HollyFrontier Corp
Form 10-Q
August 05, 2015

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2015
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 Number 1-3876

HOLLYFRONTIER CORPORATION
(Exact name of registrant as specified in its charter)

Delaware	75-1056913
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
2828 N. Harwood, Suite 1300 Dallas, Texas	75201
(Address of principal executive offices)	(Zip Code)

(214) 871-3555
(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

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 ý 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 ý No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ý Accelerated filer ¨ Non-accelerated filer ¨ 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 ý
188,563,410 shares of Common Stock, par value $.01 per share, were outstanding on July 31, 2015.

Table of Content

HOLLYFRONTIER CORPORATION
INDEX

Table of Content

FORWARD-LOOKING STATEMENTS

References herein to HollyFrontier Corporation ("HollyFrontier") include HollyFrontier and its consolidated subsidiaries. In accordance with the Securities and Exchange Commission's ("SEC") "Plain English" guidelines, this Quarterly Report on Form 10-Q has been written in the first person. In this document, the words "we," "our," "ours" and "us" refer only to HollyFrontier and its consolidated subsidiaries or to HollyFrontier or an individual subsidiary and not to any other person with certain exceptions. Generally, the words "we," "our," "ours" and "us" include Holly Energy Partners, L.P. ("HEP") and its subsidiaries as consolidated subsidiaries of HollyFrontier, unless when used in disclosures of transactions or obligations between HEP and HollyFrontier or its other subsidiaries. This document contains certain disclosures of agreements that are specific to HEP and its consolidated subsidiaries and do not necessarily represent obligations of HollyFrontier. When used in descriptions of agreements and transactions, "HEP" refers to HEP and its consolidated subsidiaries.

This Quarterly Report on Form 10-Q contains certain "forward-looking statements" within the meaning of the federal securities laws. All statements, other than statements of historical fact included in this Form 10-Q, including, but not limited to, those under "Results of Operations," "Liquidity and Capital Resources" and "Risk Management" in Part I, Item 2 "Management's Discussion and Analysis of Financial Condition and Results of Operations" and those in Part II, Item 1 "Legal Proceedings" are forward-looking statements. These statements are based on management's beliefs and assumptions using currently available information and expectations as of the date hereof, are not guarantees of future performance and involve certain risks and uncertainties. Although we believe that the expectations reflected in these forward-looking statements are reasonable, we cannot assure you that our expectations will prove to be correct. Therefore, actual outcomes and results could materially differ from what is expressed, implied or forecast in these statements. Any differences could be caused by a number of factors including, but not limited to:

- risks and uncertainties with respect to the actions of actual or potential competitive suppliers of refined petroleum products in our markets;
- the demand for and supply of crude oil and refined products;
- the spread between market prices for refined products and market prices for crude oil;
- the possibility of constraints on the transportation of refined products;
- the possibility of inefficiencies, curtailments or shutdowns in refinery operations or pipelines;
- effects of governmental and environmental regulations and policies;
- the availability and cost of our financing;
- the effectiveness of our capital investments and marketing strategies;
- our efficiency in carrying out construction projects;
- our ability to acquire refined product operations or pipeline and terminal operations on acceptable terms and to integrate any existing or future acquired operations;
- the possibility of terrorist attacks and the consequences of any such attacks;
- general economic conditions; and
- other financial, operational and legal risks and uncertainties detailed from time to time in our SEC filings.

Cautionary statements identifying important factors that could cause actual results to differ materially from our expectations are set forth in this Form 10-Q, including without limitation, the forward-looking statements that are referred to above. This summary discussion should be read in conjunction with the discussion of the known material risk factors and other cautionary statements under the heading "Risk Factors" included in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2014 and in conjunction with the discussion in this Form 10-Q in "Management's Discussion and Analysis of Financial Condition and Results of Operations" under the heading "Liquidity and Capital Resources" and Part II, Item 1A "Risk Factors." All forward-looking statements included in this Form 10-Q and all subsequent written or oral forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by these cautionary statements. The forward-looking statements speak only as of the date made and, other than as required by law, we undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

PART I. FINANCIAL INFORMATION

DEFINITIONS

Within this report, the following terms have these specific meanings:

“BPD” means the number of barrels per calendar day of crude oil or petroleum products.

“BPSD” means the number of barrels per stream day (barrels of capacity in a 24 hour period) of crude oil or petroleum products.

“Biodiesel” means a clean alternative fuel produced from renewable biological resources.

“Black wax crude oil” is a low sulfur, low gravity crude oil produced in the Uintah Basin in Eastern Utah that has certain characteristics that require specific facilities to transport, store and refine into transportation fuels.

“Cracking” means the process of breaking down larger, heavier and more complex hydrocarbon molecules into simpler and lighter molecules.

“Crude oil distillation” means the process of distilling vapor from liquid crudes, usually by heating, and condensing the vapor slightly above atmospheric pressure turning it back to liquid in order to purify, fractionate or form the desired products.

“Ethanol” means a high octane gasoline blend stock that is used to make various grades of gasoline.

“FCC,” or fluid catalytic cracking, means a refinery process that breaks down large complex hydrocarbon molecules into smaller more useful ones using a circulating bed of catalyst at relatively high temperatures.

“Hydrodesulfurization” means to remove sulfur and nitrogen compounds from oil or gas in the presence of hydrogen and a catalyst at relatively high temperatures.

“Hydrogen plant” means a refinery unit that converts natural gas and steam to high purity hydrogen, which is then used in the hydrodesulfurization, hydrocracking and isomerization processes.

“Isomerization” means a refinery process for rearranging the structure of C5/C6 molecules without changing their size or chemical composition and is used to improve the octane of C5/C6 gasoline blendstocks.

“LPG” means liquid petroleum gases.

“Lubricant” or “lube” means a solvent neutral paraffinic product used in commercial heavy duty engine oils, passenger car oils and specialty products for industrial applications such as heat transfer, metalworking, rubber and other general process oil.

“MSAT2” means Control of Hazardous Air Pollutants from Mobile Sources, a rule issued by the U.S. Environmental Protection Agency to reduce hazardous emissions from motor vehicles and motor vehicle fuels.

“MMBTU” means one million British thermal units.

“Refinery gross margin” means the difference between average net sales price and average product costs per produced barrel of refined products sold. This does not include the associated depreciation and amortization costs.

“Sour crude oil” means crude oil containing quantities of sulfur greater than 0.4 percent by weight, while “sweet crude oil” means crude oil containing quantities of sulfur equal to or less than 0.4 percent by weight.

“Vacuum distillation” means the process of distilling vapor from liquid crudes, usually by heating, and condensing the vapor below atmospheric pressure turning it back to a liquid in order to purify, fractionate or form the desired products.

“WCS” means Western Canada Select crude oil and is made up of Canadian heavy conventional and bitumen crude oils blended with sweet synthetic and condensate diluents.

“WTI” means West Texas Intermediate and is a grade of crude oil used as a common benchmark in oil pricing. WTI is a sweet crude oil and has a relatively low density.

“WTS” means West Texas Sour, a medium sour crude oil.

Table of Content

Item 1. Financial Statements
HOLLYFRONTIER CORPORATION
CONSOLIDATED BALANCE SHEETS
(In thousands, except share data)

	June 30, 2015 (Unaudited)	December 31, 2014
ASSETS		
Current assets:		
Cash and cash equivalents (HEP: $10,424 and $2,830, respectively)	$233,359	$567,985
Marketable securities	392,859	474,110
Total cash, cash equivalents and short-term marketable securities	626,218	1,042,095
Accounts receivable: Product and transportation (HEP: $40,044 and $40,129, respectively)	594,960	507,040
Crude oil resales	31,147	82,865
	626,107	589,905
Inventories: Crude oil and refined products	1,062,630	920,104
Materials, supplies and other (HEP: $1,934 and $1,940, respectively)	127,288	115,027
	1,189,918	1,035,131
Income taxes receivable	8,351	11,719
Prepayments and other (HEP: $2,804 and $2,443, respectively)	68,945	104,148
Total current assets	2,519,539	2,782,998
Properties, plants and equipment, at cost (HEP: $1,313,924 and $1,269,161, respectively)	5,156,745	4,852,441
Less accumulated depreciation (HEP: $(270,949) and $(244,850), respectively)	(1,288,350)	(1,181,902)
	3,868,395	3,670,539
Other assets: Turnaround costs	251,901	257,153
Goodwill (HEP: $288,991 and $288,991, respectively)	2,331,781	2,331,781
Intangibles and other (HEP: $71,897 and $73,928, respectively)	173,670	188,169
	2,757,352	2,777,103
Total assets	$9,145,286	$9,230,640
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable (HEP: $16,128 and $17,881, respectively)	$1,050,392	$1,108,138
Income taxes payable	7,569	19,642
Accrued liabilities (HEP: $25,885 and $26,321, respectively)	113,246	106,214
Deferred income tax liabilities	69,284	17,409
Total current liabilities	1,240,491	1,251,403
Long-term debt (HEP: $900,905 and $867,579, respectively)	933,162	1,054,890
Deferred income taxes (HEP: $332 and $367, respectively)	627,537	646,870
Other long-term liabilities (HEP: $56,283 and $47,170, respectively)	176,141	176,758
Equity:		
HollyFrontier stockholders’ equity:		
Preferred stock, $1.00 par value – 5,000,000 shares authorized; none issued	—	—
	2,560	2,560

Common stock $.01 par value – 320,000,000 shares authorized; 255,962,866 shares issued as of June 30, 2015 and December 31, 2014		
Additional capital	3,956,289	4,003,628
Retained earnings	3,241,085	2,778,577
Accumulated other comprehensive income	12,690	27,894
Common stock held in treasury, at cost – 67,397,641 and 59,876,776 shares as of June 30, 2015 and December 31, 2014, respectively	(1,609,565)	(1,289,075)
Total HollyFrontier stockholders’ equity	5,603,059	5,523,584
Noncontrolling interest	564,896	577,135
Total equity	6,167,955	6,100,719
Total liabilities and equity	$9,145,286	$9,230,640

Parenthetical amounts represent asset and liability balances attributable to Holly Energy Partners, L.P. (“HEP”) as of June 30, 2015 and December 31, 2014. HEP is a consolidated variable interest entity.

See accompanying notes.

Table of Content

HOLLYFRONTIER CORPORATION
CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)
(In thousands, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Sales and other revenues	$3,701,912	$5,372,600	$6,708,538	$10,163,653
Operating costs and expenses:				
Cost of products sold (exclusive of depreciation and amortization):				
Cost of products sold (exclusive of lower of cost or market inventory valuation adjustment)	2,887,475	4,674,846	5,138,848	8,813,466
Lower of cost or market inventory valuation adjustment	(135,480)	—	(142,026)	—
	2,751,995	4,674,846	4,996,822	8,813,466
Operating expenses (exclusive of depreciation and amortization)	246,165	271,654	509,761	545,620
General and administrative expenses (exclusive of depreciation and amortization)	26,117	28,365	55,686	55,288
Depreciation and amortization	87,803	101,390	167,815	181,938
Total operating costs and expenses	3,112,080	5,076,255	5,730,084	9,596,312
Income from operations	589,832	296,345	978,454	567,341
Other income (expense):				
Earnings (loss) of equity method investments	631	(908)	(7,176)	(1,709)
Interest income	768	1,184	1,730	2,589
Interest expense	(10,559)	(10,136)	(20,713)	(22,483)
Loss on early extinguishment of debt	(1,368)	—	(1,368)	(7,677)
Gain on sale of assets	873	—	1,639	—
	(9,655)	(9,860)	(25,888)	(29,280)
Income before income taxes	580,177	286,485	952,566	538,061
Income tax provision:				
Current	155,377	109,171	294,575	202,464
Deferred	51,613	(7,839)	42,143	(13,518)
	206,990	101,332	336,718	188,946
Net income	373,187	185,153	615,848	349,115
Less net income attributable to noncontrolling interest	12,363	8,724	28,148	20,625
Net income attributable to HollyFrontier stockholders	$360,824	$176,429	$587,700	$328,490
Earnings per share attributable to HollyFrontier stockholders:				
Basic	$1.88	$0.89	$3.03	$1.65
Diluted	$1.88	$0.89	$3.03	$1.65
Cash dividends declared per common share	$0.33	$0.82	$0.65	$1.62
Average number of common shares outstanding:				
Basic	191,355	198,139	193,202	198,217
Diluted	191,454	198,380	193,279	198,408

See accompanying notes.

6

Table of Content

HOLLYFRONTIER CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)
(In thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Net income	$373,187	$185,153	$615,848	$349,115
Other comprehensive income:				
Securities available-for-sale:				
Unrealized gain (loss) on marketable securities	(57)	25	51	37
Reclassification adjustments to net income on sale or maturity of marketable securities	(6)	—	(46)	(1)
Net unrealized gain (loss) on marketable securities	(63)	25	5	36
Hedging instruments:				
Change in fair value of cash flow hedging instruments	8,195	46,689	(7,233)	138,724
Reclassification adjustments to net income on settlement of cash flow hedging instruments	(14,274)	(12,644)	(18,435)	(17,866)
Amortization of unrealized loss attributable to discontinued cash flow hedges	270	270	540	540
Net unrealized gain (loss) on hedging instruments	(5,809)	34,315	(25,128)	121,398
Net change in post-retirement benefit obligations	—	—	—	(89)
Other comprehensive income (loss) before income taxes	(5,872)	34,340	(25,123)	121,345
Income tax expense (benefit)	(2,325)	13,417	(9,600)	47,122
Other comprehensive income (loss)	(3,547)	20,923	(15,523)	74,223
Total comprehensive income	369,640	206,076	600,325	423,338
Less noncontrolling interest in comprehensive income	12,498	8,271	27,829	20,230
Comprehensive income attributable to HollyFrontier stockholders	$357,142	$197,805	$572,496	$403,108

See accompanying notes.

Table of Content

HOLLYFRONTIER CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(In thousands)

	Six Months Ended June 30,	
	2015	2014
Cash flows from operating activities:		
Net income	$615,848	$349,115
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	167,815	181,938
Lower of cost or market inventory valuation adjustment	(142,026)	—
Net loss of equity method investments, inclusive of distributions	8,739	3,082
Gain on sale of assets	(1,639)	—
(Gain) loss on early extinguishment of debt attributable to unamortized premium / discount	(3,788)	1,489
Deferred income taxes	42,143	(13,518)
Equity-based compensation expense	14,222	13,846
Change in fair value – derivative instruments	5,841	486
(Increase) decrease in current assets:		
Accounts receivable	(35,737)	(81,399)
Inventories	(12,761)	(150,585)
Income taxes receivable	3,368	90,501
Prepayments and other	10,691	3,171
Increase (decrease) in current liabilities:		
Accounts payable	(60,448)	307,473
Income taxes payable	(12,073)	—
Accrued liabilities	2,175	20,865
Turnaround expenditures	(38,116)	(9,708)
Other, net	5,686	4,723
Net cash provided by operating activities	569,940	721,479
Cash flows from investing activities:		
Additions to properties, plants and equipment	(267,100)	(205,987)
Additions to properties, plants and equipment – HEP	(49,813)	(38,782)
Purchases of marketable securities	(246,008)	(498,080)
Sales and maturities of marketable securities	327,310	543,604
Other, net	2,232	5,021
Net cash used for investing activities	(233,379)	(194,224)
Cash flows from financing activities:		
Borrowings under credit agreement – HEP	254,100	477,100
Repayments under credit agreement – HEP	(221,100)	(297,100)
Redemption of senior notes	(155,156)	—
Redemption of senior notes – HEP	—	(156,188)
Inventory repurchase obligation	—	5,964
Purchase of treasury stock	(320,132)	(20,135)
Accelerated stock repurchase forward contract	(60,000)	—
Dividends	(125,192)	(323,088)
Distributions to noncontrolling interest	(41,596)	(38,548)

Excess tax benefit from equity-based compensation	—	3,778
Other, net	(2,111)	(839)
Net cash used for financing activities	(671,187)	(349,056)
Cash and cash equivalents:		
Increase (decrease) for the period	(334,626)	178,199
Beginning of period	567,985	940,103
End of period	$233,359	$1,118,302
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Interest	$25,612	$30,702
Income taxes	$310,117	$118,142

See accompanying notes.

Table of Content

HOLLYFRONTIER CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 1: Description of Business and Presentation of Financial Statements

References herein to HollyFrontier Corporation ("HollyFrontier") include HollyFrontier and its consolidated subsidiaries. In accordance with the Securities and Exchange Commission's ("SEC") "Plain English" guidelines, this Quarterly Report on Form 10-Q has been written in the first person. In these financial statements, the words "we," "our," "ours" and "us" refer only to HollyFrontier and its consolidated subsidiaries or to HollyFrontier or an individual subsidiary and not to any other person, with certain exceptions. Generally, the words "we," "our," "ours" and "us" include Holly Energy Partners, L.P. ("HEP") and its subsidiaries as consolidated subsidiaries of HollyFrontier, unless when used in disclosures of transactions or obligations between HEP and HollyFrontier or its other subsidiaries. These financial statements contain certain disclosures of agreements that are specific to HEP and its consolidated subsidiaries and do not necessarily represent obligations of HollyFrontier. When used in descriptions of agreements and transactions, "HEP" refers to HEP and its consolidated subsidiaries.

We are principally an independent petroleum refiner that produces high-value light products such as gasoline, diesel fuel, jet fuel, specialty lubricant products, and specialty and modified asphalt. We own and operate petroleum refineries that serve markets throughout the Mid-Continent, Southwest and Rocky Mountain regions of the United States. As of June 30, 2015, we:

- owned and operated a petroleum refinery in El Dorado, Kansas (the "El Dorado Refinery"), two refinery facilities located in Tulsa, Oklahoma (collectively, the "Tulsa Refineries"), a refinery in Artesia, New Mexico that is operated in conjunction with crude oil distillation and vacuum distillation and other facilities situated 65 miles away in Lovington, New Mexico (collectively, the "Navajo Refinery"), a refinery located in Cheyenne, Wyoming (the "Cheyenne Refinery") and a refinery in Woods Cross, Utah (the "Woods Cross Refinery");
- owned and operated NK Asphalt Partners ("NK Asphalt") which operates various asphalt terminals in Arizona, New Mexico and Oklahoma; and
- owned a 39% interest in HEP, a consolidated variable interest entity ("VIE"), which includes our 2% general partner interest. HEP owns and operates logistic assets consisting of petroleum product and crude oil pipelines and terminal, tankage and loading rack facilities that principally support our refining and marketing operations in the Mid-Continent, Southwest and Rocky Mountain regions of the United States and Alon USA, Inc.'s ("Alon") refinery in Big Spring, Texas. Additionally, HEP owns a 75% interest in UNEV Pipeline, LLC ("UNEV"), which owns a 12-inch refined products pipeline from Salt Lake City, Utah to Las Vegas, Nevada, together with terminal facilities in the Cedar City, Utah and North Las Vegas areas (the "UNEV Pipeline") and a 25% interest in SLC Pipeline LLC (the "SLC Pipeline"), which owns a 95-mile intrastate pipeline system that serves refineries in the Salt Lake City area.

We have prepared these consolidated financial statements without audit. In management's opinion, these consolidated financial statements include all normal recurring adjustments necessary for a fair presentation of our consolidated financial position as of June 30, 2015, the consolidated results of operations and comprehensive income for the three and six months ended June 30, 2015 and 2014 and consolidated cash flows for the six months ended June 30, 2015 and 2014 in accordance with the rules and regulations of the SEC. Although certain notes and other information required by generally accepted accounting principles in the United States ("GAAP") have been condensed or omitted, we believe that the disclosures in these consolidated financial statements are adequate to make the information presented not misleading. These consolidated financial statements should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2014 that has been filed with the SEC.

Our results of operations for the six months ended June 30, 2015 are not necessarily indicative of the results of operations to be realized for the year ending December 31, 2015.

Accounts Receivable: Our accounts receivable consist of amounts due from customers that are primarily companies in the petroleum industry. Credit is extended based on our evaluation of the customer's financial condition, and in certain circumstances collateral, such as letters of credit or guarantees, is required. We reserve for doubtful accounts based on our historical loss experience as well as specific accounts identified as high risk, which historically have been minimal. Credit losses are charged to the allowance for doubtful accounts when an account is deemed uncollectible. Our allowance for doubtful accounts was $2.3 million at June 30, 2015 and $2.4 million at December 31, 2014.

Table of Contents

Inventories: Inventories are stated at the lower of cost, using the last-in, first-out (“LIFO”) method for crude oil, unfinished and finished refined products and the average cost method for materials and supplies, or market. In periods of rapidly declining prices, LIFO inventories may have to be written down to market value due to the higher costs assigned to LIFO layers in prior periods. In addition, the use of the LIFO inventory method may result in increases or decreases to cost of sales in years that inventory volumes decline as the result of charging cost of sales with LIFO inventory costs generated in prior periods. An actual valuation of inventory under the LIFO method is made at the end of each year based on the inventory levels at that time. Accordingly, interim LIFO calculations are based on management's estimates of expected year-end inventory levels and are subject to the final year-end LIFO inventory valuation.

Goodwill: We have goodwill that primarily arose from our merger with Frontier Oil Corporation on July 1, 2011. Goodwill represents the excess of the cost of an acquired entity over the fair value of the assets acquired and liabilities assumed. Goodwill is not subject to amortization and is tested annually or more frequently if events or circumstances indicate the possibility of impairment. As of June 30, 2015, there have been no impairments to goodwill.

New Accounting Pronouncements

Revenue Recognition
In May 2014, an accounting standard update (ASU 2014-09, “Revenue from Contracts with Customers”) was issued requiring revenue to be recognized when promised goods or services are transferred to customers in an amount that reflects the expected consideration for these goods or services. This standard has an effective date of January 1, 2018, and we are evaluating the impact of this standard.

NOTE 2: Holly Energy Partners

HEP, a consolidated VIE, is a publicly held master limited partnership that was formed to acquire, own and operate the petroleum product and crude oil pipeline and terminal, tankage and loading rack facilities that support our refining and marketing operations in the Mid-Continent, Southwest and Rocky Mountain regions of the United States. HEP also owns and operates refined product pipelines and terminals, located primarily in Texas, that serve Alon's refinery in Big Spring, Texas.

As of June 30, 2015, we owned a 39% interest in HEP, including the 2% general partner interest. As the general partner of HEP, we have the sole ability to direct the activities that most significantly impact HEP's financial performance, and therefore we consolidate HEP. See Note 16 for supplemental guarantor/non-guarantor financial information, including HEP balances included in these consolidated financial statements.

HEP has two primary customers (including us) and generates revenues by charging tariffs for transporting petroleum products and crude oil though its pipelines, by charging fees for terminalling refined products and other hydrocarbons, and storing and providing other services at its storage tanks and terminals. Under our long-term transportation agreements with HEP (discussed further below), we accounted for 81% of HEP’s total revenues for the six months ended June 30, 2015. We do not provide financial or equity support through any liquidity arrangements and / or debt guarantees to HEP.

HEP has outstanding debt under a senior secured revolving credit agreement and its senior notes. With the exception of the assets of HEP Logistics Holdings, L.P., one of our wholly-owned subsidiaries and HEP's general partner, HEP's creditors have no recourse to our other assets. Any recourse to HEP's general partner would be limited to the extent of HEP Logistics Holdings, L.P.'s assets, which other than its investment in HEP are not significant. Furthermore, our creditors have no recourse to the assets of HEP and its consolidated subsidiaries. See Note 9 for a description of HEP's debt obligations.

HEP has risk associated with its operations. If a major customer of HEP were to terminate its contracts or fail to meet desired shipping or throughput levels for an extended period of time, revenue would be reduced and HEP could suffer substantial losses to the extent that a new customer is not found. In the event that HEP incurs a loss, our operating results will reflect HEP's loss, net of intercompany eliminations, to the extent of our ownership interest in HEP at that point in time.

Table of Contents
HOLLYFRONTIER CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited) Continued

Transportation Agreements
HEP serves our refineries under long-term pipeline and terminal, tankage and throughput agreements expiring from 2019 through 2026. Under these agreements, we pay HEP fees to transport, store and throughput volumes of refined product and crude oil on HEP's pipeline and terminal, tankage and loading rack facilities that result in minimum annual payments to HEP including UNEV (a consolidated subsidiary of HEP). Under these agreements, the agreed upon tariff rates are subject to annual tariff rate adjustments on July 1 at a rate based upon the percentage change in Producer Price Index or Federal Energy Regulatory Commission index. As of July 1, 2015, these agreements result in minimum annualized payments to HEP of $236.6 million.

Our transactions with HEP including fees paid under our transportation agreements with HEP and UNEV are eliminated and have no impact on our consolidated financial statements.

NOTE 3: Financial Instruments

Our financial instruments consist of cash and cash equivalents, investments in marketable securities, accounts receivable, accounts payable, debt and derivative instruments. The carrying amounts of cash and cash equivalents, accounts receivable and accounts payable approximate fair value. HEP's outstanding credit agreement borrowings also approximate fair value as interest rates are reset frequently at current interest rates.

Fair value measurements are derived using inputs (assumptions that market participants would use in pricing an asset or liability, including assumptions about risk). GAAP categorizes inputs used in fair value measurements into three broad levels as follows:

- (Level 1) Quoted prices in active markets for identical assets or liabilities.
- (Level 2) Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets, similar assets and liabilities in markets that are not active or can be corroborated by observable market data.
- (Level 3) Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. This includes valuation techniques that involve significant unobservable inputs.

The carrying amounts and estimated fair values of investments in marketable securities, derivative instruments and senior notes at June 30, 2015 and December 31, 2014 were as follows:

Financial Instrument	Carrying Amount	Fair Value	Fair Value by Input Level Level 1	Level 2	Level 3
	(In thousands)				
June 30, 2015					
Assets:					
Marketable securities	$392,859	$392,859	$—	$392,859	$—
Commodity price swaps	131,333	131,333	—	131,333	—
Forward contracts	76	76	—	76	—
HEP interest rate swaps	134	134	—	134	—
Total assets	$524,402	$524,402	$—	$524,402	$—

Liabilities:					
NYMEX futures contracts	$236	$236	$236	$—	$—
Commodity price swaps	126,983	126,983	—	126,983	—
Forward contracts	2,143	2,143	—	2,143	—
HEP senior notes	296,905	295,875	—	295,875	—
HEP interest rate swaps	707	707	—	707	—
Total liabilities	$426,974	$425,944	$236	$425,708	$—

Financial Instrument	Carrying Amount	Fair Value	Fair Value by Input Level Level 1	Level 2	Level 3
	(In thousands)				
December 31, 2014					
Assets:					
Marketable securities	$474,110	$474,110	$—	$474,110	$—
NYMEX futures contracts	17,619	17,619	17,619	—	—
Commodity price swaps	208,296	208,296	—	208,296	—
HEP interest rate swaps	1,019	1,019	—	1,019	—
Total assets	$701,044	$701,044	$17,619	$683,425	$—
Liabilities:					
Commodity price swaps	$196,897	$196,897	$—	$196,897	$—
HollyFrontier senior notes	154,144	155,250	—	155,250	—
HEP senior notes	296,579	291,000	—	291,000	—
HEP interest rate swaps	1,065	1,065	—	1,065	—
Total liabilities	$648,685	$644,212	$—	$644,212	$—

Level 1 Financial Instruments
Our NYMEX futures contracts are exchange traded and are measured and recorded at fair value using quoted market prices, a Level 1 input.

Level 2 Financial Instruments
Investments in marketable securities and derivative instruments consisting of commodity price swaps, forward sales and purchase contracts and HEP's interest rate swaps are measured and recorded at fair value using Level 2 inputs. The fair values of the commodity price and interest rate swap contracts are based on the net present value of expected future cash flows related to both variable and fixed rate legs of the respective swap agreements. The measurements are computed using market-based observable inputs, quoted forward commodity prices with respect to our commodity price swaps and the forward London Interbank Offered Rate (“LIBOR”) yield curve with respect to HEP's interest rate swaps. The fair value of the marketable securities and senior notes is based on values provided by a third-party, which were derived using market quotes for similar type instruments, a Level 2 input.

Level 3 Financial Instruments
We at times have forward commodity sales and purchase contracts for which quoted forward market prices are not readily available. The forward rate used to value these forward sales and purchase contracts are derived using a projected forward rate using quoted market rates for similar products, adjusted for regional pricing and grade differentials, a Level 3 input.

The following table presents the changes in fair value of our Level 3 assets and liabilities (all related to derivative instruments) for the three and six months ended June 30, 2015 and 2014:

Level 3 Financial Instruments	Three Months Ended June 30, 2015	2014	Six Months Ended June 30, 2015	2014

	(In thousands)			
Liability balance at beginning of period	$(2,552)	$(22,473)	$—	$(35,318)
Change in fair value:				
Recognized in other comprehensive income	6,404	(90,559)	3,852	(112,695)
Recognized in cost of products sold	—	(7,084)	—	1,885
Settlement date fair value of contractual maturities:				
Recognized in sales and other revenues	(3,852)	48,942	(3,852)	74,273
Recognized in cost of products sold	—	(4,463)	—	(3,782)
Liability balance at end of period	$—	$(75,637)	$—	$(75,637)

12

NOTE 4: Earnings Per Share

Basic earnings per share is calculated as net income attributable to HollyFrontier stockholders divided by the average number of shares of common stock outstanding. Diluted earnings per share assumes, when dilutive, the issuance of the net incremental shares from restricted shares and performance share units. The following is a reconciliation of the components of the basic and diluted per share computations for net income attributable to HollyFrontier stockholders:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
	(In thousands, except per share data)			
Net income attributable to HollyFrontier stockholders	$360,824	$176,429	$587,700	$328,490
Participating securities' share in earnings	1,036	475	1,677	945
Net income attributable to common shares	$359,788	$175,954	$586,023	$327,545
Average number of shares of common stock outstanding	191,355	198,139	193,202	198,217
Effect of dilutive variable restricted shares and performance share units (1)	99	241	77	191
Average number of shares of common stock outstanding assuming dilution	191,454	198,380	193,279	198,408
Basic earnings per share	$1.88	$0.89	$3.03	$1.65
Diluted earnings per share	$1.88	$0.89	$3.03	$1.65
(1) Excludes anti-dilutive restricted and performance share units of:	349	26	379	2

NOTE 5: Stock-Based Compensation

As of June 30, 2015, we have two principal share-based compensation plans (collectively, the "Long-Term Incentive Compensation Plan").

The compensation cost charged against income for these plans was $6.1 million and $6.8 million for the three months ended June 30, 2015 and 2014, respectively, and $12.5 million and $12.2 million for the six months ended June 30, 2015 and 2014, respectively. Our accounting policy for the recognition of compensation expense for awards with pro-rata vesting is to expense the costs ratably over the vesting periods.

Additionally, HEP maintains a share-based compensation plan for Holly Logistic Services, L.L.C.'s non-employee directors and certain executives and employees. Compensation cost attributable to HEP's share-based compensation plan was $0.9 million and $0.8 million for the three months ended June 30, 2015 and 2014, respectively, and $1.8 million and $1.7 million for the six months ended June 30, 2015 and 2014, respectively.

Restricted Stock and Restricted Stock Units

Under our Long-Term Incentive Compensation Plan, we grant certain officers and other key employees restricted stock and restricted stock unit awards with awards generally vesting over a period of one to three years. Restricted stock award recipients are generally entitled to all the rights of absolute ownership of the restricted shares from the date of grant including the right to vote the shares and to receive dividends. Upon vesting, restrictions on the restricted shares lapse at which time they convert to common shares. In addition, we grant non-employee directors restricted stock unit awards, which typically vest over a period of one year and are payable in stock. The fair value of each restricted stock and restricted stock unit award is measured based on the grant date market price of our common shares and is amortized over the respective vesting period.

A summary of restricted stock and restricted stock unit activity and changes during the six months ended June 30, 2015 is presented below:

Restricted Stock and Restricted Stock Units	Grants	Weighted Average Grant Date Fair Value	Aggregate Intrinsic Value ($000)
Outstanding at January 1, 2015 (non-vested)	669,777	$44.12	
Granted	9,894	37.68	
Vesting (transfer/conversion to common stock)	(2,999)	44.48	
Forfeited	(13,106)	43.81	
Outstanding at June 30, 2015 (non-vested)	663,566	$44.03	$28,268

For the six months ended June 30, 2015, 2,999 restricted stock and restricted stock units vested having a grant date fair value of $0.1 million. As of June 30, 2015, there was $13.4 million of total unrecognized compensation cost related to non-vested restricted stock and restricted stock unit grants. That cost is expected to be recognized over a weighted-average period of 1.3 years.

Performance Share Units

Under our Long-Term Incentive Compensation Plan, we grant certain officers and other key employees performance share units, which are payable in stock upon meeting certain criteria over the service period, and generally vest over a period of three years. Under the terms of our performance share unit grants, awards are subject to “financial performance” and “market performance” criteria. Financial performance is based on our financial performance compared to a peer group of independent refining companies, while market performance is based on the relative standing of total shareholder return achieved by HollyFrontier compared to peer group companies. The number of shares ultimately issued under these awards can range from zero to 200%. As of June 30, 2015, estimated share payouts for outstanding non-vested performance share unit awards averaged approximately 35%.

A summary of performance share unit activity and changes during the six months ended June 30, 2015 is presented below:

Performance Share Units	Grants
Outstanding at January 1, 2015 (non-vested)	725,054
Granted	4,242
Forfeited	(25,973)
Outstanding at June 30, 2015 (non-vested)	703,323

As of June 30, 2015, there was $14.9 million of total unrecognized compensation cost related to non-vested performance share units having a grant date fair value of $43.67 per unit. That cost is expected to be recognized over a weighted-average period of 1.5 years.

NOTE 6: Cash and Cash Equivalents and Investments in Marketable Securities

Our investment portfolio at June 30, 2015 consisted of cash, cash equivalents and investments in marketable securities.

We currently invest in marketable debt securities with the maximum maturity or put date of any individual issue generally not greater than one year from the date of purchase, which are usually held until maturity. All of these instruments are classified as available-for-sale. As a result, they are reported at fair value using quoted market prices. Interest income is recorded as earned. Unrealized gains and losses, net of related income taxes, are reported as a component of accumulated other comprehensive income. Upon sale or maturity, realized gains on our marketable debt securities are recognized as interest income. These gains are computed based on the specific identification of the underlying cost of the securities, net of unrealized gains and losses previously reported in other comprehensive income. Unrealized gains and losses on our available-for-sale securities are due to changes in market prices and are considered temporary.

The following is a summary of our marketable securities:

	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Fair Value (Net Carrying Amount)
	(In thousands)			
June 30, 2015				
Certificates of deposit	$20,998	$11	$—	$21,009
Commercial paper	29,957	17	—	29,974
Corporate debt securities	68,339	2	(43)	68,298
State and political subdivisions debt securities	273,700	11	(133)	273,578
Total marketable securities	$392,994	$41	$(176)	$392,859
December 31, 2014				
Certificates of deposit	$54,000	$10	$—	$54,010
Commercial paper	52,297	7	(4)	52,300
Corporate debt securities	136,181	1	(94)	136,088
State and political subdivisions debt securities	231,819	5	(112)	231,712
Total marketable securities	$474,297	$23	$(210)	$474,110

Interest income recognized on our marketable securities was $0.5 million and $0.6 million for the three months ended June 30, 2015 and 2014, respectively, and $0.9 million and $1.2 million for the six months ended June 30, 2015 and 2014, respectively.

NOTE 7: Inventories

Inventory consists of the following components:

	June 30, 2015	December 31, 2014
	(In thousands)	
Crude oil	$508,984	$581,592
Other raw materials and unfinished products(1)	191,102	204,467
Finished products(2)	617,996	531,523
Lower of cost or market reserve	(255,452)	(397,478)
Process chemicals(3)	4,903	4,028
Repair and maintenance supplies and other	122,385	110,999
Total inventory	$1,189,918	$1,035,131

(1) Other raw materials and unfinished products include feedstocks and blendstocks, other than crude.
(2) Finished products include gasolines, jet fuels, diesels, lubricants, asphalts, LPG's and residual fuels.
(3) Process chemicals include additives and other chemicals.

Inventories, which are valued at the lower of LIFO cost or market, reflect a valuation reserve of $255.5 million and $397.5 million at June 30, 2015 and December 31, 2014, respectively. The December 31, 2014 market reserve of

$397.5 million was reversed and reduced cost of products sold during the six months ended June 30, 2015, due to the sale of inventory quantities that gave rise to the reserve. A new market reserve of $255.5 million was established as of June 30, 2015 based on market conditions and prices at that time. The effect of the change in lower of cost or market reserve was a $135.5 million and $142.0 million reduction of cost of products sold for the three and six months ended June 30, 2015, respectively.

NOTE 8: Environmental

We expensed $0.1 million and $1.0 million for the three months ended June 30, 2015 and 2014, respectively, and $4.6 million and $1.3 million for the six months ended June 30, 2015 and 2014, respectively, for environmental remediation obligations. The accrued environmental liability reflected in our consolidated balance sheets was $102.8 million and $104.5 million at June 30, 2015 and December 31, 2014, respectively, of which $83.8 million and $81.8 million, respectively, were classified as other long-term liabilities. These accruals include remediation and monitoring costs expected to be incurred over an extended period of time (up to 30 years for certain projects).

NOTE 9: Debt

HollyFrontier Credit Agreement

We have a $1 billion senior unsecured revolving credit facility maturing in July 2019 (the “HollyFrontier Credit Agreement”), which may be used for revolving credit loans and letters of credit from time to time and is available to fund general corporate purposes. Indebtedness under the HollyFrontier Credit Agreement is recourse to HollyFrontier and guaranteed by certain of our wholly-owned subsidiaries. At June 30, 2015, we were in compliance with all covenants, had no outstanding borrowings and had outstanding letters of credit totaling $4.6 million under the HollyFrontier Credit Agreement.

HEP Credit Agreement

HEP has an $850 million senior secured revolving credit facility that matures in November 2018 (the “HEP Credit Agreement”) and is available to fund capital expenditures, investments, acquisitions, distribution payments and working capital and for general partnership purposes. It is also available to fund letters of credit up to a $50 million sub-limit. At June 30, 2015, HEP was in compliance with all of its covenants, had outstanding borrowings of $604.0 million and no outstanding letters of credit under the HEP Credit Agreement. In April 2015, HEP amended its credit agreement, increasing the size of the credit facility from $650 million to $850 million.

HEP’s obligations under the HEP Credit Agreement are collateralized by substantially all of HEP’s assets. Indebtedness under the HEP Credit Agreement involves recourse to HEP Logistics Holdings, L.P., its general partner, and is guaranteed by HEP’s wholly-owned subsidiaries. Any recourse to the general partner would be limited to the extent of HEP Logistics Holdings, L.P.’s assets, which other than its investment in HEP are not significant. HEP’s creditors have no recourse to our other assets. Furthermore, our creditors have no recourse to the assets of HEP and its consolidated subsidiaries.

HollyFrontier Senior Notes

In June 2015, we redeemed our $150.0 million aggregate principal amount of 6.875% senior notes maturing November 2018 at a redemption cost of $155.2 million at which time we recognized a $1.4 million early extinguishment loss consisting of a $5.2 million debt redemption premium, net of an unamortized premium of $3.8 million.

HollyFrontier Financing Obligation

We have a financing obligation that relates to a sale and lease-back of certain crude oil tankage that we sold to an affiliate of Plains All American Pipeline, L.P. (“Plains”) in October 2009 for $40.0 million. Monthly lease payments are recorded as a reduction in principal over the 15-year lease term ending in 2024.

HEP Senior Notes
HEP's 6.5% senior notes ($300 million aggregate principal amount maturing March 2020) (the "HEP Senior Notes") are unsecured and impose certain restrictive covenants, including limitations on HEP's ability to incur additional indebtedness, make investments, sell assets, incur certain liens, pay distributions, enter into transactions with affiliates, and enter into mergers. At any time when the HEP Senior Notes are rated investment grade by both Moody's and Standard & Poor's and no default or event of default exists, HEP will not be subject to many of the foregoing covenants. Additionally, HEP has certain redemption rights under the HEP Senior Notes.

In March 2014, HEP redeemed its $150.0 million aggregate principal amount of 8.25% senior notes maturing March 2018 at a redemption cost of $156.2 million, at which time HEP recognized a $7.7 million early extinguishment loss consisting of a $6.2 million debt redemption premium and unamortized discount and financing costs of $1.5 million. HEP funded the redemption with borrowings under the HEP Credit Agreement.

Table of Contents
HOLLYFRONTIER CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited) Continued

Indebtedness under the HEP Senior Notes involves recourse to HEP Logistics Holdings, L.P., its general partner, and is guaranteed by HEP's wholly-owned subsidiaries. However, any recourse to the general partner would be limited to the extent of HEP Logistics Holdings, L.P.'s assets, which other than its investment in HEP, are not significant. HEP's creditors have no recourse to our other assets. Furthermore, our creditors have no recourse to the assets of HEP and its consolidated subsidiaries.

The carrying amounts of long-term debt are as follows:

	June 30, 2015	December 31, 2014
	(In thousands)	
6.875% Senior Notes		
Principal	$—	$150,000
Unamortized premium	—	4,144
	—	154,144
Financing Obligation	32,257	33,167
Total HollyFrontier long-term debt	32,257	187,311
HEP Credit Agreement	604,000	571,000
HEP 6.5% Senior Notes		
Principal	300,000	300,000
Unamortized discount	(3,095)	(3,421)
	296,905	296,579
Total HEP long-term debt	900,905	867,579
Total long-term debt	$933,162	$1,054,890

We capitalized interest attributable to construction projects of $2.5 million and $3.1 million for the three months ended June 30, 2015 and 2014, respectively, and $5.4 million and $6.0 million for the six months ended June 30, 2015 and 2014, respectively.

NOTE 10: Derivative Instruments and Hedging Activities

Commodity Price Risk Management

Our primary market risk is commodity price risk. We are exposed to market risks related to the volatility in crude oil and refined products, as well as volatility in the price of natural gas used in our refining operations. We periodically enter into derivative contracts in the form of commodity price swaps, forward purchase and sales and futures contracts to mitigate price exposure with respect to:

- our inventory positions;
- natural gas purchases;

- costs of crude oil and related grade differentials;
- prices of refined products; and
- our refining margins.

Accounting Hedges

We have swap contracts serving as cash flow hedges against price risk on forecasted purchases of natural gas and WTI crude oil and forecasted sales of refined product. We also have forward sales and purchase contracts that lock in the prices of future sales and purchases of refined product. These contracts have been designated as accounting hedges and are measured at fair value with offsetting adjustments (gains/losses) recorded directly to other comprehensive income. These fair value adjustments are later reclassified to earnings as the hedging instruments mature. On a quarterly basis, hedge ineffectiveness is measured by comparing the change in fair value of the swap contracts against the expected future cash inflows/outflows on the respective transaction being hedged. Any hedge ineffectiveness is also recognized in earnings.

Table of Contents
HOLLYFRONTIER CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited) Continued

The following table presents the pre-tax effect on other comprehensive income (“OCI”) and earnings due to fair value adjustments and maturities of commodity price swaps and forward sales under hedge accounting:

	Unrealized Gain (Loss) Recognized in OCI	Gain (Loss) Recognized in Earnings Due to Settlements		Gain (Loss) Attributable to Hedge Ineffectiveness Recognized in Earnings	
		Location	Amount	Location	Amount
	(In thousands)				
Three Months Ended June 30, 2015					
Change in fair value	$8,501	Sales and other revenues	$49,752		
Gain reclassified to earnings due to settlements	(14,802)	Cost of products sold	(30,964)	Sales and other revenues	$(140)
Amortization of discontinued hedges reclassified to earnings	270	Operating expenses	(4,256)	Cost of products sold	2,494
Total	$(6,031)		$14,532		$2,354
Three Months Ended June 30, 2014					
Change in fair value	$47,988	Sales and other revenues	$(48,942)		
Gain reclassified to earnings due to settlements	(13,197)	Cost of products sold	61,124		
Amortization of discontinued hedges reclassified to earnings	270	Operating expenses	745	Operating expenses	$1,354
Total	$35,061		$12,927		$1,354
Six Months Ended June 30, 2015					
Change in fair value	$(5,647)	Sales and other revenues	$98,932	Sales and other revenues	$(274)
Gain reclassified to earnings due to settlements	(19,494)	Cost of products sold	(71,733)	Cost of products sold	3,738
Amortization of discontinued hedge reclassified to earnings	540	Operating expenses	(8,245)	Operating expenses	547
Total	$(24,601)		$18,954		$4,011
Six Months Ended June 30, 2014					
Change in fair value	$140,466	Sales and other revenues	$(74,273)		
Gain reclassified to earnings due to settlements	(18,957)	Cost of products sold	90,441		
Amortization of discontinued hedge reclassified to earnings	540	Operating expenses	2,249	Operating expenses	$(806)
Total	$122,049		$18,417		$(806)

As of June 30, 2015, we have the following notional contract volumes related to outstanding derivative instruments serving as cash flow hedges against price risk on forecasted purchases of natural gas and crude oil and sales of refined products:

Derivative Instrument	Total Outstanding Notional	Notional Contract Volumes by Year of Maturity			Unit of Measure
		2015	2016	2017	
Natural gas - long	24,000,000	4,800,000	9,600,000	9,600,000	MMBTU
WTI crude oil - long	2,208,000	2,208,000	—	—	Barrels
Ultra-low sulfur diesel - short	2,208,000	2,208,000	—	—	Barrels
Forward diesel sales	1,500,000	1,500,000	—	—	Barrels
Forward diesel purchases	1,125,000	1,125,000	—	—	Barrels

In 2013, we dedesignated certain commodity price swaps (long positions) that previously received hedge accounting treatment. These contracts now serve as economic hedges against price risk on forecasted natural gas purchases totaling 24,000,000 MMBTU's to be purchased ratably through 2017. As of June 30, 2015, we have an unrealized loss of $2.7 million classified in accumulated other comprehensive income that relates to the application of hedge accounting prior to dedesignation that is amortized as a charge to operating expenses as the contracts mature.

Economic Hedges

We also have swap contracts that serve as economic hedges (derivatives used for risk management, but not designated as accounting hedges) to fix our purchase price on forecasted purchases of WTI crude oil, and to lock in basis spread differentials on forecasted purchases of crude oil and natural gas. Also, we have NYMEX futures contracts to lock in prices on forecasted purchases of inventory. These contracts are measured at fair value with offsetting adjustments (gains/losses) recorded directly to income.

The following table presents the pre-tax effect on income due to maturities and fair value adjustments of our economic hedges:

Location of Gain (Loss) Recognized in Income	Three Months Ended June 30, 2015	Three Months Ended June 30, 2014	Six Months Ended June 30, 2015	Six Months Ended June 30, 2014
	(In thousands)			
Cost of products sold	$5,292	$(24,432)	$27,574	$(24,406)
Operating expenses	(248)	(140)	(544)	(188)
Total	$5,044	$(24,572)	$27,030	$(24,594)

As of June 30, 2015, we have the following notional contract volumes related to our outstanding derivative contracts serving as economic hedges:

Derivative Instrument	Total Outstanding Notional	Notional Contract Volumes by Year of Maturity 2015	2016	2017	Unit of Measure
Commodity price swap (crude basis spread) - long	4,412,000	3,680,000	732,000	—	Barrels
Commodity price swap (natural gas basis spread) - long	17,820,000	4,020,000	6,900,000	6,900,000	MMBTU
Commodity price swap (natural gas) - long	24,000,000	4,800,000	9,600,000	9,600,000	MMBTU
Commodity price swap (natural gas) - short	24,000,000	4,800,000	9,600,000	9,600,000	MMBTU
NYMEX futures (WTI) - short	1,095,000	1,095,000	—	—	Barrels

Interest Rate Risk Management

HEP uses interest rate swaps to manage its exposure to interest rate risk.

As of June 30, 2015, HEP had three interest rate swap contracts that hedge its exposure to the cash flow risk caused by the effects of LIBOR changes on $305.0 million in credit agreement advances. The first interest rate swap effectively converts $155.0 million of LIBOR based debt to fixed-rate debt having an interest rate of 0.99% plus an applicable margin of 2.00% as of June 30, 2015, which equaled an effective interest rate of 2.99%. This swap matures in February 2016. HEP has two additional interest rate swaps with identical terms which effectively convert $150.0 million of LIBOR based debt to fixed rate debt having an interest rate of 0.74% plus an applicable margin of 2.00% as of June 30, 2015, which equaled an effective interest rate of 2.74%. Both of these swap contracts mature in July 2017. All of these swap contracts have been designated as cash flow hedges. To date, there has been no ineffectiveness on these cash flow hedges.

Table of Contents
HOLLYFRONTIER CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited) Continued

The following table presents the pre-tax effect on other comprehensive income and earnings due to fair value adjustments and maturities of HEP's interest rate swaps under hedge accounting:

	Unrealized Gain (Loss) Recognized in OCI	Loss Recognized in Earnings Due to Settlements	
		Location	Amount
	(In thousands)		
Three Months Ended June 30, 2015			
Interest rate swaps			
Change in fair value	$(306)		
Loss reclassified to earnings due to settlements	528	Interest expense	$(528)
Total	$222		$(528)
Three Months Ended June 30, 2014			
Interest rate swaps			
Change in fair value	$(1,299)		
Loss reclassified to earnings due to settlements	553	Interest expense	$(553)
Total	$(746)		$(553)
Six Months Ended June 30, 2015			
Interest rate swaps			
Change in fair value	$(1,586)		
Loss reclassified to earnings due to settlements	1,059	Interest expense	$(1,059)
Total	$(527)		$(1,059)
Six Months Ended June 30, 2014			
Interest rate swaps			
Change in fair value	$(1,742)		
Loss reclassified to earnings due to settlements	1,091	Interest expense	$(1,091)
Total	$(651)		$(1,091)

Table of Contents
HOLLYFRONTIER CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited) Continued

The following table presents the fair value and balance sheet locations of our outstanding derivative instruments. These amounts are presented on a gross basis with offsetting balances that reconcile to a net asset or liability position in our consolidated balance sheets. We present on a net basis to reflect the net settlement of these positions in accordance with provisions of our master netting arrangements.

	Derivatives in Net Asset Position			Derivatives in Net Liability Position		
	Gross Assets	Gross Liabilities Offset in Balance Sheet	Net Assets Recognized in Balance Sheet	Gross Liabilities	Gross Assets Offset in Balance Sheet	Net Liabilities Recognized in Balance Sheet
		(In thousands)				
June 30, 2015						
Derivatives designated as cash flow hedging instruments:						
Commodity price swap contracts	$62,370	$(49,711)	$12,659	$42,647	$(21,026)	$21,621
Forward contracts	223	(166)	57	2,563	(439)	2,124
Interest rate swap contracts	134	—	134	707	—	707
	$62,727	$(49,877)	$12,850	$45,917	$(21,465)	$24,452
Derivatives not designated as cash flow hedging instruments:						
Commodity price swap contracts	$24,580	$(7,461)	$17,119	$27,282	$(23,475)	$3,807
NYMEX futures contracts	—	—	—	236	—	236
	$24,580	$(7,461)	$17,119	$27,518	$(23,475)	$4,043
Total net balance			$29,969			$28,495
Balance sheet classification:	Prepayment and other		$29,295	Accrued liabilities		$4,727
	Intangibles and other		674	Other long-term liabilities		23,768
			$29,969			$28,495

	Derivatives in Net Asset Position			Derivatives in Net Liability Position		
	Gross Assets	Gross Liabilities Offset in Balance Sheet	Net Assets Recognized in Balance Sheet	Gross Liabilities	Gross Assets Offset in Balance Sheet	Net Liabilities Recognized in Balance Sheet
		(In thousands)				
December 31, 2014						
Derivatives designated as cash flow hedging instruments:						
	$173,658	$(142,115)	$31,543	$21,441	$—	$21,441

Commodity price swap contracts						
Interest rate swap contracts	1,019	—	1,019	1,065	—	1,065
	$174,677	$(142,115)	$32,562	$22,506	$—	$22,506
Derivatives not designated as cash flow hedging instruments:						
Commodity price swap contracts	$17,630	$(12,942)	$4,688	$20,398	$(17,007)	$3,391
NYMEX futures contracts	17,619	—	17,619	—	—	—
	$35,249	$(12,942)	$22,307	$20,398	$(17,007)	$3,391
Total net balance			$54,869			$25,897
Balance sheet classification:	Prepayment and other		$53,850			
	Intangibles and other		1,019	Other long-term liabilities		$25,897
			$54,869			$25,897

21

Table of Contents
HOLLYFRONTIER CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited) Continued

At June 30, 2015, we had a pre-tax net unrealized loss of $13.3 million classified in accumulated other comprehensive income that relates to all accounting hedges having contractual maturities through 2017. Assuming commodity prices and interest rates remain unchanged, an unrealized gain of $9.3 million will be effectively transferred from accumulated other comprehensive income into the statement of income as the hedging instruments contractually mature over the next twelve-month period.

NOTE 11: Equity

Changes to equity during the six months ended June 30, 2015 are presented below:

	HollyFrontier Stockholders' Equity	Noncontrolling Interest	Total Equity
	(In thousands)		
Balance at December 31, 2014	$5,523,584	$577,135	$6,100,719
Net income	587,700	28,148	615,848
Dividends	(125,192)	—	(125,192)
Distributions to noncontrolling interest holders	—	(41,596)	(41,596)
Other comprehensive loss, net of tax	(15,204)	(319)	(15,523)
Equity-based compensation	12,461	1,761	14,222
Tax attributable to equity-based compensation	(113)	—	(113)
Purchase of treasury stock [1]	(380,177)	—	(380,177)
Purchase of HEP units for restricted grants	—	(247)	(247)
Other	—	14	14
Balance at June 30, 2015	$5,603,059	$564,896	$6,167,955

(1) Includes 1,215 shares withheld under the terms of stock-based compensation agreements to provide funds for the payment of payroll and income taxes due at the vesting of share-based awards.

In May 2015, our Board of Directors approved a $1 billion share repurchase program, which replaced all existing share repurchase programs, authorizing us to repurchase common stock in the open market or through privately negotiated transactions. The timing and amount of stock repurchases will depend on market conditions and corporate, regulatory and other relevant considerations. This program may be discontinued at any time by the Board of Directors. As of June 30, 2015, we had remaining authorization to repurchase up to $734.9 million under this stock repurchase program. In addition, we are authorized by our Board of Directors to repurchase shares in an amount sufficient to offset shares issued under our compensation programs.

During the second quarter of 2015, we entered into an accelerated share repurchase agreement ("ASR") with a large financial institution to repurchase $300.0 million of our outstanding common stock. In May 2015, we repurchased 5.5 million shares, representing 80% of the amount paid based on then-market prices. The final number of shares ultimately to be repurchased under the ASR, as well as the final average price paid, will be based on the volume-weighted average market price of our common stock, less a discount, over the term of the ASR. The ASR is expected to be completed in the third quarter of 2015.

The initial 5.5 million shares repurchased resulted in an immediate reduction to our common shares outstanding and are included in treasury stock at a cost of $240.0 million. For the remaining shares to be repurchased, we recorded a forward contract indexed to our own common stock in the amount of $60.0 million. This forward contract met the criteria for equity classification, and therefore is recorded to additional capital.

Table of Contents
HOLLYFRONTIER CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited) Continued

NOTE 12: Other Comprehensive Income (Loss)

The components and allocated tax effects of other comprehensive income (loss) are as follows:

	Before-Tax	Tax Expense (Benefit)	After-Tax
	(In thousands)		
Three Months Ended June 30, 2015			
Net unrealized loss on marketable securities	$(63)	$(25)	$(38)
Net unrealized loss on hedging instruments	(5,809)	(2,300)	(3,509)
Other comprehensive loss	(5,872)	(2,325)	(3,547)
Less other comprehensive income attributable to noncontrolling interest	135	—	135
Other comprehensive loss attributable to HollyFrontier stockholders	$(6,007)	$(2,325)	$(3,682)
Three Months Ended June 30, 2014			
Net unrealized gain on marketable securities	$25	$17	$8
Net unrealized gain on hedging instruments	34,315	13,400	20,915
Other comprehensive income	34,340	13,417	20,923
Less other comprehensive loss attributable to noncontrolling interest	(453)	—	(453)
Other comprehensive income attributable to HollyFrontier stockholders	$34,793	$13,417	$21,376
Six Months Ended June 30, 2015			
Net unrealized gain on marketable securities	$5	$2	$3
Net unrealized loss on hedging instruments	(25,128)	(9,602)	(15,526)
Other comprehensive loss	(25,123)	(9,600)	(15,523)
Less other comprehensive loss attributable to noncontrolling interest	(319)	—	(319)
Other comprehensive loss attributable to HollyFrontier stockholders	$(24,804)	$(9,600)	$(15,204)
Six Months Ended June 30, 2014			
Net unrealized gain on marketable securities	$36	$14	$22
Net unrealized gain on hedging instruments	121,398	47,143	74,255
Net change in pension and other post-retirement benefit obligations	(89)	(35)	(54)
Other comprehensive income	121,345	47,122	74,223
Less other comprehensive loss attributable to noncontrolling interest	(395)	—	(395)
Other comprehensive income attributable to HollyFrontier stockholders	$121,740	$47,122	$74,618

The following table presents the income statement line item effects for reclassifications out of accumulated other comprehensive income ("AOCI"):

AOCI Component	Gain (Loss) Reclassified From AOCI (In thousands)		Income Statement Line Item
	Three Months Ended June 30,		
	2015	2014	
Marketable securities	$6	$—	Interest income
	2	—	Income tax expense
	4	—	Net of tax
Hedging instruments:			
Commodity price swaps	49,752	(48,942)	Sales and other revenues
	(30,964)	61,124	Cost of products sold
	(4,256)	745	Operating expenses
Interest rate swaps	(528)	(553)	Interest expense
	14,004	12,374	
	5,543	4,918	Income tax expense
	8,461	7,456	Net of tax
	320	335	Noncontrolling interest
	8,781	7,791	Net of tax and noncontrolling interest
Total reclassifications for the period	$8,785	$7,791	
	Six Months Ended June 30,		
	2015	2014	
Marketable securities	$4	$1	Interest income
	42	—	Gain on sale of assets
	46	1	
	18	—	Income tax expense
	28	1	Net of tax
Hedging instruments:			
Commodity price swaps	98,932	(74,273)	Sales and other revenues
	(71,733)	90,441	Cost of products sold
	(8,245)	2,249	Operating expenses
Interest rate swaps	(1,059)	(1,091)	Interest expense
	17,895	17,326	
	7,174	6,961	Income tax expense
	10,721	10,365	Net of tax

	642	661	Noncontrolling interest
	11,363	11,026	Net of tax and noncontrolling interest
Total reclassifications for the period	$11,391	$11,027	

Accumulated other comprehensive income in the equity section of our consolidated balance sheets includes:

	June 30, 2015	December 31, 2014
	(In thousands)	
Unrealized gain on post-retirement benefit obligations	$20,689	$20,689
Unrealized loss on marketable securities	(82)	(85)
Unrealized gain (loss) on hedging instruments, net of noncontrolling interest	(7,917)	7,290
Accumulated other comprehensive income	$12,690	$27,894

Table of Contents
HOLLYFRONTIER CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited) Continued

NOTE 13: Post-retirement Plans

We have a post-retirement healthcare and other benefits plan that is available to certain of our employees who satisfy certain age and service requirements. The net periodic benefit credit of this plan consisted of the following components:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
	(In thousands)			
Service cost – benefit earned during the period	$424	$224	$848	$448
Interest cost on projected benefit obligations	205	160	410	319
Amortization of prior service credit	(871)	(1,074)	(1,742)	(2,148)
Amortization of net loss	46	—	92	—
Net periodic post-retirement credit	$(196)	$(690)	$(392)	$(1,381)

Additionally, we had a program that provided transition benefit payments to certain employees that participated in a previously terminated defined benefit plan. The program extended through 2014 and provided payments subsequent to year-end provided the employee was employed by us on the last day of each year. The payments are based on each employee's years of service and eligible salary. Transition benefit costs under this program were $2.9 million for the three months ended June 30, 2014 and $5.5 million for the six months ended June 30, 2014. In March 2015, we paid all remaining amounts owed to plan participants of $11.0 million.

NOTE 14: Contingencies

We are a party to various litigation and legal proceedings which we believe, based on advice of counsel, will not either individually or in the aggregate have a material adverse effect on our financial condition, results of operations or cash flows.

Pursuant to the 2007 Energy Independence and Security Act, the Environmental Protection Agency (“EPA”) promulgated the Renewable Fuel Standard 2 (“RFS2”) regulations reflecting the increased volume of renewable fuels mandated to be blended into the nation's fuel supply. The regulations, in part, require refiners to add annually increasing amounts of “renewable fuels” to their petroleum products or purchase credits, known as renewable identification numbers (“RINs”), in lieu of such blending. The EPA has not yet finalized the 2014 nor the 2015 percentage standards under its RFS2 program. In May 2015, the EPA revised the estimate of 2014 and 2015 percentage standard under its RFS2 program. Accordingly, in the second quarter of 2015, we recorded a $4.1 million reduction of amounts accrued through December 2014. The estimated quantity of renewable fuels or RINs that we are required to purchase and that have been accrued for as of June 30, 2015 and December 31, 2014, as well as for the six months and year then ended, are based on quantities proposed by the EPA as revised in May 2015.

NOTE 15: Segment Information

Our operations are organized into two reportable segments, Refining and HEP. Our operations that are not included in the Refining and HEP segments are included in Corporate and Other. Intersegment transactions are eliminated in our consolidated financial statements and are included in Consolidations and Eliminations.

The Refining segment represents the operations of the El Dorado, Tulsa, Navajo, Cheyenne and Woods Cross Refineries and NK Asphalt (aggregated as a reportable segment). Refining activities involve the purchase and refining of crude oil and wholesale and branded marketing of refined products, such as gasoline, diesel fuel and jet fuel. These petroleum products are primarily marketed in the Mid-Continent, Southwest and Rocky Mountain regions of the United States. Additionally, the Refining segment includes specialty lubricant products produced at our Tulsa Refineries that are marketed throughout North America and are distributed in Central and South America. NK Asphalt operates various asphalt terminals in Arizona, New Mexico and Oklahoma.

Table of Contents
HOLLYFRONTIER CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited) Continued

The HEP segment includes all of the operations of HEP, which owns and operates logistics assets consisting of petroleum product and crude oil pipelines and terminal, tankage and loading rack facilities in the Mid-Continent, Southwest and Rocky Mountain regions of the United States. The HEP segment also includes a 75% interest in UNEV (a consolidated subsidiary of HEP) and a 25% interest in the SLC Pipeline. Revenues from the HEP segment are earned through transactions with unaffiliated parties for pipeline transportation, rental and terminalling operations as well as revenues relating to pipeline transportation services provided for our refining operations. Due to certain basis differences, our reported amounts for the HEP segment may not agree to amounts reported in HEP's periodic public filings.

The accounting policies for our segments are the same as those described in the summary of significant accounting policies in our Annual Report on Form 10-K for the year ended December 31, 2014.

	Refining	HEP	Corporate and Other	Consolidations and Eliminations	Consolidated Total
	(In thousands)				
Three Months Ended June 30, 2015					
Sales and other revenues	$3,686,493	$83,479	$151	$(68,211)	$3,701,912
Depreciation and amortization	$70,435	$14,660	$2,915	$(207)	$87,803
Income (loss) from operations	$576,313	$40,834	$(26,739)	$(576)	$589,832
Capital expenditures	$128,336	$11,380	$4,578	$—	$144,294
Three Months Ended June 30, 2014					
Sales and other revenues	$5,361,914	$75,024	$506	$(64,844)	$5,372,600
Depreciation and amortization	$83,840	$15,477	$2,280	$(207)	$101,390
Income (loss) from operations	$292,214	$32,464	$(27,802)	$(531)	$296,345
Capital expenditures	$92,334	$18,178	$9,976	$—	$120,488
Six Months Ended June 30, 2015					
Sales and other revenues	$6,675,773	$173,235	$369	$(140,839)	$6,708,538
Depreciation and amortization	$133,710	$28,950	$5,569	$(414)	$167,815
Income (loss) from operations	$950,214	$85,044	$(55,688)	$(1,116)	$978,454
Capital expenditures	$258,097	$49,813	$9,003	$—	$316,913
Six Months Ended June 30, 2014					
Sales and other revenues	$10,136,994	$162,036	$1,621	$(136,998)	$10,163,653
Depreciation and amortization	$147,381	$30,661	$4,310	$(414)	$181,938
Income (loss) from operations	$543,423	$78,329	$(53,357)	$(1,054)	$567,341
Capital expenditures	$192,277	$38,782	$13,710	$—	$244,769
June 30, 2015					
Cash, cash equivalents and total investments in marketable securities	$43	$10,424	$615,751	$—	$626,218
Total assets	$7,268,245	$1,459,069	$727,036	$(309,064)	$9,145,286
Long-term debt	$—	$900,905	$32,257	$—	$933,162

December 31, 2014					
Cash, cash equivalents and total investments in marketable securities	$88	$2,830	$1,039,177	$—	$1,042,095
Total assets	$6,965,245	$1,434,572	$1,150,865	$(320,042)	$9,230,640
Long-term debt	$—	$867,579	$187,311	$—	$1,054,890

HEP segment revenues from external customers were $15.2 million and $10.5 million for the three months ended June 30, 2015 and 2014, respectively, and $32.7 million and $25.7 million for the six months ended June 30, 2015 and 2014, respectively.

Table of Contents
HOLLYFRONTIER CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited) Continued

NOTE 16: Supplemental Guarantor/Non-Guarantor Financial Information

Any borrowings pursuant to the HollyFrontier Credit Agreement are recourse to HollyFrontier and guaranteed by certain of our wholly-owned subsidiaries (“Guarantor Restricted Subsidiaries”). HEP, in which we have a 39% ownership interest at June 30, 2015, and its subsidiaries (collectively, “Non-Guarantor Non-Restricted Subsidiaries”), and certain of our other subsidiaries (“Non-Guarantor Restricted Subsidiaries”) have not guaranteed these obligations.

The following condensed consolidating financial information is provided for HollyFrontier Corporation (the “Parent”), the Guarantor Restricted Subsidiaries, the Non-Guarantor Restricted Subsidiaries and the Non-Guarantor Non-Restricted Subsidiaries. The information has been presented as if the Parent accounted for its ownership in the Guarantor Restricted Subsidiaries, and the Guarantor Restricted Subsidiaries accounted for the ownership of the Non-Guarantor Restricted Subsidiaries and Non-Guarantor Non-Restricted Subsidiaries, using the equity method of accounting. The Guarantor Restricted Subsidiaries and the Non-Guarantor Restricted Subsidiaries are collectively the “Restricted Subsidiaries.”

Condensed Consolidating Balance Sheet

June 30, 2015	Parent	Guarantor Restricted Subsidiaries	Non-Guarantor Restricted Subsidiaries	Eliminations	HollyFrontier Corp. Before Consolidation of HEP	Non-Guarantor Non-Restricted Subsidiaries (HEP Segment)	Consolidations and Eliminations	Consolidated
	(In thousands)							
ASSETS								
Current assets:								
Cash and cash equivalents	$222,905	$—	$30	$—	$222,935	$10,424	$—	$233,359
Marketable securities	392,859	—	—	—	392,859	—	—	392,859
Accounts receivable, net	8,171	611,393	3,068	—	622,632	40,044	(36,569)	626,107
Intercompany accounts receivable	—	718,610	442,187	(1,160,797)	—	—	—	—
Inventories	—	1,187,984	—	—	1,187,984	1,934	—	1,189,918
Income taxes receivable	8,351	—	—	—	8,351	—	—	8,351
Prepayments and other	13,363	59,273	—	—	72,636	2,804	(6,495)	68,945
Total current assets	645,649	2,577,260	445,285	(1,160,797)	2,507,397	55,206	(43,064)	2,519,539
	34,079	3,043,121	949	—	3,078,149	1,042,975	(252,729)	3,868,395

Properties, plants and equip, net								
Investment in subsidiaries	6,868,051	335,342	—	(7,203,393)	—	—	—	—
Intangibles and other assets	29,262	2,371,616	25,000	(25,000)	2,400,878	360,888	(4,414)	2,757,352
Total assets	$7,577,041	$8,327,339	$471,234	$(8,389,190)	$7,986,424	$1,459,069	$(300,207)	$9,145,286
LIABILITIES AND EQUITY								
Current liabilities:								
Accounts payable	$3,543	$1,067,290	$—	$—	$1,070,833	$16,128	$(36,569)	$1,050,392
Intercompany accounts payable	1,160,797	—	—	(1,160,797)	—	—	—	—
Income tax payable	7,569	—	—	—	7,569	—	—	7,569
Accrued liabilities	41,886	50,843	1,127	—	93,856	25,885	(6,495)	113,246
Deferred income tax liabilities	69,284	—	—	—	69,284	—	—	69,284
Total current liabilities	1,283,079	1,118,133	1,127	(1,160,797)	1,241,542	42,013	(43,064)	1,240,491
Long-term debt	25,000	32,257	—	(25,000)	32,257	900,905	—	933,162
Liability to HEP	—	227,304	—	—	227,304	—	(227,304)	—
Deferred income tax liabilities	627,205	—	—	—	627,205	332	—	627,537
Other long-term liabilities	43,822	81,594	—	—	125,416	56,283	(5,558)	176,141
Investment in HEP	—	—	134,765	—	134,765	—	(134,765)	—
Equity – HollyFrontier	5,597,935	6,868,051	335,342	(7,203,393)	5,597,935	365,071	(359,947)	5,603,059
Equity – noncontrolling interest	—	—	—	—	—	94,465	470,431	564,896
Total liabilities and equity	$7,577,041	$8,327,339	$471,234	$(8,389,190)	$7,986,424	$1,459,069	$(300,207)	$9,145,286

Table of Contents
HOLLYFRONTIER CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited) Continued

Condensed Consolidating Balance Sheet

December 31, 2014	Parent	Guarantor Restricted Subsidiaries	Non-Guarantor Restricted Subsidiaries	Eliminations	HollyFrontier Corp. Before Consolidation of HEP	Non-Guarantor Non-Restricted Subsidiaries (HEP Segment)	Consolidations and Eliminations	Consolidated
	(In thousands)							
ASSETS								
Current assets:								
Cash and cash equivalents	$565,080	$—	$75	$—	$565,155	$2,830	$—	$567,985
Marketable securities	474,068	42	—	—	474,110	—	—	474,110
Accounts receivable, net	5,107	579,526	3,774	—	588,407	40,129	(38,631)	589,905
Intercompany accounts receivable	—	171,341	397,540	(568,881)	—	—	—	—
Inventories	—	1,033,191	—	—	1,033,191	1,940	—	1,035,131
Income taxes receivable	11,719	—	—	—	11,719	—	—	11,719
Prepayments and other	14,734	95,194	—	—	109,928	2,443	(8,223)	104,148
Total current assets	1,070,708	1,879,294	401,389	(568,881)	2,782,510	47,342	(46,854)	2,782,998
Properties, plants and equip, net	31,808	2,873,350	902	—	2,906,060	1,024,311	(259,832)	3,670,539
Investment in subsidiaries	5,912,233	291,912	—	(6,204,145)	—	—	—	—
Intangibles and other assets	30,082	2,388,844	25,000	(25,000)	2,418,926	362,919	(4,742)	2,777,103
Total assets	$7,044,831	$7,433,400	$427,291	$(6,798,026)	$8,107,496	$1,434,572	$(311,428)	$9,230,640
LIABILITIES AND EQUITY								
Current liabilities:								
Accounts payable	$11,457	$1,117,429	$2	$—	$1,128,888	$17,881	$(38,631)	$1,108,138
Intercompany accounts	568,881	—	—	(568,881)	—	—	—	—

payable								
Income taxes payable	19,642	—	—	—	19,642	—	—	19,642
Accrued liabilities	41,403	45,331	1,382	—	88,116	26,321	(8,223)	106,214
Deferred income tax liabilities	17,409	—	—	—	17,409	—	—	17,409
Total current liabilities	658,792	1,162,760	1,384	(568,881)	1,254,055	44,202	(46,854)	1,251,403
Long-term debt	179,144	33,167	—	(25,000)	187,311	867,579	—	1,054,890
Liability to HEP	—	233,217	—	—	233,217	—	(233,217)	—
Deferred income tax liabilities	646,503	—	—	—	646,503	367	—	646,870
Other long-term liabilities	43,451	92,023	—	—	135,474	47,170	(5,886)	176,758
Investment in HEP	—	—	133,995	—	133,995	—	(133,995)	—
Equity – HollyFrontier	5,516,941	5,912,233	291,912	(6,204,145)	5,516,941	380,172	(373,529)	5,523,584
Equity – noncontrolling interest	—	—	—	—	—	95,082	482,053	577,135
Total liabilities and equity	$7,044,831	$7,433,400	$427,291	$(6,798,026)	$8,107,496	$1,434,572	$(311,428)	$9,230,640

28

HOLLYFRONTIER CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited) Continued

Condensed Consolidating Statement of Income and Comprehensive Income

Three Months Ended June 30, 2015	Parent	Guarantor Restricted Subsidiaries	Non-Guarantor Restricted Subsidiaries	Eliminations	HollyFrontier Corp. Before Consolidation of HEP	Non-Guarantor Non-Restricted Subsidiaries (HEP Segment)	Consolidations and Eliminations	Consolidated
	(In thousands)							
Sales and other revenues	$168	$3,686,476	$—	$—	$3,686,644	$83,479	$(68,211)	$3,701,912
Operating costs and expenses:								
Cost of products sold	—	2,954,989	—	—	2,954,989	—	(67,514)	2,887,475
Lower of cost or market inventory valuation adjustment	—	(135,480)	—	—	(135,480)	—	—	(135,480)
Operating expenses	—	220,790	—	—	220,790	25,289	86	246,165
General and administrative	22,808	571	42	—	23,421	2,696	—	26,117
Depreciation and amortization	2,582	74,120	8	—	76,710	14,660	(3,567)	87,803
Total operating costs and expenses	25,390	3,114,990	50	—	3,140,430	42,645	(70,995)	3,112,080
Income (loss) from operations	(25,222)	571,486	(50)	—	546,214	40,834	2,784	589,832
Other income (expense):								
Earnings (loss) of equity method investments	593,825	20,334	20,175	(614,159)	20,175	631	(20,175)	631
Interest income (expense)	(537)	1,918	199	—	1,580	(9,053)	(2,318)	(9,791)
Loss on early extinguishment of debt	(1,368)	—	—	—	(1,368)	—	—	(1,368)
Gain on sale of assets	714	87	—	—	801	72	—	873
	592,634	22,339	20,374	(614,159)	21,188	(8,350)	(22,493)	(9,655)

Income before income taxes	567,412	593,825	20,324	(614,159)	567,402	32,484	(19,709)	580,177
Income tax provision	207,054	—	—	—	207,054	(64)	—	206,990
Net income	360,358	593,825	20,324	(614,159)	360,348	32,548	(19,709)	373,187
Less net income attributable to noncontrolling interest	—	—	(10)	—	(10)	1,743	10,630	12,363
Net income attributable to HollyFrontier stockholders	$360,358	$593,825	$20,334	$(614,159)	$360,358	$30,805	$(30,339)	$360,824
Comprehensive income attributable to HollyFrontier stockholders	$356,676	$588,016	$20,422	$(608,438)	$356,676	$30,893	$(30,427)	$357,142

Condensed Consolidating Statement of Income and Comprehensive Income

Three Months Ended June 30, 2014	Parent	Guarantor Restricted Subsidiaries	Non-Guarantor Restricted Subsidiaries	Eliminations	HollyFrontier Corp. Before Consolidation of HEP	Non-Guarantor Non-Restricted Subsidiaries (HEP Segment)	Consolidations and Eliminations	Consolidated
	(In thousands)							
Sales and other revenues	$179	$5,362,277	$(36)	$—	$5,362,420	$75,024	$(64,844)	$5,372,600
Operating costs and expenses:								
Cost of products sold	—	4,738,586	—	—	4,738,586	—	(63,740)	4,674,846
Operating expenses	—	247,451	—	—	247,451	24,567	(364)	271,654
General and administrative	24,343	1,469	37	—	25,849	2,516	—	28,365
Depreciation and amortization	2,010	87,473	—	—	89,483	15,477	(3,570)	101,390
Total operating costs and expenses	26,353	5,074,979	37	—	5,101,369	42,560	(67,674)	5,076,255
Income (loss) from operations	(26,174)	287,298	(73)	—	261,051	32,464	2,830	296,345
Other income (expense):								
Earnings (loss) of equity method investments	303,788	14,546	16,132	(319,990)	14,476	748		