



Labyrinth
Management Group, Inc

Strategic Environmental, Safety & Health Solutions

**Annual Report on Consent Decree Compliance
During Calendar Year 2016
For
Transocean Operations
Conducted in Waters of the United States**

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Submitted to:



**Transocean Deepwater, Inc.
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Annual Report for 2016**

EXECUTIVE SUMMARY

On February 19, 2013, Transocean Deepwater, Inc., Transocean Holdings LLC, and Triton Asset Leasing GmbH (herein after “Transocean”) entered into a Consent Decree with the United States (US) to resolve the Clean Water Act (CWA) and Oil Pollution Act (OPA) claims associated with the sinking of the Deepwater Horizon Mobile Offshore Drilling Unit (MODU) and Macondo Well oil spill in the Gulf of Mexico. The Consent Decree required Transocean to retain an Independent Consent Decree Compliance Auditor (the “Independent Auditor”) to audit and report to the US each calendar year after the date of entry.

This report was prepared by Mr. Lance Traves with Labyrinth Management Group, Inc. (LMG) as the Independent Auditor’s annual report on Transocean’s compliance with the Consent Decree and an agreed-upon Performance Plan. A general summary of the requirements of the Consent Decree and Performance Plan is provided in Appendix A. The time period covered by this annual report is calendar year (CY) 2016.

The annual report is written as a summary of the identified exceptions to Transocean’s compliance (i.e., non-compliance) with the Consent Decree and Performance Plan. As an exception report, the detailed verification information on Transocean’s compliance with the large number of requirements specified in the Consent Decree and Performance Plan is not discussed within this report.

METHODOLOGY AND SCOPE

The review activities and audit tasks used by the Independent Auditor to verify Transocean’s compliance with the Consent Decree and Performance Plan included five general components:

- Conducting planning, scoping, and coordination activities.
- Performing remote “desk audit” reviews of Transocean’s documents and information submitted to the US.
- Reviewing a wide range of documents and information requested from Transocean as auditor reference materials that were not required to be submitted to the US.
- Conducting a wide range of review and audit activities at Transocean’s US drilling operations office located in Houston, Texas.
- Performing field audits and inspections of Transocean’s drilling rigs operating in US waters.

The overall review, including auditing tasks and methods, was conducted in conformance with international auditing standards. Verification of Transocean's management system's compliance with Safety and Environmental Management System (SEMS) requirements was conducted consistent with federal regulations and Center for Offshore Safety (COS) guidance.

CALENDAR YEAR 2016 FINDINGS

Based on the results of the review and audit, Transocean was in full compliance with the large number of Consent Decree and Performance Plan obligations applicable to calendar year 2016, with the exception of one (1) reporting deficiency as follows:

- Transocean self-reported that information on the number of near hits and serious near hits that occurred on rigs operating in US waters was not included in the *Incident Tracking Summary Report* within Transocean's Annual Report for 2014 that was submitted to the US in April 2015. In response to this finding, Transocean resubmitted and posted to the public website a corrected 15.g Appendix and Incident Tracking Summary Report within the 2014 Consent Decree Annual Report. Based on information from Transocean and the IA's independent evaluation, the root cause of this reporting deficiency appeared to be an administrative oversight.

To prevent reoccurrence, Transocean implemented a two-tier accuracy review process for preparation of each Consent Decree-required annual report. The Incident Tracking Summary Report within Transocean's 2015 Consent Decree Annual Report included all the required information including the number of near hits and serious near hits.

In the Independent Auditor's opinion, Transocean reported this Consent Decree non-compliance finding to the US in a timely and appropriate manner. In addition, this compliance deficiency was not associated with Transocean's implementation and performance of the additional risk management provisions and programs for drilling operations required by the Consent Decree.

Transocean's single exception to Consent Decree and Performance Plan compliance also did not result in material deficiencies in Transocean's drilling rigs' Major Accident and Hazard Risk Assessments (MAHRAs) or operational oversight of drilling operations. In addition, the deficiency was for incomplete reporting of a very limited amount of information to the US. Therefore, this deficiency was not a "systemic" problem with Transocean's management system. As a result, the single non-compliance finding does not indicate "systemic" management system deficiencies. Based on this information, Transocean's current internal management system continues to comply with SEMS requirements in 30 CFR Part 250, Subpart S during CY 2016.

In accordance with Paragraph 22 of the Performance Plan, Transocean is to respond to any “deficiencies” noted in the Independent Auditor’s draft report and develop a corrective action plan within 30 days of receipt of the draft report. The corrective action plan is then to be included with the Independent Auditor’s final report that must be submitted to the US no later than April 2, 2017.

Transocean’s response to the identified compliance deficiency for the calendar year 2016 is provided in Appendix B of this final report. This includes a discussion of the actions already undertaken and completed by Transocean or planned for implementation and completion to correct the identified compliance deficiencies.

CY 2016 OBSERVATIONS

During CY 2016, a number of observations were noted as part of the Independent Auditor’s review and audit of Transocean’s compliance with the Consent Decree and Performance Plan. Approximately 25 observations on various topics were reported to Transocean for additional formal discussion and/or follow-up. These observations may or may not have been directly related to a Consent Decree compliance requirement.

Approximately half of the CY 2016 observations were related to follow-up questions and requested clarifications on Transocean’s Management System (MS) audits of rigs operating in US waters. As part of the typical follow-up for each observation, Transocean was requested to provide additional documentation and/or clarification information regarding each observation.

Additional information on five (5) specific CY 2016 observations has been included in the CY 2016 Annual Report. A summary of each of these observations is provided below.

1. Annual CAMS Employee List – Senior DPO Reporting

Transocean’s annual list of “CAMS Employees” that Transocean submitted to the US in January of 2014, 2015, and 2016 did not include any employees working on drilling rigs with the job title Senior Dynamic Positioning Operator (Senior DPO). This exclusion appeared to result from Transocean’s interpretation of Consent Decree language used for the Performance Plan reporting requirement, which does not reference Senior DPO as a specific job title in the applicable requirement.

Based on follow-up review by the Independent Auditor, all Senior DPOs at Transocean are currently and have always been clearly subject to and included in the CAMS and DP-CAP requirements. Furthermore, all Senior DPOs newly identified as working on rigs operating in US waters during 2014, 2015, and 2016 have been confirmed to be fully compliant with DP-CAP requirements during all the applicable years.

To eliminate uncertainty and aid the Independent Auditor's review of CAMS and DP-CAP requirements, Transocean has agreed to include Senior DPOs in all future annual lists of CAMS Employees, including CY 2017.

2. 2016 Management System Changes - PSC Review

During 2016, Transocean implemented management system updates that included a new "Task Planning and Risk Assessment Policy." The Task Planning and Risk Assessment Policy replaces the "THINK" process previously used by Transocean. In 2015, Transocean implemented the changes to the former THINK process to address Independent Auditor observations on management control and the risk assessment process that were a result of the Consent Decree review and audit process.

Under the updated management system, there is uncertainty as to whether the rig specific "Procedures" (former RRP), including those that relate to a Major Hazard Barrier in a rig's Safety Case, have the same required management control and risk assessment transparency and performance when compared to the THINK process. Based on this uncertainty, the Independent Auditor is recommending that the Consent Decree Process Safety Consultant (PSC) specifically review these management system updates as part of the Consent Decree required 2nd PSC review to be completed by October 2017.

3. Hydrocarbon Gas-In-Mud and Transocean's Stop Hot Work Policy

Beginning in CY 2015 and continuing during CY 2016, the Independent Auditor has conducted a review of the gas-in-mud levels established by Transocean for stopping hot work on drilling rigs operating in US waters. The review included both Transocean's procedures for the establishment of the threshold of the gas-in-mud levels for stopping hot work and the consistency and technical basis of the gas-in-mud levels for stopping hot work across drilling rigs.

As part of the review, the Independent Auditor and Transocean agreed to have a joint conference call with the US Department of Interior (DOI) Bureau of Safety and Environmental Enforcement (BSEE) representatives. After detailed discussions on the various aspects of the gas-in-mud stop hot work issue, BSEE representatives indicated that this observation appeared to be an industry-wide offshore MODU issue. Therefore, the BSEE representatives indicated that no further specific actions by Transocean were required. The BSEE representatives stated the agency would undertake a broader follow-up to obtain additional information from the offshore industry and further evaluate any potential risk management issues.

Subsequent to the BSEE conference call, Transocean has participated in offshore industry roundtable working group discussions related to gas-in-mud issues. In May 2016, Transocean subject matter experts (SMEs) on drilling and gas-in-mud aspects also met with the Independent Auditor and the PSC to further discuss this observation. Based on the results of this meeting, the PSC did not raise any further specific drilling safety risk issues with Transocean's current thresholds for gas-in-mud to stop hot work on drilling rigs operating in US waters.

To date, BSEE has not provided additional information on their review or evaluation of the gas-in-mud stop hot work observation to the Independent Auditor or Transocean. The Independent Auditor is recommending that the PSC formally address gas-in-mud safety considerations and the various thresholds for stopping hot work as part of the Consent Decree required 2nd PSC review to be completed by October 2017. In addition, the Independent Auditor will follow-up with BSEE in CY 2017 on any additional industry-wide information or findings the agency has on this observation.

4. Emergency Response Plan (ERP) Manuals – PSC Review

As part of obligations under Paragraph 18 of the Consent Decree, Transocean submitted for review to US agency representatives, revised Emergency Response Plan (ERP) Manuals for rigs operating in US waters in 2016. Based on an initial review by the Independent Auditor, selected sections of the revised ERPs and selected emergency checklist's actions appeared to contain information that was inconsistent across the Transocean rigs that were in the same or similar class.

In addition, the basis for specific recommended times in certain checklists', for step-by-step emergency actions in the case of a specific emergency event, was not well documented. This was not unexpected or inappropriate with general ERP manual requirements. However, there have been a number of expert reviews and studies of emergency actions and timing associated with response to offshore emergency events. Therefore, the Independent Auditor is recommending that the PSC review the revised ERP manuals, specifically the emergency event "checklists" within the ERP manuals as part of the Consent Decree required 2nd PSC review to be completed by October 2017.

5. BOP-Related Equipment – Rubber Parts Management

Throughout CY 2016, during the field audits of both drilling rigs, the Independent Auditor identified that selected BOP-rubber goods on the rigs did not have expiration dates noted on the packaging, including Transocean labels that provide for this information. Expiration dates for selected rubber goods also were not recorded in the electronic records system maintained by the Materials Manager on the rig at the time of the audit.

Transocean's global supply chain procedures require rubber goods used in critical equipment to have clearly marked expiration dates on the items.

Based on the Independent Auditor observations, the Master/OIM on both rigs directed the Materials Manager to begin conducting or finish an ongoing full physical inventory audit of the rubber goods storage room. In addition, Transocean reported these audit observations to all Rig Managers for drilling rigs operating in US waters so that follow-up on this observation could be conducted with the Master/OIMs and Materials Managers. It is important to note that after additional investigation, none of the BOP-related rubber parts noted without expiration dates were actually expired parts or even within a six month expiration time period requiring segregation.

As part of the CY 2017 review and audit, the Independent Auditor will also continue to inspect warehouse rubber rooms for BOP-related parts management in accordance with Transocean policies to ensure that this observation is not a system deficiency in the management system.

FOLLOW-UP ON CY 2015 OBSERVATION

As part of the CY 2016 review and audit, follow-up was also conducted by the Independent Auditor on the observations noted in the CY 2015 Annual Report. As part of the CY 2015 review and audit, only one (1) observation was specifically discussed in the annual report. This observation was that Transocean's CAMS performance records indicated that eight (8) Senior Subsea Supervisors and Subsea Supervisors had not completed CAMS-assigned specialized BOP maintenance training courses that are provided by the Original Equipment Manufacturers (OEMs).

As part of the CY 2016 review and audit, training records were reviewed to confirm the completion of CAMS specialized training for the eight (8) identified Senior Subsea Supervisors and Subsea Supervisors that Transocean committed to complete in the 1st Quarter of CY 2016. Based on this Independent Auditor review, these specific individuals had completed OEM-specific BOP maintenance training by March 31, 2016, or had left the company before this date.

THE INDEPENDENT AUDITOR

US agency representatives approved Mr. Traves as Transocean's Independent Auditor on March 31, 2014. He is not an officer or employee of Transocean and has no executive, director, managerial, or supervisory role with Transocean. LMG and Mr. Traves have no other contracts with Transocean and have no other financial interest in Transocean that would or might be seen as impairing independence and objectivity.

TRANSOCEAN'S COOPERATION AND TRANSPARENCY

Transocean's senior management and all other company employees fully cooperated with the Independent Auditor during the review and verification of the company's compliance with the Consent Decree and Performance Plan. Transocean was also fully transparent regarding the information, documents, and observations used to verify compliance with the Consent Decree and Performance Plan for CY 2016. There is no reason to believe that Transocean knowingly made any misstatements or provided false information to the Independent Auditor during the performance of the CY 2016 review and audit.

LIMITATIONS AND REPRESENTATIONS

All compliance reviews and audits involve performing tasks and undertaking procedures to obtain and review information or evidence determined to be necessary by the auditor for meeting the objectives of the audit. The tasks and procedures selected for this review depended, to a certain extent, on professional judgment which included an assessment of the risks of material misstatement of the findings.

Information required to complete the review and audit was primarily obtained from Transocean, and to a much lesser extent, external third-party entities. To the extent that the information and records from Transocean or other external sources were relied upon to verify compliance and form opinions; the information and records were assumed to be true, accurate, and complete. Certain provisions of the Consent Decree and Performance Plan are subject to potential interpretation because specific definitions are not provided within these documents. Compliance with these provisions was based on Transocean's interpretations unless specific interpretation information was provided by US agency representatives.

Transocean's submissions to the US, which were subject to regulatory agency review, were not reviewed for determinations of compliance with applicable regulatory requirements. In addition, the review and audit did not generally include a technical "expert" evaluation of the accuracy and content of Transocean's reports submitted to the US.

1.0 INTRODUCTION

This annual report on Transocean’s Consent Decree compliance for drilling operations in waters of the United States (US) during calendar year (CY) 2016 is the third in a series of annual reports to be prepared by the Independent Consent Decree Compliance Auditor (Independent Auditor). The first and second annual reports evaluated Transocean’s compliance during CY 2014 and CY 2015. These earlier reports and this CY 2016 annual report can be found on Transocean’s website at <http://www.deepwater.com/macondo-us-consent-decree-compliance/reports-required-under-consent-decree>.

1.1 BACKGROUND INFORMATION

On April 20, 2010, a well control event associated with the completion of the Macondo Well in the Gulf of Mexico (GOM) caused a catastrophic fire and sinking of the Deepwater Horizon Mobile Offshore Drilling Unit (MODU). This event resulted in the release of hydrocarbons from the well for 87 days, resulting in a spill of national significance. Transocean Deepwater, Inc. was the owner of the Deepwater Horizon and the drilling contractor to BP Exploration and Production, Inc. (BP) for the Macondo Well at the time of the event. BP was the owner of the lease of the GOM area that contained the Macondo Well.

To resolve the Clean Water Act (CWA) and Oil Pollution Act (OPA) claims associated with these events, Transocean entered into a Consent Decree with the US that was filed on February 19, 2013.^{1,2} The Transocean Consent Decree also included an agreed-upon Performance Plan that set forth the implementation plan and schedule for the various requirements of the Consent Decree.

The Consent Decree provides in Paragraph 22.a. that Transocean:

“retain an Independent Consent Decree Compliance Auditor (the “Independent Auditor”) who shall audit and report to the United States each calendar year after the date of entry, by April 2 of the following year (Paragraph 31.a.) on the Transocean Defendants’ compliance with Articles VI (Measures to Improve Performance and Prevent Recurrence) and VIII (Reporting) of this Consent Decree.”

This annual report on Consent Decree compliance has been prepared by the Independent Auditor based on evaluation and audit work conducted in CY 2016.

¹ The specific parties to the Consent Decree were Transocean Deepwater, Inc., Transocean Holdings LLC, and Triton Asset Leasing GmbH.

² In Re: Oil Spill by the Oil Rig “Deepwater Horizon” in the Gulf of Mexico, on April 20, 2010, US District Court, Eastern District of Louisiana, MDL No. 2179, Section: “J” Judge Barbier.

The Annual Report for CY 2016 is submitted to Transocean specifically to comply with the requirements of Consent Decree Paragraph 22.a. Transocean is to operate under the requirements of the Consent Decree and Performance Plan for a minimum of five (5) years.

1.2 PREPARATION OF THE ANNUAL REPORT

The Annual Report for CY 2016 was prepared by Mr. Lance Traves with Labyrinth Management Group, Inc. (LMG) as the Independent Auditor. The time period covered by report is January 1, 2016, through December 31, 2016 (CY 2016).

In performing his duties as the Independent Auditor, Mr. Traves was supported by LMG staff, specifically, including Mr. Charles Sisia, Senior Consultant with LMG. Mr. Sisia worked under the direct supervision of Mr. Traves at all times, and all findings contained in this report were reviewed and approved by Mr. Traves as the Independent Auditor.

The annual report is written as a summary of the identified exceptions to Transocean's compliance (i.e., non-compliance) with the Consent Decree and Performance Plan. As an exception report, verification information on Transocean's compliance with the large number of requirements specified in the Consent Decree and Performance Plan is not discussed.

A general summary of the requirements of the Consent Decree and Performance Plan is provided in Appendix A. Copies of the Consent Decree and Performance Plan are also available on Transocean's website at <http://www.deepwater.com/macondo-us-consent-decree-compliance>. Transocean's website also contains additional reports prepared by Transocean and posted to the website to meet specific reporting requirements of the Consent Decree and Performance Plan for CY 2016 and prior years. In addition, by April 2nd of each year, Transocean is required to post the Independent Auditor's annual report on Consent Decree compliance for the prior calendar year.

1.3 INDEPENDENT AUDITOR'S ROLE

The Consent Decree provides in Paragraph 22.a. that the Independent Auditor shall:

"Review documentation and take such reasonable measures as may be appropriate to verify the Transocean Defendants compliance with Articles VI (Measures to Improve Performance and Prevent Recurrence) and VIII (Reporting) of this Consent Decree."

Based on this broad authorization, the Independent Auditor developed a review and audit methodology for CY 2016, including various work plans. These work plans were then implemented without any material changes or impediments from Transocean to the review, audit, and verification of Transocean's compliance with the requirements of the Consent Decree and Performance Plan. Additional information on the methodology and scope of the CY 2016 review and audit is provided in Section 2.0.

The language of the Consent Decree provides that the Independent Auditor is not intended to have and does not have the responsibility to monitor or the authority to “*exercise the regulatory, enforcement, or other role of the United States.*”³ As a result, Mr. Traves, in his role as the Independent Auditor, did not verify the specific regulatory compliance (including the technical merit) of selected documents, plans, or procedures that were submitted by Transocean to US agency representatives for review during CY 2016. In these instances, the documents, plans, or procedures were reviewed for compliance with the Consent Decree’s submission deadline and overall compliance with the Consent Decree’s description of the required general content or information to be provided. In selected cases, the Independent Auditor provided feedback and comments to Transocean on the technical information and contents of plans and policies as an observation.

1.4 AUDITOR’S INDEPENDENCE

The Consent Decree provides that the Independent Auditor must be approved by the US and “shall not have any executive or management functions” within Transocean or assume the role of any of Transocean’s officers, executives, directors, managers, or supervisors.⁴ Mr. Traves was proposed by Transocean to serve as the Independent Auditor in early 2014. US representatives approved Mr. Traves as Transocean’s Independent Auditor on March 31, 2014.

Mr. Traves is the President of LMG, a privately-held strategic environmental, health, and safety (EHS) compliance and risk management consulting firm located in Medina, Ohio. Mr. Traves is not an officer or employee of Transocean and has no executive, director, managerial, or supervisory role with Transocean. Transocean has retained Mr. Traves and LMG under a standard commercial contract to act as the Independent Auditor for the Consent Decree. LMG and Mr. Traves have no other contracts with Transocean and have no other financial interest in Transocean that would or might be seen as impairing their independence and objectivity.

1.5 TRANSOCEAN’S COOPERATION AND TRANSPARENCY

During CY 2016, Transocean’s senior management and all other company employees continued to fully cooperate with the Independent Auditor during the review and verification of the company’s compliance with the Consent Decree and Performance Plan. Transocean also has continued to dedicate a large amount of financial and employee resources to complying with the Consent Decree and Performance Plan.

Transocean’s extensive cooperation in CY 2016 included responding to a large number of specific inquiries and follow-up requests from the Independent Auditor for additional information and documents relevant to the wide range of requirements of the Consent Decree and Performance Plan. The additional information and documents requested by the Independent Auditor were always provided by Transocean on a timely basis, subject to normal working

³ See Paragraph 22.b of the Consent Decree.

⁴ Ibid footnote 3.

requirements. The Independent Auditor was provided full access to all Transocean employees and third-party contractors, including drill rig workers, managers, and subject matter experts (SMEs) as needed for interviews and follow-up.

Transocean also ensured that Independent Auditor had access to Transocean SMEs. This included conferring a meeting between the Independent Auditor, Transocean SMEs in drilling operations and gas-in-mud issues, and the Consent Decree Process Safety Consultant (PSC) in May 2016.

In CY 2016, Transocean also continued to provide the Independent Auditor with unrestricted access to the work areas located on its drilling rigs (subject to health and safety restrictions). The Independent Auditor continued to shadow Transocean's internal management system auditors on drilling rigs during the performance of their assurance activities. Finally, Transocean provided employees to facilitate the Independent Auditor's continued access to and viewing of the Company's electronic management systems, internal tools, and documentation resources when requested.

Based on these and other actions, Transocean was fully transparent regarding the information, documents, and field inspections used by the Independent Auditor to verify compliance with the Consent Decree and Performance Plan for CY 2016. There is no reason for the Independent Auditor to believe that Transocean knowingly made any misstatements or provided false information during the CY 2016 review and audit.

2.0 METHODOLOGY AND SCOPE

The CY 2016 review and verification of Transocean's compliance with the Consent Decree and Performance Plan was conducted from January 1, 2016 through January 31, 2017. The methodology and scope used in conducting the review and audit were based on the following:

- knowledge and experience of the Independent Auditor,
- auditing standards and guidance from a number of organizations,
- compliance requirements of the Consent Decree and Performance Plan, and
- knowledge, experience, and information obtained during the CY 2014 and CY 2015 reviews and audits.

The CY 2016 review, including auditing tasks and methods, was conducted in general conformance with International Standard ISO 19011: Guidelines for Auditing Management Systems.⁵ This included the use of an evidence-based approach and a systematic process.

Consistent with ISO 19011, the review and audit methodology also focused on identifying performance risks and then working to minimize them. These performance risks would be associated with inadequate preparation, ineffective implementation of auditing tasks, and incomplete review of information relevant to verifying Transocean's compliance with the Consent Decree and Performance Plan.

The CY 2016 review and audit methodology also generally conformed to ASTM International's Standard Practice for Environmental Regulatory Compliance Audits (Designation E2107-14) and the Standard Guide for Environmental Compliance Performance Assessment (Designation E2365-14). This conformance included the auditor's qualifications, the audit process, and the documentation and management of records.

Finally, verification of Transocean's management system's compliance with Safety and Environmental Management System (SEMS) requirements in 30 Code of Federal Regulations (CFR) Part 250, Subpart S, continued to be conducted in a manner consistent with these regulations and guidance from the Center for Offshore Safety (COS).⁶ This verification process included the following:

- 1) performing overnight field audits of Transocean's drilling rigs operating in US waters during normal drilling operations,

⁵ ISO (the International Organization for Standardization) 19011 Standard was issued in 2011 to provide "guidance" to users on establishing, implementing, and monitoring an audit program for management systems at private and public organizations.

⁶ COS (Center for Offshore Safety) guidance includes Publication COS-2-03 "Requirements for Third-party SEMS Auditing and Certification of Deepwater Operations" dated October 2012.

- 2) observing Transocean employees performing management system audits of Transocean drilling rigs during normal drilling operations;
- 3) reviewing CY 2016 changes to the Transocean's existing management system for conformance with SEMS requirements;
- 4) evaluating compliance based on the overall performance of the Transocean's various operational and rig maintenance management systems; and
- 5) reviewing overall HSE performance of the Transocean drilling rig fleet operating in US waters using metrics required to be tracked by the Consent Decree.

2.1 REVIEW AND AUDIT TASKS

The review activities and audit tasks used to verify Transocean's compliance with the Consent Decree and Performance Plan included five general components:

- Conducting planning, scoping, and coordination activities.
- Performing remote "desk audit" reviews of Transocean's documents and information submitted to the US.
- Reviewing information and providing Independent Auditor feedback on selected items related to Consent Decree and Performance Plan requirements that were not required to be submitted to the US.
- Reviewing a wide range of documents and information requested from Transocean as auditor reference materials that were not required to be submitted to the US.
- Conducting a wide range of review and audit activities at Transocean's US drilling operations office located in Houston, Texas.
- Performing field audits of Transocean's drilling rigs operating in US waters, specifically within the GOM.

Additional information on each of these components is provided below.

2.1.1 Planning, Scoping, and Coordination Activities

As a best management practice (BMP) in CY 2016, the Independent Auditor continued to conduct monthly project coordination conference calls with Transocean's team of employees managing Consent Decree compliance. These project conference calls were organized around an agenda developed by the Independent Auditor with input by Transocean. Topics could include updates on Transocean operations, planning for review and audit activities, discussions of compliance submissions, and follow-ups on information and observations noted during the CY 2016 review.

The Independent Auditor also participated in monthly conference calls organized and conducted by Transocean to discuss and report on compliance activities to US agency representatives. In addition, the Independent Auditor held or participated in conference calls with Transocean and/or US agency representatives on a number of times related to specific topics and observations during CY 2016.

Furthermore, during CY 2016 the Independent Auditor began more routine communications with the Consent Decree Process Safety Consultant (PSC) on various Transocean operational topics and observations. In total, the Independent Auditor participated in at least 30 Transocean Consent Decree related conference calls during the CY 2016 review.

As part of the CY 2016 review and audit, work plans were again developed for the overall performance of the verification project, audits of the Houston office, and field inspections of drilling rigs operating in US waters. Each work plan included a general discussion of the plan's objectives, scope of work, coordination and reporting methods, and proposed schedule.

The CY 2016 work plans were discussed with Transocean and US agency representatives. The work plans were implemented during the course of the review without material changes that would have adversely impacted the information and the results obtained.

2.1.2 Desk Audit Reviews

The Consent Decree and Performance Plan includes an extensive list of required "Milestones and Deliverables" as part of the Measures to Improve Performance and Prevent Recurrence, as well as Reporting, that require Transocean's compliance. The required CY 2016 deliverables include certifications, updated company plans, manuals, reports, and procedures, as well as the submission of various other types of information.

In addition, Transocean's Annual Report for CY 2015 was submitted to the US and posted to the Transocean website on or before April 2, 2016. Therefore, Transocean's CY 2015 Annual Report was included in the Independent Auditor's verification of compliance for CY 2016.

As part of the CY 2016 review and audit, Transocean's submissions to the US were also again verified for compliance with required milestone dates and specific deliverable requirements. The review of milestone dates included requirements for follow-up submissions within specified times for select requirements.

Review and verification of compliance with the deliverable requirements were based on whether, in the Independent Auditor's opinion, the deliverable was generally responsive to the objective(s) of the Consent Decree and Performance Plan. Each deliverable was required to contain all specifically referenced information and/or documentation. As discussed in Section 2.1.3, the review of Consent Decree submissions also often included a detailed review of additional internal Transocean analyses and documentation that supported and were used as the basis for the submission to the US.

Transocean is also required to post Consent Decree submissions to the company's website (www.deepwater.com). Therefore, compliance with the public posting requirements was also included in the audit.

2.1.3 Review of Requested “Auditor Reference Materials”

In conjunction with the desk audit reviews of specific submissions to the US, a large number of “auditor reference materials” also were requested by the Independent Auditor from Transocean again in CY 2016. These materials provided additional background and technical information on operations that were relevant to the requirements of the Consent Decree and Performance Plan. More importantly, the review and auditing of the requested auditor reference materials was often necessary to verify compliance.

The requested and reviewed auditor reference materials included Transocean's updated operating manuals, plans, and procedures; employee training materials; operational alerts; meeting minutes; drilling rig and equipment maintenance, testing, and inspection records; internal audit reports; and employee records. In CY 2016, Transocean also continued to provide a large amount of specific information relevant to Consent Decree compliance from the company's electronic Global Management System (GMS) and Rig Maintenance System (RMS).

One example of the level of effort for the review of auditor reference materials is the review of Transocean's annual BOP preventative maintenance (PM) gap analysis report submitted under Paragraph 15(c)(2) of the Consent Decree. This annual report is provided to the US as a summary document consisting of two pages of specific findings in Transocean's annual report. However, as part of the Independent Auditor review process, Transocean provides electronic files containing hundreds of spreadsheet files detailing Transocean's internal analyses and comparisons of Original Equipment Manufacturer (OEM) recommended PM schedules with Transocean's RMS PM schedule for individual parts and equipment associated with the BOP system. As a result, the Independent Auditor is confident that Transocean's level of effort in preparation of the short annual summary report on BOP preventative maintenance gaps clearly is based on a much large level of effort that meets the general expectation for this type of Consent Decree requirement.

2.1.4 Review and Audit Activities of the Houston Onshore Office

Field audit tasks in CY 2016 included conducting two (2) multi-day working meetings and in-person audits at Transocean's onshore offices in Houston, Texas. During the office audits, Transocean made a wide range of senior managers and employee experts available for interviews and to provide additional information. The additional information these experts provided was especially important for the (1) verification of the Consent Decree-required pre-deployment BOP inspection and testing activities and (2) follow-up on Transocean actions related to the CY 2015 Annual Report observations.

As discussed in Section 1.5, Transocean continued in CY 2016 to have employees facilitate live access and viewing of information maintained in and generated by the company's electronic management systems and internal recordkeeping tools including GMS and RMS. These electronic management systems and internal recordkeeping tools are used and relied upon by Transocean to demonstrate compliance with the majority of the Consent Decree and Performance Plan requirements.

The live access to these systems and tools enabled the continued random generation and/or selection of records for auditing in CY 2016. Transocean's extensive electronic management systems and records also allowed for a comprehensive review of Transocean's records, which was necessary to verify compliance with the selected requirements.

2.1.5 Drilling Rig Field Audits

In CY 2016, field audits of Transocean's drilling rigs were also conducted again to provide for direct observation and verification that requirements of the Consent Decree and Performance Plan were being met during drilling operations. This continues to be essential for the Independent Auditor because selected requirements can only be independently and fully verified by direct observation and by review of the operating drilling rigs.

Two drilling rigs operating in the GOM were field audited during CY 2016. The individual drilling rig field audits ranged in duration from three to four days. The audited rigs included two (2) ultra-deepwater drillships with different Operators, including one (1) new build drillship conducting drilling operations for the first time.

The drilling rigs audited in the field were selected by the Independent Auditor based on criteria that included the type of rig, rig Operator, activities on the rig, and the length of time the rig has operated in US waters. The dates of the field audits were coordinated with Transocean's internal management system audits and Transocean drilling. The Independent Auditor had the final decision on the scope and schedule of the drilling rig field audits.

The field audits also included the direct observation of one (1) internal (i.e., Transocean) management system audit of the drilling operations. The internal management system audits are part of the "Audit-Review-and-Closeout-Process" that Transocean implemented and performs routinely to comply with Paragraph 15.a.1 of the Consent Decree and Performance Plan. Transocean also uses internal audits to fulfill the requirements of the International Safety Management (ISM) code. Direct, real-time observation of the performance of Transocean's internal audits increase the overall robustness of the compliance verification related to the requirement. In addition, the Independent Auditor's performance field audits concurrently with the internal audits increases the value of the field audits based on additional observations and information.

As discussed above, one (1) field audit was also conducted for the direct observation of Transocean's operations on a new build drillship conducting drilling operations for the first time. As part of this field audit, the Independent Auditor also confirmed the use and familiarity with Transocean's operational BOP checklists and procedures by Subsea Supervisors and Senior Subsea Supervisors responsible for BOP pre-deployment testing and inspection activities.

The two drilling rig field audits represented approximately 29% to 33% of Transocean's drilling rigs that operated in US waters during the majority of CY 2016. For comparison purposes, the SEMS field audit requirements in 30 CFR Part 250, Subpart S, which reference to COS requirements, require that at least 15% of "the facilities operated" be audited.⁷

The scope of work conducted as part of the field audits generally included the following:

- Reviewing the rig's Safety Case, Major Accidents and Hazard Risk Assessment (MAHRA), Emergency Response Plan, most recent audit report of the internal management system, Bureau of Safety and Environmental Enforcement (BSEE) Incidents of Non-Compliance (INCs), and information on rig loss of containment (LOC), lost work time (LWT) events, serious near miss event, near miss events, and ultimate work authority (UWA) stop work events.
- Observing Transocean's internal management system audit, including meetings, auditor's inspections, reviews of records, and employees' interviews.
- Participating in a tour of the rig including key drilling operational areas followed by additional inspections and reviews of other specific areas.
- Observing drilling and marine equipment testing, maintenance, and inspection activities.
- Reviewing permit-to-work (PTW) activities, written risk assessments (WRAs), and daily drilling and marine operational procedures.
- Conducting interviews with key personnel that included, but were not limited to, the Master/OIM, Chief Mate, "Well Control Personnel," and "CAMS Employees," as defined within the Consent Decree and Performance Plan.
- Conducting interviews with Operator and Contractor personnel, as available.
- Reviewing a wide range of rig-specific inspection and testing records for the maritime and drilling operations related to or required for Consent Decree compliance.

⁷ See "Requirements for Third-party SEMS Auditing and Certification of Deepwater Operations" COS-2-03, prepared by the Center for Offshore Safety and dated October 2012.

Transocean employees continued to cooperate fully during the planning and performance of the field audits in CY 2016. The Independent Auditor was provided access to attend rig operational meetings, meet with all employees, and obtain any Transocean records requested at the time of the fieldwork or as subsequent follow-up to the field audits of drilling rigs.

2.1.6 Other Actions

During CY 2016, Transocean requested Independent Auditor input related to Consent Decree Paragraph 15.d.3 required for 40 hours of in “well control operational, principles of process safety, or risk management.” Therefore, the Independent Auditor reviewed Transocean course materials for a new “Operational Leadership” training course.

Based on this review, the Independent Auditor provided Transocean with recommended hours of this course that would qualify as credit towards the 40-hour requirement. Transocean accepted this recommendation on credit hours for incorporation in GMS for tracking Consent Decree compliance related to the 40-hour annual training for “Designated Employees.”

As discussed in Section 4.3 below, Transocean also arranged for the Independent Auditor to meet with the PSC and Transocean SMEs on drilling operations and the management of hydrocarbon gasses in drilling mud during drilling operations. The additional purposes of the meeting was to discuss Transocean’s stop hot work policy and procedures related to hydrocarbon gasses in drilling mud during drilling operations in US waters. The meeting was held in May 2016.

2.2 CLASSIFICATION OF RESULTS

Results of the review and audit of Transocean’s compliance with the Consent Decree and Performance Plan requirements were classified into the following four categories:

- Compliance
- Compliance with System Exceptions
- Non-Compliance – Deficiency Finding
- Observations

This classification system is essentially unchanged from that used for the CY 2014 review. The basis for these classifications is provided in Table 1 below. The classifications were developed based on the Consent Decree requirements, auditing standards, and guidance from various organizations, as well as professional knowledge and auditing experience.

As discussed in Section 1.1, detailed findings and verification information associated with Transocean’s compliance with Consent Decree and Performance Plan requirements are not discussed in this report. This includes programs required by the Consent Decree and Performance Plan or systems that may have had exceptions identified but met the classification

“Compliance with System Exceptions”. For example, these exceptions may have included limited aspects of Transocean’s SEMS program, internal Management System Audit (MSA) program, and Competence Assessment Program (CAP).

Table 1: Classification of Review and Audit Results

CLASSIFICATION	DESCRIPTION
Compliance:	There is evidence that a requirement has been met with no exceptions by the Company or a representative sample.
Compliance with System Exceptions:	There is evidence of the development, implementation, and ongoing maintenance of required programs, processes, or systems; any identified exceptions to performance are <u>not</u> associated with “systemic” deficiencies, and all deficiencies have been corrected.
Non-Compliance – Deficiency Finding:	There is evidence of the failure to meet or fulfill a specific requirement by the Company or a representative sample. Or, There is evidence concerning a lack of development, implementation, or maintenance of required programs, processes, and systems, including the identification of “systemic” deficiencies in the implementation or maintenance of the required programs, processes, or systems.
Observations:	“Material” observations include evidence of current practices, procedures, operations, or conditions that (1) were not non-compliance related issues but could potentially result in future non-compliance issues or (2) represent potential process safety or drilling risk management issues. Additional observations may include questions and requested clarifications on issues that are subsequently closed without meeting the criteria for classification as a “Material” observation.

As provided in the ISO 19011 Standard on Guidelines for Auditing Management Systems, a “management system” is defined as a “system to establish policy and objectives and to achieve those objectives.” During the review and audit of a “management system” or program for overall compliance, the identification of individual deviations and exceptions to strict conformance may not result in a non-compliance deficiency finding.

A non-compliance “deficiency” finding for a management system or program requires evidence of a clear gap in the development, implementation, and maintenance of the systems or a program’s major elements or aspects.

2.3 LIMITATIONS AND REPRESENTATIONS

As discussed in Section 1.3, Transocean's submissions to the US that were subject to regulatory agency review were not reviewed for determinations of compliance with applicable regulatory requirements. This approach was based on the Consent Decree's provisions for the role of the Independent Auditor.

The Independent Auditor's review and audit scope also does not include a technical "expert" evaluation of the accuracy and content of Transocean's reports submitted to the US. The verification of compliance focused on the milestone date and a review to determine if the report was generally responsive to the Consent Decree and Performance Plan requirements. These requirements could include specific content, incorporating and using prescribed factors (e.g., technical feasibility, applicability, cost benefits) in the preparation of the report, and following specific procedures. In cases where the information contained in required Transocean CY 2016 annual reports was limited by confidentiality issues, the Independent Auditor requested and Transocean made available for review detailed back-up information and analyses used as the basis for the submitted information.

In addition, all compliance reviews and audits involved performing tasks and undertaking procedures to obtain and review information or evidence determined to be necessary by the auditor to meet the objective of the audit. The tasks and procedures selected for this review depended, to a certain extent, on professional judgment, including an assessment of the risks of material misstatement of the findings.

In making those auditor risk assessments, Transocean's existing internal systems, procedures, and controls relevant to Transocean's compliance with the Consent Decree and Performance Plan requirements were considered. Consistent with generally accepted auditing practices, only a representative sample of Transocean's records or equipment may have been reviewed or inspected to meet the specific requirements of the Consent Decree and Performance Plan. For instance, when professional judgment was used to select samples for review and inspection, the objective was to minimize the risk of a material misstatement of the findings. Review and audit findings that required direct observation during field audits of the drilling rigs are also based on the onsite time periods.

Information required to complete the review and audit was primarily obtained from Transocean, including reports from the Company's electronic management systems; reports, plans, and procedures from the Company's document control system; and interviews of employees. To a much lesser extent, technical and regulatory information also was prepared by external, third-party entities. The external third-party information included pre-deployment inspection, maintenance, and testing verification records for well drilling operations. The information and records from Transocean or other external sources that were relied upon to verify compliance and form opinions were assumed to be true, accurate, and complete.

Certain provisions of the Consent Decree and Performance Plan are subject to potential interpretation because specific definitions are not provided within these documents. Compliance with these provisions was based on Transocean's interpretations, unless specific interpretation information was provided by US agency representatives. In cases in which Transocean's interpretations were used, these interpretations appeared to be reasonable and were generally fully disclosed to the US agency representatives.

Finally, selected interpretations associated with verification of compliance with the requirements of the Consent Decree and Performance Plan may have also been discussed in the Independent Auditor's Annual Report for CY 2014 and CY 2015. These interpretations continued to apply to the performance of the CY 2015 review and the preparation of this CY 2016 Annual Report.

3.0 FINDINGS

Based on the results of the review and audit, it is the opinion of the Independent Auditor that Transocean was in full compliance with the hundreds of Consent Decree and Performance Plan obligations applicable to CY 2016, with the exception of one (1) compliance deficiency. Additional information on this one exception to full compliance is provided below.

The findings of non-compliance identified in this (and past) annual reports should be evaluated in the context of the large number of Consent Decree and Performance Plan compliance obligations that have been fully met by Transocean. Transocean continued to be subject to more than 140 separate Consent Decree and Performance Plan requirements that often included multiple compliance items occurring throughout 2016.

More importantly, the single 2016 compliance deficiency was not associated with Transocean's implementation and performance of the additional risk management provisions and programs for drilling operations required by the Consent Decree. Instead, the one exception to compliance was related to a reporting gap on the submission of information for 2014.

Finally, the one exception to Consent Decree compliance in CY 2016 did not result in material deficiencies in Transocean's drilling rigs' Major Accident and Hazard Risk Assessments (MAHRAs) or to operational oversight of drilling operations. In addition, the non-compliance finding does not indicate that material deficiencies are present in Transocean's internal management system(s) for drilling operations. Therefore, Transocean's internal management system continues to meet offshore Operator SEMS requirements contained in 30 Code of Federal Regulations (CFR) Part 250, Subpart S.

3.1 REPORTING OF NEAR HITS AND SERIOUS NEAR HITS FOR 2014

Paragraph 15g of the Consent Decree requires Transocean's Annual Report to include a summary report documenting various information, including "*all corrective maintenance and inhibits (i.e., the temporary disabling) of safety critical equipment, stop-work events, near hits and serious near hits, major loss of containment incidents and any incidents involving Transocean's employees or contractors that Operators are required to report under 30 C.F.R § 250.188 (as modified to include reporting of property or equipment damage greater than \$250,000 in value).*" This required summary report was referenced as the "*Incident Tracking Summary Report*" in the Transocean Annual Reports for CY 2014 and CY 2015.

In CY 2016, Transocean self-reported that information on the number of near hits and serious near hits that occurred on rigs operating in US waters was not included in the *Incident Tracking Summary Report* within Transocean's Annual Report for 2014 that was submitted to the US in April 2015. This non-compliance finding was identified by Transocean during the preparation of the same report for inclusion in Transocean's Annual Report for 2015.

In response to this finding, Transocean resubmitted and posted to the public website, a corrected 15.g Appendix and *Incident Tracking Summary Report* within the 2014 Consent Decree Annual Report. Based on information from Transocean and the IA's independent evaluation, the root cause of this reporting failure appears to be an administrative oversight. Transocean's management system is designed and used by rigs to track these leading indicators. In addition, near hit and serious near hit information was reviewed by the IA as part of the CY 2014 review and audit activities.

To prevent reoccurrence, Transocean will maintain a two-tier accuracy review process for the preparation of each Consent Decree-required Annual Report. As part of finalizing the 2015 Annual Report, Transocean reported that all information was cross checked. The Incident Tracking Summary Report within Transocean's 2015 Consent Decree Annual Report includes all the required information, including the number of near hits and serious near hits.

4.0 CY 2016 OBSERVATIONS

During CY 2016, a number of observations were also noted throughout the review and audit of Transocean's compliance with the Consent Decree and Performance Plan. As discussed in Section 2.2, material observations are defined as findings associated with practices, procedures, operations, or conditions that (1) were not a current compliance deficiency but could potentially result in a future compliance deficiency or (2) represent potential process safety or drilling risk-management issues. General observations may be related to follow-up questions and clarifications regarding specific Transocean actions or information.

As part of the CY 2016 review and audit, approximately 25 observations were reported to Transocean for additional formal discussion and/or follow-up. These observations may or may not have been directly related to a Consent Decree compliance requirement. For observations not directly linked to specific Consent Decree requirements, the observations were still often related to Transocean's management systems and operational activities used to ensure operational integrity, SEMS compliance, and HSE performance.

Approximately half of the CY 2016 observations related to follow-up questions and requested clarifications on Transocean's Management System (MS) audits of rigs operating in US waters. The questions and requests for information included aspects related to the performance of the audits, the nature of the findings identified in the audits, and confirmation of Transocean's required tracking and performance of corrective actions for specific MS audit findings.

As part of the typical follow-up for each observation, Transocean was requested to provide additional documentation and/or clarification information regarding each observation. For purposes of transparency, selected observations were also reported to US agency representatives. After review and evaluation of any additional information, an observation may be close-out or continued as an audit item for ongoing follow-up.

Additional information on five (5) specific CY 2016 "material" observations is provided below. Any observations not included below were related to questions and clarifications or have been discussed with Transocean and closed out. The exclusion of these observations from further discussion was based on the final nature of the observations (i.e., question, clarification, or opinion) and Transocean's completion of all follow-up actions for the observations.

4.1 ANNUAL CAMS EMPLOYEES LIST - SENIOR DPO REPORTING

During the CY 2016 review, the Independent Auditor determined that the annual list of "CAMS Employees" that Transocean submitted to the US in January of 2014, 2015, and 2016 did not include any employees working on drilling rigs the job title "Senior Dynamic Positioning Operator" (Senior DPO). Transocean did report in the annual lists all applicable employees

having the job titles “Dynamic Positioning Operator I” (DPO I), “Dynamic Positioning Operator II” (DPO II), and “Dynamic Positioning Operator III” (DPO III).

As provided in the Performance Plan, “CAMS Employees” include “Drillers, Senior Subsea Supervisors, Subsea Supervisors, and Dynamic Positioning Officers.” However, unlike the other “CAMS Employees” positions, Transocean does not have a specific employee job title or position description that is “Dynamic Positioning Officer”. Because there was no specific reference to Senior DPO in the Performance Plan, Transocean included only the names of employees holding DPO I, II, or III in the lists of the CAMS Employees submitted to the US.

A comparison of the number of employees in DPO I, II, and III positions reported in the annual CAMS employees list and the number of employees in Senior DPO position is provided in Table 2 below.

**Table 2: Breakdown of Transocean CAMS Employee
“Dynamic Positioning Officers” Annual Reporting**

Annual List of CAMS Employees	Senior Dynamic Positioning Operators - Not Reported¹	Dynamic Positioning Operators I, II, III, - Reported²
January 2014	49	51
January 2015	38	47
January 2016	35	47

¹ Based on IA count of Senior DPO employees on drilling rigs operating in US waters that Transocean provided in a list for IA review for each applicable year.

² As reported by Transocean in reports provided to and verified by the IA.

Based on a general literature review, the term “Dynamic Positioning Officer” appears to be a term broadly used to represent individuals acting as dynamic positioning operators and “keeping the watch” in the maritime and offshore drilling industry.⁸ However, Transocean appears to have considered employees with Senior DPO job titles as “Senior Dynamic Positioning Officers” years before being required to prepare and submit the annual list of CAMS Employees. As a result, Transocean appears to have interpreted the term “Dynamic Positioning Officer” to only include the junior Dynamic Positioning Officer job titles DPO I, DPO II, and DPO III.

It is important to note that this Senior DPO annual reporting issue did not have a material adverse impact on the Independent Auditor’s ability to conduct the evaluation of Transocean’s compliance with the CAMS program, and specifically, the Dynamic Positioning Competency Assurance Program (DP-CAP) required by the Consent Decree and Performance Plan. These

⁸ See <https://www.km.kongsberg.com/ks/web/nokbg0397.nsf/.../helix-case-study.pdf> and See pp 62-63 of <http://sunnyday.mit.edu/papers/Navy-Final-Report-2016-Feb-17.pdf>

programs were established to further ensure that Transocean’s “CAMS Employees” are properly trained, competent, and verified as meeting a proficiency standard required for the safe and effective performance of their duties.

Based on follow-up review in CY 2016, Senior DPOs at Transocean are and have always been clearly subject to and included in the CAMS and DP-CAP requirements. Furthermore, all Senior DPOs newly identified as working on rigs operating in US waters during the years 2014, 2015, and 2016 have all been confirmed to be fully compliant with DP-CAP requirements during all the applicable years.

Finally, to eliminate reporting uncertainty and aid the Independent Auditor’s review of CAMS and DP-CAP requirements, Transocean has agreed to include Senior DPOs in all future annual lists, including CY 2017. This corrective action will eliminate any interpretation issue and ensure that all future Independent Auditor review of CAMS and DP-CAP compliance for Transocean’s Senior DPOs is as clear and straightforward as the auditing of employees having the job titles of DPO I, DPO II, and DPO III.

4.2 2016 MANAGEMENT SYSTEM CHANGES – PSC REVIEW

During 2016, Transocean implemented management system updates that included certain revisions to the categorization, authorization of changes, and control of Transocean’s operational and health, safety, and environmental (HSE) procedures. The updated management system also uses “Controlled Procedures” and “Procedures” as a foundation of Transocean’s new Task Planning and Risk Assessment Policy.

The Task Planning and Risk Assessment Policy replaced the “THINK” process previously used by Transocean. Under the new policy, all former Mandatory Rig Specific Procedures (MRSPs) have been converted to “Controlled Procedures” and all former Rig Recommended Practices (RRPs) converted to “Procedures” in the updated management system.

On the surface, these management system changes appear to be minor. However, in 2015, Transocean implemented changes to the former THINK process and RRP requirements. These changes were based on Independent Auditor observations from the Consent Decree review and audit process. The changes included the clarification that any rig-specific procedures, standards, guidelines or operating practices that related to a Major Hazard Barrier in the rig’s Safety Case, were considered RRP.

Under the updated management system, it is uncertain whether “Procedures” (former RRP), including those that relate to a Major Hazard Barrier in a rig’s Safety Case have a reduced level of required management control and risk assessment transparency and performance. Based on this uncertainty, the Independent Auditor is recommending that the PSC specifically review these management system updates as part of the Consent Decree required 2nd PSC review to be completed by October 2017.

4.3 HYDROCARBON GAS-IN-MUD AND TRANSOCEAN'S STOP HOT WORK POLICY

During drilling operations, the concentration of hydrocarbon gasses in drilling mud is closely monitored on Transocean drilling rigs. These “gas-in-mud” concentrations are obtained by mud loggers contracted by Transocean’s customers (i.e., Operators) using standard industry equipment such as flame ionizing detectors (FIDs) and gas chromatographs, as well as standard operating procedures and calibration.

The gas-in-mud information is used on a drilling rig, by the Operator, to provide additional well log, well control, and reservoir-related information. The Operator and Transocean also use this information to monitor the drilling operation and make modifications to drilling parameters, such as mud weight, in response to the trend of gas-in-mud readings. The gas-in-mud information is also used by Transocean for several purposes, including to manage drilling risks associated with well control and operational safety. A detailed discussion of the purposes and performance of mud logging and gas-in-mud monitoring is provided in an article discussing the expanded role of mud logging that appeared in the industry publication *Oilfield Review* in 2012.⁹

One of Transocean’s drilling rig routine operations that is directly impacted by the gas-in-mud concentrations observed during drilling is the performance of hot work; such as welding, cutting and grinding of metal. Transocean’s drilling rigs have a rig policy or procedure for the stopping of hot work (and smoking) based on the levels of gas-in-mud reported by the mud loggers. In addition, 30 CFR Part 250.113(c)(6) specifies that if a rig is not welding in a designated safe-welding area then:

“(6) You may not weld while you drill, complete, workover, or conduct wireline operations unless:

- (i) The fluids in the well (being drilled, completed, worked over, or having wireline operations conducted) are noncombustible; and*
- (ii) You have precluded the entry of formation hydrocarbons into the wellbore by either mechanical means or a positive overbalance toward the formation.”*

Beginning in CY 2015 and continuing during CY 2016, the Independent Auditor has conducted a review of the gas-in-mud levels established by Transocean for stopping hot work on drilling rigs operating in US waters. This review has included both Transocean’s procedures for the establishment of the threshold of the gas-in-mud levels for stopping hot work and the consistency and technical basis of the gas-in-mud levels established across the drilling rigs.

As discussed in the CY 2015 Annual Report, Transocean implemented certain changes to help improve their management system’s THINK procedure regarding the documentation and control of rig specific policies and procedures that “*pertain to a Major Hazard Barrier as documented in*

⁹ P. Ablard, C. Bell, D. Cook, I. Fornasier, J.-P. Poyet, S. Sharma, et al., “*The Expanding Role of Mud Logging*” *Oilfield Review*, 24 (2012), No. 1 pp. 24–41

the installation's Safety Case." As discussed in Section 4.2, Transocean revised the management system in 2016 and replaced the THINK process with the Task Planning and Risk Assessment Policy. The Independent Auditor is recommending that the PSC review these changes in CY 2017.

However, Transocean's management system changes did not specifically address the thresholds established in units of gas-in-mud (as standardized) that trigger the stopping of hot work on individual drilling rigs of the same class. Based on my review, the measurement of the units of gas across the Transocean rigs was based on similar monitoring procedures and equipment. Therefore, the technical basis for the differences in gas-in-mud thresholds for stopping hot work across rigs of the same class was not clear.

As a result of the uncertainty, the Independent Auditor requested and Transocean agreed, to have a joint conference call on this with the US Department of Interior (DOI) Bureau of Safety and Environmental Enforcement (BSEE) representatives in January 2016. After detailed discussion of the gas-in-mud observation, the BSEE representatives indicated that this observation appeared to be industry-wide offshore MODU issue. Therefore, the BSEE representatives indicated that no further specific actions by Transocean were required. Furthermore, the BSEE representatives indicate the agency would undertake a broader offshore industry follow-up to obtain additional information and further evaluate any potential risk management issues.

Subsequent to the BSEE conference call, Transocean has also participated in offshore industry roundtable working group discussions related to gas-in-mud issues. Furthermore, in May 2016, Transocean SMEs on drilling and gas-in-mud aspects met with the Independent Auditor and the PSC to discuss the gas-in-mud stop hot work observation and Transocean's follow-up actions. Based on the Transocean information presented at this meeting, the PSC did not identify any specific unacceptable risk issues with Transocean's gas-in-mud thresholds for stopping hot work (and smoking) on drilling rigs operating in US waters.

As of the date of this CY 2016 Annual Report, BSEE has not provided any additional information on their review or evaluation of the gas-in-mud observation to the Independent Auditor or Transocean. Subject to the provision of timely additional information from BSEE, the Independent Auditor is recommending that the PSC formally review the gas-in-mud issue and the various thresholds used for stopping hot work as part of the Consent Decree required 2nd PSC review to be completed by October 2017. During CY 2017, the Independent Auditor will also follow-up with BSEE regarding any additional industry-wide information or findings on the gas-in-mud observation that are available.

4.4 EMERGENCY RESPONSE PLAN (ERP) MANUALS – PSC REVIEW

As part of obligations under Paragraph 18 of the Consent Decree, Transocean submitted for review to US agency representatives, revised Emergency Response Plan (ERP) Manuals for rigs operating in water of the US in 2016. Based on an initial review of the revised ERPs,

selected sections of the ERPs and selected emergency checklist's actions appeared to contain information that was inconsistent across Transocean's rigs of the same or similar class.

In addition, the basis for specific recommended times in the certain checklists' for step-by-step emergency actions in the case of a specific emergency event was not well documented. This is not unexpected or inappropriate with general ERP manual requirements. However, there have been a number of expert reviews and studies of emergency actions and timing associated with response to offshore emergency events.

Therefore, at a minimum, the ERP checklists for step-by-step actions and timing for emergency events such as a reservoir blowout at the drill floor and fire and explosion in the mud pits should be reviewed by an independent subject matter expert (SME). Based on this observation, the Independent Auditor is recommending that the PSC specifically review the emergency event "checklists" within the ERP manuals as part of the Consent Decree required 2nd PSC review to be completed by October 2017.

4.5 BOP-RELATED EQUIPMENT - RUBBER PARTS MANAGEMENT

As part of the field audits of Transocean drilling rigs, brief physical audits of the material warehouses and rubber rooms on the rigs are conducted to evaluate Transocean's control of BOP-related rubber goods, including labeling and tracking of expiration dates for OEM rubber goods. Transocean's global supply chain procedures require rubber goods used in critical equipment to have clearly marked expiration dates on the items. In addition, periodic checks are to be conducted to ensure a minimum of 12 months of residual shelf life.

During CY 2016, both drilling rigs that were field audited had a number of BOP-related rubber goods in their Material Warehouses that did not have expiration dates noted on the Transocean labels or OEM packaging. In addition, expiration dates for a few selected BOP-related rubber goods also were not recorded in the electronic records system maintained on the rig at the time of the audit. The majority of these rubber goods had OEM label information indicating five to 10 year shelf lives from "cure date." However, at least one BOP-related rubber part was marked with an OEM label indicating only a three-year shelf life from date of manufacturer cure date and no batch production date or expiration date was noted on the part.

It is important to note that after additional investigation, none of the BOP-related rubber parts noted without expiration dates were actually expired parts or even within a six-month expiration time period requiring segregation. In addition, based on these observations, the Master/OIM on each audited rig directed the Materials Manager on the rig to immediately begin conducting or finish a full physical inventory audit of the rubber goods storage room.

The Independent Auditor also understands that Transocean reported these rubber goods observations to all Rig Managers for drilling rigs operating in US waters. This reporting was conducted so that these Rig Managers could follow-up with Masters/OIMs on their rigs on the

requirement for labeling of expiration dates on rubber goods. As part of my CY 2017 review and audit, I will continue to inspect warehouse rubber rooms for BOP-related parts management in accordance with Transocean policies.

5.0 CY 2015 OBSERVATIONS FOLLOW-UP

As part of the CY 2016 review and audit, follow-up was also conducted by the Independent Auditor on the observations noted in the CY 2015 Annual Report. As part of the CY 2015 review and audit, only one (1) observation was specifically included in the annual report.

For purposes of clarity, a summary of the corrective actions, follow-up review results, and/or additional information generated for the one(1) reported CY 2015 observation, is provided below. Based on this information, the CY 2015 observation is classified as closed.

5.1 COMPETENCE ASSESSMENT PROGRAM

Transocean has developed and implemented a Competence Assessment Management System (CAMS) to further ensure operational competence required by Transocean personnel. These personnel include Consent Decree “designated employees” working as Drillers, Senior Subsea Supervisors, Subsea Supervisors, and Dynamic Positioning Officers in US waters.

Based on the CY 2015 audit of Transocean’s CAMS performance, records indicated that eight (8) Senior Subsea Supervisors and Subsea Supervisors had not completed CAMS-assigned specialized BOP maintenance training courses that are provided by the OEMs. Transocean’s training department was working with OEMs in CY 2015 to eliminate this gap in specialized BOP maintenance training. However, this was not fully completed. As a result, Transocean committed in CY 2015 that by the end of March 2016; all Senior Subsea Supervisors and Subsea Supervisors identified as lacking the assigned OEM BOP-specific training, will have completed this training.

As part of the CY 2016 review and audit, training records were reviewed by the Independent Auditor to confirm the completion of CAMS specialized training for the eight (8) identified Senior Subsea Supervisors and Subsea Supervisors that Transocean committed to complete in the 1st Quarter of CY 2016. Based on this review, these specific individuals had all completed OEM-specific BOP maintenance training by March 31, 2016, or had left the company before this date.

It should be noted that during CY 2016, all CAMS “designated employees” onboard during IA rigs audits were reviewed and determined to be meeting the CAMS training program criteria. In addition, a random sample of Transocean CAMS “designated employees” working on drilling rigs not visited by the IA were also reviewed for overall compliance with the CAMS training program criteria. No “designated employees” were identified in CY 2016 that were not meeting the CAMS training program criteria for their position.

6.0 CONCLUSIONS

Based on the Independent Auditor's review and audit, Transocean was in material compliance with the Consent Decree and Performance Plan in CY 2016. As discussed in Section 3.0, only one (1) compliance deficiency was identified as a finding for CY 2016. This single deficiency was associated with a reporting gap that was identified in Transocean's CY 2014 Annual Report that was submitted in April 2015. The Independent Auditor also noted five (5) material observations for additional discussion and follow-up as part of the CY 2016 review.

In the Independent Auditor's opinion, the single deficiency identified for CY 2016 was not associated with Transocean's implementation and performance of the risk management provisions and programs for drilling operations required by the Consent Decree. In addition, this non-compliance finding did not result in material deficiencies in Transocean's drilling rigs' MAHRAs or the Company's operational oversight of drilling operations. Furthermore, Transocean's current internal management system continues to generally comply with SEMS requirements in 30 CFR Part 250, Subpart S.

In accordance with Paragraph 22 of the Performance Plan, Transocean is to respond to any "deficiencies" noted in the Independent Auditor's draft report and develop a corrective action plan within 30 days of receipt of the draft report. The draft report was submitted to Transocean on February 2, 2016. The corrective action plan is then to be submitted with the final report that is to be submitted to the US by April 2, 2016.

Transocean's response to the identified compliance deficiencies for CY 2016 is provided in Appendix B of this final report. This includes a discussion of the actions already undertaken and completed by Transocean or planned for implementation and completion to correct the identified compliance deficiencies. Appendix B also includes Transocean's discussion of the CY 2016 observations discussed within the final report.

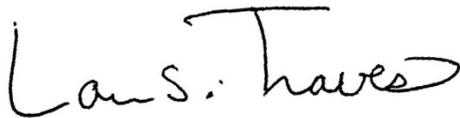
7.0 CERTIFICATION

The undersigned hereby certifies that:

The reported analyses, opinions, findings, and conclusions contained within this report are personal, unbiased, professional, and limited only by the assumptions and qualifications stated herein. Compensation was not contingent upon an action or an event resulting from the analyses, opinions, findings, or conclusions in, or the use of, this report. This project was performed in accordance with accepted practices prevailing in the health, safety, environmental, and quality (HSEQ) auditing and consulting industries.

The Independent Auditor, Mr. Traves, has more than 25 years of HSEQ experience, including acting as the Lead Auditor on SEMS and HSEQ compliance audits. He has conducted comprehensive SEMS, HSEQ compliance, and HSE system audit projects for more than 100 operations located both onshore and offshore throughout North America.

Prepared by:



Lance S. Traves
*Independent Consent Decree Compliance Auditor
Labyrinth Management Group, Inc.*

APPENDIX A

Summary of the Consent Decree and Performance Plan Requirements Articles VI and VIII

Appendix A

Summary of the Consent Decree Performance Plan Requirements – Articles VI & VIII*

Paragraph Reference	Topic	General Requirements
15.a.1.a	Drilling Operations - Audits	Do not conduct any Drilling Operations unless the Company designs, implements, and maintains an Audit-Review-and-Closeout Process overseen by Transocean's onshore management that: <ul style="list-style-type: none"> i. Ensures the follow up and closeout of rig-specific audits; and ii. Ensures that all material deficiencies related to rig's Major Accidents and Hazard Risk Assessment ("MAHRA") identified in an audit are corrected within sixty days of identification, unless Transocean's supervising auditor or manager agrees in writing to a longer time period
15a.1.b	Drilling Operations - SEMS	Develop a Management System which complies with Operators' Safety and Environmental Management System ("SEMS") for owned or operated rigs, vessels, and facilities operating in the Waters of the United States. Certify that a Management System is in place that complies with SEMs.
15.a.2	Stop Work Authority (SWA)	Do not conduct any Drilling Operations unless the Company establishes a Stop-Work Authority procedure that: <ul style="list-style-type: none"> i. Is consistent with International Safety Management ("ISM") code, SEMS, and federal regulatory requirements; and ii. Grants all personnel and contractors the responsibility and authority, without fear of reprisal, to stop work on Transocean's rigs, vessels, or facilities, or decline to perform an assigned task when such person perceives any significant risk or danger exists (including but not limited to: loss of well control, spill, blowout, and/or loss of life).
15.b	BOP Certification	Do not conduct any Drilling Operations unless the Company provides to the United States prior to the time of the initial deployment of the BOP on a well operation, written certification that: <ul style="list-style-type: none"> i. Scheduled preventive maintenance provided by API Standard 53 for the BOP to be utilized has been performed; ii. All repairs done to the BOP utilized only Original Equipment Manufacturer ("OEM") parts, unless the OEM cannot supply the necessary part, and were completed by Competent Personnel as defined in the Consent Decree. iii. All batteries used in the BOP emergency control systems (including, e.g., deadman, autoshear) have been maintained according to the OEM recommendations; and iv. The blind shear rams were surface tested in accordance with OEM specifications and regulatory requirements.

Appendix A

Summary of the Consent Decree Performance Plan Requirements – Articles VI & VIII*

15.d.1 & 15.d.2	Well Control Competency Assessments	<p>Develop, implement, and maintain documentation for a Well Control Competency Assessment plan for all Transocean personnel (including: Offshore Installation Manager (“OIM”), Senior Toolpusher, Toolpusher, and Driller) responsible for conducting or oversight of Drilling Operations on Transocean’s owned, operated, or contracted rigs (collectively “Well Control Personnel”) that:</p> <ul style="list-style-type: none"> i. Includes well control competency requirements for Well Control Personnel that exceed the competency requirements set forth in 30 C.F.R. §§ 250.1500-1510 (Subpart O); ii. Identifies skill sets and other competencies needed to recognize, evaluate, and respond to Well Control events; iii. Provides for the training and assessment of skills and competencies necessary for those events; and iv. Provides appropriate corrective actions for personnel who do not demonstrate the identified skills or competencies, including but not limited to, ensuring that any such personnel who have not demonstrated such skills and competencies shall work under direct
15.d.3	Training	<p>Require all offshore management who conduct or oversee Drilling Operations, specifically the OIM, Senior Toolpusher, Toolpusher and Driller (collectively, “Designated Employees”) to complete at least forty (40) hours of training each calendar year related to:</p> <ul style="list-style-type: none"> i. Outer Continental Shelf (“OCS”) well control operations; ii. Principles of process safety; or iii. Risk Management.
15.d.5	CAMS	<p>Implement and maintain a Competence Assessment Management System (“CAMS”) to develop standards of competence required across Transocean’s United States fleet for Drillers, Senior Subsea Supervisors, Subsea Supervisors, and Dynamic Positioning Officers (collectively, “CAMS Employees”) and to ensure that those job positions are receiving the correct training for their positions. The CAMS process shall:</p> <ul style="list-style-type: none"> i. Obtain third-party certification of its CAMS process from the Offshore Petroleum Industry Training Organization (“OPITO”); ii. Assess risks associated with CAMS Employees; and iii. Audit training and employee competency records to assure that CAMS Employees are adequately receiving the correct training for their positions.

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Summary of the Consent Decree Performance Plan Requirements – Articles VI & VIII*

15.d.6	Competence Assessment Program	<p>Use a Competence Assessment Program (“CAP”) to assess the capability of Drillers, Senior Subsea Supervisors, Subsea Supervisors, and Dynamic Positioning Officers (collectively, “CAP Employees”) to operate at the CAMS established levels of competence. The CAP shall:</p> <ul style="list-style-type: none"> i. Establish a single standard of competency in each job; ii. Be reviewed semi-annually to identify any potential gaps in on-the-job training and/or classroom training programs; and iii. Be updated, changed, or supplemented at least once each calendar year.
15.d.7 & 15.d.8	Operational Alerts	<p>Develop and commence continuous operation of the Global Management System (“GMS”) to forward operational alerts issued at the corporate level to Transocean’s rigs operating in the Waters of the United States.</p> <p>Require confirmation from the Offshore Installation Managers (“OIMs”) that operational alerts have been received and that the required actions are being taken.</p>
15.f.	Records	<p>Maintain both offshore and onshore copies of all records related to the United States-required drilling and production tests of drilling equipment owned by Transocean.</p> <p>Submit the records to the United States upon request.</p>
15.g	Incident Tracking Report	<p>Annually prepare an Incident Tracking Summary Report documenting all corrective maintenance and inhibits (i.e., the temporary disabling) of safety critical designated equipment, stop-work events, near hits and serious near hit incidents, major loss of containment incidents, and any incidents involving Transocean’s employees or contractors that Operators are required to report under 30 C.F.R. § 250.188 (as modified to include reporting of property or equipment damage greater than \$250,000 in value). The Incident Tracking Report shall include trend analysis for the categories of incidents listed above.</p>
16.a,b	Oil Spill Training	<p>Provide training at least once per calendar year on the National Incident Command System (“ICS”) to Transocean’s personnel engaged in any function associated with emergency planning, preparedness, and response for any drilling rigs.</p> <p>This training requirement applies to the following personnel: Health, Safety, and Environment (“HSE”) Vice President (now titled Vice President of HSE), Vice President of the Americas, HSE Director (now split into Director HSE Field Support and Director HSE Services), HSE Manager, Sector Manager and General Manager (now titled Operations Director), Operations Managers, and Rig Managers (collectively, the “Emergency Response Team” or “ERT”).</p>

Appendix A

Summary of the Consent Decree Performance Plan Requirements – Articles VI & VIII*

17.b	Oil Spill Drills - Actual Notification	<p>Quarterly, by the last day of March, June, September, and December of each calendar year, with advance notice, and in coordination with the Operator, conduct one drill with actual notification to the National Response Center clearly identifying that the call is part of an exercise.</p> <p>b. The rig to perform the actual notification drill shall be selected at random by a Transocean Operations Director in the first week of each quarter.</p> <p>c. Transocean shall document the actual notifications in the drill records of the rig and make available those documents to the United States upon request.</p>
17.d	Weekly Emergency Response Drills	<p>Participate with Operator personnel in weekly rig-based Emergency Response Drills, which shall include the following types of scenarios: blowouts, gas on the surface, fire, vessel collisions, terrorist threats, and muster and evacuation. Where appropriate, Emergency Response Drills shall also include drills regarding the applicable OSRP for a particular scenario.</p> <p>Document the Emergency Response Drills in the drill records of the rig and make available those records to the United States upon request.</p>
18	Oil Spill Response Plan	<p>Submit to the United States, for review and approval, an addendum to the approved OSRP for each Operator with which it contracts. The addendum shall include the following:</p> <ul style="list-style-type: none"> i. A listing of all oil spill response equipment stored on each rig; ii. Information on the communication systems and compatibility with the Operator’s systems, including those in the approved OSRP; iii. A listing of Transocean employee positions responsible for assisting with an oil spill response pursuant to the OSRP, a description of those positions and duties, and a summary demonstrating that the employees filling the positions have the training or experience related to such positions and/or are engaged in a training program or on-the-job-training related to such positions. Transocean shall provide to the United States the names of employees filling the positions upon request; and iv. Action plans and duties relating to maintaining or regaining well control.
18	Oil Spill Response Plan	<p>Review and update its addendum to the Operator’s OSRP, if appropriate, based on any change to the Operator’s OSRP.</p> <p>The approved addendum, along with any updates based on changes to the Operator’s OSRP, shall be made part of the rig Emergency Response Plan (“ERP”).</p>

Appendix A

Summary of the Consent Decree Performance Plan Requirements – Articles VI & VIII*

19.b	Alarm System Safety	<p>Maintain current status records or fire/gas alarm inhibits on Rig & Onshore</p> <p>a. Maintain within maintenance system records an up-to-date status of all inhibits made to the fire and gas alarm systems of its rigs operating in the Waters of the United States.</p> <p>b. Record and maintain this information both on the rig and in a Transocean on-shore database located in the United States. This information shall be made available to the United States upon request.</p>
20	Innovation	<p>Transocean shall form a Technology Innovation Group (TIG) to focus on drilling safety and explore and develop next generation solutions to critical aspects of drilling. A minimum of \$10 million will be devoted to this effort. An annual report will be prepared for TIG efforts.</p>
21.a.	HSE Committee	<p>c. The HSE Committee shall be responsible for the Company’s reporting obligations under Paragraph 31.b. of the Consent Decree as follows:</p> <p>i. The HSE Committee shall meet at least quarterly.</p> <p>ii. The HSE Committee shall appoint a Compliance Advisor to prepare quarterly compliance reports regarding the status of Transocean’s compliance with each element of the Consent Decree (“Quarterly Compliance Report”). The Quarterly Compliance Report shall include discussion of, but not be limited to, all steps taken to comply, all problems or challenges encountered in attempting to comply, and any assistance needed from Transocean Ltd.’s Boards of Directors to help secure timely compliance of the Consent Decree.</p> <p>iii. The Quarterly Compliance Reports shall be provided to HSE Committee members prior to each quarterly meeting.</p> <p>iv. Following each quarterly meeting, the HSE Committee shall provide the Quarterly Compliance Report to TODDI’s and Transocean Ltd.’s Boards of Directors.</p>
21.b	Public Web Site	<p>b. To facilitate access to the Public Web Site, Transocean shall create a link to a “United States MACONDO Settlement Compliance Webpage” on Transocean’s web site, www.deepwater.com.</p>
21.c	National Resource Inventory	<p>a. For each calendar year after February 19, 2013, by April 2, provide to the USCG (via the National Strike Force Coordination Center), for entry into the National Response Resource Inventory database, a list of all Well Control and spill response equipment Transocean owns, operates, or for which it has contracted.</p>

Appendix A

Summary of the Consent Decree Performance Plan Requirements – Articles VI & VIII*

22	Independent Consent Decree Auditor	As part of its Performance Plan approved by the United States, retain an Independent Consent Decree Compliance Auditor who shall audit and report to the United States on Transocean's compliance with Articles VI ("Measures to Improve Performance and Prevent Recurrence") and VIII ("Reporting") of the Consent Decree.
23	HSE Committee	<p>TODDI shall form an HSE Committee. The HSE Committee shall fulfill the requirements of both Paragraph 21.a. and 23.a. of the Consent Decree.</p> <p>b. The HSE Committee shall evaluate Transocean's response/improvements in Transocean's safety and operational risk identification and management of risk, including Transocean's compliance with the process safety related aspects of the Consent Decree, specifically BOP testing and maintenance, training, and Well Control.</p> <p>The HSE Committee shall meet at least quarterly.</p> <p>Following each quarterly meeting, the HSE Committee shall report its findings and recommendations to TODDI's and Transocean Ltd.'s Boards of Directors</p>
23	Independent Process Safety Consultant	Retain an Independent Process Safety Consultant to review TO's BOP testing and Maintenance, Training, and Well Control
31.a	Consent Decree Annual Report	<p>For each calendar year after the Date of Entry, by April 2 of the following year, describe all measures taken to comply with each of the requirements of Article VI (Measures to Improve Performance and Prevent Recurrence) in a report.</p> <p>Post the annual report on the Company's public website.</p>
31.b	Quarterly Reports to Transocean Board of Directors	For each calendar year after the Date of Entry, beginning after the first full quarter following the Date of Entry, report in detail at least quarterly to the Board of Directors of Transocean Ltd. on the status (in each report for the most recently completed quarter) of the Company's compliance with each element of this Consent Decree.

Appendix A

Summary of the Consent Decree Performance Plan Requirements – Articles VI & VIII*

32	Report Incidents of Non-Compliance	In any report required by Article VIII (Reporting), the Transocean Defendants must describe any non-compliance with the requirements of this Consent Decree and provide an explanation of the likely cause and the remedial steps taken, or to be taken, to prevent or minimize such non-compliance. If any of the Transocean Defendants violates any requirement of this Consent Decree, the Transocean Defendants shall report to the United States such violation and its likely duration, in writing, within ten (10) business Days of the Day that any Sector Manager of Transocean Defendants (identified in the Performance Plan) first becomes aware of the violation, with an explanation of the violation's likely cause and of the remedial steps taken, or to be taken, to prevent or minimize such violation. If the cause of a violation cannot be fully explained at the time the report is due, the Transocean Defendants shall so state in the report. The Transocean Defendants shall investigate the cause of the violation and shall then submit an amendment to the report, including a full explanation of the cause of the violation, within thirty (30) Days of the Day any of the Sector Managers of Transocean Defendants (identified in the Performance Plan) becomes aware of the cause of the violation. Nothing in this Paragraph or the following Paragraph relieves the Transocean Defendants of their obligation to provide the notice required by Article X (Force Majeure) or their liability for stipulated penalties as set forth in Article IX (Stipulated Penalties).
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*The summary of Consent Decree Performance Plan Requirements provided as Appendix A is not a fully comprehensive list of all applicable requirements including numerous Transocean “annual report” submission obligations that were not applicable to the audit conducted for the Calendar Year 2014.

APPENDIX B

Transocean Response to Independent Consent Decree Compliance Auditor Annual Report for 2016

**TRANSOCEAN RESPONSE TO INDEPENDENT CONSENT DECREE
COMPLIANCE AUDITOR ANNUAL REPORT FOR 2016
[PREPARED BY TRANSOCEAN]**

INTRODUCTION

Under Paragraph 22 of the Consent Decree, dated February 19, 2013 (“Consent Decree”), entered into between certain affiliates of Transocean (“Transocean”) and various United States government agencies (“United States”) and the related Performance Plan approved by the United States on January 2, 2014 (“Performance Plan”), Transocean provides this “Response” to the Independent Consent Decree Compliance Auditor Annual Report for 2016 (“IA 2016 Report”).

As required, this Response addresses any deficiencies noted in the IA 2016 Report, along with a summary of actions taken or to be taken to address such deficiencies. Additionally, although not required under the Consent Decree or Performance Plan, this Response also provides comments to any observations identified in the IA 2016 Report.

Transocean is fully committed to compliance with the hundreds of individual obligations required under the Consent Decree and Performance Plan and welcomes the opportunity to respond to findings, observations and/or feedback from the Independent Consent Decree Compliance Auditor (“Independent Auditor”) and the United States. Transocean has a dedicated team of professionals (the “Obligations Team”) assigned to the management of the Consent Decree and Performance Plan obligations.

This 2016 Response is structured by referencing the 2016 Independent Auditor’s report section, including the summary bullet point, Transocean’s response to the finding or observation, and actions that were taken or to be taken in response.

FINDINGS AND TRANSOCEAN’S RESPONSE

1. IA 2016 Report Section 3.1: Reporting of Near Hits for 2014.

Response to Deficiency and Actions Taken or to be Taken: Transocean acknowledges that information regarding the number of near hits and serious near hits that occurred on rigs operating in U.S. waters was not included in its Consent Decree Annual Report for 2014. The issue was timely reported to the United States within ten (10) days of Transocean determining it occurred.

Transocean is required, under paragraph 15.g. of the Consent Decree, to include in the Consent Decree Annual Report certain information, including “*all corrective maintenance and inhibits (i.e., the temporary disabling) of safety critical equipment, stop-work events, near hits and serious near hits, major loss of containment incidents and any incidents involving Transocean’s employees or contractors that Operators are required to report under 30 C.F.R § 250.188 (as modified to include reporting of property or equipment damage greater than \$250,000 in value).*”

This required summary report was included in the “*Incident Tracking Summary Report*” (the Summary Report) in the Transocean Annual Reports for CY 2014 and 2015.

In CY 2016, however, as Transocean was preparing its 2015 Summary Report and cross referencing with the 2014 Summary Report, Transocean discovered that information relating to the number of “near hits and serious near hits” that occurred on rigs operating in U.S. waters was inadvertently not included in the 2014 Summary Report, although Transocean had properly tracked and documented such information. The inadvertent omission was promptly reported to the United States and Transocean immediately resubmitted and posted to the public website a corrected 15.g. Appendix and Summary Report within the 2014 Consent Decree Annual Report.

The omission occurred prior to the Obligations Team implementing a two-tier accuracy review process for the preparation of each Consent Decree-required Annual Report. As part of finalizing the 2015 Annual Report, the two-tier process was followed and resulted in the discovery of the oversight. Transocean will continue to follow the two-tier process for all future Annual Reports.

[THE FOLLOWING ARE OBSERVATIONS, NOT DEFICIENCIES OR NON-COMPLIANCES]

1. IA 2016 Report Section 4.1:

The Independent Auditor noted that the required annual list of “CAMS Employees” that Transocean submitted to the United States in 2014, 2015 and 2016 did not include employees with the job title of Senior Dynamic Positioning Operator (“Senior DPO”). Transocean did not include such employees because the language in the Consent Decree and Performance Plan does not include the title of Senior DPO in the definition of CAMS Employees. In response to the Independent Auditor’s observation, Transocean provided evidence that confirmed all Senior DPOs were fully assessed, as required by Transocean’s internal policy, for 2014, 2015 and 2016. Additionally, consistent with Transocean’s commitment to extraordinary compliance with the Consent Decree and to aid the Independent Auditor’s review of CAMS and DP-CAP requirements, for all future years, Transocean has agreed to include employees in the Senior DPO position in the annual list of CAMS Employees submitted even though the inclusion is not a Consent Decree or Performance Plan requirement.

2. IA 2016 Report Section 4.2:

The Independent Auditor noted that Transocean had made certain updates to its management system. These changes were the result of Transocean’s continuous improvement efforts; however, the Independent Auditor expressed uncertainty as to whether certain updates Transocean made to a policy for assessing risk had the same level of control and transparency. Transocean believes that all changes made are enhancements that elevate the level of control for certain procedures while maintaining the level of control for others. Transocean and the Independent Auditor have agreed that the Consent Decree Process Safety Consultant (“PSC”) shall review these management system updates as part of the 2nd PSC review to be completed by October 2017.

3. IA 2016 Report Section 4.3:

The Independent Auditor has noted variations in the manner in which thresholds for the stopping of hot work on the rig, based on the level of gas detected in mud, are used and set across the offshore drilling industry. Transocean has provided the Independent Auditor with a significant amount of information to explain the basis for gas in mud evaluations, the common views on the level of risk, and how any risks are mitigated by other means. Also, Transocean has requirements within its management system that relate to the setting and documentation of thresholds prior to the commencement of drilling, communications of the thresholds, and monitoring. All parties, including the United States, agree that the manner in which these thresholds are set and used remains an industry-wide issue and Transocean has actively participated in a broader effort to examine the issue. Transocean and the Independent Auditor have also agreed that the PSC shall formally review the issue and that the Independent Auditor will continue to follow-up regarding industry information that becomes available.

4. IA 2016 Report Section 4.4:

In reviewing the updated Emergency Response Manuals (“ERMs”) that Transocean prepared for its rigs operating in U.S. waters, the Independent Auditor noted some inconsistencies in the updated manuals and observed that the basis for documenting time requirements for responding to emergency situations was unclear. In response to the inconsistencies noted, Transocean revised and resubmitted the ERMs. Additionally, the United States Coast Guard reviewed all but one of the ERMs in late 2016 and recommended minimal changes. In 2017, Transocean will be incorporating those changes and also performing drills related to the checklists within the ERMs to help establish documentation in support of those tasks in the ERMs that can be assigned a realistic timeframe. Transocean and the Independent Auditor have agreed that the PSC shall review these ERM updates as part of the 2nd PSC review to be completed by October 2017.

5. IA 2016 Report Section 4.5:

During field audits on two Transocean rigs, the Independent Auditor noted that certain rubber parts maintained in the rig warehouse did not have clearly marked expiration dates and a subset of these rubber parts did not have expiration date information recorded in Transocean’s Inventory Control System, as required by Transocean internal policy. Importantly, the Independent Auditor did not find any of the parts to have exceeded or even come within six months of their expiration date. In response, Transocean had each rig perform a verification review to ensure compliance with Transocean’s internal policy.

CONCLUSION

Transocean remains fully committed to complete compliance with all aspects of the Consent Decree and Performance Plan. Transocean and the Obligations Team communicated extensively with the Independent Auditor and United States representatives throughout the year and received a significant amount of feedback and ongoing questions. In all cases, Transocean responded promptly and with full transparency, understanding that all parties, the Independent Auditor, the United States and Transocean, are focused on the same thing - safe and environmentally sound operations without any incidents.