

Cheniere Energy Partners, L.P.  
Form 10-Q  
May 04, 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 March 31, 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 20-5913059  
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

700 Milam Street, Suite 800 77002  
Houston, Texas  
(Address of principal executive offices) (Zip Code)  
(713) 375-5000  
(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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition 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

As of April 18, 2012, the issuer had 31,268,124 common units and 135,383,831 subordinated units outstanding.



CHENIERE ENERGY PARTNERS, L.P.  
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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)

	March 31, 2012	December 31, 2011
	(unaudited)	
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$59,444	\$81,415
Restricted cash and cash equivalents	54,929	13,732
Accounts and interest receivable	21	525
Accounts receivable—affiliate	2,678	328
Advances to affiliate	6,022	692
LNG inventory	536	473
LNG inventory—affiliate	1,717	4,369
Prepaid expenses and other	10,471	7,976
Total current assets	135,818	109,510
Non-current restricted cash and cash equivalents	82,394	82,394
Property, plant and equipment, net	1,504,813	1,514,416
Debt issuance costs, net	16,530	17,622
Other	22,787	13,358
Total assets	\$1,762,342	\$1,737,300
<b>LIABILITIES AND PARTNERS' DEFICIT</b>		
Current liabilities		
Accounts payable	\$843	\$704
Accounts payable—affiliate	—	530
Accrued liabilities	68,920	16,751
Accrued liabilities—affiliate	4,497	3,794
Deferred revenue	26,525	26,629
Deferred revenue—affiliate	688	688
Other	2,637	2,722
Total current liabilities	104,110	51,818
Long-term debt, net of discount	2,193,592	2,192,418
Deferred revenue	24,500	25,500
Deferred revenue—affiliate	14,720	12,266
Other non-current liabilities	313	317
Commitments and contingencies		
Partners' deficit		
Common unitholders (31,128,124 units and 31,003,154 units issued and outstanding at March 31, 2012 and December 31, 2011, respectively)	(66,638	) (52,774
Subordinated unitholders (135,383,831 units issued and outstanding at March 31, 2012 and December 31, 2011)	(494,611	) (479,197

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General partner interest (2% interest with 3,398,203 units and 3,395,653 units issued and outstanding at March 31, 2012 and December 31, 2011, respectively)	(13,644	) (13,048	)
Total partners' deficit	(574,893	) (545,019	)
Total liabilities and partners' deficit	\$1,762,342	\$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 March 31,	
	2012	2011
Revenues		
Revenues	\$66,958	\$69,668
Revenues—affiliate	2,365	4,782
Total revenues	69,323	74,450
Expenses		
Operating and maintenance expense	6,112	5,685
Operating and maintenance expense—affiliate	2,998	2,592
Depreciation expense	10,629	10,737
Development expense	16,669	6,617
Development expense—affiliate	1,231	865
General and administrative expense	1,681	1,771
General and administrative expense—affiliate	5,112	5,056
Total expenses	44,432	33,323
Income from operations	24,891	41,127
Other income (expense)		
Interest expense, net	(43,458 )	(43,397 )
Derivative loss	(836 )	—
Other	71	61
Total other expense	(44,223 )	(43,336 )
Net loss	\$(19,332 )	\$(2,209 )
Basic and diluted net income per common unit	\$0.23	\$0.35
Weighted average number of common units outstanding used for basic and diluted net income per common unit calculation	31,017	26,429

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 PARTNERS' AND OWNERS' CAPITAL (DEFICIT)  
 (in thousands)  
 (unaudited)

	Common	Subordinated	General Partner	Total
	Units	Units	Units	
Balance at December 31, 2011	\$(52,774	) \$(479,197	) \$(13,048	) \$(545,019 )
Net loss	(3,531	) (15,414	) (387	) (19,332 )
Sale of units	2,843	—	60	2,903
Distributions	(13,176	) —	(269	) (13,445 )
Balance at March 31, 2012	\$(66,638	) \$(494,611	) \$(13,644	) \$(574,893 )



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)

	Three Months Ended March 31,	
	2012	2011
Cash flows from operating activities		
Net loss	\$(19,332 )	\$(2,209 )
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation	10,629	10,737
Non-cash derivative loss	527	—
Amortization of debt issuance costs	1,092	1,080
Amortization of debt discount	1,174	1,174
Investment in restricted cash and cash equivalents	(41,197 )	(41,197 )
Changes in operating assets and liabilities:		
Accounts and interest receivable	504	944
Accounts receivable—affiliate	(2,350 )	(2,850 )
Accounts payable and accrued liabilities	45,966	42,367
Accounts payable and accrued liabilities—affiliate	171	(1,902 )
Advances to affiliate	(5,330 )	2,169
Deferred revenue	(1,104 )	(890 )
Deferred revenue—affiliate	—	266
LNG inventory—affiliate	2,652	—
Other	(3,289 )	(4,642 )
Net cash provided by (used in) operating activities	(9,887 )	5,047
Cash flows from investing activities		
LNG terminal construction-in-process, net	(414 )	(1,521 )
Advances under long-term contracts and other	(1,128 )	(83 )
Net cash used in investing activities	(1,542 )	(1,604 )
Cash flows from financing activities		
Distributions to unitholders	(13,445 )	(11,458 )
Proceeds from sale of partnership units	2,903	1,515
Other	—	43
Net cash used in financing activities	(10,542 )	(9,900 )
Net decrease in cash and cash equivalents	(21,971 )	(6,457 )
Cash and cash equivalents—beginning of period	81,415	53,349
Cash and cash equivalents—end of period	\$59,444	\$46,892

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

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

NOTE 1—Basis of Presentation

The accompanying unaudited Consolidated Financial Statements of Cheniere 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. 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 months ended March 31, 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 or results of operations. We revised the presentation of investment in restricted cash and cash equivalents within our statement of cash flows to conform to the presentation adopted after the first quarter of last year.

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 March 31, 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 March 31, 2012 and December 31, 2011, we classified \$54.9 million and \$13.7 million, respectively, 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):

	March 31, 2012	December 31, 2011
LNG terminal costs		
LNG terminal	\$1,638,198	\$1,637,724
LNG terminal construction-in-process	698	286
LNG site and related costs, net	161	163
Accumulated depreciation	(134,916)	(124,409)
Total LNG terminal costs, net	1,504,141	1,513,764
Fixed assets		
Computers and office equipment	255	227
Vehicles	496	416
Machinery and equipment	1,387	1,068
Other	631	916
Accumulated depreciation	(2,097)	(1,975)
Total fixed assets, net	672	652
Property, plant and equipment, net	\$1,504,813	\$1,514,416

Depreciation expense related to the Sabine Pass LNG terminal totaled \$10.5 million and \$10.7 million for the three months ended March 31, 2012 and 2011, respectively.

NOTE 4—Accrued Liabilities

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

	March 31, 2012	December 31, 2011
Interest expense and related debt fees	\$54,929	\$13,732
Affiliate	4,497	3,794
LNG liquefaction development costs	11,474	1,635
LNG terminal costs	1,632	1,122
Other	885	262
Total accrued liabilities	\$73,417	\$20,545

NOTE 5—Long-Term Debt

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

	March 31, 2012	December 31, 2011
Senior Notes, net of discount	\$2,193,592	\$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 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.

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

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 three months ended March 31, 2012 and 2011, Sabine Pass LNG made distributions to us of \$69.4 million and \$75.2 million, respectively, after satisfying all the applicable conditions in the Sabine Pass Indenture.

NOTE 6—Description of Equity Interests

The common 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 three months ended March 31, 2012, we sold 0.1 million common units with net proceeds of \$2.8 million. In addition, we received \$0.1 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 three months ended March 31, 2012. We paid \$0.1 million in commissions to Miller Tabak + Co., Inc., as sales agent, in connection with the at-the-market program during the three months ended March 31, 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.

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.

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

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 March 31, 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)	\$—	\$1,244	\$—	\$1,244
Fuel Derivatives liability (2)	—	(1,577)	—	(1,577)

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 Operations. We recorded revenues of \$1.2 million and zero related to LNG Inventory Derivatives in the three months ended March 31, 2012 and 2011, respectively.

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 Operations. We recorded derivative loss of \$0.8 million and zero related to Fuel Derivatives in the three months ended March 31, 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):

	March 31, 2012		December 31, 2011	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
2013 Notes (1)	\$550,000	\$577,500	\$550,000	\$555,500
2016 Notes, net of discount (1)	1,643,592	1,762,752	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 March 31, 2012 and December 31, 2011, as applicable.

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

NOTE 8—Related Party Transactions

As of March 31, 2012 and December 31, 2011, we had \$6.0 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"), 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 is 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 have 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 will be responsible for monetizing the capacity at the Sabine Pass LNG terminal and will have the right to utilize all of the services and other 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 has guaranteed all of Cheniere Marketing's payment obligations under the VCRA. We recorded \$1.7 million and \$3.7 million of revenues—affiliate from Cheniere Marketing in the three months ended March 31, 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

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

inventory—affiliate and LCM adjustments are recorded as revenues on our Consolidated Statements of Operations. As of March 31, 2012, we had 924,000 MMBtu of LNG inventory—affiliate recorded at \$1.7 million on our Consolidated Balance Sheets, and as of December 31, 2011, we had 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 March 31, 2012 and 2011, we recognized \$0.9 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 March 31, 2012 and December 31, 2011 was \$1.2 million 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 revenues of \$1.2 million related to LNG inventory—affiliate derivatives in the three months ended March 31, 2012.

#### Service Agreements

During the three months ended March 31, 2012 and 2011, we recorded general and administrative expense—affiliate of \$0.0 million \$4.8 million and \$4.7 million, respectively, under the following service agreements.

#### Sabine Pass LNG O&M Agreement

In February 2005, Sabine Pass LNG entered into a 20-year operation and maintenance agreement (the "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 Management Services Agreement

In February 2005, Sabine Pass LNG entered into a 20-year management services agreement ("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 LNG Terminals, Inc. ("Cheniere Terminals"), a wholly owned subsidiary of Cheniere. Sabine Pass LNG is required to pay Cheniere Terminals a monthly fixed fee of \$520,000 (indexed for inflation).

#### Cheniere Partners Services Agreement

In March 2007, we entered into a services agreement with Cheniere Terminals 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.

In June 2010, Cheniere Terminals and us 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.

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

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 will 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 March 31, 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 \$0.7 million and \$1.1 million of natural gas and LNG purchased from Cheniere Marketing under this agreement in the three months ended March 31, 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 and \$0.3 million pursuant to this agreement in the three months ended March 31, 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 each of the three months ended March 31, 2012 and 2011.

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 three months ended March 31, 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 - December 31, 2011	\$0.425	\$ 13,176	\$ —	\$ 269

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

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.

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 the unitholders with respect to the period plus an allocation of undistributed net income (loss) based on provisions of the partnership agreement, divided by the weighted average number of common units outstanding. 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 unit calculation for any of the periods presented.

The following table provides a reconciliation of net income (loss) and the allocation of net income (loss) to the common units and the subordinated units for purposes of computing net income (loss) per unit (in thousands, except per unit data):

	Total	Limited Partner Units		
		Common Units	Subordinated Units	General Partner
Three Months Ended March 31, 2012				
Net loss	\$(19,332 )			
Declared distributions	13,499	13,229	—	270
Assumed allocation of undistributed net loss	(32,831 )	(6,015 )	(26,160 )	(656 )
Assumed allocation of net income (loss)		\$7,214	\$(26,160 )	\$(386 )
Weighted average units outstanding		31,017	135,384	
Net income (loss) per unit		\$0.23	\$(0.19 )	
Three Months Ended March 31, 2011				
Net loss	\$(2,209 )			
Declared distributions	11,567	11,336	—	231
Assumed allocation of undistributed net loss	(13,776 )	(2,212 )	(11,288 )	(276 )

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Assumed allocation of net income (loss)	\$9,124	\$(11,288	) \$(45	)
Weighted average units outstanding	26,429	135,384		
Net income (loss) per unit	\$0.35	\$(0.08	)	

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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 that we expect to receive an order from the Federal Energy Regulatory Commission ("FERC") authorizing us to construct and operate our proposed liquefaction facilities by certain dates, or at all;
- 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.

As used herein, the terms "Cheniere Partners," "we," "our" and "us" refer to Cheniere Energy Partners, L.P. and its wholly owned subsidiaries effective March 26, 2007 upon the closing of its initial public offering, and to certain entities under common control prior to March 26, 2007, unless otherwise stated or indicated by context.



## 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 at the Sabine Pass LNG terminal.

### Overview of Significant Events

In the first three 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 and generate steady and reliable revenues under Sabine Pass LNG's long-term terminal use agreements ("TUAs"). The major events 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 train one operations and will purchase a portion of the additional 2.0 mtpa of LNG as each of 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 February 2012, we entered into discussions with Blackstone Energy Partners L.P., Blackstone Capital Partners VI L.P., and certain affiliates (collectively, "Blackstone"), whereby Blackstone would fund an equity portion of the financing to develop, construct and place into service the Sabine Pass liquefaction project.

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 April 2012, we engaged eight financial institutions to act as Joint Lead Arrangers to assist in the structuring and arranging of up to \$4 billion of debt facilities. The proceeds will be used to pay for costs of development and construction of the liquefaction project at the Sabine Pass LNG terminal, to fund the acquisition of the Creole Trail Pipeline from Cheniere and for general business purposes.



## Liquidity and Capital Resources

### Cash and Cash Equivalents

As of March 31, 2012, we had \$59.4 million of cash and cash equivalents and \$137.3 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. As of December 31, 2011, we had sold 0.5 million common units with net proceeds of \$9.0 million. During the three months ended March 31, 2012, we sold 0.1 million common units with net proceeds of \$2.8 million. We paid \$0.1 million in commissions to Miller Tabak + Co., Inc., as sales agent, in connection with the at-the-market program during the three months ended March 31, 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 from this offering that we are using for general business purposes, including development costs associated with our proposed liquefaction project at the Sabine Pass LNG terminal.

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 \$0.1 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 three months ended March 31, 2012.

### Sabine Pass LNG Terminal

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.

In November 2006, Cheniere Marketing, LLC ("Cheniere Marketing"), a wholly owned subsidiary of Cheniere, reserved approximately 2.0 Bcf/d of regasification capacity under a TUA and was obligated to make capacity payments to Sabine Pass LNG aggregating approximately \$250 million per year for the period from January 1, 2009, through at least September 30, 2028. In June 2010, Cheniere Marketing assigned its TUA with Sabine Pass LNG to Cheniere Investments, including all of its rights, titles, interests, obligations and liabilities under the TUA. In



connection with the assignment, Cheniere's guarantee of Cheniere Marketing's obligations under the TUA was terminated. Cheniere Investments is obligated to make monthly capacity payments to Sabine Pass LNG aggregating approximately \$250 million per year through at least September 30, 2028; however, the revenue earned by Sabine Pass LNG from Cheniere Investments' capacity payments under the TUA is eliminated upon consolidation of our financial statements. We have guaranteed Cheniere Investments' obligations under its TUA.

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 the TUA, (c) the termination of the VCRA by either party after June 2012, or (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 held by Cheniere Investments and has the right to utilize all of the services and other 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 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 has guaranteed all of Cheniere Marketing's payment obligations under the VCRA. 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 the TUAs, Sabine Pass LNG is entitled to retain 2% of the LNG delivered for the customers account.

We are also developing proposed liquefaction facilities at the Sabine Pass LNG terminal. As currently contemplated, the liquefaction facilities are designed for up to four LNG trains, each with a nominal production capacity of approximately 4.5 mtpa. We expect to commence construction of LNG trains 1 and 2 during the first half of 2012 and begin operations in 2015, with each LNG train commencing operations approximately six to nine months after the previous LNG train. We estimate that the aggregate total cost to complete construction of the proposed liquefaction facilities will be approximately \$9.0 billion to \$10.0 billion, before financing costs. Our cost estimates are subject to change due to such items as change orders, increased component and material costs, escalation of labor costs and increased spending to maintain our construction schedule.

In November 2011, Sabine Pass Liquefaction entered into a lump-sum turnkey engineering procurement and construction agreement with Bechtel Oil, Gas and Chemicals, Inc. ("Bechtel") for construction of LNG trains 1 and 2 of our liquefaction project for \$3.9 billion. The contract price is only subject to adjustment by change order, including by Bechtel if it is adversely affected as a result of a delay in the commencement of construction beyond March 31, 2012.

As of March 31, 2012, we had recorded \$64.9 million of development expense relating to the proposed liquefaction facilities using our cash from operations and equity proceeds from the issuance of 4.1 million common units in September 2011. We expect to finance the construction costs of the proposed liquefaction project from a combination of project financing and debt and equity offerings.

## Sources and Uses of Cash

The following table summarizes (in thousands) the sources and uses of our cash and cash equivalents for the three months ended March 31, 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.

	Three Months Ended	
	March 31,	
	2012	2011
Sources of cash and cash equivalents		
Operating cash flow	\$—	\$5,047
Proceeds from the sale of partnership units	2,903	1,515
Other	—	43
Total sources of cash and cash equivalents	2,903	6,605
Uses of cash and cash equivalents		
Operating cash flow	(9,887	) —
Distributions to unitholders	(13,445	) (11,458
Other	(1,542	) (1,604
Total uses of cash and cash equivalents	(24,874	) (13,062
Net decrease in cash and cash equivalents	(21,971	) (6,457
Cash and cash equivalents—beginning of period	81,415	53,349
Cash and cash equivalents—end of period	\$59,444	\$46,892

## Operating Cash Flow

Operating cash flow decreased \$14.9 million for the three months ended March 31, 2012 compared to the same period in 2011. The decrease in operating cash flow primarily resulted from increased costs incurred to develop the liquefaction project at the Sabine Pass LNG terminal and decreased LNG cargo export loading fee revenue.

## 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 three months ended March 31, 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 - December 31, 2011	\$0.425	\$13,176	\$—	\$269

Prior to the TUA assignment from Cheniere Marketing to Cheniere Investments, we had been using cash paid under the Cheniere Marketing TUA to make distributions to Cheniere on our subordinated units held by Cheniere. Subsequent to the assignment of the TUA, 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. As a result of the TUA assignment, the ending of the subordination period and conversion of the subordinated units into common units will depend upon future business development and is no longer expected to occur as early as previously estimated.

On April 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 May 1, 2012 for the period from January 1, 2012 to March 31, 2012.

## Debt Agreements

### 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 three months ended March 31, 2012 and 2011, Sabine Pass LNG made distributions to us of \$69.4 million and \$75.2 million, respectively, after satisfying all of the applicable conditions in the Sabine Pass Indenture.

### Services Agreements

During the three months ended March 31, 2012 and 2011, we recorded general and administrative expense—affiliate of \$0.0 million \$4.8 million and \$4.7 million, respectively, under the following service agreements.

#### Sabine Pass LNG O&M Agreement

In February 2005, Sabine Pass LNG entered into a 20-year operation and maintenance agreement (the "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 Management Services Agreement

In February 2005, Sabine Pass LNG entered into a 20-year management services agreement ("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 LNG Terminals, Inc. ("Cheniere Terminals"), a wholly owned subsidiary of Cheniere. Sabine Pass LNG is required to pay Cheniere Terminals a monthly fixed fee of \$520,000 (indexed for inflation).

## Cheniere Partners Services Agreement

In March 2007, we entered into a services agreement with Cheniere Terminals 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.

## Results of Operations

Three Months Ended March 31, 2012 vs. Three Months Ended March 31, 2011

### Overall Operations

Our net income decreased \$17.1 million, from a net loss of \$2.2 million in the three months ended March 31, 2011 to a net loss of \$19.3 million in the three months ended March 31, 2012. This decrease in net income primarily resulted from increased development expense.

### Development Expense (including Affiliate Expense)

Development expense increased \$10.4 million, from \$7.5 million in the three months ended March 31, 2011 to \$17.9 million in the three months ended March 31, 2012. This increase resulted from costs incurred to develop the liquefaction project at the Sabine Pass LNG terminal.

### Off-Balance Sheet Arrangements

As of March 31, 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 March 31, 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 (\$)
Fuel Derivatives	Fixed price natural gas swaps	1,069,500	\$3.390 - \$5.002	April 2013	\$(1,577)	\$96
LNG Inventory Derivatives	Fixed price natural gas swaps	856,900	\$2.255 - \$4.442	July 2012	1,244	6

## 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 management, including our Chief Executive Officer and our Chief Financial Officer, the effectiveness of our disclosure controls and procedures pursuant to Rule 13a-15 of the Exchange Act. Based on that evaluation, our Chief Executive Officer and our Chief Financial Officer concluded that our disclosure controls and procedures are effective.

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



Part II. Other Information

Item 1. Legal Proceedings

We may in the future be involved as a party to various legal proceedings, which are incidental to the ordinary course of business. We regularly analyze current information and, as necessary, provide accruals for probable liabilities on the eventual disposition of these matters. In the opinion of management, as of March 31, 2012, there were no known threatened or 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 Amended and Restated LNG Sale and Purchase Agreement (FOB), dated January 25, 2012, between Sabine Pass Liquefaction, LLC (Seller) and BG Gulf Coast LNG, LLC (Buyer). (Incorporated by reference to Exhibit 10.1 to Cheniere Partners' Current Report on Form 8-K (SEC File No. 001-33366), filed on January 26, 2012)
- 10.2 LNG Sale and Purchase Agreement (FOB), dated January 30, 2012, between Sabine Pass Liquefaction, LLC (Seller) and Korea Gas Corporation (Buyer). (Incorporated by reference to Exhibit 10.1 to Cheniere Partners' Current Report on Form 8-K (SEC File No. 1-33366), filed on January 30, 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+ The following materials from Cheniere Energy Partners, L.P.'s Quarterly Report on Form 10-Q for the quarter ended March 31, 2012, formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Operations, (iii) Consolidated Statements of Partners' and Owners' Capital (Deficit), (iv) Consolidated Statements of Cash Flows, and (v) Notes to Consolidated Financial Statements, tagged as a block of text.

\* 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: May 4, 2012