

HollyFrontier Corp
Form 10-Q
August 02, 2017

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2017

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	75201
Dallas, Texas	
(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 No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
Emerging growth company

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If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. "

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

177,279,134 shares of Common Stock, par value \$.01 per share, were outstanding on July 31, 2017.

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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. Forward-looking statements use words such as “anticipate,” “project,” “expect,” “plan,” “goal,” “forecast,” “intend,” “should,” “would,” “could,” “believe,” “may,” and similar expressions and state regarding our plans and objectives for future operations. 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. All statements concerning our expectations for future results of operations are based on forecasts for our existing operations and do not include the potential impact of any future acquisitions. 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 recent or future acquired operations, including Petro-Canada Lubricants Inc.;
- 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

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on Form 10-K for the year ended December 31, 2016 and our Quarterly Report on Form 10-Q for the quarter ended March 31, 2017 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.

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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.

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“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.

“RINs” means renewable identification numbers and refers to serial numbers assigned to credits generated from biodiesel production under the Environmental Protection Agency’s Renewable Fuel Standard 2 (“RFS2”) regulations that mandate increased volumes of renewable fuels blended into the nation’s fuel supply. In lieu of blending, refiners may purchase these transferable credits in order to comply with the regulations.

“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.

“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.

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Item 1. Financial Statements

HOLLYFRONTIER CORPORATION
CONSOLIDATED BALANCE SHEETS

(In thousands, except share data)

	June 30, 2017 (Unaudited)	December 31, 2016
ASSETS		
Current assets:		
Cash and cash equivalents (HEP: \$16,339 and \$3,657, respectively)	\$460,326	\$ 710,579
Marketable securities	—	424,148
Total cash, cash equivalents and short-term marketable securities	460,326	1,134,727
Accounts receivable: Product and transportation (HEP: \$8,131 and \$7,846, respectively)	563,905	449,036
Crude oil resales	38,445	30,163
	602,350	479,199
Inventories: Crude oil and refined products	1,064,178	970,361
Materials, supplies and other (HEP: \$1,470 and \$1,402, respectively)	127,795	165,315
	1,191,973	1,135,676
Income taxes receivable	1,428	68,371
Prepayments and other (HEP: \$1,652 and \$1,486, respectively)	37,686	33,036
Total current assets	2,293,763	2,851,009
Properties, plants and equipment, at cost (HEP: \$1,719,143 and \$1,702,703, respectively)	6,118,506	5,546,856
Less accumulated depreciation (HEP: \$(371,867) and \$(337,135), respectively)	(1,674,948)	(1,538,408)
	4,443,558	4,008,448
Other assets: Turnaround costs	251,337	217,340
Goodwill (HEP: \$288,991 and \$288,991, respectively)	2,205,490	2,022,463
Intangibles and other (HEP: \$204,485 and \$208,975, respectively)	448,887	336,401
	2,905,714	2,576,204
Total assets	\$9,643,035	\$ 9,435,661
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable (HEP: \$8,912 and \$10,518, respectively)	\$ 1,009,135	\$ 935,387
Income taxes payable	24,427	—
Accrued liabilities (HEP: \$31,680 and \$37,793, respectively)	186,886	147,842
Total current liabilities	1,220,448	1,083,229
Long-term debt (HEP: \$1,236,739 and \$1,243,912, respectively)	2,227,951	2,235,137
Deferred income taxes (HEP: \$649 and \$509, respectively)	745,050	620,414
Other long-term liabilities (HEP: \$61,312 and \$62,971, respectively)	207,502	194,896
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; 256,009,012 and 255,962,866 shares issued as of June 30, 2017 and December 31, 2016, respectively	2,560	2,560
Additional capital	4,058,594	4,026,805
Retained earnings	2,671,276	2,776,728

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Accumulated other comprehensive income	18,785	10,612
Common stock held in treasury, at cost – 78,729,878 and 78,617,600 shares as of June 30, 2017 and December 31, 2016, respectively	(2,137,312)	(2,135,311)
Total HollyFrontier stockholders' equity	4,613,903	4,681,394
Noncontrolling interest	628,181	620,591
Total equity	5,242,084	5,301,985
Total liabilities and equity	\$9,643,035	\$9,435,661

Parenthetical amounts represent asset and liability balances attributable to Holly Energy Partners, L.P. (“HEP”) as of June 30, 2017 and December 31, 2016. HEP is a consolidated variable interest entity.

See accompanying notes.

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HOLLYFRONTIER CORPORATION
CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

(In thousands, except per share data)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2017	2016	2017	2016
Sales and other revenues	\$3,458,864	\$2,714,638	\$6,539,347	\$4,733,362
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)	2,753,440	2,248,155	5,394,597	3,873,318
Lower of cost or market inventory valuation adjustment	83,982	(138,473)	95,805	(194,594)
	2,837,422	2,109,682	5,490,402	3,678,724
Operating expenses (exclusive of depreciation and amortization)	315,652	251,336	622,769	503,919
General and administrative expenses (exclusive of depreciation and amortization)	59,576	29,655	116,646	55,276
Depreciation and amortization	105,282	90,423	201,322	178,303
Goodwill and asset impairment	19,247	654,084	19,247	654,084
Total operating costs and expenses	3,337,179	3,135,180	6,450,386	5,070,306
Income (loss) from operations	121,685	(420,542)	88,961	(336,944)
Other income (expense):				
Earnings of equity method investments	4,053	3,623	5,893	6,388
Interest income	176	527	995	602
Interest expense	(29,645)	(14,251)	(56,803)	(26,338)
Loss on early extinguishment of debt	—	—	(12,225)	(8,718)
Gain on foreign currency swap	—	—	24,545	—
Gain on foreign currency transactions	10,328	—	395	—
Other, net	(528)	128	(263)	193
	(15,616)	(9,973)	(37,463)	(27,873)
Income (loss) before income taxes	106,069	(430,515)	51,498	(364,817)
Income tax expense (benefit):				
Current	32,251	(18,012)	7,935	(42,366)
Deferred	(255)	(20,033)	7,272	26,629
	31,996	(38,045)	15,207	(15,737)
Net income (loss)	74,073	(392,470)	36,291	(349,080)
Less net income attributable to noncontrolling interest	16,306	16,898	23,992	39,035
Net income (loss) attributable to HollyFrontier stockholders	\$57,767	\$(409,368)	\$12,299	\$(388,115)
Earnings (loss) per share attributable to HollyFrontier stockholders:				
Basic	\$0.33	\$(2.33)	\$0.07	\$(2.20)
Diluted	\$0.33	\$(2.33)	\$0.07	\$(2.20)
Cash dividends declared per common share	\$0.33	\$0.33	\$0.66	\$0.66
Average number of common shares outstanding:				
Basic	176,147	175,865	176,141	176,301

Diluted	176,302	175,865	176,490	176,301
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See accompanying notes.

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

	Three Months Ended		Six Months Ended		
	June 30,		June 30,		
	2017	2016	2017	2016	
Net income (loss)	\$74,073	\$(392,470)	\$36,291	\$(349,080)	
Other comprehensive income:					
Foreign currency translation adjustment	14,298	—	7,585	—	
Securities available-for-sale:					
Unrealized gain (loss) on marketable securities	—	12	(4	) 90
Reclassification adjustments to net income on sale or maturity of marketable securities	—	—	—	23	
Net unrealized gain (loss) on marketable securities	—	12	(4	) 113
Hedging instruments:					
Change in fair value of cash flow hedging instruments	1,389	(5,393) 4,802	(17,997)
Reclassification adjustments to net income on settlement of cash flow hedging instruments	(427	) 22,023	(66	) 33,309
Amortization of unrealized loss attributable to discontinued cash flow hedges	270	270	540	540	
Net unrealized gain on hedging instruments	1,232	16,900	5,276	15,852	
Other comprehensive income before income taxes	15,530	16,912	12,857	15,965	
Income tax expense	4,936	6,578	4,701	6,317	
Other comprehensive income	10,594	10,334	8,156	9,648	
Total comprehensive income (loss)	84,667	(382,136) 44,447	(339,432)
Less noncontrolling interest in comprehensive income (loss)	16,239	16,813	23,975	38,675	
Comprehensive income (loss) attributable to HollyFrontier stockholders	\$68,428	\$(398,949)	\$20,472	\$(378,107)	

See accompanying notes.

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HOLLYFRONTIER CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(In thousands)

	Six Months Ended	
	June 30,	
	2017	2016
Cash flows from operating activities:		
Net income (loss)	\$ 36,291	\$(349,080)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	201,322	178,303
Goodwill and asset impairment	19,247	654,084
Lower of cost or market inventory valuation adjustment	95,805	(194,594)
Earnings of equity method investments, inclusive of distributions	594	1,081
(Gain) loss on sale of assets	679	(61)
Loss on early extinguishment of debt attributable to unamortized discount	2,475	8,718
Deferred income taxes	7,272	26,629
Equity-based compensation expense	16,557	9,774
Change in fair value – derivative instruments	(5,597)	(18,164)
Excess tax expense from equity based compensation	—	(4,198)
(Increase) decrease in current assets:		
Accounts receivable	(5,545)	(128,271)
Inventories	60,963	15,531
Income taxes receivable	66,943	(49,999)
Prepayments and other	(9,272)	9,086
Increase (decrease) in current liabilities:		
Accounts payable	495	210,139
Income taxes payable	22,340	(8,142)
Accrued liabilities	40,141	18,905
Turnaround expenditures	(86,036)	(72,409)
Other, net	8,724	2,994
Net cash provided by operating activities	473,398	310,326
Cash flows from investing activities:		
Additions to properties, plants and equipment	(116,526)	(214,660)
Additions to properties, plants and equipment – HEP	(20,524)	(75,385)
Purchase of equity method investment - HEP	—	(42,500)
Purchase of PCLI, net of cash acquired	(870,627)	—
Purchases of marketable securities	(41,565)	(86,798)
Sales and maturities of marketable securities	465,716	149,599
Other, net	3,017	408
Net cash used for investing activities	(580,509)	(269,336)
Cash flows from financing activities:		
Borrowings under credit agreements	505,000	554,000
Repayments under credit agreements	(215,000)	(480,000)
Net proceeds from issuance of senior notes - HFC	—	246,690
Net proceeds from issuance of term loan - HFC	—	350,000
Redemption of senior notes - HEP	(309,750)	—

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Repayment of financing obligation	—	(39,500)
Net proceeds from issuance of common units - HEP	52,634	13,690
Purchase of treasury stock	—	(133,430)
Dividends	(117,754)	(116,795)
Distributions to noncontrolling interest	(53,776)	(43,840)
Other, net	(4,820)	(6,348)
Net cash provided by (used for) financing activities	(143,466)	344,467
Effect of exchange rate on cash flow	324	—
Cash and cash equivalents:		
Increase (decrease) for the period	(250,253)	385,457
Beginning of period	710,579	66,533
End of period	\$460,326	\$451,990
Supplemental disclosure of cash flow information:		
Cash (paid) received during the period for:		
Interest	\$(64,205)	\$(23,212)
Income taxes, net	\$80,348	\$(21,426)
See accompanying notes.		

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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. In addition, we own and operate a lubricant production facility with retail and wholesale marketing of its products through a global sales network with locations in Canada, United States, Europe and China. As of June 30, 2017, 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 HollyFrontier Asphalt Company LLC (“HFC Asphalt”) which operates various asphalt terminals in Arizona, New Mexico and Oklahoma;
- owned and operated Petro-Canada Lubricants Inc. (“PCLI”) located in Mississauga, Ontario which produces base oils and other specialized lubricant products; and
- owned a 36% interest in HEP, a consolidated variable interest entity (“VIE”), which includes our 2% general partner interest.

On October 29, 2016, our wholly-owned subsidiary, 9952110 Canada Inc., entered into a Share Purchase Agreement (“SPA”) with Suncor Energy Inc. (“Suncor”) to acquire 100% of the outstanding capital stock of PCLI. The acquisition closed on February 1, 2017. See Note 2 for additional information.

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, 2017, the consolidated results of operations and comprehensive income for the three and six months ended June 30, 2017 and 2016 and consolidated cash flows for the six months ended June 30, 2017 and 2016 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

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Report on Form 10-K for the year ended December 31, 2016 that has been filed with the SEC.

Our results of operations for the six months ended June 30, 2017 are not necessarily indicative of the results of operations to be realized for the year ending December 31, 2017.

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 \$3.7 million and \$2.3 million at June 30, 2017 and December 31, 2016, respectively.

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HOLLYFRONTIER CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited) Continued

Inventories: Inventories related to our refining operations are stated at the lower of cost, using the last-in, first-out (“LIFO”) method for crude oil and unfinished and finished refined products, 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.

Inventories consisting of process chemicals, materials and maintenance supplies and renewable identification numbers (“RINs”) are stated at the lower of weighted-average cost or net realizable value.

Inventories of our PCLI operations are stated at the lower of cost, using the first-in, first-out (“FIFO”) method, or net realizable value.

Goodwill and Long-lived Assets: As of June 30, 2017, our goodwill balance was \$2.2 billion, with goodwill assigned to our Refining, PCLI and HEP segments of \$1.7 billion, \$0.2 billion and \$0.3 billion, respectively. During 2017, we recognized \$184.2 million in goodwill as a result of our PCLI acquisition, all of which has been assigned to our PCLI segment. See Note 16 for additional information on our segments. 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 an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. Our goodwill impairment testing first entails a comparison of our reporting unit fair values relative to their respective carrying values. If carrying value exceeds fair value for a reporting unit, we measure goodwill impairment as the excess of the carrying amount of reporting unit goodwill over the implied fair value of that goodwill based on estimates of the fair value of all assets and liabilities in the reporting unit. As of June 30, 2017, we have a cumulative goodwill impairment of \$309.3 million, all of which relates to goodwill assigned to our Cheyenne Refinery reporting unit that was fully impaired in the second quarter of 2016.

Additionally, the carrying amount of our goodwill may fluctuate from period to period due to the effects of foreign currency translation adjustments on goodwill assigned to our PCLI segment.

As of June 30, 2017, the fair value of our El Dorado reporting unit exceeded its carrying value by approximately 18%. A reasonable expectation exists that further deterioration in gross margins could result in an impairment of goodwill and the long-lived assets of the El Dorado reporting unit at some point in the future and such impairment charges could be material.

Our long-lived assets principally consist of our refining assets that are organized as refining asset groups and our PCLI business. The refinery asset groups also constitute our individual refinery reporting units that are used for testing and measuring goodwill impairments. Our long-lived assets are evaluated for impairment by identifying whether indicators of impairment exist and if so, assessing whether the long-lived assets are recoverable from estimated future undiscounted cash flows. The actual amount of impairment loss measured, if any, is equal to the amount by which the asset group’s carrying value exceeds its fair value. As a result of our impairment testing in the second quarter of 2016, we determined that the carrying value of the long-lived assets of the Cheyenne Refinery had been impaired and

recorded long-lived asset impairment charges of \$344.8 million.

During the second quarter of 2017, we incurred long-lived asset impairment charges totaling \$23.2 million, including \$19.2 million of construction-in-progress consisting primarily of engineering work for a planned expansion of our Woods Cross refinery to add lubricants production capabilities. During the second quarter of 2017, we concluded to no longer pursue this expansion for various reasons including our recent acquisition of PCLI. The remaining \$4.0 million in charges relate to property, plant and equipment that we expensed in the form of accelerated depreciation in the income statement.

Revenue Recognition: Refined product sales and related cost of sales are recognized when products are shipped and title has passed to customers. HEP recognizes pipeline transportation revenues as products are shipped through its pipelines. All revenues are reported inclusive of shipping and handling costs billed and exclusive of any taxes billed to customers. Shipping and handling costs incurred are reported in cost of products sold.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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For PCLI subsidiaries in Canada and in the U.S., a portion of sales are made to marketers and distributors under agreements which provide certain rights of return or provisions for PCLI to repurchase product in order to sell directly to end customers. Based on the terms of these agreements, PCLI defers revenues and cost of revenues on sales to Canadian marketers until the related products have been sold to end customers, and PCLI recognizes revenues for sales to its U.S. distributors when products are shipped to the distributors, net of allowances for returns related to inventories PCLI is expected to repurchase from the distributors to sell directly to end customers.

Foreign Currency Translation: The functional currency of our PCLI operations consists of the respective local currency of its foreign operations, which includes the Canadian dollar, the euro and Chinese renminbi. Balance sheet accounts are translated into U.S. dollars using exchange rates in effect as of the balance sheet date. Revenue and expense accounts are translated using the weighted-average exchange rates during the period presented. Foreign currency translation adjustments are recorded as a component of accumulated other comprehensive income.

In connection with our PCLI acquisition on February 1, 2017, we issued intercompany notes to initially fund certain of PCLI's foreign businesses. Remeasurement adjustments resulting from the conversion of such intercompany financing from local currencies to the U.S. dollar are recorded as gains and losses as a component of other income (expense) in the income statement. Such adjustments are not recorded to the PCLI segment operations, but to corporate and other. See Note 16 for additional information on our segments.

Income Taxes: Provisions for income taxes include deferred taxes resulting from temporary differences in income for financial and tax purposes, using the liability method of accounting for income taxes. The liability method requires the effect of tax rate changes on deferred income taxes to be reflected in the period in which the rate change was enacted. The liability method also requires that deferred tax assets be reduced by a valuation allowance unless it is more likely than not that the assets will be realized.

For the six months ended June 30, 2017, we recorded an income tax expense of \$15.2 million compared to an income tax benefit of \$15.7 million for the six months ended June 30, 2016. This increase was due principally to pre-tax income during the six months ended June 30, 2017 compared to a pre-tax loss in the same period of 2016. Our effective tax rates, before consideration of earnings attributable to the noncontrolling interest, were 29.5% and 4.3% for the six months ended June 30, 2017 and 2016, respectively.

Potential interest and penalties related to income tax matters are recognized in income tax expense. We believe we have appropriate support for the income tax positions taken and to be taken on our income tax returns and that our accruals for tax liabilities are adequate for all open years based on an assessment of many factors, including past experience and interpretations of tax law applied to the facts of each matter.

Inventory Repurchase Obligations: We periodically enter into same-party sell / buy transactions, whereby we sell certain refined product inventory and subsequently repurchase the inventory in order to facilitate delivery to certain locations. Such sell / buy transactions are accounted for as inventory repurchase obligations under which proceeds received under the initial sell is recognized as an inventory repurchase obligation that is subsequently reversed when the inventory is repurchased. For the six months ended June 30, 2017 and 2016, we received proceeds of \$26.2 million and \$29.8 million, respectively, and repaid \$27.0 million and \$30.2 million, respectively, under these sell / buy transactions.

New Accounting Pronouncements

Post-retirement Benefit Cost

In March 2017, Accounting Standard Update (“ASU”) 2017-07, “Improving the Presentation of Net Periodic Pension Cost and Net Periodic Post-retirement Benefit Cost,” was issued amending current GAAP related to the income statement presentation of the components of net periodic post-retirement cost (credit). This standard has an effective date of January 1, 2018. We do not expect adoption of this standard to have a material impact on our financial condition, results of operations or cash flows.

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Share-Based Compensation

In March 2016, ASU 2016-09, "Improvements to Employee Share-Based Payment Accounting," was issued which simplifies the accounting for employee share-based payment transactions, including the accounting for income taxes, forfeitures and statutory tax withholding requirements, as well as classification in the statement of cash flows. We adopted this standard effective January 1, 2017. As the result of the adoption, on a prospective basis, we recognized zero and \$0.1 million of excess tax expense from stock-based compensation as a discrete item in our provision for income taxes for the three and six months ended June 30, 2017. The new standard also requires that employee taxes paid when an employer withholds shares for tax-withholding purposes be reported as financing activities in the statement of cash flows on a retrospective basis. Previously, this activity was included in operating activities. The impact of this change for the six months ended June 30, 2017 and 2016 was \$0.3 million and zero, respectively. Finally, consistent with our existing policy, we have elected to account for forfeitures on an estimated basis.

Leases

In February 2016, ASU 2016-02, "Leases," was issued requiring leases to be measured and recognized as a lease liability, with a corresponding right-of-use asset on the balance sheet. This standard has an effective date of January 1, 2019, and we are evaluating the impact of this standard.

Inventories Measurement

In July 2015, ASU 2015-11, "Inventory - Simplifying the Measurement of Inventory," was issued requiring measurement of inventories, other than inventories accounted for using the LIFO method, to be measured at the lower of cost or net realizable value. Net realizable value is defined as the estimated selling price in the ordinary course of business less reasonable, predictable cost of completion, disposal and transportation. We adopted this standard effective January 1, 2017 for our affected inventories, which is primarily our PCLI inventory valued on a FIFO basis, and it had no material effect on our financial condition, results of operations or cash flows.

Revenue Recognition

In May 2014, 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 anticipate using the modified retrospective implementation method, whereby a cumulative effect adjustment is recorded to retained earnings as of the date of initial application. Our preparation for adoption of this standard is in progress, and we are currently evaluating terms, conditions and our performance obligations of our existing contracts with customers. We are also evaluating the effect of this standard on our revenue recognition policies and whether it will have a material impact on our financial condition, results of operations or cash flows.

NOTE 2: PCLI Acquisition

On October 29, 2016, our wholly-owned subsidiary, 9952110 Canada Inc., entered into an SPA with Suncor to acquire 100% of the outstanding capital stock of PCLI. The acquisition closed on February 1, 2017. Cash consideration paid at that time was approximately \$862.0 million, or \$1.125 billion in Canadian dollars. PCLI is located in Mississauga, Ontario, Canada and is a producer of lubricant products such as base oils, white oils, specialty products and finished lubricants. PCLI's operations also include marketing of its products to both retail and wholesale outlets through a global sales network with locations in Canada, the United States, Europe and China.

Aggregate consideration totaled approximately \$904.3 million and consists of \$862.0 million in cash paid to Suncor at acquisition, a closing date working capital settlement of \$30.6 million that was paid to Suncor in the second quarter of 2017, an accrued payable in the amount of \$6.5 million and \$5.1 million, representing a portion of the fair value of replacement restricted stock unit awards issued to PCLI employees that relate to pre-acquisition services.

This transaction is accounted for as a business combination using the acquisition method of accounting, with the purchase price allocated to the fair value of the acquired PCLI assets and liabilities as of the February 1 acquisition date, with the excess purchase price recorded as goodwill assigned to our PCLI segment. This goodwill is not deductible for income tax purposes.

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The following summarizes our preliminary value estimates of the PCLI assets and liabilities acquired:

	(in millions)
Cash and cash equivalents	\$ 21.6
Accounts receivable and other current assets	117.5
Inventories	213.0
Properties, plants and equipment	459.0
Goodwill	184.2
Intangibles and precious metals	119.0
Accounts payable and accrued liabilities	(89.0)
Deferred income tax liabilities	(107.0)
Other long-term liabilities	(14.0)
Net assets acquired	\$ 904.3

Intangibles include trademarks, patents, technical know-how and customer relationships totaling \$98.2 million that are being amortized on a straight-line basis over periods ranging from 10 to 20 years.

These values are preliminary and reflect revisions to our February 1, 2017 fair value estimates that were initially recorded during the first quarter of 2017. These estimated values are not final and may be subject to additional change once all needed information has become available and we complete our valuations.

Our consolidated financial and operating results reflect the PCLI operations beginning February 1, 2017. Our results of operations for the three months ended June 30, 2017 included PCLI revenues and net income of \$309.6 million and \$12.6 million, respectively, and \$511.5 million and \$21.1 million for the period from February 1, 2017 through June 30, 2017.

As of June 30, 2017, we have incurred \$19.3 million in incremental direct acquisition and integration costs that principally relate to legal, advisory and other professional fees and are presented as general and administrative expenses.

NOTE 3: Holly Energy Partners

HEP, a consolidated VIE, is a publicly held master limited partnership that owns and operates logistic assets consisting of petroleum product and crude oil pipelines, terminals, tankage, loading rack facilities and refinery processing units 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"), the owner of a pipeline running from Woods Cross, Utah to Las Vegas, Nevada (the "UNEV Pipeline") and associated product terminals; a 50% interest in Frontier Aspen LLC, the owner of a pipeline running from Wyoming to Frontier Station, Utah (the "Frontier Pipeline"); a 50% interest in Osage Pipe Line Company, LLC, the owner of a pipeline running from Cushing, Oklahoma to El Dorado, Kansas (the "Osage Pipeline"); a 50% interest in Cheyenne Pipeline, LLC, the owner of a pipeline running from Fort Laramie, Wyoming to Cheyenne, Wyoming (the "Cheyenne Pipeline"); and a 25% interest in SLC Pipeline LLC, the owner of a pipeline (the "SLC Pipeline") that serves refineries in the Salt Lake City, Utah area.

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As of June 30, 2017, we owned a 36% 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.

HEP has two primary customers (including us) and generates revenues by charging tariffs for transporting petroleum products and crude oil through 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 85% of HEP's total revenues for the six months ended June 30, 2017. 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. HEP's creditors have no recourse to our assets. Furthermore, our creditors have no recourse to the assets of HEP and its consolidated subsidiaries. See Note 10 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.

Cheyenne Pipeline

On June 3, 2016, HEP acquired a 50% interest in Cheyenne Pipeline LLC, owner of the Cheyenne Pipeline, in exchange for a contribution of \$42.5 million in cash to Cheyenne Pipeline LLC. Cheyenne Pipeline will continue to be operated by an affiliate of Plains All American Pipeline, L.P. ("Plains"), which owns the remaining 50% interest. The 87-mile crude oil pipeline runs from Fort Laramie, Wyoming to Cheyenne, Wyoming and has an 80,000 BPD capacity.

Tulsa Tanks

On March 31, 2016, HEP acquired crude oil tanks located at our Tulsa Refineries from Plains for \$39.5 million. Previously in 2009, we sold these tanks to Plains and leased them back, and due to our continuing interest in the tanks, we accounted for the transaction as a financing arrangement. Accordingly, the tanks remained on our balance sheet and were depreciated for accounting purposes, and the proceeds received from Plains were recorded as a financing obligation and presented as a component of outstanding debt.

In accounting for HEP's March 2016 purchase from Plains, the amount paid was recorded against our outstanding financing obligation balance of \$30.8 million, with the excess \$8.7 million payment resulting in a loss on early extinguishment of debt.

Magellan Asset Exchange

On February 22, 2016, we acquired a 50% membership interest in Osage Pipe Line Company, LLC ("Osage") in exchange for a 20-year terminalling services agreement, whereby a subsidiary of Magellan Midstream Partners ("Magellan Midstream") will provide terminalling services for all of our products originating in Artesia, New Mexico that require terminalling in or through El Paso, Texas. Under the agreement, we will be charged tariffs based on the volumes of refined product processed. Osage is the owner of the Osage Pipeline, a 135-mile pipeline that transports crude oil from Cushing, Oklahoma to our El Dorado Refinery in Kansas and also has a connection to the Jayhawk pipeline that services the CHS refinery in McPherson, Kansas. This exchange was accounted for at fair value, whereby the 50% membership interest in the Osage Pipeline was recorded at appraised fair value and an offsetting residual deferred credit in the amount of \$38.9 million was recorded, which will be amortized to cost of products sold over the 20-year service period. No gain or loss was recorded for this exchange.

Also on February 22, 2016, we contributed the 50% membership interest in Osage to HEP, and in exchange received HEP's El Paso terminal. Pursuant to this exchange, HEP agreed to build two connections to Magellan Midstream's El Paso terminal. In addition, HEP agreed to become operator of the Osage Pipeline. This exchange was accounted for at carry-over basis with no resulting gain or loss.

HEP Common Unit Continuous Offering Program

On May 10, 2016, HEP established a continuous offering program under which HEP may issue and sell common units from time to time, representing limited partner interests, up to an aggregate gross sales amount of \$200 million. During the six months ended June 30, 2017, HEP issued 1,538,452 units under this program, providing \$52.4 million in net proceeds. In connection with this program and to maintain our 2% general partner interest in HEP, we made capital contributions totaling \$1.1 million. As of June 30, 2017, HEP has issued 2,241,907 units with an aggregate gross sales amount of \$77.1 million.

HEP intends to use the net proceeds for general partnership purposes, which may include funding working capital, repayment of debt, acquisitions and capital expenditures. Amounts repaid under HEP's credit facility may be reborrowed from time to time.

As a result of this transaction and resulting HEP ownership changes, we adjusted additional capital and equity attributable to HEP's noncontrolling interest holders to reallocate HEP's equity among its unitholders.

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Transportation Agreements

HEP serves our refineries under long-term pipeline, terminal and tankage throughput agreements and refinery processing tolling agreements expiring from 2019 through 2036. Under these agreements, we pay HEP fees to transport, store and process throughput volumes of refined products, crude oil and feedstocks on HEP's pipeline, terminals, tankage, loading rack facilities and refinery processing units 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, 2017, these agreements result in minimum annualized payments to HEP of \$321.6 million.

NOTE 4: Fair Value Measurements

Our financial instruments measured at fair value on a recurring basis consist of investments in marketable securities and derivative instruments.

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 of marketable securities and derivative instruments at June 30, 2017 and December 31, 2016 were as follows:

	Fair Value by Input Level			
	Carrying Amount	Level 1	Level 2	Level 3
June 30, 2017				
Assets:				
NYMEX futures contracts	\$662	\$662	\$—	\$ —
Commodity price swaps	7,863	—	7,863	—
Commodity forward contracts	1,447	—	1,447	—
HEP interest rate swaps	63	—	63	—
Total assets	\$10,035	\$662	\$9,373	\$ —
Liabilities:				
Commodity price swaps	\$20,631	\$—	\$20,631	\$ —

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Commodity forward contracts	1,218	—	1,218	—
Total liabilities	\$21,849	\$—	\$21,849	\$ —

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December 31, 2016

Assets:

Marketable securities	\$424,148	\$—	\$424,148	\$—
Commodity price swaps	14,563	—	14,358	205
Commodity forward contracts	5,905	—	5,905	—
HEP interest rate swaps	91	—	91	—
Total assets	\$444,707	\$—	\$444,502	\$205

Liabilities:

NYMEX futures contracts	\$1,975	\$1,975	\$—	\$—
Commodity price swaps	26,845	—	24,086	2,759
Commodity forward contracts	8,316	—	8,316	—
Foreign currency forward contracts	6,519	—	6,519	—
Total liabilities	\$43,655	\$1,975	\$38,921	\$2,759

Level 1 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 Instruments

Investments in marketable securities, derivative instruments consisting of commodity price swaps and 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 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 Instruments

We at times have commodity price swap contracts that relate to forecasted sales of unleaded gasoline and forward commodity sales and purchase contracts for which quoted forward market prices are not readily available. The forward rate used to value these price swaps and 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, 2017:

Level 3 Instruments	Three Months Ended June 30, 2017
---------------------	--

	2017 (In thousands)
Liability balance at beginning of period	\$-(2,554)
Change in fair value:	
Recognized in other comprehensive income	—1,625
Recognized in cost of products sold	—(1)
Settlement date fair value of contractual maturities:	
Recognized in sales and other revenues	—(165)
Recognized in cost of products sold	—1,095
Liability balance at end of period	\$—

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NOTE 5: Earnings Per Share

Basic earnings per share is calculated as net income (loss) 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 denominators of the basic and diluted per share computations for net income (loss) attributable to HollyFrontier stockholders:

	Three Months Ended		Six Months Ended	
	June 30, 2017	2016	June 30, 2017	2016
	(In thousands, except per share data)			
Net income (loss) attributable to HollyFrontier stockholders	\$57,767	\$(409,368)	\$12,299	\$(388,115)
Participating securities' (restricted stock) share in earnings	373	216	752	432
Net income (loss) attributable to common shares	\$57,394	\$(409,584)	\$11,547	\$(388,547)
Average number of shares of common stock outstanding	176,147	175,865	176,141	176,301
Effect of dilutive variable restricted shares and performance share units ⁽¹⁾	155	—	349	—
Average number of shares of common stock outstanding assuming dilution	176,302	175,865	176,490	176,301
Basic earnings (loss) per share	\$0.33	\$(2.33)	\$0.07	\$(2.20)
Diluted earnings (loss) per share	\$0.33	\$(2.33)	\$0.07	\$(2.20)
⁽¹⁾ Excludes anti-dilutive restricted and performance share units of:	140	191	133	183

NOTE 6: Stock-Based Compensation

As of June 30, 2017, 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 \$8.4 million and \$6.0 million for the three months ended June 30, 2017 and 2016, respectively, and \$15.4 million and \$8.6 million for the six months ended June 30, 2017 and 2016, 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 \$0.7 million and \$0.5 million for the three months ended June 30, 2017 and 2016, respectively, and \$1.1 million and \$1.2 million for the six months ended June 30, 2017 and 2016, 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.

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HOLLYFRONTIER CORPORATION
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A summary of restricted stock and restricted stock unit activity and changes during the six months ended June 30, 2017 is presented below:

Restricted Stock and Restricted Stock Units	Grants	Weighted Average Grant Date Fair Value	Aggregate Intrinsic Value (\$000)
Outstanding at January 1, 2017 (non-vested)	1,188,774	\$ 28.87	
Granted ⁽¹⁾	733,270	28.20	
Vesting (transfer/conversion to common stock)	(29,527)	33.08	
Forfeited	(39,209)	30.58	
Outstanding at June 30, 2017 (non-vested)	1,853,308	\$ 28.83	\$ 50,910

(1) Includes restricted stock units issued to PCLI employees.

In connection with our February 1, 2017 PCLI acquisition, we issued 472,276 restricted stock units to PCLI employees as replacement units for unvested awards issued under the legacy PCLI plan. The fair value of these awards totaled \$13.3 million and is based on a February 1 grant date value of \$28.12 per unit. Of this total, \$5.1 million is recognized as an increase to our PCLI purchase price as it represents the value of the awards attributable to pre-acquisition services, and the remaining \$8.2 million to be recognized as compensation expense over the two-year vesting period.

For the six months ended June 30, 2017, restricted stock and restricted stock units vested having a grant date fair value of \$1.0 million. As of June 30, 2017, there was \$31.2 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% of target award amounts. As of June 30, 2017, estimated share payouts for outstanding non-vested performance share unit awards averaged approximately 60% of target amounts.

A summary of performance share unit activity and changes during the six months ended June 30, 2017 is presented below:

Performance Share Units	Grants
Outstanding at January 1, 2017	703,939

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(non-vested)		
Granted	21,923	
Forfeited	(86,117)
Outstanding at June 30, 2017	639,745	
(non-vested)		

As of June 30, 2017, there was \$10.2 million of total unrecognized compensation cost related to non-vested performance share units having a grant date fair value of \$33.34 per unit. That cost is expected to be recognized over a weighted-average period of 1.7 years.

NOTE 7: Cash and Cash Equivalents and Investments in Marketable Securities

Our investment portfolio at June 30, 2017 consisted of cash and cash equivalents.

We 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 and are reported at fair value. 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 as of December 31, 2016:

	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Fair Value (Net Carrying Amount)
(In thousands)				
December 31, 2016				
Commercial paper	\$7,687	\$ 1	\$ (1)	\$7,687
Corporate debt securities	4,001	—	—	4,001
State and political subdivisions debt securities	412,462	1	(3)	412,460
Total marketable securities	\$424,150	\$ 2	\$ (4)	\$424,148

Interest income recognized on our marketable securities was zero and \$0.1 million for the three months ended June 30, 2017 and 2016 respectively, and \$0.3 million and \$0.1 million for the six months ended June 30, 2017 and 2016.

NOTE 8: Inventories

Inventory consists of the following components:

	June 30, 2017	December 31, 2016
(In thousands)		
Crude oil	\$543,139	\$549,886
Other raw materials and unfinished products ⁽¹⁾	342,991	287,561

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Finished products ⁽²⁾	606,371	465,432
Lower of cost or market reserve	(428,323)	(332,518)
Process chemicals ⁽³⁾	21,704	2,767
Repair and maintenance supplies and other ⁽⁴⁾	106,091	162,548
Total inventory	\$1,191,973	\$1,135,676

(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.

(4) Includes RINs.

We acquired \$213.0 million of other raw materials, unfinished and finished products and repair and maintenance supplies in connection with our February 1, 2017 acquisition of PCLI. We value these inventories at the lower of FIFO cost or net realizable value.

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Inventories, which are valued at the lower of LIFO cost or market, reflect a valuation reserve of \$428.3 million and \$332.5 million at June 30, 2017 and December 31, 2016, respectively. The December 31, 2016 market reserve of \$332.5 million was reversed due to the sale of inventory quantities that gave rise to the 2016 reserve. A new market reserve of \$428.3 million was established as of June 30, 2017 based on market conditions and prices at that time. The effect of the change in lower of cost or market reserve was an increase to cost of goods sold totaling \$84.0 million for the three months ended June 30, 2017 and a decrease of \$138.5 million for the three months ended June 30, 2016, respectively, and an increase to cost of goods sold totaling \$95.8 million for the six months ended June 30, 2017 and a decrease of \$194.6 million for the six months ended June 30, 2016.

At June 30, 2017, the LIFO value of inventory, net of the lower of cost or market reserve, was equal to current costs.

In May 2017, the Environmental Protection Agency (“EPA”) granted the Cheyenne Refinery a one-year small refinery exemption from the Renewable Fuel Standard (“RFS”) program requirements for the 2016 calendar year. As a result, the Cheyenne Refinery’s gasoline and diesel production are not subject to the percentage of production that must satisfy a Renewable Volume Obligation (“RVO”) for 2016. We are currently working with the EPA to reinstate the RINs previously submitted to meet our Cheyenne Refinery’s 2016 RVO and expect the EPA to reinstate these RINs. The cost of the RINs used earlier to satisfy the Cheyenne Refinery’s 2016 RVO of \$30.5 million was charged to cost of products sold in 2016. In the second quarter of 2017, we increased our inventory of RINs and reduced our cost of products sold by this amount, representing the cost of the RINs to be reinstated as a result of the RFS exemption received by the Cheyenne Refinery.

NOTE 9: Environmental

Environmental costs are charged to operating expenses if they relate to an existing condition caused by past operations and do not contribute to current or future revenue generation. We have ongoing investigations of environmental matters at various locations and routinely assess our recorded environmental obligations, if any, with respect to such matters. Liabilities are recorded when site restoration and environmental remediation, cleanup and other obligations are either known or considered probable and can be reasonably estimated. Such estimates are undiscounted and require judgment with respect to costs, time frame and extent of required remedial and cleanup activities and are subject to periodic adjustments based on currently available information. Recoveries of environmental costs through insurance, indemnification arrangements or other sources are included in other assets to the extent such recoveries are considered probable.

We reduced expense by \$0.9 million for each of the three and the six months ended June 30, 2017 and incurred expense of \$0.5 million and \$1.3 million for the three and the six months ended June 30, 2016, respectively, for environmental remediation obligations. The accrued environmental liability reflected in our consolidated balance sheets was \$91.3 million and \$96.4 million at June 30, 2017 and December 31, 2016, respectively, of which \$82.9 million and \$82.9 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). The amount of our accrued liability includes PCLI environmental obligations of \$4.6 million assumed upon our February 1, 2017 acquisition. Estimated liabilities could increase in the future when the results of ongoing investigations become known, are considered probable and can be reasonably estimated.

NOTE 10: Debt

HollyFrontier Credit Agreement

In February 2017, we increased the size of our senior unsecured revolving credit facility from \$1 billion to \$1.35 billion and extended the maturity date to February 2022 (the “HollyFrontier Credit Agreement”). The Holly Frontier Credit Agreement may be used for revolving credit loans and letters of credit from time to time and is available to fund general corporate purposes. During the six months ended June 30, 2017, we received advances totaling \$26.0 million and repaid \$26.0 million under the HollyFrontier Credit Agreement. At June 30, 2017, we were in compliance with all covenants, had no outstanding borrowings and had outstanding letters of credit totaling \$3.1 million under the HollyFrontier Credit Agreement.

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HOLLYFRONTIER CORPORATION
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HEP Credit Agreement

At June 30, 2017, HEP had a \$1.2 billion senior secured revolving credit facility maturing in November 2018 (the “HEP Credit Agreement”). During the six months ended June 30, 2017, HEP received advances totaling \$479.0 million and repaid \$189.0 million under the HEP Credit Agreement. At June 30, 2017, HEP was in compliance with all of its covenants, had outstanding borrowings of \$843.0 million and no outstanding letters of credit under the HEP Credit Agreement.

In July 2017, the HEP Credit Agreement was amended to increase the size of the facility to \$1.4 billion and to extend the maturity to July 2022 (the “HEP Amended Credit Agreement”) The HEP Amended Credit Agreement is available to fund capital expenditures, investments, acquisitions, distribution payments, working capital and for general partnership purposes. It is also available to fund letters of credit up to a \$50 million sub-limit and has a \$300 million accordion.

HEP’s obligations under the HEP Amended Credit Agreement are collateralized by substantially all of HEP’s assets and is guaranteed by HEP’s material 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

Our 5.875% senior notes (\$1 billion aggregate principal amount maturing April 2026) (the “HollyFrontier Senior Notes”) are unsecured and unsubordinated obligations of ours and rank equally with all our other existing and future unsecured and unsubordinated indebtedness.

HollyFrontier Financing Obligation

In March 2016, we extinguished a financing obligation at a cost of \$39.5 million and recognized an \$8.7 million loss on the early termination. The financing obligation related to a sale and lease-back of certain crude oil tankage that we sold to an affiliate of Plains in October 2009 for \$40.0 million.

HollyFrontier Term Loan

In April 2016, we entered into a \$350 million senior unsecured term loan (the “HollyFrontier Term Loan”) maturing in April 2019. The HollyFrontier Term Loan was fully repaid with proceeds received upon the November 2016 issuance of the HollyFrontier Senior Notes.

HEP Senior Notes

HEP’s 6.0% senior notes (\$400 million aggregate principal amount maturing August 2024) (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 January 2017, HEP redeemed its \$300 million aggregate principal amount of 6.5% senior notes maturing March 2020 at a redemption cost of \$309.8 million, at which time HEP recognized a \$12.2 million early extinguishment loss

consisting of a \$9.8 million debt redemption premium and unamortized discount and financing costs of \$2.4 million. HEP funded the redemption with borrowings under the HEP Credit Agreement.

Indebtedness under the HEP Senior Notes is guaranteed by HEP's wholly-owned subsidiaries. HEP's creditors have no recourse to our assets. Furthermore, our creditors have no recourse to the assets of HEP and its consolidated subsidiaries.

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

	June 30, 2017	December 31, 2016
	(In thousands)	
HollyFrontier 5.875% Senior Notes		
Principal	\$ 1,000,000	\$ 1,000,000
Unamortized discount and debt issuance costs	(8,788)	(8,775)
	991,212	991,225
HEP Credit Agreement	843,000	553,000
HEP 6% Senior Notes		
Principal	400,000	400,000
Unamortized discount and debt issuance costs	(6,261)	(6,607)
	393,739	393,393
HEP 6.5% Senior Notes		
Principal	—	300,000
Unamortized discount and debt issuance costs	—	(2,481)
	—	297,519
Total HEP long-term debt	1,236,739	1,243,912
Total long-term debt	\$ 2,227,951	\$ 2,235,137

The fair values of the senior notes are as follows:

	June 30, 2017	December 31, 2016
	(In thousands)	
HollyFrontier senior notes	\$ 1,065,000	\$ 1,022,500
HEP senior notes	\$ 418,000	\$ 723,750

These fair values are based on estimates provided by a third party using market quotes for similar type instruments, a Level 2 input. See Note 4 for additional information on Level 2 inputs.

We capitalized interest attributable to construction projects of \$0.6 million and \$3.5 million for the three months ended June 30, 2017 and 2016, respectively, and \$3.2 million and \$4.2 million for the six months ended June 30, 2017 and 2016, respectively.

NOTE 11: 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.

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HOLLYFRONTIER CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited) Continued

Accounting Hedges

We have swap contracts serving as cash flow hedges against price risk on forecasted purchases of natural gas. We also periodically have forward sales contracts that lock in the prices of future sales of crude oil and refined product and swap contracts serving as cash flow hedges against price risk on forecasted purchases of WTI crude oil and forecasted sales 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.

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 (In thousands)	Gain (Loss) Recognized in Earnings Due to Settlements Location	Amount	Gain (Loss) Attributable to Hedge Ineffectiveness Recognized in Earnings Location	Amount
Three Months Ended June 30, 2017					
Change in fair value	\$ 1,378				
Gain reclassified to earnings due to settlements	(325)	Sales and other revenues	\$ 4,476		
Amortization of discontinued hedges reclassified to earnings	270	Operating expenses	(4,421)	Operating expenses	\$ (18)
Total	\$ 1,323		\$ 55		\$ (18)
Three Months Ended June 30, 2016					
Change in fair value	\$(5,138)				
Loss reclassified to earnings due to settlements	21,910	Sales and other revenue	\$(15,897)		
Amortization of discontinued hedges reclassified to earnings	270	Operating expenses	(6,283)	Operating expenses	\$ —
Total	\$ 17,042		\$(22,180)		\$ —
Six Months Ended June 30, 2017					
Change in fair value	\$ 4,715	Sales and other revenues	\$ 8,426		
Loss reclassified to earnings due to settlements	49	Cost of products sold	(299)		
Amortization of discontinued hedge reclassified to earnings	540	Operating expenses	(8,716)	Operating expenses	\$ (18)
Total	\$ 5,304		\$(589)		\$ (18)

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HOLLYFRONTIER CORPORATION
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 (Unaudited) Continued

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 4,800,000 MMBTU's to be purchased ratably through 2017. As of June 30, 2017, we have an unrealized loss of \$0.5 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 lock in basis spread differentials on forecasted purchases of crude oil and natural gas. Also, we have commodity forward contracts and NYMEX futures contracts to lock in prices on forecasted purchases of inventory. In addition, we had Canadian currency swap contracts that effectively fixed the conversion rate on \$1.125 billion Canadian dollars (the PCLI purchase price), which were settled on February 1, 2017, in connection with the closing of the PCLI acquisition. 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 Earnings	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
	(In thousands)			
Cost of products sold	\$6,983	\$828	\$14,035	\$1,302
Operating expenses	(1,541)	8,083	(5,763)	4,614
Gain on foreign currency swap	—	—	24,545	—
Total	\$5,442	\$8,911	\$32,817	\$5,916

As of June 30, 2017, 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		Unit of Measure
		2017	2018	
Crude price swaps (basis spread) - long	1,836,000	1,836,000	—	Barrels
Natural gas price swaps (basis spread) - long	5,154,000	5,154,000	—	MMBTU
Natural gas price swaps - long	4,800,000	4,800,000	—	MMBTU
Natural gas price swaps - short	4,800,000	4,800,000	—	MMBTU
NYMEX futures (WTI) - short	1,240,000	1,040,000	200,000	Barrels
Forward gasoline and diesel contracts - long	465,000	465,000	—	Barrels

Interest Rate Risk Management

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

As of June 30, 2017, HEP had two interest rate swap contracts with identical terms that hedge its exposure to the cash flow risk caused by the effects of LIBOR changes on \$150.0 million in credit agreement advances. The swaps 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 2.25% as of June 30, 2017, which equaled an effective interest rate of 2.99%. Both of these swap contracts matured in July 2017 and have been designated as cash flow hedges. To date, there has been no ineffectiveness on these cash flow hedges.

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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	Gain in Earnings Due to	Recognized
	Gain	(Loss) Settlements	Location
	Recognized		Amount
	in OCI		
	(In thousands)		
Three Months Ended June 30, 2017			
Interest rate swaps			
Change in fair value	\$11		
Gain reclassified to earnings due to settlements	(102)	Interest expense	\$ 102
Total	\$ (91)		\$ 102
Three Months Ended June 30, 2016			
Interest rate swaps			
Change in fair value	\$(255)		
Loss reclassified to earnings due to settlements	113	Interest expense	\$(113)
Total	\$(142)		\$(113)
Six Months Ended June 30, 2017			
Interest rate swaps			
Change in fair value	\$87		
Gain reclassified to earnings due to settlements	(115)	Interest expense	\$ 115
Total	\$(28)		\$ 115
Six Months Ended June 30, 2016			
Interest rate swaps			
Change in fair value	\$(938)		
Loss reclassified to earnings due to settlements	343	Interest expense	\$(343)
Total	\$(595)		\$(343)

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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 Liabilities	Offset Recognized in Balance Sheet	Gross Liabilities	Gross Assets Offset in Balance Sheet	Net Liabilities Recognized in Balance Sheet

(In thousands)

June 30, 2017

Derivatives designated as cash flow hedging instruments:

Commodity price swap contracts	\$—	\$—	\$—	\$10,018	\$—	\$ 10,018
Interest rate swap contracts	63	—63	—	—	—	—
	\$63	\$—	\$ 63	\$10,018	\$—	\$ 10,018

Derivatives not designated as cash flow hedging instruments:

Commodity price swap contracts	\$—	\$—	\$—	\$10,613	\$(7,863)	\$ 2,750
NYMEX futures contracts	662	—662	—	—	—	—
Forward contracts	1,447	—1,447	1,218	—	—	1,218
	\$2,109	\$—	\$ 2,109	\$11,831	\$(7,863)	\$ 3,968

Total net balance \$ 2,172 \$ 13,986

Balance sheet classification:

	Accrued liabilities	\$ 13,308
	Other long-term liabilities	678
Prepayment and other	\$ 2,172	\$ 13,986

	Derivatives in Net Asset Position		Derivatives in Net Liability Position		
	Gross Liabilities	Offset Recognized in Balance Sheet	Gross Liabilities	Gross Assets Offset in Balance Sheet	Net Liabilities Recognized in Balance Sheet

(In thousands)

December 31, 2016

Derivatives designated as cash flow hedging instruments:

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Commodity price swap contracts	\$—	\$—	\$ —	\$13,185	\$(431)	\$ 12,754
Commodity forward contracts	—	—	—	2,978	—	2,978
Interest rate swap contracts	91	—	91	—	—	—
	\$91	\$—	\$ 91	\$16,163	\$(431)	\$ 15,732

Derivatives not designated as cash flow hedging instruments:

Commodity price swap contracts	\$4,244	\$(756)	\$ 3,488	\$12,903	\$(9,887)	\$ 3,016
NYMEX futures contracts	—	—	—	1,975	—	1,975
Commodity forward contracts	5,905	—	5,905	5,338	—	5,338
Foreign currency forward contracts	—	—	—	6,519	—	6,519
	\$10,149	\$(756)	\$ 9,393	\$26,735	\$(9,887)	\$ 16,848

Total net balance \$ 9,484 \$ 32,580

Balance sheet classification: Prepayment and other \$ 9,484 Accrued liabilities \$ 32,580

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At June 30, 2017, we had a pre-tax net unrealized loss of \$10.5 million classified in accumulated other comprehensive income that relates to all accounting hedges having contractual maturities through 2021. Assuming commodity prices and interest rates remain unchanged, an unrealized loss of \$9.8 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 12: Equity

Changes to equity during the six months ended June 30, 2017 are presented below:

	HollyFrontier Stockholders' Equity	Noncontrolling Interest	Total Equity
	(In thousands)		
Balance at December 31, 2016	\$4,681,394	\$ 620,591	\$5,301,985
Net income	12,299	23,992	36,291
Dividends	(117,754)	—	(117,754)
Distributions to noncontrolling interest holders	—	(53,776)	(53,776)
Other comprehensive income (loss), net of tax	8,173	(17)	8,156
Allocated equity on HEP common unit issuances, net of tax	9,598	36,723	46,321
Equity awards issued in PCLI acquisition	5,056	—	5,056
Equity-based compensation	15,411	1,146	16,557
Purchase of treasury stock ⁽¹⁾	(274)	—	(274)
Purchase of HEP units for restricted grants	—	(35)	(35)
Other	—	(443)	(443)
Balance at June 30, 2017	\$4,613,903	\$ 628,181	\$5,242,084

(1) Includes 9,349 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, 2017, we had remaining authorization to repurchase up to \$178.8 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.

NOTE 13: Other Comprehensive Income (Loss)

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

	Before-Tax	After-Tax
	Expense	

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	(Benefit)		
	(In thousands)		
Three Months Ended June 30, 2017			
Net change in foreign currency translation adjustment	\$14,298	\$4,433	\$9,865
Net unrealized gain on hedging instruments	1,232	503	729
Other comprehensive income	15,530	4,936	10,594
Less other comprehensive loss attributable to noncontrolling interest	(67)	—	(67)
Other comprehensive income attributable to HollyFrontier stockholders	\$15,597	\$4,936	\$10,661
Three Months Ended June 30, 2016			
Net unrealized gain on marketable securities	\$12	\$4	\$8
Net unrealized gain on hedging instruments	16,900	6,574	10,326
Other comprehensive income	16,912	6,578	10,334
Less other comprehensive loss attributable to noncontrolling interest	(85)	—	(85)
Other comprehensive income attributable to HollyFrontier stockholders	\$16,997	\$6,578	\$10,419
Six Months Ended June 30, 2017			
Net change in foreign currency translation adjustment	\$7,585	\$2,654	\$4,931
Net unrealized loss on marketable securities	(4)	(1)	(3)
Net unrealized gain on hedging instruments	5,276	2,048	3,228
Other comprehensive income	12,857	4,701	8,156
Less other comprehensive loss attributable to noncontrolling interest	(17)	—	(17)
Other comprehensive income attributable to HollyFrontier stockholders	\$12,874	\$4,701	\$8,173
Six Months Ended June 30, 2016			
Net unrealized gain on marketable securities	\$113	\$44	\$69
Net unrealized gain on hedging instruments	15,852	6,273	9,579
Other comprehensive income	15,965	6,317	9,648
Less other comprehensive loss attributable to noncontrolling interest	(360)	—	(360)
Other comprehensive income attributable to HollyFrontier stockholders	\$16,325	\$6,317	\$10,008

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

AOCI Component	Gain (Loss)		Income Statement Line Item
	Reclassified From AOCI		
	(In thousands)		
	Three Months		
	Ended June 30,		
	2017	2016	
Hedging instruments:			
Commodity price swaps	\$4,476	\$(15,897)	Sales and other revenues
	(4,421)	(6,283)	Operating expenses
Interest rate swaps	102	(113)	Interest expense
	157	(22,293)	
	36	(8,601)	Income tax expense (benefit)
	121	(13,692)	Net of tax
	(65)	69	Noncontrolling interest
	56	(13,623)	Net of tax and noncontrolling interest
Total reclassifications for the period	\$56	\$(13,623)	
	Six Months Ended		
	June 30,		
	2017	2016	
Marketable securities	\$—	\$(23)	Interest income
	—	(9)	Income tax benefit
	—	(14)	Net of tax
Hedging instruments:			
Commodity price swaps	8,426	(20,653)	Sales and other revenues
	(299)	—	Cost of products sold
	(8,716)	(12,853)	Operating expenses
Interest rate swaps	115	(343)	Interest expense
	(474)	(33,849)	
	(212)	(13,019)	Income tax benefit
	(262)	(20,830)	Net of tax
	(73)	209	Noncontrolling interest
	(335)	(20,621)	Net of tax and noncontrolling interest
Total reclassifications for the period	\$(335)	\$(20,635)	

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

	June 30, 2017	December 31, 2016
	(In thousands)	
Foreign currency translation adjustment	\$4,931	\$ —
Unrealized gain on post-retirement benefit obligations	20,055	20,055
Unrealized gain on marketable securities	—	3
Unrealized loss on hedging instruments, net of noncontrolling interest	(6,201)	(9,446)
Accumulated other comprehensive income	\$18,785	\$ 10,612

NOTE 14: Post-retirement Plans

In connection with our PCLI acquisition, we agreed to establish employee benefit plans including union and non-union pension plans and a post retirement plan for PCLI employees that were previously covered under legacy Suncor plans.

Our agreement with Suncor also provides that pension assets related to the union and non-union pension plans will be transferred to a pension trust which will be established by us. The amount of assets to be transferred will be agreed by Suncor and us based on actuarial valuations and a formula specified in the SPA.

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Our purchase price allocation as of February 1, 2017 included estimates of the amount of pension benefit obligation and the pension assets to be transferred based on actuarial estimates and are as follows:

	February 1, 2017 (in thousands)
Projected benefit obligation	\$ 50,827
Estimated pension assets	52,082
Estimated funded status	\$ 1,255

The net periodic pension expense of these plans consisted of the following components:

	Three Months Ended 1, 2017 June 30, 2017 (in thousands)
Service cost - benefit earned during the period	\$944 \$ 1,582
Interest cost on projected benefit obligations	518 868
Expected return on plan assets	(747) (1,252)
Net periodic pension expense	\$715 \$ 1,198

We have a post-retirement healthcare and other benefits plan that is available to certain of our non-PCLI 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, 2017	Three Months Ended June 30, 2016	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016
	(In thousands)			
Service cost – benefit earned during the period	\$301	\$324	\$601	\$648
Interest cost on projected benefit obligations	169	197	339	394
Amortization of prior service credit	(870)	(871)	(1,740)	(1,742)
Net periodic post-retirement credit	\$(400)	\$(350)	\$(800)	\$(700)

In addition, we established a post-retirement healthcare and other benefits plan for our PCLI employees. Our purchase price allocation as of February 1, 2017 included estimates of the amount of projected benefit obligations of \$8.2 million. The net periodic benefit expense related to this plan was \$0.1 million and \$0.3 million for the three and the six months ended June 30, 2017, respectively.

NOTE 15: 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.

In March, 2006, a subsidiary of ours sold the assets of Montana Refining Company under an Asset Purchase Agreement (“APA”). Calumet Montana Refining LLC, the current owner of the assets, has submitted requests for reimbursement pursuant to contractual indemnity provisions under the APA for various costs incurred, as well as additional claims related to environmental matters. This matter is scheduled for arbitration beginning in January 2018. We have accrued the costs we believe are owed pursuant to the APA, and we estimate that any reasonably possible losses beyond the amounts accrued are not material.

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HOLLYFRONTIER CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited) Continued

NOTE 16: Segment Information

Our operations are organized into three reportable segments, Refining, PCLI and HEP. Our operations that are not included in the Refining, PCLI 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 HFC 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. HFC Asphalt operates various asphalt terminals in Arizona, New Mexico and Oklahoma.

On February 1, 2017, we acquired PCLI, a Canadian-based producer of lubricant products such as base oils, white oils, specialty products and finished lubricants. The PCLI segment involves production operations, located in Mississauga, Ontario, and marketing of its products to both retail and wholesale outlets through a global sales network with locations in Canada, the United States, Europe and China.

The HEP segment includes all of the operations of HEP, which owns and operates logistics and refinery assets consisting of petroleum product and crude oil pipelines, terminals, tankage, loading rack facilities and processing units in the Mid-Continent, Southwest and Rocky Mountain regions of the United States. The HEP segment also includes a 75% ownership interest in UNEV (a consolidated subsidiary of HEP); a 50% ownership interest in each of the Frontier Pipeline, Osage Pipeline and the Cheyenne Pipeline and a 25% ownership 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, 2016.

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HOLLYFRONTIER CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited) Continued

	Refining ⁽¹⁾	PCLI	HEP ⁽²⁾	Corporate and Other	Consolidations and Eliminations	Consolidated Total
(In thousands)						
Three Months Ended June 30, 2017						
Sales and other revenues	\$3,141,137	\$309,566	\$109,143	\$15	\$ (100,997)	\$3,458,864
Operating expenses	\$245,265	\$52,652	\$34,097	\$1,322	\$ (17,684)	\$315,652
Depreciation and amortization	\$75,656	\$7,302	\$19,541	\$2,990	\$ (207)	\$105,282
Income (loss) from operations	\$86,603	\$17,511	\$52,890	\$(34,746)	\$ (573)	\$121,685
Earnings of equity method investments	\$—	\$—	\$4,053	\$—	\$—	\$4,053
Capital expenditures	\$52,190	\$8,757	\$12,259	\$4,087	\$—	\$77,293
Three Months Ended June 30, 2016						
Sales and other revenues	\$2,699,022	\$—	\$94,896	\$47	\$ (79,327)	\$2,714,638
Operating expenses	\$225,683	\$—	\$29,212	\$1,152	\$ (4,711)	\$251,336
Depreciation and amortization	\$72,023	\$—	\$15,308	\$3,299	\$ (207)	\$90,423
Income (loss) from operations	\$(436,214)	\$—	\$47,514	\$(31,197)	\$ (645)	\$(420,542)
Earnings of equity method investments	\$—	\$—	\$3,623	\$—	\$—	\$3,623
Capital expenditures	\$105,875	\$—	\$33,201	\$1,396	\$—	\$140,472
Six Months Ended June 30, 2017						
Sales and other revenues	\$6,003,213	\$511,506	\$214,777	\$42	\$ (190,191)	\$6,539,347
Operating expenses	\$502,380	\$88,681	\$66,586	\$2,335	\$ (37,213)	\$622,769
Depreciation and amortization	\$145,324	\$12,376	\$37,914	\$6,122	\$ (414)	\$201,322
Income (loss) from operations	\$36,348	\$29,905	\$105,028	\$(81,181)	\$ (1,139)	\$88,961
Earnings of equity method investments	\$—	\$—	\$5,893	\$—	\$—	\$5,893
Capital expenditures	\$99,864	\$10,352	\$20,524	\$6,310	\$—	\$137,050
Six Months Ended June 30, 2016						
Sales and other revenues	\$4,698,609	\$—	\$196,906	\$157	\$ (162,310)	\$4,733,362
Operating expenses	\$453,512	\$—	\$56,968	\$2,407	\$ (8,968)	\$503,919
Depreciation and amortization	\$140,901	\$—	\$31,337	\$6,479	\$ (414)	\$178,303
Income (loss) from operations	\$(380,281)	\$—	\$102,648	\$(58,052)	\$ (1,259)	\$(336,944)
Earnings of equity method investments	\$—	\$—	\$6,388	\$—	\$—	\$6,388
Capital expenditures	\$210,582	\$—	\$75,385	\$4,078	\$—	\$290,045
June 30, 2017						
Cash, cash equivalents and investments in marketable securities	\$2,311	\$68,346	\$16,339	\$373,330	\$—	\$460,326
Total assets	\$6,354,911	\$1,194,478	\$1,904,951	\$471,367	\$(282,672)	\$9,643,035
Long-term debt	\$—	\$—	\$1,236,739	\$991,212	\$—	\$2,227,951
December 31, 2016						
Cash, cash equivalents and investments in marketable securities	\$49	\$—	\$3,657	\$1,131,021	\$—	\$1,134,727

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Total assets	\$6,513,806	\$—	\$1,920,487	\$1,306,169	\$(304,801)	\$9,435,661
Long-term debt	\$—	\$—	\$1,243,912	\$991,225	\$—	\$2,235,137

(1) For the three and six months ended June 30, 2017, we recorded a long-lived asset impairment charge of \$19.2 million that related to our Woods Cross Refinery, which is included in our Refining segment. For the three and six months ended June 30, 2016, we recorded goodwill and long-lived asset impairment charges of \$309.3 million and \$344.8 million, respectively, that relate to our Cheyenne Refinery, which is included in our Refining segment.

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HOLLYFRONTIER CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited) Continued

(2) HEP acquired a newly constructed crude unit, FCCU and polymerization unit at our Woods Cross Refinery in October 2016. As a result, we have recast our 2016 HEP segment information to include these asset-related capital expenditures and certain operating expenses that were previously presented under the Refining segment.

HEP segment revenues from external customers were \$16.0 million and \$15.7 million for the three months ended June 30, 2017 and 2016, respectively, and \$32.6 million and \$34.9 million for the six months ended June 30, 2017 and 2016, respectively.

NOTE 17: Additional Financial Information

Borrowings pursuant to the HollyFrontier Credit Agreement are recourse to HollyFrontier, but not HEP. Furthermore, borrowings under the HEP Credit Agreement are recourse to HEP, but not to the assets of HFC with the exception of HEP Logistics Holdings, L.P., HEP's general partner. Other than its investment in HEP, the assets of the general partner are insignificant.

The following condensed financial information is provided for HollyFrontier Corporation (on a standalone basis, before consolidation of HEP), and for HEP and its consolidated subsidiaries (on a standalone basis, exclusive of HFC). Due to certain basis differences, our reported amounts for HEP may not agree to amounts reported in HEP's periodic public filings.

Condensed Consolidating Balance Sheet

June 30, 2017	HollyFrontier Corp. Before Consolidation of HEP (In thousands)	HEP Segment	Consolidations and Eliminations	Consolidated
ASSETS				
Current assets:				
Cash and cash equivalents	\$443,987	\$16,339	\$ —	\$ 460,326
Accounts receivable, net	601,098	44,738	(43,486)	) 602,350
Inventories	1,190,503	1,470	—	1,191,973
Income taxes receivable	1,428	—	—	1,428
Prepayments and other	42,199	1,652	(6,165)	) 37,686
Total current assets	2,279,215	64,199	(49,651)	) 2,293,763
Properties, plants and equipment, net	3,320,339	1,347,276	(224,057)	) 4,443,558
Intangibles and other assets	2,411,622	493,476	616	2,905,714
Total assets	\$8,011,176	\$1,904,951	\$ (273,092)) \$ 9,643,035

LIABILITIES AND EQUITY

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Current liabilities:				
Accounts payable	\$1,036,693	\$15,928	\$ (43,486) \$ 1,009,135
Income tax payable	24,427	—	—	24,427
Accrued liabilities	161,371	31,680	(6,165	) 186,886
Total current liabilities	1,222,491	47,608	(49,651	) 1,220,448
Long-term debt	991,212	1,236,739	—	2,227,951
Liability to HEP	202,382	—	(202,382) —
Deferred income taxes	744,401	649	—	745,050
Other long-term liabilities	146,718	61,312	(528	) 207,502
Investment in HEP	151,055	—	(151,055) —
Equity – HollyFrontier	4,552,917	466,113	(405,127	) 4,613,903
Equity – noncontrolling interest	—	92,530	535,651	628,181
Total liabilities and equity	\$8,011,176	\$1,904,951	\$ (273,092	) \$ 9,643,035

	HollyFrontier			
	Corp.	HEP	Consolidations	Consolidated
December 31, 2016	Before	Segment	and	Consolidated
	Consolidation	of HEP	Eliminations	
	(In thousands)			

ASSETS

Current assets:				
Cash and cash equivalents	\$706,922	\$3,657	\$ —	\$ 710,579
Marketable securities	424,148	—	—	424,148
Accounts receivable, net	487,693	50,408	(58,902	) 479,199
Inventories	1,134,274	1,402	—	1,135,676
Income taxes receivable	68,371	—	—	68,371
Prepayments and other	37,379	1,486	(5,829	) 33,036
Total current assets	2,858,787	56,953	(64,731	) 2,851,009
Properties, plants and equipment, net	2,874,041	1,365,568	(231,161	) 4,008,448
Intangibles and other assets	2,077,683	497,966	555	2,576,204
Total assets	\$7,810,511	\$1,920,487	\$ (295,337	) \$ 9,435,661

LIABILITIES AND EQUITY

Current liabilities:				
Accounts payable	\$967,347	\$26,942	\$ (58,902	) \$ 935,387
Accrued liabilities	115,878	37,793	(5,829	) 147,842
Total current liabilities	1,083,225	64,735	(64,731	) 1,083,229
Long-term debt	991,225	1,243,912	—	2,235,137
Liability to HEP	208,603	—	(208,603) —
Deferred income taxes	619,905	509	—	620,414
Other long-term liabilities	132,515	62,971	(590	) 194,896
Investment in HEP	136,435	—	(136,435) —
Equity – HollyFrontier	4,638,603	454,803	(412,012) 4,681,394
Equity – noncontrolling interest	—	93,557	527,034	620,591

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Total liabilities and equity \$7,810,511 \$1,920,487 \$ (295,337) \$ 9,435,661

Condensed Consolidating Statement of Income and Comprehensive Income

Three Months Ended June 30, 2017	HollyFrontier Corp. Before Consolidation of HEP (In thousands)	HEP Segment	Consolidations and Eliminations	Consolidated
Sales and other revenues	\$3,442,999	\$109,143	\$ (93,278)	\$3,458,864
Operating costs and expenses:				
Cost of products sold	2,828,274	—	(74,834)	2,753,440
Lower of cost or market inventory valuation adjustment	83,982	—	—	83,982
Operating expenses	299,239	34,097	(17,684)	315,652
General and administrative	56,941	2,615	20	59,576
Depreciation and amortization	89,311	19,541	(3,570)	105,282
Goodwill and asset impairment	19,247	—	—	19,247
Total operating costs and expenses	3,376,994	56,253	(96,068)	3,337,179
Income from operations	66,005	52,890	2,790	121,685
Other income (expense):				
Earnings of equity method investments	26,949	4,053	(26,949)	4,053
Interest expense	(13,393)	(13,645)	(2,431)	(29,469)
Other, net	9,710	90	—	9,800
	23,266	(9,502)	(29,380)	(15,616)
Income before income taxes	89,271	43,388	(26,590)	106,069
Income tax expense	31,868	128	—	31,996
Net income	57,403	43,260	(26,590)	74,073
Less net income (loss) attributable to noncontrolling interest	(4)	1,521	14,789	16,306
Net income attributable to HollyFrontier stockholders	\$57,407	\$41,739	\$ (41,379)	\$57,767
Comprehensive income attributable to HollyFrontier stockholders	\$68,062	\$41,690	\$ (41,324)	\$68,428

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HOLLYFRONTIER CORPORATION
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (Unaudited) Continued

Condensed Consolidating Statement of Income and Comprehensive Income

Three Months Ended June 30, 2016	HollyFrontier Corp. Before Consolidation of HEP	HEP Segment	Consolidations and Eliminations	Consolidated
	(In thousands)			
Sales and other revenues	\$ 2,699,069	\$ 94,896	\$ (79,327)	\$ 2,714,638
Operating costs and expenses:				
Cost of products sold	2,321,919	—	(73,764)	2,248,155
Lower of cost or market inventory valuation adjustment	(138,473)	—	—	(138,473)
Operating expenses	226,835	29,212	(4,711)	251,336
General and administrative	26,793	2,862	—	29,655
Depreciation and amortization	78,686	15,308	(3,571)	90,423
Goodwill and asset impairment	654,084	—	—	654,084
Total operating costs and expenses	3,169,844	47,382	(82,046)	3,135,180
Income (loss) from operations	(470,775)	47,514	2,719	(420,542)
Other income (expense):				
Earnings of equity method investments	25,096	3,623	(25,096)	3,623
Interest expense	(339)	(11,164)	(2,221)	(13,724)
Other, net	127	1	—	128
	24,884	(7,540)	(27,317)	(9,973)
Income (loss) before income taxes	(445,891)	39,974	(24,598)	(430,515)
Income tax expense (benefit)	(38,098)	53	—	(38,045)
Net income (loss)	(407,793)	39,921	(24,598)	(392,470)
Less net income (loss) attributable to noncontrolling interest	(9)	2,355	14,552	16,898
Net income (loss) attributable to HollyFrontier stockholders	\$(407,784)	\$37,566	\$ (39,150)	\$(409,368)
Comprehensive income (loss) attributable to HollyFrontier stockholders	\$(397,364)	\$37,510	\$ (39,095)	\$(398,949)

Condensed Consolidating Statement of Income and Comprehensive Income

Six Months Ended June 30, 2017	HollyFrontier Corp. Before Consolidation of HEP	HEP Segment	Consolidations and Eliminations	Consolidated
	(In thousands)			
Sales and other revenues	\$ 6,507,042	\$ 214,777	\$ (182,472)	\$ 6,539,347
Operating costs and expenses:				
Cost of products sold	5,538,303	—	(143,706)	5,394,597
Lower of cost or market inventory valuation adjustment	95,805	—	—	95,805
Operating expenses	593,396	66,586	(37,213)	622,769
General and administrative	111,397	5,249	—	116,646
Depreciation and amortization	170,511	37,914	(7,103)	201,322
Goodwill and asset impairment	19,247	—	—	19,247

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Total operating costs and expenses	6,528,659	-409,749	-(188,022)) -6,450,386
Income (loss) from operations	(21,617) 105,028	5,550	88,961
Other income (expense):				
Earnings of equity method investments	47,537	5,893	(47,537	) 5,893
Interest expense	(23,977	) (27,082	) (4,749	) (55,808
Loss on early extinguishment of debt	—	(12,225	) —	(12,225
Other, net	24,514	163	—	24,677
	48,074	(33,251	) (52,286	) (37,463
Income before income taxes	26,457	71,777	(46,736	) 51,498
Income tax expense	14,973	234	—	15,207
Net income	11,484	71,543	(46,736	) 36,291
Less net income (loss) attributable to noncontrolling interest	(14	) 3,837	20,169	23,992
Net income attributable to HollyFrontier stockholders	\$ 11,498	\$ 67,706	\$ (66,905	) \$ 12,299
Comprehensive income attributable to HollyFrontier stockholders	\$ 19,671	\$ 67,695	\$ (66,894) \$ 20,472

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HOLLYFRONTIER CORPORATION
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (Unaudited) Continued

Condensed Consolidating Statement of Income and Comprehensive Income

Six Months Ended June 30, 2016	HollyFrontier Corp. Before Consolidation of HEP	HEP Segment	Consolidations and Eliminations	Consolidated
	(In thousands)			
Sales and other revenues	\$ 4,698,766	\$ 196,906	\$ (162,310)	\$ 4,733,362
Operating costs and expenses:				
Cost of products sold	4,024,987	—	(151,669)	3,873,318
Lower of cost or market inventory valuation adjustment	(194,594)	—	—	(194,594)
Operating expenses	455,919	56,968	(8,968)	503,919
General and administrative	49,323	5,953	—	55,276
Depreciation and amortization	154,107	31,337	(7,141)	178,303
Goodwill and asset impairment	654,084	—	—	654,084
Total operating costs and expenses	5,143,826	94,258	(167,778)	5,070,306
Income (loss) from operations	(445,060)	102,648	5,468	(336,944)
Other income (expense):				
Earnings of equity method investments	50,893	6,388	(50,893)	6,388
Interest income (expense)	369	(21,587)	(4,518)	(25,736)
Loss on early extinguishment of debt	(8,718)	—	—	(8,718)
Other, net	200	(7)	—	193
	42,744	(15,206)	(55,411)	(27,873)
Income (loss) before income taxes	(402,316)	87,442	(49,943)	(364,817)
Income tax expense (benefit)	(15,886)	149	—	(15,737)
Net income (loss)	(386,430)	87,293	(49,943)	(349,080)
Less net income (loss) attributable to noncontrolling interest	(16)	7,282	31,769	39,035
Net income (loss) attributable to HollyFrontier stockholders	\$ (386,414)	\$ 80,011	\$ (81,712)	\$ (388,115)
Comprehensive income (loss) attributable to HollyFrontier stockholders	\$ (376,405)	\$ 79,777	\$ (81,479)	\$ (378,107)

Condensed Consolidating Statement of Cash Flows

Six Months Ended June 30, 2017	HollyFrontier Corp. Before Consolidation of HEP	HEP Segment	Consolidations and Eliminations	Consolidated
	(In thousands)			
Cash flows from operating activities	\$ 420,404	\$ 113,597	\$ (60,603)	\$ 473,398
Cash flows from investing activities				
Additions to properties, plants and equipment	(116,526)	—	—	(116,526)

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Additions to properties, plants and equipment – HEP	—	(20,524)	—	(20,524)
Purchase of PCLI, net of cash acquired	(870,627)	—	—	(870,627)
Purchases of marketable securities	(41,565)	—	—	(41,565)
Sales and maturities of marketable securities	465,716	—	—	465,716
Other, net	1,152	2,289	(424)	3,017
	(561,850)	(18,235)	(424)	(580,509)
Cash flows from financing activities				
Net borrowings under credit agreements	—	290,000	—	290,000
Redemption of senior notes - HEP	—	(309,750)	—	(309,750)
Net proceeds from issuance of common units - HEP	—	52,634	—	52,634
Dividends	(117,754)	—	—	(117,754)
Distributions to noncontrolling interest	—	(115,695)	61,919	(53,776)
Other, net	(4,059)	131	(892)	(4,820)
	(121,813)	(82,680)	61,027	(143,466)
Effect of exchange rates on cash flows				
	324	—	—	324
Cash and cash equivalents				
Increase (decrease) for the period	(262,935)	12,682	—	(250,253)
Beginning of period	706,922	3,657	—	710,579
End of period	\$443,987	\$16,339	\$ —	\$ 460,326

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HOLLYFRONTIER CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited) Continued

Condensed Consolidating Statement of Cash Flows

Six Months Ended June 30, 2016	HollyFrontier Corp. Before Consolidation of HEP (In thousands)	HEP Segment	Consolidations and Eliminations	Consolidated
Cash flows from operating activities	\$256,019	\$104,076	\$ (49,769)	\$ 310,326
Cash flows from investing activities:				
Additions to properties, plants and equipment	(214,660)	—	—	(214,660)
Additions to properties, plants and equipment – HEP	—	(75,385)	—	(75,385)
Purchase of equity method investment - HEP	—	(42,500)	—	(42,500)
Purchases of marketable securities	(86,798)	—	—	(86,798)
Sales and maturities of marketable securities	149,599	—	—	149,599
Other, net	390	18	—	408
	(151,469)	(117,867)	—	(269,336)
Cash flows from financing activities:				
Net borrowings under credit agreements	—	74,000	—	74,000
Net proceeds from issuance of senior notes - HFC	246,690	—	—	246,690
Net proceeds from issuance of term loan	350,000	—	—	350,000
Net proceeds from issuance of common units - HEP	—	13,690	—	13,690
Repayment of financing obligation	—	(39,500)	—	(39,500)
Purchase of treasury stock	(133,430)	—	—	(133,430)
Dividends	(116,795)	—	—	(116,795)
Distributions to noncontrolling interest	—	(93,609)	49,769	(43,840)
Contribution from general partner	(53,304)	53,304	—	—
Other, net	(2,123)	(4,225)	—	(6,348)
	291,038	3,660	49,769	344,467
Cash and cash equivalents				
Increase (decrease) for the period:	395,588	(10,131)	—	385,457
Beginning of period	51,520	15,013	—	66,533
End of period	\$447,108	\$4,882	\$ —	\$ 451,990

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

This Item 2 contains “forward-looking” statements. See “Forward-Looking Statements” at the beginning of Part I of this Quarterly Report on Form 10-Q. 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.

OVERVIEW

We are principally an independent petroleum refiner that produces high-value refined products such as gasoline, diesel fuel, jet fuel, specialty lubricant products, and specialty and modified asphalt. We own and operate refineries having a combined nameplate crude oil processing capacity of 457,000 barrels per day that serve markets throughout the Mid-Continent, Southwest and Rocky Mountain regions of the United States. Our refineries are located in El Dorado, Kansas (the “El Dorado Refinery”), Tulsa, Oklahoma (the, “Tulsa Refineries”), which comprise two production facilities, the Tulsa West and East facilities, Artesia, New Mexico, which operates in conjunction with crude, vacuum distillation and other facilities situated 65 miles away in Lovington, New Mexico (collectively, the “Navajo Refinery”), Cheyenne, Wyoming (the “Cheyenne Refinery”) and Woods Cross, Utah (the “Woods Cross Refinery”).

On October 29, 2016, our wholly-owned subsidiary, 9952110 Canada Inc., entered into a share purchase agreement with Suncor to acquire 100% of the outstanding capital stock of Petro-Canada Lubricants Inc. (“PCLI”). The acquisition closed on February 1, 2017. Cash consideration paid was \$862.0 million, or \$1.125 billion in Canadian dollars.

PCLI is Canadian-based producer of base oils with a plant having 15,600 BPD of lubricant production capacity that is located in Mississauga, Ontario. The facility is downstream integrated from base oils to finished lubricants and produces a broad spectrum of specialty lubricants and white oils that are distributed to end customers worldwide through a global sales network with locations in Canada, the United States, Europe and China.

For the three months ended June 30, 2017, net income attributable to HollyFrontier stockholders was \$57.8 million compared to a net loss of \$(409.4) million for the three months ended June 30, 2016. For the six months ended June 30, 2017, net income attributable to HollyFrontier stockholders was \$12.3 million compared to a net loss of \$(388.1) million for the six months ended June 30, 2016. Included in our financial results for the second quarter of 2016 were non-cash items consisting of goodwill and long-lived asset impairment charges, offset by our second quarter lower of cost or market inventory reserve adjustment. Second quarter 2017 earnings reflect improved refining margins relative to prior period levels, with overall gross refining margin per produced barrel increasing 29% compared to the three months ended June 30, 2016. Additionally, our second quarter results reflect \$12.6 million in earnings attributable to our recently acquired PCLI operations.

Pursuant to the 2007 Energy Independence and Security Act, the Environmental Protection Agency (“EPA”) promulgated the Renewable Fuel Standard 2 (“RFS2”) regulations, which increased the 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. Compliance with RFS2 significantly increases our cost of products sold, with RINs costs totaling \$53.0 million for the three months ended June 30, 2017, which is net of the \$30.5 million cost reduction resulting from reinstatement of 2016 RINs as described below.

In May 2017, the EPA granted the Cheyenne Refinery a one-year small refinery exemption from the Renewable Fuel Standard (RFS) program requirements for the 2016 calendar year. As a result, the Cheyenne Refinery’s gasoline and diesel production are not subject to the percentage of production that must satisfy a Renewable Volume Obligation (“RVO”) for 2016. We are currently working with the EPA to reinstate RINs previously submitted to meet our Cheyenne Refinery’s 2016 RVO and expect the EPA to reinstate these RINs. The cost of the RINs used earlier to satisfy the Cheyenne Refinery’s 2016 RVO of \$30.5 million was charged to cost of products sold in 2016. In the second quarter of 2017, we reduced our cost of products sold by this amount, representing the cost of the RINs to be reinstated as a result of the RFS exemption received by the Cheyenne Refinery.

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OUTLOOK

Our profitability is largely driven by our operational reliability and crack spreads (the price difference between refined products and inputs such as crude oil). Crack spreads are driven by the supply and demand of refined product markets. We believe 2016 represented a cyclical low driven by large additions of refining capacity around the world. Based on continued demand growth and limited capacity additions, we expect crack spreads to be higher in 2017 than 2016.

Our RINs costs are material and represent a cost of products sold. The price of RINs may be extremely volatile due to real or perceived future shortages in RINs. As of June 30, 2017, we are purchasing RINs in order to meet approximately half of our renewable fuel requirements.

A more detailed discussion of our financial and operating results for the three and six months ended June 30, 2017 and 2016 is presented in the following sections.

RESULTS OF OPERATIONS

Financial Data

	Three Months Ended June 30,		Change from 2016	
	2017	2016	Change	Percent
	(In thousands, except per share data)			
Sales and other revenues	\$3,458,864	\$2,714,638	\$744,226	27 %
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)	2,753,440	2,248,155	505,285	22
Lower of cost or market inventory valuation adjustment	83,982	(138,473)	222,455	(161)
	2,837,422	2,109,682	727,740	34
Operating expenses (exclusive of depreciation and amortization)	315,652	251,336	64,316	26
General and administrative expenses (exclusive of depreciation and amortization)	59,576	29,655	29,921	101
Depreciation and amortization	105,282	90,423	14,859	16
Goodwill and asset impairment	19,247	654,084	(634,837)	(97)
Total operating costs and expenses	3,337,179	3,135,180	201,999	6
Income (loss) from operations	121,685	(420,542)	542,227	(129)
Other income (expense):				
Earnings of equity method investments	4,053	3,623	430	12
Interest income	176	527	(351)	(67)
Interest expense	(29,645)	(14,251)	(15,394)	108
Gain on foreign currency transactions	10,328	—	10,328	—
Other, net	(528)	128	(656)	(513)
	(15,616)	(9,973)	(5,643)	57
Income (loss) before income taxes	106,069	(430,515)	536,584	(125)
Income tax expense (benefit)	31,996	(38,045)	70,041	(184)
Net income (loss)	74,073	(392,470)	466,543	(119)
Less net income attributable to noncontrolling interest	16,306	16,898	(592)	(4)
Net income (loss) attributable to HollyFrontier stockholders	\$57,767	\$(409,368)	\$467,135	(114)%

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Earnings (loss) per share attributable to HollyFrontier stockholders:				
Basic	\$0.33	\$(2.33)) \$2.66	(114)%
Diluted	\$0.33	\$(2.33)	) \$2.66	(114)%
Cash dividends declared per common share	\$0.33	\$0.33	\$—	— %
Average number of common shares outstanding:				
Basic	176,147	175,865	282	— %
Diluted	176,302	175,865	437	— %

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	Six Months Ended		Change from 2016	
	June 30, 2017	2016	Change	Percent
	(In thousands, except per share data)			
Sales and other revenues	\$6,539,347	\$4,733,362	\$1,805,985	38 %
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)	5,394,597	3,873,318	1,521,279	39
Lower of cost or market inventory valuation adjustment	95,805	(194,594)	290,399	(149)
	5,490,402	3,678,724	1,811,678	49
Operating expenses (exclusive of depreciation and amortization)	622,769	503,919	118,850	24
General and administrative expenses (exclusive of depreciation and amortization)	116,646	55,276	61,370	111
Depreciation and amortization	201,322	178,303	23,019	13
Goodwill and asset impairment	19,247	654,084	(634,837)	(97)
Total operating costs and expenses	6,450,386	5,070,306	1,380,080	27
Income (loss) from operations	88,961	(336,944)	425,905	(126)
Other income (expense):				
Earnings of equity method investments	5,893	6,388	(495)	(8)
Interest income	995	602	393	65
Interest expense	(56,803)	(26,338)	(30,465)	116
Loss on early extinguishment of debt	(12,225)	(8,718)	(3,507)	40
Gain on foreign currency swaps	24,545	—	24,545	—
Gain on foreign currency transactions	395	—	395	—
Other, net	(263)	193	(456)	(236)
	(37,463)	(27,873)	(9,590)	34
Income (loss) before income taxes	51,498	(364,817)	416,315	(114)
Income tax expense (benefit)	15,207	(15,737)	30,944	(197)
Net income (loss)	36,291	(349,080)	385,371	(110)
Less net income attributable to noncontrolling interest	23,992	39,035	(15,043)	(39)
Net income (loss) attributable to HollyFrontier stockholders	\$12,299	\$(388,115)	\$400,414	(103)%
Earnings (loss) per share attributable to HollyFrontier stockholders:				
Basic	\$0.07	\$(2.20)	\$2.27	(103)%
Diluted	\$0.07	\$(2.20)	\$2.27	(103)%
Cash dividends declared per common share	\$0.66	\$0.66	\$—	— %
Average number of common shares outstanding:				
Basic	176,141	176,301	(160)	— %
Diluted	176,490	176,301	189	— %

Balance Sheet Data

	June 30, 2017	December 31, 2016
	(Unaudited)	
	(In thousands)	
Cash, cash equivalents and total investments in marketable securities	\$460,326	\$1,134,727
Working capital	\$1,073,315	\$1,767,780
Total assets	\$9,643,035	\$9,435,661

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Long-term debt	\$2,227,951	\$ 2,235,137
Total equity	\$5,242,084	\$ 5,301,985

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Other Financial Data

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2017	2016	2017	2016
	(In thousands)			
Net cash provided by (used for) operating activities	\$512,782	\$303,690	\$473,398	\$310,326
Net cash used for investing activities	\$(107,493)	\$(264,143)	\$(580,509)	\$(269,336)
Net cash provided by (used for) financing activities	\$(75,103)	\$301,422	\$(143,466)	\$344,467
Capital expenditures	\$77,293	\$140,472	\$137,050	\$290,045
EBITDA ⁽¹⁾	\$224,514	\$(343,266)	\$296,861	\$(191,095)

Earnings before interest, taxes, depreciation and amortization, which we refer to as “EBITDA,” is calculated as net income (loss) plus (i) interest expense, net of interest income, (ii) income tax provision, and (iii) depreciation and amortization. EBITDA is not a calculation provided for under GAAP; however, the amounts included in the EBITDA calculation are derived from amounts included in our consolidated financial statements. EBITDA should not be considered as an alternative to net income or operating income as an indication of our operating performance or as an alternative to operating cash flow as a measure of liquidity. EBITDA is not necessarily comparable to similarly titled measures of other companies. EBITDA is presented here because it is a widely used financial indicator used by investors and analysts to measure performance. EBITDA is also used by our management for internal analysis. EBITDA presented above is reconciled to net income under “Reconciliations to Amounts Reported Under Generally Accepted Accounting Principles” following Item 3 of Part I of this Form 10-Q.

Our operations are organized into three reportable segments, Refining, PCLI and HEP. See Note 16 “Segment Information” in the Notes to Consolidated Financial Statements for additional information on our reportable segments.

Refining Operating Data

Our refinery operations include the El Dorado, Tulsa, Navajo, Cheyenne and Woods Cross Refineries. The following tables set forth information, including non-GAAP performance measures, about our consolidated refinery operations. The cost of products and refinery gross and net operating margins do not include the non-cash effects of lower of cost or market inventory valuation adjustments and depreciation and amortization. Reconciliations to amounts reported under GAAP are provided under “Reconciliations to Amounts Reported Under Generally Accepted Accounting Principles” following Item 3 of Part I of this Form 10-Q.

	Three Months		Six Months Ended	
	Ended June 30,		June 30,	
	2017	2016	2017	2016
Mid-Continent Region (El Dorado and Tulsa Refineries)				
Crude charge (BPD) ⁽¹⁾	290,460	270,590	256,370	252,070
Refinery throughput (BPD) ⁽²⁾	304,840	292,320	263,730	272,240
Refinery production (BPD) ⁽³⁾	293,860	280,590	263,400	261,340
Sales of produced refined products (BPD)	281,670	264,660	254,830	249,010
Sales of refined products (BPD) ⁽⁴⁾	308,280	285,780	281,970	274,000
Refinery utilization ⁽⁵⁾	111.7 %	104.1 %	98.6 %	97.0 %
Average per produced barrel ⁽⁶⁾				
Net sales	\$65.01	\$60.24	\$65.76	\$53.89
Cost of products ⁽⁷⁾	55.63	52.55	57.59	46.13
Refinery gross margin ⁽⁸⁾	9.38	7.69	8.17	7.76
Refinery operating expenses ⁽⁹⁾	4.48	4.56	5.21	4.95

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Net operating margin ⁽⁸⁾	\$4.90	\$3.13	\$2.96	\$2.81
Refinery operating expenses per throughput barrel ⁽¹⁰⁾	\$4.14	\$4.13	\$5.03	\$4.53

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	Three Months Ended June 30, 2017		Six Months Ended June 30, 2017		2016	
Mid-Continent Region (El Dorado and Tulsa Refineries)						
Feedstocks:						
Sweet crude oil	62	%	58	%	60	% 55 %
Sour crude oil	18	%	17	%	19	% 19 %
Heavy sour crude oil	15	%	17	%	15	% 19 %
Other feedstocks and blends	5	%	8	%	6	% 7 %
Total	100%		100%		100%	100%
Sales of produced refined products:						
Gasolines	50	%	47	%	50	% 48 %
Diesel fuels	34	%	35	%	32	% 35 %
Jet fuels	6	%	6	%	7	% 6 %
Fuel oil	1	%	1	%	1	% 1 %
Asphalt	3	%	3	%	3	% 2 %
Lubricants	4	%	5	%	5	% 5 %
LPG and other	2	%	3	%	2	% 3 %
Total	100%		100%		100%	100%
Southwest Region (Navajo Refinery)						
Crude charge (BPD) ⁽¹⁾	102,120		101,660		88,370	99,890
Refinery throughput (BPD) ⁽²⁾	112,720		111,610		96,200	110,370
Refinery production (BPD) ⁽³⁾	111,240		110,520		94,770	109,020
Sales of produced refined products (BPD)	108,390		110,360		92,460	111,870
Sales of refined products (BPD) ⁽⁴⁾	110,350		111,570		100,570	112,660
Refinery utilization ⁽⁵⁾	102.1	%	101.7	%	88.4	% 99.9 %
Average per produced barrel ⁽⁶⁾						
Net sales	\$65.97		\$61.86		\$66.46	\$53.67
Cost of products ⁽⁷⁾	54.63		50.71		56.32	44.66
Refinery gross margin ⁽⁸⁾	11.34		11.15		10.14	9.01
Refinery operating expenses ⁽⁹⁾	4.96		4.77		5.76	4.50
Net operating margin ⁽⁸⁾	\$6.38		\$6.38		\$4.38	\$4.51
Refinery operating expenses per throughput barrel ⁽¹⁰⁾	\$4.77		\$4.72		\$5.54	\$4.56
Feedstocks:						
Sweet crude oil	25	%	27	%	22	% 30 %
Sour crude oil	66	%	64	%	70	% 60 %
Other feedstocks and blends	9	%	9	%	8	% 10 %
Total	100	%	100	%	100	% 100 %
Sales of produced refined products:						
Gasolines	52	%	54	%	52	% 55 %
Diesel fuels	42	%	41	%	41	% 40 %
Fuel oil	2	%	2	%	3	% 2 %

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Asphalt	1	% 1	% 1	% 1	%
LPG and other	3	% 2	% 3	% 2	%
Total	100	% 100	% 100	% 100	%
Rocky Mountain Region (Cheyenne and Woods Cross Refineries)					
Crude charge (BPD) ⁽¹⁾			74,510	56,340	74,610 57,880
Refinery throughput (BPD) ⁽²⁾			80,740	54,680	82,240 61,950
Refinery production (BPD) ⁽³⁾			78,110	51,550	79,630 58,900
Sales of produced refined products (BPD)			75,840	56,090	78,300 61,370
Sales of refined products (BPD) ⁽⁴⁾			76,070	61,950	78,740 65,960
Refinery utilization ⁽⁵⁾			76.8	% 67.9	% 76.9 % 69.7 %

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	Three Months		Six Months Ended		
	Ended June 30, 2017	2016	2017	2016	
Rocky Mountain Region (Cheyenne and Woods Cross Refineries)					
Average per produced barrel ⁽⁶⁾					
Net sales	\$68.52	\$62.26	\$67.14	\$53.86	
Cost of products ⁽⁷⁾	49.05	52.22	52.47	45.04	
Refinery gross margin ⁽⁸⁾	19.47	10.04	14.67	8.82	
Refinery operating expenses ⁽⁹⁾	10.34	11.48	10.20	10.51	
Net operating margin ⁽⁸⁾	\$9.13	\$(1.44)	\$4.47	\$(1.69)	
Refinery operating expenses per throughput barrel ⁽¹⁰⁾	\$9.71	\$11.78	\$9.71	\$10.41	
Feedstocks:					
Sweet crude oil	32	% 45	% 35	% 42	%
Heavy sour crude oil	39	% 35	% 36	% 34	%
Black wax crude oil	21	% 20	% 20	% 17	%
Other feedstocks and blends	8	% —	% 9	% 7	%
Total	100	% 100	% 100	% 100	%
Sales of produced refined products:					
Gasolines	59	% 58	% 59	% 60	%
Diesel fuels	33	% 36	% 33	% 34	%
Fuel oil	3	% 1	% 2	% 2	%
Asphalt	3	% 1	% 4	% 1	%
LPG and other	2	% 4	% 2	% 3	%
Total	100	% 100	% 100	% 100	%
Consolidated					
Crude charge (BPD) ⁽¹⁾	467,090	428,590	419,350	409,840	
Refinery throughput (BPD) ⁽²⁾	498,300	458,610	442,170	444,560	
Refinery production (BPD) ⁽³⁾	483,210	442,660	437,800	429,260	
Sales of produced refined products (BPD)	465,900	431,110	425,590	422,250	
Sales of refined products (BPD) ⁽⁴⁾	494,700	459,300	461,280	452,620	
Refinery utilization ⁽⁵⁾	102.2 %	96.7 %	91.8 %	92.5 %	
Average per produced barrel ⁽⁶⁾					
Net sales	\$65.80	\$60.92	\$66.17	\$53.83	
Cost of products ⁽⁷⁾	54.33	52.04	56.37	45.58	
Refinery gross margin ⁽⁸⁾	11.47	8.88	9.80	8.25	
Refinery operating expenses ⁽⁹⁾	5.54	5.51	6.25	5.64	
Net operating margin ⁽⁸⁾	\$5.93	\$3.37	\$3.55	\$2.61	
Refinery operating expenses per throughput barrel ⁽¹⁰⁾	\$5.18	\$5.18	\$6.01	\$5.35	
Feedstocks:					
Sweet crude oil	49	% 49	% 48	% 47	%
Sour crude oil	26	% 27	% 26	% 27	%
Heavy sour crude oil	16	% 15	% 15	% 16	%
Black wax crude oil	3	% 2	% 4	% 2	%

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Other feedstocks and blends	6	% 7	% 7	% 8	%
Total	100	% 100	% 100	% 100	%

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	Three Months Ended June 30, 2017		2016		Six Months Ended June 30, 2017		2016	
Consolidated								
Sales of produced refined products:								
Gasolines	52	%	50	%	52	%	51	%
Diesel fuels	36	%	37	%	34	%	36	%
Jet fuels	4	%	4	%	5	%	4	%
Fuel oil	1	%	1	%	1	%	1	%
Asphalt	2	%	2	%	2	%	2	%
Lubricants	3	%	3	%	3	%	3	%
LPG and other	2	%	3	%	3	%	3	%
Total	100	%	100	%	100	%	100	%

- (1) Crude charge represents the barrels per day of crude oil processed at our refineries.
- (2) Refinery throughput represents the barrels per day of crude and other refinery feedstocks input to the crude units and other conversion units at our refineries.
- (3) Refinery production represents the barrels per day of refined products yielded from processing crude and other refinery feedstocks through the crude units and other conversion units at our refineries.
- (4) Includes refined products purchased for resale.
Represents crude charge divided by total crude capacity (BPSD). Effective July 1, 2016, our consolidated crude capacity increased from 443,000 BPSD to 457,000 BPSD upon completion of our Woods Cross Refinery expansion project.
- (5) Represents average per barrel amount for produced refined products sold, which is a non-GAAP measure.
- (6) Reconciliations to amounts reported under GAAP are provided under "Reconciliations to Amounts Reported Under Generally Accepted Accounting Principles" following Item 3 of Part I of this Form 10-Q.
- (7) Transportation, terminal and refinery storage costs billed from HEP are included in cost of products.
- (8) Excludes lower of cost or market inventory valuation adjustments that decreased gross margin by \$84.0 million and increased gross margin by \$138.5 million