Transocean Ltd.
Form 10-Q
July 31, 2018
Table of Contents

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 June 30, 2018

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)

Switzerland (State or other jurisdiction of incorporation or organization)	98-0599916 (I.R.S. Employer Identification No.)
Turmstrasse 30 Steinhausen, Switzerland (Address of principal executive offices)	6312 (Zip Code)

+41 (41) 749-0500
(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 every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

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

Large accelerated filer Accelerated filer Non accelerated filer
Smaller reporting company Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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 July 23, 2018, 461,868,183 shares were outstanding.

Table of Contents

TRANSOCEAN LTD. AND SUBSIDIARIES

INDEX TO QUARTERLY REPORT ON FORM 10 Q

QUARTER ENDED JUNE 30, 2018

Table of Contents

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 June 30, 2018	2017	Six months ended June 30, 2018	2017
Contract drilling revenues	$ 790	$ 705	$ 1,454	$ 1,443
Other revenues	—	46	—	93
	790	751	1,454	1,536
Costs and expenses				
Operating and maintenance	431	331	855	678
Depreciation	211	219	413	451
General and administrative	52	35	99	74
	694	585	1,367	1,203
Loss on impairment	(1,014)	(113)	(1,014)	(113)
Gain (loss) on disposal of assets, net	1	(1,595)	6	(1,593)
Operating loss	(917)	(1,542)	(921)	(1,373)
Other income (expense), net				
Interest income	13	7	25	13
Interest expense, net of amounts capitalized	(148)	(129)	(295)	(256)
Loss on retirement of debt	(2)	(48)	(2)	(48)
Other, net	—	(4)	(10)	3
	(137)	(174)	(282)	(288)
Loss before income tax expense (benefit)	(1,054)	(1,716)	(1,203)	(1,661)
Income tax expense (benefit)	85	(37)	148	(77)
Net loss	(1,139)	(1,679)	(1,351)	(1,584)
Net income (loss) attributable to noncontrolling interest	(4)	11	(6)	15
Net loss attributable to controlling interest	$ (1,135)	$ (1,690)	$ (1,345)	$ (1,599)
Loss per share				
Basic	$ (2.46)	$ (4.32)	$ (2.99)	$ (4.09)
Diluted	$ (2.46)	$ (4.32)	$ (2.99)	$ (4.09)
Weighted-average shares outstanding				

Basic	462	391	450	391
Diluted	462	391	450	391

See accompanying notes.

Table of Contents

TRANSOCEAN LTD. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(In millions)

(Unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Net loss	$ (1,139)	$ (1,679)	$ (1,351)	$ (1,584)
Net income (loss) attributable to noncontrolling interest	(4)	11	(6)	15
Net loss attributable to controlling interest	(1,135)	(1,690)	(1,345)	(1,599)
Components of net periodic benefit costs before reclassifications	1	—	(3)	(2)
Components of net periodic benefit costs reclassified to net income	—	7	2	8
Other comprehensive income (loss) before income taxes	1	7	(1)	6
Income taxes related to other comprehensive income (loss)	—	(23)	—	(23)
Other comprehensive income (loss)	1	(16)	(1)	(17)
Other comprehensive income attributable to noncontrolling interest	—	—	—	—
Other comprehensive income (loss) attributable to controlling interest	1	(16)	(1)	(17)
Total comprehensive loss	(1,138)	(1,695)	(1,352)	(1,601)
Total comprehensive income (loss) attributable to noncontrolling interest	(4)	11	(6)	15
Total comprehensive loss attributable to controlling interest	$ (1,134)	$ (1,706)	$ (1,346)	$ (1,616)

See accompanying notes.

Table of Contents

TRANSOCEAN LTD. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(In millions, except share data)

(Unaudited)

	June 30, 2018	December 31, 2017
Assets		
Cash and cash equivalents	$ 2,506	$ 2,519
Short-term investments	—	450
Accounts receivable, net of allowance for doubtful accounts of less than $1 at June 30, 2018 and December 31, 2017	619	596
Materials and supplies, net of allowance for obsolescence of $145 and $141 at June 30, 2018 and December 31, 2017, respectively	414	418
Restricted cash accounts and investments	490	466
Other current assets	188	157
Total current assets	4,217	4,606
Property and equipment	24,236	22,693
Less accumulated depreciation	(5,278)	(5,291)
Property and equipment, net	18,958	17,402
Contract intangible assets	583	—
Deferred income taxes, net	44	47
Other assets	444	355
Total assets	$ 24,246	$ 22,410
Liabilities and equity		
Accounts payable	$ 163	$ 201
Accrued income taxes	76	79
Debt due within one year	1,816	250
Other current liabilities	771	839
Total current liabilities	2,826	1,369
Long-term debt	7,814	7,146
Deferred income taxes, net	72	44
Other long-term liabilities	1,172	1,082
Total long-term liabilities	9,058	8,272
Commitments and contingencies		
Redeemable noncontrolling interest	—	58
	44	37

Shares, CHF 0.10 par value, 490,568,452 authorized, 143,771,173 conditionally authorized, 462,864,563 issued and 461,862,248 outstanding at June 30, 2018, and 417,060,033 authorized, 143,783,041 conditionally authorized, 394,801,990 issued and 391,237,308 outstanding at December 31, 2017		
Additional paid-in capital	12,022	11,031
Retained earnings	584	1,929
Accumulated other comprehensive loss	(291)	(290)
Total controlling interest shareholders' equity	12,359	12,707
Noncontrolling interest	3	4
Total equity	12,362	12,711
Total liabilities and equity	$ 24,246	$ 22,410

See accompanying notes.

Table of Contents

TRANSOCEAN LTD. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF EQUITY

(In millions)

(Unaudited)

	Six months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
	Quantity		Amount	
Shares				
Balance, beginning of period	391	389	$ 37	$ 36
Issuance of shares under share-based compensation plans	3	2	—	1
Issuance of shares in acquisition transactions	68	—	7	—
Balance, end of period	462	391	$ 44	$ 37
Additional paid-in capital				
Balance, beginning of period			$ 11,031	$ 10,993
Share-based compensation			28	21
Issuance of shares under share-based compensation plans			—	(1)
Issuance of shares in acquisition transactions			739	—
Equity component of convertible debt instruments			172	—
Acquisition of redeemable noncontrolling interest			53	—
Allocated capital for transactions with holders of noncontrolling interest			3	—
Other, net			(4)	(2)
Balance, end of period			$ 12,022	$ 11,011
Retained earnings				
Balance, beginning of period			$ 1,929	$ 5,056
Net loss attributable to controlling interest			(1,345)	(1,599)
Balance, end of period			$ 584	$ 3,457
Accumulated other comprehensive loss				
Balance, beginning of period			$ (290)	$ (283)
Other comprehensive loss attributable to controlling interest			(1)	(17)
Balance, end of period			$ (291)	$ (300)
Total controlling interest shareholders’ equity				
Balance, beginning of period			$ 12,707	$ 15,802
Total comprehensive loss attributable to controlling interest			(1,346)	(1,616)
Share-based compensation			28	21
Issuance of shares in acquisition transactions			746	—

Equity component of convertible debt instruments	172	—
Acquisition of redeemable noncontrolling interest	53	—
Allocated capital for transactions with holders of noncontrolling interest	3	—
Other, net	(4)	(2)
Balance, end of period	$ 12,359	$ 14,205
Noncontrolling interest		
Balance, beginning of period	$ 4	$ 3
Total comprehensive income (loss) attributable to noncontrolling interest	(1)	1
Recognition of noncontrolling interest in business combination	33	—
Acquisition of noncontrolling interest in compulsory acquisition	(30)	—
Allocated capital for transactions with holders of noncontrolling interest	(3)	—
Balance, end of period	$ 3	$ 4
Total equity		
Balance, beginning of period	$ 12,711	$ 15,805
Total comprehensive loss	(1,347)	(1,615)
Share-based compensation	28	21
Issuance of shares in acquisition transactions	746	—
Equity component of convertible debt instruments	172	—
Recognition of noncontrolling interest in business combination	33	—
Acquisition of noncontrolling interest acquired in compulsory acquisition	(30)	—
Acquisition of redeemable noncontrolling interest	53	—
Other, net	(4)	(2)
Balance, end of period	$ 12,362	$ 14,209

See accompanying notes.

Table of Contents

TRANSOCEAN LTD. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In millions)

(Unaudited)

	Six months ended June 30, 2018	2017
Cash flows from operating activities		
Net loss	$ (1,351)	$ (1,584)
Adjustments to reconcile to net cash provided by operating activities:		
Contract intangible asset amortization	49	—
Depreciation	413	451
Share-based compensation expense	28	21
Loss on impairment	1,014	113
(Gain) loss on disposal of assets, net	(6)	1,593
Loss on retirement of debt	2	48
Deferred income tax expense (benefit)	46	(39)
Other, net	5	18
Changes in deferred revenues, net	(72)	(104)
Changes in deferred costs, net	7	28
Changes in other operating assets and liabilities, net	(29)	(1)
Net cash provided by operating activities	106	544
Cash flows from investing activities		
Capital expenditures	(92)	(258)
Proceeds from disposal of assets, net	23	329
Unrestricted and restricted cash acquired in business combination	131	—
Investment in unconsolidated affiliates	(106)	—
Deposits into short-term investments	(50)	—
Proceeds from maturities of short-term investments	500	—
Other, net	—	(15)
Net cash provided by investing activities	406	56
Cash flows from financing activities		
Proceeds from issuance of debt, net of issue costs	—	403
Repayments of debt	(388)	(1,533)
Proceeds from investments restricted for financing activities	26	50
Payments to terminate derivative instruments	(92)	—
Other, net	(26)	(3)
Net cash used in financing activities	(480)	(1,083)
Net increase (decrease) in unrestricted and restricted cash and cash equivalents	32	(483)

Unrestricted and restricted cash and cash equivalents at beginning of period	2,975	3,433
Unrestricted and restricted cash and cash equivalents at end of period	$ 3,007	$ 2,950

See accompanying notes.

Table of Contents

TRANSOCEAN LTD. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1—Business

Overview—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 ultra 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. As of June 30, 2018, we owned or had partial ownership interests in and operated 43 mobile offshore drilling units, including 24 ultra deepwater floaters, 12 harsh environment floaters, two deepwater floaters and five midwater floaters. As of June 30, 2018, we were constructing (i) two additional ultra deepwater drillships and (ii) one harsh environment semisubmersible, in which we hold a partial ownership interest. We also operate one high specification jackup that was under a drilling contract when the rig was sold, and we continue to operate the rig until completion or novation of the drilling contract. See Note 6—Drilling Fleet.

Business combination—On January 30, 2018, we acquired an approximate 97.7 percent ownership interest in Songa Offshore SE, a European public company limited by shares, or societas Europaea, existing under the laws of Cyprus ("Songa"). On March 28, 2018, we acquired the remaining shares not owned by us through a compulsory acquisition under Cyprus law, and as a result, Songa became our wholly owned subsidiary. In connection with these transactions, we issued an aggregate of 68.0 million shares and $863 million aggregate principal amount of 0.50% exchangeable senior bonds due January 30, 2023 (the "Exchangeable Bonds"). As a result of the acquisition, we acquired seven mobile offshore drilling units, including five harsh environment floaters and two midwater floaters. See Note 4—Business Combination.

Investment in unconsolidated affiliates—In the six months ended June 30, 2018, we made an aggregate cash investment of $106 million in unconsolidated affiliates. This included an initial investment of $91 million, representing a 33.0 percent interest, in Orion Holdings (Cayman) Limited, a Cayman Islands company formed to construct and own a newbuild harsh environment semisubmersible, recently renamed Transocean Norge. The total purchase price for the rig, under construction at the Jurong Shipyard Pte Ltd. in Singapore, is $500 million. We expect to make additional investments of $50 million and $33 million in January 2019 and January 2020, respectively. The rig is expected to be delivered in the first quarter of 2019. We account for this investment, recorded in other assets, using the equity method of accounting. Additionally, we invested $15 million in a company involved in researching and developing technology to improve automation in drilling and other activities. We account for this investment, recorded in other assets, using the cost method of accounting.

Note 2—Significant Accounting Policies

Presentation—We have prepared our accompanying unaudited condensed consolidated financial statements in accordance with accounting principles generally accepted in the United States ("U.S.") for interim financial information and with the instructions to Form 10 Q and Article 10 of Regulation S X of the U.S. Securities and Exchange Commission ("SEC"). Pursuant to such rules and regulations, these financial statements do not include all disclosures required by accounting principles generally accepted in the U.S. for complete financial statements. The condensed consolidated financial statements reflect all adjustments, which are, in the opinion of management, necessary for a fair presentation of financial position, results of operations and cash flows for the interim periods. Such adjustments are considered to be of a normal recurring nature unless otherwise noted. Operating results for the three and six months ended June 30, 2018, are not necessarily indicative of the results that may be expected for the year ending December 31, 2018, 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, 2017 and 2016, and for each of the three years in the period ended December 31, 2017, included in our annual report on Form 10 K filed on February 21, 2018.

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, goodwill, income taxes, contingencies, share based compensation and postemployment benefit plans. 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.

Business combination—In connection with the Songa acquisition, we applied the acquisition method of accounting. Accordingly, we recorded the acquired assets and assumed liabilities at fair value and recognized goodwill to the extent the consideration transferred exceeded the fair value of the net assets acquired. We estimated the fair values of the acquired assets and assumed liabilities as of the date of the acquisition, and our estimates are subject to adjustment based on our final assessments of the fair values of property and equipment, intangible assets, other assets and liabilities and our evaluation of tax positions and contingencies, which are ongoing. We will complete our final assessments of the fair values of the acquired assets and assumed liabilities and our final evaluations of uncertain tax positions and contingencies within one year of the acquisition date. See Note 4—Business Combination.

Goodwill—We conduct impairment testing for our goodwill annually as of October 1 and more frequently, on an interim basis, when an event occurs or circumstances change that indicate that the fair value of a reporting unit may have declined below its carrying value. We test goodwill at the reporting unit level, which is defined as an operating segment or one level below an operating segment that constitutes a business for which financial information is available and is regularly reviewed by management. We determined that we have a single reporting unit for this purpose. Before testing goodwill, we consider whether or not to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If, as the result of our qualitative assessment, we determine that an impairment test is required, or, alternatively, if we elect to forgo the qualitative assessment, we record an impairment to goodwill to the extent the carrying amount of the reporting unit, including goodwill, exceeds the fair value of the reporting unit. In the three and six months ended June 30, 2018, as a result of an interim goodwill test, we recognized an aggregate loss of $463 million, which had no tax effect, associated with the impairment of our goodwill. See Note 3—Accounting Standards Updates, Note 4—Business Combination and Note 7—Goodwill.

Contract intangible assets—In connection with the Songa acquisition, we recognized drilling contract intangible assets related to the acquired drilling contracts for future contract drilling services. The drilling contract intangible assets represent the amount by which the fixed dayrates of the acquired contracts were above the market dayrates that were available or expected to be available during the term of the contract for similar contracts, measured as of the acquisition date. We recognize the amortization on a straight line basis over the firm contract period as a component of contract drilling revenues. At June 30, 2018, the carrying amount of our drilling contract intangible assets was $583 million. See Note 4—Business Combination.

Derivative instruments—We record derivatives on our consolidated balance sheet, measured at fair value. We recognize the gains and losses associated with changes in the fair value of undesignated derivatives in current period earnings. See Note 9—Derivative Instruments.

Capitalized interest—We capitalize interest costs for qualifying construction and upgrade projects and only capitalize interest costs during periods in which progress for the construction projects continues to be underway. In the three and six months ended June 30, 2018, we capitalized interest costs of $7 million and $20 million, respectively, for our construction work in progress. In the three and six months ended June 30, 2017, we capitalized interest costs of

$30 million and $60 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. In our condensed consolidated balance sheet as of December 31, 2017, we reclassified certain balances receivable from non customers, totaling $45 million, from accounts receivable, net, to other current assets. Such reclassifications did not have a material effect on our condensed consolidated statement of financial position, results of operations or cash flows.

Note 3—Accounting Standards Updates

Recently adopted accounting standards

Revenue from contracts with customers—Effective January 1, 2018, we adopted the accounting standards update that requires an entity to recognize revenue in a manner that depicts 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. In our evaluation of the requirements, we determined that reimbursement revenues and contract early cancellation and termination fees were part of our single performance obligation, and we determined that reimbursement revenues should be recorded on a gross basis as the service is performed. Our adoption, using the modified retrospective approach, for which we were not required to make any changes to the prior year presentation, did not have a material effect on our condensed consolidated statements of financial position, operations and cash flows. See Note 5—Revenues.

Income taxes—Effective January 1, 2018, we adopted the accounting standards update that requires an entity to recognize the income tax consequences of an intra entity transfer of an asset other than inventory when the transaction occurs as opposed to deferring such recognition into future periods. Our adoption did not have a material effect on our condensed consolidated statements of financial position, operations or cash flows or on the disclosures contained in our notes to condensed consolidated financial statements.

Table of Contents

Statement of cash flows—Effective January 1, 2018, we adopted the accounting standards update that requires amounts generally described as restricted cash or restricted cash equivalents to be included with cash and cash equivalents when reconciling the beginning and end of period total amounts presented on the statement of cash flows. Aside from presenting the restricted cash and restricted cash equivalents as a component of the beginning and ending cash balances on our condensed consolidated statements of cash flows, we removed the effect of proceeds from and deposits to restricted accounts from our cash flows provided by or used in operating and financing activities, as applicable. For the six months ended June 30, 2018 and 2017, such changes did not have a material effect on our condensed consolidated statements of financial position, operations or cash flows or on the disclosures contained in our notes to condensed consolidated financial statements.

Retirement benefits—Effective January 1, 2018, we adopted the accounting standards update that requires an employer to disaggregate the service cost component from the other components of net benefit cost related to defined benefit retirement plans and other postemployment benefit plans. The update requires that the service cost component be presented in the same line item as other compensation costs for employees and the other components of net benefit cost in other income and expense on our condensed consolidated statements of operations. The update also allows only the service cost component of net benefit cost to be eligible for capitalization. Our adoption did not have a material effect on our condensed consolidated statements of financial position, operations or cash flows or on the disclosures contained in our notes to condensed consolidated financial statements.

Goodwill—Effective January 1, 2018, we early adopted the accounting standards update that simplifies the method for measuring the implied value of goodwill when performing a goodwill impairment test by performing a one step test, comparing the fair value of the reporting unit with its carrying amount. The update eliminates the two step requirement to perform procedures to determine the fair value of assets and liabilities on the same basis as required in a business combination. The update, which permits early adoption, is effective for interim and annual periods beginning after December 15, 2019, including interim periods within those annual periods. Our adoption did not have an effect 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.

Recently issued accounting standards

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 after December 15, 2018, including interim periods within those annual periods. Under the updated definition of a lease, we have determined that our drilling contracts could contain a lease component. In a recent update, targeted improvements were proposed to the accounting standards, which are subject to change in the final accounting standards, that provide for (a) an optional new transition method for adoption that results in initial recognition of a cumulative effect adjustment to retained earnings in the year of adoption and (b) a practical expedient for lessors, under certain circumstances, to combine the lease and non lease components of revenues for presentation purposes. Our adoption, and the ultimate effect on our consolidated financial statements, will be based on an evaluation of the contract specific facts and circumstances. Additionally, based on the lease arrangements under which we are the lessee as of June 30, 2018, we expect to recognize an aggregate lease liability and a corresponding right to use asset of between $70 million and $80 million. We do not expect our adoption to have a material effect on our condensed consolidated statements of financial position, operations and cash flows. We continue to evaluate the requirements with regard to arrangements under which we are the lessor, the proposed targeted updates and the effects such requirements may have on the disclosures contained in our notes to condensed consolidated financial statements.

Other comprehensive income—Effective no later than January 1, 2019, we will adopt the accounting standards update that allows for reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act of 2017 (the “2017 Tax Act”). The update, which permits early adoption, is effective for annual reporting periods beginning after December 15, 2018, including interim periods within those annual periods. We continue to evaluate the requirements and do not expect our adoption to have a material effect 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—Business Combination

Overview—On January 30, 2018, we acquired an approximate 97.7 percent ownership interest in Songa. We believe the Songa acquisition strengthens our position as a leader in harsh environment and ultra deepwater drilling services by adding high value assets, including four high specification harsh environment floaters, supported by significant contract backlog. Additionally, the acquisition strengthens our footprint in harsh environment operating areas. The goodwill resulting from the business combination was attributed to synergies and intangible assets that did not qualify for separate recognition. In the six months ended June 30, 2018, we incurred acquisition costs of $7 million, recorded in general and administrative costs and expenses.

TRANSOCEAN LTD. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS continued

(Unaudited)

Consideration—In connection with the acquisition, we issued 66.9 million shares with a market value of $10.99 per share, based on the market value of our shares on the acquisition date. We also issued $854 million aggregate principal amount of Exchangeable Bonds, including $562 million aggregate principal amount as partial consideration to Songa shareholders and $292 million aggregate principal amount as settlement for certain Songa indebtedness. The aggregate fair value of the consideration transferred in the business combination was as follows (in millions):

	Total
Consideration transferred	
Aggregate fair value of shares issued as partial consideration for Songa shares	$ 735
Aggregate fair value of Exchangeable Bonds issued as partial consideration for Songa shares	675
Consideration transferred to Songa shareholders	1,410
Aggregate fair value of Exchangeable Bonds issued for settlement of certain Songa indebtedness	351
Total consideration transferred in business combination	$ 1,761

Assets and liabilities—We estimated the fair value of assets acquired, liabilities assumed and noncontrolling interest, measured as of January 30, 2018, as follows (in millions):

	Total
Assets acquired	
Cash and cash equivalents	$ 113
Accounts receivable	115
Other current assets	80
Property and equipment	2,414
Goodwill	463
Contract intangible assets	632
Liabilities assumed	
Accounts payable and other current liabilities	168
Debt	1,768
Other long-term liabilities	87
Net assets acquired	1,794
Noncontrolling interest in business combination	33
Controlling interest acquired in business combination	$ 1,761

We estimated the fair value of the rigs and related equipment by applying a combination of income and market 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 markets for the assets in an orderly transaction between participants as of the acquisition date. Additionally, we estimated the fair value of the drilling contracts by comparing the contractual dayrates over the remaining firm contract term and option periods relative to the projected market dayrates as of the acquisition date. Our estimates of fair value for these assets 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. We estimated the fair value of the debt using significant other observable inputs, representative of a Level 2 fair value measurement, including the terms and credit spreads for the instruments.

In the three months ended June 30, 2018, we adjusted our initial estimates of the fair values of certain assets and liabilities and recorded a corresponding net increase of $3 million to goodwill (see Note 7—Goodwill). We have not completed our estimates of the fair values of assets acquired and liabilities assumed. We continue to review the estimated fair values of property and equipment, intangible assets, and other assets and liabilities, and to evaluate the assumed tax positions and contingencies. Estimating fair value for such assets and liabilities requires significant assumptions and judgment, which increases the likelihood that the estimates may require adjustment, and such adjustments could be material.

Noncontrolling interest—On March 28, 2018, we acquired the remaining Songa shares not owned by us through a compulsory acquisition under Cyprus law, and as a result, Songa became our wholly owned subsidiary. As consideration for the remaining Songa shares, we issued 1.1 million shares and $9 million aggregate principal amount of Exchangeable Bonds and we made an aggregate cash payment of $8 million to Songa shareholders who elected to receive a cash payment or failed to make an election, for an aggregate fair value of $30 million.

Table of Contents

TRANSOCEAN LTD. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS continued

(Unaudited)

Contract intangible assets—In the three and six months ended June 30, 2018, we recognized contract intangible amortization of $30 million and $49 million, respectively, recorded as a reduction of contract drilling revenues. At June 30, 2018, the aggregate carrying amount of contract intangible assets was $583 million, which we expect to amortize over the remaining contract periods, through March 2024. As of June 30, 2018, the estimated future amortization of contract intangible assets was as follows (in millions):

	Total
Twelve months ending June 30,	
2019	$ 117
2020	117
2021	117
2022	117
2023	95
Thereafter	20
Total carrying amount of contract intangible assets	$ 583

Pro forma combined operating results—We have included the operating results of Songa in our condensed consolidated results of operations, commencing on the acquisition date, January 30, 2018. In the three and six months ended June 30, 2018, our condensed consolidated statement of operations includes revenues of $135 million and $219 million, respectively, and net income of $23 million and $20 million, respectively, associated with the operations of Songa. Pro forma combined operating results, assuming the acquisition was completed as of January 1, 2017, were as follows (in millions, except per share data):

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Contract drilling revenues	$ 790	$ 891	$ 1,503	$ 1,795
Net loss	(1,139)	(1,660)	(1,344)	(1,560)
Per share loss - basic and diluted	(2.46)	(3.65)	(2.91)	(3.44)

The pro forma financial information includes various adjustments, primarily related to additional depreciation resulting from the fair value adjustments to the acquired property and equipment and amortization resulting from the contract intangible assets. The pro forma information is not necessarily indicative of the results of operations had the Songa acquisition been completed on the assumed dates or the results of operations for any future periods.

Note 5—Revenues

Overview—The services we perform represent a single performance obligation under our drilling contracts with customers that is satisfied over time. We earn revenues primarily by performing the following activities: (i) providing our drilling rig, work crews, related equipment and services necessary to operate the rig (ii) delivering the drilling rig by mobilizing to and demobilizing from the drill location, and (iii) performing certain pre operating activities, including rig preparation activities or equipment modifications required for the contract.

We recognize revenues earned under our drilling contracts based on variable dayrates, which range from a full operating dayrate to lower rates or zero rates for periods when drilling operations are interrupted or restricted, based on the specific activities we perform during the contract on an hourly, or more frequent, basis. Such dayrate consideration is attributed to the distinct time period to which it relates within the contract term, and therefore, recognized as we perform the services. We recognize reimbursement revenues and the corresponding costs as we provide the customer requested goods and services, when such reimbursable costs are incurred while performing drilling operations. Prior to performing drilling operations, we may receive pre operating revenues, on either a fixed lump sum or variable dayrate basis, for mobilization, contract preparation, customer requested goods and services or capital upgrades, which we recognize on a straight line basis over the estimated firm contract period. We recognize losses for loss contracts as such losses are incurred. We recognize revenues for demobilization or from contract terminations as we fulfill our obligations and all contingencies have been resolved.

The duration of our performance obligation varies by contract. At June 30, 2018, the expected remaining duration of our drilling contracts extends through February 2028, excluding unexercised options. In the three and six months ended June 30, 2018, we recognized revenues of $55 million and $103 million, respectively, for performance obligations satisfied in previous periods, primarily related to our customer’s termination of the contract for Discoverer Clear Leader, effective November 2017, and certain revenues recognized on a cash basis.

We have taken the optional exemption that permits us to exclude disclosure of the estimated transaction price related to the variable portion of unsatisfied performance obligations at the end of the reporting period, as our transaction price is based on a single performance obligation consisting of a series of distinct hourly, or more frequent, periods, the variability of which will be resolved at the time of the future services.

Table of Contents

TRANSOCEAN LTD. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS continued

(Unaudited)

To obtain contracts with our customers, we incur costs to prepare a rig for contract and deliver, or mobilize a rig to the drilling location. We defer pre operating costs, such as contract preparation and mobilization costs, and recognize such costs on a straight line basis, consistent with the general pace of activity, in operating and maintenance costs over the estimated firm period of drilling. In the three and six months ended June 30, 2018, we recognized costs of $10 million and $22 million, respectively, associated with pre operating costs for contracts with customers. In the three and six months ended June 30, 2017, we recognized costs of $11 million and $24 million, respectively, associated with pre operating costs for contracts with customers. At June 30, 2018 and December 31, 2017, the unrecognized pre operating costs to obtain contracts was $21 million and $18 million, respectively, recorded in other assets.

Disaggregation—In the three and six months ended June 30, 2018 and 2017, we recognized revenues as follows (in millions):

	Three months ended June 30, 2018						Three months ended June 30, 2017					
	U.S.	U.K.	Norway	Brazil	Other	Total	U.S.	U.K.	Norway	Brazil	Other	Total
Ultra-deepwater floaters	$ 417	$ —	$ —	$ —	$ 53	$ 470	$ 395	$ —	$ —	$ 76	$ 70	$ 541
Harsh environment floaters	—	29	171	—	52	252	—	55	23	—	28	106
Deepwater floaters	—	—	—	25	10	35	—	—	—	25		