

Cheniere Energy Partners, L.P.
Form 10-Q
August 09, 2016

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, 2016

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 Partners, L.P.
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	001-33366 (Commission File Number)	20-5913059 (I.R.S. Employer Identification No.)
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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)
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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 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 Accelerated filer

Non-accelerated filer Smaller reporting company

(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 No

As of August 1, 2016, the issuer had 57,104,348 common units, 145,333,334 Class B units and 135,383,831 subordinated units outstanding.

CHENIERE ENERGY PARTNERS, L.P.
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DEFINITIONS

As commonly used in the liquefied natural gas industry, to the extent applicable and 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 consisting primarily of methane (CH ₄) that is in liquid form at near atmospheric pressure
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	Securities and Exchange Commission
SPA	LNG sale and purchase agreement
Train	an industrial facility comprised of a series of refrigerant compressor loops used to cool natural gas into LNG
TUA	terminal use agreement

Abbreviated Organizational Structure

The following diagram depicts our abbreviated organizational structure as of June 30, 2016, 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 Partners,” “the Partnership,” “we,” “us” and “our” refer to Cheniere Energy Partners, L.P. (NYSE MKT: CQP) and its consolidated subsidiaries, including SPLNG, SPL and CTPL.

References to “Blackstone Group” refer to The Blackstone Group, L.P. References to “Blackstone CQP Holdco” refer to Blackstone CQP Holdco LP. References to “Blackstone” refer to Blackstone Group and Blackstone CQP Holdco.

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PART I. FINANCIAL INFORMATION
ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS
CHENIERE ENERGY PARTNERS, L.P. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(in thousands, except unit data)

	June 30, 2016 (unaudited)	December 31, 2015
ASSETS		
Current assets		
Cash and cash equivalents	\$ 12,262	\$ 146,221
Restricted cash	450,506	274,557
Accounts and other receivables	71,499	741
Accounts receivable—affiliate	176	1,271
Advances to affiliate	41,486	39,836
Inventory	48,331	16,667
Other current assets	21,726	14,182
Total current assets	645,986	493,475
Non-current restricted cash		
	13,650	13,650
Property, plant and equipment, net	13,223,191	11,931,602
Debt issuance costs, net	137,605	132,091
Non-current derivative assets	20,472	30,304
Other non-current assets	217,946	232,031
Total assets	\$ 14,258,850	\$ 12,833,153
LIABILITIES AND PARTNERS' EQUITY		
Current liabilities		
Accounts payable	\$ 35,581	\$ 16,407
Accrued liabilities	336,316	224,292
Current debt, net	1,662,257	1,673,379
Due to affiliates	87,349	115,123
Deferred revenue	26,709	26,669
Deferred revenue—affiliate	717	717
Derivative liabilities	15,943	6,430
Other current liabilities	54	—
Total current liabilities	2,164,926	2,063,017
Long-term debt, net		
	11,543,524	10,018,325
Non-current deferred revenue	7,500	9,500
Non-current derivative liabilities	26,904	2,884
Other non-current liabilities	170	175
Other non-current liabilities—affiliate	27,404	26,321
Partners' equity	204,009	305,747

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Common unitholders' interest (57.1 million units issued and outstanding at June 30, 2016 and December 31, 2015)		
Class B unitholders' interest (145.3 million units issued and outstanding at June 30, 2016 and December 31, 2015)	(29,425)	(37,429)
Subordinated unitholders' interest (135.4 million units issued and outstanding at June 30, 2016 and December 31, 2015)	301,749	428,035
General partner's interest (2% interest with 6.9 million units issued and outstanding at June 30, 2016 and December 31, 2015)	12,089	16,578
Total partners' equity	488,422	712,931
Total liabilities and partners' equity	\$ 14,258,850	\$ 12,833,153

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

CHENIERE ENERGY PARTNERS, L.P. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per unit data)

(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Revenues				
Regasification revenues	\$65,122	\$66,490	\$130,506	\$133,208
Regasification revenues—affiliate	717	1,199	2,352	2,011
LNG revenues	85,332	—	85,360	—
Total revenues	151,171	67,689	218,218	135,219
Operating costs and expenses				
Cost of sales (excluding depreciation and amortization expense shown separately below)	49,294	91	53,198	784
Operating and maintenance expense	24,717	9,298	42,102	39,838
Operating and maintenance expense—affiliate	11,156	7,501	21,986	12,274
Development expense	70	1,367	136	2,518
Development expense—affiliate	153	206	282	410
General and administrative expense	3,792	4,081	6,402	7,596
General and administrative expense—affiliate	21,211	33,472	43,409	55,069
Depreciation and amortization expense	28,184	15,991	47,572	30,870
Total operating costs and expenses	138,577	72,007	215,087	149,359
Income (loss) from operations	12,594	(4,318)	3,131	(14,140)
Other income (expense)				
Interest expense, net of capitalized interest	(71,999)	(50,148)	(115,451)	(92,993)
Loss on early extinguishment of debt	(26,304)	(7,281)	(27,761)	(96,273)
Derivative gain (loss), net	(14,792)	1,469	(35,600)	(35,669)
Other income	376	235	650	356
Total other expense	(112,719)	(55,725)	(178,162)	(224,579)
Net loss	\$(100,125)	\$(60,043)	\$(175,031)	\$(238,719)
Basic and diluted net loss per common unit	\$(0.21)	\$(0.01)	\$(0.29)	\$(0.62)
Weighted average number of common units outstanding used for basic and diluted net loss per common unit calculation	57,084	57,080	57,084	57,080

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

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CHENIERE ENERGY PARTNERS, L.P. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF PARTNERS' EQUITY

(in thousands)

(unaudited)

	Common Unitholders' Interest		Class B Unitholders' Interest		Subordinated Unitholder's Interest		General Partner's Interest		Total Partners' Equity
	Units	Amount	Units	Amount	Units	Amount	Units	Amount	
Balance at December 31, 2015	57,084	\$305,747	145,333	\$(37,429)	135,384	\$428,035	6,894	\$16,578	\$712,931
Net loss	—	(50,875)	—	—	—	(120,656)	—	(3,500)	(175,031)
Distributions	—	(48,521)	—	—	—	—	—	(990)	(49,511)
Issuance of common units as compensation to non-management directors	1	32	—	—	—	—	—	1	33
Amortization of beneficial conversion feature of Class B units	—	(2,374)	—	8,004	—	(5,630)	—	—	—
Balance at June 30, 2016	57,085	\$204,009	145,333	\$(29,425)	135,384	\$301,749	6,894	\$12,089	\$488,422

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

CHENIERE ENERGY PARTNERS, L.P. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

	Six Months Ended June	
	30,	
	2016	2015
Cash flows from operating activities		
Net loss	\$(175,031)	\$(238,719)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Non-cash LNG inventory write-downs	—	17,366
Depreciation and amortization expense	47,572	30,870
Amortization of debt issuance costs and discount	8,873	5,019
Loss on early extinguishment of debt	27,761	96,273
Total losses on derivatives, net	47,696	35,128
Net cash used for settlement of derivative instruments	(4,081)	(38,028)
Other	33	25
Changes in restricted cash for certain operating activities	110,089	15,954
Changes in operating assets and liabilities:		
Accounts and other receivables	(70,757)	(77)
Accounts receivable—affiliate	1,206	1,441
Advances to affiliate	956	2,541
Inventory	(17,470)	(27,427)
Accounts payable and accrued liabilities	49,320	84,580
Due to affiliates	(2,955)	12,627
Deferred revenue	(1,960)	(1,985)
Other, net	(8,737)	(9,509)
Other, net—affiliate	(751)	16,501
Net cash provided by operating activities	11,764	2,580
Cash flows from investing activities		
Property, plant and equipment, net	(1,223,969)	(1,427,603)
Use of restricted cash for the acquisition of property, plant and equipment	1,255,607	1,471,632
Other	(38,782)	(51,017)
Net cash used in investing activities	(7,144)	(6,988)
Cash flows from financing activities		
Proceeds from issuances of debt	3,365,000	2,000,000
Repayments of debt	(1,842,305)	—
Debt issuance and deferred financing costs	(70,049)	(145,998)
Investment in restricted cash	(1,541,645)	(1,854,002)
Distributions to owners	(49,511)	(49,508)
Other	(69)	—
Net cash used in financing activities	(138,579)	(49,508)
Net decrease in cash and cash equivalents	(133,959)	(53,916)
Cash and cash equivalents—beginning of period	146,221	248,830
Cash and cash equivalents—end of period	\$12,262	\$194,914

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

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CHENIERE ENERGY PARTNERS, L.P. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

NOTE 1—BASIS OF PRESENTATION

The accompanying unaudited Consolidated Financial Statements of Cheniere Partners 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. 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 had no effect on our overall consolidated financial position, operating results or cash flows.

In 2016, we started production at our natural gas liquefaction facilities at the Sabine Pass LNG terminal (the “Liquefaction Project”). As a result, we introduced a new line item entitled “Cost of sales” and modified the components of activity included in “Operating and maintenance expense” on our Consolidated Statements of Operations. To conform to the new presentation, reclassifications were made to the prior periods. Cost of sales includes costs incurred directly for the production and delivery of LNG from the Liquefaction Project such as natural gas feedstock, variable transportation and storage costs, derivative gains and losses associated with economic hedges to secure natural gas feedstock for the Liquefaction Project, and other related costs to convert natural gas into LNG, all to the extent not utilized for the commissioning process. These costs were reclassified from operating and maintenance expense. Operating and maintenance expense now includes costs associated with operating and maintaining the Liquefaction Project such as third-party service and maintenance contract costs, payroll and benefit costs of operations personnel, natural gas transportation and storage capacity demand charges, derivative gains and losses related to the sale and purchase of LNG associated with the regasification terminal, insurance and regulatory costs.

Additionally, we distinguished and reclassified our historical “revenues” line item into “regasification revenues” and “LNG revenues.” Regasification revenues include LNG regasification capacity reservation fees that are received pursuant to our TUAs and tug services fees that are received by Sabine Pass Tug Services, LLC, a wholly owned subsidiary of SPLNG. Substantially all of our regasification revenues are received from our two long-term TUA customers. LNG revenues include fees that are received pursuant to our SPAs and related LNG marketing activities. During the three and six months ended June 30, 2016, we received substantially all of our net LNG revenues from one SPA customer.

Results of operations for the three and six months ended June 30, 2016 are not necessarily indicative of the operating results that will be realized for the year ending December 31, 2016.

We are not subject to either federal or state income tax, as our partners are taxed individually on their allocable share of our taxable income.

For further information, refer to the Consolidated Financial Statements and accompanying notes included in our annual report on Form 10-K for the year ended December 31, 2015.

NOTE 2—UNITHOLDERS’ EQUITY

The common units, Class B units and subordinated units represent limited partner interests in us. The holders of the units are entitled to participate in partnership distributions and exercise the rights and privileges available to limited

partners under our partnership agreement. Our partnership agreement requires that, within 45 days after the end of each quarter, we distribute all of our available cash (as defined in our partnership agreement). Generally, our available cash is our cash on hand at the end of a quarter less the amount of any reserves established by our general partner. All distributions paid to date have been made from operating surplus as defined in the partnership agreement.

The holders of common units have the right to receive initial quarterly distributions of \$0.425 per common unit, plus any arrearages thereon, before any distribution is made to the holders of the subordinated units. The holders of subordinated units will receive distributions only to the extent we have available cash above the initial quarterly distribution requirement for our common unitholders and general partner and certain reserves. Subordinated units will convert into common units on a one-for-one basis when we meet financial tests specified in the partnership agreement. Although common and subordinated unitholders are not obligated to fund losses of the Partnership, their capital accounts, which would be considered in allocating the net assets of the Partnership were it to be liquidated, continue to share in losses.

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

The general partner interest is entitled to at least 2% of all distributions made by us. In addition, the general partner holds incentive distribution rights, which allow the general partner to receive a higher percentage of quarterly distributions of available cash from operating surplus after the initial quarterly distributions have been achieved and as additional target levels are met. The higher percentages range from 15% to 50%.

During 2012, Blackstone CQP Holdco and Cheniere completed their purchases of a new class of equity interests representing limited partner interests in us (“Class B units”) for total consideration of \$1.5 billion and \$500.0 million, respectively. Proceeds from the financings were used to fund a portion of the costs of developing, constructing and placing into service the first two Trains of the Liquefaction Project. In May 2013, Cheniere purchased an additional 12.0 million Class B units for consideration of \$180.0 million in connection with our acquisition of CTPL and Cheniere Pipeline GP Interests, LLC. In 2013, Cheniere formed Cheniere Holdings to hold its limited partner interests in us. The Class B units are subject to conversion, mandatorily or at the option of the Class B unitholders under specified circumstances, into a number of common units based on the then-applicable conversion value of the Class B units. The Class B units are not entitled to cash distributions except in the event of our liquidation or a merger, consolidation or other combination of us with another person or the sale of all or substantially all of our assets. On a quarterly basis beginning on the date of the initial purchase date of the Class B units, the conversion value of the Class B units increases at a compounded rate of 3.5% per quarter, subject to additional upward adjustment for certain equity and debt financings. The accreted conversion ratio of the Class B units owned by Cheniere Holdings and Blackstone CQP Holdco was 1.74 and 1.71, respectively, as of June 30, 2016. We expect the Class B units to mandatorily convert into common units within 90 days of the substantial completion date of Train 3 of the Liquefaction Project, which we currently expect to occur before June 30, 2017. If the Class B units are not mandatorily converted by July 2019, the holders of the Class B units have the option to convert the Class B units into common units at that time.

NOTE 3—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, 2016 and December 31, 2015, restricted cash consisted of the following (in thousands):

	June 30, 2016	December 31, 2015
Current restricted cash		
SPLNG debt service and interest payment	\$77,415	\$77,415
Liquefaction Project	263,114	189,260
CTPL construction and interest payment	—	7,882
CQP and cash held by guarantor subsidiaries	109,977	—
Total current restricted cash	\$450,506	\$274,557
Non-current restricted cash		
SPLNG debt service	\$13,650	\$13,650

Under the indentures governing the senior notes issued by SPLNG (the “SPLNG Indentures”), except for permitted tax distributions, SPLNG may not make distributions until certain conditions are satisfied, including: (1) there must be on deposit in an interest payment account an amount equal to one-sixth of the semi-annual interest payment multiplied by the number of elapsed months since the last semi-annual interest payment, and (2) there must be on deposit in a

permanent debt service reserve fund an amount equal to one semi-annual interest payment. Distributions are permitted only after satisfying the foregoing funding requirements, a fixed charge coverage ratio test of 2:1 and other conditions specified in the SPLNG Indentures. During the six months ended June 30, 2016 and 2015, SPLNG made distributions of \$145.3 million and \$199.6 million, respectively, after satisfying all the applicable conditions in the SPLNG Indentures.

In February 2016, we entered into a \$2.8 billion credit facility (the “2016 CQP Credit Facilities”). We, and Cheniere Investments and CTPL as our guarantor subsidiaries, are subject to limitations on the use of cash under the terms of the 2016 CQP Credit Facilities and the related depositary agreement governing the extension of credit to us. Specifically, we, Cheniere Investments 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.

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

NOTE 4—ACCOUNTS AND OTHER RECEIVABLES

As of June 30, 2016 and December 31, 2015, accounts and other receivables consisted of the following (in thousands):

	June 30,	December
	2016	31,
		2015
SPL trade receivable	\$67,266	\$ —
Interest receivable	116	23
Other accounts receivable	4,117	718
Total accounts and other receivables	\$71,499	\$ 741

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 Liquefaction Project and other restricted payments. As of June 30, 2016, the entire balance of the SPL trade receivable was from a single SPA customer.

NOTE 5—INVENTORY

As of June 30, 2016 and December 31, 2015, inventory consisted of the following (in thousands):

	June 30,	December
	2016	31,
		2015
Natural gas	\$5,338	\$ 5,724
LNG	17,535	3,690
Materials and other	25,458	7,253
Total inventory	\$48,331	\$ 16,667

NOTE 6—PROPERTY, PLANT AND EQUIPMENT

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

	June 30,	December
	2016	31,
		2015
LNG terminal costs		
LNG terminal	\$5,447,566	\$2,478,036
LNG terminal construction-in-process	8,224,575	9,859,836
LNG site and related costs, net	131	135
Accumulated depreciation	(454,967)	(411,907)
Total LNG terminal costs, net	13,217,305	11,926,100
Fixed assets		
Computer and office equipment	1,451	1,126
Furniture and fixtures	1,667	1,375
Computer software	4,457	4,238
Machinery and equipment	1,938	1,906
Vehicles	2,748	2,081
Other	95	93

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Accumulated depreciation	(6,470) (5,317)
Total fixed assets, net	5,886	5,502	
Property, plant and equipment, net	\$13,223,191	\$11,931,602	

During the three and six months ended June 30, 2016, we realized offsets to LNG terminal costs of \$128.1 million and \$142.3 million, respectively, that were related to the sale of commissioning cargoes because these amounts were earned prior to the start of commercial operations, during the testing phase for the construction of Train 1 of the Liquefaction Project.

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

NOTE 7—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 of our credit facilities (“Interest Rate Derivatives”);

• commodity derivatives consisting of natural gas purchase agreements for the commissioning and operation of the Liquefaction Project (“Physical Liquefaction Supply Derivatives”) and associated economic hedges (“Financial Liquefaction Supply Derivatives”, and collectively with the Physical Liquefaction Supply Derivatives, the “Liquefaction Supply Derivatives”); and

• commodity derivatives to hedge the exposure to price risk attributable to future: (1) sales of our LNG inventory and (2) purchases of natural gas to operate the Sabine Pass LNG terminal (“Natural Gas Derivatives”).

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.

SPLNG has elected to account for a portion of the Natural Gas Derivatives as normal purchase normal sale transactions, exempt from fair value accounting. Gains and losses for these physical hedges are not reflected on our Consolidated Statements of Operations until the period of delivery. SPLNG had not posted collateral for such forward contracts as of June 30, 2016 and December 31, 2015.

The following table (in thousands) 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, 2016 and December 31, 2015, which are classified as other current assets, non-current derivative assets, derivative liabilities or non-current derivative liabilities in our Consolidated Balance Sheets.

	Fair Value Measurements as of			December 31, 2015		
	June 30, 2016			December 31, 2015		
	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3) Total	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3) Total
SPL Interest Rate Derivatives liability	\$—	\$(20,666)	\$ —	\$—	\$(8,740)	\$ —
CQP Interest Rate Derivatives liability	—	(19,148)	—	—	—	—
Liquefaction Supply Derivatives asset (liability)	(2,850)	—	22,434	—	(25)	32,492
Natural Gas Derivatives asset	—	—	—	—	39	—
			19,965			32,467
			—			39

We value our Interest Rate Derivatives using valuations based on the initial trade prices. Using an income-based approach, subsequent valuations are based on observable inputs to the valuation model including interest rate curves, risk adjusted discount rates, credit spreads and other relevant data. The estimated fair values of our Natural Gas Derivatives are the amounts at which the instruments could be exchanged currently between willing parties. We value these derivatives using observable commodity price curves and other relevant data.

The fair value of substantially all of our Physical Liquefaction Supply Derivatives is developed through the use of internal models which are impacted by inputs that are unobservable in the marketplace. As a result, the fair value of

our Physical Liquefaction Supply Derivatives is designated as Level 3 within the valuation hierarchy. 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 particular 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. Internal fair value models include conditions precedent to the respective long-term natural gas purchase agreements. As of June 30, 2016 and December 31, 2015, some of our Physical Liquefaction Supply Derivatives existed within markets for which the pipeline infrastructure is under development to accommodate marketable physical gas flow. Accordingly, our internal

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

fair value models are based on market prices that equate to our own contractual pricing due to: (1) the inactive and unobservable market and (2) conditions precedent and their impact on the uncertainty in the timing of our actual receipt of the physical volumes associated with each forward. The fair value of our Physical Liquefaction Supply Derivatives is predominantly driven by market commodity basis prices and our assessment of the associated conditions precedent, including evaluating whether the respective market is available as pipeline infrastructure is developed. Upon the 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 purchase agreements as of the reporting date.

As all of our Physical Liquefaction Supply Derivatives are either purely index-priced or index-priced with a fixed basis, we do not believe that a significant change in market commodity prices would have a material impact on our Level 3 fair value measurements. The following table includes quantitative information for the unobservable inputs for our Level 3 Physical Liquefaction Supply Derivatives as of June 30, 2016:

	Net Fair Value Asset (in thousands)	Valuation Technique	Significant Unobservable Input	Significant Unobservable Inputs Range
Physical Liquefaction Supply Derivatives	\$22,434	Income Approach	Basis Spread	\$(0.35) - \$(0.02)

The following table (in thousands) shows the changes in the fair value of our Level 3 Physical Liquefaction Supply Derivatives during the three and six months ended June 30, 2016 and 2015:

	Three Months Ended June 30, 2016		Six Months Ended June 30, 2015	
Balance, beginning of period	\$30,054	\$342	\$32,492	\$342
Realized and mark-to-market losses:				
Included in cost of sales (1)	(7,855)	27	(10,204)	27
Purchases and settlements:				
Purchases	(16)	71	31	71
Settlements (1)	(71)	—	(128)	—
Transfers out of Level 3 (2)	322	—	243	—
Balance, end of period	\$22,434	\$440	\$22,434	\$440
Change in unrealized gains relating to instruments still held at end of period	\$(7,795)	\$27	\$(9,484)	\$27

(1) Does not include the decrease in fair value of \$0.1 million and \$0.7 million related to the realized gains capitalized during the three and six months ended June 30, 2016, respectively.

(2) 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.

Interest Rate Derivatives

SPL Interest Rate Derivatives

SPL has 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 “2015 SPL Credit Facilities”). The SPL Interest Rate Derivatives hedge a portion of the expected outstanding borrowings over the term of the 2015 SPL Credit Facilities.

In March 2015, SPL settled a portion of the SPL Interest Rate Derivatives and recognized a derivative loss of \$34.7 million within our Consolidated Statements of Operations in conjunction with the termination of approximately \$1.8 billion of commitments under the previous credit facilities.

CHENIERE ENERGY PARTNERS, L.P. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—CONTINUED
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CQP Interest Rate Derivatives

In March 2016, we entered into interest rate swaps (“CQP Interest Rate Derivatives”) to protect against volatility of future cash flows and hedge a portion of the variable interest payments on the 2016 CQP Credit Facilities. The CQP Interest Rate Derivatives hedge a portion of the expected outstanding borrowings over the term of the 2016 CQP Credit Facilities.

As of June 30, 2016, 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
SPL Interest Rate Derivatives	\$20.0 million	\$628.8 million	August 14, 2012	July 31, 2019	1.98%	One-month LIBOR
CQP Interest Rate Derivatives	\$225.0 million	\$1.3 billion	March 22, 2016	February 29, 2020	1.19%	One-month LIBOR

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

Balance Sheet Location	June 30, 2016			December 31, 2015		
	SPL Interest Rate Derivatives	CQP Interest Rate Derivatives	Total	SPL Interest Rate Derivatives	CQP Interest Rate Derivatives	Total
Derivative liabilities	\$(7,340)	\$(5,570)	\$(12,910)	\$(5,940)	\$	—\$(5,940)
Non-current derivative liabilities	(13,326)	(13,578)	(26,904)	(2,800)	—	(2,800)
Total derivative liabilities	\$(20,666)	\$(19,148)	\$(39,814)	\$(8,740)	\$	—\$(8,740)

The following table (in thousands) 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, 2016 and 2015:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
SPL Interest Rate Derivatives gain (loss)	\$(4,752)	\$1,469	\$(16,030)	\$(35,669)
CQP Interest Rate Derivatives loss	(10,040)	—	(19,570)	—

Commodity Derivatives

Liquefaction Supply Derivatives

SPL has entered into index-based physical natural gas supply contracts and associated economic hedges to purchase natural gas for the commissioning and operation of the Liquefaction Project. The terms of the physical natural gas supply contracts primarily range from approximately one to seven years and commence upon the satisfaction of certain conditions precedent, including but not limited to the date of first commercial operation of specified Trains of

the Liquefaction Project. We recognize our Physical Liquefaction Supply Derivatives as either assets or liabilities and measure those instruments at fair value. Changes in the fair value of our Physical Liquefaction Supply Derivatives are reported in earnings. As of June 30, 2016, SPL has secured up to approximately 2,027.5 million MMBtu of natural gas feedstock through natural gas purchase agreements. The notional natural gas position of our Physical Liquefaction Supply Derivatives was approximately 1,114.5 million MMBtu as of June 30, 2016.

Our Financial Liquefaction Supply Derivatives 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. We are required by these financial institutions to use margin deposits as credit support for our Financial Liquefaction Supply Derivatives activities.

CHENIERE ENERGY PARTNERS, L.P. AND SUBSIDIARIES
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Natural Gas Derivatives

Our Natural Gas Derivatives were executed through over-the-counter contracts which were subject to nominal credit risk as these transactions settled on a daily margin basis with investment grade financial institutions. We were required by these financial institutions to use margin deposits as credit support for our Natural Gas Derivatives activities. As of June 30, 2016, we did not have any open Natural Gas Derivatives positions or margin deposits at financial institutions.

We recognize all commodity derivative instruments that qualify for derivative accounting treatment, including our Liquefaction Supply Derivatives and our Natural Gas Derivatives (collectively, “Commodity Derivatives”), as either assets or liabilities and measure those instruments at fair value. Changes in the fair value of our Commodity Derivatives are reported in earnings.

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

Balance Sheet Location	June 30, 2016			December 31, 2015		
	Liquefaction Supply Derivative (1)	Natural Gas Derivatives	Total	Liquefaction Supply Derivative (2)	Natural Gas Derivatives	Total
Other current assets	\$2,526	\$ —	—\$2,526	\$2,737	\$ 39	\$2,776
Non-current derivative assets	20,472	—	20,472	30,304	—	30,304
Total derivative assets	22,998	—	22,998	33,041	39	33,080
Derivative liabilities	(3,033)	—	(3,033)	(490)	—	(490)
Non-current derivative liabilities	—	—	—	(84)	—	(84)
Total derivative liabilities	(3,033)	—	(3,033)	(574)	—	(574)
Derivative asset, net	\$19,965	\$ —	—\$19,965	\$32,467	\$ 39	\$32,506

(1) Does not include collateral of \$0.5 million deposited for such contracts, which is included in other current assets in our Consolidated Balance Sheet as of June 30, 2016.

(2) Does not include collateral of \$0.4 million deposited for such contracts, which is included in other current assets in our Consolidated Balance Sheet as of December 31, 2015.

The following table (in thousands) 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, 2016 and 2015:

Location	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Liquefaction Supply Derivatives loss	\$ (34)	\$ —	\$ (6)	\$ —
LNG revenues				

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Liquefaction Supply Derivatives gain (loss) (1)	Cost of sales	(8,670)	81	(12,264)	81
Natural Gas Derivatives gain (loss)	Operating and maintenance expense	—	(294)	174	460

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

The use of Commodity Derivatives exposes us to counterparty credit risk, or the risk that a counterparty will be unable to meet its commitments in instances when our Commodity Derivatives are in an asset position.

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 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—CONTINUED
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Balance Sheet Presentation

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

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, 2016			
SPL Interest Rate Derivatives	\$ (20,666)	\$ —	\$ (20,666)
CQP Interest Rate Derivatives	(19,148)	—	(19,148)
Liquefaction Supply Derivatives	23,165	(167)	22,998
Liquefaction Supply Derivatives	(4,505)	1,472	(3,033)
As of December 31, 2015			
SPL Interest Rate Derivatives	\$ (8,740)	\$ —	\$ (8,740)
Liquefaction Supply Derivatives	33,636	(595)	33,041
Liquefaction Supply Derivatives	(574)	—	(574)
Natural Gas Derivatives	188	(149)	39

NOTE 8—OTHER NON-CURRENT ASSETS

As of June 30, 2016 and December 31, 2015, other non-current assets consisted of the following (in thousands):

	June 30, 2016	December 31, 2015
Advances made under EPC and non-EPC contracts	\$14,000	\$32,049
Advances made to municipalities for water system enhancements	95,584	89,953
Tax-related payments and receivables	25,751	27,615
Information technology service assets	29,532	30,371
Other	53,079	52,043
Total other non-current assets	\$217,946	\$232,031

NOTE 9—ACCRUED LIABILITIES

As of June 30, 2016 and December 31, 2015, accrued liabilities consisted of the following (in thousands):

	June 30, 2016	December 31, 2015
Interest costs and related debt fees	\$155,222	\$150,336
Liquefaction Project costs	174,645	67,006
LNG terminal costs	4,795	3,918
Other accrued liabilities	1,654	3,032
Total accrued liabilities	\$336,316	\$224,292

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NOTE 10—DEBT

As of June 30, 2016 and December 31, 2015, our debt consisted of the following (in thousands):

	June 30, 2016	December 31, 2015
Long-term debt:		
SPLNG		
6.50% Senior Secured Notes due 2020 (“2020 SPLNG Senior Notes”) (1)	\$420,000	\$420,000
SPL		
5.625% Senior Secured Notes due 2021 (“2021 SPL Senior Notes”), net of unamortized premium of \$7,959 and \$8,718	2,007,959	2,008,718
6.25% Senior Secured Notes due 2022 (“2022 SPL Senior Notes”)	1,000,000	1,000,000
5.625% Senior Secured Notes due 2023 (“2023 SPL Senior Notes”), net of unamortized premium of \$6,029 and \$6,392	1,506,029	1,506,392
5.75% Senior Secured Notes due 2024 (“2024 SPL Senior Notes”)	2,000,000	2,000,000
5.625% Senior Secured Notes due 2025 (“2025 SPL Senior Notes”)	2,000,000	2,000,000
5.875% Senior Secured Notes due 2026 (“2026 SPL Senior Notes”)	1,500,000	—
2015 SPL Credit Facilities	832,695	845,000
CTPL		
\$400.0 million Term Loan Facility (“CTPL Term Loan”), net of unamortized discount of zero and \$1,429	—	398,571
Cheniere Partners		
2016 CQP Credit Facilities	450,000	—
Unamortized debt issuance costs (2)	(173,159) (160,356)
Total long-term debt, net	11,543,524	10,018,325
Current debt:		
7.50% Senior Secured Notes due 2016 (“2016 SPLNG Senior Notes”), net of unamortized discount of \$1,956 and \$4,303 (3)	1,663,544	1,661,197
\$1.2 billion SPL Working Capital Facility (“SPL Working Capital Facility”)	—	15,000
Unamortized debt issuance costs (2)	(1,287) (2,818)
Total current debt, net	1,662,257	1,673,379
Total debt, net	\$13,205,781	\$11,691,704

Must be redeemed or repaid concurrently with the 2016 SPLNG Senior Notes under the terms of the 2016 CQP (1) Credit Facilities if the obligations under the 2016 SPLNG Senior Notes are satisfied with borrowings under the 2016 CQP Credit Facilities.

Effective January 1, 2016, we adopted ASU 2015-03 and ASU 2015-15, which require debt issuance costs related to term notes to be presented in the balance sheet as a direct deduction from the debt liability, rather than as an (2) asset, retrospectively for each reporting period presented. As a result, we reclassified \$160.4 million and \$2.8 million from debt issuance costs, net to long-term debt, net and current debt, net, respectively, as of December 31, 2015.

(3) Matures on November 30, 2016. We currently anticipate satisfying this obligation with borrowings under the 2016 CQP Credit Facilities.

2016 Debt Issuances and Redemptions

2026 SPL Senior Notes

In June 2016, SPL issued an aggregate principal amount of \$1.5 billion of the 2026 SPL Senior Notes. Net proceeds of the offering of approximately \$1.3 billion, after deducting commissions, fees and expenses and incremental interest required under the 2026 SPL Senior Notes during construction, were used to prepay a portion of the outstanding borrowings under the 2015 SPL Credit Facilities, resulting in a write-off of debt issuance costs associated with the 2015 SPL Credit Facilities of \$26.0 million during both the three and six months ended June 30, 2016. The 2026 SPL Senior Notes accrue interest at a fixed rate of 5.875%

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and interest on the 2026 SPL Senior Notes is payable semi-annually in arrears. The terms of the 2026 SPL Senior Notes are governed by the same common indenture as SPL's other senior notes, which contains customary terms and events of default, covenants and redemption terms.

In connection with the closing of the sale of the 2026 SPL Senior Notes, SPL entered into a Registration Rights Agreement dated June 14, 2016 (the "2026 SPL Registration Rights Agreement"). Under the terms of the 2026 SPL Registration Rights Agreement, SPL has agreed, and any future guarantors of the 2026 SPL Senior Notes will agree, to use commercially reasonable efforts to file with the SEC and cause to become effective a registration statement within 360 days after June 14, 2016 with respect to an offer to exchange any and all of the 2026 SPL Senior Notes for a like aggregate principal amount of debt securities of SPL with terms identical in all material respects to the respective 2026 SPL Senior Notes sought to be exchanged (other than with respect to restrictions on transfer or to any increase in annual interest rate), and that are registered under the Securities Act of 1933, as amended. Under specified circumstances, SPL has also agreed, and any future guarantors will also agree, to use commercially reasonable efforts to cause to become effective a shelf registration statement relating to resales of the 2026 SPL Senior Notes. SPL will be obligated to pay additional interest if it fails to comply with its obligation to register the 2026 SPL Senior Notes within the specified time period.

2016 CQP Credit Facilities

In February 2016, we entered into the \$2.8 billion 2016 CQP Credit Facilities, which consist of: (1) a \$450.0 million CTPL tranche term loan that was used to prepay the \$400.0 million CTPL Term Loan in February 2016, (2) an approximately \$2.1 billion SPLNG tranche term loan that will be used to redeem or repay the approximately \$2.1 billion of the 2016 SPLNG Senior Notes and the 2020 SPLNG Senior Notes (which must be redeemed or repaid concurrently under the terms of the 2016 CQP Credit Facilities), (3) a \$125.0 million debt service reserve credit facility (the "DSR Facility") that may be used to satisfy a six-month debt service reserve requirement and (4) a \$115.0 million revolving credit facility that may be used for general business purposes.

The 2016 CQP Credit Facilities accrue interest at a variable rate per annum equal to LIBOR or the base rate (equal to the highest of the prime rate, the federal funds effective rate, as published by the Federal Reserve Bank of New York, plus 0.50% and adjusted one month LIBOR plus 1.0%), plus the applicable margin. The applicable margin for LIBOR loans is 2.25% per annum, and the applicable margin for base rate loans is 1.25% per annum, in each case with a 0.50% step-up beginning on February 25, 2019. Interest on LIBOR loans is due and payable at the end of each applicable LIBOR period (and at the end of every three month period within the LIBOR period, if any), and interest on base rate loans is due and payable at the end of each calendar quarter.

We incurred \$48.7 million of debt issuance costs during the six months ended June 30, 2016, and will incur an additional \$21.5 million of debt issuance costs when the SPLNG tranche is funded. The prepayment of the CTPL Term Loan resulted in a write-off of unamortized discount and debt issuance costs of \$1.5 million during the six months ended June 30, 2016. We pay a commitment fee equal to an annual rate of 40% of the margin for LIBOR loans multiplied by the average daily amount of the undrawn commitment, payable quarterly in arrears. The DSR Facility and the revolving credit facility are both available for the issuance of letters of credit, which incur a fee equal to an annual rate of 2.25% of the undrawn portion with a 0.50% step-up beginning on February 25, 2019.

The 2016 CQP Credit Facilities mature on February 25, 2020, and 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 2016 CQP Credit Facilities contain conditions precedent for extensions of credit, as well as customary affirmative and

negative covenants and limit our ability to make restricted payments, including distributions, to once per fiscal quarter as long as certain conditions are satisfied. Under the terms of the 2016 CQP Credit Facilities, we are 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 2016 CQP Credit Facilities are unconditionally guaranteed by each of our subsidiaries other than: (1) SPL, (2) SPLNG until funding of its tranche term loan and (3) certain of our subsidiaries owning other development projects, as well as certain other specified subsidiaries and members of the foregoing entities.

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Credit Facilities

Below is a summary of our credit facilities outstanding as of June 30, 2016 (in thousands):

	2015 SPL Credit Facilities	SPL Working Capital Facility	2016 CQP Credit Facilities
Original facility size	\$4,600,000	\$1,200,000	\$2,800,000
Outstanding balance	832,695	—	450,000
Commitments terminated	1,287,305	—	—
Letters of credit issued	—	237,270	7,500
Available commitment	\$2,480,000	\$962,730	\$2,342,500
Interest rate	LIBOR plus 1.30% - 1.75% or base rate plus 1.75%	LIBOR plus 1.75% or base rate plus 0.75%	LIBOR plus 2.25% or base rate plus 1.25% (1)
Maturity date	Earlier of December 31, 2020 or second anniversary of SPL Trains 1 through 5 completion date	December 31, 2020, with various terms for underlying loans	February 25, 2020, with principals due quarterly commencing on February 19, 2019

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

Interest Expense

Total interest expense consisted of the following (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Total interest cost	\$204,693	\$174,825	\$397,313	\$334,911
Capitalized interest	(132,694)	(124,677)	(281,862)	(241,918)
Total interest expense, net	\$71,999	\$50,148	\$115,451	\$92,993

Fair Value Disclosures

The following table (in thousands) shows the carrying amount and estimated fair value of our debt:

	June 30, 2016		December 31, 2015	
	Carrying	Estimated	Carrying	Estimated

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	Amount	Fair Value	Amount	Fair Value
Senior Notes, net of premium or discount (1)	\$ 12,097,532	\$ 12,163,254	\$ 10,596,307	\$ 9,525,809
CTPL Term Loan, net of discount (2)	—	—	398,571	400,000
Credit facilities (2) (3)	1,282,695	1,282,695	860,000	860,000

- Includes 2016 SPLNG Senior Notes, net of discount; 2020 SPLNG Senior Notes; 2021 SPL Senior Notes, net of premium; 2022 SPL Senior Notes; 2023 SPL Senior Notes, net of premium; 2024 SPL Senior Notes; 2025 SPL Senior Notes and 2026 SPL Senior Notes (collectively, the “Senior Notes”). The Level 2 estimated fair value was based on quotes obtained from broker-dealers or market makers of the Senior Notes and other similar instruments.
- (2) 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.
- (3) Includes 2015 SPL Credit Facilities, SPL Working Capital Facility and 2016 CQP Credit Facilities.

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NOTE 11—RELATED PARTY TRANSACTIONS

Below is a summary of our related party transactions as reported on our Consolidated Statements of Operations for the three and six months ended June 30, 2016 and 2015 (in thousands):

Three Months Ended June 30, 2016	Six Months Ended June 30, 2016		2015		
Regasification revenues—affiliate Contracts for Sale and Purchase of Natural Gas and LNG Tug Boat Leases Sharing Agreement Other agreements Total regasification revenues—affiliate Operating and maintenance expense—affiliate Contracts for Sale and Purchase of Natural Gas and LNG	\$ —	\$ 919	\$ —	\$ —	\$ —
	1,433	1,417	491	—	594
	2,352	2,011	607	—	—

Services
11,167,502 21,395 12,280
Agreements

Other
(1) (1) (16) (6)
agreements

Total
operating
and 56,501 21,986 12,274
maintenance
expense—affiliate

Development
expense—affiliate

Services
153,206 282 410
Agreements

General and administrative
expense—affiliate

Services
21,288,472 43,409 55,069
Agreements

LNG Terminal Capacity Agreements

Terminal Use Agreements

SPL obtained approximately 2.0 Bcf/d of regasification capacity under a TUA with SPLNG as a result of an assignment in July 2012 by Cheniere Investments of its rights, title and interest under its TUA with SPLNG. SPL is obligated to make monthly capacity payments (the “TUA Fees”) to SPLNG aggregating approximately \$250 million per year, continuing until at least 20 years after SPL delivers its first commercial cargo at the Liquefaction Project.

In connection with this TUA, SPL is required to pay for a portion of the cost (primarily LNG inventory) to maintain the cryogenic readiness of the regasification facilities at the Sabine Pass LNG terminal, which is recorded as operating and maintenance expense on our Consolidated Statements of Operations.

Cheniere Investments, SPL and SPLNG entered into the terminal use rights assignment and agreement (the “TURA”) pursuant to which Cheniere Investments has the right to use SPL’s reserved capacity under the TUA and has the obligation to pay the TUA Fees required by the TUA to SPLNG. However, the revenue earned by SPLNG from the TUA Fees and the loss incurred by Cheniere Investments under the TURA are eliminated upon consolidation of our Financial Statements. We have guaranteed the obligations of SPL under its TUA and the obligations of Cheniere Investments under the TURA.

In an effort to utilize Cheniere Investments’ reserved capacity under the TURA during construction of the Liquefaction Project, Cheniere Marketing has entered into an amended and restated variable capacity rights agreement with Cheniere Investments (the “Amended and Restated VCRA”) pursuant to which Cheniere Marketing is obligated to pay Cheniere Investments 80% of the expected gross margin of each cargo of LNG that Cheniere Marketing arranges for delivery to the Sabine Pass LNG terminal. Cheniere Investments recorded no revenues—affiliate from Cheniere Marketing during the three and six months ended June 30, 2016 and 2015, respectively, related to the Amended and Restated VCRA.

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Cheniere Marketing SPA

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 at a price of 115% of Henry Hub plus \$3.00 per MMBtu of LNG.

Commissioning Agreement

In May 2015, SPL entered into an agreement with Cheniere Marketing that obligates Cheniere Marketing in certain circumstances to buy LNG cargoes produced during the periods while Bechtel Oil, Gas and Chemicals, Inc. has control of, and is commissioning, the first four Trains of the Liquefaction Project.

Pre-commercial LNG Marketing Agreement

In May 2015, SPL entered into an agreement with Cheniere Marketing that authorizes Cheniere Marketing to act on SPL's behalf to market and sell pre-commercial LNG that has not been accepted by BG Gulf Coast LNG, LLC.

Services Agreements

As of June 30, 2016 and December 31, 2015, we had \$41.5 million and \$39.8 million of advances to affiliates, respectively, under the services agreements described below. The non-reimbursement amounts incurred under the services agreements described below are recorded in general and administrative expense—affiliate.

Cheniere Partners Services Agreement

We have entered into a services agreement with Cheniere Terminals, a wholly owned subsidiary of Cheniere, pursuant to which Cheniere Terminals is entitled to a quarterly non-accountable overhead reimbursement charge of \$2.8 million (adjusted for inflation) for the provision of various general and administrative services for our benefit. In addition, Cheniere Terminals is entitled to reimbursement for all audit, tax, legal and finance fees incurred by Cheniere Terminals that are necessary to perform the services under the agreement.

Cheniere Investments Information Technology Services Agreement

Cheniere Investments has entered into an information technology services agreement with Cheniere, pursuant to which Cheniere Investments' subsidiaries receive certain information technology services. On a quarterly basis, the various entities receiving the benefit are invoiced by Cheniere according to the cost allocation percentages set forth in the agreement. In addition, Cheniere is entitled to reimbursement for all costs incurred by Cheniere that are necessary to perform the services under the agreement.

SPLNG O&M Agreement

SPLNG has entered into a long-term operation and maintenance agreement (the "SPLNG O&M Agreement") with Cheniere Investments pursuant to which SPLNG receives all necessary services required to operate and maintain the Sabine Pass LNG receiving terminal. SPLNG incurs a fixed monthly fee of \$130,000 (indexed for inflation) under the SPLNG O&M Agreement and the cost of a bonus equal to 50% of the salary component of labor costs in certain circumstances to be agreed upon between SPLNG and Cheniere Investments at the beginning of each operating year. In addition, SPLNG incurs costs to reimburse Cheniere Investments for its operating expenses, which consist

primarily of labor expenses. Cheniere Investments provides the services required under the SPLNG O&M Agreement pursuant to a secondment agreement with a wholly owned subsidiary of Cheniere. All payments received by Cheniere Investments under the SPLNG O&M Agreement are required to be remitted to such subsidiary.

SPLNG MSA

SPLNG has entered into a long-term management services agreement (the “SPLNG MSA”) with Cheniere Terminals, pursuant to which Cheniere Terminals manages the operation of the Sabine Pass LNG receiving terminal, excluding those matters provided for under the SPLNG O&M Agreement. SPLNG incurs a monthly fixed fee of \$520,000 (indexed for inflation) under the SPLNG MSA.

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(unaudited)

SPL O&M Agreement

SPL has entered into an operation and maintenance agreement (the “SPL O&M Agreement”) with Cheniere Investments pursuant to which SPL receives all of the necessary services required to construct, operate and maintain the Liquefaction Project. Before the Liquefaction Project is operational, the services to be provided include, among other services, obtaining governmental approvals on behalf of SPL, preparing an operating plan for certain periods, obtaining insurance, preparing staffing plans and preparing status reports. After the Liquefaction Project is operational, the services include all necessary services required to operate and maintain the Liquefaction Project. Before the Liquefaction Project is operational, in addition to reimbursement of operating expenses, SPL is required to pay a monthly fee equal to 0.6% of the capital expenditures incurred in the previous month. After substantial completion of each Train, for services performed while the Liquefaction Project is operational, SPL will pay, in addition to the reimbursement of operating expenses, a fixed monthly fee of \$83,333 (indexed for inflation) for services with respect to such Train. Cheniere Investments provides the services required under the SPL O&M Agreement pursuant to a secondment agreement with a wholly owned subsidiary of Cheniere. All payments received by Cheniere Investments under the SPL O&M Agreement are required to be remitted to such subsidiary.

SPL MSA

SPL has entered into a management services agreement (the “SPL MSA”) with Cheniere Terminals pursuant to which Cheniere Terminals manages the construction and operation of the Liquefaction Project, excluding those matters provided for under the SPL O&M Agreement. The services include, among other services, exercising the day-to-day management of SPL’s affairs and business, managing SPL’s regulatory matters, managing bank and brokerage accounts and financial books and records of SPL’s business and operations, entering into financial derivatives on SPL’s behalf and providing contract administration services for all contracts associated with the Liquefaction Project. Under the SPL MSA, SPL pays a monthly fee equal to 2.4% of the capital expenditures incurred in the previous month. After substantial completion of each Train, SPL will pay a fixed monthly fee of \$541,667 (indexed for inflation) for services with respect to such Train.

CTPL O&M Agreement

CTPL has entered into an amended long-term operation and maintenance agreement (the “CTPL O&M Agreement”) with Cheniere Investments pursuant to which CTPL receives all necessary services required to operate and maintain the Creole Trail Pipeline. CTPL is required to reimburse the counterparty for its operating expenses, which consist primarily of labor expenses. Cheniere Investments provides the services required under the CTPL O&M Agreement pursuant to a secondment agreement with a wholly owned subsidiary of Cheniere. All payments received by Cheniere Investments under the CTPL O&M Agreement are required to be remitted to such subsidiary.

CTPL MSA

CTPL has entered into a management services agreement (the “CTPL MSA”) with Cheniere Terminals pursuant to which Cheniere Terminals manages the modification and operation of the Creole Trail Pipeline, excluding those matters provided for under the CTPL O&M Agreement. The services include, among other services, exercising the day-to-day management of CTPL’s affairs and business, managing CTPL’s regulatory matters, managing bank and brokerage accounts and financial books and records of CTPL’s business and operations and providing contract administration services for all contracts associated with the pipeline facilities. Under the CTPL MSA, CTPL pays a monthly fee equal to 3.0% of the capital expenditures to enable bi-directional natural gas flow on the Creole Trail Pipeline incurred in the previous month.

LNG Lease Agreement

In September 2011, Cheniere Investments entered into an agreement in the form of a lease (the “LNG Lease Agreement”) with Cheniere Marketing that enables Cheniere Investments to supply the Sabine Pass LNG terminal with LNG to maintain proper LNG inventory levels and temperature. The LNG Lease Agreement also enables Cheniere Investments to hedge the exposure to variability in expected future cash flows of the LNG inventory. Under the terms of the LNG Lease Agreement, Cheniere Marketing funds all activities related to the purchase and hedging of the LNG, and Cheniere Investments reimburses Cheniere Marketing for all costs and assumes full price risk associated with these activities. As a result of Cheniere Investments assuming full price risk associated with the LNG Lease Agreement, any LNG inventory purchased by Cheniere Marketing under this arrangement is

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classified as inventory—affiliate. As of June 30, 2016 and December 31, 2015, Cheniere Investments had no LNG inventory—affiliate recorded under the LNG Lease Agreement.

Agreement to Fund SPLNG's Cooperative Endeavor Agreements ("CEAs")

SPLNG has executed CEAs with various Cameron Parish, Louisiana taxing authorities that allowed them to collect certain annual property tax payments from SPLNG from 2007 through 2016. This ten-year initiative represented an aggregate commitment of \$24.5 million in order to aid in their reconstruction efforts following Hurricane Rita, which SPLNG fulfilled its obligations in the first quarter of 2016. In exchange for SPLNG's advance payments of annual ad valorem taxes, Cameron Parish will grant SPLNG a dollar-for-dollar credit against future ad valorem taxes to be levied against the Sabine Pass LNG terminal starting in 2019. Beginning in September 2007, SPLNG entered into various agreements with Cheniere Marketing, pursuant to which Cheniere Marketing would pay SPLNG additional TUA revenues equal to any and all amounts payable by SPLNG to the Cameron Parish taxing authorities under the CEAs. In exchange for such amounts received as TUA revenues from Cheniere Marketing, SPLNG will make payments to Cheniere Marketing equal to, and in the year the Cameron Parish dollar-for-dollar credit is applied against, ad valorem tax levied on our LNG terminal.

On a consolidated basis, these advance tax payments were recorded to other non-current assets, and payments from Cheniere Marketing that SPLNG utilized to make the ad valorem tax payments were recorded as a long-term obligation. As of June 30, 2016 and December 31, 2015, we had \$24.5 million and \$22.1 million, respectively, of both other non-current assets resulting from SPLNG's ad valorem tax payments and non-current liabilities—affiliate resulting from these payments received from Cheniere Marketing.

Contracts for Sale and Purchase of Natural Gas and LNG

SPLNG is able to sell and purchase natural gas and LNG under agreements with Cheniere Marketing. Under these agreements, SPLNG purchases natural gas or LNG from Cheniere Marketing at a sales price equal to the actual purchase price paid by Cheniere Marketing to suppliers of the natural gas or LNG, plus any third-party costs incurred by Cheniere Marketing with respect to the receipt, purchase and delivery of natural gas or LNG to the Sabine Pass LNG terminal.

Tug Boat Lease Sharing Agreement

In connection with its tug boat lease, Sabine Pass Tug Services, LLC ("Tug Services"), a wholly owned subsidiary of SPLNG, entered into a tug sharing agreement with a wholly owned subsidiary of Cheniere to provide its LNG cargo vessels with tug boat and marine services at the Sabine Pass LNG terminal.

LNG Terminal Export Agreement

In January 2010, SPLNG and Cheniere Marketing entered into an LNG Terminal Export Agreement that provides Cheniere Marketing the ability to export LNG from the Sabine Pass LNG terminal. SPLNG did not record any revenues associated with this agreement during the three and six months ended June 30, 2016 and 2015.

State Tax Sharing Agreements

In November 2006, SPLNG entered into a state tax sharing agreement with Cheniere. Under this agreement, Cheniere has agreed to prepare and file all state and local tax returns which SPLNG and Cheniere are required to file on a combined basis and to timely pay the combined state and local tax liability. If Cheniere, in its sole discretion, demands payment, SPLNG will pay to Cheniere an amount equal to the state and local tax that SPLNG would be required to pay if its state and local tax liability were calculated on a separate company basis. There have been no state and local taxes paid by Cheniere for which Cheniere could have demanded payment from SPLNG under this agreement; therefore, Cheniere has not demanded any such payments from SPLNG. The agreement is effective for tax returns due on or after January 1, 2008.

In August 2012, SPL entered into a state tax sharing agreement with Cheniere. Under this agreement, Cheniere has agreed to prepare and file all state and local tax returns which SPL and Cheniere are required to file on a combined basis and to timely pay the combined state and local tax liability. If Cheniere, in its sole discretion, demands payment, SPL will pay to Cheniere an amount equal to the state and local tax that SPL would be required to pay if SPL's state and local tax liability were calculated on

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a separate company basis. There have been no state and local taxes paid by Cheniere for which Cheniere could have demanded payment from SPL under this agreement; therefore, Cheniere has not demanded any such payments from SPL. The agreement is effective for tax returns due on or after August 2012.

In May 2013, CTPL entered into a state tax sharing agreement with Cheniere. Under this agreement, Cheniere has agreed to prepare and file all state and local tax returns which CTPL and Cheniere are required to file on a combined basis and to timely pay the combined state and local tax liability. If Cheniere, in its sole discretion, demands payment, CTPL will pay to Cheniere an amount equal to the state and local tax that CTPL would be required to pay if CTPL's state and local tax liability were calculated on a separate company basis. There have been no state and local taxes paid by Cheniere for which Cheniere could have demanded payment from CTPL under this agreement; therefore, Cheniere has not demanded any such payments from CTPL. The agreement is effective for tax returns due on or after May 2013.

NOTE 12—NET LOSS PER COMMON UNIT

Net income (loss) per common unit for a given period is based on the distributions that will be made to the unitholders with respect to the period plus an allocation of undistributed net income (loss) based on provisions of the partnership agreement, divided by the weighted average number of common units outstanding. Distributions paid by us are presented on the Consolidated Statement of Partners' Equity. On July 22, 2016, we declared a \$0.425 distribution per common unit and the related distribution to our general partner to be paid on August 12, 2016 to unitholders of record as of August 1, 2016 for the period from April 1, 2016 to June 30, 2016.

The two-class method dictates that net income (loss) for a period be reduced by the amount of available cash that will be distributed with respect to that period and that any residual amount representing undistributed net income be allocated to common unitholders and other participating unitholders to the extent that each unit may share in net income as if all of the net income for the period had been distributed in accordance with the partnership agreement. Undistributed income is allocated to participating securities based on the distribution waterfall for available cash specified in the partnership agreement. Undistributed losses (including those resulting from distributions in excess of net income) are allocated to common units and other participating securities on a pro rata basis based on provisions of the partnership agreement. Historical income (loss) attributable to a company that was purchased from an entity under common control is allocated to the predecessor owner in accordance with the terms of the partnership agreement. Distributions are treated as distributed earnings in the computation of earnings per common unit even though cash distributions are not necessarily derived from current or prior period earnings.

The Class B units were issued at a discount to the market price of the common units into which they are convertible. This discount totaling \$2,130.0 million represents a beneficial conversion feature and is reflected as an increase in common and subordinated unitholders' equity and a decrease in Class B unitholders' equity to reflect the fair value of the Class B units at issuance on our Consolidated Statement of Partners' Equity. The beneficial conversion feature is considered a dividend that will be distributed ratably with respect to any Class B unit from its issuance date through its conversion date, resulting in an increase in Class B unitholders' equity and a decrease in common and subordinated unitholders' equity. We amortize the beneficial conversion feature assuming a conversion date of June 2017 and August 2017 for Cheniere Holdings' and Blackstone CQP Holdco's Class B units, respectively, although actual conversion may occur prior to or after these assumed dates. We are amortizing using the effective yield method with a weighted average effective yield of 888.7% per year and 966.1% per year for Cheniere Holdings' and Blackstone CQP Holdco's Class B units, respectively. The impact of the beneficial conversion feature is also included in earnings per unit for the three and six months ended June 30, 2016 and 2015.

The following is a schedule by years, based on the capital structure as of June 30, 2016, of the anticipated impact to the capital accounts in connection with the amortization of the beneficial conversion feature (in thousands):

	Common Units	Class B Units	Subordinated Units
2016	\$(29,566)	\$ 99,685	\$ (70,119)
2017	(594,434)	2,004,209	(1,409,775)

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Under our partnership agreement, the incentive distribution rights (“IDRs”) participate in net income (loss) only to the extent of the amount of cash distributions actually declared, thereby excluding the IDRs from participating in undistributed net income (loss). We did not allocate earnings or losses to IDR holders for the purpose of the two-class method earnings per unit calculation for any of the periods presented. The following table (in thousands, except per unit data) provides a reconciliation of net loss and the allocation of net loss to the common units, the subordinated units and the general partner units for purposes of computing net loss per unit.

	Total	Limited Partner Units			General Partner Units
		Common Units	Class B Units	Subordinated Units	
Three Months Ended June 30, 2016					
Net loss	\$(100,125)				
Declared distributions	24,755	24,260	—	—	495
Assumed allocation of undistributed net loss	\$(124,880)	(36,298)	—	(86,085)	(2,497)
Assumed allocation of net loss		\$(12,038)	\$	—\$(86,085)	\$(2,002)
Weighted average units outstanding		57,084	145,333	135,384	
Net loss per unit		\$(0.21)	\$	—\$(0.64)	
Three Months Ended June 30, 2015					
Net loss	\$(60,043)				
Declared distributions	24,754	24,259	—	—	495
Assumed allocation of undistributed net loss	\$(84,797)	(24,646)	—	(58,455)	(1,696)
Assumed allocation of net loss		\$(387)	\$	—\$(58,455)	\$(1,201)
Weighted average units outstanding		57,080	145,333	135,384	
Net loss per unit		\$(0.01)	\$	—\$(0.43)	
Six Months Ended June 30, 2016					
Net loss	\$(175,031)				
Declared distributions	49,511	48,521	—	—	990
Assumed allocation of undistributed net loss	\$(224,542)	(65,265)	—	(154,787)	(4,490)
Assumed allocation of net loss		\$(16,744)	\$	—\$(154,787)	\$(3,500)
Weighted average units outstanding		57,084	145,333	135,384	
Net loss per unit		\$(0.29)	\$	—\$(1.14)	
Six Months Ended June 30, 2015					
Net loss	\$(238,719)				
Declared distributions	49,508	48,518	—	—	990
Assumed allocation of undistributed net loss	\$(288,227)	(83,771)	—	(198,691)	(5,765)
Assumed allocation of net loss		\$(35,253)	\$	—\$(198,691)	\$(4,775)
Weighted average units outstanding		57,080	145,333	135,384	
Net loss per unit		\$(0.62)	\$	—\$(1.47)	

NOTE 13—SUPPLEMENTAL CASH FLOW INFORMATION

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

	Six Months Ended	
	June 30,	
	2016	2015
Cash paid during the period for interest, net of amounts capitalized	\$ 100,357	\$ 55,516

The balance in property, plant and equipment, net funded with accounts payable and accrued liabilities (including affiliate) was \$314.8 million and \$236.5 million as of June 30, 2016 and 2015, respectively.

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NOTE 14—RECENT ACCOUNTING STANDARDS

The following table provides a brief description of recent accounting standards that had not been adopted by the Partnership as of June 30, 2016:

Standard	Description	Expected 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 amends 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. This guidance may be early adopted beginning January 1, 2017, and may be adopted either retrospectively to each prior reporting period presented or as a cumulative-effect adjustment as of the date of adoption.	January 1, 2018	We are currently evaluating the impact of the provisions of this guidance on our Consolidated Financial Statements and related disclosures.
ASU 2014-15, Presentation of Financial Statements-Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern	This standard requires an entity's management to evaluate, for each reporting period, whether there are conditions and events that raise substantial doubt about the entity's ability to continue as a going concern within one year after the financial statements are issued. Additional disclosures are required if management concludes that conditions or events raise substantial doubt about the entity's ability to continue as a going concern. Early adoption is permitted.	December 31, 2016	The adoption of this guidance is not expected to have an impact on our Consolidated Financial Statements or related disclosures.
ASU 2015-11, Inventory (Topic 330): Simplifying the Measurement of Inventory	This standard requires inventory to be measured at the lower of cost and net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation. This guidance may be early adopted and must be adopted prospectively.	January 1, 2017	We are currently evaluating the impact of the provisions of this guidance on our Consolidated Financial Statements and related disclosures.
ASU 2016-02, Leases (Topic 842)	This standard requires a lessee to recognize leases on its balance sheet by recording a 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	January 1, 2019	We are currently evaluating the impact of the provisions of this guidance on our Consolidated Financial Statements and related disclosures.

must be adopted using a modified retrospective approach with certain available practical expedients.

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 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—CONTINUED
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Additionally, the following table provides a brief description of recent accounting standards that were adopted by the Partnership during the reporting period:

Standard	Description	Date of Adoption	Effect on our Consolidated Financial Statements or Other Significant Matters
ASU 2015-02, Consolidation (Topic 810): Amendments to the Consolidation Analysis	These amendments primarily affect asset managers and reporting entities involved with limited partnerships or similar entities, but the analysis is relevant in the evaluation of any reporting organization's requirement to consolidate a legal entity. This guidance changes (1) the identification of variable interests, (2) the variable interest entity characteristics for a limited partnership or similar entity and (3) the primary beneficiary determination. This guidance may be early adopted, and may be adopted either retrospectively to each prior reporting period presented or as a cumulative-effect adjustment as of the date of adoption.	January 1, 2016	The adoption of this guidance did not have an impact on our Consolidated Financial Statements or related disclosures.
ASU 2015-03, Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs and ASU 2015-15, Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements	These standards require debt issuance costs related to a recognized debt liability to be presented in the balance sheet as a direct deduction from the debt liability rather than as an asset. Debt issuance costs incurred in connection with line of credit arrangements may be presented as an asset and subsequently amortized ratably over the term of the line of credit arrangement. This guidance may be early adopted, and must be adopted retrospectively to each prior reporting period presented.	January 1, 2016	Upon adoption of these standards, the balance of debt, net was reduced by the balance of debt issuance costs, net, except for the balance related to line of credit arrangements, on our Consolidated Balance Sheets. See <u>Note 10—Debt</u> for additional disclosures.
ASU 2015-06, Earnings Per Share (Topic 260): Effects on Historical Earnings per Unit of Master Limited Partnership Dropdown Transactions	This standard requires a master limited partnership to allocate net income (losses) of a transferred business entirely to the general partner when computing earnings per unit for periods before the dropdown transaction occurred. This guidance also requires a master limited partnership to disclose the effects of the dropdown transaction on net income (losses) per unit for the periods before and after the dropdown transaction occurred. This guidance may be early adopted, and must be adopted retrospectively to each prior reporting period presented.	January 1, 2016	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." 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 regarding our ability to pay distributions to our unitholders;
- statements regarding our expected receipt of cash distributions from SPLNG, SPL or CTPL;
- statements that we expect to commence or complete construction of our proposed LNG terminals, liquefaction facilities, pipeline facilities or other projects, or any expansions 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 ability to enter into such transactions;
- statements relating to the construction of our Trains, including statements concerning the engagement of any EPC contractor or other contractor and the anticipated terms and provisions of any agreement with any EPC or other contractor, and anticipated costs related thereto;
 - statements regarding any SPA or any 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 counterparties to our commercial contracts, construction contracts and other contracts;
- statements regarding our planned development and construction of additional Trains, 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 and capital expenditures, 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; and
- any other statements that relate to non-historical or future information.

All of these types of statements, other than statements of historical fact, 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," "continue," the negative of such 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 due to factors described in this quarterly report and in the other reports and other information that we file with the SEC. These forward-looking statements speak only as of the date made, and other than as required by law, we undertake no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise.

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 under “Risk Factors” in our annual report on Form 10-K for the year ended December 31, 2015. All forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by these risk factors. Other than as required under the securities laws, we assume no obligation to update or revise these forward-looking statements or provide reasons why actual results may differ.

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

We are a publicly traded Delaware limited partnership formed by Cheniere. Through our wholly owned subsidiary, SPLNG, we own and operate the regasification facilities at the Sabine Pass LNG terminal located in Cameron Parish, Louisiana, on the Sabine-Neches Waterway less than four miles from the Gulf Coast. The Sabine Pass LNG terminal includes existing infrastructure of five LNG storage tanks with capacity of approximately 16.9 Bcfe, two marine berths that can accommodate vessels with nominal capacity of up to 266,000 cubic meters and vaporizers with regasification capacity of approximately 4.0 Bcf/d. We are developing and constructing natural gas liquefaction facilities (the “Liquefaction Project”) at the Sabine Pass LNG terminal adjacent to the existing regasification facilities through our wholly owned subsidiary, SPL. We plan to construct up to six Trains, which are in various stages of development and construction. Train 1 has commenced commercial operations, Train 2 is undergoing commissioning, Trains 3 through 5 are under construction and Train 6 is fully permitted. Each Train is expected to have a nominal production capacity of approximately 4.5 mtpa of LNG. We also own a 94-mile pipeline that interconnects the Sabine Pass LNG terminal with a number of large interstate pipelines (the “Creole Trail Pipeline”) through our wholly owned subsidiary, CTPL.

Overview of Significant Events

Our significant accomplishments since January 1, 2016 and through the filing date of this Form 10-Q include the following:

In February 2016, we entered into a Credit and Guaranty Agreement for the incurrence of debt of up to an aggregate amount of approximately \$2.8 billion (the “2016 CQP Credit Facilities”). The 2016 CQP Credit Facilities consist of: (1) a \$450.0 million CTPL tranche term loan that was used to prepay the \$400.0 million term loan facility (the “CTPL Term Loan”) in February 2016, (2) an approximately \$2.1 billion SPLNG tranche term loan that will be used to redeem or repay the approximately \$2.1 billion of the 7.50% Senior Secured Notes due 2016 issued by SPLNG (the “2016 SPLNG Senior Notes”) and the 6.50% Senior Secured Notes due 2020 issued by SPLNG (the “2020 SPLNG Senior Notes”) and collectively with the 2016 SPLNG Senior Notes, the “SPLNG Senior Notes”) (which must be redeemed or repaid concurrently under the terms of the 2016 CQP Credit Facilities), (3) a \$125.0 million debt service reserve credit facility (the “DSR Facility”) that may be used to satisfy a six-month debt service reserve requirement and (4) a \$115.0 million revolving credit facility that may be used for general business purposes.

In February 2016, SPL commenced production and shipment of LNG commissioning cargoes from Train 1 of the Liquefaction Project.

In May 2016, the board of directors of Cheniere Energy Partners GP, LLC (“Cheniere GP”), our general partner, appointed Jack Fusco as the Chief Executive Officer of Cheniere GP, effective as of May 12, 2016.

In May 2016, Train 1 of the Liquefaction Project achieved substantial completion and initiated operating activities. In June 2016, SPL issued an aggregate principal amount of \$1.5 billion of 5.875% Senior Secured Notes due 2026 (the “2026 SPL Senior Notes”). Net proceeds of the offering of approximately \$1.3 billion, after deducting commissions, fees and expenses and incremental interest required under the 2026 SPL Senior Notes during construction, were used to prepay a portion of the outstanding borrowings under the credit facilities it entered into in June 2015 (the “2015 SPL Credit Facilities”).

Liquidity and Capital Resources

Cash and Cash Equivalents

As of June 30, 2016, we had \$12.3 million of cash and cash equivalents and \$464.2 million of current and non-current restricted cash (which included current and non-current restricted cash available to us and our subsidiaries) designated for the following purposes: \$110.0 million for the 2016 CQP Credit Facilities, \$263.1 million for the Liquefaction Project and \$91.1 million for interest payments related to the SPLNG Senior Notes.

Sabine Pass LNG Terminal

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 20 years after SPL delivers its first commercial cargo at the Liquefaction Project. SPL entered into a partial TUA assignment agreement with Total, whereby SPL will progressively gain access to Total’s capacity and other services provided under Total’s TUA with SPLNG. This agreement will provide SPL with additional berthing and storage capacity at the Sabine Pass LNG terminal that may be used to accommodate the development of Trains 5 and 6, provide increased flexibility in managing LNG cargo loading and unloading activity starting with the commencement of commercial operations of Train 3 and permit SPL to more flexibly manage its LNG storage capacity with the commencement of Train 1. 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.

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

Liquefaction Facilities

The Liquefaction Project is being developed and constructed 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 commenced construction of Trains 1 and 2 and the related new facilities needed to treat, liquefy, store and export natural gas in August 2012. Construction of Trains 3 and 4 and the related facilities commenced in May 2013. In June 2015, we commenced construction of Train 5 and the related facilities.

The DOE has authorized the export of domestically produced LNG by vessel from Trains 1 through 4 of the Sabine Pass LNG terminal to FTA countries for a 30-year term and to non-FTA countries for a 20-year term, in an amount up to a combined total of the equivalent of 16 mtpa (approximately 803 Bcf/yr of natural gas). The DOE further issued orders authorizing SPL to export domestically produced LNG by vessel from Trains 1 through 4 of the Sabine Pass LNG terminal to 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. Additionally, the DOE issued orders authorizing us to export domestically produced LNG by vessel from Trains 5 and 6 of the Sabine Pass LNG terminal to FTA countries and non-FTA countries for a 20-year term, in an amount up to

a combined total of 503.3 Bcf/yr (approximately 10 mtpa) of natural gas. A party to the proceedings requested rehearings of the orders above related to the export of 803 Bcf/yr, 203 Bcf/yr and 503.3 Bcf/yr to non-FTA countries. The DOE issued orders denying rehearing of the orders related to 803 Bcf/yr and 503.3 Bcf/yr but has not yet issued a final ruling on the rehearing request related to the 203 Bcf/yr. 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, we have a 3-year makeup period with respect to each of the non-FTA orders for LNG volumes we were unable to export during the initial 20-year export period of such order. Furthermore, in January 2016, the DOE issued an order authorizing us 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 on January 15, 2016, in an aggregate amount up to the equivalent of 600 Bcf of natural gas (however, exports to non-FTA countries under this order, when combined with exports to non-FTA countries under the orders related to Trains 1 through 4 above, may not exceed 1,006 Bcf/yr).

As of June 30, 2016, the overall project completion percentages for Trains 1 and 2 and Trains 3 and 4 of the Liquefaction Project were approximately 99.4% and 87.4%, respectively. As of June 30, 2016, the overall project completion percentage for Train 5 of the Liquefaction Project was approximately 38.3% with engineering, procurement, subcontract work and construction approximately 77.0%, 58.0%, 37.8% and 2.0% complete, respectively. As of June 30, 2016, the overall project completion of each of our Trains was ahead of the contractual schedule. We produced our first LNG from Train 1 of the Liquefaction Project in February 2016 and achieved substantial completion in May 2016. We produced our first LNG from Train 2 of the Liquefaction Project in late July 2016. Based on our current construction schedule, we anticipate that Train 2 will achieve substantial completion in late September 2016, Trains 3 and 4 are expected to achieve substantial completion in 2017 and Train 5 is expected to achieve substantial completion in 2019.

Customers

SPL has entered into six fixed price, 20-year SPAs with third parties to make available an aggregate amount of LNG that equates to approximately 19.75 mtpa of LNG, which is approximately 88% of the expected aggregate nominal production capacity of Trains 1 through 5. The obligation to make LNG available under the SPAs commences from the date of first commercial delivery for Trains 1 through 5, as specified in each SPA. Under these SPAs, the customers will purchase LNG from SPL for a price consisting of a fixed fee (a portion of which is subject to annual adjustment for inflation) per MMBtu of LNG plus a variable fee equal to 115% of Henry Hub per MMBtu of LNG. 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. 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 commences upon the start of operations of a specified Train.

In aggregate, the fixed fee portion to be paid by the third-party SPA customers is approximately \$2.9 billion annually for Trains 1 through 5, with the applicable fixed fees starting from the commencement of commercial operations of the applicable Train. These fixed fees equal approximately \$411 million, \$564 million, \$650 million, \$648 million and \$588 million for each of Trains 1 through 5, respectively.

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 Liquefaction Project. SPL has also entered into enabling agreements and long-term natural gas purchase agreements with third parties in order to secure natural gas feedstock for the Liquefaction Project. As of June 30, 2016, SPL has secured up to approximately 2,027.5 million MMBtu of natural gas feedstock through long-term natural gas purchase agreements.

Construction

SPL entered into lump sum turnkey contracts with Bechtel Oil, Gas and Chemicals, Inc. (“Bechtel”) for the engineering, procurement and construction of Trains 1 through 5, 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 prices of the EPC contract for Trains 1 and 2, the EPC contract for Trains 3 and 4 and the EPC Contract for Train 5 of the Liquefaction Project are approximately \$4.1 billion, \$3.8 billion and \$3.0 billion, respectively, reflecting amounts incurred under change orders through June 30, 2016. 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 \$17.0 billion and \$18.0 billion after financing costs, including, in each case, estimated owner's costs and contingencies.

Final Investment Decision on Train 6

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

Capital Resources

We currently expect that SPL's capital resources requirements with respect to Trains 1 through 5 of the Liquefaction Project will be financed through one or more of the following: borrowings, equity contributions from us and cash flows under the SPAs. We believe that with the net proceeds of borrowings, available commitments under the 2015 SPL Credit Facilities, available commitments under the SPL Working Capital Facility (as defined below) and cash flows from operations, we will have adequate financial resources available to complete Trains 1 through 5 of the Liquefaction Project and to meet our currently anticipated capital, operating and debt service requirements. SPL began generating cash flows from operations from the Liquefaction Project in May 2016, when Train 1 achieved substantial completion and initiated operating activities. Additionally, during the three and six months ended June 30, 2016, we realized offsets to LNG terminal costs of \$128.1 million and \$142.3 million, respectively, that were related to the sale of commissioning cargoes because these amounts were earned prior to the start of commercial operations, during the testing phase for the construction of Train 1 of the Liquefaction Project.

Senior Secured Notes

As of June 30, 2016, our subsidiaries had eight series of senior secured notes outstanding:

\$1.7 billion of 2016 SPLNG Senior Notes;

\$0.4 billion of 2020 SPLNG Senior Notes;

\$2.0 billion of 5.625% Senior Secured Notes due 2021 issued by SPL (the "2021 SPL Senior Notes");

\$1.0 billion of 6.25% Senior Secured Notes due 2022 issued by SPL (the "2022 SPL Senior Notes");

\$1.5 billion of 5.625% Senior Secured Notes due 2023 issued by SPL (the "2023 SPL Senior Notes");

\$2.0 billion of 5.75% Senior Secured Notes due 2024 issued by SPL (the "2024 SPL Senior Notes");

\$2.0 billion of 5.625% Senior Secured Notes due 2025 (the "2025 SPL Senior Notes" and collectively with the 2021

SPL Senior Notes, the 2022 SPL Senior Notes, the 2023 SPL Senior Notes, the 2024 SPL Senior Notes and the 2026 SPL Senior Notes, the "SPL Senior Notes"); and

\$1.5 billion of 2026 SPL Senior Notes.

Interest on the SPL Senior Notes is payable semi-annually in arrears. Subject to permitted liens, the SPLNG Senior Notes are secured on a pari passu first-priority basis by a security interest in all of SPLNG's equity interests and substantially all of SPLNG's operating assets. The SPL Senior Notes are secured on a first-priority basis by a security interest in all of the membership interests in SPL and substantially all of SPL's assets.

SPLNG may redeem all or part of its 2016 SPLNG Senior Notes at any time at a redemption price equal to 100% of the principal plus any accrued and unpaid interest plus the greater of:

- 1.0% of the principal amount of the 2016 SPLNG Senior Notes; or

the excess of: (1) the present value at such redemption date of (a) the redemption price of the 2016 SPLNG Senior Notes plus (b) all required interest payments due on the 2016 SPLNG Senior Notes (excluding accrued but unpaid interest to the redemption date), computed using a discount rate equal to the treasury rate as of such redemption date plus 50 basis points; over (2) the principal amount of the 2016 SPLNG Senior Notes, if greater.

SPLNG may redeem all or part of the 2020 SPLNG Senior Notes at any time on or after November 1, 2016 at fixed redemption prices specified in the indenture governing the 2020 SPLNG Senior Notes, plus accrued and unpaid interest, if any, to the date of redemption. SPLNG may also, at its option, redeem all or part of the 2020 SPLNG Senior Notes at any time prior to November 1, 2016, at a “make-whole” price set forth in the indenture governing the 2020 SPLNG Senior Notes, plus accrued and unpaid interest, if any, to the date of redemption.

At any time prior to three months before the respective dates of maturity for each series of the SPL Senior Notes, SPL may redeem all or part of such series of the SPL Senior Notes at a redemption price equal to the “make-whole” price set forth in the common indenture governing the SPL Senior Notes (the “SPL Indenture”), 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, 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.

Under the indentures governing the SPLNG Senior Notes (the “SPLNG Indentures”), except for permitted tax distributions, SPLNG may not make distributions until, among other requirements, deposits are made into debt service reserve accounts and a fixed charge coverage ratio test of 2:1 is satisfied. Under the SPL Indenture, SPL may not make any distributions until, among other requirements, substantial completion of Trains 1 and 2 of the Liquefaction Project has occurred, deposits are made into debt service reserve accounts as required and a debt service coverage ratio test of 1.25:1.00 is satisfied. During the six months ended June 30, 2016 and 2015, SPLNG made distributions of \$145.3 million and \$199.6 million, respectively, after satisfying all the applicable conditions in the SPLNG Indentures.

The SPL Indenture includes 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, the 2015 SPL Credit Facilities and the SPL Working Capital Facility.

2015 SPL Credit Facilities

In June 2015, SPL entered into the 2015 SPL Credit Facilities with commitments aggregating \$4.6 billion. The 2015 SPL Credit Facilities are being used to fund a portion of the costs of developing, constructing and placing into operation Trains 1 through 5 of the Liquefaction Project. Borrowings under the 2015 SPL Credit Facilities may be refinanced, in whole or in part, at any time without premium or penalty; however, interest rate hedging and interest rate breakage costs may be incurred. In June 2016, in conjunction with the issuance of the 2026 SPL Senior Notes, SPL prepaid approximately \$1.3 billion of outstanding borrowings under the 2015 SPL Credit Facilities. This prepayment resulted in a write-off of debt issuance costs associated with the 2015 SPL Credit Facilities of \$26.0 million during both the three and six months ended June 30, 2016. As of June 30, 2016, SPL had \$2.5 billion of available commitments and \$0.8 billion of outstanding borrowings under the 2015 SPL Credit Facilities.

Loans under the 2015 SPL Credit Facilities accrue interest at a variable rate per annum equal to, at SPL’s election, LIBOR or the base rate plus the applicable margin. The applicable margin for LIBOR loans ranges from 1.30% to 1.75%, depending on the applicable 2015 SPL Credit Facility, and the applicable margin for base rate loans is 1.75%. Interest on LIBOR loans is due and payable at the end of each LIBOR period and interest on base rate loans is due and payable at the end of each quarter. In addition, SPL is required to pay insurance/guarantee premiums of 0.45% per annum on any drawn amounts under the covered tranches of the 2015 SPL Credit Facilities. The 2015 SPL Credit

Facilities also require SPL to pay a quarterly commitment fee calculated at a rate per annum equal to either: (1) 40% of the applicable margin, multiplied by the average daily amount of the undrawn commitment, or (2) 0.70% of the undrawn commitment, depending on the applicable 2015 SPL Credit Facility. The principal of the loans made under the 2015 SPL Credit Facilities must be repaid in quarterly installments, commencing with the earlier of June 30, 2020 and the last day of the first full calendar quarter after the completion date of Trains 1 through 5 of the Liquefaction Project. Scheduled repayments are based upon an 18-year amortization profile, with the remaining balance due upon the maturity of the 2015 SPL Credit Facilities.

The 2015 SPL Credit Facilities contain conditions precedent for borrowings, as well as customary affirmative and negative covenants. The obligations of SPL under the 2015 SPL Credit Facilities 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 and SPL Working Capital Facility.

Under the terms of the 2015 SPL Credit Facilities, SPL is required to hedge not less than 65% of the variable interest rate exposure of its projected outstanding borrowings, calculated on a weighted average basis in comparison to its anticipated draw of principal. Additionally, SPL may not make any distributions until substantial completion of Trains 1 and 2 of the Liquefaction Project has occurred, deposits are made into debt service reserve accounts and a debt service coverage ratio test of 1.25:1.00 is satisfied.

2013 SPL Credit Facilities

In May 2013, SPL entered into four credit facilities aggregating \$5.9 billion (collectively, the “2013 SPL Credit Facilities”) to fund a portion of the costs of developing, constructing and placing into operation Trains 1 through 4 of the Liquefaction Project. In June 2015, the 2013 SPL Credit Facilities were replaced with the 2015 SPL Credit Facilities.

In March 2015, in conjunction with SPL’s issuance of the 2025 SPL Senior Notes, SPL terminated approximately \$1.8 billion of commitments under the 2013 SPL Credit Facilities. This termination and the replacement of the 2013 SPL Credit Facilities with the 2015 SPL Credit Facilities in June 2015 resulted in a write-off of debt issuance costs and deferred commitment fees associated with the 2013 SPL Credit Facilities of \$7.3 million and \$96.3 million for the three and six months ended June 30, 2015, respectively.

CTPL Term Loan

In May 2013, CTPL entered into the CTPL Term Loan, which was used to fund modifications to the Creole Trail Pipeline and for general business purposes. In February 2016, CTPL prepaid the full amount of \$400.0 million outstanding under the CTPL Term Loan with capital contributions from us, which we funded with borrowings under the 2016 CQP Credit Facilities. This prepayment resulted in a write-off of unamortized discount and debt issuance costs of \$1.5 million during the six months ended June 30, 2016.

2016 CQP Credit Facilities

In February 2016, we entered into the 2016 CQP Credit Facilities. The 2016 CQP Credit Facilities consist of: (1) a \$450.0 million CTPL tranche term loan that was used to prepay the \$400.0 million CTPL Term Loan in February 2016, (2) an approximately \$2.1 billion SPLNG tranche term loan that will be used to redeem or repay the approximately \$2.1 billion of the 2016 SPLNG Senior Notes and the 2020 SPLNG Senior Notes (which must be redeemed or repaid concurrently under the terms of the 2016 CQP Credit Facilities), (3) the \$125.0 million DSR Facility that may be used to satisfy a six-month debt service reserve requirement and (4) a \$115.0 million revolving credit facility that may be used for general business purposes. As of June 30, 2016, we had \$2.3 billion of available commitments, \$7.5 million aggregate amount of issued letters of credit and \$450.0 million of outstanding borrowings under the 2016 CQP Credit Facilities.

The 2016 CQP Credit Facilities accrue interest at a variable rate per annum equal to LIBOR or the base rate (equal to the highest of the prime rate, the federal funds effective rate, as published by the Federal Reserve Bank of New York, plus 0.50% and adjusted one month LIBOR plus 1.0%), plus the applicable margin. The applicable margin for LIBOR loans is 2.25% per annum, and the applicable margin for base rate loans is 1.25% per annum, in each case with a 0.50% step-up beginning on February 25, 2019. Interest on LIBOR loans is due and payable at the end of each applicable LIBOR period (and at the end of every three month period within the LIBOR period, if any), and interest on base rate loans is due and payable at the end of each calendar quarter.

We incurred \$48.7 million of debt issuance costs during the six months ended June 30, 2016 and will incur an additional \$21.5 million of debt issuance costs when the SPLNG tranche is funded. We pay a commitment fee equal to an annual rate of 40% of the margin for LIBOR loans multiplied by the average daily amount of the undrawn commitment, payable quarterly in arrears. The DSR Facility and the revolving credit facility are both available for the issuance of letters of credit, which incur a fee equal to an annual rate of 2.25% of the undrawn portion with a 0.50% step-up beginning on February 25, 2019.

The 2016 CQP Credit Facilities mature on February 25, 2020, and 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 2016 CQP Credit Facilities contain conditions precedent for extensions of credit, as well as customary affirmative and negative covenants and limit our ability to make restricted payments, including distributions, to once per fiscal quarter as long as certain conditions are satisfied. Under the terms of the 2016 CQP Credit Facilities, we are 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 2016 CQP Credit Facilities are unconditionally guaranteed by each of our subsidiaries other than: (1) SPL, (2) SPLNG until funding of its tranche term loan and (3) certain of our subsidiaries owning other development projects, as well as certain other specified subsidiaries and members of the foregoing entities.

SPL Working Capital Facility

In September 2015, SPL entered into a \$1.2 billion Amended and Restated Senior Working Capital Revolving Credit and Letter of Credit Reimbursement Agreement (the “SPL Working Capital Facility”), which replaced the \$325.0 million Senior Letter of Credit and Reimbursement Agreement that was entered into in April 2014. The SPL Working Capital Facility is intended to be used for loans to SPL (“Working Capital Loans”), the issuance of letters of credit, as well as for swing line loans to SPL (“Swing Line Loans”), primarily for certain working capital requirements related to developing and placing into operation the Liquefaction 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 Liquefaction Project, request an incremental increase in commitments of up to an additional \$390 million. As of June 30, 2016, SPL had \$962.7 million of available commitments, \$237.3 million aggregate amount of issued letters of credit and no loans outstanding under the SPL Working Capital Facility. As of December 31, 2015, SPL had \$1.1 billion of available commitments, \$135.2 million aggregate amount of issued letters of credit and \$15.0 million of loans outstanding under the SPL Working Capital Facility.

The SPL Working Capital Facility accrues interest at a variable rate per annum equal to LIBOR or the base rate (equal to the highest of the senior facility agent’s published prime rate, the federal funds effective rate, as published by the Federal Reserve Bank of New York, plus 0.50% and one month LIBOR plus 0.50%), plus the applicable margin. The applicable margin for LIBOR loans under the SPL Working Capital Facility is 1.75% per annum, and the applicable margin for base rate loans under the SPL Working Capital Facility is 0.75% per annum. Interest on Swing Line Loans and loans deemed made in connection with a draw upon a letter of credit (“LC Loans”) is due and payable on the date the loan becomes due. Interest on LIBOR Working Capital Loans is due and payable at the end of each applicable LIBOR period, and interest on base rate Working Capital Loans is due and payable at the end of each fiscal quarter. However, if such base rate Working Capital Loan is converted into a LIBOR Working Capital Loan, interest is due and payable on that date. Additionally, if the loans become due prior to such periods, the interest also becomes due on that date.

SPL pays (1) a commitment fee equal to an annual rate of 0.70% on the average daily amount of the excess of the total commitment amount over the principal amount outstanding without giving effect to any outstanding Swing Line Loans and (2) a letter of credit fee equal to an annual rate of 1.75% of the undrawn portion of all letters of credit issued under the SPL Working Capital Facility. If draws are made upon a letter of credit issued under the SPL Working Capital Facility and SPL does not elect for such draw (an “LC Draw”) to be deemed an LC Loan, SPL is required to pay the full amount of the LC Draw on or prior to the business day following the notice of the LC Draw. An LC Draw accrues interest at an annual rate of 2.0% plus the base rate. As of June 30, 2016, no LC Draws had been made upon any letters of credit issued 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. LC Loans have a term of up to one year. 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 Swing Line Loan is made and (3) the first borrowing date for a Working Capital Loan or Swing Line Loan occurring at least three business days following the date the Swing Line Loan is made. SPL is required to reduce the aggregate outstanding principal amount of all 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 and the 2015 SPL Credit Facilities.

Sources and Uses of Cash

The following table (in thousands) summarizes the sources and uses of our cash, cash equivalents and restricted cash for the six months ended June 30, 2016 and 2015. 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,	
	2016	2015
Operating cash flows		
Net cash provided by operating activities	\$ 11,764	\$ 2,580
Changes in restricted cash for certain operating activities	(110,089)	(15,954)
Cash, cash equivalents and restricted cash used in operating activities	(98,325)	(13,374)
Investing cash flows		
Net cash used in investing activities	(7,144)	(6,988)
Use of restricted cash for the acquisition of property, plant and equipment	(1,255,607)	(1,471,632)
Cash, cash equivalents and restricted cash used in investing activities	(1,262,751)	(1,478,620)
Financing cash flows		
Net cash used in financing activities	(138,579)	(49,508)
Investment in restricted cash	1,541,645	1,854,002
Cash, cash equivalents and restricted cash used in financing activities	1,403,066	1,804,494
Net increase in cash, cash equivalents and restricted cash	41,990	312,500
Cash, cash equivalents and restricted cash—beginning of period	434,428	988,998
Cash, cash equivalents and restricted cash—end of period	\$ 476,418	\$ 1,301,498

Operating Cash Flows

Operating cash flows during the six months ended June 30, 2016 and 2015 were \$98.3 million and \$13.4 million, respectively. The increase in operating cash outflows in 2016 compared to 2015 primarily related to increased operating costs and expenses as a result of the commencement of operations of Train 1 of the Liquefaction Project in May 2016, partially offset by cash receipts from the sale of LNG cargoes and a decrease in the amounts paid under our services agreements with affiliates.

Investing Cash Flows

Investing cash flows during the six months ended June 30, 2016 and 2015 were \$1.3 billion and \$1.5 billion, respectively, and are primarily used to fund the construction costs for Trains 1 through 5 of the Liquefaction Project. These costs are capitalized as construction-in-process until achievement of substantial completion. Additionally, during the six months ended June 30, 2016 and 2015, we used \$38.8 million and \$51.0 million, respectively, primarily to pay a municipal water district for water system enhancements that will increase potable water supply to the Sabine Pass LNG terminal and payments made pursuant to the information technology services agreement for capital assets purchased on our behalf.

Financing Cash Flows

Financing cash flows during the six months ended June 30, 2016 were \$1.4 billion, primarily as a result of:

- \$450.0 million of borrowings under the 2016 CQP Credit Facilities, which was entered into in February 2016 to prepay the \$400.0 million CTPL Term Loan;
- \$1.3 billion of borrowings under the 2015 SPL Credit Facilities;
- issuance of an aggregate principal amount of \$1.5 billion of the 2026 SPL Senior Notes in June 2016, which was used to prepay \$1.3 billion of the outstanding borrowings under the 2015 SPL Credit Facilities;

\$140.0 million borrowings, net of \$155.0 million repayment, made under the SPL Working Capital Facility; \$70.0 million of debt issuance and deferred financing costs related to up-front fees paid upon the closing of these transactions; and \$49.5 million of distributions to unitholders.

Financing cash flows during the six months ended June 30, 2015 were \$1.8 billion, primarily as a result of: issuance of an aggregate principal amount of \$2.0 billion of the 2025 SPL Senior Notes in March 2015; entering into the 2015 SPL Credit Facilities aggregating \$4.6 billion in June 2015, which terminated and replaced the 2013 SPL Credit Facilities; \$146.0 million of debt issuance and deferred financing costs related to up-front fees paid upon the closing of these transactions; and \$49.5 million of distributions to unitholders.

Cash Distributions to Unitholders

Our partnership agreement requires that, within 45 days after the end of each quarter, we distribute all of our available cash (as defined in our partnership agreement). Our available cash is our cash on hand at the end of a quarter less the amount of any reserves established by our general partner. All distributions paid to date have been made from accumulated operating surplus. The following provides a summary of distributions paid by us during the six months ended June 30, 2016 and 2015:

Date Paid	Period Covered by Distribution	Total Distribution (in thousands)					
		Distribution Per Common Unit	Distribution Per Subordinated Unit	Common Units	Class B Units	Subordinated Units	General Partner Units
May 13, 2016	January 1 - March 31, 2016	\$ 0.425	\$ —	—\$24,261	\$ —	—	—\$ 495
February 12, 2016	October 1 - December 31, 2015	0.425	—	24,261	—	—	495
May 15, 2015	January 1 - March 31, 2015	\$ 0.425	\$ —	—\$24,259	\$ —	—	—\$ 495
February 13, 2015	October 1 - December 31, 2014	0.425	—	24,259	—	—	495

On July 22, 2016, we declared a \$0.425 distribution per common unit and the related distribution to our general partner will be paid on August 12, 2016 to owners of record as of August 1, 2016 for the period from April 1, 2016 to June 30, 2016.

The subordinated units will receive distributions only to the extent we have available cash above the initial quarterly distributions requirement for our common unitholders and general partner along with certain reserves. Such available cash could be generated through new business development or fees received from Cheniere Marketing under an amended and restated variable capacity rights agreement pursuant to which Cheniere Marketing is obligated to pay Cheniere Investments 80% of the expected gross margin of each cargo of LNG that Cheniere Marketing arranges for delivery to the Sabine Pass LNG terminal. The ending of the subordination period and conversion of the subordinated units into common units will depend upon future business development.

In 2012 and 2013, we issued a new class of equity interests representing limited partner interests in us (“Class B units”), in connection with the development of the Liquefaction Project. The Class B units are not entitled to cash distributions, except in the event of our liquidation or a merger, consolidation or other combination of us with another person or the sale of all or substantially all of our assets. The Class B units are subject to conversion, mandatorily or at the option of the holders of the Class B units under specified circumstances, into a number of common units based on the then-applicable conversion value of the Class B units. On a quarterly basis beginning on the initial purchase date of the Class B units, the conversion value of the Class B units increases at a compounded rate of 3.5% per quarter,

subject to an additional upward adjustment for certain equity and debt financings. The accreted conversion ratio of the Class B units owned by Cheniere and Blackstone CQP Holdco was 1.74 and 1.71, respectively, as of June 30, 2016. We expect the Class B units to mandatorily convert into common units within 90 days of the substantial completion date of Train 3 of the Liquefaction Project, which we currently expect to occur before June 30, 2017. If the Class B units are not mandatorily converted by July 2019, the holders of the Class B units have the option to convert the Class B units into common units at that time. The holders of Class B units have a preference over the holders of the subordinated units in the event

of our liquidation or a merger, consolidation or other combination of us with another person or the sale of all or substantially all of our assets.

Results of Operations

Our consolidated net loss was \$100.1 million, or \$0.21 per share (basic and diluted), in the three months ended June 30, 2016, compared to a net loss of \$60.0 million, or \$0.01 per share (basic and diluted), in the three months ended June 30, 2015. This \$40.1 million increase in net loss in 2016 was primarily a result of increased operating costs and expenses, interest expense, net of amounts capitalized, loss on early extinguishment of debt and derivative loss, net, which were partially offset by increased LNG revenues.

Our consolidated net loss was \$175.0 million, or \$0.29 per share (basic and diluted), in the six months ended June 30, 2016, compared to a net loss of \$238.7 million, or \$0.62 per share (basic and diluted), in the six months ended June 30, 2015. This \$63.7 million decrease in net loss in 2016 was primarily a result of increased LNG revenues and decreased loss on early extinguishment of debt, which was partially offset by increased operating costs and expenses and interest expense, net of amounts capitalized.

Revenues

(Dollars in thousands)	Three Months Ended June 30,			Six Months Ended June 30,		
	2016	2015	Change	2016	2015	Change
Regasification revenues	\$65,122	\$66,490	\$(1,368)	\$130,506	\$133,208	\$(2,702)
Regasification revenues—affiliate	7	1,199	(482)	2,352	2,011	341
LNG revenues	85,332	—	85,332	85,360	—	85,360
Total revenues	\$151,171	\$67,689	\$83,482	\$218,218	\$135,219	\$82,999

During the three and six months ended June 30, 2016, we began recognizing LNG revenues from the Liquefaction Project following the substantial completion of Train 1 in May 2016. Prior to this date, amounts received from the sale of commissioning cargoes were offset against LNG terminal construction-in-process because these amounts were earned during the testing phase for the construction of Train 1 of the Liquefaction Project. We loaded a total of 38.9 million MMBtu and 53.4 million MMBtu of LNG during the three and six months ended June 30, 2016, respectively, of which 18.2 million MMBtu was loaded after substantial completion of Train 1 of the Liquefaction Project in May 2016, resulting in the recognition of revenues related to this volume.

Operating costs and expenses

(Dollars in thousands)	Three Months Ended June 30,			Six Months Ended June 30,		
	2016	2015	Change	2016	2015	Change
Cost of sales	\$49,294	\$91	\$49,203	\$53,198	\$784	\$52,414
Operating and maintenance expense	24,717	9,298	15,419	42,102	39,838	2,264
Operating and maintenance expense—affiliate	1,156	7,501	3,655	21,986	12,274	9,712
Development expense	70	1,367	(1,297)	136	2,518	(2,382)
Development expense—affiliate	153	206	(53)	282	410	(128)
General and administrative expense	3,792	4,081	(289)	6,402	7,596	(1,194)
General and administrative expense—affiliate	2,211	33,472	(12,261)	43,409	55,069	(11,660)
Depreciation and amortization expense	28,184	15,991	12,193	47,572	30,870	16,702
Total operating costs and expenses	\$138,577	\$72,007	\$66,570	\$215,087	\$149,359	\$65,728

Our total operating costs and expenses increased \$66.6 million and \$65.7 million during the three and six months ended June 30, 2016 compared to the three and six months ended June 30, 2015, respectively, generally as a result of

the commencement of operations of Train 1 of the Liquefaction Project in May 2016. Cost of sales includes costs incurred directly for the production and delivery of LNG from the Liquefaction Project such as natural gas feedstock, variable transportation and storage costs, derivative gains and losses associated with economic hedges to secure natural gas feedstock for the Liquefaction Project, and other related costs to convert natural gas into LNG, all to the extent not utilized for the commissioning process. Operating and maintenance expense includes costs associated with operating and maintaining the Liquefaction Project such as third-party service and maintenance contract costs, payroll and benefit costs of operations personnel, natural gas transportation and storage capacity demand charges, derivative gains and losses related to the sale and purchase of LNG associated with the regasification terminal, insurance and regulatory costs. Depreciation and amortization expense increased during the three and six months ended June 30,

2016 as we began depreciation of our assets related to Train 1 of the Liquefaction Project upon reaching substantial completion.

Offsetting the increases described above was a decrease in general and administrative expense—affiliate, which was partially due to a decrease in the amount payable under our service agreements with affiliates and partially due to a reallocation of resources from general and administrative activities to operating and maintenance activities following commencement of operations at the Liquefaction Project.

Other expense (income)

(Dollars in thousands)	Three Months Ended June 30,			Six Months Ended June 30,		
	2016	2015	Change	2016	2015	Change
Interest expense, net of capitalized interest	\$71,999	\$50,148	\$21,851	\$115,451	\$92,993	\$22,458
Loss on early extinguishment of debt	26,304	7,281	19,023	27,761	96,273	(68,512)
Derivative loss (gain), net	14,792	(1,469)	16,261	35,600	35,669	(69)
Other income	(376)	(235)	(141)	(650)	(356)	(294)
Total other expense	\$112,719	\$55,725	\$56,994	\$178,162	\$224,579	\$(46,417)

Interest expense, net of capitalized interest, increased \$21.9 million and \$22.5 million during the three and six months ended June 30, 2016 compared to the three and six months ended June 30, 2015, respectively, due to an increase in our indebtedness outstanding, from \$11.7 billion as of June 30, 2015 to \$13.2 billion as of June 30, 2016, and the decrease in the portion of total interest costs that could be capitalized as Train 1 of the Liquefaction Project is no longer in construction. For the three and six months ended June 30, 2016, we incurred \$204.7 million and \$397.3 million of total interest cost, respectively, of which we capitalized \$132.7 million and \$281.9 million, respectively. For the three and six months ended June 30, 2015, we incurred \$174.8 million and \$334.9 million of total interest cost, respectively, of which we capitalized \$124.7 million and \$241.9 million, respectively.

Loss on early extinguishment of debt increased by \$19.0 million in the three months ended June 30, 2016, as compared to the three months ended June 30, 2015, due to the \$26.0 million write-off of debt issuance costs related to the prepayment of approximately \$1.3 billion of outstanding borrowings under the 2015 SPL Credit Facilities in June 2016 in connection with the issuance of the 2026 SPL Senior Notes, whereas the termination and replacement of the 2013 SPL Credit Facilities with the 2015 SPL Credit Facilities in June 2015 resulted in a write-off of debt issuance costs and deferred commitment fees of \$7.3 million. Loss on early extinguishment of debt was \$68.5 million higher in the six months ended June 30, 2015, as compared to the six months ended June 30, 2016, due to \$89.0 million write-off of debt issuance costs and deferred commitment fees related to the termination of approximately \$1.8 billion of commitments under the 2013 SPL Credit Facilities in the first three months of 2015, compared to a \$1.5 million write-off of debt issuance costs and unamortized discount in connection with the prepayment of the CTPL Term Loan in the first three months of 2016.

Derivative loss, net increased by \$16.3 million in the three months ended June 30, 2016, as compared to the three months ended June 30, 2015, due to a decrease in the forward LIBOR curve during the period as well as an increase in the notional amount of interest rate swaps related to the 2016 CQP Credit Facilities entered in February 2016. There was no significant change to derivative loss, net in the six months ended June 30, 2016 as compared to the six months ended June 30, 2015, primarily due to the \$34.7 million loss recognized in March 2015 upon the termination of interest rate swaps associated with the 2013 SPL Credit Facilities.

Off-Balance Sheet Arrangements

As of June 30, 2016, we had no transactions that met the definition of off-balance sheet arrangements that may 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, 2015.

Recent Accounting Standards

For descriptions of recently issued accounting standards, see Note 14—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 purchase agreements to secure natural gas feedstock for the Liquefaction Project (“Liquefaction Supply Derivatives”). In order to test the sensitivity of the fair value of the Liquefaction Supply Derivatives to changes in underlying commodity prices, management modeled a 10% change in the basis price for natural gas for each delivery location. As of June 30, 2016, we estimated the fair value of the Liquefaction Supply Derivatives to be \$20.0 million. Based on actual derivative contractual volumes, a 10% increase or decrease in the underlying basis prices would have resulted in a change in the fair value of the Liquefaction Supply Derivatives of \$1.5 million as of June 30, 2016, compared to \$0.9 million as of December 31, 2015. See Note 7—Derivative Instruments for additional details about our derivative instruments.

Interest Rate Risk

SPL has entered into interest rate swaps to hedge the exposure to volatility in a portion of the floating-rate interest payments under the 2015 SPL Credit Facilities (“SPL Interest Rate Derivatives”). In order to test the sensitivity of the fair value of the SPL Interest Rate Derivatives to changes in interest rates, management modeled a 10% change in the forward 1-month LIBOR curve across the remaining term of the SPL Interest Rate Derivatives. As of June 30, 2016, we estimated the fair value of the SPL Interest Rate Derivatives to be a liability of \$20.7 million. This 10% change in interest rates would have resulted in a change in the fair value of the SPL Interest Rate Derivatives of \$1.4 million as of June 30, 2016, compared to \$3.1 million as of December 31, 2015. The decrease in the effect of change in interest rates was due to a decrease in the forward 1-month LIBOR curve during the six months ended June 30, 2016.

We have entered into interest rate swaps to hedge the exposure to volatility in a portion of the floating-rate interest payments under the 2016 CQP Credit Facilities (“CQP Interest Rate Derivatives”). In order to test the sensitivity of the fair value of the CQP Interest Rate Derivatives to changes in interest rates, management modeled a 10% change in the forward 1-month LIBOR curve across the remaining term of the CQP Interest Rate Derivatives. As of June 30, 2016, we estimated the fair value of the CQP Interest Rate Derivatives to be a liability of \$19.1 million. This 10% change in interest rates would have resulted in a change in the fair value of the CQP Interest Rate Derivatives of \$3.3 million as of June 30, 2016.

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 Securities Exchange Act of 1934, as amended (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 general partner’s management, including our general partner’s Chief Executive Officer and 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 general partner's Chief Executive Officer and 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.

Please see Part II, Item 1, “Legal Proceedings - LDEQ Matter” in the Partnership’s Quarterly Report on Form 10-Q for the period ended March 31, 2016.

ITEM 1A. RISK FACTORS

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, 2015.

ITEM 5. OTHER INFORMATION

Compliance Disclosure

Pursuant to Section 13(r) of the Exchange Act, if during the quarter ended June 30, 2016, we or any of our affiliates had engaged in certain transactions with Iran or with persons or entities designated under certain executive orders, we would be required to disclose information regarding such transactions in our quarterly report on Form 10-Q as required under Section 219 of the Iran Threat Reduction and Syria Human Rights Act of 2012 (“ITRA”). During the quarter ended June 30, 2016, we did not engage in any transactions with Iran or with persons or entities related to Iran.

Blackstone CQP Holdco, an affiliate of Blackstone Group, is a holder of more than 29% of our outstanding equity interests and has three representatives on the board of directors of Cheniere Partners GP. Accordingly, Blackstone Group may be deemed our “affiliate,” as that term is defined in Exchange Act Rule 12b-2. Blackstone Group included in its quarterly report on Form 10-Q for the quarterly period ended June 30, 2016 disclosures pursuant to ITRA regarding one of its portfolio companies that may be deemed to be affiliates of Blackstone Group. Because of the broad definition of “affiliate” in Exchange Act Rule 12b-2, this portfolio company of Blackstone Group, through Blackstone Group’s ownership of Cheniere Partners, may also be deemed to be an affiliate of ours. We have not independently verified the disclosure described in the following paragraph.

Blackstone Group disclosed that NCR Corporation (“NCR”) has engaged in the following activities: NCR has reported that during the period from April 1, 2016 through April 30, 2016, NCR continued to maintain a bank account and guarantees at the Commercial Bank of Syria (“CBS”), which was designated as a Specially Designated National pursuant to Executive Order 13382 (“EO 13382”) on August 10, 2011. This bank account and the guarantees at CBS were maintained in the normal course of business prior to the listing of CBS pursuant to EO 13382. NCR reported that the last known account balance as of April 30, 2016, was approximately \$3,468. The bank account did not generate interest from April 1, 2016 through April 30, 2016, and the guarantees did not generate any revenue or profits for NCR. Pursuant to a license granted to NCR by the Office of Foreign Assets Control (the “OFAC”) on January 3, 2013, and subsequent licenses granted on April 29, 2013, July 12, 2013, February 28, 2014, November 12, 2014, and October 24, 2015, NCR had been winding down its past operations in Syria. NCR’s last such license expired on April 30, 2016. In addition, NCR’s application to renew the license to transact business with CBS, which was submitted to OFAC on May 18, 2015, was not acted upon prior to the expiration of NCR’s last such license. As a result, and in connection with the license expiration, the Company abandoned its remaining property in Syria, which, including the CBS account, was commercially insignificant, and ended the employment of its final two employees in Syria, who had remained employed by the Company to assist with the execution of the Company’s wind-down

activities pursuant to authority granted by the OFAC licenses. NCR does not intend to engage in any further business activities with CBS.

ITEM 6. EXHIBITS

Exhibit No.	Description
4.1	Seventh Supplemental Indenture, dated as of June 14, 2016, between Sabine Pass Liquefaction, LLC and The Bank of New York Mellon, as Trustee under the Indenture (Incorporated by reference to Exhibit 4.1 to the Partnership's Current Report on Form 8-K (SEC File No. 001-33366), filed on June 14, 2016)
10.1	Registration Rights Agreement, dated as of June 14, 2016, between Sabine Pass Liquefaction, LLC and Credit Suisse Securities (USA) LLC (Incorporated by reference to Exhibit 10.1 to the Partnership's Current Report on Form 8-K (SEC File No. 001-33366), filed on June 14, 2016)
10.2	Change orders to the Lump Sum Turnkey Agreement for the Engineering, Procurement and Construction of the Sabine Pass LNG Liquefaction Facility, dated as of November 11, 2011, between Sabine Pass Liquefaction, LLC and Bechtel Oil, Gas and Chemicals, Inc.: (i) the Change Order CO-00045 April Site Closure for Cheniere Celebration, dated April 4, 2016, (ii) the Change Order CO-00046 Defer Completion of Ship Loading Time Commissioning Test, dated May 17, 2016, and (iii) the Change Order CO-00047 Re-Orientation of PSV Bypass Valves, dated May 25, 2016 (Incorporated by reference to Exhibit 10.2 to SPL's Quarterly Report on Form 10-Q (SEC File No. 333-192373), filed on August 8, 2016)
10.3	Change orders to the Lump Sum Turnkey Agreement for the Engineering, Procurement and Construction of the Sabine Pass LNG Stage 2 Liquefaction Facility, dated as of December 20, 2012, between Sabine Pass Liquefaction, LLC and Bechtel Oil, Gas and Chemicals, Inc.: (i) the Change Order CO-00021 Smokeless Flare Modification Study, dated March 29, 2016, (ii) the Change Order CO-00022 Cable Tray Support and Arc Flash Study, dated May 4, 2016, and (iii) the Change Order CO-00023 Re-Orientation of PSV Bypass Valves, dated May 17, 2016 (Incorporated by reference to Exhibit 10.3 to SPL's Quarterly Report on Form 10-Q (SEC File No. 333-192373), filed on August 8, 2016)
10.4	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 Sabine Pass Liquefaction, LLC and Bechtel Oil, Gas and Chemicals, Inc.: (i) the Change Order CO-00005 Performance and Attendance Bonus (PAB) Incentive Program Provisional Sum, dated March 16, 2016, (ii) the Change Order CO-00006 Additional Bechtel Hours to Support RECON, Temporary Access Rd., Addition of Flash Liquid Expander, Removal of Vibration Monitor System, To-Date Reconciliation of Soils Preparation Provisional Sum, dated March 22, 2016, (iii) the Change Order CO-00007 Additional Support for FERC Document Requests, dated May 10, 2016, (iv) the Change Order CO-00008 Water System Scope Changes and Seal Design & Seal Gas Modification, dated May 4, 2016, (v) the Change Order CO-00009 Re-Orientation of PSV Bypass Valves, dated May 17, 2016, and (vi) the Change Order CO-00010 Deletion of Chlorine Analyzer, dated June 15, 2016 (Portions of this exhibit have been omitted and filed separately with the SEC pursuant to a request for confidential treatment.) (Incorporated by reference to Exhibit 10.4 to SPL's Quarterly Report on Form 10-Q (SEC File No. 333-192373), filed on August 8, 2016)
31.1*	Certification by Chief Executive Officer required by Rule 13a-14(a) and 15d-14(a) under the Exchange Act
31.2*	Certification by Chief Financial Officer required by Rule 13a-14(a) and 15d-14(a) under the Exchange Act
32.1**	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
32.2**	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
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.

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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 PARTNERS, L.P.

By: Cheniere Energy Partners GP, LLC,
its general partner

Date: August 8, 2016 By: /s/ Michael J. Wortley

Michael J. Wortley

Senior Vice President and Chief Financial Officer

(on behalf of the registrant and

as principal financial officer)

Date: August 8, 2016 By: /s/ Leonard Travis

Leonard Travis

Chief Accounting Officer

(on behalf of the registrant and

as principal accounting officer)