Transocean Ltd.
Form 10-Q
May 05, 2016
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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 March 31, 2016

OR

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

For the transition period from _____ to _____

Commission file number 000-53533

TRANSOCEAN LTD.

(Exact name of registrant as specified in its charter)

Zug, Switzerland	98-0599916
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
10 Chemin de Blandonnet Vernier, Switzerland	1214
(Address of principal executive offices)	(Zip Code)

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes 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 April 26, 2016, 365,201,707 shares were outstanding.

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TRANSOCEAN LTD. AND SUBSIDIARIES

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QUARTER ENDED MARCH 31, 2016

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PART I.FINANCIAL INFORMATION

Item I.Financial Statements

TRANSOCEAN LTD. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In millions, except per share data)

(Unaudited)

	Three months ended March 31, 2016	2015
Operating revenues		
Contract drilling revenues	$ 1,111	$ 2,000
Other revenues	230	43
	1,341	2,043
Costs and expenses		
Operating and maintenance	665	1,084
Depreciation	217	291
General and administrative	43	46
	925	1,421
Loss on impairment	(3)	(936)
Gain (loss) on disposal of assets, net	1	(7)
Operating income (loss)	414	(321)
Other income (expense), net		
Interest income	6	6
Interest expense, net of amounts capitalized	(89)	(116)
Other, net	(1)	47
	(84)	(63)
Income (loss) from continuing operations before income tax expense	330	(384)
Income tax expense	74	83
Income (loss) from continuing operations	256	(467)
Loss from discontinued operations, net of tax	(1)	(2)
Net income (loss)	255	(469)
Net income attributable to noncontrolling interest	6	14
Net income (loss) attributable to controlling interest	$ 249	$ (483)
Earnings (loss) per share-basic		
Earnings (loss) from continuing operations	$ 0.68	$ (1.32)

Earnings (loss) from discontinued operations	—	(0.01)
Earnings (loss) per share	$ 0.68	$ (1.33)
Earnings (loss) per share-diluted		
Earnings (loss) from continuing operations	$ 0.68	$ (1.32)
Earnings (loss) from discontinued operations	—	(0.01)
Earnings (loss) per share	$ 0.68	$ (1.33)
Weighted-average shares outstanding		
Basic	364	363
Diluted	364	363

See accompanying notes.

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TRANSOCEAN LTD. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(In millions)

(Unaudited)

	Three months ended March 31, 2016	2015
Net income (loss)	$ 255	$ (469)
Net income attributable to noncontrolling interest	6	14
Net income (loss) attributable to controlling interest	249	(483)
Other comprehensive loss before reclassifications		
Components of net periodic benefit costs	(7)	(13)
Reclassifications to net income		
Components of net periodic benefit costs	2	5
Other comprehensive loss before income taxes	(5)	(8)
Income taxes related to other comprehensive loss	—	(2)
Other comprehensive loss	(5)	(10)
Other comprehensive income attributable to noncontrolling interest	—	—
Other comprehensive loss attributable to controlling interest	(5)	(10)
Total comprehensive income (loss)	250	(479)
Total comprehensive income attributable to noncontrolling interest	6	14
Total comprehensive income (loss) attributable to controlling interest	$ 244	$ (493)

See accompanying notes.

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TRANSOCEAN LTD. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(In millions, except share data)

(Unaudited)

	March 31, 2016	December 31, 2015
Assets		
Cash and cash equivalents	$ 2,574	$ 2,339
Accounts receivable, net of allowance for doubtful accounts of less than $1 at March 31, 2016 and December 31, 2015	1,094	1,379
Materials and supplies, net of allowance for obsolescence of $154 and $148 at March 31, 2016 and December 31, 2015, respectively	625	635
Assets held for sale	8	8
Restricted cash	338	340
Other current assets	61	84
Total current assets	4,700	4,785
Property and equipment	26,557	26,274
Less accumulated depreciation	(5,668)	(5,456)
Property and equipment, net	20,889	20,818
Deferred income taxes, net	287	316
Other assets	369	410
Total assets	$ 26,245	$ 26,329
Liabilities and equity		
Accounts payable	$ 370	$ 448
Accrued income taxes	89	82
Debt due within one year	1,200	1,093
Other current liabilities	929	1,046
Total current liabilities	2,588	2,669
Long-term debt	7,253	7,397
Deferred income taxes, net	310	339
Other long-term liabilities	1,027	1,108
Total long-term liabilities	8,590	8,844
Commitments and contingencies		
Redeemable noncontrolling interest	11	8
Shares, CHF 0.10 par value, 393,397,220 authorized, 167,617,649 conditionally authorized, 370,967,382 issued and 365,081,912 outstanding at March 31, 2016	34	5,193

and CHF 15.00 par value, 396,260,487 authorized, 167,617,649 conditionally authorized, 373,830,649 issued and 364,035,397 outstanding at December 31, 2015		
Additional paid-in capital	10,674	5,739
Treasury shares, at cost, 2,863,267 held at December 31, 2015	—	(240)
Retained earnings	4,389	4,140
Accumulated other comprehensive loss	(339)	(334)
Total controlling interest shareholders' equity	14,758	14,498
Noncontrolling interest	298	310
Total equity	15,056	14,808
Total liabilities and equity	$ 26,245	$ 26,329

See accompanying notes.

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TRANSOCEAN LTD. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF EQUITY

(In millions)

(Unaudited)

	Three months ended March 31,		Three months ended March 31,	
	2016	2015	2016	2015
	Quantity		Amount	
Shares				
Balance, beginning of period	364	362	$ 5,193	$ 5,169
Reduction of par value	—	—	(5,159)	—
Issuance of shares under share-based compensation plans	1	1	—	14
Balance, end of period	365	363	$ 34	$ 5,183
Additional paid-in capital				
Balance, beginning of period			$ 5,739	$ 5,797
Share-based compensation			13	19
Reduction of par value			5,159	—
Issuance of shares under share-based compensation plans			—	(15)
Cancellation of shares held in treasury			(240)	—
Allocated capital for transactions with holders of noncontrolling interest			4	9
Other, net			(1)	(4)
Balance, end of period			$ 10,674	$ 5,806
Treasury shares, at cost				
Balance, beginning of period			$ (240)	$ (240)
Cancellation of shares held in treasury			240	—
Balance, end of period			$ —	$ (240)
Retained earnings				
Balance, beginning of period			$ 4,140	$ 3,349
Net income (loss) attributable to controlling interest			249	(483)
Balance, end of period			$ 4,389	$ 2,866
Accumulated other comprehensive loss				
Balance, beginning of period			$ (334)	$ (404)
Other comprehensive loss attributable to controlling interest			(5)	(10)
Balance, end of period			$ (339)	$ (414)
Total controlling interest shareholders’ equity				
Balance, beginning of period			$ 14,498	$ 13,671

Total comprehensive income (loss) attributable to controlling interest	244	(493)
Share-based compensation	13	19
Issuance of shares under share-based compensation plans	—	(1)
Allocated capital for transactions with holders of noncontrolling interest	4	9
Other, net	(1)	(4)
Balance, end of period	$ 14,758	$ 13,201
Noncontrolling interest		
Balance, beginning of period	$ 310	$ 311
Total comprehensive income attributable to noncontrolling interest	3	14
Reacquired noncontrolling interest	(3)	—
Distributions to holders of noncontrolling interest	(8)	(7)
Allocated capital for transactions with holders of noncontrolling interest	(4)	(9)
Balance, end of period	$ 298	$ 309
Total equity		
Balance, beginning of period	$ 14,808	$ 13,982
Total comprehensive income (loss)	247	(479)
Share-based compensation	13	19
Issuance of shares under share-based compensation plans	—	(1)
Reacquired noncontrolling interest	(3)	—
Distributions to holders of noncontrolling interest	(8)	(7)
Other, net	(1)	(4)
Balance, end of period	$ 15,056	$ 13,510

See accompanying notes.

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TRANSOCEAN LTD. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In millions)

(Unaudited)

	Three months ended March 31, 2016	2015
Cash flows from operating activities		
Net income (loss)	$ 255	$ (469)
Adjustments to reconcile to net cash provided by operating activities:		
Depreciation	217	291
Share-based compensation expense	13	19
Loss on impairment	3	936
(Gain) loss on disposal of assets, net	(1)	7
Deferred income tax benefit	(1)	(98)
Other, net	5	8
Changes in deferred revenues, net	(25)	(39)
Changes in deferred costs, net	37	57
Changes in operating assets and liabilities	128	(186)
Net cash provided by operating activities	631	526
Cash flows from investing activities		
Capital expenditures	(368)	(201)
Proceeds from disposal of assets, net	4	9
Net cash used in investing activities	(364)	(192)
Cash flows from financing activities		
Repayments of debt	(55)	(63)
Deposit to cash account restricted for financing activities	(24)	—
Proceeds from cash investments restricted for financing activities	49	57
Distributions of qualifying additional paid-in capital	—	(272)
Distributions to holders of noncontrolling interest	(7)	(7)
Other, net	5	(2)
Net cash used in financing activities	(32)	(287)
Net increase in cash and cash equivalents	235	47
Cash and cash equivalents at beginning of period	2,339	2,635
Cash and cash equivalents at end of period	$ 2,574	$ 2,682

See accompanying notes.

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TRANSOCEAN LTD. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1—Business

Transocean Ltd. (together with its subsidiaries and predecessors, unless the context requires otherwise, “Transocean,” “we,” “us” or “our”) is a leading international provider of offshore contract drilling services for oil and gas wells. We specialize in technically demanding sectors of the offshore drilling business with a particular focus on deepwater and harsh environment drilling services. Our mobile offshore drilling fleet is considered one of the most versatile fleets in the world. We contract our drilling rigs, related equipment and work crews predominantly on a dayrate basis to drill oil and gas wells. At March 31, 2016, we owned or had partial ownership interests in and operated 60 mobile offshore drilling units, including 28 ultra deepwater floaters, seven harsh environment floaters, five deepwater floaters, 10 midwater floaters and 10 high specification jackups. At March 31, 2016, we also had six ultra deepwater drillships and five high specification jackups under construction or under contract to be constructed. See Note 8—Drilling Fleet.

On October 29, 2015, shareholders at our extraordinary general meeting approved the reduction of the par value of each of our shares to CHF 0.10 from the original par value of CHF 15.00. Following formal notification to creditors and establishment of a public deed of compliance, the reduction of par value became effective as of January 7, 2016, upon registration in the commercial register. See Note 12—Shareholders’ Equity.

Note 2—Significant Accounting Policies

Presentation—We have prepared our accompanying unaudited condensed consolidated financial statements in accordance with accounting principles generally accepted in the United States (“U.S.”) for interim financial information and with the instructions to Form 10 Q and Article 10 of Regulation S X of the U.S. Securities and Exchange Commission (“SEC”). Pursuant to such rules and regulations, these financial statements do not include all disclosures required by accounting principles generally accepted in the U.S. for complete financial statements. The condensed consolidated financial statements reflect all adjustments, which are, in the opinion of management, necessary for a fair presentation of financial position, results of operations and cash flows for the interim periods. Such adjustments are considered to be of a normal recurring nature unless otherwise noted. Operating results for the three months ended March 31, 2016 are not necessarily indicative of the results that may be expected for the year ending December 31, 2016 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, 2015 and 2014 and for each of the three years in the period ended December 31, 2015 included in our annual report on Form 10 K filed on February 25, 2016.

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

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

Capitalized interest—We capitalize interest costs for qualifying construction and upgrade projects. In the three months ended March 31, 2016 and 2015, we capitalized interest costs of $49 million and $26 million, respectively, for our construction work in progress.

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

Subsequent events—We evaluate subsequent events through the time of our filing on the date we issue our financial statements. See Note 16—Subsequent Events.

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TRANSOCEAN LTD. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—continued

(Unaudited)

Note 3—New Accounting Pronouncements

Recently issued accounting standards

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

Stock compensation—Effective no later than our annual report for the year ending December 31, 2016, we will adopt the accounting standards update that allows for simplification of the accounting for share based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities and classification on the statement of cash flows. The update, which permits early adoption, is effective for the annual period ending after December 15, 2016 and for interim and annual periods thereafter do not expect that our adoption will have a material effect on our condensed consolidated statements of financial position, operations and cash flows or the notes thereto.

Revenue from contracts with customers—Effective January 1, 2018, we will adopt the accounting standards update that requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The update, which permits early adoption, is effective for interim and annual periods beginning on or after December 15, 2017. We are evaluating the requirements to determine the effect such requirements may have on our condensed consolidated statements of financial position, operations and cash flows and on the disclosures contained in our notes to condensed consolidated financial statements.

Leases—Effective no later than January 1, 2019, we will adopt the accounting standards update that (a) requires lessees to recognize a right to use asset and a lease liability for virtually all leases, and (b) updates previous accounting standards for lessors to align certain requirements with the updates to lessee accounting standards and the revenue recognition accounting standards. The update, which permits early adoption, is effective for interim and annual periods beginning on or after December 15, 2018. We are evaluating the requirements to determine the effect such requirements may have on our condensed consolidated statements of financial position, operations and cash flows and on the disclosures contained in our notes to condensed consolidated financial statements.

Note 4—Variable Interest Entities

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

	March 31, 2016	December 31, 2015
Assets	$ 1,154	$ 1,157
Liabilities	43	49
Net carrying amount	$ 1,111	$ 1,108

Note 5—Impairments

Assets held for sale—In the three months ended March 31, 2016, we recognized an aggregate loss of $3 million ($2 million, net of tax), associated with the impairment of the midwater floater Transocean John Shaw, along with related equipment, which was classified as an asset held for sale at the time of impairment. We measured the impairment of the drilling unit and related equipment as the amount by which the carrying amount exceeded the estimated fair value less costs to sell. We estimated fair value of the assets using significant other observable inputs, representative of Level 2 fair value measurements, including indicative market values for the drilling unit and related equipment to be sold for scrap value.

In the three months ended March 31, 2015, we recognized an aggregate loss of $429 million ($393 million, or $1.07 per diluted share, net of tax), associated with the impairment of the ultra deepwater floater Deepwater Expedition, the deepwater floaters Sedco 707 and Transocean Rather and the midwater floaters GSF Aleutian Key, GSF Arctic III and Transocean Legend, along with related equipment, which were classified as assets held for sale at the time of impairment. We measured the impairment of the drilling units and related equipment as the amount by which the carrying amount exceeded the estimated fair value less costs to sell. We estimated the fair value of the assets using significant other observable inputs, representative of Level 2 fair value measurements, including indicative market values for the drilling units and related equipment to be sold for scrap value.

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TRANSOCEAN LTD. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—continued

(Unaudited)

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

Assets held and used—During the three months ended March 31, 2015, we identified indicators that the asset groups in our contract drilling services reporting unit may not be recoverable. Such indicators included a reduction in the number of new contract opportunities, low dayrate fixtures and contract terminations. Our deepwater floater asset group, in particular, experienced further declines in projected dayrates and utilization partly caused by more technologically advanced drilling units aggressively competing with less capable drilling units. As a result of our testing, we determined that the carrying amount of the deepwater floater asset group was impaired. In the three months ended March 31, 2015, we recognized a loss of $507 million ($481 million, or $1.34 per diluted share, net of tax) associated with the impairment of these long lived assets. We measured the fair value of the asset group by applying a combination of income and cost approaches, using projected discounted cash flows and estimates of the exchange price that would be received for the assets in the principal or most advantageous market for the assets in an orderly transaction between market participants as of the measurement date. Our estimates of fair value required us to use significant unobservable inputs, representative of a Level 3 fair value measurement, including assumptions related to the future performance of our contract drilling services reporting unit, such as future commodity prices, projected demand for our services, rig availability and dayrates.

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

Note 6—Income Taxes

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

Our provision for income taxes is based on the tax laws and rates applicable in the jurisdictions in which we operate and earn income. The relationship between our provision for or benefit from income taxes and our income or loss before income taxes can vary significantly from period to period considering, among other factors, (a) the overall level of income before income taxes, (b) changes in the blend of income that is taxed based on gross revenues rather than income before taxes, (c) rig movements between taxing jurisdictions and (d) our rig operating structures. Generally, our annual marginal tax rate is lower than our annual effective tax rate. In the three months ended March 31, 2016 and 2015, our estimated annual effective tax rate was 22.8 percent and 25.8 percent, respectively, based on estimated annual income from continuing operations before income taxes, after excluding certain items, such as losses on impairment and gains and losses on certain asset disposals. The tax effect, if any, of the excluded items as well as settlements of prior year tax liabilities and changes in prior year tax estimates are all treated as discrete period tax expenses or benefits.

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

	March 31, 2016	December 31, 2015
Valuation allowance for deferred tax assets	$ 391	$ 374

The increase in the valuation allowance for our deferred tax assets was primarily related to net operating losses generated in Norway and the United Kingdom (the "U.K.").

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

	March 31, 2016	December 31, 2015
Unrecognized tax benefits, excluding interest and penalties	$ 296	$ 287
Interest and penalties	119	118
Unrecognized tax benefits, including interest and penalties	$ 415	$ 405

In the year ending December 31, 2016, it is reasonably possible that our existing liabilities for unrecognized tax benefits may increase or decrease primarily due to (a) the progression of open audits or investigations or (b) the expiration of statutes of limitation. However, we cannot reasonably estimate a range of potential changes in our existing liabilities for unrecognized tax benefits due to various uncertainties, such as the unresolved nature of various audits.

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TRANSOCEAN LTD. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—continued

(Unaudited)

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

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

U.S. tax investigations—In January 2014, we received a draft assessment from the U.S. tax authorities related to our 2010 and 2011 U.S. federal income tax returns. The significant issue raised in the assessment relates to transfer pricing for certain charters of drilling rigs between our subsidiaries. This issue, if successfully challenged, would result in net adjustments of approximately $290 million of additional taxes, excluding interest and penalties. We believe our U.S. federal income tax returns are materially correct as filed, and we intend to continue to vigorously defend against all such claims to the contrary. An unfavorable outcome on these adjustments could result in a material adverse effect on our condensed consolidated statement of financial position, results of operations or cash flows. Furthermore, if the authorities were to continue to pursue these positions with respect to subsequent years and were successful in such assertions, our effective tax rate on worldwide earnings with respect to years following 2011 could increase substantially, and could have a material adverse effect on our condensed consolidated results of operations or cash flows. See Note 16—Subsequent Events.

Norway tax investigations and trial—Norwegian civil tax authorities are investigating certain transactions undertaken by our subsidiaries in 1999, 2001 and 2002 as well as the actions of certain employees of our former external tax advisors on these transactions. At March 31, 2016, outstanding civil tax assessments were as follows: (a) NOK 412 million, equivalent to approximately $50 million, plus interest, related to a 2001 dividend payment and (b) NOK 43 million, equivalent to approximately $5 million, plus interest, related to certain foreign exchange deductions and dividend withholding tax. On June 26, 2014, the Norwegian district court in Oslo ruled that our subsidiary was liable for the civil tax assessment of NOK 412 million, equivalent to approximately $50 million, but waived all penalties and interest. On September 12, 2014, we appealed the ruling. We intend to take all other appropriate action to continue to support our position that our Norwegian tax returns are materially correct as filed. An unfavorable outcome on the Norwegian civil tax matters could result in a material adverse effect on our condensed consolidated statement of financial position, results of operations or cash flows.

In June 2011, the Norwegian authorities issued criminal indictments against two of our subsidiaries alleging misleading or incomplete disclosures in Norwegian tax returns for the years 1999 through 2002, as well as inaccuracies in Norwegian statutory financial statements for the years ended December 31, 1996 through 2001. The Norwegian authorities subsequently extended a criminal indictment against a third subsidiary in April 2012. The Norwegian authorities also issued criminal indictments against two employees of our former external tax advisors related to the disclosures in our tax returns, and our former external Norwegian tax attorney related to certain of our restructuring transactions and the 2001 dividend payment. In January 2016, the Norwegian authorities formally and unconditionally dropped all criminal charges against our subsidiaries and the two employees of our former external advisors and our former external Norwegian attorney. As a result, no criminal charges remain outstanding for any of the previously reported Norway tax investigations or trials, and all of our subsidiaries and external advisors have been fully acquitted of all criminal charges.

Brazil tax investigations—Certain of our Brazilian income tax returns for the years 2000 through 2004 are currently under examination. In December 2005, the Brazilian tax authorities issued an aggregate tax assessment of BRL 778 million, equivalent to approximately $217 million, including penalties and interest. On January 25, 2008, we filed a protest letter with the Brazilian tax authorities, and we are currently engaged in the appeals process. On May 19, 2014, with respect to our Brazilian income tax returns for the years 2009 and 2010, the Brazilian tax authorities issued an aggregate tax assessment of BRL 133 million, equivalent to approximately $37 million, including penalties and interest. On June 18, 2014, we filed a protest letter with the Brazilian tax authorities. We believe our returns are materially correct as filed, and we are vigorously contesting these assessments. An unfavorable outcome on these proposed assessments could result in a material adverse effect on our condensed consolidated statement of financial position, results of operations or cash flows.

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

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TRANSOCEAN LTD. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—continued

(Unaudited)

Note 7—Earnings (Loss) Per Share

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

	Three months ended March 31,			
	2016		2015	
	Basic	Diluted	Basic	Diluted
Numerator for earnings (loss) per share				
Income (loss) from continuing operations attributable to controlling interest	$ 250	$ 250	$ (481)	$ (481)
Undistributed earnings allocable to participating securities	(3)	(3)	—	—
Income (loss) from continuing operations available to shareholders	$ 247	$ 247	$ (481)	$ (481)
Denominator for earnings (loss) per share				
Weighted-average shares outstanding	364	364	363	363
Effect of stock options and other share-based awards	—	—	—	—
Weighted-average shares for per share calculation	364	364	363	363
Per share earnings (loss) from continuing operations	$ 0.68	$ 0.68	$ (1.32)	$ (1.32)

In the three months ended March 31, 2016 and 2015, we excluded from the calculation 3.2 million and 5.0 million share based awards, respectively, since the effect would have been anti dilutive.

Note 8—Drilling Fleet

Construction work in progress—For the three months ended March 31, 2016 and 2015, the changes in our construction work in progress, including capital expenditures and other capital additions, such as capitalized interest, were as follows (in millions):

	Three months ended March 31,	
	2016	2015
Construction work in progress, at beginning of period	$ 3,736	$ 2,451
Capital additions		
Newbuild construction program	324	83
Other equipment and construction projects	44	118
Total capital expenditures	368	201

Changes in accrued capital additions	(74)	(22)
Property and equipment placed into service		
Newbuild construction program	(849)	—
Other property and equipment	(115)	(91)
Construction work in progress, at end of period	$ 3,066	$ 2,539

Dispositions—During the three months ended March 31, 2016, in connection with our efforts to dispose of non strategic assets, we completed the sale of the midwater floaters Falcon 100 and Sedneth 701, along with related equipment. In the three months ended March 31, 2016, we received aggregate net cash proceeds of $3 million and recognized an aggregate net gain of $1 million associated with the disposal of these assets. In the three months ended March 31, 2016, we received cash proceeds of $1 million and recognized an aggregate net gain of less than $1 million associated with the disposal of assets unrelated to rig sales.

During the three months ended March 31, 2015, in connection with our efforts to dispose of non strategic assets, we completed the sale of the deepwater floater Discoverer Seven Seas and the midwater floater C. Kirk Rhein, Jr. along with related equipment. In the three months ended March 31, 2015, we received aggregate net cash proceeds of $5 million and recognized an aggregate net gain of $2 million associated with the disposal of these assets. In the three months ended March 31, 2015, we received cash proceeds of $4 million and recognized an aggregate net loss of $9 million associated with the disposal of assets unrelated to rig sales.

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During the three months ended March 31, 2016, we committed to a plan to sell the midwater floater Transocean John Shaw, along with related equipment. At March 31, 2016, the aggregate carrying amount of our assets held for sale was $8 million, including the deepwater floater Deepwater Navigator and the midwater floaters GSF Grand Banks, GSF Rig 135, and Transocean John Shaw, along with related equipment, and certain corporate assets. At December 31, 2015, the aggregate carrying amount of our assets held for sale was $8 million, including the deepwater floater Deepwater Navigator and the midwater floaters Falcon 100, GSF Grand Banks, GSF Rig 135 and Sedneth 701, along with related equipment, and certain corporate assets.

See Note 5—Impairments.

Note 9—Debt

Overview—Debt, net of debt related balances, including unamortized discounts, premiums, issue costs and fair value adjustments, was comprised of the following (in millions):

	March 31, 2016	December 31, 2015
5.05% Senior Notes due December 2016 (a)	$ 974	$ 973
2.5% Senior Notes due October 2017 (a)	568	568
Eksportfinans Loans due January 2018	179	216
6.00% Senior Notes due March 2018 (a)	795	789
7.375% Senior Notes due April 2018 (a)	236	236
6.50% Senior Notes due November 2020 (a)	910	911
6.375% Senior Notes due December 2021 (a)	1,144	1,143
3.8% Senior Notes due October 2022 (a)	726	726
7.45% Notes due April 2027 (a)	94	94
8% Debentures due April 2027 (a)	57	57
7% Notes due June 2028	308	309
Capital lease contract due August 2029	585	591
7.5% Notes due April 2031 (a)	589	589
6.80% Senior Notes due March 2038 (a)	991	991
7.35% Senior Notes due December 2041 (a)	297	297
Total debt	8,453	8,490
Less debt due within one year		
5.05% Senior Notes due December 2016 (a)	974	973
2.5% Senior Notes due October 2017 (a)	34	—
6.00% Senior Notes due March 2018 (a)	15	—
7.375% Senior Notes due April 2018 (a)	6	—
6.50% Senior Notes due November 2020 (a)	2	—
6.375% Senior Notes due December 2021 (a)	42	—

Eksportfinans Loans due January 2018	103	97
Capital lease contract due August 2029	24	23
Total debt due within one year	1,200	1,093
Total long-term debt	$ 7,253	$ 7,397

(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 Five Year Revolving Credit Facility. Transocean Ltd. and Transocean Inc. are not subject to any significant restrictions on their ability to obtain funds from their consolidated subsidiaries by dividends, loans or return of capital distributions. See Note 15—Condensed Consolidating Financial Information.

In March 2016, we entered into transactions to repurchase in the open market an aggregate principal amount of $100 million of our debt securities for an aggregate cash payment of $82 million, including $24 million that was recorded in current assets and held in an escrow account as of March 31, 2016 pending settlement of certain of the repurchased notes. At March 31, 2016, in connection with such transactions, which are expected to be settled in April 2016, we reclassified the respective carrying amount of such notes to debt due within one year as presented above.

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

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We may borrow under the Five Year Revolving Credit Facility at either (1) the adjusted London Interbank Offered Rate (“LIBOR”) plus a margin (the “Five Year Revolving Credit Facility Margin”), which ranges from 1.125 percent to 2.0 percent based on the credit rating of our non credit enhanced senior unsecured long term debt (“Debt Rating”), or (2) the base rate specified in the credit agreement plus the Five Year Revolving Credit Facility Margin, less one percent per annum. Throughout the term of the Five Year Revolving Credit Facility, we pay a facility fee on the daily unused amount of the underlying commitment which ranges from 0.15 percent to 0.35 percent depending on our Debt Rating. Effective February 29, 2016, as a result of a further reduction of our Debt Rating, the Five Year Revolving Credit Facility Margin increased to 2.0 percent from 1.75 percent and the facility fee increased to 0.35 percent from 0.275 percent. At March 31, 2016, based on our Debt Rating on that date, the Five Year Revolving Credit Facility Margin was 2.0 percent and the facility fee was 0.35 percent. At March 31, 2016, we had no borrowings outstanding or letters of credit issued, and we had $3.0 billion of available borrowing capacity under the Five Year Revolving Credit Facility.

5.05% Senior Notes, 6.375% Senior Notes and 7.35% Senior Notes—In December 2011, we issued $1.0 billion aggregate principal amount of 5.05% Senior Notes due December 2016 (the “5.05% Senior Notes”), $1.2 billion aggregate principal amount of 6.375% Senior Notes due December 2021 (the “6.375% Senior Notes”) and $300 million aggregate principal amount of 7.35% Senior Notes due December 2041 (the “7.35% Senior Notes”). The interest rates for the notes are subject to adjustment from time to time upon a change to our Debt Rating. Effective June 15, 2016, as a result of a further reduction of our Debt Rating, the interest rates on the 5.05% Senior Notes, the 6.375% Senior Notes and the 7.35% Senior Notes will increase to 6.30 percent, 7.625 percent and 8.60 percent, respectively.

2.5% Senior Notes and 3.8% Senior Notes—In September 2012, we issued $750 million aggregate principal amount of 2.5% Senior Notes due October 2017 (the “2.5% Senior Notes”) and $750 million aggregate principal amount of 3.8% Senior Notes due October 2022 (the “3.8% Senior Notes”). The interest rates for the notes are subject to adjustment from time to time upon a change to our Debt Rating. Effective April 15, 2016, as a result of a further reduction of our Debt Rating, the interest rates on the 2.5% Senior Notes and the 3.8% Senior Notes will increase to 3.75 percent and 5.05 percent, respectively.

Note 10—Postemployment Benefit Plans

As of March 31, 2016, we maintained certain funded and unfunded defined benefit plans in the U.S., under which benefits had ceased accruing (collectively, the “U.S. Plans”). As of March 31, 2016, we also maintained defined benefit plans in the U.K., under which benefits had ceased accruing, and in Norway, Nigeria and Indonesia (collectively, the “Non U.S. Plans”). We also maintained certain unfunded other postretirement employee benefit plans (collectively, the “OPEB Plans”), under which benefits to eligible participants diminish during a phase out period ending December 31, 2025.

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

	Three months ended March 31, 2016			Three months ended March 31, 2015		
	U.S.	Non-U.S.	OPEB	U.S.	Non-U.S.	OPEB

	Plans	Plans	Plans	Total	Plans	Plans	Plans	Total
Net periodic benefit costs								
Service cost	$ 1	$ 4	$ —	$ 5	$ 1	$ 7	$ —	$ 8
Interest cost	17	4	—	21	16	5	1	22
Expected return on plan assets	(20)	(6)	—	(26)	(22)	(6)	—	(28)
Actuarial losses, net	1	1	—	2	3	2	—	5
Net periodic benefit costs	$ (1)	$ 3	$ —	$ 2	$ (2)	$ 8	$ 1	$ 7
Funding contributions	$ —	$ 38	$ 1	$ 39	$ —	$ 9	$ 2	$ 11

Note 11—Contingencies

Macondo well incident contingencies

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 off the coast of Louisiana. At the time of the explosion, Deepwater Horizon was contracted to an affiliate of BP plc (together with its affiliates, "BP"). Following the incident, we have been subject to civil and criminal claims, as well as causes of action, fines and penalties by local, state and federal governments. Litigation commenced shortly after the incident, and most claims against us were consolidated by the U.S. Judicial Panel on Multidistrict Litigation and transferred to the U.S. District Court for the Eastern District of Louisiana (the "MDL Court"). A significant portion of the contingencies arising from the Macondo well incident has now been resolved as a result of settlements with the U.S. Department of Justice (the "DOJ"), BP, the states of Alabama, Florida, Louisiana, Mississippi, and Texas (collectively, the "States") and the Plaintiffs' Steering Committee (the "PSC").

We have recognized a liability for the remaining estimated loss contingencies associated with litigation resulting from the Macondo well incident that we believe are probable and for which a reasonable estimate can be made. At March 31, 2016 and

December 31, 2015, the liability for estimated loss contingencies that we believe are probable and for which a reasonable estimate can be made was $250 million, recorded in other current liabilities. We believe the remaining most notable claims against us arising from the Macondo well incident are the potential settlement class opt outs from the PSC Settlement Agreement, as described below. The liability for estimated loss contingencies at March 31, 2016, included, among others, the amount we have agreed to pay as a result of our settlement with the PSC (see "—PSC Settlement Agreement" below), which is subject to approval by the MDL Court. The remaining litigation could result in certain loss contingencies that we believe are reasonably possible. Although we have not recognized a liability for such loss contingencies, these contingencies could result in liabilities that we ultimately recognize.

We recognize an asset associated with the portion of our estimated losses that we believe is probable of recovery from insurance and for which we have received from underwriters' confirmation of expected payment. Although we have available policy limits that could result in additional amounts recoverable from insurance, recovery of such additional amounts is not probable and we are not currently able to estimate such amounts (see "—Insurance coverage"). Our estimates involve a significant amount of judgment.

Plea Agreement—Pursuant to the plea agreement (the "Plea Agreement"), one of our subsidiaries pled guilty to one misdemeanor count of negligently discharging oil into the U.S. Gulf of Mexico, in violation of the Clean Water Act ("CWA") and agreed to be subject to probation through February 2018. The DOJ agreed, subject to the provisions of the Plea Agreement, not to further prosecute us for certain matters arising from the Macondo well incident.

We also agreed to make an aggregate cash payment of $400 million, including a criminal fine of $100 million and cash contributions of $150 million to the National Fish & Wildlife Foundation and $150 million to the National Academy of Sciences, payable in scheduled installments. In the three months ended March 31, 2016 and 2015, we made aggregate cash payments of $60 million in satisfaction of amounts due under the Plea Agreement. At March 31, 2016 and December 31, 2015, the carrying amount of our liability for settlement obligations under the Plea Agreement was $60 million and $120 million, respectively.

Consent Decree—Under the civil consent decree (the "Consent Decree"), we agreed to undertake certain actions, including enhanced safety and compliance actions when operating in U.S. waters. The Consent Decree also requires us to submit certain plans, reports and submissions and also requires us to make such submittals available publicly. One of the required plans is a performance plan (the "Performance Plan") that contains, among other things, interim milestones for actions in specified areas and schedules for reports required under the Consent Decree. On January 2, 2014, the DOJ approved our proposed Performance Plan. Additionally, in compliance with the requirements of the Consent Decree and upon approval by the DOJ, we have retained an independent auditor to review and report to the DOJ our compliance with the Consent Decree and an independent process safety consultant to review report and assist with the process safety requirements of the Consent Decree.

We may request termination of the Consent Decree after January 2, 2019, provided we meet certain conditions set forth in the Consent Decree. The Consent Decree resolved the claim by the U.S. for civil penalties under the CWA. The Consent Decree did not resolve the United States' claim under the Oil Pollution Act ("OPA") for natural resource damages ("NRD") or for removal costs. However, BP has agreed to indemnify us for NRD and most removal costs (see "—BP Settlement Agreement").

EPA Agreement—On February 25, 2013, we and the U.S. Environmental Protection Agency (the "EPA") entered into the EPA Agreement, which has a five year term. Subject to our compliance with the terms of the EPA Agreement, the EPA agreed that it will not suspend, debar or statutorily disqualify us and will lift any existing suspension, debarment or statutory disqualification. In the EPA Agreement, we agreed to comply with our obligations under the Plea Agreement and the Consent Decree and continue the implementation of certain programs and systems designed to enhance our environmental management systems and improve our environmental performance. We also agreed to other specified actions, including the (i) scheduled revision of our environmental management system and maintenance of certain compliance and ethics programs; (ii) compliance with certain employment and contracting procedures; (iii) engagement of an independent compliance auditor to, among other things, assess and report to the EPA on our compliance with the terms of the Plea Agreement, the Consent Decree and the EPA Agreement and (iv) provision of reports and notices with respect to various matters, including those related to compliance, misconduct, legal proceedings, audit reports, the EPA Agreement, the Consent Decree and the Plea Agreement. The EPA Agreement prohibits us from entering into, extending or engaging in certain business relationships with individuals or entities that are debarred, suspended, proposed for debarment or similarly restricted.

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

§ BP pay us $125 million, and we received such payment in July 2015, as partial reimbursement of the legal costs we have incurred in connection with the Macondo well incident;
§ BP indemnify us for compensatory damages, including all NRD and all cleanup and removal costs for oil or pollutants originating from the Macondo well;
§ We indemnify BP for personal and bodily injury claims of our employees and for any future costs for the cleanup or removal of pollutants stored on the Deepwater Horizon vessel;
§ BP cease efforts to recover as an unlimited additional insured under our insurance policies, and be bound to the insurance reimbursement rulings related to the Macondo well incident;
§ BP and we each release and withdraw all claims we have against each other arising from the Macondo well litigation; and
§ Neither BP nor we make statements regarding gross negligence in the Macondo well incident.

PSC Settlement Agreement—On May 29, 2015, together with the PSC, we filed a settlement agreement (the "PSC Settlement Agreement") with the MDL Court for approval. Through the PSC Settlement Agreement, we agreed to pay a total of $212 million, plus up to $25 million for partial reimbursement of attorneys' fees, to be allocated between two classes of plaintiffs as follows: (1) private plaintiffs, businesses, and local governments who could have asserted punitive damages claims against us under general maritime law (the "Punitive Damages Class"); and (2) private plaintiffs who previously settled economic damages claims against BP and were assigned certain claims BP had made against us (the "Assigned Claims Class"). A court appointed neutral representative established the allocation of the settlement payment to be 72.8 percent paid to the Punitive Damages Class and 27.2 percent paid to the Assigned Claims Class. In exchange for these payments, each of the classes agreed to release all respective claims it has against us. Members of the Punitive Damages Class may opt out of the PSC Settlement Agreement and pursue punitive damages claims against us, but we may terminate the PSC Settlement Agreement if the number of opt outs exceeds a specified threshold amount. In August 2015, we made a cash deposit of $212 million into an escrow account pending approval of the settlement by the MDL Court. At March 31, 2016, the balance of the escrow account was $212 million, recorded in other current assets.

Multidistrict litigation proceeding—Most Macondo well-related claims against us have been resolved under various settlements, described above. There are, however, still pending claims by potential opt outs from the settlement with the PSC and a number of other parties. In September 2014, the MDL Court ruled on the liability phase trial, and additional litigation and appeals continue.

The Phase One trial in 2013 addressed fault for the Macondo blowout and resulting oil spill. The MDL Court's September 2014 Phase One ruling concluded that BP was grossly negligent and reckless and 67 percent at fault for the blowout, explosion, and spill; that we were negligent and 30 percent at fault; and that Halliburton Company ("Halliburton") was negligent and three percent at fault. The finding that we were negligent, but not grossly negligent, meant that, subject to a successful appeal, we would not be held liable for punitive damages and that BP was required to honor its contractual agreements to indemnify us for compensatory damages and release its claims against us. Our settlements with BP and the PSC finally resolve the indemnity and release issues (see “—BP Settlement Agreement” and “—PSC Settlement Agreement”) and, upon court approval of such settlements, largely eliminate our risk should these determinations be reversed through the appeal process. The MDL Court also concluded that we were an “operator” of the Macondo well for purposes of 33 U.S.C. § 2704(c)(3), a provision of OPA that permits government entities to recover removal costs by owners and operators of a facility or vessel that caused a discharge. The MDL Court, however, found that “Transocean’s liability to government entities for removal costs is ultimately shifted to BP by virtue of contractual indemnity,” and BP has agreed to indemnify removal costs through the BP Settlement Agreement (see “—BP Settlement Agreement”).

The Phase One ruling did not quantify damages or result in a final monetary judgment. However, because it is a determination of liability under maritime law, the Phase One ruling is appealable, and we, along with BP, the PSC, Halliburton and the State of Alabama have each appealed or cross-appealed aspects of the ruling. These appeals have been stayed pending the finalization and court approval of BP’s settlement with the U.S. and the States. As a result of our settlements, we do not expect any party to challenge the ruling with respect to Transocean when the appeals resume, and we expect that any remaining issues in the appeal would be addressed to the other parties.

We can provide no assurances as to the outcome of these appeals, as to the timing of any further rulings, or that we will not enter into additional settlements as to some or all of the matters related to the Macondo well incident, including those to be determined at a trial, or the timing or terms of any such settlements.

Pending claims—As of March 31, 2016, approximately 1,372 actions or claims are pending against us, along with other unaffiliated defendants arising from individual complaints as well as putative class-action complaints that were filed in the federal and state courts in Louisiana, Texas, Mississippi, Alabama, Georgia, Kentucky, South Carolina, Tennessee, Florida and other courts. These claims were originally filed in various state and federal courts, and most have been consolidated in the MDL Court. We believe our settlement with the PSC, if approved by the MDL Court, will resolve many of these pending actions. As for any actions not resolved by these settlements, including any claims by individuals who opt out of the PSC Settlement Agreement, claims by private environmental groups, and securities actions, we are vigorously defending those claims and pursuing any and all defenses available.

State and other government claims—Claims have been filed against us by over 200 state, local and foreign governments, including the Mexican States of Veracruz, Quintana Roo, Tamaulipas and Yucatan; the federal government of Mexico and other local governments by and on behalf of multiple towns and parishes.

The OPA claims of the Mexican States of Veracruz, Quintana Roo, Tamaulipas and Yucatan were dismissed for failure to demonstrate that recovery under OPA was authorized by treaty or executive agreement. The MDL Court subsequently granted summary judgment and the Fifth Circuit upheld the decision on the Mexican States' general maritime law claims on the ground that the federal government of Mexico, rather than the Mexican States, had the proprietary interest in the claims, and the U.S. Supreme Court denied review.

Federal securities claims—On September 30, 2010, a proposed federal securities class action was filed against us in the U.S. District Court for the Southern District of New York. In the action, a former shareholder of the acquired company alleged that the joint proxy statement related to our shareholder meeting in connection with the merger with the acquired company violated various securities laws and that the acquired company's shareholders received inadequate consideration for their shares as a result of the alleged violations and sought compensatory and rescissory damages and attorneys' fees. On March 11, 2014, the District Court for the Southern District of New York dismissed the claims as time-barred. Plaintiffs appealed to the U.S. Court of Appeals for the Second Circuit (the "Second Circuit"), but on March 17, 2016, the Second Circuit affirmed the dismissal. The time in which the plaintiffs may seek review by the U.S. Supreme Court has not yet expired.

Wreck removal—In December 2010, the U.S. Coast Guard requested that we formulate and submit a comprehensive oil removal plan to remove any diesel fuel that could be recovered from the Deepwater Horizon vessel. The U.S. Coast Guard has not requested that we remove the rig wreckage from the sea floor. However, in February 2013, the U.S. Coast Guard submitted a request seeking analysis of the rig's riser and cofferdam, which are resting on the seafloor, and recommendations for remediation or removal. Although we have insurance coverage for wreck removal, such coverage may be less than the total costs required to remove the wreckage from the sea floor. Under the BP Settlement Agreement, we have agreed to indemnify BP for any costs associated with wreck removal, if requested.

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

Other legal proceedings

Asbestos litigation—In 2004, several of our subsidiaries were named, along with numerous other unaffiliated defendants, in 21 complaints filed on behalf of 769 plaintiffs in the Circuit Courts of the State of Mississippi and which claimed injuries arising out of exposure to asbestos allegedly contained in drilling mud during these plaintiffs' employment in drilling activities between 1965 and 1986. The complaints generally allege that the defendants used or manufactured asbestos containing drilling mud additives for use in connection with drilling operations and have included allegations of negligence, products liability, strict liability and claims allowed under the Jones Act and general maritime law. In each of these cases, the complaints have named other unaffiliated defendant companies, including companies that allegedly manufactured the drilling related products that contained asbestos. The plaintiffs generally seek awards of unspecified compensatory and punitive damages, but the court appointed special master has ruled that a Jones Act employer defendant, such as us, cannot be sued for punitive damages. After ten years of litigation, this group of cases has been winnowed to the point where now only 15 plaintiffs' individual claims remain pending in Mississippi in which we have or may have an interest. During the year ended December 31, 2014, a group of lawsuits premised on the same allegations as those in Mississippi were filed in Louisiana. As of March 31, 2016, eight plaintiffs have claims pending against one or more of our subsidiaries in four different lawsuits filed in Louisiana. We intend to defend these lawsuits vigorously, although we can provide no assurance as to the outcome. We historically have maintained broad liability insurance, although we are not certain whether insurance will cover the liabilities, if any, arising out of these claims. Based on our evaluation of the exposure to date, we do not expect the liability, if any, resulting from these claims to have a material adverse effect on our consolidated statement of financial position, results of operations or cash flows.

One of our subsidiaries was involved in lawsuits arising out of the subsidiary's involvement in the design, construction and refurbishment of major industrial complexes. The operating assets of the subsidiary were sold and its operations were discontinued in 1989, and the subsidiary has no remaining assets other than the insurance policies involved in its litigation, with its insurers and, either directly or indirectly through a qualified settlement fund. The subsidiary has been named as a defendant, along with numerous other companies, in lawsuits alleging bodily injury or personal injury as a result of exposure to asbestos. As of March 31, 2016, the subsidiary was a defendant in approximately 258 lawsuits, some of which include multiple plaintiffs, and we estimate that there are approximately

280 plaintiffs in these lawsuits. For many of these lawsuits, we have not been provided with sufficient information from the plaintiffs to determine whether all or some of the plaintiffs have claims against the subsidiary, the basis of any such claims, or the nature of their alleged injuries. The first of the asbestos related lawsuits was filed against the subsidiary in 1990. Through March 31, 2016, the costs incurred to resolve claims, including both defense fees and expenses and settlement costs, have not been material, all known deductibles have been satisfied or are inapplicable, and the subsidiary's defense fees and expenses and settlement costs have been met by insurance made available to the subsidiary. The subsidiary continues to be named as a defendant in additional lawsuits, and we cannot predict the number of additional cases in which it may be named a defendant nor can we predict the potential costs to resolve such additional cases or to resolve the pending cases. However, the subsidiary has in excess of $1.0 billion in insurance limits potentially available to the subsidiary. Although not all of the policies may be fully available due to the insolvency of certain insurers, we believe that the subsidiary will have sufficient funding directly or indirectly from settlements and claims payments from insurers, assigned rights from insurers and coverage in place settlement agreements with insurers to respond to these claims. While we cannot predict or provide assurance as to the outcome of these matters, we do not believe that the ultimate liability, if any, arising from these claims will have a material impact on our consolidated statement of financial position, results of operations or cash flows.

Rio de Janeiro tax assessment—In the third quarter of 2006, we received tax assessments of BRL 457 million, equivalent to approximately $127 million, including interest and penalties, from the state tax authorities of Rio de Janeiro in Brazil against one of our Brazilian subsidiaries for taxes on equipment imported into the state in connection with our operations. The assessments resulted from a preliminary finding by these authorities that our record keeping practices were deficient. We currently believe that the substantial majority of these assessments are without merit. We filed an initial response with the Rio de Janeiro tax authorities on September 9, 2006 refuting these additional tax assessments. In September 2007, we received confirmation from the state tax authorities that they believe the additional tax assessments are valid, and as a result, we filed an appeal on September 27, 2007 to the state Taxpayer's Council contesting these assessments. While we cannot predict or provide assurance as to the final outcome of these proceedings, we do not expect it to have a material adverse effect on our consolidated statement of financial position, results of operations or cash flows.

Brazilian import license assessment—In the fourth quarter of 2010, we received an assessment from the Brazilian federal tax authorities in Rio de Janeiro of BRL 588 million, equivalent to approximately $164 million, including interest and penalties, based upon the alleged failure to timely apply for import licenses for certain equipment and for allegedly providing improper information on import license applications. We believe that a substantial majority of the assessment is without merit and are vigorously pursuing legal remedies. The case was decided partially in favor of our Brazilian subsidiary in the lower administrative court level. The decision cancelled the majority of the assessment, reducing the total assessment to BRL 39 million, equivalent to approximately $11 million. On July 14, 2011, we filed an appeal to eliminate the assessment. On May 23, 2013, a ruling was issued that eliminated all assessment amounts. A further appeal by the taxing authorities was filed in November 2014 and accepted for review in April 2015. While we cannot predict or provide assurance as to the outcome of these proceedings, we do not expect it to have a material adverse effect on our consolidated statement of financial position, results of operations or cash flows.

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

Other matters—We are involved in various tax matters, various regulatory matters, and a number of claims and lawsuits, asserted and unasserted, all of which have arisen in the ordinary course of our business. We do not expect the liability, if any, resulting from these other matters to have a material adverse effect on our consolidated statement of financial position, results of operations or cash flows. We cannot predict with certainty the outcome or effect of any of the litigation matters specifically described above or of any such other pending, threatened, or possible litigation or liability. We can provide no assurance that our beliefs or expectations as to the outcome or effect of any tax, regulatory, lawsuit or other litigation matter will prove correct and the eventual outcome of these matters could materially differ from management's current estimates.

Other environmental matters

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

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

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

Resolutions of other claims by the EPA, the involved state agency or PRPs are at various stages of investigation. These investigations involve determinations of (a) the actual responsibility attributed to us and the other PRPs at the site, (b) appropriate investigatory or remedial actions and (c) allocation of the costs of such activities among the PRPs and other site users. Our ultimate financial responsibility in connection with those sites may depend on many factors, including (i) the volume and nature of material, if any, contributed to the site for which we are responsible, (ii) the number of other PRPs and their financial viability and (iii) the remediation methods and technology to be used.

It is difficult to quantify with certainty the potential cost of these environmental matters, particularly in respect of remediation obligations. Nevertheless, based upon the information currently available, we believe that our ultimate liability arising from all environmental matters, including the liability for all other related pending legal proceedings, asserted legal claims and known potential legal claims which are likely to be asserted, is adequately accrued and should not have a material effect on our consolidated statement of financial position or results of operations.

Letters of credit and surety bonds

At March 31, 2016 and December 31, 2015, we had outstanding letters of credit totaling $110 million and $153 million, respectively, issued under various committed and uncommitted credit lines provided by several banks to guarantee various contract bidding, performance activities and customs obligations.

As is customary in the contract drilling business, we also have various surety bonds in place that secure customs obligations related to the importation of our rigs and certain performance and other obligations. At March 31, 2016 and December 31, 2015, we had outstanding surety bonds totaling $32 million and $30 million, respectively.

Note 12—Shareholders' Equity

Par value reduction—On October 29, 2015, shareholders at our extraordinary general meeting approved the reduction of the par value of each of our shares to CHF 0.10 from the original par value of CHF 15.00. Following a formal notification to creditors and establishment of a public deed of compliance, the reduction of par value, which was approved at our extraordinary general meeting held on October 29, 2015, became effective as of January 7, 2016 upon registration in the commercial register.

Distributions of qualifying additional paid in capital—In May 2015, at our annual general meeting, our shareholders approved the distribution of qualifying additional paid in capital in the form of a U.S. dollar denominated dividend of $0.60 per outstanding share, payable in four quarterly installments of $0.15 per outstanding share, subject to certain limitations. In May 2015, we recognized a liability of $218 million for the distribution payable, recorded in other current liabilities, with a corresponding entry to additional paid in capital. On June 17 and September 23, 2015, we paid the first two installments in the aggregate amount of $109 million to shareholders of record as of May 29 and August 25, 2015. On October 29, 2015, shareholders at the extraordinary general meeting approved the cancellation of the third and fourth installments of the distribution. As a result, we reduced our distribution payable, recorded in other current liabilities, by $109 million with corresponding increase to additional paid in capital.

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

We did not pay the distribution of qualifying additional paid in capital with respect to our shares formerly held in treasury or held by our subsidiary

Shares held in treasury—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, equivalent to approximately $3.5 billion. On February 12, 2010, our board of directors authorized our management to implement the share repurchase program.

At December 31, 2015, we held 2.9 million shares in treasury, recorded at cost. On October 29, 2015, shareholders at our extraordinary general meeting approved the cancellation of all shares that have been repurchased to date under our share repurchase program. Following a formal notification to creditors and establishment of a public deed of compliance, the cancellation of our shares held in treasury, which was approved at our extraordinary general meeting held on October 29, 2015, became effective as of January 7, 2016 upon registration in the commercial register.

Shares held by subsidiary—One of our subsidiaries holds our shares for future use to satisfy our obligations to deliver shares in connection with awards granted under our incentive plans or other rights to acquire our shares. At March 31, 2016 and December 31, 2015, our subsidiary held 5.9 million shares and 6.9 million shares, respectively.

Accumulated other comprehensive loss—The changes in accumulated other comprehensive loss, presented net of tax, which resulted from components of net periodic benefit costs for our defined benefit plans, were as follows (in millions):

	Three months ended March 31,	
	2016	2015
Balance, beginning of period	$ (334)	$ (404)
Other comprehensive income (loss) before reclassifications	(7)	(11)
Reclassifications to net income	2	1
Other comprehensive income (loss), net	(5)	(10)
Balance, end of period	$ (339)	$ (414)

Note 13—Noncontrolling Interest

At March 31, 2016 and December 31, 2015, we held 21.3 million common units and 27.6 million subordinated units of Transocean Partners LLC, a Marshall Islands limited liability company (“Transocean Partners”) and all of the incentive distribution rights. The remaining publicly held common units represent the noncontrolling interest in Transocean Partners.

On November 4, 2015, Transocean Partners announced that its board of directors approved a unit repurchase program, authorizing it to repurchase for cancellation up to $40 million of its publicly held common units. Subject to market conditions, Transocean Partners may repurchase units from time to time in the open market or in privately negotiated transactions. It may suspend or discontinue the program at any time. In the three months ended March 31, 2016, Transocean Partners repurchased 336,958 of its publicly held common units for an aggregate purchase price of $3 million. At March 31, 2016 and December 31, 2015, Transocean Partners had outstanding 19.7 million and 20.0 million publicly held common units, respectively. At March 31, 2016 and December 31, 2015, the common and subordinated units held by us collectively represented a 71.2 percent and 70.9 percent limited liability company interest in Transocean Partners, respectively.

In the three months ended March 31, 2016 and 2015, Transocean Partners declared and paid an aggregate distribution of $25 million to its unitholders, of which $7 million was paid to holders of noncontrolling interest.

Note 14—Financial Instruments

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

	March 31, 2016		December 31, 2015	
	Carrying amount	Fair value	Carrying amount	Fair value
Cash and cash equivalents	$ 2,574	$ 2,574	$ 2,339	$ 2,339
Restricted cash balances and investments	451	457	467	474
Long-term debt, including current maturities	8,453	6,312	8,490	6,291

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

Cash and cash equivalents—The carrying amount of cash and cash equivalents represents the historical cost, plus accrued interest, which approximates fair value because of the short maturities of those instruments. We measured the estimated fair value of our cash equivalents using significant other observable inputs, representative of a Level 2 fair value measurement, including the net asset values of the investments. At March 31, 2016 and December 31, 2015, the aggregate carrying amount of our cash equivalents was $1.8 billion and $1.7 billion, respectively.

Restricted cash balances and investments—The carrying amount of the restricted cash balances that are subject to restrictions due to legislation, regulation or court order approximates fair value due to the short term nature of the instruments in which the restricted cash balances are held. At March 31, 2016 and December 31, 2015, the aggregate carrying amount of such restricted cash balances was $272 million and $251 million, respectively.

The carrying amount of the restricted cash investments associated with the Eksportfinans Loans due January 2018 (the "Eksportfinans Restricted Cash Investments") represents the amortized cost of our investment. We measured the estimated fair value of the Eksportfinans Restricted Cash Investments using significant other observable inputs, representative of a Level 2 fair value measurement, including the terms and credit spreads of the instruments. At March 31, 2016 and December 31, 2015, the aggregate carrying amount of the Eksportfinans Restricted Cash Investments was $179 million and $216 million, respectively. At March 31, 2016 and December 31, 2015, the estimated fair value of the Eksportfinans Restricted Cash Investments was $185 million and $223 million, respectively.

Debt—We measured the estimated fair value of our debt, all of which was fixed rate debt, using significant other observable inputs, representative of a Level 2 fair value measurement, including the terms and credit spreads for the instruments.

Note 15—Condensed Consolidating Financial Information

Transocean Inc., a wholly owned subsidiary of Transocean Ltd., is the issuer of certain notes and debentures, which have been guaranteed by Transocean Ltd. Transocean Ltd.'s guarantee of debt securities of Transocean Inc. is full and unconditional. Transocean Ltd. is not subject to any significant restrictions on its ability to obtain funds by dividends, loans or return of capital distributions from its consolidated subsidiaries.

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

We have corrected the presentation of our condensed consolidating statements of comprehensive income (loss) for the three months ended March 31, 2015 to properly reflect the equity in earnings of the Subsidiary Issuer resulting from certain Other Subsidiaries that do not report to the Subsidiary Issuer. In the three months ended March 31, 2015, the effect of this correction increased net loss and total comprehensive loss for the Subsidiary Issuer by $81 million and decreased the consolidating adjustments, correspondingly. These changes had no effect on the consolidated statements of operations, the consolidated or consolidating balance sheets or the consolidated or consolidating statements of cash flows, as previously reported.

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TRANSOCEAN LTD. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—continued

(Unaudited)

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

	Three months ended March 31, 2016				
	Parent Guarantor	Subsidiary Issuer	Other Subsidiaries	Consolidating adjustments	Consolidated
Operating revenues	$ —	$ —	$ 1,341	$ —	$ 1,341
Cost and expenses	5	1	919	—	925
Loss on impairment	—	—	(3)	—	(3)
Gain on disposal of assets, net	—	—	1	—	1
Operating income (loss)	(5)	(1)	420	—	414
Other income (expense), net					
Interest income (expense), net	(2)	(125)	44	—	(83)
Equity in earnings	256	409	—	(665)	—
Other, net	—	(13)	12	—	(1)
	254	271	56	(665)	(84)
Income from continuing operations before income tax expense	249	270	476	(665)	330
Income tax expense	—	—	74	—	74
Income from continuing operations	249	270	402	(665)	256
Income from discontinued operations, net of tax	—	—	(1)	—	(1)
Net income	249	270	401	(665)	255
Net income attributable to noncontrolling interest	—	—	6	—	6
Net income attributable to controlling interest	249	270	395	(665)	249
Other comprehensive income (loss) before income taxes	—	(17)	12	—	(5)
Income taxes related to other comprehensive loss	—	—	—	—	—
Other comprehensive income (loss), net of income taxes	—	(17)	12	—	(5)
Total comprehensive income	249	253	413	(665)	250
Total comprehensive income attributable to noncontrolling interest	—	—	6	—	6
Total comprehensive income attributable to controlling interest	$ 249	$ 253	$ 407	$ (665)	$ 244

	Three months ended March 31, 2015				
	Parent Guarantor	Subsidiary Issuer	Other Subsidiaries	Consolidating adjustments	Consolidated
Operating revenues	$ —	$ —	$ 2,043	$ —	$ 2,043
Cost and expenses	4	2	1,415	—	1,421
Loss on impairment	—	—	(936)	—	(936)
Loss on disposal of assets, net	—	—	(7)	—	(7)
Operating loss	(4)	(2)	(315)	—	(321)
Other income (expense), net					
Interest income (expense), net	—	(135)	25	—	(110)
Equity in earnings	(479)	(375)	—	854	—
Other, net	—	39	8	—	47
	(479)	(471)	33	854	(63)
Loss from continuing operations before income tax expense	(483)	(473)	(282)	854	(384)
Income tax expense	—	—	83	—	83
Loss from continuing operations	(483)	(473)	(365)	854	(467)
(Gain) loss from discontinued operations, net of tax	—	1	(3)	—	(2)
Net loss	(483)	(472)	(368)	854	(469)
Net income attributable to noncontrolling interest	—	—	14	—	14
Net loss attributable to controlling interest	(483)	(472)	(382)	854	(483)
Other comprehensive income (loss) before income taxes	(2)	(9)	3	—	(8)
Income taxes related to other comprehensive income	—	—	(2)	—	(2)
Other comprehensive income (loss), net of income taxes	(2)	(9)	1	—	(10)
Total comprehensive loss	(485)	(481)	(367)	854	(479)
Total comprehensive income attributable to noncontrolling interest	—	—	14	—	14
Total comprehensive loss attributable to controlling interest	$ (485)	$ (481)	$ (381)	$ 854	$ (493)

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TRANSOCEAN LTD. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—continued

(Unaudited)

	March 31, 2016				
	Parent Guarantor	Subsidiary Issuer	Other Subsidiaries	Consolidating adjustments	Consolidated
Assets					
Cash and cash equivalents	$ 4	$ 605	$ 1,965	$ —	$ 2,574
Other current assets	2	907	2,452	(1,235)	2,126
Total current assets	6	1,512	4,417	(1,235)	4,700
Property and equipment, net	—	—	20,889	—	20,889
Investment in affiliates	14,776	30,549	—	(45,325)	—
Other assets	—	4,864	15,198	(19,406)	656
Total assets	14,782	36,925	40,504	(65,966)	26,245
Liabilities and equity					
Debt due within one year	—	1,073	127	—	1,200
Other current liabilities	10	483	2,130	(1,235)	1,388
Total current liabilities	10	1,556	2,257	(1,235)	2,588
Long-term debt	—	20,881	5,778	(19,406)	7,253
Other long-term liabilities	14	304	1,019	—	1,337
Total long-term liabilities	14	21,185	6,797	(19,406)	8,590
Commitments and contingencies					
Redeemable noncontrolling interest	—	—	11	—	11
Total equity	14,758	14,184	31,439	(45,325)	15,056
Total liabilities and equity	$ 14,782	$ 36,925	$ 40,504	$ (65,966)	$ 26,245

	December 31, 2015				
	Parent Guarantor	Subsidiary Issuer	Other Subsidiaries	Consolidating adjustments	Consolidated
Assets					
Cash and cash equivalents	$ 1	$ 460	$ 1,878	$ —	$ 2,339
Other current assets	4	812	2,775	(1,145)	2,446
Total current assets	5	1,272	4,653	(1,145)	4,785
Property and equipment, net	—	—	20,818	—	20,818
Investment in affiliates	14,526	29,422	—	(43,948)	—

Other assets	—	4,845	14,245	(18,364)	726
Total assets	14,531	35,539	39,716	(63,457)	26,329
Liabilities and equity					
Debt due within one year	—	973	120	—	1,093
Other current liabilities	15	401	2,305	(1,145)	1,576
Total current liabilities	15	1,374	2,425	(1,145)	2,669
Long-term debt	—	19,954	5,807	(18,364)	7,397
Other long-term liabilities	18	290	1,139	—	1,447
Total long-term liabilities	18	20,244	6,946	(18,364)	8,844
Commitments and contingencies					
Redeemable noncontrolling interest	—	—	8	—	8
Total equity	14,498	13,921	30,337	(43,948)	14,808
Total liabilities and equity	$ 14,531	$ 35,539	$ 39,716	$ (63,457)	$ 26,329

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TRANSOCEAN LTD. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—continued

(Unaudited)

	Three months ended March 31, 2016				
	Parent Guarantor	Subsidiary Issuer	Other Subsidiaries	Consolidating adjustments	Consolidated
Cash flows from operating activities	$ (12)	$ (150)	$ 793	$ —	$ 631
Cash flows from investing activities					
Capital expenditures	—	—	(368)	—	(368)
Proceeds from disposal of assets, net	—	—	4	—	4
Investing activities with affiliates, net	—	(24)	(343)	367	—
Net cash used in investing activities	—	(24)	(707)	367	(364)
Cash flows from financing activities					
Repayments of debt	—	—	(55)	—	(55)
Deposit to cash account restricted for financing activities	—	(24)	—	—	(24)
Proceeds from cash investments restricted for financing activities	—	—	49	—	49