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Cheniere Energy Partners, L.P.  
Form 10-Q  
August 03, 2012

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, 2012

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File No. 001-33366

Cheniere Energy Partners, L.P.

(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of incorporation or  
organization)

20-5913059  
(I.R.S. Employer Identification No.)

700 Milam Street, Suite 800  
Houston, Texas  
(Address of principal executive offices)  
(713) 375-5000

77002  
(Zip Code)

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T 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  T  
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  T

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As of August 2, 2012, the issuer had 31,488,488 common units, 133,333,333 Class B units and 135,383,831 subordinated units outstanding.

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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, 2012 (unaudited)	December 31, 2011
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 170,951	\$ 81,415
Restricted cash and cash equivalents	13,732	13,732
Accounts and interest receivable	26	525
Accounts receivable—affiliate	927	328
Advances to affiliate	2,200	692
LNG inventory	621	473
LNG inventory—affiliate	1,187	4,369
Prepaid expenses and other	9,275	7,976
Total current assets	198,919	109,510
Non-current restricted cash and cash equivalents		
Property, plant and equipment, net	82,394	82,394
Debt issuance costs, net	1,540,874	1,514,416
Other	15,437	17,622
Total assets	35,376	13,358
	\$ 1,873,000	\$ 1,737,300
<b>LIABILITIES AND PARTNERS' DEFICIT</b>		
Current liabilities		
Accounts payable	\$ 9,883	\$ 704
Accounts payable—affiliate	—	530
Accrued liabilities	37,565	16,751
Accrued liabilities—affiliate	7,963	3,794
Deferred revenue	25,148	26,629
Deferred revenue—affiliate	688	688
Other	664	2,722
Total current liabilities	81,911	51,818
Long-term debt, net of discount		
Deferred revenue	2,194,765	2,192,418
Deferred revenue—affiliate	23,500	25,500
Other non-current liabilities	14,720	12,266
	310	317
Commitments and contingencies		
Partners' capital (deficit)		
Common unitholders (31,388,124 units and 31,003,154 units issued and outstanding at June 30, 2012 and December 31, 2011, respectively)	(48,094	) (52,774 )
	(263	) —

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Class B unitholders (11,111,111 units and zero units issued and outstanding as of June 30, 2012 and December 31, 2011, respectively)		
Subordinated unitholders (135,383,831 units issued and outstanding at June 30, 2012 and December 31, 2011)	(382,959	) (479,197 )
General partner interest (2% interest with 3,630,267 units and 3,395,653 units issued and outstanding at June 30, 2012 and December 31, 2011, respectively)	(10,890	) (13,048 )
Total partners' deficit	(442,206	) (545,019 )
Total liabilities and partners' deficit	\$1,873,000	\$1,737,300

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,	
	2012	2011	2012	2011
Revenues				
Revenues	\$60,767	\$67,177	\$127,725	\$136,845
Revenues—affiliate	629	6,432	2,993	11,213
Total revenues	61,396	73,609	130,718	148,058
Expenses				
Operating and maintenance expense	7,144	3,904	13,256	9,590
Operating and maintenance expense—affiliate	2,941	3,519	5,939	6,111
Depreciation expense	10,616	10,743	21,245	21,480
Development expense	14,472	11,163	31,141	17,780
Development expense—affiliate	1,031	958	2,262	1,823
General and administrative expense	1,740	1,430	3,420	3,201
General and administrative expense—affiliate	5,177	4,960	10,289	10,015
Total expenses	43,121	36,677	87,552	70,000
Income from operations	18,275	36,932	43,166	78,058
Other income (expense)				
Interest expense, net	(43,458 )	(43,399 )	(86,916 )	(86,796 )
Derivative gain (loss)	261	(448 )	(575 )	(448 )
Other	61	47	132	108
Total other expense	(43,136 )	(43,800 )	(87,359 )	(87,136 )
Net loss	\$(24,861 )	\$(6,868 )	\$(44,193 )	\$(9,078 )
Basic and diluted net income per common unit	\$0.17	\$0.32	\$0.40	\$0.66
Weighted average number of common units outstanding used for basic and diluted net income per common unit calculation	31,328	26,754	31,173	26,592

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

CHENIERE ENERGY PARTNERS, L.P. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF PARTNERS' AND OWNERS' CAPITAL (DEFICIT)  
(in thousands)  
(unaudited)

	Common Unitholders	Class B Unitholders	Subordinated Unitholders	General Partner Interest	Total Partners' Capital (Deficit)
Balance at December 31, 2011	\$(52,774 )	\$—	\$(479,197 )	\$(13,048 )	\$(545,019 )
Net loss	(8,091 )	—	(35,215 )	(887 )	(44,193 )
Sale of common and general partner units	8,793	—	—	3,586	12,379
Distributions	(26,499 )	—	—	(541 )	(27,040 )
Sale of Class B units	—	161,667	—	—	161,667
Beneficial conversion feature of Class B units	31,369	(166,667 )	135,298	—	—
Amortization of beneficial conversion feature of Class B units	(892 )	4,737	(3,845 )	—	—
Balance at June 30, 2012	\$(48,094 )	\$(263 )	\$(382,959 )	\$(10,890 )	\$(442,206 )



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

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CHENIERE ENERGY PARTNERS, L.P. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(in thousands)  
(unaudited)

	Six Months Ended June 30,	
	2012	2011
Cash flows from operating activities		
Net loss	\$(44,193 )	\$(9,078 )
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation	21,245	21,480
Non-cash derivative loss	821	331
Amortization of debt issuance costs	2,185	2,173
Amortization of debt discount	2,347	2,347
Changes in operating assets and liabilities:		
Accounts and interest receivable	499	1,170
Accounts receivable—affiliate	(599 )	553
Accounts payable and accrued liabilities	7,135	4,671
Accounts payable and accrued liabilities—affiliate	3,636	(811 )
Advances to affiliate	(1,508 )	3,288
Deferred revenue	(3,481 )	(2,229 )
LNG inventory—affiliate	3,399	—
Other	(4,518 )	(2,540 )
Net cash provided by (used in) operating activities	(13,032 )	21,355
Cash flows from investing activities		
LNG terminal construction-in-process, net	(39,194 )	(5,390 )
Advances under long-term contracts and other	(4,714 )	(115 )
Net cash used in investing activities	(43,908 )	(5,505 )
Cash flows from financing activities		
Proceeds from sale of Class B units	166,667	—
Distributions to unitholders	(27,040 )	(23,025 )
Proceeds from sale of partnership units	12,379	9,153
Deferred financing costs	(5,530 )	—
Net cash provided by (used in) financing activities	146,476	(13,872 )
Net decrease in cash and cash equivalents	89,536	1,978
Cash and cash equivalents—beginning of period	81,415	53,349
Cash and cash equivalents—end of period	\$170,951	\$55,327

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



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 Energy Partners, L.P. have been prepared in accordance with generally accepted accounting principles in the United States ("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. As used in these Notes to Consolidated Financial Statements, the terms "Cheniere Partners", "we", "us" and "our" refer to Cheniere Energy Partners, L.P. and its wholly owned subsidiaries, unless otherwise stated or indicated by context.

Results of operations for the three and six months ended June 30, 2012 are not necessarily indicative of the results of operations that will be realized for the year ending December 31, 2012.

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

Certain reclassifications have been made to prior period information to conform to the current presentation. The reclassifications had no effect on our overall consolidated financial position, results of operations or cash flows.

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, 2011.

NOTE 2—Restricted Cash and Cash Equivalents

Restricted cash and cash equivalents consist of cash and cash equivalents that are contractually restricted as to usage or withdrawal, as follows:

Sabine Pass LNG, L.P. ("Sabine Pass LNG") has consummated private offerings of an aggregate principal amount of \$2,215.5 million of Senior Notes (see Note 5—"Long-Term Debt"). Under the indenture governing the Senior Notes (the "Sabine Pass Indenture"), except for permitted tax distributions, Sabine Pass LNG may not make distributions until certain conditions are satisfied, including that 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 there must be on deposit in a permanent debt service reserve fund an amount equal to one semi-annual interest payment of \$82.4 million. 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 Sabine Pass Indenture.

As of June 30, 2012 and December 31, 2011, we classified the permanent debt service reserve fund of \$82.4 million as non-current restricted cash and cash equivalents. As of June 30, 2012 and December 31, 2011, we classified \$13.7 million as current restricted cash and cash equivalents for the payment of interest due within twelve months. These cash accounts are controlled by a collateral trustee, and, therefore, are shown as restricted cash and cash equivalents on our Consolidated Balance Sheets.



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

## NOTE 3—Property, Plant and Equipment

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

	June 30, 2012	December 31, 2011
LNG terminal costs		
LNG terminal	\$1,639,922	\$1,637,724
LNG terminal construction-in-process	45,618	286
LNG site and related costs, net	159	163
Accumulated depreciation	(145,436	) (124,409
Total LNG terminal costs, net	1,540,263	1,513,764
Fixed assets		
Computers and office equipment	278	227
Vehicles	496	416
Machinery and equipment	1,416	1,068
Other	613	916
Accumulated depreciation	(2,192	) (1,975
Total fixed assets, net	611	652
Property, plant and equipment, net	\$1,540,874	\$1,514,416

Depreciation expense related to the Sabine Pass LNG terminal totaled \$10.5 million and \$10.6 million for the three months ended June 30, 2012 and 2011, respectively. Depreciation expense related to the Sabine Pass LNG terminal totaled \$21.0 million and \$21.3 million for the six months ended June 30, 2012 and 2011, respectively.

In June 2012, our liquefaction project satisfied the criteria for capitalization. Accordingly, costs associated with the construction of the liquefaction facilities have been recorded as construction-in-process since that date.

## NOTE 4—Accrued Liabilities

As of June 30, 2012 and December 31, 2011, accrued liabilities consisted of the following (in thousands):

	June 30, 2012	December 31, 2011
Interest expense and related debt fees	\$13,732	\$13,732
Financing costs	13,675	351
Affiliate	7,963	3,794
Provision for loss on LNG inventory	5,682	—
LNG terminal costs	3,249	1,122
LNG liquefaction costs	774	1,359
Other	453	187
Total accrued liabilities	\$45,528	\$20,545

## NOTE 5—Long-Term Debt

As of June 30, 2012 and December 31, 2011, our long-term debt consisted of the following (in thousands):

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	June 30, 2012	December 31, 2011
Senior Notes, net of discount	\$2,194,765	\$2,192,418

In November 2006, Sabine Pass LNG issued an aggregate principal amount of \$2,032.0 million of Senior Notes (the "Senior Notes"), consisting of \$550.0 million of 7¼% Senior Secured Notes due 2013 (the "2013 Notes") and \$1,482.0 million of 7½% Senior Secured Notes due 2016 (the "2016 Notes"). In September 2008, Sabine Pass LNG issued an additional \$183.5 million, before discount, of 2016 Notes whose terms were identical to the previously outstanding 2016 Notes. Interest on the Senior Notes

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

is payable semi-annually in arrears on May 30 and November 30 of each year. The Senior Notes are secured on a first-priority basis by a security interest in all of Sabine Pass LNG's equity interests and substantially all of its operating assets.

Sabine Pass LNG may redeem some or all of the Senior Notes at any time, and from time to time, at a redemption price equal to 100% of the principal plus any accrued and unpaid interest plus the greater of:

- 1% of the principal amount of the Senior Notes; or
- the excess of: a) the present value at such redemption date of (i) the redemption price of the Senior Notes plus (ii) all required interest payments due on the 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 b) the principal amount of the Senior Notes, if greater.

Under the Sabine Pass Indenture, except for permitted tax distributions, Sabine Pass LNG may not make distributions until certain conditions are satisfied: 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 there must be on deposit in a permanent debt service reserve fund an amount equal to one semi-annual interest payment of approximately \$82.4 million. 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 Sabine Pass Indenture. During the six months ended June 30, 2012 and 2011, Sabine Pass LNG made distributions to us of \$146.7 million and \$155.6 million, respectively, after satisfying all the applicable conditions in the Sabine Pass Indenture.

See Note 10—"Subsequent Events" for a description of our debt financing to fund the costs of developing, constructing and placing into service the first two LNG trains of the liquefaction facilities adjacent to the Sabine Pass LNG terminal.

NOTE 6—Description of Equity Interests

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. On May 31, 2007, Cheniere LNG Holdings, LLC contributed all of its 135,383,831 subordinated units to Cheniere Subsidiary Holdings, LLC ("Cheniere Subsidiary Holdings").

The common units have the right to receive minimum quarterly distributions of \$0.425, plus any arrearages thereon, before any distribution is made to the holders of the subordinated units. 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.

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 minimum distributions have been achieved and as additional target levels are met. The higher percentages range from 15% up to 50%.

In January 2011, we initiated an at-the-market program to sell up to 1.0 million common units the proceeds from which are used primarily to fund development costs associated with our liquefaction project. During the year ended



December 31, 2011, we sold 0.5 million common units with net proceeds of \$9.0 million. During the six months ended June 30, 2012, we sold 0.4 million common units with net proceeds of \$8.8 million. We paid \$0.3 million in commissions to Miller Tabak + Co., Inc., as sales agent, in connection with the at-the-market program during the six months ended June 30, 2012.

In September 2011, we sold 3.0 million common units in an underwritten public offering and 1.1 million common units to Cheniere Common Units Holding, LLC ("Cheniere Common Units Holding") at a price of \$15.25 per common unit. We received net proceeds of approximately \$60 million that we are using for general business purposes, including development costs associated with our liquefaction project.

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

During the year ended December 31, 2011, we also received \$1.5 million in net proceeds from our general partner in connection with the exercise of its right to maintain its 2% ownership interest in us. We received \$3.6 million in net proceeds from our general partner in connection with the exercise of its right to maintain its 2% ownership interest in us during the six months ended June 30, 2012.

In May 2012, we entered into a Unit Purchase Agreement ("Agreement") with Blackstone CQP Holdco LP ("Blackstone"). Under the Agreement, Blackstone agreed to purchase \$1.5 billion of newly issued Cheniere Partners Class B units ("Class B Units") from us in a private placement. Cheniere also agreed to purchase \$500 million of newly issued Class B Units pursuant to a separate unit purchase agreement. Subsequent to an initial funding of \$500 million by Blackstone, we can require, based on liquidity needs, that Blackstone make additional capital contributions until Blackstone has funded \$1.5 billion in the aggregate. Proceeds from the financings will be used to fund the equity portion of the costs of developing, constructing and placing into service the liquefaction facilities being developed adjacent to the Sabine Pass LNG terminal.

The Class B Units are subject to conversion, mandatorily or at the option of the holders of the Class B Units, 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 funding and ending on the conversion date of the Class B Units, the conversion value of the Class B Units will increase at a compounded rate of 3.5% per quarter, subject to an additional upward adjustment for certain equity and debt financings. The Class B Units will not be entitled to cash distributions except in the event of a liquidation. The holders of Class B Units will have a preference over the holders of the common and subordinated units in the event of a liquidation. The Class B Units will mandatorily convert into common units upon the earlier of the substantial completion date of LNG train 3 or the fifth anniversary of the latest initial funding by the holders of the Class B Units, provided that if the LNG train 3 notice to proceed with construction is issued prior to the fifth anniversary of such initial funding, then the mandatory conversion date becomes the date of substantial completion of LNG train 3. See Note 10—"Subsequent Events" for a description of our equity financing to fund the costs of developing, constructing and placing into service the first two LNG trains of the liquefaction facilities adjacent to the Sabine Pass LNG terminal.

We issued and sold 11.1 million Class B Units at a price of \$15.00 per Class B Unit in June 2012, resulting in total gross proceeds of \$166.7 million.

NOTE 7—Financial Instruments

Derivative Instruments

We have entered into certain derivative instruments to hedge the exposure to variability in expected future cash flows attributable to the future sale of our LNG inventory ("LNG Inventory Derivatives"), and to hedge the price risk attributable to future purchases of natural gas to be utilized as fuel to operate the Sabine Pass LNG terminal ("Fuel Derivatives"). Changes in the fair value of our derivatives instruments are reported in earnings because we have not elected to designate these derivative instruments as a hedging instrument that is required to qualify for cash flow hedge accounting. The estimated fair value of financial instruments is the amount at which the instrument could be exchanged currently between willing parties.

The fair values of our derivative instruments are based on inputs that are quoted prices in active markets for similar assets or liabilities, resulting in Level 2 categorization of such measurements. The following table (in thousands) sets forth, by level within the fair value hierarchy, the fair value of our derivative instruments assets and liabilities at

June 30, 2012:

	Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Carrying Value
LNG Inventory Derivatives asset (1)	\$—	38	\$—	\$38
Fuel Derivatives liability (2)	—	664	—	664

LNG Inventory Derivatives asset is classified as other current assets on our Consolidated Balance Sheets. Changes in the fair value of LNG Inventory Derivatives are classified as revenues on our Consolidated Statements of (1) Operations. We recorded revenues of \$(0.2) million and zero related to LNG Inventory Derivatives in the three months ended June 30, 2012 and 2011, respectively. We recorded revenues of \$0.9 million and zero related to LNG Inventory Derivatives in the six months ended June 30, 2012 and 2011, respectively.

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

Fuel Derivatives liability is classified as other current liabilities on our Consolidated Balance Sheets. Changes in the fair value of Fuel Derivatives are classified as derivative gain (loss) on our Consolidated Statements of (2)Operations. We recorded derivative gain of \$0.3 million and derivative loss of \$0.4 million related to Fuel Derivatives in the three months ended June 30, 2012 and 2011, respectively. We recorded derivative loss of \$0.6 million and \$0.4 million related to Fuel Derivatives in the six months ended June 30, 2012 and 2011, respectively.

#### Other Financial Instruments

The estimated fair value of financial instruments, including those financial instruments for which the fair value option was not elected are set forth in the table below. The carrying amounts reported on our Consolidated Balance Sheets for cash and cash equivalents, restricted cash and cash equivalents, accounts receivable, interest receivable and accounts payable approximate fair value due to their short-term nature.

Financial Instruments (in thousands):

	June 30, 2012		December 31, 2011	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
2013 Notes (1)	\$550,000	\$569,250	\$550,000	\$555,500
2016 Notes, net of discount (1)	1,644,765	1,722,892	1,642,418	1,650,630

The Level 2 estimated fair value of the Senior Notes, net of discount, was based on quotations obtained from (1)broker-dealers who make markets in these and similar instruments based on the closing trading prices on June 30, 2012 and December 31, 2011, as applicable.

#### NOTE 8—Related Party Transactions

As of June 30, 2012 and December 31, 2011, we had \$2.2 million and \$0.7 million of advances to affiliates, respectively. In addition, we have entered into the following related party transactions:

##### LNG Terminal Capacity Agreements

###### Terminal Use Agreement

In November 2006, Cheniere Marketing reserved approximately 2.0 Bcf/d of regasification capacity under a firm commitment terminal use agreement ("TUA") with Sabine Pass LNG and was required to make capacity reservation fee payments aggregating approximately \$250 million per year for the period from January 1, 2009, through at least September 30, 2028. Cheniere guaranteed Cheniere Marketing's obligations under its TUA.

Effective July 1, 2010, Cheniere Marketing assigned its existing TUA with Sabine Pass LNG to Cheniere Energy Investments, LLC ("Cheniere Investments"), our wholly owned subsidiary, including all of its rights, titles, interests, obligations and liabilities in and under the TUA. In connection with the assignment, Cheniere's guarantee of Cheniere Marketing's obligations under the TUA was terminated. Cheniere Investments was required to make capacity payments under the TUA aggregating approximately \$250 million per year through at least September 30, 2028; however, the revenue earned from Cheniere Investments' capacity payments is eliminated upon consolidation of our financial statements. We guaranteed Cheniere Investments' obligations under its TUA.

###### Variable Capacity Rights Agreement

Concurrently with the TUA assignment, Cheniere Investments entered into a Variable Capacity Rights Agreement ("VCRA") with Cheniere Marketing in order for Cheniere Investments to monetize its capacity at the Sabine Pass LNG terminal. The VCRA will continue until the earliest of (a) the termination of Cheniere Investments' TUA, (b) expiration of the initial term of Cheniere Investments' TUA, (c) the termination of the VCRA by either party after two years, and (d) the termination of the VCRA as a result of default. Prior to 2018, Cheniere Marketing's termination right is subject to our having specified levels of cash reserved for distribution to our common unitholders as of the applicable termination date. Under the terms of the VCRA, Cheniere Marketing is responsible for monetizing the capacity at the Sabine Pass LNG terminal and has the right to utilize all of the services and other

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

rights at the Sabine Pass LNG terminal available under the TUA assigned to Cheniere Investments. In consideration of these rights, Cheniere Marketing is obligated to pay Cheniere Investments 80% of the expected gross margin of each cargo of LNG delivered to the Sabine Pass LNG terminal. To the extent payments from Cheniere Marketing to Cheniere Investments under the VCRA increase our available cash in excess of the common unit and general partner distributions and certain reserves, the cash would be distributed to Cheniere Subsidiary Holdings in the form of distributions on its subordinated units. During the term of the VCRA, Cheniere Marketing is responsible for the payment of taxes and new regulatory costs under the TUA. Cheniere guaranteed all of Cheniere Marketing's payment obligations under the VCRA. We recorded zero and \$5.5 million of revenues—affiliate from Cheniere Marketing in the three months ended June 30, 2012 and 2011, respectively, related to the VCRA. We recorded \$1.7 million and \$9.2 million of revenues—affiliate from Cheniere Marketing in the six months ended June 30, 2012 and 2011, respectively, related to the VCRA.

#### 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 will enable 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 its LNG inventory. Under the terms of the LNG Lease Agreement, Cheniere Marketing will fund all activities related to the purchase and hedging of the LNG, and Cheniere Investments will reimburse Cheniere Marketing for all costs and assume full price risk associated with these activities.

As a result of Cheniere Investments assuming full price risk associated with the LNG Lease Agreement, LNG inventory purchased by Cheniere Marketing under this arrangement is classified as LNG inventory—affiliate on our Consolidated Balance Sheets, and is recorded at cost and subject to lower-of-cost-or-market ("LCM") adjustments at the end of each period. LNG inventory—affiliate cost is determined using the average cost method. Recoveries of losses resulting from interim period LCM adjustments are made due to market price recoveries on the same LNG inventory—affiliate in the same fiscal year and are recognized as gains in later interim periods with such gains not exceeding previously recognized losses. Gains or losses on the sale of LNG inventory—affiliate and LCM adjustments are recorded as revenues on our Consolidated Statements of Operations. As of June 30, 2012, we had 454,000 MMBtu of LNG inventory—affiliate recorded at \$1.2 million on our Consolidated Balance Sheets, and as of December 31, 2011, we had 1,527,000 MMBtu of LNG inventory—affiliate recorded at \$4.4 million on our Consolidated Balance Sheets. During the three months ended June 30, 2012 and 2011, we recognized gain of \$0.3 million and zero, respectively, as a result of LCM adjustments to our LNG inventory—affiliate. During the six months ended June 30, 2012 and 2011, we recognized loss of \$0.6 million and zero, respectively, as a result of LCM adjustments to our LNG inventory—affiliate.

Cheniere Marketing has entered into financial derivatives, on our behalf, to hedge the exposure to variability in expected future cash flows attributable to the future sale of our LNG inventory under the LNG Lease Agreement. The fair value of these derivative instruments at June 30, 2012 and December 31, 2011 was \$38.0 thousand and \$1.6 million, respectively, and was classified as other current assets on our Consolidated Balance Sheets. Changes in the fair value of these derivative instruments are classified as revenues on our Consolidated Statements of Operations. We recorded losses of \$0.2 million and revenues of \$0.9 million related to LNG inventory—affiliate derivatives in the three and six months ended June 30, 2012, respectively.

#### Service Agreements

During the three months ended June 30, 2012 and 2011, we recorded general and administrative expense—affiliate of \$4.9 million and \$4.8 million, respectively, under the following service agreements. During the six months ended June 30, 2012 and 2011, we recorded general and administrative expense—affiliate of \$9.8 million and \$9.4 million, respectively, under the following service agreements.

#### Cheniere Partners Services Agreement

In March 2007, we entered into a services agreement with Cheniere LNG Terminals, Inc. ("Cheniere Terminals"), a wholly owned subsidiary of Cheniere, pursuant to which we would pay Cheniere Terminals an annual administrative fee of \$10.0 million (adjusted for inflation) for the provision of various general and administrative services for our benefit following the closing of our initial public offering. Payments under this services agreement commenced January 1, 2009. In addition, we reimbursed Cheniere Terminals for its services in an amount equal to the sum of all out-of-pocket costs and expenses incurred by Cheniere Terminals directly related to our business or activities.

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

In June 2010, Cheniere Terminals and we amended, effective as of July 1, 2010, the fee structure for the various general and administrative services provided by Cheniere Terminals for our benefit and changed it from a fixed fee to a variable fee not to exceed \$2.5 million per quarter (indexed for inflation). The amended and restated services agreement provides that fees will be paid quarterly from our unrestricted cash and cash equivalents remaining after making distributions to the common unitholders and the general partner in respect of each quarter and retaining certain reserves. Our ability to pay management fees is dependent on Cheniere Terminals' ability to, among other things, manage our and Sabine Pass LNG's operating and administrative expenses, monetize the 2.0 Bcf/d regasification capacity held by Cheniere Investments and develop new projects through either internal development or acquisition to increase cash flow.

#### Sabine Pass LNG O&M Agreement

In February 2005, Sabine Pass LNG entered into a 20-year operation and maintenance agreement (the "Sabine Pass LNG O&M Agreement") with a wholly owned subsidiary of Cheniere pursuant to which we receive all necessary services required to construct, operate and maintain the Sabine Pass LNG receiving terminal. Sabine Pass LNG is required to pay a fixed monthly fee of \$130,000 (indexed for inflation) under the agreement, and the counterparty is entitled to a bonus equal to 50% of the salary component of labor costs in certain circumstances to be agreed upon between Sabine Pass LNG and the counterparty at the beginning of each operating year. In addition, Sabine Pass LNG is required to reimburse the counterparty for its operating expenses, which consist primarily of labor expenses.

#### Sabine Pass LNG MSA

In February 2005, Sabine Pass LNG entered into a 20-year management services agreement (the "Sabine Pass LNG MSA") with its general partner, which is our wholly owned subsidiary, pursuant to which its general partner was appointed to manage the construction and operation of the Sabine Pass LNG receiving terminal, excluding those matters provided for under the O&M Agreement. In August 2008, the general partner of Sabine Pass LNG assigned all of its rights and obligations under the MSA to Cheniere Terminals. Sabine Pass LNG is required to pay Cheniere Terminals a monthly fixed fee of \$520,000 (indexed for inflation).

#### Sabine Pass Liquefaction O&M Agreement

In May 2012, Sabine Pass Liquefaction, LLC ("Sabine Pass Liquefaction") entered into an operation and maintenance agreement (the "Liquefaction O&M Agreement") with a wholly owned subsidiary of Cheniere and our general partner pursuant to which we receive all the necessary services required to construct, operate and maintain the liquefaction facilities. Before the liquefaction facilities are operational, the services to be provided include, among other services, obtaining governmental approvals on behalf of Sabine Pass Liquefaction, preparing an operating plan for certain periods, obtaining insurance, preparing staffing plans and preparing status reports. After the liquefaction facilities are operational, the services include all necessary services required to operate and maintain the liquefaction facilities. Before the liquefaction facilities are operational, in addition to reimbursement of operating expenses, Sabine Pass Liquefaction 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 LNG train, for services performed while the liquefaction facilities are operational, Sabine Pass Liquefaction 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 LNG train.

#### Sabine Pass Liquefaction MSA



In May 2012, Sabine Pass Liquefaction entered into a management services agreement (the "Liquefaction MSA") with a wholly owned subsidiary of Cheniere pursuant to which such subsidiary was appointed to manage the construction and operation of the liquefaction facilities, excluding those matters provided for under the Liquefaction O&M Agreement. The services to be provided include, among other services, exercising the day-to-day management of Sabine Pass Liquefaction's affairs and business, managing Sabine Pass Liquefaction's regulatory matters, managing bank and brokerage accounts and financial books and records of Sabine Pass Liquefaction's business and operations, and providing contract administration services for all contracts associated with the liquefaction facilities. Sabine Pass Liquefaction will pay a monthly fee equal to 2.4% of the capital expenditures incurred in the previous month. After substantial completion of each LNG train, Sabine Pass Liquefaction will pay a fixed monthly fee of \$541,667 for services with respect to such train.

CHENIERE ENERGY PARTNERS, L.P. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—Continued  
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Agreement to Fund Sabine Pass LNG's Cooperative Endeavor Agreements

In July 2007, Sabine Pass LNG executed Cooperative Endeavor Agreements ("CEAs") with various Cameron Parish, Louisiana taxing authorities that allow them to collect certain annual property tax payments from Sabine Pass LNG in 2007 through 2016. This ten-year initiative represents an aggregate \$25.0 million commitment and will make resources available to the Cameron Parish taxing authorities on an accelerated basis in order to aid in their reconstruction efforts following Hurricane Rita. In exchange for Sabine Pass LNG's payments of annual ad valorem taxes, Cameron Parish will grant Sabine Pass LNG a dollar for dollar credit against future ad valorem taxes to be levied against the Sabine Pass LNG terminal starting in 2019. In September 2007, Sabine Pass LNG modified its TUA with Cheniere Marketing, pursuant to which Cheniere Marketing would pay Sabine Pass LNG additional TUA revenues equal to any and all amounts payable under the CEAs in exchange for a similar amount of credits against future TUA payments it would owe Sabine Pass LNG under its TUA starting in 2019. In June 2010, Cheniere Marketing assigned its existing TUA to Cheniere Investments and concurrently entered into a VCRA, allowing Cheniere Marketing to monetize Cheniere Investments' capacity under the TUA after the assignment. The VCRA provides that Cheniere Marketing will continue to fund the CEAs during the term of the VCRA and, in exchange, Cheniere Marketing will receive any future credits.

On a consolidated basis, these TUA payments were recorded to other assets, and payments from Cheniere Marketing that Sabine Pass LNG utilized to make the ad valorem tax payments were recorded as deferred revenue. As of June 30, 2012 and December 31, 2011, we had \$14.7 million and \$12.3 million of other non-current assets and non-current deferred revenue resulting from Sabine Pass LNG's ad valorem tax payments and the advance TUA payments received from Cheniere Marketing, respectively.

Contracts for Sale and Purchase of Natural Gas and LNG

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

Sabine Pass LNG recorded \$0.5 million and \$1.5 million of natural gas and LNG purchased from Cheniere Marketing under this agreement in the three months ended June 30, 2012 and 2011, respectively. Sabine Pass LNG recorded \$1.2 million and \$2.6 million of natural gas and LNG purchased from Cheniere Marketing under this agreement in the six months ended June 30, 2012 and 2011, respectively.

LNG Terminal Export Agreement

In January 2010, Sabine Pass LNG 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. Sabine Pass LNG recorded revenues—affiliate of zero pursuant to this agreement in the three months ended June 30, 2012 and 2011. Sabine Pass LNG recorded revenues—affiliate of zero and \$0.3 million pursuant to this agreement in the six months ended June 30, 2012 and 2011, respectively.

Tug Boat Lease Sharing Agreement

In connection with its tug boat lease, Sabine Pass Tug Services, LLC, a wholly owned subsidiary of Sabine Pass LNG ("Tug Services"), entered into a tug sharing agreement with Cheniere Marketing to provide its LNG cargo vessels with tug boat and marine services at the Sabine Pass LNG terminal. Tug Services recorded revenues—affiliate from Cheniere Marketing of \$0.7 million pursuant to this agreement in the three months ended June 30, 2012 and 2011. Tug Services recorded revenues—affiliate from Cheniere Marketing of \$1.4 million and \$1.3 million pursuant to this agreement in the six months ended June 30, 2012 and 2011, respectively.

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

NOTE 9—Cash Distributions and Net Income (Loss) per Common Unit

Cash Distributions

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 following provides a summary of distributions paid by us during the six months ended June 30, 2012 (in thousands, except per unit data):

Date Paid	Period Covered by Distribution	Distribution Per Common Unit	Total Distribution		
			Common Units	Subordinated Units	General Partner Units
February 14, 2012	October 1, 2011 - December 31, 2011	\$0.425	\$ 13,176	\$ —	\$ 269
May 15, 2012	January 1, 2012 - March 31, 2012	\$0.425	\$ 13,323	\$ —	\$ 272

The subordinated units will receive distributions only to the extent we have available cash above the minimum quarterly distribution requirement for our common unitholders and general partner and certain reserves. As a result of the assignment of Cheniere Marketing's TUA to Cheniere Investments, effective July 1, 2010, our available cash for distributions was reduced. Therefore, we have not paid distributions on our subordinated units since the distribution made with respect to the quarter ended March 31, 2010.

Pursuant to a unit purchase agreement we entered into in May 2012 with Cheniere, we issued and sold 11.1 million Class B Units at a price of \$15.00 per Class B Unit in June 2012, resulting in total gross proceeds of \$166.7 million. 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 \$151.7 million represents a beneficial conversion feature and is reflected as an increase in common and subordinated unitholders' capital and a decrease in Class B unitholders' capital to reflect the fair value of the Class B Units at issuance on our consolidated statement of partners' and owners' capital (deficit). 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' capital and a decrease in common and subordinated unitholders' capital. The impact of the beneficial conversion feature is also included in earnings per unit for the three and six months ended June 30, 2012.

Net Income (Loss) per Common Unit

Net income (loss) per common unit for a given period is based on the distributions that will be made to 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. 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.

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.

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 common unit calculation for any of the periods presented.

CHENIERE ENERGY PARTNERS, L.P. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—Continued  
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The following table provides a reconciliation of net income (loss) and the allocation of net income (loss) to the common units, the Class B Units and the subordinated units for purposes of computing net income (loss) per unit (in thousands, except per unit data):

	Total	Limited Partner Units			General Partner
		Common Units	Class B Units	Subordinated Units	
<b>Three Months Ended June 30, 2012</b>					
Net loss	\$(24,861 )				
Declared distributions	13,612	13,340			272
Amortization of beneficial conversion feature of Class B Units	—	(892 )	4,737	(3,845 )	—
Assumed allocation of undistributed net loss	(38,473 )	(7,096 )	—	(30,608 )	(769 )
Assumed allocation of net income (loss)		\$5,352	\$4,737	\$(34,453 )	\$(497 )
Weighted average units outstanding		31,328	2,442	135,384	
Net income (loss) per unit		\$0.17	\$1.94	\$(0.25 )	
<b>Three Months Ended June 30, 2011</b>					
Net loss	\$(6,868 )				
Declared distributions	11,679	11,446			234
Assumed allocation of undistributed net loss	(18,547 )	(3,016 )	—	(15,161 )	(371 )
Assumed allocation of net income (loss)		\$8,430	\$—	\$(15,161 )	\$(137 )
Weighted average units outstanding		26,754	—	135,384	
Net income (loss) per unit		\$0.32	\$—	\$(0.11 )	
<b>Six Months Ended June 30, 2012</b>					
Net loss	\$(44,193 )				
Declared distributions	27,207	26,663			544
Amortization of beneficial conversion feature of Class B Units	—	(892 )	4,737	(3,845 )	—
Assumed allocation of undistributed net loss	(71,400 )	(13,169 )	—	(56,803 )	(1,428 )
Assumed allocation of net income (loss)		\$12,602	\$4,737	\$(60,648 )	\$(884 )
Weighted average units outstanding		31,173	1,221	135,384	
Net income (loss) per unit		\$0.40	\$3.88	\$(0.45 )	
<b>Six Months Ended June 30, 2011</b>					
Net loss	\$(9,078 )				
Declared distributions	23,246	22,781			—
Assumed allocation of undistributed net loss	(32,324 )	(5,256 )	—	(26,422 )	(646 )
Assumed allocation of net income (loss)		\$17,525	\$—	\$(26,422 )	\$(646 )
Weighted average units outstanding		26,592	—	135,384	
Net income (loss) per unit		\$0.66	\$—	\$(0.20 )	

NOTE 10—Subsequent Events

Final Investment Decision

In July 2012, our Board of Directors made a positive final investment decision on the development and construction of the first two LNG trains subject to the closing of the debt financing, funding of the initial equity investment by Blackstone, and funding of the remaining equity investment by Cheniere.

#### Liquefaction Project Debt and Equity Financing

In July 2012, Sabine Pass Liquefaction closed \$3.6 billion of debt financing with a syndicate of lenders (the "Liquefaction Credit Facility") to fund the costs of developing, constructing and placing into service the first two LNG trains of the liquefaction facilities adjacent to the Sabine Pass LNG terminal. The Liquefaction Credit Facility has a seven-year maturity and an interest rate of LIBOR plus 350 basis points during construction, increasing to LIBOR plus 375 basis points during operations. In addition, Cheniere purchased \$333 million of its remaining Class B Units in July 2012 for an aggregate investment of \$500.0 million.



Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Information Regarding Forward-Looking Statements

This quarterly report contains certain statements that are, or may be deemed to be, "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). All statements, other than statements of historical fact, 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 Sabine Pass LNG, L.P. ("Sabine Pass LNG");
- statements regarding future levels of domestic natural gas production, supply or consumption; future levels of liquefied natural gas ("LNG") imports into North America; sales of natural gas in North America or other markets; exports of LNG from North America; and the transportation, other infrastructure or prices related to natural gas, LNG or other energy sources;
- statements regarding any financing or refinancing transactions or arrangements, or ability to enter into such transactions or arrangements, whether on the part of Cheniere Energy Partners, L.P. or any subsidiary or at the project level;
- statements regarding any commercial arrangements presently contracted, optioned or marketed, or potential arrangements, to be performed substantially in the future, including any cash distributions and revenues anticipated to be received and the anticipated timing thereof, and statements regarding the amounts of total LNG regasification, liquefaction or storage capacity that are, or may become, subject to such commercial arrangements;
- statements regarding counterparties to our commercial contracts, construction contracts and other contracts;
- statements relating to the construction and operations of our proposed LNG liquefaction facilities, including
- statements concerning the completion by certain dates or at all, the costs related thereto and certain characteristics, including amounts of liquefaction capacity and storage capacity and the number of LNG trains;
- statements regarding any business strategy, any business plans or any other plans, forecasts, projections or objectives, including potential revenues and capital expenditures, any or all of which are subject to change;
- statements regarding legislative, governmental, regulatory, administrative or other public body actions, requirements, permits, investigations, proceedings or decisions; and
- any other statements that relate to non-historical or future information.

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

Our actual results could differ materially from those anticipated in these forward-looking statements as a result of a variety of factors, including those discussed under "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2011. 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.

As used herein, the terms "Cheniere Partners," "we," "our" and "us" refer to Cheniere Energy Partners, L.P. and its wholly owned subsidiaries.



## 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 in Item 1. "Consolidated Financial Statements". 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 include 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 Policies and Estimates
- Recent Accounting Standards

### Overview of Business

We are a Delaware limited partnership formed by Cheniere Energy, Inc. ("Cheniere"). Through our wholly owned subsidiary, Sabine Pass LNG, we own and operate the Sabine Pass LNG terminal located in western Cameron Parish, Louisiana on the Sabine Pass Channel. Through our wholly owned subsidiary, Sabine Pass Liquefaction, LLC ("Sabine Pass Liquefaction"), we are developing a project to add liquefaction capabilities adjacent to the Sabine Pass LNG terminal.

### Overview of Significant Events

In the first six months of 2012, and through the date of this Form 10-Q, we continue to execute our strategy to operate the Sabine Pass LNG terminal, generate steady and reliable revenues under Sabine Pass LNG's long-term terminal use agreements ("TUAs") and construct liquefaction facilities adjacent to the Sabine Pass LNG terminal. The major events in our business that have occurred since January 1, 2012 include the following:

In January 2012, Sabine Pass Liquefaction entered into an amended and restated LNG Sale and Purchase Agreement ("SPA") with BG Gulf Coast LNG, LLC ("BG"), a subsidiary of BG Group plc, under which BG has agreed to purchase an additional 2.0 million tonnes per annum ("mtpa") of LNG, bringing BG's total annual contract quantity to 5.5 mtpa of LNG. BG will purchase 3.5 mtpa of LNG with the commencement of LNG train one operations and will purchase a portion of the additional 2.0 mtpa of LNG as each of LNG trains two, three and four commences operations.

In January 2012, Sabine Pass Liquefaction entered into an LNG SPA with Korea Gas Corporation ("KOGAS"), under which KOGAS agreed to purchase 182.5 million MMBtu of LNG per year (approximately 3.5 mtpa).

In April 2012, Sabine Pass Liquefaction and Sabine Pass LNG received authorization under Section 3 of the Natural Gas Act (the "Order") from the FERC to site, construct and operate facilities for the liquefaction and export of domestically produced natural gas at the Sabine Pass LNG terminal located in Cameron Parish, Louisiana. The Order authorizes the development of up to four modular LNG trains.

In May 2012, we entered into a Unit Purchase Agreement ("Agreement") with Blackstone CQP Holdco LP ("Blackstone"). Under the Agreement, Blackstone agreed to purchase \$1.5 billion of newly issued Cheniere Partners Class B units ("Class B Units") from us in a private placement. Cheniere also agreed to purchase \$500 million of newly issued Class B Units pursuant to a separate unit purchase agreement. Subsequent to an initial funding of \$500 million by Blackstone, we can require, based on liquidity needs, that Blackstone make additional capital contributions until Blackstone has funded \$1.5 billion in the aggregate. Proceeds from the financings will be used to fund the equity

portion of the costs of developing, constructing and placing into service the liquefaction facilities being developed adjacent to the Sabine Pass LNG terminal (the "Liquefaction Project").

In June 2012, we sold \$166.7 million of Class B Units to Cheniere and issued a limited notice to proceed to Bechtel Oil, Gas and Chemicals, Inc. ("Bechtel").

In July 2012, our Board of Directors made a positive final investment decision on the development and construction of the first two LNG trains of our Liquefaction Project subject to the closing of the debt financing, funding of the initial equity investment by Blackstone, and funding of the remaining equity investment by Cheniere.

In July 2012, Sabine Pass Liquefaction closed \$3.6 billion of debt financing with a syndicate of lenders to fund the costs of developing, constructing and placing into service the first two LNG trains of our Liquefaction Project.

In July 2012, Cheniere purchased \$333 million of its remaining Class B Units for an aggregate investment of \$500 million.

## Liquidity and Capital Resources

### Cash and Cash Equivalents

As of June 30, 2012, we had \$171.0 million of cash and cash equivalents and \$96.1 million of restricted cash and cash equivalents, which is restricted to pay interest on the Senior Notes described below.

In January 2011, we initiated an at-the-market program to sell up to 1.0 million common units the proceeds from which are used primarily to fund development costs associated with our Liquefaction Project. During the year ended December 31, 2011, we sold 0.5 million common units with net proceeds of \$9.0 million. During the six months ended June 30, 2012, we sold 0.4 million common units with net proceeds of \$8.8 million. We paid \$0.3 million in commissions to Miller Tabak + Co., Inc., as sales agent, in connection with the at-the-market program during the six months ended June 30, 2012.

In September 2011, we sold 3.0 million common units in an underwritten public offering and 1.1 million common units to a wholly owned subsidiary of Cheniere at a price of \$15.25 per common unit. We received net proceeds of approximately \$60 million that we are using for general business purposes, including development costs associated with our Liquefaction Project.

During the year ended December 31, 2011, we also received \$1.5 million in net proceeds from our general partner in connection with the exercise of its right to maintain its 2% ownership interest in us. We received \$3.6 million in net proceeds from our general partner in connection with the exercise of its right to maintain its 2% ownership interest in us during the six months ended June 30, 2012.

In June 2012, we sold \$166.7 million of Class B Units to Cheniere so that we could issue a limited notice to proceed to Bechtel.

### Sabine Pass LNG Terminal

#### Regasification Facilities

Approximately 2.0 Bcf/d of the regasification capacity at the Sabine Pass LNG terminal has been reserved under two long-term third-party TUAs, under which Sabine Pass LNG's customers are required to pay fixed monthly fees, whether or not they use the LNG terminal. Capacity reservation fee TUA payments are made by Sabine Pass LNG's third-party TUA customers as follows:

Total Gas and Power North America, Inc. ("Total") has reserved approximately 1.0 Bcf/d of regasification capacity and is obligated to make monthly capacity payments to Sabine Pass LNG aggregating approximately \$125 million per year for 20 years that commenced April 1, 2009. Total S.A. has guaranteed Total's obligations under its TUA up to \$2.5 billion, subject to certain exceptions; and

Chevron U.S.A. Inc. ("Chevron") has reserved approximately 1.0 Bcf/d of regasification capacity and is obligated to make monthly capacity payments to Sabine Pass LNG aggregating approximately \$125 million per year for 20 years that commenced July 1, 2009. Chevron Corporation has guaranteed Chevron's obligations under its TUA up to 80% of the fees payable by Chevron.

Each of Total and Chevron previously paid Sabine Pass LNG \$20.0 million in nonrefundable advance capacity reservation fees, which are being amortized over a 10-year period as a reduction of each customer's regasification capacity reservation fees payable under its respective TUA.

Sabine Pass Liquefaction has also entered into a TUA with Sabine Pass LNG pursuant to which Sabine Pass Liquefaction has reserved approximately 2.0 Bcf/d of regasification capacity and is obligated to make monthly capacity payments to Sabine Pass LNG aggregating approximately \$250 million per year through at least September 30, 2028. Sabine Pass Liquefaction obtained this reserved capacity as a result of Cheniere Investments' assignment of its rights, obligations and duties under its TUA to Sabine Pass Liquefaction in July 2012. In connection with the assignment, Sabine Pass Liquefaction and Cheniere Investments entered into a terminal use rights assignment and agreement ("TURA") pursuant to which Cheniere Investments has the right to use Sabine Pass Liquefaction's reserved capacity under the TUA and has the obligation to make the monthly capacity payments required by the TUA to Sabine Pass LNG. The revenue earned by Sabine Pass LNG from the capacity payments made under the TUA is eliminated upon consolidation of our financial statements. We have guaranteed the obligations of Sabine Pass Liquefaction under its TUA and the obligations of Cheniere Investments under the TURA.

In connection with the TUA assignment to Sabine Pass Liquefaction, Cheniere Investments entered into an amended and restated variable capacity rights agreement ("VCRA") with Cheniere Marketing in order for Cheniere Investments to monetize the capacity rights granted under the TURA. Under the terms of the VCRA, Cheniere Marketing is responsible for monetizing the capacity at the Sabine Pass LNG terminal held by Cheniere Investments under the TURA and has the right to utilize all of the services and other rights at the Sabine Pass LNG terminal available under the TURA. In consideration of these rights, Cheniere Marketing is obligated to pay Cheniere Investments 80% of the expected gross margin of each cargo of LNG delivered to the Sabine Pass LNG terminal. To the extent payments from Cheniere Marketing to Cheniere Investments under the VCRA increase our available cash in excess of the common unit and general partner distributions and certain reserves, the cash would be distributed to Cheniere in the form of distributions on its subordinated units. During the term of the VCRA, Cheniere Marketing is responsible for the payment of taxes and new regulatory costs paid by Cheniere Investments under the TUA. Cheniere Marketing continues to develop its business, lacks a credit rating and may be limited by access to capital. Cheniere, which has guaranteed the obligations of Cheniere Marketing under the VCRA, has a non-investment grade corporate rating.

Under each of these TUAs, Sabine Pass LNG is entitled to retain 2% of the LNG delivered for the customer's account.

#### Liquefaction Facilities

In June 2010, we formed Sabine Pass Liquefaction to own, develop and operate liquefaction facilities adjacent to the Sabine Pass LNG terminal. In constructing the proposed liquefaction facilities, we propose to take advantage of the existing marine and storage facilities that were constructed for the LNG receiving terminal, thereby saving a substantial amount of capital cost compared to the cost of constructing a greenfield facility. We anticipate that LNG exports could commence as early as 2015 with each LNG train commencing operations approximately six to nine months after the previous LNG train.

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

In April 2012, Sabine Pass Liquefaction received authorization from the Federal Energy Regulatory Commission ("FERC") to site, construct and operate liquefaction and export facilities at the Sabine Pass LNG terminal. The order, which authorizes the development of up to four modular LNG trains, is currently pending a rehearing consideration.

Sabine Pass Liquefaction has entered into four third-party SPAs, under which customers have committed to purchase, in aggregate, 834.0 million MMBtu of LNG per year (approximately 16 mtpa) as follows:

• BG Gulf Coast LNG, LLC ("BG") has agreed to purchase 286.5 million MMBtu of LNG per year (approximately 5.5 mtpa);

• Gas Natural Aprovevisionamientos SDG S.A. ("Gas Natural Fenosa"), an affiliate of Gas Natural SDG S.A., has agreed to purchase 182.5 million MMBtu of LNG per year (approximately 3.5 mtpa);



Korea Gas Corporation ("KOGAS") has agreed to purchase 182.5 million MMBtu of LNG per year (approximately 3.5 mtpa); and  
GAIL (India) Limited ("GAIL") has agreed to purchase 182.5 million MMBtu of LNG per year (approximately 3.5 mtpa).

In aggregate, these customers have agreed to pay Sabine Pass Liquefaction approximately \$2.3 billion annually, plus an amount per MMBtu of LNG equal to 115% of the final settlement price for the New York Mercantile Exchange natural gas futures contract for the month in which the relevant cargo is scheduled.

In addition, Cheniere Marketing, LLC, a wholly owned subsidiary of Cheniere, has entered into an SPA to purchase certain excess LNG produced that is not committed to non-affiliate parties, up to a maximum of 104.0 million MMBtu of LNG per year (approximately 2.0 mtpa). The sales price to be paid by Cheniere Marketing will be 115% of the then-current Henry Hub price per MMBtu plus a profit sharing equal to 100% of profits up to \$3.00/MMBtu for the first 36 million MMBtu of the most profitable cargoes sold each year to Cheniere Marketing and 20% of profits for the subsequent 68 million MMBtu sold each year to Cheniere Marketing.

In November 2011, Sabine Pass Liquefaction entered into a lump sum turnkey agreement with Bechtel for procurement, engineering, design, installation, training, commissioning and placing into service of the first two LNG trains and related facilities adjacent to the Sabine Pass LNG terminal. We issued a limited notice to proceed and commenced construction of LNG trains 1 and 2 during the second quarter of 2012 and expect to begin operations of the first LNG train in late 2015, with the second LNG train commencing operations approximately six to nine months after the first LNG train. We expect to complete our construction plan and cost estimates for LNG trains 3 and 4 by the end of 2012 and begin working on our financing plan.

The cost to construct LNG trains 1 and 2 is currently estimated to be approximately \$4 billion to \$5 billion, before financing costs. Our cost estimates are subject to change due to such items as change orders, delays in construction, increased component and material costs, escalation of labor costs and increased spending to maintain our construction schedule.

#### Financing

In May 2012, we and Blackstone entered into a unit purchase agreement whereby we agreed to sell to Blackstone in a private placement 100 million Class B Units of Cheniere Partners at a price of \$15.00 per Class B Unit. Subsequent to an initial funding of \$500 million by Blackstone, we can require, based on liquidity needs, that Blackstone make additional capital contributions until Blackstone has funded \$1.5 billion in the aggregate. In addition, we and a wholly owned subsidiary of Cheniere entered into a unit purchase agreement whereby we agreed to sell 33.3 million Class B Units at a price of \$15.00 per unit, for total consideration of \$500 million, of which \$166.7 million was sold in June 2012 so that we could issue a limited notice to proceed to Bechtel and the remaining \$333.3 million was sold in July 2012. We will use the net proceeds from the private placements to pay for a portion of the cost to construct the first two LNG trains and related facilities and equipment.

In July 2012, Sabine Pass Liquefaction closed \$3.6 billion of debt financing with a syndicate of lenders to fund the costs of developing, constructing and placing into service the first two LNG trains of our Liquefaction Project. The definitive loan documents were executed in July 2012, with the credit facility having a seven-year maturity and an interest rate of LIBOR plus 350 basis points during construction, increasing to LIBOR plus 375 basis points during operations. Sabine Pass Liquefaction will maintain interest rate protection agreements with respect to at least 75% of this debt financing.



## Sources and Uses of Cash

The following table summarizes (in thousands) the sources and uses of our cash and cash equivalents for the six months ended June 30, 2012 and 2011. The table presents capital expenditures on a cash basis; therefore, these amounts differ from the amounts of capital expenditures, including accruals, that are referred to elsewhere in this report. Additional discussion of these items follows the table.

	Six Months Ended	
	June 30,	2011
	2012	2011
Sources of cash and cash equivalents		
Proceeds from the sale of Class B Units	\$166,667	\$—
Operating cash flow	—	21,355
Proceeds from the sale of partnership units	12,379	9,153
Total sources of cash and cash equivalents	179,046	30,508
Uses of cash and cash equivalents		
Operating cash flow	(13,032)	) —
LNG terminal construction-in-process, net	(39,194)	) (5,390)
Deferred financing costs	(5,530)	) —
Distributions to unitholders	(27,040)	) (23,025)
Other	(4,714)	) (115)
Total uses of cash and cash equivalents	(89,510)	) (28,530)
Net increase (decrease) in cash and cash equivalents	89,536	1,978
Cash and cash equivalents—beginning of period	81,415	53,349
Cash and cash equivalents—end of period	\$170,951	\$55,327

## Proceeds from the Sale of Class B Units

In June 2012, we sold \$166.7 million of Class B Units to Cheniere so that we could issue a limited notice to proceed to Bechtel.

## Operating Cash Flow

Operating cash flow decreased \$34.4 million for the six months ended June 30, 2012 compared to the same period in 2011. The decrease in operating cash flow primarily resulted from increased costs incurred to develop our liquefaction facilities and decreased LNG cargo export loading fee revenue.

## LNG Terminal and Pipeline Construction-in-Process, net

Capital expenditures for the Sabine Pass LNG terminal were \$39.2 million and \$5.4 million in the six months ended June 30, 2012, and 2011, respectively. We began capitalizing costs associated with construction of our liquefaction facilities as construction-in-process during the second quarter of 2012.

## Deferred Financing Costs

During the six months ended June 30, 2012, we paid \$5.5 million of fees directly related to project financing and debt and equity offerings to finance the construction costs of the liquefaction facilities adjacent to the Sabine Pass LNG terminal.



## 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 operating surplus. The following provides a summary of distributions paid by us during the six months ended June 30, 2012:

Date Paid	Period Covered by Distribution	Distribution Per Common Unit	Total Distribution (in thousands)		
			Common Units	Subordinated Units	General Partner Units
February 14, 2012	October 1, 2011 - December 31, 2011	\$0.425	\$13,176	\$—	\$269
May 15, 2012	January 1, 2012 - March 31, 2012	\$0.425	\$13,323	\$—	\$272

The subordinated units will receive distributions only to the extent we have available cash above the minimum 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 the VCRA. The ending of the subordination period and conversion of the subordinated units into common units will depend upon future business development.

On July 20, 2012, we declared a \$0.425 distribution per common unit and the related distribution to our general partner to be paid to owners of record on August 1, 2012 for the period from April 1, 2012 to June 30, 2012.

## Debt Agreements

In July 2012, Sabine Pass Liquefaction closed \$3.6 billion of debt financing with a syndicate of lenders to fund the costs of developing, constructing and placing into service the first two LNG trains of the liquefaction facilities adjacent to the Sabine Pass LNG terminal. The credit facility has a seven-year maturity and an interest rate of LIBOR plus 350 basis points during construction, increasing to LIBOR plus 375 basis points during operations.

## Senior Notes

In November 2006, Sabine Pass LNG issued an aggregate principal amount of \$2,032.0 million of Senior Notes (the "Senior Notes"), consisting of \$550.0 million of 7¼% Senior Secured Notes due 2013 (the "2013 Notes") and \$1,482.0 million of 7½% Senior Secured Notes due 2016 (the "2016 Notes"). In September 2008, Sabine Pass LNG issued an additional \$183.5 million, before discount, of 2016 Notes whose terms were identical to the previously outstanding 2016 Notes. Interest on the Senior Notes is payable semi-annually in arrears on May 30 and November 30 of each year. The Senior Notes are secured on a first-priority basis by a security interest in all of Sabine Pass LNG's equity interests and substantially all of its operating assets.

Sabine Pass LNG may redeem some or all of the Senior Notes at any time, and from time to 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 Senior Notes; or
- the excess of: a) the present value at such redemption date of (i) the redemption price of the Senior Notes plus (ii) all required interest payments due on the 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 b) the principal amount of the Senior Notes, if greater.

Under the Sabine Pass Indenture, except for permitted tax distributions, Sabine Pass LNG may not make distributions until certain conditions are satisfied: 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 there must be on deposit in a permanent debt service reserve fund an amount equal to one semi-annual interest payment of approximately \$82.4 million. 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 Sabine Pass Indenture. During the six months ended June 30, 2012 and 2011, Sabine Pass LNG made distributions to us of \$146.7 million and \$155.6 million, respectively, after satisfying all of the applicable conditions in the Sabine Pass Indenture.

## Services Agreements

During the six months ended June 30, 2012 and 2011, we recorded general and administrative expense—affiliate of \$9.8 million and \$9.4 million, respectively, under the following service agreements.

### Cheniere Partners Services Agreement

In March 2007, we entered into a services agreement with Cheniere LNG Terminals, Inc. ("Cheniere Terminals"), a wholly owned subsidiary of Cheniere, pursuant to which we would pay Cheniere Terminals an annual administrative fee of \$10.0 million (adjusted for inflation) for the provision of various general and administrative services for our benefit following the closing of our initial public offering. Payments under this services agreement commenced January 1, 2009. In addition, we reimburse Cheniere Terminals for its services in an amount equal to the sum of all out-of-pocket costs and expenses incurred by Cheniere Terminals that are directly related to our business or activities.

In June 2010, Cheniere Terminals and we amended, effective as of July 1, 2010, the fee structure for the various general and administrative services provided by Cheniere Terminals for our benefit and changed it from a fixed fee to a variable fee not to exceed \$2.5 million per quarter (indexed for inflation). The amended and restated services agreement provides that fees will be paid quarterly from our unrestricted cash and cash equivalents remaining after making distributions to the common unitholders and the general partner in respect of each quarter and retaining certain reserves. Our ability to pay management fees is dependent on Cheniere Terminals' ability to, among other things, manage our and Sabine Pass LNG's operating and administrative expenses, monetize the 2.0 Bcf/d of regasification capacity held by Cheniere Investments and develop new projects through either internal development or acquisition to increase cash flow.

### Sabine Pass LNG O&M Agreement

In February 2005, Sabine Pass LNG entered into a 20-year operation and maintenance agreement (the "Sabine Pass LNG O&M Agreement") with a wholly owned subsidiary of Cheniere pursuant to which we receive all necessary services required to construct, operate and maintain the Sabine Pass LNG receiving terminal. Sabine Pass LNG is required to pay a fixed monthly fee of \$130,000 (indexed for inflation) under the agreement, and the counterparty is entitled to a bonus equal to 50% of the salary component of labor costs in certain circumstances to be agreed upon between Sabine Pass LNG and the counterparty at the beginning of each operating year. In addition, Sabine Pass LNG is required to reimburse the counterparty for its operating expenses, which consist primarily of labor expense.

### Sabine Pass LNG MSA

In February 2005, Sabine Pass LNG entered into a 20-year management services agreement (the "Sabine Pass LNG MSA") with its general partner, which is our wholly owned subsidiary, pursuant to which its general partner was appointed to manage the construction and operation of the Sabine Pass LNG receiving terminal, excluding those matters provided for under the Sabine Pass LNG O&M Agreement. In August 2008, the general partner of Sabine Pass LNG assigned all of its rights and obligations under the Sabine Pass LNG MSA to Cheniere Terminals. Sabine Pass LNG is required to pay Cheniere Terminals a monthly fixed fee of \$520,000 (indexed for inflation).

### Sabine Pass Liquefaction O&M Agreement

In May 2012, Sabine Pass Liquefaction entered into an operation and maintenance agreement (the "Liquefaction O&M Agreement") with a wholly owned subsidiary of Cheniere and our general partner pursuant to which we receive all the necessary services required to construct, operate and maintain the liquefaction facilities. Before the liquefaction facilities are operational, the services to be provided include, among other services, obtaining governmental approvals on behalf of Sabine Pass Liquefaction, preparing an operating plan for certain periods, obtaining insurance, preparing

staffing plans and preparing status reports. After the liquefaction facilities are operational, the services include all necessary services required to operate and maintain the liquefaction facilities.



Before the liquefaction facilities are operational, in addition to reimbursement of operating expenses, Sabine Pass Liquefaction 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 LNG train, for services performed while the liquefaction facilities are operational, Sabine Pass Liquefaction 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 LNG train.

#### Sabine Pass Liquefaction MSA

In May 2012, Sabine Pass Liquefaction entered into a management services agreement (the "Liquefaction MSA") with a wholly owned subsidiary of Cheniere pursuant to which such subsidiary was appointed to manage the construction and operation of the liquefaction facilities, excluding those matters provided for under the Liquefaction O&M Agreement. The services to be provided include, among other services, exercising the day-to-day management of Sabine Pass Liquefaction's affairs and business, managing Sabine Pass Liquefaction's regulatory matters, managing bank and brokerage accounts and financial books and records of Sabine Pass Liquefaction's business and operations, and providing contract administration services for all contracts associated with the liquefaction facilities. Sabine Pass Liquefaction will pay a monthly fee equal to 2.4% of the capital expenditures incurred in the previous month. After substantial completion of each LNG train, Sabine Pass Liquefaction will pay a fixed monthly fee of \$541,667 for services with respect to such train.

#### Results of Operations

Three Months Ended June 30, 2012 vs. Three Months Ended June 30, 2011

#### Overall Operations

Our net loss increased \$18.0 million, from a net loss of \$6.9 million in the three months ended June 30, 2011 to a net loss of \$24.9 million in the three months ended June 30, 2012. This increase in net loss primarily resulted from decreased revenues, increased development expense and increased operating and maintenance expense.

#### Revenues (including Affiliate Revenues)

Revenues (including affiliate revenues) decreased \$12.2 million, from \$73.6 million in the three months ended June 30, 2011 to \$61.4 million in the three months ended June 30, 2012. This decrease is primarily a result of decreased LNG cargo export loading fee revenue, decreased revenues earned under the VCRA, and a provision for loss on a firm purchase commitment for LNG inventory that will be used to restore the heating value of vaporized LNG to conform to natural gas pipeline specifications.

#### Development Expense (including Affiliate Expense)

Development expense (including affiliate expense) increased \$3.4 million, from \$12.1 million in the three months ended June 30, 2011 to \$15.5 million in the three months ended June 30, 2012. This increase resulted from costs incurred to develop our liquefaction facilities.

#### Operating and Maintenance Expense

Our operating and maintenance expense includes costs incurred to operate and maintain the Sabine Pass LNG terminal. Operating and maintenance expense increased \$3.2 million, from \$3.9 million in the three months ended June 30, 2011 to \$7.1 million in the three months ended June 30, 2012. This increase is primarily a result of increased dredging services in the three months ended June 30, 2012 and decreased fuel costs in the three months ended June 30, 2011 as a result of efficiencies in our LNG inventory management.

Six Months Ended June 30, 2012 vs. Six Months Ended June 30, 2011

Overall Operations

Our net loss increased \$35.1 million, from a net loss of \$9.1 million in the six months ended June 30, 2011 to a net loss of \$44.2 million in the six months ended June 30, 2012. This increase in net loss primarily resulted from decreased revenues, increased development expense and increased operating and maintenance expense.

#### Revenues (including Affiliate Revenues)

Revenues (including affiliate revenues) decreased \$17.4 million, from \$148.1 million in the six months ended June 30, 2011 to \$130.7 million in the six months ended June 30, 2012. This decrease is primarily a result of decreased LNG cargo export loading fee revenue, decreased revenues earned under the VCRA, and a provision for loss on a firm purchase commitment for LNG inventory that will be used to restore the heating value of vaporized LNG to conform to natural gas pipeline specifications.

#### Development Expense (including Affiliate Expense)

Development expense (including affiliate expense) increased \$13.8 million from \$19.6 million in the six months ended June 30, 2011 to \$33.4 million in the six months ended June 30, 2012. This increase resulted from costs incurred to develop our liquefaction facilities.

#### Operating and Maintenance Expense

Operating and maintenance expense increased \$3.7 million, from \$9.6 million in the six months ended June 30, 2011 to \$13.3 million in the six months ended June 30, 2012. This increase is primarily a result of increased dredging services in the six months ended June 30, 2012 and decreased fuel costs in the six months ended June 30, 2011 as a result of efficiencies in our LNG inventory management.

#### Off-Balance Sheet Arrangements

As of June 30, 2012, we had no "off-balance sheet arrangements" that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors.

#### Summary of Critical Accounting Policies and Estimates

The selection and application of accounting policies is an important process that has developed as our business activities have evolved and as the accounting rules have developed. Accounting rules generally do not involve a selection among alternatives but involve an implementation and interpretation of existing rules, and the use of judgment, to apply the accounting rules to the specific set of circumstances existing in our business. In preparing our consolidated financial statements in conformity with generally accepted accounting principles in the United States ("GAAP"), we endeavor to comply with all applicable rules on or before their adoption, and we believe that the proper implementation and consistent application of the accounting rules are critical. However, not all situations are specifically addressed in the accounting literature. In these cases, we must use our best judgment to adopt a policy for accounting for these situations. We accomplish this by analogizing to similar situations and the accounting guidance governing them. There have been no significant changes to our critical accounting policies and estimates from those disclosed in our Annual Report on Form 10-K for the year ended December 31, 2011.

#### Recent Accounting Standards

In May 2011, the Financial Accounting Standards Board ("FASB") issued guidance that further addresses fair value measurement accounting and related disclosure requirements. The guidance clarifies the FASB's intent regarding the application of existing fair value measurement and disclosure requirements, changes the fair value measurement requirements for certain financial instruments, and sets forth additional disclosure requirements for other fair value measurements. The guidance is to be applied prospectively and is effective for periods beginning after December 15, 2011. We adopted this guidance effective January 1, 2012. The adoption of this guidance did not have an impact on our consolidated financial position, results of operations or cash flows, as it only expanded disclosures.

#### 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 certain derivative instruments to economically hedge the price risk attributable to future purchases of natural gas to be utilized as fuel to operate the Sabine Pass LNG terminal ("Fuel Derivatives") and to hedge the exposure to variability in expected future cash flows attributable to the future sale of our LNG inventory ("LNG Inventory Derivatives"). We use one-day value at risk ("VaR") with a 95% confidence interval and other methodologies for market risk measurement and control purposes. The VaR is calculated using the Monte Carlo simulation method. The table below provides information about our derivative financial instruments that are sensitive to changes in natural gas prices as of June 30, 2012 (in thousands except for volume and price range data).

Hedge Description	Hedge Instrument	Contract Volumes (MMBtu)	Price Range (\$/MMBtu)	Final Hedge Maturity Date	Fair Value (\$)	VaR (\$)
LNG Inventory Derivatives	Fixed price natural gas swaps	1,156,657	\$2.700 - \$3.234	December 2012	\$38	\$33
Fuel Derivatives	Fixed price natural gas swaps	1,078,000	\$3.243 - \$4.714	August 2013	\$(664)	\$2

## Item 4. Controls and Procedures

We maintain a set of disclosure controls and procedures that are designed to ensure that information required to be disclosed by us in the reports filed by us under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission 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. In the opinion of management, as of June 30, 2012, there were no pending legal matters that could reasonably be expected to have a material adverse impact on our consolidated results of operations, financial position or cash flows.

Item 6. Exhibits

- 10.1\* 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 the Borrower and Bechtel Oil, Gas and Chemicals, Inc.: (i) the Change Order CO-0001 EPC Terms and Conditions, dated May 1, 2012, (ii) the Change Order CO-0002 Heavies Removal Unit, dated May 23, 2012, (iii) the Change Order CO-0003 LNTP, dated June 6, 2012, (iv) the Change Order CO-0004 Addition of Inlet Air Humidification, dated July 10, 2012, (v) the Change Order CO-0005 Replace Natural Gas Generators with Diesel Generators, dated July 10, 2012, (vi) the Change Order CO-0006 Flange Reduction and Valve Positioners, dated July 12, 2012, and (vii) the Change Order CO-0007 Relocation of Temporary Facilities, Power Poles Relocation Reimbursement, and Duck Blind Road Improvement Reimbursement, dated July 13, 2012
- 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 of 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.

+ Pursuant to Rule 406T of Regulation S-T, the interactive data files on Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Section 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.

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

By: /s/ Jerry D. Smith  
Jerry D. Smith  
Chief Accounting Officer  
(on behalf of the registrant and as principal accounting officer)

Date: August 3, 2012