HollyFrontier Corp
Form 10-Q
August 09, 2012

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, 2012
OR

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

For the transition period from __________ to ____________
Commission File 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
203,553,780 shares of Common Stock, par value $.01 per share, were outstanding on July 31, 2012.

Table of Content

HOLLYFRONTIER CORPORATION
INDEX

	Page
Forward-Looking Statements	3
PART I. FINANCIAL INFORMATION	
Definitions	4
Item 1. Financial Statements	
Consolidated Balance Sheets June 30, 2012 (Unaudited) and December 31, 2011	6
Consolidated Statements of Income (Unaudited) Three and Six Months Ended June 30, 2012 and 2011	7
Consolidated Statements of Comprehensive Income (Unaudited) Three and Six Months Ended June 30, 2012 and 2011	8
Consolidated Statements of Cash Flows (Unaudited) Six Months Ended June 30, 2012 and 2011	9
Notes to Consolidated Financial Statements (Unaudited)	10
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	36
Item 3. Quantitative and Qualitative Disclosures About Market Risk	52
Reconciliations to Amounts Reported Under Generally Accepted Accounting Principles	52
Item 4. Controls and Procedures	55
PART II. OTHER INFORMATION	
Item 1. Legal Proceedings	56
Item 1A. Risk Factors	57
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	57
Item 6. Exhibits	57
Signatures	58
Index to Exhibits	59

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, 2011 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.” 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.

Table of Content

PART I. FINANCIAL INFORMATION

DEFINITIONS

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

“Alkylation” means the reaction of propylene or butylene (olefins) with isobutane to form an iso-paraffinic gasoline (inverse of cracking).

“Aromatic oil” is long chain oil that is highly aromatic in nature that is used to manufacture tires and in the production of asphalt.

“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.

“Catalytic reforming” means a refinery process which uses a precious metal (such as platinum) based catalyst to convert low octane naphtha to high octane gasoline blendstock and hydrogen. The hydrogen produced from the reforming process is used to desulfurize other refinery oils and is a primary source of hydrogen for the refinery.

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

“Crude 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.

“Delayed coker unit” is a refinery unit that removes carbon from the bottom cuts of crude oil to produce unfinished light transportation fuels and petroleum coke.

“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.

“Hydrocracker” means a refinery unit that breaks down large complex hydrocarbon molecules into smaller more useful ones using a fixed bed of catalyst at high pressure and temperature with hydrogen.

“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.

“HF alkylation,” or hydrofluoric alkylation, means a refinery process which combines isobutane and C3/C4 olefins using HF acid as a catalyst to make high octane gasoline blend stock.

“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.

Table of Content

“Lubricant” or “lube” means a solvent neutral paraffinic product used in passenger and commercial vehicle engine oils, specialty products for metal working or heat transfer and other industrial applications.

"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.

“MEK” means a lube process that separates waxy oil from non-waxy oils using methyl ethyl ketone as a solvent.

“MMBTU” means one million British thermal units.

“Natural gasoline” means a low octane gasoline blend stock that is purchased and used to blend with other high octane stocks produced to make various grades of gasoline.

“PPM” means parts-per-million.

“Paraffinic oil” is a high paraffinic, high gravity oil produced by extracting aromatic oils and waxes from gas oil and is used in producing high-grade lubricating oils.

“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.

“Reforming” means the process of converting gasoline type molecules into aromatic, higher octane gasoline blend stocks while producing hydrogen in the process.

“Roofing flux” is produced from the bottom cut of crude oil and is the base oil used to make roofing shingles for the housing industry.

“RFS2” or advanced renewable fuel standard is a regulatory mandate required by the Energy Independence and Security Act of 2007 that requires 36 billion gallons of renewable fuel to be blended into transportation fuels by 2022. New mandated blending requirements for this standard became effective July 1, 2010.

“ROSE,” or “Solvent deasphalter / residuum oil supercritical extraction,” means a refinery unit that uses a light hydrocarbon like propane or butane to extract non-asphaltene heavy oils from asphalt or atmospheric reduced crude. These deasphalted oils are then further converted to gasoline and diesel in the FCC process. The remaining asphaltenes are either sold, blended to fuel oil or blended with other asphalt as a hardener.

“Scanfiner” is a refinery unit that removes sulfur from gasoline to produce low sulfur gasoline blendstock.

“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.

Table of Content

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

	June 30, 2012 (Unaudited)	December 31, 2011 As Adjusted (see Note 2)
ASSETS		
Current assets:		
Cash and cash equivalents (HEP: $4,216 and $3,269, respectively)	$1,372,198	$1,578,904
Marketable securities	266,483	211,639
Accounts receivable: Product and transportation (HEP: $30,169 and $34,071, respectively)	578,024	703,691
Crude oil resales	25,702	5,166
	603,726	708,857
Inventories: Crude oil and refined products	1,253,807	1,052,084
Materials and supplies (HEP: $1,326 and $1,483, respectively)	56,012	62,535
	1,309,819	1,114,619
Income taxes receivable	93,648	87,277
Prepayments and other (HEP: $2,084 and $1,161, respectively)	59,818	219,450
Total current assets	3,705,692	3,920,746
Properties, plants and equipment, at cost (HEP: $689,381 and $679,852, respectively)	3,751,384	3,631,787
Less accumulated depreciation (HEP: $(104,679) and $(89,609), respectively)	(663,078)	(578,882)
	3,088,306	3,052,905
Marketable securities (long-term)	9,765	50,067
Other assets: Turnaround costs	72,460	57,060
Goodwill (HEP: $288,991 and $288,991, respectively)	2,338,302	2,336,510
Intangibles and other (HEP: $77,182 and $75,902, respectively)	168,007	158,955
	2,578,769	2,552,525
Total assets	$9,382,532	$9,576,243
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable (HEP: $9,695 and $11,406, respectively)	$1,096,216	$1,504,694
Income taxes payable	162,265	40,366
Accrued liabilities (HEP: $17,749 and $16,285, respectively)	133,818	169,940
Deferred income tax liabilities	169,386	175,683
Total current liabilities	1,561,685	1,890,683
Long-term debt (HEP: $613,195 and $598,761, respectively)	1,295,163	1,214,742
Deferred income taxes	416,028	463,721
Other long-term liabilities (HEP: $6,195 and $4,000, respectively)	162,031	171,197
Equity:		
HollyFrontier stockholders’ equity:		
Preferred stock, $1.00 par value – 5,000,000 shares authorized; none issued	—	—

Common stock $.01 par value – 320,000,000 shares authorized; 255,962,866 shares issued as of June 30, 2012 and December 31, 2011	2,560	2,563
Additional capital	3,765,963	3,859,367
Retained earnings	2,440,448	1,964,656
Accumulated other comprehensive income	5,575	77,873
Common stock held in treasury, at cost – 52,346,837 and 46,630,220 shares as of June 30, 2012 and December 31, 2011, respectively	(885,085)	(700,449)
Total HollyFrontier stockholders' equity	5,329,461	5,204,010
Noncontrolling interest	618,164	631,890
Total equity	5,947,625	5,835,900
Total liabilities and equity	$9,382,532	$9,576,243

Parenthetical amounts represent asset and liability balances attributable to Holly Energy Partners, L.P. ("HEP") as of June 30, 2012 and December 31, 2011. 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, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
Sales and other revenues	$4,806,681	$2,967,133	$9,738,419	$5,293,718
Operating costs and expenses:				
Cost of products sold (exclusive of depreciation and amortization)	3,681,764	2,447,095	7,868,681	4,431,712
Operating expenses (exclusive of depreciation and amortization)	222,726	139,345	464,353	274,088
General and administrative expenses (exclusive of depreciation and amortization)	32,106	18,682	59,634	35,500
Depreciation and amortization	56,948	31,832	113,050	63,140
Total operating costs and expenses	3,993,544	2,636,954	8,505,718	4,804,440
Income from operations	813,137	330,179	1,232,701	489,278
Other income (expense):				
Earnings of equity method investments	886	467	1,603	1,207
Interest income	681	657	1,141	742
Interest expense	(26,942)	(15,193)	(60,257)	(31,397)
Gain on sale of marketable equity securities	326	—	326	—
Merger transaction costs	—	(2,316)	—	(6,014)
	(25,049)	(16,385)	(57,187)	(35,462)
Income before income taxes	788,088	313,794	1,175,514	453,816
Income tax provision:				
Current	285,937	115,051	428,807	164,540
Deferred	(219)	(3,090)	(2,683)	(3,568)
	285,718	111,961	426,124	160,972
Net income	502,370	201,833	749,390	292,844
Less net income attributable to noncontrolling interest	8,871	9,598	14,195	15,915
Net income attributable to HollyFrontier stockholders	$493,499	$192,235	$735,195	$276,929
Earnings per share attributable to HollyFrontier stockholders:				
Basic	$2.40	$1.80	$3.55	$2.60
Diluted	$2.39	$1.79	$3.54	$2.58
Cash dividends declared per common share	$0.65	$0.075	$1.25	$0.15
Average number of common shares outstanding:				
Basic	205,727	106,730	207,129	106,672
Diluted	206,481	107,340	207,938	107,286

See accompanying notes.

Table of Content

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Net income	$502,370	$201,833	$749,390	$292,844
Other comprehensive income (loss):				
Net unrealized loss on available-for-sale securities	(404)	(459)	(216)	(317)
Unrealized gain (loss), net of reclassifications from contract settlements on hedging instruments	30,801	271	(124,814)	1,592
Pension curtailment adjustment	7,102	—	7,102	—
Other comprehensive income (loss) before income taxes	37,499	(188)	(117,928)	1,275
Income tax expense (benefit)	14,640	(144)	(46,030)	98
Other comprehensive income (loss)	22,859	(44)	(71,898)	1,177
Total comprehensive income	525,229	201,789	677,492	294,021
Less noncontrolling interest in comprehensive income	8,734	9,776	14,595	16,935
Comprehensive income attributable to HollyFrontier stockholders	$516,495	$192,013	$662,897	$277,086

See accompanying notes.

Table of Content

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

	Six Months Ended June 30,	
	2012	2011 As Adjusted (See Note 2)
Cash flows from operating activities:		
Net income	$749,390	$292,844
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	113,050	63,140
Earnings of equity method investments, net of distributions	(104)	(82)
Gain on sale of marketable equity securities	(326)	—
Deferred income taxes	(2,683)	(3,568)
Equity-based compensation expense	17,491	5,562
Change in fair value – derivative instruments	10,289	7,155
(Increase) decrease in current assets:		
Accounts receivable	103,674	(38,017)
Inventories	(195,200)	(94,933)
Income taxes receivable	365	51,034
Prepayments and other	17,928	(13,088)
Increase (decrease) in current liabilities:		
Accounts payable	(418,937)	160,760
Income taxes payable	121,899	23,002
Accrued liabilities	(34,870)	16,712
Turnaround expenditures	(46,995)	(19,824)
Other, net	(5,468)	7,299
Net cash provided by operating activities	429,503	457,996
Cash flows from investing activities:		
Additions to properties, plants and equipment	(116,012)	(133,405)
Additions to properties, plants and equipment – HEP	(12,008)	(22,900)
Investment in Sabine Biofuels	(2,000)	(9,125)
Purchases of marketable securities	(166,429)	(157,782)
Sales and maturities of marketable securities	151,996	68,150
Net cash used for investing activities	(144,453)	(255,062)
Cash flows from financing activities:		
Borrowings under credit agreement – HEP	99,000	64,000
Repayments under credit agreement – HEP	(129,000)	(37,000)
Net proceeds from issuance of senior notes – HEP	294,750	—
Repurchase of senior notes – HFC	(5,000)	—
Principal tender on senior notes – HEP	(185,000)	—
Purchase of treasury stock	(189,771)	(2,996)
Net prepayment related to structured stock repurchase arrangement	(100,000)	—
Contribution from joint venture partner	6,000	16,500
Dividends	(249,958)	(15,984)
Distributions to noncontrolling interest	(28,944)	(25,133)

Excess tax benefit from equity-based compensation	4,762	498
Purchase of units for incentive grants – HEP	(4,533)	(1,379)
Deferred financing costs	(3,229)	(3,289)
Other	(833)	(563)
Net cash used for financing activities	(491,756)	(5,346)
Cash and cash equivalents:		
Increase (decrease) for the period	(206,706)	197,588
Beginning of period	1,578,904	229,101
End of period	$1,372,198	$426,689
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Interest	$48,928	$34,264
Income taxes	$301,854	$89,935

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 merged with Frontier Oil Corporation (“Frontier”) effective July 1, 2011. Concurrent with the merger, we changed our name from Holly Corporation (“Holly”) to HollyFrontier and changed the ticker symbol for our common stock traded on the New York Stock Exchange to "HFC" (see Note 3). Accordingly, these financial statements include Frontier, its consolidated subsidiaries and the operations of the merged Frontier businesses effective July 1, 2011, but not prior to this date.

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, 2012, 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 and New Mexico;
- owned a 75% interest in 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”). On July 12, 2012, we sold our 75% ownership interest in the UNEV Pipeline to HEP (see Note 4);
- owned Ethanol Management Company (“EMC”), a products terminal and blending facility near Denver, Colorado and a 50% interest in Sabine Biofuels II, LLC (“Sabine Biofuels”), a biodiesel production facility located in Port Arthur, Texas; and
- owned a 42% 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 25% interest in SLC Pipeline LLC (the “SLC Pipeline”), 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, 2012, the consolidated results of operations and comprehensive income for the three and six months ended June 30, 2012 and 2011 and consolidated cash flows for the six months ended June 30, 2012 and 2011 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, 2011 that has been filed with the SEC.

Our results of operations for the six months ended June 30, 2012 are not necessarily indicative of the results of operations to be realized for the year ending December 31, 2012.

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

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 $2.5 million and $3.5 million at June 30, 2012 and December 31, 2011, respectively.

Inventories: We use the last-in, first-out ("LIFO") method of valuing inventory. Under the LIFO method, an actual valuation of inventory can only be 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: 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, 2012, there have been no impairments to goodwill.

NOTE 2: Change in Accounting Principle

In the first quarter of 2012, we changed our policy of reporting certain same-party accounts receivable and payable balances in the consolidated balance sheets to reflect a net amount due under contractual netting agreements. Prior to this change, we reported such balances on a gross basis with a same-party receivable and payable balance presented separately in our balance sheet. GAAP permits a reporting entity to elect a policy of offsetting same-party receivables and payables when such amounts are net settled under legally enforceable contractual setoff provisions. We believe that a net presentation is preferable because it more appropriately presents our economic resources (accounts receivable) and claims against us (accounts payable) and the future cash flows associated with such assets and liabilities. Additionally, we believe a net presentation of such amounts conforms to the predominant practices used by other companies in our industry. We have applied this change in accounting principle on a retrospective basis and have recast our prior period financial statements.

The following table summarizes the line items affected in our consolidated balance sheet at December 31, 2011:

	As Originally Reported	As Adjusted	Effect of Change
	(In thousands)		
Accounts receivable: Crude oil resales	$743,544	$5,166	$(738,378)
Total current assets	4,659,124	3,920,746	(738,378)
Total assets	$10,314,621	$9,576,243	$(738,378)
Accounts payable	$2,243,072	$1,504,694	$(738,378)
Total current liabilities	2,629,061	1,890,683	(738,378)
Total liabilities and equity	$10,314,621	$9,576,243	$(738,378)

The following table summarizes the line items affected in our consolidated statement of cash flow for the six months ended June 30, 2011:

	As Originally Reported	As Adjusted	Effect of Change
	(In thousands)		
(Increase) decrease in current assets:			
Accounts receivable	$(10,411)	$(38,017)	$(27,606)
Increase (decrease) in current liabilities:			
Accounts payable	$133,154	$160,760	$27,606

At June 30, 2012, our accounts payable balance is presented net of $673.8 million in crude oil receivables subject to contractual setoff provisions. There was no cumulative impact to retained earnings since this change in accounting principle did not affect earnings.

NOTE 3: Holly-Frontier Merger

On February 21, 2011, we entered into a merger agreement providing for a "merger of equals" business combination between us and Frontier. The legacy Frontier business operations consist of crude oil refining and the wholesale marketing of refined petroleum products produced at the El Dorado and Cheyenne Refineries and serve markets in the Rocky Mountain and Plains States regions of the United States. On July 1, 2011, North Acquisition, Inc., a direct wholly-owned subsidiary of Holly, merged with and into Frontier, with Frontier surviving as a wholly-owned subsidiary of Holly. Subsequent to the merger and following approval by the post-closing board of directors of HollyFrontier, Frontier merged with and into HollyFrontier, with HollyFrontier continuing as the surviving corporation.

In accordance with the merger agreement, we issued approximately 102.8 million shares of HollyFrontier common stock in exchange for outstanding shares of Frontier common stock to former Frontier stockholders. Each outstanding share of Frontier common stock was converted into 0.4811 shares of HollyFrontier common stock with any fractional shares paid in cash. The aggregate consideration paid in connection with the merger was approximately $3.7 billion. This is based on our July 1, 2011 market closing price of $35.93 and includes a portion of the fair value of the outstanding equity-based awards assumed from Frontier that relates to pre-merger services.

The merger has been accounted for using the acquisition method of accounting with Holly being considered the acquirer of Frontier for accounting purposes. Therefore, the purchase price was allocated to the fair value of the acquired assets and assumed liabilities at the acquisition date, with the excess purchase price being recorded as goodwill. The goodwill resulting from the merger is primarily due to the favorable location of the acquired refining facilities and the expected synergies to be gained from our combined business operations. Goodwill related to this merger is not deductible for income tax purposes.

Our consolidated financial and operating results reflect the operations of the merged Frontier businesses beginning July 1, 2011. Assuming the merger had been consummated on January 1, 2011, pro forma revenues, net income and basic and diluted earnings per share are as follows:

	Three Months Ended June 30, 2011	Six Months Ended June 30, 2011
	(In thousands, except per share amounts)	
Sales and other revenues	$5,037,660	$9,272,899
Net income attributable to HollyFrontier stockholders	$369,039	$603,105
Basic earnings per share	$1.76	$2.88
Diluted earnings per share	$1.75	$2.87

Adjustments made to derive pro forma net income primarily relate to depreciation and amortization expense to reflect our new basis in the legacy Frontier refining facilities.

NOTE 4: 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, 2012, we owned a 42% interest in HEP, including the 2% general partner interest. We are the primary beneficiary of HEP's earnings and cash flows and therefore we consolidate HEP. See Note 19 for supplemental guarantor/non-guarantor financial information, including HEP balances included in these consolidated financial statements. All intercompany transactions with HEP are eliminated in our consolidated financial statements.

Table of Contents

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 84% of HEP’s total revenues for the six months ended June 30, 2012. We do not provide financial or equity support through any liquidity arrangements and /or 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 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 12 for a description of HEP’s debt obligations.

At June 30, 2012, we have an agreement to pledge up to 6,000,000 of our HEP common units to collateralize certain crude oil purchases. These units represent a 21% ownership interest in HEP.

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.

UNEV Pipeline Interest Transaction
On July 12, 2012, we sold our 75% interest in the UNEV Pipeline to HEP. Consideration received consisted of $260.0 million in cash and approximately 1 million HEP common units. As a result of this transaction, our ownership interest in HEP increased to 44%, which includes the 2% general partner interest.

Legacy Frontier Tankage and Terminal Asset Transaction
On November 9, 2011, HEP acquired from us certain tankage, loading rack and crude receiving assets located at our El Dorado and Cheyenne Refineries.

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. 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 (“PPI”) or Federal Energy Regulatory Commission (“FERC”) index. As of July 1, 2012, these agreements result in minimum annualized payments to HEP of $200.3 million.

Since HEP is a consolidated VIE, our transactions with HEP including fees paid under our transportation agreements with HEP are eliminated and have no impact on our consolidated financial statements.

NOTE 5: Financial Instruments

The carrying amounts of cash and cash equivalents, accounts receivable, accounts payable and HEP's credit agreement borrowings approximate fair value. HEP's outstanding credit agreement borrowings 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.

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

- (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 related estimated fair values of our investments in marketable securities, derivative instruments and the senior notes at June 30, 2012 and December 31, 2011 were as follows:

Financial Instrument	Carrying Amount	Fair Value	Fair Value by Input Level		
			Level 1	Level 2	Level 3
		(In thousands)			
June 30, 2012					
Assets:					
Marketable debt securities	$276,248	$276,248	$—	$276,248	$—
NYMEX futures contracts	3,683	3,683	3,683	—	—
Commodity price swaps	119,461	119,461	—	—	119,461
Total assets	$399,392	$399,392	$3,683	$276,248	$119,461
Liabilities:					
Commodity price swaps	$89,194	$89,194	—	$89,194	$—
HollyFrontier senior notes	644,982	686,628	—	686,628	—
HEP senior notes	443,195	461,625	—	461,625	—
HEP interest rate swap	2,382	2,382	—	2,382	—
Total liabilities	$1,179,753	$1,239,829	$—	$1,239,829	$—
December 31, 2011					
Assets:					
Equity securities	$753	$753	$753	$—	$—
Marketable debt securities	260,953	260,953	—	260,953	—
Commodity price swaps	175,654	175,654	—	144,038	31,616
Total assets	$437,360	$437,360	$753	$404,991	$31,616
Liabilities:					
NYMEX futures contracts	$1,252	$1,252	$1,252	$—	$—
HollyFrontier senior notes	651,262	693,979	—	693,979	—
HEP senior notes	325,860	344,350	—	344,350	—
HEP interest rate swap	520	520	—	520	—
Total liabilities	$978,894	$1,040,101	$1,252	$1,038,849	$—

Level 1 Financial Instruments
Our investments in equity securities and 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 debt securities and derivative instruments consisting of commodity price swaps and HEP's interest rate swap are measured and recorded at fair value using Level 2 inputs. With respect to the commodity price and interest rate swap contracts, fair value is 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 swap. The fair value of the marketable debt securities and senior notes is based on values provided by a third-party bank, which were derived using market quotes for similar type instruments, a Level 2 input.

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

Level 3 Financial Instruments
We have entered into certain commodity price swap contracts related to forecasted sales of diesel and unleaded gasoline for which quoted forward market prices are not readily available. The forward rate used to value these price swaps was derived using a projected forward rate using quoted market rates for similar products, adjusted for regional pricing differentials, a Level 3 input.

The following table presents the changes in fair value of the Level 3 assets and liabilities (all related to commodity price swap contracts) for the three and six months ended June 30, 2012:

Level 3 Financial Instruments	Three Months Ended June 30, 2012	Six Months Ended June 30, 2012
	(In thousands)	
Asset (liability) balance at beginning of period	$(149,278)	$31,616
Change in fair value	248,572	33,553
Fair value on date of settlement of open contracts at beginning of period	20,167	54,292
Asset balance at end of period	$119,461	$119,461

A hypothetical change of 10% to the estimated future cash flows attributable to our Level 3 commodity price swaps would result in an estimated fair value change of approximately $12.0 million.

NOTE 6: 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 variable restricted and variable performance shares. The following is a reconciliation of the denominators 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,	
	2012	2011	2012	2011
	(In thousands, except per share data)			
Earnings attributable to HollyFrontier stockholders	$493,499	$192,235	$735,195	$276,929
Average number of shares of common stock outstanding	205,727	106,730	207,129	106,672
Effect of dilutive variable restricted shares and performance share units	754	610	809	614
Average number of shares of common stock outstanding assuming dilution	206,481	107,340	207,938	107,286
Basic earnings per share	$2.40	$1.80	$3.55	$2.60
Diluted earnings per share	$2.39	$1.79	$3.54	$2.58

NOTE 7: Stock-Based Compensation

As of June 30, 2012, we have two principal share-based compensation plans including the Frontier plan that was retained upon the July 1, 2011 merger (collectively, the “Long-Term Incentive Compensation Plan”).

The compensation cost charged against income for these plans was $7.3 million and $3.4 million for the three months ended June 30, 2012 and 2011, respectively, and $15.9 million and $4.5 million for the six months ended June 30, 2012 and 2011, respectively. The total income tax benefit recognized in the income statement for share-based compensation arrangements was $2.8 million and $1.3 million for the three months ended June 30, 2012 and 2011, respectively, and $6.2 million and $1.8 million for the six months ended June 30, 2012 and 2011, respectively. Our accounting policy for the recognition of compensation expense for awards with pro-rata vesting (substantially all of our awards) is to expense the costs ratably over the vesting periods.

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

Additionally, HEP maintains a share-based compensation plan for HEP directors and select Holly Logistic Services, L.L.C. executives and employees. Compensation cost attributable to HEP’s share-based compensation plan was $0.7 million and $0.4 million for the three months ended June 30, 2012 and 2011, respectively, and $1.6 million and $1.1 million for the six months ended June 30, 2012 and 2011, respectively.

Restricted Stock
Under our Long-Term Incentive Compensation Plan, we grant certain officers, other key employees and non-employee directors restricted stock awards with most awards vesting over a period of one to three years. Although ownership of the shares does not transfer to the recipients until after the shares vest, recipients generally have dividend rights on these shares from the date of grant. The vesting for certain key executives is contingent upon certain performance targets being realized. The fair value of each share of restricted stock awarded, including the shares issued to the key executives, is measured based on the market price as of the date of grant and is amortized over the respective vesting period.

A summary of restricted stock activity and changes during the six months ended June 30, 2012 is presented below:

Restricted Stock	Grants	Weighted Average Grant Date Fair Value	Aggregate Intrinsic Value ($000)
Outstanding at January 1, 2012 (non-vested)	1,122,350	$25.48	
Granted	407,037	33.81	
Vesting and transfer of ownership to recipients	(571,238)	23.40	
Forfeited	(3,975)	33.06	
Outstanding at June 30, 2012 (non-vested)	954,174	$30.25	$33,806

For the six months ended June 30, 2012, we issued 571,238 shares of our common stock upon the vesting of restricted stock grants having a grant date fair value of $13.4 million. As of June 30, 2012, there was $16.2 million of total unrecognized compensation cost related to non-vested restricted stock grants. That cost is expected to be recognized over a weighted-average period of 1.4 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 one to three years. Under the terms of our performance share unit grants, awards are subject to either a "financial performance" or "market performance" criteria, or both.

The fair value of performance share unit awards subject to financial performance criteria is computed using the grant date closing stock price of each respective award grant and will apply to the number of units ultimately awarded. The number of shares ultimately issued for each award will be based on our financial performance as compared to peer group companies over the performance period and can range from zero to 200%. As of June 30, 2012, estimated share payouts for outstanding non-vested performance share unit awards ranged from 107% to 190%.

For the performance share units subject to market performance criteria, performance is calculated as the total shareholder return achieved by HollyFrontier stockholders compared with the average shareholder return achieved by

an equally-weighted peer group of independent refining companies over a three-year period. These share unit awards are valued using a Monte Carlo valuation model, which simulates future stock price movements using key inputs including grant date stock prices, expected stock price performance, expected rate of return and volatility of our stock price relative to a peer group over a three-year performance period. These units are payable in stock based on share price performance relative to the defined peer group and can range from zero to 200% of the initial target award.

A summary of performance share unit activity and changes during the six months ended June 30, 2012 is presented below:

Performance Share Units	Grants
Outstanding at January 1, 2012 (non-vested)	774,788
Granted	293,559
Vesting and transfer of ownership to recipients	(240,019)
Forfeited	(5,057)
Outstanding at June 30, 2012 (non-vested)	823,271

For the six months ended June 30, 2012, we issued 459,737 shares of our common stock, representing a 192% payout on vested performance share units having a grant date fair value of $2.8 million. Based on the weighted-average grant date fair value of $28.13 per share, there was $17.4 million of total unrecognized compensation cost related to non-vested performance share units. That cost is expected to be recognized over a weighted-average period of 1.4 years.

NOTE 8: Cash and Cash Equivalents and Investments in Marketable Securities

Our investment portfolio at June 30, 2012 consisted of cash, cash equivalents and investments in debt securities primarily issued by government and municipal entities.

We invest in highly-rated marketable debt securities, primarily issued by government and municipal entities that have maturities at the date of purchase of greater than three months. We also invest in other marketable debt securities with the maximum maturity or put date of any individual issue generally not greater than two years from the date of purchase. All of these instruments, including investments in equity securities, 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, realized gains and losses on the sale of marketable securities are computed based on the specific identification of the underlying cost of the securities sold and the unrealized gains and losses previously reported in other comprehensive income are reclassified to current earnings.

The following is a summary of our available-for-sale securities:

	Available-for-Sale Securities			
	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Fair Value (Net Carrying Amount)
	(In thousands)			
June 30, 2012				
Marketable debt securities (state and political subdivisions)	$276,248	$1	$(1)	$276,248

December 31, 2011				
Marketable debt securities (state and political subdivisions)	$260,879	$74	$—	$260,953
Equity securities	610	143	—	753
Total marketable securities	$261,489	$217	$—	$261,706

For the six months ended June 30, 2012, we invested $166.4 million in marketable debt securities and received a total of $152.0 million from sales and maturities of equity and marketable debt securities.

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

NOTE 9: Inventories

Inventory consists of the following components:

	June 30, 2012	December 31, 2011
	(In thousands)	
Crude oil	$471,228	$400,952
Other raw materials and unfinished products[1]	164,730	137,356
Finished products[2]	617,849	513,776
Process chemicals[3]	2,943	1,180
Repairs and maintenance supplies and other	53,069	61,355
Total inventory	$1,309,819	$1,114,619

(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.

NOTE 10: Goodwill

The following table provides a summary of changes to our goodwill balance by segment for the six months ended June 30, 2012.

	Refining Segment	HEP	Total
	(In thousands)		
Balance at January 1, 2012	$2,047,519	$288,991	$2,336,510
Adjustment to goodwill related to Frontier merger	1,792	—	1,792
Balance at June 30, 2012	$2,049,311	$288,991	$2,338,302

During the first quarter of 2012, we adjusted goodwill upon finalizing certain fair value estimates that primarily relate to income tax receivables, properties, plants and equipment and environmental liabilities that were recognized upon our July 1, 2011 merger with Frontier.

NOTE 11: Environmental

We expensed $1.0 million and $0.1 million for the three months ended June 30, 2012 and 2011, respectively, and $15.2 million and $0.1 million for the six months ended June 30, 2012 and 2011, respectively, for environmental remediation obligations. The accrued environmental liability reflected in our consolidated balance sheets was $61.4 million and $42.2 million at June 30, 2012 and December 31, 2011, respectively, of which $48.7 million and $31.7 million, respectively, were classified as other long-term liabilities. These accruals include remediation costs expected to be incurred over an extended period of time. It also includes $15.6 million in environmental liabilities that were assumed upon our merger with Frontier.

NOTE 12: Debt

HollyFrontier Credit Agreement

We have a $1 billion senior secured credit agreement (the “HollyFrontier Credit Agreement”) with Union Bank, N.A. as administrative agent and certain lenders from time to time party thereto. The HollyFrontier Credit Agreement matures in July 2016 and may be used to fund working capital requirements, capital expenditures, acquisitions and general corporate purposes. Obligations under the HollyFrontier Credit Agreement are collateralized by our inventory, accounts receivables and certain deposit accounts and guaranteed by our material, wholly-owned subsidiaries.

We were in compliance with all covenants at June 30, 2012. At June 30, 2012, we had no outstanding borrowings and outstanding letters of credit totaled $27.9 million under the HollyFrontier Credit Agreement. At that level of usage, the unused commitment was $972.1 million at June 30, 2012.

HEP Credit Agreement

In June 2012, HEP amended its previous credit agreement, increasing the size of the credit facility from $375 million to $550 million. HEP's $550 million senior secured revolving credit facility expires in June 2017 (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 and to fund distributions to unitholders up to a $60 million sub-limit. At June 30, 2012, the HEP Credit Agreement had outstanding borrowings of $170.0 million.

HEP's obligations under the HEP Credit Agreement are collateralized by substantially all of HEP's assets (presented parenthetically in our consolidated balance sheets). Indebtedness under the HEP Credit Agreement is recourse to HEP Logistics Holdings, L.P., its general partner, and 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 other recourse to our assets. Furthermore, our creditors have no recourse to the assets of HEP and its consolidated subsidiaries.

HollyFrontier Senior Notes

Our senior notes consist of the following:

- 9.875% senior notes ($286.8 million principal amount maturing June 2017)
- 6.875% senior notes ($150 million principal amount maturing November 2018)
- 8.5% senior notes ($200 million principal amount maturing September 2016)

These senior notes (collectively, the "HollyFrontier Senior Notes") are unsecured and impose certain restrictive covenants, including limitations on our ability to incur additional debt, incur liens, enter into sale-and-leaseback transactions, pay dividends, enter into mergers, sell assets and enter into certain transactions with affiliates. At any time when the HollyFrontier Senior Notes are rated investment grade by both Moody's and Standard & Poor's and no default or event of default exists, we will not be subject to many of the foregoing covenants. Additionally, we have certain redemption rights under the HollyFrontier Senior Notes.

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. Under this transaction, the $40.0 million in cash proceeds received was recorded as a liability. Monthly lease payments are recorded as a reduction in principal over the 15-year lease term ending in 2024.

HEP Senior Notes

HEP's senior notes consist of the following:

- 6.5% HEP senior notes ($300 million principal amount maturing March 2020)
- 8.25% HEP senior notes ($150 million principal amount maturing March 2018)

In March 2012, HEP issued $300 million in aggregate principal amount of 6.5% HEP senior notes maturing March 2020. The $294.8 million in net proceeds were used to repay $157.8 million aggregate principal amount of 6.25% HEP senior notes, $72.9 million in promissory notes due to HollyFrontier, related fees, expenses and accrued interest in connection with these transactions and to repay borrowings under the HEP Credit Agreement. In April 2012, HEP called for redemption the $27.3 million aggregate principal amount outstanding of 6.25% HEP senior notes.

The 6.5% HEP and 8.25% HEP senior notes (collectively, 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.

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

Indebtedness under the HEP Senior Notes is recourse to HEP Logistics Holdings, L.P., its general partner, and 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 other recourse to our 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, 2012	December 31, 2011
	(In thousands)	
9.875% Senior Notes		
Principal	$286,812	$291,812
Unamortized discount	(8,100)	(8,930)
	278,712	282,882
6.875% Senior Notes		
Principal	150,000	150,000
Unamortized premium	5,901	6,490
	155,901	156,490
8.5% Senior Notes		
Principal	199,985	199,985
Unamortized premium	10,384	11,905
	210,369	211,890
Financing Obligation	36,986	37,620
Total HollyFrontier long-term debt	681,968	688,882
HEP Credit Agreement	170,000	200,000
HEP 8.25% Senior Notes		
Principal	150,000	150,000
Unamortized discount	(1,754)	(1,907)
	148,246	148,093
HEP 6.5% Senior Notes		
Principal	300,000	—
Unamortized discount	(5,051)	—
	294,949	—
HEP 6.25% Senior Notes		
Principal	—	185,000
Unamortized discount	—	(8,331)
Unamortized premium – designated fair value hedge	—	1,098
	—	177,767
Total HEP long-term debt	613,195	525,860

Total long-term debt	$ 1,295,163	$ 1,214,742

We capitalized interest attributable to construction projects of $2.3 million and $4.3 million for the three months ended June 30, 2012 and 2011, respectively, and $3.9 million and $7.9 million for the six months ended June 30, 2012 and 2011, respectively.

NOTE 13: 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 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 WTI crude oil and forecasted sales of ultra-low sulfur diesel and conventional unleaded gasoline. These contracts have been designated as accounting hedges and are measured quarterly at fair value with offsetting adjustments (gains/losses) recorded directly to other comprehensive income. These fair value adjustments are later reclassified in the statement of income as the hedging instruments mature. Also 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.

The following table presents the pre-tax effect on comprehensive income ("OCI") and earnings due to fair value adjustments and maturities of commodity price swaps 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, 2012					
Commodity price swaps					
Change in fair value	$27,044	Sales and other revenues	$(20,167)	Sales and other revenues	$2,984
Loss reclassified to earnings due to settlements	3,992	Cost of products sold	16,175	Cost of products sold	(6,317)
Total	$31,036		$(3,992)		$(3,333)
Three Months Ended June 30, 2011					
Commodity price swaps	$—	Operating expenses	$—	Operating expenses	$—
Six Months Ended June 30, 2012					

Commodity price swaps					
Change in fair value	$(113,076)	Sales and other revenues	$(54,292)	Sales and other revenues	$1,655
Gain reclassified to earnings due to settlements	(12,423)	Cost of products sold	66,715	Cost of products sold	(6,317)
Total	$(125,499)		$12,423		$(4,662)
Six Months Ended June 30, 2011					
Commodity price swaps					
Change in fair value	$(128)				
Loss reclassified to earnings due to settlements	166	Operating expenses	$(166)	Operating expenses	$—
Total	$38		$(166)		$—

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

As of June 30, 2012, we have the following notional contract volumes (stated in barrels) related to outstanding swap contracts serving as cash flow hedges against price risk on forecasted purchases of crude oil and sales of refined products:

Commodity Price Swaps	Total Outstanding Notional	Notional Contract Volumes by Year of Maturity 2012	2013	Unit of Measure
WTI crude oil - long	10,096,000	9,016,000	1,080,000	Barrels
Ultra-low sulfur diesel - short	5,048,000	4,508,000	540,000	Barrels
Conventional unleaded gasoline - short	5,048,000	4,508,000	540,000	Barrels

Economic Hedges
We also have swap contracts that serve as economic hedges to fix our purchase price on forecasted crude oil, natural gas and butane purchases, and to lock in the spread between WCS and WTI crude oil on forecasted purchases. Also, we have NYMEX futures contracts to lock in prices on forecasted sales and purchases of inventory. These contracts are measured quarterly at fair value with offsetting adjustments (gains/losses) recorded directly to net income.

The following table present 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, 2012	2011	Six Months Ended June 30, 2012	2011
	(In thousands)			
Cost of products sold	$50,863	$3,045	$35,869	$(652)
Operating expenses	1,543	—	(158)	—
Total	$52,406	$3,045	$35,711	$(652)

As of June 30, 2012, we have the following notional contract volumes related to our outstanding swap contracts serving as economic hedges:

Derivative Instrument	Total Outstanding Notional	Notional Contract Volumes by Year of Maturity 2012	2013	Unit of Measure
Commodity price swap (natural gas) - long	6,624,000	6,624,000	—	MMBTU
Commodity price swap (WCS spread) - long	6,422,500	765,000	5,657,500	Barrels
Commodity price swap (WTI) - short	150,000	—	150,000	Barrels
Commodity price swap (gasoline) - short	630,000	150,000	480,000	Barrels
Commodity price swap (butane) - long	540,000	540,000	—	Barrels
NYMEX futures (WTI) - long	380,000	146,000	234,000	Barrels

NYMEX futures (WTI)- short	1,008,000	1,008,000	—	Barrels

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

Interest Rate Risk Management

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

As of June 30, 2012, HEP has an interest rate swap contract that hedges its exposure to the cash flow risk caused by the effects of LIBOR changes on a $155.0 million credit agreement advance. This 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, 2012, which equaled an effective interest rate of 2.99%. This swap matures in February 2016 and has been designated as a cash flow hedge. To date, there has been no ineffectiveness on this cash flow hedge.

At June 30, 2012 , HEP had a pre-tax unrealized loss recorded in accumulated other comprehensive income of $5.8 million that relates to its current and previous cash flow hedging instruments. Of this amount, $3.4 million relates to a cash flow hedge terminated in December 2011 and represents the application of hedge accounting prior to termination. This amount will be amortized as a charge to interest expense through February 2013, the remaining term of the terminated swap contract.

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

	Unrealized Gain (Loss) Recognized in OCI	Gain (Loss) Recognized in Earnings Due to Settlements	
		Location	Amount
		(In thousands)	
Three Months Ended June 30, 2012			
Interest rate swap			
Change in fair value	$(1,802)		
Loss reclassified to earnings due to settlements	1,567	Interest expense	$(1,567)
Total	$(235)		$(1,567)
Three Months Ended June 30, 2011			
Interest rate swap			
Change in fair value	$(1,110)		
Loss reclassified to earnings due to settlements	1,381	Interest expense	$(1,381)
Total	$271		$(1,381)
Six Months Ended June 30, 2012			
Interest rate swap			
Change in fair value	$(2,438)		
Loss reclassified to earnings due to settlements	3,123	Interest expense	$(3,123)
Total	$685		$(3,123)
Six Months Ended June 30, 2011			
Interest rate swap			
Change in fair value	$(1,175)		
Loss reclassified to earnings due to settlements	2,729	Interest expense	$(2,729)

Total	$1,554	$(2,729)

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

The following table presents balance sheet locations and related fair values of outstanding derivative instruments. These amounts are presented on a gross basis in accordance with GAAP disclosure requirements and do not reflect the netting of asset or liability positions permitted under the terms of master netting arrangements. Therefore, they are not equal to amounts presented in our consolidated balance sheets.

	Asset Derivatives Balance Sheet Location (In thousands)	Fair Value	Liability Derivatives Balance Sheet Location	Fair Value
June 30, 2012				
Derivatives designated as cash flow hedging instruments:				
Commodity price swap contracts	Prepayments and other current assets	$119,461	Prepayments and other current assets	$75,840
Variable-to-fixed interest rate swap contract			Other long-term liabilities	2,382
Total		$119,461		$78,222
Derivatives not designated as hedging instruments:				
Commodity price swap contracts	Prepayments and other current assets	$6,372	Prepayments and other current assets	$16,043
December 31, 2011				
Derivatives designated as cash flow hedging instruments:				
Commodity price swap contracts	Prepayments and other current assets	$173,784		
Variable-to-fixed interest rate swap contract			Other long-term liabilities	$520
Total		$173,784		$520
Derivatives not designated as hedging instruments:				
Commodity price swap contracts	Prepayments and other current assets	$1,870	Accrued liabilities	$1,252

At June 30, 2012, there was a pre-tax net unrealized gain of $41.2 million classified in accumulated other comprehensive income that relates to all accounting hedges. Assuming commodity prices and interest rates remain unchanged, an unrealized gain of approximately $43.0 million will be effectively transferred from accumulated other comprehensive income into the statement of income as the hedging instruments mature over the next twelve-month period.

NOTE 14: Equity

Changes to equity during the six months ended June 30, 2012 are presented below:

	HollyFrontier Stockholders' Equity	Noncontrolling Interest	Total Equity

	(In thousands)		
Balance at December 31, 2011	$5,204,010	$631,890	$5,835,900
Net income	735,195	14,195	749,390
Other comprehensive income (loss)	(72,298)	400	(71,898)
Dividends	(259,403)	—	(259,403)
Distributions to noncontrolling interest holders	—	(28,944)	(28,944)
Contribution from joint venture partner	—	3,000	3,000
Equity-based compensation	15,862	1,629	17,491
Excess tax benefit attributable to equity-based compensation	4,762	—	4,762
Purchase of treasury stock [1]	(198,667)	—	(198,667)
Net prepayment related to structured share repurchase arrangement	(100,000)	—	(100,000)
Purchase of HEP units for restricted grants	—	(4,006)	(4,006)
Balance at June 30, 2012	$5,329,461	$618,164	$5,947,625

(1) Includes 305,037 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 January 2012, our Board of Directors approved a $350 million stock repurchase program, and in June 2012, approved an additional $350 million repurchase program that authorizes 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, corporate, regulatory and other relevant considerations. These programs may be discontinued at any time by the Board of Directors. As of June 30, 2012, we have repurchased 6,351,498 shares at a cost of $189.8 million under these stock repurchase programs.

In connection with these stock repurchase programs, we entered into a structured share repurchase arrangement with a financial institution in May 2012. Under the arrangement, we have provided an up-front cash payment of $100.0 million and depending on market conditions, will receive either shares of our common stock or cash at the expiration of the agreement. This prepayment is currently recorded as a component of additional capital in our consolidated balance sheets.

NOTE 15: 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, 2012			
Unrealized loss, net of reclassifications from sale or maturity, on available-for-sale securities	$(404)	$(158)	$(246)
Unrealized gain on hedging activities	30,801	12,035	18,766
Pension plan curtailment	7,102	2,763	4,339
Other comprehensive income	37,499	14,640	22,859
Less other comprehensive loss attributable to noncontrolling interest	(137)	—	(137)
Other comprehensive income attributable to HollyFrontier stockholders	$37,636	$14,640	$22,996
Three Months Ended June 30, 2011			
Unrealized loss on available-for-sale securities	$(459)	$(179)	$(280)
Unrealized gain on hedging activities	271	35	236
Other comprehensive loss	(188)	(144)	(44)
Less other comprehensive income attributable to noncontrolling interest	178	—	178
Other comprehensive loss attributable to HollyFrontier stockholders	$(366)	$(144)	$(222)
Six Months Ended June 30, 2012			
	$(216)	$(84)	$(132)

Unrealized loss, net of reclassifications from sale or maturity, on available-for-sale securities			
Unrealized loss on hedging activities	(124,814)	(48,709)	(76,105)
Pension plan curtailment	7,102	2,763	4,339
Other comprehensive loss	(117,928)	(46,030)	(71,898)
Less other comprehensive income attributable to noncontrolling interest	400	—	400
Other comprehensive loss attributable to HollyFrontier stockholders	$(118,328)	$(46,030)	$(72,298)
Six Months Ended June 30, 2011			
Unrealized loss on available-for-sale securities	$(317)	$(124)	$(193)
Unrealized gain on hedging activities	1,592	222	1,370
Other comprehensive income	1,275	98	1,177
Less other comprehensive income attributable to noncontrolling interest	1,020	—	1,020
Other comprehensive income attributable to HollyFrontier stockholders	$255	$98	$157

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

The temporary unrealized gain (loss) on available-for-sale securities is due to changes in market prices of securities.

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

	June 30, 2012	December 31, 2011
	(In thousands)	
Pension obligation adjustment	$(18,376)	$(22,715)
Retiree medical obligation adjustment	(4,042)	(4,042)
Unrealized gain on available-for-sale securities	2	134
Unrealized gain on hedging activities, net of noncontrolling interest	27,991	104,496
Accumulated other comprehensive income	$5,575	$77,873

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

NOTE 16: Retirement Plan

We sponsor a non-contributory defined benefit retirement plan that covers most legacy Holly non-union employees hired prior to January 1, 2007 and union employees hired prior to July 1, 2010, which was closed to new entrants effective January 1, 2007 for non-union employees and July 1, 2010 for union employees. Effective January 1, 2012, no additional benefits will be accrued under this plan for non-union employee participants and effective May 1, 2012, no additional benefits will be accrued for union employee participants, at which time the plan was fully frozen. The changes to the union employee participants have been accounted for as a curtailment. Accordingly, we adjusted the projected benefit obligation and accumulated other comprehensive income by $7.1 million and recorded additional pension expense of $0.7 million in the second quarter of 2012. The changes related to the non-union employees were also accounted for as a curtailment, which was recorded in the fourth quarter of 2011. Our funding policy for this defined benefit retirement plan is to make annual contributions of not less than the minimum funding requirements of the Employee Retirement Income Security Act of 1974. Benefits are based on the employee’s years of service and compensation.

The net periodic pension expense consisted of the following components:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
	(In thousands)			
Service cost – benefit earned during the period	$509	$1,268	$679	$2,535
Interest cost on projected benefit obligations	1,061	1,281	2,052	2,562
Expected return on plan assets	(949)	(1,339)	(1,899)	(2,678)
Amortization of prior service cost	50	97	67	195
Amortization of net loss	620	533	1,103	1,066
Estimated effect of curtailment	674	—	899	—
Net periodic pension expense	$1,965	$1,840	$2,901	$3,680

The expected long-term annual rate of return on plan assets is 6.5%, which is the rate is used in measuring 2012 net periodic benefit costs. We contributed $22.4 million to the retirement plan in June 2012.

In 2012, we established a program for non-union plan participants whose benefits pursuant to the defined benefit plan were frozen. The program provides for payments after year-end of each of the next three years provided the employee remains with the us. The payments are based on each employee's years of service and eligible salary. For the three and six months ended June 30, 2012, we recognized transition benefit costs of $3.5 million and $6.9 million, respectively, that relates to our transition to the new defined contribution plan.

We have a post-retirement healthcare and other benefits plan that is available to certain eligible employees who were hired before certain defined dates and satisfy certain age and service requirements.The net periodic benefit expense of this plan consisted of the following components:

	Three Months Ended June 30, 2012	Six Months Ended June 30, 2012
	(In thousands)	
Service cost – benefit earned during the period	$475	$950
Interest cost on projected benefit obligations	875	1,750

Amortization of prior service credit	(550)	(1,100)
Amortization of net loss	75	150
Net periodic pension expense	$875	$1,750

NOTE 17: Contingencies

27

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

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

NOTE 18: 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. 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 and New Mexico.

The HEP segment includes all of the operations of HEP, a consolidated VIE, which owns and operates logistic 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. Revenues are generated by charging tariffs for transporting petroleum products and crude oil through its pipelines, by leasing certain pipeline capacity to Alon USA, Inc., by charging fees for terminalling refined products and other hydrocarbons and storing and providing other services at its storage tanks and terminals. The HEP segment also includes a 25% interest in SLC Pipeline that services refineries in the Salt Lake City, Utah area. 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. Our revaluation of HEP's assets and liabilities at March 1, 2008 (date of reconsolidation) resulted in basis adjustments to our consolidated HEP balances. Therefore, 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, 2011.

	Refining [1]	HEP	Corporate and Other	Consolidations and Eliminations	Consolidated Total
	(In thousands)				
Three Months Ended June 30, 2012					
Sales and other revenues	$4,795,469	$63,692	$4,411	$(56,891)	$4,806,681
Depreciation and amortization	$43,665	$8,728	$4,762	$(207)	$56,948
Income (loss) from operations	$812,936	$34,554	$(33,756)	$(597)	$813,137
Capital expenditures	$56,262	$5,681	$4,690	$—	$66,633
Three Months Ended June 30, 2011					
Sales and other revenues	$2,953,226	$50,940	$153	$(37,186)	$2,967,133

Depreciation and amortization	$23,478	$7,309	$1,252		$(207	)	$31,832
Income (loss) from operations	$321,032	$27,692	$(18,040	)	$(505	)	$330,179
Capital expenditures	$25,152	$11,425	$45,690		$—		$82,267
Six Months Ended June 30, 2012							
Sales and other revenues	$9,715,200	$127,207	$8,635		$(112,623	)	$9,738,419
Depreciation and amortization	$85,197	$18,587	$9,680		$(414	)	$113,050
Income (loss) from operations	$1,228,062	$69,183	$(63,505	)	$(1,039	)	$1,232,701
Capital expenditures	$101,796	$12,008	$14,216		$—		$128,020
Six Months Ended June 30, 2011							
Sales and other revenues	$5,268,318	$95,945	$801		$(71,346	)	$5,293,718
Depreciation and amortization	$46,461	$14,544	$2,549		$(414	)	$63,140
Income (loss) from operations	$473,136	$51,303	$(34,138	)	$(1,023	)	$489,278
Capital expenditures	$45,784	$22,900	$87,621		$—		$156,305

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

	Refining [1]	HEP	Corporate and Other	Consolidations and Eliminations	Consolidated Total
	(in thousands)				
June 30, 2012					
Cash, cash equivalents and investments in marketable securities	$19	$4,216	$1,644,211	$—	$1,648,446
Total assets	$7,213,749	$988,670	$1,222,787	$(42,674)	$9,382,532
Long-term debt	$—	$613,195	$698,156	$(16,188)	$1,295,163
December 31, 2011					
Cash, cash equivalents and investments in marketable securities	$—	$3,269	$1,837,341	$—	$1,840,610
Total assets	$6,280,426	$995,120	$2,421,140	$(120,443)	$9,576,243
Long-term debt	$—	$598,761	$705,331	$(89,350)	$1,214,742

(1) The Refining segment reflects the operations of the El Dorado and Cheyenne Refineries beginning July 1, 2011 (date of Holly-Frontier merger).

HEP segment revenues from external customers were $9.5 million and $13.8 million for the three months ended June 30, 2012 and 2011, respectively, and $20.2 million and $24.7 million for the six months ended June 30, 2012 and 2011, respectively.

NOTE 19: Supplemental Guarantor/Non-Guarantor Financial Information

Our obligations under the HollyFrontier Senior Notes have been jointly and severally guaranteed by the substantial majority of our existing and future restricted subsidiaries (“Guarantor Restricted Subsidiaries”). These guarantees are full and unconditional. HEP, in which we have a 42% ownership interest at June 30, 2012, 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.”

Our revaluation of HEP’s assets and liabilities at March 1, 2008 (date of reconsolidation) resulted in basis adjustments to our consolidated HEP balances. Therefore, our reported amounts for the HEP segment may not agree to amounts reported in HEP’s periodic public filings.

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

Condensed Consolidating Balance Sheet

June 30, 2012	Parent	Guarantor Restricted Subsidiaries	Non-Guarantor Restricted Subsidiaries	Eliminations	HollyFrontier Corp. Before Consolidation of HEP	Non-Guarantor Non-Restricted Subsidiaries (HEP Segment)	Eliminations	Consolidated
	(In thousands)							
ASSETS								
Current assets:								
Cash and cash equivalents	$1,366,416	$1,564	$2	$—	$1,367,982	$4,216	$—	$1,372,198
Marketable securities	266,477	6	—	—	266,483	—	—	266,483
Accounts receivable, net	2,771	600,822	1,051	—	604,644	30,169	(31,087)	603,726
Intercompany accounts receivable (payable)	2,378,862	(2,686,908)	308,046	—	—	—	—	—
Inventories	—	1,308,493	—	—	1,308,493	1,326	—	1,309,819
Income taxes receivable	93,644	—	4	—	93,648	—	—	93,648
Prepayments and other	13,396	47,437	1,043	—	61,876	2,084	(4,142)	59,818
Total current assets	4,121,566	(728,586)	310,146	—	3,703,126	37,795	(35,229)	3,705,692
Properties, plants and equip, net	20,116	2,085,903	403,452	—	2,509,471	584,702	(5,867)	3,088,306
Marketable securities (long-term)	9,765	—	—	—	9,765	—	—	9,765
Investment in subsidiaries	2,331,322	629,603	(244,218)	(2,716,707)	—	—	—	—
Intangibles and other assets	9,804	2,204,370	25,000	(25,000)	2,214,174	366,173	(1,578)	2,578,769
Total assets	$6,492,573	$4,191,290	$494,380	$(2,741,707)	$8,436,536	$988,670	$(42,674)	$9,382,532