Transocean Ltd.
Form 10-Q
August 03, 2012

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

FORM 10-Q

(Mark one)

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

For the quarterly period ended June 30, 2012

OR

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

For the transition period from _____ to _____

Commission file number 000-53533

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

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

Chemin de Blandonnet 10 Vernier, Switzerland	1214
(Address of principal executive offices)	(Zip Code)

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

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

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

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

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

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

As of July 24, 2012, 359,389,049 shares were outstanding.

TRANSOCEAN LTD. AND SUBSIDIARIES

INDEX TO FORM 10-Q
QUARTER ENDED JUNE 30, 2012

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

	Three months ended June 30, 2012	Three months ended June 30, 2011	Six months ended June 30, 2012	Six months ended June 30, 2011
Operating revenues				
Contract drilling revenues	$ 2,390	$ 2,096	$ 4,610	$ 4,056
Other revenues	185	238	302	422
	2,575	2,334	4,912	4,478
Costs and expenses				
Operating and maintenance	2,357	1,528	3,820	2,905
Depreciation and amortization	345	359	700	713
General and administrative	79	66	148	133
	2,781	1,953	4,668	3,751
Loss on impairment	(12)	(25)	(239)	(25)
Gain (loss) on disposal of assets, net	55	(1)	51	7
Operating income (loss)	(163)	355	56	709
Other income (expense), net				
Interest income	13	5	28	20
Interest expense, net of amounts capitalized	(183)	(147)	(363)	(292)
Other, net	(6)	(5)	(24)	(2)
	(176)	(147)	(359)	(274)
Income (loss) from continuing operations before income tax expense	(339)	208	(303)	435
Income tax (benefit) expense	(29)	77	(12)	143
Income (loss) from continuing operations	(310)	131	(291)	292
Income from discontinued operations, net of tax	7	2	6	174
Net income (loss)	(303)	133	(285)	466
Net income attributable to noncontrolling interest	1	9	9	23
Net income (loss) attributable to controlling interest	$ (304)	$ 124	$ (294)	$ 443

Earnings (loss) per share-basic

Earnings (loss) from continuing operations	$	(0.88)	$	0.38	$	(0.85)	$	0.84
Earnings from discontinued operations		0.02		0.01		0.02		0.54
Earnings (loss) per share	$	(0.86)	$	0.39	$	(0.83)	$	1.38
Earnings (loss) per share-diluted								
Earnings (loss) from continuing operations	$	(0.88)	$	0.38	$	(0.85)	$	0.84
Earnings from discontinued operations		0.02		0.01		0.02		0.54
Earnings (loss) per share	$	(0.86)	$	0.39	$	(0.83)	$	1.38
Weighted-average shares outstanding								
Basic		353		320		352		319
Diluted		353		320		352		320

See accompanying notes.

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

	Three months ended June 30, 2012	Three months ended June 30, 2011	Six months ended June 30, 2012	Six months ended June 30, 2011
Net income (loss)	$ (303)	$ 133	$ (285)	$ 466
Other comprehensive income (loss) before income taxes				
Unrecognized components of net periodic benefit costs	1	—	(27)	(6)
Unrecognized gain (loss) on derivative instruments	(3)	(8)	—	(7)
Recognized components of net periodic benefit costs	10	6	23	12
Recognized loss on derivative instruments	6	3	3	5
Other comprehensive income (loss) before income taxes	14	1	(1)	4
Income taxes related to other comprehensive income (loss)	1	—	(2)	(2)
Other comprehensive income (loss), net of income taxes	15	1	(3)	2
Total comprehensive income (loss)	(288)	134	(288)	468
Total comprehensive income attributable to noncontrolling interest	1	3	9	21
Total comprehensive income (loss) attributable to controlling interest	$ (289)	$ 131	$ (297)	$ 447

See accompanying notes.

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

	June 30, 2012	December 31, 2011
Assets		
Cash and cash equivalents	$ 3,964	$ 4,017
Accounts receivable, net of allowance for doubtful accounts of $28 at June 30, 2012 and December 31, 2011	2,124	2,176
Materials and supplies, net of allowance for obsolescence of $81 and $73 at June 30, 2012 and December 31, 2011, respectively	676	627
Deferred income taxes, net	142	142
Assets held for sale	9	26
Other current assets	452	537
Total current assets	7,367	7,525
Property and equipment	30,559	29,037
Property and equipment of consolidated variable interest entities	813	2,252
Less accumulated depreciation	9,165	8,756
Property and equipment, net	22,207	22,533
Goodwill	3,099	3,217
Other assets	1,769	1,757
Total assets	$ 34,442	$ 35,032
Liabilities and equity		
Accounts payable	$ 917	$ 880
Accrued income taxes	121	89
Debt due within one year	2,772	1,942
Debt of consolidated variable interest entities due within one year	28	245
Other current liabilities	2,888	2,372
Total current liabilities	6,726	5,528
Long-term debt	9,862	10,756
Long-term debt of consolidated variable interest entities	177	593
Deferred income taxes, net	487	519
Other long-term liabilities	1,581	1,893
Total long-term liabilities	12,107	13,761
Commitments and contingencies		
Redeemable noncontrolling interest	—	116
Shares, CHF 15.00 par value, 402,282,355 authorized, 167,617,649 conditionally authorized,	5,127	4,982

and 373,830,649 and 365,135,298 issued at June 30, 2012 and December 31, 2011, respectively; 359,284,907 and 349,805,793 outstanding at June 30, 2012 and December 31, 2011, respectively		
Additional paid-in capital	7,472	7,211
Treasury shares, at cost, 2,863,267 held at June 30, 2012 and December 31, 2011	(240)	(240)
Retained earnings	3,780	4,180
Accumulated other comprehensive loss	(516)	(496)
Total controlling interest shareholders' equity	15,623	15,637
Noncontrolling interest	(14)	(10)
Total equity	15,609	15,627
Total liabilities and equity	$ 34,442	$ 35,032

See accompanying notes.

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

	Six months ended June 30,		Six months ended June 30,	
	2012	2011	2012	2011
	Shares		Amount	
Shares				
Balance, beginning of period	350	319	$ 4,982	$ 4,482
Issuance of shares under share-based compensation plans	—	1	11	8
Issuance of shares in exchange for noncontrolling interest	9	—	134	—
Balance, end of period	359	320	$ 5,127	$ 4,490
Additional paid-in capital				
Balance, beginning of period			$ 7,211	$ 7,504
Share-based compensation			48	54
Issuance of shares under share-based compensation plans			(17)	(15)
Acquisition of noncontrolling interest in exchange for issuance of shares			233	—
Obligation for distribution of qualifying additional paid-in capital			—	(1,016)
Other, net			(3)	2
Balance, end of period			$ 7,472	$ 6,529
Treasury shares, at cost				
Balance, beginning of period			$ (240)	$ (240)
Balance, end of period			$ (240)	$ (240)
Retained earnings				
Balance, beginning of period			$ 4,180	$ 9,934
Net income (loss) attributable to controlling interest			(294)	443
Fair value adjustment of redeemable noncontrolling interest			(106)	—
Balance, end of period			$ 3,780	$ 10,377
Accumulated other comprehensive loss				
Balance, beginning of period			$ (496)	$ (332)
Reclassification from redeemable noncontrolling interest			(17)	—
Other comprehensive income (loss) attributable to controlling interest			(3)	4
Balance, end of period			$ (516)	$ (328)
Total controlling interest shareholders' equity				
Balance, beginning of period			$ 15,637	$ 21,348
			(297)	447

Total comprehensive income (loss) attributable to controlling interest		
Share-based compensation	48	54
Issuance of shares under share-based compensation plans	(6)	(7)
Reclassification from redeemable noncontrolling interest	(17)	—
Fair value adjustment of redeemable noncontrolling interest	(106)	—
Issuance of shares in exchange for noncontrolling interest	367	—
Obligation for distribution of qualifying additional paid-in capital	—	(1,016)
Other, net	(3)	2
Balance, end of period	$ 15,623	$ 20,828
Noncontrolling interest		
Balance, beginning of period	$ (10)	$ (8)
Total comprehensive loss attributable to noncontrolling interest	(4)	(4)
Balance, end of period	$ (14)	$ (12)
Total equity		
Balance, beginning of period	$ 15,627	$ 21,340
Total comprehensive income (loss)	(301)	443
Share-based compensation	48	54
Issuance of shares under share-based compensation plans	(6)	(7)
Reclassification from redeemable noncontrolling interest	(17)	—
Fair value adjustment of redeemable noncontrolling interest	(106)	—
Issuance of shares in exchange for noncontrolling interest	367	—
Obligation for distribution of qualifying additional paid-in capital	—	(1,016)
Other, net	(3)	2
Balance, end of period	$ 15,609	$ 20,816

See accompanying notes.

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

	Three months ended June 30, 2012	Three months ended June 30, 2011	Six months ended June 30, 2012	Six months ended June 30, 2011
Cash flows from operating activities				
Net income (loss)	$ (303)	$ 133	$ (285)	$ 466
Adjustments to reconcile to net cash provided by operating activities				
Amortization of drilling contract intangibles	(12)	(10)	(23)	(20)
Depreciation and amortization	345	359	700	713
Share-based compensation expense	25	27	48	54
Loss on impairment	12	25	239	25
(Gain) loss on disposal of assets, net	(55)	1	(51)	(7)
(Gain) loss on disposal of discontinued operations, net	(10)	—	(10)	(169)
Amortization of debt issue costs, discounts and premiums, net	17	36	35	62
Deferred income taxes	(26)	12	(43)	36
Other, net	20	14	41	11
Changes in deferred revenue, net	7	(3)	(5)	43
Changes in deferred expenses, net	28	(48)	(21)	(84)
Changes in operating assets and liabilities	411	(206)	374	(400)
Net cash provided by operating activities	459	340	999	730
Cash flows from investing activities				
Capital expenditures	(236)	(293)	(496)	(533)
Proceeds from disposal of assets, net	144	5	185	18
Proceeds from disposal of discontinued operations, net	17	—	17	259
Other, net	13	(27)	25	(33)
Net cash used in investing activities	(62)	(315)	(269)	(289)
Cash flows from financing activities				
Changes in short-term borrowings, net	(260)	5	(260)	56
Proceeds from debt	—	—	—	5
Repayments of debt	(173)	(202)	(320)	(249)
Proceeds from restricted cash investments	84	—	192	—
Deposits to restricted cash investments	(74)	—	(116)	—
Distribution of qualifying additional paid-in capital	—	(254)	(278)	(254)
Other, net	8	3	(1)	(4)
Net cash used in financing activities	(415)	(448)	(783)	(446)

Net decrease in cash and cash equivalents	(18)	(423)	(53)	(5)
Cash and cash equivalents at beginning of period	3,982	3,772	4,017	3,354
Cash and cash equivalents at end of period	$3,964	$3,349	$3,964	$3,349

See accompanying notes.

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

Note 1—Nature of Business

Transocean Ltd. (together with its subsidiaries and predecessors, unless the context requires otherwise, "Transocean," the "Company," "we," "us" or "our") is a leading international provider of offshore contract drilling services for oil and gas wells. We specialize in technically demanding sectors of the offshore drilling business with a particular focus on deepwater and harsh environment drilling services. Our mobile offshore drilling fleet is considered one of the most versatile fleets in the world. We contract our drilling rigs, related equipment and work crews predominantly on a dayrate basis to drill oil and gas wells. At June 30, 2012, we owned or had partial ownership interests in and operated 130 mobile offshore drilling units. As of this date, our fleet consisted of 50 High-Specification Floaters (Ultra-Deepwater, Deepwater and Harsh Environment semisubmersibles and drillships), 25 Midwater Floaters, 10 High-Specification Jackups, 44 Standard Jackups and one swamp barge. In addition, we had two Ultra-Deepwater drillships and three High-Specification Jackups under construction. See Note 11—Drilling Fleet.

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

Note 2—Significant Accounting Policies

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

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

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

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

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Share-based compensation—Share-based compensation expense was $25 million and $48 million for the three and six months ended June 30, 2012, respectively. Share-based compensation expense was $27 million and $54 million for the three and six months ended June 30, 2011, respectively.

Capitalized interest—We capitalize interest costs for qualifying construction and upgrade projects. We capitalized interest costs on construction work in progress of $12 million and $25 million for the three and six months ended June 30, 2012, respectively. We capitalized interest costs for construction work in progress of $10 million and $25 million for the three and six months ended June 30, 2011, respectively.

Reclassifications—We have made certain reclassifications, which did not have an effect on net income, to prior period amounts to conform with the current period's presentation. These reclassifications did not have a material effect on our condensed consolidated statement of financial position, results of operations or cash flows.

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

Note 3—New Accounting Pronouncements

Recently Adopted Accounting Standards

Intangibles-goodwill and other—Effective January 1, 2012, we adopted the accounting standards update that amends the goodwill impairment testing requirements by giving an entity the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount and whether the two-step impairment test is required. The update is effective for goodwill impairment tests performed for annual and interim periods beginning after December 15, 2011. Our adoption did not have an effect on our condensed consolidated financial statements because a goodwill impairment test was not required in the six months ended June 30, 2012.

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

Recently Issued Accounting Standards

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

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

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

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

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

For the three months ended March 31, 2012, the correction of these errors reduced income from continuing operations by $55 million and net income attributable to controlling interest by $32 million. For the three and six month periods ended June 30, 2011, correction of these errors reduced income from continuing operations by $31 million and $34 million, respectively, and net income attributable to controlling interest by $31 million and $22 million, respectively. For the year ended December 31, 2011, correction of these errors increased loss from continuing operations by $31 million and net loss attributable to controlling interest by $29 million. For the year ended December 31, 2010, correction of these errors reduced income from continuing operations by $19 million and net income attributable to controlling interest by $35 million. The summary of adjustments for increases and (decreases) to net income (loss) from continuing operations and net income (loss) attributable to controlling interest for the applicable periods were as follows (in millions):

	Three months ended March 31, 2012	Three months ended June 30, 2011	Six months ended June 30, 2011	Years ended December 31, 2011	Years ended December 31, 2010
Legal and other costs	$ (37)	$ (19)	$ (30)	$ (67)	$ —
Repair and maintenance costs	—	(32)	(48)	11	(11)
Income tax (expense) benefit	7	5	20	16	(4)
Other immaterial adjustments, net	(25)	15	24	9	(4)
Net adjustment to income from continuing operations	(55)	(31)	(34)	(31)	(19)
Net adjustment to income from discontinued operations, net of tax	14	—	(4)	(14)	—
Net adjustment to net income attributable to noncontrolling interest	9	—	16	16	(16)
Net adjustment to net income attributable to controlling interest	$ (32)	$ (31)	$ (22)	$ (29)	$ (35)

The effects of the corrections of the errors on our consolidated statements of operations and balance sheets are presented in the tables below. The corrections of the errors had no effect on our consolidated statements of comprehensive income (loss) other than the effect of the changes to net income (loss) for each period. The corrections of the errors had no effect on the previously reported amounts of operating, investing, and financing cash flows in our consolidated statements of cash flows.

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

	Three months ended March 31, 2012		
	Previously reported	Adjustments	As adjusted
Operating revenues			
Contract drilling revenues	$ 2,214	$ 6	$ 2,220
Other revenues	117	—	117
	2,331	6	2,337
Costs and expenses			
Operating and maintenance	1,410	53	1,463
Depreciation and amortization	351	4	355
General and administrative	69	—	69
	1,830	57	1,887
Loss on impairment	(227)	—	(227)
Gain (loss) on disposal of assets, net	(4)	—	(4)
Operating income (loss)	270	(51)	219
Other income (expense), net			
Interest income	15	—	15
Interest expense, net of amounts capitalized	(180)	—	(180)
Other, net	(7)	(11)	(18)
	(172)	(11)	(183)
Income (loss) from continuing operations before income tax expense	98	(62)	36
Income tax (benefit) expense	24	(7)	17
Income (loss) from continuing operations	74	(55)	19
Income (loss) from discontinued operations, net of tax	(15)	14	(1)
Net income (loss)	59	(41)	18
Net income (loss) attributable to noncontrolling interest	17	(9)	8
Net income (loss) attributable to controlling interest	$ 42	$ (32)	$ 10

Earnings (loss) per share-basic						
Earnings (loss) from continuing operations	$	0.16	$	(0.13)	$	0.03
Earnings (loss) from discontinued operations		(0.04)		0.04		—
Earnings (loss) per share	$	0.12	$	(0.09)	$	0.03
Earnings (loss) per share-diluted						
Earnings (loss) from continuing operations	$	0.16	$	(0.13)	$	0.03
Earnings (loss) from discontinued operations		(0.04)		0.04		—
Earnings (loss) per share	$	0.12	$	(0.09)	$	0.03

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

	Three months ended June 30, 2011			Six months ended June 30, 2011		
	Previously reported	Adjustments	As adjusted	Previously reported	Adjustments	As adjusted
Operating revenues						
Contract drilling revenues	$ 2,096	$ —	$ 2,096	$ 4,056	$ —	$ 4,056
Other revenues	238	—	238	422	—	422
	2,334	—	2,334	4,478	—	4,478
Costs and expenses						
Operating and maintenance	1,492	36	1,528	2,851	54	2,905
Depreciation and amortization	359	—	359	713	—	713
General and administrative	66	—	66	133	—	133
	1,917	36	1,953	3,697	54	3,751
Loss on impairment	(25)	—	(25)	(25)	—	(25)
Gain (loss) on disposal of assets, net	(1)	—	(1)	7	—	7
Operating income (loss)	391	(36)	355	763	(54)	709
Other income (expense), net						
Interest income	5	—	5	20	—	20
Interest expense, net of amounts capitalized	(147)	—	(147)	(292)	—	(292)
Other, net	(5)	—	(5)	(2)	—	(2)
	(147)	—	(147)	(274)	—	(274)
Income (loss) from continuing operations before income tax expense	244	(36)	208	489	(54)	435
Income tax (benefit) expense	82	(5)	77	163	(20)	143
Income (loss) from continuing operations	162	(31)	131	326	(34)	292
	2	—	2	178	(4)	174

Income (loss) from discontinued operations, net of tax						
Net income (loss)	164	(31)	133	504	(38)	466
Net income (loss) attributable to noncontrolling interest	9	—	9	39	(16)	23
Net income (loss) attributable to controlling interest	$ 155	$ (31)	$ 124	$ 465	$ (22)	$ 443
Earnings (loss) per share-basic						
Earnings (loss) from continuing operations	$ 0.47	$ (0.09)	$ 0.38	$ 0.89	$ (0.05)	$ 0.84
Earnings (loss) from discontinued operations	0.01	—	0.01	0.55	(0.01)	0.54
Earnings (loss) per share	$ 0.48	$ (0.09)	$ 0.39	$ 1.44	$ (0.06)	$ 1.38
Earnings (loss) per share-diluted						
Earnings (loss) from continuing operations	$ 0.47	$ (0.09)	$ 0.38	$ 0.89	$ (0.05)	$ 0.84
Earnings (loss) from discontinued operations	0.01	—	0.01	0.55	(0.01)	0.54
Earnings (loss) per share	$ 0.48	$ (0.09)	$ 0.39	$ 1.44	$ (0.06)	$ 1.38

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	Year ended December 31, 2011			Year ended December 31, 2010		
	Previously reported	Adjustments	As adjusted	Previously reported	Adjustments	As adjusted
Operating revenues						
Contract drilling revenues	$ 8,380	$ (6)	$ 8,374	$ 8,986	$ —	$ 8,986
Other revenues	762	—	762	480	—	480
	9,142	(6)	9,136	9,466	—	9,466
Costs and expenses						
Operating and maintenance	6,956	45	7,001	5,074	15	5,089
Depreciation and amortization	1,449	(4)	1,445	1,536	—	1,536
General and administrative	288	—	288	246	—	246
	8,693	41	8,734	6,856	15	6,871
Loss on impairment	(5,229)	—	(5,229)	(1,010)	—	(1,010)
Gain (loss) on disposal of assets, net	4	—	4	257	—	257
Operating income (loss)	(4,776)	(47)	(4,823)	1,857	(15)	1,842
Other income (expense), net						
Interest income	44	—	44	23	—	23
Interest expense, net of amounts capitalized	(621)	—	(621)	(567)	—	(567)
Other, net	(81)	—	(81)	(23)	—	(23)
	(658)	—	(658)	(567)	—	(567)
Income (loss) from continuing operations before income tax expense	(5,434)	(47)	(5,481)	1,290	(15)	1,275
Income tax (benefit) expense	395	(16)	379	336	4	340
Income (loss) from continuing operations	(5,829)	(31)	(5,860)	954	(19)	935
Income (loss) from discontinued	197	(14)	183	34	—	34

operations, net of tax						
Net income (loss)	(5,632)	(45)	(5,677)	988	(19)	969
Net income (loss) attributable to noncontrolling interest	93	(16)	77	27	16	43
Net income (loss) attributable to controlling interest	$ (5,725)	$ (29)	$ (5,754)	$ 961	$ (35)	$ 926
Earnings (loss) per share-basic						
Earnings (loss) from continuing operations	$ (18.40)	$ (0.05)	$ (18.45)	$ 2.88	$ (0.11)	$ 2.77
Earnings (loss) from discontinued operations	0.61	(0.04)	0.57	0.11	—	0.11
Earnings (loss) per share	$ (17.79)	$ (0.09)	$ (17.88)	$ 2.99	$ (0.11)	$ 2.88
Earnings (loss) per share-diluted						
Earnings (loss) from continuing operations	$ (18.40)	$ (0.05)	$ (18.45)	$ 2.88	$ (0.11)	$ 2.77
Earnings (loss) from discontinued operations	0.61	(0.04)	0.57	0.11	—	0.11
Earnings (loss) per share	$ (17.79)	$ (0.09)	$ (17.88)	$ 2.99	$ (0.11)	$ 2.88

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	December 31, 2011			December 31, 2010		
	Previously reported	Adjustments	As adjusted	Previously reported	Adjustments	As adjusted
Assets						
Cash and cash equivalents	$ 4,017	$ —	$ 4,017	$ 3,394	$ (40)	$ 3,354
Accounts receivable, net						
Trade	2,049	—	2,049	1,653	—	1,653
Other	127	—	127	190	—	190
Materials and supplies, net	627	—	627	514	—	514
Deferred income taxes, net	142	—	142	115	—	115
Assets held for sale	26	—	26	—	—	—
Other current assets	621	(84)	537	329	43	372
Total current assets	7,609	(84)	7,525	6,195	3	6,198
Property and equipment	29,037	—	29,037	26,721	—	26,721
Property and equipment of consolidated variable interest entities	2,252	—	2,252	2,214	—	2,214
Less accumulated depreciation	8,760	(4)	8,756	7,616	—	7,616
Property and equipment, net	22,529	4	22,533	21,319	—	21,319
Goodwill	3,205	12	3,217	8,132	—	8,132
Other assets	1,745	12	1,757	1,165	—	1,165
Total assets	$ 35,088	$ (56)	$ 35,032	$ 36,811	$ 3	$ 36,814
Liabilities and equity						
Accounts payable	$ 880	$ —	$ 880	$ 832	$ —	$ 832
Accrued income taxes	89	—	89	109	—	109
Debt due within one year	1,942	—	1,942	1,917	—	1,917
Debt of consolidated variable interest entities due within one year	97	148	245	95	148	243

Other current liabilities	2,350	22	2,372	883	12	895
Total current liabilities	5,358	170	5,528	3,836	160	3,996
Long-term debt	10,756	—	10,756	8,354	—	8,354
Long-term debt of consolidated variable interest entities	741	(148)	593	855	(148)	707
Deferred income taxes, net	523	(4)	519	575	10	585
Other long-term liabilities	1,903	(10)	1,893	1,791	—	1,791
Total long-term liabilities	13,923	(162)	13,761	11,575	(138)	11,437
Commitments and contingencies						
Redeemable noncontrolling interest	116	—	116	25	16	41
Shares	4,982	—	4,982	4,482	—	4,482
Additional paid-in capital	7,211	—	7,211	7,504	—	7,504
Treasury shares, at cost	(240)	—	(240)	(240)	—	(240)
Retained earnings	4,244	(64)	4,180	9,969	(35)	9,934
Accumulated other comprehensive loss	(496)	—	(496)	(332)	—	(332)
Total controlling interest shareholders' equity	15,701	(64)	15,637	21,383	(35)	21,348
Noncontrolling interest	(10)	—	(10)	(8)	—	(8)
Total equity	15,691	(64)	15,627	21,375	(35)	21,340
Total liabilities and equity	$ 35,088	$ (56)	$ 35,032	$ 36,811	$ 3	$ 36,814

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Note 5—Variable Interest Entities

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

	June 30, 2012			December 31, 2011		
	Assets	Liabilities	Net carrying amount	Assets	Liabilities	Net carrying amount
Variable interest entity						
TPDI	$ —	$ —	$ —	$ 1,562	$ 673	$ 889
ADDCL	929	315	614	930	334	596
Total	$ 929	$ 315	$ 614	$ 2,492	$ 1,007	$ 1,485

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

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

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

The notes receivable were originally accepted in exchange for and are secured by two drilling units. The notes receivable have stated interest rates of nine percent and are payable in scheduled quarterly installments of principal and interest through maturity in January 2015. The working capital loan, also secured by the two drilling units, has a stated interest rate of 10 percent and is payable in scheduled quarterly installments of principal and interest through maturity in January 2013. We evaluate the credit quality and financial condition of Awilco quarterly. The aggregate carrying amount of the notes receivable was $107 million and $110 million at June 30, 2012 and December 31, 2011, respectively. The aggregate carrying amount of the working capital loan receivable was $11 million and $29 million at June 30, 2012 and December 31, 2011, respectively. At June 30, 2012, our aggregate exposure to loss on these receivable instruments was $118 million.

Note 6—Business Combination

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

As of October 3, 2011, the acquisition price included the following, measured at estimated fair value: current assets of $323 million, drilling rigs and other property and equipment of $1.8 billion, other assets of $756 million, and the assumption of long-term debt of $1.6 billion and other liabilities of $291 million. The acquired assets included $901 million of cash investments restricted for the payment of certain assumed debt instruments. The excess of the purchase price over the estimated fair value of net assets acquired was approximately $286 million, which was recorded as goodwill. Certain fair value measurements have not been completed, and the acquisition price allocation remains preliminary due to the timing of the acquisition and due to the number of acquired assets and assumed liabilities.

We subsequently made adjustments to the estimated fair value of certain assets and liabilities, which are reflected in the amounts noted above, with a corresponding net increase to goodwill in the amount of $12 million. We continue to review the estimated fair values of property and equipment and other assets and to evaluate the assumed tax positions and contingencies.

In the three and six months ended June 30, 2012, our operating revenues included approximately $100 million and $195 million of contract drilling revenues, respectively, associated with the operations of the two Harsh Environment, Ultra-Deepwater semisubmersibles that we acquired in our acquisition of Aker Drilling.

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

	Three months ended June 30, 2011	Six months ended June 30, 2011
Operating revenues	$ 2,438	$ 4,682
Operating income	406	808
Income from continuing operations	$ 175	$ 339
Per share earnings from continuing operations		
Basic	$ 0.52	$ 0.99
Diluted	$ 0.52	$ 0.99

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

Note 7—Impairments

Assets held for sale—During the three and six months ended June 30, 2012, we recognized aggregate losses of $12 million ($0.03 per diluted share from continuing operations) and $29 million ($0.08 per diluted share from continuing operations), which had no tax effect, respectively, associated with the impairment of GSF Adriatic II and GSF Rig 136, which were classified as assets held for sale at the time of impairment. We measured the impairments of the drilling units and related equipment as the amount by which the carrying amounts exceeded the estimated fair values less costs to sell. We estimated the fair value of the assets using significant other observable inputs, representing Level 2 fair value measurements, including binding sale and purchase agreements for the drilling units and related equipment.

In the three and six months ended June 30, 2011, we recognized an aggregate loss of $25 million ($0.08 per diluted share from continuing operations), which had no tax effect, associated with the impairment of George H. Galloway, GSF Britannia, and GSF Labrador, which were classified as held for sale at the time of impairment. We measured the impairments of the drilling units and related equipment as the amount by which the carrying amounts exceeded the estimated fair values less costs to sell. We estimated the fair values of the assets using significant other observable inputs, representing Level 2 fair value measurements, including binding sale and purchase agreements for the drilling units and related equipment.

Definite-lived intangible assets—During the six months ended June 30, 2012, we determined that the customer relationships intangible asset associated with our drilling management services reporting unit was impaired due to the declining market outlook for these services in the shallow water of U.S. Gulf of Mexico as well as the increased regulatory environment for obtaining drilling permits and the diminishing demand for our drilling management services. We estimated the fair value of the customer relationships intangible asset using the multiperiod excess earnings method, a valuation methodology that applies the income approach. Our valuation required us to project the future performance of the drilling management services reporting unit based on significant unobservable inputs, representing a Level 3 fair value measurement, including assumptions for future commodity prices, projected demand for our services, rig availability and dayrates. As a result of our valuation, we determined that the carrying amount of the customer relationships intangible asset exceeded its fair value, and we recognized a loss on impairment of $53 million ($37 million, or $0.11 per diluted share from continuing operations, net of tax) in the six months ended June 30, 2012.

Goodwill and other indefinite-lived intangible assets—As a result of our annual impairment test, performed as of October 1, 2011, we determined that the goodwill associated with our contract drilling services reporting unit was impaired due to a decline in projected cash flows and market valuations for this reporting unit. In the year ended December 31, 2011, we recognized a loss on impairment, representing our best estimate, in the amount of $5.2 billion ($16.15 per diluted share from continuing operations), which had no tax effect. In the six months ended June 30, 2012, we completed our analysis and recognized an incremental adjustment to our original estimate in the amount of $118 million ($0.34 per diluted share from continuing operations), which had no tax effect. We estimated the implied fair value of the goodwill using a variety of valuation methods, including cost, income, and market approaches. Our valuation required us to project the future performance of our contract drilling services reporting unit based on significant unobservable inputs, representing a Level 3 fair value measurement, including assumptions for future commodity prices, projected demand for our services, rig availability and dayrates.

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

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Note 8—Income Taxes

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

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

Our estimated annual effective tax rates were 29.6 percent and 24.6 percent for the six months ended June 30, 2012 and 2011, respectively. These rates were based on estimated annual income before income taxes for each period after adjusting for various discrete items, including certain immaterial adjustments to prior period tax expense.

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

	June 30, 2012	December 31, 2011
Valuation allowance for non-current deferred tax assets	$ 178	$ 183

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

	June 30, 2012	December 31, 2011
Unrecognized tax benefits, excluding interest and penalties	$ 438	$ 515
Interest and penalties	193	256
Unrecognized tax benefits, including interest and penalties	$ 631	$ 771

We engage in ongoing discussions with tax authorities regarding the resolution of tax matters in the various jurisdictions in which we operate. Both the ultimate resolutions of these tax matters and the timing of any resolution or closure of the tax audits are highly uncertain. It is reasonably possible that the total amount of our existing liabilities for unrecognized tax benefits could increase or decrease in the next 12 months primarily due to the progression of open audits or the expiration of statutes of limitations. However, we cannot reasonably estimate a range of potential changes in our existing liabilities for unrecognized tax benefits due to various uncertainties, such as the unresolved nature of various audits.

Tax returns—We file federal and local tax returns in several jurisdictions throughout the world. With few exceptions, we are no longer subject to examinations of our U.S. and non-U.S. tax matters for years prior to 2006. For the three and six months ended June 30, 2012, the amount of current tax benefit recognized from the settlement of disputes with tax authorities and from the expiration of statutes of limitations, including interest and penalties, was $146 million and $194 million, respectively.

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

U.S. tax investigations—With respect to our 2004 U.S. federal income tax return, the U.S. tax authorities withdrew all of their previously proposed tax adjustments, including all claims related to transfer pricing. In January 2012, a judge in the U.S. Tax Court entered a decision of no deficiency for the 2004 tax year and cancelled the trial previously scheduled to take place in February 2012. With respect to our 2005 U.S. federal income tax returns, the U.S. tax authorities have withdrawn all of their previously proposed tax adjustments. In May 2010, we received an assessment from the U.S. tax authorities related to our 2006 and 2007 U.S. federal income tax returns. In July 2010, we filed a protest letter with the U.S. tax authorities responding to this assessment. The significant issues raised in the assessment relate to transfer pricing for certain charters of drilling rigs between our subsidiaries and the creation of intangible assets resulting from the performance of engineering services between our subsidiaries. These two items would result in net adjustments of approximately $278 million of additional taxes, excluding interest and penalties. An unfavorable outcome on these adjustments could result in a material adverse effect on our consolidated statement of financial position, results of operations or cash flows. We believe our U.S. federal income tax returns are materially correct as filed, and we intend to continue to vigorously defend against all such claims.

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

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

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

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Norway tax investigations—Norwegian civil tax and criminal authorities are investigating various transactions undertaken by our subsidiaries in 2001 and 2002 as well as the actions of certain employees of our former external tax advisors on these transactions. The authorities issued tax assessments of approximately $115 million, plus interest, related to the migration of a subsidiary that was previously subject to tax in Norway, approximately $70 million, plus interest, related to a 2001 dividend payment, and approximately $7 million, plus interest, related to certain foreign exchange deductions and dividend withholding tax. We have filed or expect to file appeals to these tax assessments. We have provided a parent company guarantee in the amount of approximately $117 million with respect to one of these tax disputes. Furthermore, we may be required to provide some form of additional financial security, in an amount up to $206 million, including interest and penalties, for other assessed amounts as these disputes are appealed and addressed by the Norwegian courts. The authorities have indicated that they plan to seek penalties of 60 percent on most but not all matters. In June 2011, the Norwegian authorities issued criminal indictments against two of our subsidiaries alleging misleading or incomplete disclosures in Norwegian tax returns for the years 1999 through 2002, as well as inaccuracies in Norwegian statutory financial statements for the years ended December 31, 1996 through 2001. The criminal trial has been scheduled for December 2012. Two employees of our former external tax advisors were also issued indictments with respect to the disclosures in our tax returns. In October 2011, the Norwegian authorities issued criminal indictments against a Norwegian tax attorney related to certain of our restructuring transactions and to the 2001 dividend payment. The indicted Norwegian tax attorney worked for us in an advisory capacity on these transactions. We believe the charges brought against us are without merit and do not alter our technical assessment of the underlying claims. In January 2012, the Norwegian authorities supplemented the previously issued criminal indictments by issuing a financial claim of approximately $309 million, jointly and severally, against our two subsidiaries, the two external advisors and the external tax attorney. This compensation claim directly overlaps with an existing civil tax assessment and does not represent an incremental financial exposure to us. In February 2012, the authorities dropped the previously existing tax assessment related to a certain restructuring transaction. In April 2012, the Norwegian tax authorities supplemented the previously issued criminal indictments against our two subsidiaries by extending a criminal indictment against a third subsidiary on the same matter, alleging misleading or incomplete disclosures in Norwegian tax returns for the years 2001 and 2002. We believe our Norwegian tax returns are materially correct as filed, and we intend to continue to vigorously contest any assertions to the contrary by the Norwegian civil and criminal authorities in connection with the various transactions being investigated. An unfavorable outcome on the Norwegian civil or criminal tax matters could result in a material adverse effect on our consolidated statement of financial position, results of operations or cash flows.

Brazil tax investigations—Certain of our Brazilian income tax returns for the years 2000 through 2004 are currently under examination. The Brazilian tax authorities have issued tax assessments totaling $98 million, plus a 75 percent penalty in the amount of $74 million and interest through December 31, 2011 in the amount of $143 million. We believe our returns are materially correct as filed, and we are vigorously contesting these assessments. On January 25, 2008, we filed a protest letter with the Brazilian tax authorities, and we are currently engaged in the appeals process. An unfavorable outcome on these proposed assessments could result in a material adverse effect on our consolidated statement of financial position, results of operations or cash flows.

Other tax matters—We conduct operations through our various subsidiaries in a number of countries throughout the world. Each country has its own tax regimes with varying nominal rates, deductions and tax attributes. From time to time, we may identify changes to previously evaluated tax positions that could result in adjustments to our recorded assets and liabilities. Although we are unable to predict the outcome of these changes, we do not expect the effect, if any, resulting from these assessments to have a material adverse effect on our consolidated statement of financial position, results of operations or cash flows.

Note 9—Discontinued Operations

Oil and gas properties—In March 2011, in connection with our efforts to dispose of non-strategic assets, we engaged an unaffiliated advisor to coordinate the sale of the assets of our oil and gas properties reporting unit, a component of our other operations segment, which comprises the exploration, development and production activities performed by Challenger Minerals Inc. and Challenger Minerals (North Sea) Limited, our wholly owned oil and gas subsidiaries. In October 2011, we completed the sale of Challenger Minerals (North Sea) Limited. In April 2012, we completed the sale of the assets of Challenger Minerals Inc. for net cash proceeds of $7 million. In May 2012, we received an additional $10 million of cash proceeds from the buyer of Challenger Minerals (North Sea) Limited, and recognized a gain on the disposal of discontinued operations in the amount of $10 million during the three and six months ended June 30, 2012.

Caspian Sea operations—In February 2011, in connection with our efforts to dispose of non-strategic assets, we sold the subsidiary that owns the High-Specification Jackup Trident 20, located in the Caspian Sea. The disposal of this subsidiary, a component of our contract drilling services segment, reflects our decision to discontinue operations in the Caspian Sea. As a result of the sale, we received net cash proceeds of $259 million and, in the six months ended June 30, 2011, we recognized a gain on the disposal of the discontinued operations of $169 million ($0.52 per diluted share from discontinued operations), which had no tax effect. Through June 2011, we continued to operate Trident 20 under a bareboat charter to perform services for the customer and the buyer reimbursed us for the approximate cost of providing these services. Additionally, we provided certain transition services to the buyer through September 2011.

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

	Three months ended June 30,		Six months ended June 30,	
	2012	2011	2012	2011
Operating revenues	$ 2	$ 22	$ 5	$ 48
Costs and expenses	(3)	(18)	(5)	(41)
Loss on impairment (a)	—	—	(6)	—
Gain on disposal of discontinued operations, net	10	—	10	169
Income from discontinued operations before income tax expense	9	4	4	176
Income tax benefit (expense)	(2)	(2)	2	(2)
Income from discontinued operations, net of tax	$ 7	$ 2	$ 6	$ 174

(a) During the six months ended June 30, 2012, we recognized a loss on impairment of our oil and gas properties, which were classified as assets held for sale, in the amount of $6 million ($4 million or $0.01 per diluted share from discontinued operations, net of tax) since the carrying amount of the properties exceeded the estimated fair value less costs to sell the properties. We estimated fair value based on significant other observable inputs, representing a Level 2 fair value measurement, including a binding sale and purchase agreement for the properties.

Assets and liabilities of discontinued operations—As a result of our decision to discontinue the operations of our oil and gas properties reporting unit and the operations of our Caspian Sea subsidiary, we have classified the related assets and liabilities of these components of our business to other current assets and other current liabilities as of December 31, 2011. The carrying amounts of the major classes of assets and liabilities associated with these operations were classified as follows (in millions):

	June 30, 2012	December 31, 2011
Assets		
Oil and gas properties, net	$ 5	$ 24
Other related assets	2	2
Assets held for sale	$ 7	$ 26
Accounts receivable	$ 1	$ 6
Other assets	11	11
Other current assets	$ 12	$ 17

Liabilities				
Accounts payable	$	1	$	3
Other liabilities		5		14
Other current liabilities	$	6	$	17

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Note 10—Earnings Per Share

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

	Three months ended June 30,				Six months ended June 30,			
	2012		2011		2012		2011	
	Basic	Diluted	Basic	Diluted	Basic	Diluted	Basic	Diluted
Numerator for earnings (loss) per share								
Income (loss) from continuing operations attributable to controlling interest	$ (311)	(311)	122	122	$ (300)	(300)	269	269
Undistributed earnings allocable to participating securities	—	—	(1)	(1)	—	—	(2)	(2)
Income (loss) from continuing operations available to shareholders	$ (311)	(311)	121	121	$ (300)	(300)	267	267
Denominator for earnings (loss) per share								
Weighted-average shares outstanding	353	353	320	320	352	352	319	319
Effect of stock options and other share-based awards	—	—	—	—	—	—	—	1
Weighted-average shares for per share calculation	353	353	320	320	352	352	319	320
Per share earnings (loss) from continuing operations	$ (0.88)	(0.88)	0.38	0.38	$ (0.85)	(0.85)	0.84	0.84

For the three and six months ended June 30, 2012, respectively, 2.2 million and 2.0 million share-based awards were excluded from the calculation since the effect would have been anti-dilutive. For the three and six months ended June 30, 2011, respectively, 1.5 million and 1.7 million share-based awards were excluded from the calculation since the effect would have been anti-dilutive.

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

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Note 11—Drilling Fleet

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

	Six months ended June 30, 2012	Six months ended June 30, 2011
Construction work in progress, at beginning of period	$ 1,395	$ 1,484
Newbuild construction program		
Transocean Ao Thai (a)	45	10
Transocean Honor (b)	35	76
Transocean Andaman (c)	26	70
Transocean Siam Driller (c)	26	70
Deepwater Asgard (d)	21	—
Deepwater Invictus (d)	13	—
Deepwater Champion (e)	—	76
Other construction projects	330	231
Total capital expenditures	496	533
Changes in accrued capital expenditures	32	(31)
Property and equipment placed into service		
Transocean Honor (b)	(262)	—
Deepwater Champion (e)	—	(881)
Other property and equipment	(341)	(262)
Construction work in progress, at end of period	$ 1,320	$ 843

(a) Transocean Ao Thai, a Keppel FELS Super B class design High-Specification Jackup, under construction at Keppel FELS' yard in Singapore, is expected to commence operations in the fourth quarter of 2013.

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

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

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

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

Dispositions—During the six months ended June 30, 2012, in connection with our efforts to dispose of non-strategic assets, we completed the sales of the Standard Jackups, GSF Adriatic II, GSF Rig 136, Roger W. Mowell, Transocean Nordic and Transocean Shelf Explorer, and related equipment. In the three and six months ended June 30, 2012, we received aggregate net cash proceeds of $145 million and $179 million, respectively, and recognized a net gain on disposal of these assets in the amount of $64 million ($0.18 per diluted share from continuing operations), which had no tax effect (see Note 7—Impairments). For the three and six months ended June 30, 2012, we recognized losses on disposal of unrelated assets in the amount of $9 million and $13 million, respectively.

During the six months ended June 30, 2011, in connection with our efforts to dispose of non-strategic assets, we sold the High-Specification Jackup Trident 20 and the Standard Jackup Transocean Mercury. The sale of Trident 20 reflected our decision to discontinue operations in the Caspian Sea (see Note 9—Discontinued Operations). In connection with the sale of Transocean Mercury, we received net cash proceeds of $10 million and recognized a net gain on disposal of the drilling unit and related equipment in the amount of $9 million ($0.03 per diluted share from continuing operations), which had no tax effect. For the three and six months ended June 30, 2011, we recognized losses on disposal of unrelated assets in the amount of $1 million and $2 million, respectively.

Assets held for sale—During the six months ended June 30, 2012, we committed to a plan to sell our Standard Jackup Trident 17. At June 30, 2012, the drilling unit and related equipment were classified as assets held for sale with an aggregate net carrying amount of $2 million. See Note 20—Subsequent Events.

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Note 12—Debt

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

	June 30, 2012			December 31, 2011		
	Transocean Ltd. and subsidiaries	Consolidated variable interest entities	Consolidated total	Transocean Ltd. and subsidiaries	Consolidated variable interest entities	Consolidated total
5% Notes due February 2013	$ 252	$ —	$ 252	$ 253	$ —	$ 253
5.25% Senior Notes due March 2013 (a)	505	—	505	507	—	507
TPDI Credit Facilities due March 2015	438	—	438	—	473	473
4.95% Senior Notes due November 2015 (a)	1,121	—	1,121	1,120	—	1,120
Aker Revolving Credit and Term Loan Facility due December 2015	174	—	174	594	—	594
5.05% Senior Notes due December 2016 (a)	999	—	999	999	—	999
Callable Bonds due February 2016	265	—	265	267	—	267
ADDCL Credit Facilities due December 2017	—	205	205	—	217	217
Eksportfinans Loans due January 2018	815	—	815	884	—	884
6.00% Senior Notes due March 2018 (a)	998	—	998	998	—	998
7.375% Senior Notes due April 2018 (a)	247	—	247	247	—	247
TPDI Notes due October 2019	—	—	—	—	148	148
6.50% Senior Notes due November 2020 (a)	899	—	899	899	—	899

6.375% Senior Notes due December 2021 (a)	1,199	—	1,199	1,199	—	1,199
7.45% Notes due April 2027 (a)	97	—	97	97	—	97
8% Debentures due April 2027 (a)	57	—	57	57	—	57
7% Notes due June 2028	311	—	311	311	—	311
Capital lease contract due August 2029	667	—	667	676	—	676
7.5% Notes due April 2031 (a)	598	—	598	598	—	598
1.50% Series B Convertible Senior Notes due December 2037 (a)	—	—	—	30	—	30
1.50% Series C Convertible Senior Notes due December 2037 (a)	1,693	—	1,693	1,663	—	1,663
6.80% Senior Notes due March 2038 (a)	999					