

Cheniere Energy Partners, L.P.
Form 10-Q
August 07, 2009

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, 2009

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)

77002
(Zip code)

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

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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes S 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	S
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 S

The issuer had 26,416,357 common units and 135,383,831 subordinated units outstanding as of July 31, 2009.

CHENIERE ENERGY PARTNERS, L.P.
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PART I. FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements

CHENIERE ENERGY PARTNERS, L.P.
CONSOLIDATED BALANCE SHEETS
(in thousands, except unit data)

	June 30, 2009 (unaudited)	December 31, 2008
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$128,767	\$7
Restricted cash and cash equivalents	13,732	235,985
Accounts and interest receivable	7,597	2,087
Accounts receivable—affiliate	338	419
Advances to affiliate	4,597	2,198
Prepaid expenses and other	5,812	5,407
TOTAL CURRENT ASSETS	160,843	246,103
NON-CURRENT RESTRICTED CASH AND CASH EQUIVALENTS	117,271	137,984
NON-CURRENT RESTRICTED U.S. TREASURY SECURITIES	—	20,829
PROPERTY, PLANT AND EQUIPMENT, NET	1,593,868	1,517,507
DEBT ISSUANCE COSTS, NET	28,862	30,748
ADVANCES UNDER LONG-TERM CONTRACTS	2,697	10,705
ADVANCES TO AFFILIATE—LNG HELD FOR COMMISSIONING	9,767	9,923
OTHER	7,414	5,036
TOTAL ASSETS	\$1,920,722	\$1,978,835
LIABILITIES AND PARTNERS' DEFICIT		
CURRENT LIABILITIES		
Accounts payable	\$632	\$137
Accounts payable—affiliate	722	514
Accrued liabilities	41,115	40,926
Accrued liabilities—affiliate	1,324	184
Deferred revenue	26,238	2,500
Deferred revenue—affiliate	63,299	62,742
TOTAL CURRENT LIABILITIES	133,330	107,003
LONG-TERM DEBT, NET OF DISCOUNT	2,108,887	2,107,673
LONG-TERM DEBT—RELATED PARTY, NET OF DISCOUNT	71,795	70,661
LONG-TERM DEBT—AFFILIATE	—	2,372
DEFERRED REVENUE	35,500	37,500
DEFERRED REVENUE—AFFILIATE	7,360	4,971
OTHER NON-CURRENT LIABILITIES	333	340
COMMITMENTS AND CONTINGENCIES	—	—
PARTNERS' DEFICIT	(37,088)	(23,520)

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Common unitholders (26,416,357 units issued and outstanding at June 30, 2009 and December 31, 2008)		
Subordinated unitholders (135,383,831 units issued and outstanding at June 30, 2009 and December 31, 2008)	(388,528)	(318,994)
General partner interest (2% interest with 3,302,045 units issued and outstanding at June 30, 2009 and December 31, 2008)	(10,867)	(9,171)
TOTAL PARTNERS' DEFICIT	(436,483)	(351,685)
TOTAL LIABILITIES AND PARTNERS' DEFICIT	\$1,920,722	\$1,978,835

See accompanying notes to consolidated financial statements.

CHENIERE ENERGY PARTNERS, L.P.
CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per unit data)
(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
REVENUES				
LNG TUA revenue	\$32,076	\$—	\$32,076	\$—
LNG TUA revenue—affiliate	63,619	—	126,168	—
TOTAL REVENUES	95,695	—	158,244	—
EXPENSES				
Operating and maintenance expense	5,746	174	9,693	178
Operating and maintenance expense—affiliate	2,973	—	5,583	—
Depreciation expense	7,157	19	13,806	37
Development expense	—	234	—	770
Development expense—affiliate	—	—	—	1,387
General and administrative expense	762	707	1,498	1,554
General and administrative expense—affiliate	4,775	1,614	9,986	2,922
TOTAL EXPENSES	21,413	2,748	40,566	6,848
INCOME (LOSS) FROM OPERATIONS	74,282	(2,748)	117,678	(6,848)
OTHER INCOME (EXPENSE)				
Interest income	259	3,346	819	10,049
Interest expense, net	(33,352)	(13,571)	(66,281)	(29,853)
Interest expense, net—affiliate	—	(23)	(13)	(40)
Derivative gain (loss), net	762	(11,537)	3,324	(12,367)
Other	—	20	12	31
TOTAL OTHER EXPENSE	(32,331)	(21,765)	(62,139)	(32,180)
NET INCOME (LOSS)	\$41,951	\$(24,513)	\$55,539	\$(39,028)
Allocation of net income (loss):				
Limited partners' interest	41,112	(24,023)	54,428	(38,247)
General partner's interest	839	(490)	1,111	(781)
Net income (loss) for partners	\$41,951	\$(24,513)	\$55,539	\$(39,028)
Basic and diluted net income (loss) per limited partner unit	\$0.26	\$(0.15)	\$0.34	\$(0.24)
Weighted average number of limited partner units outstanding used for basic and diluted net income (loss) per unit calculation:				
Common units	26,416	26,416	26,416	26,416
Subordinated units	135,384	135,384	135,384	135,384
	161,800	161,800	161,800	161,800

See accompanying notes to consolidated financial statements.

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

	Common Units	Subordinated Units	General Partner Units	Total
Balance at December 31, 2008	\$(23,520)	\$ (318,994)	\$(9,171)	\$(351,685)
Net income	8,886	45,542	1,111	55,539
Distributions	(22,454)	(115,076)	(2,807)	(140,337)
Balance at June 30, 2009	\$(37,088)	\$ (388,528)	\$(10,867)	\$(436,483)

See accompanying notes to consolidated financial statements.

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

	Six Months June 30,	
	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	\$55,539	\$(39,028)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation	13,806	37
Non-cash derivative (gain) loss	265	7,740
Amortization of debt issuance costs	1,909	1,898
Interest income on restricted cash and cash equivalents	(2,120)	(12,136)
Use of (investment in) restricted cash and cash equivalents	—	67,988
Amortization of debt discount	2,347	—
Changes in operating assets and liabilities:		
Accounts and interest receivable	1,941	2,634
Accounts payable and accrued liabilities	(10,758)	3,571
Accounts payable and accrued liabilities—affiliate	1,324	2,526
Accounts receivable—affiliate	81	—
Advances to affiliate	(2,399)	(31,757)
Deferred revenue	22,295	2,388
Other	(666)	(6,689)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	83,564	(828)
CASH FLOWS FROM INVESTING ACTIVITIES		
Use of restricted cash and cash equivalents	189,665	365,335
LNG terminal construction-in-process, net	(63,677)	(292,447)
Advances under long-term contracts	(145)	(7,472)
Purchases of LNG held for commissioning, net of amounts transferred to LNG terminal construction-in-process	—	(957)
Advances to affiliate—LNG held for commissioning, net of amounts transferred to LNG receiving terminal construction-in-process	(14,184)	(64,459)
NET CASH PROVIDED BY INVESTING ACTIVITIES	111,659	—
CASH FLOWS FROM FINANCING ACTIVITIES		
Distribution to unitholders	(140,337)	(22,912)
Borrowings from long-term debt—affiliate	114	815
Repayment of long-term debt—affiliate	(2,467)	—
Debt issuance costs	(23)	(13)
Affiliate payable	—	8
Use of restricted cash and cash equivalents	76,250	22,925
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	(66,463)	823
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	128,760	(5)
CASH AND CASH EQUIVALENTS—beginning of period	7	13
CASH AND CASH EQUIVALENTS—end of period	\$128,767	\$8

See accompanying notes to consolidated financial statements.

CHENIERE ENERGY PARTNERS, L.P.
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 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. Certain items in the prior year financial statements have been reclassified to conform to the 2009 presentation. 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 consolidated subsidiaries, unless otherwise stated or indicated by context.

Results of operations for the three and six months ended June 30, 2009 are not necessarily indicative of the results of operations that will be realized for the year ended December 31, 2009.

With the exception of our wholly-owned subsidiary, Sabine Pass LNG-GP, Inc. (“Sabine Pass GP”), we are not subject to either federal or state income tax, as the partners are taxed individually on their proportionate share of our earnings. Sabine Pass GP is a corporation and is subject to both federal and state income tax. However, since Sabine Pass GP’s inception, its activities have been strictly limited to holding a non-income or loss bearing general partner interest in our wholly-owned subsidiary, Sabine Pass LNG, L.P. (“Sabine Pass LNG”) and, thus, this entity has not realized any taxable net income to date and is not expected to realize any taxable net income in the future.

In the second quarter of 2009, Sabine Pass LNG purchased Sabine Pass Tug Services, LLC (“Tug Services”), a wholly owned subsidiary of Cheniere Energy, Inc. (“Cheniere”). As a result, Sabine Pass LNG acquired a lease (the “Tug Agreement”) for the use of tug boats and marine services at our LNG receiving terminal (see Note 10—“Lease”). In connection with this acquisition, Tug Services entered into a Terminal Marine Services Agreement (the “Tug Sharing Agreement”) with our three terminal use agreement (“TUA”) customers to provide their LNG cargo vessels with tug boat and marine services at our LNG receiving terminal (see Note 10—“Lease”).

We have evaluated subsequent events through August 6, 2009.

For further information, refer to the consolidated financial statements and footnotes included in our annual report on Form 10-K for the year ended December 31, 2008.

NOTE 2—Advances to Affiliate-LNG Held for Commissioning

Liquified natural gas (“LNG”) purchased on our behalf by Cheniere Marketing, LLC (“Cheniere Marketing”), formerly Cheniere Marketing, Inc., has been funded by us and is recorded at historical cost and classified as a non-current asset on our Consolidated Balance Sheets as Advances to Affiliate—LNG Held for Commissioning (See Note 9—“Related Party Transactions”); for this LNG, Cheniere Marketing holds title to the LNG at all times, sells all regassified LNG and remits the net proceeds from such sales back to us. The LNG used in the commissioning process is capitalized net of amounts received from the sale of natural gas.

At June 30, 2009 and December 31, 2008, we had \$9.8 million and \$9.9 million, respectively, recorded as Advances to Affiliate—LNG Held for Commissioning on our Consolidated Balance Sheets.

NOTE 3—Restricted Cash and Cash Equivalents and U.S. Treasury Securities

Restricted cash and cash equivalents and U.S. Treasury securities consist of cash that has been contractually restricted as to usage or withdrawal, as follows:

Sabine Pass LNG Receiving Terminal Construction Reserve

In November 2006, Sabine Pass LNG issued an aggregate principal amount of \$2,032.0 million of Senior Secured 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” and collectively with the 2013 Notes, the “Senior Notes”). In September 2008, Sabine Pass LNG completed an additional \$183.5 million, before discount, of 2016 Notes whose terms were identical to the previously outstanding 2016 Notes. The additional issuance and the previously outstanding 2016 Notes are treated as a single series of notes under the indenture governing the Senior Notes (“Sabine Pass Indenture”) (See Note 6—“Long-Term Debt”). Under the terms and conditions of the Senior Notes, Sabine Pass LNG was required to fund a cash reserve account for approximately \$987 million to pay the remaining costs to complete the Sabine Pass LNG receiving terminal. The cash accounts are controlled by a collateral trustee, and therefore, are shown as restricted cash and cash equivalents on our Consolidated Balance Sheets. As of June 30, 2009, the Sabine Pass LNG receiving terminal construction reserve account balance was zero. As of December 31, 2008, \$27.4 million related to accrued construction costs had been classified as part of current restricted cash and cash equivalents, and \$43.7 million related to remaining construction costs had been classified as a non-current asset on our Consolidated Balance Sheets.

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

Senior Notes Debt Service Reserve

As described above, Sabine Pass LNG consummated a private offering of an aggregate principal amount of \$2,215.5 million of Senior Notes (See Note 6—“Long-Term Debt”). Under the Sabine Pass Indenture governing the Senior Notes, 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. In addition, 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. As of June 30, 2009 and December 31, 2008, we classified \$13.7 million as current restricted cash and cash equivalents as these amounts related to the payment of interest due within twelve months. As of June 30, 2009 and December 31, 2008, we classified \$82.4 million as non-current restricted cash and cash equivalents. These cash accounts are controlled by a collateral trustee, and therefore, are shown as restricted cash and cash equivalents on our Consolidated Balance Sheets.

Distribution Reserve

At the closing of our initial public offering, we funded a distribution reserve of \$98.4 million, which was invested in U.S. Treasury securities. The distribution reserve, including interest earned thereon, is available to be used to pay quarterly distributions of \$0.425 per common unit for all common units, as well as related distributions to Cheniere Partners’ general partner, through the distribution made in respect of the quarter ending June 30, 2009. The U.S. Treasury securities were acquired at a discount from their maturity values equal to an average of approximately 4.87% per year. As of June 30, 2009 and December 31, 2008, we classified \$34.9 million and \$11.9 million, respectively, as non-current restricted cash that may be utilized to pay quarterly distributions. As of June 30, 2009 and December 31, 2008, we classified zero and \$20.8 million as non-current restricted U.S. Treasury securities on our Consolidated Balance Sheets that may be utilized to pay quarterly distributions, as these securities had original maturities greater than three months.

NOTE 4—Property, Plant and Equipment

Property, plant and equipment is comprised of LNG terminal construction-in-process expenditures, LNG site and related costs and fixed assets, as follows (in thousands):

	June 30, 2009	December 31, 2008
LNG TERMINAL COSTS		
LNG receiving terminal	\$1,070,678	\$919,776
LNG terminal construction-in-process	543,510	604,398
LNG site and related costs, net	180	183
Accumulated depreciation	(21,306)	(7,752)
Total LNG terminal costs	1,593,062	1,516,605

FIXED ASSETS		
Computer and office equipment	256	200
Vehicles	421	421
Machinery and equipment	751	751
Other	357	254
Accumulated depreciation	(979)	(724)
Total fixed assets, net	806	902
PROPERTY, PLANT AND EQUIPMENT, NET	\$1,593,868	\$1,517,507

Costs associated with the construction of the Sabine Pass LNG receiving terminal have been capitalized as construction-in-process since the date the project satisfied our criteria for capitalization. For the six-month periods ended June 30, 2009 and 2008, we capitalized \$20.4 million and \$47.6 million, respectively, of interest expense related to the construction of the Sabine Pass LNG receiving terminal.

The Sabine Pass LNG receiving terminal is depreciated using the straight-line depreciation method applied to groups of LNG receiving terminal assets with varying useful lives. The identifiable components of the Sabine Pass LNG receiving terminal with similar estimated useful lives have a depreciable range between 10 and 50 years.

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

NOTE 5—Accrued Liabilities

As of June 30, 2009 and December 31, 2008, accrued liabilities consisted of the following (in thousands):

	June 30, 2009	December 31, 2008
Interest and related debt fees	\$ 14,152	\$ 14,152
LNG terminal construction costs	26,267	26,617
Affiliate	1,324	184
Other	696	157
Accrued liabilities	\$42,439	\$41,110

NOTE 6—Long-Term Debt

As of June 30, 2009 and December 31, 2008, our long-term debt consisted of the following (in thousands):

	June 30, 2009	December 31, 2008
Senior Notes, net of discount	\$2,108,887	\$2,107,673
Senior Notes, net of discount—related party	71,795	70,661
Long-term note—affiliate	—	2,372
Total Long-term debt, net of discount	\$2,180,682	\$2,180,706

Senior Notes

In November 2006, Sabine Pass LNG issued an aggregate principal amount of \$2,032.0 million of Senior Notes, consisting of \$550.0 million of the 2013 Notes and \$1,482.0 million of 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. The net proceeds received from the additional issuance of 2016 Notes were \$145.0 million. One of the lenders of the additional issuance of the 2016 Notes is GSO Capital Partners, L.P. (“GSO”), an affiliate of one member of the board of directors of our general partner. GSO did not receive any fees in connection with the additional issuance of 2016 Notes. The additional issuance and the previously outstanding 2016 Notes are treated as a single series of notes under the Sabine Pass Indenture. Sabine Pass LNG placed \$100.0 million of the \$145.0 million of net proceeds from the additional issuance of the 2016 Notes into a construction account to pay construction expenses of cost overruns related to the construction, cool down, commissioning and completion of the Sabine Pass LNG receiving terminal. In addition, Sabine Pass LNG placed \$40.8 million of the remaining net proceeds into an account in accordance with the cash waterfall requirements of the security deposit agreement Sabine Pass LNG entered into in connection with the Senior Notes, which are used by Sabine Pass LNG for working capital and other general business purposes.

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. 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. In addition, 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 and six months ended June 30, 2009, Sabine Pass LNG made distributions of \$73.0 million and \$149.3 million, respectively, to us after satisfying all the applicable conditions in the Sabine Pass Indenture.

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

Long-Term Note—Affiliate

In March 2007, we entered into a \$12.0 million unsecured revolving credit note with Cheniere LNG Financial Services, Inc., a wholly-owned subsidiary of Cheniere Energy, Inc. (“Cheniere”), to be paid upon demand but no sooner than January 1, 2010, or the date on which we have sufficient available cash. The purpose of this note was to provide funds for the payment of certain public company and other expenses that cannot be funded by the Senior Notes. Interest on borrowings under this note was at a fixed rate of 7½% with unpaid interest compounded semi-annually. In January 2009, we repaid this \$2.5 million note in full.

NOTE 7—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 (“Holdings”) contributed all of its 135,383,831 subordinated units to Cheniere Subsidiary Holdings, LLC.

The common units and general partner units have the right to receive minimum quarterly distributions of \$0.425 and \$0.069 per unit, respectively, 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 the subordination period ends. The subordination period will end when we meet financial tests specified in the partnership agreement.

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%.

NOTE 8—Financial Instruments

On behalf of Sabine Pass LNG, Cheniere Marketing has entered into financial derivatives to hedge the exposure to variability in expected future cash flows attributable to the future sale of natural gas from our LNG commissioning cargoes (“LNG commissioning cargo derivatives”). The net cost (LNG commissioning cargo purchase price less natural gas sales proceeds) of our LNG commissioning cargoes is capitalized on our Consolidated Balance Sheets as it is directly related to the LNG receiving terminal construction and is incurred to place the LNG receiving terminal in usable condition. However, changes in the fair value of our LNG commissioning cargo derivatives are reported in earnings because they are not able to be designated as a qualifying hedge in accordance with Financial Accounting Standards Board (“FASB”) Statement No. 133, Accounting for Derivative Instruments and Hedging Activities.

Effective January 1, 2008, we adopted FASB Statement of Accounting Standards (“SFAS”) No. 157, Fair Value Measurements, and SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities—Including an amendment of FASB Statement No. 115. As a result of the adoption, we elected not to measure any additional financial assets or liabilities at fair value, other than those which were recorded at fair value prior to adoption.

The estimated fair value of financial instruments is the amount at which the instrument could be exchanged currently between willing parties. The fair value of our commodity futures contracts are based on inputs that are quoted prices

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in active markets for identical assets or liabilities, resulting in Level 1 categorization of such measurements. The following table (in thousands) sets forth, by level within the fair value hierarchy, the fair value of our financial assets and liabilities at June 30, 2009:

	Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Carrying Value
Derivatives assets	\$ 964	\$ —	\$ —	\$ 964

Derivative assets reflect positions held by Cheniere Marketing on behalf of Sabine Pass LNG related to natural gas swaps entered into to hedge the cash flows from the sale of excess LNG purchased for commissioning.

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

SFAS No. 107, Disclosures About Fair Value of Financial Instruments, requires the disclosure of the estimated fair value of financial instruments, including those financial instruments for which the SFAS 159 fair value option was not elected. The carrying amounts reported on our Consolidated Balance Sheets for cash and cash equivalents, restricted cash and cash equivalents, accounts receivable, interest receivables, and accounts payable approximate fair value due to their short-term nature. The carrying amounts and fair values of financial instruments for which SFAS No. 159 was not elected are as follows:

Financial Instruments (in thousands):

	June 30, 2009		December 31, 2008	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
2013 Notes (1)	\$550,000	\$471,625	\$550,000	\$412,500
2016 Notes (1)	1,630,682	1,341,236	1,628,334	1,204,967
Note to affiliate (2)	—	—	2,372	2,379
Restricted U.S. Treasury securities (3)	—	—	20,829	22,901

(1) The fair value of the Senior Notes was based on quotations obtained from broker-dealers who made markets in these and similar instruments as of June 30, 2009 and December 31, 2008.

(2) The note to affiliate bears interest at a fixed 7½% rate. Management estimates that the carrying amount is a reasonable approximation of the fair value as of December 31, 2008.

(3) The fair value of our restricted U.S. Treasury securities was based on quotations obtained from broker-dealers who made markets in these and similar instruments as of December 31, 2008.

NOTE 9—Related Party Transactions

As of June 30, 2009 and December 31, 2008, we had \$4.6 million and \$2.2 million, respectively, of advances to affiliates. In addition, we or Sabine Pass LNG has entered into the following related party transactions:

TUA Agreement

Cheniere Marketing has reserved approximately 2.0 Bcf/d of regasification capacity under a firm commitment TUA, and is required to make capacity payments aggregating approximately \$250 million per year for the period from January 1, 2009, through at least the third quarter of 2028. Cheniere has guaranteed Cheniere Marketing's obligations under its TUA.

LNG Lease Agreement

In September 2008, Sabine Pass LNG entered into an agreement in the form of a lease with Cheniere Marketing that enabled Sabine Pass LNG to hedge the exposure to variability in expected future cash flows of its commissioning cargoes. The agreement permits Cheniere Marketing to deliver LNG to the Sabine Pass LNG receiving terminal and to receive regasified LNG for redelivery as natural gas in exchange for the use of the properties of the LNG to cool down the Sabine Pass LNG receiving terminal. Under the terms of the agreement, Sabine Pass LNG pays Cheniere Marketing a fixed fee based on the delivered quantity of LNG in each LNG cargo. Sabine Pass LNG assumes full

price risk of the purchase and sale of the LNG and also finances all activities relating to the LNG. Cheniere Marketing holds title to the LNG at all times and sells all redelivered LNG and remits the net proceeds from such sales back to Sabine Pass LNG.

LNG purchased on Sabine Pass LNG's behalf by Cheniere Marketing that has been funded by Sabine Pass LNG is recorded at historical cost and classified as a non-current asset on our Consolidated Balance Sheets as advances to affiliate—LNG held for commissioning. LNG that is lost, used as fuel or sold results in the reduction of advances to affiliate—LNG held for commissioning on our Consolidated Balance Sheets at historical cost. During the second quarter of 2008 and the first quarter of 2009, Sabine Pass LNG advanced Cheniere Marketing funds to purchase LNG. At June 30, 2009 and December 31, 2008, we had \$9.8 million and \$9.9 million, respectively, recorded as advances to affiliate—LNG held for commissioning on our Consolidated Balance Sheets related to the purchase of commissioning cargoes. In addition, during the three-month periods ended June 30, 2009 and 2008, Sabine Pass LNG incurred fixed fees from Cheniere Marketing of zero and \$0.6 million, respectively, which we capitalized as property, plant and equipment on our Consolidated Balance Sheets. During the six-month periods ended June 30, 2009 and 2008, Sabine Pass LNG incurred fixed fees from Cheniere Marketing of \$0.3 million and \$0.6 million, respectively, which we capitalized as property, plant and equipment on our Consolidated Balance Sheets.

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

Service Agreements

In February 2005, Sabine Pass LNG entered into a 20-year operation and maintenance 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. Prior to substantial completion of the Sabine Pass LNG receiving terminal, as defined in Sabine Pass LNG's engineering, procurement and construction ("EPC") contract with Bechtel Corporation ("Bechtel"), Sabine Pass LNG was required to pay a fixed monthly fee of \$95,000 (indexed for inflation) under the agreement. The fixed monthly fee increased to \$130,000 (indexed for inflation) upon the achievement of substantial completion of the Sabine Pass LNG receiving terminal in March 2009, 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.

In February 2005, Sabine Pass LNG entered into a 20-year management services agreement with its general partner, which is a wholly-owned subsidiary of us, 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 operation and maintenance agreement described in the paragraph above. In August 2008, the general partner of Sabine Pass LNG assigned all of its rights and obligations under the management services agreement to Cheniere LNG Terminals, Inc. ("Cheniere Terminals"), a wholly-owned subsidiary of Cheniere. Prior to substantial completion of the Sabine Pass LNG receiving terminal, as defined in Sabine Pass LNG's EPC contract with Bechtel, Sabine Pass LNG was required to pay Cheniere Terminals a monthly fixed fee of \$340,000 (indexed for inflation). With the achievement of substantial completion of the Sabine Pass LNG receiving terminal in March 2009, the monthly fixed fee increased to \$520,000 (indexed for inflation).

In March 2007, we entered into a services agreement with Cheniere Terminals pursuant to which we pay Cheniere Terminals an annual administrative fee of \$10 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.

During the three-month periods ended June 30, 2009 and 2008, we paid an aggregate of \$4.4 million and \$2.3 million, respectively, under the foregoing service agreements from restricted cash and cash equivalents. During the six-month periods ended June 30, 2009 and 2008, we paid an aggregate of \$9.4 million and \$4.6 million, respectively, under the foregoing service agreements from restricted cash and cash equivalents.

Agreement to Fund Sabine Pass LNG's Cooperative Endeavor Agreements ("CEAs")

In July 2007, Sabine Pass LNG executed CEAs with various Cameron Parish, Louisiana taxing authorities that allow them to accelerate certain of Sabine Pass LNG's property tax payments scheduled to begin in 2019. 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 advance payments of 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 receiving terminal starting in 2019. In September 2007, Sabine Pass LNG entered into an agreement with Cheniere Marketing, pursuant to which Cheniere Marketing will advance Sabine Pass LNG any and all amounts payable under the CEAs in exchange for a similar amount of credits against future ad valorem reimbursements it would owe Sabine Pass LNG under their TUA starting in 2019. These advance ad valorem tax payments were recorded to other assets, and payments from Cheniere Marketing that we utilized to make the early payment of taxes were recorded as deferred revenue. As of June 30, 2009 and December 31, 2008, we had \$7.4 million and \$5.0 million of other assets and deferred revenue resulting from accelerated ad valorem tax payments, respectively.

Contracts for Sale and Purchase of Natural Gas

In 2007, we entered into a number of related party agreements for the purchase and sale of natural gas with Cheniere Marketing. During the six-month periods ended June 30, 2009 and 2008, Sabine Pass LNG did not sell or purchase any natural gas under its purchase and sale agreements with Cheniere Marketing.

Contract for Commissioning Activities

Sabine Pass LNG has entered into a number of related party agreements for commissioning activities with Cheniere Marketing and Tug Services. During the three-month periods ended June 30, 2009 and 2008, Sabine Pass LNG received an aggregate of zero and \$1.1 million, respectively, under these commissioning activities agreements with Cheniere Marketing and Tug Services. During the six-month periods ended June 30, 2009 and 2008, Sabine Pass LNG paid an aggregate of zero and \$37.7 million, respectively, under these commissioning activities agreements with Cheniere Marketing and Tug Services.

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

NOTE 10—Lease

As described in Note 1—“Basis of Presentation,” in the second quarter of 2009 Sabine Pass LNG acquired a lease for the use of tug boats and marine services at the Sabine Pass LNG receiving terminal as a result of our purchase of Tug Services. The term of the Tug Agreement commenced in January 2008 for a period of 10 years, with an option to renew two additional, consecutive terms of five years each. In accordance with Emerging Issue Task Force (“EITF”) 01-08, Determining Whether an Arrangement Contains a Lease, we have determined that the Tug Agreement contains a lease for the tugs specified in the Tug Agreement. In addition, we have concluded that the tug lease contained in the Tug Agreement is an operating lease as defined in SFAS No. 13, Accounting for Leases, and as such, the equipment component of the Tug Agreement will be charged to expense over the term of the Tug Agreement as it becomes payable.

In connection with this acquisition, Tug Services entered into a Terminal Marine Services Agreement (the “Tug Sharing Agreement”) with Sabine Pass LNG’s three TUA customers to provide their LNG cargo vessels with tug boat and marine services at the Sabine Pass LNG receiving terminal and effectively offset the cost of our lease. The Tug Sharing Agreement provides for each of Sabine Pass LNG’s customers to pay Tug Services an annual service fee.

NOTE 11—Supplemental Cash Flow Information and Disclosures of Non-cash Transactions

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

	Six Months Ended June 30,	
	2009	2008
Cash paid for interest, net of amounts capitalized	\$62,014	\$27,932
Construction-in-process and debt issuance additions funded with accrued liabilities	25,217	77,368

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 are "forward-looking statements." Included among "forward-looking statements" are, among other things:

- statements regarding our ability to pay distributions to our unitholders;
- statements relating to the construction and operation of the Sabine Pass liquefied natural gas ("LNG") receiving terminal, including statements concerning the completion or expansion thereof by certain dates or at all, the costs related thereto and certain characteristics, including amounts of regasification and storage capacity, the number of storage tanks and docks;
- statements relating to the construction and operation of facilities related to the Sabine Pass LNG receiving terminal;
 - our expected receipt of cash distributions from Sabine Pass LNG, L.P. ("Sabine Pass LNG");
- statements regarding any financing transactions or arrangements, or ability to enter into such transactions or arrangements;
- statements regarding any terminal use agreement ("TUA") or other 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 LNG regasification capacity that are, or may become, subject to TUAs or other contracts;
 - statements regarding counterparties to our TUAs, construction contracts and other contracts;
- statements regarding any business strategies, any business plans or any other plans, forecasts, projections or objectives, any or all of which are subject to change;
 - statements regarding conflicts of interest with Cheniere Energy, Inc. ("Cheniere") and its affiliates;
- 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 such as "achieve," "anticipate," "believe," "estimate," "expect," "forecast," "plan," "potential," "project," "propose," "strategy" and similar terms. Although we believe that the expectations reflected in these forward-looking statements are reasonable, they 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 speak only as of the date of this quarterly report.

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.

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, 2008. 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.

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.

Overview

We are a Delaware limited partnership formed by Cheniere. Through our wholly-owned subsidiary, Sabine Pass LNG, L.P. (“Sabine Pass LNG”), we own and operate the Sabine Pass LNG receiving terminal currently under construction in western Cameron Parish, Louisiana on the Sabine Pass Channel.

In the second quarter of 2009, Sabine Pass LNG purchased Sabine Pass Tug Services, LLC (“Tug Services”), a wholly owned subsidiary of Cheniere. As a result, Sabine Pass LNG acquired a lease (the “Tug Agreement”) for the use of tug boats and marine services at our LNG receiving terminal (see Note 10—Lease for further information on the Tug Agreement). In connection with this acquisition, Tug Services entered into a Terminal Marine Services Agreement (the “Tug Sharing Agreement”) with our three TUA customers to provide their LNG cargo vessels with tug boat and marine services at our LNG receiving terminal.

Following the achievement of commercial operability of the Sabine Pass LNG receiving terminal in September 2008, Sabine Pass LNG began receiving capacity reservation fee payments from Cheniere Marketing, LLC (“Cheniere Marketing”), formerly Cheniere Marketing, Inc., a wholly-owned subsidiary of Cheniere, under its terminal use agreement (“TUA”). In December 2008, Cheniere Marketing paid Sabine Pass LNG a capacity reservation fee payment of \$62.7 million for the three-month period ended March 31, 2009. In March 2009, Cheniere Marketing paid Sabine Pass LNG a capacity reservation fee payment of \$62.4 million for the three-month period ending June 30, 2009. Also, Sabine Pass LNG began receiving capacity reservation fee payments from Total Gas and Power North America, Inc. (formerly known as Total LNG USA, Inc.) (“Total”) and Chevron U.S.A., Inc. (“Chevron”) under their TUAs in March 2009 and June 2009, respectively, when Total and Chevron made their first monthly capacity reservation fee payments of \$10.3 million.

Overview of Significant 2009 Events

In the first half of 2009, we maintained commercial operability and continued to execute our strategy to complete construction of the Sabine Pass LNG receiving terminal and to generate steady and reliable revenues under Sabine Pass LNG’s long-term TUAs. The major events of the first half of 2009 include the following:

- the receipt of capacity reservation fee payments from Cheniere Marketing, Total and Chevron;
- the purchase, transportation and successful unloading of an additional LNG commissioning cargo for the Sabine Pass LNG receiving terminal; and
- the distributions to our subordinated unitholder.

Liquidity and Capital Resources

Construction

Our estimated aggregate construction, commissioning and operating cost budget through the achievement of full operability of our LNG receiving terminal, with approximately 4.0 Bcf/d of total sendout capacity and five storage tanks with approximately 16.8 Bcf of aggregate storage capacity, is approximately \$1,559 million, excluding financing costs. Of this amount, approximately \$1,499 million of construction and commissioning costs had been incurred as of June 30, 2009. Our remaining construction, commissioning and operating costs are anticipated to be funded from working capital and cash and cash equivalents designated for construction.

TUA Revenues

The entire approximately 4.0 Bcf/d of regasification capacity that will be available at the Sabine Pass LNG receiving terminal upon completion of construction has been contracted under two 20-year, firm commitment TUAs with unaffiliated third parties, and a third TUA with Cheniere Marketing. Each of the three customers at the Sabine Pass LNG receiving terminal must make the full contracted amount of capacity reservation fee payments under its TUA whether or not it uses any of its reserved capacity. Because we achieved commercial operability of the Sabine Pass LNG receiving terminal in September 2008, capacity reservation fee TUA payments will be made by the Sabine Pass LNG third-party customers as follows:

• Total has reserved approximately 1.0 Bcf/d of regasification capacity and has agreed to make monthly capacity payments to Sabine Pass LNG aggregating approximately \$125 million per year for 20 years commencing April 1, 2009. Total, S.A. has guaranteed Total's obligations under its TUA up to \$2.5 billion, subject to certain exceptions; and

• Chevron has reserved approximately 1.0 Bcf/d of regasification capacity and has agreed to make monthly capacity payments to Sabine Pass LNG aggregating approximately \$125 million per year for 20 years commencing July 1, 2009. Chevron Corporation has guaranteed Chevron's obligations under its TUA up to 80% of the fees payable by Chevron.

In addition, Cheniere Marketing has reserved the remaining 2.0 Bcf/d of regasification capacity and is entitled to use any capacity not utilized by Total and Chevron. Cheniere Marketing has agreed to make capacity reservation fee payments aggregating approximately \$250 million per year for the period from January 2009 through at least the third quarter of 2028. Cheniere has guaranteed Cheniere Marketing's obligations under its TUA.

Cheniere Marketing has a limited operating history, limited capital and no credit rating. Cheniere, which has guaranteed the obligations of Cheniere Marketing under its TUA, has a non-investment grade corporate rating. In addition, the LNG and natural gas marketing business activities of Cheniere Marketing were downsized during 2008. If Cheniere and its subsidiaries do not have sufficient liquidity to pay their obligations, including payments required under the Cheniere Marketing TUA, then Sabine Pass LNG will likely be unable to make cash distributions to us under the Sabine Pass Indenture described below. If Sabine Pass LNG is unable to make such restricted cash distributions, then we will likely be unable to make our anticipated future quarterly cash distributions on our units. Under such circumstances and absent additional external funding, Cheniere Marketing and Cheniere would likely be unable to meet their ongoing TUA and guarantee obligations to Sabine Pass LNG.

Under each of these TUAs, Sabine Pass LNG is also entitled to retain 2% of the LNG delivered for the customer's account, which Sabine Pass LNG will use primarily as fuel for revaporation and self-generated power at the Sabine Pass LNG receiving terminal.

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

Sources and Uses of Cash

The following table (in thousands) and the explanatory paragraphs following the table summarize the sources and uses of our cash and cash equivalents for the six months ended June 30, 2009 and 2008. 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 document.

	Six Months Ended June 30,	
	2009	2008
SOURCES OF CASH AND CASH EQUIVALENTS		
Use of restricted cash and cash equivalents	\$265,915	\$388,260
Operating cash flow	83,564	—
Borrowings under long-term debt—affiliate	114	815
Affiliate Payable	—	8
Total sources of cash and cash equivalents	349,593	389,083
USES OF CASH AND CASH EQUIVALENTS		
Distribution to unitholders	(140,337)	(22,912)
LNG terminal construction-in-process, net	(63,677)	(292,447)
Advances to affiliate—LNG held for commissioning, net of transfers to LNG receiving terminal construction-in-process	(14,184)	(64,459)
Purchases of LNG held for commissioning, net of amounts transferred to LNG terminal construction-in- process	—	(957)
Operating cash flow	—	(828)
Repayment of long-term debt—affiliate	(2,467)	—
Advances under long-term contracts	(145)	(7,472)
Debt Issuance Costs	(23)	(13)
Total uses of restricted cash and cash equivalents	(220,833)	(389,088)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	128,760	(5)
CASH AND CASH EQUIVALENTS—beginning of period	7	13
CASH AND CASH EQUIVALENTS—end of period	\$128,767	\$8

Use of restricted cash and cash equivalents

In November 2006, Sabine Pass LNG issued an aggregate principal amount of \$2,032.0 million of Senior Secured 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” and collectively with the 2013 Notes, the “Senior Notes”). In September 2008, Sabine Pass LNG completed an additional \$183.5 million, before discount, of 2016 Notes whose terms were identical to the previously outstanding 2016 Notes. Under the indenture governing the Senior Notes (the “Sabine Pass Indenture”), a portion of the proceeds from the Senior Notes was required to be used for scheduled interest payments and to fund the cost to complete construction of the Sabine Pass LNG receiving terminal. Due to these restrictions imposed by the Sabine Pass Indenture, the proceeds are not presented as cash and cash equivalents. Therefore, when proceeds from the Senior Notes are used, they are presented as a source of cash and cash equivalents. In the six months ended June 30, 2009 and 2008, the \$265.9 million and \$388.3million, respectively, of restricted cash and cash equivalents were primarily used to pay for scheduled interest payments and construction activities at the Sabine Pass LNG receiving terminal. In addition, \$149.3 million of restricted cash was used by Sabine Pass LNG in the six-month period ending June 30, 2009, to fund the distribution to us.

Operating cash flow

During the six-month period ended June 30, 2009, cash from operations was \$83.6 million as a result of TUA payments received by Sabine Pass LNG from Cheniere Marketing, Total and Chevron.

Distribution to unitholders

During the six months ended June 30, 2009, we made \$140.3 million of distributions to our common unitholders, subordinated unitholders and general partner. For the six months ended June 30, 2008, we made a \$22.9 million distribution to our common and subordinated unitholders and general partner.

LNG terminal construction-in-process, net

Capital expenditures for the Sabine Pass LNG receiving terminal were \$63.7 million and \$292.4 million in the six months ended June 30, 2009 and 2008, respectively. Our capital expenditures decreased in the six months ended June 30, 2009 compared to the six months ended June 30, 2008 as a result of the achievement of commercial operability of the initial 2.6 Bcf/d of sendout capacity and 10.1 Bcf of storage capacity in September 2008.

Advances to affiliate—LNG held for commissioning, net of transfers to LNG receiving terminal construction-in-process

During the six-month period ended June 30, 2009, Sabine Pass LNG made a \$14.2 million advance to Cheniere Marketing under its LNG lease agreement for the purchase of an LNG cargo to be used for the commissioning of the Sabine Pass LNG receiving terminal.

Repayment of long-term debt—affiliate

In January 2009, we repaid this note in full. The purpose of this note was to provide funds for the payment of certain public company and other expenses that cannot be funded by the Senior Notes.

Advances under long-term contracts

Advances under long-term contracts decreased in the six months ended June 30, 2009 compared to the same period in 2008 primarily as a result of the achievement of commercial operability of the initial 2.6 Bcf/d of sendout capacity

and 10.1 Bcf of storage capacity of the Sabine Pass LNG receiving terminal in September 2008.

Available Cash

As of June 30, 2009, we had \$128.8 million of cash and cash equivalents and \$131.0 million of restricted cash and cash equivalents. The \$128.8 million of cash and cash equivalents is held in our subsidiary Sabine Pass LNG. The restricted cash and cash equivalents were designated for the following purposes: \$96.1 million was held by Sabine Pass LNG for interest payments related to the Senior Notes and \$34.9 million was held by us in a distribution reserve account for quarterly distribution payments.

The foregoing funds are anticipated to be sufficient to fund the construction budget, operating expenditures and interest requirements through the achievement of full operability of the Sabine Pass LNG receiving terminal, expected to be achieved in the third quarter of 2009. Regardless of whether Sabine Pass LNG receives revenues from Cheniere Marketing (or Cheniere, as guarantor), we thereafter expect to have sufficient cash flow from payments made under Sabine Pass LNG's Total and Chevron TUAs to allow Sabine Pass LNG to meet its future operating expenditures and interest payment requirements until maturity of the 2013 Notes. We also expect that Sabine Pass LNG will have sufficient remaining cash flow from payments made under Sabine Pass LNG's TUAs with Total and Chevron to allow us to meet our remaining future operating expenditures and to pay the \$0.425 initial quarterly distribution per common unit for all common units, as well as related distributions to our general partner, provided Sabine Pass LNG is permitted to make distributions to us under the Sabine Pass Indenture governing the Senior Notes.

Debt Agreements

Senior Notes

Sabine Pass LNG has issued an aggregate principal amount of \$2,215.5 million of Senior Notes consisting of \$550.0 million of 7¼% Senior Secured Notes due 2013 and \$1,665.5 million of 7½% Senior Secured Notes due 2016. 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. Under the Sabine Pass Indenture governing the Senior Notes, 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. In addition, 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 and six months ended June 30, 2009, Sabine Pass LNG made distributions of \$73.0 million and \$149.3 million, respectively, to us after satisfying all the applicable conditions in the Sabine Pass Indenture.

Long-Term Note—Affiliate

In March 2007, we entered into a \$12.0 million unsecured revolving credit note with Cheniere LNG Financial Services, Inc., a wholly-owned subsidiary of Cheniere, to be paid upon demand but no sooner than January 1, 2010, or the date on which we have sufficient available cash. The purpose of this note was to provide funds for the payment of certain public company and other expenses that cannot be funded by the Senior Notes. Interest on borrowings under this note was at a fixed rate of 7½% with unpaid interest compounded semi-annually. In January 2009, we repaid this \$2.5 million note in full.

Cash Distributions to Unitholders

We deposited all of the net proceeds that we received from our public offering into a distribution reserve in a separate account. The deposited amount was invested in U.S. Treasury securities maturing as to principal and interest at such times and in such amounts as will be sufficient to pay the \$0.425 initial quarterly distribution per common unit for all common units, as well as related distributions to our general partner, through the distribution made in respect of the quarter ending June 30, 2009. Any net proceeds that we receive in excess of the amount necessary to fund the distribution reserve will be distributed to Cheniere, and any shortfall in that amount will be contributed to us by Cheniere. Any amount remaining in the distribution reserve after the distribution made in respect of the quarter ending June 30, 2009 will be distributed to Cheniere. We expect that approximately \$35 million will be distributed to Cheniere from the distribution reserve account under these provisions in August 2009. We had received sufficient cash from Sabine Pass LNG to make a distribution to all of our unitholders on August 14, 2009, in respect of the second quarter of 2009 without withdrawing funds from the distribution reserve account.

Services Agreements

In February 2005, Sabine Pass LNG entered into a 20-year operation and maintenance 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. Prior to substantial completion of the Sabine Pass LNG receiving terminal, as defined in Sabine Pass LNG's engineering, procurement and construction ("EPC") contract with Bechtel Corporation ("Bechtel"), Sabine Pass LNG was required to pay a fixed monthly fee of \$95,000 (indexed for inflation) under the agreement. The fixed monthly fee increased to \$130,000 (indexed for inflation) upon the

achievement of substantial completion of the Sabine Pass LNG receiving terminal in March 2009, 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.

In February 2005, Sabine Pass LNG entered into a 20-year management services agreement with its general partner, which is a wholly-owned subsidiary of us, 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 operation and maintenance agreement described in the paragraph above. In August 2008, the general partner of Sabine Pass LNG assigned all of its rights and obligations under the management services agreement to Cheniere LNG Terminals, Inc. ("Cheniere Terminals"), a wholly-owned subsidiary of Cheniere. Prior to substantial completion of the Sabine Pass LNG receiving terminal, as defined in Sabine Pass LNG's EPC contract with Bechtel, Sabine Pass LNG was required to pay Cheniere Terminals a monthly fixed fee of \$340,000 (indexed for inflation). With the achievement of substantial completion of the Sabine Pass LNG receiving terminal in March 2009, the monthly fixed fee increased to \$520,000 (indexed for inflation).

In March 2007, we entered into a services agreement with Cheniere Terminals pursuant to which we pay Cheniere Terminals an annual administrative fee of \$10 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.

During the three-month periods ended June 30, 2009 and 2008, we paid an aggregate of \$4.4 million and \$2.3 million, respectively, under the foregoing service agreements from restricted cash and cash equivalents. During the six-month periods ended June 30, 2009 and 2008, we paid an aggregate of \$9.4 million and \$4.6 million, respectively, under the foregoing service agreements from restricted cash and cash equivalents.

State Tax Sharing Agreement

In November 2006, Sabine Pass LNG entered into a state tax