

Cheniere Energy Partners, L.P.

Form 10-Q

November 06, 2007

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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**FORM 10-Q**

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the quarterly period ended September 30, 2007

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)

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(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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer  Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

The issuer had 26,416,357 common units and 135,383,831 subordinated units outstanding as of October 31, 2007.

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**Table of Contents****PART I. FINANCIAL INFORMATION****Item 1. Consolidated Financial Statements****CHENIERE ENERGY PARTNERS, L.P.****A DEVELOPMENT STAGE ENTERPRISE****CONSOLIDATED COMBINED BALANCE SHEETS**

(in thousands, except unit data)

	Cheniere Energy Partners, L.P.	Combined Predecessor Entities
	September 30, 2007 (unaudited)	December 31, 2006
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 9	\$ 7
Restricted cash and cash equivalents	190,276	176,324
Accounts receivable	1,439	
Interest receivable	5,420	5,226
Advances to affiliate	1,356	379
Prepaid expenses	384	385
<b>TOTAL CURRENT ASSETS</b>	<b>198,884</b>	<b>182,321</b>
<b>NON-CURRENT RESTRICTED CASH AND CASH EQUIVALENTS</b>	<b>619,661</b>	<b>982,613</b>
<b>NON-CURRENT RESTRICTED TREASURY SECURITIES</b>	<b>75,023</b>	
<b>PROPERTY, PLANT AND EQUIPMENT, NET</b>	<b>1,005,877</b>	<b>651,676</b>
<b>DEBT ISSUANCE COSTS, NET</b>	<b>30,859</b>	<b>33,970</b>
<b>ADVANCES UNDER LONG-TERM CONTRACTS</b>	<b>31,457</b>	<b>7,250</b>
<b>OTHER</b>	<b>66</b>	<b>284</b>
<b>TOTAL ASSETS</b>	<b>\$ 1,961,827</b>	<b>\$ 1,858,114</b>
<b>LIABILITIES AND PARTNERS CAPITAL (DEFICIT) OR OWNERS CAPITAL (DEFICIT)</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 89	\$ 758
Accounts payable affiliate	61	223
Accrued liabilities	89,533	36,670
Accrued liabilities affiliate	435	652
<b>TOTAL CURRENT LIABILITIES</b>	<b>90,118</b>	<b>38,303</b>
<b>LONG-TERM DEBT</b>	<b>2,032,000</b>	<b>2,032,000</b>
<b>LONG-TERM DEBT AFFILIATE</b>	<b>282</b>	
<b>DEFERRED REVENUE</b>	<b>40,000</b>	<b>40,000</b>
<b>OTHER NON-CURRENT LIABILITIES</b>	<b>2,497</b>	<b>1,149</b>
<b>COMMITMENTS AND CONTINGENCIES</b>		

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PARTNERS	CAPITAL (DEFICIT) OR OWNERS	CAPITAL (DEFICIT)	
Owners	deficit, including deficits accumulated during development stage of \$72,452 at December 31, 2006		(253,338)
Common unitholders	(26,416,357 units issued and outstanding at September 30, 2007)	47,229	
Subordinated unitholders	(135,383,831 units issued and outstanding at September 30, 2007)	(244,100)	
General Partner interest	(2% interest with 3,302,045 units issued and outstanding at September 30, 2007)	(6,199)	
<b>TOTAL PARTNERS</b>	<b>DEFICIT OR OWNERS</b>	<b>(203,070)</b>	<b>(253,338)</b>
<b>TOTAL LIABILITIES AND PARTNERS</b>	<b>DEFICIT OR OWNERS</b>	<b>\$ 1,961,827</b>	<b>\$ 1,858,114</b>

See accompanying notes to consolidated combined financial statements.

**Table of Contents****CHENIERE ENERGY PARTNERS, L.P.****A DEVELOPMENT STAGE ENTERPRISE****CONSOLIDATED COMBINED STATEMENTS OF OPERATIONS**

(in thousands, except per unit data)

(unaudited)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,		Period from October 20, 2003 (Date of Inception) to September 30, 2007
	2007	2006	2007	2006	
REVENUES	\$	\$	\$	\$	\$
EXPENSES					
Legal	52	2	128	2	2,355
Professional	165	59	368	557	1,939
Technical consulting		26		26	4,577
Outside services	107		107		107
Land site rental	371	373	1,142	1,144	2,657
Depreciation expense	67	13	131	35	194
Labor and overhead charge from affiliate	2,332	865	5,924	2,972	13,469
Development reimbursement to affiliate		4,527		4,527	4,527
Other	73	35	128	136	543
TOTAL EXPENSES	3,167	5,900	7,928	9,399	30,368
LOSS FROM OPERATIONS	(3,167)	(5,900)	(7,928)	(9,399)	(30,368)
OTHER INCOME (EXPENSE)					
Interest income	12,625	84	42,020	156	51,467
Interest expense, net	(20,570)		(70,053)		(85,517)
Loss on early extinguishment of debt					(23,761)
Derivative loss, net		(966)		(43)	(20,234)
TOTAL OTHER INCOME (EXPENSE)	(7,945)	(882)	(28,033)	113	(78,045)
NET LOSS	\$ (11,112)	\$ (6,782)	\$ (35,961)	\$ (9,286)	\$ (108,413)
Less:					
Net loss through March 25, 2007			(12,128)		
Net loss for partners from March 26, 2007 through September 30, 2007			\$ (23,833)		
Allocation of net loss:					
Limited partners' interest	(10,890)		(23,356)		
General partner's interest	(222)		(477)		
Net loss for partners	\$ (11,112)		\$ (23,833)		

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Basic and diluted net loss per limited partner unit	\$ (0.07)	\$ (0.14)
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Weighted average number of limited partner units  
outstanding from the beginning of the period through  
September 30, 2007 used for basic and diluted net loss  
per unit calculation:

Common units	26,416	26,416
Subordinated units	135,384	135,384

See accompanying notes to consolidated combined financial statements.

**Table of Contents****CHENIERE ENERGY PARTNERS, L.P.****A DEVELOPMENT STAGE ENTERPRISE****CONSOLIDATED COMBINED STATEMENTS OF PARTNERS CAPITAL (DEFICIT)****(in thousands)****(unaudited)**

	<b>General</b>				<b>Total</b>
	<b>Owners</b>	<b>Common</b>	<b>Subordinated</b>	<b>Partner</b>	
	<b>Equity</b>	<b>Units</b>	<b>Units</b>	<b>Units</b>	
Balance at October 20, 2003	\$		\$	\$	\$
Net loss		(2,763)			(2,763)
Balance at December 31, 2003		(2,763)			(2,763)
Distributions		(10,000)			(10,000)
Net loss		(4,654)			(4,654)
Balance at December 31, 2004		(17,417)			(17,417)
Capital contributions		161,562			161,562
Rescinded distribution		10,000			10,000
Change in fair value of derivative instrument		1,814			1,814
Net loss		(4,263)			(4,263)
Balance at December 31, 2005		151,696			151,696
Capital contributions		35,900			35,900
Distributions		(378,348)			(378,348)
Change in fair value of derivative instrument		(1,814)			(1,814)
Net loss		(60,772)			(60,772)
Balance at December 31, 2006		(253,338)			(253,338)
Net loss through March 25, 2007		(12,128)			(12,128)
Balance at March 25, 2007		(265,466)			(265,466)
Contribution of net deficit investment to unit holders		265,466	(35,434)	(224,556)	(5,476)
Proceeds from initial public offering, net of issuance costs			98,442		98,442
Net loss from March 26, 2007 through March 31, 2007			(117)	(598)	(730)
Balance at March 31, 2007			62,891	(225,154)	(167,754)
Net loss			(3,695)	(18,946)	(23,103)
Distributions			(11,967)	(246)	(12,213)
Balance at September 30, 2007	\$		\$ 47,229	\$ (244,100)	\$ (6,199)
					\$ (203,070)

See accompanying notes to consolidated combined financial statements.



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	Nine Months Ended September 30,		Period from October 20, 2003 (Date of Inception) to September 30,
	2007	2006	2007
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net loss	\$ (35,961)	\$ (9,286)	\$ (108,413)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation, depletion and amortization	131	35	194
Non-cash derivative gain		368	
Amortization of debt issuance costs	2,843		2,925
Interest income on restricted cash and cash equivalents	(42,020)		(51,467)
Use of restricted cash and cash equivalents	66,328	5,569	61,807
Loss on early extinguishment of debt			23,750
Changes in operating assets and liabilities:			
Accounts payable and accrued liabilities	8,550	2,810	30,183
Accounts payable and accrued liabilities affiliate	(156)	(120)	496
Deferred revenue			40,000
Other	7	617	232
<b>NET CASH USED IN OPERATING ACTIVITIES</b>	<b>(278)</b>	<b>(7)</b>	<b>(293)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Use of (investment in) restricted cash and cash equivalents	331,402	(7,535)	(825,697)
LNG terminal construction-in-progress	(307,066)	(293,501)	(931,453)
Advances to EPC contractor, net of transfers to construction-in-progress		5,354	
Advances under long-term contracts	(34,567)	(6,874)	(41,329)
Investment in restricted treasury securities	(75,023)		(75,023)
Other	(977)	(60)	(1,357)
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(86,231)</b>	<b>(302,616)</b>	<b>(1,874,859)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from issuance of senior notes			2,032,000
Debt issuance costs	(740)	(11,507)	(61,682)
Use of restricted cash and cash equivalents	740		
Proceeds from issuance of common units	98,442		98,442
Proceeds from subordinated note affiliate			37,377
Repayment of subordinated note affiliate		(37,377)	(37,377)
Borrowings from Sabine Pass credit facility		351,500	383,400
Repayment of Sabine Pass credit facility			(383,400)
Distribution to owners	(12,213)		(390,562)
Borrowing under long-term debt affiliate	282		282
Capital contributions by partner		10	196,681

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NET CASH PROVIDED BY FINANCING ACTIVITIES	86,511	302,626	1,875,161
NET INCREASE IN CASH AND CASH EQUIVALENTS	2	3	9
CASH AND CASH EQUIVALENTS beginning of period	7	5	
CASH AND CASH EQUIVALENTS end of period	\$ 9	\$ 8	\$ 9

See accompanying notes to consolidated combined financial statements.

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**CHENIERE ENERGY PARTNERS, L.P.**

**A DEVELOPMENT STAGE ENTERPRISE**

**NOTES TO CONSOLIDATED COMBINED FINANCIAL STATEMENTS**

**(unaudited)**

**NOTE 1 Nature of Operations and Basis of Presentation**

Cheniere Energy Partners, L.P. ( Cheniere Partners ) is a publicly-held limited partnership. As of September 30, 2007, Cheniere Energy, Inc. ( Cheniere Energy ) owned 90.6% of the partnership through its wholly-owned subsidiaries, Cheniere LNG Holdings, LLC ( Holdings ), Cheniere Subsidiary Holdings, LLC ( Subsidiary Holdings ) and Cheniere Energy Partners GP, LLC (the General Partner ). Cheniere Partners is a Delaware limited partnership formed on November 21, 2006 to develop, own and operate the Sabine Pass liquefied natural gas ( LNG ) receiving and regasification facility in western Cameron Parish, Louisiana on the Sabine Pass Channel (the Sabine Pass LNG receiving terminal ). Cheniere Partners and Holdings, as a selling unitholder, completed an initial public offering (the Cheniere Partners Offering ) of Cheniere Partners common units on March 26, 2007.

The following entities were included on a combined basis in the accompanying Consolidated Combined Financial Statements for periods prior to the Cheniere Partners Offering because they were entities under common control:

Cheniere Partners;

Cheniere Energy Investments, LLC ( Cheniere Investments ) is a Delaware limited liability company owned by Cheniere Partners and was formed on November 21, 2006 to hold 100% of the ownership interests in Sabine Pass GP and Sabine Pass LP;

Sabine Pass LNG-GP, Inc. ( Sabine Pass GP ) is a Delaware corporation that was owned by Holdings and was formed in 2004 to be the general partner of Sabine Pass LNG, L.P. ( Sabine Pass LNG );

Sabine Pass LNG-LP, LLC ( Sabine Pass LP ) is a Delaware limited liability company that was owned by Holdings and was formed in 2004 to be the limited partner of Sabine Pass LNG; and

Sabine Pass LNG, L.P. ( Sabine Pass LNG ) is a Delaware limited partnership formed with one general partner, Sabine Pass GP, and one limited partner, Sabine Pass LP, which owns the entire interest in the Sabine Pass LNG receiving terminal. Sabine Pass LNG is in the development stage, and the purpose of this limited partnership is to own and operate the Sabine Pass LNG receiving terminal. At the closing of the Cheniere Partners Offering on March 26, 2007, the equity interests in Sabine Pass GP and Sabine Pass LP were contributed to Cheniere Investments, thereby resulting in Sabine Pass GP, Sabine Pass LP and Sabine Pass LNG becoming indirect, wholly-owned subsidiaries of Cheniere Partners. From and after the closing of the Cheniere Partners Offering, Cheniere Investments and these subsidiaries are consolidated with Cheniere Partners in the accompanying financial statements. As used in these Notes to Consolidated Combined Financial Statements, the terms Cheniere Partners , we , us and our refer to Cheniere Partners and its consolidated subsidiaries effective with the closing of the Cheniere Partners Offering and the foregoing entities on a combined basis (the Combined Predecessor Entities ) prior to the closing of the Cheniere Partners Offering, unless otherwise stated or indicated by context.

With the exception of 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 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.



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**CHENIERE ENERGY PARTNERS, L.P.**

**A DEVELOPMENT STAGE ENTERPRISE**

**NOTES TO CONSOLIDATED COMBINED FINANCIAL STATEMENTS Continued**

**(unaudited)**

The accompanying unaudited Consolidated Combined Financial Statements of Cheniere Partners have been prepared in accordance with generally accepted accounting principles in the United States ( GAAP ) for interim financial information and with the instructions to Form 10-Q 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. In our opinion, all adjustments, consisting only of normal recurring adjustments necessary for a fair presentation, have been included. The Consolidated Combined Financial Statements include our accounts and those of our subsidiaries. All significant intercompany transactions and balances have been eliminated.

Certain reclassifications have been made to conform prior period information to the current presentation, including a \$179.0 million reclassification between current Restricted Cash and Cash Equivalents and Non-Current Restricted Cash and Cash Equivalents on our December 31, 2006 Consolidated Combined Balance Sheet. The reclassification had no effect on our overall consolidated combined financial position, results of operations or cash flows.

Results of operations for the three and nine months ended September 30, 2007 are not necessarily indicative of results for the year ended December 31, 2007.

For further information, refer to our combined financial statements and footnotes for the year ended December 31, 2006 included in our Registration Statement on Form S-1, as amended, filed with the Securities and Exchange Commission ( SEC ) and declared effective on March 20, 2007.

**NOTE 2 Development Stage Operations**

We were formed on October 20, 2003 (the earliest formation date of the Combined Predecessor Entities). Operations to date have been devoted to pre-construction and construction activities. Our ultimate profitability will depend on, among other factors, the successful completion of construction of the Sabine Pass LNG receiving terminal and commencement of commercial operation, which is not expected until the second quarter of 2008 at the earliest. As of September 30, 2007, we had a cumulative deficit of \$108.4 million.

**NOTE 3 Initial Public Offering**

Cheniere Partners and Holdings, as a selling unitholder, completed the Cheniere Partners Offering of 13,500,000 Cheniere Partners common units for \$21.00 per common unit on March 26, 2007. Cheniere Partners received \$98.4 million of net proceeds, after deducting the underwriting discount and structuring fee, upon its issuance of 5,054,164 common units to the public in the Cheniere Partners Offering. Holdings received \$164.5 million of net proceeds, after deducting the underwriting discount and structuring fee, upon its sale of 8,445,836 common units. We did not receive any proceeds from the sale of common units by Holdings. Our common units are traded on the American Stock Exchange under the symbol CQP.

Upon the closing of the Cheniere Partners Offering on March 26, 2007, the following transactions occurred:

Holdings contributed through us to our wholly-owned subsidiary, Cheniere Investments, all of its equity interests in Sabine Pass GP and Sabine Pass LP, which own all of the equity interests in Sabine Pass LNG;

Cheniere Partners issued to Holdings 21,362,193 common units and 135,383,831 subordinated units;

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Cheniere Partners issued to our general partner, a direct wholly-owned subsidiary of Holdings, 3,302,045 general partner units representing a 2% general partner interest in us and all of our incentive

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**CHENIERE ENERGY PARTNERS, L.P.**

**A DEVELOPMENT STAGE ENTERPRISE**

**NOTES TO CONSOLIDATED COMBINED FINANCIAL STATEMENTS Continued**

**(unaudited)**

distribution rights, which will entitle our general partner to increasing percentages of the cash that we distribute in excess of \$0.489 per unit per quarter;

we issued 5,054,164 common units to the public in the Cheniere Partners Offering;

Holdings sold 8,445,836 common units to the public in the Cheniere Partners Offering, after which Holdings and the public held an aggregate 89.8% and 8.2% limited partner interest in us, respectively;

our general partner entered into a services agreement with an affiliate of Cheniere Energy under which the affiliate will provide various general and administrative services for an annual administrative fee of \$10.0 million (adjusted for inflation after January 1, 2007), with payment commencing January 1, 2009; and

our general partner entered into a services and secondment agreement with an affiliate of Cheniere Energy pursuant to which certain employees of the Cheniere Energy affiliate have been seconded to our general partner to provide operating and routine maintenance services with respect to the Sabine Pass LNG receiving terminal.

We used all of our net proceeds of \$98.4 million from the sale of our common units in the Cheniere Partners Offering to purchase U.S. treasury securities that funded a distribution reserve for payment of initial quarterly distributions of \$0.425 per common unit, as well as related quarterly distributions to our general partner, through the quarterly distribution to be made in respect of the quarter ending June 30, 2009.

**NOTE 4 Restricted Cash, Cash Equivalents and Treasury Securities**

In November 2006, Sabine Pass LNG consummated a private offering of an aggregate principal amount of \$2,032.0 million of senior secured notes consisting of \$550.0 million of 7.25% Senior Secured Notes due 2013 (the 2013 Notes ) and \$1,482.0 million of 7.50% Senior Secured Notes due 2016 (the 2016 Notes ) and, collectively with the 2013 Notes, the Sabine Pass LNG notes ) (see Note 7 Long-Term Debt). Under the terms and conditions of the Sabine Pass LNG notes, Sabine Pass LNG was required to fund cash reserve accounts for \$335.0 million related to future interest payments through May 2009 and approximately \$887.0 million to pay the remaining costs to complete the Sabine Pass LNG receiving terminal. These cash accounts are primarily controlled by a collateral trustee, and therefore, are shown as Restricted Cash and Cash Equivalents on the accompanying Consolidated Combined Balance Sheets. As of September 30, 2007 and December 31, 2006, \$190.3 million and \$176.3 million, respectively, of cash restricted for future interest payments due within one year and accrued construction costs have been classified as a current asset, and \$619.7 million and \$982.6 million, respectively, of cash restricted for remaining construction costs and future interest payments due beyond one year have been classified as a non-current asset on the accompanying Consolidated Combined Balance Sheets.

At the closing of the Cheniere Partners Offering discussed above in Note 3, we funded a distribution reserve of \$98.4 million, which was invested in U.S. treasury securities. The distribution reserve, including interest earned, will be used to pay quarterly distributions of \$0.425 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. The U.S. treasury securities were acquired at a discount from their maturity values equal to an average of approximately 4.87% per year. In May and August of 2007, we used the distribution reserve to pay cash distributions to our unitholders. As of September 30, 2007, we classified the \$75.0 million balance of U.S. treasury securities as Non-Current Restricted Treasury Securities on our Consolidated Combined Balance Sheet, as these securities had maturities greater than three months.





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

	September 30,	December 31,
	2007	2006
<b>LNG TERMINAL COSTS</b>		
LNG terminal construction-in-progress	\$ 1,004,984	\$ 651,369
LNG site and related costs, net	192	197
Total LNG terminal costs	1,005,176	651,566
<b>FIXED ASSETS</b>		
Computer and office equipment	183	31
Furniture and fixtures	5	
Computer software	36	33
Leasehold improvements	11	10
Vehicles	253	99
Machinery and equipment	403	
Accumulated depreciation	(190)	(63)
Total fixed assets, net	701	110
<b>PROPERTY, PLANT AND EQUIPMENT, NET</b>	<b>\$ 1,005,877</b>	<b>\$ 651,676</b>

Once the Sabine Pass LNG receiving terminal is placed into service, the LNG terminal construction-in-progress costs will be depreciated using the straight-line depreciation method. We are in the process of determining the most appropriate approach in grouping identifiable components with similar estimated useful lives. Estimated useful lives for components, once construction is completed, are currently estimated to range between 10 and 50 years.

Costs associated with the construction of the Sabine Pass LNG receiving terminal have been capitalized as construction-in-progress since the date the project satisfied our criteria for capitalization. For the nine months ended September 30, 2007 and 2006, we capitalized \$46.1 million and \$12.2 million, respectively, of interest expense, which consisted primarily of interest expense qualifying to be capitalized, amortization of debt issuance costs and commitment fees related to the Sabine Pass LNG notes during the nine months ended September 30, 2007 and a Sabine Pass LNG credit facility during the nine months ended September 30, 2006.

**NOTE 6 Accrued Liabilities**

Accrued liabilities consisted of the following (in thousands):

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	September 30,	December 31,
	2007	2006
Interest and related debt fees	\$ 50,761	\$ 21,815
LNG terminal construction costs	38,696	13,899
Affiliate	435	652
Other	76	956
	\$ 89,968	\$ 37,322

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As of September 30, 2007 and December 31, 2006, our long-term debt consisted of the following (in thousands):

	September 30,	December 31,
	2007	2006
Sabine Pass LNG Notes	\$ 2,032,000	\$ 2,032,000
Long-Term Note Affiliate	282	
<b>Total Long-Term Debt</b>	<b>\$ 2,032,282</b>	<b>\$ 2,032,000</b>

*Sabine Pass LNG Notes*

In November 2006, Sabine Pass LNG consummated a private offering of an aggregate principal amount of \$2,032.0 million of Sabine Pass LNG notes, consisting of \$550.0 million of the 2013 Notes and \$1,482.0 million of the 2016 Notes. In August 2007, Sabine Pass LNG concluded an exchange offer of its unregistered 2013 Notes and 2016 Notes for a like principal amount of notes registered under the Securities Act of 1933.

Interest on the Sabine Pass LNG notes is payable semi-annually in arrears on May 30 and November 30 of each year, beginning May 30, 2007. The Sabine Pass LNG 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 indenture governing the Sabine Pass LNG notes, except for permitted tax distributions, Sabine Pass LNG may not make distributions until certain conditions are satisfied. The indenture requires that Sabine Pass LNG apply its net operating cash flow (i) first, to fund with monthly deposits its next semiannual payment of approximately \$75.5 million of interest on the Sabine Pass LNG notes, and (ii) second, to fund a one-time, permanent debt service reserve fund equal to one semiannual interest payment of approximately \$75.5 million on the Sabine Pass LNG notes. Distributions from Sabine Pass LNG will be permitted only after phase 1 target completion, as defined in the indenture governing the Sabine Pass LNG notes, or such earlier date as project revenues are received, upon satisfaction of the foregoing funding requirements, after satisfying a fixed charge coverage ratio test of 2:1 and after satisfying other conditions specified in the 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 Energy, 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 is to provide funds for the payment of certain public company and other expenses that cannot be funded by the Sabine Pass LNG notes. Borrowings under this note bear interest at a fixed 7.50% rate with unpaid interest compounded semi-annually. The outstanding principal plus interest as of September 30, 2007, was \$282,000.

**NOTE 8 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



**Table of Contents****CHENIERE ENERGY PARTNERS, L.P.****A DEVELOPMENT STAGE ENTERPRISE****NOTES TO CONSOLIDATED COMBINED FINANCIAL STATEMENTS Continued****(unaudited)**

partners under our partnership agreement. On May 31, 2007, Holdings contributed all of its 135,383,831 subordinated units to Subsidiary Holdings.

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.

During the subordination period, the subordinated units will not be entitled to receive any distributions until the common units have received \$0.425 per unit plus any arrearages from prior quarters. 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, but it generally cannot end before June 30, 2008.

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 9 Advances Under Long-Term Contracts**

We have entered into certain engineering, procurement and construction ( EPC ) contracts and purchase agreements related to the construction of our Sabine Pass LNG receiving terminal that require us to make payments to fund costs that will be incurred or equipment that will be received in the future. Advances made under long-term contracts on purchase commitments are carried at face value and transferred to Property, Plant, and Equipment as the costs are incurred or equipment is received. As of September 30, 2007 and December 31, 2006, our Advances Under Long-term Contracts were \$31.5 million and \$7.3 million, respectively.

**NOTE 10 Financial Instruments**

The estimated fair value of financial instruments is the amount at which the instrument could be exchanged currently between willing parties. The carrying amounts reported on the Consolidated Combined 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. We use available market data and valuation methodologies to estimate the fair value of debt. This disclosure is presented in accordance with Statement of Financial Accounting Standards ( SFAS ) No. 107, *Disclosures about Fair Value of Financial Instruments*, and does not impact our financial position, results of operations or cash flows.

Financial Instruments (in thousands):

	September 30, 2007		December 31, 2006	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
2013 Notes (1)	\$ 550,000	\$ 541,750	\$ 550,000	\$ 547,250
2016 Notes (1)	1,482,000	1,452,360	1,482,000	1,478,295
Note to Affiliate (2)	282	282		
Restricted Treasury Securities (3)	75,203	77,279		



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**CHENIERE ENERGY PARTNERS, L.P.**

**A DEVELOPMENT STAGE ENTERPRISE**

**NOTES TO CONSOLIDATED COMBINED FINANCIAL STATEMENTS *Continued***

**(unaudited)**

- 
- (1) The fair value of the Sabine Pass LNG notes was based on quotations obtained from broker-dealers who made markets in these and similar instruments as of September 28, 2007 and December 29, 2006.
  - (2) The Note to Affiliate bears interest at a fixed 7.50% rate. Management estimates that the carrying amount is a reasonable approximation of the fair value as of September 30, 2007.
  - (3) The fair value of our Restricted Treasury Securities was based on quotations obtained from broker-dealers who made markets in these and similar instruments as of September 28, 2007.

**NOTE 11 Related Party Transactions**

As of September 30, 2007 and December 31, 2006, we had \$1.4 million and \$0.4 million, respectively, of advances to affiliates.

Under the service agreements described below, we paid \$1.3 million for the three months ended September 30, 2007 and 2006. For the nine months ended September 30, 2007 and 2006, we paid \$3.9 million. For the period from October 20, 2003 (date of inception) to September 30, 2007, we paid \$13.1 million.

**TUA Agreement**

Cheniere Marketing (Cheniere Marketing), a wholly-owned subsidiary of Cheniere Energy, has reserved approximately 2.0 billion cubic feet per day (Bcf/d) of regasification capacity under a firm commitment terminal use agreement (TUA) and has agreed to make monthly payments to Sabine Pass LNG aggregating approximately \$250.0 million per year for at least 19 years commencing January 1, 2009, plus payments of \$5.0 million per month in 2008 commencing with commercial operations. Cheniere Energy has guaranteed Cheniere Marketing's obligations under its TUA.

**Service Agreements**

***Operation and Maintenance Agreement***

In February 2005, Sabine Pass LNG entered into an Operation and Maintenance Agreement (O&M Agreement) with Cheniere LNG O&M Services, L.P. (O&M Services), an indirect wholly-owned subsidiary of Cheniere Energy. Pursuant to the O&M Agreement, O&M Services has agreed to provide all necessary services required to construct, operate and maintain the Sabine Pass LNG receiving terminal. The O&M Agreement will remain in effect until 20 years after substantial completion of the facility. Prior to substantial completion of the facility, Sabine Pass LNG is required to pay a fixed monthly fee of \$95,000 (indexed for inflation beginning in 2010). The fixed monthly fee will increase to \$130,000 (indexed for inflation beginning in 2010) upon substantial completion of the facility, and O&M Services may thereafter be 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 O&M Services at the beginning of each operating year. In addition, Sabine Pass LNG is required to reimburse O&M Services for expenditures incurred by O&M Services on behalf of Sabine Pass LNG for operating expenses, which are comprised of labor, maintenance, land lease and insurance expenses and for maintenance capital expenditures.

Upon the closing of the Cheniere Partners Offering, O&M Services assigned the O&M Agreement to our general partner, and O&M Services and our general partner entered into a services and secondment agreement pursuant to which certain employees of O&M Services have been seconded to our general partner to provide operating and routine maintenance services with respect to the Sabine Pass LNG receiving terminal under the

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**CHENIERE ENERGY PARTNERS, L.P.**

**A DEVELOPMENT STAGE ENTERPRISE**

**NOTES TO CONSOLIDATED COMBINED FINANCIAL STATEMENTS Continued**

**(unaudited)**

direction, supervision and control of our general partner. Under this agreement, our general partner pays O&M Services amounts that it receives from Sabine Pass LNG under the O&M Agreement.

***Management Services Agreements***

In February 2005, Sabine Pass LNG entered into a Management Services Agreement (the Sabine Pass LNG MSA ) with its general partner, Sabine Pass GP, which is our wholly-owned subsidiary. Pursuant to the Sabine Pass LNG MSA, Sabine Pass LNG appointed its general partner to manage the construction and operation of the Sabine Pass LNG receiving terminal, excluding those matters provided for under the O&M Agreement. The Sabine Pass LNG MSA terminates 20 years after the commercial start date set forth in the Total LNG USA, Inc. ( Total ) TUA. Prior to substantial completion of construction of the Sabine Pass LNG receiving terminal, Sabine Pass LNG is required to pay its general partner a monthly fixed fee of \$340,000 (indexed for inflation beginning in 2010); thereafter, the monthly fixed fee will increase to \$520,000 (indexed for inflation beginning in 2010).

In September 2006, the general partner of Sabine Pass LNG entered into a Management Services Agreement (the General Partner MSA ) with Cheniere LNG Terminals, Inc. ( Cheniere Terminals ), a wholly-owned subsidiary of Cheniere Energy. Pursuant to this agreement, Cheniere Terminals provides the general partner with technical, financial, staffing and related support necessary to allow it to meet its obligations to Sabine Pass LNG under the Sabine Pass LNG MSA. Under this agreement with Cheniere Terminals, the general partner of Sabine Pass LNG pays Cheniere Terminals amounts that it receives from Sabine Pass LNG for management of the Sabine Pass LNG receiving terminal.

***Services Agreement***

We entered into a services agreement with Cheniere Terminals upon the closing of the Cheniere Partners Offering. Under this agreement, we will pay Cheniere Terminals an annual administrative fee of \$10.0 million (adjusted for inflation after January 1, 2007) commencing January 1, 2009 for the provision of various general and administrative services provided for our benefit and will 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. The annual administrative fee includes expenses incurred by Cheniere Terminals to perform all technical, commercial, regulatory, financial, accounting, treasury, tax and legal staffing and related support and all management and other services necessary or reasonably requested on behalf of our partnership by our general partner in order to conduct our business as contemplated by our partnership agreement.

**NOTE 12 Supplemental Cash Flow Information and Disclosures of Non-Cash Transactions**

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

Nine Months Ended		Period from
September 30,		October 20, 2003
		(Date of Inception)
		to September 30,
2007	2006	2007



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Cash paid for interest, net of amounts capitalized	\$ 38,242	\$	\$	38,242
Construction-in-progress additions recorded as accrued liabilities	\$ 47,227	\$ 37,030	\$	47,227

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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 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, pipeline deliverability and the number of pipeline interconnections, if any;

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 agreement to be entered into or 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 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 strategy, any business plans or any other plans, forecasts, projections or objectives, any or all of which are subject to change;

statements regarding any assumptions, estimates, projections or conclusions;

statements regarding conflicts of interest with Cheniere Energy, Inc. (Cheniere Energy) 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.

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These forward-looking statements are often identified by the use of terms such as achieve, anticipate, believe, estimate, expect, forecast, 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 described below, and to certain entities under common control prior to March 26, 2007 as described in Note 1 in the Notes to Consolidated Combined Financial Statements, 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 Registration Statement on

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Form S-1, as amended, filed with the Securities and Exchange Commission ( SEC ) and declared effective on March 20, 2007. 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.

## **BUSINESS AND OPERATIONS**

### **General**

We are a publicly-held, Delaware limited partnership formed on November 21, 2006, by Cheniere Energy to develop, own and operate the Sabine Pass LNG receiving terminal currently under construction in western Cameron Parish, Louisiana on the Sabine Pass Channel. We are a development stage company without any revenues, operating cash flows or operating history. We currently do not expect that we will begin receiving any revenues from operations until the second quarter of 2008, at the earliest.

On March 26, 2007, we and Cheniere LNG Holdings, LLC ( Holdings ), a subsidiary of Cheniere Energy, completed a public offering of a total of 13,500,000 Cheniere Partners common units (the Cheniere Partners Offering ). We received \$98.4 million of net proceeds, after deducting the underwriting discount and structuring fees, upon issuance of 5,054,164 common units to the public in the Cheniere Partners Offering. We invested the \$98.4 million of net proceeds we received from the Cheniere Partners Offering in U.S. treasury securities to fund a distribution reserve. See Liquidity and Capital Resources Cash Distributions to Unitholders below.

As part of the Cheniere Partners Offering, Holdings, as a selling unitholder, received \$164.5 million of net proceeds in connection with its sale of 8,445,836 Cheniere Partners common units. In April 2007, the underwriters of the Cheniere Partners Offering exercised their over-allotment option to purchase an additional 2,025,000 common units held by Holdings, with Holdings receiving all of the proceeds of the sale. As a result of these transactions, Cheniere Energy reduced its ownership interest in us to approximately 90.6%.

### **Our LNG Receiving Terminal Business**

Our sole business is the development of the Sabine Pass LNG receiving terminal currently under construction by our wholly-owned limited partnership, Sabine Pass LNG. We have entered into long-term TUAs with Total LNG USA, Inc. ( Total ), Chevron USA, Inc. ( Chevron ) and Cheniere Marketing, Inc. ( Cheniere Marketing ), a wholly-owned subsidiary of Cheniere Energy, for an aggregate of 4.0 billion cubic feet per day ( Bcf/d ) of the available regasification capacity at the Sabine Pass LNG receiving terminal. Construction of the Sabine Pass LNG receiving terminal commenced in March 2005. We anticipate commencing commercial operation during the second quarter of 2008 with initial send out capacity of 2.6 Bcf/d and storage capacity of 10.1 Bcf. We expect to achieve full operability at 4.0 Bcf/d in the second quarter of 2009.

## **LIQUIDITY AND CAPITAL RESOURCES**

### **General**

The Sabine Pass LNG receiving terminal project will require significant amounts of capital and is subject to risks and delays in completion. Even if successfully completed, the Sabine Pass LNG receiving terminal is not expected to begin to operate and generate significant cash flows before the second quarter of 2008.

We estimate that the aggregate cost to complete construction of the Sabine Pass LNG receiving terminal will be approximately \$1.4 billion to \$1.5 billion, before financing costs. Our cost estimates are subject to change due to such items as cost overruns, change orders, increased component and material costs, escalation of labor costs and increased spending to maintain our construction schedule. As of September 30, 2007, we had incurred \$940.5 million of construction costs.

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We currently expect that our capital resources requirements will be financed through the proceeds received from the issuance by Sabine Pass LNG of \$2,032.0 million of senior secured notes (the Sabine Pass LNG notes ) and cash flows under our three TUAs. We believe that we have adequate financial resources to complete the Sabine Pass LNG receiving terminal and to meet our anticipated operating, maintenance and debt service requirements through the first half of 2009. Furthermore, we anticipate that:

our cash flows from operations will commence in the second quarter of 2008, when the Sabine Pass LNG receiving terminal is anticipated to commence commercial operation; and

beginning in the third quarter of 2009, cash flows from operations will be sufficient to cover all debt service on the Sabine Pass LNG notes and all of our other operating and maintenance costs.

To service our indebtedness, we will require significant amounts of cash. Prolonged delays in construction could prevent us from commencing operations when we anticipate and could prevent us from realizing anticipated cash flows. Our future liquidity may also be affected by the timing of construction financing availability in relation to our incurrence of construction costs and other outflows and by receipt of cash flows under the TUAs in relation to our incurrence of project and operating expenses. Moreover, many factors (including factors beyond our control) could result in a disparity between our liquidity sources and cash needs, including factors such as construction delays and breaches of construction agreements. After the construction period, our business may not generate sufficient cash flow from operations, currently anticipated costs may increase or future borrowings may not be available to us in amounts sufficient to enable us to pay our indebtedness, including the Sabine Pass LNG notes, or to fund our other liquidity needs, including operating expenses. The operation of our business is subject to many risks (many of which are beyond our control), including general economic, financial, competitive, legislative, regulatory and other developments.

## **Capital Resources**

### ***Customer TUAs***

Each of the customers at the Sabine Pass LNG receiving terminal must make capacity reservation fee payments under its TUA, which means that the customer will be obligated to pay the full contracted amount of monthly fees whether or not it uses any of its reserved capacity. Provided the Sabine Pass LNG receiving terminal has achieved commercial operation, which we expect will occur during the second quarter of 2008, these capacity reservation fee TUA payments will be made as follows:

Total has reserved approximately 1.0 Bcf/d of regasification capacity and has agreed to make monthly payments to Sabine Pass LNG aggregating approximately \$125.0 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;

Chevron has reserved approximately 1.0 Bcf/d of regasification capacity and has agreed to make monthly payments to Sabine Pass LNG aggregating approximately \$125.0 million per year for 20 years commencing not later than July 1, 2009. Chevron Corporation has guaranteed Chevron's obligations under its TUA up to 80% of the fees payable by Chevron; and

Cheniere Marketing has reserved approximately 2.0 Bcf/d of regasification capacity, is entitled to use any capacity not utilized by Total and Chevron and has agreed to make monthly payments to Sabine Pass LNG aggregating approximately \$250.0 million per year for at least 19 years commencing January 1, 2009, plus payments of \$5.0 million per month in 2008 commencing with commercial operations. Cheniere Energy has guaranteed Cheniere Marketing's obligations under its TUA.

Each of Total and Chevron has paid us \$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 capacity reservation fees payable under its TUA.

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**Table of Contents****Use of Capital*****Cash Distributions to Unitholders***

For each calendar quarter through June 30, 2009, we will make initial quarterly cash distributions of \$0.425 per unit on all outstanding common units, as well as related distributions to our general partner, using cash from the distribution reserve that was funded with the \$98.4 million net proceeds received from the Cheniere Partners Offering. In May and August 2007, we used the distribution reserve to pay a cash distribution to unitholders. The initial distribution reflected the pro rata share of the partnership's minimum quarterly distribution and covered the time period from the closing of the Cheniere Partners Offering on March 26, 2007 through March 31, 2007. We believe that the amount of the distribution reserve, together with interest expected to be earned on that amount and cash from operations, if any, will be sufficient to allow us to pay the full quarterly distribution on all of our outstanding common units, as well as related distributions to our general partner, for each quarter through June 30, 2009. After the quarter ending June 30, 2009, we intend to pay distributions to our unitholders primarily from operating cash flows.

***Related Party Services Agreements***

*Operation and Maintenance Agreement.* In February 2005, Sabine Pass LNG entered into an Operation and Maintenance Agreement ( O&M Agreement ) with Cheniere LNG O&M Services, L.P. ( O&M Services ), an indirect wholly-owned subsidiary of Cheniere Energy. Pursuant to the O&M Agreement, O&M Services has agreed to provide all necessary services required to construct, operate and maintain the Sabine Pass LNG receiving terminal. The O&M Agreement will remain in effect until 20 years after substantial completion of the facility. Prior to substantial completion of the facility, Sabine Pass LNG is required to pay a fixed monthly fee of \$95,000 (indexed for inflation beginning in 2010). The fixed monthly fee will increase to \$130,000 (indexed for inflation beginning in 2010) upon substantial completion of the facility, and O&M Services will thereafter be 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 O&M Services at the beginning of each operating year. In addition, Sabine Pass LNG is required to reimburse O&M Services for expenditures incurred by O&M Services on behalf of Sabine Pass LNG for operating expenses, which are comprised of labor, maintenance, land lease and insurance expenses and for maintenance capital expenditures.

Upon the closing of the Cheniere Partners Offering, O&M Services assigned the O&M Agreement to our general partner, and O&M Services and our general partner entered into a services and secondment agreement pursuant to which certain employees of O&M Services have been seconded to our general partner to provide operating and routine maintenance services with respect to the Sabine Pass LNG receiving terminal under the direction, supervision and control of our general partner. Under this agreement, our general partner pays O&M Services amounts that it receives from Sabine Pass LNG under the O&M Agreement.

*Management Services Agreements.* In February 2005, Sabine Pass LNG entered into a Management Services Agreement (the Sabine Pass LNG MSA ) with its general partner, Sabine Pass LNG GP, Inc., which is our wholly-owned subsidiary. Pursuant to the Sabine Pass LNG MSA, Sabine Pass LNG appointed its general partner to manage the construction and operation of the Sabine Pass LNG receiving terminal, excluding those matters provided for under the O&M Agreement. The Sabine Pass LNG MSA terminates 20 years after the commercial start date set forth in the Total TUA. Prior to substantial completion of construction of the Sabine Pass LNG receiving terminal, Sabine Pass LNG is required to pay its general partner a monthly fixed fee of \$340,000 (indexed for inflation beginning in 2010); thereafter, the monthly fixed fee will increase to \$520,000 (indexed for inflation beginning in 2010).

In September 2006, the general partner of Sabine Pass LNG entered into a Management Services Agreement with Cheniere LNG Terminals, Inc. ( Cheniere Terminals ), a wholly-owned subsidiary of Cheniere Energy. Pursuant to this agreement, Cheniere Terminals provides the general partner with technical, financial, staffing and related support necessary to allow it to meet its obligations to Sabine Pass LNG under the Sabine Pass LNG MSA. Under this agreement with Cheniere Terminals, the general partner of Sabine Pass LNG pays Cheniere Terminals amounts that it receives from Sabine Pass LNG for management of the Sabine Pass LNG receiving terminal.

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*Services Agreement.* We entered into a services agreement with Cheniere Terminals upon the closing of the Cheniere Partners Offering. Under this agreement, we will pay Cheniere Terminals an annual administrative fee of \$10.0 million (adjusted for inflation after January 1, 2007) commencing January 1, 2009 for the provision of various general and administrative services provided for our benefit and will 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. The annual administrative fee includes expenses incurred by Cheniere Terminals to perform all technical, commercial, regulatory, financial, accounting, treasury, tax and legal staffing and related support and all management and other services necessary or reasonably requested on our behalf by our general partner in order to conduct our business as contemplated by our partnership agreement.

### ***Public Company Expenses***

As a public company we incur certain expenses that cannot be paid with proceeds from borrowings under our Sabine Pass LNG notes. In March 2007, we entered into a \$12.0 million unsecured revolving note with Cheniere LNG Financial Services, Inc., a wholly-owned subsidiary of Cheniere Energy, which allows us to borrow funds to pay these expenses as required. The note bears interest at a rate of 7.50% with unpaid interest compounded semi-annually. This unsecured revolving note is repayable on demand but no sooner than the earlier of January 1, 2010 or the date on which we have sufficient available cash.

### ***State Tax Sharing Agreement***

In November 2006, Sabine Pass LNG entered into a state tax sharing agreement with Cheniere Energy. Under this agreement, Cheniere Energy has agreed to prepare and file all Texas franchise tax returns which it and Sabine Pass LNG are required to file on a combined basis and to timely pay the combined tax liability. If Cheniere Energy, in its sole discretion, demands payment, Sabine Pass LNG will pay to Cheniere Energy an amount equal to the Texas franchise tax that Sabine Pass LNG would be required to pay if its Texas franchise tax liability were computed on a separate company basis. This agreement contains similar provisions for other state and local taxes that Cheniere Energy and Sabine Pass LNG are required to file on a combined, consolidated or unitary basis. The agreement is effective for tax returns first due on or after January 1, 2008.

### ***Other Capital Resources***

#### ***Sabine Pass LNG Notes***

In November 2006, Sabine Pass LNG consummated a private offering of an aggregate principal amount of \$2,032.0 million of Sabine Pass LNG notes, consisting of \$550.0 million of 7.25% Senior Secured Notes due 2013 and \$1,482.0 million of 7.50% Senior Secured Notes due 2016. In August 2007, Sabine Pass LNG concluded an exchange offer of its unregistered 2013 Notes and 2016 Notes for a like principal amount of notes registered under the Securities Act of 1933. In August 2007, Sabine Pass LNG concluded an exchange of \$525.0 million of the 2013 Notes and \$1,482.0 million of the 2016 Notes for publicly registered notes.

We placed \$335.0 million of the net proceeds in a reserve account to fund scheduled interest payments on the Sabine Pass LNG notes through May 2009. We also placed approximately \$887.0 million in a construction account, which, until satisfaction of construction completion milestones, will only be applied to pay construction and startup costs of the Sabine Pass LNG receiving terminal and to pay other expenses incidental for us to complete construction of the project. We used the remaining net proceeds received from the issuance of the Sabine Pass LNG notes to repay indebtedness, to make a distribution to Holdings for the repayment of its outstanding term loan and to pay fees and expenses related to the issuance of the Sabine Pass LNG notes.

Interest on the Sabine Pass LNG notes is payable semi-annually in arrears on May 30 and November 30 of each year, beginning May 30, 2007. The Sabine Pass LNG 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.

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Under the indenture governing the Sabine Pass LNG notes, except for permitted tax distributions, Sabine Pass LNG may not make distributions until certain conditions are satisfied. The indenture requires that Sabine Pass LNG apply its net operating cash flow (i) first, to fund with monthly deposits its next semiannual payment of approximately \$75.5 million of interest on the Sabine Pass LNG notes, and (ii) second, to fund a one-time, permanent debt service reserve fund equal to one semiannual interest payment of approximately \$75.5 million on the Sabine Pass LNG notes. Distributions will be permitted only after phase 1 target completion, as defined in the indenture governing the Sabine Pass LNG notes, or such earlier date as project revenues are received, upon satisfaction of the foregoing funding requirements, after satisfying a fixed charge coverage ratio test of 2:1 and after satisfying other conditions specified in the 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 Energy, 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 is to provide funds for the payment of certain public company and other expenses that cannot be funded by the Sabine Pass LNG notes. Borrowings under this note bear interest at a fixed 7.50% rate with unpaid interest compounded semi-annually. The outstanding principal of the note plus interest as of September 30, 2007, was \$282,000.

**Historical Cash Flows**

The following table summarizes the changes in our cash and cash equivalents for the nine months ended September 30, 2007 and 2006 (in thousands). Additional discussions of the key elements contributing to these changes follow the table.

	For the Nine Months Ended	
	September 30,	
	2007	2006
Cash provided by (used in):		
Operating activities	\$ (278)	\$ (7)
Investing activities	(86,231)	(302,616)
Financing activities	86,511	302,626
<b>Net increase in cash and cash equivalents</b>	<b>\$ 2</b>	<b>\$ 3</b>
Cash and cash equivalents at end of period	\$ 9	\$ 8

*Operating Activities* Net cash used in operating activities was \$0.3 million during the nine months ended September 30, 2007 compared to net cash used in operating activities of \$7,000 during the same period of 2006. The net \$0.3 million amount used in the nine-month period ended September 30, 2007 resulted from the funding of our operating activities primarily through the use of restricted cash and cash equivalents, as all cash and cash equivalents received from the issuance of the Sabine Pass LNG notes are restricted under the terms of the indenture. During the nine months ended September 30, 2007, \$66.3 million restricted cash was used in operating activities, compared to \$5.6 million used in the same period of 2006. The lack of cash generated from operating activities is the direct result of the continued development of the Sabine Pass LNG receiving terminal business. Operations to date have been devoted to pre-construction and construction activities.

*Investing Activities* Net cash used in investing activities was \$86.2 million during the nine months ended September 30, 2007 compared to net cash used in investing activities of \$302.6 million during the same period of 2006. During the nine months ended September 30, 2007, we invested \$307.1 million in the construction of the Sabine Pass LNG receiving terminal, and \$34.6 million in advances under long-term contracts relating to the Sabine Pass LNG receiving terminal, which were primarily funded by the use of \$331.4 million of restricted cash



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and cash equivalents. In addition, during the nine months ended September 30, 2007, we invested \$75.0 million in treasury securities from the net proceeds of our Cheniere Partners Offering that will be used to pay the \$0.425 quarterly distribution on 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. During the nine months ended September 30, 2006, we invested \$293.5 million in the Sabine Pass LNG receiving terminal for construction costs, and \$6.9 million in advances under long-term contracts relating to the construction of the Sabine Pass LNG receiving terminal.

*Financing Activities* Net cash provided by financing activities during the nine months ended September 30, 2007 was \$86.5 million compared to net cash provided by financing activities of \$302.6 million during the same period in 2006. During the nine months ended September 30, 2007, we received net proceeds of \$98.4 million from the issuance of our common units in connection with our Cheniere Partners Offering. During the nine months ended September 30, 2006, we received \$351.5 million of proceeds from borrowings under the credit facility, which was subsequently terminated in connection with the issuance of the Sabine Pass LNG notes and resulted in our paying \$11.5 million of debt issuance costs.

Our cash and cash equivalent ending balances were \$9,000 and \$7,000 as of September 30, 2007 and December 31, 2006, respectively, as substantially all cash and cash equivalents were restricted under the terms of the indenture governing the Sabine Pass LNG notes.

### **Off-Balance Sheet Arrangements**

As of September 30, 2007, we had no off-balance sheet debt or other such unrecorded obligations, and we have not guaranteed the debt of any other party.

## **RESULTS OF OPERATIONS**

### **Three Months Ended September 30, 2007 compared to Three Months Ended September 30, 2006**

#### *Overview*

Our financial results for the three months ended September 30, 2007 reflected a net loss of \$11.1 million, compared to a net loss of \$6.8 million in the same period in 2006. Because we are a development stage company and our operations consist solely of constructing the Sabine Pass LNG receiving terminal, we have not generated any operating revenues since inception.

#### *Expenses*

Total expenses decreased \$2.7 million, or 45.8%, to \$3.2 million for the three months ended September 30, 2007 compared to \$5.9 million in the same period in 2006. During the third quarter of 2006, we recognized \$4.5 million in development expenses due to a reimbursement to an affiliate. Not including the impact of the recognition of this reimbursement, there was an increase in expenses of \$1.8 million. The increase was primarily attributable to labor charges from an affiliate. Most of these labor charges were related to O&M Services employees who will ultimately be operating the Sabine Pass LNG receiving terminal. During the nine months ended September 30, 2007, a substantial portion of these costs was expensed as it related to training and other activities not subject to capitalization.

#### *Other Income (Expense)*

Total other expense for the three months ended September 30, 2007 was \$7.9 million compared to other expenses of \$0.9 million in the same period in 2006. The increase in other expense related to an increase in interest expense partially offset by an increase in interest income. Interest expense increased due to our average

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debt balance being much larger during the three months ended September 30, 2007 compared to the three months ended September 30, 2006 as a result of the Sabine Pass LNG notes being outstanding, during which time the interest expense exceeded the amount of interest subject to capitalization. In the three months ended September 30, 2006, all of our interest expense incurred under the Sabine Pass credit facility in place at that time was subject to capitalization. Interest income increased in the three months ended September 30, 2007 compared to the three months ended September 30, 2006 due to a significantly higher restricted cash and cash equivalent average balance during the three months ended September 30, 2007 compared to a nominal restricted cash and cash equivalent average balance in the same period of 2006.

### **Nine Months Ended September 30, 2007 compared to Nine Months Ended September 30, 2006**

#### ***Overview***

Our financial results for the nine months ended September 30, 2007 reflected a net loss of \$36.0 million, compared to a net loss of \$9.3 million in the same period in 2006. Because we are a development stage company and our operations consist solely of constructing the Sabine Pass LNG receiving terminal, we have not generated any operating revenues since inception.

#### ***Expenses***

Total expenses decreased \$1.5 million, or 16.0%, to \$7.9 million for the nine months ended September 30, 2007 compared to \$9.4 million in the same period in 2006. During the third quarter of 2006, we recognized \$4.5 million in development expenses due to a reimbursement to an affiliate. Not including the impact of the recognition of this reimbursement, there was an increase in expenses of \$3.0 million. The increase was primarily attributable to labor charges from an affiliate. Most of these labor charges were related to O&M Services employees who will ultimately be operating the Sabine Pass LNG receiving terminal. During the nine months ended September 30, 2007, a substantial portion of these costs was expensed as it related to training and other activities not subject to capitalization.

#### ***Other Income (Expense)***

Total other expense for the nine months ended September 30, 2007 was \$28.0 million compared to other income of \$0.1 million in the same period in 2006. The increase in other expense related to an increase in interest expense not subject to capitalization partially offset by an increase in interest income. Interest expense increased due to our average debt balance being much larger in the nine months ended September 30, 2007 compared to the nine months ended September 30, 2006 as a result of the Sabine Pass LNG notes being outstanding, during which time the interest expense exceeded the amount of interest subject to capitalization. In the nine months ended September 30, 2006, all of our interest expense incurred under the Sabine Pass credit facility in place at that time was subject to capitalization. Interest income increased in the nine months ended September 30, 2007 compared to the nine months ended September 30, 2006 due to a significantly higher restricted cash and cash equivalent average balance during the nine months ended September 30, 2007, compared to a nominal restricted cash and cash equivalent average balance in the same period of 2006.

## **OTHER MATTERS**

### **Critical Accounting Estimates and Policies**

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 the specific set of circumstances existing in our business. We make every effort to comply properly with all applicable rules on or before their adoption, and we believe that the proper implementation and

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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.

### ***Accounting for LNG Activities***

Generally, expenditures for direct construction activities, major renewals and betterments are capitalized, while expenditures for maintenance and repairs and general and administrative activities are charged to expense as incurred. Beginning in 2006, site rental costs have been expensed as required by Financial Accounting Standards Board ( FASB ) Staff Position 13-1, *Accounting for Rental Costs Incurred During a Construction Period*.

During the construction period of the Sabine Pass LNG receiving terminal, we capitalize interest and other related debt costs in accordance with Statement of Financial Accounting Standards ( SFAS ) No. 34, *Capitalization of Interest Cost*, as amended by SFAS No. 58, *Capitalization of Interest Cost in Financial Statements That Include Investments Accounted for by the Equity Method (an Amendment of FASB Statement No. 34)*. Upon commencement of operations, capitalized interest, as a component of the total cost, will be amortized over the estimated useful life of the asset.

### ***Revenue Recognition***

LNG receiving terminal capacity reservation fees are recognized as revenue over the term of the respective TUAs. Advance capacity reservation fees are deferred initially and recognized as earned.

### ***Cash Flow Hedges***

As defined in SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, cash flow hedge transactions hedge the exposure to variability in expected future cash flows (i.e., in our case, the variability of floating interest rate exposure). In the case of cash flow hedges, the hedged item (the underlying risk) is generally unrecognized (i.e., not recorded on the balance sheet prior to settlement), and any changes in the fair value, therefore, will not be recorded within earnings. Conceptually, if a cash flow hedge is effective, this means that a variable, such as a movement in interest rates, has been effectively fixed so that any fluctuations will have no net result on either cash flows or earnings. Therefore, if the changes in fair value of the hedged item are not recorded in earnings, then the changes in fair value of the hedging instrument (the derivative) must also be excluded from the income statement or else a one-sided net impact on earnings will be reported, despite the fact that the establishment of the effective hedge results in no net economic impact. To prevent such a scenario from occurring, SFAS No. 133 requires that the fair value of a derivative instrument designated as a cash flow hedge be recorded as an asset or liability on the balance sheet, but with the offset reported as part of other comprehensive income, to the extent that the hedge is effective. We assess, both at the inception of each hedge and on an on-going basis, whether the derivatives that are used in our hedging transactions are highly effective in offsetting changes in cash flows of the hedged items. On an on-going basis, we monitor the actual dollar offset of the hedges' market values compared to hypothetical cash flow hedges. Any ineffective portion will be reflected in earnings. Ineffectiveness is the amount of gains or losses from derivative instruments that are not offset by corresponding and opposite gains or losses on the expected future transaction.

### **Item 3. Quantitative and Qualitative Disclosures About Market Risk**

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 Combined Balance Sheets.

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**Item 4. Disclosure 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 SEC's rules and forms. As of the end of the period covered by this report, we evaluated, under the supervision and with the participation of our general partner's management, including our general partner's Chief Executive Officer and Chief Financial Officer, the effectiveness of our disclosure controls and procedures pursuant to Rule 13a-15 of the Exchange Act. Based on their evaluation as of the end of the fiscal quarter ended September 30, 2007, our Chief Executive Officer and our Chief Financial Officer have concluded that our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) are effective to ensure that information required to be disclosed in reports that we file or submit under the Exchange Act (i) is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and (ii) is accumulated and communicated to our management, including our Chief Executive Officer and our Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosures.

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 regularly analyze current information and, as necessary, provide accruals for probable liabilities on the eventual disposition of these matters. In the opinion of management of our general partner and legal counsel, as of September 30, 2007, 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. In the future, we may be involved as a party to various legal proceedings, which are incidental to the ordinary course of business.

**Item 6. Exhibits**

(a) Each of the following exhibits is filed herewith:

- 10.1 Change Order 50 to Lump Sum Turnkey Engineering, Procurement and Construction Agreement dated December 18, 2004, between Sabine Pass LNG, L.P. and Bechtel Corporation (incorporated by reference to Exhibit 10.1 to Cheniere Energy, Inc.'s Quarterly Report on Form 10-Q (SEC File No. 001-16383), filed on November 6, 2007).
- 10.2 Change Order 6 to Engineer, Procure and Construct (EPC) LNG Unit Rate Soil Contract, dated July 21, 2006, between Sabine Pass LNG, L.P. and Remedial Construction Services, L.P. (incorporated by reference to Exhibit 10.4 to Cheniere Energy, Inc.'s Quarterly Report on Form 10-Q (SEC File No. 001-16383), filed on November 6, 2007).
- 10.3 Change Orders 2 and 3 to Agreement for Engineering, Procurement, Construction and Management of Construction Services for the Sabine Phase 2 Receiving, Storage and Regasification Terminal Expansion, dated July 21, 2006, between Sabine Pass LNG, L.P. and Bechtel Corporation (incorporated by reference to Exhibit 10.38 to Sabine Pass LNG, L.P.'s Registration Statement on Form S-4 (SEC File No. 333-138916), filed on June 11, 2007).
- 10.4 Change Order 1, 2 and 3 to Engineer, Procure and Construct (EPC) LNG Tank Contract, dated July 21, 2006, between Sabine Pass LNG, L.P., Zachry Construction Corporation and Diamond LNG LLC (incorporated by reference to Exhibit 10.37 to Sabine Pass LNG, L.P.'s Registration Statement on Form S-4 (SEC File No. 333-138916), filed on June 11, 2007).

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- 10.5 Cooperative Endeavor Agreement & Payment in Lieu of Tax Agreement, dated October 23, 2007 (amending the Amended and Restated Terminal Use Agreement, dated November 9, 2006, by and between Cheniere Marketing, Inc. and Sabine Pass LNG, L.P.) (incorporated by reference to Exhibit 10.7 to Cheniere Energy, Inc.'s Quarterly Report on Form 10-Q (SEC File No. 001-16383), filed on November 6, 2007).
- 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

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**SIGNATURES**

Pursuant to the requirements of the Securities and 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

/s/ Don A. Turkleson

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Don A. Turkleson

Chief Financial Officer (on behalf of the registrant

and as principal accounting officer)

Date: November 6, 2007