CHENIERE ENERGY INC
Form 10-K
February 24, 2012

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-K

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

For the fiscal year ended December 31, 2011

OR

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

For the transition period from to

Commission File No. 001-16383

CHENIERE ENERGY, INC.
(Exact name of registrant as specified in its charter)

Delaware	95-4352386
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
700 Milam Street, Suite 800	
Houston, Texas	77002
(Address of principal executive offices)	(Zip code)

Registrant’s telephone number, including area code: (713) 375-5000

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

Common Stock, $ 0.003 par value	NYSE Amex Equities
(Title of Class)	(Name of each exchange on which registered)

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

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

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

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

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

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

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

Large accelerated filer x Accelerated filer o Non-accelerated filer o Smaller reporting company o

(Do not check if a smaller reporting company)

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

The aggregate market value of the registrant's Common Stock held by non-affiliates of the registrant was approximately $758,000,000 as of June 30, 2011.

129,607,257 shares of the registrant's Common Stock were outstanding as of February 15, 2012.

Documents incorporated by reference: The definitive proxy statement for the registrant's Annual Meeting of Stockholders (to be filed within 120 days of the close of the registrant's fiscal year) is incorporated by reference into Part III.

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CAUTIONARY STATEMENT
REGARDING FORWARD-LOOKING STATEMENTS

This annual 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 (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). All statements, other than statements of historical facts, included herein or incorporated herein by reference are "forward-looking statements." Included among "forward-looking statements" are, among other things:

- statements relating to the construction or operation of each of our proposed liquefied natural gas ("LNG") terminals or our proposed pipelines, liquefaction facilities or other projects, or expansions or extensions thereof, including statements concerning the completion or expansion thereof by certain dates or at all, the costs related thereto and certain characteristics, including amounts of regasification, transportation, liquefaction and storage capacity, the number of storage tanks, LNG trains, docks, pipeline deliverability and the number of pipeline interconnections, if any;
- statements that we expect to receive an order from the Federal Energy Regulatory Commission ("FERC") authorizing us to construct and operate proposed LNG receiving terminals, liquefaction facilities, pipelines or other projects by certain dates, or at all;
- statements regarding future levels of domestic natural gas production, supply or consumption; future levels of LNG imports into North America; sales of natural gas in North America or other markets; exports of LNG from North America; and the transportation, other infrastructure or prices related to natural gas, LNG or other energy sources or hydrocarbon products;
- statements regarding any financing or refinancing transactions or arrangements, or ability to enter into such transactions or arrangements, whether on the part of Cheniere or any subsidiary or at the project level;
- statements regarding any commercial arrangements presently contracted, optioned or marketed, or potential arrangements, to be performed substantially in the future, including any cash distributions and revenues anticipated to be received and the anticipated timing thereof, and statements regarding the amounts of total LNG regasification, liquefaction or storage capacity that are, or may become, subject to such commercial arrangements;
- statements regarding counterparties to our commercial contracts, construction contracts and other contracts;
- statements regarding any business strategy, any business plans or any other plans, forecasts, projections or objectives, including potential revenues and capital expenditures, any or all of which are subject to change;
- statements regarding legislative, governmental, regulatory, administrative or other public body actions, requirements, permits, investigations, proceedings or decisions;
- statements regarding our anticipated LNG and natural gas marketing activities; and
- any other statements that relate to non-historical or future information.

These forward-looking statements are often identified by the use of terms and phrases such as "achieve," "anticipate," "believe," "contemplate," "develop," "estimate," "expect," "forecast," "plan," "potential," "project," "propose," "strategy" and similar terms and phrases, or by the use of future tense. Although we believe that the expectations reflected in these forward-looking statements are reasonable, they do involve assumptions, risks and uncertainties, and these expectations may prove to be incorrect. You should not place undue reliance on these forward-looking statements, which are made as of the date of this annual report and speak only as of the date of this annual report.

Our actual results could differ materially from those anticipated in these forward-looking statements as a result of a variety of factors, including those discussed in "Risk Factors." All forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by these risk factors.

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DEFINITIONS

In this annual report, unless the context otherwise requires:

- Bcf means billion cubic feet;
- Bcf/d means billion cubic feet per day;
- EPC means engineering, procurement and construction;
- LNG means liquefied natural gas;
- LNG train means an independent modular unit for gas liquefaction;
- MMBtu means million British thermal units;
- Mtpa means million metric tons per annum; and
- TUA means terminal use agreement.

PART I

ITEMS 1. AND 2. BUSINESS AND PROPERTIES

General

Cheniere Energy, Inc. (NYSE Amex Equities: LNG), a Delaware corporation, is a Houston-based energy company primarily engaged in LNG-related businesses. We own and operate the Sabine Pass LNG terminal in Louisiana through our 88.8% ownership interest in and management agreements with Cheniere Energy Partners, L.P. ("Cheniere Partners") (NYSE Amex Equities: CQP), which is a publicly traded partnership that we created in 2007. We also own and operate the Creole Trail Pipeline, which interconnects the Sabine Pass LNG terminal with natural gas markets in North America. Approximately one-half of the receiving capacity at the Sabine Pass LNG terminal is contracted to two international oil companies. One of our subsidiaries, Cheniere Marketing, LLC ("Cheniere Marketing"), is marketing LNG and natural gas on its own behalf and on behalf of Cheniere Partners, monetizing the other half of the LNG receiving capacity at the Sabine Pass LNG terminal. Cheniere Partners is developing a project to add liquefaction capabilities at the Sabine Pass LNG terminal through a wholly owned subsidiary, Sabine Pass Liquefaction, LLC ("Sabine Pass Liquefaction"). We are in various stages of developing other projects, including LNG and other marine hydrocarbon terminals and pipeline related projects, each of which, among other things, will require acceptable commercial and financing arrangements before we make a final investment decision. Unless the context requires otherwise, references to the "Company", "Cheniere", "we", "us" and "our" refer to Cheniere Energy, Inc. and its subsidiaries, including our publicly traded subsidiary partnership, Cheniere Partners.

LNG is natural gas that, through a refrigeration process, has been reduced to a liquid state that occupies approximately 1/600th of its gaseous volume. LNG remains in a liquid state at -160 degrees Celsius (-260 degrees Fahrenheit) at atmospheric pressure. Liquefying natural gas allows it to be economically transported from areas of the world where natural gas is abundant and inexpensive to produce to areas where natural gas production and other imports are insufficient to meet demand. LNG is transported from liquefaction terminals to regasification facilities using oceangoing LNG vessels specifically constructed for this purpose.

LNG facilities are conventionally designed to either receive LNG or to produce LNG. The Sabine Pass LNG terminal has a receiving configuration with docks to berth LNG vessels, customized unloading arms and transfer piping, cryogenic storage tanks to temporarily store LNG that is unloaded from a vessel, and equipment that pressurizes and heats the LNG to a normal working pressure and temperature in natural gas transmission lines for delivery to markets that consume natural gas. In terminals with a production configuration, the marine, transfer and storage facilities are still required, but specialized feed gas treatment facilities and refrigeration facilities are required to cool the feed gas to its cryogenic state. In constructing the proposed liquefaction facilities at the Sabine Pass LNG terminal, Cheniere Partners proposes to take advantage of the existing marine and storage facilities that were constructed for the LNG receiving terminal, thereby saving a substantial amount of capital cost compared to the cost of constructing a

greenfield facility.

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Our Business Strategy

Our primary business strategy is to identify markets in which the development of marine hydrocarbon terminals presents an opportunity to develop assets based on long-term, take-or-pay type contracts. Our initial development of the Sabine Pass LNG terminal, based on contracts with Chevron U.S.A. Inc. ("Chevron") and Total Gas and Power North America, Inc. ("Total"), has provided us with the opportunity to expand the terminal to add liquefaction capabilities. We plan to implement our strategy by:

- safely maintaining and operating the Sabine Pass LNG terminal and the Creole Trail Pipeline;
- obtaining the requisite regulatory permits and financing to reach a final investment decision on Cheniere Partners' liquefaction project;
- expanding the Sabine Pass LNG terminal to add liquefaction capabilities, and modifying the Creole Trail Pipeline to transport natural gas to the Sabine Pass LNG terminal for fuel and for Sabine Pass Liquefaction to satisfy its LNG delivery obligations under its SPAs;
- contracting for feed and fuel gas for Cheniere Partners' liquefaction project;
- utilizing the 2.0 Bcf/d of regasification capacity at the Sabine Pass LNG terminal held by one of Cheniere Partners' wholly owned subsidiaries, Cheniere Energy Investments, LLC ("Cheniere Investments"), for short-term and spot LNG purchases and sales until such capacity is used in connection with Cheniere Partners' liquefaction project;
- developing business relationships for the marketing of additional long-term and short- term agreements for excess LNG volumes at the Sabine Pass LNG terminal that have not been sold to our long-term customers, and for long-term and short-term contracts for potential future projects at other sites; and
- optimizing our capital structure to finance the construction and operation of the facilities needed to serve our customers.

Market Factors

Because we have entered into contracts to sell LNG from all four of the currently-planned LNG trains at the Sabine Pass LNG terminal, we anticipate that market factors affecting the U.S. natural gas market and global LNG market will have little impact on the commercial success of Cheniere Partners' liquefaction project. Similarly, we have entered into a lump-sum turnkey contract with Bechtel Oil, Gas and Chemicals, Inc. ("Bechtel") to construct the first two LNG trains of Cheniere Partners' liquefaction project. Therefore, we believe that global materials prices and labor costs will have little impact on the cost of LNG trains 1 and 2. Financing the construction of LNG trains 1 and 2 will be primarily dependent upon our ability to access capital markets at reasonable rates and our receipt of regulatory approvals. In order to construct LNG trains 3 and 4 of Cheniere Partners' liquefaction project, we may be affected by higher engineering, procurement, and construction costs, and we will again require access to capital markets at reasonable rates in order to finance construction.

Our ability to sell any seasonal quantities of LNG available from LNG trains 1, 2, 3 and 4 at the Sabine Pass LNG terminal, develop additional trains at the Sabine Pass LNG terminal, or develop other new projects is subject to a broader array of market factors, including: changes in worldwide supply and demand for natural gas, LNG and substitute products; the relative prices for natural gas, oil and substitute products in North America and international markets; economic growth in developing countries; investment in energy infrastructure; the rate of fuel switching for power generation from coal, nuclear, or oil to natural gas; and access to capital markets.

We expect global demand for natural gas to grow significantly as more nations are seeking environmentally cleaner and more abundant and reliable fuel alternatives to oil and coal. Industry sources indicate that global natural gas demand is projected to rise by over 2% per year through 2030, and global LNG demand is projected to rise at twice that rate, from 210 mtpa in 2010 to 483 mtpa in 2030. This projected increase in LNG demand is driven by a number

of factors, including: continuing demand growth in Asia, the Middle East, and South America due primarily to a build-out of natural gas fired electric power generation capacity; a reduction in nuclear power generation in established LNG importing regions such as Japan and Europe; and switching from coal- and oil-fired power generation to power generated from natural gas. In addition, with continued population growth in developing countries, industrial consumption of natural gas is expected to continue to increase due to applications such as fertilizer production, which increase is also expected to be driven by fuel switching dynamics as global fertilizer producers switch from naphtha feedstock to natural gas feedstock.

While global natural gas consumption is rising internationally, natural gas production in North America has undergone a technological transformation that has resulted in a substantial increase in annual production capacity, decrease in the cost of production, and expansion of technically recoverable reserves. Technologies related to both horizontal drilling and hydraulic fracturing, which had been under development since the 1980s, have now allowed the exploration and production industry to develop unconventional reservoirs composed predominantly of shales, but also containing tight sands and coal seam methane. Unconventional reservoirs are also known as continuous reservoirs; they extend over very large geographic sections of North America. The primary obstacle in the development of these resources is not about finding the formations, but about designing optimal well placement for their most efficient exploitation. This has been greatly facilitated by new drilling technologies that permit very deep and long horizontal wells with drill bores located at single drilling sites to minimize the cycle time between wells and the environmental impact of drilling operations.

These technological improvements have significantly increased natural gas reserves and production capacity in North America; however, growth in demand for natural gas has not increased at the same rate. Since reaching a peak at over $13.00/MMBtu during 2008, natural gas prices have been on a declining trend ever since, and are now below $3.00/MMBtu. We believe that this development, coupled with global demand fundamentals and the fact that global LNG and natural gas prices have generally been linked to oil prices and relatively non-responsive to changes in aggregate natural gas supply, is a fundamental reason for Sabine Pass Liquefaction's success in entering into contracts with respect to Cheniere Partners' liquefaction project.

Our ability to continue to develop new facilities in the United States will be driven by the continued success of the North American upstream natural gas sector in exploiting new unconventional reservoirs, continuing to drive down costs and exploiting higher valued condensates and natural gas liquids in conjunction with natural gas production. Any such facilities will compete with other international LNG export projects principally on a price basis. These projects generally require development capital not only to build the marine, storage and liquefaction facilities, but also to drill wells and build processing and pipeline transportation infrastructure. Because we rely on the natural gas market and transportation infrastructure already existing in the United States, we generally require less capital expenditures and, therefore, are able to sell LNG at a lower price. Furthermore, because feed natural gas is purchased from the United States market at a Henry Hub related price, we can offer LNG for sale on an alternative price index that is not related to crude oil prices, thereby allowing our customers to realize the benefits of lower cost production in the United States while diversifying their portfolio of supply cost indices.

While development of unconventional natural gas resources in other regions may ultimately reduce demand for LNG in some markets over time, LNG serves a variety of requirements and is substantially more flexible than pipeline-delivered natural gas. We believe that this flexibility has intrinsic value beyond the price of natural gas and will continue to motivate demand even if unconventional resources are developed in regions such as Eastern Europe, China or South America.

We continue to evaluate global energy market fundamentals to identify opportunities to serve customers as needs arise, either from an importation, exportation or transportation perspective. We believe that our primary business model of entering into long-term, take-or-pay type contracts for infrastructure assets will provide a base on which to build a platform that permits the continued development of assets to serve the needs of our customers.

Corporate Structure

As of December 31, 2011, we held approximately 88.8% of Cheniere Partners, including 100% of its general partner. Although results are consolidated for financial reporting, we and Cheniere Partners operate with independent capital structures. Cash flow available to us from Cheniere Partners is primarily in the form of management fees and

cash distributions declared and paid to us on our common units and general partner interest. See "Management's Discussion and Analysis of Financial Condition and Results of Operations" for more discussion on how we receive cash flow from Cheniere Partners.

The following diagram depicts our abbreviated capital structure, including our ownership of Cheniere Partners and Sabine Pass LNG, L.P. ("Sabine Pass LNG") as of December 31, 2011. On January 6, 2012, we repaid the $298 million term loan in full, leaving $487 million of debt outstanding at Cheniere Energy, Inc.

Business Segments

Our business activities are conducted by three operating segments for which we provide information in our consolidated financial statements for the years ended December 31, 2011, 2010 and 2009. These three segments are our:

- LNG terminal business;
- natural gas pipeline business; and
- LNG and natural gas marketing business.

For information about our segments' revenues, profits and losses and total assets, see Note 21—"Business Segment Information" of our Notes to Consolidated Financial Statements.

LNG Terminal Business

We began developing our LNG terminal business in 1999 and were among the first companies to secure sites and commence development of new LNG terminals in North America. We focused our development efforts on three LNG terminal projects: Sabine Pass LNG in western Cameron Parish, Louisiana on the Sabine Pass Channel; Corpus Christi LNG near Corpus Christi, Texas; and Creole Trail LNG at the mouth of the Calcasieu Channel in central Cameron Parish, Louisiana. We constructed the Sabine Pass LNG terminal and are developing a project to add liquefaction capabilities at the Sabine Pass LNG terminal which is owned through Cheniere Partners, in which we hold an approximate 88.8% interest. We currently own 100% interests in both the Corpus Christi and Creole Trail LNG terminal projects.

Sabine Pass LNG Terminal

We have constructed the Sabine Pass LNG terminal in western Cameron Parish, Louisiana, on the Sabine Pass Channel. We have long-term leases for five tracts of land consisting of 1,015 acres. We are currently operating LNG receiving facilities at the terminal with regasification capacity of approximately 4.0 Bcf/d (with peak capacity of approximately 4.3 Bcf/d) and aggregate LNG storage capacity of approximately 16.9 Bcf. In addition, we are developing LNG liquefaction facilities at the terminal, which are designed for up to four LNG trains, each with a nominal production capacity of approximately 4.5 mtpa.

Regasification Facilities

The Sabine Pass LNG terminal has operational regasification capacity of approximately 4.0 Bcf/d (with peak capacity of approximately 4.3 Bcf/d) and aggregate LNG storage capacity of approximately 16.9 Bcf. 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 Sabine Pass LNG's customers are required to pay fixed monthly fees, whether or not they use the LNG terminal. Capacity reservation fee TUA payments are made by Sabine Pass LNG's third-party TUA customers as follows:

- Total has reserved approximately 1.0 Bcf/d of regasification capacity and is obligated to make monthly capacity payments to Sabine Pass LNG aggregating approximately $125 million per year for 20 years that commenced April 1, 2009. Total, S.A. has guaranteed Total's obligations under its TUA up to $2.5 billion, subject to certain exceptions; and
- Chevron has reserved approximately 1.0 Bcf/d of regasification capacity and is obligated to make monthly capacity payments to Sabine Pass LNG aggregating approximately $125 million per year for 20 years that commenced July 1, 2009. 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 regasification capacity has been reserved by Cheniere Partners through a TUA between Cheniere Investments and Sabine Pass LNG. Cheniere Investments is obligated to make monthly capacity payments to Sabine Pass LNG aggregating approximately $250 million per year through at least September 30, 2028; however, the revenue earned by Sabine Pass LNG from Cheniere Investments' capacity payments under the TUA is eliminated upon consolidation of our financial statements. Cheniere Partners has guaranteed Cheniere Investments' obligations under its TUA. See "—LNG and Natural Gas Marketing Business" below for a discussion of the Variable Capacity Rights Agreement ("VCRA") between Cheniere Investments and Cheniere Marketing entered into in order to monetize Cheniere Investments' 2.0 Bcf/d of regasification capacity at the Sabine Pass LNG terminal.

Liquefaction Facilities

In June 2010, Cheniere Partners formed Sabine Pass Liquefaction, LLC ("Sabine Pass Liquefaction") to own, develop and operate liquefaction facilities at the Sabine Pass LNG terminal. As currently contemplated, the liquefaction facilities are designed for up to four LNG trains, each with a nominal production capacity of approximately 4.5 mtpa. We anticipate LNG exports could commence as early as 2015 with each LNG train commencing operations approximately six to nine months after the previous LNG train.

The Department of Energy ("DOE") has granted Sabine Pass Liquefaction an order authorizing the export of up to the equivalent of 16 mtpa (approximately 800 Bcf) per year of domestically produced LNG by vessel from the Sabine Pass LNG terminal to Free Trade Agreement ("FTA") countries for a 30-year term, beginning on the earlier of the date of first export or September 7, 2020, and another order authorizing the export of up to the equivalent of 803 Bcf per year (approximately 16 mtpa) of domestically produced LNG by vessel from the Sabine Pass LNG terminal to non-FTA countries for a 20-year term, beginning on the earlier of the date of first export or May 20, 2016.

Sabine Pass Liquefaction has submitted an application to the FERC requesting authorization to site, construct and operate liquefaction and export facilities at the Sabine Pass LNG terminal, which we anticipate receiving in the first quarter of 2012.

Customers

Sabine Pass Liquefaction has entered into four LNG sale and purchase agreements ("SPA"), under which customers have committed to purchase, in aggregate, 834.0 million MMBtu of LNG per year (approximately 16 mtpa). The volume of LNG committed to be purchased by these customers represents approximately 89% of the expected

nameplate liquefaction capacity that will be available upon completion of Cheniere Partners' proposed liquefaction facilities. In addition, upon completion of all four LNG trains, approximately 100 million MMBtu of LNG per year (approximately 2.0 mtpa) may be produced seasonally to be sold by Sabine Pass Liquefaction on a merchant basis. We anticipate that Sabine Pass Liquefaction will utilize Cheniere Investments' TUA capacity to provide LNG to Sabine Pass Liquefaction's customers.

In aggregate, these customers have agreed to pay Sabine Pass Liquefaction approximately $2.3 billion annually, plus an amount per MMBtu of LNG equal to 115% of the final settlement price for the New York Mercantile Exchange natural gas futures contract for the month in which the relevant cargo is scheduled. Subject to the conditions described below, sales charges will be paid by our SPA customers as follows:

- BG Gulf Coast LNG, LLC ("BG") has agreed to purchase 286.5 million MMBtu of LNG per year (approximately 5.5 mtpa) for a fixed sales charge of (i) $2.25 per MMBtu for 182.5 million MMBtu commencing upon the date of first commercial delivery for LNG train 1, (ii) $3.00 per MMBtu for 36.5 million MMBtu commencing upon the date of first commercial delivery for LNG train 2 (the "Train 2 Tranche"), (iii) $3.00 per MMBtu for 34.0 million MMBtu commencing upon the date of first commercial delivery for LNG train 3 (the "Train 3 Tranche") and (iv) $3.00 per MMBtu for 33.5 million MMBtu commencing upon the date of first commercial delivery for LNG train 4 (the "Train 4 Tranche"), plus in each case a contract sales price for each MMBtu of LNG delivered under the SPA equal to 115% of the final settlement price for the New York Mercantile Exchange Henry Hub natural gas futures contract for the month in which the relevant cargo is scheduled. The fixed sales charge is equivalent to approximately $411 million, $520 million, $622 million and $723 million per year upon completion of LNG trains 1, 2, 3 and 4, respectively, such that after completion of LNG train 4, the fixed sales charge will be a total of approximately $723 million per year;
- Gas Natural Aprovisionamientos SDG S.A. ("Gas Natural Fenosa"), an affiliate of Gas Natural SDG S.A., has agreed to purchase 182.5 million MMBtu of LNG per year (approximately 3.5 mtpa) for a fixed sales charge of $2.49 per MMBtu for the full contract quantity, plus a contract sales price for each MMBtu of LNG delivered under the SPA equal to 115% of the final settlement price for the New York Mercantile Exchange Henry Hub natural gas futures contract for the month in which the relevant cargo is scheduled. The fixed sales charge is equivalent to approximately $454 million per year, commencing upon the date of first commercial delivery for LNG train 2;
- Korea Gas Corporation ("KOGAS") has agreed to purchase 182.5 million MMBtu of LNG per year (approximately 3.5 mtpa) for a contract sales price equal to $3.00 plus 115% of the final settlement price for the New York Mercantile Exchange Henry Hub natural gas futures contract for the month in which the relevant cargo is scheduled. The fixed portion of the contract sales price is equivalent to approximately $548 million per year, commencing upon the date of first commercial delivery for LNG train 3; and
- GAIL (India) Limited ("GAIL") has agreed to purchase 182.5 million MMBtu of LNG per year (approximately 3.5 mtpa) for a contract sales price equal to $3.00 plus 115% of the final settlement price for the New York Mercantile Exchange Henry Hub natural gas futures contract for the month in which the relevant cargo is scheduled. The fixed portion of the contract sales price is equivalent to approximately $548 million per year, commencing upon the date of first commercial delivery for LNG train 4. Prior to the commencement of LNG train 4 operations, GAIL will purchase 10.4 million MMBtu of LNG per year (approximately 0.2 mtpa) commencing upon the date LNG train 2 becomes commercially operable.

During an event of force majeure declared by BG or Gas Natural Fenosa or Sabine Pass Liquefaction, BG or Gas Natural Fenosa, as applicable, will continue to be obligated to pay the relevant fixed sales charge, subject to reduction under certain circumstances, for a period of 24 months, after which time such customer may have a right to terminate its SPA.

Each SPA has a term of 20 years commencing upon the date of first commercial delivery for the applicable LNG train, and an extension option of up to ten years, or for Gas Natural Fenosa in certain circumstances, up to 12 years. Each SPA is subject to certain conditions precedent, including but not limited to, Sabine Pass Liquefaction receiving regulatory approvals, securing necessary financing arrangements and making a final investment decision to construct the applicable LNG train. Sabine Pass Liquefaction will designate the date for the first commercial delivery of LNG for each customer within the 180-day period commencing a specified number of months after the date that the conditions precedent have been satisfied or waived.

A customer has the right to terminate its SPA if, among other events, (i) Sabine Pass Liquefaction declares an event of force majeure one or more times and the resulting interruptions total 24 or more months in any 36 month period, and such force majeure events result in a reduction of 50 percent or more in the annualized annual contract quantity of

LNG available to such customer during such periods of force majeure, (ii) with respect to BG and Gas Natural Fenosa, such customer declares a force majeure event for specified circumstances and such force majeure event has continued for 24 months and has resulted in a reduction in the quantity of LNG that such customer is able to take of at least 50 percent of the annualized contract quantity, (iii) Sabine Pass Liquefaction fails to make available to such customer a specified number of cargoes during a 12-month period, (iv) an applicable LNG train has not commenced commercial operations at the Sabine Pass LNG terminal within 180 days after the date designated

for first commercial delivery, (v) with respect to BG and Gas Natural Fenosa, Sabine Pass Liquefaction's authorizations to export LNG from the United States to either FTA or non-FTA countries has been withdrawn, revoked or expired, and such withdrawal, revocation or expiration does not constitute a force majeure, and with respect to GAIL, Sabine Pass Liquefaction's authorization to export LNG from the United States to non-FTA countries has expired, or (vi) with respect to BG and Gas Natural Fenosa, the specified limit on Sabine Pass Liquefaction's liability under the applicable SPA has been reached or exceeded.

Sabine Pass Liquefaction has the right to terminate a customer's SPA if, among other events, (i) any applicable guaranty provided by such customer ceases to be in effect in excess of a specified number of days, (ii) such customer or its applicable guarantor, if any, fails to execute certain agreements with financial lenders in a timely manner, (iii) with respect to GAIL and KOGAS, such customer fails to take 50 percent or more of the cargoes scheduled in any 12-month period, (iv) with respect to GAIL and KOGAS, such customer declares an event of force majeure one or more times and the resulting interruptions total 24 or months in any 36 month period, and such force majeure events result in such customer being prevented from taking 50 percent or more of the annualized annual contract quantity during such periods of force majeure, (v) such customer fails to comply with applicable trade laws or (vi) such customer violates provisions of the SPA restricting parties to which LNG can be marketed and sold.

Either a customer or Sabine Pass Liquefaction would have the right to terminate such customer's SPA if, among other events, (i) a bankruptcy event (as defined in the SPA) occurred with respect to the other party, (ii) the other party failed to pay amounts due under the SPA in excess of a specified dollar amount, (iii) the other party's business practices caused it to violate certain applicable laws or (iv) the conditions to the commencement of the 20-year term specified in the SPA were not satisfied or waived by December 31, 2012 with respect to BG (for LNG train 1) and Gas Natural Fenosa, or June 30, 2013 with respect to GAIL and KOGAS, or a later date if so agreed by the customer and Sabine Pass Liquefaction. In addition, either BG or Sabine Pass Liquefaction has the right to cancel LNG trains 2, 3 and 4 if Sabine Pass Liquefaction has not made a positive final investment decision to proceed with construction of the applicable LNG trains by June 30, 2013.

Construction

We expect to commence construction of LNG trains 1 and 2 during the first half of 2012 and begin operations in late 2015, with each LNG train commencing operations approximately six to nine months after the previous LNG train. We expect to complete our construction plan and cost estimates for LNG trains 3 and 4 by the end of 2012, begin construction by the end of the first quarter of 2013, and begin operations in 2017.

The cost to construct LNG trains 1 and 2 is currently estimated to be approximately $4.5 billion to $5.0 billion, before financing costs. Our cost estimates are subject to change due to such items as change orders, delays in construction, increased component and material costs, escalation of labor costs and increased spending to maintain our construction schedule.

In November 2011, Sabine Pass Liquefaction entered into a lump-sum turnkey agreement ("EPC Contract") with Bechtel, a major international engineering, procurement and construction contractor, for the procurement, engineering, design, installation, training, commissioning and placing into service of LNG trains 1 and 2 of the proposed liquefaction project. The EPC Contract provides that Sabine Pass Liquefaction will pay Bechtel a contract price of $3.9 billion, which is only subject to adjustment by change orders. Bechtel has the right, among other things, to submit change orders in the event Bechtel is adversely affected as a result of a delay in the commencement of construction beyond March 31, 2012. The EPC Contract also entitles Bechtel to a change order amending its rights and obligations to the extent it is adversely affected by any of the following: (i) a change in law, (ii) certain acts or omissions of Sabine Pass Liquefaction, (iii) force majeure, (iv) acceleration of work by Sabine Pass Liquefaction, (v) delay in delivery of insurance proceeds in the case of insured loss, (vi) suspension in work ordered by Sabine Pass Liquefaction, (vii) subsurface soil conditions materially different from those described in the geotechnical studies,

(viii) discovery of hazardous materials for which Sabine Pass Liquefaction is responsible, (ix) physical damage caused by a third party not under Bechtel's control and (x) other specified reasons in the EPC Contract. The EPC Contract entitles Sabine Pass Liquefaction to a change order unilaterally up to certain thresholds and thereafter upon request provided that agreement is reached on any changes to the contract price, project schedule, design, payment schedule, minimum acceptance criteria, performance guarantee and any other obligation of Bechtel under the EPC Contract.

In the EPC Contract, Bechtel warrants that the (i) equipment will be new (unless otherwise specified in the EPC Contract) and of good quality, (ii) work and the equipment will meet the requirements of the EPC Contract, including good engineering and construction practices and applicable laws, codes and standards and (iii) work and the equipment will be free from encumbrances to title. Until 18 months after substantial completion of each LNG train, Bechtel will be liable to promptly correct any work that is found defective with respect to such LNG train.

If an LNG train fails to achieve 95% of the performance guarantee set forth in the EPC Contract by the applicable guaranteed substantial completion date, then substantial completion of such LNG train will not occur and Bechtel will pay delay liquidated damages. In addition, Bechtel is required to attempt for 10 months thereafter to correct the work to enable the LNG train to achieve the minimum acceptance criteria and o