Transocean Ltd.
Form 10-Q
November 05, 2012

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

FORM 10-Q

(Mark one)

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

For the quarterly period ended September 30, 2012

OR

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

For the transition period from _____ to _____

Commission file number 000-53533

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

Zug, Switzerland (State or other jurisdiction of incorporation or organization)	98-0599916 (I.R.S. Employer Identification No.)
Chemin de Blandonnet 10	1214

Vernier, Switzerland
(Address of principal executive offices) (Zip Code)

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

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

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

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

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

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

As of October 23, 2012, 359,425,927 shares were outstanding.

TRANSOCEAN LTD. AND SUBSIDIARIES
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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

TRANSOCEAN LTD. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In millions, except per share data)
(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2012	2011	2012	2011
Operating revenues				
Contract drilling revenues	$ 2,310	$ 1,827	$ 6,498	$ 5,396
Other revenues	130	164	420	576
	2,440	1,991	6,918	5,972
Costs and expenses				
Operating and maintenance	1,338	1,344	4,731	3,915
Depreciation and amortization	280	281	846	821
General and administrative	69	67	217	200
	1,687	1,692	5,794	4,936
Loss on impairment	—	—	(210)	—
Gain (loss) on disposal of assets, net	50	(1)	40	(1)
Operating income	803	298	954	1,035
Other income (expense), net				
Interest income	15	7	43	27
	(180)	(151)	(543)	(443)

Interest expense, net of amounts capitalized				
Other, net	(8)	(77)	(32)	(79)
	(173)	(221)	(532)	(495)
Income from continuing operations before income tax expense	630	77	422	540
Income tax expense	104	93	96	211
Income (loss) from continuing operations	526	(16)	326	329
Income (loss) from discontinued operations, net of tax	(909)	(5)	(994)	116
Net income (loss)	(383)	(21)	(668)	445
Net income (loss) attributable to noncontrolling interest	(2)	11	7	34
Net income (loss) attributable to controlling interest	$ (381)	$ (32)	$ (675)	$ 411
Earnings (loss) per share-basic				
Earnings (loss) from continuing operations	$ 1.47	$ (0.08)	$ 0.90	$ 0.92
Earnings (loss) from discontinued operations	(2.53)	(0.02)	(2.80)	0.36
Earnings (loss) per share	$ (1.06)	$ (0.10)	$ (1.90)	$ 1.28
Earnings (loss) per share-diluted				
Earnings (loss) from continuing operations	$ 1.47	$ (0.08)	$ 0.90	$ 0.92
Earnings (loss) from discontinued operations	(2.53)	(0.02)	(2.80)	0.36
Earnings (loss) per share	$ (1.06)	$ (0.10)	$ (1.90)	$ 1.28
Weighted-average shares outstanding				
Basic	359	320	354	320
Diluted	359	320	354	320

See accompanying notes.

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

	Three months ended September 30,		Nine months ended September 30,	
	2012	2011	2012	2011
Net income (loss)	$ (383)	$ (21)	$ (668)	$ 445
Other comprehensive income (loss) before income taxes				
Unrecognized components of net periodic benefit costs	(5)	(4)	(32)	(10)
Unrecognized loss on derivative instruments	—	(7)	—	(14)
Unrealized loss on marketable securities	—	(14)	—	(14)
Recognized components of net periodic benefit costs	11	7	34	19
Recognized (gain) loss on derivative instruments	(3)	3	—	8
Other comprehensive income (loss) before income taxes	3	(15)	2	(11)
Income taxes related to other comprehensive income (loss)	1	—	(1)	(2)
Other comprehensive income (loss), net of income taxes	4	(15)	1	(13)
Total comprehensive income (loss)	(379)	(36)	(667)	432
Total comprehensive income (loss) attributable to noncontrolling interest	(2)	6	7	27
Total comprehensive income (loss) attributable to controlling interest	$ (377)	$ (42)	$ (674)	$ 405

See accompanying notes.

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

	September 30, 2012	December 31, 2011
Assets		
Cash and cash equivalents	$ 6,001	$ 4,017
Accounts receivable, net of allowance for doubtful accounts of $28 at September 30, 2012 and December 31, 2011	2,163	2,176
Materials and supplies, net of allowance for obsolescence of $71 and $59 at September 30, 2012 and December 31, 2011, respectively	597	529
Deferred income taxes, net	169	142
Assets held for sale	930	26
Other current assets	444	646
Total current assets	10,304	7,536
Property and equipment	26,567	24,833
Property and equipment of consolidated variable interest entities	817	2,252
Less accumulated depreciation	6,925	6,297
Property and equipment, net	20,459	20,788
Goodwill	2,987	3,217
Other assets	1,562	3,491
Total assets	$ 35,312	$ 35,032
Liabilities and equity		
Accounts payable	$ 876	$ 880
Accrued income taxes	257	86
Debt due within one year	2,701	1,942
Debt of consolidated variable interest entities due within one year	28	245
Other current liabilities	2,839	2,375
Total current liabilities	6,701	5,528
Long-term debt	11,211	10,756
Long-term debt of consolidated variable interest entities	177	593
Deferred income taxes, net	450	514
Other long-term liabilities	1,517	1,898
Total long-term liabilities	13,355	13,761
Commitments and contingencies		
Redeemable noncontrolling interest	—	116
Shares, CHF 15.00 par value, 402,282,355 authorized, 167,617,649 conditionally authorized,	5,129	4,982

and 373,830,649 and 365,135,298 issued at September 30, 2012 and December 31, 2011, respectively; 359,418,883 and 349,805,793 outstanding at September 30, 2012 and December 31, 2011, respectively				
Additional paid-in capital		7,496		7,211
Treasury shares, at cost, 2,863,267 held at September 30, 2012 and December 31, 2011		(240)		(240)
Retained earnings		3,399		4,180
Accumulated other comprehensive loss		(512)		(496)
Total controlling interest shareholders' equity		15,272		15,637
Noncontrolling interest		(16)		(10)
Total equity		15,256		15,627
Total liabilities and equity	$	35,312	$	35,032

See accompanying notes.

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

	Nine months ended September 30, 2012	Nine months ended September 30, 2011	Nine months ended September 30, 2012	Nine months ended September 30, 2011
	Shares		Amount	
Shares				
Balance, beginning of period	350	319	$ 4,982	$ 4,482
Issuance of shares under share-based compensation plans	—	1	13	11
Issuance of shares in exchange for noncontrolling interest	9	—	134	—
Balance, end of period	359	320	$ 5,129	$ 4,493
Additional paid-in capital				
Balance, beginning of period			$ 7,211	$ 7,504
Share-based compensation			72	74
Issuance of shares under share-based compensation plans			(16)	(17)
Issuance of shares in exchange for noncontrolling interest			233	—
Obligation for distribution of qualifying additional paid-in capital			—	(1,017)
Other, net			(4)	1
Balance, end of period			$ 7,496	$ 6,545
Treasury shares, at cost				
Balance, beginning of period			$ (240)	$ (240)
Balance, end of period			$ (240)	$ (240)
Retained earnings				
Balance, beginning of period			$ 4,180	$ 9,934
Net income (loss) attributable to controlling interest			(675)	411
Fair value adjustment of redeemable noncontrolling interest			(106)	—
Balance, end of period			$ 3,399	$ 10,345
Accumulated other comprehensive loss				
Balance, beginning of period			$ (496)	$ (332)
Reclassification from redeemable noncontrolling interest			(17)	—
Other comprehensive income (loss) attributable to controlling interest			1	(6)
Balance, end of period			$ (512)	$ (338)
Total controlling interest shareholders' equity				
Balance, beginning of period			$ 15,637	$ 21,348

Total comprehensive income (loss) attributable to controlling interest	(674)	405
Share-based compensation	72	74
Issuance of shares under share-based compensation plans	(3)	(6)
Issuance of shares in exchange for noncontrolling interest	367	—
Fair value adjustment of redeemable noncontrolling interest	(106)	—
Reclassification from redeemable noncontrolling interest	(17)	—
Obligation for distribution of qualifying additional paid-in capital	—	(1,017)
Other, net	(4)	1
Balance, end of period	$ 15,272	$ 20,805
Noncontrolling interest		
Balance, beginning of period	$ (10)	$ (8)
Total comprehensive loss attributable to noncontrolling interest	(6)	(3)
Balance, end of period	$ (16)	$ (11)
Total equity		
Balance, beginning of period	$ 15,627	$ 21,340
Total comprehensive income (loss)	(680)	402
Share-based compensation	72	74
Issuance of shares under share-based compensation plans	(3)	(6)
Issuance of shares in exchange for noncontrolling interest	367	—
Fair value adjustment of redeemable noncontrolling interest	(106)	—
Reclassification from redeemable noncontrolling interest	(17)	—
Obligation for distribution of qualifying additional paid-in capital	—	(1,017)
Other, net	(4)	1
Balance, end of period	$ 15,256	$ 20,794

See accompanying notes.

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

	Three months ended September 30,		Nine months ended September 30,	
	2012	2011	2012	2011
Cash flows from operating activities				
Net income (loss)	$ (383)	$ (21)	$ (668)	$ 445
Adjustments to reconcile to net cash provided by operating activities				
Amortization of drilling contract intangibles	(9)	(12)	(32)	(32)
Depreciation and amortization	280	281	846	821
Depreciation and amortization of assets in discontinued operations	48	80	182	258
Share-based compensation expense	24	20	72	74
Loss on impairment	—	—	210	—
Loss on impairment of assets in discontinued operations	878	7	913	32
(Gain) loss on disposal of assets, net	(50)	1	(40)	1
(Gain) loss on disposal of assets in discontinued operations, net	1	1	(70)	(175)
Amortization of debt issue costs, discounts and premiums, net	17	33	52	95
Deferred income taxes	(61)	(6)	(104)	30
Other, net	12	79	47	85
Changes in deferred revenue, net	(64)	(36)	(69)	7
Changes in deferred expenses, net	51	18	30	(66)
Changes in operating assets and liabilities	42	47	416	(353)
Net cash provided by operating activities	786	492	1,785	1,222
Cash flows from investing activities				
Capital expenditures	(201)	(124)	(646)	(633)
Capital expenditures for discontinued operations	(24)	(13)	(75)	(37)
Investment in marketable security	—	(199)	—	(199)
Proceeds from disposal of assets, net	178	4	189	12
Proceeds from disposal of assets in discontinued operations, net	5	84	196	353
Payment for settlement of forward exchange contract	—	(78)	—	(78)
Other, net	7	6	32	(27)
Net cash used in investing activities	(35)	(320)	(304)	(609)
Cash flows from financing activities				
Changes in short-term borrowings, net	—	2	(260)	58

Proceeds from debt	1,493	—	1,493	5
Repayments of debt	(264)	(23)	(584)	(272)
Proceeds from restricted cash investments	106	—	298	—
Deposits to restricted cash investments	(42)	—	(158)	—
Distribution of qualifying additional paid-in capital	—	(254)	(278)	(508)
Other, net	(7)	—	(8)	(4)
Net cash provided by (used in) financing activities	1,286	(275)	503	(721)
Net increase (decrease) in cash and cash equivalents	2,037	(103)	1,984	(108)
Cash and cash equivalents at beginning of period	3,964	3,349	4,017	3,354
Cash and cash equivalents at end of period	$ 6,001	$ 3,246	$ 6,001	$ 3,246

See accompanying notes.

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

Note 1—Nature of Business

Transocean Ltd. (together with its subsidiaries and predecessors, unless the context requires otherwise, "Transocean," the "Company," "we," "us" or "our") is a leading international provider of offshore contract drilling services for oil and gas wells. We specialize in technically demanding sectors of the offshore drilling business with a particular focus on deepwater and harsh environment drilling services. Our mobile offshore drilling fleet is considered one of the most versatile fleets in the world. We contract our drilling rigs, related equipment and work crews predominantly on a dayrate basis to drill oil and gas wells. At September 30, 2012, we owned or had partial ownership interests in and operated 82 mobile offshore drilling units associated with our continuing operations. As of this date, our fleet consisted of 48 High-Specification Floaters (Ultra-Deepwater, Deepwater and Harsh Environment semisubmersibles and drillships), 25 Midwater Floaters, and nine High-Specification Jackups. Additionally, we owned and operated 32 Standard Jackups and one swamp barge associated with our discontinued operations (see Note 9—Discontinued Operations). We also had six Ultra-Deepwater drillships and three High-Specification Jackups under construction or under contract to be constructed. See Note 11—Drilling Fleet.

We also provide oil and gas drilling management services, drilling engineering and drilling project management services through Applied Drilling Technology Inc., our wholly owned subsidiary, and through ADT International, a division of one of our United Kingdom ("U.K.") subsidiaries (together, "ADTI"). ADTI conducts drilling management services primarily on either a dayrate or a completed-project, fixed-price (or "turnkey") basis.

Note 2—Significant Accounting Policies

Basis of presentation—We have prepared our accompanying unaudited condensed consolidated financial statements in accordance with accounting principles generally accepted in the United States ("U.S.") for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X of the U.S. Securities and Exchange Commission ("SEC"). Pursuant to such rules and regulations, these financial statements do not include all disclosures required by accounting principles generally accepted in the U.S. for complete financial statements. The condensed consolidated financial statements reflect all adjustments, which are, in the opinion of management, necessary for a fair presentation of financial position, results of operations and cash flows for the interim periods. Such adjustments are considered to be of a normal recurring nature unless otherwise noted. Operating results for the three and nine months ended September 30, 2012 are not necessarily indicative of the results that may be expected for the year ending December 31, 2012 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, 2011 and 2010 and for each of the three years in the period ended December 31, 2011 included in our annual report on Form 10-K filed on February 27, 2012.

Accounting estimates—To prepare financial statements in accordance with accounting principles generally accepted in the U.S., we are required to make estimates and assumptions that affect the reported amounts of assets, liabilities,

revenues and expenses and the disclosures of contingent assets and liabilities. On an ongoing basis, we evaluate our estimates and assumptions, including those related to our allowance for doubtful accounts, materials and supplies obsolescence, property and equipment, investments, notes receivable, goodwill and other intangible assets, income taxes, defined benefit pension plans and other postretirement benefits, contingencies and share-based compensation. We base our estimates and assumptions on historical experience and on various other factors we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying amounts of assets and liabilities that are not readily apparent from other sources. Actual results could differ from such estimates.

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

Consolidation—We consolidate entities in which we have a majority voting interest and entities that meet the criteria for variable interest entities for which we are deemed to be the primary beneficiary for accounting purposes. We eliminate intercompany transactions and accounts in consolidation. We apply the equity method of accounting for investments in entities if we have the ability to exercise significant influence over an entity that (a) does not meet the variable interest entity criteria or (b) meets the variable interest entity criteria, but for which we are not deemed to be the primary beneficiary. We apply the cost method of accounting for investments in other entities if we do not have the ability to exercise significant influence over the unconsolidated entity. See Note 5—Variable Interest Entities.

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

Share-based compensation—Share-based compensation expense was $24 million and $72 million for the three and nine months ended September 30, 2012, respectively. Share-based compensation expense was $20 million and $74 million for the three and nine months ended September 30, 2011, respectively.

Capitalized interest—We capitalize interest costs for qualifying construction and upgrade projects. We capitalized interest costs on construction work in progress of $12 million and $37 million for the three and nine months ended September 30, 2012, respectively. We capitalized interest costs for construction work in progress of $5 million and $30 million for the three and nine months ended September 30, 2011, respectively.

Reclassifications—We have made certain reclassifications, which did not have an effect on net income, to prior period amounts to conform with the current period's presentation, including certain reclassifications to our condensed consolidated statements of financial position, results of operations and cash flows to present our operations in the Standard Jackup and swamp barge market sectors, components of our contract drilling service segment, as discontinued operations (See Note 9—Discontinued Operations). Other reclassifications did not have a material effect on our condensed consolidated statement of financial position, results of operations or cash flows.

Subsequent events—We evaluate subsequent events through the time of our filing on the date we issue our financial statements. See Note 20—Subsequent Events.

Note 3—New Accounting Pronouncements

Recently Adopted Accounting Standards

Intangibles-goodwill and other—Effective January 1, 2012, we adopted the accounting standards update that amends the goodwill impairment testing requirements by giving an entity the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount and whether the two-step impairment test is required. The update is effective for goodwill impairment tests performed for annual and interim periods beginning after December 15, 2011. Our adoption did not have an effect on our condensed consolidated financial statements.

Fair value measurements—Effective January 1, 2012, we adopted the accounting standards update that requires additional disclosure about fair value measurements that involve significant unobservable inputs, including additional quantitative information about the unobservable inputs, a description of valuation techniques used, and a qualitative evaluation of the sensitivity of these measurements. Our adoption did not have a material effect on the disclosures contained in our notes to condensed consolidated financial statements.

Recently Issued Accounting Standards

Balance sheet—Effective January 1, 2013, we will adopt the accounting standards update that expands the disclosure requirements for the offsetting of assets and liabilities related to certain financial instruments and derivative instruments. The update requires disclosures to present both gross information and net information for financial instruments and derivative instruments that are eligible for net presentation due to a right of offset, an enforceable master netting arrangement or similar agreement. The update is effective for interim and annual periods beginning on or after January 1, 2013. We do not expect that our adoption will have a material effect on our condensed consolidated balance sheet or the disclosures contained in our notes to condensed consolidated financial statements.

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

Note 4—Correction of Errors in Previously Reported Consolidated Financial Statements

We perform assessments of our contingencies and corresponding assets for insurance recoveries on an ongoing basis to evaluate the appropriateness of our balances and disclosures for such contingencies and insurance recoveries. We establish liabilities for estimated loss contingencies when we believe a loss is probable and the amount of the probable loss can be reasonably estimated. We recognize corresponding assets for those loss contingencies that we believe are probable of being recovered through insurance. In performing these assessments in the three months ended June 30, 2012, we identified an error in our previously issued financial statements for the year ended December 31, 2011 and the three months ended March 31, 2012 related to the recognition of assets for insurance recoveries related to legal and other costs totaling $67 million and $37 million, respectively, which we have concluded should not have been recorded because they were not probable of recovery.

We assessed the materiality of this error in accordance with SEC Staff Accounting Bulletin (“SAB”) No. 99, Materiality and SAB No. 108, Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements (“SAB 108”), using both the rollover method and the iron curtain method, as defined in SAB 108, and concluded the error, inclusive of other adjustments discussed below, was immaterial to prior years but could be material to the current year. Under SAB 108, if the prior year error, if corrected in the current year, would be material to the current year, the prior year financial statements should be corrected, even though such correction previously was immaterial to the prior year financial statements. Correcting prior year financial statements for immaterial errors does not require our previously filed reports to be amended, but rather these corrections will be made the next time we file the prior period consolidated financial statements.

In addition to the adjustments in 2011 and 2012 related to the assets for insurance recoveries, we recorded other adjustments related to the years ended December 31, 2011 and 2010 and the three months ended March 31, 2012 to correct for immaterial errors for repair and maintenance costs, income taxes, discontinued operations, and the allocation of net income attributable to noncontrolling interest. These other adjustments were not previously recorded in the appropriate periods, as we concluded that they were immaterial to our previously issued consolidated financial statements.

For the three and nine month periods ended September 30, 2011, correction of these errors increased income from continuing operations by $35 million and $1 million, respectively, and net income attributable to controlling interest by $39 million and $17 million, respectively. The summary of adjustments for increases and (decreases) to net income (loss) from continuing operations and net income (loss) attributable to controlling interest for the applicable periods were as follows (in millions):

	Three months	Nine months

	ended September 30, 2011	ended September 30, 2011
Legal and other costs	$ (19)	$ (49)
Repair and maintenance costs	59	11
Income tax benefit	5	25
Other immaterial adjustments, net	(10)	14
Net adjustment to income from continuing operations	35	1
Net adjustment to income from discontinued operations, net of tax	4	—
Net adjustment to net income attributable to noncontrolling interest	—	(16)
Net adjustment to net income attributable to controlling interest	$ 39	$ 17

The effects of the corrections of the errors on our consolidated statements of operations for the three and nine months ended September 30, 2011 are presented in the tables below. Previously reported amounts include reclassifications for discontinued operations (see Note 9—Discontinued Operations). The corrections of the errors had no effect on our consolidated statements of comprehensive income (loss) other than the effect of the changes to net income (loss) for each period. The corrections of the errors had no effect on the previously reported amounts of operating, investing, and financing cash flows in our consolidated statements of cash flows.

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

	Three months ended September 30, 2011			Nine months ended September 30, 2011		
	Previously reported	Adjustments	As adjusted	Previously reported	Adjustments	As adjusted
Operating revenues						
Contract drilling revenues	$ 1,830	$ (3)	$ 1,827	$ 5,399	$ (3)	$ 5,396
Other revenues	164	—	164	576	—	576
	1,994	(3)	1,991	5,975	(3)	5,972
Costs and expenses						
Operating and maintenance	1,377	(33)	1,344	3,894	21	3,915
Depreciation and amortization	281	—	281	821	—	821
General and administrative	67	—	67	200	—	200
	1,725	(33)	1,692	4,915	21	4,936
Loss on impairment	—	—	—	—	—	—
Gain (loss) on disposal of assets, net	(1)	—	(1)	(1)	—	(1)
Operating income	268	30	298	1,059	(24)	1,035
Other income (expense), net						
Interest income	7	—	7	27	—	27
Interest expense, net of amounts capitalized	(151)	—	(151)	(443)	—	(443)
Other, net	(77)	—	(77)	(79)	—	(79)
	(221)	—	(221)	(495)	—	(495)
Income from continuing operations before income tax expense	47	30	77	564	(24)	540
Income tax expense	98	(5)	93	236	(25)	211
Income (loss) from continuing operations	(51)	35	(16)	328	1	329
Income (loss) from discontinued operations, net of tax	(9)	4	(5)	116	—	116
Net income (loss)	(60)	39	(21)	444	1	445

Net income (loss) attributable to noncontrolling interest	11	—	11	50	(16)	34
Net income (loss) attributable to controlling interest	$ (71)	$ 39	$ (32)	$ 394	$ 17	$ 411
Earnings (loss) per share-basic						
Earnings (loss) from continuing operations	$ (0.19)	$ 0.11	$ (0.08)	$ 0.86	$ 0.06	$ 0.92
Earnings (loss) from discontinued operations	(0.03)	0.01	(0.02)	0.36	—	0.36
Earnings (loss) per share	$ (0.22)	$ 0.12	$ (0.10)	$ 1.22	$ 0.06	$ 1.28
Earnings (loss) per share-diluted						
Earnings (loss) from continuing operations	$ (0.19)	$ 0.11	$ (0.08)	$ 0.86	$ 0.06	$ 0.92
Earnings (loss) from discontinued operations	(0.03)	0.01	(0.02)	0.36	—	0.36
Earnings (loss) per share	$ (0.22)	$ 0.12	$ (0.10)	$ 1.22	$ 0.06	$ 1.28

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Note 5—Variable Interest Entities

Consolidated variable interest entities—The carrying amounts associated with our consolidated variable interest entities, after eliminating the effect of intercompany transactions, were as follows (in millions):

	September 30, 2012			December 31, 2011		
	Assets	Liabilities	Net carrying amount	Assets	Liabilities	Net carrying amount
Variable interest entity						
TPDI	$ —	$ —	$ —	$ 1,562	$ 673	$ 889
ADDCL	941	313	628	930	334	596
Total	$ 941	$ 313	$ 628	$ 2,492	$ 1,007	$ 1,485

Transocean Pacific Drilling Inc. (“TPDI”), a consolidated British Virgin Islands company, met the definition of a variable interest entity for which we were the primary beneficiary. On May 31, 2012, TPDI became a wholly owned subsidiary, and no longer meets the definition of a variable interest entity. See Note 16—Redeemable Noncontrolling Interest.

Angola Deepwater Drilling Company Limited (“ADDCL”), a consolidated Cayman Islands company, is a variable interest entity for which we are the primary beneficiary. Accordingly, we consolidate the operating results, assets and liabilities of ADDCL.

Unconsolidated variable interest entities—As holder of two notes receivable and a lender under a working capital loan, we have a variable interest in Awilco Drilling plc (“Awilco”), a U.K. company listed on the Oslo Stock Exchange. In the three months ended March 31, 2012, Awilco encountered operational downtime, both planned and unplanned, and disputed billings, at which time we reevaluated whether Awilco met the definition of a variable interest entity. Based on our reevaluation, we determined that Awilco now met the definition of a variable interest entity since its equity at risk is insufficient to permit it to carry on its activities without additional subordinated financial support. We also continue to believe that we are not the primary beneficiary since we do not have the power to direct the activities that most significantly impact the entity’s economic performance.

The notes receivable were originally accepted in exchange for and are secured by two drilling units. The notes receivable have stated interest rates of nine percent and are payable in scheduled quarterly installments of principal and interest through maturity in January 2015. The working capital loan, also secured by the two drilling units, has a stated interest rate of 10 percent and is payable in scheduled quarterly installments of principal and interest through maturity in January 2013, subject to acceleration under certain conditions. We evaluate the credit quality and

financial condition of Awilco quarterly. The aggregate carrying amount of the notes receivable was $106 million and $110 million at September 30, 2012 and December 31, 2011, respectively. The aggregate carrying amount of the working capital loan receivable was $5 million and $29 million at September 30, 2012 and December 31, 2011, respectively. At September 30, 2012, our aggregate exposure to loss on these receivable instruments was $111 million.

Note 6—Business Combination

As of October 3, 2011, the acquisition date, we held 99 percent of the shares of Aker Drilling ASA ("Aker Drilling"), a Norwegian company formerly listed on the Oslo Stock Exchange, having paid an aggregate amount of NOK 7.9 billion, equivalent to $1.4 billion. On October 4, 2011, we acquired the remaining noncontrolling interest from holders of Aker Drilling that were required to tender their shares pursuant to Norwegian law. We believe the acquisition of Aker Drilling enhances the composition of our High-Specification Floater fleet and strengthens our presence in Norway. In accounting for the business combination, we applied the acquisition method of accounting, recording the assets and liabilities of Aker Drilling at their estimated fair values as of the acquisition date.

As of October 3, 2011, the acquisition price included the following, measured at estimated fair value: current assets of $323 million, drilling rigs and other property and equipment of $1.8 billion, other assets of $757 million, and the assumption of long-term debt of $1.6 billion and other liabilities of $291 million. The acquired assets included $901 million of cash investments restricted for the payment of certain assumed debt instruments. The excess of the purchase price over the estimated fair value of net assets acquired was approximately $285 million, which was recorded as goodwill. We subsequently made adjustments to the estimated fair value of certain assets and liabilities, which are reflected in the amounts noted above, with a corresponding net increase to goodwill in the amount of $12 million.

In the three and nine months ended September 30, 2012, our operating revenues included approximately $90 million and $285 million of contract drilling revenues, respectively, associated with the operations of the two Harsh Environment, Ultra-Deepwater semisubmersibles that we acquired in our acquisition of Aker Drilling.

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Unaudited pro forma combined operating results from continuing operations, assuming the acquisition was completed as of January 1, 2011, were as follows (in millions, except per share data):

	Three months ended September 30, 2011	Nine months ended September 30, 2011
Operating revenues	$ 2,099	$ 6,284
Operating income	345	1,181
Income (loss) from continuing operations	$ 35	$ 427
Per share earnings (loss) from continuing operations		
Basic	$ 0.08	$ 1.23
Diluted	$ 0.08	$ 1.23

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

Note 7—Impairments

Definite-lived intangible assets—During the nine months ended September 30, 2012, we determined that the customer relationships intangible asset associated with our drilling management services reporting unit was impaired due to the declining market outlook for these services in the shallow waters of the U.S. Gulf of Mexico as well as the increased regulatory environment for obtaining drilling permits and the diminishing demand for our drilling management services. We estimated the fair value of the customer relationships intangible asset using the multiperiod excess earnings method, a valuation methodology that applies the income approach. Our valuation required us to project the future performance of the drilling management services reporting unit based on significant unobservable inputs, representing a Level 3 fair value measurement, including assumptions for future commodity prices, projected demand for our services, rig availability and dayrates. As a result of our valuation, we determined that the carrying amount of the customer relationships intangible asset exceeded its fair value, and we recognized a loss on impairment of $53 million ($37 million, or $0.10 per diluted share from continuing operations, net of tax) in the nine months ended September 30, 2012.

Goodwill and other indefinite-lived intangible assets—As a result of our annual impairment test, performed as of October 1, 2011, we determined that the goodwill associated with our contract drilling services reporting unit was impaired due to a decline in projected cash flows and market valuations for this reporting unit. In the year ended December 31, 2011, we recognized a loss on impairment, representing our best estimate, in the amount of $5.2 billion ($16.15 per diluted share from continuing operations), which had no tax effect. In the nine months ended September 30, 2012, we completed our analysis and recognized an incremental adjustment to our original estimate in the amount of $118 million ($0.33 per diluted share from continuing operations), which had no tax effect. We estimated the implied fair value of the goodwill using a variety of valuation methods, including cost, income, and market approaches. Our valuation required us to project the future performance of our contract drilling services reporting unit based on significant unobservable inputs, representing a Level 3 fair value measurement, including assumptions for future commodity prices, projected demand for our services, rig availability and dayrates.

During the nine months ended September 30, 2012, we determined that the trade name intangible asset associated with our drilling management services reporting unit was impaired due to the declining market outlook for these services in the shallow waters of the U.S. Gulf of Mexico as well as the increased regulatory environment for obtaining drilling permits and the diminishing demand for drilling management services. We estimated the fair value of the trade name intangible asset using the relief from royalty method, a valuation methodology that applies the income approach. Our valuation required us to project the future performance of the drilling management services reporting unit based on significant unobservable inputs, representing a Level 3 fair value measurement, including assumptions for future commodity prices, projected demand for drilling management services, rig availability and dayrates. As a result of our valuation, we determined that the carrying amount of the trade name intangible asset exceeded its fair value, and we recognized a loss on impairment of $39 million ($25 million, or $0.07 per diluted share from continuing operations, net of tax) in the nine months ended September 30, 2012.

Note 8—Income Taxes

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

Our provision for income taxes is based on the tax laws and rates applicable in the jurisdictions in which we operate and earn income. The relationship between our provision for or benefit from income taxes and our income or loss before income taxes can vary significantly from period to period considering, among other factors, (a) the overall level of income before income taxes, (b) changes in the blend of income that is taxed based on gross revenues rather than income before taxes, (c) rig movements between taxing jurisdictions and (d) our rig operating structures. Generally, our annual marginal tax rate is lower than our annual effective tax rate.

The estimated annual effective tax rates for our continuing operations were 20.5 percent and 30.8 percent for the nine months ended September 30, 2012 and 2011, respectively. These rates were based on estimated annual income before income taxes for each period after adjusting for various discrete items.

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

	September 30, 2012	December 31, 2011
Valuation allowance for non-current deferred tax assets	$ 182	$ 183

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

	September 30, 2012	December 31, 2011
Unrecognized tax benefits, excluding interest and penalties	$ 453	$ 515
Interest and penalties	207	256
Unrecognized tax benefits, including interest and penalties	$ 660	$ 771

We engage in ongoing discussions with tax authorities regarding the resolution of tax matters in the various jurisdictions in which we operate. Both the ultimate outcome of these tax matters and the timing of any resolution or closure of the tax audits are highly uncertain. In the three and nine months ended September 30, 2012, the amount of current tax benefit recognized from the settlement of disputes with tax authorities and from the expiration of statutes of limitations, including interest and penalties, was $2 million and $196 million, respectively. It is reasonably possible that the total amount of our existing liabilities for unrecognized tax benefit could decrease by up to 20 percent or increase by up to 10 percent in the next 12 months.

Tax returns—We file federal and local tax returns in several jurisdictions throughout the world. With few exceptions, we are no longer subject to examinations of our U.S. and non-U.S. tax matters for years prior to 2006.

Our tax returns in the major jurisdictions in which we operate, other than the U.S., Norway and Brazil which are mentioned below, are generally subject to examination for periods ranging from three to six years. We have agreed to extensions beyond the statute of limitations in two major jurisdictions for up to 17 years. Tax authorities in certain jurisdictions are examining our tax returns and in some cases have issued assessments. We are defending our tax positions in those jurisdictions. While we cannot predict or provide assurance as to the final outcome of these proceedings, we do not expect the ultimate liability to have a material adverse effect on our consolidated statement of financial position or results of operations, although it may have a material adverse effect on our consolidated cash flows.

U.S. tax investigations—With respect to our 2004 U.S. federal income tax return, the U.S. tax authorities withdrew all of their previously proposed tax adjustments, including all claims related to transfer pricing. In January 2012, a judge in the U.S. Tax Court entered a decision of no deficiency for the 2004 tax year and cancelled the trial previously scheduled to take place in February 2012. With respect to our 2005 U.S. federal income tax returns, the U.S. tax authorities have withdrawn all of their previously proposed tax adjustments. In May 2010, we received an assessment from the U.S. tax authorities related to our 2006 and 2007 U.S. federal income tax returns. In July 2010, we filed a protest letter with the U.S. tax authorities responding to this assessment. The significant issues raised in the assessment relate to transfer pricing for certain charters of drilling rigs between our subsidiaries and the creation of intangible assets resulting from the performance of engineering services between our subsidiaries. These two items would result in net adjustments of approximately $278 million of additional taxes, excluding interest and penalties.

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An unfavorable outcome on these adjustments could result in a material adverse effect on our consolidated statement of financial position, results of operations or cash flows. We believe our U.S. federal income tax returns are materially correct as filed, and we intend to continue to vigorously defend against all such claims.

In addition, the May 2010 assessment included adjustments related to a series of restructuring transactions that occurred between 2001 and 2004. These restructuring transactions impacted our basis in our former subsidiary, TODCO, which we disposed of in 2004 and 2005. The authorities are disputing the amount of capital losses that resulted from the disposition of TODCO. We utilized a portion of the capital losses to offset capital gains on our U.S. federal income tax returns for 2006 through 2009. The majority of the capital losses were unutilized and expired on December 31, 2009. The adjustments would also impact the amount of certain net operating losses and other carryovers in 2006 and later years. The authorities are also contesting the characterization of certain amounts of income received in 2006 and 2007 as capital gain and thus the availability of the capital loss to offset such gains. These claims with respect to our U.S. federal income tax returns for 2006 through 2009 could result in net tax adjustments of approximately $295 million, excluding interest and penalties. An unfavorable outcome on these potential adjustments could result in a material adverse effect on our consolidated statement of financial position, results of operations or cash flows. We believe that our U.S. federal income tax returns are materially correct as filed, and we intend to continue to vigorously defend against any potential claims.

The May 2010 assessment also included certain claims with respect to withholding taxes and certain other items resulting in net tax adjustments of approximately $160 million, excluding interest. In addition, the tax authorities assessed penalties associated with the various tax adjustments for the 2006 and 2007 audits in the aggregate amount of approximately $88 million, excluding interest. An unfavorable outcome on these adjustments could result in a material adverse effect on our consolidated statement of financial position, results of operations and cash flows. We believe that our U.S. federal income tax returns are materially correct as filed, and we intend to continue to vigorously defend against potential claims.

In February 2012, we received an assessment from the U.S. tax authorities related to our 2008 and 2009 U.S. federal income tax returns. The significant issues raised in the assessment relate to transfer pricing for certain charters of drilling rigs between our subsidiaries and the creation of intangible assets resulting from the performance of engineering services between our subsidiaries. These items would result in net adjustments of approximately $473 million of additional taxes, excluding interest and penalties. An unfavorable outcome on these adjustments could result in a material adverse effect on our consolidated statement of financial position, results of operations or cash flows. Furthermore, if the authorities were to continue to pursue these positions with respect to subsequent years and were successful in such assertions, our effective tax rate on worldwide earnings with respect to years following 2009 could increase substantially, and could have a material adverse effect on our consolidated results of operations and cash flows. We believe our U.S. federal income tax returns are materially correct as filed, and we intend to continue to vigorously defend against all such claims.

Norway tax investigations—Norwegian civil tax and criminal authorities are investigating various transactions undertaken by our subsidiaries in 2001 and 2002 as well as the actions of certain employees of our former external tax advisors on these transactions. The authorities issued tax assessments of approximately $116 million, plus interest, related to the migration of a subsidiary that was previously subject to tax in Norway, approximately $70 million, plus

interest, related to a 2001 dividend payment, and approximately $7 million, plus interest, related to certain foreign exchange deductions and dividend withholding tax. We have filed or expect to file appeals to these tax assessments. We have provided a parent company guarantee in the amount of approximately $118 million with respect to one of these tax disputes. Furthermore, we may be required to provide some form of additional financial security, in an amount up to $206 million, including interest and penalties, for other assessed amounts as these disputes are appealed and addressed by the Norwegian courts. The authorities have indicated that they plan to seek penalties of 60 percent on most but not all matters. In June 2011, the Norwegian authorities issued criminal indictments against two of our subsidiaries alleging misleading or incomplete disclosures in Norwegian tax returns for the years 1999 through 2002, as well as inaccuracies in Norwegian statutory financial statements for the years ended December 31, 1996 through 2001. The criminal trial has been scheduled for December 2012. Two employees of our former external tax advisors were also issued indictments with respect to the disclosures in our tax returns. In October 2011, the Norwegian authorities issued criminal indictments against a Norwegian tax attorney related to certain of our restructuring transactions and to the 2001 dividend payment. The indicted Norwegian tax attorney worked for us in an advisory capacity on these transactions. We believe the charges brought against us are without merit and do not alter our technical assessment of the underlying claims. In January 2012, the Norwegian authorities supplemented the previously issued criminal indictments by issuing a financial claim of approximately $311 million, jointly and severally, against our two subsidiaries, the two external advisors and the external tax attorney. In February 2012, the authorities dropped the previously existing tax assessment related to a certain restructuring transaction. In April 2012, the Norwegian tax authorities supplemented the previously issued criminal indictments against our two subsidiaries by extending a criminal indictment against a third subsidiary on the same matter, alleging misleading or incomplete disclosures in Norwegian tax returns for the years 2001 and 2002. We believe our Norwegian tax returns are materially correct as filed, and we intend to continue to vigorously contest any assertions to the contrary by the Norwegian civil and criminal authorities in connection with the various transactions being investigated. An unfavorable outcome on the Norwegian civil or criminal tax matters could result in a material adverse effect on our consolidated statement of financial position, results of operations or cash flows. See Note 20—Subsequent Events.

Brazil tax investigations—Certain of our Brazilian income tax returns for the years 2000 through 2004 are currently under examination. The Brazilian tax authorities have issued tax assessments totaling $98 million, plus a 75 percent penalty in the amount of $73 million and interest through December 31, 2011 in the amount of $146 million. We believe our returns are materially correct as filed, and we are vigorously contesting these assessments. On January 25, 2008, we filed a protest letter with the Brazilian tax authorities, and we are currently engaged in the appeals process. An unfavorable outcome on these proposed assessments could result in a material adverse effect on our consolidated statement of financial position, results of operations or cash flows.

Other tax matters—We conduct operations through our various subsidiaries in a number of countries throughout the world. Each country has its own tax regimes with varying nominal rates, deductions 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 assessments to have a material adverse effect on our consolidated statement of financial position, results of operations or cash flows.

Note 9—Discontinued Operations

Standard Jackup and swamp barge market sectors—In September 2012, we committed to a strategy to discontinue operations in the Standard Jackup and swamp barge market sectors, components of our contract drilling services operating segment, and to increase our focus on High-Specification Floaters and High-Specification Jackups. Consistent with our strategy, we committed to a plan to sell 46 Standard Jackups and one swamp barge, representing our entire fleet of rigs in these market sectors. As a result of our decision, as of September 30, 2012, we reclassified the assets and liabilities associated with this disposal group to assets held for sale and other liabilities for all periods presented, and as of December 31, 2011, we reclassified the assets and liabilities associated with this disposal group to other current assets, other assets and other long-term liabilities. At September 30, 2012, the aggregate carrying amount of the assets associated with the disposal group was $924 million. At December 31, 2011, the aggregate carrying amounts of the assets and liabilities associated with the disposal group were $1.9 billion and $33 million, respectively.

As a result of our decision to discontinue operations associated with these components of our contract drilling services operating segment, we allocated $112 million of goodwill to the disposal group based on the fair value of the disposal group relative to the fair value of the contract drilling services operating segment. We estimated the implied fair value of the goodwill attributable to the disposal group using a variety of valuation methods, including the income and market approaches. Our valuation required us to project the future performance of the disposal group and of our contract drilling services reporting unit based on significant unobservable inputs, representing a Level 3 fair value measurement, including assumptions for future commodity prices, projected demand for our services, rig availability and dayrates.

Disposal transactions with Shelf Drilling—In September 2012, in connection with our strategy to discontinue operations in the Standard Jackup and swamp barge market sectors, we entered into definitive agreements with Shelf Drilling Holdings, Ltd. and certain of its affiliates ("Shelf Drilling") to sell 37 Standard Jackups, including the Standard Jackup GSF Baltic, which was formerly classified as a High-Specification Jackup, the Standard Jackups C.E. Thornton, F.G. McClintock, GSF Adriatic I, GSF Adriatic V, GSF Adriatic VI, GSF Adriatic IX, GSF Adriatic X, GSF Compact Driller, GSF Galveston Key, GSF High Island II, GSF High Island IV, GSF High Island V, GSF High Island VII, GSF High Island IX, GSF Key Gibraltar, GSF Key Hawaii, GSF Key Manhattan, GSF Key Singapore, GSF Main Pass I, GSF Main Pass IV, GSF Parameswara, GSF Rig 105, GSF Rig 124, GSF Rig 141, Harvey H. Ward, J.T. Angel, Randolph Yost, Ron Tappmeyer, Transocean Comet, Trident II, Trident VIII, Trident IX, Trident XII, Trident XIV, Trident XV and Trident XVI and the swamp barge Hibiscus, along with related equipment.

As of September 30, 2012, the aggregate carrying amount of the rigs and related equipment, materials and supplies and other related assets included in the Shelf Drilling disposal transactions was approximately $800 million. The aggregate sales price associated with the disposal transactions is approximately $1.1 billion, including net cash proceeds of $855 million and non-cash seller financing of $195 million, and the transactions are subject to certain working capital and other adjustments. The disposal transactions are expected to close in the fourth quarter of 2012. We have agreed, after the closing of the disposal transactions, to temporarily continue operating certain rigs under operating agreements and to perform other services for Shelf Drilling under a transition services agreement. Under the transition services agreement, we are required to continue to perform these transition services for a period ranging from nine months to 27 months after the closing.

For a period of up to three years following the closing of the disposal transactions, we have agreed to provide to Shelf Drilling up to $125 million of financial support by maintaining letters of credit, surety bonds and parent guarantees to guarantee various contract bidding and performance activities associated with the drilling units being sold to Shelf Drilling and in effect at the closing of the disposal transactions. Included within the $125 million maximum amount, we have agreed to provide up to $65 million of additional financial support, excluding parent guarantees, in connection with any new drilling contracts related to such drilling units. At September 30, 2012, we had $116 million outstanding letters of credit, issued under our committed and uncommitted credit lines, in support of rigs associated with the Shelf Drilling disposal transactions. See Note 15—Commitments and Contingencies.

The parent company of Shelf Drilling, which will own the drilling units upon closing of the disposal transactions, is a newly formed company sponsored equally by three private equity firms. The non-cash seller financing consists of perpetual preference shares of the parent company of Shelf Drilling. The preference shares will be entitled to dividends that are cumulative and payable in-kind at 10 percent per annum, escalating two percent biannually to a maximum of 14 percent but subject to reductions or increases under certain circumstances. The preference shares are subject to mandatory redemption upon certain specified events, including an initial public offering or change of control of Shelf Drilling.

As a result of the pending disposal transactions, we increased our liabilities for postemployment obligations and severance payments. In the three and nine months ended September 30, 2012, we recognized $20 million of personnel costs, included in the loss on impairment disclosed below, relating to employees and contract labor. The loss on impairment also included approximately $60 million of costs for required reactivation of one drilling unit after the closing of the disposal transactions and costs to mobilize certain drilling units.

Disposals of other Standard Jackups—In September 2012, in connection with our strategy to discontinue operations in the Standard Jackup and swamp barge market sectors, we also committed to a plan to sell, within the next 12 months, the remaining nine Standard Jackups, including D.R. Stewart, GSF Adriatic VIII, GSF Rig 103, GSF Rig 127, GSF Rig 134, Interocean III, Trident 17, Trident IV-A and Trident VI. At September 30, 2012, the nine Standard Jackups and related equipment, materials and supplies and other related assets that were classified as held for sale and unrelated to the Shelf Drilling disposal transactions had an aggregate carrying amount of $124 million.

Caspian Sea operations—In February 2011, in connection with our efforts to dispose of non-strategic assets, we sold the subsidiary that owns the High-Specification Jackup Trident 20, located in the Caspian Sea. The disposal of this subsidiary, a component of our contract drilling services segment, reflects our decision to discontinue operations in the Caspian Sea. Through June 2011, we continued to operate Trident 20 under a bareboat charter to perform services for the customer and the buyer reimbursed us for the approximate cost of providing these services. Additionally, we provided certain transition services to the buyer through September 2011.

Oil and gas properties—In March 2011, in connection with our efforts to dispose of non-strategic assets, we engaged an unaffiliated advisor to coordinate the sale of the assets of our oil and gas properties reporting unit, a component of our other operations segment, which comprises the exploration, development and production activities performed by Challenger Minerals Inc. and Challenger Minerals (North Sea) Limited, our wholly owned oil and gas subsidiaries.

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

	Three months ended	Nine months ended

	September 30,		September 30,	
	2012	2011	2012	2011
Operating revenues	$ 257	$ 259	$ 696	$ 804
Operating and maintenance expense	(224)	(169)	(656)	(539)
Depreciation and amortization expense	(48)	(80)	(182)	(258)
Loss on impairment of assets in discontinued operations	(878)	(7)	(913)	(32)
Gain (loss) on disposal of assets in discontinued operations, net	(1)	(1)	70	175
Income (loss) from discontinued operations before income tax expense	(894)	2	(985)	150
Income tax expense	(15)	(7)	(9)	(34)
Income (loss) from discontinued operations, net of tax	$ (909)	$ (5)	$ (994)	$ 116

Impairments—In September 2012, in connection with our reclassification of the Standard Jackup and swamp barge disposal group to assets held for sale, we determined that the disposal group was impaired since its aggregate carrying amount exceeded its aggregate fair value. We estimated the fair value of this disposal group by applying a variety of valuation methods, including cost, income, and market approaches to estimate the exit price that would be received for the assets in the principal or most advantageous market for the assets in an orderly transaction between market participants as of the measurement date. Although we based certain components of our valuation on significant other observable inputs, including binding sale and purchase agreements, a significant portion of our valuation required us to project the future performance of the disposal group based on significant unobservable inputs, representing a Level 3 fair value measurement, including assumptions regarding long-term projections for future revenues and costs, dayrates, rig utilization and idle time. We measured the impairments of the disposal group as the amount by which the carrying amounts exceeded its estimated fair value less costs to sell. Costs to sell the disposal group included approximately $17 million of legal and financial advisory costs and expenses. In the three and nine months ended September 30, 2012, as a result of our valuation, we recognized losses of $744 million ($2.09 per diluted share) and $112 million ($0.31 per diluted share), with no tax effect, associated with the impairment of long-lived assets and the goodwill, respectively.

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In the nine months ended September 30, 2012, we also recognized aggregate losses of $29 million ($0.08 per diluted share), which had no tax effect, associated with the impairment of the Standard Jackups GSF Adriatic II and GSF Rig 136, which were classified as assets held for sale at the time of impairment. In the three and nine months ended September 30, 2011, we recognized aggregate losses of $3 million ($0.01 per diluted share from continuing operations), which had no tax effect, and $28 million ($0.08 per diluted share from continuing operations), which had a tax effect of less than $1 million, respectively, associated with the impairment of the Standard Jackups George H. Galloway, GSF Britannia, GSF Labrador and the swamp barge Searex IV, which were classified as assets held for sale at the time of impairment. We measured the impairments of the drilling units and related equipment as the amount by which the carrying amounts exceeded the estimated fair values less costs to sell. We estimated the fair value of the assets using significant other observable inputs, representing Level 2 fair value measurements, including binding sale and purchase agreements for the drilling units and related equipment.

In the three and nine months ended September 30, 2012, we recognized losses of $2 million, which had no tax effect, and $8 million ($7 million or $0.02 per diluted share, net of tax) associated with the impairment of our oil and gas properties, which were classified as assets held for sale, since the carrying amount of the properties exceeded the estimated fair value less costs to sell the properties. In the three and nine months ended September 30, 2011, we recognized a loss of $4 million ($2 million or $0.01 per diluted share, net of tax) associated with the impairment of our oil and gas properties, which were classified as assets held for sale, since the carrying amount of the properties exceeded the estimated fair value less costs to sell the properties. We estimated fair value based on significant other observable inputs, representing a Level 2 fair value measurement, including a binding sale and purchase agreement for the properties.

Disposals—During the nine months ended September 30, 2012, we completed the sales of the Standard Jackups GSF Adriatic II, GSF Rig 136, Roger W. Mowell, Transocean Nordic and Transocean Shelf Explorer, along with related equipment. During the nine months ended September 30, 2011, we completed the sales of the Standard Jackups George H. Galloway, GSF Britannia, GSF Labrador and Transocean Mercury and the swamp barge Searex IV, along with related equipment. In connection with the disposal of these assets, in the nine months ended September 30, 2012 and 2011, we received aggregate net cash proceeds of $179 million and $94 million, and we recognized a net gains on disposal of these assets in the amount of $64 million ($0.18 per diluted share) and $8 million ($0.03 per diluted share), respectively which had no tax effect in either period. For the three and nine months ended September 30, 2012, we recognized losses on disposal of unrelated assets in the amount of $1 million and $6 million, respectively. For the three and nine months ended September 30, 2011, we recognized losses on disposal of unrelated assets in the amount of $2 million.

In the nine months ended September 30, 2011, in connection with the sale of the High-Specification Jackup Trident 20, we received net cash proceeds of $259 million and recognized a gain on the disposal of the assets of $169 million ($0.51 per diluted share), which had no tax effect.

In April 2012, we completed the sale of the assets of Challenger Minerals Inc. for net cash proceeds of $7 million, and in May 2012, we received an additional $10 million of cash proceeds from the buyer of Challenger Minerals (North Sea) Limited. In the three and nine months ended September 30, 2012, we recognized gains of $1 million and $12 million ($0.03 per diluted share), respectively, which had no tax effect for either period, associated with the disposal of oil and gas properties.

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Assets and liabilities of discontinued operations—As a result of our decision to discontinue the operations in the Standard Jackups and swamp barge market sectors, the Caspian Sea and the oil and gas exploration and production market, we have classified the related assets and liabilities of these components of our business to other current assets, other assets, other current liabilities and other long-term liabilities as of September 30, 2012 and December 31, 2011. The carrying amounts of the major classes of assets and liabilities associated with these operations were classified as follows (in millions):

	September 30, 2012	December 31, 2011
Assets		
Rigs and related equipment, net	$ 819	$ —
Materials and supplies	99	—
Oil and gas properties, net	6	24
Other related assets	6	2
Assets held for sale	$ 930	$ 26
Materials and supplies	$ —	$ 98
Other assets	8	21
Other current assets	$ 8	$ 119
Rigs and related equipment, net	$ —	$ 1,745
Deferred costs	—	42
Other assets	$ —	$ 1,787
Liabilities		
Deferred revenue	$ —	$ 17
Deferred income taxes, net	6	6
Other liabilities	3	14
Other current liabilities	$ 9	$ 37
Deferred revenue	$ —	$ 8
Deferred income taxes, net	—	5
Other liabilities	$ —	$ 13

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Note 10—Earnings Per Share

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

	Three months ended September 30,				Nine months ended September 30,			
	2012		2011		2012		2011	
	Basic	Diluted	Basic	Diluted	Basic	Diluted	Basic	Diluted
Numerator for earnings (loss) per share								
Income (loss) from continuing operations attributable to controlling interest	$ 528	$ 528	$ (27)	$ (27)	$ 319	$ 319	$ 295	$ 295
Undistributed earnings allocable to participating securities	—	—	—	—	—	—	(2)	(2)
Income (loss) from continuing operations available to shareholders	$ 528	$ 528	$ (27)	$ (27)	$ 319	$ 319	$ 293	$ 293
Denominator for earnings (loss) per share								
Weighted-average shares outstanding	359	359	320	320	354	354	320	320
Effect of stock options and other share-based awards	—	—	—	—	—	—	—	—
Weighted-average shares for per share calculation	359	359	320	320	354	354	320	320
Per share earnings (loss) from continuing operations	$ 1.47	$ 1.47	$ (0.08)	$ (0.08)	$ 0.90	$ 0.90	$ 0.92	$ 0.92

For the three and nine months ended September 30, 2012, respectively, we excluded 1.9 million share-based awards from the calculation since the effect would have been anti-dilutive. For the three and nine months ended September 30, 2011, respectively, we excluded 2.9 million and 1.8 million share-based awards from the calculation since the effect would have been anti-dilutive.

The 1.50% Series B Convertible Senior Notes and 1.50% Series C Convertible Senior Notes did not have an effect on the calculation for the periods presented. See Note 12—Debt.

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Note 11—Drilling Fleet

Expansion—Capital expenditures and other capital additions, including capitalized interest, for the nine months ended September 30, 2012 and 2011 were as follows (in millions):

	Nine months ended September 30,	
	2012	2011
Construction work in progress, at beginning of period	$ 1,360	$ 1,450
Newbuild construction program		
Transocean Ao Thai (a)	49	10
Deepwater Asgard (b)	40	—
Deepwater Invictus (b)	35	—
Transocean Honor (c)	35	83
Transocean Siam Driller (a)	32	72
Transocean Andaman (a)	31	72
Deepwater Champion (d)	—	76
Other construction projects and capital additions	424	320
Total capital expenditures	646	633
Changes in accrued capital expenditures	(10)	11
Property and equipment placed into service		
Transocean Honor (c)	(262)	—
Deepwater Champion (d)	—	(881)
Other property and equipment	(413)	(348)
Construction work in progress, at end of period	$ 1,321	$ 865

(a) Transocean Siam Driller, Transocean Andaman and Transocean Ao Thai, three Keppel FELS Super B class design High-Specification Jackups, under construction at Keppel FELS' yard in Singapore, are expected to commence operations in the first quarter of 2013, the second quarter of 2013 and the fourth quarter of 2013, respectively.

(b) Deepwater Asgard and Deepwater Invictus, two Ultra-Deepwater drillships under construction at the Daewoo Shipbuilding & Marine Engineering Co. Ltd. shipyard in Korea, are expected to be ready to commence operations in the second quarter of 2014.

(c) Transocean Honor, a PPL Pacific Class 400 design High-Specification Jackup, commenced operations in May 2012.

(d) Deepwater Champion, an Ultra-Deepwater drillship, commenced operations in May 2011.

In September 2012, we entered into shipyard contracts for the construction of four newbuild Ultra-Deepwater drillships at the Daewoo Shipbuilding & Marine Engineering Co. Ltd. shipyard in Korea, which are expected to commence operations in the fourth quarter of 2015, the second quarter of 2016, the fourth quarter of 2016 and the first quarter of 2017, respectively. See Note 15—Commitments and Contingencies.

Dispositions—During the nine months ended September 30, 2012, we committed to a plan to sell 46 Standard Jackups and a swamp barge, reflecting our decision to discontinue operations in the Standard Jackup and swamp barge market sectors (see Note 9—Discontinued Operations). In addition, during the nine months ended September 30, 2012, we completed the sales of the Deepwater Floaters Discoverer 534 and Jim Cunningham. In connection with the disposal of these assets, in the three and nine months ended September 30, 2012, we received aggregate net cash proceeds of $178 million, and we recognized a net gain on disposal of these drilling units and related equipment in the amount of $51 million ($48 million or $0.13 per diluted share from continuing operations net of tax). In the three and nine months ended September 30, 2012, we recognized losses on disposal of unrelated assets in the amount of $1 million and $11 million, respectively.

During the nine months ended September 30, 2011, in connection with our efforts to dispose of non-strategic assets, we sold the High-Specification Jackup Trident 20, reflecting our decision to discontinue operations in the Caspian Sea (see Note 9—Discontinued Operations). In the three and nine months ended September 30, 2011, we recognized a net loss on disposal of unrelated assets in the amounts of $1 million and $3 million, respectively.

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Unconsolidated affiliates—In July 2011, we completed the sale of our 50 percent ownership interest in Overseas Drilling Limited, a Cayman Islands company, which owns the drillship Joides Resolution, which was adapted for scientific research. In the three and nine months ended September 30, 2011, we received net cash proceeds of $22 million and recognized a net gain of $13 million ($0.04 per diluted share from continuing operations), recorded in other, net, which had no tax effect.

Note 12—Debt

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

	September 30, 2012			December 31, 2011		
	Transocean Ltd. and subsidiaries	Consolidated variable interest entities	Consolidated total	Transocean Ltd. and subsidiaries	Consolidated variable interest entities	Consolidated total
5% Notes due February 2013	$ 251	$ —	$ 251	$ 253	$ —	$ 253
5.25% Senior Notes due March 2013 (a)	503	—	503	507	—	507
TPDI Credit Facilities due March 2015	420	—	420	—	473	473
4.95% Senior Notes due November 2015 (a)	1,120	—	1,120	1,120	—	1,120
Aker Revolving Credit and Term Loan Facility due December 2015	—	—	—	594	—	594
Callable Bonds due February 2016	274	—	274	267	—	267
5.05% Senior Notes due December 2016 (a)	999	—	999	999	—	999
2.5% Senior Notes due October 2017 (a)	748	—	748	—	—	—
ADDCL Credit Facilities due December 2017	—	205	205	—	217	217
Eksportfinans Loans due January 2018	774	—	774	884	—	884

6.00% Senior Notes due March 2018 (a)	998	—	998	998	—	998
7.375% Senior Notes due April 2018 (a)	247	—	247	247	—	247
TPDI Notes due October 2019	—	—	—	—	148	148
6.50% Senior Notes due November 2020 (a)	899	—	899	899	—	899
6.375% Senior Notes due December 2021 (a)	1,199	—	1,199	1,199	—	1,199
3.8% Senior Notes due October 2022 (a)	745	—	745	—	—	—
7.45% Notes due April 2027 (a)	97	—	97	97	—	97
8% Debentures due April 2027 (a)	57	—	57	57	—	57
7% Notes due June 2028	311	—	311	311	—	311
Capital lease contract due August 2029	664	—	664	676	—	676
7.5% Notes due April 2031 (a)	598	—	598	598	—	598
1.50% Series B Convertible Senior Notes due December 2037 (a)	—	—	—	30	—	30
1.50% Series C Convertible Senior Notes due December 2037 (a)	1,709	—	1,709	1,663	—	1,663
6.80% Senior Notes due March 2038 (a)	999	—	999	999	—	999
7.35% Senior Notes due December 2041 (a)	300	—	300	300	—	300
Total debt	13,912	205	14,117	12,698	838	13,536
Less debt due within one year						
5% Notes due February 2013	251	—	251	—	—	—
5.25% Senior Notes due March 2013 (a)	503	—	503	—	—	—
TPDI Credit Facilities due March 2015	70	—	70	—	70	70
Aker Revolving Credit and Term Loan Facility due December 2015	—	—	—	90	—	90
	—	28	28	—	27	27

ADDCL Credit Facilities due November 2017						
Eksportfinans Loans due January 2018	148	—	148	142	—	142
TPDI Notes due October 2019	—	—	—	—	148	148
Capital lease contract due August 2029	20	—	20	17	—	17
1.50% Series B Convertible Senior Notes due December 2037 (a)	—	—	—	30	—	30
1.50% Series C Convertible Senior Notes due December 2037 (a)	1,709	—	1,709	1,663	—	1,663
Total debt due within one year	2,701	28	2,729	1,942	245	2,187
Total long-term debt	$ 11,211	$ 177	$ 11,388	$ 10,756	$ 593	$ 11,349

(a) Transocean Inc., a 100 percent owned subsidiary of Transocean Ltd., is the issuer of the notes and debentures, which have been guaranteed by Transocean Ltd. Transocean Ltd. has also guaranteed borrowings under the Transocean Inc. Five-Year Revolving Credit Facility. Transocean Ltd. and Transocean Inc. are not subject to any significant restrictions on their ability to obtain funds from their consolidated subsidiaries by dividends, loans or return of capital distributions. See Note 19—Condensed Consolidating Financial Information.

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Scheduled maturities—In preparing the scheduled maturities of our debt, we assume the noteholders will exercise their options to require us to repurchase the 1.50% Series C Convertible Senior Notes in December 2012. At September 30, 2012, the scheduled maturities of our debt were as follows (in millions):

	Transocean Ltd. and subsidiaries	Consolidated variable interest entities	Consolidated total
Twelve months ending September 30,			
2013	$ 2,710	$ 28	$ 2,738
2014	240	29	269
2015	451	31	482
2016	1,535	62	1,597
2017	1,175	36	1,211
Thereafter	7,788	19	7,807
Total debt, excluding unamortized discounts, premiums and fair value adjustments	13,899	205	14,104
Total unamortized discounts, premiums and fair value adjustments, net	13	—	13
Total debt	$ 13,912	$ 205	$ 14,117

Five-Year Revolving Credit Facility—We have a $2.0 billion revolving credit facility established by the Credit Agreement dated November 1, 2011 (the "Five-Year Revolving Credit Facility"). We pay a facility fee on the daily unused amount of the underlying commitment, which ranges from 0.125 percent to 0.325 percent, based on the credit rating of our non-credit enhanced senior unsecured long-term debt ("Debt Rating"), and was 0.275 percent at September 30, 2012. At September 30, 2012, we had $24 million in letters of credit issued and outstanding, we had no borrowings outstanding, and we had $2.0 billion available borrowing capacity under the Five-Year Revolving Credit Facility.

TPDI Credit Facilities—We have a bank credit agreement, which establishes a $1.265 billion secured credit facility, comprised of a $1.0 billion senior term loan, a $190 million junior term loan and a $75 million revolving credit facility (collectively, the "TPDI Credit Facilities"), which was established to finance the construction of and is secured by Dhirubhai Deepwater KG1 and Dhirubhai Deepwater KG2. One of our other subsidiaries participates as a lender in the senior and junior term loans. At September 30, 2012, $840 million was outstanding under the TPDI Credit Facilities, of which $420 million was due to the other subsidiary and was eliminated in consolidation. On September 30, 2012, the weighted-average interest rate was 2.0 percent. See Note 13—Derivatives and Hedging and Note 16—Redeemable Noncontrolling Interest.

At September 30, 2012, we had an outstanding letter of credit in the amount of $60 million to satisfy our liquidity requirements under the TPDI Credit Facilities. Additionally, we are required to maintain certain cash balances in accounts restricted for the payment of the scheduled installments on the TPDI Credit Facilities. We had restricted cash investments of $23 million at September 30, 2012 and December 31, 2011.

Aker Revolving Credit and Term Loan Facility—We had a credit facility established by the Revolving Credit and Term Loan Facility Agreement dated February 21, 2011 (the "Aker Revolving Credit and Term Loan Facility"), comprised of a $500 million revolving credit facility (the "Aker Revolving Credit Facility") and a $400 million term loan (the "Aker Term Loan"), which was secured by Transocean Spitsbergen and Transocean Barents and guaranteed by Transocean Ltd.

In the three and nine months ended September 30, 2012, we prepaid $173 million and $333 million of borrowings under the Aker Term Loan, and we recognized losses on retirement of debt in the amount of $1 million and $2 million, respectively. In September 2012, we cancelled the Aker Revolving Credit and Term Loan Facility.

Callable Bonds—Aker Drilling is the obligor on the FRN Aker Drilling ASA Senior Unsecured Callable Bond Issue 2011/2016 (the "FRN Callable Bonds") and the 11% Aker Drilling ASA Senior Unsecured Callable Bond Issue 2011/2016 (the "11% Callable Bonds," and together with the FRN Callable Bonds, the "Callable Bonds"), which are publicly traded on the Oslo Stock Exchange. At September 30, 2012, the total aggregate principal amounts of the FRN Callable Bonds and the 11% Callable Bonds were NOK 940 million and NOK 560 million, equivalent to $164 million and $98 million, respectively, using an exchange rate of NOK 5.73 to US $1.00. At September 30, 2012, the interest rate on the FRN Callable Bonds was 9.1 percent. See Note 13—Derivatives and Hedging.

2.5% Senior Notes and the 3.8% Senior Notes—In September 2012, we issued $750 million aggregate principal amount of 2.5% Senior Notes due October 2017 (the "2.5% Senior Notes") and $750 million aggregate principal amount of 3.8% Senior Notes due October 2022 (the "3.8% Senior Notes," and together with the 2.5% Senior Notes, the "2012 Senior Notes"). The interest rates for the notes are subject to adjustment from time to time upon a change to the credit rating for the notes assigned by Moody's Investors Service or Standard & Poor's Ratings Services. We are required to pay interest on the 2012 Senior Notes on April 15 and October 15 of each year, beginning April 15, 2013. We may redeem some or all of the 2012 Senior Notes at any time prior to maturity at a redemption price equal to 100 percent of the principal amount plus accrued and unpaid interest, if any, together with a make-whole premium unless, in the case of the 3.8% Senior Notes, such redemption occurs on or after July 15, 2022, in which case no such make-whole premium will apply. The indenture pursuant to which the 2012 Senior Notes were issued contains restrictions on creating liens, engaging in sale/leaseback transactions and engaging in merger, consolidation or reorganization transactions. At September 30, 2012, $750 million aggregate principal amount of the 2.5% Senior Notes and $750 million aggregate principal amount of the 3.8% Senior Notes were outstanding.

ADDCL Credit Facilities—ADDCL has a primary bank credit agreement, which establishes a senior secured credit facility (the "ADDCL Primary Loan Facility") comprised of Tranche A and Tranche C for $215 million and $399 million, respectively, which was established to finance the construction of and is secured by Discoverer Luanda. Unaffiliated financial institutions provide the commitment for and borrowings under Tranche A, and one of our subsidiaries provides the commitment for Tranche C. At September 30, 2012, $177 million was outstanding under Tranche A at a weighted-average interest rate of 1.5 percent. At September 30, 2012, $399 million was outstanding under Tranche C, which was eliminated in consolidation.

Additionally, ADDCL has a secondary bank credit agreement, which establishes a $90 million credit facility (the "ADDCL Secondary Loan Facility" and together with the ADDCL Primary Loan Facility, the "ADDCL Credit Facilities"), for which one of our subsidiaries provides 65 percent of the total commitment. At September 30, 2012, $80 million was outstanding under the ADDCL Secondary Loan Facility, of which $52 million was due to one of our subsidiaries and has been eliminated in consolidation. On September 30, 2012, the weighted-average interest rate was 3.5 percent.

ADDCL is required to maintain certain cash balances in accounts restricted for the payment of the scheduled installments on the ADDCL Credit Facilities. ADDCL had restricted cash investments of $31 million and $16 million at September 30, 2012 and December 31, 2011, respectively.

Eksportfinans Loans—The Eksportfinans Loans require cash collateral to remain on deposit at a financial institution (the "Aker Restricted Cash Investments") through expiration. The aggregate principal amount of the Aker Restricted Cash Investments was $778 million and $889 million at September 30, 2012 and December 31, 2011, respectively.

TPDI Notes—We previously issued promissory notes (the "TPDI Notes"), which had maturities through October 2019 and were payable to one of our subsidiaries and its former second shareholder, Quantum Pacific Management Limited ("Quantum"). On May 31, 2012, in connection with the exchange of Quantum's interest in TPDI for our shares, the TPDI Notes payable to Quantum were extinguished and contributed as additional paid-in capital. See Note 16—Redeemable Noncontrolling Interest.

1.50% Series B and 1.50% Series C Convertible Senior Notes—Including amortization of the unamortized discount, the effective interest rates for the Series C Convertible Senior Notes was 5.28 percent. At September 30, 2012, the remaining period over which the discount will be amortized is less than one year. Interest expense, excluding amortization of debt issue costs, was as follows (in millions):

	Three months ended September 30,		Nine months ended September 30,	
	2012	2011	2012	2011
Interest expense				
Series B Convertible Senior Notes due 2037	$ —	$ 21	$ —	$ 61
Series C Convertible Senior Notes due 2037	22	21	65	62

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

	September 30, 2012			December 31, 2011		
	Principal amount	Unamortized discount	Carrying amount	Principal amount	Unamortized discount	Carrying amount
Carrying amount of liability component						
Series B Convertible Senior Notes due 2037	$ —	$ —	$ —	$ 30	$ —	$ 30
Series C Convertible Senior Notes due 2037	1,722	(13)	1,709	1,722	(59)	1,663

In February 2012, we redeemed the remaining $30 million of aggregate principal amount of our Series B Convertible Senior Notes for an aggregate cash payment of $30 million.

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

	September 30, 2012	December 31, 2011
Carrying amount of equity component		
Series B Convertible Senior Notes due 2037	$ —	$ 4
Series C Convertible Senior Notes due 2037	276	276

See Note 20—Subsequent Events.

Note 13—Derivatives and Hedging

Derivatives designated as hedging instruments—We have interest rate swaps, which are designated and have qualified as fair value hedges, to reduce our exposure to changes in the fair values of the 5% Notes due February 2013 and the 5.25% Senior Notes due March 2013. The interest rate swaps have aggregate notional amounts equal to the corresponding face values of the hedged instruments and have stated maturities that coincide with those of the hedged instruments. We have determined that the hedging relationships qualify for, and we have applied, the shortcut method of accounting, under which the interest rate swaps are considered to have no ineffectiveness and no ongoing assessment of effectiveness is required. Accordingly, changes in the fair value of the interest rate swaps recognized in interest expense offset changes in the fair value of the hedged fixed-rate notes. Through the stated maturities of the interest rate swaps, we receive semi-annual interest at a fixed rate equal to that of the underlying debt instrument and pay variable interest semi-annually at three-month London Interbank Offered Rate (“LIBOR”) plus a margin.

We previously entered into interest rate swaps, which were designated and qualified as fair value hedges, to reduce our exposure to changes in the fair values of the 4.95% Senior Notes due November 2015. In June 2012, we terminated these interest rate swaps and received an aggregate net cash payment of $23 million.

We have interest rate swaps, which have been designated and qualify as a cash flow hedge, to reduce the variability of cash interest payments associated with the variable rate borrowings under the TPDI Credit Facilities through December 31, 2014. The aggregate notional amount corresponds with the aggregate outstanding amount of the

borrowings under the TPDI Credit Facilities.

We have cross-currency interest rate swaps, which have been designated and qualify as a cash flow hedge, to reduce the variability of cash interest payments and the final principal payment due at maturity in February 2016 associated with the changes in the U.S. dollar to Norwegian krone exchange rate. The aggregate notional amount corresponds with the aggregate outstanding amount of the 11% Callable Bonds. The swap agreements are subject to a security agreement assigning Transocean Spitsbergen and Transocean Barents as security for our obligations under the swap agreements.

At September 30, 2012, the aggregate notional amounts and the weighted average interest rates associated with our derivatives designated as hedging instruments were as follows (in millions, except weighted average interest rates):

	Pay			Receive		
	Aggregate notional amount	Fixed or variable rate	Weighted average rate	Aggregate notional amount	Fixed or variable rate	Weighted average rate
Interest rate swaps, fair value hedges	$ 750	variable	3.6%	$ 750	fixed	5.2%
Interest rate swaps, cash flow hedges	$ 403	fixed	2.4%	$ 403	variable	0.4%
Cross-currency swaps, cash flow hedges	$ 102	fixed	8.9%	NOK 560	fixed	11.0%

The effect on our condensed consolidated statements of operations resulting from derivatives designated as cash flow hedges was as follows (in millions):

	Statement of operations classification	Three months ended September 30, 2012	Three months ended September 30, 2011	Nine months ended September 30, 2012	Nine months ended September 30, 2011
Loss associated with effective portion	Interest expense, net of amounts capitalized	$ (1)	$ (3)	$ (4)	$ (8)
Gain associated with effective portion	Other, net	4	—	4	—

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

	Balance sheet classification	September 30, 2012	December 31, 2011
Interest rate swaps, fair value hedges	Other current assets	$ 6	$ 5
Interest rate swaps, fair value hedges	Other assets	—	31
Interest rate swaps, cash flow hedges	Other long-term liabilities	15	16
Cross-currency swaps, cash flow hedges	Other current assets	1	—
Cross-currency swaps, cash flow hedges	Other long-term liabilities	3	7

Derivatives not designated as hedging instruments—In connection with our acquisition of Aker Drilling, we assumed certain derivatives not designated as hedging instruments. In June 2012, we terminated the interest rate swaps not designated as hedging instruments and made an aggregate cash payment of $14 million.

Additionally, in August 2011, in connection with our acquisition of Aker Drilling, we entered into a forward exchange contract, which was not designated and did not qualify as a hedging instrument for accounting purposes, in order to offset the variability in the cash flows resulting from fluctuations in the U.S. dollar to Norwegian krone exchange rate. The forward exchange contract had aggregate notional amounts requiring us to pay $1.1 billion in exchange for receiving NOK 6.1 billion, representing an exchange rate of $1.00 to NOK 5.40. On September 28, 2011, we settled the full amount of the forward exchange contract and made a cash payment of $78 million.

The effect on our condensed consolidated statements of operations resulting from changes in the fair values of derivatives not designated as hedging instruments was as follows (in millions):

	Statement of operations classification	Three months ended September 30, 2012	Three months ended September 30, 2011	Nine months ended September 30, 2012	Nine months ended September 30, 2011
		$ —	$ —	$ (1)	$ —

Loss associated with undesignated interest rate swaps	Interest expense, net of amounts capitalized				
Loss associated with undesignated forward exchange contract	Other, net	—	(78)	—	(78)

The balance sheet classification and aggregate carrying amount of our derivatives not designated as hedging instruments, measured at fair value, were as follows (in millions):

	Balance sheet classification	September 30, 2012	December 31, 2011
Interest rate swaps, undesignated	Other long-term liabilities	$ —	$ 15

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Note 14—Postemployment Benefit Plans

We have several defined benefit pension plans, both funded and unfunded, covering substantially all of our U.S. employees, including certain frozen plans, assumed in connection with our mergers, that cover certain current employees and certain former employees and directors of our predecessors (the “U.S. Plans”). We also have various defined benefit plans in the U.K., Norway, Nigeria, Egypt and Indonesia that cover our employees in those areas (the “Non-U.S. Plans”). Additionally, we offer several unfunded contributory and noncontributory other postretirement employee benefit plans covering substantially all of our U.S. employees (the “OPEB Plans”).

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

	Three months ended September 30, 2012				Three months ended September 30, 2011			
	U.S. Plans	Non-U.S. Plans	OPEB Plans	Total	U.S. Plans	Non-U.S. Plans	OPEB Plans	Total
Net periodic benefit costs								
Service cost	$ 13	$ 7	$ 1	$ 21	$ 10	$ 4	$ —	$ 14
Interest cost	15	4	1	20	15	5	1	21
Expected return on plan assets	(16)	(4)	—	(20)	(15)	(5)	—	(20)
Settlements and curtailments	—	19	—	19	1	—	—	1
Actuarial losses, net	11	1	—	12	5	2	—	7
Prior service cost, net	—	(1)	—	(1)	—	1	(1)	—
Transition obligation, net	—	—	—	—	—	(1)	—	(1)
Net periodic benefit costs	$ 23	$ 26	$ 2	$ 51	$ 16	$ 6	$ —	$ 22
Funding contributions	$ 1	$ 10	$ 1	$ 12	$ 1	$ 7	$ 1	$ 9

	Nine months ended September 30, 2012				Nine months ended September 30, 2011			
	U.S. Plans	Non-U.S. Plans	OPEB Plans	Total	U.S. Plans	Non-U.S. Plans	OPEB Plans	Total
Net periodic benefit costs								
Service cost	$ 37	$ 23						