Resolute Energy Corp
Form 10-Q
May 12, 2014
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2014

OR

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

Commission File No. 001-34464

RESOLUTE ENERGY CORPORATION

(Exact Name of Registrant as Specified in its Charter)

Delaware **(State or other Jurisdiction of** **Incorporation or Organization)**	**27-0659371** **(I.R.S. Employer** **Identification Number)**
1675 Broadway, Suite 1950 Denver, CO **(Address of Principal Executive Offices)**	**80202** **(Zip Code)**

(303) 534-4600

(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 x 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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x 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 ¨	Accelerated filer x
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). ¨ No x

As of April 30, 2014, 77,921,375 shares of the Registrant s $0.0001 par value Common Stock were outstanding.

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements as that term is defined in the Private Securities Litigation Reform Act of 1995. The use of any statements containing the words anticipate, intend, believe, estimate, project, expect, plan, should or similar expressions are intended to identify such statements. Forward-l statements included in this report relate to, among other things, expected development opportunities; expectations regarding our development activities and drilling plans, particularly with respect to our Permian Properties (as defined in this Quarterly Report), the expected benefits to be realized from newly acquired properties including our ability to achieve the growth we expect from acquisitions; our plans for capital expenditures and the sources of such funding. Although we believe that these statements are based upon reasonable current assumptions, no assurance can be given that the future results covered by the forward-looking statements will be achieved. Forward-looking statements can be subject to risks, uncertainties and other factors that could cause actual results to differ materially from future results expressed or implied by the forward-looking statements. The forward-looking statements in this report are primarily located under the heading Risk Factors. All forward-looking statements speak only as of the date made. All subsequent written and oral forward-looking statements attributable to us, or persons acting on our behalf, are expressly qualified in their entirety by the cautionary statements. Except as required by law, we undertake no obligation to update any forward-looking statement. Factors that could cause actual results to differ materially from our expectations include, among others, those factors referenced in the Risk Factors section of this report, if any, in our Annual Report on Form 10-K for the year ended December 31, 2013, and such things as:

- risks associated with all of our Aneth field oil production being purchased by a single customer and connected to such customer with a pipeline that we do not own or control;
- volatility of oil and gas prices, including reductions in prices that would adversely affect our revenue, income, cash flow from operations and liquidity and the discovery, estimation and development of, and our ability to replace oil and gas reserves;
- our future cash flow, liquidity and financial position;
- the success of our business and financial strategy, derivative strategies and plans;
- the amount, nature and timing of our capital expenditures, including future development costs;
- our relationship with the Navajo Nation, the local community in the area where we operate Aneth Field, and Navajo Nation Oil and Gas Company, as well certain purchase rights held by Navajo Nation Oil and Gas Company;
- potential delays in the upgrade of third-party electrical infrastructure serving Aneth Field and potential power supply limitations;

a lack of available capital and financing, including the capital needed to pursue our production and other plans for our properties, on acceptable terms, including as a result of a reduction in the borrowing base under our credit facility;

the effectiveness and results of our CO_2 flood program at Aneth Field;

the impact of U.S. and global economic recession;

anticipated CO_2 supply, which is currently sourced exclusively from Kinder Morgan CO_2 Company, L.P.;

the success of the development plan for and production from our oil and gas properties;

the timing and amount of future production of oil and gas;

the completion, timing and success of exploratory drilling on our properties;

availability of, or delays related to, drilling, completion and production, personnel, supplies and equipment;

risks and uncertainties in the application of available horizontal drilling and completion techniques;

uncertainty surrounding occurrence and timing of identifying drilling locations and necessary capital to drill such locations;

our ability to fund and develop our estimated proved undeveloped reserves;

the effect of third party activities on our oil and gas operations, including our dependence on gas gathering and processing systems;

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inaccuracy in reserve estimates and expected production rates;

our operating costs and other expenses;

our success in marketing oil and gas;

competition in the oil and gas industry;

the concentration of our producing properties in a limited number of geographic areas;

operational problems, or uninsured or underinsured losses affecting our operations or financial results;

our relationships with the local communities in the areas where we operate;

the impact and costs related to compliance with, or changes in, laws or regulations governing our oil and gas operations, including changes in Navajo Nation laws, and the potential for increased regulation of drilling and completion techniques, underground injection or fracing operations;

the availability of water and our ability to adequately treat and dispose of water after drilling and completing wells;

potential changes to regulations affecting derivatives instruments;

the success of our derivatives program;

the impact of weather and the occurrence of disasters, such as fires, explosions, floods and other events and natural disasters;

environmental liabilities under existing or future laws and regulations;

developments in oil and gas producing countries;

loss of senior management or key technical personnel;

- timing of issuance of permits and rights of way, including the effects of any government shut-downs;
- timing of installation of gathering infrastructure in areas of new exploration and development;
- potential breakdown of equipment and machinery relating to the Aneth compression facility;
- our ability to achieve the growth and benefits we expect from our acquisitions;
- risks associated with unanticipated liabilities assumed, or title, environmental or other problems resulting from, our acquisitions;
- acquisitions and other business opportunities (or the lack thereof) that may be presented to and pursued by us, and the risk that any opportunity currently being pursued will fail to consummate or encounter material complications;
- risks related to our level of indebtedness;
- our ability to fulfill our obligations under the senior notes;
- constraints imposed on our business and operations by our credit agreement and our senior notes to generate sufficient cash flow to repay our debt obligations;
- losses possible from pending or future litigation;
- risk factors discussed or referenced in this report; and
- other factors, many of which are beyond our control.

Additionally, the SEC requires oil and gas companies, in filings made with the SEC, to disclose proved reserves, which are those quantities of oil and gas, which, by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be economically producible from a given date forward, from known reservoirs, under existing economic conditions, operating methods, and governmental regulations. The SEC permits the optional disclosure of probable and possible reserves. From time to time, we may elect to disclose probable reserves and possible reserves, excluding their valuation, in our SEC filings, press releases and investor presentations. The SEC defines probable reserves as those additional reserves that are less certain to be recovered than proved reserves but which, together with proved reserves, are as likely as not to be recovered. The SEC defines possible reserves as those additional reserves that are less certain to be recovered than probable reserves. The Company applies these definitions when estimating probable and possible reserves. Statements of reserves are only estimates and may not correspond to the ultimate quantities of oil and gas recovered. Any reserve estimates or potential resources provided in our public filings, press releases and investor presentations that are not specifically designated as being estimates of proved reserves may include estimated reserves not necessarily calculated in accordance with, or contemplated by, the SEC s reserves

reporting guidelines.

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The SEC s rules prohibit us from including resource estimates in our public filings with the SEC. Our potential resource estimations include estimates of hydrocarbon quantities for (i) new areas for which we do not have sufficient information to date to classify as proved, probable or even possible reserves, (ii) other areas to take into account the low level of certainty of recovery of the resources and (iii) uneconomic proved, probable or possible reserves. Potential resource estimates do not take into account the certainty of resource recovery and are therefore not indicative of the expected future recovery and should not be relied upon for such purpose. Potential resources might never be recovered and are contingent on exploration success, technical improvements in drilling access, commerciality and other factors. In our press releases and investor presentations, we sometimes include estimates of quantities of oil and gas using certain terms, such as resource, resource potential, EUR, oil in place, or other descriptions of volumes of reserves, which terms include quantities of oil and gas that may not meet the SEC definition of proved, probable and possible reserves. These estimates are by their nature more speculative than estimates of proved reserves and accordingly are subject to substantially greater risk of being recovered by Resolute. The Company believes its potential resource estimates are reasonable, but such estimates have not been reviewed by independent engineers. Furthermore, estimates of potential resources may change significantly as development provides additional data, and actual quantities that are ultimately recovered may differ substantially from prior estimates.

Finally, 24 hour peak IP rates and 30 day peak IP rates for both our wells and for those wells that are located near to our properties are limited data points in each well s productive history and not necessarily indicative or predictive of future production rates, EUR or economic rates of return from such wells and should not be relied upon for such purpose.

You are urged to consider closely the disclosure in this Quarterly Report on Form 10-Q and in our Annual Report on Form 10-K for the year ended December 31, 2013, in particular the factors described under Risk Factors.

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RESOLUTE ENERGY CORPORATION

Condensed Consolidated Balance Sheets (UNAUDITED)

(in thousands, except share amounts)

	March 31, 2014	December 31, 2013
Assets		
Current assets:		
Cash and cash equivalents	$ 900	$ 19
Accounts receivable	66,845	94,358
Deferred income taxes	8,177	8,330
Derivative instruments	493	1,378
Prepaid expenses and other current assets	1,138	1,152
Total current assets	77,553	105,237
Property and equipment, at cost:		
Oil and gas properties, full cost method of accounting		
Unproved	282,796	274,420
Proved	1,571,411	1,544,942
Other property and equipment	9,183	8,069
Accumulated depletion, depreciation and amortization	(525,889)	(494,642)
Net property and equipment	1,337,501	1,332,789
Other assets:		
Restricted cash	18,220	18,219
Deferred financing costs	11,615	12,265
Other assets	615	299
Total assets	$ 1,445,504	$ 1,468,809
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable	$ 20,164	$ 32,601
Accrued expenses	77,715	81,478
Accrued interest payable	14,240	5,739
Asset retirement obligations	1,812	1,825
Derivative instruments	13,263	11,955
Total current liabilities	127,194	133,598
Long term liabilities:		
Credit facility	320,000	335,000

Senior notes, net of accumulated premium amortization of $255 at March 31, 2014 and $204 at December 31, 2013	401,620	401,671
Asset retirement obligations	30,665	30,164
Deferred income taxes	33,565	34,824
Other long term liabilities	992	
Total liabilities	914,036	935,257
Commitments and contingencies		
Stockholders equity:		
Preferred stock, $0.0001 par value; 1,000,000 shares authorized; none issued or outstanding		
Common stock, $0.0001 par value; 225,000,000 shares authorized; issued and outstanding 77,912,813 and 76,228,055 shares at March 31, 2014 and December 31, 2013, respectively	8	8
Additional paid-in capital	633,286	631,822
Accumulated deficit	(101,826)	(98,278)
Total stockholders equity	531,468	533,552
Total liabilities and stockholders equity	$ 1,445,504	$ 1,468,809

See notes to condensed consolidated financial statements

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RESOLUTE ENERGY CORPORATION

Condensed Consolidated Statements of Operations (UNAUDITED)

(in thousands, except per share data)

	Three Months Ended March 31, 2014	2013
Revenue:		
Oil	$ 80,605	$ 72,936
Gas	7,986	4,535
Natural gas liquids	2,287	1,426
Total revenue	90,878	78,897
Operating expenses:		
Lease operating	28,654	25,212
Production and ad valorem taxes	10,598	10,223
Depletion, depreciation, amortization, and asset retirement obligation accretion	31,908	24,882
General and administrative	8,643	8,568
Total operating expenses	79,803	68,885
Income from operations	11,075	10,012
Other income (expense):		
Interest expense, net	(7,796)	(8,081)
Commodity derivative instruments loss	(7,934)	(6,786)
Other income	1	3
Total other expense	(15,729)	(14,864)
Loss before income taxes	(4,654)	(4,852)
Income tax benefit	1,106	1,803
Net loss	$ (3,548)	$ (3,049)
Net loss per common share:		
Basic and diluted	$ (0.05)	$ (0.05)
Weighted average common shares outstanding:		
Basic and diluted	73,540	59,802

See notes to condensed consolidated financial statements

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RESOLUTE ENERGY CORPORATION

Condensed Consolidated Statements of Stockholders Equity (UNAUDITED)

(in thousands)

	Common Stock		Additional Paid-in		Total Stockholders
	Shares	Amount	Capital	Accumulated Deficit	Equity
Balance as of January 1, 2014	76,228	$ 8	$ 631,822	$ (98,278)	$ 533,552
Issuance of stock, restricted stock and share-based compensation	1,868		2,956		2,956
Redemption of restricted stock for employee income tax and restricted stock forfeitures	(183)		(1,492)		(1,492)
Net loss				(3,548)	(3,548)
Balance as of March 31, 2014	77,913	$ 8	$ 633,286	$ (101,826)	$ 531,468

See notes to condensed consolidated financial statements

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RESOLUTE ENERGY CORPORATION

Condensed Consolidated Statements of Cash Flows (UNAUDITED)

(in thousands)

	Three Months Ended March 31, 2014	2013
Operating activities:		
Net loss	$ (3,548)	$ (3,049)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depletion, depreciation, amortization and asset retirement obligation accretion	31,908	24,882
Amortization of deferred financing costs and senior notes premium	599	603
Share-based compensation	2,890	2,502
Commodity derivative instruments loss	7,934	6,786
Commodity derivative settlements	(4,750)	(6,892)
Deferred income taxes	(1,106)	(1,803)
Change in operating assets and liabilities:		
Accounts receivable	27,570	(12,820)
Other current assets	24	788
Accounts payable and accrued expenses	(7,370)	8,535
Accrued interest payable Accrued interest payable	8,501	8,859
Net cash provided by operating activities	62,652	28,391
Investing activities:		
Oil and gas exploration and development expenditures `	(48,998)	(43,531)
Purchase of oil and gas properties		(256,977)
Proceeds from sale of oil and gas properties and other	4,805	50,222
Purchase of other property and equipment	(1,114)	(398)
Restricted cash	(1)	1,843
Other	29	(4,978)
Net cash used in investing activities	(45,279)	(253,819)
Financing activities:		
Proceeds from bank borrowings	106,000	279,000
Repayments of bank borrowings	(121,000)	(51,000)
Redemption of restricted stock for employee income taxes	(1,492)	
Payment of financing costs		(1,865)
Net cash provided by (used in) financing activities	(16,492)	226,135
Net increase in cash and cash equivalents	881	707
Cash and cash equivalents at beginning of period	19	934

Cash and cash equivalents at end of period	$	900	$	1,641

See notes to condensed consolidated financial statements

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RESOLUTE ENERGY CORPORATION

Notes to Condensed Consolidated Financial Statements

Note 1 Organization and Nature of Business

Resolute Energy Corporation (Resolute or the Company), is an independent oil and gas company engaged in the exploitation, development, exploration for and acquisition of oil and gas properties. The Company s asset base is comprised of properties in Aneth Field located in the Paradox Basin in southeast Utah (the Aneth Field Properties or Aneth Field), the Permian Basin in west Texas and southeast New Mexico and the Big Horn and Powder River Basins in Wyoming. The Company conducts all of its activities in the United States of America.

Note 2 Basis of Presentation and Summary of Significant Accounting Policies

Basis of Presentation

The unaudited condensed consolidated financial statements include Resolute and its subsidiaries, and have been prepared in accordance with accounting principles generally accepted in the United States (GAAP) and Regulation S-X for interim financial reporting. Except as disclosed herein, there has been no material change in our basis of presentation from the information disclosed in the notes to Resolute s consolidated financial statements for the year ended December 31, 2013. In the opinion of management, all adjustments consisting of normal recurring accruals considered necessary for a fair presentation of the interim financial information have been included. Operating results for the periods presented are not necessarily indicative of the results that may be expected for the full year. All significant intercompany transactions have been eliminated upon consolidation. Certain prior period amounts have been reclassified to conform to the current period presentation.

In connection with the preparation of the condensed consolidated financial statements, Resolute evaluated subsequent events that occurred after the balance sheet date, through the date of filing.

Significant Accounting Policies

The significant accounting policies followed by Resolute are set forth in Resolute s consolidated financial statements for the year ended December 31, 2013. These unaudited condensed consolidated financial statements are to be read in conjunction with the consolidated financial statements appearing in Resolute s Annual Report on Form 10-K and related notes for the year ended December 31, 2013.

Assumptions, Judgments and Estimates

The preparation of the condensed consolidated financial statements in conformity with GAAP requires management to make various assumptions, judgments and estimates to determine the reported amounts of assets, liabilities, revenue and expenses, and in the disclosures of commitments and contingencies. Changes in these assumptions, judgments and estimates will occur as a result of the passage of time and the occurrence of future events. Accordingly, actual results could differ from amounts previously established.

Significant estimates with regard to the condensed consolidated financial statements include proved oil and gas reserve volumes and the related present value of estimated future net cash flows used in the ceiling test applied to capitalized oil and gas properties; asset retirement obligations; valuation of derivative assets and liabilities; the estimated fair value and allocation of the purchase price related to business combinations; share-based compensation

expense; depletion, depreciation and amortization; accrued liabilities; revenue and related receivables and income taxes.

Oil and Gas Properties

The Company uses the full cost method of accounting for its oil and gas operations. Accounting rules require Resolute to perform a quarterly ceiling test calculation to test its oil and gas properties for possible impairment. The primary components affecting this calculation are commodity prices, reserve quantities added and produced, overall exploration and development costs and depletion expense. If the net capitalized cost of the Company s oil and gas properties subject to amortization (the carrying value) exceeds the ceiling limitation, the excess would be charged to expense. The ceiling limitation is equal to the sum of the present value discounted at 10% of estimated future net cash flows from proved reserves, the cost of properties not being amortized, the lower of cost or estimated fair value of unproven properties included in the costs being amortized, and all related tax effects.

At March 31, 2014, the calculated value of the ceiling limitation exceeded the carrying value of Resolute s oil and gas properties subject to the test and no impairment was necessary. However, if there is a negative impact on one or more of the components of the calculation, including market prices of oil and gas, including differentials from posted prices, future drilling and capital plans, operating costs or expected production, the Company may incur a full cost ceiling impairment related to its oil and gas properties in future periods.

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Note 3 Acquisitions and Divestitures

Permian Property Acquisitions

On December 28, 2012, the Company purchased properties in the Wolfberry play in the Midland Basin portion of the Permian Basin in Midland and Ector counties, Texas, for a purchase price of approximately $133 million. Concurrently with that transaction, the Company acquired, for additional consideration of $6 million, the option to buy the balance of the working interest in and operatorship of the properties under substantially the same terms as the initial transaction (the Option Properties). On March 22, 2013, the Company exercised the option and acquired the Option Properties for $258 million, net of the option fee, after customary purchase price adjustments, which were estimated at closing. Revenue and expenses related to the acquired properties are included in the consolidated statement of operations beginning on the closing date of the respective transaction. Together, the December 2012 and March 2013 acquisitions, which the Company refers to as the Permian Acquisitions, were accounted for using the acquisition method.

The purchase price of the Option Properties was comprised of the following (in thousands):

	2013
Purchase price	$ 258,000

The Company has completed its assessment of the fair values of the assets acquired and liabilities assumed. Accordingly, the following table presents the final purchase price allocation of the Option Properties at December 31, 2013, based on the fair values of assets acquired and liabilities assumed (in thousands):

	2013
Proved oil and gas properties	$ 93,000
Unproved oil and gas properties	167,000
Asset retirement obligations assumed	(2,000)
Total purchase price	$ 258,000

Pro Forma Financial Information

The unaudited pro forma consolidated financial information in the table below summarizes the results of operations of the Company as though the purchase of the Option Properties in March 2013 had occurred on January 1, 2013. The pro forma financial information is presented for informational purposes only and is not indicative of the results of operations that would have been achieved if the acquisition of the Option Properties had taken place at the beginning of the earliest periods presented or that may result in the future. The pro forma adjustments made utilize certain assumptions that Resolute believes are reasonable based on the available information.

The unaudited pro forma financial information for the quarter ended March 31, 2013, combine the historical results of the Option Properties and Resolute (in thousands, except per share amounts):

	Three Months Ended March 31, 2013
Revenue	$ 89,955
Revenue in excess of operating expenses	52,634
Net loss	(486)
Basic and diluted net loss per share	$ (0.01)

Aneth Field Transactions

During the second quarter of 2012, Resolute and Navajo Nation Oil and Gas Company (NNOGC) entered into an amendment to their Cooperative Agreement. Among other changes, this amendment allowed NNOGC to exercise options to purchase 10% of the Company s interest in the Aneth Field Properties. These options were exercised for cash consideration of $100 million. Resolute entered into a purchase and sale agreement relating to the exercise of the options which provided that the transaction be closed and paid for in two equal transfers, each for 5% of Resolute s interest in the properties. The first transfer took place in July 2012 and the second transfer took place in January 2013, each with an effective date of January 1, 2012.

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The Cooperative Agreement amendment also provides for the cancellation of a second set of options held by NNOGC to purchase an additional 10% interest in the Aneth Field Properties and stipulates that NNOGC has one remaining option to purchase an additional 10% of Resolute s interest in the Aneth Field Properties. The remaining option is exercisable in July 2017 at the then-current fair market value of such interest at that time. No gain or loss was recognized upon these sales as it did not represent a significant portion of the Company s oil and gas properties and did not significantly alter the relationship of capitalized costs and proved reserves.

Sale of New Home Properties

On June 27, 2013, the Company entered into a purchase and sale agreement with HRC Energy, LLC, a Colorado limited liability company, and a wholly-owned subsidiary of Halcón Resources Corporation, a Delaware corporation, effective March 1, 2013, to dispose of certain Bakken properties located in Williams County, North Dakota (the New Home Properties) and other non-operated Bakken properties for proceeds of $70.1 million. The transaction closed on July 15, 2013, and net proceeds received were recorded as a reduction to the capitalized costs of the Company s oil and gas properties.

Note 4 Earnings per Share

The Company computes basic net income (loss) per share using the weighted average number of shares of common stock outstanding during the period. Diluted net income (loss) per share is computed using the weighted average number of shares of common stock and, if dilutive, potential shares of common stock outstanding during the period. Potentially dilutive shares consist of the incremental shares issuable under the outstanding warrants, which entitle the holder to purchase one share of the Company s common stock at a price of $13.00 per share and which expire on September 25, 2014, and incremental shares issuable under the Company s 2009 Performance Incentive Plan (the Incentive Plan). The treasury stock method is used to measure the dilutive impact of potentially dilutive shares.

The following table details the potential weighted average dilutive and anti-dilutive securities for the periods presented (in thousands):

	Three Months Ended March 31,	
	2014	2013
Potential dilutive warrants		
Potential dilutive restricted stock	2,826	1,634
Anti-dilutive securities	35,867	34,675

The following table sets forth the computation of basic and diluted net loss per share of common stock for the three months ended March 31, 2014 and 2013 (in thousands, except per share amounts):

	Three Months Ended March 31,	
	2014	2013
Net loss	$ (3,548)	$ (3,049)
Basic weighted average common shares outstanding	73,540	59,802

Add: dilutive effect of non-vested restricted stock		
Add: dilutive effect of outstanding warrants		
Diluted weighted average common shares outstanding	73,540	59,802
Basic and diluted net loss per common share	$ (0.05)	$ (0.05)

Note 5 Long Term Debt

As of the dates indicated, the Company s long-term debt consisted of the following (in thousands):

	March 31, 2014	December 31, 2013
Credit facility	$ 320,000	$ 335,000
Senior notes	400,000	400,000
Unamortized premium on senior notes	1,620	1,671
Total long-term debt	$ 721,620	$ 736,671

Credit Facility

Resolute s credit facility is with a syndicate of banks led by Wells Fargo Bank, National Association, as Administrative Agent, and Bank of Montreal, as Syndication Agent (the Credit Facility) with Resolute as the borrower. The Credit Facility specifies a maximum borrowing base as determined by the lenders. The determination of the borrowing base takes into consideration the estimated value of Resolute s oil and gas properties in accordance with the lenders customary practices for oil and gas loans. The borrowing base is redetermined semi-annually, and the amount available for borrowing could be increased or decreased as a result of such redeterminations. Under certain circumstances, either Resolute or the lenders may request an interim redetermination.

In March 2013, and in connection with the purchase of the Option Properties, the Company entered into the Sixth Amendment to the amended and restated Credit Facility agreement, resulting in a borrowing base increase to $485 million, consisting of a $445 million conforming tranche and a $40 million non-conforming tranche (which expired on May 14, 2013). The Sixth Amendment, among other things, also extended the maturity date of the revolving Credit Facility from April 2017 to March 2018. On March 7, 2014, the Company entered into the Ninth Amendment to the amended and restated Credit Facility which redefined and adjusted the Maximum Leverage Ratio to (a) 4.90:1.00 for the fiscal quarters ending March 31, 2014, and June 30, 2014, (b) 4.75:1.00 for the fiscal quarters ending September 30, 2014, and December 31, 2014, and (c) 4.00:1.00 for all quarters thereafter. The Ninth Amendment also provided that as of the last day of each fiscal quarter in 2014, the ratio of senior secured debt as of such date to Adjusted EDITDA for the four quarter period ending on such date may not exceed 2.75:1.00.

Each base rate borrowing under the Credit Facility accrues interest at either (a) the London Interbank Offered Rate, plus a margin which varies from 1.50% to 2.50% (or 3.0% if the Company utilizes any portion of the non-conforming tranche) or (b) the alternative Base Rate defined as the greater of (i) the Administrative Agent s Prime Rate (ii) the Federal Funds effective Rate plus 0.5% or (iii) an adjusted London Interbank Offered Rate (LIBOR) plus a margin which ranges from 0.50% to 1.50% (or 2.0% if the Company utilizes any portion of the non-conforming tranche). Each such margin is based on the level of utilization under the borrowing base. In March 2014, the Company entered into the Tenth Amendment to the amended and restated Credit Facility agreement. In connection with the Tenth Amendment, the semi-annual redetermination of the Company s borrowing base was completed, resulting in a borrowing base of $425 million, consisting of a $400 million conforming tranche and a $25 million non-conforming tranche (which non-conforming tranche will expire no later than the Company s next borrowing base redetermination date). The Tenth Amendment also required that the Company enter into commodity derivative agreements by March 31, 2014, on production of not less than 5,100 barrels of oil per day in the aggregate for the fiscal year ending December 31, 2015, at a weighted average price floor of not less than $84.17 per barrel. This requirement was

satisfied in the first quarter of 2014.

As of March 31, 2014, outstanding borrowings were $320 million under the borrowing base of $425 million. The borrowing base availability had been reduced by $3.1 million in conjunction with letters of credit issued to vendors at March 31, 2014. To the extent that the borrowing base, as adjusted from time to time, exceeds the outstanding balance, no repayments of principal are required prior to maturity. The Credit Facility is guaranteed by all of Resolute s subsidiaries and is collateralized by substantially all of the proved oil and gas assets of Resolute Aneth, LLC, Resolute Wyoming, Inc. and Resolute Natural Resources Southwest, LLC, which are wholly-owned subsidiaries of the Company.

As of March 31, 2014, the weighted average interest rate on the outstanding balance under the Credit Facility was 2.41%. The recorded value of the Credit Facility approximates its fair market value because the interest rate of the Credit Facility is variable over the term of the loan (Level 2 fair value measurement).

The Credit Facility includes customary terms and covenants that place limitations on certain types of activities, the payment of dividends, and require satisfaction of certain financial tests. Resolute was in compliance with all terms and covenants of the Credit Facility at March 31, 2014.

Resolute Energy Corporation, the stand-alone parent entity, has insignificant independent assets and no operations. There are no restrictions on the Company s ability to obtain cash dividends or other distributions of funds from its subsidiaries, except those imposed by applicable law.

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Senior Notes

In April 2012, the Company consummated a private placement of senior notes with a principal amount of $250 million, and in December 2012 placed a follow-on issuance of senior notes with a principal amount of $150 million. The Senior Notes are due May 1, 2020, and bear an annual interest rate of 8.50% with the interest on the Notes payable semiannually in cash on May 1 and November 1 of each year.

The Senior Notes were issued under an Indenture (the Indenture) among the Company, the Company s existing subsidiaries (the Guarantors) and U.S. Bank National Association, as trustee (the Trustee) in a private transaction not subject to the registration requirements of the Securities Act of 1933. In March 2013, the Company registered the Senior Notes with the Securities and Exchange Commission by filing an amendment to the registration statement on Form S-4 enabling holders of the Senior Notes to exchange the privately placed Notes for publically registered Notes with substantially identical terms. The Indenture contains affirmative and negative covenants that, among other things, limit the Company s and the Guarantors ability to make investments, incur additional indebtedness or issue preferred stock, create liens, sell assets, enter into agreements that restrict dividends or other payments by restricted subsidiaries, consolidate, merge or transfer all or substantially all of the assets of the Company, engage in transactions with the Company s affiliates, pay dividends or make other distributions on capital stock or prepay subordinated indebtedness and create unrestricted subsidiaries. The Indenture also contains customary events of default. Upon occurrence of events of default arising from certain events of bankruptcy or insolvency, the Senior Notes shall become due and payable immediately without any declaration or other act of the Trustee or the holders of the Senior Notes. Upon the occurrence of certain other events of default, the Trustee or the holders of the Senior Notes may declare all outstanding Senior Notes to be due and payable immediately. The Company was in compliance with all financial covenants under its Senior Notes as of March 31, 2014.

The Senior Notes are general unsecured senior obligations of the Company and guaranteed on a senior unsecured basis by the Guarantors. The Senior Notes rank equally in right of payment with all existing and future senior indebtedness of the Company, will be subordinated in right of payment to all existing and future senior secured indebtedness of the Guarantors, will rank senior in right of payment to any future subordinated indebtedness of the Company and will be fully and unconditionally guaranteed by the Guarantors on a senior basis.

The Senior Notes are redeemable by the Company on or after May 1, 2016, on not less than 30 or more than 60 days prior notice, at redemption prices set forth in the Indenture. In addition, at any time prior to May 1, 2015, the Company may use the net proceeds from equity offerings and warrant exercises to redeem up to 35% of the principal amount of Notes issued under the Indenture at a redemption price equal to 108.50% of the principal amount of the Notes redeemed, plus accrued and unpaid interest. The Senior Notes may also be redeemed at any time prior to May 1, 2016, at the option of the Company at a redemption price equal to 100% of the principal amount of the Notes redeemed plus the applicable premium, and accrued and unpaid interest and additional interest, if any, to the applicable redemption date as set forth in the Indenture. If a change of control occurs, each holder of the Notes will have the right to require that the Company purchase all of such holder s Notes in an amount equal to 101% of the principal of such Notes, plus accrued and unpaid interest, if any, to the date of the purchase.

The fair value of the Senior Notes at March 31, 2014, was estimated to be $419.5 million based upon data from independent market makers (Level 2 fair value measurement).

For the three months ended March 31, 2014 and 2013, the Company incurred interest expense on long-term debt of $7.8 million and $8.1 million, respectively. The Company capitalized $3.8 million and $2.7 million of interest expense during the quarters ended March 31, 2014 and 2013, respectively.

Note 6   Income Taxes

Income tax benefit (expense) during interim periods is based on applying an estimated annual effective income tax rate to year-to-date income (loss), plus any significant unusual or infrequently occurring items that are recorded in the interim period. The provision for income taxes for the quarters ended March 31, 2014 and 2013, differs from the amount that would be provided by applying the statutory U.S. federal income tax rate of 35% to income before income taxes. The lower effective rate in 2014 relates primarily to the permanent differences in the fair value of share-based compensation expensed under GAAP and the realized value deductible for income tax purposes.

The following table summarizes the components of the provision for income taxes (in thousands):

	Three Months Ended March 31,	
	2014	2013
Current income tax benefit (expense)	$	$
Deferred income tax benefit	1,106	1,803
Total income tax benefit	$ 1,106	$ 1,803

The Company had no reserve for uncertain tax positions as of March 31, 2014. A valuation allowance against deferred tax assets at March 31, 2014 and 2013, is not considered necessary because in the Company s opinion it is more likely than not that the deferred tax asset will be fully realized.

Note 7   Stockholders Equity and Equity Based Awards

Preferred Stock

The Company is authorized to issue up to 1,000,000 shares of preferred stock, par value $0.0001 with such designations, voting and other rights and preferences as may be determined from time to time by the Board of Directors. No shares were issued and outstanding as of March 31, 2014, or December 31, 2013.

Common Stock

The authorized common stock of the Company consists of 225,000,000 shares. The holders of the common shares are entitled to one vote for each share of common stock. In addition, the holders of the common stock are entitled to receive dividends when, as and if declared by the Board of Directors. At March 31, 2014, and December 31, 2013, the Company had 77,912,813 and 76,228,055 shares of common stock issued and outstanding, respectively.

During the second quarter of 2013, the Company issued 13.3 million shares of common stock in a public offering at $8.00 per share resulting in net proceeds of $101.8 million, after underwriting discounts and commissions. The net proceeds were used to repay outstanding borrowings under the Credit Facility.

During the first quarter of 2014 and 2013, no warrants were repurchased or exercised. At March 31, 2014, 33,040,682 warrants remain outstanding.

Share-Based Compensation

The Company accounts for share-based compensation in accordance with FASB ASC Topic 718, *Stock Compensation*.

On July 31, 2009, the Company adopted the Incentive Plan, providing for long-term share-based awards intended as a means for the Company to attract, motivate, retain and reward directors, officers, employees and other eligible persons through the grant of awards and incentives for high levels of individual performance and improved financial performance of the Company. The share-based awards are also intended to further align the interests of award recipients and the Company s stockholders. The maximum number of shares of common stock that may be issued under the Incentive Plan is 9,157,744.

Time-Based Awards

Shares of time-based restricted stock generally vest in three or four year increments at specified dates based on continued employment.

The compensation expense recognized for the time-based awards was measured based on the Company s closing stock price on the dates of grant, utilizing estimated forfeiture rates between 0% and 10% which are updated periodically based on actual employee turnover. During the quarter ended March 31, 2014, the Company granted 1,379,717 shares of time-based restricted stock to employees and directors, pursuant to the Incentive plan.

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For the quarters ended March 31, 2014 and 2013, the Company recorded $2.5 million and $2.0 million of share-based compensation expense related to time-based awards, net of amounts billed to partners, respectively. There was unrecognized compensation expense of approximately $25.0 million at March 31, 2014, which is expected to be recognized over a weighted-average period of 2.3 years. The following table summarizes the changes in non-vested time-based awards for the quarter ended March 31, 2014:

	Shares	Weighted Average Grant Date Fair Value
Non-vested, beginning of period	2,005,721	$ 10.62
Granted	1,379,717	9.19
Vested	(491,373)	10.50
Forfeited	(17,893)	10.05
Non-vested, end of period	2,876,172	$ 9.96

Performance-Based Awards

For grants made through year-end 2012, performance-based shares generally vest in equal tranches beginning on December 31 of the year of the grant if there has been a 10% annual appreciation in the trading price of the Company s common stock, compounded annually, from the twenty trading day average stock price ended on December 31 of the year prior to the grant (which was $14.227 for 2011 grants and $11.639 for 2012 grants). At the end of each year, the twenty trading day average stock price will be measured, and if the 10% threshold is met, the stock subject to the performance criteria will vest. If the 10% threshold is not met, shares that have not vested will be carried forward to the following year subject to a four year maximum vesting period. These awards are referred to as Stock Appreciation Awards.

For the quarters ended March 31, 2014 and 2013, the Company recorded share-based compensation expense related to the Stock Appreciation Awards of $0.1 million and $0.2 million, respectively. There was unrecognized compensation expense for the Stock Appreciation Awards of approximately $0.2 million at March 31, 2014, which is expected to be recognized over a weighted-average period of 1.4 years. The following table summarizes the changes in non-vested Stock Appreciation Awards for the three month period ended March 31, 2014:

	Shares	Weighted Average Grant Date Fair Value
Non-vested, beginning of period	444,571	$ 7.60
Granted		
Vested		
Forfeited	(2,010)	7.79

Non-vested, end of period	442,561	$	7.60

In March 2014, the Compensation Committee awarded 487,819 performance-based restricted shares to executive officers of the Company under the Incentive Plan. The restricted stock grants vest only upon achievement of thresholds of cumulative total shareholder return (TSR) as compared to a specified peer group (the Performance-Vested Shares). A TSR percentile (the TSR Percentile) is calculated based on the change in the value of the Company s common stock between the grant date and the applicable vesting date, including any dividends paid during the period, as compared to the respective TSRs of a specified group of seventeen peer companies. The Performance-Vested Shares vest in three installments to the extent that the applicable TSR Percentile ranking thresholds are met upon the one-, two- and three-year anniversaries of the grant date. Performance-Vested Shares that are eligible to vest on a vesting date, but do not qualify for vesting, become eligible for vesting again on the next vesting date. All Performance-Vested Shares that have not vested as of the final vesting date will be forfeited on such date.

The Compensation Committee also granted rights to earn additional shares of common stock upon achievement of a higher TSR Percentile (Outperformance Shares). The Outperformance Shares are earned in increasing increments based on a TSR Percentile attained over a specified threshold. Outperformance Shares may be earned on any vesting date to the extent that the applicable TSR Percentile ranking thresholds are met in three installments on the one-, two- and three-year anniversaries of the grant date. Outperformance Shares that are earned at a vesting date will be issued to the recipient; however, prior to such issuance, the recipient is not entitled to stockholder rights with respect to Outperformance Shares. Outperformance Shares that are eligible to be earned but remain unearned on a vesting date become eligible to be earned again on the next vesting date. The right to earn any theretofore unearned Outperformance Shares terminates immediately following the final vesting date. The Performance-Vested Shares and the Outperformance Shares are referred to as the TSR Awards.

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The compensation expense to be recognized for the TSR Awards and Stock Appreciation Awards was measured based on the estimated fair value at the date of grant using a Monte Carlo simulation model and utilizes estimated forfeiture rates between 4% and 15% which are updated periodically based on actual employee turnover.

The valuation model for the TSR Awards used the following assumptions:

Grant Year	Average Expected Volatility	Expected Dividend Yield	Risk-Free Interest Rate
2013	35.0%	0%	0.42%
2014	39.4%	0%	0.69%

For the quarters ended March 31, 2014 and 2013, the Company recorded share-based compensation expense related to the TSR Awards of $0.3 million and $0.3 million, respectively. There was unrecognized compensation expense for TSR Awards of approximately $8.2 million at March 31, 2014, which is expected to be recognized over a weighted-average period of 2.6 years. The following table summarizes the changes in non-vested TSR Awards for the three month period ended March 31, 2014:

	Shares	Weighted Average Grant Date Fair Value
Non-vested, beginning of period	340,166	$ 15.91
Granted	487,819	13.32
Vested	(63,387)	15.91
Forfeited		
Non-vested, end of period	764,598	$ 14.26

Note 8 Asset Retirement Obligation

Resolute s estimated asset retirement obligation liability is based on estimated economic lives, estimates as to the cost to abandon the wells in the future, and federal and state regulatory requirements. The liability is discounted using a credit-adjusted risk-free rate estimated at the time the liability is incurred or revised, that ranges between 7% and 12%. Revisions to the liability could occur due to changes in estimated abandonment costs or well economic lives, or if federal or state regulators enact new requirements regarding the abandonment of wells. Asset retirement obligations are valued utilizing Level 3 fair value measurement inputs. The following table provides a reconciliation of Resolute s asset retirement obligations for the periods presented (in thousands):

	Three Months Ended March 31,	
	2014	2013
Asset retirement obligations at beginning of period	$ 31,989	$ 19,155

Additional liability incurred / acquired		402
Accretion expense	661	318
Liabilities settled	(173)	(193)
Asset retirement obligations at end of period	32,477	19,682
Less: current asset retirement obligations	(1,812)	(3,390)
Long-term asset retirement obligations	$ 30,665	$ 16,292

Note 9 Derivative Instruments

Resolute enters into commodity derivative contracts to manage its exposure to oil and gas price volatility. Resolute has not elected to designate derivative instruments as hedges under the provisions of FASB ASC Topic 815, *Derivatives and Hedging*. As a result, these derivative instruments are marked to market at the end of each reporting period and changes in the fair value are recorded in the accompanying consolidated statements of operations. Gains and losses on commodity derivative instruments from Resolute s price risk management activities are recognized in other income (expense). The cash flows from derivatives are reported as cash flows from operating activities unless the derivative contract is deemed to contain a financing element. Derivatives deemed to contain a financing element are reported as financing activities in the condensed consolidated statement of cash flows.

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The Company utilizes fixed price swaps, basis swaps, option contracts and two-and three-way collars. These instruments generally entitle Resolute (the floating price payer in most cases) to receive settlement from the counterparty (the fixed price payer in most cases) for each calculation period in amounts, if any, by which the settlement price for the scheduled trading days applicable to each calculation period is less than the fixed strike price or floor price. The Company would pay the counterparty if the settlement price for the scheduled trading days applicable to each calculation period exceeds the fixed strike price or ceiling price. The amount payable by Resolute, if the floating price is above the fixed or ceiling price, is the product of the notional contract quantity and the excess of the floating price over the fixed or ceiling price per calculation period. The amount payable by the counterparty, if the floating price is below the fixed or floor price, is the product of the notional contract quantity and the excess of the fixed or floor price over the floating price per calculation period. A three-way collar consists of a two-way collar contract combined with a put option contract sold by the Company with a strike price below the floor price of the two-way collar. The Company receives price protection at the purchased put option floor price of the two-way collar if commodity prices are above the sold put option strike price. If commodity prices fall below the sold put option strike price, the Company receives the cash market price plus the variance between the two put option strike prices. This type of instrument captures more value in a rising commodity price environment, but limits the benefits in a downward commodity price environment. Basis swaps are used in connection with gas swaps in order to fix the price differential between the NYMEX Henry Hub price and the index price at which the gas production is sold.

As of March 31, 2014, the fair value of the Company s commodity derivatives was a net liability of $13.8 million.

The following table represents Resolute s commodity swap contracts as of March 31, 2014:

	Oil (NYMEX WTI)		Gas (NYMEX Henry Hub)	
Remaining Term	Bbl per Day	Weighted Average Swap Price Per Bbl	MMBtu per Day	Weighted Average Swap Price Per MMBtu
Apr Dec 2014	5,500	$ 92.94	5,000	$ 4.165
Jan Dec 2015	4,100	$ 88.93		

The following table represents Resolute s two-way commodity collar contracts as of March 31, 2014:

	Oil (NYMEX WTI)		
Remaining Term	Bbl per Day	Weighted Average Floor Price Per Bbl	Weighted Average Ceiling Price Per Bbl
Apr Dec 2014	1,500	$ 65.00	$ 110.00
Jan Dec 2015	1,000	$ 84.17	$ 92.10

The following table represents Resolute s commodity call and put option contracts as of March 31, 2014:

	Oil (NYMEX WTI)					
Remaining Term	Bought Call Bbl per Day	Weighted Average Bought Call Price Per Bbl	Bought Put Bbl per Day	Weighted Average Bought Put Price Per Bbl	Sold Put Bbl Per Day	Weighted Average Sold Put Price Per Bbl

Apr Dec 2014	2,500	$	108.66	1,200	$	85.00	3,700	$ 70.68

The following table represents Resolute s three-way oil collar contracts as of March 31, 2014:

	Oil (NYMEX WTI)			
Remaining Term	**Bbl Per Day**	**Weighted Average Short Put Price Per Bbl**	**Weighted Average Floor Price Per Bbl**	**Weighted Average Ceiling Price Per Bbl**
Apr Dec 2014	2,000	$ 70.00	$ 85.00	$ 100.83

The following table represents Resolute s three-way gas collar contracts as of March 31, 2014:

	Gas (NYMEX Henry Hub)			
Remaining Term	**MMBtu Per Day**	**Weighted Average Short Put Price Per MMBtu**	**Weighted Average Floor Price Per MMBtu**	**Weighted Average Ceiling Price Per MMBtu**
Jan Mar 2015	5,000	$ 3.75	$ 4.50	$ 5.55

The following table represents Resolute s basis swaps as of March 31, 2014:

	Gas (Rocky Mountain CIG)	
Remaining Term	**MMBtu per Day**	**Weighted Average Price Differential per MMBtu**
Apr Dec 2014	1,000	$ 0.590

Subsequent to March 31, 2014, Resolute entered into additional commodity derivative contracts as summarized below:

	Oil (NYMEX WTI)	
Call Option	**Sold Call Bbl Per Day**	**Weighted Average Sold Call Per Bbl**
May Dec 2014	1,200	$ 97.00

The table below summarizes the location and amount of commodity derivative instrument gains and losses reported in the consolidated statements of operations (in thousands):

	Three Months Ended March 31,	
	2014	**2013**
Other income (expense):		
Commodity derivative settlements	$ (4,750)	$ (6,892)
Mark-to-market gain (loss)	(3,184)	106

Commodity derivative instruments loss	$ (7,934)	$ (6,786)

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Credit Risk and Contingent Features in Derivative Instruments

Resolute is exposed to credit risk to the extent of nonperformance by the counterparties in the derivative contracts discussed above. All counterparties are lenders under Resolute s Credit Facility. Accordingly, Resolute is not required to provide any credit support to its counterparties other than cross collateralization with the properties securing the Credit Facility. Resolute s derivative contracts are documented with industry standard contracts known as a Schedule to the Master Agreement and International Swaps and Derivative Association, Inc. Master Agreement (ISDA). Typical terms for each ISDA include credit support requirements, cross default provisions, termination events, and set-off provisions. Resolute generally has set-off provisions with its lenders that, in the event of counterparty default, allow Resolute to set-off amounts owed under the Credit Facility or other general obligations against amounts owed for derivative contract liabilities.

Resolute does not offset the fair value amounts of commodity derivative assets and liabilities with the same counterparty for financial reporting purposes. The following is a listing of Resolute s commodity derivative assets and liabilities required to be measured at fair value on a recurring basis and where they are classified within the hierarchy as of March 31, 2014, and December 31, 2013 (in thousands):

	Level 2	
	March 31, 2014	**December 31, 2013**
Assets		
Derivative instruments, current	$ 493	$ 1,378
Other long term assets		
Total assets	$ 493	$ 1,378
Liabilities		
Derivative instruments, current	$ 13,263	$ 11,955
Other long term liabilities	992	
Total liabilities	$ 14,255	$ 11,955

Note 10 Commitments and Contingencies

CO_2 Take-or-Pay Agreements

Resolute is party to a take-or-pay purchase agreement with Kinder Morgan CO_2 Company L.P., under which Resolute has committed to buy specified volumes of CO_2. The purchased CO_2 is for use in Resolute s enhanced tertiary recovery projects in Aneth Field. Resolute is obligated to purchase a minimum daily volume of CO_2 or pay for any deficiencies at the price in effect when delivery was to have occurred. The CO_2 volumes planned for use on the enhanced recovery projects exceed the minimum daily volumes provided in these take-or-pay purchase agreements. Therefore, Resolute expects to avoid any payments for deficiencies.

Future minimum CO_2 purchase commitments as of March 31, 2014, under this purchase agreement, based on prices in effect at March 31, 2014, are as follows (in thousands):

Year	CO2 Purchase Commitments
2014	$ 18,349
2015	26,567
2016	24,420
2017	1,103
Total	$ 70,439

Lease Obligations

During the first quarter of 2014, the Company entered into a new office lease agreement for the Denver corporate office. The lease expires in June 2022. Total rental commitments for the office space are $8.6 million at March 31, 2014. The future minimum lease payments under this non-cancelable lease are as follows: $0.6 million in 2015, $1.2 million in 2016 and 2017 and $5.7 million in 2018 and thereafter.

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ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations contained in our Annual Report on Form 10-K for the year ended December 31, 2013, as well as the accompanying financial statements and the related notes contained elsewhere in this report. References to Resolute, the Company, we, ours, and us refer to Resolute Energy Corporation and its subsidiaries.

Overview

We are a publicly traded, independent oil and gas company engaged in the exploitation, development, exploration for and acquisition of oil and gas properties. Our asset base is comprised of properties in Aneth Field located in the Paradox Basin in southeast Utah (the Aneth Field Properties or Aneth Field), the Permian Basin in west Texas and southeast New Mexico (the Permian Properties) and the Big Horn and Powder River Basins in Wyoming (the Wyoming Properties). Our primary operational focus is on increasing reserves and production from these properties while improving efficiency and optimizing operating costs. We plan to expand our reserve base through an organic growth strategy focused on the expansion of tertiary oil recovery in Aneth Field, the exploitation and development of oil-prone acreage, particularly in our Permian Properties, and through carefully targeted exploration activities in our Wyoming Properties. We also expect to engage in opportunistic acquisitions.

As of December 31, 2013, our estimated net proved reserves were approximately 59.4 million equivalent barrels of oil (MMBoe), of which approximately 79% and 57% were proved developed reserves and proved developed producing reserves, respectively. Approximately 80% of our net proved reserves were oil and approximately 88% were oil and natural gas liquids (NGL). The December 31, 2013, pre-tax present value discounted at 10% of our net proved reserves was $1,054 million and the standardized measure of our estimated net proved reserves was $893 million. We focus our efforts on increasing reserves and production while controlling costs at a level that is appropriate for long-term operations. Our future earnings and cash flow from existing operations are dependent on a variety of factors including commodity prices, exploitation and recovery activities and our ability to manage our overall cost structure at a level that allows for profitable operation.

Our management uses a variety of financial and operational measurements to analyze our operating performance, including but not limited to, production levels, pricing and cost trends, reserve trends, operating and general and administrative expenses, operating cash flow and Adjusted EBITDA. The analysis of these measurements should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations contained in our Annual Report on Form 10-K for the year ended December 31, 2013.

Aneth Field Properties

Our largest asset, constituting 59% of our net proved reserves as of December 31, 2013, is our ownership of working interests in Aneth Field, a mature, long-lived oil producing field, most of which is located on the Navajo Reservation in southeast Utah. We own a majority of the working interests in, and are the operator of, three federal production units which constitute the Aneth Field Properties. These are the Aneth Unit, the McElmo Creek Unit and the Ratherford Unit, in which we owned working interests of 62%, 68% and 59%, respectively, at March 31, 2014. The crude oil produced from the Aneth Field Properties is generally characterized as light, sweet crude oil that is highly desired as a refinery blending feedstock. We believe that significantly more oil can be recovered from our Aneth Field Properties through industry standard secondary and tertiary recovery techniques.

Permian Properties

Our Permian Properties, constituting 33% of net proved reserves as of December 31, 2013, are located in the Permian Basin of west Texas and southeast New Mexico, and are divided between three principal project areas. Our project area located in the Midland Basin portion of the Permian Basin, in Howard, Martin, Midland and Ector counties, primarily targets the Wolfcamp and Spraberry formations with secondary objectives in the Mississippian, Cline and Dean formations. Our project area located in the Delaware Basin portion of the Permian Basin, in Reeves County, primarily targets the Wolfcamp and Bone Spring formations. Our third project area, the Northwest Shelf in Lea County, New Mexico, is centered on conventional production in Denton, Gladiola and South Knowles fields where we are focused on improving field-level economics through production enhancements and operating cost reductions. We also believe upside exists in these properties through well deepenings and infill drilling. Historic drilling activity in our Midland and Delaware basin project areas has focused on vertical wells with completions in multiple pay zones. Recently the industry has increased its focus on horizontal drilling, primarily in the Wolfcamp formation, as well as the Spraberry and Cline formations in the Midland Basin and the Bone Spring formation in the Delaware Basin. We anticipate that our drilling activity in these areas will be increasingly focused on horizontal drilling activity targeting these same formations.

During the first quarter of 2014, we completed 3 gross (1.4 net) wells on our Permian Properties. We were in the process of drilling 1 gross (1.0 net) well and had 2 gross (1.5 net) wells awaiting completion operations at quarter end.

On December 28, 2012, we purchased an undivided 32.35% interest in certain oil and gas properties from RSP Permian, LLC and certain other sellers (RSP) containing proved reserves of approximately 5.4 MMBoe in the Midland Basin portion of the Permian Basin in Midland and Ector counties, Texas, for a purchase price of approximately $133 million, which included a $6 million fee paid in exchange for the option to acquire the remaining 67.65% interest in the RSP properties. This fee was nonrefundable but would be applied towards the purchase price if the option were to be exercised. On March 22, 2013, we exercised our option and acquired the remaining 67.65% interest in the RSP properties. The purchase price for the acquired properties, which we refer to as our Gardendale area, was $258 million, net of the option fee, after customary purchase price adjustments, which were estimated at closing. The RSP acquisitions included approximately 4,700 gross (4,600 net) acres and 80 producing wells and facilities for gathering, water sourcing and water disposal. The acreage is largely held by production. We believe that growth potential exists from approximately 23 gross prospective horizontal locations with multiple targets in the Wolfcamp, Spraberry and Atoka formations, along with potentially 85 recompletion opportunities across the entire acreage position in the Midland Basin.

Wyoming Properties

Hilight Field, constituting 8% of net proved reserves as of December 31, 2013, is located in the Powder River Basin in Campbell County, Wyoming. We have an inventory of low risk re-stimulation and infill drilling projects which we expect will moderate the natural decline of this field. Hilight Field is located in a basin experiencing transformation due to horizontal drilling targeting oil-bearing formations such as the Turner, Niobrara and Mowry. Along with these unconventional opportunities, the Powder River Basin continues to see exploration activity targeting the conventional Minnelusa formation. We have focused our geological, geophysical and engineering efforts to prepare for testing these formations. These activities have included a 3D seismic survey of the field and the review of our extensive log data and data from operators drilling wells in close proximity to Hilight. In the fourth quarter of 2013, we successfully completed a horizontal well in the Turner/Frontier formation. The well delivered a 24 hour peak production rate of 1,134 Boe per day, a 30 day peak production rate of 679 Boe per day and continues to produce strongly in 2014. Based on this success, we plan to drill additional appraisal wells in the Turner/Frontier formation in 2014. We believe there may be as many as 40 drilling locations in the Turner/Frontier inside our existing leasehold. We plan to collect

additional petrophysical data in the Parkman, Shannon, Sussex and Niobrar during our 2014 drilling program.

Divestiture of North Dakota Properties

During 2013, we divested all of our non-operated properties located in the Bakken trend of North Dakota through three separate transactions for net proceeds of approximately $70.1 million. During March 2014, we divested our remaining operated properties in North Dakota for approximately $4.8 million.

Factors That Significantly Affect Our Financial Results

Revenue, cash flow from operations and future growth depend on many factors beyond our control, such as economic, political and regulatory developments and competition from other sources of energy. Historical oil prices have been volatile and are expected to fluctuate widely in the future. Sustained periods of low prices for oil and lower realized prices for our oilcould materially and adversely affect our financial position, our results of operations, the quantities of oil and gas that we can economically produce, and our ability to obtain capital.

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Like all businesses engaged in the exploration for and production of oil and gas, we face the challenge of natural production declines. As initial reservoir pressures are depleted, oil and gas production from a given well decreases. Thus, an oil and gas exploration and production company depletes part of its asset base with each unit of oil or gas it produces. We attempt to overcome this natural decline by developing existing properties, implementing secondary and tertiary recovery techniques and by acquiring more reserves than we produce. Our future growth will depend on our ability to enhance production levels from existing reserves and to continue to add reserves in excess of production through exploration, development and acquisition. We will maintain our focus on costs necessary to produce our reserves as well as the costs necessary to add reserves through production enhancement, drilling and acquisitions. Our ability to make capital expenditures to increase production from existing reserves and to acquire more reserves is dependent on availability of capital resources, and can be limited by many factors, including the ability to obtain capital in a cost-effective manner and to obtain permits and regulatory approvals in a timely manner.

Results of Operations

For the purposes of management s discussion and analysis of the results of operations, management has analyzed the operational results for the quarter ended March 31, 2014, in comparison to results for the quarter ended March 31, 2013.

The following table presents our sales volumes, revenues and operating expenses, and sets forth our sales prices, costs and expenses on a barrel of oil equivalent (Boe) basis for the periods indicated:

	Three Months Ended March 31,	
	2014	**2013**
Net Sales:		
Total sales (MBoe)	1,134	1,047
Average daily sales (Boe/d)	12,598	11,633
Average Sales Prices ($/Boe):		
Average sales price (excluding commodity derivative settlements)	$ 80.15	$ 75.36
Operating Expenses ($/Boe):		
Lease operating	$ 25.27	$ 24.08
Production and ad valorem taxes	9.35	9.76
General and administrative	7.62	8.18
General and administrative (excluding non-cash compensation expense)	5.24	5.90
Depletion, depreciation, amortization and accretion	28.14	23.77

Quarter Ended March 31, 2014, Compared to the Quarter Ended March 31, 2013

Revenue. Revenue from oil and gas activities increased by 15% to $90.9 million during 2014, from $78.9 million during 2013. Of the $12.0 million increase in revenue, approximately $6.6 million was attributable to increased production and $5.4 million in increased commodity pricing. Average sales price for the quarter, excluding derivative settlements, increased from $75.36 per Boe in 2013 to $80.15 per Boe in 2014, primarily as a function of increased commodity pricing. Sales volumes increased 8% during 2014 as compared to 2013, from 1,047 MBoe to 1,134 MBoe. The majority of the production increase was due to wells associated with the Permian Acquisitions and drilling

activities during 2013 and 2014.

Operating Expenses. Lease operating expenses include direct labor, contract services, field office rent, production and ad valorem taxes, vehicle expenses, supervision, transportation, minor maintenance, tools and supplies, workover expenses, utilities and other customary charges. Resolute assesses lease operating expenses in part by monitoring the expenses in relation to production volumes and the number of wells operated.

Lease operating expenses increased to $28.7 million during 2014, from $25.2 million during 2013. The $3.5 million, or 14%, increase was attributable to additional operating expenses associated with the Permian Acquisitions and increased operational activity in the Permian Basin. On a per-unit basis, lease operating expense increased 5%, from $24.08 to $25.27.

Production and ad valorem taxes in 2014 of $10.6 million were consistent with 2013 and were less on a per-unit basis, due to decreased ad valorem tax estimates and increased revenue in areas with lower tax rates. Production and ad valorem taxes were 11.7% of total revenue in 2014 versus 13.0% of total revenue in 2013.

General and administrative expenses include the costs of employees and executive officers, related benefits, share-based compensation, office leases, professional fees, general corporate overhead and other costs not directly associated with field operations. We monitor our general and administrative expenses carefully, attempting to balance the cash effect of incurring general and administrative costs against the related benefits with a focus on hiring and retaining highly qualified staff who can add value to our asset base.

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General and administrative expenses of $8.6 million in 2014 were consistent with 2013 and were less on a per-unit basis. However, increases of $0.3 million in share-based compensation were offset by decreases of $0.3 million in salaries and wages. Cash-based general and administrative expense decreased from $6.2 million to $5.9 million, or 4%.

Depletion, depreciation, amortization and accretion expenses increased to $31.9 million during 2014, as compared to $24.9 million during 2013. The $7.0 million, or 28%, increase is principally due to increased production and an increase in the depletion, depreciation and amortization rate as a result of the decrease in proved undeveloped reserves at year end 2013 due to the SEC five-year development rule. On a per-unit basis, depreciation, amortization and accretion expenses increased from $23.77 per Boe in 2013 to $28.14 per Boe in 2014.

Other Income (Expense). All of our oil and gas derivative instruments are accounted for under mark-to-market accounting rules, which provide for the fair value of the contracts to be reflected as either an asset or a liability on the balance sheet. The change in the fair value during an accounting period is reflected in the income statement for that period. During 2014, the loss on oil and gas commodity derivatives was $7.9 million, consisting of $4.7 million of derivative settlements and $3.2 million of mark-to-market losses. During 2013, the loss on oil and gas commodity derivatives was $6.8 million, consisting of $6.9 million of derivative settlements and $0.1 million of mark-to-market gains on oil and gas derivatives.

Interest expense in 2014 decreased to $7.8 million from the $8.0 million recorded in 2013. The $0.2 million decrease in interest expense was primarily due to $1.1 million of increased capitalized interest as a result of higher unproved property balances, offset by $0.9 million in increased interest expense due to increased levels of borrowings and other. The components of our interest expense are as follows (in thousands):

	Year Ended March 31,	
	2014	**2013**
8.50% senior notes	$ 8,500	$ 8,500
Credit facility	2,707	1,649
Amortization of deferred financing costs and senior notes premium	599	603
Other, net	(220)	(3)
Capitalized interest	(3,790)	(2,668)
Total interest expense	$ 7,796	$ 8,081

Income Tax Benefit (Expense). Income tax benefit recognized during 2014 was $1.1 million, or 23.8% of the loss before income taxes, as compared to an income tax benefit of $1.8 million, or 37.2% of the loss before income taxes in 2013. The lower effective rate in 2014 relates primarily to the permanent differences in the fair value of share-based compensation expensed under GAAP and the realized value deductible for income tax purposes.

Liquidity and Capital Resources

Our primary sources of liquidity have been cash generated from operations, amounts available under our credit facility, proceeds from warrant exercises, proceeds from the issuance of Senior Notes (defined below) and sales of non-strategic oil and gas properties. For purposes of Management s Discussion and Analysis of Liquidity and Capital Resources, we have analyzed our cash flows and capital resources for the quarters ended March 31, 2014 and 2013.

	Three Months Ended March 31,	
	2014	2013
	(in thousands)	
Cash provided by operating activities	$ 62,652	$ 28,391
Cash used in investing activities	(45,279)	(253,819)
Cash provided by (used in) financing activities	(16,492)	226,135

Net cash provided by operating activities was $62.7 million for the first quarter of 2014 compared to $28.4 million for the 2013 period. The increase in net cash provided by operating activities in 2014 over 2013 was primarily due to an increase in revenue from oil and gas activities and changes in working capital.

We plan to reinvest a sufficient amount of our cash flow into our development operations in order to maintain our production over the long term, and plan to use external financing sources as well as cash flow from operations and cash reserves to increase our production.

Net cash used in investing activities was $45.3 million in 2014 compared to $253.8 million in 2013. The primary investing activity in 2014 was cash used for capital expenditures of $49.0 million. Capital expenditures consisted of $10.3 million in compression and facility and drilling projects in Aneth Field, $3.9 million in CO_2 acquisition, $33.1 million in drilling activities and infrastructure projects in the Permian Basin of west Texas and $1.3 million in recompletion and drilling activities in our Wyoming Properties. Capital divestitures included $4.8 million of proceeds from the sale of certain operated properties in the Bakken trend of North Dakota. The 2013 capital expenditures consisted of $257 million paid to acquire additional interest in the Permian Properties, $5.1 million in compression and facility and drilling projects in Aneth Field, $5.1 million in CO_2 acquisition, $21.6 million in drilling activities and infrastructure projects in the Permian Basin of west Texas, $7.1 million in drilling and completion activities in the Bakken trend of North Dakota and $1.5 million in recompletion and drilling activities in our Wyoming Properties. Capital divestitures included $50.2 million of proceeds from the sale of certain interests in Aneth Field to Navajo Nation Oil and Gas Company in January 2013. A portion of these capital costs were accrued and not paid at period end.

Net cash used in financing activities was $16.5 million in 2014 compared to net cash provided of $226.1 million in 2013. The primary financing activity in 2014 was net repayments on borrowings of $15.0 million under the Credit Facility (defined below). The primary financing activity in 2013 was $228.0 million in net borrowings under the Credit Facility.

If cash flow from operating activities does not meet expectations, we may reduce our expected level of capital expenditures and/or fund a portion of our capital expenditures using borrowings under our Credit Facility, issuances of debt and equity securities or from other sources, such as asset sales. We have in place an effective shelf registration pursuant to which an aggregate of $394 million of any such equity or debt securities could be issued. There can be no assurance that needed capital will be available on acceptable terms or at all. Our ability to raise funds through the incurrence of additional indebtedness could be limited by a reduced borrowing base, or restrictions in the covenants in our Credit Facility or our Senior Notes (defined below). If we are unable to obtain funds when needed or on acceptable terms, we may not be able to complete acquisitions that may be favorable to us or finance the capital expenditures necessary to maintain production or proved reserves.

We plan to continue our practice of hedging a significant portion of our production through the use of various derivative transactions. Our existing derivative transactions do not qualify as cash flow hedges, and we anticipate that future transactions will receive similar accounting treatment. Derivative settlements usually occur within five days of the end of the month. As is typical in the oil and gas industry, however, we do not generally receive the proceeds from the sale of our oil production until the 20th day of the month following the month of production. As a result, when commodity prices increase above the fixed price in the derivative contacts, we will be required to pay the derivative counterparty the difference between the fixed price in the derivative contract and the market price before receiving the proceeds from the sale of the hedged production. If this occurs, we may use working capital or borrowings under the Credit Facility to fund our operations.

Revolving Credit Facility

Our credit facility is with a syndicate of banks led by Wells Fargo Bank, National Association, as Administrative Agent, and Bank of Montreal, as Syndication Agent (the Credit Facility) with Resolute as the borrower. The Credit Facility specifies a maximum borrowing base as determined by the lenders. The determination of the borrowing base takes into consideration the estimated value of our oil and gas properties in accordance with the lenders customary practices for oil and gas loans. The borrowing base is redetermined semi-annually, and the amount available for borrowing could be increased or decreased as a result of such redeterminations. Under certain circumstances, either the Company or the lenders may request an interim redetermination.

In March 2013, and in connection with the purchase of the Option Properties, we entered into the Sixth Amendment to the amended and restated Credit Facility agreement, resulting in a borrowing base increase to $485 million, consisting of a $445 million conforming tranche and a $40 million non-conforming tranche (which expired on May 14, 2013). The Sixth Amendment, among other things, also extended the maturity date of the revolving Credit Facility from April 2017 to March 2018. On March 7, 2014, we entered into the Ninth Amendment to the amended and restated Credit Facility which redefined and adjusted the Maximum Leverage Ratio to (a) 4.90:1.00 for the fiscal quarters ending March 31, 2014, and June 30, 2014, (b) 4.75:1.00 for the fiscal quarters ending September 30, 2014, and December 31, 2014, and (c) 4.00:1.00 for all quarters thereafter. The Ninth Amendment also provided that as of the last day of each fiscal quarter in 2014 the ratio of senior secured debt as of such date to Adjusted EBITDA as defined in the Credit Facility for the four quarter period ending on such date may not exceed 2.75:1.00.

Each base rate borrowing under the Credit Facility accrues interest at either (a) the London Interbank Offered Rate, plus a margin which varies from 1.50% to 2.50% (or 3.0% if the Company utilizes any portion of the non-conforming tranche) or (b) the alternative Base Rate defined as the greater of (i) the Administrative Agent s Prime Rate (ii) the Federal Funds effective Rate plus 0.5% or (iii) an adjusted London Interbank Offered Rate (LIBOR) plus a margin which ranges from 0.50% to 1.50% (or 2.0% if the Company utilizes any portion of the non-conforming tranche). Each such margin is based on the level of utilization under the borrowing base. In March 2014, we entered into the Tenth Amendment to the amended and restated Credit Facility agreement. In connection with the Tenth Amendment, the semi-annual redetermination of our borrowing base was completed, resulting in a borrowing base of $425 million, consisting of a $400 million conforming tranche and a $25 million non-conforming tranche (which non-conforming tranche will expire no later than our next borrowing base redetermination date). The Tenth Amendment also required that we enter into commodity derivative agreements by March 31, 2014, on production of not less than 5,100 barrels of oil per day in the aggregate for the fiscal year ending December 31, 2015, at a weighted average price floor of not less than $84.17 per barrel. This requirement was satisfied in the first quarter of 2014

As of March 31, 2014 outstanding borrowings were $320 million under the borrowing base of $425 million. The borrowing base availability had been reduced by $3.1 million in conjunction with letters of credit issued to vendors at March 31, 2014. To the extent that the borrowing base, as adjusted from time to time, exceeds the outstanding balance, no repayments of principal are required prior to maturity. The Credit Facility is guaranteed by all of our subsidiaries and is collateralized by substantially all of the proved oil and gas assets of Resolute Aneth, LLC, Resolute Wyoming, Inc. and Resolute Natural Resources Southwest, LLC, which are wholly-owned subsidiaries of the Company

As of March 31, 2014, the weighted average interest rate on the outstanding balance under the Credit Facility was 2.41%. The recorded value of the Credit Facility approximates its fair market value because the interest rate of the Credit Facility is variable over the term of the loan (See Note 5 to the Consolidated Financial Statements).

The Credit Facility includes customary terms and covenants that place limitations on certain types of activities, the payment of dividends, and require satisfaction of certain financial tests. We were in compliance with all terms and covenants of the Credit Facility at March 31, 2014.

Resolute Energy Corporation, the stand-alone parent entity, has insignificant independent assets and no operations. There are no restrictions on our ability to obtain cash dividends or other distributions of funds from our subsidiaries, except those imposed by applicable law.

Senior Notes

In April 2012, we consummated a private placement of senior notes with a principal amount of $250 million, and a follow on issuance of senior notes with a principal amount of $150 million. The Senior Notes are due May 1, 2020, and bear an annual interest rate of 8.50% with the interest on the notes is payable semiannually in cash on May and November 1 of each year.

The Senior Notes were issued under an Indenture (the Indenture) among the Company, our existing subsidiaries (the Guarantors) and U.S. Bank National Association, as trustee (the Trustee) in a private transaction not subject to the registration requirements of the Securities Act of 1933. In March 2013, the Company registered the Senior Notes with the Securities and Exchange Commission by filing an amendment to the registration statement on Form S-4 enabling holders of the Senior Notes to exchange the privately placed Notes for publically registered Notes with substantially identical terms. The Indenture contains affirmative and negative covenants that, among other things, limit our and the Guarantors ability to make investments, incur additional indebtedness or issue preferred stock, create liens, sell assets, enter into agreements that restrict dividends or other payments by restricted subsidiaries, consolidate, merge or transfer all or substantially all of our assets, engage in transactions with our affiliates, pay dividends or make other distributions on capital stock or prepay subordinated indebtedness and create unrestricted subsidiaries. The Indenture also contains customary events of default. Upon occurrence of events of default arising from certain events of bankruptcy or insolvency, the Senior Notes shall become due and payable immediately without any declaration or other act of the Trustee or the holders of the Senior Notes. Upon the occurrence of certain other events of default, the Trustee or the holders of the Senior Notes may declare all outstanding Senior Notes to be due and payable immediately. We were in compliance with all financial covenants under our Senior Notes as of March 31, 2014.

The Senior Notes are general unsecured senior obligations of the Company and guaranteed on a senior unsecured basis by the Guarantors. The Senior notes rank equally in right of payment with all existing and future senior indebtedness of the Company, will be subordinated in right of payment to all existing and future senior secured indebtedness of the Guarantors, will rank senior in right of payment to any future subordinated indebtedness of the Company and will be fully and unconditionally guaranteed by the Guarantors on a senior basis.

The Senior Notes are redeemable by us on or after May 1, 2016, on not less than 30 or more than 60 days prior notice, at redemption prices set forth in the Indenture. In addition, at any time prior to May 1, 2015, we may use the net proceeds from equity offerings and warrant exercises to redeem up to 35% of the principal amount of notes issued under the Indenture at a redemption price equal to 108.50% of the principal amount of the notes redeemed, plus accrued and unpaid interest. The Senior Notes may also be redeemed at any time prior to May 1, 2016, at the option of the Company at a redemption price equal to 100% of the principal amount of the notes redeemed plus the applicable premium, and accrued and unpaid interest and additional interest, if any, to the applicable redemption date as set forth in the Indenture. If a change of control occurs, each holder of the Notes will have the right to require that we purchase all of such holder s Notes in an amount equal to 101% of the principal of such Notes, plus accrued and unpaid interest, if any, to the date of the purchase.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet financing arrangements other than operating leases and have not guaranteed any debt or commitments of other entities or entered into any options on non-financial assets.

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Contractual Obligations

During the first quarter of 2014, the Company entered into a new office lease agreement for the Denver corporate office. The lease expires in June 2022. Total rental commitments for the office space are $8.6 million at March 31, 2014. The future minimum lease payments under this non-cancelable lease are as follows: $0.6 million in 2015, $1.2 million in 2016 and 2017 and $5.7 million in 2018 and thereafter.

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ITEM 3. QUANTITIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK
Commodity Price Risk and Derivative Arrangements

Our major market risk exposure is in the pricing applicable to oil and gas production. Realized pricing on our unhedged volumes of production is primarily driven by the spot market prices applicable to oil production and the prevailing price for gas. Oil and gas prices have been volatile and unpredictable for several years, and we expect this volatility to continue in the future. The prices we receive for unhedged production depend on many factors outside of our control.

We employ derivative instruments such as swaps, puts, calls, collars and other such agreements. The purpose of these instruments is to manage our exposure to commodity price risk in order to provide a measure of stability to our cash flows in an environment of volatile oil and gas prices.

Under the terms of our credit agreement the form of derivative instruments to be entered into is at our discretion, not to exceed (i) for the next two years, 85% of our anticipated production from proved properties and (ii) for the subsequent three years, the greater of 75% of our anticipated production from proved properties or 85% of our anticipated production from proved developed producing properties, utilizing economic parameters specified in our credit agreement, including escalated prices and costs.

By removing the price volatility from a significant portion of our oil and gas production, we have mitigated, but not eliminated, the potential effects of volatile prices on cash flow from operations for the periods hedged. While mitigating negative effects of falling commodity prices, certain of these derivative contracts also limit the benefits we would receive from increases in commodity prices. It is our policy to enter into derivative contracts only with counterparties that are major, creditworthy financial institutions deemed by management as competent and competitive market makers, all but one of which are members of Resolute s Credit Facility bank syndicate at March 31, 2014. As of March 31, 2014, the fair value of our commodity derivatives was a net liability of $13.8 million.

The following table represents our commodity swap contracts as of March 31, 2014:

	Oil (NYMEX WTI)			Gas (NYMEX Henry Hub)		
Remaining Term	Bbl per Day	Weighted Average Swap Price Per Bbl	Fair Value of Asset (Liability) (in thousands)	MMBtu per Day	Weighted Average Swap Price Per MMBtu	Fair Value of Asset (Liability) (in thousands)
Apr Dec 2014	5,500	$ 92.94	$ (5,454)	5,000	$ 4.165	$ (402)
Jan Dec 2015	4,100	$ 88.93	$ (1,288)		$	$

The following table represents our two-way commodity collar contracts as of March 31, 2014:

	Oil (NYMEX WTI)			
Remaining Term	Bbl per Day	Weighted Average Floor Price Per Bbl	Weighted Average Ceiling Price Per Bbl	Fair Value of Asset (Liability) (in thousands)

Apr Dec 2014	1,500	$	65.00	$	110.00	$	(3,780)
Jan Dec 2015	1,000	$	84.17	$	92.10	$	(345)

The following table represents our commodity call and put option contracts as of March 31, 2014:

	Oil (NYMEX WTI)									
Remaining Term	**Bought Call Bbl Per Day**	**Weighted Average Bought Call Price Per Bbl**		**Bought Put Bbl per Day**	**Weighted Average Bought Put Price Per Bbl**		**Sold Put Bbl Per Day**	**Weighted Average Sold Put Price Per Bbl**		**Fair Value of Asset (Liability) (in thousands)**
Apr Dec 2014	2,500	$	108.66	1,200	$	85.00	3,700	$	70.68	$ (1,171)

The following table represents our three-way oil collar contracts as of March 31, 2014:

	Oil (NYMEX WTI)							
Remaining Term	**Bbl Per Day**	**Weighted Average Sold Put Price Per Bbl**		**Weighted Average Floor Price Per Bbl**		**Weighted Average Ceiling Price Per Bbl**		**Fair Value of Asset (Liability) (in thousands)**
Apr Dec 2014	2,000	$	70.00	$	85.00	$	100.83	$ (1,233)

The following table represents our three-way gas collar contracts as of March 31, 2014:

	Gas (NYMEX Henry Hub)							
Remaining Term	**MMBtu Per Day**	**Weighted Average Short Put Price Per MMBtu**		**Weighted Average Floor Price Per MMBtu**		**Weighted Average Ceiling Price Per MMBtu**		**Fair Value of Asset (Liability) (in thousands)**
Jan Mar 2015	5,000	$	3.75	$	4.50	$	5.55	$ 24

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The following table represents our basis swaps as of March 31, 2014:

	Gas (Rocky Mountain CIG)		
Remaining Term	MMBtu per Day	Weighted Average Price Differential per MMBtu	Fair Value of Asset (Liability) (in thousands)
Apr Dec 2014	1,000	$ 0.590	$ (112)

Subsequent to March 31, 2014, we entered into additional commodity derivative contracts as summarized below:

	Oil (NYMEX WTI)	
Call Option	Sold Call Bbl Per Day	Weighted Average Sold Call Per Bbl
May Dec 2014	1,200	$ 97.00

Interest Rate Risk

At March 31, 2014, we had $320 million of outstanding debt under the Credit Facility. Interest is calculated under the terms of the agreement based principally on a LIBOR spread. A 10% increase in LIBOR would result in an estimated $0.1 million increase in annual interest expense. We do not currently have or intend to enter into any derivative arrangements to protect against fluctuations in interest rates applicable to our outstanding indebtedness.

Credit Risk and Contingent Features in Derivative Instruments

We are exposed to credit risk to the extent of nonperformance by the counterparties in the derivative contracts discussed above. All counterparties are also lenders under our Credit Facility. For these contracts, we are not required to provide any credit support to our counterparties other than cross collateralization with the properties securing the Credit Facility. Our derivative contracts are documented with industry standard contracts known as a Schedule to the Master Agreement and International Swaps and Derivative Association, Inc. Master Agreement (ISDA). Typical terms for the ISDAs include credit support requirements, cross default provisions, termination events, and set-off provisions. We have set-off provisions with our lenders that, in the event of counterparty default, allow us to set-off amounts owed under the Credit Facility or other general obligations against amounts owed for derivative contract liabilities.

ITEM 4. CONTROLS AND PROCEDURES

Our management, with the participation of Nicholas J. Sutton, our Chief Executive Officer, and Theodore Gazulis, our Chief Financial Officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of March 31, 2014. Based on the evaluation, those officers have concluded that:

- our disclosure controls and procedures were effective to ensure that information required to be disclosed by us in the reports we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms; and

- our disclosure controls and procedures were effective to ensure that information required to be disclosed by us in the reports we file or submit under the Securities Exchange Act of 1934 was accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

There has not been any change in the Company s internal control over financial reporting that occurred during the quarterly period ended March 31, 2014, that has materially affected, or is reasonably likely to affect, the Company s internal control over financial reporting.

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PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Resolute is not a party to any material pending legal or governmental proceedings, other than ordinary routine litigation incidental to our business. While the ultimate outcome and impact of any proceeding cannot be predicted with certainty, our management believes that the resolution of any of our pending proceedings will not have a material adverse effect on our financial condition or results of operations.

ITEM 1A. RISK FACTORS

Information about material risks related to our business, financial condition and results of operations for the quarter ended March 31, 2014, does not materially differ from those set out in Part I, Item 1A of the Annual Report on Form 10-K for the year ended December 31, 2013. These risks are not the only risks facing the Company.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Not applicable

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable

ITEM 5. OTHER INFORMATION

Not applicable.

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ITEM 6. EXHIBITS

Exhibit Number	Description of Exhibits
31.1	Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)
31.2	Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes Oxley Act of 2002 (filed herewith)
32.1	Certification of the Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith)
101	The following materials are filed herewith: (i) XBRL Instance Document, (ii) XBRL Taxonomy Extension Schema Document, (iii) XBRL Taxonomy Extension Calculation Linkbase Document, (iv) XBRL Taxonomy Extension Labels Linkbase Document, (v) XBRL Taxonomy Extension Presentation Linkbase Document, and (vi) XBRL Taxonomy Extension Definition Linkbase Document.

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SIGNATURES

Pursuant to the requirements of the Exchange Act of 1934, the Registrant caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Signature	Capacity	Date
/s/ Nicholas J. Sutton Nicholas J. Sutton	Chief Executive Officer (Principal Executive Officer)	May 12, 2014
/s/ Theodore Gazulis Theodore Gazulis	Chief Financial Officer (Principal Financial Officer)	May 12, 2014

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Years ended December 31,

2016

2015

2014

Construction work in progress, at beginning of period

$

3,735

$

2,447

$

2,708

Capital expenditures

Newbuild construction program

1,206

1,622

1,436

Other equipment and construction projects

138

379

729

Total capital expenditures

1,344

2,001

2,165

Changes in accrued capital additions

(86)

(11)

(45)

Impairment of construction work in progress

—

(52)

—

Property and equipment placed into service

Newbuild construction program

(2,557)

—

(1,522)

Other property and equipment

(265)

(650)

(859)

Construction work in progress, at end of period

$

2,171

$

3,735

$

2,447

Dispositions—During the year ended December 31, 2016, in connection with our efforts to dispose of non strategic assets, we completed the sale of the deepwater floaters Deepwater Navigator, M.G. Hulme, Jr. and Sedco 702 and the midwater floaters Falcon 100, GSF Grand Banks, GSF Rig 135, Sedco 704, Sedneth 701, Transocean Driller, Transocean John Shaw and Transocean Winner, along with related equipment. In the year ended December 31, 2016, we received aggregate net cash proceeds of $22 million and recognized an aggregate net gain of $13 million ($0.04 per diluted share, net of tax) associated with the disposal of these assets. In the year ended December 31, 2016, we received cash proceeds of $8 million and recognized an aggregate net loss of $9 million associated with the disposal of assets unrelated to rig sales.

During the year ended December 31, 2015, we completed the sale of the ultra deepwater floaters Deepwater Expedition and GSF Explorer, the deepwater floaters Discoverer Seven Seas, GSF Celtic Sea, Sedco 707, Sedco 710, Sovereign Explorer and Transocean Rather and the midwater floaters C. Kirk Rhein, Jr., GSF Aleutian Key, GSF Arctic I, GSF Arctic III, J.W. McLean, Sedco 601, Sedco 700, Transocean Amirante and Transocean Legend, along with related equipment. In the year ended December 31, 2015, we received aggregate net cash proceeds of $35 million and recognized an aggregate net gain of $14 million ($11 million or $0.02 per diluted share, net of tax) associated with the disposal of these assets. In the year ended December 31, 2015, we received cash proceeds of $16 million and recognized an aggregate net loss of $50 million associated with the disposal of assets

unrelated to rig sales.

During the year ended December 31, 2014, we completed the sale of the deepwater floater Sedco 709, the midwater floater Sedco 703 and the high specification jackups GSF Magellan and GSF Monitor, along with related equipment. In the year ended December 31, 2014, we received aggregate net cash proceeds of $185 million and recognized an aggregate net loss of $1 million associated with the disposal of these assets. In the year ended December 31, 2014, we received cash proceeds of $30 million and recognized an aggregate net loss of $25 million associated with the disposal of assets unrelated to rig sales.

At December 31, 2016, the aggregate carrying amount of our assets held for sale was $6 million, including the midwater floater GSF Rig 140, along with related equipment, and certain corporate assets. At December 31, 2015, the aggregate carrying amount of our assets held for sale was $8 million, including the deepwater floater Deepwater Navigator and the midwater floaters Falcon 100, GSF Grand Banks, GSF Rig 135 and Sedneth 701, along with related equipment, and certain corporate assets.

See Note 6—Impairments.

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TRANSOCEAN LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—continued

Note 11—Debt

Overview

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

	Principal amount		Carrying amount	
	December 31, 2016	December 31, 2015	December 31, 2016	December 31, 2015
5.05% Senior Notes due December 2016 (a)	$ —	$ 975	$ —	$ 973
2.50% Senior Notes due October 2017 (a)	485	570	484	568
Eksportfinans Loans due January 2018	123	217	123	216
6.00% Senior Notes due March 2018 (a)	754	789	757	789
7.375% Senior Notes due April 2018 (a)	211	237	211	236
6.50% Senior Notes due November 2020 (a)	508	900	513	911
6.375% Senior Notes due December 2021 (a)	552	1,150	549	1,143
3.80% Senior Notes due October 2022 (a)	539	734	534	726
9.00% Senior Notes due July 2023	1,250	—	1,211	—
7.75% Senior Secured Notes due October 2024	600	—	583	—
6.25% Senior Secured Notes due December 2024	625	—	609	—
7.45% Notes due April 2027 (a)	88	96	86	94
8.00% Debentures due April 2027 (a)	57	57	57	57
7.00% Notes due June 2028	300	300	308	309
Capital lease contract due August 2029	566	591	566	591
7.50% Notes due April 2031 (a)	588	593	585	589
6.80% Senior Notes due March 2038 (a)	1,000	1,000	991	991
7.35% Senior Notes due December 2041 (a)	300	300	297	297
Total debt	8,546	8,509	8,464	8,490
Less debt due within one year				
5.05% Senior Notes due December 2016 (a)	—	975	—	973
2.50% Senior Notes due October 2017 (a)	485	—	484	—
Eksportfinans Loans due January 2018	98	96	98	97
7.75% Senior Secured Notes due October 2024	60	—	57	—
6.25% Senior Secured Notes due December 2024	63	—	60	—
Capital lease contract due August 2029	25	23	25	23
Total debt due within one year	731	1,094	724	1,093
Total long-term debt	$ 7,815	$ 7,415	$ 7,740	$ 7,397

(a) Transocean Inc., a 100 percent owned subsidiary of Transocean Ltd., is the issuer of the notes and debentures. Transocean Ltd. has provided a full and unconditional guarantee of the notes and debentures and borrowings under an unsecured five year revolving credit facility (see “Five Year Revolving Credit Facility”). Transocean Ltd. has no independent assets or operations, and following the completion of certain

restructuring transactions during the year ended December 31, 2016, its other subsidiaries not owned indirectly through Transocean Inc. were minor. Transocean Inc. has no independent assets and operations, other than those related to its investments in non guarantor operating companies and balances primarily pertaining to its cash and cash equivalents and debt. Except as discussed under “Indentures” and “Debt issuances—7.75% Senior Secured Notes and 6.25% Senior Secured Notes,” 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.

Scheduled maturities—At December 31, 2016, the scheduled maturities of our debt were as follows (in millions):

	Total
Years ending December 31,	
2017	$ 731
2018	1,142
2019	155
2020	665
2021	712
Thereafter	5,141
Total debt, excluding debt-related balances	8,546
Total debt-related balances, net	(82)
Total debt	$ 8,464

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TRANSOCEAN LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—continued

Indentures—The indentures that govern our debt contain covenants that, among other things, limit our ability to incur certain liens on our drilling units without equally and ratably securing the notes, to engage in certain sale and lease back transactions covering any of our drilling units, to allow our subsidiaries to incur certain additional debt, or to engage in certain merger, consolidation or reorganization transactions or to enter into a scheme of arrangement qualifying as an amalgamation. Additionally, the indentures that govern the 7.75% Senior Secured Notes due October 2024 (the “7.75% Senior Secured Notes”) and the 6.25% Senior Secured Notes due December 2024 (the “6.25% Senior Secured Notes” and, together with the 7.75% Senior Secured Notes, the “Senior Secured Notes”) contain covenants that limit the ability of our subsidiaries that own or operate the collateral rigs to declare or pay dividends and impose a maximum collateral rig leverage ratio (“Maximum Collateral Ratio”), represented by each rig’s earnings relative to the debt balance, that changes over the terms of the notes. At December 31, 2016, the Maximum Collateral Ratio under both indentures was 5.75 to 1.00.

Interest rate adjustments—The interest rates for certain of our notes are subject to adjustment from time to time upon a change to our credit rating of our non credit enhanced senior unsecured long term debt (“Debt Rating”). Effective April 15, 2016, as a result of a reduction of our Debt Rating, the interest rates on the 2.50% Senior Notes due October 2017 (the “2.50% Senior Notes”) and the 3.80% Senior Notes due October 2022 (the “3.80% Senior Notes”) increased to 3.75 percent and 5.05 percent, respectively. Effective June 15, 2016, as a result of a further reduction of our Debt Rating, the interest rates on the 5.05% Senior Notes due December 2016 (the “5.05% Senior Notes”), the 6.375% Senior Notes due December 2021 (the “6.375% Senior Notes”) and the 7.35% Senior Notes due December 2041 increased to 6.80 percent, 8.125 percent and 9.10 percent, respectively. Effective October 15, 2016, as a result of a further reduction of our Debt Rating, the interest rates on the 2.50% Senior Notes and the 3.80% Senior Notes increased to 4.25 percent and 5.55 percent, respectively.

Five Year Revolving Credit Facility—In June 2014, we entered into an amended and restated bank credit agreement, which established a $3.0 billion unsecured five year revolving credit facility, that is scheduled to expire on June 28, 2019 (the “Five Year Revolving Credit Facility”). Among other things, the Five Year Revolving Credit Facility includes limitations on creating liens, incurring subsidiary debt, transactions with affiliates, sale/leaseback transactions, mergers and the sale of substantially all assets. The Five Year Revolving Credit Facility also includes a covenant imposing a maximum debt to tangible capitalization ratio of 0.6 to 1.0. Borrowings under the Five Year Revolving Credit Facility are subject to acceleration upon the occurrence of an event of default, borrowings are guaranteed by Transocean Ltd. and may be prepaid in whole or in part without premium or penalty.

We may borrow under the Five Year Revolving Credit Facility at either (1) the adjusted London Interbank Offered Rate (“LIBOR”) plus a margin (the “Five Year Revolving Credit Facility Margin”), which ranges from 1.125 percent to 2.0 percent based on the Debt Rating, or (2) the base rate specified in the credit agreement plus the Five Year Revolving Credit Facility Margin, less one percent per annum. Throughout the term of the Five Year Revolving Credit Facility, we pay a facility fee on the daily unused amount of the underlying commitment which ranges from 0.15 percent to 0.35 percent based on our Debt Rating. Effective May 17, 2016, as a result of a reduction of our Debt Rating, the Five Year Revolving Credit Facility Margin increased to 2.0 percent from 1.75 percent and the facility fee increased to 0.35 percent from 0.275 percent. At December 31, 2016, based on our Debt Rating on that date, the Five Year Revolving Credit Facility Margin was 2.0 percent and the facility fee was 0.35 percent. At December 31, 2016, we had no borrowings outstanding or letters of credit issued, and we had $3.0 billion of available borrowing capacity under the Five Year Revolving Credit Facility.

Debt issuances

9.00% Senior Notes—On July 21, 2016, we completed an offering of an aggregate principal amount of $1.25 billion of 9.00% senior unsecured notes due July 15, 2023 (the “9.00% Senior Notes”), and we received aggregate cash proceeds of $1.21 billion, net of initial discount and costs payable by us. We used the majority of the net proceeds from the debt offering to complete a tender offer (see “Tender offer”). The 9.00% Senior Notes are fully and unconditionally guaranteed by Transocean Ltd. and certain wholly owned subsidiaries of Transocean Inc. Such notes rank equal in right of payment to all of our existing and future unsecured unsubordinated obligations and rank structurally senior to the extent of the value of the assets of the subsidiaries guaranteeing the notes. We will pay interest on the 9.00% Senior Notes semiannually on January 15 and July 15 of each year, beginning on January 15, 2017. We may redeem all or a portion of the 9.00% Senior Notes at any time prior to July 15, 2020 at a price equal to 100 percent of the aggregate principal amount plus a make whole provision, and on or after July 15, 2020, at specified redemption prices. The indenture that governs the 9.00% Senior Notes contains covenants that, among other things, limit our ability to incur certain liens on our drilling units without equally and ratably securing the notes, engage in certain sale and lease back transactions covering any of our drilling units, allow our subsidiaries to incur certain additional debt, and consolidate, merge or enter into a scheme of arrangement qualifying as an amalgamation.

7.75% Senior Secured Notes and 6.25% Senior Secured Notes—On October 19, 2016, we completed an offering of an aggregate principal amount of $600 million of 7.75% Senior Secured Notes, and we received aggregate cash proceeds of $583 million, net of initial discount and costs payable by us. On December 8, 2016, we completed an offering of an aggregate principal amount of $625 million of 6.25% Senior Secured Notes, and we received aggregate cash proceeds of $609 million, net of initial discount and costs payable by us. Additionally, we were required to make total cash deposits of approximately $103 million into restricted cash accounts, including $61 million for principal and $42 million for interest, held by the trustee for the Senior Secured Notes and recorded in current assets. We will pay interest on the 7.75% Senior Secured Notes semiannually on April 15 and October 15 of each year, beginning April 15, 2017, and we will pay interest on the 6.25% Senior Secured Notes semiannually on June 1 and December 1 of each year beginning on June 1, 2017. Additionally, on each interest payment date, we will be required to redeem, on a pro rata basis, an aggregate principal amount of $30 million and $31 million

TRANSOCEAN LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—continued

of the 7.75% Senior Secured Notes and the 6.25% Senior Secured Notes, respectively, at a price equal to 100 percent of the principal amount. We may redeem all or a portion of the 7.75% Senior Secured Notes and the 6.25% Senior Secured Notes at any time on or prior to October 15, 2020 and December 1, 2020, respectively, at a price equal to 100 percent of the aggregate principal amount plus a make whole provision. We will be required to redeem the notes at a price equal to 100 percent of the aggregate principal amount, without a make whole provision, upon the occurrence of certain events related to the collateral rig and the related drilling contract.

The 7.75% Senior Secured Notes are secured by the assets and earnings associated with the ultra deepwater floater Deepwater Thalassa and the equity of the wholly owned subsidiary that owns the collateral rig. The 6.25% Senior Secured Notes are secured by the assets and earnings associated with the ultra deepwater floater Deepwater Proteus and the equity of the subsidiary that owns the collateral rig. The 7.75% Senior Secured Notes and the 6.25% Senior Secured Notes are also fully and unconditionally guaranteed by Transocean Ltd., Transocean Inc. and, in each case, the wholly owned subsidiary that owns the collateral rig. At December 31, 2016, the aggregate carrying amount of Deepwater Thalassa and Deepwater Proteus was $1.7 billion.

Debt retirement

Scheduled maturity—On the scheduled maturity date of December 15, 2016, we made a cash payment of $938 million to repay the outstanding 5.05% Senior Notes, at a price equal to 100 percent of the aggregate principal amount.

Tender offer—On August 1, 2016, we completed a tender offer (the “Tender Offer”) to purchase for cash up to $1.0 billion aggregate principal amount of our 6.50% Senior Notes due November 2020, 6.375% Senior Notes and 3.80% Senior Notes (collectively, the “Tendered Notes”), subject to the terms and conditions specified in the related offer to purchase. In connection with the Tender Offer, we received valid tenders from holders of an aggregate principal amount of the Tendered Notes as follows (in millions):

	Year ended December 31, 2016	
6.50% Senior Notes due November 2020	$	348
6.375% Senior Notes due December 2021		476
3.80% Senior Notes due October 2022		157
Aggregate principal amount retired	$	981
Aggregate cash payment	$	876
Aggregate net gain		104

Repurchases and redemptions—During the years ended December 31, 2016, 2015 and 2014, we repurchased in the open market or redeemed debt securities with aggregate principal amounts as follows (in millions):

Years ended December 31,

	2016	2015	2014
4.95% Senior Notes due November 2015	$ —	$ 893	$ 207
5.05% Senior Notes due December 2016	36	25	—
2.50% Senior Notes due October 2017	85	180	—
6.00% Senior Notes due March 2018	35	211	—
7.375% Senior Notes due April 2018	26	10	—
6.50% Senior Notes due November 2020	44	—	—
6.375% Senior Notes due December 2021	122	50	—
3.80% Senior Notes due October 2022	38	16	—
7.45% Notes due April 2027	8	4	—
7.50% Notes due April 2031	5	7	—
Aggregate principal amount retired	$ 399	$ 1,396	$ 207
Aggregate cash payment	$ 354	$ 1,372	$ 216
Aggregate net gain (loss)	44	23	(9)

Other repayments—During the year ended December 31, 2014, we also made a cash payment of $163 million to repay borrowings outstanding under a credit facility, established by one of our subsidiaries, and we terminated this credit facility and an undrawn secured credit facility. In the year ended December 31, 2014, we recognized an aggregate net loss of $4 million associated with the termination of the credit facilities.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—continued

Note 12—Postemployment Benefit Plans

Defined benefit pension plans and other postretirement employee benefit plans

Overview—Benefits under all of our U.S. defined benefit pension plans have ceased accruing. We maintain the respective pension obligations under such plans until they have been fully satisfied. As of December 31, 2016, we maintained three funded and three unfunded defined benefit plans in the U.S. (the "U.S. Plans"). During the year ended December 31, 2016, we permitted certain participants of one of our funded U.S. Plans to make a one time election to receive a payment of retirement benefits in the form of either (a) a lump sum distribution or (b) an annuity starting October 1, 2016.

As of December 31, 2016, we maintained one defined benefit plan in the U.K. (the "U.K. Plan"), under which we and the plan trustees mutually agreed to cease accruing benefits, effective March 31, 2016. As of December 31, 2016, we also maintained two funded and two unfunded defined benefit plans, primarily group pension schemes with life insurance companies, which cover certain eligible Norway employees and former employees (the "Norway Plans"). During the year ended December 31, 2016, we satisfied our obligations under four funded defined benefit plans in Norway and the unfunded defined benefit plans in Nigeria. During the year ended December 31, 2015, we satisfied our obligations under the unfunded defined benefit plans in Egypt and Indonesia. We refer to the U.K. Plan, the Norway Plans and the plans in Nigeria, Egypt and Indonesia, collectively, as the "Non U.S. Plans."

We refer to the U.S. Plans and the Non U.S. Plans, collectively, as the "Transocean Plans". Additionally, we maintain certain unfunded other postretirement employee benefit plans (collectively, the "OPEB Plans"), under which benefits to eligible participants diminish during a phase out period ending December 31, 2025.

Assumptions—We estimated our benefit obligations using the following weighted average assumptions:

	December 31, 2016			December 31, 2015		
	U.S. Plans	Non-U.S. Plans	OPEB Plans	U.S. Plans	Non-U.S. Plans	OPEB Plans
Discount rate	4.26 %	2.69 %	3.08 %	4.55 %	3.59 %	3.13 %
Compensation trend rate	na	2.25 %	na	3.82 %	3.77 %	na

We estimated our net periodic benefit costs using the following weighted average assumptions:

	Year ended December 31, 2016			Year ended December 31, 2015			Year ended December 31, 2014		
	U.S. Plans	Non-U.S. Plans	OPEB Plans	U.S. Plans	Non-U.S. Plans	OPEB Plans	U.S. Plans	Non-U.S. Plans	OPEB Plans
Discount rate	4.56 %	3.69 %	3.13 %	4.16 %	3.26 %	3.86 %	5.04 %	4.41 %	4.54 %
Expected rate of return	6.82 %	5.85 %	na	7.79 %	5.93 %	na	7.18 %	6.07 %	na
	0.22 %	4.01 %	na	0.21 %	3.83 %	na	4.13 %	4.25 %	na

Compensation trend rate									
Health care cost trend rate									
-initial	na	na	na	na	na	7.81 %	na	na	7.81 %
-ultimate	na	na	na	na	na	5.00 %	na	na	5.00 %
-ultimate year	na	na	na	na	na	2023	na	na	2020

“na” means not applicable.

Net periodic benefit costs—Net periodic benefit costs, before tax, included the following components (in millions):

	Year ended December 31, 2016			Year ended December 31, 2015			Year ended December 31, 2014		
	U.S. Plans	Non-U.S. Plans	Transocean Plans	U.S. Plans	Non-U.S. Plans	Transocean Plans	U.S. Plans	Non-U.S. Plans	Transocean Plans
Net periodic benefit costs									
Service cost	$ 3	$ 10	$ 13	$ 5	$ 26	$ 31	$ 39	$ 29	$ 68
Interest cost	69	17	86	65	19	84	64	27	91
Expected return on plan assets	(80)	(25)	(105)	(87)	(28)	(115)	(75)	(28)	(103)
Settlements and curtailments	—	(5)	(5)	3	2	5	(7)	3	(4)
Actuarial (gain) loss, net	5	(1)	4	11	11	22	17	5	22
Prior service cost, net	—	—	—	—	—	—	(1)	—	(1)
Net periodic benefit costs	$ (3)	$ (4)	$ (7)	$ (3)	$ 30	$ 27	$ 37	$ 36	$ 73

In September and December 2014, we recognized settlement and curtailment charges for two of our unfunded Non U.S. Plans in Nigeria and Egypt associated with certain employee terminations.

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In the years ended December 31, 2016, 2015 and 2014, for the OPEB Plans, the combined components of net periodic benefit costs, including service cost, interest cost, recognized net actuarial losses, prior service cost amortization, curtailments and special termination benefits, were income of $4 million, income of $1 million and costs of $2 million, respectively.

The following table presents the amounts in accumulated other comprehensive income (loss), before tax, that have not been recognized as components of net periodic benefit costs (in millions):

	December 31, 2016				December 31, 2015			
	U.S. Plans	Non-U.S. Plans	OPEB Plans	Total	U.S. Plans	Non-U.S. Plans	OPEB Plans	Total
Actuarial gain (loss), net	$ (316)	$ (94)	$ (3)	$ (413)	$ (281)	$ (119)	$ (6)	$ (406)
Prior service cost, net	—	—	26	26	—	—	31	31
Total	$ (316)	$ (94)	$ 23	$ (387)	$ (281)	$ (119)	$ 25	$ (375)

The following table presents the amounts in accumulated other comprehensive income expected to be recognized as components of net periodic benefit costs during the year ending December 31, 2017 (in millions):

	Year ending December 31, 2017			
	U.S. Plans	Non-U.S. Plans	OPEB Plans	Total
Actuarial loss, net	$ 5	$ 1	$ —	$ 6
Prior service cost, net	—	—	(3)	(3)
Total amount expected to be recognized	$ 5	$ 1	$ (3)	$ 3

Funded status—The changes in projected benefit obligation, plan assets and funded status and the amounts recognized on our consolidated balance sheets were as follows (in millions):

	Year ended December 31, 2016				Year ended December 31, 2015			
	U.S. Plans	Non-U.S. Plans	OPEB Plans	Total	U.S. Plans	Non-U.S. Plans	OPEB Plans	Total
Change in projected benefit obligation								
Projected benefit obligation, beginning of period	$ 1,523	$ 502	$ 24	$ 2,049	$ 1,592	$ 629	$ 59	$ 2,280
Actuarial (gains) losses, net	52	36	(3)	85	(71)	(83)	—	(154)
Service cost	3	10	—	13	5	26	1	32

Interest cost	69	17	1	87	65	19	2	86
Plan amendments	—	—	—	—	—	—	(33)	(33)
Currency exchange rate changes	—	(77)	—	(77)	—	(48)	—	(48)
Participant contributions	—	—	1	1	—	1	3	4
Benefits paid	(90)	(46)	(4)	(140)	(65)	(44)	(8)	(117)
Settlements and curtailments	—	(44)	—	(44)	(3)	2	—	(1)
Projected benefit obligation, end of period	1,557	398	19	1,974	1,523	502	24	2,049
Change in plan assets								
Fair value of plan assets, beginning of period	1,198	439	—	1,637	1,271	488	—	1,759
Actual return on plan assets	93	84	—	177	(21)	12	—	(9)
Currency exchange rate changes	—	(80)	—	(80)	—	(39)	—	(39)
Employer contributions	3	43	3	49	13	21	5	39
Participant contributions	—	—	1	1	—	1	3	4
Benefits paid	(90)	(46)	(4)	(140)	(65)	(44)	(8)	(117)
Settlements	—	(40)	—	(40)	—	—	—	—
Fair value of plan assets, end of period	1,204	400	—	1,604	1,198	439	—	1,637
Funded status, end of period	$ (353)	$ 2	$ (19)	$ (370)	$ (325)	$ (63)	$ (24)	$ (412)
Balance sheet classification, end of period:								
Pension asset, non-current	$ —	$ 5	$ —	$ 5	$ —	$ 2	$ —	$ 2
Pension liability, current	(2)	—	(3)	(5)	(3)	(3)	(3)	(9)
Pension liability, non-current	(351)	(3)	(16)	(370)	(322)	(62)	(21)	(405)
Accumulated other comprehensive income (loss) (a)	(316)	(94)	23	(387)	(281)	(119)	25	(375)

(a) Amounts are before income tax effect.

TRANSOCEAN LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—continued

The aggregate projected benefit obligation and fair value of plan assets for plans with a projected benefit obligation in excess of plan assets were as follows (in millions):

	December 31, 2016				December 31, 2015			
	U.S. Plans	Non-U.S. Plans	OPEB Plans	Total	U.S. Plans	Non-U.S. Plans	OPEB Plans	Total
Projected benefit obligation	$ 1,557	$ 5	$ 19	$ 1,581	$ 1,523	$ 502	$ 24	$ 2,049
Fair value of plan assets	1,204	2	—	1,206	1,198	439	—	1,637

At December 31, 2016 and 2015, the accumulated benefit obligation for all defined benefit pension plans was $2.0 billion. The aggregate accumulated benefit obligation and fair value of plan assets for plans with an accumulated benefit obligation in excess of plan assets were as follows (in millions):

	December 31, 2016				December 31, 2015			
	U.S. Plans	Non-U.S. Plans	OPEB Plans	Total	U.S. Plans	Non-U.S. Plans	OPEB Plans	Total
Accumulated benefit obligation	$ 1,557	$ 4	$ 19	$ 1,580	$ 1,523	$ 374	$ 24	$ 1,921
Fair value of plan assets	1,204	—	—	1,204	1,198	352	—	1,550

Plan assets—We periodically review our investment policies, plan assets and asset allocation strategies to evaluate performance relative to specified objectives. In determining our asset allocation strategies for the U.S. Plans, we review the results of regression models to assess the most appropriate target allocation for each plan, given the plan's status, demographics and duration. For the U.K. Plan, the plan trustees establish the asset allocation strategies consistent with the regulations of the U.K. pension regulators and in consultation with financial advisors and company representatives. Investment managers for the U.S. Plans and the U.K. Plan are given established ranges within which the investments may deviate from the target allocations. For the Norway Plans, we establish minimum rates of return under the terms of investment contracts with insurance companies.

As of December 31, 2016 and 2015, the weighted average target and actual allocations of the investments for our funded Transocean Plans were as follows:

	December 31, 2016				December 31, 2015			
	Target allocation		Actual allocation		Target allocation		Actual allocation	
	U.S. Plans	Non-U.S. Plans	U.S. Plans	Non-U.S. Plans	U.S. Plans	Non-U.S. Plans	U.S. Plans	Non-U.S. Plans
Equity securities	50 %	45 %	53 %	45 %	50 %	56 %	47 %	49 %
Fixed income	50 %	45 %	47 %	44 %	50 %	16 %	52 %	26 %

securities								
Other investments	—	10 %	—	11 %	—	28 %	1 %	25 %
Total	100 %	100 %	100 %	100 %	100 %	100 %	100 %	100 %

As of December 31, 2016, the investments for our funded Transocean Plans were categorized as follows (in millions):

	December 31, 2016								
	Significant observable inputs			Significant other observable inputs			Total		
	U.S. Plans	Non-U.S. Plans	Transocean Plans	U.S. Plans	Non-U.S. Plans	Transocean Plans	U.S. Plans	Non-U.S. Plans	Transocean Plans
Mutual funds									
U.S. equity funds	$ 516	$ —	$ 516	$ 2	$ —	$ 2	$ 518	$ —	$ 518
Non-U.S. equity funds	113	—	113	4	181	185	117	181	298
Bond funds	567	—	567	—	178	178	567	178	745
Total mutual funds	1,196	—	1,196	6	359	365	1,202	359	1,561
Other investments									
Cash and money market funds	2	2	4	—	—	—	2	2	4
Property collective trusts	—	—	—	—	17	17	—	17	17
Investment contracts	—	—	—	—	22	22	—	22	22
Total other investments	2	2	4	—	39	39	2	41	43
Total investments	$ 1,198	$ 2	$ 1,200	$ 6	$ 398	$ 404	$ 1,204	$ 400	$ 1,604

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As of December 31, 2015, the investments for our funded Transocean Plans were categorized as follows (in millions):

	December 31, 2015								
	Significant observable inputs			Significant other observable inputs			Total		
	U.S. Plans	Non-U.S. Plans	Transocean Plans	U.S. Plans	Non-U.S. Plans	Transocean Plans	U.S. Plans	Non-U.S. Plans	Transocean Plans
Mutual funds									
U.S. equity funds	$ 459	$ —	$ 459	$ —	$ 36	$ 36	$ 459	$ 36	$ 495
Non-U.S. equity funds	104	2	106	3	179	182	107	181	288
Bond funds	626	—	626	—	115	115	626	115	741
Total mutual funds	1,189	2	1,191	3	330	333	1,192	332	1,524
Other investments									
Cash and money market funds	6	—	6	—	—	—	6	—	6
Property collective trusts	—	—	—	—	20	20	—	20	20
Investment contracts	—	—	—	—	87	87	—	87	87
Total other investments	6	—	6	—	107	107	6	107	113
Total investments	$ 1,195	$ 2	$ 1,197	$ 3	$ 437	$ 440	$ 1,198	$ 439	$ 1,637

The U.S. Plans and the U.K. Plan invest primarily in passively managed funds that reference market indices. The funded Norway Plans are subject to contractual terms under selected insurance programs. Each plan's investment managers have discretion to select the securities held within each asset category. Given this discretion, the managers may occasionally invest in our debt or equity securities, and may hold either long or short positions in such securities. As the plan investment managers are required to maintain well diversified portfolios, the actual investment in our securities would be immaterial relative to asset categories and the overall plan assets.

Funding contributions—In the years ended December 31, 2016, 2015 and 2014, we made an aggregate contribution of $49 million, $39 million and $101 million, respectively, to the Transocean Plans and the OPEB Plans using our cash flows from operations. In the year ending December 31, 2017, we expect to contribute $11 million to the Transocean Plans, and we expect to fund benefit payments of approximately $3 million for the OPEB Plans as costs are incurred.

Benefit payments—The following were the projected benefits payments (in millions):

	U.S. Plans	Non-U.S. Plans	OPEB Plans	Total
Years ending December 31,				
2017	$ 64	$ 7	$ 3	$ 74
2018	68	6	3	77
2019	71	8	3	82
2020	74	8	2	84
2021	78	9	2	89
2022 - 2026	417	59	7	483

Defined contribution plans

At December 31, 2016, we sponsored four defined contribution plans, including (1) a qualified savings plan covering certain employees working in the U.S. (the “U.S. Savings Plan”), (2) a non qualified supplemental plan covering certain eligible employees working in the U.S. (the “U.S. Savings Restoration Plan”), (3) a qualified savings plan covering certain eligible U.K. employees (the “U.K. Savings Plan”) and (4) a non qualified savings plan covering certain employees working outside the U.S. and U.K. (the “Non U.S. Savings Plan”). In the years ended December 31, 2016, 2015 and 2014, we recognized expense of $51 million, $89 million and $84 million, respectively, related to our defined contribution plans.

The U.S. Savings Plan, effective January 1, 2015, provides eligible employees with matching contributions up to 10.0 percent of each participant’s base salary and annual bonus based on the participant’s contribution to the plan. In the year ended December 31, 2014, the U.S. Savings Plan provided eligible employees with matching contributions up to 6.0 percent of each participant’s base salary based on the participant’s contribution to the plan. The U.S. Savings Restoration Plan, effective January 1, 2015, provides eligible employees with benefits in excess of those allowed under the U.S. Savings Plan.

The U.K. Savings Plan provides eligible employees with matching contributions between 4.5 percent and 9.5 percent based on the participant’s contribution to the plan. The Non U.S. Savings Plan, provides eligible employees with (a) matching contributions up to 6.0 percent of each participant’s base salary based on the participant’s contribution to the plan and (b) contributions between 4.5 percent and 6.5 percent of each participant’s base salary and annual bonus based on the participant’s years of eligible service. In the year ended December 31, 2016, we amended the Non U.S. Savings Plan, effective January 1, 2017, to provide eligible employees with matching

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—continued

contributions up to 12 percent of each participant's base salary and annual bonus based on the participant's contribution and eliminate the portion of the contribution that was based on years of service.

Note 13—Commitments and Contingencies

Lease obligations

We have operating lease obligations expiring at various dates, principally for real estate, office space and office equipment. In the years ended December 31, 2016, 2015 and 2014, our rental expense for all operating leases, including operating leases with terms of less than one year, was approximately $45 million, $72 million and $95 million, respectively.

We also have a capital lease obligation, which is due to expire in August 2029. The capital lease contract has an implicit interest rate of 7.8 percent and requires scheduled monthly payments of $6 million through August 2029, after which we will have the right and obligation to acquire the drillship from the lessor for one dollar. In the years ended December 31, 2016, 2015 and 2014, depreciation expense associated with Petrobras 10000, the asset held under capital lease, was $23 million, $23 million and $21 million, respectively. At December 31, 2016 and 2015, the aggregate carrying amount of this asset held under capital lease was as follows (in millions):

	December 31,	
	2016	2015
Property and equipment, cost	$ 776	$ 774
Accumulated depreciation	(149)	(125)
Property and equipment, net	$ 627	$ 649

At December 31, 2016, the aggregate future minimum rental payments related to our non-cancellable operating leases and the capital lease were as follows (in millions):

	Capital lease	Operating leases
Years ending December 31,		
2017	$ 66	$ 10
2018	72	11
2019	72	10
2020	72	9
2021	71	9
Thereafter	550	42
Total future minimum rental payment	903	$ 91
Less amount representing imputed interest	(337)	
Present value of future minimum rental payments under capital leases	566	
Less current portion included in debt due within one year	(25)	
Long-term capital lease obligation	$ 541	

Purchase and service agreement obligations

We have entered into purchase obligations with shipyards and other contractors related to our newbuild construction programs. We have also entered into long term service agreements with original equipment manufacturers to provide services and parts related to our pressure control systems. The future payments required under our service agreements were estimated based on our projected operating activity and may vary based on actual operating activity. At December 31, 2016, the aggregate future payments required under our purchase obligations and our service agreement obligations were as follows (in millions):

	Purchase obligations	Service agreement obligations
Years ending December 31,		
2017	$ 229	$ 27
2018	9	47
2019	—	50
2020	1,766	52
Thereafter	—	366
Total	$ 2,004	$ 542

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—continued

Letters of credit and surety bonds

At December 31, 2016 and 2015, we had outstanding letters of credit totaling $50 million and $153 million, respectively, issued under various uncommitted credit lines, some of which require cash collateral, provided by several banks to guarantee various contract bidding, performance activities and customs obligations. At December 31, 2016, the aggregate cash collateral held by banks for letters of credit was $5 million. As is customary in the contract drilling business, we also have various surety bonds in place that secure customs obligations related to the importation of our rigs and certain performance and other obligations. At December 31, 2016 and 2015, we had outstanding surety bonds totaling $33 million and $30 million, respectively

Macondo well incident commitments and contingencies

Overview—On April 22, 2010, the ultra deepwater floater Deepwater Horizon sank after a blowout of the Macondo well caused a fire and explosion on the rig off the coast of Louisiana. At the time of the explosion, Deepwater Horizon was contracted to an affiliate of BP plc. (together with its affiliates, "BP"). Following the incident, we have been subject to civil and criminal claims, as well as causes of action, fines and penalties by local, state and federal governments. Litigation commenced shortly after the incident, and most claims against us were consolidated by the U.S. Judicial Panel on Multidistrict Litigation and transferred to the U.S. District Court for the Eastern District of Louisiana (the "MDL Court"). A significant portion of the contingencies arising from the Macondo well incident has now been resolved as a result of settlements with the U.S. Department of Justice (the "DOJ"), BP and the states of Alabama, Florida, Louisiana, Mississippi, and Texas (collectively, the "States"). Additionally, we entered into the PSC Settlement Agreement, which remains subject to approval by the MDL Court.

In the year ended December 31, 2015, in connection with the settlements, as further described below, we recognized income of $788 million ($735 million, or $2.02 per diluted share, net of tax) recorded as a net reduction to operating and maintenance costs and expenses, including $538 million associated with recoveries from insurance for our previously incurred losses, $125 million associated with partial reimbursement from BP for our previously incurred legal costs, and $125 million associated with a net reduction to certain related contingent liabilities, primarily associated with contingencies that have either been settled or otherwise resolved as a result of settlements with BP and the PSC.

We have recognized a liability for the remaining estimated loss contingencies associated with litigation resulting from the Macondo well incident that we believe are probable and for which a reasonable estimate can be made. At December 31, 2016 and 2015, the liability for estimated loss contingencies that we believe are probable and for which a reasonable estimate can be made was $250 million, recorded in other current liabilities. The remaining litigation could result in certain loss contingencies that we believe are reasonably possible. Although we have not recognized a liability for such loss contingencies, these contingencies could result in liabilities that we ultimately recognize.

We recognize an asset associated with the portion of our estimated losses that we believe is probable of recovery from insurance and for which we had received from underwriters' confirmation of expected payment. Although we have available policy limits that could result in additional amounts recoverable from insurance, recovery of such additional amounts is not probable and we are not currently able to estimate such amounts (see "—Insurance coverage"). Our estimates involve a significant amount of judgment.

Plea Agreement—Pursuant to the plea agreement (the “Plea Agreement”), one of our subsidiaries pled guilty to one misdemeanor count of negligently discharging oil into the U.S. Gulf of Mexico, in violation of the Clean Water Act (“CWA”) and agreed to be subject to probation through February 2018. The DOJ agreed, subject to the provisions of the Plea Agreement, not to further prosecute us for certain matters arising from the Macondo well incident. We also agreed to make an aggregate cash payment of $400 million, including a criminal fine of $100 million and cash contributions of $150 million to the National Fish & Wildlife Foundation and $150 million to the National Academy of Sciences, payable in scheduled installments. In each of the years ended December 31, 2016, 2015 and 2014, we made an aggregate cash payment of $60 million in satisfaction of amounts due under the Plea Agreement. At December 31, 2016 and 2015, the carrying amount of our liability for settlement obligations under the Plea Agreement was $60 million and $120 million, respectively. The final installment of $60 million is due on February 14, 2017.

Consent Decree—Under the civil consent decree (the “Consent Decree”), we agreed to undertake certain actions, including enhanced safety and compliance actions when operating in U.S. waters. The Consent Decree also requires us to submit certain plans, reports and submissions and also requires us to make such submittals available publicly. One of the required plans is a performance plan approved on January 2, 2014, that contains, among other things, interim milestones for actions in specified areas and schedules for reports required under the Consent Decree. Additionally, in compliance with the requirements of the Consent Decree and upon approval by the DOJ, we retained an independent auditor to review and report to the DOJ our compliance with the Consent Decree and an independent process safety consultant to review report and assist with the process safety requirements of the Consent Decree. We may request termination of the Consent Decree after January 2, 2019, provided we meet certain conditions. The Consent Decree resolved the claim by the U.S. for civil penalties under the CWA. The Consent Decree did not resolve the U.S. claim under the Oil Pollution Act (“OPA”) for natural resource damages (“NRD”) or for removal costs. However, BP has agreed to indemnify us for NRD and most removal costs (see “—BP Settlement Agreement”). We also agreed to pay civil penalties of $1.0 billion plus interest. In the year ended December 31, 2015, we made a cash payment of $204 million, including interest, representing the final installment due under the Consent Decree.

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BP Settlement Agreement—On May 20, 2015, we entered into a settlement agreement with BP (the "BP Settlement Agreement"). Under the BP Settlement Agreement, BP agreed to indemnify us for compensatory damages, including all NRD and all cleanup and removal costs for oil or pollutants originating from the Macondo well. BP also agreed to cease efforts to recover as an unlimited additional insured under our insurance policies and to be bound to the insurance reimbursement rulings related to the Macondo well incident. We agreed to indemnify BP for personal and bodily injury claims of our employees and for any future costs for the cleanup or removal of pollutants stored on the Deepwater Horizon vessel. Additionally, we mutually agreed to release and withdraw all claims we have against each other arising from the Macondo well litigation and to refrain from making statements regarding gross negligence in the Macondo well incident. In July 2015, pursuant to the BP Settlement Agreements, we received $125 million from BP as partial reimbursement of the legal costs we incurred in connection with the Macondo well incident. We believe the BP Settlement Agreement resolved all Macondo well-related litigation between BP and us, and the indemnity BP committed to provide will generally address claims by third parties, including claims for economic and property damages, economic loss and NRD. However, the indemnity obligations do not extend to fines, penalties, or punitive damages.

PSC Settlement Agreement—On May 29, 2015, together with the PSC, we filed a settlement agreement (the "PSC Settlement Agreement") with the MDL Court for approval. Through the PSC Settlement Agreement, we agreed to pay a total of $212 million, plus up to $25 million for partial reimbursement of attorneys' fees, to be allocated between two classes of plaintiffs as follows: (1) private plaintiffs, businesses, and local governments who could have asserted punitive damages claims against us under general maritime law (the "Punitive Damages Class"); and (2) private plaintiffs who previously settled economic damages claims against BP and were assigned certain claims BP had made against us (the "Assigned Claims Class"). A court appointed neutral representative established the allocation of the settlement payment to be 72.8 percent paid to the Punitive Damages Class and 27.2 percent paid to the Assigned Claims Class. In exchange for these payments, each of the classes agreed to release all respective claims it has against us. Members of the Punitive Damages Class were given the opportunity to opt out of the PSC Settlement Agreement before September 23, 2016, and 36 claimants timely opted out, to pursue punitive damages claims against us. Six of these 36 claimants later revoked their opt out requests. In June 2016 and August 2015, we made a cash deposit of $25 million and $212 million, respectively, into escrow accounts pending approval of the settlement by the MDL Court. At December 31, 2016 and 2015, the aggregate balance in escrow was $237 million and $212 million, respectively, recorded in other current assets.

Pending claims—As of December 31, 2016, numerous complaints remain pending against us, along with other unaffiliated defendants in the MDL Court. We believe our settlement with the PSC, if approved by the MDL Court, will resolve many of these pending actions. As for any actions not resolved by these settlements, including any claims by individuals who opted out of the PSC Settlement Agreement, claims by the Mexican government under OPA and maritime law and federal securities actions, we are vigorously defending those claims and pursuing any and all defenses available. See"—PSC Settlement Agreement" and "—Federal securities claims."

Federal securities claims—On September 30, 2010, a proposed federal securities class action was filed against us in the U.S. District Court for the Southern District of New York. In the action, a former shareholder of the acquired company alleged that the joint proxy statement related to our shareholder meeting in connection with the merger with the acquired company violated various securities laws and that the acquired company's shareholders received inadequate consideration for their shares as a result of the alleged violations and sought compensatory and rescissory damages and attorneys' fees. On March 11, 2014, the District Court for the Southern District of New York dismissed the claims as time-barred. Plaintiffs appealed to the U.S. Court of Appeals for the Second Circuit (the "Second

Circuit”), but on March 17, 2016, the Second Circuit affirmed the dismissal. Plaintiffs filed a petition for writ of certiorari with the U.S. Supreme Court on August 12, 2016. See Note 23—Subsequent Events.

Insurance coverage—At the time of the Macondo well incident, our excess liability insurance program offered aggregate insurance coverage of $950 million, excluding a $15 million deductible and a $50 million self-insured layer through our wholly owned captive insurance subsidiary. This excess liability insurance coverage consisted of a first and a second layer of $150 million each, a third and fourth layer of $200 million each and a fifth layer of $250 million. We have recovered costs under the first four excess layers, the limits of which are now fully exhausted. We have submitted claims to the $250 million fifth layer, which is comprised of Bermuda market insurers (the “Bermuda Insurers”). The Bermuda Insurers have asserted various coverage defenses to our claims, and we have issued arbitration notices to the Bermuda Insurers. In the year ended December 31, 2016, we recognized income of $30 million, recorded as a reduction in operating and maintenance costs and expenses, associated with claims confirmed by certain underwriters, and we received cash proceeds of $20 million. We continue to pursue claims submitted to the Bermuda Insurers, but we cannot give any assurance that we will successfully recover additional proceeds under the available policy limits.

Other legal proceedings

Asbestos litigation—In 2004, several of our subsidiaries were named, along with numerous other unaffiliated defendants, in 21 complaints filed on behalf of 769 plaintiffs in the Circuit Courts of the State of Mississippi, and in 2014, a group of similar complaints were filed in Louisiana. The plaintiffs, former employees of some of the defendants, generally allege that the defendants used or manufactured asbestos containing drilling mud additives for use in connection with drilling operations, claiming negligence, products liability, strict liability and claims allowed under the Jones Act and general maritime law. The plaintiffs generally seek awards of unspecified compensatory and punitive damages, but the court appointed special master has ruled that a Jones Act employer defendant, such as us, cannot be sued for punitive damages. At December 31, 2016, 15 plaintiffs have claims pending in Mississippi and eight plaintiffs have claims pending in Louisiana in which we have or may have an interest. We intend to defend these lawsuits vigorously, although we can provide no assurance

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as to the outcome. We historically have maintained broad liability insurance, although we are not certain whether insurance will cover the liabilities, if any, arising out of these claims. Based on our evaluation of the exposure to date, we do not expect the liability, if any, resulting from these claims to have a material adverse effect on our consolidated statement of financial position, results of operations or cash flows.

One of our subsidiaries has been named as a defendant, along with numerous other companies, in lawsuits arising out of the subsidiary's manufacture and sale of heat exchangers, and involvement in the construction and refurbishment of major industrial complexes alleging bodily injury or personal injury as a result of exposure to asbestos. As of December 31, 2016, the subsidiary was a defendant in approximately 305 lawsuits, some of which include multiple plaintiffs, and we estimate that there are approximately 329 plaintiffs in these lawsuits. For many of these lawsuits, we have not been provided with sufficient information from the plaintiffs to determine whether all or some of the plaintiffs have claims against the subsidiary, the basis of any such claims, or the nature of their alleged injuries. The operating assets of the subsidiary were sold and its operations were discontinued in 1989, and the subsidiary has no remaining assets other than insurance policies, rights and proceeds, including (i) certain policies subject to litigation and (ii) certain rights and proceeds held directly or indirectly through a qualified settlement fund. The subsidiary has in excess of $1.0 billion in insurance limits potentially available to the subsidiary. Although not all of the policies may be fully available due to the insolvency of certain insurers, we believe that the subsidiary will have sufficient funding directly or indirectly from settlements and payments from insurers, assigned rights from insurers and coverage in place settlement agreements with insurers to respond to these claims. While we cannot predict or provide assurance as to the outcome of these matters, we do not expect the ultimate liability, if any, resulting from these claims to have a material adverse effect on our consolidated statement of financial position, results of operations or cash flows.

Rio de Janeiro tax assessment—In the year ended December 31, 2006, the state tax authorities of Rio de Janeiro in Brazil issued to one of our subsidiaries tax assessments on equipment imported into the state in connection with our operations, resulting from a preliminary finding by these authorities that our record keeping practices were deficient. At December 31, 2016, the aggregate tax assessment was for BRL 506 million, equivalent to approximately $155 million, including interest and penalties. In September 2006, we filed an initial response refuting these tax assessments, and, in September 2007, the state tax authorities confirmed that they believe the tax assessments are valid. On September 27, 2007, we filed an appeal with the state Taxpayer's Council contesting the assessments. While we cannot predict or provide assurance as the final outcome of these proceedings, we do not expect it to have a material adverse effect on our condensed consolidated statement of financial position, results of operations or cash flows.

Nigerian Cabotage Act litigation—In October 2007, three of our subsidiaries were each served a Notice and Demand from the Nigeria Maritime Administration and Safety Agency, imposing a two percent surcharge on the value of all contracts performed by us in Nigeria pursuant to the Coastal and Inland Shipping (Cabotage) Act 2003 (the "Cabotage Act"). Our subsidiaries each filed an originating summons in the Federal High Court in Lagos challenging the imposition of this surcharge on the basis that the Cabotage Act and associated levy is not applicable to drilling rigs. The respondents challenged the competence of the suits on several procedural grounds. The court upheld the objections and dismissed the suits. In December 2010, our subsidiaries filed a new joint Cabotage Act suit. While we cannot predict or provide assurance as to the outcome of these proceedings, we do not expect the proceedings to have a material adverse effect on our consolidated statement of financial position, results of operations or cash flows.

Other matters—We are involved in various tax matters, various regulatory matters, and a number of claims and lawsuits, asserted and unasserted, all of which have arisen in the ordinary course of our business. Such matters include a certain Brazilian import license assessment received in 2010 related to timely application for import licenses for certain equipment and for allegedly providing improper information on import license applications. We do not expect the liability, if any, resulting from these other matters to have a material adverse effect on our consolidated statement of financial position, results of operations or cash flows. We cannot predict with certainty the outcome or effect of any of the litigation matters specifically described above or of any such other pending, threatened, or possible litigation or liability. We can provide no assurance that our beliefs or expectations as to the outcome or effect of any tax, regulatory, lawsuit or other litigation matter will prove correct and the eventual outcome of these matters could materially differ from management's current estimates.

Other environmental matters

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

We have been named as a PRP in connection with a site located in Santa Fe Springs, California, known as the Waste Disposal, Inc. site. We and other PRPs have agreed with the Environmental Protection Agency (the "EPA") and the DOJ to settle our potential liabilities for this site by agreeing to perform the remaining remediation required by the EPA. The parties to the settlement have entered into a participation agreement, which makes us liable for approximately eight percent of the remediation and related costs. The remediation is complete, and we believe our share of the future operation and maintenance costs of the site is not material. There are additional potential liabilities related to the site, but these cannot be quantified, and we have no reason at this time to believe that they will be material.

One of our subsidiaries has been ordered by the California Regional Water Quality Control Board ("CRWQCB") to develop a testing plan for a site known as Campus 1000 Fremont in Alhambra, California, which is now a part of the San Gabriel Valley, Area 3, Superfund

site. We were also advised that one or more of our subsidiaries that formerly owned and operated the site would likely be named by the EPA as PRPs. The current property owner, an unrelated party, performed the required testing and detected no contaminants. In discussions with CRWQCB staff, we were advised of their intent to issue us a "no further action" letter, but it has not yet been received. Based on the test results, we would contest any potential liability. We have no knowledge at this time of the potential cost of any remediation, who else will be named as PRPs, and whether in fact any of our subsidiaries is a responsible party. The subsidiaries in question do not own any operating assets and have limited ability to respond to any liabilities.

Resolutions of other claims by the EPA, the involved state agency or PRPs are at various stages of investigation. These investigations involve determinations of (a) the actual responsibility attributed to us and the other PRPs at the site, (b) appropriate investigatory or remedial actions and (c) allocation of the costs of such activities among the PRPs and other site users. Our ultimate financial responsibility in connection with those sites may depend on many factors, including (i) the volume and nature of material, if any, contributed to the site for which we are responsible, (ii) the number of other PRPs and their financial viability and (iii) the remediation methods and technology to be used.

It is difficult to quantify with certainty the potential cost of these environmental matters, particularly in respect of remediation obligations. Nevertheless, based upon the information currently available, we believe that our ultimate liability arising from all environmental matters, including the liability for all other related pending legal proceedings, asserted legal claims and known potential legal claims which are likely to be asserted, is adequately accrued and should not have a material effect on our consolidated statement of financial position or results of operations.

Note 14—Noncontrolling Interest

Redeemable noncontrolling interest

Angola Deepwater Drilling Company Limited—Changes in redeemable noncontrolling interest were as follows (in millions):

	Years ended December 31,		
	2016	2015	2014
Redeemable noncontrolling interest			
Balance, beginning of period	$ 5	$ 11	$ —
Net income (loss) attributable to noncontrolling interest	23	(6)	9
Reclassification from noncontrolling interest	—	—	2
Balance, end of period	$ 28	$ 5	$ 11

We own a 65 percent interest and Angco Cayman Limited ("Angco Cayman") owns a 35 percent interest, in ADDCL, a variable interest entity (see Note 5—Variable Interest Entities). Angco Cayman has the right to require us to purchase its shares for cash. Accordingly, we present the carrying amount of Angco Cayman's ownership interest as redeemable noncontrolling interest on our consolidated balance sheets.

Noncontrolling interest

Transocean Partners—On February 6, 2014, we formed Transocean Partners to own, operate and acquire modern, technologically advanced offshore drilling rigs. On August 5, 2014, we completed the initial public offering of 20.1 million common units of Transocean Partners. We retained the remaining 21.3 million common units, 27.6 million subordinated units, which collectively represented a 70.8 percent limited liability company interest, and all of the incentive distribution rights. In the year ended December 31, 2014, as a result of the offering, we received cash proceeds of $417 million, net of $26 million for underwriting discounts and commissions and other offering costs, and we recorded a capital allocation resulting in a decrease of $44 million to noncontrolling interest and a corresponding increase to additional paid in capital.

In the years ended December 31, 2016, 2015 and 2014, Transocean Partners declared and paid an aggregate distribution of, $99 million, $100 million and $15 million, respectively, to its unitholders, of which $28 million, $29 million and $4 million, respectively, was paid to the holders of noncontrolling interest.

On November 4, 2015, Transocean Partners announced that its board of directors approved a unit repurchase program, authorizing it to repurchase up to $40 million of its publicly held common units. Under the unit repurchase program, Transocean Partners repurchased 478,376 of its publicly held common units for an aggregate purchase price of $4 million and such repurchased common units were cancelled.

On December 9, 2016, Transocean Partners completed a merger with one of our subsidiaries as contemplated under the Merger Agreement. Following the completion of the merger, Transocean Partners became a wholly owned indirect subsidiary of Transocean Ltd. Each Transocean Partners common unit that was issued and outstanding immediately prior to the closing, other than the units held by Transocean and its subsidiaries, was converted into the right to receive 1.20 of our shares. To complete the merger, we issued 23.8 million shares from conditional capital.

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TDSOI—In June 2016, we served notice of our intent to exercise our option to call the 30 percent ownership interest in TDSOI held by our local partner. In July 2016, we completed the repurchase of the noncontrolling interest for a cash payment of $2 million, and as a result, TDSOI became our wholly owned subsidiary. In connection with the transaction, we recorded a capital allocation resulting in a $12 million increase to noncontrolling interest and a corresponding decrease to additional paid in capital.

Note 15—Shareholders' Equity

Par value reduction—On October 29, 2015, at our extraordinary general meeting, our shareholders approved the reduction of the par value of each of our shares to CHF 0.10 from the original par value of CHF 15.00. The reduction of par value became effective as of January 7, 2016 upon registration in the commercial register.

Distributions of qualifying additional paid in capital—In May 2015, at our annual general meeting, our shareholders approved the distribution of qualifying additional paid in capital in the form of a U.S. dollar denominated dividend of $0.60 per outstanding share, payable in four quarterly installments of $0.15 per outstanding share, subject to certain limitations. In May 2015, we recognized a liability of $218 million for the distribution payable, recorded in other current liabilities, with a corresponding entry to additional paid in capital. On June 17 and September 23, 2015, we paid the first two installments in the aggregate amount of $109 million to shareholders of record as of May 29 and August 25, 2015. On October 29, 2015, at our extraordinary general meeting, our shareholders approved the cancellation of the third and fourth installments of the distribution. As a result, we reduced our distribution payable, recorded in other current liabilities, by $109 million with corresponding increase to additional paid in capital.

In May 2014, at our annual general meeting, our shareholders approved the distribution of qualifying additional paid in capital in the form of a U.S. dollar denominated dividend of $3.00 per outstanding share, payable in four quarterly installments of $0.75 per outstanding share, subject to certain limitations. In May 2014, we recognized a liability of $1.1 billion for the distribution payable, recorded in other current liabilities, with a corresponding entry to additional paid in capital. On June 18, September 17 and December 17, 2014, we paid the first three installments in the aggregate amount of $816 million to shareholders of record as of May 30, August 22 and November 14, 2014, respectively. On March 18, 2015, we paid the final installment in the aggregate amount of $272 million to shareholders of record as of February 20, 2015.

In May 2013, at our annual general meeting, our shareholders approved the distribution of qualifying additional paid in capital in the form of a U.S. dollar denominated dividend of $2.24 per outstanding share, payable in four quarterly installments of $0.56 per outstanding share, subject to certain limitations. On March 19, 2014, we paid the final installment in the aggregate amount of $202 million to shareholders of record as of February 21, 2014.

We did not pay the distribution of qualifying additional paid in capital with respect to our shares held in treasury or held by our subsidiary.

Shares issued—To complete the merger with Transocean Partners, we issued 23.8 million shares from conditional capital. Each Transocean Partners common unit that was issued and outstanding immediately prior to the closing, other than the units held by Transocean and its subsidiaries, was converted into the right to receive 1.20 of our shares. See Note 1—Business, Note 14—Noncontrolling Interest and Note 18—Supplemental Cash Flow Information.

Shares held in treasury—In May 2009, at our annual general meeting, our shareholders approved and authorized our board of directors, at its discretion, to repurchase an amount of our shares for cancellation with an aggregate purchase price of up to CHF 3.5 billion, equivalent to approximately $3.4 billion. On February 12, 2010, our board of directors authorized our management to implement the share repurchase program. During the three year period ended December 31, 2016, we did not purchase any shares under our share repurchase program. At December 31, 2015, we held 2.9 million shares in treasury, recorded at cost. On October 29, 2015, at our extraordinary general meeting, our shareholders approved the cancellation of all shares that had been repurchased to date under our share repurchase program. The cancellation of our shares held in treasury became effective as of January 7, 2016 upon registration in the commercial register.

Shares held by subsidiaries—Two of our subsidiaries hold our shares for future use to satisfy our obligations to deliver shares in connection with awards granted under our incentive plans or other rights to acquire our shares. At December 31, 2016 and 2015, our subsidiaries held 5.4 million shares and 6.9 million shares, respectively.

Accumulated other comprehensive loss—The changes in accumulated other comprehensive loss, presented net of tax, for our defined benefit pension plans were as follows (in millions):

	Years ended December 31,	
	2016	2015
Balance, beginning of period	$ (277)	$ (346)
Other comprehensive income (loss) before reclassifications	(15)	49
Reclassifications to net income	9	20
Other comprehensive income (loss), net	(6)	69
Balance, end of period	$ (283)	$ (277)

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Note 16—Share Based Compensation Plans

Overview

We have a long term incentive plan (the "Long Term Incentive Plan") for executives, key employees and non employee directors under which awards can be granted in the form of restricted share units, restricted shares, stock options, stock appreciation rights and cash performance awards. Awards may be granted as service awards that are earned over a defined service period or as performance awards that are earned based on the achievement of certain market factors or performance targets or a combination of market factors and performance targets. Our compensation committee of our board of directors determines the terms and conditions of the awards granted under the Long Term Incentive Plan. As of December 31, 2016, we had 55.4 million shares authorized and 14.7 million shares available to be granted under the Long Term Incentive Plan. As of December 31, 2016, total unrecognized compensation costs related to all unvested share based awards were $43 million, which are expected to be recognized over a weighted average period of 1.4 years.

Service awards typically vest either in three equal annual installments beginning on the first anniversary date of the grant or in an aggregate installment at the end of the stated vesting period. Performance awards typically are subject to a three year measurement period during which the number of options, shares or restricted share units remains uncertain. At the end of the measurement period, the awarded number of options, shares or restricted share units is determined and, thereafter subject to a stated vesting period. The performance awards typically vest in one aggregate installment following the determination date. Stock options and stock appreciation rights are subject to a stated vesting period and, once vested, typically have a seven year term during which they are exercisable.

Service awards

Restricted share units—A restricted share unit is a notional unit that is equal to one share but has no voting rights until the underlying share is issued. Our service based restricted share units are participating securities since they have the right to receive dividends and other cash distributions to shareholders. The following table summarizes unvested activity for service based units granted under our incentive plans during the year ended December 31, 2016:

	Number of units	Weighted-average grant-date fair value per unit
Unvested at January 1, 2016	3,030,444	$ 25.65
Granted	3,155,382	8.69
Vested	(1,725,734)	28.08
Forfeited	(454,010)	9.52
Unvested at December 31, 2016	4,006,082	$ 13.10

During the year ended December 31, 2016, the aggregate grant date fair value of the service based units that vested was $48 million.

During the years ended December 31, 2015 and 2014, we granted 2,848,521 and 1,208,790 service based units, respectively, with a weighted average grant date fair value of $18.70 and $42.80 per unit, respectively. During the years ended December 31, 2015 and 2014, we had 1,817,758 and 1,520,023 service based units, respectively, that vested with an aggregate grant date fair value of $81 million and $87 million, respectively.

Stock options—The following table summarizes activity for vested and unvested service based stock options outstanding under our incentive plans during the year ended December 31, 2016:

	Number of shares under option	Weighted-average exercise price per share	Weighted-average remaining contractual term (years)	Aggregate intrinsic value (in millions)
Outstanding at January 1, 2016	1,622,317	$ 73.66	4.81	$ —
Granted	945,724	8.61		
Forfeited	(633,346)	64.44		
Outstanding at December 31, 2016	1,934,695	$ 44.88	6.12	$ 6
Vested and exercisable at December 31, 2016	1,022,393	$ 77.24	3.45	$ —

During the year ended December 31, 2016, we granted service based stock options with a weighted average grant date fair value of $8.61 per stock option. We estimated the fair value using the following weighted average assumptions: (a) a dividend yield of zero percent, (b) an expected price volatility of 65 percent, (c) a risk free interest rate of 1.26 percent and (d) an expected option life of 6.1 years. During the year ended December 31, 2016, the aggregate grant date fair value of service based stock options that vested was $3 million. During the year ended December 31, 2016, no service based stock options were exercised. As of December 31, 2016, there were outstanding unvested service based stock options to purchase 912,302 shares. At January 1, 2016, we have presented the aggregate intrinsic value as zero since the weighted average exercise price per share exceeded the market price of our shares on these dates.

TRANSOCEAN LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—continued

During the years ended December 31, 2015 and 2014, we did not grant service based stock options. During the years ended December 31, 2015 and 2014, the total grant date fair value of service based stock options that vested was $9 million and $14 million, respectively. During the year ended December 31, 2015, no service based stock options were exercised. During the year ended December 31, 2014, holders exercised service based stock options to purchase 383,848 shares, and the total pre tax intrinsic value of service based stock options exercised was $2 million.

Stock appreciation rights—During the years ended December 31, 2016, 2015 and 2014, we did not grant stock appreciation rights and no stock appreciation rights were exercised. At January 1, 2016, there were 185,002 stock appreciation rights outstanding at a weighted average exercise price of $93.49 per share and less than one year remaining contractual life. At January 1, 2016 and December 31, 2016, the aggregate intrinsic value of such stock appreciation rights was zero since the weighted average exercise price per share exceeded the market price of our shares on that date. At December 31, 2016, 29,288 stock appreciation rights were vested and exercisable, at an exercise price of $107.63 per share with less than one year remaining contractual term.

Performance awards

Restricted share units—We grant performance awards in the form of restricted share units that can be earned depending on the achievement of (a) market factors or (b) both market factors and performance targets. Our performance awards are participating securities since they have the right to receive dividends and other cash distributions to shareholders. The number of restricted share units earned is quantified upon completion of the specified period at the determination date. The following table summarizes unvested activity for performance based units under our incentive plans during the year ended December 31, 2016:

	Number of units	Weighted-average grant-date fair value per unit	
Unvested at January 1, 2016	702,131	$	18.81
Granted	997,362		11.60
Vested	(187,000)		32.05
Forfeited	(72,887)		17.12
Unvested at December 31, 2016	1,439,606	$	14.40

During the year ended December 31, 2016, performance based units vested with an aggregate grant date fair value of $6 million, which is subject to compensation committee approval in February 2017.

During the years ended December 31, 2015 and 2014, there were 652,592 and 302,630 performance based units granted, respectively, with a weighted average grant date fair value of $17.91 and $31.73 per unit, respectively. During the year ended December 31, 2015, no performance based units vested since neither the market factors nor the performance targets were achieved. During the year ended December 31, 2014, the total grant date fair value of the performance based units that vested was $8 million.

Stock options—We previously granted performance awards in the form of stock options that could be earned depending on the achievement of certain performance targets. During the years ended December 31, 2016, 2015 and 2014, we did not grant performance based stock options. At January 1, 2016, there were 150,360 performance based stock options outstanding at a weighted average exercise price of $82.50 per share and less than one year remaining contractual life. At January 1, 2016, the aggregate intrinsic value of such performance based stock options was zero since the weighted average exercise price per share exceeded the market price of our shares on those dates. During the years ended December 31, 2016 and 2015, no performance based stock options were exercised. During the year ended December 31, 2014, holders exercised performance based stock options to purchase 12,073 shares. During the year ended December 31, 2016, all remaining performance based stock options expired.

Note 17—Supplemental Balance Sheet Information

Other current liabilities were comprised of the following (in millions):

	December 31,	
	2016	2015
Other current liabilities		
Accrued payroll and employee benefits	$ 200	$ 356
Accrued interest	135	82
Accrued taxes, other than income	87	66
Macondo well incident settlement obligations	60	60
Deferred revenue	194	187
Deferred revenue of consolidated variable interest entities	15	15
Contingent liabilities	262	271
Other	7	25
Total other current liabilities	$ 960	$ 1,062

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TRANSOCEAN LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—continued

Other long term liabilities were comprised of the following (in millions):

	December 31,	
	2016	2015
Other long-term liabilities		
Postemployment benefit plan obligations	$ 370	$ 399
Income taxes payable	333	428
Macondo well incident settlement obligations	—	60
Deferred revenue	390	178
Other	60	70
Total other long-term liabilities	$ 1,153	$ 1,135

Note 18—Supplemental Cash Flow Information

Net cash provided by operating activities attributable to the net change in operating assets and liabilities was comprised of the following (in millions):

	Years ended December 31,		
	2016	2015	2014
Changes in operating assets and liabilities			
Decrease in accounts receivable	$ 350	$ 742	$ 63
Increase in other current assets	(29)	(177)	(164)
(Increase) decrease in other assets	(12)	5	12
Decrease in accounts payable and other current liabilities	(286)	(828)	(884)
Decrease in other long-term liabilities	(55)	(72)	(71)
Change in income taxes receivable / payable, net	(133)	(65)	(31)
	$ (165)	$ (395)	$ (1,075)

Additional cash flow information was as follows (in millions):

	Years ended December 31,		
	2016	2015	2014
Certain cash operating activities			
Cash payments for interest	$ 351	$ 439	$ 490
Cash payments for income taxes	172	314	329
Non-cash investing and financing activities			
Capital additions, accrued at end of period (a)	$ 42	$ 128	$ 139
Issuance of shares to acquire noncontrolling interest (b)	317	—	—

(a)

These amounts represent additions to property and equipment for which we had accrued a corresponding liability in accounts payable at the end of the period. See Note 10—Drilling Fleet.

(b) On December 9, 2016, we issued 23.8 million shares in connection with our acquisition of the outstanding publicly held common units of Transocean Partners pursuant to its merger with one of our other subsidiaries. See Note 1—Business, Note 14—Noncontrolling Interest and Note 15—Shareholders' Equity.

Note 19—Financial Instruments

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

	December 31, 2016		December 31, 2015	
	Carrying amount	Fair value	Carrying amount	Fair value
Cash and cash equivalents	$ 3,052	$ 3,052	$ 2,339	$ 2,339
Restricted cash balances and investments	510	511	467	474
Long-term debt, including current maturities	8,464	8,218	8,490	6,291

We estimated the fair value of each class of financial instruments, for which estimating fair value is practicable, by applying the following methods and assumptions:

Cash and cash equivalents—The carrying amount of cash and cash equivalents represents the historical cost, plus accrued interest, which approximates fair value because of the short maturities of those instruments. We measured the estimated fair value of our

TRANSOCEAN LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—continued

cash equivalents using significant other observable inputs, representative of a Level 2 fair value measurement, including the net asset values of the investments. At December 31, 2016 and 2015, the aggregate carrying amount of our cash equivalents was $2.6 billion and $1.7 billion, respectively.

Restricted cash balances and investments—The carrying amount of the cash investments pledged for debt service of the Eksportfinans Loans represents the amortized cost of our investment. We measured the estimated fair value of such restricted cash investments using significant other observable inputs, representative of a Level 2 fair value measurement, including the terms and credit spreads of the instruments. At December 31, 2016 and 2015, the aggregate carrying amount of the cash investments pledged for debt service of the Eksportfinans Loans was $123 million and $216 million, respectively. At December 31, 2016 and 2015, the estimated fair value of such restricted cash investments was $124 million and $223 million, respectively.

The carrying amount of the cash balances that are subject to restrictions due to collateral requirements, legislation, regulation or court order approximates fair value due to the short term nature of the instruments in which the restricted cash balances are held. At December 31, 2016, the aggregate carrying amount of such restricted cash balances was $387 million, including $352 million and $35 million recorded in current assets and other long term assets, respectively. At December 31, 2015, the aggregate carrying amount of such restricted cash balances was $251 million, including $244 million and $7 million recorded in current assets and other current assets, respectively.

Debt—We measured the estimated fair value of our debt, all of which was fixed rate debt, using significant other observable inputs, representative of a Level 2 fair value measurement, including the terms and credit spreads for the instruments.

Note 20—Risk Concentration

Interest rate risk—Financial instruments that potentially subject us to concentrations of interest rate risk include our cash equivalents, short term investments, restricted cash investments, debt and capital lease obligations. We are exposed to interest rate risk related to our cash equivalents and short term investments, as the interest income earned on these investments changes with market interest rates. Fixed rate debt, where the interest rate is fixed over the life of the instrument and the instrument’s maturity is greater than one year, exposes us to changes in market interest rates when we refinance maturing debt with new debt or when we repurchase debt in open market repurchases. Our fixed rate restricted cash investments associated with the Eksportfinans Loans and the respective debt instruments for which they are restricted, are subject to corresponding and opposing changes in the fair value relative to changes in market interest rates.

Currency exchange rate risk—Our international operations expose us to currency exchange rate risk. This risk is primarily associated with compensation costs of our employees and purchasing costs from non U.S. suppliers, which are denominated in currencies other than the U.S. dollar. We use a variety of techniques to minimize the exposure to currency exchange rate risk, including the structuring of customer contract payment terms.

Our primary currency exchange rate risk management strategy involves structuring customer contracts to provide for payment in both U.S. dollars and local currency. The payment portion denominated in local currency is based on anticipated local currency requirements over the contract term. Due to various factors, including customer acceptance, local banking laws, national content requirements, other statutory requirements, local currency convertibility and the impact of inflation on local costs, actual local currency needs may vary from those anticipated in the customer

contracts, resulting in partial exposure to currency exchange rate risk. The currency exchange effect resulting from our international operations generally has not had a material impact on our operating results.

Credit risk—Financial instruments that potentially subject us to concentrations of credit risk are primarily cash and cash equivalents, short term investments and trade receivables, both current and long term.

We generally maintain our cash and cash equivalents in time deposits at commercial banks with high credit ratings or mutual funds, which invest exclusively in high quality money market instruments. We limit the amount of exposure to any one institution and do not believe we are exposed to any significant credit risk.

We earn our revenues by providing our drilling services to international oil companies, government owned oil companies and government controlled oil companies. Receivables are dispersed in various countries (see Note 20—Operating Segments, Geographic Analysis and Major Customers). We establish an allowance for doubtful accounts on a case by case basis, considering changes in the financial position of a customer, when we believe the required payment of specific amounts owed to us is unlikely to occur. Although we have encountered only isolated credit concerns related to independent oil companies, we occasionally require collateral or other security to support customer receivables. In certain instances, when we determine that collection is not reasonably assured, we may occasionally offer extended payment terms and recognize revenues associated with the contract on a cash basis.

Labor agreements—We require highly skilled personnel to operate our drilling units. We conduct extensive personnel recruiting, training and safety programs. At December 31, 2016, we had approximately 5,400 employees, including approximately 400 persons engaged through contract labor providers. Approximately 28 percent of our total workforce, working primarily in Angola, Brazil, Norway and the U.K. are represented by, and some of our contracted labor work under, collective bargaining agreements, substantially all of which are subject to annual salary negotiation. These negotiations could result in higher personnel expenses, other increased costs or increased operational restrictions as the outcome of such negotiations apply to all offshore employees not just the union members.

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TRANSOCEAN LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—continued

Note 21—Operating Segments, Geographic Analysis and Major Customers

Operating segments—We operate in a single, global market for the provision of contract drilling services to our customers. The location of our rigs and the allocation of our resources to build or upgrade rigs are determined by the activities and needs of our customers.

Geographic analysis—Operating revenues by country were as follows (in millions):

	Years ended December 31,		
	2016	2015	2014
Operating revenues			
U.S.	$ 1,977	$ 2,416	$ 2,410
U.K.	551	1,139	1,194
Brazil	453	673	651
Norway	214	650	1,036
Other countries (a)	966	2,508	3,894
Total operating revenues	$ 4,161	$ 7,386	$ 9,185

(a) Other countries represent countries in which we operate that individually had operating revenues representing less than 10 percent of total operating revenues earned.

Long lived assets by country were as follows (in millions):

	December 31,	
	2016	2015
Long-lived assets		
U.S.	$ 6,181	$ 7,451
Trinidad	3,977	1,766
Korea	1,459	2,048
Other countries (a)	9,476	9,544
Total long-lived assets	$ 21,093	$ 20,809

(a) Other countries represents countries in which we operate that individually had long lived assets representing less than 10 percent of total long lived assets.

A substantial portion of our assets are mobile. Asset locations at the end of the period are not necessarily indicative of the geographic distribution of the revenues generated by such assets during the periods. Although we are organized under the laws of Switzerland, we do not conduct any operations and do not have operating revenues in Switzerland. At December 31, 2016 and 2015, the aggregate carrying amount of our long lived assets located in Switzerland was $2 million.

Our international operations are subject to certain political and other uncertainties, including risks of war and civil disturbances or other market disrupting events, expropriation of equipment, repatriation of income or capital, taxation policies, and the general hazards associated with certain areas in which we operate.

Major customers—For the year ended December 31, 2016, Chevron Corporation (together with its affiliates, "Chevron"), BP, Royal Dutch Shell plc (together with its affiliates, "Shell") and Petróleo Brasileiro S.A. ("Petrobras"), accounted for approximately 24 percent, 12 percent, 12 percent and 11 percent, respectively, of our consolidated operating revenues. For the year ended December 31, 2015, Chevron and Shell accounted for approximately 14 percent and 10 percent, respectively, of our consolidated operating revenues from continuing operations. For the year ended December 31, 2014, Chevron and BP accounted for approximately 11 percent and nine percent, respectively, of our consolidated operating revenues.

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TRANSOCEAN LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—continued

Note 22—Quarterly Results (Unaudited)

The following data contain certain corrections of errors identified in previously reported amounts. See Note 4—Correction of Errors in Previously Reported Consolidated Financial Statements.

	Three months ended March 31,	June 30,	September 30,	December 31,
	(In millions, except per share data)			
2016				
Operating revenues	$ 1,341	$ 940	$ 906	$ 974
Operating income (a)	424	163	229	316
Income from continuing operations (a)	242	92	236	257
Net income (a)	241	93	236	257
Net income attributable to controlling interest (a)	235	82	218	243
Per share earnings from continuing operations				
Basic	$ 0.64	$ 0.22	$ 0.59	$ 0.64
Diluted	$ 0.64	$ 0.22	$ 0.59	$ 0.64
Weighted-average shares outstanding				
Basic	364	365	365	371
Diluted	364	365	365	371
2015				
Operating revenues	$ 2,043	$ 1,884	$ 1,608	$ 1,851
Operating income (loss) (b)	(327)	493	457	742
Income (loss) from continuing operations (b)	(459)	340	392	622
Net income (loss) (b)	(461)	341	395	622
Net income (loss) attributable to controlling interest (b)	(472)	335	386	616
Per share earnings (loss) from continuing operations				
Basic	$ (1.30)	$ 0.91	$ 1.06	$ 1.68
Diluted	$ (1.30)	$ 0.91	$ 1.06	$ 1.68
Weighted-average shares outstanding				
Basic	363	363	364	364
Diluted	363	363	364	364

(a) First quarter, second quarter, third quarter and fourth quarter included an aggregate loss $41 million associated with the impairment of certain drilling units classified as assets held for sale. Fourth quarter included a loss of $52 million associated with the impairment of our deepwater asset group. Fourth quarter included income of $30 million associated with recoveries of previously incurred costs associated with the Macondo well incident. Second quarter and third quarter included a gain of $38 million and $110 million, respectively, associated with the retirement of debt. See Note 6—Impairments, Note 11—Debt and Note 13—Commitments and Contingencies.

(b) First quarter, second quarter, third quarter and fourth quarter included an aggregate loss of $700 million associated with the impairment of certain drilling units classified as assets held for sale. First quarter and second quarter

included a loss of $507 million and $668 million, respectively, associated with the impairment of our deepwater asset group and midwater asset group, respectively. Second quarter included income of $788 million associated with recoveries of previously incurred costs associated with the Macondo well incident. Third quarter and fourth quarter included an aggregate net gain of $23 million associated with the retirement of debt. See Note 6—Impairments, Note 11—Debt and Note 13—Commitments and Contingencies.

The effects of the corrections of the errors on our quarterly results are presented in the tables below.

	Three months ended March 31, 2016			Three months ended March 31, 2015		
	Previously reported	Adjustments	As adjusted	Previously reported	Adjustments	As adjusted
Operating revenues	$ 1,341	$ —	$ 1,341	$ 2,043	$ —	$ 2,043
Operating income (loss)	414	10	424	(321)	(6)	(327)
Income (loss) from continuing operations	256	(14)	242	(467)	8	(459)
Net income (loss)	255	(14)	241	(469)	8	(461)
Net income (loss) attributable to controlling interest	249	(14)	235	(483)	11	(472)
Per share earnings (loss) from continuing operations						
Basic	$ 0.68	$ (0.04)	$ 0.64	$ (1.32)	$ 0.02	$ (1.30)
Diluted	$ 0.68	$ (0.04)	$ 0.64	$ (1.32)	$ 0.02	$ (1.30)

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TRANSOCEAN LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—continued

	Three months ended June 30, 2016			Three months ended June 30, 2015		
	Previously reported	Adjustments	As adjusted	Previously reported	Adjustments	As adjusted
Operating revenues	$ 943	$ (3)	$ 940	$ 1,884	$ —	$ 1,884
Operating income	154	9	163	506	(13)	493
Income from continuing operations	87	5	92	347	(7)	340
Net income	88	5	93	348	(7)	341
Net income attributable to controlling interest	77	5	82	342	(7)	335
Per share earnings from continuing operations						
Basic	$ 0.21	$ 0.01	$ 0.22	$ 0.93	$ (0.02)	$ 0.91
Diluted	$ 0.21	$ 0.01	$ 0.22	$ 0.93	$ (0.02)	$ 0.91

	Three months ended September 30, 2016			Three months ended September 30, 2015		
	Previously reported	Adjustments	As adjusted	Previously reported	Adjustments	As adjusted
Operating revenues	$ 903	$ 3	$ 906	$ 1,608	$ —	$ 1,608
Operating income	225	4	229	445	12	457
Income from continuing operations	244	(8)	236	327	65	392
Net income	244	(8)	236	330	65	395
Net income attributable to controlling interest	229	(11)	218	321	65	386
Per share earnings from continuing operations						
Basic	$ 0.62	$ (0.03)	$ 0.59	$ 0.87	$ 0.19	$ 1.06
Diluted	$ 0.62	$ (0.03)	$ 0.59	$ 0.87	$ 0.19	$ 1.06

	Three months ended December 31, 2015		
	Previously reported	Adjustments	As adjusted

Operating revenues	$ 1,851	$ —	$ 1,851
Operating income	750	(8)	742
Income from continuing operations	617	5	622
Net income	617	5	622
Net income attributable to controlling interest	611	5	616
Per share earnings from continuing operations			
Basic	$ 1.66	$ 0.02	$ 1.68
Diluted	$ 1.66	$ 0.02	$ 1.68

Note 23—Subsequent Events

Norway tax investigations and trial—On January 9, 2017, the Norwegian appeal court in Oslo ruled entirely in favor of the Transocean subsidiaries and overturned the district court with respect to the remaining question of principal tax obligations. On February 10, 2017, the tax authorities filed an appeal with the Norwegian Supreme Court.

Federal securities claims—On January 13, 2017, the U.S. Supreme Court granted certiorari in a separate case, not involving Transocean, which raised the same issues on which the Second Circuit dismissed the claim against Transocean. The U.S. Supreme Court's ultimate determination of this separate case may affect the time barred dismissal of the case involving Transocean.

PSC Settlement Agreement—On February 15, 2017, the MDL Court entered a final order and judgment approving the PSC Settlement Agreement that we entered into with the PSC on May 29, 2015. The ruling is subject to appeal. Any notice of appeal must be filed by March 17, 2017.

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Item 9.Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

We have not had a change in or disagreement with our accountants within 24 months prior to the date of our most recent financial statements or in any period subsequent to such date.

Item 9A.Controls and Procedures

Disclosure controls and procedures—We carried out an evaluation, under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures, as defined in the Exchange Act, Rules 13a 15 and 15d 15, as of the end of the period covered by this report. Our disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed in our reports filed or submitted under the Exchange Act is (1) accumulated and communicated to our management, including our Chief Executive Officer and our Chief Financial Officer, to allow timely decisions regarding required disclosure and (2) recorded, processed, summarized and reported within the time periods specified in the U.S. Securities and Exchange Commission's rules and forms. Based on that evaluation and as a result of the material weakness in internal control over financial reporting as set forth below, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were not effective as of December 31, 2016.

Internal control over financial reporting—In the course of the external audit of the consolidated financial statements for the year ended December 31, 2016 and of our related control over financial reporting, errors resulting from the deficient controls described below were identified for which correction of the cumulative error would have been material to the 2016 financial statements, but which was not material to any of our previously issued consolidated financial statements. The errors did not result in a material misstatement in our prior financial statements and therefore did not require our previously filed reports to be amended. However, as a result of the significance of the cumulative accounting errors resulting from the deficient controls, the financial statements for 2014 and 2015 and the interim financial statements in 2016 and 2015 have been revised. The corrections of prior year financial statements for 2014 and 2015 are included in the consolidated financial statements for December 31, 2016 that are included in this annual report on Form 10 K.

In connection with the errors, we evaluated the deficiencies in our internal controls over financial reporting and determined our internal control over financial reporting as of December 31, 2016 was not effective due to a material weakness in our controls over income tax accounting. Specifically, the execution of the controls over the application of the accounting literature to the measurement of deferred taxes did not operate effectively in relation to: (1) the remeasurement of certain nonmonetary assets in Norway, (2) the analysis of our U.S. defined benefit pension plans and effect on other comprehensive income and (3) the assessment of the realizability of our deferred tax assets, and the need for valuation allowances. The matters were discovered during the course of the 2016 external audit of the accounts and related controls.

Notwithstanding the material weakness described above and after having performed additional procedures, management has concluded that the consolidated financial statements in this annual report on Form 10 K fairly present, in all material respects, our financial position, results of operations and cash flows for all periods and dates presented.

Remediation efforts to address material weakness—Management is committed to the planning and implementation of remediation efforts to address this material weakness. These remediation efforts, summarized below, which are either implemented or in process, are intended to both address the identified material weakness and to enhance our overall financial control environment. In this regard, our initiatives include:

§ Add additional personnel and resources with the appropriate level of tax accounting experience

§ Invest in additional technical tax accounting training
§ Enhance integration and documentation standards within and between tax and other key departments
We are in the process of remediating this material weakness by executing upon the above actions. Management believes the foregoing efforts will effectively remediate the material weakness. The actions that we are taking are subject to ongoing senior management review, as well as Audit Committee oversight. As we continue to monitor the effectiveness of our internal control over financial reporting in the area affected by the material weakness, we will perform additional procedures, including the use of manual mitigating control procedures where necessary, and will employ any additional resources deemed necessary to provide assurance that our financial statements continue to be fairly stated in all material respects. As we continue to evaluate and work to improve our internal control over financial reporting, management may execute additional measures to address potential control deficiencies or modify the remediation plan described above. Management will continue to review and make necessary changes to the overall design of our internal controls.

Changes in internal control over financial reporting—We have evaluated remediation steps to improve our internal controls associated with income tax accounting, as described above; however, there were no changes to our internal control over financial reporting during the year ended December 31, 2016 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. See "Management's Report on Internal Control Over Financial Reporting", included in Item 8 of this annual report.

Item 9B.Other Information

None.

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PART III

Item 10.Directors, Executive Officers and Corporate Governance

Item 11.Executive Compensation

Item 12.Security Ownership of Certain Beneficial Owners and Management and Related Shareholder Matters

Item 13.Certain Relationships, Related Transactions, and Director Independence

Item 14.Principal Accounting Fees and Services

The information required by Items 10, 11, 12, 13 and 14 is incorporated herein by reference to our definitive proxy statement for our 2017 annual general meeting of shareholders, which will be filed with the U.S. Securities and Exchange Commission pursuant to Regulation 14A under the Securities Exchange Act of 1934 within 120 days of December 31, 2016. Certain information with respect to our executive officers is set forth in Item 4 of this annual report under the caption "Executive Officers of the Registrant."

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PART IV

Item 15.Exhibits and Financial Statement Schedules

(a)Index to Financial Statements, Financial Statement Schedules and Exhibits

(1) Index to Financial Statements

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Financial statements of unconsolidated subsidiaries are not presented herein because such subsidiaries do not meet the significance test.

(2) Financial Statement Schedules

Transocean Ltd. and Subsidiaries

Schedule II Valuation and Qualifying Accounts

(In millions)

		Additions			
	Balance at beginning of period	Charge to cost and expenses	Charge to other accounts -describe	Deductions -describe	Balance at end of period
Year ended December 31, 2014					
Reserves and allowances deducted from asset accounts:					
Allowance for doubtful accounts receivable	$ 14	$ —	$ —	$ —	$ 14
Allowance for obsolete materials and supplies	80	29	—	—	109
Valuation allowance on deferred tax assets	329	93	(13) (c)	—	409
Year ended December 31, 2015					
Reserves and allowances deducted from asset accounts:					

Allowance for doubtful accounts receivable	$	14	$	—	$	—		$	14	(a)	$	—
Allowance for obsolete materials and supplies		109		62		—			23	(b)		148
Valuation allowance on deferred tax assets		409		10		(39)	(c)		—			380
Year ended December 31, 2016												
Reserves and allowances deducted from asset accounts:												
Allowance for doubtful accounts receivable	$	—	$	—	$	—		$	—		$	—
Allowance for obsolete materials and supplies		148		15		—			10	(b)		153
Valuation allowance on deferred tax assets		380		32		—			—			412

(a) Uncollectible accounts receivable written off, net of recoveries.
(b) Amount related to sale of rigs and related equipment.
(c) Amount related to deferred tax asset recorded for net operating losses with an offsetting valuation allowance.
Schedule II—Valuation and Qualifying Accounts contains corrections of errors in previously reported amounts for valuation allowances on deferred tax assets. See “Part II. Item 8. Financial Statements and Supplementary Data—Notes to Consolidated Financial Statements—Note 4—Correction of Errors in Previously Reported Consolidated Financial Statements.”

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(3) Exhibits

The following exhibits are filed in connection with this Report:

Number	Description
† 3.1	Articles of Association of Transocean Ltd.
3.2	Organizational Regulations of Transocean Ltd. (incorporated by reference to Exhibit 3.2 to Transocean Ltd.'s Current Report on Form 8 K (Commission File No. 000 53533) filed on November 23, 2016)
4.1	Indenture dated as of April 15, 1997 between Transocean Offshore Inc. and Texas Commerce Bank National Association, as trustee (incorporated by reference to Exhibit 4.1 to Transocean Offshore Inc.'s Current Report on Form 8 K (Commission File No. 001 07746) filed on April 30, 1997)
4.2	First Supplemental Indenture dated as of April 15, 1997 between Transocean Offshore Inc. and Texas Commerce Bank National Association, as trustee, supplementing the Indenture dated as of April 15, 1997 (incorporated by reference to Exhibit 4.2 to Transocean Offshore Inc.'s Current Report on Form 8 K (Commission File No. 001 07746) filed on April 30, 1997)
4.3	Second Supplemental Indenture dated as of May 14, 1999 between Transocean Offshore (Texas) Inc., Transocean Offshore Inc. and Chase Bank of Texas, National Association, as trustee (incorporated by reference to Exhibit 4.5 to Transocean Offshore Inc.'s Post Effective Amendment No. 1 to Registration Statement on Form S 3 (Registration No. 333 59001 99) filed on June 29, 1999)
4.4	Fifth Supplemental Indenture, dated as of December 18, 2008, among Transocean Ltd., Transocean Inc. and The Bank of New York Mellon Trust Company, N.A., as trustee (incorporated by reference to Exhibit 4.4 to Transocean Ltd.'s Current Report on Form 8 K filed on December 19, 2008)
4.5	Form of 7.45% Notes due April 15, 2027 (incorporated by reference to Exhibit 4.3 to Transocean Offshore Inc.'s Current Report on Form 8 K (Commission File No. 001 07746) filed on April 30, 1997)
4.6	Form of 8.00% Debentures due April 15, 2027 (incorporated by reference to Exhibit 4.4 to Transocean Offshore Inc.'s Current Report on Form 8 K (Commission File No. 001 07746) filed on April 30, 1997)
4.7	Officers' Certificate establishing the terms of the 7.50% Note due April 15, 2031 (incorporated by reference to Exhibit 4.3 to Transocean Sedco Forex Inc.'s Current Report on Form 8 K (Commission File No. 333 75899) filed on April 9, 2001)
4.8	Officers' Certificate establishing the terms of the 7.375% Notes due 2018 (incorporated by reference to Exhibit 4.14 to Transocean Sedco Forex Inc.'s Annual Report on Form 10 K (Commission File No. 333 75899) for the fiscal year ended December 31, 2001)
4.9	Indenture dated as of September 1, 1997, between Global Marine Inc. and Wilmington Trust Company, as Trustee, relating to Debt Securities of Global Marine Inc. (incorporated by reference to Exhibit 4.1 of Global Marine Inc.'s Registration Statement on Form S 4 (No. 333 39033) filed on October 30, 1997); First Supplemental Indenture dated as of June 23, 2000 (incorporated by reference to Exhibit 4.2 of Global Marine Inc.'s Quarterly Report on Form 10 Q (Commission File No. 1 5471) for the quarter ended June 30, 2000); Second Supplemental Indenture dated as of November 20, 2001 (incorporated by reference to Exhibit 4.2 to GlobalSantaFe Corporation's Annual Report on Form 10 K (Commission File No. 001 14634) for the year ended December 31, 2004)
4.10	Form of 7% Note Due 2028 (incorporated by reference to Exhibit 4.2 of Global Marine Inc.'s Current Report on Form 8 K (Commission File No. 1 5471) filed on May 22, 1998)
4.11	Terms of 7% Note Due 2028 (incorporated by reference to Exhibit 4.1 of Global Marine Inc.'s Current Report on Form 8 K (Commission File No. 1 5471) filed on May 22, 1998)
4.12	Senior Indenture, dated as of December 11, 2007, between Transocean Inc. and Wells Fargo Bank, National Association (incorporated by reference to Exhibit 4.36 to Transocean Inc.'s Annual Report on Form 10 K (Commission File No. 333 75899) for the year ended December 31, 2007)

4.13	First Supplemental Indenture, dated as of December 11, 2007, between Transocean Inc. and Wells Fargo Bank, National Association (incorporated by reference to Exhibit 4.37 to Transocean Inc.'s Annual Report on Form 10 K (Commission File No. 333 75899) for the year ended December 31, 2007)
4.14	Third Supplemental Indenture, dated as of December 18, 2008, among Transocean Ltd., Transocean Inc. and Wells Fargo Bank, National Association, as trustee (incorporated by reference to Exhibit 4.3 to Transocean Ltd.'s Current Report on Form 8 K (Commission File No. 333 75899) filed on December 19, 2008)
4.15	Fourth Supplemental Indenture, dated as of September 21, 2010, among Transocean Ltd., Transocean Inc. and Wells Fargo Bank, National Association, as trustee (incorporated by reference to Exhibit 4.1 to Transocean Ltd.'s Quarterly Report on Form 10 Q (Commission File No. 000 53533) for the quarter ended September 30, 2010)

4.16	Fifth Supplemental Indenture, dated as of December 5, 2011, among Transocean Ltd., Transocean Inc. and Wells Fargo Bank, National Association, as trustee (incorporated by reference to Exhibit 4.3 to Transocean Ltd.'s Current Report on Form 8 K (Commission File No. 000 53533) filed on December 5, 2011)
4.17	Sixth Supplemental Indenture, dated as of September 13, 2012, among Transocean Inc., Transocean Ltd. and Wells Fargo Bank, National Association, as trustee (incorporated by reference to Exhibit 4.3 to Transocean Ltd.'s Current Report on Form 8 K (Commission File No. 000 53533) filed on September 13, 2012)
4.18	Credit Agreement dated June 30, 2014 among Transocean Inc., the lenders parties thereto and JPMorgan Chase Bank, N.A., as administrative agent, Citibank, N.A. and DNB Bank, ASA, New York Branch, as co syndication agents, and The Bank of Tokyo Mitsubishi UFJ, Ltd., Crédit Agricole Corporate and Investment Bank and Wells Fargo Bank, National Association, as co documentation agents (incorporated by reference to Exhibit 4.1 to Transocean Ltd.'s Current Report on Form 8 K (Commission File No. 000 53533) filed on July 2, 2014)
4.19	Guarantee Agreement dated June 30, 2014 among Transocean Ltd. and JPMorgan Chase Bank, N.A., as administrative agent under the Credit Agreement (incorporated by reference to Exhibit 4.2 to Transocean Ltd.'s Current Report on Form 8 K (Commission File No. 000 53533) filed on July 2, 2014)
4.20	Indenture, dated as of July 21, 2016, by and among Transocean Inc., the Guarantors and Wells Fargo Bank, National Association (incorporated by reference to Exhibit 4.1 to Transocean Ltd.'s Current Report on Form 8 K (Commission File No. 000 53533) filed on July 22, 2016)
4.21	Indenture, dated as of October 19, 2016, by and among Transocean Phoenix 2 Limited, Transocean Ltd., Transocean Inc., Triton Capital II GmbH and Wells Fargo Bank, National Association (incorporated by reference to Exhibit 4.1 to Transocean Ltd.'s Current Report on Form 8 K (C omission File No. 000 53533) filed on October 20, 2016)
4.22	Indenture, dated December 8, 2016, by and among Transocean Proteus Limited, the Guarantors and Wells Fargo Bank, National Association (incorporated by reference to Exhibit 4.1 to Transocean Ltd.'s Current Report on Form 8 K (Commission File No. 000 53533) filed on December 8, 2016)
* 10.1	Long Term Incentive Plan of Transocean Ltd. (as amended and restated as of February 12, 2009) (incorporated by reference to Exhibit 10.5 to Transocean Ltd.'s Annual Report on Form 10 K (Commission File No. 000 53533) for the year ended December 31, 2008)
* 10.2	First Amendment to Long Term Incentive Plan of Transocean Ltd. (as amended and restated as of February 12, 2009) (incorporated by reference to Exhibit 10.1 to Transocean Ltd.'s Current Report on Form 8 K (Commission File No. 000 53533) filed on May 22, 2013)
* 10.3	Deferred Compensation Plan of Transocean Offshore Inc., as amended and restated effective January 1, 2000 (incorporated by reference to Exhibit 10.10 to Transocean Sedco Forex Inc.'s Annual Report on Form 10 K (Commission File No. 333 75899) for the year ended December 31, 1999)
* 10.4	GlobalSantaFe Corporation Key Employee Deferred Compensation Plan effective January 1, 2001 and Amendment to GlobalSantaFe Corporation Key Employee Deferred Compensation Plan effective November 20, 2001 (incorporated by reference to Exhibit 10.33 to the GlobalSantaFe Corporation Annual Report on Form 10 K for the year ended December 31, 2004)
* 10.5	Amendment to Transocean Inc. Deferred Compensation Plan (incorporated by reference to Exhibit 10.1 to Transocean Inc.'s Current Report on Form 8 K (Commission File No. 333 75899) filed on December 29, 2005)
10.6	Master Separation Agreement dated February 4, 2004 by and among Transocean Inc., Transocean Holdings Inc. and TODCO (incorporated by reference to Exhibit 99.2 to Transocean Inc.'s Current Report on Form 8 K (Commission File No. 333 75899) filed on March 3, 2004)
10.7	Tax Sharing Agreement dated February 4, 2004 between Transocean Holdings Inc. and TODCO (incorporated by reference to Exhibit 99.3 to Transocean Inc.'s Current Report on Form 8 K (Commission File No. 333 75899) filed on March 3, 2004)

	10.8	Amended and Restated Tax Sharing Agreement effective as of February 4, 2004 between Transocean Holdings Inc. and TODCO (incorporated by reference to Exhibit 10.1 to Transocean Inc.'s Current Report on Form 8 K (Commission File No. 333 75899) filed on November 30, 2006)
*	10.9	Form of 2004 Performance Based Nonqualified Share Option Award Letter (incorporated by reference to Exhibit 10.2 to Transocean Inc.'s Current Report on Form 8 K (Commission File No. 333 75899) filed on February 15, 2005)
*	10.10	Form of 2004 Director Deferred Unit Award (incorporated by reference to Exhibit 10.4 to Transocean Inc.'s Current Report on Form 8 K (Commission File No. 333 75899) filed on February 15, 2005)
*	10.11	Form of 2008 Director Deferred Unit Award (incorporated by reference to Exhibit 10.20 to Transocean Ltd.'s Annual Report on Form 10 K (Commission File No. 000 53533) for the year ended December 31, 2008)

*	10.12	Form of 2009 Director Deferred Unit Award (incorporated by reference to Exhibit 10.19 to Transocean Ltd.'s Annual Report on Form 10 K (Commission File No. 000 53533) for the year ended December 31, 2009)
*	10.13	Terms and Conditions of 2013 Director Deferred Unit Award (incorporated by reference to Exhibit 10.14 to Transocean Ltd.'s Annual Report on Form 10 K (Commission File No. 000 53533) for the year ended December 31, 2015)
*	10.14	Terms and Conditions of 2014 Director Deferred Unit Award (incorporated by reference to Exhibit 10.15 to Transocean Ltd.'s Annual Report on Form 10 K (Commission File No. 000 53533) for the year ended December 31, 2015)
*	10.15	Terms and Conditions of 2015 Director Restricted Share Unit Award (incorporated by reference to Exhibit 10.16 to Transocean Ltd.'s Annual Report on Form 10 K (Commission File No. 000 53533) for the year ended December 31, 2015)
*	10.16	Performance Award and Cash Bonus Plan of Transocean Ltd. (incorporated by reference to Exhibit 10.21 to Transocean Ltd.'s Annual Report on Form 10 K (Commission File No. 000 53533) for the year ended December 31, 2008)
*	10.17	Amendment to Performance Award and Cash Bonus Plan of Transocean Ltd. (incorporated by reference to Exhibit 10.20 to Transocean Ltd.'s Annual Report on Form 10 K (Commission File No. 000 53533) for the year ended December 31, 2012)
*	10.18	Terms and Conditions of 2014 Executive Equity Award (incorporated by reference to Exhibit 10.19 to Transocean Ltd.'s Annual Report on Form 10 K (Commission File No. 000 53533) for the year ended December 31, 2015)
*	10.19	Terms and Conditions of 2015 Executive Equity Award (incorporated by reference to Exhibit 10.20 to Transocean Ltd.'s Annual Report on Form 10 K (Commission File No. 000 53533) for the year ended December 31, 2015)
*	10.20	Terms and Conditions of the July 2008 Nonqualified Share Option Award (incorporated by reference to Exhibit 10.2 to Transocean Inc.'s Form 10 Q (Commission File No. 333 75899) for the quarter ended June 30, 2008)
*	10.21	Terms and Conditions of the February 2009 Nonqualified Share Option Award (incorporated by reference to Exhibit 10.30 to Transocean Ltd.'s Annual Report on Form 10 K (Commission File No. 000 53533) for the year ended December 31, 2008)
*	10.22	Terms and Conditions of the February 2012 Long Term Incentive Plan Award (incorporated by reference to Exhibit 10.28 to Transocean Ltd.'s Annual Report on Form 10 K (Commission File No. 000 53533) for the year ended December 31, 2011)
*	10.23	Transocean Ltd. Incentive Recoupment Policy (incorporated by reference to Exhibit 10.30 to Transocean Ltd.'s Annual Report on Form 10 K (Commission File No. 000 53533) for the year ended December 31, 2012)
	10.24	Form of Novation Agreement dated as of November 27, 2007 by and among GlobalSantaFe Corporation, Transocean Offshore Deepwater Drilling Inc. and certain executives (incorporated by reference to Exhibit 10.1 to Transocean Inc.'s Current Report on Form 8 K (Commission File No. 333 75899) filed on December 3, 2007)
*	10.25	Global Marine Inc. 1990 Non Employee Director Stock Option Plan (incorporated by reference to Exhibit 10.18 of Global Marine Inc.'s Annual Report on Form 10 K (Commission File No. 1 5471) for the year ended December 31, 1991); First Amendment (incorporated by reference to Exhibit 10.1 of Global Marine Inc.'s Quarterly Report on Form 10 Q (Commission File No. 1 5471) for the quarter ended June 30, 1995); Second Amendment (incorporated by reference to Exhibit 10.37 of Global Marine Inc.'s Annual Report on Form 10 K (Commission File No. 1 5471) for the year ended December 31, 1996)
*	10.26	1997 Long Term Incentive Plan (incorporated by reference to GlobalSantaFe Corporation's Registration Statement on Form S 8 (No. 333 7070) filed June 13, 1997); Amendment to 1997 Long Term Incentive Plan (incorporated by reference to GlobalSantaFe Corporation's Annual Report on Form 20 F

	(Commission File No. 001 14634) for the calendar year ended December 31, 1998); Amendment to 1997 Long Term Incentive Plan dated December 1, 1999 (incorporated by reference to GlobalSantaFe Corporation's Annual Report on Form 20 F (Commission File No. 001 14634) for the calendar year ended December 31, 1999)
* 10.27	GlobalSantaFe Corporation 1998 Stock Option and Incentive Plan (incorporated by reference to Exhibit 10.1 of Global Marine Inc.'s Quarterly Report on Form 10 Q (Commission File No. 1 5471) for the quarter ended March 31, 1998); First Amendment (incorporated by reference to Exhibit 10.2 of Global Marine Inc.'s Quarterly Report on Form 10 Q (Commission File No. 1 5471) for the quarter ended June 30, 2000)
* 10.28	GlobalSantaFe Corporation 2001 Non Employee Director Stock Option and Incentive Plan (incorporated by reference to Exhibit 4.8 of GlobalSantaFe Corporation's Registration Statement on Form S 8 (No. 333 73878) filed November 21, 2001)

*	10.29	GlobalSantaFe Corporation 2001 Long Term Incentive Plan (incorporated by reference to Exhibit A to GlobalSantaFe Corporation's Quarterly Report on Form 10 Q (Commission File No. 001 14634) for the quarter ended June 30, 2001)
*	10.30	GlobalSantaFe 2003 Long Term Incentive Plan (as Amended and Restated Effective June 7, 2005) (incorporated by reference to Exhibit 10.4 to GlobalSantaFe Corporation's Quarterly Report on Form 10 Q (Commission File No. 001 14634) for the quarter ended June 30, 2005)
*	10.31	Transocean Ltd. Pension Equalization Plan, as amended and restated, effective January 1, 2009 (incorporated by reference to Exhibit 10.41 to Transocean Ltd.'s Annual Report on Form 10 K (Commission File No. 000 53533) for the year ended December 31, 2008)
*	10.32	Transocean U.S. Supplemental Retirement Benefit Plan, as amended and restated, effective as of November 27, 2007 (incorporated by reference to Exhibit 10.11 to Transocean Inc.'s Current Report on Form 8 K (Commission File No. 333 75899) filed on December 3, 2007)
*	10.33	GlobalSantaFe Corporation Supplemental Executive Retirement Plan (incorporated by reference to Exhibit 10.1 to the GlobalSantaFe Corporation Quarterly Report on Form 10 Q for the quarter ended September 30, 2002)
*	10.34	Transocean U.S. Supplemental Savings Plan (incorporated by reference to Exhibit 10.44 to Transocean Ltd.'s Annual Report on Form 10 K (Commission File No. 000 53533) for the year ended December 31, 2008)
	10.35	Form of Indemnification Agreement entered into between Transocean Ltd. and each of its Directors and Executive Officers (incorporated by reference to Exhibit 10.1 to Transocean Inc.'s Current Report on Form 8 K (Commission File No. 333 75899) filed on October 10, 2008)
*	10.36	Form of Assignment Memorandum for Executive Officers (incorporated by reference to Exhibit 10.6 to Transocean Ltd.'s Current Report on Form 8 K filed on December 19, 2008)
	10.37	Drilling Contract between Vastar Resources, Inc. and R&B Falcon Drilling Co. dated December 9, 1998 with respect to Deepwater Horizon, as amended (incorporated by reference to Exhibit 10.1 to Transocean Ltd.'s Quarterly Report on Form 10 Q (Commission File No. 000 53533) for the quarterly period ended June 30, 2010)
*	10.38	Executive Severance Benefit Policy (incorporated by reference to Exhibit 10.1 to Transocean Ltd.'s Current Report on Form 8 K (Commission File No. 000 53533) filed on February 23, 2012)
*	10.39	Agreement with Steven L. Newman (incorporated by reference to Exhibit 10.1 to Transocean Ltd.'s Current Report on Form 8 K (Commission File No. 000 53533) filed on December 23, 2013)
*	10.40	Agreement with John Stobart (incorporated by reference to Exhibit 10.2 to Transocean Ltd.'s Current Report on Form 8 K (Commission File No. 000 53533) filed on December 23, 2013)
*	10.41	Agreement with Esa Ikäheimonen (incorporated by reference to Exhibit 10.3 to Transocean Ltd.'s Current Report on Form 8 K (Commission File No. 000 53533) filed on December 23, 2013)
*	10.42	Transocean Ltd. 2015 Long Term Incentive Plan (incorporated by reference to Annex B to Transocean Ltd.'s definitive proxy statement (Commission File No. 001 53533) filed on March 23, 2015)
*	10.43	Separation Agreement, dated March 31, 2015, among Transocean Ltd., Transocean Offshore Deepwater Drilling Inc. and Steven Newman (incorporated by reference to Exhibit 10.1 to Transocean Ltd.'s Current Report on Form 8 K (Commission File No. 001 53533) filed on April 1, 2015)
*	10.44	Employment Agreement between Transocean Ltd. and Ian C. Strachan dated April 15, 2015, (incorporated by reference to Exhibit 10.1 to Transocean Ltd.'s Current Report on Form 8 K (Commission File No. 001 53533) filed on April 16, 2015)
*	10.45	Employment Agreement among Transocean Ltd., Transocean Offshore Deepwater Drilling Inc. and Jeremy D. Thigpen dated April 21, 2015 (incorporated by reference to Exhibit 10.1 to Transocean Ltd.'s Current Report on Form 8 K (Commission File No. 001 53533) filed on April 22, 2015)
*	10.46	Employment Agreement among Transocean Ltd., Transocean Offshore Deepwater Drilling Inc. and Mark Mey dated May 27, 2015 (incorporated by reference to Exhibit 10.1 to Transocean Ltd.'s Current Report on Form 8 K (Commission File No. 001 53533) filed on May 27, 2015)

*	10.47	Letter Agreement by and among Transocean Ltd., Transocean Management Ltd. and Esa Ikäheimonen dated July 21, 2015 (incorporated by reference to Exhibit 10.1 to Transocean Ltd.'s Current Report on Form 8 K (Commission File No. 001 53533) filed on July 23, 2015)
	10.48	Term Sheet Agreement for a Transocean and PSC/DHEPDS Settlement, dated May 20, 2015, among Triton Asset Leasing GmbH, Transocean Deepwater Inc., Transocean Offshore Deepwater Drilling Inc., Transocean Holdings LLC, the Plaintiffs Steering Committee in MDL 2179, and the Deepwater Horizon Economic and Property Damages Settlement Class (incorporated by reference to Exhibit 10.3 to Transocean Ltd.'s Quarterly Report on Form 10 Q (Commission File No. 001 53533) for the quarter ended June 30, 2015)

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	10.49	Confidential Settlement Agreement, Mutual Releases and Agreement to Indemnify, dated May 20, 2015, among Transocean Offshore Deepwater Drilling Inc., Transocean Deepwater Inc., Transocean Holdings LLC, Triton Asset Leasing GmbH, BP Exploration and Production Inc. and BP America Production Co. (incorporated by reference to Exhibit 10.6 to Transocean Ltd.'s Quarterly Report on Form 10 Q (Commission File No. 001 53533) for the quarter ended June 30, 2015)
	10.50	Transocean Punitive Damages and Assigned Claims Settlement Agreement, dated May 29, 2015, among Transocean Offshore Deepwater Drilling Inc., Transocean Deepwater Inc., Transocean Holdings LLC, Triton Asset Leasing GmbH, the Plaintiffs Steering Committee in MDL 2179, and the Deepwater Horizon Economic and Property Damages Settlement Class (incorporated by reference to Exhibit 10.7 to Transocean Ltd.'s Quarterly Report on Form 10 Q (Commission File No. 001 53533) for the quarter ended June 30, 2015)
*	10.51	Employment Agreement among Transocean Ltd., Transocean Offshore Deepwater Drilling Inc. and John Stobart dated December 1, 2015 (incorporated by reference to Exhibit 10.60 to Transocean Ltd.'s Annual Report on Form 10 K (Commission File No. 000 53533) for the year ended December 31, 2015)
*	10.52	Employment Agreement with Jeremy D. Thigpen effective September 1, 2016 (incorporated by reference to Exhibit 10.1 to Transocean Ltd.'s Quarterly Report on Form 10 Q (Commission File No. 001 53533) for the quarter ended September 30, 2016)
*	10.53	Employment Agreement with Mark L. Mey effective September 1, 2016 (incorporated by reference to Exhibit 10.2 to Transocean Ltd.'s Quarterly Report on Form 10 Q (Commission File No. 001 53533) for the quarter ended September 30, 2016)
†	21	Subsidiaries of Transocean Ltd.
†	23.1	Consent of Ernst & Young LLP
†	24	Powers of Attorney
†	31.1	CEO Certification Pursuant to Section 302 of the Sarbanes Oxley Act of 2002
†	31.2	CFO Certification Pursuant to Section 302 of the Sarbanes Oxley Act of 2002
†	32.1	CEO Certification Pursuant to Section 906 of the Sarbanes Oxley Act of 2002
†	32.2	CFO Certification Pursuant to Section 906 of the Sarbanes Oxley Act of 2002
	99.2	Cooperation Guilty Plea Agreement by and among Transocean Deepwater Inc., Transocean Ltd. and the United States (incorporated by reference to Exhibit 99.2 to Transocean Ltd.'s Current Report on Form 8 K (Commission File No. 000 53533) filed on January 3, 2013)
	99.3	Consent Decree by and among Triton Asset Leasing GmbH, Transocean Holdings LLC, Transocean Offshore Deepwater Drilling Inc., Transocean Deepwater Inc. and the United States (incorporated by reference to Exhibit 99.3 to Transocean Ltd.'s Current Report on Form 8 K (Commission File No. 000 53533) filed on January 3, 2013)
	99.4	Administrative Agreement by and among Transocean Deepwater Inc., Transocean Offshore Deepwater Drilling Inc., Triton Asset Leasing GmbH, Transocean Holdings, LLC and the United States Environmental Protection Agency dated effective as of February 25, 2013 (incorporated by reference to Exhibit 99.4 to Transocean Ltd.'s Annual Report on Form 10 K (Commission File No. 000 53533) for the year ended December 31, 2013)
†	101	Interactive data files

† Filed herewith.
* Compensatory plan or arrangement.

Exhibits listed above as previously having been filed with the U.S. Securities and Exchange Commission are incorporated herein by reference pursuant to Rule 12b 32 under the Securities Exchange Act of 1934 and made a part hereof with the same effect as if filed herewith.

Certain instruments relating to our long term debt and our subsidiaries have not been filed as exhibits since the total amount of securities authorized under any such instrument does not exceed 10 percent of our total assets and our

subsidiaries on a consolidated basis. We agree to furnish a copy of each such instrument to the SEC upon request.

Certain agreements filed as exhibits to this Report may contain representations and warranties by the parties to such agreements. These representations and warranties have been made solely for the benefit of the parties to such agreements and (1) may be intended not as statements of fact, but rather as a way of allocating the risk to one of the parties if those statements prove to be inaccurate, (2) may have been qualified by certain disclosures that were made to other parties in connection with the negotiation of such agreements, which disclosures are not reflected in such agreements, and (3) may apply standards of materiality in a way that is different from what may be viewed as material to investors.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned; thereunto duly authorized, on March 6, 2017.

TRANSOCEAN LTD.

By: /s/ Mark L. Mey
Mark L. Mey
Executive Vice President, Chief Financial Officer
(Principal Financial Officer)

By: /s/ David Tonnel
David Tonnel
Senior Vice President, Supply Chain and Corporate Controller
(Principal Accounting Officer)

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Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant in the capacities indicated on March 6, 2017.

Signature	Title
* Merrill A. "Pete" Miller, Jr	Chairman of the Board of Directors
/s/ Jeremy D. Thigpen Jeremy D. Thigpen	President and Chief Executive Officer (Principal Executive Officer)
/s/ Mark L. Mey Mark L. Mey	Executive Vice President, Chief Financial Officer (Principal Financial Officer)
/s/ David Tonnel David Tonnel	Senior Vice President, Supply Chain and Corporate Controller (Principal Accounting Officer)
* Glyn A. Barker	Director
* Vanessa C.L. Chang	Director
* Frederico F. Curado	Director
* Chad C. Deaton	Director
* Tan Ek Kia	Director
* Vincent J. Intrieri	Director
* Samuel Merksamer	Director
* Martin B. McNamara	Director
* Edward R. Muller	Director

By: /s/ David Tonnel
(Attorney in Fact)