

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

Derivative Instruments

We use derivative instruments to hedge our exposure to cash flow variability from interest rate, commodity price and foreign currency exchange ("FX") rate risk. Derivative instruments are recorded at fair value and included in our Consolidated Balance Sheets as assets or liabilities depending on the derivative position and the expected timing of settlement, unless they satisfy criteria for and we elect the normal purchases and sales exception. When we have the contractual right and intend to net settle, derivative assets and liabilities are reported on a net basis.

Changes in the fair value of our derivative instruments are recorded in earnings, unless we elect to apply hedge accounting and meet specified criteria, including completing contemporaneous hedge documentation. We did not have any derivative instruments designated as cash flow hedges during the years ended December 31, 2018, 2017 and 2016. See [Note 7—Derivative Instruments](#) for additional details about our derivative instruments.

Concentration of Credit Risk

Financial instruments that potentially subject us to a concentration of credit risk consist principally of cash and cash equivalents and restricted cash. We maintain cash balances at financial institutions, which may at times be in excess of federally insured levels. We have not incurred losses related to these balances to date.

The use of derivative instruments exposes us to counterparty credit risk, or the risk that a counterparty will be unable to meet its commitments. Certain of our commodity derivative transactions are executed through over-the-counter contracts which are subject to nominal credit risk as these transactions are settled on a daily margin basis with investment grade financial institutions. Collateral deposited for such contracts is recorded within other current assets. Our interest rate and FX derivative instruments are placed with investment grade financial institutions whom we believe are acceptable credit risks. We monitor counterparty creditworthiness on an ongoing basis; however, we cannot predict sudden changes in counterparties' creditworthiness. In addition, even if such changes are not sudden, we may be limited in our ability to mitigate an increase in counterparty credit risk. Should one of these counterparties not perform, we may not realize the benefit of some of our derivative instruments.

SPL has entered into fixed price SPAs with terms of at least 20 years with seven unaffiliated third parties, CCL has entered into fixed price SPAs generally with terms of 20 years with nine unaffiliated third parties and our integrated marketing function has entered into a limited number of long-term SPAs with unaffiliated third parties. We are dependent on the respective customers' creditworthiness and their willingness to perform under their respective SPAs. See [Note 20—Customer Concentration](#) for additional details about our customer concentration.

SPLNG has entered into two long-term TUAs with unaffiliated third parties for regasification capacity at the Sabine Pass LNG terminal. SPLNG is dependent on the respective customers' creditworthiness and their willingness to perform under their respective TUAs. SPLNG has mitigated this credit risk by securing TUAs for a significant portion of its regasification capacity with creditworthy third-party customers with a minimum Standard & Poor's rating of A.

Goodwill

Goodwill is the excess of acquisition cost of a business over the estimated fair value of net assets acquired. Goodwill is not amortized but is tested for impairment at least annually or more frequently if events or circumstances indicate goodwill is more likely than not impaired. Goodwill impairment evaluation requires a comparison of the estimated fair value of a reporting unit to its carrying value. Cheniere tests goodwill for impairment by either performing a qualitative assessment or a quantitative test. The qualitative assessment is an assessment of historical information and relevant events and circumstances to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount, including goodwill. Cheniere may elect not to perform the qualitative assessment and instead perform a quantitative impairment test. Significant judgment is required in estimating the fair value of the reporting unit and performing goodwill impairment tests.

As a result of finalization of organizational changes to simplify our corporate structure, improve our operational efficiencies and implement a strategy for sustainable, long-term stockholder value creation through financially disciplined development, construction, operation and investment, we revised the way we manage our business, which resulted in a change in our reporting units. Accordingly, Cheniere reallocated goodwill to our single reporting unit following finalization of organizational changes. We performed our annual goodwill impairment test on October 1st using a quantitative assessment and concluded that the estimated fair value of our reporting unit substantially exceeded its carrying value and, therefore, goodwill was not impaired. Judgments and assumptions are inherent in our estimate of future cash flows used to determine the estimate of the reporting unit's fair value.