

Transocean Ltd.
Form 10-Q
October 30, 2018
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10 Q

(Mark one)

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

For the quarterly period ended September 30, 2018

OR

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

For the transition period from _____ to _____

Commission file number 001-38373

TRANSOCEAN LTD.

(Exact name of registrant as specified in its charter)

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Switzerland 98-0599916
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

Turmstrasse 30
Steinhausen, Switzerland 6312
(Address of principal executive offices) (Zip Code)

+41 (41) 749-0500
(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

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

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

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

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

As of October 22, 2018, 461,906,035 shares were outstanding.

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TRANSOCEAN LTD. AND SUBSIDIARIES

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PART I.FINANCIAL INFORMATION

Item I.Financial Statements

TRANSOCEAN LTD. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In millions, except per share data)

(Unaudited)

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|-------------------------------------|------------|------------------------------------|------------|
| | 2018 | 2017 | 2018 | 2017 |
| Contract drilling revenues | \$ 816 | \$ 699 | \$ 2,270 | \$ 2,142 |
| Other revenues | — | 109 | — | 202 |
| | 816 | 808 | 2,270 | 2,344 |
| Costs and expenses | | | | |
| Operating and maintenance | 447 | 325 | 1,302 | 1,003 |
| Depreciation | 201 | 197 | 614 | 648 |
| General and administrative | 35 | 39 | 134 | 113 |
| | 683 | 561 | 2,050 | 1,764 |
| Loss on impairment | (432) | (1,385) | (1,446) | (1,498) |
| Loss on disposal of assets, net | (6) | (9) | — | (1,602) |
| Operating loss | (305) | (1,147) | (1,226) | (2,520) |
| Other income (expense), net | | | | |
| Interest income | 11 | 21 | 36 | 34 |
| Interest expense, net of amounts capitalized | (160) | (112) | (455) | (368) |
| Loss on retirement of debt | (1) | (1) | (3) | (49) |
| Other, net | 16 | 8 | 6 | 11 |
| | (134) | (84) | (416) | (372) |
| Loss before income tax expense (benefit) | (439) | (1,231) | (1,642) | (2,892) |
| Income tax expense (benefit) | (30) | 180 | 118 | 103 |
| Net loss | (409) | (1,411) | (1,760) | (2,995) |
| Net income (loss) attributable to noncontrolling interest | — | 6 | (6) | 21 |
| Net loss attributable to controlling interest | \$ (409) | \$ (1,417) | \$ (1,754) | \$ (3,016) |
| Loss per share | | | | |
| Basic | \$ (0.88) | \$ (3.62) | \$ (3.86) | \$ (7.72) |
| Diluted | \$ (0.88) | \$ (3.62) | \$ (3.86) | \$ (7.72) |

Weighted-average shares outstanding

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| | | | | |
|---------|-----|-----|-----|-----|
| Basic | 463 | 391 | 454 | 391 |
| Diluted | 463 | 391 | 454 | 391 |

See accompanying notes.

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TRANSOCEAN LTD. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(In millions)

(Unaudited)

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|-------------------------------------|------------|------------------------------------|------------|
| | 2018 | 2017 | 2018 | 2017 |
| Net loss | \$ (409) | \$ (1,411) | \$ (1,760) | \$ (2,995) |
| Net income (loss) attributable to noncontrolling interest | — | 6 | (6) | 21 |
| Net loss attributable to controlling interest | (409) | (1,417) | (1,754) | (3,016) |
| Components of net periodic benefit costs before reclassifications | (1) | — | (4) | (2) |
| Components of net periodic benefit costs reclassified to net income | 2 | 4 | 4 | 12 |
| Other comprehensive income (loss) before income taxes | 1 | 4 | — | 10 |
| Income taxes related to other comprehensive income (loss) | — | (2) | — | (25) |
| Other comprehensive income (loss) | 1 | 2 | — | (15) |
| Other comprehensive income attributable to noncontrolling interest | — | — | — | — |
| Other comprehensive income (loss) attributable to controlling interest | 1 | 2 | — | (15) |
| Total comprehensive loss | (408) | (1,409) | (1,760) | (3,010) |
| Total comprehensive income (loss) attributable to noncontrolling interest | — | 6 | (6) | 21 |
| Total comprehensive loss attributable to controlling interest | \$ (408) | \$ (1,415) | \$ (1,754) | \$ (3,031) |

See accompanying notes.

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TRANSOCEAN LTD. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(In millions, except share data)

(Unaudited)

| | September 30, 2018 | December 31, 2017 |
|---|-----------------------|----------------------|
| Assets | | |
| Cash and cash equivalents | \$ 2,307 | \$ 2,519 |
| Short-term investments | — | 450 |
| Accounts receivable, net of allowance for doubtful accounts of less than \$1 at September 30, 2018 and December 31, 2017 | 627 | 596 |
| Materials and supplies, net of allowance for obsolescence of \$139 and \$141 at September 30, 2018 and December 31, 2017, respectively | 401 | 418 |
| Restricted cash accounts and investments | 561 | 466 |
| Other current assets | 169 | 157 |
| Total current assets | 4,065 | 4,606 |
| Property and equipment | 23,565 | 22,693 |
| Less accumulated depreciation | (5,206) | (5,291) |
| Property and equipment, net | 18,359 | 17,402 |
| Contract intangible assets | 554 | — |
| Deferred income taxes, net | 40 | 47 |
| Other assets | 444 | 355 |
| Total assets | \$ 23,462 | \$ 22,410 |
| Liabilities and equity | | |
| Accounts payable | \$ 172 | \$ 201 |
| Accrued income taxes | 26 | 79 |
| Debt due within one year | 372 | 250 |
| Other current liabilities | 752 | 839 |
| Total current liabilities | 1,322 | 1,369 |
| Long-term debt | 8,955 | 7,146 |
| Deferred income taxes, net | 75 | 44 |
| Other long-term liabilities | 1,149 | 1,082 |
| Total long-term liabilities | 10,179 | 8,272 |
| Commitments and contingencies | | |
| Redeemable noncontrolling interest | — | 58 |

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Shares, CHF 0.10 par value, 490,584,698 authorized, 143,754,927
conditionally authorized, 462,880,809 issued
and 461,903,386 outstanding at September 30, 2018, and 417,060,033
authorized, 143,783,041 conditionally
authorized, 394,801,990 issued and 391,237,308 outstanding at December 31,
2017

| | | |
|---|-----------|-----------|
| | 44 | 37 |
| Additional paid-in capital | 12,033 | 11,031 |
| Retained earnings | 175 | 1,929 |
| Accumulated other comprehensive loss | (290) | (290) |
| Total controlling interest shareholders' equity | 11,962 | 12,707 |
| Noncontrolling interest | (1) | 4 |
| Total equity | 11,961 | 12,711 |
| Total liabilities and equity | \$ 23,462 | \$ 22,410 |

See accompanying notes.

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TRANSOCEAN LTD. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF EQUITY

(In millions)

(Unaudited)

| | Nine months ended September 30, | | Nine months ended September 30, | |
|--|---------------------------------------|------|------------------------------------|-----------|
| | 2018 | 2017 | 2018 | 2017 |
| | Quantity | | Amount | |
| Shares | | | | |
| Balance, beginning of period | 391 | 389 | \$ 37 | \$ 36 |
| Issuance of shares under share-based compensation plans | 3 | 2 | — | 1 |
| Issuance of shares in acquisition transactions | 68 | — | 7 | — |
| Balance, end of period | 462 | 391 | \$ 44 | \$ 37 |
| Additional paid-in capital | | | | |
| Balance, beginning of period | | | \$ 11,031 | \$ 10,993 |
| Share-based compensation | | | 36 | 30 |
| Issuance of shares under share-based compensation plans | | | — | (1) |
| Issuance of shares in acquisition transactions | | | 739 | — |
| Equity component of convertible debt instruments | | | 172 | — |
| Acquisition of redeemable noncontrolling interest | | | 53 | — |
| Allocated capital for transactions with holders of noncontrolling interest | | | 5 | — |
| Other, net | | | (3) | (2) |
| Balance, end of period | | | \$ 12,033 | \$ 11,020 |
| Retained earnings | | | | |
| Balance, beginning of period | | | \$ 1,929 | \$ 5,056 |
| Net loss attributable to controlling interest | | | (1,754) | (3,016) |
| Balance, end of period | | | \$ 175 | \$ 2,040 |
| Accumulated other comprehensive loss | | | | |
| Balance, beginning of period | | | \$ (290) | \$ (283) |
| Other comprehensive loss attributable to controlling interest | | | — | (15) |
| Balance, end of period | | | \$ (290) | \$ (298) |
| Total controlling interest shareholders' equity | | | | |
| Balance, beginning of period | | | \$ 12,707 | \$ 15,802 |
| Total comprehensive loss attributable to controlling interest | | | (1,754) | (3,031) |
| Share-based compensation | | | 36 | 30 |
| Issuance of shares in acquisition transactions | | | 746 | — |

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| | | |
|--|-----------|-----------|
| Equity component of convertible debt instruments | 172 | — |
| Acquisition of redeemable noncontrolling interest | 53 | — |
| Allocated capital for transactions with holders of noncontrolling interest | 5 | — |
| Other, net | (3) | (2) |
| Balance, end of period | \$ 11,962 | \$ 12,799 |
| Noncontrolling interest | | |
| Balance, beginning of period | \$ 4 | \$ 3 |
| Total comprehensive income (loss) attributable to noncontrolling interest | (2) | 1 |
| Recognition of noncontrolling interest in business combination | 33 | — |
| Acquisition of noncontrolling interest | (31) | — |
| Allocated capital for transactions with holders of noncontrolling interest | (5) | — |
| Balance, end of period | \$ (1) | \$ 4 |
| Total equity | | |
| Balance, beginning of period | \$ 12,711 | \$ 15,805 |
| Total comprehensive loss | (1,756) | (3,030) |
| Share-based compensation | 36 | 30 |
| Issuance of shares in acquisition transactions | 746 | — |
| Equity component of convertible debt instruments | 172 | — |
| Recognition of noncontrolling interest in business combination | 33 | — |
| Acquisition of noncontrolling interest | (31) | — |
| Acquisition of redeemable noncontrolling interest | 53 | — |
| Other, net | (3) | (2) |
| Balance, end of period | \$ 11,961 | \$ 12,803 |

See accompanying notes.

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TRANSOCEAN LTD. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In millions)

(Unaudited)

| | Nine months ended September 30, | |
|--|------------------------------------|------------|
| | 2018 | 2017 |
| Cash flows from operating activities | | |
| Net loss | \$ (1,760) | \$ (2,995) |
| Adjustments to reconcile to net cash provided by operating activities: | | |
| Contract intangible asset amortization | 78 | — |
| Depreciation | 614 | 648 |
| Share-based compensation expense | 36 | 30 |
| Loss on impairment | 1,446 | 1,498 |
| Loss on disposal of assets, net | — | 1,602 |
| Loss on retirement of debt | 3 | 49 |
| Deferred income tax expense (benefit) | 50 | 32 |
| Other, net | 12 | 29 |
| Changes in deferred revenues, net | (127) | (109) |
| Changes in deferred costs, net | 23 | 42 |
| Changes in other operating assets and liabilities, net | (55) | 100 |
| Net cash provided by operating activities | 320 | 926 |
| Cash flows from investing activities | | |
| Capital expenditures | (140) | (386) |
| Proceeds from disposal of assets, net | 37 | 330 |
| Unrestricted and restricted cash acquired in business combination | 131 | — |
| Investment in unconsolidated affiliates | (107) | — |
| Deposits into short-term investments | (50) | — |
| Proceeds from maturities of short-term investments | 500 | — |
| Other, net | — | 10 |
| Net cash provided by (used in) investing activities | 371 | (46) |
| Cash flows from financing activities | | |
| Proceeds from issuance of debt, net of discounts and issue costs | 1,319 | 403 |