

CHENIERE ENERGY INC  
Form 10-Q  
August 09, 2018

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

FORM 10-Q

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

For the quarterly period ended June 30, 2018

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
CHENIERE ENERGY, INC.  
(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of incorporation or organization)

001-16383  
(Commission File Number)

95-4352386  
(I.R.S. Employer Identification No.)

700 Milam Street, Suite 1900  
Houston, Texas  
(Address of principal executive offices)  
(713) 375-5000  
(Registrant's telephone number, including area code)

77002  
(Zip code)

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

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

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

Large accelerated filer  Accelerated filer   
Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company   
Emerging growth company

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

Edgar Filing: CHENIERE ENERGY INC - Form 10-Q

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

As of August 3, 2018, the issuer had 248,186,474 shares of Common Stock outstanding.

---

CHENIERE ENERGY, INC.  
TABLE OF CONTENTS

<u>Definitions</u>	<u>1</u>
<u>Part I. Financial Information</u>	
<u>Item 1. Consolidated Financial Statements</u>	<u>3</u>
<u>Consolidated Balance Sheets</u>	<u>3</u>
<u>Consolidated Statements of Operations</u>	<u>4</u>
<u>Consolidated Statement of Stockholders' Equity</u>	<u>5</u>
<u>Consolidated Statements of Cash Flows</u>	<u>6</u>
<u>Notes to Consolidated Financial Statements</u>	<u>7</u>
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>29</u>
<u>Item 3. Quantitative and Qualitative Disclosures about Market Risk</u>	<u>48</u>
<u>Item 4. Controls and Procedures</u>	<u>49</u>
<u>Part II. Other Information</u>	
<u>Item 1. Legal Proceedings</u>	<u>50</u>
<u>Item 1A. Risk Factors</u>	<u>50</u>
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>51</u>
<u>Item 6. Exhibits</u>	<u>52</u>
<u>Signatures</u>	<u>54</u>

DEFINITIONS

As used in this quarterly report, the terms listed below have the following meanings:

Common Industry and Other Terms

Bcf	billion cubic feet
Bcf/d	billion cubic feet per day
Bcf/yr	billion cubic feet per year
Bcfe	billion cubic feet equivalent
DOE	U.S. Department of Energy
EPC	engineering, procurement and construction
FERC	Federal Energy Regulatory Commission
FTA	countries with which the United States has a free trade agreement providing for national treatment for trade in natural gas
GAAP	generally accepted accounting principles in the United States
Henry Hub	the final settlement price (in USD per MMBtu) for the New York Mercantile Exchange's Henry Hub natural gas futures contract for the month in which a relevant cargo's delivery window is scheduled to begin
LIBOR	London Interbank Offered Rate
LNG	liquefied natural gas, a product of natural gas that, through a refrigeration process, has been cooled to a liquid state, which occupies a volume that is approximately 1/600th of its gaseous state
MMBtu	million British thermal units, an energy unit
mtpa	million tonnes per annum
non-FTA countries	countries with which the United States does not have a free trade agreement providing for national treatment for trade in natural gas and with which trade is permitted
SEC	U.S. Securities and Exchange Commission
SPA	LNG sale and purchase agreement
TBTU	trillion British thermal units, an energy unit
Train	an industrial facility comprised of a series of refrigerant compressor loops used to cool natural gas into LNG
TUA	terminal use agreement

### Abbreviated Legal Entity Structure

The following diagram depicts our abbreviated legal entity structure as of June 30, 2018, including our ownership of certain subsidiaries, and the references to these entities used in this quarterly report:

Unless the context requires otherwise, references to “Cheniere,” the “Company,” “we,” “us” and “our” refer to Cheniere Energy Inc. and its consolidated subsidiaries, including our publicly traded subsidiaries, Cheniere Partners and Cheniere Holdings.

Unless the context requires otherwise, references to the “CCH Group” refer to CCH HoldCo II, CCH HoldCo I, CCH, CCL and CCP, collectively.

PART I. FINANCIAL INFORMATION  
ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS  
CHENIERE ENERGY, INC. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS  
(in millions, except share data)

	June 30, 2018 (unaudited)	December 31, 2017
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 874	\$ 722
Restricted cash	2,386	1,880
Accounts and other receivables	278	369
Accounts receivable—related party	2	2
Inventory	233	243
Derivative assets	37	57
Other current assets	156	96
Total current assets	3,966	3,369
Non-current restricted cash	11	11
Property, plant and equipment, net	25,760	23,978
Debt issuance costs, net	97	149
Non-current derivative assets	107	34
Goodwill	77	77
Other non-current assets, net	309	288
Total assets	\$ 30,327	\$ 27,906
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities		
Accounts payable	\$ 29	\$ 25
Accrued liabilities	1,382	1,078
Current debt	137	—
Deferred revenue	99	111
Derivative liabilities	81	37
Total current liabilities	1,728	1,251
Long-term debt, net	26,782	25,336
Non-current deferred revenue	—	1
Non-current derivative liabilities	24	19
Other non-current liabilities	59	59
Commitments and contingencies (see Note 15)		
Stockholders' equity		
Preferred stock, \$0.0001 par value, 5.0 million shares authorized, none issued	—	—

Edgar Filing: CHENIERE ENERGY INC - Form 10-Q

Common stock, \$0.003 par value

Authorized: 480.0 million shares at June 30, 2018 and December 31, 2017

Issued: 260.7 million shares and 250.1 million shares at June 30, 2018 and December 31, 2017, respectively

Outstanding: 248.1 million shares and 237.6 million shares at June 30, 2018 and December 31, 2017, respectively

Treasury stock: 12.6 million shares and 12.5 million shares at June 30, 2018 and December 31, 2017, respectively, at cost

	1	1
Additional paid-in-capital	3,664	3,248
Accumulated deficit	(4,288 )	(4,627 )
Total stockholders' deficit	(1,017 )	(1,764 )
Non-controlling interest	2,751	3,004
Total equity	1,734	1,240
Total liabilities and equity	\$ 30,327	\$ 27,906

The accompanying notes are an integral part of these consolidated financial statements.

3

---

## CHENIERE ENERGY, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF OPERATIONS

(in millions, except per share data)

(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Revenues				
LNG revenues	\$1,442	\$1,171	\$3,608	\$2,314
Regasification revenues	65	65	130	130
Other revenues	33	4	43	7
Other—related party	3	1	4	1
Total revenues	1,543	1,241	3,785	2,452
Operating costs and expenses				
Cost of sales (excluding depreciation and amortization expense shown separately below)	873	692	2,051	1,316
Operating and maintenance expense	147	117	287	195
Development expense	3	1	4	4
Selling, general and administrative expense	73	61	140	115
Depreciation and amortization expense	111	90	220	160
Restructuring expense	—	—	—	6
Impairment expense and loss on disposal of assets	—	6	—	6
Total operating costs and expenses	1,207	967	2,702	1,802
Income from operations	336	274	1,083	650
Other income (expense)				
Interest expense, net of capitalized interest	(216 )	(188 )	(432 )	(353 )
Loss on modification or extinguishment of debt	(15 )	(33 )	(15 )	(75 )
Derivative gain (loss), net	32	(36 )	109	(35 )
Other income	10	5	17	7
Total other expense	(189 )	(252 )	(321 )	(456 )
Income before income taxes and non-controlling interest	147	22	762	194
Income tax benefit (provision)	3	(1 )	(12 )	(1 )
Net income	150	21	750	193
Less: net income attributable to non-controlling interest	168	306	411	424
Net income (loss) attributable to common stockholders	\$(18 )	\$(285 )	\$339	\$(231 )
Net income (loss) per share attributable to common stockholders—basic	\$(0.07 )	\$(1.23 )	\$1.42	\$(0.99 )
Net income (loss) per share attributable to common stockholders—diluted	\$(0.07 )	\$(1.23 )	\$1.40	\$(0.99 )
Weighted average number of common shares outstanding—basic	242.8	232.5	239.2	232.4
Weighted average number of common shares outstanding—diluted	242.8	232.5	241.7	232.4



The accompanying notes are an integral part of these consolidated financial statements.

4

---

## CHENIERE ENERGY, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

(in millions)

(unaudited)

	Total Stockholders' Equity							Total Equity
	Common Stock Shares	Par Value Amount	Treasury Stock Shares	Amount	Additional Paid-in Capital	Accumulated Deficit	Non-controlling Interest	
Balance at December 31, 2017	237.6	\$ 1	12.5	\$(386 )	\$ 3,248	\$(4,627 )	\$ 3,004	\$1,240
Issuances of restricted stock	0.3	—	—	—	—	—	—	—
Issuance of stock to acquire additional interest in Cheniere Holdings	10.3	—	—	—	376	—	(376 )	—
Share-based compensation	—	—	—	—	39	—	—	39
Shares repurchased related to share-based compensation	(0.1 )	—	0.1	(8 )	—	—	—	(8 )
Net income attributable to non-controlling interest	—	—	—	—	—	—	411	411
Equity portion of convertible notes, net	—	—	—	—	1	—	—	1
Distributions to non-controlling interest	—	—	—	—	—	—	(288 )	(288 )
Net income	—	—	—	—	—	339	—	339
Balance at June 30, 2018	248.1	\$ 1	12.6	\$(394 )	\$ 3,664	\$(4,288 )	\$ 2,751	\$1,734

The accompanying notes are an integral part of these consolidated financial statements.

## CHENIERE ENERGY, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(in millions)

(unaudited)

	Six Months	
	Ended June 30,	
	2018	2017
Cash flows from operating activities		
Net income	\$750	\$193
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization expense	220	160
Share-based compensation expense	58	46
Non-cash interest expense	30	38
Amortization of debt issuance costs, deferred commitment fees, premium and discount	35	35
Loss on modification or extinguishment of debt	15	75
Total losses on derivatives, net	4	79
Net cash used for settlement of derivative instruments	(8 )	(55 )
Impairment expense and loss on disposal of assets	—	6
Other	(5 )	(3 )
Changes in operating assets and liabilities:		
Accounts and other receivables	80	(63 )
Accounts receivable—related party	—	(1 )
Inventory	10	17
Other current assets	(61 )	(21 )
Accounts payable and accrued liabilities	(132 )	45
Deferred revenue	(13 )	(10 )
Other, net	(1 )	(5 )
Net cash provided by operating activities	982	536
Cash flows from investing activities		
Property, plant and equipment, net	(1,508 )	(2,338 )
Investment in equity method investment	—	(41 )
Other	16	22
Net cash used in investing activities	(1,492 )	(2,357 )
Cash flows from financing activities		
Proceeds from issuances of debt	1,799	4,811
Repayments of debt	(281 )	(2,163 )
Debt issuance and deferred financing costs	(46 )	(67 )
Debt extinguishment costs	(8 )	—
Distributions and dividends to non-controlling interest	(288 )	(40 )
Payments related to tax withholdings for share-based compensation	(8 )	(3 )
Net cash provided by financing activities	1,168	2,538
Net increase in cash, cash equivalents and restricted cash	658	717
Cash, cash equivalents and restricted cash—beginning of period	2,613	1,827
Cash, cash equivalents and restricted cash—end of period	\$3,271	\$2,544
Balances per Consolidated Balance Sheet:		

	June
	30,
	2018
Cash and cash equivalents	\$874
Restricted cash	2,386
Non-current restricted cash	11
Total cash, cash equivalents and restricted cash	\$3,271

The accompanying notes are an integral part of these consolidated financial statements.

6

---

CHENIERE ENERGY, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(unaudited)

NOTE 1—NATURE OF OPERATIONS AND BASIS OF PRESENTATION

We are currently developing and constructing two natural gas liquefaction and export facilities. The Sabine Pass LNG terminal is located in Cameron Parish, Louisiana, on the Sabine-Neches Waterway less than four miles from the Gulf Coast. Cheniere Partners is developing, constructing and operating natural gas liquefaction facilities (the “SPL Project”) at the Sabine Pass LNG terminal adjacent to the existing regasification facilities (described below) through a wholly owned subsidiary, SPL. Cheniere Partners plans to construct up to six Trains, which are in various stages of development, construction and operations. Trains 1 through 4 are operational, Train 5 is undergoing commissioning and Train 6 is being commercialized and has all necessary regulatory approvals in place. The Sabine Pass LNG terminal has operational regasification facilities owned by Cheniere Partners’ wholly owned subsidiary, SPLNG, and a 94-mile pipeline that interconnects the Sabine Pass LNG terminal with a number of large interstate pipelines owned by Cheniere Partners’ wholly owned subsidiary, CTPL.

We are developing and constructing a second natural gas liquefaction and export facility at the Corpus Christi LNG terminal, which is on nearly 2,000 acres of land that we own or control near Corpus Christi, Texas, and a pipeline facility (collectively, the “CCL Project”) through wholly owned subsidiaries CCL and CCP, respectively. The CCL Project is being developed in stages. The first stage includes Trains 1 and 2, two LNG storage tanks, one complete marine berth and a second partial berth and all of the CCL Project’s necessary infrastructure facilities (“Stage 1”). The second stage includes Train 3, one LNG storage tank and the completion of the second partial berth (“Stage 2”). The CCL Project also includes a 23-mile natural gas supply pipeline that will interconnect the Corpus Christi LNG terminal with several interstate and intrastate natural gas pipelines (the “Corpus Christi Pipeline”). Stages 1 and 2 are currently under construction, and construction of the Corpus Christi Pipeline was completed in the second quarter of 2018. Train 1 recently commenced commissioning activities.

Additionally, separate from the CCH Group, we are developing an expansion of the Corpus Christi LNG terminal adjacent to the CCL Project and recently filed an application with FERC for seven midscale Trains with an expected aggregate nominal production capacity of approximately 9.5 mtpa. We remain focused on leveraging infrastructure through the expansion of our existing sites. We are also in various stages of developing other projects, including infrastructure projects in support of natural gas supply and LNG demand, which, among other things, will require acceptable commercial and financing arrangements before we make a final investment decision (“FID”).

Basis of Presentation

The accompanying unaudited Consolidated Financial Statements of Cheniere have been prepared in accordance with GAAP for interim financial information and with Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements and should be read in conjunction with the Consolidated Financial Statements and accompanying notes included in our annual report on Form 10-K for the year ended December 31, 2017. In our opinion, all adjustments, consisting only of normal recurring adjustments necessary for a fair presentation, have been included. Certain reclassifications have been made to conform prior period information to the current presentation. The reclassifications did not have a material effect on our consolidated financial position, results of operations or cash flows.

Edgar Filing: CHENIERE ENERGY INC - Form 10-Q

On January 1, 2018, we adopted ASU 2014-09, Revenue from Contracts with Customers (Topic 606), and subsequent amendments thereto (“ASC 606”) using the full retrospective method. The adoption of ASC 606 represents a change in accounting principle that will provide financial statement readers with enhanced disclosures regarding the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. The adoption of ASC 606 did not impact our previously reported consolidated financial statements in any prior period nor did it result in a cumulative effect adjustment to retained earnings.

Results of operations for the three and six months ended June 30, 2018 are not necessarily indicative of the results of operations that will be realized for the year ending December 31, 2018.

CHENIERE ENERGY, INC. AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—CONTINUED  
 (unaudited)

## NOTE 2—RESTRICTED CASH

Restricted cash consists of funds that are contractually restricted as to usage or withdrawal and have been presented separately from cash and cash equivalents on our Consolidated Balance Sheets. As of June 30, 2018 and December 31, 2017, restricted cash consisted of the following (in millions):

	June 30, 2018	December 31, 2017
Current restricted cash		
SPL Project	\$846	\$ 544
Cheniere Partners and cash held by guarantor subsidiaries	675	1,045
CCL Project	678	227
Cash held by our subsidiaries restricted to Cheniere	187	64
Total current restricted cash	\$2,386	\$ 1,880
Non-current restricted cash		
Other	\$11	\$ 11

Under Cheniere Partners' \$2.8 billion credit facilities (the "CQP Credit Facilities"), Cheniere Partners, as well as Cheniere Investments, Sabine Pass LNG-LP, LLC, SPLNG and CTPL as Cheniere Partners' guarantor subsidiaries, are subject to limitations on the use of cash under the terms of the CQP Credit Facilities and the related depositary agreement governing the extension of credit to Cheniere Partners. Specifically, Cheniere Partners, Cheniere Investments, SPLNG and CTPL may only withdraw funds from collateral accounts held at a designated depositary bank on a monthly basis and for specific purposes, including for the payment of operating expenses. In addition, distributions and capital expenditures may only be made quarterly and are subject to certain restrictions.

## NOTE 3—ACCOUNTS AND OTHER RECEIVABLES

As of June 30, 2018 and December 31, 2017, accounts and other receivables consisted of the following (in millions):

	June 30, 2018	December 31, 2017
Trade receivables		
SPL	\$219	\$ 185
Cheniere Marketing	34	163
Other accounts receivable	25	21
Total accounts and other receivables	\$278	\$ 369

Pursuant to the accounts agreement entered into with the collateral trustee for the benefit of SPL's debt holders, SPL is required to deposit all cash received into reserve accounts controlled by the collateral trustee. The usage or withdrawal of such cash is restricted to the payment of liabilities related to the SPL Project and other restricted payments.

## NOTE 4—INVENTORY

As of June 30, 2018 and December 31, 2017, inventory consisted of the following (in millions):

	June	December
	30,	31,
	2018	2017
Natural gas	\$14	\$ 17
LNG	31	44
LNG in-transit	126	130
Materials and other	62	52
Total inventory	\$233	\$ 243



CHENIERE ENERGY, INC. AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—CONTINUED  
 (unaudited)

NOTE 5—PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment, net consists of LNG terminal costs and fixed assets and other, as follows (in millions):

	June 30, 2018	December 31, 2017
LNG terminal costs		
LNG terminal	\$13,101	\$12,687
LNG terminal construction-in-process	13,511	11,932
LNG site and related costs	86	86
Accumulated depreciation	(1,087 )	(882 )
Total LNG terminal costs, net	25,611	23,823
Fixed assets and other		
Computer and office equipment	17	14
Furniture and fixtures	19	19
Computer software	96	92
Leasehold improvements	41	41
Land	59	59
Other	17	16
Accumulated depreciation	(100 )	(86 )
Total fixed assets and other, net	149	155
Property, plant and equipment, net	\$25,760	\$23,978

Depreciation expense was \$111 million and \$89 million during the three months ended June 30, 2018 and 2017, respectively, and \$219 million and \$159 million during the six months ended June 30, 2018 and 2017, respectively.

We realized offsets to LNG terminal costs of \$39 million and \$170 million in the three and six months ended June 30, 2017, respectively, that were related to the sale of commissioning cargoes because these amounts were earned or loaded prior to the start of commercial operations of the respective Train of the SPL Project, during the testing phase for its construction. We did not realize any offsets to LNG terminal costs in the three and six months ended June 30, 2018.

NOTE 6—DERIVATIVE INSTRUMENTS

We have entered into the following derivative instruments that are reported at fair value:

- interest rate swaps to hedge the exposure to volatility in a portion of the floating-rate interest payments under certain credit facilities (“Interest Rate Derivatives”);
- commodity derivatives consisting of natural gas supply contracts for the commissioning and operation of the SPL Project and the CCL Project (“Physical Liquefaction Supply Derivatives”) and associated economic hedges (collectively, the “Liquefaction Supply Derivatives”);
- financial derivatives to hedge the exposure to the commodity markets in which we have contractual arrangements to purchase or sell physical LNG (“LNG Trading Derivatives”); and
- foreign currency exchange (“FX”) contracts to hedge exposure to currency risk associated with both LNG Trading Derivatives and operations in countries outside of the United States (“FX Derivatives”).

We recognize our derivative instruments as either assets or liabilities and measure those instruments at fair value. None of our derivative instruments are designated as cash flow hedging instruments, and changes in fair value are recorded within our Consolidated Statements of Operations to the extent not utilized for the commissioning process.

CHENIERE ENERGY, INC. AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—CONTINUED  
 (unaudited)

The following table shows the fair value of our derivative instruments that are required to be measured at fair value on a recurring basis as of June 30, 2018 and December 31, 2017, which are classified as derivative assets, non-current derivative assets, derivative liabilities or non-current derivative liabilities in our Consolidated Balance Sheets (in millions).

	Fair Value Measurements as of							
	June 30, 2018			December 31, 2017				
	Quoted Prices in Other Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total	Quoted Prices in Other Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
CQP Interest Rate Derivatives asset	\$—	\$ 29	\$	—\$29	\$—	\$ 21	\$	—\$21
CCH Interest Rate Derivatives asset (liability)	—	70	—	70	—	(32)	—	(32)
Liquefaction Supply Derivatives asset (liability)	—	(4)	12	8	2	10	43	55
LNG Trading Derivatives asset (liability)	(5)	(27)	—	(78)	(1)	5	—	(8)
FX Derivatives asset (liability)	—	10	—	10	—	(1)	—	(1)

There have been no changes to our evaluation of and accounting for our derivative positions during the six months ended June 30, 2018. See [Note 7—Derivative Instruments](#) of our Notes to Consolidated Financial Statements in our annual report on Form 10-K for the year ended December 31, 2017 for additional information.

We value our Interest Rate Derivatives using an income-based approach utilizing observable inputs to the valuation model including interest rate curves, risk adjusted discount rates, credit spreads and other relevant data. We value our LNG Trading Derivatives and our Liquefaction Supply Derivatives using a market based approach incorporating present value techniques, as needed, using observable commodity price curves, when available, and other relevant data. We value our FX Derivatives with a market approach using observable FX rates and other relevant data.

The fair value of our Physical Liquefaction Supply Derivatives is predominantly driven by market commodity basis prices and, as applicable to our natural gas supply contracts, our assessment of the associated conditions precedent, including evaluating whether the respective market is available as pipeline infrastructure is developed. Upon the satisfaction of conditions precedent, including completion and placement into service of relevant pipeline infrastructure to accommodate marketable physical gas flow, we recognize a gain or loss based on the fair value of the respective natural gas supply contracts.

We include a portion of our Physical Liquefaction Supply Derivatives as Level 3 within the valuation hierarchy as the fair value is developed through the use of internal models which may be impacted by inputs that are unobservable in the marketplace. The curves used to generate the fair value of our Physical Liquefaction Supply Derivatives are based on basis adjustments applied to forward curves for a liquid trading point. In addition, there may be observable liquid market basis information in the near term, but terms of a Physical Liquefaction Supply Derivatives contract may

exceed the period for which such information is available, resulting in a Level 3 classification. In these instances, the fair value of the contract incorporates extrapolation assumptions made in the determination of the market basis price for future delivery periods in which applicable commodity basis prices were either not observable or lacked corroborative market data. As of June 30, 2018 and December 31, 2017, some of our Physical Liquefaction Supply Derivatives existed within markets for which the pipeline infrastructure is under development to accommodate marketable physical gas flow.

CHENIERE ENERGY, INC. AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—CONTINUED  
 (unaudited)

The Level 3 fair value measurements of natural gas positions within our Physical Liquefaction Supply Derivatives could be materially impacted by a significant change in certain natural gas market basis spreads due to the contractual notional amount represented by our Level 3 positions, which is a substantial portion of our overall Physical Liquefaction Supply portfolio. The following table includes quantitative information for the unobservable inputs for our Level 3 Physical Liquefaction Supply Derivatives as of June 30, 2018:

	Net Fair Value Asset (in millions)	Valuation Approach	Significant Unobservable Input	Significant Unobservable Inputs Range
Physical Liquefaction Supply Derivatives	\$12	Market approach incorporating present value techniques	Basis Spread	\$(0.934) - \$0.180

The following table shows the changes in the fair value of our Level 3 Physical Liquefaction Supply Derivatives during the three and six months ended June 30, 2018 and 2017 (in millions):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Balance, beginning of period	\$10	\$41	\$43	\$79
Realized and mark-to-market losses:				
Included in cost of sales	(1 )	(1 )	(12 )	(40 )
Purchases and settlements:				
Purchases	6	2	6	5
Settlements	(4 )	(2 )	(25 )	(4 )
Transfers out of Level 3 (1)	1	—	—	—
Balance, end of period	\$12	\$40	\$12	\$40
Change in unrealized gains relating to instruments still held at end of period	\$(1 )	\$(1 )	\$(12)	\$(40)

(1) Transferred to Level 2 as a result of observable market for the underlying natural gas purchase agreements.

Derivative assets and liabilities arising from our derivative contracts with the same counterparty are reported on a net basis, as all counterparty derivative contracts provide for net settlement. The use of derivative instruments exposes us to counterparty credit risk, or the risk that a counterparty will be unable to meet its commitments in instances when our derivative instruments are in an asset position. Additionally, we evaluate our own ability to meet our commitments in instances where our derivative instruments are in a liability position. Our derivative instruments are subject to contractual provisions which provide for the unconditional right of set-off for all derivative assets and liabilities with a given counterparty in the event of default.

#### Interest Rate Derivatives

During the six months ended June 30, 2018, there were no changes to the terms of the interest rate swaps (“CQP Interest Rate Derivatives”) entered into by CQP to hedge a portion of the variable interest payments on its CQP Credit

Facilities. See Note 7—Derivative Instruments of our Notes to Consolidated Financial Statements in our annual report on Form 10-K for the year ended December 31, 2017 for additional information.

CCH has entered into interest rate swaps (“CCH Interest Rate Derivatives”) to hedge a portion of the variable interest payments on its credit facility (the “CCH Credit Facility”). In June 2018, CCH settled a portion of the CCH Interest Rate Derivatives and recognized a derivative gain of \$5 million upon the termination of interest rate swaps associated with the amendment of the CCH Credit Facility, as discussed in Note 10—Debt. In May 2017, CCH settled a portion of the CCH Interest Rate Derivatives and recognized a derivative loss of \$13 million in conjunction with the termination of approximately \$1.4 billion of commitments under the CCH Credit Facility.

SPL had entered into interest rate swaps (“SPL Interest Rate Derivatives”) to protect against volatility of future cash flows and hedge a portion of the variable interest payments on the credit facilities it entered into in June 2015 (the “SPL Credit Facilities”), based on a portion of the expected outstanding borrowings over the term of the SPL Credit Facilities. In March 2017, SPL settled the SPL Interest Rate Derivatives and recognized a derivative loss of \$7 million in conjunction with the termination of approximately \$1.6 billion of commitments under the SPL Credit Facilities.

CHENIERE ENERGY, INC. AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—CONTINUED  
 (unaudited)

As of June 30, 2018, we had the following Interest Rate Derivatives outstanding:

	Initial Notional Amount	Maximum Notional Amount	Effective Date	Maturity Date	Weighted Average Fixed Interest Rate Paid	Variable Interest Rate Received
CQP Interest Rate Derivatives	\$225 million	\$1.3 billion	March 22, 2016	February 29, 2020	1.19%	One-month LIBOR
CCH Interest Rate Derivatives	\$29 million	\$4.7 billion	May 20, 2015	May 31, 2022	2.30%	One-month LIBOR

The following table shows the fair value and location of our Interest Rate Derivatives on our Consolidated Balance Sheets (in millions):

Consolidated Balance Sheet Location	June 30, 2018			December 31, 2017		
	CQP Interest Rate Derivatives	CCH Interest Rate Derivatives	Total	CQP Interest Rate Derivatives	CCH Interest Rate Derivatives	Total
Derivative assets	\$14	\$ 4	\$ 18	\$7	\$ —	\$7
Non-current derivative assets	15	66	81	14	3	17
Total derivative assets	29	70	99	21	3	24
Derivative liabilities	—	—	—	—	(20)	(20)
Non-current derivative liabilities	—	—	—	—	(15)	(15)
Total derivative liabilities	—	—	—	—	(35)	(35)
Derivative asset (liability), net	\$29	\$ 70	\$ 99	\$21	\$ (32)	\$(11)

The following table shows the changes in the fair value and settlements of our Interest Rate Derivatives recorded in derivative gain (loss), net on our Consolidated Statements of Operations during the three and six months ended June 30, 2018 and 2017 (in millions):

	Three Months Ended June 30, 2018	Six Months Ended June 30, 2017
CQP Interest Rate Derivatives gain (loss)	\$3 \$ (3)	\$11 \$ (1)
CCH Interest Rate Derivatives gain (loss)	29 (33)	98 (32)
SPL Interest Rate Derivatives loss	— —	— (2)

#### Commodity Derivatives

SPL and CCL have entered into index-based physical natural gas supply contracts and associated economic hedges, if applicable, to purchase natural gas for the commissioning and operation of the SPL Project and the CCL Project. The

terms of the noncurrent physical natural gas supply contracts range from approximately one to eight years, some of which commence upon the satisfaction of certain conditions precedent, if not already met.



CHENIERE ENERGY, INC. AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—CONTINUED  
 (unaudited)

The following table shows the fair value and location of our Liquefaction Supply Derivatives and LNG Trading Derivatives (collectively, “Commodity Derivatives”) on our Consolidated Balance Sheets (in millions, except notional amount):

Consolidated Balance Sheet Location	June 30, 2018			December 31, 2017		
	Liquefaction Supply Derivatives		Total	Liquefaction Supply Derivatives		Total
	(1)	(2)		(1)	(2)	
Derivative assets	\$7	\$ 6	\$13	\$41	\$ 9	\$50
Non-current derivative assets	18	4	22	17	—	17
Total derivative assets	25	10	35	58	9	67
Derivative liabilities	(8)	(73)	(81)	—	(17)	(17)
Non-current derivative liabilities	(9)	(15)	(24)	(3)	—	(3)
Total derivative liabilities	(17)	(88)	(105)	(3)	(17)	(20)
Derivative asset (liability), net	\$8	\$ (78)	\$(70)	\$55	\$ (8)	\$47
Notional amount (in TBtu) (3)	3,142	23		2,539	25	

(1) Does not include collateral calls of \$6 million and \$1 million for such contracts, which are included in other current assets in our Consolidated Balance Sheets as of June 30, 2018 and December 31, 2017, respectively.

(2) Does not include collateral of \$75 million and \$28 million deposited for such contracts, which are included in other current assets in our Consolidated Balance Sheets as of June 30, 2018 and December 31, 2017, respectively.

SPL had secured up to approximately 2,163 TBtu and 2,214 TBtu and CCL has secured up to approximately 2,431 TBtu and 2,024 TBtu of natural gas feedstock through natural gas supply contracts as of June 30, 2018 and December 31, 2017, respectively.

The following table shows the changes in the fair value, settlements and location of our Commodity Derivatives recorded on our Consolidated Statements of Operations during the three and six months ended June 30, 2018 and 2017 (in millions):

Consolidated Statements of Operations Location (1)	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
LNG Trading Derivatives gain (loss)	\$(76)	\$ 2	\$(70)	\$(4)
Liquefaction Supply Derivatives loss (2)	3	1	53	40

(1) Fair value fluctuations associated with commodity derivative activities are classified and presented consistently with the item economically hedged and the nature and intent of the derivative instrument.

(2) Does not include the realized value associated with derivative instruments that settle through physical delivery.

## FX Derivatives

The following table shows the fair value and location of our FX Derivatives on our Consolidated Balance Sheets (in millions):

Consolidated Balance Sheet Location	Fair Value Measurements as of	
	June 30, 2018	December 31, 2017
FX Derivatives Derivative assets	\$ 6	\$ —
FX Derivatives Non-current derivative assets	4	—
FX Derivatives Non-current derivative liabilities	—	(1 )

The total notional amount of our FX Derivatives was \$186 million and \$27 million as of June 30, 2018 and December 31, 2017, respectively.

CHENIERE ENERGY, INC. AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—CONTINUED  
 (unaudited)

The following table shows the changes in the fair value of our FX Derivatives recorded on our Consolidated Statements of Operations during the three and six months ended June 30, 2018 and 2017 (in millions):

Consolidated Statement of Operations Location	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
FX Derivatives gain LNG revenues	\$ 12	\$ —	-\$ 10	\$ —

Consolidated Balance Sheet Presentation

Our derivative instruments are presented on a net basis on our Consolidated Balance Sheets as described above. The following table shows the fair value of our derivatives outstanding on a gross and net basis (in millions):

Offsetting Derivative Assets (Liabilities)	Gross Amounts Recognized	Gross Amounts Offset in the Consolidated Balance Sheets		Net Amounts Presented in the Consolidated Balance Sheets	
As of June 30, 2018					
CQP Interest Rate Derivatives	\$ 29	\$	—	\$	29
CCH Interest Rate Derivatives	72	(2	)	70	
Liquefaction Supply Derivatives	30	(5	)	25	
Liquefaction Supply Derivatives	(26	)	9	(17	)
LNG Trading Derivatives	25	(15	)	10	
LNG Trading Derivatives	(139	)	51	(88	)
FX Derivatives	13	(3	)	10	
FX Derivatives	(5	)	5	—	
As of December 31, 2017					
CQP Interest Rate Derivatives	\$ 21	\$	—	\$	21
CCH Interest Rate Derivatives	3	—		3	
CCH Interest Rate Derivatives	(35	)	—	(35	)
Liquefaction Supply Derivatives	64	(6	)	58	
Liquefaction Supply Derivatives	(3	)	—	(3	)
LNG Trading Derivatives	9	—		9	
LNG Trading Derivatives	(37	)	20	(17	)
FX Derivatives	(1	)	—	(1	)

NOTE 7—OTHER NON-CURRENT ASSETS

As of June 30, 2018 and December 31, 2017, other non-current assets, net consisted of the following (in millions):

June 30, 2018	December 31, 2017
---------------	-------------------

Edgar Filing: CHENIERE ENERGY INC - Form 10-Q

Advances made under EPC and non-EPC contracts	\$49	\$ 26
Advances made to municipalities for water system enhancements	96	97
Advances and other asset conveyances to third parties to support LNG terminals	44	48
Tax-related payments and receivables	26	29
Equity method investments	64	64
Other	30	24
Total other non-current assets, net	\$309	\$ 288

Equity Method Investments

Our equity method investments consist of interests in privately-held companies. In 2017, we acquired an equity interest in Midship Holdings, LLC (“Midship Holdings”), which manages the business and affairs of Midship Pipeline Company, LLC (“Midship Pipeline”). Midship Pipeline is pursuing the development, construction, operation and maintenance of an approximately 200-mile natural gas pipeline project (the “Midship Project”) that connects new production in the Anadarko Basin to Gulf Coast markets. Midship Holdings entered into agreements with investment funds managed by EIG Global Energy Partners (“EIG”) under which EIG-managed funds committed to make an investment of up to \$500 million (the “EIG Investment”) in the Midship Project, subject to the terms and conditions contained in the applicable agreements. The EIG Investment, when combined with

CHENIERE ENERGY, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—CONTINUED  
(unaudited)

equity contributed by us, is intended to ensure the Midship Project has the equity funding expected to be required to develop and construct the project. Midship Holdings requires acceptable financing arrangements and regulatory and other approvals before construction of the proposed Midship Project commences.

We have determined that Midship Holdings is a variable interest entity (“VIE”) because it is thinly capitalized at formation such that the total equity investment at risk is not sufficient to permit the entity to finance its activities without additional subordinated financial support. We do not consolidate Midship Holdings because we do not have power to direct the activities that most significantly impact its economic performance. We continually monitor both consolidated and unconsolidated VIEs to determine if any events have occurred that could cause a change in our identification of a VIE or determination of the primary beneficiary to a VIE. We account for our investment in Midship Holdings under the equity method as we have the ability to exercise significant influence over the operating and financial policies of Midship Holdings through our non-controlling voting rights on its board of managers. Our investment in Midship Holdings was \$55 million at both June 30, 2018 and December 31, 2017. We anticipate electing to make additional investments in Midship Holdings after June 30, 2018, but we do not expect those contributions to be significant.

Cheniere LNG O&M Services, LLC (“O&M Services”), our wholly owned subsidiary, provides the development, construction, operation and maintenance services associated with the Midship Project pursuant to agreements in which O&M Services receives an agreed upon fee and reimbursement of costs incurred. O&M Services recorded \$3 million and \$1 million in the three months ended June 30, 2018 and 2017, respectively, and \$4 million and \$1 million in the six months ended June 30, 2018 and 2017, respectively, of income in other—related party and \$2 million of accounts receivable—related party as of both June 30, 2018 and December 31, 2017 for services provided to Midship Pipeline under these agreements. CCL has entered into a transportation precedent agreement with Midship Pipeline to secure firm pipeline transportation capacity for a period of 10 years following commencement of the Midship Project. In May 2018, CCL issued a letter of credit to Midship Pipeline for drawings up to an aggregate maximum amount of \$16 million. Midship Pipeline has not made any drawings on this letter of credit as of June 30, 2018.

NOTE 8—NON-CONTROLLING INTEREST

As of June 30, 2018 and December 31, 2017, we owned 91.9% and 82.7%, respectively, of Cheniere Holdings as well as the director voting share, with the remaining non-controlling interest held by the public. During the six months ended June 30, 2018, we acquired common shares representing limited liability company interests in Cheniere Holdings, pursuant to a privately negotiated stock-for-stock exchange transaction. Because the transaction represented a combination of ownership interests under common control, changes in Cheniere’s ownership interest in Cheniere Holdings were accounted for as an equity transaction and no gain or loss was recognized.

Cheniere Holdings owns a 48.6% limited partner interest in Cheniere Partners in the form of 104.5 million common units and 135.4 million subordinated units, with the remaining non-controlling interest held by Blackstone CQP Holdco LP and the public. We also own 100% of the general partner interest and the incentive distribution rights in Cheniere Partners. Both Cheniere Holdings and Cheniere Partners are accounted for as variable interest entities. See [Note 9—Variable Interest Entities](#) of our Notes to Consolidated Financial Statements in our annual report on Form 10-K for the year ended December 31, 2017 for further information.

NOTE 9—ACCRUED LIABILITIES

As of June 30, 2018 and December 31, 2017, accrued liabilities consisted of the following (in millions):

	June 30, 2018	December 31, 2017
Interest costs and related debt fees	\$385	\$ 397
Compensation and benefits	75	141
LNG terminals and related pipeline costs	870	490
Other accrued liabilities	52	50
Total accrued liabilities	\$1,382	\$ 1,078

CHENIERE ENERGY, INC. AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—CONTINUED  
 (unaudited)

## NOTE 10—DEBT

As of June 30, 2018 and December 31, 2017, our debt consisted of the following (in millions):

	June 30, 2018	December 31, 2017
Long-term debt:		
SPL		
5.625% Senior Secured Notes due 2021 (“2021 SPL Senior Notes”)	\$2,000	\$2,000
6.25% Senior Secured Notes due 2022 (“2022 SPL Senior Notes”)	1,000	1,000
5.625% Senior Secured Notes due 2023 (“2023 SPL Senior Notes”)	1,500	1,500
5.75% Senior Secured Notes due 2024 (“2024 SPL Senior Notes”)	2,000	2,000
5.625% Senior Secured Notes due 2025 (“2025 SPL Senior Notes”)	2,000	2,000
5.875% Senior Secured Notes due 2026 (“2026 SPL Senior Notes”)	1,500	1,500
5.00% Senior Secured Notes due 2027 (“2027 SPL Senior Notes”)	1,500	1,500
4.200% Senior Secured Notes due 2028 (“2028 SPL Senior Notes”)	1,350	1,350
5.00% Senior Secured Notes due 2037 (“2037 SPL Senior Notes”)	800	800
Cheniere Partners		
5.250% Senior Notes due 2025 (“2025 CQP Senior Notes”)	1,500	1,500
CQP Credit Facilities	1,090	1,090
CCH		
7.000% Senior Secured Notes due 2024 (“2024 CCH Senior Notes”)	1,250	1,250
5.875% Senior Secured Notes due 2025 (“2025 CCH Senior Notes”)	1,500	1,500
5.125% Senior Secured Notes due 2027 (“2027 CCH Senior Notes”)	1,500	1,500
CCH Credit Facility	3,891	2,485
CCH HoldCo II		
11.0% Convertible Senior Notes due 2025 (“2025 CCH HoldCo II Convertible Senior Notes”)	1,378	1,305
Cheniere		
4.875% Convertible Unsecured Notes due 2021 (“2021 Cheniere Convertible Unsecured Notes”)	1,189	1,161
4.25% Convertible Senior Notes due 2045 (“2045 Cheniere Convertible Senior Notes”)	625	625
\$750 million Cheniere Revolving Credit Facility (“Cheniere Revolving Credit Facility”)	—	—
Unamortized premium, discount and debt issuance costs, net	(791)	(730)
Total long-term debt, net	26,782	25,336
Current debt:		
\$1.2 billion SPL Working Capital Facility (“SPL Working Capital Facility”)	—	—
\$1.2 billion CCH Working Capital Facility (“CCH Working Capital Facility”)	14	—
Cheniere Marketing trade finance facilities	123	—
Total current debt	137	—
Total debt, net	\$26,919	\$25,336

## 2018 Debt Issuances

CCH Credit Facility

In May 2018, CCH amended and restated the CCH Credit Facility to increase total commitments under the credit facility to \$6.1 billion. The proceeds will be used to fund a portion of the costs of developing, constructing and placing into service the three Trains and the related facilities of the CCL Project and for related business purposes.

The CCH Credit Facility matures on June 30, 2024, with principal payments due quarterly commencing on the earlier of (1) the first quarterly payment date occurring more than three calendar months following the completion of Trains 1 through 3 of the CCL Project as defined in the common terms agreement and (2) a set date determined by reference to the date under which a



CHENIERE ENERGY, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—CONTINUED  
(unaudited)

certain LNG buyer linked to the last Train of the CCL Project to become operational is entitled to terminate its SPA for failure to achieve the date of first commercial delivery for that agreement. Scheduled repayments will be based upon a 19-year tailored amortization, commencing the first full quarter after the completion of Trains 1 through 3 and designed to achieve a minimum projected fixed debt service coverage ratio of 1.50:1.

Loans under the CCH Credit Facility accrue interest at a variable rate per annum equal to, at CCH's election, LIBOR or the base rate, plus the applicable margin. The applicable margins for LIBOR loans is 1.75% and for base rate loans is 0.75%. Interest on LIBOR loans is due and payable at the end of each applicable interest period and interest on base rate loans is due and payable at the end of each quarter. CCH is required to pay certain upfront fees to the agents and lenders under the CCH Credit Facility together with additional transaction fees and expenses in the aggregate amount of \$53 million.

All other terms of the CCH Credit Facility substantially remained the same, as described in Note 12—Debt of our Notes to Consolidated Financial Statements in our annual report on Form 10-K for the year ended December 31, 2017. The amendment and restatement of the CCH Credit Facility resulted in the recognition of \$15 million of debt modification and extinguishment costs during the three and six months ended June 30, 2018 relating to the incurrence of third party fees and write off of unamortized debt issuance costs.

#### CCH Working Capital Facility

In June 2018, CCH amended and restated the CCH Working Capital Facility to increase total commitments under the working capital facility to \$1.2 billion. The proceeds will be used for certain working capital requirements related to developing and placing into operations the CCL Project and for related business purposes.

Loans under the CCH Working Capital Facility accrue interest at a variable rate per annum equal to LIBOR or the base rate plus the applicable margin. The applicable margin for LIBOR loans ranges from 1.25% to 1.75% per annum, and the applicable margin for base rate loans ranges from 0.25% to 0.75% per annum. CCH is required to pay certain upfront fees to the agents and lenders under the CCH Working Capital Facility together with additional transaction fees and expenses in the aggregate amount of \$14 million.

The CCH Working Capital Facility matures on June 29, 2023. All other terms of the CCH Working Capital Facility substantially remained the same, as described in Note 12—Debt of our Notes to Consolidated Financial Statements in our annual report on Form 10-K for the year ended December 31, 2017.

#### 2025 CCH HoldCo II Convertible Senior Notes

In May 2018, the amended and restated note purchase agreement under which the 2025 CCH HoldCo II Convertible Senior Notes were issued was subsequently amended in connection with commercialization and financing of Train 3 of the CCL Project. All terms of the 2025 CCH HoldCo II Convertible Senior Notes substantially remained the same, as described in Note 12—Debt of our Notes to Consolidated Financial Statements in our annual report on Form 10-K for the year ended December 31, 2017.

CHENIERE ENERGY, INC. AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—CONTINUED  
 (unaudited)

## Credit Facilities

Below is a summary of our credit facilities outstanding as of June 30, 2018 (in millions):

	SPL Working Capital Facility	CQP Credit Facilities	CCH Credit Facility	CCH Working Capital Facility	Cheniere Revolving Credit Facility
Original facility size	\$ 1,200	\$ 2,800	\$ 8,404	\$ 350	\$ 750
Incremental commitments	—	—	1,566	850	—
Less:					
Outstanding balance	—	1,090	3,891	14	—
Commitments prepaid or terminated	—	1,470	3,832	—	—
Letters of credit issued	683	20	—	305	—
Available commitment	\$ 517	\$ 220	\$ 2,247	\$ 881	\$ 750

	LIBOR plus 1.75% or base rate plus 0.75%	LIBOR plus 2.25% or base rate plus 1.25% (1)	LIBOR plus 1.75% or base rate plus 0.75%	LIBOR plus 1.25% - 1.75% or base rate plus 0.25% - 0.75%	LIBOR plus 3.25% or base rate plus 2.25%
Interest rate					
Maturity date	December 31, 2020, with various terms for underlying loans	February 25, 2020, with principal payments due quarterly commencing on March 31, 2019	June 30, 2024	June 29, 2023	March 2, 2021

(1) There is a 0.50% step-up for both LIBOR and base rate loans beginning on February 25, 2019.

## Convertible Notes

Below is a summary of our convertible notes outstanding as of June 30, 2018 (in millions):

	2021 Cheniere Convertible Unsecured Notes	2025 CCH HoldCo II Convertible Senior Notes	2045 Cheniere Convertible Senior Notes
Aggregate original principal	\$ 1,000	\$ 1,000	\$ 625
Debt component, net of discount and debt issuance costs	\$ 1,081	\$ 1,350	\$ 310

Edgar Filing: CHENIERE ENERGY INC - Form 10-Q

Equity component	\$ 207	\$ —	\$ 194
Interest payment method	Paid-in-kind	Paid-in-kind (1)	Cash
Conversion by us (2)	—	(3)	(4)
Conversion by holders (2)	(5)	(6)	(7)
Conversion basis	Cash and/or stock	Stock	Cash and/or stock
Conversion value in excess of principal	\$ —	\$ —	\$ —
Maturity date	May 28, 2021	March 1, 2025	March 15, 2045
Contractual interest rate	4.875 %	11.0 %	4.25 %
Effective interest rate (8)	8.4 %	11.9 %	9.4 %
Remaining debt discount and debt issuance costs amortization period (9)	2.9 years	2.3 years	26.7 years

Prior to the substantial completion of Train 2 of the CCL Project, interest will be paid entirely in kind. Following (1) this date, the interest generally must be paid in cash; however, a portion of the interest may be paid in kind under certain specified circumstances.

(2) Conversion is subject to various limitations and conditions.

Convertible on or after the later of March 1, 2020 and the substantial completion of Train 2 of the CCL Project, provided that our market capitalization is not less than \$10.0 billion (“Eligible Conversion Date”). The conversion (3) price is the lower of (1) a 10% discount to the average of the daily volume-weighted average price (“VWAP”) of our common stock for the 90 trading day period prior to the date notice is provided, and (2) a 10% discount to the closing price of our common stock on the trading day preceding the date notice is provided.

CHENIERE ENERGY, INC. AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—CONTINUED  
 (unaudited)

Redeemable at any time after March 15, 2020 at a redemption price payable in cash equal to the accreted amount (4) of the 2045 Cheniere Convertible Senior Notes to be redeemed, plus accrued and unpaid interest, if any, to such redemption date.

(5) Initially convertible at \$93.64 (subject to adjustment upon the occurrence of certain specified events), provided that the closing price of our common stock is greater than or equal to the conversion price on the conversion date.

(6) Convertible on or after the six-month anniversary of the Eligible Conversion Date, provided that our total market capitalization is not less than \$10.0 billion, at a price equal to the average of the daily VWAP of our common stock for the 90 trading day period prior to the date on which notice of conversion is provided.

(7) Prior to December 15, 2044, convertible only under certain circumstances as specified in the indenture; thereafter, holders may convert their notes regardless of these circumstances. The conversion rate will initially equal 7.2265 shares of our common stock per \$1,000 principal amount of the 2045 Cheniere Convertible Senior Notes, which corresponds to an initial conversion price of approximately \$138.38 per share of our common stock (subject to adjustment upon the occurrence of certain specified events).

(8) Rate to accrete the discounted carrying value of the convertible notes to the face value over the remaining amortization period.

(9) We amortize any debt discount and debt issuance costs using the effective interest over the period through contractual maturity except for the 2025 CCH HoldCo II Convertible Senior Notes, which are amortized through the date they are first convertible by holders into our common stock.

#### Restrictive Debt Covenants

As of June 30, 2018, each of our issuers was in compliance with all covenants related to their respective debt agreements.

#### Interest Expense

Total interest expense, including interest expense related to our convertible notes, consisted of the following (in millions):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Interest cost on convertible notes:				
Interest per contractual rate	\$58	\$54	\$116	\$107
Amortization of debt discount	8	7	16	14
Amortization of debt issuance costs	2	2	4	3
Total interest cost related to convertible notes	68	63	136	124
Interest cost on debt excluding convertible notes	344	314	680	607
Total interest cost	412	377	816	731
Capitalized interest	(196)	(189)	(384)	(378)
Total interest expense, net	\$216	\$188	\$432	\$353

#### Fair Value Disclosures

The following table shows the carrying amount, which is net of unamortized premium, discount and debt issuance costs, and estimated fair value of our debt (in millions):

	June 30, 2018		December 31, 2017	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Senior notes (1)	\$18,366	\$ 19,153	\$18,350	\$ 20,075
2037 SPL Senior Notes (2)	790	837	790	871
Credit facilities (3)	5,022	5,022	3,574	3,574
2021 Cheniere Convertible Unsecured Notes (2)	1,081	1,233	1,040	1,136
2025 CCH HoldCo II Convertible Senior Notes (2)	1,350	1,547	1,273	1,535
2045 Cheniere Convertible Senior Notes (4)	310	496	309	447

CHENIERE ENERGY, INC. AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—CONTINUED  
 (unaudited)

Includes 2021 SPL Senior Notes, 2022 SPL Senior Notes, 2023 SPL Senior Notes, 2024 SPL Senior Notes, 2025 SPL Senior Notes, 2026 SPL Senior Notes, 2027 SPL Senior Notes, 2028 SPL Senior Notes, 2025 CQP Senior (1) Notes, 2024 CCH Senior Notes, 2025 CCH Senior Notes and 2027 CCH Senior Notes. The Level 2 estimated fair value was based on quotes obtained from broker-dealers or market makers of these senior notes and other similar instruments.

The Level 3 estimated fair value was calculated based on inputs that are observable in the market or that could be (2) derived from, or corroborated with, observable market data, including our stock price and interest rates based on debt issued by parties with comparable credit ratings to us and inputs that are not observable in the market.

Includes SPL Working Capital Facility, CQP Credit Facilities, CCH Credit Facility, CCH Working Capital (3) Facility, Cheniere Revolving Credit Facility and Cheniere Marketing trade finance facilities. The Level 3 estimated fair value approximates the principal amount because the interest rates are variable and reflective of market rates and the debt may be repaid, in full or in part, at any time without penalty.

The Level 1 estimated fair value was based on unadjusted quoted prices in active markets for identical liabilities (4) that we had the ability to access at the measurement date.

NOTE 11—REVENUES FROM CONTRACTS WITH CUSTOMERS

The following table represents a disaggregation of revenue earned from contracts with customers during the three and six months ended June 30, 2018 and 2017 (in millions):

	Three Months		Six Months	
	Ended June 30, 2018	2017	Ended June 30, 2018	2017
LNG revenues	\$1,472	\$1,160	\$3,615	\$2,301
Regasification revenues	65	65	130	130
Other revenues	33	4	43	7
Other—related party	3	1	4	1
Total revenues from customers	1,573	1,230	3,792	2,439
Revenues from derivative instruments (1)	(30 )	11	(7 )	13
Total revenues	\$1,543	\$1,241	\$3,785	\$2,452

(1) Includes the realized value associated with a portion of derivative instruments that settle through physical delivery.

LNG Revenues

We have entered into numerous SPAs with third party customers for the sale of LNG on a Free on Board (“FOB”) (delivered to the customer at either the Sabine Pass or Corpus Christi LNG terminal) or Delivered at Terminal (“DAT”) (delivered to the customer at their LNG receiving terminal) basis. Our customers generally purchase LNG for a price consisting of a fixed fee per MMBtu of LNG (a portion of which is subject to annual adjustment for inflation) plus a variable fee per MMBtu of LNG equal to approximately 115% of Henry Hub. The fixed fee component is the amount payable to us regardless of a cancellation or suspension of LNG cargo deliveries by the customers. The variable fee component is the amount generally payable to us only upon delivery of LNG plus all future adjustments to the fixed fee for inflation. The SPAs and contracted volumes to be made available under the SPAs are not tied to a specific Train; however, the term of each SPA generally commences upon the date of first commercial delivery of a specified Train.

We intend to primarily use LNG sourced from our Sabine Pass or Corpus Christi terminal to provide contracted volumes to our customers. However, we supplement this LNG with volumes procured from third parties. LNG revenues recognized from LNG that was procured from third parties was \$76 million and \$155 million for the three months ended June 30, 2018 and 2017, respectively, and \$186 million and \$204 million for the six months ended June 30, 2018 and 2017, respectively.

Revenues from the sale of LNG are recognized at a point in time when the LNG is delivered to the customer, either at the Sabine Pass LNG terminal or at the customer's LNG receiving terminal, based on the terms of the contract, which is the point legal title, physical possession and the risks and rewards of ownership transfer to the customer. Each individual molecule of LNG is viewed as a separate performance obligation. The stated contract price (including both fixed and variable fees) per MMBtu in each LNG sales arrangement is representative of the stand-alone selling price for LNG at the time the sale was negotiated. We have concluded that the variable fees meet the optional exception for allocating variable consideration. As such, the variable

CHENIERE ENERGY, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—CONTINUED  
(unaudited)

consideration for these contracts is allocated to each distinct molecule of LNG and recognized when that distinct molecule of LNG is delivered to the customer. Because of the use of the optional exception, variable consideration related to the sale of LNG is also not included in the transaction price.

When we sell LNG on a DAT basis, we consider all transportation costs, including vessel chartering, loading/unloading and canal fees, as fulfillment costs and not as separate services provided to the customer within the arrangement, regardless of whether or not such activities occur prior to or after the customer obtains control of the LNG. We expense fulfillment costs as incurred unless otherwise dictated by GAAP.

Fees received pursuant to SPAs are recognized as LNG revenues only after substantial completion of the respective Train. Prior to substantial completion, sales generated during the commissioning phase are offset against the cost of construction for the respective Train, as the production and removal of LNG from storage is necessary to test the facility and bring the asset to the condition necessary for its intended use.

#### Regasification Revenues

The Sabine Pass LNG terminal has operational regasification capacity of approximately 4.0 Bcf/d. Approximately 2.0 Bcf/d of the regasification capacity at the Sabine Pass LNG terminal has been reserved under two long-term TUAs with unaffiliated third-party customers, under which they are required to pay fixed monthly fees regardless of their use of the LNG terminal. Each of the customers has reserved approximately 1.0 Bcf/d of regasification capacity. The customers are each obligated to make monthly capacity payments to SPLNG aggregating approximately \$125 million annually for 20 years that commenced in 2009, which is representative of fixed consideration in the contract. A portion of this fee is adjusted annually for inflation which is considered variable consideration. The remaining capacity of the Sabine Pass LNG terminal has been reserved by SPL, for which the associated revenues are eliminated in consolidation.

Because SPLNG is continuously available to provide regasification service on a daily basis with the same pattern of transfer, we have concluded that SPLNG provides a single performance obligation to its customers on a continuous basis over time. We have determined that an output method of recognition based on elapsed time best reflects the benefits of this service to the customer and accordingly, LNG regasification capacity reservation fees are recognized as regasification revenues on a straight-line basis over the term of the respective TUAs. We have concluded that the inflation element within the contract meets the optional exception for allocating variable consideration and accordingly the inflation adjustment is not included in the transaction price and will be recognized over the year in which the inflation adjustment relates on a straight-line basis.

In 2012, SPL entered into a partial TUA assignment agreement with Total Gas & Power North America, Inc. (“Total”), whereby SPL would progressively gain access to Total’s capacity and other services provided under its TUA with SPLNG. This agreement provides SPL with additional berthing and storage capacity at the Sabine Pass LNG terminal that may be used to provide increased flexibility in managing LNG cargo loading and unloading activity, permit SPL to more flexibly manage its LNG storage capacity and accommodate the development of Trains 5 and 6.

Upon substantial completion of Train 3 of the SPL Project, SPL gained access to a portion of Total’s capacity and other services provided under Total’s TUA with SPLNG. Upon substantial completion of Train 5, SPL will gain access to substantially all of Total’s capacity. Notwithstanding any arrangements between Total and SPL, payments required



to be made by Total to SPLNG will continue to be made by Total to SPLNG in accordance with its TUA and we continue to recognize the payments received from Total as revenue. During the three months ended June 30, 2018 and 2017, SPL recorded \$7 million and \$8 million, respectively, and during the six months ended June 30, 2018 and 2017, SPL recorded \$15 million and \$8 million, respectively, as operating and maintenance expense under this partial TUA assignment agreement.

CHENIERE ENERGY, INC. AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—CONTINUED  
 (unaudited)

Deferred Revenue Reconciliation

The following table reflects the changes in our contract liabilities, which we classify as “Deferred revenue” on our Consolidated Balance Sheets (in millions):

Six Months Ended June 30, 2018	
Deferred revenues, beginning of period	\$ 111
Cash received but not yet recognized	99
Revenue recognized from prior period deferral	(111)
Deferred revenues, end of period	\$ 99

We record deferred revenue when we receive consideration, or such consideration is unconditionally due from a customer, prior to transferring goods or services to the customer under the terms of a sales contract. Changes in deferred revenue during the six months ended June 30, 2018 are primarily attributable to differences between the timing of revenue recognition and the receipt of advance payments related to delivery of LNG under certain SPAs.

Transaction Price Allocated to Future Performance Obligations

Because many of our sales contracts have long-term durations, we are contractually entitled to significant future consideration which we have not yet recognized as revenue. The following table discloses the aggregate amount of the transaction price that is allocated to performance obligations that have not yet been satisfied as of June 30, 2018:

	Unsatisfied Transaction Price (in billions)	Weighted Average Recognition Timing (years) (1)
LNG revenues	\$ 90.7	10.5
Regasification revenues	2.8	5.4
Total revenues	\$ 93.5	

(1) The weighted average recognition timing represents an estimate of the number of years during which we shall have recognized half of the unsatisfied transaction price.

We have elected the following optional exemptions which omit certain potential future sources of revenue from the table above:

- (1) We omit from the table above all performance obligations that are part of a contract that has an original expected duration of one year or less.
- (2) We omit from the table above all variable consideration that is allocated entirely to a wholly unsatisfied performance obligation or to a wholly unsatisfied promise to transfer a distinct good or service that forms part of a single performance obligation when that performance obligation qualifies as a series. The table

above excludes all variable consideration under our SPAs and TUAs. The amount of revenue from variable fees that is not included in the transaction price will vary based on the future prices of Henry Hub throughout the contract terms, to the extent customers elect to take delivery of their LNG, and adjustments to the consumer price index. Certain of our contracts contain additional variable consideration based on the outcome of contingent events and the movement of various indexes. The receipt of such variable consideration is considered constrained due to the uncertainty of ultimate pricing and receipt and we have not included such variable consideration in the transaction price. During each of the three and six months ended June 30, 2018, approximately 55% of our LNG revenues from contracts with a duration of over one year and approximately 3% of our regasification revenues were related to variable consideration received from customers.

We have entered into contracts to sell LNG that are conditioned upon one or both of the parties achieving certain milestones such as reaching FID on a certain liquefaction Train, obtaining financing or achieving substantial completion of a Train and any related facilities. These contracts are considered completed contracts for revenue recognition purposes and are included in the transaction price above when the conditions are considered probable of being met.

We have elected the practical expedient to omit the disclosure of the transaction price allocated to future performance obligations and an explanation of when the entity expects to recognize the amount as revenue as of December 31, 2017.

CHENIERE ENERGY, INC. AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—CONTINUED  
 (unaudited)

NOTE 12—INCOME TAXES

We recorded an income tax benefit of \$3 million and an income tax provision of \$1 million during the three months ended June 30, 2018 and 2017, respectively, and an income tax provision of \$12 million and \$1 million during the six months ended June 30, 2018 and 2017, respectively. Changes in the income tax recorded between comparative periods are primarily attributable to fluctuations in the profitability of our U.K. integrated marketing function.

The effective tax rates during the three and six months ended June 30, 2018 and 2017 were lower than the 21% and 35% federal statutory rates during the 2018 and 2017 interim periods, respectively, primarily as a result of maintaining a valuation allowance against our federal and state net deferred tax assets. Due to historical losses and other available evidence related to our ability to generate taxable income, we continue to maintain a valuation allowance against our federal and state net deferred tax assets at June 30, 2018.

NOTE 13—SHARE-BASED COMPENSATION

We have granted restricted stock shares, restricted stock units, performance stock units and phantom units to employees and non-employee directors under the Amended and Restated 2003 Stock Incentive Plan, as amended, the 2011 Incentive Plan, as amended (the “2011 Plan”), the 2015 Employee Inducement Incentive Plan and the 2015 Long-Term Cash Incentive Plan.

For the six months ended June 30, 2018, we granted 2.3 million restricted stock units and 0.2 million performance stock units at target performance under the 2011 Plan to certain employees. Restricted stock units are stock awards that vest over a two- to three-year service period and entitle the holder to receive shares of our common stock upon vesting, subject to restrictions on transfer and to a risk of forfeiture if the recipient terminates employment with us prior to the lapse of the restrictions. Performance stock units provide for three-year cliff vesting with payouts based on our cumulative distributable cash flow per share from January 1, 2018 through December 31, 2020 compared to a pre-established performance target. The number of shares that may be earned at the end of the vesting period ranges from 50 to 200 percent of the target award amount if the threshold performance is met. Both restricted stock units and performance stock units will be settled in Cheniere common stock (on a one-for-one basis) and are classified as equity awards.

Total share-based compensation consisted of the following (in millions):

	Three Months Ended June 30, 2018		Six Months Ended June 30, 2017	
Share-based compensation costs, pre-tax:				
Equity awards	\$22	\$10	\$39	\$15
Liability awards	15	17	32	44
Total share-based compensation	37	27	71	59
Capitalized share-based compensation	(7 )	(5 )	(13 )	(13 )
Total share-based compensation expense	\$30	\$22	\$58	\$46

Tax benefit associated with share-based compensation expense \$— \$2 \$2 \$2

For further discussion of our equity incentive plans, see Note 16—Share-Based Compensation of our Notes to Consolidated Financial Statements in our annual report on Form 10-K for the year ended December 31, 2017.

**NOTE 14—NET INCOME (LOSS) PER SHARE ATTRIBUTABLE TO COMMON STOCKHOLDERS**

Basic net income (loss) per share attributable to common stockholders (“EPS”) excludes dilution and is computed by dividing net loss attributable to common stockholders by the weighted average number of common shares outstanding during the period. Diluted EPS reflects potential dilution and is computed by dividing net loss attributable to common stockholders by the weighted average number of common shares outstanding during the period increased by the number of additional common shares that would have been outstanding if the potential common shares had been issued. The dilutive effect of unvested stock is calculated using the treasury-stock method and the dilutive effect of convertible securities is calculated using the if-converted method.

CHENIERE ENERGY, INC. AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—CONTINUED  
 (unaudited)

The following table reconciles basic and diluted weighted average common shares outstanding for the three and six months ended June 30, 2018 and 2017 (in millions, except per share data):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Weighted average common shares outstanding:				
Basic	242.8	232.5	239.2	232.4
Dilutive unvested stock	—	—	2.5	—
Diluted	242.8	232.5	241.7	232.4
Basic net income (loss) per share attributable to common stockholders	\$(0.07)	\$(1.23)	\$1.42	\$(0.99)
Diluted net income (loss) per share attributable to common stockholders	\$(0.07)	\$(1.23)	\$1.40	\$(0.99)

Potentially dilutive securities that were not included in the diluted net income (loss) per share computations because their effects would have been anti-dilutive were as follows (in millions):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Unvested stock (1)	5.2	1.3	2.6	1.3
Convertible notes (2)	17.2	16.6	17.2	16.6
Total potentially dilutive common shares	22.4	17.9	19.8	17.9

Does not include 0.4 million shares for each of the three and six months ended June 30, 2018 and 5.1 million (1) shares for each of the three and six months ended June 30, 2017, of unvested stock because the performance conditions had not yet been satisfied as of June 30, 2018 and 2017, respectively.

Includes number of shares in aggregate issuable upon conversion of the 2021 Cheniere Convertible Unsecured (2) Notes and the 2045 Cheniere Convertible Senior Notes. There were no shares included in the computation of diluted net income (loss) per share for the 2025 CCH HoldCo II Convertible Senior Notes because substantive non-market-based contingencies underlying the eligible conversion date have not been met as of June 30, 2018.

#### NOTE 15—COMMITMENTS AND CONTINGENCIES

We have various contractual obligations which are recorded as liabilities in our Consolidated Financial Statements. Other items, such as certain purchase commitments and other executed contracts which do not meet the definition of a liability as of June 30, 2018, are not recognized as liabilities but require disclosures in our Consolidated Financial Statements.

#### Obligations under Certain Guarantee Contracts

Cheniere and certain of its subsidiaries enter into guarantee arrangements in the normal course of business to facilitate transactions with third parties. These arrangements include financial guarantees, letters of credit and debt guarantees. As of June 30, 2018 and December 31, 2017, there were no liabilities recognized under these guarantee arrangements.

#### Legal Proceedings

We may in the future be involved as a party to various legal proceedings, which are incidental to the ordinary course of business. We regularly analyze current information and, as necessary, provide accruals for probable liabilities on the eventual disposition of these matters.

CHENIERE ENERGY, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—CONTINUED  
(unaudited)

### Parallax Litigation

In 2015, our wholly owned subsidiary, Cheniere LNG Terminals, LLC (“CLNGT”), entered into discussions with Parallax Enterprises, LLC (“Parallax Enterprises”) regarding the potential joint development of two liquefaction plants in Louisiana (the “Potential Liquefaction Transactions”). While the parties negotiated regarding the Potential Liquefaction Transactions, CLNGT loaned Parallax Enterprises approximately \$46 million, as reflected in a secured note dated April 23, 2015, as amended on June 30, 2015, September 30, 2015 and November 4, 2015 (the “Secured Note”). The Secured Note was secured by all assets of Parallax Enterprises and its subsidiary entities. On June 30, 2015, Parallax Enterprises’ parent entity, Parallax Energy LLC (“Parallax Energy”), executed a Pledge and Guarantee Agreement further securing repayment of the Secured Note by providing a parent guaranty and a pledge of all of the equity of Parallax Enterprises in satisfaction of the Secured Note (the “Pledge Agreement”). CLNGT and Parallax Enterprises never executed a definitive agreement to pursue the Potential Liquefaction Transactions. The Secured Note matured on December 11, 2015, and Parallax Enterprises failed to make payment. On February 3, 2016, CLNGT filed an action against Parallax Energy, Parallax Enterprises and certain of Parallax Enterprises’ subsidiary entities, styled Cause No. 4:16-cv-00286, Cheniere LNG Terminals, LLC v. Parallax Energy LLC, et al., in the United States District Court for the Southern District of Texas (the “Texas Federal Suit”). CLNGT asserted claims in the Texas Federal Suit for (1) recovery of all amounts due under the Secured Note and (2) declaratory relief establishing that CLNGT is entitled to enforce its rights under the Secured Note and Pledge Agreement in accordance with each instrument’s terms and that CLNGT has no obligations of any sort to Parallax Enterprises concerning the Potential Liquefaction Transactions. On March 11, 2016, Parallax Enterprises and the other defendants in the Texas Federal Suit moved to dismiss the suit for lack of subject matter jurisdiction. On August 2, 2016, the court denied the defendants’ motion to dismiss without prejudice and permitted the parties to pursue jurisdictional discovery.

On March 11, 2016, Parallax Enterprises filed a suit against us and CLNGT styled Civil Action No. 62-810, Parallax Enterprises LLP v. Cheniere Energy, Inc. and Cheniere LNG Terminals, LLC, in the 25th Judicial District Court of Plaquemines Parish, Louisiana (the “Louisiana Suit”), wherein Parallax Enterprises asserted claims for breach of contract, fraudulent inducement, negligent misrepresentation, detrimental reliance, unjust enrichment and violation of the Louisiana Unfair Trade Practices Act. Parallax Enterprises predicated its claims in the Louisiana Suit on an allegation that we and CLNGT breached a purported agreement to jointly develop the Potential Liquefaction Transactions. Parallax Enterprises sought \$400 million in alleged economic damages and rescission of the Secured Note. On April 15, 2016, we and CLNGT removed the Louisiana Suit to the United States District Court for the Eastern District of Louisiana, which subsequently transferred the Louisiana Suit to the United States District Court for the Southern District of Texas, where it was assigned Civil Action No. 4:16-cv-01628 and transferred to the same judge presiding over the Texas Federal Suit for coordinated handling. On August 22, 2016, Parallax Enterprises voluntarily dismissed all claims asserted against CLNGT and us in the Louisiana Suit without prejudice to refile.

On July 27, 2017, the Parallax entities named as defendants in the Texas Federal Suit reurged their motion to dismiss and simultaneously filed counterclaims against CLNGT and third party claims against us for breach of contract, breach of fiduciary duty, promissory estoppel, quantum meruit and fraudulent inducement of the Secured Note and Pledge Agreement, based on substantially the same factual allegations Parallax Enterprises made in the Louisiana Suit. These Parallax entities also simultaneously filed an action styled Cause No. 2017-49685, Parallax Enterprises, LLC, et al. v. Cheniere Energy, Inc., et al., in the 61st District Court of Harris County, Texas (the “Texas State Suit”), which asserts substantially the same claims these entities asserted in the Texas Federal Suit. On July 31, 2017, CLNGT withdrew its opposition to the dismissal of the Texas Federal Suit without prejudice on jurisdictional grounds



and the federal court subsequently dismissed the Texas Federal Suit without prejudice. We and CLNGT simultaneously filed an answer and counterclaims in the Texas State Suit, asserting the same claims CLNGT had previously asserted in the Texas Federal Suit. Additionally, CLNGT filed third party claims against Parallax principals Martin Houston, Christopher Bowen Daniels, Howard Candelet and Mark Evans, as well as Tellurian Investments, Inc., Driftwood LNG, LLC, Driftwood LNG Pipeline LLC and Tellurian Services LLC, formerly known as Parallax Services LLC, including claims for tortious interference with CLNGT's collateral rights under the Secured Note and Pledge Agreement, fraudulent transfer, conspiracy/aiding and abetting. Discovery in the Texas State Suit is ongoing. Trial is currently set for September 2018. At a hearing on July 12, 2018, the court orally granted a motion for continuance but has not yet assigned a new trial date.

We do not expect that the resolution of this litigation will have a material adverse impact on our financial results.

CHENIERE ENERGY, INC. AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—CONTINUED  
 (unaudited)

## NOTE 16—CUSTOMER CONCENTRATION

The following table shows customers with revenues of 10% or greater of total third-party revenues and customers with accounts receivable balances of 10% or greater of total accounts receivable from third parties:

	Percentage of Total Third-Party Revenues				Percentage of Accounts Receivable from Third Parties	
	Three Months Ended June 30, 2018		Six Months Ended June 30, 2017		June 30, 2018	December 31, 2017
Customer A	21%	24%	19%	28%	30%	28%
Customer B	17%	12%	14%	13%	17%	16%
Customer C	18%	*	22%	*	24%	14%
Customer D	16%	—%	11%	—%	*	—%
Customer E	—%	18%	*	19%	—%	—%
Customer F	*	*	*	*	—%	15%

\* Less than 10%

## NOTE 17—SUPPLEMENTAL CASH FLOW INFORMATION

The following table provides supplemental disclosure of cash flow information (in millions):

	Six Months Ended June 30, 2018 2017	
Cash paid during the period for interest, net of amounts capitalized	\$282	\$264
Contribution of assets to equity method investee	—	14

The balance in property, plant and equipment, net funded with accounts payable and accrued liabilities was \$935 million and \$364 million as of June 30, 2018 and 2017, respectively.

CHENIERE ENERGY, INC. AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—CONTINUED  
 (unaudited)

NOTE 18—RECENT ACCOUNTING STANDARDS

The following table provides a brief description of a recent accounting standard that had not been adopted by us as of June 30, 2018:

Standard	Description	Expected Date of Adoption	Effect on our Consolidated Financial Statements or Other Significant Matters
ASU 2016-02, Leases (Topic 842), and subsequent amendments thereto	This standard requires a lessee to recognize leases on its balance sheet by recording a lease liability representing the obligation to make future lease payments and a right-of-use asset representing the right to use the underlying asset for the lease term. A lessee is permitted to make an election not to recognize lease assets and liabilities for leases with a term of 12 months or less. The standard also modifies the definition of a lease and requires expanded disclosures. This guidance may be early adopted, and may be adopted using either a modified retrospective approach to apply the standard at the beginning of the earliest period presented in the financial statements or an optional transition approach to apply the standard at the date of adoption with no retrospective adjustments to prior periods. Certain additional practical expedients are also available.	January 1, 2019	We continue to evaluate the effect of this standard on our Consolidated Financial Statements. This evaluation process includes reviewing all forms of leases, performing a completeness assessment over the lease population, analyzing the practical expedients and assessing opportunities to make certain changes to our lease accounting information technology system in order to determine the best implementation strategy. Preliminarily, we anticipate a material impact from the requirement to recognize all leases on our Consolidated Balance Sheets. Because this assessment is preliminary and the accounting for leases is subject to significant judgment, this conclusion could change as we finalize our assessment. We have not yet determined the impact of the adoption of this standard upon our results of operations or cash flows. We anticipate electing the optional transition method to initially apply the standard at the January 1, 2019 adoption date. We expect to elect the package of practical expedients permitted under the transition guidance which, among other things, allows the carryforward of prior conclusions related to lease identification and classification. We also expect to elect the practical expedient to retain our existing accounting for land easements which were not previously accounted for as leases. We have not yet determined whether we will elect any other practical expedients upon transition.

CHENIERE ENERGY, INC. AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—CONTINUED  
 (unaudited)

Additionally, the following table provides a brief description of recent accounting standards that were adopted by us during the reporting period:

Standard	Description	Date of Adoption	Effect on our Consolidated Financial Statements or Other Significant Matters
ASU 2014-09, Revenue from Contracts with Customers (Topic 606), and subsequent amendments thereto	This standard provides a single, comprehensive revenue recognition model which replaces and supersedes most existing revenue recognition guidance and requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard requires that the costs to obtain and fulfill contracts with customers should be recognized as assets and amortized to match the pattern of transfer of goods or services to the customer if expected to be recoverable. The standard also requires enhanced disclosures. This guidance may be adopted either retrospectively to each prior reporting period presented subject to allowable practical expedients (“full retrospective approach”) or as a cumulative-effect adjustment as of the date of adoption (“modified retrospective approach”).	January 1, 2018	We adopted this guidance on January 1, 2018, using the full retrospective method. The adoption of this guidance represents a change in accounting principle that will provide financial statement readers with enhanced disclosures regarding the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. The adoption of this guidance did not impact our previously reported consolidated financial statements in any prior period nor did it result in a cumulative effect adjustment to retained earnings. See <a href="#">Note 11—Revenues from Contracts with Customers</a> for additional disclosures.
ASU 2016-16, Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory	This standard requires the immediate recognition of the tax consequences of intercompany asset transfers other than inventory. This guidance may be early adopted, but only at the beginning of an annual period, and must be adopted using a modified retrospective approach.	January 1, 2018	The adoption of this guidance did not have an impact on our Consolidated Financial Statements or related disclosures.

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

Information Regarding Forward-Looking Statements

This quarterly report contains certain statements that are, or may be deemed to be, "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). All statements, other than statements of historical or present facts or conditions, included herein or incorporated herein by reference are "forward-looking statements." Included among "forward-looking statements" are, among other things:

- statements regarding our ability to consummate the transaction with Cheniere Holdings pursuant to which we will acquire all of the publicly held shares of Cheniere Holdings not already owned by us in a stock-for-stock transaction;
- statements that we expect to commence or complete construction of our proposed LNG terminals, liquefaction facilities, pipeline facilities or other projects, or any expansions or portions thereof, by certain dates, or at all;
- statements regarding future levels of domestic and international natural gas production, supply or consumption or future levels of LNG imports into or exports from North America and other countries worldwide or purchases of natural gas, regardless of the source of such information, or the transportation or other infrastructure or demand for and prices related to natural gas, LNG or other hydrocarbon products;

- statements regarding any financing transactions or arrangements, or our ability to enter into such transactions;

statements relating to the construction of our Trains and pipelines, including statements concerning the engagement of any EPC contractor or other contractor and the anticipated terms and provisions of any agreement with any such EPC or other contractor, and anticipated costs related thereto;

statements regarding any SPA or other agreement to be entered into or performed substantially in the future, including any revenues anticipated to be received and the anticipated timing thereof, and statements regarding the amounts of total LNG regasification, natural gas liquefaction or storage capacities that are, or may become, subject to contracts;

- statements regarding our planned development and construction of additional Trains and pipelines, including the financing of such Trains;

statements that our Trains, when completed, will have certain characteristics, including amounts of liquefaction capacities;

statements regarding our business strategy, our strengths, our business and operation plans or any other plans, forecasts, projections, or objectives, including anticipated revenues, capital expenditures, maintenance and operating costs and cash flows, any or all of which are subject to change;

statements regarding legislative, governmental, regulatory, administrative or other public body actions, approvals, requirements, permits, applications, filings, investigations, proceedings or decisions;

statements regarding marketing of volumes expected to be made available to our integrated marketing function; and any other statements that relate to non-historical or future information.

All of these types of statements, other than statements of historical or present facts or conditions, are forward-looking statements. In some cases, forward-looking statements can be identified by terminology such as "may," "will," "could," "should," "expect," "plan," "project," "intend," "anticipate," "believe," "estimate," "predict," "potential," "pursue," "target," "negative of such terms or other comparable terminology. The forward-looking statements contained in this quarterly report are largely based on our expectations, which reflect estimates and assumptions made by our management.

These estimates and assumptions reflect our best judgment based on currently known market conditions and other factors. Although we believe that such estimates are reasonable, they are inherently uncertain and involve a number of risks and uncertainties beyond our control. In addition, assumptions may prove to be inaccurate. We caution that the forward-looking statements contained in this quarterly report are not guarantees of future performance and that such statements may not be realized or the forward-looking statements or events may not occur. Actual results may differ materially from those anticipated or implied in forward-looking statements as a result of a variety of factors described in this quarterly report and in the other reports and other information that we file with the SEC, including those discussed under "Risk Factors" in our annual report on Form 10-K for the year ended December 31, 2017. All forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety

by these

29

---

risk factors. These forward-looking statements speak only as of the date made, and other than as required by law, we undertake no obligation to update or revise any forward-looking statement or provide reasons why actual results may differ, whether as a result of new information, future events or otherwise.

## Introduction

The following discussion and analysis presents management's view of our business, financial condition and overall performance and should be read in conjunction with our Consolidated Financial Statements and the accompanying notes. This information is intended to provide investors with an understanding of our past performance, current financial condition and outlook for the future. Our discussion and analysis includes the following subjects:

- Overview of Business
- Overview of Significant Events
- Liquidity and Capital Resources
- Results of Operations
- Off-Balance Sheet Arrangements
- Summary of Critical Accounting Estimates
- Recent Accounting Standards

## Overview of Business

Cheniere, a Delaware corporation, is a Houston-based energy company primarily engaged in LNG-related businesses. Our vision is to provide clean, secure and affordable energy to the world, while responsibly delivering a reliable, competitive and integrated source of LNG, in a safe and rewarding work environment. We own and operate the Sabine Pass LNG terminal in Louisiana through our ownership interest in and management agreements with Cheniere Partners, which is a publicly traded limited partnership that we created in 2007. As of June 30, 2018, we owned 100% of the general partner interest in Cheniere Partners and 91.9% of Cheniere Holdings, which is a publicly traded limited liability company formed in 2013 that owned a 48.6% limited partner interest in Cheniere Partners. We are currently developing and constructing two natural gas liquefaction and export facilities. The liquefaction of natural gas into LNG allows it to be shipped economically from areas of the world where natural gas is abundant and inexpensive to produce to other areas where natural gas demand and infrastructure exist to economically justify the use of LNG.

The Sabine Pass LNG terminal is located in Cameron Parish, Louisiana, on the Sabine-Neches Waterway less than four miles from the Gulf Coast. Cheniere Partners is developing, constructing and operating natural gas liquefaction facilities (the "SPL Project") at the Sabine Pass LNG terminal adjacent to the existing regasification facilities through a wholly owned subsidiary, SPL. Cheniere Partners plans to construct up to six Trains, which are in various stages of development, construction and operations. Trains 1 through 4 are operational, Train 5 is undergoing commissioning and Train 6 is being commercialized and has all necessary regulatory approvals in place. Each Train is expected to have a nominal production capacity, which is prior to adjusting for planned maintenance, production reliability and potential overdesign, of approximately 4.5 mtpa of LNG and an adjusted nominal production capacity of approximately 4.3 to 4.6 mtpa of LNG. The Sabine Pass LNG terminal has operational regasification facilities owned by Cheniere Partners' wholly owned subsidiary, SPLNG, that include pre-existing infrastructure of five LNG storage tanks with aggregate capacity of approximately 16.9 Bcfe, two marine berths that can each accommodate vessels with nominal capacity of up to 266,000 cubic meters and vaporizers with regasification capacity of approximately 4.0 Bcf/d. Cheniere Partners also owns a 94-mile pipeline that interconnects the Sabine Pass LNG terminal with a number of large interstate pipelines (the "Creole Trail Pipeline") through a wholly owned subsidiary, CTPL.

We are developing and constructing a second natural gas liquefaction and export facility at the Corpus Christi LNG terminal, which is on nearly 2,000 acres of land that we own or control near Corpus Christi, Texas, and a pipeline facility (collectively, the "CCL Project") through wholly owned subsidiaries CCL and CCP, respectively. The CCL Project is being developed for three Trains, with expected aggregate nominal production capacity, which is prior to

adjusting for planned maintenance, production reliability and potential overdesign, of approximately 13.5 mtpa of LNG, three LNG storage tanks with aggregate capacity of approximately 10.1 Bcfe and two marine berths that can each accommodate vessels with nominal capacity of up to 266,000 cubic meters. The CCL Project is being developed in stages. The first stage (“Stage 1”) includes Trains 1 and 2, two LNG storage tanks,



one complete marine berth and a second partial berth and all of the CCL Project's necessary infrastructure facilities. The second stage ("Stage 2") includes Train 3, one LNG storage tank and the completion of the second partial berth. The CCL Project also includes a 23-mile natural gas supply pipeline that will interconnect the Corpus Christi LNG terminal with several interstate and intrastate natural gas pipelines (the "Corpus Christi Pipeline"). Stages 1 and 2 are currently under construction, and construction of the Corpus Christi Pipeline was completed during the second quarter of 2018. Train 1 recently commenced commissioning activities.

Additionally, separate from the CCH Group, we are developing an expansion of the Corpus Christi LNG terminal adjacent to the CCL Project ("Corpus Christi Stage 3") and recently filed an application with FERC for seven midscale Trains with an expected aggregate nominal production capacity of approximately 9.5 mtpa. We remain focused on expansion of our existing sites by leveraging existing infrastructure. We are also in various stages of developing other projects, including infrastructure projects in support of natural gas supply and LNG demand, which, among other things, will require acceptable commercial and financing arrangements before we make a Final Investment Decision ("FID"). We have made an equity investment in Midship Pipeline Company, LLC ("Midship Pipeline"), which is developing a pipeline with expected capacity of up to 1.44 million Dekatherms per day that will connect new gas production in the Anadarko Basin to Gulf Coast markets, including markets serving the SPL Project and the CCL Project.

#### Overview of Significant Events

Our significant accomplishments since January 1, 2018 and through the filing date of this Form 10-Q include the following:

##### Strategic

In May 2018, our board of directors made a positive FID with respect to Stage 2 of the CCL Project and issued a full notice to proceed to Bechtel Oil, Gas and Chemicals, Inc. ("Bechtel") under the EPC contract for Stage 2.

In June 2018, we filed an application with the FERC with respect to Corpus Christi Stage 3, consisting of seven midscale liquefaction Trains with an expected aggregate nominal production capacity of approximately 9.5 mtpa.

In February 2018, we entered into two SPAs with PetroChina International Company Limited, a subsidiary of China National Petroleum Corporation, for the sale of approximately 1.2 mtpa of LNG through 2043, with a portion of the supply beginning in 2018 and the balance beginning in 2023.

In January 2018, we entered into a 15-year SPA with Trafigura Pte Ltd for the sale of approximately 1 mtpa of LNG beginning in 2019.

##### Operational

As of July 31, 2018, approximately 150 cargoes have been produced, loaded and exported from the SPL Project year to date. To date, more than 400 cumulative LNG cargoes have been exported from the SPL Project, with deliveries to 28 countries and regions worldwide.

##### Financial

In June 2018, we reached a definitive agreement with Cheniere Holdings under which we will acquire all of the publicly-held shares of Cheniere Holdings not already owned by us in a stock for share transaction pursuant to which the Cheniere Holdings shareholders will receive a fixed exchange ratio of 0.4750 Cheniere shares for each outstanding publicly-held share of Cheniere Holdings. The transaction is expected to close by the end of third quarter 2018, subject to customary closing conditions. Upon consummation of the transaction, Cheniere Holdings will merge with and into our wholly owned subsidiary.

In April and May 2018, we acquired a total of 21,453,482 common shares of Cheniere Holdings in a series of privately negotiated transactions pursuant to share purchase and exchange agreements, in exchange for a total of 10,278,739 unregistered shares of Cheniere. Subsequent to the completion of these transactions, our ownership of Cheniere Holdings is approximately 91.9%.



.....  
 In May 2018, CCH amended and restated its existing credit facilities (the “CCH Credit Facility”) to increase total commitments under the CCH Credit Facility to \$6.1 billion. The proceeds will be used to fund a portion of the costs of developing, constructing and placing into service the three Trains and the related facilities of the CCL Project and for related business purposes.

In June 2018, CCH amended and restated its working capital facility (“CCH Working Capital Facility”) to increase total commitments under the CCH Working Capital Facility to \$1.2 billion. The proceeds will be used for certain working capital requirements related to developing and placing into operations the CCL Project and for related business purposes.

.....  
 • In June 2018, the date of first commercial delivery was reached under the 20-year SPA with BG Gulf Coast LNG, LLC (“BG”) relating to Train 3 of the SPL Project.

• In March 2018, the date of first commercial delivery was reached under the 20-year SPA with GAIL (India) Limited (“GAIL”) relating to Train 4 of the SPL Project.

### Liquidity and Capital Resources

Although results are consolidated for financial reporting, Cheniere, Cheniere Holdings, Cheniere Partners, SPL and the CCH Group operate with independent capital structures. We expect the cash needs for at least the next twelve months will be met for each of these independent capital structures as follows:

- SPL through project debt and borrowings and operating cash flows;
  - Cheniere Partners through operating cash flows from SPLNG, SPL and CTPL and debt or equity offerings;
  - Cheniere Holdings through distributions from Cheniere Partners;
  - CCH Group through project debt and borrowings and equity contributions from Cheniere; and
- Cheniere through project financing, existing unrestricted cash, debt and equity offerings by us or our subsidiaries, operating cash flows, services fees from Cheniere Holdings, Cheniere Partners and our other subsidiaries and distributions from our investments in Cheniere Holdings and Cheniere Partners.

The following table provides a summary of our liquidity position at June 30, 2018 and December 31, 2017 (in millions):

	June 30, 2018	December 31, 2017
Cash and cash equivalents	\$ 874	\$ 722
Restricted cash designated for the following purposes:		
SPL Project	846	544
Cheniere Partners and cash held by guarantor subsidiaries	675	1,045
CCL Project	678	227
Other	198	75
Available commitments under the following credit facilities:		
\$1.2 billion SPL Working Capital Facility (“SPL Working Capital Facility”)	517	470
CQP Credit Facilities (“CQP Credit Facilities”)	220	220
CCH Credit Facility	2,247	2,087
CCH Working Capital Facility	881	186
\$750 million Cheniere Revolving Credit Facility (“Cheniere Revolving Credit Facility”)	750	750

For additional information regarding our debt agreements, see Note 10—Debt of our Notes to Consolidated Financial Statements in this quarterly report and Note 12—Debt of our Notes to Consolidated Financial Statements in our annual report on Form 10-K for the year ended December 31, 2017.



## Cheniere

### Convertible Notes

In November 2014, we issued an aggregate principal amount of \$1.0 billion of Convertible Unsecured Notes due 2021 (the “2021 Cheniere Convertible Unsecured Notes”). The 2021 Cheniere Convertible Unsecured Notes are convertible at the option of the holder into our common stock at the then applicable conversion rate, provided that the closing price of our common stock is greater than or equal to the conversion price on the date of conversion. In March 2015, we issued \$625 million aggregate principal amount of 4.25% Convertible Senior Notes due 2045 (the “2045 Cheniere Convertible Senior Notes”). We have the right, at our option, at any time after March 15, 2020, to redeem all or any part of the 2045 Cheniere Convertible Senior Notes at a redemption price equal to the accreted amount of the 2045 Cheniere Convertible Senior Notes to be redeemed, plus accrued and unpaid interest, if any, to such redemption date. We have the option to satisfy the conversion obligation for the 2021 Cheniere Convertible Unsecured Notes and the 2045 Cheniere Convertible Senior Notes with cash, common stock or a combination thereof.

### Cheniere Revolving Credit Facility

In March 2017, we entered into the Cheniere Revolving Credit Facility that may be used to fund, through loans and letters of credit, equity capital contributions to CCH HoldCo II and its subsidiaries for the development of the CCL Project and, provided that certain conditions are met, for general corporate purposes. No advances or letters of credit under the Cheniere Revolving Credit Facility were available until either (1) Cheniere’s unrestricted cash and cash equivalents are less than \$500 million or (2) Train 4 of the SPL Project has achieved substantial completion.

The Cheniere Revolving Credit Facility matures on March 2, 2021 and contains representations, warranties and affirmative and negative covenants customary for companies like Cheniere with lenders of the type participating in the Cheniere Revolving Credit Facility that limit our ability to make restricted payments, including distributions, unless certain conditions are satisfied, as well as limitations on indebtedness, guarantees, hedging, liens, investments and affiliate transactions. Under the Cheniere Revolving Credit Facility, we are required to ensure that the sum of our unrestricted cash and the amount of undrawn commitments under the Cheniere Revolving Credit Facility is at least equal to the lesser of (1) 20% of the commitments under the Cheniere Revolving Credit Facility and (2) \$100 million.

The Cheniere Revolving Credit Facility is secured by a first priority security interest (subject to permitted liens and other customary exceptions) in substantially all of our assets, including our interests in our direct subsidiaries (excluding CCH HoldCo II).

### Cash Receipts from Subsidiaries

As of June 30, 2018, we had a 91.9% direct ownership interest in Cheniere Holdings. We receive dividends on our Cheniere Holdings shares from the distributions that Cheniere Holdings receives from Cheniere Partners. We received \$217 million and \$8 million in dividends on our Cheniere Holdings common shares during the six months ended June 30, 2018 and 2017, respectively.

Our ownership interest in the Sabine Pass LNG terminal is held through Cheniere Partners. As of June 30, 2018, we owned 91.9% of Cheniere Holdings, which owned a 48.6% interest in Cheniere Partners in the form of 104.5 million common units and 135.4 million subordinated units. We also own 100% of the general partner interest and the incentive distribution rights in Cheniere Partners. We receive quarterly equity distributions from Cheniere Partners related to our 2% general partner interest and quarterly distributions from our incentive distribution rights.

We also receive fees for providing management services to Cheniere Holdings, Cheniere Partners, SPLNG, SPL and CTPL. We received \$38 million and \$68 million in total service fees from these subsidiaries during the six months

ended June 30, 2018 and 2017, respectively.

Cheniere Partners

2025 CQP Senior Notes

In September 2017, Cheniere Partners issued an aggregate principal amount of \$1.5 billion of the 2025 CQP Senior Notes, which are jointly and severally guaranteed by each of Cheniere Partners' subsidiaries other than SPL and, subject to certain

33

---

conditions governing the release of its guarantee, Sabine Pass LNG-LP, LLC (collectively, the “CQP Guarantors”). The 2025 CQP Senior Notes are governed by an indenture (the “CQP Indenture”), which contains customary terms and events of default and certain covenants that, among other things, limit the ability of Cheniere Partners and the CQP Guarantors to incur liens and sell assets, enter into transactions with affiliates, enter into sale-leaseback transactions and consolidate, merge or sell, lease or otherwise dispose of all or substantially all of the applicable entity’s properties or assets.

At any time prior to October 1, 2020, Cheniere Partners may redeem all or a part of the 2025 CQP Senior Notes at a redemption price equal to 100% of the aggregate principal amount of the 2025 CQP Senior Notes redeemed, plus the “applicable premium” set forth in the CQP Indenture, plus accrued and unpaid interest, if any, to the date of redemption. In addition, at any time prior to October 1, 2020, Cheniere Partners may redeem up to 35% of the aggregate principal amount of the 2025 CQP Senior Notes with an amount of cash not greater than the net cash proceeds from certain equity offerings at a redemption price equal to 105.250% of the aggregate principal amount of the 2025 CQP Senior Notes redeemed, plus accrued and unpaid interest, if any, to the date of redemption. Cheniere Partners also may at any time on or after October 1, 2020 through the maturity date of October 1, 2025, redeem the 2025 CQP Senior Notes, in whole or in part, at the redemption prices set forth in the CQP Indenture.

The 2025 CQP Senior Notes are Cheniere Partners’ senior obligations, ranking equally in right of payment with Cheniere Partners’ other existing and future unsubordinated debt and senior to any of its future subordinated debt. The 2025 CQP Senior Notes are secured alongside the CQP Credit Facilities on a first-priority basis (subject to permitted encumbrances) with liens on (1) substantially all the existing and future tangible and intangible assets and rights of Cheniere Partners and the CQP Guarantors and equity interests in the CQP Guarantors (except, in each case, for certain excluded properties set forth in the CQP Credit Facilities) and (2) substantially all of the real property of SPLNG (except for excluded properties referenced in the CQP Credit Facilities). The liens securing the 2025 CQP Senior Notes would be released if (1) the aggregate principal amount of all indebtedness then outstanding under the term loans under the CQP Credit Facilities secured by such liens does not exceed \$1.0 billion and (2) the aggregate amount of Cheniere Partners’ secured indebtedness and the secured indebtedness of the CQP Guarantors (other than the 2025 CQP Senior Notes or any other series of notes issued under the CQP Indenture) outstanding at any one time, together with all Attributable Indebtedness (as defined in the CQP Indenture) from sale-leaseback transactions (subject to certain exceptions), does not exceed the greater of (1) \$1.5 billion and (2) 10% of net tangible assets. Upon the release of the liens securing the 2025 CQP Senior Notes, the limitation on liens covenant under the CQP Indenture will continue to govern the incurrence of liens by Cheniere Partners and the CQP Guarantors.

#### CQP Credit Facilities

In February 2016, Cheniere Partners entered into the CQP Credit Facilities. The CQP Credit Facilities consist of: (1) a \$450 million CTPL tranche term loan that was used to prepay the \$400 million term loan facility (the “CTPL Term Loan”) in February 2016, (2) an approximately \$2.1 billion SPLNG tranche term loan that was used to repay and redeem in November 2016 the approximately \$2.1 billion of the senior notes previously issued by SPLNG, (3) a \$125 million facility that may be used to satisfy a six-month debt service reserve requirement and (4) a \$115 million revolving credit facility that may be used for general business purposes. In September 2017, Cheniere Partners issued the 2025 CQP Senior Notes and the net proceeds were used to prepay \$1.5 billion of the outstanding indebtedness under the CQP Credit Facilities. As of both June 30, 2018 and December 31, 2017, Cheniere Partners had \$220 million of available commitments, \$20 million aggregate amount of issued letters of credit and \$1.1 billion of loans outstanding under the CQP Credit Facilities.

The CQP Credit Facilities mature on February 25, 2020, with principal payments due quarterly commencing on March 31, 2019. The outstanding balance may be repaid, in whole or in part, at any time without premium or penalty, except for interest hedging and interest rate breakage costs. The CQP Credit Facilities contain conditions precedent for extensions of credit, as well as customary affirmative and negative covenants and limit Cheniere Partners’ ability to

make restricted payments, including distributions, to once per fiscal quarter as long as certain conditions are satisfied. Under the CQP Credit Facilities, Cheniere Partners is required to hedge not less than 50% of the variable interest rate exposure on its projected aggregate outstanding balance, maintain a minimum debt service coverage ratio of at least 1.15x at the end of each fiscal quarter beginning March 31, 2019 and have a projected debt service coverage ratio of 1.55x in order to incur additional indebtedness to refinance a portion of the existing obligations.

The CQP Credit Facilities are unconditionally guaranteed by each subsidiary of Cheniere Partners other than (1) SPL and (2) certain subsidiaries of Cheniere Partners owning other development projects, as well as certain other specified subsidiaries and members of the foregoing entities.



## Sabine Pass LNG Terminal

## Liquefaction Facilities

We are developing, constructing and operating the SPL Project at the Sabine Pass LNG terminal adjacent to the existing regasification facilities. We have received authorization from the FERC to site, construct and operate Trains 1 through 6. We have achieved substantial completion of Trains 1, 2, 3 and 4 of the SPL Project and commenced operating activities in May 2016, September 2016, March 2017 and October 2017, respectively. The following table summarizes the status of Train 5 of the SPL Project as of June 30, 2018:

	SPL Train 5
Overall project completion percentage	95.1%
Completion percentage of:	
Engineering	100%
Procurement	100%
Subcontract work	81.1%
Construction	91.4%
Date of expected substantial completion	1H 2019

The following orders have been issued by the DOE authorizing the export of domestically produced LNG by vessel from the Sabine Pass LNG terminal:

Trains 1 through 4—FTA countries for a 30-year term, which commenced on May 15, 2016, and non-FTA countries for a 20-year term, which commenced on June 3, 2016, in an amount up to a combined total of the equivalent of 16 mtpa (approximately 803 Bcf/yr of natural gas).

Trains 1 through 4—FTA countries for a 25-year term and non-FTA countries for a 20-year term in an amount up to a combined total of the equivalent of approximately 203 Bcf/yr of natural gas (approximately 4 mtpa).

Trains 5 and 6—FTA countries and non-FTA countries for a 20-year term, in an amount up to a combined total of 503.3 Bcf/yr of natural gas (approximately 10 mtpa).

In each case, the terms of these authorizations begin on the earlier of the date of first export thereunder or the date specified in the particular order, which ranges from five to 10 years from the date the order was issued. In addition, SPL received an order providing for a three-year makeup period with respect to each of the non-FTA orders for LNG volumes SPL was authorized but unable to export during any portion of the initial 20-year export period of such order.

In January 2018, the DOE issued orders authorizing SPL to export domestically produced LNG by vessel from the Sabine Pass LNG terminal to FTA countries and non-FTA countries over a two-year period commencing January 2018, in an aggregate amount up to the equivalent of 600 Bcf of natural gas (however, exports under this order, when combined with exports under the orders above, may not exceed 1,509 Bcf/yr).

## Customers

SPL has entered into six fixed price SPAs with terms of at least 20 years (plus extension rights) with third parties to make available an aggregate amount of LNG that is between approximately 80% to 95% of the expected aggregate adjusted nominal production capacity of Trains 1 through 5. Under these SPAs, the customers will purchase LNG from SPL for a price consisting of a fixed fee per MMBtu of LNG (a portion of which is subject to annual adjustment for inflation) plus a variable fee per MMBtu of LNG equal to approximately 115% of Henry Hub. In certain circumstances, the customers may elect to cancel or suspend deliveries of LNG cargoes, in which case the customers

would still be required to pay the fixed fee with respect to the contracted volumes that are not delivered as a result of such cancellation or suspension. We refer to the fee component that is applicable regardless of a cancellation or suspension of LNG cargo deliveries under the SPAs as the fixed fee component of the price under SPL's SPAs. We refer to the fee component that is applicable only in connection with LNG cargo deliveries as the variable fee component of the price under SPL's SPAs. The variable fees under SPL's SPAs were sized at the time of entry into each SPA with the intent to cover the costs of gas purchases and transportation related to, and operating and maintenance costs to produce, the LNG to be sold under each such SPA. The SPAs and contracted volumes to be made available under the SPAs are not tied to a specific Train; however, the term of each SPA generally commences upon the date of first commercial delivery of a specified Train

except for the SPA with BG related to Trains 3 and 4, which commence approximately one year after the date of first commercial delivery for the respective Train.

In aggregate, the annual fixed fee portion to be paid by the third-party SPA customers is approximately \$2.2 billion for Trains 1 through 3 and the SPA with GAIL for Train 4, increasing to \$2.3 billion upon the date of first commercial delivery under the SPA with BG for Train 4 and to \$2.9 billion upon the date of first commercial delivery of Train 5, with the applicable fixed fees starting from the date of first commercial delivery from the applicable Train, as specified in each SPA.

In addition, Cheniere Marketing has entered into an SPA with SPL to purchase, at Cheniere Marketing's option, any LNG produced by SPL in excess of that required for other customers.

#### Natural Gas Transportation, Storage and Supply

To ensure SPL is able to transport adequate natural gas feedstock to the Sabine Pass LNG terminal, it has entered into transportation precedent and other agreements to secure firm pipeline transportation capacity with CTPL and third-party pipeline companies. SPL has entered into firm storage services agreements with third parties to assist in managing volatility in natural gas needs for the SPL Project. SPL has also entered into enabling agreements and long-term natural gas supply contracts with third parties in order to secure natural gas feedstock for the SPL Project. As of June 30, 2018, SPL has secured up to approximately 2,163 TBtu of natural gas feedstock through long-term and short-term natural gas supply contracts.

#### Construction

SPL entered into lump sum turnkey contracts with Bechtel for the engineering, procurement and construction of Trains 1 through 5 of the SPL Project, under which Bechtel charges a lump sum for all work performed and generally bears project cost risk unless certain specified events occur, in which case Bechtel may cause SPL to enter into a change order, or SPL agrees with Bechtel to a change order.

The total contract price of the EPC contract for Train 5 of the SPL Project is approximately \$3.1 billion reflecting amounts incurred under change orders through June 30, 2018. Total expected capital costs for Trains 1 through 5 are estimated to be between \$12.5 billion and \$13.5 billion before financing costs and between \$17.5 billion and \$18.5 billion after financing costs including, in each case, estimated owner's costs and contingencies.

#### Final Investment Decision on Train 6

We will contemplate making an FID to commence construction of Train 6 of the SPL Project based upon, among other things, entering into an EPC contract, entering into acceptable commercial arrangements and obtaining adequate financing to construct Train 6.

#### Regasification Facilities

The Sabine Pass LNG terminal has operational regasification capacity of approximately 4.0 Bcf/d and aggregate LNG storage capacity of approximately 16.9 Bcfe. Approximately 2.0 Bcf/d of the regasification capacity at the Sabine Pass LNG terminal has been reserved under two long-term third-party TUAs, under which SPLNG's customers are required to pay fixed monthly fees, whether or not they use the LNG terminal. Each of Total Gas & Power North America, Inc. ("Total") and Chevron U.S.A. Inc. ("Chevron") has reserved approximately 1.0 Bcf/d of regasification capacity and is obligated to make monthly capacity payments to SPLNG aggregating approximately \$125 million annually for 20 years that commenced in 2009. Total S.A. has guaranteed Total's obligations under its TUA up to \$2.5 billion, subject to certain exceptions, and Chevron Corporation has guaranteed Chevron's obligations under its TUA up to 80% of the

fees payable by Chevron.

The remaining approximately 2.0 Bcf/d of capacity has been reserved under a TUA by SPL. SPL is obligated to make monthly capacity payments to SPLNG aggregating approximately \$250 million annually, continuing until at least May 2036. SPL entered into a partial TUA assignment agreement with Total, whereby upon substantial completion of Train 3 of the SPL Project, SPL gained access to a portion of Total's capacity and other services provided under Total's TUA with SPLNG. This agreement provides SPL with additional berthing and storage capacity at the Sabine Pass LNG terminal that may be used to provide increased flexibility in managing LNG cargo loading and unloading activity, permit SPL to more flexibly manage its LNG storage capacity and accommodate the development of Trains 5 and 6. Notwithstanding any arrangements between Total and SPL, payments

36

---

required to be made by Total to SPLNG will continue to be made by Total to SPLNG in accordance with its TUA. During the three months ended June 30, 2018 and 2017, SPL recorded \$7 million and \$8 million, respectively, and during the six months ended June 30, 2018 and 2017, SPL recorded \$15 million and \$8 million, respectively, as operating and maintenance expense under this partial TUA assignment agreement.

Under each of these TUAs, SPLNG is entitled to retain 2% of the LNG delivered to the Sabine Pass LNG terminal.

### Capital Resources

We currently expect that SPL's capital resources requirements with respect to Trains 1 through 5 of the SPL Project will be financed through project debt and borrowings and cash flows under the SPAs. We believe that with the net proceeds of borrowings, available commitments under the SPL Working Capital Facility and cash flows from operations, we will have adequate financial resources available to complete Train 5 of the SPL Project and to meet our currently anticipated capital, operating and debt service requirements. SPL began generating cash flows from operations from the SPL Project in May 2016, when Train 1 achieved substantial completion and initiated operating activities. Trains 2, 3 and 4 subsequently achieved substantial completion in September 2016, March 2017 and October 2017, respectively. We realized offsets to LNG terminal costs of \$39 million and \$170 million in the three and six months ended June 30, 2017, respectively, that were related to the sale of commissioning cargoes because these amounts were earned or loaded prior to the start of commercial operations, during the testing phase for the construction of those Trains of the SPL Project. We did not realize any offsets to LNG terminal costs in the three and six months ended June 30, 2018. Additionally, SPLNG generates cash flows from the TUAs, as discussed above.

The following table provides a summary of our capital resources from borrowings and available commitments for the Sabine Pass LNG Terminal, excluding equity contributions to our subsidiaries and cash flows from operations (as described in Sources and Uses of Cash), at June 30, 2018 and December 31, 2017 (in millions):

	June 30, 2018	December 31, 2017
Senior notes (1)	\$ 15,150	\$ 15,150
Credit facilities outstanding balance (2)	1,090	1,090
Letters of credit issued (3)	683	730
Available commitments under credit facilities (3)	517	470
Total capital resources from borrowings and available commitments (4)	\$ 17,440	\$ 17,440

(1) Includes SPL's 5.625% Senior Secured Notes due 2021, 6.25% Senior Secured Notes due 2022, 5.625% Senior Secured Notes due 2023, 5.75% Senior Secured Notes due 2024, 5.625% Senior Secured Notes due 2025, 5.875% Senior Secured Notes due 2026 (the "2026 SPL Senior Notes"), 5.00% Senior Secured Notes due 2027 (the "2027 SPL Senior Notes"), 4.200% Senior Secured Notes due 2028 (the "2028 SPL Senior Notes") and 5.00% Senior Secured Notes due 2037 (the "2037 SPL Senior Notes") (collectively, the "SPL Senior Notes") and Cheniere Partners' 2025 CQP Senior Notes.

(2) Includes outstanding balance under the SPL Working Capital Facility and CTPL and SPLNG tranche term loans outstanding under the CQP Credit Facilities.

- (3) Consists of SPL Working Capital Facility. Does not include the letters of credit issued or available commitments under the CQP Credit Facilities, which are not specifically for the Sabine Pass LNG Terminal.
- (4) Does not include Cheniere's additional borrowings from the 2021 Cheniere Convertible Unsecured Notes and the 2045 Cheniere Convertible Senior Notes, which may be used for the Sabine Pass LNG Terminal.

For additional information regarding our debt agreements related to the Sabine Pass LNG Terminal, see Note 10—Debt of our Notes to Consolidated Financial Statements in this quarterly report and Note 12—Debt of our Notes to Consolidated Financial Statements in our annual report on Form 10-K for the year ended December 31, 2017.

#### SPL Senior Notes

The SPL Senior Notes are secured on a pari passu first-priority basis by a security interest in all of the membership interests in SPL and substantially all of SPL's assets.

At any time prior to three months before the respective dates of maturity for each series of the SPL Senior Notes (except for the 2026 SPL Senior Notes, 2027 SPL Senior Notes, 2028 SPL Senior Notes and 2037 SPL Senior Notes, in which case the time period is six months before the respective dates of maturity), SPL may redeem all or part of such series of the SPL Senior Notes at a redemption price equal to the “make-whole” price (except for the 2037 SPL Senior Notes, in which case the redemption price is equal to the “optional redemption” price) set forth in the respective indentures governing the SPL Senior Notes, plus accrued and unpaid interest, if any, to the date of redemption. SPL may also, at any time within three months of the respective maturity dates for each series of the SPL Senior Notes (except for the 2026 SPL Senior Notes, 2027 SPL Senior Notes, 2028 SPL Senior Notes and 2037 SPL Senior Notes, in which case the time period is within six months of the respective dates of maturity), redeem all or part of such series of the SPL Senior Notes at a redemption price equal to 100% of the principal amount of such series of the SPL Senior Notes to be redeemed, plus accrued and unpaid interest, if any, to the date of redemption.

Both the indenture governing the 2037 SPL Senior Notes (the “2037 SPL Senior Notes Indenture”) and the common indenture governing the remainder of the SPL Senior Notes (the “SPL Indenture”) include restrictive covenants. SPL may incur additional indebtedness in the future, including by issuing additional notes, and such indebtedness could be at higher interest rates and have different maturity dates and more restrictive covenants than the current outstanding indebtedness of SPL, including the SPL Senior Notes and the SPL Working Capital Facility. Under the 2037 SPL Senior Notes Indenture and the SPL Indenture, SPL may not make any distributions until, among other requirements, deposits are made into debt service reserve accounts as required and a debt service coverage ratio test of 1.25:1.00 is satisfied. Semi-annual principal payments for the 2037 SPL Senior Notes are due on March 15 and September 15 of each year beginning September 15, 2025.

#### SPL Working Capital Facility

In September 2015, SPL entered into the SPL Working Capital Facility, which is intended to be used for loans to SPL (“SPL Working Capital Loans”), the issuance of letters of credit on behalf of SPL, as well as for swing line loans to SPL (“SPL Swing Line Loans”), primarily for certain working capital requirements related to developing and placing into operation the SPL Project. SPL may, from time to time, request increases in the commitments under the SPL Working Capital Facility of up to \$760 million and, upon the completion of the debt financing of Train 6 of the SPL Project, request an incremental increase in commitments of up to an additional \$390 million. As of June 30, 2018 and December 31, 2017, SPL had \$517 million and \$470 million of available commitments and \$683 million and \$730 million aggregate amount of issued letters of credit under the SPL Working Capital Facility, respectively. As of both June 30, 2018 and December 31, 2017, SPL had no loans outstanding under the SPL Working Capital Facility.

The SPL Working Capital Facility matures on December 31, 2020, and the outstanding balance may be repaid, in whole or in part, at any time without premium or penalty upon three business days’ notice. Loans deemed made in connection with a draw upon a letter of credit have a term of up to one year. SPL Swing Line Loans terminate upon the earliest of (1) the maturity date or earlier termination of the SPL Working Capital Facility, (2) the date 15 days after such SPL Swing Line Loan is made and (3) the first borrowing date for a SPL Working Capital Loan or SPL Swing Line Loan occurring at least three business days following the date the SPL Swing Line Loan is made. SPL is required to reduce the aggregate outstanding principal amount of all SPL Working Capital Loans to zero for a period of five consecutive business days at least once each year.

The SPL Working Capital Facility contains conditions precedent for extensions of credit, as well as customary affirmative and negative covenants. The obligations of SPL under the SPL Working Capital Facility are secured by substantially all of the assets of SPL as well as all of the membership interests in SPL on a pari passu basis with the SPL Senior Notes.

#### Corpus Christi LNG Terminal

Liquefaction Facilities

The CCL Project is being developed and constructed at the Corpus Christi LNG terminal. In December 2014, we received authorization from the FERC to site, construct and operate Stages 1 and 2 of the CCL Project. The following table summarizes the overall project status of the CCL Project as of June 30, 2018:

38

---



## Edgar Filing: CHENIERE ENERGY INC - Form 10-Q

	CCL Stage 1	CCL Stage 2
Overall project completion percentage	89.9%	28.7%
Completion percentage of:		
Engineering	100%	61.4%
Procurement	100%	47.3%
Subcontract work	75.9%	2.6%
Construction	77.8%	2.9%
Expected date of substantial completion	Train 1 1H 2019 Train 2 2H 2019	Train 3 2H 2021

Separate from the CCH Group, we are also developing the Corpus Christi Stage 3, adjacent to the CCL Project. We recently filed an application with FERC for seven midscale Trains with an expected aggregate nominal production capacity of approximately 9.5 mtpa. We remain focused on leveraging infrastructure through the expansion of our existing sites.

The following orders have been issued by the DOE authorizing the export of domestically produced LNG by vessel from the Corpus Christi LNG terminal:

- CCL Project—FTA countries for a 25-year term and to non-FTA countries for a 20-year term up to a combined total of the equivalent of 767 Bcf/yr (approximately 15 mtpa) of natural gas.

- Corpus Christi Stage 3—FTA countries for a 20-year term in an amount equivalent to 514 Bcf/yr (approximately 10 mtpa) of natural gas (the “Stage 3 FTA”). The application for authorization to export that same 514 Bcf/yr of domestically produced LNG by vessel to non-FTA countries is currently pending before the DOE (the “Stage 3 Non-FTA”).

In each case, the terms of these authorizations begin on the earlier of the date of first export thereunder or the date specified in the particular order, which ranges from seven to 10 years from the date the order was issued.

In June 2018, Cheniere requested that DOE vacate the Stage 3 FTA and permit Cheniere to withdraw the pending Stage 3 Non-FTA. These requests were made due to certain changes to Corpus Christi Stage 3.

In conjunction with the submission on June 28, 2018 of Cheniere’s FERC application for Corpus Christi Stage 3, Cheniere submitted a new application for long-term multi-contract authorization to export up to a combined total of 582.14 Bcf/yr (approximately 11.45 mtpa) of natural gas to FTA countries for a 25-year term and to non-FTA countries for a 20-year term. The term of each authorization is expected to begin on the earlier of the date of first commercial export of LNG produced by Corpus Christi Stage 3 or the date which is seven years from the issuance of such authorizations.

### Customers

CCL entered into ten fixed-price SPAs generally with terms of 20 years (plus extension rights) with nine third parties to make available an aggregate amount of LNG that is between approximately 75% to 85% of the expected aggregate adjusted nominal production capacity of Trains 1 through 3. Under these ten SPAs, the customers will purchase LNG from CCL for a price consisting of a fixed fee per MMBtu of LNG (a portion of which is subject to annual adjustment for inflation) plus a variable fee per MMBtu of LNG equal to approximately 115% of Henry Hub. In certain circumstances, the customers may elect to cancel or suspend deliveries of LNG cargoes, in which case the customers would still be required to pay the fixed fee with respect to the contracted volumes that are not delivered as a result of such cancellation or suspension. We refer to the fee component that is applicable regardless of a cancellation or suspension of LNG cargo deliveries under the SPAs as the fixed fee component of the price under our SPAs. We refer to the fee component that is applicable only in connection with LNG cargo deliveries as the variable fee component of the price under our SPAs. The variable fee under CCL’s SPAs entered into in connection with the development of the CCL Project was sized at the time of entry into each SPA with the intent to cover the costs of gas purchases and

transportation related to, and operating and maintenance costs to produce, the LNG to be sold under each such SPA. The SPAs and contracted volumes to be made available under the SPAs are not tied to a specific Train; however, the term of each SPA generally commences upon the date of first commercial delivery for the applicable Train, as specified in each SPA.

In aggregate, the minimum fixed fee portion to be paid by the third-party SPA customers is approximately \$550 million for Train 1 and increasing to approximately \$1.4 billion for Train 2, in each case upon the date of first commercial delivery for the respective Train, and further increasing to approximately \$1.8 billion following the substantial completion of Train 3 of the CCL Project.

In addition, Cheniere Marketing has entered into SPAs with CCL to purchase 15 TBtu per annum of LNG and any LNG produced by CCL in excess of that required for other customers at Cheniere Marketing's option.

#### Natural Gas Transportation, Storage and Supply

To ensure CCL is able to transport adequate natural gas feedstock to the Corpus Christi LNG terminal, it has entered into transportation precedent agreements to secure firm pipeline transportation capacity with CCP and certain third-party pipeline companies. CCL has entered into a firm storage services agreement with a third party to assist in managing volatility in natural gas needs for the CCL Project. CCL has also entered into enabling agreements and long-term natural gas supply contracts with third parties, and will continue to enter into such agreements, in order to secure natural gas feedstock for the CCL Project. As of June 30, 2018, CCL has secured up to approximately 2,431 TBtu of natural gas feedstock through long-term natural gas supply contracts, a portion of which is subject to the achievement of certain project milestones and other conditions precedent.

#### Construction

CCL entered into separate lump sum turnkey contracts with Bechtel for the engineering, procurement and construction of Stages 1 and 2 of the CCL Project under which Bechtel charges a lump sum for all work performed and generally bears project cost risk unless certain specified events occur, in which case Bechtel may cause CCL to enter into a change order, or CCL agrees with Bechtel to a change order.

The total contract prices of the EPC contract for Stage 1 and the EPC contract for Stage 2, which do not include the Corpus Christi Pipeline, are approximately \$7.8 billion and \$2.4 billion, respectively, reflecting amounts incurred under change orders through June 30, 2018. Total expected capital costs for Trains 1 through 3 are estimated to be between \$11.0 billion and \$12.0 billion before financing costs and between \$15.0 billion and \$16.0 billion after financing costs including, in each case, estimated owner's costs and contingencies.

#### Pipeline Facilities

In December 2014, the FERC issued a certificate of public convenience and necessity under Section 7(c) of the Natural Gas Act of 1938, as amended, authorizing CCP to construct and operate the Corpus Christi Pipeline. The Corpus Christi Pipeline is designed to transport 2.25 Bcf/d of natural gas feedstock required by the CCL Project from the existing regional natural gas pipeline grid. The construction of the Corpus Christi Pipeline commenced in January 2017 and was completed in the second quarter of 2018.

#### Capital Resources

We expect to finance the construction costs of the CCL Project from one or more of the following: project financing, operating cash flows from CCL and CCP and equity contributions to our subsidiaries. The following table provides a summary of our capital resources from borrowings and available commitments for the CCL Project, excluding equity contributions to our subsidiaries, at June 30, 2018 and December 31, 2017 (in millions):

	June 30, 2018	December 31, 2017
Senior notes (1) 11% Convertible	\$ 4,250	\$ 4,250
Senior Secured Notes due 2025	1,378	1,305
Credit facilities outstanding balance	3,905	2,485

(2)		
Letters of credit issued (2)	305	164
Available commitments under credit facilities (2)	3,128	2,273
Total capital resources from borrowings and available commitments (3)	\$ 12,966	\$ 10,477

(1) Includes CCH's 7.000% Senior Secured Notes due 2024, 5.875% Senior Secured Notes due 2025 and 5.125% Senior Secured Notes due 2027 (the "2027 CCH Senior Notes") (collectively, the "CCH Senior Notes").

(2) Includes CCH Credit Facility and CCH Working Capital Facility.

Does not include Cheniere's additional borrowings from 2021 Cheniere Convertible Unsecured Notes, 2045

(3) Cheniere Convertible Senior Notes and Cheniere Revolving Credit Facility, which may be used for the CCL Project.

For additional information regarding our debt agreements related to the CCL Project, see Note 10—Debt of our Notes to Consolidated Financial Statements in this quarterly report and Note 12—Debt of our Notes to Consolidated Financial Statements in our annual report on Form 10-K for the year ended December 31, 2017.

#### 2025 CCH HoldCo II Convertible Senior Notes

In May 2015, CCH HoldCo II issued \$1.0 billion aggregate principal amount of 11% Convertible Senior Secured Notes due 2025 (the “2025 CCH HoldCo II Convertible Senior Notes”) on a private placement basis. The 2025 CCH HoldCo II Convertible Senior Notes are convertible at the option of CCH HoldCo II or the holders, provided that various conditions are met. CCH HoldCo II is restricted from making distributions to Cheniere under agreements governing its indebtedness generally until, among other requirements, Trains 1 and 2 of the CCL Project are in commercial operation and a historical debt service coverage ratio and a projected fixed debt service coverage ratio of 1.20:1.00 are achieved.

In May 2018, the amended and restated note purchase agreement under which the 2025 CCH HoldCo II Convertible Senior Notes were issued was subsequently amended in connection with commercialization and financing of Train 3 of the CCL Project. All terms of the 2025 CCH HoldCo II Convertible Senior Notes substantially remained the same, as described in Note 12—Debt of our Notes to Consolidated Financial Statements in our annual report on Form 10-K for the year ended December 31, 2017.

#### CCH Senior Notes

The CCH Senior Notes are jointly and severally guaranteed by its subsidiaries, CCL, CCP and Corpus Christi Pipeline GP, LLC (the “CCH Guarantors”).

The indenture governing the CCH Senior Notes (the “CCH Indenture”) contains customary terms and events of default and certain covenants that, among other things, limit CCH’s ability and the ability of CCH’s restricted subsidiaries to: incur additional indebtedness or issue preferred stock; make certain investments or pay dividends or distributions on membership interests or subordinated indebtedness or purchase, redeem or retire membership interests; sell or transfer assets, including membership or partnership interests of CCH’s restricted subsidiaries; restrict dividends or other payments by restricted subsidiaries to CCH or any of CCH’s restricted subsidiaries; incur liens; enter into transactions with affiliates; dissolve, liquidate, consolidate, merge, sell or lease all or substantially all of the properties or assets of CCH and its restricted subsidiaries taken as a whole; or permit any CCH Guarantor to dissolve, liquidate, consolidate, merge, sell or lease all or substantially all of its properties and assets.

At any time prior to six months before the respective dates of maturity for each series of the CCH Senior Notes, CCH may redeem all or part of such series of the CCH Senior Notes at a redemption price equal to the “make-whole” price set forth in the CCH Indenture, plus accrued and unpaid interest, if any, to the date of redemption. CCH also may at any time within six months of the respective dates of maturity for each series of the CCH Senior Notes, redeem all or part of such series of the CCH Senior Notes, in whole or in part, at a redemption price equal to 100% of the principal amount of the CCH Senior Notes to be redeemed, plus accrued and unpaid interest, if any, to the date of redemption.

#### CCH Credit Facility

In May 2018, CCH amended and restated the CCH Credit Facility to increase total commitments under the CCH Credit Facility to \$6.1 billion. The obligations of CCH under the CCH Credit Facility are secured by a first priority lien on substantially all of the assets of CCH and its subsidiaries and by a pledge by CCH HoldCo I of its limited liability company interests in CCH. As of June 30, 2018 and December 31, 2017, CCH had \$2.2 billion and \$2.1 billion of available commitments and \$3.9 billion and \$2.5 billion loans outstanding under the CCH Credit Facility,

respectively.

The CCH Credit Facility matures on June 30, 2024, with principal payments due quarterly commencing on the earlier of (1) the first quarterly payment date occurring more than three calendar months following the completion of Trains 1 through 3 of the CCL Project as defined in the common terms agreement and (2) a set date determined by reference to the date under which a certain LNG buyer linked to the last Train of the CCL Project to become operational is entitled to terminate its SPA for failure to achieve the date of first commercial delivery for that agreement. Scheduled repayments will be based upon a 19-year tailored amortization, commencing the first full quarter after the completion of Trains 1 through 3 and designed to achieve a minimum projected fixed debt service coverage ratio of 1.50:1.

41

---

Under the CCH Credit Facility, CCH is required to hedge not less than 65% of the variable interest rate exposure of its senior secured debt. CCH is restricted from making distributions under agreements governing its indebtedness generally until, among other requirements, the completion of the construction of Trains 1 and 2 of the CCL Project, funding of a debt service reserve account equal to six months of debt service and achieving a historical debt service coverage ratio and fixed projected debt service coverage ratio of at least 1.25:1.00.

#### CCH Working Capital Facility

In June 2018, CCH amended and restated the CCH Working Capital Facility to increase total commitments under the CCH Working Capital Facility to \$1.2 billion. The CCH Working Capital Facility is intended to be used for loans to CCH (“CCH Working Capital Loans”), the issuance of letters of credit on behalf of CCH, as well as for swing line loans to CCH (“CCH Swing Line Loans”) for certain working capital requirements related to developing and placing into operation the CCL Project. Loans under the CCH Working Capital Facility are guaranteed by the CCH Guarantors. CCH may, from time to time, request increases in the commitments under the CCH Working Capital Facility of up to the maximum allowed under the Common Terms Agreement that was entered into concurrently with the CCH Credit Facility. As of June 30, 2018 and December 31, 2017, CCH had \$881 million and \$186 million of available commitments, \$305 million and \$164 million aggregate amount of issued letters of credit and \$14 million and no loans outstanding under the CCH Working Capital Facility, respectively.

The CCH Working Capital Facility matures on June 29, 2023 and CCH may prepay the CCH Working Capital Loans, CCH Swing Line Loans and loans made in connection with a draw upon any letter of credit (“CCH LC Loans”) at any time without premium or penalty upon three business days’ notice and may re-borrow at any time. CCH LC Loans have a term of up to one year. CCH Swing Line Loans terminate upon the earliest of (1) the maturity date or earlier termination of the CCH Working Capital Facility, (2) the date that is 15 days after such CCH Swing Line Loan is made and (3) the first borrowing date for a CCH Working Capital Loan or CCH Swing Line Loan occurring at least four business days following the date the CCH Swing Line Loan is made. CCH is required to reduce the aggregate outstanding principal amount of all CCH Working Capital Loans to zero for a period of five consecutive business days at least once each year.

The CCH Working Capital Facility contains conditions precedent for extensions of credit, as well as customary affirmative and negative covenants. The obligations of CCH under the CCH Working Capital Facility are secured by substantially all of the assets of CCH and the CCH Guarantors as well as all of the membership interests in CCH and each of the CCH Guarantors on a pari passu basis with the CCH Senior Notes and the CCH Credit Facility.

#### Restrictive Debt Covenants

As of June 30, 2018, each of our issuers was in compliance with all covenants related to their respective debt agreements.

#### Marketing

We market and sell LNG produced by the SPL Project and the CCL Project that is not required for other customers through our integrated marketing function. We are developing a portfolio of long-, medium- and short-term SPAs to transport and unload commercial LNG cargoes to locations worldwide, which is primarily sourced by LNG produced by the SPL Project and the CCL Project but supplemented by volume procured from other locations worldwide, as needed. As of June 30, 2018, we have sold or have options to sell approximately 943 TBtu of LNG to be delivered to customers between 2018 and 2043. The cargoes have been sold either on a Free on Board basis (delivered to the customer at the Sabine Pass LNG terminal) or a Delivered at Terminal (“DAT”) basis (delivered to the customer at their LNG receiving terminal). We have chartered LNG vessels to be utilized in DAT transactions. In addition, we have entered into a long-term agreement to sell LNG cargoes on a DAT basis that is conditioned upon the buyer achieving certain milestones.

Cheniere Marketing entered into uncommitted trade finance facilities with available commitments of \$370 million as of June 30, 2018, primarily to be used for the purchase and sale of LNG for ultimate resale in the course of its operations. The finance facilities are intended to be used for advances, guarantees or the issuance of letters of credit or standby letters of credit on behalf of Cheniere Marketing. As of June 30, 2018 and December 31, 2017, Cheniere Marketing had \$44 million and \$2 million, respectively, in standby letters of credit and guarantees outstanding under the finance facilities. As of June 30, 2018 and December 31, 2017, Cheniere Marketing had \$123 million and zero, respectively, in loans outstanding under the finance facilities. Cheniere Marketing pays interest or fees on utilized commitments.



## Corporate and Other Activities

We are required to maintain corporate and general and administrative functions to serve our business activities described above. We are also in various stages of developing other projects, including infrastructure projects in support of natural gas supply and LNG demand, which, among other things, will require acceptable commercial and financing arrangements before we make an FID. We have made an equity investment in Midship Pipeline, which is developing a pipeline with expected capacity of up to 1.44 million Dekatherms per day that will connect new gas production in the Anadarko Basin to Gulf Coast markets, including markets serving the SPL Project and the CCL Project.

## Sources and Uses of Cash

The following table summarizes the sources and uses of our cash, cash equivalents and restricted cash for the six months ended June 30, 2018 and 2017 (in millions). The table presents capital expenditures on a cash basis; therefore, these amounts differ from the amounts of capital expenditures, including accruals, which are referred to elsewhere in this report. Additional discussion of these items follows the table.

	Six Months Ended June 30,	
	2018	2017
Operating cash flows	\$982	\$536
Investing cash flows	(1,492 )	(2,357 )
Financing cash flows	1,168	2,538
Net increase in cash, cash equivalents and restricted cash	658	717
Cash, cash equivalents and restricted cash—beginning of period	2,613	1,827
Cash, cash equivalents and restricted cash—end of period	\$3,271	\$2,544

## Operating Cash Flows

Our operating cash inflows during the six months ended June 30, 2018 and 2017 were \$982 million and \$536 million, respectively. The \$446 million increase in operating cash inflows in 2018 compared to 2017 was primarily related to increased cash receipts from the sale of LNG cargoes, partially offset by increased operating costs and expenses as a result of the of additional Trains that were operating at the SPL Project in 2018. During the six months ended June 30, 2018, Trains 1 through 4 were operational, whereas during the six months ended June 30, 2017, Trains 1 and 2 were operational for six months and Train 3 was operational for approximately three months.

## Investing Cash Flows

Investing cash outflows during the six months ended June 30, 2018 and 2017 were \$1.5 billion and \$2.4 billion, respectively, and were primarily used to fund the construction costs for the SPL Project and the CCL Project. These costs are capitalized as construction-in-process until achievement of substantial completion. Partially offsetting these cash outflows was a \$12 million receipt during the six months ended June 30, 2018 as a result of proceeds on the sale of our cost method investments. In addition to cash outflows for construction costs for the SPL Project and the CCL Project during the six months ended June 30, 2017, we invested \$41 million in our equity method investment Midship Holdings during the six months ended June 30, 2017. Partially offsetting these cash outflows was a \$36 million receipt during the six months ended June 30, 2017 from the return of collateral payments previously paid for the CCL Project, which was offset by \$14 million investments made in other unconsolidated entities and payments for infrastructure to support the CCL Project.

Financing Cash Flows

Financing cash inflows during the six months ended June 30, 2018 were \$1.2 billion, primarily as a result of:

- \$1.7 billion of borrowings and \$281 million in repayments under the CCH Credit Facility;
- \$14 million of borrowings under the CCH Working Capital Facility;
- \$123 million of net borrowings related to our Cheniere Marketing trade financing facilities;
- \$46 million of debt issuance costs related to up-front fees paid upon the closing of these transactions;

\$8 million in debt extinguishment costs;  
 \$288 million of distributions and dividends to non-controlling interest by Cheniere Partners and Cheniere Holdings;  
 and  
 \$8 million paid for tax withholdings for share-based compensation.

Financing cash inflows during the six months ended June 30, 2017 were \$2.5 billion, primarily as a result of:  
 issuances of SPL's senior notes for an aggregate principal amount of \$2.15 billion;  
 \$55 million of borrowings and \$369 million of repayments made under the credit facilities SPL entered into in June 2015;  
 \$110 million of borrowings and \$334 million of repayments made under the SPL Working Capital Facility;  
 \$973 million of borrowings under the CCH Credit Facility;  
 issuance of aggregate principal amount of \$1.5 billion of the 2027 CCH Senior Notes, which was used to prepay \$1.4 billion of outstanding borrowings under the CCH Credit Facility;  
 \$24 million of borrowings and \$24 million of repayments made under the CCH Working Capital Facility;  
 \$24 million in net repayments made under the Cheniere Marketing trade finance facilities;  
 \$67 million of debt issuance costs related to up-front fees paid upon the closing of these transactions;  
 \$40 million of distributions and dividends to non-controlling interest by Cheniere Partners and Cheniere Holdings;  
 and  
 \$3 million paid for tax withholdings for share-based compensation.

#### Results of Operations

The following table summarizes the volumes of operational and commissioning LNG cargoes that were loaded from the SPL Project and recognized on our Consolidated Financial Statements during the three months ended June 30, 2018:

(in TBtu)	Three Months Ended June 30, 2018		Six Months Ended June 30, 2018	
	Operational	Commissioning	Operational	Commissioning
Volumes loaded during the current period	222	—	463	—
Volumes loaded during the prior period but recognized during the current period	11	—	43	—
Less: volumes loaded during the current period and in transit at the end of the period	(3 )	—	(3 )	—
Total volumes recognized in the current period	230	—	503	—

Our consolidated net loss attributable to common stockholders was \$18 million, or \$0.07 per share (basic and diluted), in the three months ended June 30, 2018, compared to net loss attributable to common stockholders of \$285 million, or \$1.23 per share (basic and diluted), in the three months ended June 30, 2017. This \$267 million decrease in net loss in 2018 was primarily attributable to the nonrecurrence of non-cash amortization of the beneficial conversion feature on Cheniere Partners' Class B units that occurred during the comparable periods in 2017, partially offset by increased consolidated net income recognized by Cheniere Partners and Cheniere Holdings in which the non-controlling interests are held. Further contributing to the reduction in net loss was increased income from operations due to additional Trains operating between periods, increased derivative gain, net, and decreased loss on modification or extinguishment of debt, partially offset by increased interest expense, net of amounts capitalized.

Our consolidated net income attributable to common stockholders was \$339 million, or \$1.42 per share—basic and \$1.40 per share—diluted, in the six months ended June 30, 2018, compared to net loss attributable to common stockholders of \$231 million, or \$0.99 per share (basic and diluted), in the six months ended June 30, 2017. This \$570 million increase in net income in 2018 was primarily a result of increased income from operations due to additional Trains operating between the periods, increased derivative gain, net and decreased loss on modification or

extinguishment of debt, which were partially offset by increased interest expense, net of amounts capitalized.

44

---

## Revenues

(in millions)	Three Months Ended June 30,			Six Months Ended June 30,		
	2018	2017	Change	2018	2017	Change
LNG revenues	\$1,442	\$1,171	\$ 271	\$3,608	\$2,314	\$ 1,294
Regasification revenues	65	65	—	130	130	—
Other revenues	33	4	29	43	7	36
Other—related party	3	1	2	4	1	3
Total revenues	\$1,543	\$1,241	\$ 302	\$3,785	\$2,452	\$ 1,333

We begin recognizing LNG revenues from the SPL Project following the substantial completion and the commencement of operating activities of the respective Trains. During the six months ended June 30, 2018, Trains 1 through 4 were operational, whereas during the six months ended June 30, 2017, Trains 1 and 2 were operational for six months and Train 3 was operational for approximately three months. The increase in revenues for the three and six months ended June 30, 2018 from the comparable periods in 2017 was primarily attributable to the increased volume of LNG sold following the achievement of substantial completion of these Trains. We expect our LNG revenues to increase in the future upon Train 5 of the SPL Project and Trains 1 through 3 of the CCL Project becoming operational.

Prior to substantial completion of a Train, amounts received from the sale of commissioning cargoes from that Train are offset against LNG terminal construction-in-process, because these amounts are earned or loaded during the testing phase for the construction of that Train. We realized offsets to LNG terminal costs of \$39 million corresponding to 8 TBtu of LNG in the three months ended June 30, 2017 and \$170 million corresponding to 26 TBtu of LNG in the six months ended June 30, 2017 that was related to the sale of commissioning cargoes. There were no commissioning cargoes sold that were realized as offsets to LNG terminal costs in the three and six months ended June 30, 2018.

The following table presents the components of LNG revenues and the corresponding LNG volumes sold.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
LNG revenues (in millions):				
LNG from the SPL Project sold under SPL's third party long-term SPAs	\$1,118	\$492	\$2,111	\$954
LNG from the SPL Project sold by our integrated marketing function	282	508	1,303	1,137
LNG procured from third parties	76	155	186	204
Other revenues and derivative gains (losses)	(34)	16	8	19
Total LNG revenues	\$1,442	\$1,171	\$3,608	\$2,314
Volumes sold as LNG revenues (in TBtu):				
LNG from the SPL Project sold under SPL's third party long-term SPAs	189	81	354	157
LNG from the SPL Project sold by our integrated marketing function	41	79	149	143
LNG procured from third parties	10	15	21	19
Total volumes sold as LNG revenues	240	175	524	319

## Operating costs and expenses

(in millions)	Three Months Ended June 30,			Six Months Ended June 30,		
	2018	2017	Change	2018	2017	Change
Cost of sales	\$873	\$692	\$ 181	\$2,051	\$1,316	\$ 735
Operating and maintenance expense	147	117	30	287	195	92
Development expense	3	1	2	4	4	—
Selling, general and administrative expense	73	61	12	140	115	25
Depreciation and amortization expense	111	90	21	220	160	60
Restructuring expense	—	—	—	—	6	(6 )
Impairment expense and loss on disposal of assets	—	6	(6 )	—	6	(6 )
Total operating costs and expenses	\$1,207	\$967	\$ 240	\$2,702	\$1,802	\$ 900

Our total operating costs and expenses increased during the three and six months ended June 30, 2018 from the three and six months ended June 30, 2017, primarily as a result of additional Trains that were operating between the periods. There were four Trains operating during the six months ended June 30, 2018, whereas two Trains were operating for six months and a third Train was operating for approximately three months during the comparable periods in 2017.

Cost of sales increased during the three and six months ended June 30, 2018 from the comparable periods in 2017, primarily as a result of the increase in operating Trains during 2018. Cost of sales includes costs incurred directly for the production and delivery of LNG from the SPL Project, to the extent those costs are not utilized for the commissioning process. The increase during the three and six months ended June 30, 2018 from the comparable periods in 2017 was primarily related to the increase in the volume of natural gas feedstock, partially offset by lower prices of natural gas feedstock between the periods. Cost of sales also includes vessel charter costs, gains and losses from derivatives associated with economic hedges to secure natural gas feedstock for the SPL Project and CCL Project, port and canal fees, variable transportation and storage costs and other costs to convert natural gas into LNG.

Operating and maintenance expense increased during the three and six months ended June 30, 2018 from the comparable periods in 2017, as a result of the increase in operating Trains during 2018. Operating and maintenance expense primarily includes costs associated with operating and maintaining the SPL Project and CCL Project. The increase during the three and six months ended June 30, 2018 from the comparable periods in 2017 was primarily related to payroll and benefit costs of operations personnel, natural gas transportation and storage capacity demand charges and third-party service and maintenance contract costs. Operating and maintenance expense also includes TUA reservation charges as a result of payments under the partial TUA assignment agreement with Total, insurance and regulatory costs and other operating costs.

Depreciation and amortization expense increased during the three and six months ended June 30, 2018 from the three and six months ended June 30, 2017 as a result of an increased number of operational Trains, as the assets related to the Trains of the SPL Project began depreciating upon reaching substantial completion.

We expect our operating costs and expenses to generally increase in the future upon Train 5 achieving substantial completion, although certain costs will not proportionally increase with the number of operational Trains as cost efficiencies will be realized, as well as upon Trains 1 through 3 of the CCL Project becoming operational.

## Other expense (income)

(in millions)	Three Months Ended June 30,			Six Months Ended June 30,		
	2018	2017	Change	2018	2017	Change
Interest expense, net of capitalized interest	\$216	\$188	\$ 28	\$432	\$353	\$ 79

Edgar Filing: CHENIERE ENERGY INC - Form 10-Q

Loss on modification or extinguishment of debt	15	33	(18 )	15	75	(60 )
Derivative loss (gain), net	(32 )	36	(68 )	(109 )	35	(144 )
Other income	(10 )	(5 )	(5 )	(17 )	(7 )	(10 )
Total other expense	\$189	\$252	\$ (63 )	\$321	\$456	\$(135)

46

---

Interest expense, net of capitalized interest, increased during the three and six months ended June 30, 2018 compared to the three and six months ended June 30, 2017, primarily as a result of a decrease in the portion of total interest costs that could be capitalized as additional Trains of the SPL Project completed construction between the periods. For the three months ended June 30, 2018 and 2017, we incurred \$412 million and \$377 million of total interest cost, respectively, of which we capitalized \$196 million and \$189 million, respectively, which was directly related to the construction of the SPL Project and the CCL Project. For the six months ended June 30, 2018 and 2017, we incurred \$816 million and \$731 million of total interest cost, respectively, of which we capitalized \$384 million and \$378 million, respectively, which was directly related to the construction of the SPL Project and the CCL Project.

Loss on modification or extinguishment of debt decreased during the three and six months ended June 30, 2018, as compared to the three and six months ended June 30, 2017. Loss on modification or extinguishment of debt recognized in 2018 was attributable to \$15 million of debt modification and extinguishment costs relating to the incurrence of third party fees and write off of unamortized debt issuance costs as a result of the amendment and restatement of the CCH Credit Facility. Loss on modification or extinguishment of debt recognized in 2017 was attributable to the write-off of debt issuance costs of \$42 million in March 2017 upon termination of the remaining available balance of \$1.6 billion under SPL's previous credit facilities in connection with the issuance of the 2028 Senior Notes and the 2037 Senior Notes and the write-off of \$33 million in May 2017 upon the prepayment of approximately \$1.4 billion of outstanding borrowings under the CCH Credit Facility in connection with the issuance of the 2027 CCH Senior Notes.

Derivative gain, net increased during the three and six months ended June 30, 2018 compared to the three and six months ended June 30, 2017, primarily due to a favorable shift in the long-term forward LIBOR curve between the periods. During the three months ended June 30, 2018, we also recognized a \$5 million gain upon the termination of interest rate swaps associated with the amendment and restatement of the CCH Credit Facility. During the six months ended June 30, 2017, we recognized a \$7 million loss upon the termination of interest rate swaps associated with the termination of SPL's previous credit facilities and a \$13 million loss in May 2017 in conjunction with the termination of approximately \$1.4 billion of commitments under the CCH Credit Facility.

#### Other

(in millions)	Three Months Ended June 30,			Six Months Ended June 30,		
	2018	2017	Change	2018	2017	Change
Income tax benefit (provision)	\$3	\$(1)	\$ 4	\$(12)	\$(1)	\$(11 )
Net income attributable to non-controlling interest	168	306	(138 )	411	424	(13 )

Changes in the income tax recorded between comparative periods are primarily attributable to fluctuations in the profitability of our U.K. integrated marketing function. The effective tax rates during the three and six months ended June 30, 2018 and 2017 were lower than the 21% and 35% federal statutory rates during the 2018 and 2017 interim periods primarily as a result of maintaining a valuation allowance against our federal and state net deferred tax assets.

Net income attributable to non-controlling interest decreased during the three and six months ended June 30, 2018 from the three and six months ended June 30, 2017 due to the nonrecurrence of non-cash amortization of the beneficial conversion feature on Cheniere Partners' Class B units that occurred during the comparable periods in 2017, which was offset by the increase in consolidated net income recognized by Cheniere Partners and Cheniere Holdings in which the non-controlling interests are held, adjusting for the increase in the share of Cheniere Partners' net income that is attributed to non-controlling interest holders as a result of changes in ownership percentages between years. Net income attributable to non-controlling interest during the three and six months ended June 30, 2017 included approximately \$294 million and \$378 million due to amortization of the beneficial conversion feature on Cheniere Partners' Class B units, which ceased upon the conversion of Cheniere Partners' Class B units into common units. The consolidated net income recognized by Cheniere Partners increased from \$46 million to \$281 million in the three



months ended June 30, 2017 to three months ended June 30, 2018 and from \$93 million to \$616 million in the six months ended June 30, 2017 to six months ended June 30, 2018, primarily as a result of the additional Trains that were operating at the SPL Project between the periods. A portion of the increase in net income attributable to non-controlling interest was due to the increase in ownership percentage by non-controlling interest holders between the periods as a result of the conversion of Cheniere Partners' Class B units into common units on August 2, 2017. In addition, the consolidated net income recognized by Cheniere Holdings increased from \$4 million to \$125 million in the three months ended June 30, 2017 to three months ended June 30, 2018 and from \$9 million to \$248 million in the six months ended June 30, 2017 to six months ended June 30, 2018, primarily as a result of an increase in equity income from investment in Cheniere Partners. Upon consummation of the transaction whereby we

will acquire all of the publicly-held shares of Cheniere Holdings not already owned by us, Cheniere Holdings will merge into our wholly owned subsidiary, which will eliminate any net income from being attributed to non-controlling interests for Cheniere Holdings.

#### Off-Balance Sheet Arrangements

We have interests in an unconsolidated variable interest entity (“VIE”) as discussed in Note 7—Other Non-Current Assets of our Notes to Consolidated Financial Statements in this quarterly report, which we consider to be an off-balance sheet arrangement. We believe that this VIE does not have a current or future material effect on our consolidated financial position or operating results.

#### Summary of Critical Accounting Estimates

The preparation of our Consolidated Financial Statements in conformity with GAAP requires management to make certain estimates and assumptions that affect the amounts reported in the Consolidated Financial Statements and the accompanying notes. There have been no significant changes to our critical accounting estimates from those disclosed in our annual report on Form 10-K for the year ended December 31, 2017.

#### Recent Accounting Standards

For descriptions of recently issued accounting standards, see Note 18—Recent Accounting Standards of our Notes to Consolidated Financial Statements.

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

#### Cash Investments

We have cash investments that we manage based on internal investment guidelines that emphasize liquidity and preservation of capital. Such cash investments are stated at historical cost, which approximates fair market value on our Consolidated Balance Sheets.

#### Marketing and Trading Commodity Price Risk

We have entered into commodity derivatives consisting of natural gas supply contracts for the commissioning and operation of the SPL Project and the CCL Project (“Liquefaction Supply Derivatives”). We have also entered into financial derivatives to hedge the exposure to the commodity markets in which we have contractual arrangements to purchase or sell physical LNG (“LNG Trading Derivatives”). In order to test the sensitivity of the fair value of the Liquefaction Supply Derivatives and the LNG Trading Derivatives to changes in underlying commodity prices, management modeled a 10% change in the commodity price for natural gas for each delivery location and a 10% change in the commodity price for LNG, respectively, as follows (in millions):

	June 30, 2018		December 31, 2017	
	Fair Value	Change in Fair Value	Fair Value	Change in Fair Value
Liquefaction Supply Derivatives	\$8	\$ 2	\$55	\$ 5
LNG Trading Derivatives	(78)	29	(8	) 2

#### Interest Rate Risk

Edgar Filing: CHENIERE ENERGY INC - Form 10-Q

Cheniere Partners and CCH have entered into interest rate swaps to hedge the exposure to volatility in a portion of the floating-rate interest payments under the CQP Credit Facilities (“CQP Interest Rate Derivatives”) and the CCH Credit Facility (“CCH Interest Rate Derivatives”) and collectively with the CQP Interest Rate Derivatives, “Interest Rate Derivatives”), respectively. In order to test the sensitivity of the fair value of the Interest Rate Derivatives to changes in interest rates, management modeled a 10% change in the forward 1-month LIBOR curve across the remaining terms of the Interest Rate Derivatives as follows (in millions):

	June 30, 2018		December 31, 2017	
	Fair Value	Change in Fair Value	Fair Value	Change in Fair Value
CQP Interest Rate Derivatives	\$29	\$ 5	\$21	\$ 5
CCH Interest Rate Derivatives	70	43	(32 )	44

## Foreign Currency Exchange Risk

We have entered into foreign currency exchange (“FX”) contracts to hedge exposure to currency risk associated with operations in countries outside of the United States (“FX Derivatives”). In order to test the sensitivity of the fair value of the FX Derivatives to changes in FX rates, management modeled a 10% change in FX rate between the U.S. dollar and the applicable foreign currencies as follows (in millions):

	June 30, 2018	December 31, 2017		
	Fair Value	Change in Fair Value	Fair Value	Change in Fair Value
FX Derivatives	\$10	\$ 1	\$ (1 )	\$ —

See Note 6—Derivative Instruments for additional details about our derivative instruments.

## ITEM 4. CONTROLS AND PROCEDURES

We maintain a set of disclosure controls and procedures that are designed to ensure that information required to be disclosed by us in the reports filed by us under the Exchange Act, is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms. As of the end of the period covered by this report, we evaluated, under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer, the effectiveness of our disclosure controls and procedures pursuant to Rule 13a-15 of the Exchange Act. Based on that evaluation, our Chief Executive Officer and our Chief Financial Officer concluded that our disclosure controls and procedures are effective.

During the most recent fiscal quarter, there have been no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## PART II. OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

We may in the future be involved as a party to various legal proceedings, which are incidental to the ordinary course of business. We regularly analyze current information and, as necessary, provide accruals for probable liabilities on the eventual disposition of these matters. Other than as discussed below, there have been no material changes to the legal proceedings disclosed in our annual report on Form 10-K for the year ended December 31, 2017.

In February 2018, the Pipeline and Hazardous Materials Safety Administration (“PHMSA”) issued a Corrective Action Order (the “CAO”) to SPL in connection with a minor LNG leak from one tank and minor vapor release from a second tank at the Sabine Pass LNG terminal. These two tanks have been taken out of operational service while we conduct analysis, repair and remediation. On April 20, 2018, SPL and PHMSA executed a Consent Agreement and Order (the “Consent Order”) that replaces and supersedes the CAO. We continue to work with PHMSA and other appropriate regulatory authorities to address the matters identified in the Consent Order. We do not expect that the Consent Order and related analysis, repair and remediation will have a material adverse impact on our financial results or operations.

### ITEM 1A. RISK FACTORS

Other than with respect to the addition of the risk factors included below, there have been no material changes from the risk factors disclosed in our annual report on Form 10-K for the year ended December 31, 2017. The risks described in our annual report on Form 10-K for the year ended December 31, 2017 and in this quarterly report are not the only risks we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition or future results.

The following risk factors relate to the proposed merger of Cheniere Holdings with our wholly owned subsidiary (“the Merger”) pursuant to the agreement we entered into with Cheniere Holdings in June 2018 (the “Merger Agreement”). For more information on the Merger, please read our Registration Statement on Form S-4 filed with the SEC on July 18, 2018 and any subsequent amendments thereto, as well as any other related information on the Merger that we have filed with the SEC.

The Merger Agreement may be terminated in accordance with its terms and the Merger may not be completed.

The Merger Agreement is subject to a number of conditions that must be fulfilled in order to complete the Merger. Those conditions include, among others: approval of the Merger Agreement by Cheniere Holdings shareholders, the accuracy of representations and warranties under the Merger Agreement (subject to the materiality standards set forth in the Merger Agreement) and our and Cheniere Holdings’s performance of the respective obligations under the Merger Agreement in all material respects. These conditions to the closing of the Merger may not be fulfilled in a timely manner or at all, and, accordingly, the Merger may be delayed or may not be completed.

In addition, if the Merger is not completed by December 18, 2018, either we or Cheniere Holdings may choose not to proceed with the Merger, and the parties can mutually decide to terminate the Merger Agreement at any time. In addition, we and Cheniere Holdings may elect to terminate the Merger Agreement in certain other circumstances.

Failure to complete, or delay in completing, the Merger could negatively impact the market price of shares of our common stock and Cheniere Holdings common shares and our financial results and the financial results of Cheniere Holdings.

The completion of the Merger is subject to certain customary closing conditions, including (i) the registration statement having become effective under the Securities Act of 1933, as amended, (the “Securities Act”), (ii) receipt of

approval of the Merger Agreement by written consent of Cheniere Holdings shareholders holding Cheniere Holdings common shares constituting a majority of the outstanding Cheniere Holdings common shares entitled to vote, (iii) our common stock issuable in connection with the Merger having been approved for listing on the NYSE American, subject to official notice of issuance and (iv) the absence of any governmental order prohibiting the consummation of the Merger or the other transactions contemplated by the Merger Agreement. The obligation of each party to consummate the Merger is also conditioned upon the accuracy of the representations and warranties of the other party as of the date of the Merger Agreement and as of the closing (subject to customary materiality qualifiers).

There is no certainty that the various closing conditions will be satisfied and that the necessary approvals will be obtained. If these or other conditions are not satisfied or if there is a delay in the satisfaction of such conditions, then we and Cheniere Holdings may not be able to complete the Merger timely or at all, and such failure or delay may have other adverse consequences. If the Merger is not completed or is delayed, we and Cheniere Holdings will be subject to a number of risks, including:

- we will not realize the expected benefits of the combined company;
- the market price of the shares of our common stock and Cheniere Holdings common shares may decline to the extent that their current market price reflects a market assumption that the Merger will be completed; and
- some costs relating to the Merger, such as investment banking, legal and accounting fees, and financial printing and other related charges, must be paid even if the Merger is not completed.

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

### Purchase of Equity Securities by the Issuer and Affiliated Purchasers

The following table summarizes stock repurchases for the three months ended June 30, 2018:

Period	Total Number of Shares Purchased (1)	Average Price Paid Per Share (2)	Total Number of Shares Purchased as a Part of Publicly Announced Plans	Maximum Number of Units That May Yet Be Purchased Under the Plans
April 1 - 30, 2018	14,511	\$54.20	—	—
May 1 - 31, 2018	16,034	\$61.92	—	—
June 1 - 30, 2018	1,174	\$65.49	—	—

(1) Represents shares surrendered to us by participants in our share-based compensation plans to settle the participants' personal tax liabilities that resulted from the lapsing of restrictions on shares awarded to the participants under these plans.

(2) The price paid per share was based on the closing trading price of our common stock on the dates on which we repurchased shares from the participants under our share-based compensation plans.

### Sale of Unregistered Securities

During the three months ended June 30, 2018, we sold unregistered shares of our common stock to the following parties in reliance upon the exemption from registration afforded by Section 4(a)(2) of the Securities Act of 1933, as amended, pursuant to a privately negotiated stock-for-stock exchange transaction in which we acquired common shares representing limited liability company interests in Cheniere Holdings:

Date of Sale	Purchaser(s)	Number of Shares of Our Unregistered Common Stock Sold	Number of Common Shares Representing Limited Liability Company Interests in Cheniere Holdings Acquired
April 27, 2018	ZP Master Utility Fund, Ltd, P Zimmer Ltd, ZP Energy Fund, L.P. and ZP Master Energy Fund, L.P.	5,753,927	11,987,346
May 2, 2018	Adage Capital Partners LP	1,642,612	3,436,428
May 3, 2018	Everett Opportunities Master Fund LP	632,442	1,323,102
		2,249,758	4,706,606

May 3, Anchorage Capital Master Offshore, Ltd.,  
2018 Anchorage Illiquid Opportunities Offshore  
Master IV, L.P., and Anchorage Illiquid  
Opportunities Offshore Master V, L.P.

51

---



ITEM 6. EXHIBITS

Exhibit No.	Description
2.1	<u>Agreement and Plan of Merger, dated as of June 18, 2018, by and among Cheniere Holdings, the Company and Columbia Acquisition Sub LLC (Incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K (SEC File No. 001-16383) filed on June 19, 2018)</u>
10.1	<u>Amended and Restated Term Loan Facility Agreement, dated May 22, 2018, among CCH, CCP, Corpus Christi Pipeline GP, LLC, CCL, the lenders party thereto from time to time and Société Générale as the Term Loan Facility Agent (Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K (SEC File No. 001-16383), filed on May 24, 2018)</u>
10.2	<u>Amended and Restated Common Terms Agreement, dated May 22, 2018, among CCH, CCP, Corpus Christi Pipeline GP, LLC, CCL, Société Générale, as Term Loan Facility Agent, The Bank of Nova Scotia as Working Capital Facility Agent, and Société Générale as Intercreditor Agent, and any other facility lenders party thereto from time to time (Incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K (SEC File No. 001-16383), filed on May 24, 2018)</u>
10.3	<u>Amended and Restated Common Security and Account Agreement, dated May 22, 2018, among CCH, CCP, Corpus Christi Pipeline GP, LLC, CCL, the Senior Creditor Group Representatives, Société Générale as the Intercreditor Agent, Société Générale as Security Trustee and Mizuho Bank, Ltd as the Account Bank (Incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K (SEC File No. 001-16383), filed on May 24, 2018)</u>
10.4	<u>Amended and Restated Pledge Agreement, dated May 22, 2018, among CCH HoldCo I and Société Générale as Security Trustee (Incorporated by reference to Exhibit 10.4 to the Company's Current Report on Form 8-K (SEC File No. 001-16383), filed on May 24, 2018)</u>
10.5	<u>Amended and Restated Equity Contribution Agreement, dated May 22, 2018, among CCH and the Company (Incorporated by reference to Exhibit 10.5 to the Company's Current Report on Form 8-K (SEC File No. 001-16383), filed on May 24, 2018)</u>
10.6	<u>Amendment 3 to Amended and Restated Note Purchase Agreement, dated May 22, 2018, among CCH Holdco II, the Company, EIG Management Company and the noteholders identified therein (Incorporated by reference to Exhibit 10.6 to the Company's Current Report on Form 8-K (SEC File No. 001-16383), filed on May 24, 2018)</u>
10.7	<u>Second Amendment and Consent, dated as of May 23, 2018, amending and modifying the Credit and Guaranty Agreement, dated as of February 25, 2016 by and among Cheniere Partners, MUFG Bank, Ltd., as Administrative Agent, the Lenders party thereto from time to time and each other Person party thereto from time to time (Incorporated by reference to Exhibit 10.2 to Cheniere Partners' Registration Statement on Form S-4 (SEC File No. 333-225684) filed on June 15, 2018)</u>
10.8	<u>Third Omnibus Amendment, dated as of May 23, 2018 to (a) the Second Amended and Restated Common Terms Agreement, dated as of June 30, 2015, by and among SPL, Société Générale, as the Common Security Trustee and as the Intercreditor Agent, The Bank of Nova Scotia, and each other party thereto from time to time and (b) the Amended and Restated Senior Working Capital Revolving Credit and Letter of Credit Reimbursement Agreement, dated as of September 4, 2015, by and among SPL, Société Générale as the Swing Line Lender and as the Common Security Trustee, The Bank of Nova Scotia as the Senior Issuing Bank and Senior Facility Agent and the other agents and lenders from time to time party thereto (Incorporated by reference to Exhibit 10.3 to Cheniere Partners' Registration Statement on Form S-4 (SEC File No. 333-225684) filed on June 15, 2018)</u>
10.9	<u>Amended and Restated Working Capital Facility Agreement, dated June 29, 2018, among CCH, CCP, Corpus Christi Pipeline GP, LLC, CCL, the lenders party thereto from time to time, the issuing banks party thereto from time to time, the Bank of Nova Scotia as Working Capital Facility Agent, and Société Générale as Security Trustee (Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K (SEC File No. 001-16383) filed on July 2, 2018)</u>
10.10	

Change orders to the Lump Sum Turnkey Agreement for the Engineering, Procurement and Construction of the Sabine Pass LNG Stage 3 Liquefaction Facility, dated as of May 4, 2015, between SPL and Bechtel Oil, Gas and Chemicals, Inc.: (i) the Change Order CO-00029 Existing Jetty Structural Steel Analysis – Tanks 104 & 105, dated March 28, 2018, (ii) the Change Order CO-00030 Train 5 JT Valve PV-16002 Internals Modification, Eaton Switchgear Bus Repairs & Inspection Isometrics, dated April 18, 2018, (iii) the Change Order CO-00031 Blind and Spacer Set for Feed Gas Header, dated April 18, 2018, and (iv) the Change Order CO-00032 Additional GTG Testing, dated April 18, 2018 (Incorporated by reference to Exhibit 10.1 to COP's Registration Statement on S-4 (SEC File No. 333-225684), filed on June 15, 2018.

Exhibit No.	Description
10.11*	<p><u>Change orders to the Lump Sum Turnkey Agreement for the Engineering, Procurement and Construction of the Sabine Pass LNG Stage 3 Liquefaction Facility, dated as of May 4, 2015, between SPL and Bechtel Oil, Gas and Chemicals, Inc.: (i) the Change Order CO-00033 System Inspection Isometrics, dated May 24, 2018, (ii) the Change Order CO-00034 Site Evacuation, dated May 31, 2018, (iii) the Change Order CO-00035 Stage 3 - Existing &amp; Stages 1 and 2 Liquefaction Facility Labor Provisional Sum True-Up, dated June 7, 2018, and (iv) the Change Order CO-00036 General Electric, Instrument and Valve Spares, dated June 7, 2018</u></p>
10.12*	<p><u>Change orders to the Fixed Price Separated Turnkey Agreement for the Engineering, Procurement and Construction of the Corpus Christi Stage 1 Liquefaction Facility, dated as of December 6, 2013, between CCL and Bechtel Oil, Gas and Chemicals, Inc.: (i) the Change Order CO-00042 Owner Modification of Warehouse 1 and Laboratory, dated April 30, 2018, (ii) the Change Order CO-00043 Hurricane Harvey Relief and Special Schedule Rewards, dated May 18, 2018, (iii) the Change Order CO-00044 Condensate Takeaway Modifications and Tell-Tale Signs for Leak Detection and Repair, dated June 6, 2018 and (iv) the Change Order CO-00045 Early Turnover of Security Operations Building, dated June 6, 2018 (Portions of this exhibit have been omitted and filed separately with the SEC pursuant to a request for confidential treatment.)</u></p>
10.13	<p><u>Support Agreement, dated as of June 18, 2018, by and between the Company and Cheniere Holdings (Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K (SEC File No. 001-16383) filed on June 19, 2018)</u></p>
31.1*	<p><u>Certification by Chief Executive Officer required by Rule 13a-14(a) and 15d-14(a) under the Exchange Act</u></p>
31.2*	<p><u>Certification by Chief Financial Officer required by Rule 13a-14(a) and 15d-14(a) under the Exchange Act</u></p>
32.1**	<p><u>Certification by Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u></p>
32.2**	<p><u>Certification by Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u></p>
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema Document
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	XBRL Taxonomy Extension Labels Linkbase Document
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document

\* Filed herewith.

\*\*Furnished herewith.

SIGNATURES

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

CHENIERE ENERGY, INC.

Date: August 8, 2018 By: /s/ Michael J. Wortley  
Michael J. Wortley  
Executive Vice President and Chief Financial Officer  
(on behalf of the registrant and  
as principal financial officer)

Date: August 8, 2018 By: /s/ Leonard E. Travis  
Leonard E. Travis  
Vice President and Chief Accounting Officer  
(on behalf of the registrant and  
as principal accounting officer)