

Transocean Ltd.
Form 10-K
February 21, 2018
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10 K

(Mark one)

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

For the fiscal year ended December 31, 2017

OR

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

For the transition period from _____ to _____

Commission file number 000-53533

TRANSOCEAN LTD.

(Exact name of registrant as specified in its charter)

Zug, Switzerland

98-0599916

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

Turmstrasse 30

6312

Steinhausen, Switzerland

(Address of principal executive offices)

(Zip Code)

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

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

Title of class

Exchange on which registered

Shares, par value CHF 0.10 per share

New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark whether the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes No

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10 K or any amendment to this Form 10 K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non accelerated filer, 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 (do not check if a smaller reporting company)
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 by Rule 12b 2 of the Exchange Act).
Yes No

As of June 30, 2017, 391,181,430 shares were outstanding and the aggregate market value of shares held by non affiliates was approximately \$3.2 billion (based on the reported closing market price of the shares of Transocean Ltd. on June 30, 2017 of \$8.23 and assuming that all directors and executive officers of the Company are "affiliates," although the Company does not acknowledge that any such person is actually an "affiliate" within the meaning of the federal securities laws). As of February 15, 2018, 458,914,707 shares were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive Proxy Statement to be filed with the U.S. Securities and Exchange Commission within 120 days of December 31, 2017, for its 2018 annual general meeting of shareholders, are incorporated by reference into Part III of this Form 10 K.

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TRANSOCEAN LTD. AND SUBSIDIARIES

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Forward Looking Information

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

- § our results of operations, our revenue efficiency and other performance indicators and our cash flow from operations;
- § the offshore drilling market, including the effects of declines in commodity prices, supply and demand, utilization rates, dayrates, customer drilling programs, stacking and reactivation of rigs, effects of new rigs on the market, the impact of changes to regulations in the jurisdictions in which we operate and changes in the global economy or market outlook for our various geographical operating sectors and classes of rigs;
- § customer drilling contracts, including contract backlog, force majeure provisions, contract awards, commencements, extensions, terminations, contract option exercises, contract revenues, early termination payments, indemnity provisions and rig mobilizations;
- § liquidity, including availability under our bank credit agreement, and adequacy of cash flows for our obligations;
- § regulatory or other limitations imposed as a result of the acquisition of Songa Offshore SE, a European public company limited by shares, or societ s Europaea, existing under the laws of Cyprus (“Songa”);
- § the success of our business following completion of the Songa acquisition;
- § the ability to successfully integrate our business with the Songa business;
- § the risk that we may be unable to achieve expected synergies from our acquisition of Songa or that it may take longer or be more costly than expected to achieve those synergies;
- § extension or replacement of our Five Year Revolving Credit Facility before the expiration of the underlying bank credit agreement;
- § debt levels, including impacts of a financial and economic downturn, and interest rates;
- § newbuild, upgrade, shipyard and other capital projects, including completion, delivery and commencement of operation dates, expected downtime and lost revenue, the level of expected capital expenditures and the timing and cost of completion of capital projects;
- § effects of remediation efforts to address the material weakness discussed in “Part II. Item 9A. Controls and Procedures”;
- § the cost and timing of acquisitions and the proceeds and timing of dispositions;
- § the optimization of rig based spending;
- § tax matters, including our effective tax rate, changes in tax laws, treaties and regulations, tax assessments and liabilities for tax issues, including those associated with our activities in Brazil, Nigeria, Norway, the United Kingdom and the U.S.;
- § legal and regulatory matters, including results and effects of legal proceedings and governmental audits and assessments, outcomes and effects of internal and governmental investigations, customs and environmental matters;
- § insurance matters, including adequacy of insurance, renewal of insurance, insurance proceeds and cash investments of our wholly owned captive insurance company;
- § effects of accounting changes and adoption of accounting policies; and
- § investment in recruitment, retention and personnel development initiatives, defined benefit pension plan contributions, the timing of severance payments and benefit payments.

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

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

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

- § those described under “Item 1A. Risk Factors” in this annual report on Form 10-K;
- § the adequacy of and access to sources of liquidity;
- § our inability to obtain drilling contracts for our rigs that do not have contracts;
- § our inability to renew drilling contracts at comparable dayrates;
- § operational performance;
- § the cancellation of drilling contracts currently included in our reported contract backlog;
- § the effectiveness of our remediation efforts with respect to the material weakness discussed in “Part II. Item 9A. Controls and Procedures”;
- § losses on impairment of long lived assets;
- § shipyard, construction and other delays;
- § the results of meetings of our shareholders;
- § changes in political, social and economic conditions;
- § the effect and results of litigation, regulatory matters, settlements, audits, assessments and contingencies; and
- § other factors discussed in this annual report and in our other filings with the U.S. Securities and Exchange Commission (“SEC”), which are available free of charge on the SEC website at www.sec.gov.

The foregoing risks and uncertainties are beyond our ability to control, and in many cases, we cannot predict the risks and uncertainties that could cause our actual results to differ materially from those indicated by the forward looking statements. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those indicated. All subsequent written and oral forward looking statements attributable to us or to persons acting on our behalf are expressly qualified in their entirety by reference to these risks and uncertainties. You should not place undue reliance on forward looking statements. Each forward looking statement speaks only as of the date of the particular statement. We expressly disclaim any obligations or undertaking to release publicly any updates or revisions to any forward looking statement to reflect any change in our expectations or

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beliefs with regard to the statement or any change in events, conditions or circumstances on which any forward looking statement is based, except as required by law.

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PART I

Item 1. Business

Overview

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. As of February 19, 2018, we owned or had partial ownership interests in and operated 47 mobile offshore drilling units. As of February 19, 2018, our fleet consisted of 27 ultra deepwater floaters, 12 harsh environment floaters, two deepwater floaters and six midwater floaters. At February 19, 2018, we also had two ultra deepwater drillships under construction or under contract to be constructed. Additionally, we operated two high specification jackups that were under contract when we sold the rigs, and we continue to operate such rigs until completion or novation of the respective drilling contracts.

Our primary business is to contract our drilling rigs, related equipment and work crews predominantly on a dayrate basis to drill oil and gas wells. We specialize in technically demanding regions of the global offshore drilling business with a particular focus on ultra deepwater and harsh environment drilling services. We believe our mobile offshore drilling fleet is one of the most versatile fleets in the world, consisting of drillship and semisubmersible floaters used in support of offshore drilling activities and offshore support services on a worldwide basis.

Transocean Ltd. is a Swiss corporation with its registered office in Steinhausen, Canton of Zug and with principal executive offices located at Turmstrasse 30, 6312 Zug, Switzerland. Our telephone number at that address is +41 41 749 0500. Our shares are listed on the New York Stock Exchange under the symbol “RIG”. For information about the revenues, operating income, assets and other information related to our business, our segments and the geographic areas in which we operate, see “Part II. Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” and “Part II. Item 8. Financial Statements and Supplementary Data—Notes to Consolidated Financial Statements—Note 18—Operating Segments, Geographic Analysis and Major Customers.”

Recent Developments

Business combination—On August 13, 2017, we entered into the Transaction Agreement with Songa Offshore SE, a European public company limited by shares, or *societas Europaea*, existing under the laws of Cyprus (“Songa”). On January 30, 2018, we completed our acquisition of an approximate 97.7 percent ownership interest in Songa. By March 31, 2018, we expect to complete the acquisition of the remaining shares not owned by us through a compulsory acquisition, which is available to us under Cyprus law. In connection with the acquisition, we acquired seven mobile offshore drilling units, including five harsh environment floaters and two midwater floaters. In connection with the acquisition, we issued 66.9 million shares and an aggregate principal amount of \$854 million of the 0.5% Exchangeable Senior Bonds due January 2023. See “Part II. Item 8. Financial Statements and Supplementary Data—Notes to Consolidated Financial Statements and —Note 20—Subsequent Event.”

Drilling Fleet

Fleet overview—Our drilling fleet of floaters consists of drillships and semisubmersibles. Most of our drilling equipment is suitable for both exploration and development, and we normally engage in both types of drilling activity. All of our drilling rigs are mobile and can be moved to new locations in response to customer demand. All of our mobile offshore drilling units are designed to operate in locations away from port for extended periods of time and have living quarters for the crews, a helicopter landing deck and storage space for drill pipe, riser and drilling supplies.

Drillships are generally self propelled vessels, shaped like conventional ships, and are the most mobile of the major rig types. All of our drillships are ultra deepwater capable and equipped with a computer controlled dynamic positioning thruster system, which allows them to maintain position without anchors through the use of their onboard propulsion and station keeping systems. These rigs typically have greater deck load and storage capacity than early generation semisubmersible rigs, which provides logistical and resupply efficiency benefits for customers. Drillships are generally better suited to operations in calmer sea conditions and typically do not operate in areas considered to be harsh environments. We have 17 ultra deepwater drillships that are, and two ultra deepwater drillships under construction that will be, equipped with our patented dual activity technology. Dual activity technology employs structures, equipment and techniques using two drilling stations within a dual derrick to allow these drillships to perform simultaneous drilling tasks in a parallel, rather than a sequential manner, which reduces critical path activity and improves efficiency in both exploration and development drilling. In addition to dynamic positioning thruster systems, dual activity technology, industry leading hoisting capacity and a second blowout preventer system, our two newbuild drillships under construction will be outfitted to accommodate a future upgrade to a 20,000 pounds per square inch (“psi”) blowout preventer.

Semisubmersibles are floating vessels that can be partially submerged by means of a water ballast system such that the lower column sections and pontoons are below the water surface during drilling operations. These rigs are capable of maintaining their position over a well through the use of an anchoring system or a computer controlled dynamic positioning thruster system. Although most semisubmersible rigs are relocated with the assistance of tugs, some units are self propelled and move between locations under their own power when afloat on pontoons. Typically, semisubmersibles are capable of operating in rougher sea conditions than drillships. We have two custom designed, high capacity, dual activity semisubmersible drilling rigs, equipped for year round operations in harsh environments,

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including those of the Norwegian continental shelf and sub Arctic waters. Five of our 24 semisubmersibles are equipped with our patented dual activity technology and also have mooring capability.

Fleet categories—We further categorize the drilling units of our fleet as follows: (1) “ultra deepwater floaters,” (2) “harsh environment floaters,” (3) “deepwater floaters” and (4) “midwater floaters”. Ultra deepwater floaters are equipped with high pressure mud pumps and are capable of drilling in water depths of 7,500 feet or greater. Harsh environment floaters are capable of drilling in harsh environments in water depths between 1,500 and 10,000 feet and have greater displacement, which offers larger variable load capacity, more useable deck space and better motion characteristics. Deepwater floaters are generally those other semisubmersible rigs and drillships capable of drilling in water depths between 4,500 and 7,500 feet. Midwater floaters are generally comprised of those non high specification semisubmersibles that have a water depth capacity of less than 4,500 feet.

As of February 19, 2018, we owned and operated a fleet of 47 rigs, including the seven rigs recently acquired in the Songa acquisition and excluding two newbuilds under construction, as follows:

- § 27 ultra deepwater floaters;
- § 12 harsh environment floaters;
- § Two deepwater floaters; and
- § Six midwater floaters.

Fleet status—Depending on market conditions, we may idle or stack non contracted rigs. An idle rig is between drilling contracts, readily available for operations, and operating costs are typically at or near normal levels. A stacked rig typically has reduced operating costs, is staffed by a reduced crew or has no crew and is (a) preparing for an extended period of inactivity, (b) expected to continue to be inactive for an extended period, or (c) completing a period of extended inactivity. Stacked rigs will continue to incur operating costs at or above normal operating levels for approximately 30 days following initiation of stacking. Some idle rigs and all stacked rigs require additional costs to return to service. The actual cost to return to service, which in many instances could be significant and could fluctuate over time, depends upon various factors, including the availability and cost of shipyard facilities, cost of equipment and materials and the extent of repairs and maintenance that may ultimately be required. We consider these factors, together with market conditions, length of contract, dayrate and other contract terms, when deciding whether to return a stacked rig to service. We may, from time to time, consider marketing stacked rigs as accommodation units or for other alternative uses until drilling activity increases and we obtain drilling contracts for these units. We may not return some stacked rigs to work for drilling services or for these alternative uses.

Drilling units—The following tables, presented as of February 19, 2018, provide certain specifications for our rigs, including the seven rigs recently acquired in the Songa acquisition. Unless otherwise noted, the stated location of each rig indicates either the current drilling location, if the rig is operating, or the next operating location, if the rig is in shipyard with a follow on contract. The dates provided represent the expected time of completion, the year placed into service, and, if applicable, the year of the most recent upgrade. As of February 19, 2018, we owned all of the drilling rigs in our fleet noted in the tables below, except for the following: (1) the ultra deepwater floater Petrobras 10000, which is subject to a capital lease through August 2029, and (2) the ultra deepwater floater Discoverer Luanda, which is owned through our 65 percent ownership interest in Angola Deepwater Drilling Company Ltd. (“ADDCL”).

Rigs under construction (2)

Water Drilling Contracted