’s interest from permanent equity to temporary equity, located between liabilities and equity on our condensed consolidated balance sheets, since the event that gives rise to a potential redemption of the noncontrolling interest is not within our control.

Unconsolidated variable interest entities—In January 2010, we completed the sale of two Midwater Floaters, GSF Arctic II and GSF Arctic IV, to subsidiaries of Awilco Drilling Limited (“ADL”), a U.K. company (see Note 8—Drilling Fleet). We have determined that ADL meets the criteria of a variable interest entity for accounting purposes because its equity at risk is insufficient to permit it to carry on its activities without additional subordinated financial support. We have also determined that we are not the primary beneficiary for accounting purposes since, although we hold a significant financial interest in the variable interest entity and have the obligation to absorb losses or receive benefits that could be potentially significant to the variable interest entity, we do not have the power to direct the marketing and operating activities, which are the activities that most significantly impact the entity’s economic performance.

In connection with the sale, we received net cash proceeds of \$38 million and non-cash proceeds in the form of two notes receivable in the aggregate amount of \$165 million. The notes receivable, which are secured by the drilling units, have stated interest rates of 9 percent and are payable in scheduled quarterly installments of principal and interest through maturity in January 2015. We have also committed to provide ADL with a working capital loan, which is also secured by the drilling units, with a maximum borrowing amount of \$35 million. Additionally, we continue to operate GSF Arctic IV under a short-term bareboat charter with ADL, which is expected to end in early November 2010. At September 30, 2010, the notes receivable and working capital loan receivable represented aggregate carrying amounts of \$113 million and \$6 million, respectively, which, together, represented our maximum exposure to loss.

Note 5—Impairments

Goodwill and other indefinite-lived intangible assets—During the nine months ended September 30, 2010, we recognized a loss on impairment of goodwill associated with our oil and gas properties reporting unit in the amount of \$2 million (\$0.01 per diluted share), which had no tax effect. The carrying amount of goodwill associated with our oil and gas properties reporting unit was \$2 million at December 31, 2009.

During the nine months ended September 30, 2009, we determined that the trade name intangible asset associated with our drilling management services reporting unit was impaired due to market conditions resulting from the global economic downturn and continued pressure on commodity prices. We estimated the fair value of the trade name intangible asset using the relief from royalty method, a valuation methodology that applies the income approach. Our valuation required us to project the future performance of the drilling management services reporting unit based on unobservable inputs that require significant judgment for which there is little or no market data, including assumptions for future commodity prices, projected demand for our services, rig availability and dayrates. As a result, we determined that the carrying amount of the trade name intangible asset exceeded its fair value, and we recognized a loss on impairment of \$6 million (\$0.02 per diluted share), which had no tax effect, during the three and nine months ended September 30, 2009. The carrying amount of the trade name intangible asset, recorded in other assets on our condensed consolidated balance sheets, was \$39 million at both September 30, 2010 and December 31, 2009.

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

Definite-lived intangible assets—During the three and nine months ended September 30, 2009, we determined that the customer relationships intangible asset associated with our drilling management services reporting unit was impaired due to market conditions resulting from the global economic downturn and continued pressure on commodity prices. We estimated the fair value of the customer relationships intangible asset using the multiperiod excess earnings method, a valuation methodology that applies the income approach. Our valuation required us to project the future performance of the drilling management services reporting unit based on unobservable inputs that require significant judgment for which there is little or no market data, including assumptions for future commodity prices, projected demand for our services, rig availability and dayrates. As a result of our impairment testing, we determined that the carrying amount of the customer relationships intangible asset exceeded its fair value and recognized losses on impairment of \$40 million (\$0.12 per diluted share) and \$49 million (\$0.15 per diluted share), both of which had no tax effect, during the three and nine months ended September 30, 2009, respectively. The carrying amount of the customer relationships intangible asset, recorded in other assets on our condensed consolidated balance sheets, was \$60 million and \$64 million at September 30, 2010 and December 31, 2009, respectively.

Assets held for sale—During the nine months ended September 30, 2009, we determined that GSF Arctic II and GSF Arctic IV, both previously classified as assets held for sale, were impaired due to the global economic downturn and pressure on commodity prices, both of which have had an adverse effect on our industry. We estimated the fair values of these rigs based on an 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 and considering our undertakings to the Office of Fair Trading in the U.K. (“OFT”) that required the sale of the rigs with certain limitations and in a limited amount of time. We based our estimates on unobservable inputs that require significant judgment, for which there is little or no market data, including non-binding price quotes from unaffiliated parties, considering the then-current market conditions and restrictions imposed by the OFT. As a result of our evaluation, we recognized a loss on impairment of \$279 million (\$0.87 per diluted share), which had no tax effect, for the nine months ended September 30, 2009. The carrying amount of assets held for sale was \$186 million at December 31, 2009, and these assets were sold in the nine months ended September 30, 2010. See Note 8—Drilling Fleet.

Note 6—Income Taxes

Overview—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.

Tax provision—We conduct operations through our various subsidiaries in a number of countries throughout the world, all of which have taxation regimes with varying nominal rates, deductions, credits and other tax attributes. Our provision for income taxes is based on the tax laws and rates applicable in the jurisdictions in which we operate and earn income. There is little to no expected relationship between the provision for or benefit from income taxes and income or loss before income taxes considering, among other factors, (a) changes in the blend of income that is taxed based on gross revenues versus income before taxes, (b) rig movements between taxing jurisdictions and (c) our rig operating structures.

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Our estimated annual effective tax rates for the nine months ended September 30, 2010 and September 30, 2009 were 17.0 percent and 15.7 percent, respectively. These rates were based on projected annual income before income taxes for each period after adjusting for certain items, such as impairment losses, the gain resulting from the insurance recoveries on the loss of Deepwater Horizon and various other discrete items.

We record a valuation allowance for deferred tax assets, including those resulting from net operating losses, when it is more likely than not that we will not realize some or all of the benefit from the deferred tax assets. At September 30, 2010 and December 31, 2009, the valuation allowance for non-current deferred tax assets was \$73 million and \$69 million, respectively.

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 1999. For the nine months ended September 30, 2010 and September 30, 2009, the amount of current tax benefit recognized from the settlement of disputes with tax authorities and from the expiration of statutes of limitations was insignificant.

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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, December 31,	
	2010	2009
Unrecognized tax benefits, excluding interest and penalties	\$ 481	460
Interest and penalties	226	200
Unrecognized tax benefits, including interest and penalties	\$ 707	660

Our tax returns in the other major jurisdictions in which we operate are generally subject to examination for periods ranging from three to six years. We have agreed to extensions beyond the statute of limitations in three major jurisdictions for up to 15 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 final 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 cash flows.

Tax positions—With respect to our 2004 and 2005 U.S. federal income tax returns, the U.S. tax authorities have withdrawn all of their previously proposed tax adjustments, except a claim regarding transfer pricing for certain charters of drilling rigs between our subsidiaries, resulting in a total proposed adjustment of approximately \$79 million, exclusive of interest. We believe an unfavorable outcome on this assessment with respect to 2004 and 2005 activities would not result in a material adverse effect on our consolidated financial position, results of operations or cash flows. Although we believe the transfer pricing for these charters is materially correct, we have been unable to reach a resolution with the tax authorities. In August 2010, we filed a petition with the U.S. Tax Court.

In May 2010, we received an assessment from the U.S. tax authorities related to our 2006 and 2007 U.S. federal income tax returns. We filed a protest letter with the U.S. tax authorities covering these assessments in July 2010. The significant issues raised in the assessment relate to transfer pricing for certain charters of drilling rigs between our subsidiaries and the creation of intangible assets resulting from the performance of engineering services between our subsidiaries. These two items would result in net adjustments of approximately \$278 million of additional taxes, exclusive of interest. An unfavorable outcome on these adjustments could result in a material adverse effect on our consolidated financial position, results of operations or cash flows. We believe our returns are materially correct as filed, and we intend to continue to vigorously defend against all such claims.

In addition, the assessment included adjustments related to a series of restructuring transactions that occurred between 2001 and 2004. These restructuring transactions ultimately resulted in the disposition of our interests in our former subsidiary TODCO in 2004 and 2005. The authorities are disputing the amount of capital losses resulting from the disposition of TODCO. We utilized a portion of the capital losses to offset capital gains on the 2006, 2007, 2008 and 2009 tax returns. The majority of the capital losses expired on December 31, 2009. The adjustments would also impact the amount of certain net operating losses and other carryovers into 2006 and later years. The authorities are

also contesting the characterization of certain amounts of income received in 2006 and 2007 as capital gain and thus the availability of the capital gain for offset by the capital loss. Claims with respect to our U.S. federal income tax returns for 2006 through 2009 could result in net tax adjustments of approximately \$295 million. An unfavorable outcome on these potential adjustments could result in a material adverse effect on our consolidated financial position, results of operations or cash flows. We believe that our tax returns are materially correct as filed, and we intend to vigorously defend against any potential claims.

The assessment also included certain claims with respect to withholding taxes and certain other items resulting in net tax adjustments of approximately \$166 million, exclusive of interest. In addition, the tax authorities assessed penalties associated with the various tax adjustments in the aggregate amount of approximately \$92 million, exclusive of interest. We believe that our tax returns are materially correct as filed, and we intend to vigorously defend against any potential claims.

Norwegian civil tax and criminal authorities are investigating various transactions undertaken by our subsidiaries in 2001 and 2002 as well as the actions of certain of our former external advisors on these transactions. The authorities issued tax assessments of (a) approximately \$266 million plus interest, related to certain restructuring transactions, (b) approximately \$116 million plus interest, related to the migration of a subsidiary that was previously subject to tax in Norway, (c) approximately \$70 million plus interest, related to a 2001 dividend payment and (d) approximately \$7 million plus interest, related to certain foreign exchange deductions and dividend withholding tax. We have filed or expect to file appeals to these tax assessments. We may be required to provide some form of financial security, in an amount up to \$939 million, including interest and penalties, for these assessed amounts as this dispute is appealed and addressed by the Norwegian courts. The authorities have indicated that they plan to seek penalties of 60 percent on all matters. For these matters, we believe our returns are materially correct as filed, and we have and will continue to respond to all information requests from the Norwegian authorities. We intend to vigorously contest any assertions by the Norwegian authorities in connection with the various transactions being investigated.

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During the nine months ended September 30, 2010, our long-term liability for unrecognized tax benefits related to these Norwegian tax issues increased \$3 million to \$184 million due to the accrual of interest and exchange rate fluctuations. An unfavorable outcome on these Norwegian civil tax matters could result in a material adverse effect on our consolidated financial position, results of operations or cash flows. While we cannot predict or provide assurance as to the final outcome of these proceedings, we do not expect the ultimate resolution of these matters to have a material adverse effect on our consolidated financial position or results of operations, although it may have a material adverse effect on our consolidated cash flows.

The Norwegian authorities issued notification of criminal charges against Transocean Ltd. and certain of its subsidiaries related to disclosures included in one of our Norwegian tax returns. This notification, however, does not itself constitute an indictment under Norwegian law nor does it initiate legal proceedings but represents a formal expression of suspicion and continued investigation. All income taxes, interest charges and penalties related to this Norwegian tax return have previously been settled. We believe that these charges are without merit and plan to vigorously defend Transocean Ltd. and its subsidiaries to the fullest extent.

Certain of our Brazilian income tax returns for the years 2000 through 2004 are currently under examination. The Brazilian tax authorities have issued tax assessments totaling \$115 million, plus a 75 percent penalty of \$86 million and \$111 million of interest through September 30, 2010. An unfavorable outcome on these proposed assessments could result in a material adverse effect on our consolidated financial position, results of operations or cash flows. We believe our returns are materially correct as filed, and we are vigorously contesting these assessments. We filed a protest letter with the Brazilian tax authorities on January 25, 2008, and we are currently engaged in the appeals process.

Note 7—Earnings Per Share

The reconciliation of the numerator and denominator used for the computation of basic and diluted earnings per share is as follows (in millions, except per share data):

	Three months ended				Nine months ended September 30,			
	September 30, 2010		2009		2010		2009	
	Basic	Diluted	Basic	Diluted	Basic	Diluted	Basic	Diluted
Numerator for earnings per share								
Net income attributable to controlling interest	\$ 368	\$ 368	\$ 710	\$ 710	\$ 1,760	\$ 1,760	\$ 2,458	\$ 2,458
Undistributed earnings allocable to participating securities))))))))
	(2	(2	(4	(4	(10	(10	(14	(14
	\$ 366	\$ 366	\$ 706	\$ 706	\$ 1,750	\$ 1,750	\$ 2,444	\$ 2,444

Net income available to shareholders									
Denominator for earnings per share									
Weighted-average shares outstanding	319	319	321	321	320	320	320	320	320
Effect of stock options and other share-based awards	—	—	—	1	—	—	—	—	1
Weighted-average shares for per share calculation	319	319	321	322	320	320	320	320	321
Earnings per share	\$ 1.15	\$ 1.15	\$ 2.20	\$ 2.19	\$ 5.47	\$ 5.47	\$ 7.63	\$ 7.61	

For the three and nine months ended September 30, 2010, 2.3 million and 2.1 million share-based awards, respectively, were excluded from the calculation since the effect would have been anti-dilutive. For the three and nine months ended September 30, 2009, 1.6 million and 1.7 million share-based awards, respectively, were excluded from the calculation since the effect would have been anti-dilutive.

The 1.625% Series A Convertible Senior Notes, 1.50% Series B Convertible Senior Notes and 1.50% Series C Convertible Senior Notes did not have an effect on the calculation for the periods presented. See Note 9—Debt.

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Note 8—Drilling Fleet

Expansion—Construction work in progress, recorded in property and equipment, was \$2.8 billion and \$3.7 billion at September 30, 2010 and December 31, 2009, respectively. The following table presents actual capital expenditures and other capital additions, including capitalized interest, for our remaining major construction projects (in millions):

	Nine months ended September 30, 2010	Through December 31, 2009	Total costs
Discoverer India	\$ 188	\$ 541	\$ 729
Discoverer Luanda (a)	161	535	696
Deepwater Champion (b)	74	527	601
Dhirubhai Deepwater KG2 (c) (d)	36	641	677
Discover Inspiration (c)	11	667	678
Capitalized interest	67	183	250
Mobilization costs	54	19	73
Total	\$ 591	\$ 3,113	\$ 3,704

(a) The costs for Discoverer Luanda represent 100 percent of expenditures incurred since inception. ADDCL is responsible for all of these costs. We hold a 65 percent interest in ADDCL, and Angco Cayman Limited holds the remaining 35 percent interest.

(b) These costs include our initial investment in Deepwater Champion of \$109 million, representing the estimated fair value of the rig at the time of our merger with GlobalSantaFe Corporation (“GlobalSantaFe”) in November 2007.

(c) The accumulated construction costs of these rigs are no longer included in construction work in progress, as their construction projects had been completed as of September 30, 2010.

(d) The cost for Dhirubhai Deepwater KG2 represents 100 percent of TPDI’s expenditures, including those incurred prior to our investment in the joint venture. TPDI is responsible for all of these costs. We hold a 50 percent interest in TPDI, and Pacific Drilling holds the remaining 50 percent interest.

During the nine months ended September 30, 2010, we acquired GSF Explorer, an asset formerly held under capital lease, in exchange for a cash payment in the amount of \$15 million, terminating the capital lease obligation. See Note 9—Debt.

Dispositions—During the nine months ended September 30, 2010, we completed the sale of two Midwater Floaters, GSF Arctic II and GSF Arctic IV. In connection with the sale, we received net cash proceeds of \$38 million and non-cash proceeds in the form of two notes receivable in the aggregate amount of \$165 million. The notes receivable, which are secured by the drilling units, have stated interest rates of 9 percent and are payable in scheduled quarterly installments of principal and interest through maturity in January 2015. We estimated the fair values of the notes receivable based on unobservable inputs that require significant judgment, for which there is little or no market data,

including the credit rating of the buyer. We continue to operate GSF Arctic IV under a short-term bareboat charter with the new owner of the vessel, which is expected to end in early November 2010. As a result of the sale, we recognized a loss on disposal of assets in the amount of \$15 million (\$0.04 per diluted share), which had no tax effect for the nine months ended September 30, 2010. For the three and nine months ended September 30, 2010, we recognized gains on disposal of other unrelated assets in the amounts of \$2 million and \$4 million, respectively.

During the nine months ended September 30, 2009, we received net proceeds of \$10 million in connection with our sale of Sedco 135-D and disposals of other unrelated property and equipment, and these disposals had no net effect on income taxes or net income. In addition, we received net proceeds of \$4 million in exchange for our 45 percent ownership interest in Caspian Drilling Company Limited, which operates Dada Gorgud and Istigal under long-term bareboat charters with the owner of the rigs. During the three and nine months ended September 30, 2009, we recognized a loss on disposal of assets of \$3 million, which had no tax effect.

Deepwater Horizon—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. The rig's insured value was \$560 million, which was not subject to a deductible, and our insurance underwriters declared the vessel a total loss. During the nine months ended September 30, 2010, we received \$560 million in cash proceeds from insurance recoveries related to the loss of the drilling unit and, for the nine months ended September 30, 2010, we recognized a gain on the loss of the rig in the amount of \$267 million (\$0.83 per diluted share), which had no tax effect. See Note 12—Contingencies.

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Note 9—Debt

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

	September 30, 2010			December 31, 2009		
	Transocean Ltd. and subsidiaries	Consolidated variable interest entities	Consolidated total	Transocean Ltd. and subsidiaries	Consolidated variable interest entities	Consolidated total
ODL Loan Facility	\$ 10	\$ —	\$ 10	\$ 10	\$ —	\$ 10
Commercial paper program (a)	150	—	150	281	—	281
6.625% Notes due April 2011 (a)	167	—	167	170	—	170
5% Notes due February 2013	256	—	256	247	—	247
5.25% Senior Notes due March 2013 (a)	514	—	514	496	—	496
TPDI Credit Facilities due March 2015	—	578	578	—	581	581
4.95% Senior Notes due November 2015 (a)	1,099	—	1,099	—	—	—
ADDCL Credit Facilities due November 2017	—	242	242	—	454	454
TPDI Notes due October 2019	—	148	148	—	148	148
6.00% Senior Notes due March 2018 (a)	997	—	997	997	—	997
7.375% Senior Notes due April 2018 (a)	247	—	247	247	—	247
6.50% Senior Notes due November 2020 (a)	899	—	899	—	—	—
Capital lease obligation due July 2026	—	—	—	15	—	15
8% Debentures due April 2027 (a)	57	—	57	57	—	57

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7.45% Notes due April 2027 (a)	96	—	96	96	—	96
7% Senior Notes due June 2028	312	—	312	313	—	313
Capital lease contract due August 2029	699	—	699	711	—	711
7.5% Notes due April 2031 (a)	598	—	598	598	—	598
1.625% Series A Convertible Senior Notes due December 2037 (a)	1,291	—	1,291	1,261	—	1,261
1.50% Series B Convertible Senior Notes due December 2037 (a)	1,762	—	1,762	2,057	—	2,057
1.50% Series C Convertible Senior Notes due December 2037 (a)	1,719	—	1,719	1,979	—	1,979
6.80% Senior Notes due March 2038 (a)	999	—	999	999	—	999
Total debt	11,872	968	12,840	10,534	1,183	11,717
Less debt due within one year						
ODL Loan Facility	10	—	10	10	—	10
Commercial paper program (a)	150	—	150	281	—	281
6.625% Notes due April 2011 (a)	167	—	167	—	—	—
TPDI Credit Facilities due March 2015	—	70	70	—	52	52
ADDCL Credit Facilities due November 2017	—	12	12	—	248	248
Capital lease contract due August 2029	17	—	17	16	—	16
1.625% Series A Convertible Senior Notes due December 2037 (a)	1,291	—	1,291	1,261	—	1,261
Total debt due within one year	1,635	82	1,717	1,568	300	1,868
Total long-term debt	\$ 10,237	\$ 886	\$ 11,123	\$ 8,966	\$ 883	\$ 9,849

(a) 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 commercial paper program and the Five-Year Revolving Credit Facility. Transocean Ltd. has no independent assets or operations, its guarantee of debt securities of Transocean Inc. is full and unconditional and its only other subsidiary, not owned indirectly through Transocean Inc., is minor. Transocean Inc.'s only operating assets are its

investments in its operating subsidiaries. Transocean Inc.'s independent assets and operations, other than those related to investments in its subsidiaries and balances primarily pertaining to its cash and cash equivalents and debt are less than three percent of the total consolidated assets and operations of Transocean Ltd., and thus, substantially all of the assets and operations exist within these non-guarantor operating companies. Furthermore, Transocean Ltd. and Transocean Inc. are not subject to any significant restrictions on their ability to obtain funds from their consolidated subsidiaries or entities accounted for under the equity method by dividends, loans or return of capital distributions.

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Scheduled maturities—In preparing the scheduled maturities of our debt, we assume the noteholders will exercise their options to require us to repurchase the 1.625% Series A Convertible Senior Notes (the “Series A Notes”), 1.50% Series B Convertible Senior Notes (the “Series B Notes”) and 1.50% Series C Convertible Senior Notes (the “Series C Notes,” and collectively with the Series A Notes and the Series B Notes, the “Convertible Senior Notes”) in December 2010, 2011 and 2012, respectively. At September 30, 2010, the scheduled maturities of our debt were as follows (in millions):

	Transocean Ltd. and subsidiaries	Consolidated variable interest entities	Consolidated total
Twelve months ending September 30,			
2011	\$ 1,641	\$ 82	\$ 1,723
2012	1,854	96	1,950
2013	2,630	98	2,728
2014	21	100	121
2015	23	329	352
Thereafter	5,904	263	6,167
Total debt, excluding unamortized discounts, premiums and fair value adjustments	12,073	968	13,041
Total unamortized discounts, premiums and fair value adjustments	(201	—	(201
Total debt	\$ 11,872	\$ 968	\$ 12,840

Commercial paper program—We maintain a commercial paper program, which is supported by the Five-Year Revolving Credit Facility, under which we may issue privately placed, unsecured commercial paper notes for general corporate purposes up to a maximum aggregate outstanding amount of \$1.5 billion. At September 30, 2010, \$150 million in commercial paper was outstanding at a weighted-average interest rate of 0.8 percent, including commissions.

Five-Year Revolving Credit Facility—We have a \$2.0 billion, five-year revolving credit facility under the Five-Year Revolving Credit Facility Agreement dated November 27, 2007, as amended (the “Five-Year Revolving Credit Facility”). Throughout the term of the Five-Year Revolving Credit Facility, we pay a facility fee on the daily amount of the underlying commitment, whether used or unused, which ranges from 0.10 percent to 0.30 percent and was 0.175 percent at September 30, 2010. At September 30, 2010, we had \$81 million in letters of credit issued and outstanding and no borrowings outstanding under the Five-Year Revolving Credit Facility.

TPDI Credit Facilities—TPDI has a bank credit agreement for a \$1.265 billion secured credit facility (the “TPDI Credit Facilities”) comprised of a \$1.0 billion senior term loan, a \$190 million junior term loan and a \$75 million revolving credit facility, which was established to finance the construction of and is secured by Dhirubhai Deepwater KG1 and Dhirubhai Deepwater KG2. One of our subsidiaries participates in the secured term loan with an aggregate commitment of \$595 million. At September 30, 2010, \$1.1 billion was outstanding under the TPDI Credit Facilities, of which \$560 million was due to one of our subsidiaries and was eliminated in consolidation. The weighted-average

interest rate on September 30, 2010 was 1.9 percent. See Note 10—Derivatives and Hedging.

In April 2010, we had a letter of credit issued in the amount of \$60 million on behalf of TPDI to satisfy its liquidity requirements under the TPDI Credit Facilities.

4.95% Senior Notes and 6.50% 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”) and \$900 million aggregate principal amount of 6.50% Senior Notes due November 2020 (the “6.50% Senior Notes,” and together with the 4.95% Senior Notes, the “Senior Notes”). We are required to pay interest on the Senior Notes on May 15 and November 15 of each year, beginning November 15, 2010. We may redeem some or all of the Senior Notes at any time at a redemption price equal to 100 percent of the principal amount plus accrued and unpaid interest, if any, and a make whole premium. The indenture pursuant to which the Senior Notes were issued contains restrictions on creating liens, engaging in sale/leaseback transactions and engaging in merger, consolidation or reorganization transactions. At September 30, 2010, \$1.1 billion and \$900 million aggregate principal amount of the 4.95% Senior Notes and 6.50% Senior Notes, respectively, were outstanding.

TPDI Notes—TPDI has issued promissory notes (the “TPDI Notes”) payable to its two shareholders, Pacific Drilling and one of our subsidiaries, which have maturities through October 2019. At September 30, 2010, the aggregate outstanding principal amount was \$296 million, of which \$148 million was due to one of our subsidiaries and has been eliminated in consolidation. The weighted-average interest rate on September 30, 2010 was 2.6 percent.

ADDCL Credit Facilities—ADDCL has a senior secured bank credit agreement for a credit facility (the “ADDCL Primary Loan Facility”) comprised of Tranche A, Tranche B and Tranche C for \$215 million, \$270 million and \$399 million, respectively, which was established to finance the construction of and is secured by Discoverer Luanda. Unaffiliated financial institutions provide the commitment for and the borrowings under Tranche A. One of our subsidiaries provides the commitment for and the borrowings under Tranche C. In March 2010, ADDCL terminated Tranche B, having repaid borrowings of \$235 million under Tranche B using borrowings under Tranche C. At September 30, 2010, \$215 million was outstanding under Tranche A at a weighted-average interest rate of 0.7 percent. At September 30, 2010, \$399 million was outstanding under Tranche C, which was eliminated in consolidation.

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Additionally, ADDCL has a secondary bank credit agreement for a \$90 million credit facility (the “ADDCL Secondary Loan Facility”), for which one of our subsidiaries provides 65 percent of the total commitment. At September 30, 2010, \$77 million was outstanding under the ADDCL Secondary Loan Facility, of which \$50 million was provided by one of our subsidiaries and has been eliminated in consolidation. The weighted-average interest rate on September 30, 2010 was 3.4 percent.

Capital lease obligation—During the nine months ended September 30, 2010, we acquired GSF Explorer, an asset formerly held under a capital lease, in exchange for a cash payment of \$15 million, thereby terminating the capital lease obligation. In connection with the termination of the capital lease obligation, we recognized a gain on debt retirement of \$2 million, which had no per diluted share or tax effect. See Note 8—Drilling Fleet.

Convertible Senior Notes—The carrying amounts of the liability components of the Convertible Senior Notes were as follows (in millions):

	September 30, 2010			December 31, 2009		
	Principal amount	Unamortized discount	Carrying amount	Principal amount	Unamortized discount	Carrying amount
Carrying amount of liability component						
Series A Convertible Senior Notes due 2037	\$ 1,299	\$ (8)	\$ 1,291	\$ 1,299	\$ (38)	\$ 1,261
Series B Convertible Senior Notes due 2037	1,836	(74)	1,762	2,200	(143)	2,057
Series C Convertible Senior Notes due 2037	1,861	(142)	1,719	2,200	(221)	1,979

The carrying amounts of the equity components of the Convertible Senior Notes were as follows (in millions):

	September 30, 2010	December 31, 2009
Carrying amount of equity component		
Series A Convertible Senior Notes due 2037	\$ 114	\$ 114
Series B Convertible Senior Notes due 2037	230	275
Series C Convertible Senior Notes due 2037	298	352

Including the amortization of the unamortized discount, the effective interest rates were 4.88 percent for the Series A Notes, 5.08 percent for the Series B Notes, and 5.28 percent for the Series C Notes. At September 30, 2010, the remaining period over which the discount will be amortized was less than a year for the Series A Notes, 1.2 years for the Series B Notes and 2.2 years for the Series C Notes. Interest expense, excluding amortization of debt issue costs, was as follows (in millions):

	Three months ended September 30, 2010		Nine months ended September 30, 2010	
	2010	2009	2010	2009
Interest expense				
Series A Convertible Senior Notes due 2037	\$ 15	\$ 19	\$ 46	\$ 66
Series B Convertible Senior Notes due 2037	25	25	77	75
Series C Convertible Senior Notes due 2037	25	25	77	75

Under certain conditions, holders have the right to convert the Convertible Senior Notes at the applicable conversion rate. As of September 30, 2010, the applicable conversion rate was 5.9310 shares per \$1,000 note, equivalent to a conversion price of \$168.61 per share. The conversion rate is subject to increase upon the occurrence of certain fundamental changes and adjustment for other corporate events, such as the distribution of cash to our shareholders (see Note 13—Equity).

During the three and nine months ended September 30, 2010, we repurchased an aggregate principal amount of \$363 million of the Series B Notes for an aggregate cash payment of \$351 million and an aggregate principal amount of \$340 million of the Series C Notes for an aggregate cash payment of \$318 million. In connection with the repurchases, we recognized a loss on retirement of \$22 million (\$0.07 per diluted share), with no tax effect, associated with the debt components of the repurchased notes, and we recorded additional paid-in capital of \$11 million associated with the equity components of the repurchased notes. See Note 15—Subsequent Events.

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During the nine months ended September 30, 2009, we repurchased an aggregate principal amount of \$615 million of the Series A Notes for an aggregate cash payment of \$581 million. During the three and nine months ended September 30, 2009, we recognized a loss on retirement of \$7 million (\$0.02 per diluted share), with no tax effect, and \$16 million (\$0.05 per diluted share), with no tax effect, respectively, associated with the debt component of the Series A Notes and recorded additional paid-in capital of \$19 million associated with the equity component of the Series A Notes.

Note 10—Derivatives and Hedging

Cash flow hedges—TPDI has entered into interest rate swaps, which have been designated and have qualified as a cash flow hedge, to reduce the variability of cash interest payments associated with the variable-rate borrowings under the TPDI Credit Facilities. The aggregate notional amount corresponds with the aggregate outstanding amount of the borrowings under the TPDI Credit Facilities. As of September 30, 2010, the aggregate notional amount was \$1.1 billion, of which \$560 million was attributable to the intercompany borrowings provided by one of our subsidiaries and the related balances have been eliminated in consolidation. At September 30, 2010, the weighted-average variable interest rate associated with the interest rate swaps was 0.5 percent, and the weighted-average fixed interest rate was 2.3 percent. At September 30, 2010, the interest rate swaps represented a liability measured at a fair value of \$21 million, recorded in other long-term liabilities, with a corresponding increase to accumulated other comprehensive loss. At December 31, 2009, the interest rate swaps represented an asset measured at a fair value of \$5 million, recorded in other assets, and a liability measured at a fair value of less than \$1 million, recorded in other long-term liabilities, with a corresponding net decrease to accumulated other comprehensive loss. The amount associated with the ineffective portion of the cash flow hedges was less than \$1 million, recorded in interest expense for the nine months ended September 30, 2010. There was no ineffectiveness for the three months ended September 30, 2010, or for the three and nine months ended September 30, 2009.

Fair value hedges—Two of our wholly owned subsidiaries have entered into interest rate swaps, which are designated and have qualified as fair value hedges, to reduce our exposure to changes in the fair values of the 5.25% Senior Notes and the 5.00% Notes. The interest rate swaps have aggregate notional amounts of \$500 million and \$250 million, respectively, equal to the face values of the hedged instruments and have stated maturities that coincide with those of the hedged instruments. We have 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. At September 30, 2010, the weighted-average variable interest rate on the interest rate swaps was 3.5 percent, and the fixed interest rates matched those of the underlying debt instruments. At September 30, 2010, the interest rate swaps represented an asset measured at fair value of \$22 million, recorded in other assets, with a corresponding increase to the carrying amounts of the underlying debt instruments. At December 31, 2009, the interest rate swaps represented a liability measured at a fair value of \$4 million, recorded in other long-term liabilities, with a corresponding decrease to the carrying amount of the underlying debt instrument.

Note 11—Postemployment Benefit Plans

Defined benefit pension plans and other postretirement employee benefit plans—We have several defined benefit pension plans, both funded and unfunded, covering substantially all of our U.S. employees, including certain frozen plans, assumed in connection with our mergers, that cover certain current employees and certain former employees

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and 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 our employees in those areas (the “Non-U.S. Plans”). Additionally, we offer several unfunded contributory and noncontributory other postretirement employee benefit plans (the “OPEB Plans”) covering substantially all of our U.S. employees. The components of net periodic benefit costs, before tax, and funding contributions were as follows (in millions):

	Three months ended September 30, 2010				Three months ended September 30, 2009			
	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	\$ 10	\$ 5	\$ —	\$ 15	\$ 11	\$ 5	\$ —	\$ 16
Interest cost	14	7	1	22	12	4	—	16
Expected return on plan assets	(14)	(5)	—	(19)	(13)	(3)	—	(16)
Settlements and curtailments	6	1	—	7	2	1	—	3
Actuarial losses, net	3	(2)	—	1	4	—	2	6
Prior service cost, net	—	—	—	—	—	—	(2)	(2)
Net periodic benefit costs	\$ 19	\$ 6	\$ 1	\$ 26	\$ 16	\$ 7	\$ —	\$ 23
Funding contributions	\$ 14	\$ 29	\$ 1	\$ 44	\$ 3	\$ 13	\$ 1	\$ 17

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	Nine months ended September 30, 2010				Nine months ended September 30, 2009			
	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	\$ 31	\$ 15	\$ 1	\$ 47	\$ 33	\$ 13	\$ 1	\$ 47
Interest cost	41	15	2	58	37	12	1	50
Expected return on plan assets	(43)	(13)	—	(56)	(40)	(10)	—	(50)
Settlements and curtailments	8	2	—	10	4	1	—	5
Actuarial losses, net	10	2	—	12	13	—	2	15
Prior service cost, net) (1) —) (1) (2) (1) 1) (2) (2
Net periodic benefit costs	\$ 46	\$ 21	\$ 2	\$ 69	\$ 46	\$ 17	\$ 2	\$ 65
Funding contributions	\$ 65	\$ 37	\$ 4	\$ 106	\$ 50	\$ 14	\$ 3	\$ 67

Note 12—Contingencies

Macondo well incident

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 were declared dead 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 BP America Production Co.

As we continue to investigate the cause or causes of the incident, we are evaluating its consequences. Although we cannot predict the final outcome or estimate the reasonably possible range of loss with certainty, as of September 30, 2010, we have recognized a liability of approximately \$116 million, recorded in other current liabilities on our condensed consolidated balance sheet based on estimated losses related to the incident that we believe are probable and for which a reasonable estimate can be made. We believe that a portion of this liability is recoverable from insurance and have recognized a receivable of approximately \$87 million, recorded in accounts receivable, net. New information or future developments could require us to adjust our disclosures and our estimated liabilities and insurance recoveries. See “—Retained risk” and “—Contractual indemnity.”

Litigation—As of September 30, 2010, 291 actions or claims were pending against Transocean entities, along with other unaffiliated defendants, in state and federal courts. Additionally, government agencies have initiated investigations into the Macondo well incident. We have categorized below the nature of the legal actions or claims. We are

evaluating all claims and intend to vigorously defend any claims and pursue any and all defenses available. In addition, we believe we are entitled to contractual defense and indemnity for all wrongful death and personal injury claims made by non-employees and third-party subcontractors' employees as well as all liabilities for pollution or contamination, other than for pollution or contamination originating on or above the surface of the water. See “—Contractual indemnity.”

Wrongful death and personal injury—As of September 30, 2010, we and one or more of our subsidiaries have been named, along with other unaffiliated defendants, in 19 complaints that were pending in state and federal courts in Louisiana and Texas involving multiple plaintiffs that allege wrongful death and other personal injuries arising out of the Macondo well incident. The complaints generally allege negligence and seek awards of unspecified economic damages and punitive damages. BP plc (together with its affiliates, “BP”), MI-SWACO and Weatherford Ltd. have, based on contractual arrangements, also made indemnity demands upon us with respect to personal injury and wrongful death claims asserted by our employees or representatives of our employees against these entities. See “—Contractual indemnity.”

Economic loss—As of September 30, 2010, we and one or more of our subsidiaries were named, along with other unaffiliated defendants, in 70 individual complaints as well as 187 putative class-action complaints that were pending in the federal and state courts in Louisiana, Texas, Mississippi, Alabama, Georgia, Kentucky, South Carolina, Tennessee, Florida and possibly other courts. The complaints generally allege, among other things, potential economic losses as a result of environmental pollution arising out of the Macondo well incident and are based primarily on the Oil Pollution Act of 1990 (“OPA”) and state OPA analogues. See “—Environmental matters.” One complaint also alleges a violation of the Racketeer Influenced and Corrupt Organizations Act. The plaintiffs are generally seeking awards of unspecified economic, compensatory and punitive damages, as well as injunctive relief. See “—Contractual indemnity.” Per the order of the Multi-District Litigation Panel, the majority of the economic loss claims filed in federal courts have been centralized for discovery purposes in the U.S. District Court, Eastern District of Louisiana. Absent agreement of the parties, however, the cases will be tried in the courts from which they were transferred.

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Federal securities claims—Three federal securities law class actions are currently pending, naming us and certain of our officers and directors as defendants. Though all three were originally filed in the U.S. District Court, Southern District of New York, one of the cases was dismissed and re-filed in the U.S. District Court, Southern District of Texas. Two of these actions generally allege violations of Section 10(b) of the Securities Exchange Act of 1934 (the “Exchange Act”), Rule 10b-5 promulgated under the Exchange Act and Section 20(a) of the Exchange Act in connection with the Macondo well incident. The plaintiffs are generally seeking awards of unspecified economic damages, including damages resulting from the decline in our stock price after the Macondo well incident. The third action was filed by a former GlobalSantaFe shareholder, alleging that the proxy statement related to our shareholder meeting in connection with our merger with GlobalSantaFe violated Section 14(a) of the Exchange Act, Rule 14a-9 promulgated thereunder and Section 20(a) of the Exchange Act. The plaintiff claims that GlobalSantaFe shareholders received inadequate consideration for their shares as a result of the alleged violations and seeks rescission and compensatory damages.

While we cannot predict or provide assurance as to the final outcome of these federal securities claims, we believe the likelihood is no more than remote that they will have a material adverse effect on our consolidated statement of financial position, results of operations or cash flows.

Shareholder derivative claims—In June 2010, two shareholder derivative suits were filed by our shareholders naming us as a nominal defendant and certain of our officers and directors as defendants in the District Courts of the State of Texas. The first case generally alleges breach of fiduciary duty, unjust enrichment, abuse of control, gross mismanagement and waste of corporate assets in connection with the Macondo well incident and the other generally alleges breach of fiduciary duty, unjust enrichment and waste of corporate assets in connection with the Macondo well incident. The plaintiffs are generally seeking, on behalf of Transocean, restitution and disgorgement of all profits, benefits and other compensation from the defendants.

Additionally, two shareholder derivative suits were filed by BP shareholders, naming BP as a nominal defendant and asserting claims against other entities, including Cameron International Corporation, a subsidiary of Halliburton Company and us. Both of these cases were filed in the U.S. District Court, Eastern District of Louisiana, but have been transferred to the U.S. District Court, Southern District of Texas. The plaintiffs generally claim breach of contract, professional negligence, and aiding and abetting of alleged breaches of fiduciary duty of BP officers and directors by the non-BP defendants and seek contribution and the establishment of a constructive trust for any damages recovered.

Environmental matters—Environmental claims under two different schemes, statutory and common law, and in two different regimes, federal and state, have been asserted against us. See “—Litigation—Economic loss.” Liability under many statutes is imposed without fault, but such statutes often allow the amount of damages to be limited. In contrast, common law liability requires proof of fault and causation, but generally has no readily defined limitation on damages, other than the type of damages that may be redressed. We have described below certain significant applicable environmental statutes and matters relating to the Macondo well incident. As described below, we believe that we have limited statutory environmental liability and we are entitled to contractual defense and indemnity for all liabilities for pollution or contamination, other than for pollution or contamination originating on or above the surface of the water. See “—Contractual indemnity.”

Oil Pollution Act—OPA imposes strict liability on responsible parties of vessels or facilities from which oil is discharged into or upon navigable waters or adjoining shore lines. OPA defines the responsible parties with respect to the source of discharge. We believe that the owner or operator of a mobile offshore drilling unit (“MODU”), such as Deepwater Horizon, is only a responsible party with respect to discharges from the vessel that occur on or above the surface of the water. As the responsible party for Deepwater Horizon, we believe we are responsible only for the discharges of oil emanating from the rig. Therefore, we believe we are not responsible for the discharged hydrocarbons from the Macondo well.

Responsible parties for discharges are liable for: (1) removal and cleanup costs, (2) damages that result from the discharge, including natural resources damages, generally up to a statutorily defined limit, (3) reimbursement for government efforts and (4) certain other specified damages. For responsible parties of MODUs, the limitation on liability is determined based on the gross tonnage of the vessel. The statutory limits are not applicable, however, if the discharge is the result of gross negligence, willful misconduct, or violation of federal construction or permitting regulations by the responsible party or a party in a contractual relationship with the responsible party.

Additionally, the National Pollution Funds Center (“NPFC”), a division of the U.S. Coast Guard, is charged with administering the Oil Spill Liability Trust Fund (“OSLTF”). The NPFC collects fines and civil penalties under OPA from responsible parties, as defined in the statute. The payments are directed to the OSLTF. To date, the NPFC has issued seven invoices to BP, Anadarko Petroleum Corporation (together with its affiliates, “Anadarko”) and Mitsui & Co. (together with its affiliates, “Mitsui”), as the operator and owners of the well and, thus, the statutorily defined responsible parties for discharges from the well and wellhead. To date, BP has paid six of these invoices. Invoices have also been sent to us, and we have acknowledged responsible party status only with respect to discharges from the vessel on or above the surface of the water, if any.

We have also received claims directly from individuals, pursuant to OPA, requesting compensation for loss of income as a result of the Macondo well incident. BP has accepted responsible party status with the U.S. Coast Guard for the release of hydrocarbons from the Macondo well and has stated its intent to pay all legitimate claims, and we have not paid any of these claims.

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Other federal statutes—Several of the claimants have made assertions under other statutes, including the Clean Water Act, the Endangered Species Act, the Migratory Bird Treaty Act, the Clean Air Act, the Comprehensive Environmental Response Compensation and Liability Act and the Emergency Planning and Community Right-to-Know Act.

State environmental laws—As of September 30, 2010, claims had been asserted by private claimants under state environmental statutes in Florida, Louisiana, Mississippi and Texas. As described below, claims asserted by various state and local governments are pending in Alabama, Florida, Louisiana and Texas.

In June 2010, the Louisiana Department of Environmental Quality (the “LDEQ”) issued a consolidated compliance order and notice of potential penalty to us and certain of our subsidiaries asking us to eliminate and remediate discharges of oil and other pollutants into waters and property located in the State of Louisiana, and to submit a plan and report in response to the order. We have requested that the LDEQ rescind the enforcement actions against us and our subsidiaries because the remediation actions that are the subject of such orders are actions that do not involve us or our subsidiaries, as we are not involved in the remediation or clean-up activities. Alternatively, if the LDEQ will not rescind the enforcement actions altogether, we have requested the LDEQ to dismiss the enforcement actions against us and certain of our subsidiaries as these entities are not proper parties to the enforcement actions and were improperly served. We have requested an administrative hearing on the charges alleged in these orders.

Additionally, suits have been filed by the State of Alabama and the cities of Greenville, Evergreen, Georgiana, and McKenzie, Alabama in the U.S. District Court, Middle District of Alabama; the Mexican States of Veracruz, Quintana Roo, and Tamaulipas in the U.S. District Court, Western District of Texas; and the City of Panama City Beach, Florida in the U.S. District Court, Northern District of Florida. Generally, these governmental entities allege economic losses under OPA and other statutory environmental state claims and also assert various common law state claims.

By letter dated May 5, 2010, the Attorneys General of the five Gulf Coast states of Alabama, Florida, Louisiana, Mississippi and Texas informed us that they intend to seek recovery of pollution clean-up costs and related damages arising from the Macondo well incident. In addition, by letter dated June 21, 2010, the Attorneys General of the 11 Atlantic Coast states of Connecticut, Delaware, Georgia, Maine, Maryland, Massachusetts, New Hampshire, New York, North Carolina, Rhode Island and South Carolina informed us that their states have not sustained any damage from the Macondo well incident but they would like assurances that we will be responsible financially if damages are sustained. We responded to each letter from the Attorneys General and indicated that we intend to fulfill our obligations as a responsible party for any discharge of oil from Deepwater Horizon on or above the surface of the water, and we assume that the operator will similarly fulfill its obligations under OPA for discharges from the undersea well.

Wreck removal—We may be requested by authorities to remove the diesel fuel from the wreckage, if it is present, as well as various forms of debris from Deepwater Horizon. 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.

Contractual indemnity—Under our drilling contract for Deepwater Horizon, the operator has agreed, among other things, to assume full responsibility for and defend, release and indemnify us from any loss, expense, claim, fine, penalty or

liability for pollution or contamination, including control and removal thereof, arising out of or connected with operations under the contract other than for pollution or contamination originating on or above the surface of the water from hydrocarbons or other specified substances within the control and possession of the contractor, as to which we agreed to assume responsibility and protect, release and indemnify the operator. Although we do not believe it is applicable to the Macondo well incident, we also agreed to indemnify and defend the operator up to a limit of \$15 million for claims for loss or damage to third parties arising from pollution caused by the rig while it is off the drilling location, while the rig is underway or during drive off or drift off of the rig from the drilling location. The operator has also agreed, among other things, (1) to defend, release and indemnify us against loss or damage to the reservoir, and loss of property rights to oil, gas and minerals below the surface of the earth and (2) to defend, release and indemnify us and bear the cost of bringing the well under control in the event of a blowout or other loss of control. We agreed to defend, release and indemnify the operator for personal injury and death of our employees, invitees and the employees of our subcontractors while the operator agreed to defend, release and indemnify us for personal injury and death of its employees, invitees and the employees of its other subcontractors (other than us). We have also agreed to defend, release and indemnify the operator for damages to the rig and equipment, including salvage or removal costs.

Given the potential amounts involved in connection with the Macondo well incident, the operator may seek to avoid its indemnification obligations. In particular, the operator, in response to our request for indemnification, has generally reserved all of its rights and stated that it could not at this time conclude that it is obligated to indemnify us. In doing so, the operator has asserted that the facts are not sufficiently developed to determine who is responsible and has cited a variety of possible legal theories based upon the contract and facts still to be developed. We believe this reservation of rights is without justification and that the operator is required to honor its indemnification obligations contained in our contract and described above.

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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. A Special Master, appointed to administer these cases pre-trial, subsequently required that each individual plaintiff file a separate lawsuit, and the original 21 multi-plaintiff complaints were then dismissed by the Circuit Courts. The amended complaints resulted in one of our subsidiaries being named as a direct defendant in seven cases. We have or may have an indirect interest in an additional 17 cases. The complaints generally allege that the defendants used or manufactured asbestos-containing products 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. The plaintiffs generally seek awards of unspecified compensatory and punitive damages. 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. None of the cases in which one of our subsidiaries is a named defendant has been scheduled for trial in 2010, and the preliminary information available on these claims is not sufficient to determine if there is an identifiable period for alleged exposure to asbestos, whether any asbestos exposure in fact occurred, the vessels potentially involved in the claims, or the basis on which the plaintiffs would support claims that their injuries were related to exposure to asbestos. However, the initial evidence available would suggest that we would have significant defenses to liability and damages. In 2009, two cases that were part of the original 2004 multi-plaintiff suits went to trial in Mississippi against unaffiliated defendant companies which allegedly manufactured drilling-related products containing asbestos. We were not a defendant in either of these cases. One of the cases resulted in a substantial jury verdict in favor of the plaintiff, and this verdict was subsequently vacated by the trial judge on the basis that the plaintiff failed to meet its burden of proof. While the court's decision is consistent with our general evaluation of the strength of these cases, it has not been reviewed on appeal. The second case resulted in a verdict completely in favor of the defendants. There have been no other trials involving any of the parties to the original 21 complaints. We intend to defend these lawsuits vigorously, although there can be no assurance as to the ultimate 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 discontinued in 1989, and the subsidiary has no remaining assets other than the insurance policies involved in its litigation, fundings from settlements with insurers, assigned rights from insurers and "coverage-in-place" settlement agreements with insurers, and funds received from the cancellation of certain insurance policies. The subsidiary has been named as a defendant, along with numerous other companies, in lawsuits alleging personal injury as a result of exposure to asbestos. As of September 30, 2010, the subsidiary was a defendant in approximately 1,049 lawsuits. Some of these lawsuits include multiple plaintiffs and we estimate that there are approximately 2,505 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 this subsidiary in 1990. Through September 30, 2010, the amounts expended to resolve claims, including both attorneys'

fees and expenses and settlement costs, have not been material, and all deductibles with respect to the primary insurance have been satisfied. 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 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 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 final outcome of these matters, we do not believe that the current value of the claims where we have been identified 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 approximately \$179 million 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 subsidiary’s 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.

Patent litigation—In 2007, several of our subsidiaries were sued by Heerema Engineering Services (“Heerema”) in the United States District Court for the Southern District of Texas for patent infringement, claiming that we infringe their U.S. patent entitled Method and Device for Drilling Oil and Gas. Heerema claims that our Enterprise class, advanced Enterprise class, Express class and Development Driller class of drilling rigs operating in the U.S. Gulf of Mexico infringe on this patent. Heerema seeks unspecified damages and injunctive relief. The court has held a hearing on construction of their patent but has not yet issued a decision. We deny liability for patent infringement, believe that their patent is invalid and intend to vigorously defend against the claim. We do not expect the liability, if any, resulting from this claim to have a material adverse effect on our consolidated statement of financial position, results of operations or cash flows.

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Other matters—We are involved in various tax matters and various regulatory matters. We are also involved in lawsuits relating to damage claims arising out of hurricanes Katrina and Rita, all of which are insured and which are not material to us. In addition, as of September 30, 2010, we were involved in a number of other lawsuits, including a dispute for municipal tax payments in Brazil and a dispute involving customs procedures in India, neither of which is material to us, and all of which have arisen in the ordinary course of our business. 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 or threatened litigation. There can be no assurance that our beliefs or expectations as to the outcome or effect of any 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 Environmental 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 U.S. Environmental Protection Agency (“EPA”) and the U.S. Department of Justice (“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:

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- § the actual responsibility attributed to us and the other PRPs at the site;
- § appropriate investigatory or remedial actions; and
- § 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:

- § the volume and nature of material, if any, contributed to the site for which we are responsible;
- § the numbers of other PRPs and their financial viability; and
- § 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 financial position, or ongoing results of operations. Estimated costs of future expenditures for environmental remediation obligations are not discounted to their present value.

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Contamination litigation

On July 11, 2005, one of our subsidiaries was served with a lawsuit filed on behalf of three landowners in Louisiana in the 12th Judicial District Court for the Parish of Avoyelles, State of Louisiana. The lawsuit named 19 other defendants, all of which were alleged to have contaminated the plaintiffs' property with naturally occurring radioactive material, produced water, drilling fluids, chlorides, hydrocarbons, heavy metals and other contaminants as a result of oil and gas exploration activities. Experts retained by the plaintiffs issued a report suggesting significant contamination in the area operated by the subsidiary and another codefendant, and claimed that over \$300 million would be required to properly remediate the contamination. The experts retained by the defendants conducted their own investigation and concluded that the remediation costs would amount to no more than \$2.5 million.

The plaintiffs and the codefendant threatened to add GlobalSantaFe as a defendant in the lawsuit under the "single business enterprise" doctrine contained in Louisiana law. The single business enterprise doctrine is similar to corporate veil piercing doctrines. On August 16, 2006, our subsidiary and its immediate parent company, each of which is an entity that no longer conducts operations or holds assets, filed voluntary petitions for relief under Chapter 11 of the U.S. Bankruptcy Code in the U.S. Bankruptcy Court for the District of Delaware. Later that day, the plaintiffs dismissed our subsidiary from the lawsuit. Subsequently, the codefendant filed various motions in the lawsuit and in the Delaware bankruptcies attempting to assert alter ego and single business enterprise claims against GlobalSantaFe and two other subsidiaries in the lawsuit. The efforts to assert alter ego and single business enterprise theory claims against GlobalSantaFe were rejected by the Court in Avoyelles Parish, and the lawsuit against the other defendant went to trial on February 19, 2007. This lawsuit was resolved at trial with a settlement by the codefendant that included a \$20 million payment and certain cleanup activities to be conducted by the codefendant. The codefendant further claimed to receive a right to continue to pursue the original plaintiff's claims.

The codefendant sought to dismiss the bankruptcies. In addition, the codefendant filed proofs of claim against both our subsidiary and its parent with regard to its claims arising out of the settlement of the lawsuit. On February 15, 2008, the Bankruptcy Court denied the codefendant's request to dismiss the bankruptcy case but modified the automatic stay to allow the codefendant to proceed on its claims against the debtors, our subsidiary and its parent, and their insurance companies. The codefendant subsequently filed suit against the debtors and certain of its insurers in the Court of Avoyelles Parish to determine their liability for the settlement. The denial of the motion to dismiss the bankruptcies was appealed. On appeal the bankruptcy cases were ordered to be dismissed, and the bankruptcies were dismissed on June 14, 2010.

On March 10, 2010, GlobalSantaFe and the two subsidiaries filed a declaratory judgment action in State District Court in Houston, Texas against the codefendant and the debtors seeking a declaration that GlobalSantaFe and the two subsidiaries had no liability under legal theories advanced by the codefendant. On March 11, 2010, the codefendant filed a motion for leave to amend the pending litigation in Avoyelles Parish to add GlobalSantaFe, Transocean Worldwide Inc., its successor and our wholly owned subsidiary, and one of the subsidiaries as well as various additional insurers. Leave to amend was granted and the amended petition was filed. An extension to respond for all purposes was agreed until April 28, 2010 for the debtors, GlobalSantaFe, Transocean Worldwide Inc. and the subsidiary. On April 28, 2010, GlobalSantaFe and its two subsidiaries filed various exceptions seeking dismissal of the Avoyelles Parish lawsuit, which have been denied.

We believe that these legal theories should not be applied against GlobalSantaFe or Transocean Worldwide Inc. Our subsidiary, its parent and GlobalSantaFe intend to continue to vigorously defend against any action taken in an attempt to impose liability against them under the theories discussed above or otherwise and believe they have good and valid defenses thereto. We do not believe that these claims will have a material impact on our consolidated statement of financial position, results of operations or cash flows.

Retained risk

Our hull and machinery and excess liability insurance program consists of commercial market and captive insurance policies primarily with 12-month and 11-month policy periods beginning on May 1, 2010 and June 1, 2010, respectively.

Under the hull and machinery program, we generally maintain a \$125 million per occurrence deductible, limited to a maximum of \$250 million per policy period. Subject to the same shared deductible, we also have coverage for costs incurred to mitigate damage to a rig up to an amount equal to 25 percent of a rig's insured value. Also subject to the same shared deductible, we have coverage for wreck removal for an amount up to 25 percent of a rig's insured value, with any excess generally covered to the extent of our excess liability coverage described below. However, the shared deductible is \$0 in the event of a total loss or a constructive total loss of a drilling unit.

We carry \$950 million of commercial market excess liability coverage, exclusive of 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 has separate (1) \$10 million per occurrence deductibles on crew personal injury liability and on collision liability claims and (2) a separate \$5 million per occurrence deductible on other third-party non-crew claims. These types of excess liability coverages are subject to an additional aggregate self-insured retention of \$50 million that is applied to any occurrence in excess of the per occurrence deductible until the \$50 million is exhausted. We generally retain the risk for any liability losses in excess of \$1.0 billion.

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(Unaudited)

We also carry \$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. As of September 30, 2010, the insured value of our drilling rig fleet was approximately \$37.9 billion in the aggregate, excluding rigs under construction.

We have elected to self-insure operators extra expense coverage for ADTI and CMI. This coverage provides protection against expenses related to well control, pollution and redrill liability associated with blowouts. ADTI's customers assume, and indemnify ADTI for, liability associated with blowouts in excess of a contractually agreed amount, generally \$50 million.

We generally do not have commercial market insurance coverage for physical damage losses, including liability for wreck removal expenses, to our fleet caused by named windstorms in the U.S. Gulf of Mexico and war perils worldwide. Except with respect to Dhirubhai Deepwater KG1 and Dhirubhai Deepwater KG2, we generally do not carry insurance for loss of revenue unless contractually required.

Letters of credit and surety bonds

We had letters of credit outstanding totaling \$541 million and \$567 million at September 30, 2010 and December 31, 2009, respectively. These letters of credit guarantee various contract bidding and performance activities under various committed and uncommitted credit lines provided by several banks. In April 2010, we had a letter of credit issued in the amount of \$60 million on behalf of TPDI to satisfy its liquidity requirements under the TPDI Credit Facilities, which is included in the total as of September 30, 2010 (see Note 9—Debt).

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. Surety bonds outstanding totaled \$25 million and \$31 million at September 30, 2010 and December 31, 2009, respectively.

Note 13—Equity

Shares held by subsidiary—In December 2008, we issued 16 million of our shares to one of our subsidiaries 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, 2010 and December 31, 2009, our subsidiary held 13,354,127 shares and 14,011,416 shares, respectively.

Share repurchase program—In May 2009, at our annual general meeting, our shareholders approved and authorized our board of directors, at its discretion, to repurchase an amount of our shares for cancellation with an aggregate purchase price of up to CHF 3.5 billion, which is equivalent to approximately \$3.6 billion, using an exchange rate of USD 1.00 to CHF 0.98 as of the close of trading on September 30, 2010. On February 12, 2010, our board of directors authorized our management to implement the share repurchase program.

During the nine months ended September 30, 2010, following the authorization by our board of directors, we repurchased 2,863,267 of our shares under our share repurchase program for an aggregate purchase price of CHF 257 million, equivalent to \$240 million. We did not repurchase any of our shares during the three months ended

September 30, 2010. At September 30, 2010, we held 2,863,267 treasury shares purchased under our share repurchase program, recorded at cost.

Distribution—In May 2010, at our annual general meeting, our shareholders approved a cash distribution in the form of a par value reduction in the aggregate amount of CHF 3.44 per issued share, equal to approximately \$3.51, using an exchange rate of USD 1.00 to CHF 0.98 as of the close of trading on September 30, 2010. According to such shareholders' approval, the cash distribution would be calculated and paid in four quarterly installments. Under Swiss law, upon satisfaction of all legal requirements, we must submit an application to the Commercial Register in the Canton of Zug to register the applicable par value reduction. On August 13, 2010, the Commercial Register of the Canton of Zug rejected our application to register the first of four planned partial par value reductions, and we have appealed this decision. Without effective registration of the applicable par value reduction, we will not be able to proceed with the payment of the first or any subsequent installment of our cash distribution to shareholders.

We intend to fund any installments using our available cash balances and our cash flows from operations. Shareholders are expected to be paid in U.S. dollars, converted using an exchange rate determined by us approximately two business days prior to the payment date, unless shareholders elect to receive the payment in Swiss francs. Distributions to shareholders in the form of a reduction in par value of our shares are not subject to the 35 percent Swiss withholding tax. In May 2010, we recognized a distribution payable in the amount of approximately \$1.0 billion, recorded in other current liabilities, with a corresponding entry to additional paid-in capital. We adjust the carrying amount of the liability for changes in foreign currency exchange rates with a corresponding adjustment to additional paid-in capital. Upon registration of an installment with the Commercial Register of the Canton of Zug, we expect to reduce our par value and reclassify from additional paid-in capital to shares the portion of the distribution associated with the respective installment. At September 30, 2010, the carrying amount of the unpaid distribution payable was \$1.1 billion.

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Note 14—Fair Value of Financial Instruments

We estimate 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 approximates fair value because of the short maturities of those instruments.

Accounts receivable—The carrying amount, net of valuation allowance, approximates fair value because of the short maturities of those instruments.

Short-term investments—The carrying amount of our short-term investments approximates fair value and represents our estimate of the amount we expect to recover. Our short-term investments primarily include our investment in The Reserve International Liquidity Fund Ltd. At September 30, 2010 and December 31, 2009, the carrying amount of our short-term investments was \$32 million and \$38 million, respectively, recorded in other current assets on our condensed consolidated balance sheets.

Notes receivable and working capital loan receivable—The carrying amount represents the estimated fair value, measured using unobservable inputs that require significant judgment, for which there is little or no market data, including the credit rating of the borrower. At September 30, 2010, the aggregate carrying amount of our notes receivable and working capital loan receivable was \$119 million, including \$4 million and \$115 million recorded in other current assets and other assets, respectively. We did not hold notes receivable as of December 31, 2009.

Debt—The fair value of our fixed-rate debt is measured using direct or indirect observable inputs, including quoted prices or other market data, for similar assets or liabilities in active markets or identical assets or liabilities in less active markets. Our variable-rate debt is included in the fair values stated below at its carrying amount since the short-term interest rates cause the face value to approximate its fair value. The TPDI Notes and Overseas Drilling Limited (“ODL”) Loan Facility are included in the fair values stated below at their aggregate carrying amount of \$158 million at September 30, 2010 and December 31, 2009, since there is no available market price for such related-party debt. The carrying amounts and estimated fair values of our long-term debt, including debt due within one year, were as follows (in millions):

	September 30, 2010		December 31, 2009	
	Carrying amount	Fair value	Carrying amount	Fair value
Long-term debt, including current maturities	\$ 11,872	\$ 12,233	\$ 10,534	\$ 11,218
Long-term debt of consolidated variable interest entities, including current maturities	968	989	1,183	1,178

Derivative instruments—The carrying amount of our derivative instruments represents the estimated fair value, measured using direct or indirect observable inputs, including quoted prices or other market data for similar assets or liabilities in active markets or identical assets or liabilities in less active markets. At September 30, 2010, the carrying amounts of our derivative instruments were \$22 million and \$21 million, recorded in other assets and other long-term liabilities, respectively, on our condensed consolidated balance sheets. At December 31, 2009, the carrying amounts of our derivative instruments were \$5 million and \$5 million, recorded in other assets and other long-term liabilities, respectively, on our condensed consolidated balance sheets.

Note 15—Subsequent Events

Debt repurchases—As of November 3, 2010 and subsequent to September 30, 2010, we had repurchased aggregate principal amounts of \$154 million and \$139 million of the Series B Notes and the Series C Notes for aggregate cash payments of \$152 million and \$135 million, respectively.

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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 Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements in this quarterly report include, but are not limited to, statements about the following subjects:

- § the impact of the Macondo well incident and related matters,
- § the offshore drilling market, including the impact of the drilling moratorium in the United States ("U.S.") Gulf of Mexico, 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 the downturn in the global economy or market outlook for our various geographical operating sectors and classes of rigs,
- § customer contracts, including contract backlog, force majeure provisions, contract commencements, contract extensions, contract terminations, contract option exercises, contract revenues, contract awards and rig mobilizations,
- § 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,
- § liquidity and adequacy of cash flow for our obligations, including our ability and the expected timing to access certain investments in highly liquid instruments,
 - § our results of operations and cash flow from operations, including revenues and expenses,
 - § uses of excess cash, including the payment of dividends and other distributions, debt retirement, including repurchases of convertible senior notes, and share repurchases under our share repurchase program,
 - § the cost and timing of acquisitions and the proceeds and timing of dispositions,
 - § 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 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,
 - § debt levels, including impacts of the financial and economic downturn,
 - § 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" § "estimates" § "may" § "projects"
- § "believes" § "expects" § "might" § "scheduled"
- § "budgets" § "forecasts" § "plans" § "should"
- § "could" § "intends" § "predicts"

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

§ those described under “Item 1A. Risk Factors” included herein and in our annual report on Form 10-K for the year ended December 31, 2009 and our quarterly reports on Form 10-Q for the three months ended March 31, 2010 and June 30, 2010,

§ the adequacy of and access to sources of liquidity,

§ our inability to obtain contracts for our rigs that do not have contracts,

§ our inability to renew contracts at comparable dayrates,

§ the cancellation of contracts currently included in our reported contract backlog,

§ the effect and results of litigation, tax audits 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, and we undertake no obligation to publicly update or revise any forward-looking statements, except as required by law.

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Business

Transocean Ltd. (together with its subsidiaries and predecessors, unless the context requires otherwise, “Transocean,” the “Company,” “we,” “us” or “our”) is a leading international provider of offshore contract drilling services for oil and gas wells. As of October 14, 2010, we owned, had partial ownership interests in or operated 139 mobile offshore drilling units. As of this date, our fleet consisted of 45 High-Specification Floaters (Ultra-Deepwater, Deepwater and Harsh Environment semisubmersibles and drillships), 26 Midwater Floaters, 10 High-Specification Jackups, 55 Standard Jackups and three Other Rigs. In addition, we had three Ultra-Deepwater Floaters under construction.

We have two reportable segments: (1) contract drilling services and (2) other operations. Contract drilling services, our primary business, involves contracting our mobile offshore drilling fleet, related equipment and work crews primarily on a dayrate basis to drill oil and gas wells. We believe our drilling fleet is one of the most modern and versatile fleets in the world, consisting of floaters, jackups and other rigs used in support of offshore drilling activities and offshore support services on a worldwide basis. We specialize in technically demanding regions of the offshore drilling business with a particular focus on deepwater and harsh environment drilling services.

Our contract drilling 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.

Our other operations segment includes drilling management services and oil and gas properties. We provide drilling management services through Applied Drilling Technology Inc., our wholly owned subsidiary, and through ADT International, a division of one of our U.K. subsidiaries (together, “ADTI”). ADTI provides oil and gas drilling management services on either a dayrate basis or a completed-project, fixed-price (or “turnkey”) basis, as well as drilling engineering and drilling project management services. Our oil and gas properties consist of exploration, development and production activities carried out through Challenger Minerals Inc. and Challenger Minerals (North Sea) Limited (together, “CMI”), our oil and gas subsidiaries.

Significant Events

Debt issuance—In September 2010, we issued \$1.1 billion aggregate principal amount of 4.95% Senior Notes due November 2015 (the “4.95% Senior Notes”) and \$900 million aggregate principal amount of 6.50% Senior Notes due November 2020 (the “6.50% Senior Notes” and together with the 4.95% Senior Notes, the “Senior Notes”). See “—Liquidity and Capital Resources—Sources and Uses of Liquidity.”

Debt repurchases—During the three and nine months ended September 30, 2010, we repurchased an aggregate principal amount of \$363 million of our 1.50% Series B Convertible Senior Notes due 2037 (“Series B Notes”) for an aggregate cash payment of \$351 million and an aggregate principal amount of \$340 million of our 1.50% Series C Convertible Senior Notes due 2037 (“Series C Notes”) for an aggregate cash payment of \$318 million. In connection with the repurchases, we recognized a loss on retirement of \$22 million. As of November 3, 2010 and subsequent to September 30, 2010, we had repurchased aggregate principal amounts of \$154 million and \$139 million of the Series B Notes and the Series C Notes for aggregate cash payments of \$152 million and \$135 million, respectively. See “—Liquidity and Capital Resources—Sources and Uses of Liquidity.”

Fleet expansion—In the nine months ended September 30, 2010, we completed construction of four Ultra-Deepwater newbuilds, two of which have commenced their respective contracts. See “—Outlook.”

Macondo well incident—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, and the rig has been declared a total loss. Eleven persons were declared dead and others were injured as a result of the incident. As investigations pertaining to the cause or causes of the incident continue, we are evaluating its consequences, which could ultimately have a material adverse effect on our consolidated statement of financial position, results of operations or cash flows. Although the rig was operating under a contract which was to extend through September 2013, the total loss of the rig resulted in an automatic termination of the agreement. At the time of the incident, the backlog associated with the Deepwater Horizon drilling contract was approximately \$590 million. See “—Contingencies—Macondo well incident.”

Exchange listing—Effective April 20, 2010, our shares began trading on the SIX Swiss Exchange under the symbol “RIGN.” Our shares also continue to be listed on the New York Stock Exchange under the symbol “RIG.”

Share repurchase program—As of September 30, 2010, we had repurchased a total of 2,863,267 of our shares under our share repurchase program for an aggregate purchase price of CHF 257 million, equivalent to \$240 million. See “—Liquidity and Capital Resources—Sources and Uses of Liquidity.”

Distribution—In May 2010, at our annual general meeting, our shareholders approved a cash distribution in the form of a par value reduction in the aggregate amount of CHF 3.44 per issued share, equal to approximately \$3.51, using an exchange rate of USD 1.00 to CHF 0.98 as of the close of trading on September 30, 2010. On August 13, 2010, the Commercial Register of the Canton of Zug rejected our application to register the first of four planned partial par value reductions, and we have appealed this decision. At September 30, 2010, the carrying amount of the unpaid distribution payable was \$1.1 billion. See “—Liquidity and Capital Resources—Sources and Uses of Liquidity.”

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Outlook

Drilling market—We expect market utilization to remain steady over the next few quarters for the jackup and midwater floater markets due to continued stability in oil and gas prices. Additionally, we expect this commodity price stability to result in contracting opportunities for all classes within our drilling fleet for the remainder of 2010 and throughout 2011. However, considering the potential impact of the available capacity in 2010 and 2011 resulting from uncontracted newbuilds and existing units in the market, coupled with the continued uncertainties surrounding the recently lifted drilling moratorium in the U.S. Gulf of Mexico, projected utilization for our High-Specification Floater fleet is uncertain. Consequently, we do not believe that the increased tendering activity that we are currently experiencing will lead to a corresponding increase in dayrates in the near term.

As of October 14, 2010, our contract backlog had declined to \$26.1 billion from \$27.6 billion as of July 15, 2010. Although we are currently engaged in advanced discussions with customers on several additional opportunities, our backlog may continue to decline if we are unable to obtain new contracts for our rigs that sufficiently replace existing backlog as it is consumed over time or if any contracts are terminated.

On May 30, 2010, the U.S. government implemented a moratorium on certain drilling activities in the U.S. Gulf of Mexico. On October 12, 2010, the U.S. government lifted the moratorium, which was originally expected to last until November 30, 2010. In order to obtain drilling permits and resume drilling activities, operators must submit applications that demonstrate compliance with enhanced regulations, which now require independent third-party inspections, certification of well design and well control equipment and emergency response plans in the event of a blowout, among other requirements. We are working in close consultation with our customers to review and implement the new rules and requirements. At the time the moratorium was implemented, we had 14 rigs under contract in the U.S. Gulf of Mexico. While the moratorium was in effect, two rigs were moved, at the customers' elections, to locations outside of the U.S. Gulf of Mexico. We are unable to predict, with certainty, the full impact that the continuing effect of the moratorium and the enhanced regulations will have on our operations. The backlog associated with the contracts for our remaining rigs in the U.S. Gulf of Mexico was approximately \$7 billion as of October 14, 2010, of which \$2.0 billion could be lost if our customers are legally permitted to and choose to exercise their termination rights under certain contracts.

While the moratorium was in place, several customers either declared force majeure or indicated that they may declare force majeure under their respective contracts. We do not believe that a force majeure event existed as a result of the drilling moratorium nor do we believe that the enhanced regulations in effect following the moratorium amount to a force majeure event under the drilling contracts for the rigs in the U.S. Gulf of Mexico, but we cannot predict if customers may continue to assert claims of force majeure as a result of the new regulations. If an actual force majeure event occurs, as determined under the applicable drilling contract, these agreements generally allow for a period of 30 to 60 days during which the rig will earn a force majeure rate, which is generally between 85 percent and 100 percent of the contracted dayrate. Following this period, and in some cases subject to a notice or waiting period, either we or the customer may terminate the contract. In some contracts, we have the right to further extend the contract for a period of time by electing to continue the contract at a zero dayrate, thereby retaining the backlog associated with the contract for possible recognition in a later period. Some drilling contracts for rigs in the U.S. Gulf of Mexico include early termination provisions that require the payment of the contractual dayrate for the remaining term of the contract upon termination for force majeure either in a lump sum or over an extended term. We have, in some instances, negotiated, and may continue to negotiate special standby rates with some of our customers under our drilling contracts for rigs in the U.S. Gulf of Mexico. These special standby rates are significantly lower than the regular contract dayrate and apply during periods when the customer is prevented from performing drilling operations for reasons beyond the customer's control. For every day on special standby rate, the contract term of the applicable contract is extended by an equal number of days.

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Fleet status—The uncommitted fleet rate is the number of uncommitted days as a percentage of the total number of available rig calendar days in the period. As of October 14, 2010, the uncommitted fleet rates for the remainder of 2010, 2011, 2012 and 2013 are as follows:

	2010	2011	2012	2013
Uncommitted fleet rate				
High-Specification Floaters	18%	%	31%	46%
Midwater Floaters	35%	59%	81%	95%
High-Specification Jackups	52%	%	77%	100%
Standard Jackups	48%	69%	85%	93%

As of October 14, 2010, we have nine existing contracts with fixed-price or capped options that are exercisable, at the customer's discretion, any time through their expiration dates. During periods when dayrates on new contracts are increasing relative to existing contracts, the likelihood of customers exercising fixed-price options increases, and during periods when dayrates on new contracts are decreasing relative to existing contracts, the likelihood of customers exercising fixed-price options decreases. Given current market conditions, we expect that a number of these options will not be exercised by our customers in the remainder of 2010. Additionally, well-in-progress or similar provisions of our existing contracts may delay the start of higher or lower dayrates in subsequent contracts, and some of the delays could be significant.

High-Specification Floaters—Our Ultra-Deepwater Floater fleet is fully contracted for 2010, and we are in discussions with customers to contract the one remaining Ultra-Deepwater Floater with availability in 2011. We recently extended a Deepwater Floater available in 2011 for a one-year period and are actively pursuing opportunities for the two remaining available 2010 Deepwater Floaters. Recent subletting of our High-Specification Floater fleet has had minimal impact on our operations in 2010 thus far, but we cannot be certain of the impact on our operations in 2011 and beyond. As of October 14, 2010, we had 43 of our 48 current and future High-Specification Floaters, including all of our newbuilds, contracted through the end of 2010, and 36 of 48 rigs in this fleet, including all of our newbuilds, contracted beyond 2011. We believe the continued exploration successes in the major deepwater offshore provinces will generate additional demand and should support our long-term positive outlook for our High-Specification Floater fleet.

Midwater Floaters—For our Midwater Floater fleet, which includes 26 semisubmersible rigs, near-term customer interest has remained steady and in line with the previous quarter. Although we stacked an additional unit in West Africa due to the lack of opportunities in that region during the second quarter of 2010, we also executed several contracts for our Midwater Floater fleet for short-term work during the third quarter of 2010. Fifty-four percent of our Midwater Floater fleet is committed to contracts that extend beyond 2010. We believe the recent tendering activity, although generally for short-term work, may result in our active rigs working beyond their current contracts on a well-to-well basis. Market utilization for this fleet, however, may face challenges from the moored Deepwater Floaters coming available in the remainder of 2010 and potentially competing in the midwater market due to the lack of current opportunities in the deepwater market and additional capacity resulting from the enhanced regulations in the U.S. Gulf of Mexico.

High-Specification Jackups—The High-Specification Jackup fleet is experiencing rising utilization and dayrates, and we expect this fleet to remain attractive to customers through the remainder of 2010. Tendering activity remained steady

during the third quarter of 2010, which resulted in extensions of several existing contracts. As of October 14, 2010, we had three of our 10 High-Specification Jackups stacked. Although we have one High-Specification Jackup completing its current contract in the fourth quarter of 2010, the continued increase in tendering activity could result in the extension of this contract.

Standard Jackups—Considering the number of units currently stacked, the customer preference for the high-specification capable units entering the market, and the absence of a corresponding increase in customer demand, we expect near-term dayrates for our Standard Jackup fleet to remain flat or slightly decrease as contracts are renewed or completed. As of October 14, 2010, we had 26 of our 55 Standard Jackups stacked. We expect a few more of our Standard Jackups to be stacked in the fourth quarter of 2010 and the first quarter of 2011, and we also expect to reactivate a few of our Standard Jackups that require minimal reactivation costs during these periods.

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Key measures—Key measures of our results of operations and financial condition are as follows:

	Three months ended September 30,			Nine months ended September 30,		
	2010	2009	Change	2010	2009	Change
Performance indicators						
Average daily revenue (a)(b)	\$ 271,200	\$ 283,800	\$ (12,600)	\$ 284,600	\$ 264,500	\$ 20,100
Utilization (b)(c)	64%	75%	n/a	65%	83%	n/a
Statement of operations data						
Operating revenues	\$ 2,309	\$ 2,823	\$ (514)	\$ 7,416	\$ 8,823	\$ (1,407)
Operating and maintenance expense	1,213	1,396	(183)	3,767	3,844	(77)
Operating income	645	957	(312)	2,528	3,397	(869)
Net income attributable to controlling interest	368	710	(342)	1,760	2,458	(698)

	September 30,		December 31,	Change
	2010	2009	2009	
Balance sheet data				
Cash and cash equivalents	\$ 4,636	\$ 1,130	\$ 3,506	
Total assets	39,330	36,436	2,894	
Total debt	12,840	11,717	1,123	

“n/a” means not applicable.

(a) Average daily revenue is defined as contract drilling revenue earned per revenue earning day. A revenue earning day is defined as a day for which a rig earns dayrate after commencement of operations. Stacking rigs, such as Midwater Floaters, High-Specification Jackups and Standard Jackups, has the effect of increasing the average daily revenue since these rig types are typically contracted at lower dayrates compared to the High-Specification Floaters. Average daily revenue includes our rigs that are operating on standby rates located in the U.S. Gulf of

Mexico.

- (b) Calculation excludes results for Joides Resolution, a drillship engaged in scientific geological coring activities that is owned by an unconsolidated joint venture in which we have a 50 percent interest and for which we apply the equity method of accounting.
- (c) Utilization is the total actual number of revenue earning days as a percentage of the total number of calendar days in the period. Idle and stacked rigs are included in the calculation and reduce the utilization rate to the extent these rigs are not earning revenues. Newbuilds are included in the calculation upon acceptance by the customer.

As a result of the market pressures experienced in the nine months ended September 30, 2010, our revenues declined relative to those recognized in the nine months ended September 30, 2009. The decline was primarily due to lower utilization, as reflected by 42 stacked and idle rigs as of September 30, 2010, compared to 29 stacked and idle rigs as of September 30, 2009, and coupled with the impact of the U.S. Gulf of Mexico drilling moratorium. This decline was partially offset by revenues from the commencement of operations of our newbuild rigs. The lower utilization also resulted in a decrease in our operating and maintenance expenses compared to the prior year period, which was partially offset by increased operating and maintenance expenses associated with the commencement of operations of our newbuild rigs and increased costs associated with the Macondo well incident, primarily related to insurance deductibles. As of September 30, 2010, we had increased our total debt compared to December 31, 2009, primarily due to the issuance of \$2 billion of senior notes in September 2010, partially offset by repurchases of \$703 million aggregate principal amount of the Series B Notes and Series C Notes (see “—Liquidity and Capital Resources—Sources and Uses of Liquidity”).

For the year ending December 31, 2010, we expect our total revenues to decline compared to our total revenues for the year ended December 31, 2009. We expect this reduction to result from lower drilling activity associated with stacked and idle rigs, higher out of service time for shipyard, maintenance and repair projects, lost revenues from the Deepwater Horizon contract termination, the impact of the U.S. Gulf of Mexico drilling moratorium and reduced operating activity associated with our integrated services. However, we expect the decrease in revenues to be partially offset by a full year of drilling operations of our five newbuilds delivered in 2009 and the commencement of drilling operations of four additional newbuilds in 2010. We expect our total revenues for the year ending December 31, 2011 to be slightly higher than our total revenues for the year ending December 31, 2010, primarily due to the increased drilling activity associated with our newbuilds delivered in 2010 and 2011 and the lifting of the U.S. Gulf of Mexico drilling moratorium, partially offset by reduced dayrates and the reduced drilling activity associated with our stacked and idle rigs. We are unable to predict, with certainty, the full impact that the continuing effects of the moratorium and the enhanced regulations described under “—Drilling market” will have on our operations in the U.S. Gulf of Mexico in 2010 and beyond. We have negotiated special standby rates with four of our customers under our drilling contracts for rigs in the U.S. Gulf of Mexico. These special standby rates are significantly lower than the regular contract dayrate and apply during periods when the customer is prevented from performing drilling operations. For every day on special standby rate, the contract term of the applicable contract is extended by an equal number of days.

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We expect our total operating and maintenance expenses for the year ending December 31, 2010 to increase slightly compared to operating and maintenance expenses for the year ended December 31, 2009, primarily due to a full year of drilling operations for our five newbuilds delivered in 2009, the commencement of drilling operations of four additional newbuilds in 2010, an increase in maintenance and shipyard expenses and additional costs associated with the Macondo well incident as further discussed below. We expect these increases will be partially offset by reduced costs associated with stacked and idle rigs and reduced integrated services activity. Our projected operating and maintenance expenses for the year ending December 31, 2010 remain uncertain and could be affected by actual activity levels, rig reactivations, the enhanced regulations described under “—Drilling market”, the Macondo well incident and related contingencies, exchange rates and cost inflation as well as other factors. We expect our total operating and maintenance expenses for the year ending December 31, 2011 to be slightly higher than our total operating and maintenance expenses for the year ending December 31, 2010, primarily due to the increased drilling activity associated with our newbuilds delivered in 2010 and 2011, partially offset by the reduced drilling activity associated with our stacked and idle rigs.

Although we are currently unable to estimate the full impact of the Macondo well incident on our business, the incident could ultimately have a material adverse effect on our consolidated statement of financial position, results of operations or cash flows. We expect an increase of approximately \$170 million in operating and maintenance expenses in 2010 comprised primarily of approximately \$70 million of insurance deductibles, approximately \$30 million of higher insurance premiums, approximately \$29 million of additional legal expenses related to lawsuits and investigations, net of insurance recoveries, and approximately \$41 million of additional costs primarily related to our internal investigation of the Macondo well incident, including consultant costs, travel costs and other miscellaneous costs. See “—Contingencies—Insurance matters” and “Part II. Other Information, Item 1A. Risk Factors.”

At September 30, 2010, the carrying amount of our property and equipment was \$22.4 billion, representing 57 percent of our total assets, and the carrying amount of our goodwill was \$8.1 billion, representing 21 percent of our total assets. In accordance with our critical accounting policies, we review our property and equipment for impairment when events or changes in circumstances indicate that the carrying amounts of our assets held and used may not be recoverable, and we conduct impairment testing for our goodwill when events and circumstances indicate that the fair value of a reporting unit falls below its carrying amount. If we are unable to secure new or extended contracts for our active units or the reactivation of any of our stacked units, or if we experience further declines in actual or anticipated dayrates, especially those in our Standard Jackup fleet, we may be required to recognize losses on impairment of the carrying amount of one or more of our asset groups. Additionally, we may be required to recognize losses on impairment of goodwill if we determine that the fair value of our contract drilling services reporting unit declines below its carrying amount. See “—Critical Accounting Policies and Estimates” and “Part II. Other Information, Item 1A. Risk Factors.”

Performance and Other Key Indicators

Contract backlog—The following table presents our contract backlog, including firm commitments only, for our contract drilling services segment as of October 14, 2010, July 15, 2010 and September 30, 2009. Firm commitments are represented by signed drilling contracts or, in some cases, by other definitive agreements awaiting contract execution. Our contract backlog is calculated by multiplying the full contractual operating dayrate 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 contractual operating dayrate may be higher than certain other rates included in the contract, such as a waiting-on-weather rate, repair rate, standby rate or force majeure rate. 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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	October 14, 2010	July 15, 2010	September 30, 2009
Contract backlog		(in millions)	
High-Specification Floaters	\$ 22,107	\$ 22,969	\$ 26,608
Midwater Floaters	2,320	2,767	3,776
High-Specification Jackups	335	391	443
Standard Jackups	1,251	1,374	1,781
Other Rigs	55	62	86
Total	\$ 26,068	\$ 27,563	\$ 32,694

We have 12 rigs under contract and operating in the U.S. Gulf of Mexico. The backlog associated with the contracts relating to these rigs was approximately \$7 billion as of October 14, 2010, of which \$2.0 billion could be lost if our customers are legally permitted to and choose to exercise their termination rights under certain contracts.

Although Deepwater Horizon was operating under a contract, which was to extend through September 2013, the total loss of the rig resulted in an automatic termination of the agreement. At the time of the Macondo well incident, the backlog associated with the Deepwater Horizon drilling contract was approximately \$590 million.

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Fleet average daily revenue—The following table presents the average daily revenue for our contract drilling services segment for each of the quarters ended September 30, 2010, June 30, 2010 and September 30, 2009. See “—Outlook—Key measures” for a definition of average daily revenue.

	Three months ended		
	September 30, 2010	June 30, 2010	September 30, 2009
Average daily revenue			
High-Specification			
Floaters			
Ultra-Deepwater Floaters			
(a)	\$ 422,800	\$ 482,100	\$ 458,500
Deepwater Floaters	365,600	395,800	355,600
Harsh Environment			
Floaters	414,100	428,500	386,000
Total High-Specification			
Floaters	403,900	447,800	409,300
Midwater Floaters	328,400	319,000	355,800
High-Specification			
Jackups	138,100	146,100	161,000
Standard Jackups	113,200	117,100	156,200
Other Rigs	72,900	72,000	73,300
Total fleet average daily revenue	271,200	284,200	283,800

(a) Average daily revenue for the three months ended September 30, 2010 compared to the three months ended June 30, 2010 decreased primarily due to special standby rates in effect for certain rigs during the U.S. Gulf of Mexico drilling moratorium.

Utilization—The following table presents the utilization rates for our contract drilling services segment for each of the quarters ended September 30, 2010, June 30, 2010 and September 30, 2009. See “—Outlook—Key measures” for a definition of utilization.

	Three months ended		
	September 30, 2010	June 30, 2010	September 30, 2009
Utilization			
High-Specification			
Floaters			
Ultra-Deepwater Floaters	77%	76%	90%
Deepwater Floaters	65%	66%	89%
Harsh Environment			
Floaters	93%	85%	80%
	75%	74%	88%

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Total High-Specification Floaters			
Midwater Floaters	73%	69%	72%
High-Specification Jackups			
Standard Jackups	52%	53%	68%
Other Rigs	50%	50%	42%
Total fleet average utilization	64%	64%	75%

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Operating Results

Three months ended September 30, 2010 compared to three months ended September 30, 2009

Following is an analysis of our operating results. See “—Outlook—Key measures” for a definition of revenue earning days, utilization and average daily revenue.

	Three months ended September 30,		Change	% Change
	2010	2009		
	(In millions, except day amounts and percentages)			
Revenue earning days	8,126	9,165	(1,039)	(11)%
Utilization	64%	75%	n/a	n/m
Average daily revenue	\$ 271,200	\$ 283,800	\$ (12,600)	(4)%
Contract drilling revenues	\$ 2,204	\$ 2,602	\$ (398)	(15)%
Contract drilling intangible revenues	23	58	(35)	(60)%
Other revenues	82	163	(81)	(50)%
	2,309	2,823	(514)	(18)%
Operating and maintenance expense	1,213	1,396	(183)	(13)%
Depreciation, depletion and amortization	394	367	27	7%
General and administrative expense	59	54	5	9%
	1,666	1,817	(151)	(8)%
Loss on impairment	—	(46)	46	n/m
Gain (loss) on disposal of assets, net	2	(3)	5	n/m
Operating income	645	957	(312)	(33)%
Other income (expense), net				
Interest income	7	—	7	n/m
Interest expense, net of amounts capitalized	(142)	(115)	(27)	23%
Loss on retirement of debt	(22)	(7)	(15)	n/m
Other, net	8	9	(1)	(11)%
Income before income taxes	496	844	(348)	(41)%
Income tax expense	118	138	(20)	(14)%
Net income	378	706	(328)	(46)%
Net income (loss) attributable to noncontrolling interest	10	(4)	14	n/m
Net income attributable to controlling interest	\$ 368	\$ 710	\$ (342)	(48)%

“n/a” means not applicable
“n/m” means not meaningful

Operating revenues—Contract drilling revenues decreased \$398 million for the three months ended September 30, 2010 compared to revenues for the three months ended September 30, 2009, primarily due to lower utilization and lower average daily revenue. The lower utilization and lower average daily revenue for the three months ended September 30, 2010, as compared to the three months ended September 30, 2009, resulted in lower contract drilling revenues as follows: (a) approximately \$375 million due to reduced drilling activity as 42 rigs were stacked or idle at September 30, 2010 compared to 29 rigs that were stacked or idle, including one held for sale, at September 30, 2009, (b) approximately \$130 million primarily due to special standby rates in effect during the U.S. Gulf of Mexico drilling moratorium, (c) approximately \$55 million in higher out-of-service time for shipyard, mobilization, maintenance and repair projects in the three months ended September 30, 2010 compared to the same period in 2009 and (d) approximately \$40 million from the lost revenues associated with the Deepwater Horizon contract. These decreases were partially offset by approximately \$245 million of revenues associated with our newbuilds, which commenced operations during 2009 and 2010.

Contract drilling intangible revenues declined \$35 million for the three months ended September 30, 2010, compared to the three months ended September 30, 2009, due to the completion of the contracts with which they were associated. Contract drilling intangible revenues represent the amortization of the fair value of drilling contracts in effect at the time of our merger with GlobalSantaFe Corporation (“GlobalSantaFe”). We recognize contract drilling intangible revenues over the respective contract period using the straight-line method of amortization.

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Other revenues decreased \$81 million for the three months ended September 30, 2010 compared to the three months ended September 30, 2009, primarily due to reduced integrated services activity of \$39 million, reduced activity associated with our other operations segment of \$32 million and lower reimbursable revenues of \$9 million.

Costs and expenses—Operating and maintenance expenses decreased \$183 million, or 13 percent, for the three months ended September 30, 2010 compared to the three months ended September 30, 2009. The decrease was due to the following: (a) approximately \$110 million of reduced litigation expense, (b) approximately \$100 million resulting from lower utilization, (c) approximately \$35 million due to reduced activity in our integrated services operations and (d) approximately \$30 million due to reduced activity in our other operations segment. These reductions were partially offset by approximately \$70 million of increased expenses due to our newbuilds, which commenced operations during 2009 and 2010, approximately \$25 million in increased shipyard and maintenance expense and approximately \$15 million of expenses related to costs associated with the Macondo well incident, net of insurance recoveries.

Depreciation, depletion and amortization increased for the three months ended September 30, 2010, primarily due to expense related to the commencement of operations of seven newbuilds subsequent to September 30, 2009.

During the three months ended September 30, 2009, we determined that the intangible assets associated with ADTI, our drilling management services reporting unit, were impaired due to diminished demand resulting from the global economic downturn. We recognized losses of \$40 million and \$6 million related to the impairment of the ADTI customer relationships and trade name intangible assets, respectively, associated with our drilling management services reporting unit during the three months ended September 30, 2009. There were no comparable adjustments during the three months ended September 30, 2010.

The increase in interest expense for the three months ended September 30, 2010 was primarily attributable to a \$28 million reduction of capitalized interest, compared to the three months ended September 30, 2009.

During the three months ended September 30, 2010, we recognized a loss on retirement of debt of \$22 million related to repurchases of the Series B Notes and Series C Notes. During the three months ended September 30, 2009, we recognized a loss on retirement of debt of \$7 million related to repurchases of 1.625% Series A Convertible Senior Notes (“Series A Notes,” and collectively with the Series B Notes and Series C Notes, the “Convertible Senior Notes”) and the early termination of the Term Loan.

Income tax expense—We operate internationally and provide for income taxes based on the tax laws and rates in the countries in which we operate and earn income. The estimated annual effective tax rates at September 30, 2010 and 2009 were 17.0 percent and 15.7 percent, respectively, based on projected 2010 and 2009 annual income before income taxes, after excluding certain items, such as losses on impairment, debt retirements and certain asset disposals, and the gain resulting from insurance recoveries on the loss of Deepwater Horizon. 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. For the three months ended September 30, 2010 and September 30, 2009, the impact of the various discrete period tax items was a net tax expense of \$7 million and a net tax benefit of \$29 million, respectively. These discrete tax items, coupled with the excluded income and expense items noted above, resulted in tax rates of 23.8 percent and 16.4 percent on income before income tax expense for the three months ended September 30, 2010 and September 30, 2009, respectively.

There is little to no expected relationship between our provision for income taxes and income before income taxes considering, among other factors, (a) changes in the blend of income that is taxed based on gross revenues versus income before taxes, (b) rig movements between taxing jurisdictions and (c) our rig operating structures.

Our rig operating structures further complicate our tax calculations, especially in instances where we have more than one operating structure for the particular taxing jurisdiction and, thus, more than one method of calculating taxes depending on the operating structure utilized by the rig under the contract. For example, two rigs operating in the same country could generate significantly different provisions for income taxes if they are owned by two different subsidiaries that are subject to differing tax laws and regulations in the respective country of incorporation.

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Nine months ended September 30, 2010 compared to nine months ended September 30, 2009

Following is an analysis of our operating results. See “—Outlook—Key measures” for a definition of revenue earning days, utilization and average daily revenue.

	Nine months ended September 30,		Change	% Change
	2010	2009		
	(In millions, except day amounts and percentages)			
Revenue earning days	24,367	30,476	(6,109)	(20)%
Utilization	65%	83%	n/a	n/m
Average daily revenue	\$ 284,600	\$ 264,500	\$ 20,100	8%
Contract drilling revenues	\$ 6,935	\$ 8,061	\$ (1,126)	(14)%
Contract drilling intangible revenues	85	237	(152)	(64)%
Other revenues	396	525	(129)	(25)%
	7,416	8,823	(1,407)	(16)%
Operating and maintenance expense	3,767	3,844	(77)	(2)%
Depreciation, depletion and amortization	1,195	1,082	113	10%
General and administrative expense	180	163	17	10%
	5,142	5,089	53	1%
Loss on impairment	(2)	(334)	332	n/m
Gain (loss) on disposal of assets, net	256	(3)	259	n/m
Operating income	2,528	3,397	(869)	(26)%
Other income (expense), net				
Interest income	17	2	15	n/m
Interest expense, net of amounts capitalized	(415)	(365)	(50)	