

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

FORM 10-Q

(Mark one)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2019

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 001-38373



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)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading symbol	Name of each exchange on which registered
Shares, CHF 0.10 par value	RIG	New York Stock Exchange

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 October 22, 2019, 611,861,630 shares were outstanding.

TRANSOCEAN LTD. AND SUBSIDIARIES
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QUARTER ENDED SEPTEMBER 30, 2019

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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		Nine months ended	
	September 30,		September 30,	
	2019	2018	2019	2018
Contract drilling revenues	\$ 784	\$ 816	\$ 2,296	\$ 2,270
Costs and expenses				
Operating and maintenance	547	447	1,565	1,302
Depreciation and amortization	212	201	648	614
General and administrative	45	35	139	134
	804	683	2,352	2,050
Loss on impairment	(583)	(432)	(584)	(1,446)
Loss on disposal of assets, net	(4)	(6)	(7)	—
Operating loss	(607)	(305)	(647)	(1,226)
Other income (expense), net				
Interest income	11	11	33	36
Interest expense, net of amounts capitalized	(166)	(160)	(500)	(455)
Loss on retirement of debt	(12)	(1)	(39)	(3)
Other, net	3	16	34	6
	(164)	(134)	(472)	(416)
Loss before income tax expense	(771)	(439)	(1,119)	(1,642)
Income tax expense (benefit)	54	(30)	83	118
Net loss	(825)	(409)	(1,202)	(1,760)
Net income (loss) attributable to noncontrolling interest	—	—	2	(6)
Net loss attributable to controlling interest	\$ (825)	\$ (409)	\$ (1,204)	\$ (1,754)
Loss per share				
Basic	\$ (1.35)	\$ (0.88)	\$ (1.97)	\$ (3.86)
Diluted	\$ (1.35)	\$ (0.88)	\$ (1.97)	\$ (3.86)
Weighted-average shares outstanding				
Basic	613	463	612	454
Diluted	613	463	612	454

See accompanying notes.

TRANSOCEAN LTD. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(In millions)
(Unaudited)

	<u>Three months ended</u>		<u>Nine months ended</u>	
	<u>September 30,</u>		<u>September 30,</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Net loss	\$ (825)	\$ (409)	\$ (1,202)	\$ (1,760)
Net income (loss) attributable to noncontrolling interest	—	—	2	(6)
Net loss attributable to controlling interest	(825)	(409)	(1,204)	(1,754)
Components of net periodic benefit costs before reclassifications	—	(1)	7	(4)
Components of net periodic benefit costs reclassified to net loss	—	2	1	4
Other comprehensive income before income taxes	—	1	8	—
Income taxes related to other comprehensive income	—	—	—	—
Other comprehensive income	—	1	8	—
Other comprehensive income attributable to noncontrolling interest	—	—	—	—
Other comprehensive income attributable to controlling interest	—	1	8	—
Total comprehensive loss	(825)	(408)	(1,194)	(1,760)
Total comprehensive income (loss) attributable to noncontrolling interest	—	—	2	(6)
Total comprehensive loss attributable to controlling interest	\$ (825)	\$ (408)	\$ (1,196)	\$ (1,754)

See accompanying notes.

TRANSOCEAN LTD. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

(In millions, except share data)
(Unaudited)

	September 30, 2019	December 31, 2018
Assets		
Cash and cash equivalents	\$ 1,906	\$ 2,160
Accounts receivable, net of allowance for doubtful accounts of less than \$1 at December 31, 2018	639	604
Materials and supplies, net of allowance for obsolescence of \$123 and \$134 at September 30, 2019 and December 31, 2018, respectively	475	474
Restricted cash accounts and investments	551	551
Other current assets	200	159
Total current assets	3,771	3,948
Property and equipment	24,203	25,811
Less accumulated depreciation	(5,255)	(5,403)
Property and equipment, net	18,948	20,408
Contract intangible assets	655	795
Deferred income taxes, net	21	66
Other assets	1,054	448
Total assets	\$ 24,449	\$ 25,665
Liabilities and equity		
Accounts payable	\$ 308	\$ 269
Accrued income taxes	35	70
Debt due within one year	349	373
Other current liabilities	797	746
Total current liabilities	1,489	1,458
Long-term debt	9,041	9,605
Deferred income taxes, net	193	64
Other long-term liabilities	1,784	1,424
Total long-term liabilities	11,018	11,093
Commitments and contingencies		
Shares, CHF 0.10 par value, 639,674,422 authorized, 142,365,398 conditionally authorized, 617,970,525 issued and 611,849,468 outstanding at September 30, 2019, and 638,285,574 authorized, 143,754,246 conditionally authorized, 610,581,677 issued and 609,649,291 outstanding at December 31, 2018	59	59
Additional paid-in capital	13,415	13,394
Accumulated deficit	(1,246)	(67)
Accumulated other comprehensive loss	(295)	(279)
Total controlling interest shareholders' equity	11,933	13,107
Noncontrolling interest	9	7
Total equity	11,942	13,114
Total liabilities and equity	\$ 24,449	\$ 25,665

See accompanying notes.

TRANSOCEAN LTD. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF EQUITY

(In millions)
(Unaudited)

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2019	2018	2019	2018
Shares				
Balance, beginning of period	\$ 59	\$ 44	\$ 59	\$ 37
Issuance of shares in acquisition transactions	—	—	—	7
Balance, end of period	\$ 59	\$ 44	\$ 59	\$ 44
Additional paid-in capital				
Balance, beginning of period	\$ 13,405	\$ 12,022	\$ 13,394	\$ 11,031
Share-based compensation	9	8	28	36
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	—	2	—	5
Other, net	1	1	(7)	(3)
Balance, end of period	\$ 13,415	\$ 12,033	\$ 13,415	\$ 12,033
Retained earnings (accumulated deficit)				
Balance, beginning of period	\$ (421)	\$ 584	\$ (67)	\$ 1,929
Net loss attributable to controlling interest	(825)	(409)	(1,204)	(1,754)
Effect of adopting accounting standards updates	—	—	25	—
Balance, end of period	\$ (1,246)	\$ 175	\$ (1,246)	\$ 175
Accumulated other comprehensive loss				
Balance, beginning of period	\$ (295)	\$ (291)	\$ (279)	\$ (290)
Other comprehensive income attributable to controlling interest	—	1	8	—
Effect of adopting accounting standards update	—	—	(24)	—
Balance, end of period	\$ (295)	\$ (290)	\$ (295)	\$ (290)
Total controlling interest shareholders' equity				
Balance, beginning of period	\$ 12,748	\$ 12,359	\$ 13,107	\$ 12,707
Total comprehensive loss attributable to controlling interest	(825)	(408)	(1,196)	(1,754)
Share-based compensation	9	8	28	36
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	—	2	—	5
Other, net	1	1	(6)	(3)
Balance, end of period	\$ 11,933	\$ 11,962	\$ 11,933	\$ 11,962
Noncontrolling interest				
Balance, beginning of period	\$ 9	\$ 3	\$ 7	\$ 4
Total comprehensive income (loss) attributable to noncontrolling interest	—	(1)	2	(2)
Recognition of noncontrolling interest in business combination	—	—	—	33
Acquisition of noncontrolling interest	—	(1)	—	(31)
Allocated capital for transactions with holders of noncontrolling interest	—	(2)	—	(5)
Balance, end of period	\$ 9	\$ (1)	\$ 9	\$ (1)
Total equity				
Balance, beginning of period	\$ 12,757	\$ 12,362	\$ 13,114	\$ 12,711
Total comprehensive loss	(825)	(409)	(1,194)	(1,756)
Share-based compensation	9	8	28	36
Issuance of shares in acquisition transactions	—	—	—	746
Equity component of convertible debt instruments	—	—	—	172
Recognition of noncontrolling interest in business combination	—	—	—	33
Acquisition of redeemable noncontrolling interest	—	—	—	53
Acquisition of noncontrolling interest	—	(1)	—	(31)
Other, net	1	1	(6)	(3)
Balance, end of period	\$ 11,942	\$ 11,961	\$ 11,942	\$ 11,961

See accompanying notes.

TRANSOCEAN LTD. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In millions)
(Unaudited)

	Nine months ended September 30,	
	2019	2018
Cash flows from operating activities		
Net loss	\$ (1,202)	\$ (1,760)
Adjustments to reconcile to net cash provided by operating activities:		
Contract intangible asset amortization	140	78
Depreciation and amortization	648	614
Share-based compensation expense	28	36
Loss on impairment	584	1,446
Loss on disposal of assets, net	7	—
Loss on retirement of debt	39	3
Deferred income tax expense	139	50
Other, net	28	12
Changes in deferred revenues, net	19	(127)
Changes in deferred costs, net	(21)	23
Changes in other operating assets and liabilities, net	(216)	(55)
Net cash provided by operating activities	193	320
Cash flows from investing activities		
Capital expenditures	(259)	(140)
Proceeds from disposal of assets, net	52	37
Investments in unconsolidated affiliates	(77)	(107)
Unrestricted and restricted cash acquired in business combination	—	131
Proceeds from maturities of unrestricted and restricted investments	123	500
Deposits to unrestricted investments	—	(50)
Other, net	3	—
Net cash provided by (used in) investing activities	(158)	371
Cash flows from financing activities		
Proceeds from issuance of debt, net of discount and issue costs	1,056	1,319
Repayments of debt	(1,189)	(2,015)
Proceeds from investments restricted for financing activities	—	26
Payments to terminate derivative instruments	—	(92)
Other, net	(34)	(29)
Net cash used in financing activities	(167)	(791)
Net decrease in unrestricted and restricted cash and cash equivalents	(132)	(100)
Unrestricted and restricted cash and cash equivalents, beginning of period	2,589	2,975
Unrestricted and restricted cash and cash equivalents, end of period	\$ 2,457	\$ 2,875

See accompanying notes.

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 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 September 30, 2019, we owned or had partial ownership interests in and operated 45 mobile offshore drilling units, including 28 ultra-deepwater floaters, 14 harsh environment floaters and three midwater floaters. As of September 30, 2019, we were constructing two ultra-deepwater drillships.

Note 2—Significant Accounting Policies

Presentation—We 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 (the “SEC”).

Pursuant to such rules and regulations, these financial statements do not include all disclosures required by accounting principles generally accepted in the U.S. for complete financial statements. The condensed consolidated financial statements reflect all adjustments, which are, in the opinion of management, necessary for a fair presentation of financial position, results of operations and cash flows for the interim periods. Such adjustments are considered to be of a normal recurring nature unless otherwise noted. Operating results for the three and nine months ended September 30, 2019, are not necessarily indicative of the results that may be expected for the year ending December 31, 2019, 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, 2018 and 2017, and for each of the three years in the period ended December 31, 2018, included in our annual report on Form 10-K filed on February 19, 2019.

Accounting estimates—To prepare financial statements in accordance with accounting principles generally accepted in the U.S., we must make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and the disclosures of contingent assets and liabilities. On an ongoing basis, we evaluate our estimates and assumptions, including those related to our allowance for doubtful accounts, materials and supplies obsolescence, assets held for sale, property and equipment, intangibles, leases, income taxes, contingencies, share-based compensation and postemployment benefit plans. We base our estimates and assumptions on historical experience and other factors that we believe are reasonable. 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 a valuation requires multiple input levels, 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.

Note 3—Accounting Standards Updates

Recently adopted accounting standards

Leases—Effective January 1, 2019, we adopted the accounting standards update that requires lessees to recognize a right-of-use asset and lease liability for virtually all leases and updates previous accounting standards for lessors to align certain requirements with the updates to the revenue recognition accounting standards. We applied the transition method that required us to recognize right-of-use assets and lease liabilities as of the date of our adoption with no adjustment to prior periods. We applied the package of practical expedients that permitted us to carry forward historical lease classifications. For our drilling contracts, we recognize revenues based on the predominant component, which is the service component. As of January 1, 2019, for the finance leases under which we are the lessee, we reclassified to other assets \$528 million, representing the unamortized right-of-use asset previously recorded in property and equipment, and we reclassified an aggregate remaining lease liability of \$511 million, including \$32 million and \$479 million recorded in other current liabilities and other long-term liabilities, respectively, previously recorded in debt due within one year and debt. As of January 1, 2019, for operating leases under which we are the lessee, we recorded a non-cash adjustment to recognize an aggregate right-of-use asset of \$95 million, recorded in other assets, and a corresponding aggregate remaining lease liability of \$133 million, including \$15 million and \$118 million recorded in other current liabilities and other long-term liabilities, respectively. We have accounted for lease and non-lease components of our operating leases as a single component. We have not recognized right-of-use assets or lease liabilities for our short-term leases. Our adoption did not have and is not expected in the future to have a material effect on our condensed consolidated statements of financial position, operations or cash flows. See Note 9—Leases.

Other comprehensive income—Effective January 1, 2019, we adopted the accounting standards update that allows for a reclassification from accumulated other comprehensive loss to accumulated deficit for stranded tax effects resulting from the Tax Cuts and

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

Jobs Act of 2017. As of January 1, 2019, as a result of our adoption, we recorded an increase of \$24 million to accumulated deficit with a corresponding decrease to accumulated other comprehensive loss.

Statements of equity—Effective January 1, 2019, we adopted the SEC’s final rule that requires a reconciliation of the changes in shareholders’ equity to be presented for the current and comparative quarter and year-to-date periods, together with subtotals for each interim period. The final rule permits the disclosure requirements to be made either in a separate financial statement or in a note to the financial statements. 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.

Recently issued accounting standards

Financial instruments – credit losses—Effective no later than January 1, 2020, we will adopt the accounting standards update that requires entities to estimate an expected lifetime credit loss on financial assets ranging from short-term trade accounts receivable to long-term financings. The update, which permits early adoption, is effective for annual reporting periods beginning after December 15, 2019, 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 or cash flows or on the disclosures contained in our notes to condensed consolidated financial statements.

Note 4—Business Combinations

Overview

In the year ended December 31, 2018, we completed the acquisitions of Songa Offshore SE, a European public company limited by shares, or societas Europaea, existing under the laws of Cyprus (“Songa”) and Ocean Rig UDW Inc., a Cayman Islands exempted company with limited liability (“Ocean Rig”). In the three and nine months ended September 30, 2018, we incurred acquisition costs of \$4 million and \$11 million, respectively, recorded in general and administrative costs and expenses, related to these acquisitions.

Ocean Rig UDW Inc.

Consideration—To complete the Ocean Rig acquisition, we issued 147.7 million shares with a per share market value of \$9.32, based on the market value of our shares on the acquisition date, and made an aggregate cash payment of \$1.2 billion. The aggregate fair value of the consideration transferred in the business combination was as follows (in millions):

	<u>Total</u>
Consideration transferred	
Aggregate fair value of shares issued as partial consideration for Ocean Rig shares	\$ 1,377
Aggregate cash paid as partial consideration for Ocean Rig shares	1,168
Total consideration transferred in business combination	<u>\$ 2,545</u>

Assets and liabilities—In the three months ended September 30, 2019, we completed our estimates of the fair values of the assets acquired and liabilities assumed. At September 30, 2019, the fair values of assets acquired and liabilities assumed, measured as of December 5, 2018, were as follows (in millions):

	<u>Total</u>
Assets acquired	
Cash and cash equivalents	\$ 152
Accounts receivable	76
Property and equipment	2,205
Drilling contract intangible assets	275
Other assets	115
Liabilities assumed	
Accounts payable and other current liabilities	71
Construction contract intangible liabilities	132
Other long-term liabilities	54
Net assets acquired	<u>\$ 2,566</u>

In the nine months ended September 30, 2019, as a result of adjustments to assets acquired and liabilities assumed in the Ocean Rig acquisition, we recognized a gain of \$11 million, recorded in other, net, as an adjustment to the previously recognized gain on bargain purchase. Including this adjustment, we have recognized a cumulative net gain of \$21 million associated with the bargain purchase, primarily due to the decline in the market value of our shares between the announcement date and the closing date. 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. 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

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

date. We estimated the fair value of the construction contracts by comparing the contractual future payments and terms relative to the market payments and terms as of the acquisition date. Our estimates of fair value for the drilling units and contract intangibles required us to use significant unobservable inputs, representative of a Level 3 fair value measurement, including assumptions related to the future performance of the assets, such as future commodity prices, projected demand for our services, rig availability, rig utilization, dayrates, remaining useful lives of the rigs and discount rates.

Note 5—Unconsolidated Affiliates

We hold investments in various partially owned, unconsolidated companies, including a 33.0 percent ownership interest in Orion Holdings (Cayman) Limited (“Orion”), a Cayman Islands company formed to construct and own the newbuild harsh environment floater *Transocean Norge* through its wholly owned subsidiary. In the nine months ended September 30, 2019 and 2018, we made an aggregate cash contribution of \$74 million and \$91 million, respectively, to Orion. We have agreed to contribute \$33 million to Orion in January 2020. At September 30, 2019 and December 31, 2018, the aggregate carrying amount of our investment in Orion was \$163 million and \$91 million, respectively, recorded in other assets.

In the three and nine months ended September 30, 2019, we earned income of \$1 million and \$3 million, recorded in other income, for agent fees to procure equipment and services on behalf of Orion or its subsidiary under management services and shipyard care agreements. In the three and nine months ended September 30, 2019, we received an aggregate cash payment of \$41 million and \$74 million, respectively, as reimbursement, together with the agent fees, for equipment and services procured on behalf of Orion or its subsidiary.

In the three and nine months ended September 30, 2019, we recognized rental expense of \$3 million, recorded in operating and maintenance costs and expenses, and made an aggregate cash payment of \$2 million to lease the harsh environment floater *Transocean Norge* under a short-term bareboat charter agreement, which is expected to expire in May 2020. In the three and nine months ended September 30, 2019, we made an aggregate cash payment of \$9 million to acquire materials and supplies and other equipment from Orion. At September 30, 2019, we had receivables of \$35 million and payables of \$4 million, recorded in other current assets and other current liabilities, respectively, due from or to Orion or its subsidiary.

Note 6—Revenues

Overview—The duration of our performance obligation varies by contract. As of September 30, 2019, the drilling contract with the longest expected remaining duration, excluding unexercised options, extends through February 2028. In the nine months ended September 30, 2019, we recognized revenues of \$10 million for performance obligations satisfied in previous periods due to certain revenues recognized on a cash basis. In the three and nine months ended September 30, 2018, we recognized revenues of \$54 million and \$147 million, respectively, for performance obligations satisfied in previous periods, primarily related to revenues for a customer’s contract termination and certain revenues recognized on a cash basis.

To obtain contracts with our customers, we incur pre-operating costs to prepare a rig for contract and deliver or mobilize a rig to the drilling location. We defer such pre-operating costs and recognize the 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 nine months ended September 30, 2019, we recognized pre-operating costs of \$4 million and \$10 million, respectively. In the three and nine months ended September 30, 2018, we recognized pre-operating costs of \$14 million and \$36 million, respectively. At September 30, 2019 and December 31, 2018, the unrecognized pre-operating costs to obtain contracts was \$21 million and \$2 million, respectively, recorded in other assets.

Disaggregation—We recognized revenues as follows (in millions):

	<u>Three months ended September 30, 2019</u>					<u>Three months ended September 30, 2018</u>				
	<u>U.S.</u>	<u>Norway</u>	<u>Brazil</u>	<u>Other</u>	<u>Total</u>	<u>U.S.</u>	<u>Norway</u>	<u>Brazil</u>	<u>Other</u>	<u>Total</u>
Ultra-deepwater floaters	\$ 317	\$ —	\$ 27	\$ 149	\$ 493	\$ 396	\$ —	\$ 1	\$ 86	\$ 483
Harsh environment floaters	4	200	—	77	281	—	174	—	91	265
Deepwater floaters	—	—	—	—	—	—	—	25	11	36
Midwater floaters	—	—	—	10	10	—	—	—	19	19
High-specification jackups	—	—	—	—	—	—	—	—	13	13
Total revenues	<u>\$ 321</u>	<u>\$ 200</u>	<u>\$ 27</u>	<u>\$ 236</u>	<u>\$ 784</u>	<u>\$ 396</u>	<u>\$ 174</u>	<u>\$ 26</u>	<u>\$ 220</u>	<u>\$ 816</u>
	<u>Nine months ended September 30, 2019</u>					<u>Nine months ended September 30, 2018</u>				
	<u>U.S.</u>	<u>Norway</u>	<u>Brazil</u>	<u>Other</u>	<u>Total</u>	<u>U.S.</u>	<u>Norway</u>	<u>Brazil</u>	<u>Other</u>	<u>Total</u>
Ultra-deepwater floaters	\$ 940	\$ —	\$ 81	\$ 434	\$ 1,455	\$ 1,162	\$ —	\$ 1	\$ 168	\$ 1,331
Harsh environment floaters	4	554	—	232	790	—	467	—	254	721
Deepwater floaters	—	—	6	1	7	—	—	74	32	106
Midwater floaters	—	—	—	44	44	—	—	—	57	57
High-specification jackups	—	—	—	—	—	—	—	—	55	55
Total revenues	<u>\$ 944</u>	<u>\$ 554</u>	<u>\$ 87</u>	<u>\$ 711</u>	<u>\$ 2,296</u>	<u>\$ 1,162</u>	<u>\$ 467</u>	<u>\$ 75</u>	<u>\$ 566</u>	<u>\$ 2,270</u>

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Contract liabilities—We recognize contract liabilities, recorded in other current liabilities and other long-term liabilities, for mobilization, contract preparation and capital upgrades using the straight-line method over the remaining contract term. Contract liabilities for our contracts with customers were as follows (in millions):

	September 30, 2019	December 31, 2018
Deferred contract revenues, recorded in other current liabilities	\$ 108	\$ 87
Deferred contract revenues, recorded in other long-term liabilities	397	399
Total contract liabilities	\$ 505	\$ 486

Significant changes in contract liabilities were as follows (in millions):

	Nine months ended September 30,	
	2019	2018
Total contract liabilities, beginning of period	\$ 486	\$ 625
Decrease due to recognition of revenues for goods and services	(83)	(192)
Increase due to goods and services transferred over time	102	65
Total contract liabilities, end of period	\$ 505	\$ 498

Note 7—Drilling Fleet

Construction work in progress—The changes in our construction work in progress, including capital expenditures and other capital additions, were as follows (in millions):

	Nine months ended September 30,	
	2019	2018
Construction work in progress, beginning of period	\$ 632	\$ 1,392
Capital expenditures		
Newbuild construction program	90	64
Other equipment and construction projects	169	76
Total capital expenditures	259	140
Changes in accrued capital additions	32	(6)
Construction work in progress impaired	(5)	—
Construction work in progress acquired in business combination	—	26
Property and equipment placed into service		
Newbuild construction program	—	(903)
Other property and equipment	(151)	(61)
Construction work in progress, end of period	\$ 767	\$ 588

Impairments of assets held for sale—In September 2019, we announced our intent to retire in an environmentally responsible way the ultra-deepwater floaters *Discoverer Deep Seas*, *Discoverer Enterprise* and *Discoverer Spirit*, along with related assets. In the three and nine months ended September 30, 2019, we recognized an aggregate loss of \$578 million (\$0.96 per diluted share), which had no tax effect, associated with the impairment of these assets and other equipment, which we determined were impaired at the time we classified the assets as held for sale.

During the nine months ended September 30, 2018, we announced our intent to retire in an environmentally responsible way the ultra-deepwater floaters *Deepwater Discovery*, *Deepwater Frontier*, *Deepwater Millennium* and *GSF C.R. Luigs* and the midwater floaters *Songa Delta* and *Songa Trym*, along with related assets. In the three and nine months ended September 30, 2018, we recognized an aggregate loss of \$433 million (\$0.93 per diluted share) and \$981 million (\$2.15 per diluted share), respectively, which had no tax effect, associated with the impairment of these assets, which we determined were impaired at the time we classified the assets as held for sale.

We measured the impairment of the drilling units and related assets 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 a Level 2 fair value measurement, including indicative market values for the drilling units and related assets to be sold for scrap value.

Dispositions—During the nine months ended September 30, 2019, in connection with our efforts to dispose of non-strategic assets, we completed the sale of the ultra-deepwater floaters *Deepwater Frontier*, *Deepwater Millennium* and *Ocean Rig Paros*, the harsh environment floater *Eirik Raude*, the deepwater floaters *Jack Bates* and *Transocean 706* and the midwater floaters *Actinia* and *Songa Delta*, along with related assets. In the nine months ended September 30, 2019, we received aggregate net cash proceeds of \$47 million and recognized an aggregate net gain of \$2 million, which had no tax effect, associated with the disposal of these assets. In the nine months

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ended September 30, 2019, we received aggregate net cash proceeds of \$5 million and recognized an aggregate net loss of \$9 million associated with the disposal of assets unrelated to rig sales.

During the nine months ended September 30, 2018, we completed the sale of the ultra-deepwater floaters *Cajun Express*, *Deepwater Discovery*, *Deepwater Pathfinder*, *Sedco Energy* and *Sedco Express*, the deepwater floater *Transocean Marianas* and the midwater floater *Songa Trym*, along with related assets. In the nine months ended September 30, 2018, we received aggregate net cash proceeds of \$31 million and recognized an aggregate net gain of \$6 million (\$0.02 per diluted share), which had no tax effect, associated with the disposal of these assets. In the nine months ended September 30, 2018, we received aggregate net cash proceeds of \$6 million and recognized an aggregate net loss of \$6 million associated with the disposal of assets unrelated to rig sales.

Assets held for sale—At September 30, 2019, the aggregate carrying amount of our assets held for sale, including the ultra-deepwater floaters *Discoverer Deep Seas*, *Discoverer Enterprise* and *Discoverer Spirit* and related assets, was \$15 million, recorded in other current assets. At December 31, 2018, the aggregate carrying amount of our assets held for sale, including the ultra-deepwater floaters *Deepwater Frontier* and *Deepwater Millennium*, the deepwater floaters *Jack Bates* and *Transocean 706* and the midwater floater *Songa Delta*, along with related assets, was \$25 million, recorded in other current assets.

Note 8—Goodwill

During the three months ended June 30, 2018, we classified as held for sale and impaired three ultra-deepwater floaters. We identified the impairment of these assets as an indicator that our goodwill may be impaired. In the nine months ended September 30, 2018, as a result of our interim goodwill impairment test, we recognized a loss of \$462 million (\$1.02 per diluted share), which had no tax effect, associated with the impairment of the full balance of our goodwill. We estimated the fair value of the contract drilling services reporting unit using the income approach. Our estimate of fair value required us to use significant unobservable inputs, representative of a Level 3 fair value measurement, including assumptions related to the future performance of the reporting unit, such as future commodity prices, projected demand for our services, rig availability and dayrates.

Note 9—Leases

Our operating leases are principally for office space, real estate, storage facilities and operating equipment. At September 30, 2019, our operating leases had a weighted average discount rate of 6.3 percent and a weighted-average remaining lease term of 13.9 years.

Our finance lease of the ultra-deepwater drillship *Petrobras 10000*, which is scheduled to expire in August 2029, has an implicit interest rate of 7.8 percent and requires scheduled monthly payments of \$6 million through lease expiration, after which we will have the right and obligation to acquire the drillship from the lessor for one dollar. In the nine months ended September 30, 2019, we recognized expense of \$15 million, recorded in depreciation and amortization, associated with the amortization of the right-of-use asset.

The components of our lease costs were as follows (in millions):

	Three months ended September 30, 2019	Nine months ended September 30, 2019
Lease costs		
Operating lease costs	\$ 6	\$ 19
Short-term lease costs	3	4
Finance lease costs, amortization of right-of-use assets	5	15
Finance lease costs, interest on lease liabilities	9	29
Total lease costs	\$ 23	\$ 67

Supplemental cash flow information for our leases was as follows (in millions):

	Nine months ended September 30, 2019
Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows from operating leases	\$ 14
Operating cash flows from finance lease	29
Financing cash flows from finance lease	24

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At September 30, 2019, the aggregate future minimum rental payments for our leases were as follows (in millions):

	Operating leases	Finance lease
Twelve months ending September 30,		
2020	\$ 18	\$ 71
2021	11	71
2022	12	71
2023	12	71
2024	11	71
Thereafter	132	345
Total future minimum rental payment	196	700
Less amount representing imputed interest	(72)	(213)
Present value of future minimum rental payments	124	487
Less current portion, recorded in other current liabilities	(14)	(34)
Long-term lease liabilities, recorded in other long-term liabilities	<u>\$ 110</u>	<u>\$ 453</u>

Note 10—Debt

Overview

Outstanding debt—The aggregate principal amounts and aggregate carrying amounts, net of debt-related balances, including unamortized discounts, premiums, issue costs and fair value adjustments of our debt, were as follows (in millions):

	Principal amount		Carrying amount	
	September 30, 2019	December 31, 2018	September 30, 2019	December 31, 2018
6.50% Senior Notes due November 2020	\$ 208	\$ 286	\$ 209	\$ 288
6.375% Senior Notes due December 2021	224	328	224	327
5.52% Senior Secured Notes due May 2022	221	282	219	280
3.80% Senior Notes due October 2022	199	411	198	408
0.50% Exchangeable Bonds due January 2023	863	863	862	862
5.375% Senior Secured Notes due May 2023	525	—	517	—
9.00% Senior Notes due July 2023	753	1,250	738	1,221
5.875% Senior Secured Notes due January 2024	667	750	655	735
7.75% Senior Secured Notes due October 2024	450	480	441	469
6.25% Senior Secured Notes due December 2024	469	500	460	489
6.125% Senior Secured Notes due August 2025	534	600	524	588
7.25% Senior Notes due November 2025	750	750	737	736
7.50% Senior Notes due January 2026	750	750	743	742
6.875% Senior Secured Notes due February 2027	550	—	541	—
7.45% Notes due April 2027	88	88	86	86
8.00% Debentures due April 2027	57	57	57	57
7.00% Notes due June 2028	300	300	306	306
Finance lease contract due August 2029	—	511	—	511
7.50% Notes due April 2031	588	588	585	585
6.80% Senior Notes due March 2038	1,000	1,000	991	991
7.35% Senior Notes due December 2041	300	300	297	297
Total debt	9,496	10,094	9,390	9,978
Less debt due within one year				
5.52% Senior Secured Notes due May 2022	87	83	86	81
9.00% Senior Notes due July 2023	3	—	3	—
5.875% Senior Secured Notes due January 2024	83	83	79	79
7.75% Senior Secured Notes due October 2024	60	60	58	58
6.25% Senior Secured Notes due December 2024	62	62	60	60
6.125% Senior Secured Notes due August 2025	66	66	63	63
Finance lease contract due August 2029	—	32	—	32
Total debt due within one year	361	386	349	373
Total long-term debt	<u>\$ 9,135</u>	<u>\$ 9,708</u>	<u>\$ 9,041</u>	<u>\$ 9,605</u>

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Scheduled maturities—At September 30, 2019, the scheduled maturities of our debt were as follows (in millions):

	<u>Total</u>
Twelve months ending September 30,	
2020	\$ 361
2021	602
2022	669
2023	2,582
2024	609
Thereafter	4,673
Total principal amount of debt	9,496
Total debt-related balances, net	(106)
Total carrying amount of debt	<u>\$ 9,390</u>

Interest rate adjustments—The interest rates for certain of our notes are subject to adjustment from time to time upon a change to the credit rating of our non-credit enhanced senior unsecured long-term debt. As of September 30, 2019, the interest rate in effect for the 6.375% senior notes due December 2021, 3.80% senior notes due October 2022 and the 7.35% senior notes due December 2041 was 8.375 percent, 5.80 percent and 9.35 percent, respectively.

Secured Credit Facility—In June 2018, we entered into a bank credit agreement, which established a \$1.0 billion secured revolving credit facility (the “Secured Credit Facility”), and in May, July and September 2019, we amended the terms of the Secured Credit Facility to, among other changes, increase the borrowing capacity to \$1.3 billion and add to and clarify the lender parties and their respective commitments under the facility. The Secured Credit Facility is scheduled to expire on the earlier of (i) June 22, 2023 or (ii) if greater than \$300 million aggregate principal amount of our 9.00% senior notes due July 2023 remain outstanding in April 2023, such date. The Secured Credit Facility is guaranteed by Transocean Ltd. and certain wholly owned subsidiaries and is secured by, among other things, a lien on the ultra-deepwater floaters *Deepwater Asgard*, *Deepwater Invictus*, *Deepwater Skyros*, *Dhirubhai Deepwater KG2* and *Discoverer Inspiration* and the harsh environment floaters *Transocean Barents* and *Transocean Spitsbergen*, the aggregate carrying amount of which was \$4.1 billion at September 30, 2019.

We may borrow under the Secured Credit Facility at either (1) the reserve adjusted London interbank offered rate plus a margin (the “Secured Credit Facility Margin”), which ranges from 2.625 percent to 3.375 percent based on the credit rating of the Secured Credit Facility, or (2) the base rate specified in the credit agreement plus the Secured Credit Facility Margin, minus one percent per annum. Throughout the term of the Secured Credit Facility, we pay a facility fee on the amount of the underlying commitment which ranges from 0.375 percent to 1.00 percent based on the credit rating of the Secured Credit Facility. At September 30, 2019, based on the credit rating of the Secured Credit Facility on that date, the Secured Credit Facility Margin was 2.875 percent and the facility fee was 0.625 percent. At September 30, 2019, we had no borrowings outstanding, \$15 million of letters of credit issued, and we had \$1.3 billion of available borrowing capacity under the Secured Credit Facility.

Debt issuances

Senior secured notes—On February 1, 2019, we issued \$550 million aggregate principal amount of 6.875% senior secured notes due February 2027 (the “6.875% Senior Secured Notes”), and we received approximately \$539 million aggregate cash proceeds, net of discount and issue costs. The 6.875% Senior Secured Notes are secured by the assets and earnings associated with the ultra-deepwater floater *Deepwater Poseidon* and the equity of the wholly owned subsidiaries that own or operate the collateral rig. Additionally, we were required to deposit \$19 million in restricted cash accounts to satisfy debt service requirements. We are required to pay semiannual installments of (a) interest only through August 2021 and (b) principal and interest thereafter. We may redeem all or a portion of the 6.875% Senior Secured Notes on or prior to February 1, 2022 at a price equal to 100 percent of the aggregate principal amount plus a make-whole provision, and subsequently, at specified redemption prices. We will be required to redeem the notes at a price equal to 100 percent of the aggregate principal amount, without a make-whole provision, upon the occurrence of certain events related to the collateral rig and the related drilling contract. The indenture that governs the 6.875% Senior Secured Notes contains covenants that limit the ability of our subsidiaries that own or operate the collateral rig to declare or pay dividends to their affiliates. The indenture also imposes a maximum collateral rig leverage ratio (the “Maximum Collateral Ratio”), represented by the net earnings of the rig relative to the debt balance, that changes over the term of the notes. Through December 31, 2020, the Maximum Collateral Ratio under the indenture is 5.75 to 1.00.

On May 24, 2019, we issued \$525 million aggregate principal amount of 5.375% senior secured notes due May 2023 (the “5.375% Senior Secured Notes”), and we received approximately \$517 million aggregate cash proceeds, net of discount and issue costs. The 5.375% Senior Secured Notes are secured by the assets and earnings associated with the ultra-deepwater floaters *Transocean Endurance* and *Transocean Equinox* and the equity of the wholly owned subsidiaries that own or operate the collateral rigs. Additionally, we were required to deposit \$14 million in restricted cash accounts to satisfy debt service requirements. We are required to pay semiannual installments of (a) interest only through May 2020 and (b) principal and interest thereafter. We may redeem all or a portion of the 5.375% Senior Secured Notes on or prior to May 15, 2021 at a price equal to 100 percent of the aggregate principal amount plus a make-whole provision, and subsequently, at specified redemption prices. We will be required to redeem the notes at a price equal to 100 percent of the aggregate principal amount, without a make-whole provision, upon the occurrence of certain events related to the collateral rigs and the related drilling contracts. The indenture that governs the 5.375% Senior Secured Notes contains covenants that limit the ability

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of our subsidiaries that own or operate the collateral rigs to declare or pay dividends to their affiliates. The indenture also imposes a Maximum Collateral Ratio, represented by the net earnings of the rig relative to the debt balance, that changes over the term of the notes. Through March 31, 2021, the Maximum Collateral Ratio under the indenture is 4.50 to 1.00.

On July 13, 2018, we issued \$750 million aggregate principal amount of 5.875% senior secured notes due January 2024 (the “5.875% Senior Secured Notes”) and received aggregate cash proceeds of \$733 million, net of discount and issue costs. In connection with the issuance of such notes, we were required to deposit \$63 million in restricted cash accounts to satisfy debt service and reserve requirements. We are required to pay semiannual installments of principal and interest. The 5.875% Senior Secured Notes are secured by the assets and earnings associated with the harsh environment floaters *Transocean Enabler* and *Transocean Encourage* and the equity of the wholly owned subsidiaries that own or operate the collateral rigs.

On July 20, 2018, we issued \$600 million aggregate principal amount of 6.125% senior secured notes due August 2025 (the “6.125% Senior Secured Notes” and, together with the 5.875% Senior Secured Notes, the “2018 Senior Secured Notes”), and we received aggregate cash proceeds of \$586 million, net of discount and issue costs. In connection with the issuance of such notes, we were required to deposit \$51 million in restricted cash accounts to satisfy debt service and reserve requirements. We are required to pay semiannual installments of principal and interest. The 6.125% Senior Secured Notes are secured by the assets and earnings associated with the ultra-deepwater floater *Deepwater Pontus* and the equity of the wholly owned subsidiaries that own or operate the collateral rig.

Exchangeable bonds—In the nine months ended September 30, 2018, we issued \$863 million aggregate principal amount of 0.50% exchangeable senior bonds due January 30, 2023 (the “Exchangeable Bonds”), as partial consideration for the acquisition of Songa shares and as consideration for refinancing certain Songa indebtedness. The Exchangeable Bonds may be converted at any time prior to the maturity date at an exchange rate of 97.29756 shares per \$1,000 note, equivalent to a conversion price of \$10.28 per share, subject to adjustment upon the occurrence of certain events. We recorded the Exchangeable Bonds at the aggregate fair value of \$1.0 billion, measured as of the issuance date, and recorded to additional paid-in capital the amount above par value, representing a substantial premium of \$172 million. We estimated the fair value using significant other observable inputs, representative of a Level 2 fair value measurement, including the terms and credit spreads for the instruments.

Debt retirements

Tender offers—On February 5, 2019, we completed cash tender offers to purchase certain notes (the “2019 Tendered Notes”). We received valid tenders from holders of aggregate principal amounts of the 2019 Tendered Notes as follows (in millions):

	Nine months ended September 30, 2019
6.50% Senior Notes due November 2020	\$ 57
6.375% Senior Notes due December 2021	63
3.80% Senior Notes due October 2022	190
9.00% Senior Notes due July 2023	200
Aggregate principal amount retired	<u>\$ 510</u>
Aggregate cash payment	\$ 522
Aggregate net loss	\$ (18)

Repurchases—We repurchased in the open market our debt securities with aggregate principal amounts as follows (in millions):

	Nine months ended September 30,	
	2019	2018
6.50% Senior Notes due November 2020	\$ 21	\$ —
6.375% Senior Notes due December 2021	41	—
3.80% Senior Notes due October 2022	22	95
9.00% Senior Notes due July 2023	297	—
Aggregate principal amount retired	<u>\$ 381</u>	<u>\$ 95</u>
Aggregate cash payment	\$ 395	\$ 95
Aggregate net loss for the three months ended September 30	\$ (12)	\$ —
Aggregate net loss for the nine months ended September 30	\$ (21)	\$ (1)

Other repayments—During the nine months ended September 30, 2018, in connection with the Songa acquisition, we assumed the rights and obligations under certain credit agreements, a subscription agreement and bond loan agreements. In the three and nine months ended September 30, 2018, we made an aggregate cash payment equivalent to \$1.59 billion and \$1.65 billion, respectively, to repay the debt obligations outstanding under these agreements, and we terminated the underlying agreements.

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Note 11—Derivative Instruments

Forward exchange contracts—At September 30, 2019, we held undesignated forward exchange contracts, extending through March 2020, with an aggregate notional payment amount of \$93 million and an aggregate notional receive amount of NOK 810 million, representing a weighted average exchange rate of NOK 8.74 to \$1. At September 30, 2019 and December 31, 2018, the net carrying amount of our undesignated forward exchange contracts was a liability of \$3 million and \$6 million, respectively, recorded in other current liabilities.

Currency swaps—In connection with the Songa acquisition, we acquired undesignated currency swaps to receive Norwegian kroner in exchange for U.S. dollars. In the nine months ended September 30, 2018, we made an aggregate cash payment of \$92 million to terminate the currency swaps and we recognized a loss of \$11 million, recorded in other, net.

Note 12—Income Taxes

Tax provision and rate—In the nine months ended September 30, 2019 and 2018, our effective tax rate was (7.4) percent and (7.2) percent, respectively, based on income or loss before income tax expense. In the nine months ended September 30, 2019 and 2018, the effect of various discrete period tax items was a net tax benefit of \$40 million and a net tax expense of \$91 million, respectively. In the nine months ended September 30, 2019, such discrete items were related to various items, including settlements and expirations of various uncertain tax positions and adjustments to our deferred taxes for operating structural changes made in the U.S. In the nine months ended September 30, 2018, such discrete items were primarily related to the U.S. transition tax on non-U.S. earnings. In the nine months ended September 30, 2019 and 2018, our effective tax rate, excluding discrete items, was (24.7) percent and (15.6) percent, respectively, based on income or loss before income tax expense.

Our effective tax rate in the nine months ended September 30, 2019 compared to the nine months ended September 30, 2018, decreased primarily due to the adoption of a new operating structure, which reduces our exposure to the U.S. base erosion and anti-abuse tax and other cash taxes in the U.S. in the current and future years. To a lesser extent, our effective tax rate decreased due to changes in the relative blend of income from operations in certain jurisdictions.

Included in our tax provision for the nine months ended September 30, 2019, we recognized a tax benefit of \$112 million, including interest and penalties, as a result of changes to our unrecognized tax benefits related to settlements that were closed in our favor, which was partially offset by tax expense of \$94 million for unrecognized tax benefits related to new positions. See Note 17—Subsequent Events.

Tax returns—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.

Brazil tax investigations—In December 2005, the Brazilian tax authorities began issuing tax assessments with respect to our tax returns for the years 2000 through 2004. In January 2008, we filed a protest letter with the Brazilian tax authorities for these tax assessments, and we are currently engaged in the appeals process. In May 2014, the Brazilian tax authorities issued an additional tax assessment for the years 2009 and 2010, and in June 2014, we filed protests with the Brazilian tax authorities for these tax assessments. In September 2018 and in the first half of 2019, a portion of one of the cases was favorably closed. As of September 30, 2019, the remaining aggregate tax assessment was for BRL 672 million, equivalent to approximately \$162 million, including penalties and interest. 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 countries throughout the world. Each country has its own tax regimes with varying nominal rates, deductions 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. It is reasonably possible that we may release certain liabilities for uncertain tax positions in the year ending December 31, 2019, primarily due to resolution of certain tax settlements. Although we are unable to predict the outcome of our tax positions, 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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Note 13—Loss Per Share

The numerator and denominator used to compute per share loss were as follows (in millions, except per share data):

	<u>Three months ended September 30,</u>				<u>Nine months ended September 30,</u>			
	<u>2019</u>		<u>2018</u>		<u>2019</u>		<u>2018</u>	
	<u>Basic</u>	<u>Diluted</u>	<u>Basic</u>	<u>Diluted</u>	<u>Basic</u>	<u>Diluted</u>	<u>Basic</u>	<u>Diluted</u>
Numerator for loss per share								
Net loss attributable to controlling interest	\$ (825)	\$ (825)	\$ (409)	\$ (409)	\$ (1,204)	\$ (1,204)	\$ (1,754)	\$ (1,754)
Denominator for loss per share								
Weighted-average shares outstanding	612	612	463	463	611	611	454	454
Effect of share-based awards and other equity instruments	1	1	—	—	1	1	—	—
Weighted-average shares for per share calculation	613	613	463	463	612	612	454	454
Loss per share	\$ (1.35)	\$ (1.35)	\$ (0.88)	\$ (0.88)	\$ (1.97)	\$ (1.97)	\$ (3.86)	\$ (3.86)

In the three and nine months ended September 30, 2019, we excluded from the calculation 12.2 million share-based awards since the effect would have been anti-dilutive. In the three and nine months ended September 30, 2018, we excluded from the calculation 10.7 million share-based awards since the effect would have been anti-dilutive. In the three and nine months ended September 30, 2019, we excluded from the calculation 84.0 million shares issuable upon conversion of the Exchangeable Bonds, since the effect would have been anti-dilutive. In the three and nine months ended September 30, 2018, we excluded from the calculation 84.0 million and 74.9 million shares issuable upon conversion of the Exchangeable Bonds, respectively, since the effect would have been anti-dilutive.

Note 14—Contingencies

Legal proceedings

Macondo well incident—On April 22, 2010, the ultra-deepwater floater *Deepwater Horizon* sank after a blowout of the Macondo well caused a fire and explosion on the rig off the coast of Louisiana. At the time of the explosion, *Deepwater Horizon* was contracted to an affiliate of BP plc. 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”). We recognized a liability for the remaining estimated loss contingencies associated with litigation resulting from the Macondo well incident that we believe are probable and for which a reasonable estimate can be made. At September 30, 2019 and December 31, 2018, the liability for estimated loss contingencies that we believe are probable and for which a reasonable estimate can be made was \$124 million and \$158 million, respectively, recorded in other current liabilities, the majority of which is related to the settlement agreement that we and the Plaintiff Steering Committee filed with the MDL Court in May 2015 (the “PSC Settlement Agreement”). A significant portion of the contingencies arising from the Macondo well incident has now been resolved or is pending release of funds from escrow. As for any actions not resolved by our previous settlements, we will vigorously defend those claims and pursue any and all defenses available.

On February 15, 2017, the MDL Court entered a final order and judgment approving the PSC Settlement Agreement. Through the PSC Settlement Agreement, we agreed to pay a total of \$212 million to be allocated between two classes of plaintiffs in exchange for a release of all respective claims each class has against us. As required under the PSC Settlement Agreement, we deposited the settlement amount into an escrow account established by the MDL Court. In August 2019 and November 2018, the MDL Court released \$33 million and \$58 million, respectively, from the escrow account to make payments to the plaintiffs. At September 30, 2019 and December 31, 2018, the remaining cash balance in the escrow account was \$124 million and \$156 million, respectively, recorded in restricted cash accounts and investments.

Asbestos litigation—In 2004, several of our subsidiaries were named, along with numerous other unaffiliated defendants in complaints filed in the Circuit Courts of the State of Mississippi, and in 2014, a group of similar complaints were filed in Louisiana. The plaintiffs, former employees of some of the defendants, generally allege that the defendants used or manufactured asbestos containing drilling mud additives for use in connection with drilling operations, claiming negligence, products liability, strict liability and claims allowed under the Jones Act and general maritime law. The plaintiffs generally seek awards of unspecified compensatory and punitive damages, but the court-appointed special master has ruled that a Jones Act employer defendant, such as us, cannot be sued for punitive damages. At September 30, 2019, nine plaintiffs have claims pending in Louisiana, in which we have or may have an interest. 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 related to the complaints, we do not expect the liability, if any, resulting from these claims to have a material adverse effect on our condensed consolidated statement of financial position, results of operations or cash flows.

One of our subsidiaries has been named as a defendant, along with numerous other companies, in lawsuits arising out of the subsidiary’s manufacture and sale of heat exchangers, and involvement in the construction and refurbishment of major industrial complexes

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—continued

(Unaudited)

alleging bodily injury or personal injury as a result of exposure to asbestos. As of September 30, 2019, the subsidiary was a defendant in approximately 192 lawsuits with a corresponding number of plaintiffs. For many of these lawsuits, we have not been provided 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 operating assets of the subsidiary were sold in 1989. In September 2018, the subsidiary and certain insurers agreed to a settlement of outstanding disputes that leaves the subsidiary with funding, including cash, annuities and coverage in place settlement, that we believe will be sufficient to respond to both the current lawsuits as well as future lawsuits of a similar nature. While we cannot predict or provide assurance as to the outcome of these matters, we do not expect the ultimate liability, if any, resulting from these claims to have a material adverse effect on our condensed 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 (“NIMASA”), 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 offshore 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. In June 2019, the Court of Appeal of Nigeria ruled the suits had been properly dismissed, confirming that offshore drilling rigs are not subject to the surcharges of the Cabotage Act. NIMASA has not indicated whether it intends to appeal. 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 condensed 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 condensed 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.

Environmental matters

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

One of our subsidiaries has 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 agreed, under a participation agreement with the U.S. Environmental Protection Agency (the “EPA”) and the U.S. Department of Justice, to settle our potential liabilities by remediating the site, and we have completed the required remediation. Our share of the ongoing operation and maintenance costs has been insignificant. We have no reason to believe that any additional potential liabilities for the site will be material.

One of our subsidiaries was ordered by the California Regional Water Quality Control Board to develop a testing plan for a site known as Campus 1000 Fremont in Alhambra, California, which is now a part of the San Gabriel Valley, Area 3, Superfund site. The current property owner, an unrelated party, performed the required testing and detected no contaminants, and based on such results, we would contest any potential liability. We have no knowledge of the potential cost of any remediation, who has been 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. It is difficult to quantify the potential cost of environmental matters and remediation obligations. Nevertheless, based on the available information, we do not expect the ultimate liability, if any, resulting from all environmental matters, including the liability for all related pending legal proceedings, asserted legal claims and known potential legal claims that are likely to be asserted, to have a material adverse effect on our condensed consolidated statement of financial position, results of operations or cash flows.

Note 15—Equity

On January 30, 2018, we acquired an approximate 97.7 percent ownership interest in Songa. To complete the acquisition, we issued 66.9 million shares with a weighted average per share market value of \$10.99 and \$854 million aggregate principal amount of the Exchangeable Bonds.

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

On the date of the Songa acquisition, we recognized noncontrolling interest of \$33 million, representing the estimated fair value of the 2.3 percent ownership interest not owned by us. On March 28, 2018, we acquired the remaining Songa shares through a compulsory acquisition under Cyprus law, and as a result, Songa became our wholly owned subsidiary. As consideration, we issued 1.1 million shares with a weighted average per share market value of \$9.76 and \$9 million aggregate principal amount of Exchangeable Bonds and we made an aggregate cash payment of \$8 million to the Songa shareholders who elected to receive a cash payment or failed to make an election, for an aggregate fair value of \$30 million.

Note 16—Financial Instruments

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

	September 30, 2019		December 31, 2018	
	Carrying amount	Fair value	Carrying amount	Fair value
Cash and cash equivalents	\$ 1,906	\$ 1,906	\$ 2,160	\$ 2,160
Restricted cash and cash equivalents	551	551	429	429
Restricted investments	—	—	123	123
Long-term debt, including current maturities	9,390	8,569	9,978	9,212
Derivative instruments, liabilities	3	3	6	6

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 our cash and cash equivalents represents the historical cost, plus accrued interest. Our cash equivalents are primarily invested in short-term time deposits and money market funds. The carrying amount of our cash and cash equivalents approximates fair value because of the short maturities of the instruments.

Restricted cash and cash equivalents—The carrying amount of our restricted cash and cash equivalents, which are subject to restrictions due to collateral requirements, legislation, regulation or court order, approximates fair value because of the near-term maturities of the instruments in which the restricted balances are held. At September 30, 2019, the aggregate carrying amount of such restricted cash and cash equivalents was \$551 million, recorded in current assets. At December 31, 2018, the aggregate carrying amount of such restricted cash and cash equivalents was \$429 million, including \$428 million and \$1 million recorded in current assets and other assets, respectively.

Restricted investments—The carrying amount of our restricted investments, which were held in escrow by court order, represents the amortized historical cost of the time deposits in which they are invested. The carrying amount of such restricted investments approximates fair value because of the near-term maturities of the instruments.

Debt—The carrying amount of our debt represents the principal amount, net of unamortized discounts, premiums, debt issue costs and fair value adjustments. We measured the estimated fair value of our debt using significant other observable inputs, representative of a Level 2 fair value measurement, including the terms and credit spreads for the instruments.

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

Note 17—Subsequent Events

Income taxes—Subsequent to September 30, 2019, the U.S. Treasury Department issued proposed regulations that clarify portions of the Tax Cuts and Jobs Act. As a result of the proposed regulations, we expect to recognize a tax benefit of approximately \$90 million in the three months ending December 31, 2019.

Samsung Heavy Industries Co., Ltd.—In September 2019, two of our indirect, wholly owned subsidiaries delivered to Samsung Heavy Industries Co., Ltd. (“SHI”) notices of intent to relinquish their respective interests in *Ocean Rig Santorini* and *Ocean Rig Crete*, two ultra-deepwater drillships under construction. In October 2019, we agreed with SHI to cancel the construction contracts for the rigs in exchange for the parties terminating their respective obligations and liabilities under the construction contracts and our subsidiaries releasing to SHI their respective interests in the rigs. As a result, we expect to eliminate the construction contract intangible liabilities of \$132 million in the three months ended December 31, 2019.

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

Forward-Looking Information

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

- our results of operations, our revenue efficiency and other performance indicators and our cash flow from operations;
- the offshore drilling market, including the effects of declines in commodity prices, supply and demand, utilization rates, dayrates, customer drilling programs, stacking and reactivation of rigs, effects of new rigs on the market, the impact of changes to regulations in jurisdictions in which we operate and changes in the global economy or market outlook for our various geographical operating sectors and classes of rigs;
- customer drilling contracts, including contract backlog, force majeure provisions, contract awards, commencements, extensions, terminations, renegotiations, contract option exercises, contract revenues, early termination payments, indemnity provisions and rig mobilizations;
- liquidity, including availability under our bank credit agreement, and adequacy of cash flows for our obligations;
- regulatory or other limitations imposed as a result of the acquisition of Songa Offshore SE ("Songa"), a European public company limited by shares, or *societas Europaea*, existing under the laws of Cyprus or the acquisition of Ocean Rig UDW Inc. ("Ocean Rig"), a Cayman Islands exempted company with limited liability;
- the success of our business following completion of the acquisition of Songa or Ocean Rig;
- the ability to successfully integrate our business with the Songa and Ocean Rig businesses;
- the risk that we may be unable to achieve expected synergies from the acquisitions of Songa or Ocean Rig or that it may take longer or be more costly than expected to achieve those synergies;
- debt levels, including impacts of a financial and economic downturn, and interest rates;
- newbuild, upgrade, shipyard and other capital projects, including completion, relinquishment or abandonment, delivery and commencement of operation dates, expected downtime and lost revenue, the level of expected capital expenditures and the timing and cost of completion of capital projects;
- the cost and timing of acquisitions and the proceeds and timing of dispositions;
- the optimization of rig-based spending;
- tax matters, including our effective tax rate, changes in tax laws, treaties and regulations, tax assessments and liabilities for tax issues, including those associated with our activities in Brazil, Nigeria, Norway, the United Kingdom ("U.K.") and the U.S.;
- legal and regulatory matters, including results and effects of current or potential legal proceedings and governmental audits and assessments, outcomes and effects of internal and governmental investigations, customs and environmental matters;
- insurance matters, including adequacy of insurance, renewal of insurance, insurance proceeds and cash investments of our wholly owned captive insurance company;
- effects of accounting changes and adoption of accounting policies; and
- investment in recruitment, retention and personnel development initiatives, defined benefit pension plan contributions, the timing of severance payments and benefit payments.

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

- anticipates ■ budgets ■ estimates ■ forecasts ■ may ■ plans ■ projects ■ should
- believes ■ could ■ expects ■ intends ■ might ■ predicts ■ scheduled

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

- those described under "Item 1A. Risk Factors" included in Part I of our annual report on Form 10-K for the year ended December 31, 2018;
- the adequacy of and access to sources of liquidity;
- our inability to obtain drilling contracts for our rigs that do not have contracts;
- our inability to renew drilling contracts at comparable dayrates;
- operational performance;
- the cancellation of drilling contracts currently included in our reported contract backlog;
- losses on impairment of long-lived assets;
- shipyard, construction and other delays;
- the results of meetings of our shareholders;
- changes in political, social and economic conditions;
- the effect and results of litigation, regulatory matters, settlements, audits, assessments and contingencies; and
- other factors discussed in this quarterly report and in our other filings with the U.S. Securities and Exchange Commission ("SEC"), which are available free of charge on the SEC website at www.sec.gov.

The foregoing risks and uncertainties are beyond our ability to control, and in many cases, we cannot predict the risks and uncertainties that could cause our actual results to differ materially from those indicated by the forward-looking statements.

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

Business

Transocean Ltd. (together with its subsidiaries and predecessors, unless the context requires otherwise, “Transocean”, “we,” “us” or “our”) is a leading international provider of offshore contract drilling services for oil and gas wells. As of October 22, 2019, we owned or had partial ownership interests in and operated 45 mobile offshore drilling units, including 28 ultra-deepwater floaters, 14 harsh environment floaters and three midwater floaters. As of October 22, 2019, we were constructing two ultra-deepwater drillships.

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

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

Significant Events

Debt issuance—On February 1, 2019, we issued \$550 million aggregate principal amount of 6.875% senior secured notes due February 2027 (the “6.875% Senior Secured Notes”), and we received \$539 million aggregate cash proceeds, net of discount and issue costs. On May 24, 2019, we issued \$525 million aggregate principal amount of 5.375% senior secured notes due May 2023 (the “5.375% Senior Secured Notes”), and we received \$517 million aggregate cash proceeds, net of discount and issue costs. See “—Liquidity and Capital Resources—Sources and uses of liquidity.”

Early debt retirement—During the nine months ended September 30, 2019, we completed cash tender offers to purchase certain notes (the “2019 Tendered Notes”). In the nine months ended September 30, 2019, we made an aggregate cash payment of \$522 million to settle the 2019 Tendered Notes and recognized a loss of \$18 million associated with the retirement of debt. See “—Liquidity and Capital Resources—Sources and uses of liquidity.”

During the nine months ended September 30, 2019, we repurchased in the open market \$381 million aggregate principal amount of certain of our debt securities. We made an aggregate cash payment of \$395 million and recognized an aggregate net loss of \$21 million associated with the retirement of such debt. See “—Operating Results” and “—Liquidity and Capital Resources—Sources and uses of liquidity.”

Impairments—In the three months ended September 30, 2019, we recognized an aggregate loss of \$583 million primarily associated with the impairment of three ultra-deepwater floaters, along with related assets, which we determined were impaired at the time we classified the assets as held for sale. See “—Operating Results” and “—Liquidity and Capital Resources—Drilling fleet.”

Fleet expansion—We hold a 33.0 percent interest in Orion Holdings (Cayman) Limited (“Orion”), the company that, through its wholly owned subsidiary, owns the harsh environment floater *Transocean Norge*. In August 2019, Orion completed construction of the rig and placed it into service. One of our subsidiaries operates the rig under a short-term bareboat charter to complete a six-well drilling contract for one of our customers. See “—Liquidity and Capital Resources—Drilling fleet.”

In September 2019, two of our indirect, wholly owned subsidiaries delivered to Samsung Heavy Industries Co., Ltd. (“SHI”) notices of intent to relinquish their respective interests in *Ocean Rig Santorini* and *Ocean Rig Crete*, two ultra-deepwater drillships under construction. In October 2019, we agreed with SHI to cancel the construction contracts for the rigs in exchange for the parties terminating their respective obligations and liabilities under the construction contracts and our subsidiaries releasing to SHI their respective interests in the rigs. See “—Liquidity and Capital Resources—Drilling fleet.”

Dispositions—During the nine months ended September 30, 2019, we completed the sale of three ultra-deepwater floaters, one harsh environment floater, two deepwater floaters and two midwater floaters, along with related assets, and we received \$47 million in aggregate net cash proceeds. See “—Operating Results” and “—Liquidity and Capital Resources—Drilling fleet.”

Outlook

Drilling market—Our long-term view of the offshore drilling floater market is positive, especially for the highest specification vessels. Near term, contracting activity continues to improve, as both fixture durations and dayrates are increasing. In the past five years, the offshore oil and gas industry has achieved structural efficiency gains that have substantially improved the economics of offshore development projects. These efficiency gains have resulted in project break-even oil prices in the range of \$40 per barrel or below in many operating basins, which compares increasingly favorably to onshore shale prospects, and positively impacting our customers' investment decisions.

Over the past year, opportunities have continued to increase for our drilling services, and we have recently observed some of the highest dayrates in most jurisdictions since the downturn began in 2014. In markets requiring high-specification harsh environment floating drilling rigs, such as the Norwegian and U.K. North Sea and Eastern Canada, the limited supply of these specialized rigs has tightened the market, resulting in the placement of several newbuild rigs on improved terms and conditions. In benign environment offshore drilling markets, the utilization of ultra-deepwater drilling rigs continues to solidify and active supply is approaching full utilization in many regions. Tender activity has increased and demand driven dayrates continue to improve, particularly for the latest generation and highest capability units. We expect this trend to continue into 2020 and beyond.

As of October 17, 2019, our contract backlog was \$10.8 billion. The risks of drilling project delays, contract renegotiations and contract terminations and cancellations have diminished as oil prices have improved and stabilized.

Fleet status—We refer to the availability of our rigs in terms of the uncommitted fleet rate. The uncommitted fleet rate is defined as the number of uncommitted days divided by the total number of rig calendar days in the measurement period, expressed as a percentage. An uncommitted day is defined as a calendar day during which a rig is idle or stacked, is not contracted to a customer and is not committed to a shipyard. The uncommitted fleet rates exclude the effect of priced options. As of October 17, 2019, the uncommitted fleet rates for the remainder of 2019 and each of the four years in the period ending December 31, 2023 were as follows:

	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>
Uncommitted fleet rate					
Ultra-deepwater floaters	38 %	55 %	72 %	83 %	83 %
Harsh environment floaters	34 %	47 %	64 %	68 %	83 %
Midwater floaters	67 %	67 %	98 %	100 %	100 %

Performance and Other Key Indicators

Contract backlog—Contract backlog is defined as the maximum contractual operating dayrate multiplied by the number of days remaining in the firm contract period, excluding revenues for mobilization, demobilization, contract preparation, other incentive provisions or reimbursement revenues, which are not expected to be significant to our contract drilling revenues. The contract backlog represents the maximum contract drilling revenues that can be earned considering the contractual operating dayrate in effect during the firm contract period. The contract backlog for our fleet was as follows:

	<u>October 17, 2019</u>	<u>July 25, 2019</u>	<u>February 11, 2019</u>
Contract backlog		(In millions)	
Ultra-deepwater floaters	\$ 7,643	\$ 7,985	\$ 8,404
Harsh environment floaters	3,074	3,366	3,716
Midwater floaters	60	71	97
Total contract backlog	<u>\$ 10,777</u>	<u>\$ 11,422</u>	<u>\$ 12,217</u>

Our contract backlog includes only firm commitments, which are represented by signed drilling contracts or, in some cases, by other definitive agreements awaiting contract execution. Our contract backlog includes amounts associated with our newbuild units that are currently under construction. The contractual operating dayrate may be higher than the actual dayrate we ultimately receive or an alternative contractual dayrate, such as a waiting-on-weather rate, repair rate, standby rate or force majeure rate, may apply under certain circumstances. The contractual operating dayrate may also be higher than the actual dayrate we ultimately receive because of a number of factors, including rig downtime or suspension of operations. In certain contracts, the dayrate may be reduced to zero if, for example, repairs extend beyond a stated period of time.

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

	Three months ended		
	September 30, 2019	June 30 2019	September 30, 2018
Average daily revenue			
Ultra-deepwater floaters	\$ 339,400	\$ 335,400	\$ 340,500
Harsh environment floaters	\$ 298,300	\$ 301,700	\$ 309,000
Deepwater floaters	\$ —	\$ —	\$ 195,700
Midwater floaters	\$ 106,200	\$ 163,700	\$ 98,500
High-specification jackups	\$ —	\$ —	\$ 145,700
Total fleet average daily revenue	\$ 314,500	\$ 314,900	\$ 295,000

Our average daily revenue fluctuates relative to market conditions and our revenue efficiency. The average daily revenue may also be affected by revenues for lump sum bonuses or demobilization fees received from our customers. Our total fleet average daily revenue is also affected by the mix of rig classes being operated, as deepwater floaters, midwater floaters and high-specification jackups are typically contracted at lower dayrates compared to ultra-deepwater floaters and harsh environment floaters. We no longer operate deepwater floaters or high-specification jackups. We include newbuilds in the calculation when the rigs commence operations upon acceptance by the customer. We remove rigs from the calculation upon disposal or classification as held for sale, unless we continue to operate rigs subsequent to sale, in which case we remove the rigs at the time of completion or novation of the contract.

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

	Three months ended		
	September 30, 2019	June 30 2019	September 30, 2018
Revenue efficiency			
Ultra-deepwater floaters	98 %	98 %	95 %
Harsh environment floaters	96 %	95 %	95 %
Deepwater floaters	— %	— %	96 %
Midwater floaters	79 %	130 %	98 %
High-specification jackups	— %	— %	99 %
Total fleet average revenue efficiency	97 %	98 %	95 %

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

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

	Three months ended		
	September 30, 2019	June 30 2019	September 30, 2018
Rig utilization			
Ultra-deepwater floaters	51 %	50 %	56 %
Harsh environment floaters	79 %	76 %	83 %
Deepwater floaters	— %	— %	100 %
Midwater floaters	33 %	39 %	43 %
High-specification jackups	— %	— %	100 %
Total fleet average rig utilization	58 %	56 %	65 %

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

Operating Results

Three months ended September 30, 2019 compared to the three months ended September 30, 2018

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

	Three months ended September 30,			
	2019	2018	Change	% Change
(In millions, except day amounts and percentages)				
Operating days	2,489	2,592	(103)	(4)%
Average daily revenue	\$ 314,500	\$ 295,000	\$ 19,500	7 %
Revenue efficiency	97 %	95 %		
Rig utilization	58 %	65 %		
Contract drilling revenues	\$ 784	\$ 816	\$ (32)	(4)%
Operating and maintenance expense	(547)	(447)	(100)	(22)%
Depreciation and amortization expense	(212)	(201)	(11)	(5)%
General and administrative expense	(45)	(35)	(10)	(29)%
Loss on impairment	(583)	(432)	(151)	(35)%
Loss on disposal of assets, net	(4)	(6)	2	33 %
Operating loss	(607)	(305)	(302)	(99)%
Other income (expense), net				
Interest income	11	11	—	nm
Interest expense, net of amounts capitalized	(166)	(160)	(6)	(4)%
Loss on retirement of debt	(12)	(1)	(11)	nm
Other, net	3	16	(13)	81 %
Loss before income tax expense	(771)	(439)	(332)	(76)%
Income tax (expense) benefit	(54)	30	(84)	nm
Net loss	<u>\$ (825)</u>	<u>\$ (409)</u>	<u>\$ (416)</u>	<u>nm</u>

“nm” means not meaningful.

Contract drilling revenues—Contract drilling revenues decreased for the three months ended September 30, 2019, compared to the three months ended September 30, 2018, primarily due to the following: (a) approximately \$60 million resulting from rigs sold or classified as held for sale, (b) approximately \$50 million resulting from lower activity and more shipyard days and (c) \$37 million resulting from contract early terminations and cancellations recognized in the three months ended September 30, 2018. These decreases were partially offset by the following increases: (a) approximately \$55 million resulting from operations acquired in the Ocean Rig acquisition, (b) approximately \$30 million resulting from a rig reactivated in the nine months ended September 30, 2019, (c) approximately \$20 million resulting from the newbuild harsh environment floater that commenced operations in August 2019 and (d) approximately \$10 million resulting from higher revenue efficiency.

Costs and expenses—Operating and maintenance costs and expenses increased for the three months ended September 30, 2019, compared to the three months ended September 30, 2018, primarily due to the following: (a) approximately \$80 million resulting from operations acquired in the Ocean Rig acquisition, including the reactivation of two rigs, (b) approximately \$30 million resulting from higher operating costs primarily shipyard activities and the reactivation of a rig and (c) approximately \$20 million resulting from the newbuild harsh environment floater that commenced operations in August 2019. These increases were partially offset by a decrease of approximately \$30 million resulting from rigs sold or classified as held for sale.

Depreciation and amortization expense increased for the three months ended September 30, 2019, compared to the three months ended September 30, 2018, primarily due to an increase of approximately \$19 million resulting from the rigs acquired in the Ocean Rig acquisition, partially offset by a decrease of approximately \$7 million resulting from rigs sold or classified as held for sale.

General and administrative costs and expenses increased for the three months ended September 30, 2019, compared to the three months ended September 30, 2018, primarily due to the following: (a) approximately \$6 million resulting from increased personnel costs, (b) approximately \$4 million resulting from increased professional fees, (c) approximately \$3 million resulting from increased rent expense, partially offset by (d) \$4 million of costs related to the Ocean Rig acquisition in the three months ended September 30, 2018.

Loss on impairment of assets—Loss on impairment of assets resulted primarily from the impairment of certain assets that we determined were impaired at the time we classified the assets as held for sale.

Other income and expense—Interest expense, net of amounts capitalized, increased in the three months ended September 30, 2019, compared to the three months ended September 30, 2018, primarily due to an increase of approximately \$33 million resulting from debt issued subsequent to June 30, 2018, partially offset by a decrease of approximately \$25 million resulting from the retirement of debt.

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In the three months ended September 30, 2019, we recognized a loss on the retirement of \$251 million aggregate principal amount of our debt securities repurchased in the open market.

Other income, net, decreased in the three months ended September 30, 2019, compared to the three months ended September 30, 2018, primarily due to (a) reduced income of \$12 million resulting from our dual-activity patent and (b) an increased loss of \$3 million resulting from currency exchange rate changes.

Income tax expense—In the three months ended September 30, 2019 and 2018, our effective tax rate was (6.9) percent and 6.7 percent, respectively, based on income or loss before income tax expense. In the three months ended September 30, 2019 and 2018, the effect of the various discrete period tax items was a net tax benefit of \$10 million and a net tax expense of \$1 million, respectively. In the three months ended September 30, 2019, such discrete items were related to various items, including settlements and expirations of various uncertain tax positions, partially offset by changes in the valuation allowance related to deferred tax assets. In the three months ended September 30, 2018, such discrete items were primarily related to a decrease in the U.S. transition tax on non-U.S. earnings, tax expense for unrecognized tax benefits associated with tax position taken in prior years and return to provision adjustments. In the three months ended September 30, 2019 and 2018, our effective tax rate, excluding discrete items, was (37.5) percent and 2,757.6 percent, respectively, based on income or loss before income tax expense. In the three months ended September 30, 2019 compared to the three months ended September 30, 2018, our effective tax rate, excluding discrete items, decreased primarily due to changes in the relative blend of income from operations in certain jurisdictions and the loss before income taxes.

Due to factors related to our operating activities and organizational structure, our income tax expense does not change proportionally with our income before income taxes. Significant decreases in our income before income taxes typically lead to higher effective tax rates, while significant increases in income before income taxes can lead to lower effective tax rates, subject to the other factors impacting income tax expense noted above. With respect to the effective tax rate calculation for the three months ended September 30, 2019, a significant portion of our income tax expense was generated in countries in which income taxes are imposed on deemed, rather than actual, profits, with the most significant of these countries being Angola and India. Conversely, the countries in which we incurred the most significant income taxes during this period that were based on income before income tax include Brazil, Switzerland, Norway, the U.K. and the U.S. Our rig operating structures further complicate our tax calculations, especially in instances where we have more than one operating structure for the taxing jurisdiction and, thus, more than one method of calculating taxes depending on the operating structure utilized by the rig under the contract. For example, two rigs operating in the same country could generate significantly different provisions for income taxes if they are owned by two different subsidiaries that are subject to differing tax laws and regulations in the respective country of incorporation.

Nine months ended September 30, 2019 compared to the nine months ended September 30, 2018

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

	Nine months ended September 30,		Change	% Change
	2019	2018		
	(In millions, except day amounts and percentages)			
Operating days	7,350	7,203	147	2 %
Average daily revenue	\$ 312,000	\$ 297,300	\$ 14,700	5 %
Revenue efficiency	98 %	95 %		
Rig utilization	57 %	58 %		
Contract drilling revenues	\$ 2,296	\$ 2,270	\$ 26	1 %
Operating and maintenance expense	(1,565)	(1,302)	(263)	(20)%
Depreciation and amortization expense	(648)	(614)	(34)	(6)%
General and administrative expense	(139)	(134)	(5)	(4)%
Loss on impairment	(584)	(1,446)	862	60 %
Loss on disposal of assets, net	(7)	—	(7)	nm
Operating loss	(647)	(1,226)	579	47 %
Other income (expense), net				
Interest income	33	36	(3)	(8)%
Interest expense, net of amounts capitalized	(500)	(455)	(45)	(10)%
Loss on retirement of debt	(39)	(3)	(36)	nm
Other, net	34	6	28	nm
Loss before income tax expense	(1,119)	(1,642)	523	32 %
Income tax expense	(83)	(118)	35	30 %
Net loss	\$ (1,202)	\$ (1,760)	\$ 558	32 %

“nm” means not meaningful.

Contract drilling revenues—Contract drilling revenues increased for the nine months ended September 30, 2019, compared to the nine months ended September 30, 2018, primarily due to the following: (a) approximately \$220 million resulting from operations acquired in the Ocean Rig and Songa acquisitions, (b) approximately \$65 million resulting from the reactivation of two rigs, (c) approximately \$55 million resulting from higher revenue efficiency, (d) approximately \$40 million resulting from the commencement of operations of our newbuild ultra-deepwater drillship and a harsh environment floater and (e) approximately \$10 million resulting from increased revenues associated with customer reimbursables. These increases were partially offset by the following decreases: (a) approximately \$160 million resulting from rigs sold or classified as held for sale, (b) \$112 million resulting from contract early terminations and cancellations recognized in the nine months ended September 30, 2018, (c) approximately \$70 million resulting from lower dayrates and (d) approximately \$20 million resulting from stacked or idle rigs.

Costs and expenses—Operating and maintenance costs and expenses increased for the nine months ended September 30, 2019, compared to the nine months ended September 30, 2018, primarily due to the following: (a) approximately \$200 million resulting from operations acquired in the Ocean Rig and Songa acquisitions, including two rig reactivations, (b) approximately \$55 million resulting from increased operating costs primarily due to shipyard activity, (c) approximately \$50 million resulting from the reactivation of two rigs, (d) approximately \$20 million resulting from higher costs associated with the commencement of operations of our newbuild ultra-deepwater drillship and a harsh environment floater and (e) approximately \$10 million resulting from increased costs associated with customer reimbursables. These increases were partially offset by a decrease of approximately \$70 million resulting from rigs sold or classified as held for sale.

Depreciation and amortization expense increased for the nine months ended September 30, 2019, compared to the nine months ended September 30, 2018, primarily due to approximately \$65 million resulting from the rigs acquired in the Ocean Rig and Songa acquisitions, partially offset by approximately \$33 million resulting from rigs sold or classified as held for sale.

General and administrative costs and expenses increased for the nine months ended September 30, 2019, compared to the nine months ended September 30, 2018, primarily due to the following: (a) approximately \$7 million resulting from increased legal and professional fees, (b) approximately \$7 million resulting from personnel and other costs related to Ocean Rig in the current-year period and (c) approximately \$5 million resulting from increased rent expense. These increases were partially offset by the following decreases: (a) approximately \$11 million of acquisition costs related to the Songa and Ocean Rig acquisitions in the prior-year period and (b) approximately \$4 million resulting from reduced personnel costs, primarily related to the early retirement of certain personnel in the prior-year period.

Loss on impairment of assets—In the nine months ended September 30, 2019, we recognized losses primarily related to an aggregate impairment of \$578 million associated with certain assets that we determined were impaired at the time we classified the assets as held for sale. In the nine months ended September 30, 2018, we recognized losses related to the following: (a) \$981 million associated with the impairment of certain assets upon classification as held for sale and (b) \$462 million associated with the impairment of our goodwill.

Other income and expense—Interest expense, net of amounts capitalized, increased in the nine months ended September 30, 2019, compared to the nine months ended September 30, 2018, primarily due to approximately \$123 million resulting from debt issued subsequent to January 1, 2018, partially offset by a decrease of approximately \$72 million resulting from the retirement of debt as a result of scheduled maturities, the purchase of the 2019 Tendered Notes and our open market repurchases.

In the nine months ended September 30, 2019, we recognized a net loss on retirement of debt as follows: (a) \$18 million resulting from retirement of the validly tendered 2019 Tendered Notes and (b) \$21 million resulting from repurchases of \$381 million aggregate principal amount of our debt securities.

Other income, net, increased in the nine months ended September 30, 2019, compared to the nine months ended September 30, 2018, primarily related to (a) increased income of \$28 million resulting from currency exchange rate changes, including a loss of \$12 million recognized in the prior-year period related to undesignated currency swaps acquired in the Songa acquisition and (b) an incremental gain of \$11 million recognized in the current-year period resulting from the bargain purchase of Ocean Rig. Partially offsetting these increases was (a) reduced income of \$12 million resulting from our dual-activity patent and (b) a gain of \$4 million recognized in the prior-year period resulting from undesignated interest rate swaps acquired in the Songa acquisition and terminated subsequent to September 30, 2018.

Income tax expense—In the nine months ended September 30, 2019 and 2018, our effective tax rate was (7.4) percent and (7.2) percent, respectively, based on income or loss before income tax expense. In the nine months ended September 30, 2019 and 2018, the effect of various discrete period tax items was a net tax benefit of \$40 million and a net tax expense of \$91 million, respectively. In the nine months ended September 30, 2019, such discrete items were related to various items, including settlements and expirations of various uncertain tax positions and adjustments to our deferred taxes for operating structural changes made in the U.S. In the nine months ended September 30, 2018, such discrete items were primarily related to the U.S. transition tax on non-U.S. earnings. In the nine months ended September 30, 2019 and 2018, our effective tax rate, excluding discrete items, was (24.7) percent and (15.6) percent, respectively, based on income or loss before income tax expense.

Our effective tax rate in the nine months ended September 30, 2019 compared to the nine months ended September 30, 2018, decreased primarily due to the adoption of a new operating structure, which reduces our exposure to the U.S. base erosion and anti-abuse tax and other cash taxes in the U.S. in the current and future years. To a lesser extent, our effective tax rate decreased due to changes in the relative blend of income from operations in certain jurisdictions.

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For the nine months ended September 30, 2019 and 2018, to calculate our annual estimated effective income tax rate in accordance with accounting standards for the provision of income taxes, we excluded certain operating losses in taxable jurisdictions for which we do not expect to realize a tax benefit. For the nine months ended September 30, 2019 and 2018, our annual estimated effective income tax rate would have been (27.5) percent and (32.8) percent, respectively, if we had included all jurisdictions in our calculations.

Due to factors related to our operating activities and organizational structure, our income tax expense does not change proportionally with our income before income taxes. Significant decreases in our income before income taxes typically lead to higher effective tax rates, while significant increases in income before income taxes can lead to lower effective tax rates, subject to the other factors impacting income tax expense noted above. With respect to the effective tax rate calculation for the nine months ended September 30, 2019, a significant portion of our income tax expense was generated in countries in which income taxes are imposed on deemed, rather than actual, profits, with the most significant of these countries being Angola and India. Conversely, the countries in which we incurred the most significant income taxes during this period that were based on income before income tax include Brazil, Switzerland, Norway, the U.K. and the U.S. Our rig operating structures further complicate our tax calculations, especially in instances where we have more than one operating structure for the taxing jurisdiction and, thus, more than one method of calculating taxes depending on the operating structure utilized by the rig under the contract. For example, two rigs operating in the same country could generate significantly different provisions for income taxes if they are owned by two different subsidiaries that are subject to differing tax laws and regulations in the respective country of incorporation.

Liquidity and Capital Resources

Sources and uses of cash

At September 30, 2019, we had \$1.9 billion in unrestricted cash and cash equivalents and \$551 million in restricted cash and cash equivalents. In the nine months ended September 30, 2019, our primary sources of cash were as follows: (1) net cash proceeds from the issuance of debt, (2) net cash provided by our operating activities and (3) proceeds from maturities of restricted investments. Our primary uses of cash were as follows: (a) repayments of debt, (b) capital expenditures and (c) investments in unconsolidated affiliates.

	Nine months ended		
	September 30,		Change
2019	2018		
	(In millions)		
Cash flows from operating activities			
Net loss	\$ (1,202)	\$ (1,760)	\$ 558
Non-cash items, net	1,613	2,239	(626)
Changes in operating assets and liabilities, net	(218)	(159)	(59)
	<u>\$ 193</u>	<u>\$ 320</u>	<u>\$ (127)</u>

Net cash provided by operating activities decreased primarily due to a modest increase in operating days, partially offset by increased operating costs resulting from reactivations.

	Nine months ended		
	September 30,		Change
2019	2018		
	(In millions)		
Cash flows from investing activities			
Capital expenditures	\$ (259)	\$ (140)	\$ (119)
Proceeds from disposal of assets, net	52	37	15
Unrestricted and restricted cash acquired in business combination	—	131	(131)
Investments in unconsolidated affiliates	(77)	(107)	30
Proceeds from unrestricted and restricted short-term investments, net of deposits	123	450	(327)
Other, net	3	—	3
	<u>\$ (158)</u>	<u>\$ 371</u>	<u>\$ (529)</u>

Net cash used in investing activities increased primarily due to (a) reduced proceeds from maturities of unrestricted and restricted investments, net of deposits, (b) unrestricted and restricted cash acquired in the Songa acquisition in the nine months ended September 30, 2018 with no comparable activity in the current-year period, and (c) increased capital expenditures, partially offset by (d) reduced investments in unconsolidated affiliates and (e) increased net proceeds from disposal of assets.

	Nine months ended September 30,		Change
	2019	2018	
	(In millions)		
Cash flows from financing activities			
Proceeds from issuance of debt, net of discount and issue costs	\$ 1,056	\$ 1,319	\$ (263)
Repayments of debt	(1,189)	(2,015)	826
Proceeds from investments restricted for financing activities	—	26	(26)
Payments to terminate derivative instruments	—	(92)	92
Other, net	(34)	(29)	(5)
	<u>\$ (167)</u>	<u>\$ (791)</u>	<u>\$ 624</u>

Net cash used in financing activities decreased primarily due to (a) decreased cash used to repay debt and (b) cash paid to terminate certain derivative instruments assumed in the Songa acquisition in the nine months ended September 30, 2018 with no comparable activity in the current-year period, partially offset by (c) decreased net cash proceeds from the issuance of the 6.875% Senior Secured Notes and the 5.375% Senior Secured Notes in the nine months ended September 30, 2019 compared to net cash proceeds from the issuance of the 5.875% Senior Secured Notes and the 6.125% Senior Secured Notes in the prior-year period.

Sources and uses of liquidity

Overview—We expect to use existing unrestricted cash balances, internally generated cash flows, borrowings under the Secured Credit Facility, as defined below, proceeds from the disposal of assets or proceeds from the issuance of additional debt to fulfill anticipated obligations, which may include capital expenditures, working capital and other operational requirements, scheduled debt maturities or other payments. We may also consider establishing additional financing arrangements with banks or other capital providers. Subject to market conditions and other factors, we may also be required to provide collateral for future financing arrangements. In each case subject to then existing market conditions and to our then expected liquidity needs, among other factors, we may continue to use a portion of our internally generated cash flows and proceeds from asset sales to reduce debt prior to scheduled maturities through debt repurchases, either in the open market or in privately negotiated transactions, or through debt redemptions or tender offers.

Our access to debt and equity markets may be limited due to a variety of events, including, among others, credit rating agency downgrades of our debt ratings, industry conditions, general economic conditions, market conditions and market perceptions of us and our industry. The rating of our non-credit enhanced senior unsecured long-term debt (“Debt Rating”) is below investment grade. Such Debt Rating has caused us to experience increased fees and interest rates under agreements governing certain of our senior notes. Further downgrades may affect or limit our ability to access debt markets in the future. Our ability to access such markets may be severely restricted at a time when we would like, or need, to access such markets, which could have an impact on our flexibility to react to changing economic and business conditions. An economic downturn could have an impact on the lenders participating in our credit facilities or on our customers, causing them to fail to meet their obligations to us.

Our internally generated cash flows are directly related to our business and the market sectors in which we operate. We have generated positive cash flows from operating activities over recent years and, while we cannot provide assurances, we currently expect that such cash flows will be positive over the next year. However, among other factors, if the drilling market deteriorates, or if we experience poor operational results, or if we incur expenses to, for example, reactivate, stack or otherwise assure the marketability of our fleet, cash flows from operations may be reduced or negative.

Secured Credit Facility—In June 2018, we entered into a bank credit agreement, which established a \$1.0 billion secured revolving credit facility (the “Secured Credit Facility”), and in May, July and September 2019, we amended the terms of the Secured Credit Facility to, among other changes, increase the borrowing capacity to \$1.3 billion and add to and clarify the lender parties and their respective commitments under the facility. The Secured Credit Facility is scheduled to expire on the earlier of (i) June 22, 2023 or (ii) if greater than \$300 million aggregate principal amount of our 9.00% senior notes due July 2023 remain outstanding in April 2023, such date. The Secured Credit Facility is secured by, among other things, a lien on the ultra-deepwater floaters *Deepwater Asgard*, *Deepwater Invictus*, *Deepwater Skyros*, *Dhirubhai Deepwater KG2* and *Discoverer Inspiration* and the harsh environment floaters *Transocean Barents* and *Transocean Spitsbergen*. The Secured Credit Facility contains covenants that, among other things, include maintenance of certain guarantee and collateral coverage ratios, a maximum debt to capitalization ratio of 0.60 to 1.00 and minimum liquidity of \$500 million. The Secured Credit Facility also restricts the ability of Transocean Ltd. and certain of our subsidiaries to, among other things, merge, consolidate or otherwise make changes to the corporate structure, incur liens, incur additional indebtedness, enter into transactions with affiliates and pay dividends and other distributions. In order to borrow under the Secured Credit Facility, we must, at the time of the borrowing request, not be in default under the bank credit agreement and make certain representations and warranties, including with respect to compliance with laws and solvency, to the lenders. Repayment of borrowings under the Secured Credit Facility are subject to acceleration upon the occurrence of an event of default. We are also subject to various covenants under the indentures pursuant to which our public debt was issued, including restrictions on creating liens, engaging in sale/leaseback transactions and engaging in certain merger, consolidation or reorganization transactions. A default under our public debt indentures, our finance lease contract or any other debt owed to unaffiliated entities that exceeds \$125 million could trigger a default under the Secured Credit Facility and, if not waived by the lenders, could cause us to lose access to the Secured Credit Facility. At October 22, 2019, we had no borrowings outstanding, \$15 million of letters of credit issued, and we had \$1.3 billion of available borrowing capacity under the Secured Credit Facility.

Debt issuances—On February 1, 2019, we issued \$550 million aggregate principal amount of 6.875% Senior Secured Notes, and we received aggregate cash proceeds of \$539 million, net of discount and issue costs. The indenture that governs the 6.875% Senior Secured Notes contains covenants that, among other things, limit the ability of our subsidiaries that own or operate the collateral rig *Deepwater Poseidon* to declare or pay dividends to their affiliates. We may redeem all or a portion of the 6.875% Senior Secured Notes on or prior to February 1, 2022 at a price equal to 100 percent of the aggregate principal amount plus a make-whole provision, and subsequently, at specified redemption prices.

On May 24, 2019, we issued \$525 million aggregate principal amount of 5.375% Senior Secured Notes, and we received aggregate cash proceeds of \$517 million, net of discount and issue costs. The indenture that governs the 5.375% Senior Secured Notes contains covenants that, among other things, limit the ability of our subsidiaries that own or operate the collateral rigs *Transocean Endurance* and *Transocean Equinox* to declare or pay dividends to their affiliates. We may redeem all or a portion of the 5.375% Senior Secured Notes on or prior to May 15, 2021 at a price equal to 100 percent of the aggregate principal amount plus a make-whole provision, and subsequently, at specified redemption prices.

In July 2018, we issued \$750 million aggregate principal amount of the 5.875% senior secured notes due January 2024 (the “5.875% Senior Secured Notes”) and \$600 million aggregate principal amount of 6.125% senior secured notes due August 2025 (the “6.125% Senior Secured Notes” and together with the 5.875% Senior Secured Notes, the “2018 Senior Secured Notes”), and we received aggregate cash proceeds of \$733 million and \$586 million, respectively, net of discount and issue costs. The indentures that govern the 2018 Senior Secured Notes contain covenants that, among other things, limit the ability of our subsidiaries that own or operate the collateral rigs *Transocean Enabler*, *Transocean Encourage* and *Deepwater Pontus* to declare or pay dividends to their affiliates. We may redeem all or a portion of the 2018 Senior Secured Notes at a price equal to 100 percent of the aggregate principal amount plus a make-whole provision. We will be required to redeem the notes at a price equal to 100 percent of the aggregate principal amount without a make-whole provision, upon the occurrence of certain events related to the collateral rigs and the related drilling contracts.

On October 25, 2018, we issued \$750 million aggregate principal amount of 7.25% senior notes due November 2025 (the “7.25% Senior Notes”), and we received aggregate cash proceeds of \$735 million, net of issue costs. We may redeem all or a portion of the 7.25% Senior Notes at any time prior to November 1, 2021 at a price equal to 100 percent of the aggregate principal amount plus a make-whole provision, and on or after November 1, 2021, at specified redemption prices.

Business combinations—On January 30, 2018, we acquired an approximate 97.7 percent ownership interest in 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. To complete these transactions, we issued 68.0 million shares as partial consideration for the acquisition of Songa shares. Additionally, we issued \$863 million aggregate principal amount of 0.50% exchangeable senior bonds due January 30, 2023 (the “Exchangeable Bonds”) as partial consideration for the acquisition of Songa shares and partial settlement of certain Songa indebtedness. Holders of the Exchangeable Bonds may convert the notes into shares of Transocean Ltd. at any time prior to maturity at a rate of 97.29756 shares per \$1,000 note, equivalent to a conversion price of \$10.28 per share, subject to adjustment upon the occurrence of certain events. Holders of Exchangeable Bonds may require us to repurchase all or a portion of such holder’s Exchangeable Bonds upon the occurrence of certain events.

On December 5, 2018, we acquired Ocean Rig in a merger transaction, and as a result, Ocean Rig became our wholly owned subsidiary. To complete the acquisition, we issued 147.7 million shares and made an aggregate cash payment of \$1.2 billion.

Investments in unconsolidated affiliates—We hold a 33.0 percent ownership interest in Orion, the company that owns the harsh environment floater *Transocean Norge*. In the nine months ended September 2019, we made an aggregate cash contribution of \$74 million to Orion. In the year ended December 31, 2018, we made an aggregate contribution of \$91 million to Orion. We have agreed to contribute \$33 million in January 2020. Additionally, in the year ended December 31, 2018, we made cash contributions of \$16 million to other companies involved in researching and developing technology to improve automation in drilling and other activities.

Early debt retirement—On February 5, 2019, we completed cash tender offers to purchase the 2019 Tendered Notes. We received valid tenders from holders of \$510 million aggregate principal amount of the 2019 Tendered Notes, and we made an aggregate cash payment of \$522 million to settle the 2019 Tendered Notes.

In the nine months ended September 30, 2019, we repurchased in the open market \$381 million aggregate principal amount of our debt securities for an aggregate cash payment of \$395 million. In the year ended December 31, 2018, we repurchased in the open market \$95 million aggregate principal amount of our debt securities for an aggregate cash payment of \$95 million.

In connection with the Songa acquisition, we assumed rights and obligations under certain credit agreements and a subscription agreement establishing two term loan facilities and a bond facility. In the year ended December 31, 2018, we made an aggregate cash payment of \$1.59 billion to repay the borrowings under the facilities and terminated the underlying credit agreements and subscription agreement. We also assumed the indebtedness related to two bond loans and we assumed the rights and obligations under a credit agreement for a secured borrowing facility. In the year ended December 31, 2018, we made an aggregate cash payment equivalent to \$67 million to repay the two bond loans and the borrowings outstanding under the secured borrowing facility, and we terminated the underlying credit agreement.

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Derivative instruments—In connection with the Songa acquisition, we acquired certain currency swaps. In February 2018, we made an aggregate cash payment of \$92 million in connection with the settlement and termination of the currency swaps.

Litigation settlements—On May 29, 2015, together with the Plaintiff Steering Committee, we filed a settlement agreement (the “PSC Settlement Agreement”) in which we agreed to pay a total of \$212 million, and in exchange, the two classes of plaintiffs agreed to release all respective claims against us. On February 15, 2017, the U.S. District Court for the Eastern District of Louisiana (the “MDL Court”) entered a final order and judgment approving the PSC Settlement Agreement. As required under the PSC Settlement Agreement, we made a cash deposit of \$212 million into an escrow account established by the MDL Court for the settlement. In August 2019 and November 2018, the MDL Court released \$33 million and \$58 million from the escrow account to make payments to the plaintiffs.

Share repurchase program—In May 2009, at our annual general meeting, our shareholders approved and authorized our board of directors, at its discretion, to repurchase an amount of our shares for cancellation with an aggregate purchase price of up to CHF 3.5 billion. On February 12, 2010, our board of directors authorized our management to implement the share repurchase program. In the nine months ended September 30, 2019 and the year ended December 31, 2018, we did not purchase shares under our share repurchase program. At October 22, 2019, the authorization remaining under the share repurchase program was for the repurchase of up to CHF 3.2 billion, equivalent to approximately \$3.3 billion, of our outstanding shares. We intend to fund any repurchases using available cash balances and cash from operating activities. The share repurchase program could be suspended or discontinued by our board of directors or company management, as applicable, at any time. We may decide, based upon our ongoing capital requirements, the price of our shares, regulatory and tax considerations, cash flow generation, the amount and duration of our contract backlog, general market conditions, debt rating considerations and other factors, that we should retain cash, reduce debt, make capital investments or acquisitions or otherwise use cash for general corporate purposes. Decisions regarding the amount, if any, and timing of any share repurchases will be made from time to time based upon these factors. Any repurchased shares under the share repurchase program would be held by us for cancellation by the shareholders at a future general meeting of shareholders.

Contractual obligations—As of September 30, 2019, with exception to the following, there have been no material changes to the contractual obligations as previously disclosed in “Part II. Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” in our annual report on Form 10-K for the year ended December 31, 2018:

	Total	Twelve months ending September 30,			Thereafter
		2020	2021 - 2022	2023 - 2024	
		(in millions)			
Contractual obligations					
Debt	\$ 9,496	\$ 361	\$ 1,271	\$ 3,191	\$ 4,673
Interest on debt	4,474	601	1,089	811	1,973
Total	\$ 13,970	\$ 962	\$ 2,360	\$ 4,002	\$ 6,646

Other commercial commitments—As of September 30, 2019, there have been no material changes to the commercial commitments as previously disclosed in “Part II. Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” in our annual report on Form 10-K for the year ended December 31, 2018.

Drilling fleet

Expansion—From time to time, we review possible acquisitions of businesses and drilling rigs and may make significant future capital commitments for such purposes. We may also consider investments related to major rig upgrades, new rig construction, or the acquisition of a rig under construction. We may commit to such investment without first obtaining customer contracts. Any acquisition, upgrade or new rig construction could involve the payment by us of a substantial amount of cash or the issuance of a substantial number of additional shares or other securities. Our failure to secure drilling contracts for rigs under construction could have an adverse effect on our results of operations or cash flows.

We hold a 33.0 percent interest in Orion, the company that owns the harsh environment floater *Transocean Norge*. The Moss Maritime CS60 design is considered among the most capable semisubmersibles in the world. In August 2019, Orion completed construction of the rig and placed it into service. One of our subsidiaries operates the rig under a short-term bareboat charter to complete a six-well drilling contract for one of our customers. See Notes to Condensed Consolidated Financial Statements—Note 5—Unconsolidated Affiliates.

In connection with the Songa acquisition, we acquired seven mobile offshore drilling units, including five harsh environment floaters and two midwater floaters. In connection with the Ocean Rig acquisition, we acquired 11 mobile offshore drilling units, including nine ultra-deepwater floaters and two harsh environment floaters and the contracts relating to the construction of two ultra-deepwater drillships. In September 2019, two of our indirect, wholly owned subsidiaries delivered to SHI notices of intent to relinquish their respective interests in *Ocean Rig Santorini* and *Ocean Rig Crete*, two ultra-deepwater drillships under construction. In October 2019, we agreed with SHI to cancel the construction contracts for the rigs in exchange for the parties terminating their respective obligations and liabilities under the construction contracts and our subsidiaries releasing to SHI their respective interests in the rigs. The table below reflects the reduction of projected expenditures resulting from the canceled construction contracts. See Notes to Condensed Consolidated Financial Statements—Note 17—Subsequent Events.

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In the nine months ended September 30, 2019, we made capital expenditures of \$259 million, including capitalized interest of \$28 million. We only capitalize interest costs during periods in which progress for construction projects continues to be underway. The historical and projected capital expenditures, capitalized interest and other cash or non-cash capital additions for our ongoing major construction projects were as follows:

	Total costs through December 31, 2018	Total costs for the nine months ended September 30, 2019	Expected costs for the three months ending December 31, 2019	For the years ending December 31,		Total estimated costs at completion
				2020	2021	
	(In millions)					
Ultra-Deepwater drillship TBN1 (a)	\$ 293	\$ 25	\$ 20	\$ 567	\$ —	\$ 905
Deepwater Titan (b)	216	65	26	202	636	1,145
Total	\$ 509	\$ 90	\$ 46	\$ 769	\$ 636	\$ 2,050

- (a) Our unnamed ultra-deepwater drillship under construction at the Jurong Shipyard Pte Ltd. in Singapore does not yet have a drilling contract and is expected to be delivered in the third quarter of 2020. Following delivery of the unnamed ultra-deepwater drillship, we have included estimated costs of \$40 million to mobilize the rig to a location where it may be placed in service.
- (b) *Deepwater Titan*, an ultra-deepwater drillship under construction at the Jurong Shipyard Pte Ltd. in Singapore, is expected to commence operations in the fourth quarter of 2021. The projected capital additions include estimates for an upgrade for two 20,000 pounds per square inch blowout preventers and other equipment required by our customer.

The ultimate amount of our capital expenditures is partly dependent upon financial market conditions, the actual level of operational and contracting activity, the costs associated with the current regulatory environment and customer requested capital improvements and equipment for which the customer agrees to reimburse us. As with any major shipyard project that takes place over an extended period of time, the actual costs, the timing of expenditures and the project completion date may vary from estimates based on numerous factors, including actual contract terms, weather, exchange rates, shipyard labor conditions, availability of suppliers to recertify equipment and the market demand for components and resources required for drilling unit construction. We intend to fund the cash requirements relating to our capital expenditures through available cash balances, cash generated from operations and asset sales and financing arrangements with banks or other capital providers. We also have available credit under our Secured Credit Facility (see “—Sources and uses of liquidity”). Economic conditions could impact the availability of these sources of funding.

Dispositions—From time to time, we may also review the possible disposition of non-strategic drilling units. Considering recent market conditions, we have committed to plans to sell certain lower-specification drilling units for scrap value. During the nine months ended September 30, 2019, we identified six such drilling units that we have sold or intend to sell for scrap value. During the year ended December 31, 2018, we identified eight such drilling units that we have sold or intend to sell for scrap value. We continue to evaluate the drilling units in our fleet and may identify additional lower specification drilling units to be sold for scrap value. During the nine months ended September 30, 2019, we completed the sale of three ultra-deepwater floaters, one harsh environment floater, two deepwater floaters and two midwater floaters, along with related assets, and we received net cash proceeds of \$47 million. During the year ended December 31, 2018, we completed the sale of six ultra-deepwater floaters, one deepwater floater and one midwater floater, along with related assets, and we received net cash proceeds of \$36 million.

Other Matters

Regulatory matters

From time to time, we receive inquiries from governmental regulatory agencies regarding our operations around the world, including inquiries with respect to various tax, environmental, regulatory and compliance matters. To the extent appropriate under the circumstances, we investigate such matters, respond to such inquiries and cooperate with the regulatory agencies. See Notes to Condensed Consolidated Financial Statements—Note 14—Contingencies.

Tax matters

We conduct operations through our various subsidiaries in countries throughout the world. Each country has its own tax regimes with varying nominal rates, deductions 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. We file federal and local tax returns in several jurisdictions throughout the world. Tax authorities in certain jurisdictions are examining our tax returns and in some cases have issued assessments. We are defending our tax positions in those jurisdictions. While we cannot predict or provide assurance as to the final outcome of these proceedings, we do not expect the ultimate liability to have a material adverse effect on our condensed consolidated statement of financial position or results of operations, although it may have a material adverse effect on our condensed consolidated cash flows. See Notes to Condensed Consolidated Financial Statements—Note 12—Income Taxes and Note 17—Subsequent Events.

Critical Accounting Policies and Estimates

Our discussion and analysis of our financial condition and results of operations are based upon our condensed consolidated financial statements. This discussion should be read in conjunction with disclosures included in the notes to our condensed consolidated financial statements related to estimates, contingencies and other accounting policies. We disclose our significant accounting policies in Note 2 to our condensed consolidated financial statements in this quarterly report on Form 10-Q and in Note 2 to our consolidated financial statements in our annual report on Form 10-K for the year ended December 31, 2018.

For a discussion of the critical accounting policies and estimates that we use in the preparation of our condensed consolidated financial statements, see “Part II. Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies and Estimates” in our annual report on Form 10-K for the year ended December 31, 2018. We have discussed the development, selection and disclosure of these critical accounting policies and estimates with the audit committee of our board of directors. As of September 30, 2019, there have been no material changes to the types of judgments, assumptions and estimates upon which our critical accounting policies and estimates are based.

Accounting Standards Updates

For a discussion of the new accounting standards updates that have had or are expected to have an effect on our condensed consolidated financial statements, see Notes to Condensed Consolidated Financial Statements—Note 3—Accounting Standards Updates in this quarterly report on Form 10-Q and in our annual report on Form 10-K for the year ended December 31, 2018.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Overview—We are exposed to interest rate risk, primarily associated with our long-term debt, including current maturities. Additionally, we are exposed to currency exchange rate risk related to our international operations. For a complete discussion of our interest rate risk and currency exchange rate risk, see “Part II. Item 7A. Quantitative and Qualitative Disclosures About Market Risk” in our annual report on Form 10-K for the year ended December 31, 2018.

Interest rate risk—The following table presents the principal amounts and related weighted-average interest rates of our long-term debt instruments by contractual maturity date. The following table presents information as of September 30, 2019 for the 12-month periods ending September 30 (in millions, except interest rate percentages):

	Scheduled Maturity Date (a)						Total	Fair value
	2020	2021	2022	2023	2024	Thereafter		
Debt								
Fixed rate (USD)	\$ 361	\$ 602	\$ 669	\$ 2,582	\$ 609	\$ 4,673	\$ 9,496	\$ 8,569
Average interest rate	6.24 %	6.26 %	6.97 %	4.98 %	6.26 %	7.26 %		

At September 30, 2019 and December 31, 2018, the fair value of debt was \$8.6 billion and \$9.2 billion, respectively. During the nine months ended September 30, 2019, the fair value of our debt decreased by \$643 million due to the following: (a) a decrease of approximately \$862 million due to the completion of cash tender offers to purchase certain notes on February 5, 2019 and open market repurchases of certain of our debt securities, (b) a decrease of approximately \$544 million due to the reclassification of a finance lease contract to lease liabilities and (c) a decrease of approximately \$264 million due to the repayment of debt at scheduled maturities, partially offset by (d) an increase of approximately \$1.1 billion due to the issuance of the 6.875% Senior Secured Notes and the 5.375% Senior Secured Notes and (e) an increase of approximately \$77 million due to changes in market prices for our outstanding debt.

Item 4. Controls and Procedures

Disclosure controls and procedures—We carried out an evaluation, under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures as defined in the United States (“U.S.”) Securities Exchange Act of 1934 (the “Exchange Act”), Rules 13a-15 and 15d-15, as of the end of the period covered by this report. Our disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed in our reports filed or submitted under the Exchange Act is (1) accumulated and communicated to our management, including our Chief Executive Officer and our Chief Financial Officer, to allow timely decisions regarding required disclosure and (2) recorded, processed, summarized and reported within the time periods specified in the U.S. Securities and Exchange Commission’s rules and forms. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of September 30, 2019.

Internal control over financial reporting—There were no changes to our internal control over financial reporting during the quarter ended September 30, 2019 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

Transocean Ltd. (together with its subsidiaries and predecessors, unless the context requires otherwise, “Transocean,” “we,” “us,” or “our”) has certain actions, claims and other matters pending as discussed and reported in “Part II. Item 8. Financial Statements and Supplementary Data—Notes to Consolidated Financial Statements—Note 13—Commitments and Contingencies” and “Part II. Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations—Other Matters—Regulatory matters—Consent Decree” in our annual report on Form 10-K for the year ended December 31, 2018. We are also involved in various tax matters as described in “Part II. Item 8. Financial Statements and Supplementary Data—Notes to Consolidated Financial Statements—Note 10—Income Taxes” and in “Part II. Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations—Other Matters—Tax matters” in our annual report on Form 10-K for the year ended December 31, 2018. All such actions, claims, tax and other matters are incorporated herein by reference.

The previously disclosed lawsuit filed against Global Marine Inc. (“Global Marine”), a Delaware corporation and our wholly owned subsidiary, by Wilmington Trust Company, in its capacity as trustee, was dismissed with prejudice on July 29, 2019, prohibiting the trustee from refile a lawsuit based upon the claims alleged in the trustee’s lawsuit. Additionally, the holder of the majority in principal of Global Marine’s \$300 million of outstanding 7.00% Notes due June 2028 (the “7.00% Notes”) has waived any alleged existing or past default related to the allegations in the trustee’s lawsuit, which prohibits any other holder of the 7.00% Notes from filing a lawsuit based upon the claims alleged in the trustee’s lawsuit. Subsequent to the dismissal of the lawsuit, Global Marine and Transocean Inc. entered into a supplemental indenture to the indenture governing the 7.00% Notes. The supplemental indenture provides that Transocean Inc. irrevocably and unconditionally guarantees all of the obligations of Global Marine under the indenture and the 7.00% Notes, and that Global Marine will publish certain financial information on an annual basis.

As of September 30, 2019, we were also involved in a number of other lawsuits, claims and disputes, which have arisen in the ordinary course of our business and for which we do not expect the liability, if any, to have a material adverse effect on our condensed consolidated statement of financial position, results of operations or cash flows. We cannot predict with certainty the outcome or effect of any of the matters referred to above or of any such other pending or threatened litigation or legal proceedings. There can be no assurance that our beliefs or expectations as to the outcome or effect of any lawsuit or claim or dispute will prove correct and the eventual outcome of these matters could materially differ from management’s current estimates.

Item 1A. Risk Factors

There have been no material changes to the risk factors as previously disclosed in “Part I. Item 1A. Risk Factors” in our annual report on Form 10-K for the year ended December 31, 2018.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (a)	Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs (in millions) (a)
July 2019	—	\$ —	—	\$ 3,250
August 2019	—	—	—	3,250
September 2019	—	—	—	3,250
Total	—	\$ —	—	\$ 3,250

- (a) In May 2009, at our annual general meeting, our shareholders approved and authorized our board of directors, at its discretion, to repurchase for cancellation any amount of our shares for an aggregate purchase price of up to CHF 3.5 billion. At September 30, 2019, the authorization remaining under the share repurchase program was for the repurchase of our outstanding shares for an aggregate cost of up to CHF 3.2 billion, equivalent to \$3.3 billion. The share repurchase program could be suspended or discontinued by our board of directors or company management, as applicable, at any time. See “Part I. Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Sources and uses of liquidity.”

Item 6. Exhibits

(a) Exhibits

The following exhibits are filed in connection with this quarterly report on Form 10-Q:

Number	Description	Location
3.1	Articles of Association of Transocean Ltd.	Exhibit 3.1 to Transocean Ltd.'s Current Report on Form 8-K (Commission File No. 001-38373) filed on May 13, 2019
3.2	Organizational Regulations of Transocean Ltd., adopted November 18, 2016	Exhibit 3.1 to Transocean Ltd.'s Current Report on Form 8-K (Commission File No. 000-53533) filed on November 23, 2016
4.1	Third Supplemental Indenture, dated as of July 29, 2019, among Global Marine Inc., Transocean Inc. and Wilmington Trust Company, as trustee	Exhibit 4.1 to Transocean Ltd.'s Current Report on Form 8-K (Commission File No. 001-38373) filed on July 29, 2019
10.1	Increase of Commitments and Second Amendment to Credit Agreement and First Amendment to Guaranties, dated July 15, 2019, among Transocean Inc., the lenders and issuing banks parties thereto, Citibank, N.A., as administrative agent and for the limited purposes set forth therein, Transocean Ltd. and certain of its subsidiaries	Exhibit 10.1 to Transocean Ltd.'s Current Report on Form 8-K (Commission File No. 001-38373) filed on July 15, 2019
10.2	Curative Agreement, dated September 24, 2019, between Transocean Inc. and Citibank, N.A., as administrative agent for the lenders under the Credit Agreement dated June 22, 2018, as amended	Filed herewith
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934 and Section 302 of the Sarbanes-Oxley Act of 2002	Filed herewith
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934 and Section 302 of the Sarbanes-Oxley Act of 2002	Filed herewith
32.1	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	Furnished herewith
32.2	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	Furnished herewith
101	Interactive data files pursuant to Rule 405 of Regulation S-T formatted in Inline Extensible Business Reporting Language: (i) our condensed consolidated balance sheets as of September 30, 2019 and December 31, 2018; (ii) our condensed consolidated statements of operations for the three and nine months ended September 30, 2019 and 2018; (iii) our condensed consolidated statements of comprehensive loss for the three and nine months ended September 30, 2019 and 2018; (iv) our condensed consolidated statements of equity for the three and nine months ended September 30, 2019 and 2018; (v) our condensed consolidated statements of cash flows for the nine months ended September 30, 2019 and 2018; and (vi) the notes to condensed consolidated financial statements	Filed herewith
104	The cover page from our quarterly report on Form 10-Q for the quarterly period ended September 30, 2019, formatted in Inline Extensible Business Reporting Language	Filed herewith

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned; thereunto duly authorized, on October 29, 2019.

TRANSOCEAN LTD.

By: /s/ Mark L. Mey

Mark L. Mey
Executive Vice President, Chief Financial Officer
(Principal Financial Officer)

By: /s/ David Tonnel

David Tonnel
Senior Vice President and Corporate Controller
(Principal Accounting Officer)

CURATIVE AGREEMENT

This CURATIVE AGREEMENT (this “Agreement”) dated as of September 24, 2019, is between TRANSOCEAN INC., a Cayman Islands exempted company (the “Borrower”), and CITIBANK, N.A., as administrative agent for the Lenders (as defined below) under the below described Credit Agreement (in such capacity, the “Administrative Agent”).

INTRODUCTION

A. The Borrower, the Administrative Agent, Citibank, N.A., in its capacity as collateral agent, and the lenders and issuing banks party thereto from time to time (the “Lenders”) are parties to that certain Credit Agreement dated as of June 22, 2018 (as amended, supplemented or otherwise modified from time to time prior to the date hereof, the “Credit Agreement”; capitalized terms used but not otherwise defined herein shall have the meanings ascribed to such terms in the Credit Agreement as amended hereby).

B. The parties hereto desire to enter into this agreement pursuant to clause (i) of the second proviso of Section 10.11 of the Credit Agreement.

C. Pursuant to clause (i) of the second proviso of Section 10.11 of the Credit Agreement, notice and a copy of this Agreement was posted to an Electronic System by the Administrative Agent at or prior to 5:00 P.M. EDT on September 16, 2019 (the “Notice”).

D. Lenders constituting the Required Lenders have not delivered written notice to the Administrative Agent of their objection to this Agreement as of the date hereof, being more than five (5) Business Days following the effective receipt by the Lenders pursuant to Section 10.7 of the Credit Agreement of the Notice.

NOW, THEREFORE, in consideration of the premises and the mutual covenants, representations, and warranties contained herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto hereby agree as follows:

Section 1. **Amendment.** Effective on and as of the date hereof, Schedule 1.1-C to the Credit Agreement is hereby amended and restated in its entirety in the form set out on Annex A hereto.

Section 2. **Acceptance.** By virtue of the failure of the Required Lenders to object to this Agreement on or prior to the date hereof, each Lender confirms, ratifies and acknowledges its Commitments as set forth on Schedule 1.1-C of the Credit Agreement as amended hereby.

Section 3. **Acknowledgment.** This Agreement is a Credit Document for the purposes of the provisions of the other Credit Documents.

Section 4. **Counterparts.** This Agreement may be signed in any number of counterparts, each of which shall be an original and all of which, taken together, constitute a single instrument. This Agreement may be executed by facsimile or other electronic signature acceptable to the Administrative Agent (it being agreed signatures delivered via .pdf copies pursuant to electronic mail are acceptable) and all such signatures shall be effective as originals.

Section 5. **Successors and Assigns.** This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns permitted pursuant to the Credit Agreement.

Section 6. **Invalidity.** In the event that any one or more of the provisions contained in this Agreement shall for any reason be held invalid, illegal, or unenforceable in any respect, such invalidity, illegality, or unenforceability shall not affect any other provision of this Agreement.

Section 7. **Governing Law.** THIS AGREEMENT AND ANY CLAIMS, CONTROVERSY, DISPUTE, OR CAUSE OF ACTION (WHETHER IN CONTRACT, TORT, OR OTHERWISE) BASED UPON, ARISING OUT OF, OR RELATING TO THIS AGREEMENT AND THE TRANSACTIONS CONTEMPLATED HEREBY SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAW OF THE STATE OF NEW YORK. SECTION 10.14 OF THE CREDIT AGREEMENT IS INCORPORATED HEREIN BY REFERENCE AS IF SET FORTH HEREIN IN ITS ENTIRETY AND SHALL APPLY *MUTATIS MUTANDIS* TO THIS AGREEMENT.

Section 8. **Entire Agreement.** THIS AGREEMENT AND THE OTHER CREDIT DOCUMENTS REPRESENT THE FINAL AGREEMENT AMONG THE PARTIES HERETO AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS, OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES HERETO. THERE ARE NO UNWRITTEN AGREEMENTS AMONG THE PARTIES HERETO RELATING TO THE MATTERS ADDRESSED BY THIS AGREEMENT.

[Signature pages follow.]

EXECUTED to be effective as of the date first above written.

BORROWER:

TRANSOCEAN INC.

By: /s/ C. Stephen
McFadin

Name: C. Stephen McFadin
Title: President

Signature Page to Curative Agreement

ADMINISTRATIVE AGENT:

CITIBANK, N.A., as Administrative Agent

By: /s/ Maureen P.
Maroney

Name: Maureen P. Maroney
Title: Vice President

Signature Page to Curative Agreement

ANNEX A.

Schedule 1.1-C

COMMITMENT AMOUNTS AS OF SEPTEMBER 24, 2019

<u>PART I. Lender</u>	<u>Commitment</u>	<u>Percentage</u>
Citibank, N.A.	\$175,000,000	13.513514%
Citicorp North America, Inc.	\$25,000,000	1.930502%
Wells Fargo Bank, National Association	\$182,500,000	14.092664%
Goldman Sachs Bank USA	\$182,500,000	14.092664%
DNB Capital LLC	\$125,000,000	9.652510%
Morgan Stanley Senior Funding, Inc.	\$125,000,000	9.652510%
Nordea Bank ABP New York Branch	\$100,000,000	7.722008%
Crédit Agricole Corporate and Investment Bank	\$100,000,000	7.722008%
Skandinaviska Enskilda Banken AB (publ)	\$95,000,000	7.335907%
Barclays Bank PLC	\$75,000,000	5.791506%
SpareBank 1 SR-Bank ASA	\$65,000,000	5.019305%
NIBC Bank N.V.	\$35,000,000	2.702703%
The Standard Bank of South Africa Limited	\$10,000,000	0.772201%
TOTAL COMMITMENTS	\$1,295,000,000	100.000000%

<u>PART II. Initial Issuing Bank</u>	<u>L/C Subcommitment Amount</u>
Citibank, N.A.	\$ 150,000,000
Wells Fargo Bank, National Association	\$ 125,000,000
Crédit Agricole Corporate and Investment Bank	\$ 50,000,000
DNB Bank ASA, New York Branch	\$ 100,000,000

CEO CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Jeremy D. Thigpen, certify that:

1. I have reviewed this report on Form 10-Q of Transocean Ltd.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: October 29, 2019

/s/ Jeremy D. Thigpen

Jeremy D. Thigpen

President and Chief Executive Officer

CFO CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Mark L. Mey, certify that:

1. I have reviewed this report on Form 10-Q of Transocean Ltd.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: October 29, 2019

/s/ Mark L. Mey

Mark L. Mey

Executive Vice President, Chief Financial Officer

**CERTIFICATION PURSUANT TO SECTION 906 OF
THE SARBANES-OXLEY ACT OF 2002 (SUBSECTIONS (a) AND (b)
OF SECTION 1350, CHAPTER 63 OF TITLE 18, UNITED STATES CODE)**

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code), I, Jeremy D. Thigpen, President and Chief Executive Officer of Transocean Ltd., a Swiss corporation (the "Company"), hereby certify, to my knowledge, that:

- (1) the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2019 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: October 29, 2019

/s/ Jeremy D. Thigpen

Jeremy D. Thigpen

President and Chief Executive Officer

The foregoing certification is being furnished solely pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code) and is not being filed as part of the Report or as a separate disclosure document.

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the U.S. Securities and Exchange Commission or its staff upon request.

**CERTIFICATION PURSUANT TO SECTION 906 OF
THE SARBANES-OXLEY ACT OF 2002 (SUBSECTIONS (a) AND (b)
OF SECTION 1350, CHAPTER 63 OF TITLE 18, UNITED STATES CODE)**

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code), I, Mark L. Mey, Executive Vice President, Chief Financial Officer of Transocean Ltd., a Swiss corporation (the "Company"), hereby certify, to my knowledge, that:

(1) the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2019 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: October 29, 2019

/s/ Mark L. Mey

Mark L. Mey

Executive Vice President, Chief Financial Officer

The foregoing certification is being furnished solely pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code) and is not being filed as part of the Report or as a separate disclosure document.

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the U.S. Securities and Exchange Commission or its staff upon request.
