

HollyFrontier Corp  
Form 10-Q  
May 06, 2014

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

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FORM 10-Q

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(Mark One)

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

For the quarterly period ended March 31, 2014  
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

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

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Delaware (State or other jurisdiction of incorporation or organization)	75-1056913 (I.R.S. Employer Identification No.)
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2828 N. Harwood, Suite 1300 Dallas, Texas (Address of principal executive offices) (214) 871-3555 (Registrant's telephone number, including area code)	75201 (Zip Code)
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(Former name, former address and former fiscal year, if changed since last report)

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

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Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company   
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

198,681,002 shares of Common Stock, par value \$.01 per share, were outstanding on April 30, 2014.

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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. These statements are based on management’s beliefs and assumptions using currently available information and expectations as of the date hereof, are not guarantees of future performance and involve certain risks and uncertainties. Although we believe that the expectations reflected in these forward-looking statements are reasonable, we cannot assure you that our expectations will prove to be correct. Therefore, actual outcomes and results could materially differ from what is expressed, implied or forecast in these statements. Any differences could be caused by a number of factors including, but not limited to:

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

Cautionary statements identifying important factors that could cause actual results to differ materially from our expectations are set forth in this Form 10-Q, including without limitation, the forward-looking statements that are referred to above. This summary discussion should be read in conjunction with the discussion of the known material risk factors and other cautionary statements under the heading “Risk Factors” included in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2013 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.

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

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

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

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



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## Item 1. Financial Statements

HOLLYFRONTIER CORPORATION  
CONSOLIDATED BALANCE SHEETS

(In thousands, except share data)

	March 31, 2014 (Unaudited)	December 31, 2013
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents (HEP: \$4,879 and \$6,352, respectively)	\$1,074,635	\$940,103
Marketable securities	709,468	725,160
Total cash, cash equivalents and short-term marketable securities	1,784,103	1,665,263
Accounts receivable: Product and transportation (HEP: \$34,425 and \$34,736, respectively)	668,105	665,098
Crude oil resales	20,233	43,704
	688,338	708,802
Inventories: Crude oil and refined products	1,501,121	1,241,448
Materials, supplies and other (HEP: \$1,594 and \$1,591, respectively)	89,171	112,799
	1,590,292	1,354,247
Income taxes receivable	12,431	109,376
Prepayments and other (HEP: \$1,905 and \$2,283, respectively)	110,345	58,756
Total current assets	4,185,509	3,896,444
Properties, plants and equipment, at cost (HEP: \$1,212,988 and \$1,199,594, respectively)	4,442,736	4,343,857
Less accumulated depreciation (HEP: \$(207,911) and \$(194,619), respectively)	(1,000,437 )	(949,261 )
	3,442,299	3,394,596
Marketable securities (long-term)	6,050	—
Other assets: Turnaround costs	239,423	258,436
Goodwill (HEP: \$288,991 and \$288,991, respectively)	2,331,922	2,331,922
Intangibles and other (HEP: \$73,664 and \$74,979, respectively)	175,355	175,341
	2,746,700	2,765,699
Total assets	\$10,380,558	\$10,056,739
<b>LIABILITIES AND EQUITY</b>		
Current liabilities:		
Accounts payable (HEP: \$15,753 and \$22,898, respectively)	\$1,570,973	\$1,325,376
Accrued liabilities (HEP: \$14,107 and \$28,668, respectively)	121,003	125,115
Deferred income tax liabilities	224,534	223,999
Total current liabilities	1,916,510	1,674,490
Long-term debt (HEP: \$833,790 and \$807,630, respectively)	1,023,057	997,519
Deferred income taxes (HEP: \$5,312 and \$5,287, respectively)	644,333	616,842
Other long-term liabilities (HEP: \$37,395 and \$35,918, respectively)	148,157	158,490
Equity:		
HollyFrontier stockholders' equity:		
Preferred stock, \$1.00 par value – 5,000,000 shares authorized; none issued	—	—
	2,560	2,560

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Common stock \$.01 par value – 320,000,000 shares authorized; 255,962,866 shares issued as of March 31, 2014 and December 31, 2013

Additional capital	3,998,926	3,990,630
Retained earnings	3,136,871	3,144,480
Accumulated other comprehensive income	54,064	822
Common stock held in treasury, at cost – 57,179,060 and 57,132,515 shares as of March 31, 2014 and December 31, 2013, respectively	(1,147,335 )	(1,138,872 )
Total HollyFrontier stockholders' equity	6,045,086	5,999,620
Noncontrolling interest	603,415	609,778
Total equity	6,648,501	6,609,398
Total liabilities and equity	\$ 10,380,558	\$ 10,056,739

Parenthetical amounts represent asset and liability balances attributable to Holly Energy Partners, L.P. (“HEP”) as of March 31, 2014 and December 31, 2013. 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 March 31,	
	2014	2013
Sales and other revenues	\$4,791,053	\$4,707,789
Operating costs and expenses:		
Cost of products sold (exclusive of depreciation and amortization)	4,138,620	3,792,535
Operating expenses (exclusive of depreciation and amortization)	273,966	265,099
General and administrative expenses (exclusive of depreciation and amortization)	26,923	29,198
Depreciation and amortization	80,548	71,762
Total operating costs and expenses	4,520,057	4,158,594
Income from operations	270,996	549,195
Other income (expense):		
Earnings (loss) of equity method investments	(801	) 59
Interest income	1,405	1,531
Interest expense	(12,347	) (21,320
Loss on early extinguishment of debt	(7,677	) —
	(19,420	) (19,730
Income before income taxes	251,576	529,465
Income tax provision:		
Current	93,293	206,627
Deferred	(5,679	) (20,533
	87,614	186,094
Net income	163,962	343,371
Less net income attributable to noncontrolling interest	11,901	9,702
Net income attributable to HollyFrontier stockholders	\$ 152,061	\$ 333,669
Earnings per share attributable to HollyFrontier stockholders:		
Basic	\$0.76	\$1.64
Diluted	\$0.76	\$1.63
Cash dividends declared per common share	\$0.80	\$0.80
Average number of common shares outstanding:		
Basic	198,297	202,726
Diluted	198,924	203,428

See accompanying notes.

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

	Three Months Ended March 31,	
	2014	2013
Net income	\$163,962	\$343,371
Other comprehensive income:		
Securities available-for-sale:		
Unrealized gain on marketable securities	12	19
Reclassification adjustments to net income on sale or maturity of marketable securities	(1	) (3
Net unrealized gain on marketable securities	11	16
Hedging instruments:		
Change in fair value of cash flow hedging instruments	92,035	(10,346
Reclassification adjustments to net income on settlement of cash flow hedging instruments	(5,222	) 27,704
Amortization of unrealized loss attributable to discontinued cash flow hedges	270	939
Net unrealized gain on hedging instruments	87,083	18,297
Post-retirement benefit obligations:		
Loss on post-retirement healthcare plan	(89	) —
Post-retirement healthcare plan loss reclassified to net income	—	1,726
Net change in post-retirement benefit obligations	(89	) 1,726
Other comprehensive income before income taxes	87,005	20,039
Income tax expense	33,705	7,488
Other comprehensive income	53,300	12,551
Total comprehensive income	217,262	355,922
Less noncontrolling interest in comprehensive income	11,959	10,494
Comprehensive income attributable to HollyFrontier stockholders	\$205,303	\$345,428

See accompanying notes.

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HOLLYFRONTIER CORPORATION  
 CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(In thousands)

	Three Months Ended March	
	31,	
	2014	2013
Cash flows from operating activities:		
Net income	\$ 163,962	\$ 343,371
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	80,548	71,762
Earnings of equity method investments, net of distributions	1,363	628
Loss on early extinguishment of debt attributable to unamortized discount	1,489	—
Deferred income taxes	(5,679)	(20,533)
Equity-based compensation expense	6,186	8,580
Change in fair value – derivative instruments	(10,546)	(53,745)
(Increase) decrease in current assets:		
Accounts receivable	17,878	(22,294)
Inventories	(236,045)	(151,168)
Income taxes receivable	96,945	37,053
Prepayments and other	10,010	3,866
Increase (decrease) in current liabilities:		
Accounts payable	260,834	(40,964)
Income taxes payable	—	151,403
Accrued liabilities	3,060	(9,846)
Turnaround expenditures	(4,292)	(69,835)
Other, net	9,216	285
Net cash provided by operating activities	394,929	248,563
Cash flows from investing activities:		
Additions to properties, plants and equipment	(103,677)	(66,951)
Additions to properties, plants and equipment – HEP	(20,604)	(5,013)
Proceeds from sale of property and equipment	—	2,290
Investment in Sabine Biofuels	(1,000)	—
Net repayment of advances to Sabine Biofuels	2,586	—
Purchases of marketable securities	(244,030)	(178,251)
Sales and maturities of marketable securities	253,676	143,280
Net cash used for investing activities	(113,049)	(104,645)
Cash flows from financing activities:		
Borrowings under credit agreement – HEP	421,300	57,000
Repayments under credit agreement – HEP	(246,600)	(110,000)
Redemption of senior notes – HEP	(156,188)	—
Proceeds from sale of HEP common units	—	73,444
Proceeds from common unit offerings - HEP	—	73,444
Inventory repurchase obligation	21,126	—
Purchase of treasury stock	(13,988)	(6,610)
Dividends	(158,614)	(102,163)
Distributions to noncontrolling interest	(18,881)	(15,288)

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Excess tax benefit from equity-based compensation	5,156	744
Purchase of units for incentive grants – HEP	(336	) (2,719 )
Deferred financing costs and other	(323	) 2,973
Net cash used for financing activities	(147,348	) (29,175 )
Cash and cash equivalents:		
Increase for the period	134,532	114,743
Beginning of period	940,103	1,757,699
End of period	\$1,074,635	\$1,872,442
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Interest	\$20,469	\$20,825
Income taxes	\$233	\$17,380

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. As of March 31, 2014, we:

owned and operated a petroleum refinery in El Dorado, Kansas (the “El Dorado Refinery”), two refinery facilities located in Tulsa, Oklahoma (collectively, the “Tulsa Refineries”), a refinery in Artesia, New Mexico that is operated in conjunction with crude oil distillation and vacuum distillation and other facilities situated 65 miles away in Lovington, New Mexico (collectively, the “Navajo Refinery”), a refinery located in Cheyenne, Wyoming (the “Cheyenne Refinery”) and a refinery in Woods Cross, Utah (the “Woods Cross Refinery”);

owned and operated NK Asphalt Partners (“NK Asphalt”) which operates various asphalt terminals in Arizona and New Mexico;

owned a 50% interest in Sabine Biofuels II, LLC (“Sabine Biofuels”), a biodiesel production facility located in Port Arthur, Texas; and

owned a 39% interest in HEP, a consolidated variable interest entity (“VIE”), which includes our 2% general partner interest. HEP owns and operates logistic assets consisting of petroleum product and crude oil pipelines and terminal, tankage and loading rack facilities that principally support our refining and marketing operations in the Mid-Continent, Southwest and Rocky Mountain regions of the United States and Alon USA, Inc.’s (“Alon”) refinery in Big Spring, Texas. Additionally, HEP owns a 75% interest in UNEV Pipeline, LLC (“UNEV”), which owns a 12-inch refined products pipeline from Salt Lake City, Utah to Las Vegas, Nevada, together with terminal facilities in the Cedar City, Utah and North Las Vegas areas (the “UNEV Pipeline”) and a 25% interest in SLC Pipeline LLC (the “SLC Pipeline”), which owns a 95-mile intrastate pipeline system that serves refineries in the Salt Lake City area.

We have prepared these consolidated financial statements without audit. In management’s opinion, these consolidated financial statements include all normal recurring adjustments necessary for a fair presentation of our consolidated financial position as of March 31, 2014, the consolidated results of operations and comprehensive income for the three months ended March 31, 2014 and 2013 and consolidated cash flows for the three months ended March 31, 2014 and 2013 in accordance with the rules and regulations of the SEC. Although certain notes and other information required by generally accepted accounting principles in the United States (“GAAP”) have been condensed or omitted, we believe that the disclosures in these consolidated financial statements are adequate to make the information presented not misleading. These consolidated financial statements should be read in conjunction with our Annual Report on Form

10-K for the year ended December 31, 2013 that has been filed with the SEC.

Our results of operations for the three months ended March 31, 2014 are not necessarily indicative of the results of operations to be realized for the year ending December 31, 2014.

**Accounts Receivable:** Our accounts receivable consist of amounts due from customers that are primarily companies in the petroleum industry. Credit is extended based on our evaluation of the customer's financial condition, and in certain circumstances collateral, such as letters of credit or guarantees, is required. We reserve for doubtful accounts based on our historical loss experience as well as specific accounts identified as high risk, which historically have been minimal. Credit losses are charged to the allowance for doubtful accounts when an account is deemed uncollectible. Our allowance for doubtful accounts was \$2.4 million at March 31, 2014 and December 31, 2013.



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HOLLYFRONTIER CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited) Continued

**Inventories:** We use the last-in, first-out (“LIFO”) method of valuing inventory. Under the LIFO method, an actual valuation of inventory can only be made at the end of each year based on the inventory levels at that time. Accordingly, interim LIFO calculations are based on management’s estimates of expected year-end inventory levels and are subject to the final year-end LIFO inventory valuation.

**Goodwill:** Goodwill represents the excess of the cost of an acquired entity over the fair value of the assets acquired and liabilities assumed. Goodwill is not subject to amortization and is tested annually, or more frequently if events or circumstances indicate the possibility of impairment. As of March 31, 2014, there have been no impairments to goodwill.

NOTE 2: Variable Interest Entities

Holly Energy Partners

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

As of March 31, 2014, we owned a 39% interest in HEP, including the 2% general partner interest. As the general partner of HEP, we have the sole ability to direct the activities that most significantly impact HEP's financial performance. We are the primary beneficiary of HEP's earnings and cash flows and therefore we consolidate HEP. See Note 16 for supplemental guarantor/non-guarantor financial information, including HEP balances included in these consolidated financial statements.

HEP has two primary customers (including us) and generates revenues by charging tariffs for transporting petroleum products and crude oil 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 83% of HEP’s total revenues for the three months ended March 31, 2014. We do not provide financial or equity support through any liquidity arrangements and / or debt guarantees to HEP.

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

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

point in time.

#### Transportation Agreements

HEP serves our refineries under long-term pipeline and terminal, tankage and throughput agreements expiring from 2019 through 2026. Under these agreements, we pay HEP fees to transport, store and throughput volumes of refined product and crude oil on HEP's pipeline and terminal, tankage and loading rack facilities that result in minimum annual payments to HEP including UNEV (a consolidated subsidiary of HEP). Under these agreements, the agreed upon tariff rates are subject to annual tariff rate adjustments on July 1 at a rate based upon the percentage change in Producer Price Index ("PPI") or Federal Energy Regulatory Commission ("FERC") index. As of March 31, 2014, these agreements result in minimum annualized payments to HEP of \$225.5 million.

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

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HOLLYFRONTIER CORPORATION  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 (Unaudited) Continued

### HEP Common Unit Offering

In March 2013, HEP closed on a public offering of 1,875,000 of its common units. Additionally, our wholly-owned subsidiary, HollyFrontier Holdings LLC, as a selling unitholder, closed on a public sale of 1,875,000 HEP common units held by it. HEP used net proceeds of \$73.4 million to repay indebtedness incurred under its credit facility and for general partnership purposes. As a result of these transactions 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.

### Sabine Biofuels

We have a 50% ownership interest in Sabine Biofuels, an unconsolidated VIE. This investment, accounted for using the equity method of accounting, had a carrying amount of \$8.2 million at March 31, 2014 and is classified as a noncurrent asset under "Intangibles and other" in our consolidated balance sheets. Also, we have extended a working capital facility to Sabine Biofuels having an outstanding balance of \$7.4 million at March 31, 2014.

### NOTE 3: Financial Instruments

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

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

• (Level 1) Quoted prices in active markets for identical assets or liabilities.

• (Level 2) Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets, similar assets and liabilities in markets that are not active or can be corroborated by observable market data.

• (Level 3) Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. This includes valuation techniques that involve significant unobservable inputs.

The carrying amounts and estimated fair values of our investments in marketable securities, derivative instruments and senior notes at March 31, 2014 and December 31, 2013 were as follows:

Financial Instrument	Carrying Amount	Fair Value	Fair Value by Input Level		
			Level 1	Level 2	Level 3
March 31, 2014					
Assets:					
Marketable securities	\$715,518	\$715,518	\$—	\$715,518	\$—
Commodity price swaps	129,128	129,128	—	110,015	19,113
Forward sales contracts	2,089	2,089	—	—	2,089
HEP interest rate swaps	1,628	1,628	—	1,628	—

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Total assets	\$848,363	\$848,363	\$—	\$827,161	\$21,202
Liabilities:					
NYMEX futures contracts	\$3,450	\$3,450	\$3,450	\$—	\$—
Commodity price swaps	76,297	76,297	—	32,622	43,675
HollyFrontier senior notes	154,830	160,688	—	160,688	—
HEP senior notes	296,090	319,500	—	319,500	—
HEP interest rate swaps	1,677	1,677	—	1,677	—
Total liabilities	\$532,344	\$561,612	\$3,450	\$514,487	\$43,675

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Financial Instrument	Carrying Amount	Fair Value	Fair Value by Input Level		
			Level 1	Level 2	Level 3
December 31, 2013					
Assets:					
Marketable securities	\$725,160	\$725,160	\$—	\$725,160	\$—
Commodity price swaps	43,284	43,284	—	36,312	6,972
HEP interest rate swaps	1,670	1,670	—	1,670	—
Total assets	\$770,114	\$770,114	\$—	\$763,142	\$6,972
Liabilities:					
NYMEX futures contracts	\$3,569	\$3,569	\$3,569	\$—	\$—
Commodity price swaps	83,349	83,349	—	41,059	42,290
HollyFrontier senior notes	155,054	161,250	—	161,250	—
HEP senior notes	444,630	471,750	—	471,750	—
HEP interest rate swaps	1,814	1,814	—	1,814	—
Total liabilities	\$688,416	\$721,732	\$3,569	\$675,873	\$42,290

#### Level 1 Financial Instruments

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

#### Level 2 Financial Instruments

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

#### Level 3 Financial Instruments

We have commodity price swap contracts that relate to forecasted sales of diesel and unleaded gasoline and forecasted purchases of WCS for which quoted forward market prices are not readily available. The forward rate used to value these price swaps is 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 months ended March 31, 2014 and 2013:

Level 3 Financial Instruments	Three Months Ended March 31,	
	2014	2013
Liability balance at beginning of period	\$(35,318)	\$(33,658)

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Change in fair value:			
Recognized in other comprehensive income	(22,137	) (49,202	)
Recognized in cost of products sold	8,970	43,559	
Settlement date fair value of contractual maturities:			
Recognized in sales and other revenues	25,331	19,185	
Recognized in cost of products sold	681	13,867	
Liability balance at end of period	\$(22,473	) \$(6,249	)

A hypothetical change of 10% to the estimated future cash flows attributable to our Level 3 commodity price swaps would result in an estimated fair value change of \$2.5 million.

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## NOTE 4: Earnings Per Share

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

	Three Months Ended March 31,	
	2014	2013
	(In thousands, except per share data)	
Net income attributable to HollyFrontier stockholders	\$152,061	\$333,669
Participating securities' share in earnings	466	1,294
Net income attributable to common shares	\$151,595	\$332,375
Average number of shares of common stock outstanding	198,297	202,726
Effect of dilutive variable restricted shares and performance share units <sup>(1)</sup>	627	702
Average number of shares of common stock outstanding assuming dilution	198,924	203,428
Basic earnings per share	\$0.76	\$1.64
Diluted earnings per share	\$0.76	\$1.63
(1) Excludes anti-dilutive restricted and performance share units of:	14	—

## NOTE 5: Stock-Based Compensation

As of March 31, 2014, 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 \$5.4 million and \$7.5 million for the three months ended March 31, 2014 and 2013, 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 \$0.8 million and \$1.1 million for the three months ended March 31, 2014 and 2013, 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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A summary of restricted stock and restricted stock unit activity and changes during the three months ended March 31, 2014 is presented below:

Restricted Stock and Restricted Stock Units	Grants	Weighted Average Grant Date Fair Value	Aggregate Intrinsic Value (\$000)
Outstanding at January 1, 2014 (non-vested)	737,562	\$39.54	
Granted	56,482	47.92	
Vesting (transfer/conversion to common stock)	(92,240	) 32.76	
Forfeited	(56,567	) 41.86	
Outstanding at March 31, 2014 (non-vested)	645,237	\$41.04	\$30,700

For the three months ended March 31, 2014, 92,240 restricted stock and restricted stock units vested having a grant date fair value of \$3.0 million. As of March 31, 2014, there was \$16.9 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 both a “financial performance” and “market performance” criteria. Financial performance is based on our financial performance compared to an equally-weighted peer group of independent refining companies, while market performance is based on total shareholder return achieved by HollyFrontier stockholders compared with the average shareholder return achieved by shareholders of peer group companies. The number of shares ultimately issued under these awards can range from zero to 200%. As of March 31, 2014, estimated share payouts for outstanding non-vested performance share unit awards ranged from 120% to 165% of the initial target award.

A summary of performance share unit activity and changes during the three months ended March 31, 2014 is presented below:

Performance Share Units	Grants
Outstanding at January 1, 2014 (non-vested)	983,610
Granted	23,964
Vesting and transfer of ownership to recipients	(181,290
Forfeited	(87,564
Outstanding at March 31, 2014 (non-vested)	738,720

For the three months ended March 31, 2014, we issued 172,231 shares of our common stock, representing a 95% payout on vested performance shares units having a grant date fair value of \$5.9 million. Based on the weighted-average grant date fair value of \$40.53 per share, there was \$23.3 million of total unrecognized compensation cost related to non-vested performance share units as of March 31, 2014. That cost is expected to be recognized over a weighted-average period of 1.7 years.

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

Our investment portfolio at March 31, 2014 consisted of cash, cash equivalents and investments in marketable securities.

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

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The following is a summary of our marketable securities:

	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Fair Value (Net Carrying Amount)
	(In thousands)			
March 31, 2014				
Certificates of deposit	\$64,703	\$20	\$—	\$64,723
Commercial paper	72,568	20	—	72,588
Corporate debt securities	136,056	15	(64	) 136,007
State and political subdivisions debt securities	442,167	66	(33	) 442,200
Total marketable securities	\$715,494	\$121	\$(97	) \$715,518
December 31, 2013				
Certificates of deposit	\$74,802	\$21	\$(1	) \$74,822
Commercial paper	78,216	28	—	78,244
Corporate debt securities	96,889	6	(44	) 96,851
State and political subdivisions debt securities	475,235	49	(41	) 475,243
Total marketable securities	\$725,142	\$104	\$(86	) \$725,160

Interest income recognized on our marketable securities was \$0.6 million and \$0.5 million for the three months ended March 31, 2014 and 2013, respectively.

## NOTE 7: Inventories

Inventory consists of the following components:

	March 31, 2014	December 31, 2013
	(In thousands)	
Crude oil	\$617,422	\$567,281
Other raw materials and unfinished products <sup>(1)</sup>	208,080	154,534
Finished products <sup>(2)</sup>	675,619	519,633
Process chemicals <sup>(3)</sup>	3,993	3,504
Repair and maintenance supplies and other	85,178	109,295
Total inventory	\$1,590,292	\$1,354,247

(1) Other raw materials and unfinished products include feedstocks and blendstocks, other than crude.

(2) Finished products include gasolines, jet fuels, diesels, lubricants, asphalts, LPG's and residual fuels.

(3) Process chemicals include additives and other chemicals.

## NOTE 8: Environmental

We expensed \$0.3 million and \$0.1 million for the three months ended March 31, 2014 and 2013, respectively, for environmental remediation obligations. The accrued environmental liability reflected in our consolidated balance sheets was \$85.2 million and \$87.8 million at March 31, 2014 and December 31, 2013, respectively, of which \$72.0 million and \$73.6 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).

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NOTE 9: Debt

HollyFrontier Credit Agreement

We have a \$1 billion senior secured credit agreement that matures in July 2016 (the "HollyFrontier Credit Agreement") and may be used to fund working capital requirements, capital expenditures, acquisitions and general corporate purposes. Obligations under the HollyFrontier Credit Agreement are collateralized by our inventory, accounts receivable and certain deposit accounts and guaranteed by our material, wholly-owned subsidiaries. At March 31, 2014, we were in compliance with all covenants, had no outstanding borrowings and had outstanding letters of credit totaling \$4.5 million under the HollyFrontier Credit Agreement.

HEP Credit Agreement

HEP has a \$650 million senior secured revolving credit facility that matures in November 2018 (the "HEP Credit Agreement") and is available to fund capital expenditures, investments, acquisitions, distribution payments and working capital and for general partnership purposes. It is also available to fund letters of credit up to a \$50 million sub-limit. At March 31, 2014, HEP was in compliance with all of its covenants, had outstanding borrowings of \$537.7 million and no outstanding letters of credit under the HEP Credit Agreement.

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

HollyFrontier Senior Notes

Our 6.875% senior notes (\$150 million aggregate principal amount maturing November 2018) (the "HollyFrontier Senior Notes") are unsecured and impose certain restrictive covenants, including limitations on our ability to incur additional debt, incur liens, enter into sale-and-leaseback transactions, pay dividends, enter into mergers, sell assets and enter into certain transactions with affiliates. Additionally, we have certain redemption rights under the HollyFrontier Senior Notes.

At any time, following notice to the trustee, that the HollyFrontier Senior Notes are rated investment grade by both Moody's and Standard & Poor's and no default or event of default exists, we are not subject to many of the foregoing covenants (a "Covenant Suspension"). As of March 31, 2014, the HollyFrontier Senior Notes were rated investment grade by both Standard & Poor's (BBB-) and Moody's (Baa3). As a result, we are under the Covenant Suspension pursuant to the terms of the indenture governing the HollyFrontier Senior Notes.

HollyFrontier Financing Obligation

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

HEP Senior Notes

HEP's 6.5% senior notes (\$300 million aggregate principal amount maturing March 2020) (the "HEP Senior Notes") are unsecured and impose certain restrictive covenants, including limitations on HEP's ability to incur additional

indebtedness, make investments, sell assets, incur certain liens, pay distributions, enter into transactions with affiliates, and enter into mergers. At any time when the HEP Senior Notes are rated investment grade by both Moody's and Standard & Poor's and no default or event of default exists, HEP will not be subject to many of the foregoing covenants. Additionally, HEP has certain redemption rights under the HEP Senior Notes.

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

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

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

	March 31, 2014 (In thousands)	December 31, 2013
6.875% Senior Notes		
Principal	\$150,000	\$150,000
Unamortized premium	4,830	5,054
	154,830	155,054
Financing Obligation	34,437	34,835
Total HollyFrontier long-term debt	189,267	189,889
HEP Credit Agreement	537,700	363,000
HEP 6.5% Senior Notes		
Principal	300,000	300,000
Unamortized discount	(3,910)	(4,073)
	296,090	295,927
HEP 8.25% Senior Notes		
Principal	—	150,000
Unamortized discount	—	(1,297)
	—	148,703
Total HEP long-term debt	833,790	807,630
Total long-term debt	\$1,023,057	\$997,519

We capitalized interest attributable to construction projects of \$3.0 million and \$3.4 million for the three months ended March 31, 2014 and 2013, respectively.

NOTE 10: Derivative Instruments and Hedging Activities

Commodity Price Risk Management

Our primary market risk is commodity price risk. We are exposed to market risks related to the volatility in crude oil and refined products, as well as volatility in the price of natural gas used in our refining operations. We periodically enter into derivative contracts in the form of commodity price swaps 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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## Accounting Hedges

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

	Unrealized Gain (Loss) Recognized in OCI (In thousands)	Gain (Loss) Recognized in Earnings Due to Settlements		Gain (Loss) Attributable to Hedge Ineffectiveness Recognized in Earnings	
		Location	Amount	Location	Amount
Three Months Ended March 31, 2014					
Commodity price swaps					
Change in fair value	\$92,478	Sales and other revenues	\$(25,331 )		
Gain reclassified to earnings due to settlements	(5,760 )	Cost of products sold	29,317		
Amortization of discontinued hedges reclassified to earnings	270	Operating expenses	1,504	Operating expenses	\$(2,160 )
Total	\$86,988		\$5,490		\$(2,160 )
Three Months Ended March 31, 2013					
Commodity price swaps					
Change in fair value	\$(10,404 )	Sales and other revenues	\$(19,185 )	Sales and other revenues	\$(356 )
Loss reclassified to earnings due to settlements	27,200	Cost of products sold	(6,532 )	Cost of products sold	3,131
Amortization of discontinued hedges reclassified to earnings	90	Operating expenses	(1,573 )	Operating expenses	(365 )
Total	\$16,886		\$(27,290 )		\$2,410

As of March 31, 2014, we have the following notional contract volumes related to outstanding derivative instruments serving as cash flow hedges against price risk on forecasted purchases of natural gas and crude oil and sales of refined products:

Derivative Instrument	Total Outstanding	Notional Contract Volumes by Year of Maturity				Unit of Measure
		2014	2015	2016	2017	

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Notional

Natural gas - long	36,000,000	7,200,000	9,600,000	9,600,000	9,600,000	MMBTU
WTI crude oil - long	24,042,500	19,662,500	4,380,000	—	—	Barrels
Ultra-low sulfur diesel - short	14,142,500	9,762,500	4,380,000	—	—	Barrels
Sub octane gasoline - short	9,900,000	9,900,000	—	—	—	Barrels
Forward sales - diesel and gasoline	825,000	825,000	—	—	—	Barrels

In 2013, we dedesignated certain commodity price swaps (long positions) that previously received hedge accounting treatment. These contracts now serve as economic hedges against price risk on forecasted natural gas purchases totaling 36,000,000 MMBTU's to be purchased ratably through 2017. As of March 31, 2014, we have an unrealized loss of \$4.1 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.

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## Economic Hedges

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

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

Location of Gain (Loss) Recognized in Income	Three Months Ended March 31,	
	2014	2013
	(In thousands)	
Cost of products sold	\$26	\$33,592
Operating expenses	(48	) (4,993
Total	\$(22	) \$28,599

As of March 31, 2014, 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
		2014	2015	2016	2017	
Commodity price swap (WCS spread) - long	4,812,500	4,812,500	—	—	—	Barrels
Commodity price swap (natural gas) - long	36,000,000	7,200,000	9,600,000	9,600,000	9,600,000	MMBTU
Commodity price swap (natural gas) - short	36,000,000	7,200,000	9,600,000	9,600,000	9,600,000	MMBTU
NYMEX futures (WTI) - short	2,914,000	2,914,000	—	—	—	Barrels

## Interest Rate Risk Management

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

As of March 31, 2014, HEP had three interest rate swap contracts that hedge its exposure to the cash flow risk caused by the effects of LIBOR changes on \$305.0 million in credit agreement advances. The first interest rate swap effectively converts \$155.0 million of LIBOR based debt to fixed rate debt having an interest rate of 0.99% plus an applicable margin of 2.00% as of March 31, 2014, which equaled an effective interest rate of 2.99%. This swap matures in February 2016. HEP has two additional interest rate swaps with identical terms which effectively convert \$150.0 million of LIBOR based debt to fixed rate debt having an interest rate of 0.74% plus an applicable margin of 2.00% as of March 31, 2014, which equaled an effective interest rate of 2.74%. Both of these swap contracts mature in July 2017. All of these swap contracts have been designated as cash flow hedges. To date, there has been no ineffectiveness on these cash flow hedges.



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## HOLLYFRONTIER CORPORATION

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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 in OCI (In thousands)	Loss Recognized in Earnings Due to Settlements Location	Amount
Three Months Ended March 31, 2014			
Interest rate swaps			
Change in fair value	\$(443 )		
Loss reclassified to earnings due to settlements	538	Interest expense	\$(538 )
Total	\$95		\$(538 )
Three Months Ended March 31, 2013			
Interest rate swaps			
Change in fair value	\$58		
Loss reclassified to earnings due to settlements	504		
Amortization of discontinued hedge reclassified to earnings	849	Interest expense	\$(1,353 )
Total	\$1,411		\$(1,353 )

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

	Derivatives in Net Asset Position			Derivatives in Net Liability Position		
	Gross Assets	Gross Liabilities Offset in Balance Sheet	Net Assets Recognized in Balance Sheet	Gross Liabilities	Gross Assets Offset in Balance Sheet	Net Liabilities Recognized in Balance Sheet
	(In thousands)					
March 31, 2014						
Derivatives designated as cash flow hedging instruments:						
Commodity price swap contracts	\$92,912	\$(40,044 )	\$52,868	\$18,321	\$(8,040 )	\$10,281
Forward sales contracts	2,089	—	2,089	—	—	—
Interest rate swap contracts	1,628	—	1,628	1,677	—	1,677
	\$96,629	\$(40,044 )	\$56,585	\$19,998	\$(8,040 )	\$11,958
Derivatives not designated as cash flow hedging instruments:						
Commodity price swap contracts	\$19,093	\$(4,445 )	\$14,648	\$13,487	\$(9,083 )	\$4,404
NYMEX futures contracts	—	—	—	3,450	—	3,450

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	\$19,093	\$(4,445)	) \$14,648	\$16,937	\$(9,083)	) \$7,854
Total net balance			\$71,233			\$19,812
Balance sheet classification:						
	Prepayment and other		\$68,572	Accrued liabilities		\$3,450
	Intangibles and other		2,661	Other long-term liabilities		16,362
			\$71,233			\$19,812

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HOLLYFRONTIER CORPORATION  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 (Unaudited) Continued

	Derivatives in Net Asset Position			Derivatives in Net Liability Position		
	Gross Assets	Gross Liabilities Offset in Balance Sheet (In thousands)	Net Assets Recognized in Balance Sheet	Gross Liabilities	Gross Assets Offset in Balance Sheet	Net Liabilities Recognized in Balance Sheet
December 31, 2013						
Derivatives designated as cash flow hedging instruments:						
Commodity price swap contracts	\$—	\$—	\$—	\$63,561	\$(23,679)	) \$39,882
Interest rate swap contracts	1,670	—	1,670	1,814	—	) 1,814
	\$1,670	\$—	\$1,670	\$65,375	\$(23,679)	) \$41,696
Derivatives not designated as cash flow hedging instruments:						
Commodity price swap contracts	\$6,972	\$—	\$6,972	\$19,766	\$(12,611)	) \$7,155
NYMEX futures contracts	—	—	—	3,569	—	) 3,569
	\$6,972	\$—	\$6,972	\$23,335	\$(12,611)	) \$10,724
Total net balance			\$8,642			\$52,420
Balance sheet classification:	Prepayment and other		\$6,972	Accrued liabilities		\$26,843
	Intangibles and other		1,670	Other long-term liabilities		25,577
			\$8,642			\$52,420

At March 31, 2014, we had a pre-tax net unrealized gain of \$42.8 million classified in accumulated other comprehensive income that relates to all accounting hedges having contractual maturities through 2017. Assuming commodity prices and interest rates remain unchanged, an unrealized gain of \$54.9 million will be effectively transferred from accumulated other comprehensive income into the statement of income as the hedging instruments contractually mature over the next twelve-month period.

## NOTE 11: Equity

Changes to equity during the three months ended March 31, 2014 are presented below:

	HollyFrontier Stockholders' Equity (In thousands)	Noncontrolling Interest	Total Equity
Balance at December 31, 2013	\$5,999,620	\$609,778	\$6,609,398
Net income	152,061	11,901	163,962

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Dividends	(159,670	) —	(159,670	)
Distributions to noncontrolling interest holders	—	(18,881	) (18,881	)
Other comprehensive income, net of tax	53,242	58	53,300	
Equity-based compensation	5,366	820	6,186	
Excess tax benefit attributable to equity-based compensation	5,156	—	5,156	
Purchase of treasury stock <sup>(1)</sup>	(10,689	) —	(10,689	)
Purchase of HEP units for restricted grants	—	(336	) (336	)
Other	—	75	75	
Balance at March 31, 2014	\$6,045,086	\$603,415	\$6,648,501	

(1) Includes 90,393 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.



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HOLLYFRONTIER CORPORATION  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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We have a Board approved repurchase program that authorizes us to repurchase common stock in the open market or through privately negotiated transactions. The timing and amount of stock repurchases will depend on market conditions, corporate, regulatory and other relevant considerations. This program may be discontinued at any time by the Board of Directors. As of March 31, 2014, we had remaining authorization to repurchase up to \$311.6 million under this stock repurchase program.

## NOTE 12: Other Comprehensive Income (Loss)

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

	Before-Tax	Tax Expense (Benefit)	After-Tax
	(In thousands)		
Three Months Ended March 31, 2014			
Net unrealized gain on marketable securities	\$11	\$(3)	\$14
Net unrealized gain on hedging instruments	87,083	33,743	53,340
Net change in post-retirement benefit obligations	(89)	(35)	(54)
Other comprehensive income	87,005	33,705	53,300
Less other comprehensive income attributable to noncontrolling interest	58	—	58
Other comprehensive income attributable to HollyFrontier stockholders	\$86,947	\$33,705	\$53,242
Three Months Ended March 31, 2013			
Net unrealized gain on marketable securities	\$16	\$8	\$8
Net unrealized gain on hedging instruments	18,297	6,809	11,488
Net change in post-retirement benefit obligations	1,726	671	1,055
Other comprehensive income	20,039	7,488	12,551
Less other comprehensive income attributable to noncontrolling interest	792	—	792
Other comprehensive income attributable to HollyFrontier stockholders	\$19,247	\$7,488	\$11,759

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HOLLYFRONTIER CORPORATION  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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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) Reclassified From AOCI (In thousands)		Income Statement Line Item
	Three Months Ended March 31, 2014	2013	
Marketable securities	\$1	\$3	Interest income
	—	1	Income tax expense
	1	2	Net of tax
Hedging instruments:			
Commodity price swaps	(25,331	) (19,185	) Sales and other revenues
	29,317	(6,532	) Cost of products sold
	1,504	(1,573	) Operating expenses
Interest rate swaps	(538	) (1,353	) Interest expense
	4,952	(28,643	)
	2,043	(10,823	) Income tax expense (benefit)
	2,909	(17,820	) Net of tax
	326	820	Noncontrolling interest
	3,235	(17,000	) Net of tax and noncontrolling interest
Post-retirement benefit obligations	—	(84	) Cost of products sold
	—	(1,549	) Operating expenses
	—	(93	) General and administrative expenses
	—	(1,726	)
	—	(671	) Income tax benefit
	—	(1,055	) Net of tax
Total reclassifications for the period	\$3,236	\$(18,053	)

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

	March 31, 2014	December 31, 2013
	(In thousands)	
Unrealized gain on post-retirement benefit obligations	\$27,637	\$27,691
Unrealized gain on marketable securities	24	10
Unrealized gain (loss) on hedging instruments, net of noncontrolling interest	26,403	(26,879
Accumulated other comprehensive income	\$54,064	\$822



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HOLLYFRONTIER CORPORATION  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 (Unaudited) Continued

## NOTE 13: Post-retirement Plans

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

	Three Months Ended March 31,	
	2014	2013
	(In thousands)	
Service cost – benefit earned during the period	\$224	\$278
Interest cost on projected benefit obligations	159	159
Amortization of prior service credit	(1,074	) (1,474
Amortization of net loss	—	31
Loss on settlement	—	1,726
Net periodic post-retirement expense (credit)	\$(691	) \$720

In the first quarter of 2013, we settled a portion of our post-retirement medical obligation, at which time we reclassified a \$1.7 million pretax loss out of accumulated other comprehensive income that was recognized as a charge to net income.

Additionally, we have a program that provides certain transition benefit payments to certain employees that participated in a defined benefit plan that was terminated. The program extends through 2014 and provides payments after year-end provided the employee is employed by us on the last day of each year. The payments are based on each employee's years of service and eligible salary. Transition benefit costs under this program were \$2.6 million and \$2.9 million for the three months ended March 31, 2014 and 2013, respectively.

## NOTE 14: Contingencies

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

## NOTE 15: Segment Information

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

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

operates various asphalt terminals in Arizona and New Mexico.

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

The accounting policies for our segments are the same as those described in the summary of significant accounting policies in our Annual Report on Form 10-K for the year ended December 31, 2013.

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HOLLYFRONTIER CORPORATION  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 (Unaudited) Continued

	Refining	HEP	Corporate and Other	Consolidations and Eliminations	Consolidated Total
	(In thousands)				
Three Months Ended March 31, 2014					
Sales and other revenues	\$4,775,080	\$87,012	\$1,115	\$(72,154)	) \$4,791,053
Depreciation and amortization	\$63,541	\$15,184	\$2,030	\$(207)	) \$80,548
Income (loss) from operations	\$251,209	\$45,865	\$(25,555)	) \$(523)	) \$270,996
Capital expenditures	\$99,943	\$20,604	\$3,734	\$—	\$124,281
Three Months Ended March 31, 2013					
Sales and other revenues	\$4,692,426	\$76,484	\$563	\$(61,684)	) \$4,707,789
Depreciation and amortization	\$57,170	\$13,749	\$1,050	\$(207)	) \$71,762
Income (loss) from operations	\$542,202	\$33,474	\$(25,972)	) \$(509)	) \$549,195
Capital expenditures	\$63,632	\$5,013	\$3,319	\$—	\$71,964
March 31, 2014					
Cash, cash equivalents and total investments in marketable securities	\$105	\$4,879	\$1,785,169	\$—	\$1,790,153
Total assets	\$7,381,446	\$1,410,535	\$1,898,635	\$(310,058)	) \$10,380,558
Long-term debt	\$—	\$833,790	\$189,267	\$—	\$1,023,057
December 31, 2013					
Cash, cash equivalents and total investments in marketable securities	\$1,860	\$6,352	\$1,657,051	\$—	\$1,665,263
Total assets	\$7,094,558	\$1,413,908	\$1,881,119	\$(332,846)	) \$10,056,739
Long-term debt	\$—	\$807,630	\$189,889	\$—	\$997,519

HEP segment revenues from external customers were \$15.2 million and \$12.9 million for the three months ended March 31, 2014 and 2013, respectively.

## NOTE 16: Supplemental Guarantor/Non-Guarantor Financial Information

Our obligations under the HollyFrontier Senior Notes have been jointly and severally guaranteed by the substantial majority of our existing and future restricted subsidiaries (“Guarantor Restricted Subsidiaries”). These guarantees are full and unconditional. HEP, in which we have a 39% ownership interest at March 31, 2014, and its subsidiaries (collectively, “Non-Guarantor Non-Restricted Subsidiaries”), and certain of our other subsidiaries (“Non-Guarantor Restricted Subsidiaries”) have not guaranteed these obligations.

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

“Restricted Subsidiaries.”

We have made certain revisions to our prior year condensed statements of cash flows to reclassify intercompany lending and distribution activity between operating, investing and financing activities.

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HOLLYFRONTIER CORPORATION  
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 (Unaudited) Continued

## Condensed Consolidating Balance Sheet

March 31, 2014	Parent	Guarantor Restricted Subsidiaries	Non- Guarantor Restricted Subsidiaries	Eliminations	HollyFrontier Corp. Before Consolidation of HEP	Non-Guarantor Non-Restricted Subsidiaries and HEP Segment)	Consolidations and Eliminations	Consolidated
	(In thousands)							
<b>ASSETS</b>								
Current assets:								
Cash and cash equivalents	\$ 1,067,578	\$ 2,055	\$ 123	\$—	\$ 1,069,756	\$ 4,879	\$—	\$ 1,074,635
Marketable securities	709,468	—	—	—	709,468	—	—	709,468
Accounts receivable, net	5,855	676,984	4,724	—	687,563	34,425	(33,650 )	688,338
Intercompany accounts receivable	—	446,024	337,691	(783,715 )	—	—	—	—
Inventories	—	1,588,698	—	—	1,588,698	1,594	—	1,590,292
Income taxes receivable	12,431	—	—	—	12,431	—	—	12,431
Prepayments and other	16,940	95,930	—	—	112,870	1,905	(4,430 )	110,345
Total current assets	1,812,272	2,809,691	342,538	(783,715 )	4,180,786	42,803	(38,080 )	4,185,509
Properties, plants and equip, net	31,381	2,676,401	56	—	2,707,838	1,005,077	(270,616 )	3,442,299
Marketable securities (long-term)	6,050	—	—	—	6,050	—	—	6,050
Investment in subsidiaries	6,071,959	234,594	—	(6,306,553 )	—	—	—	—
Intangibles and other assets	24,432	2,360,973	25,000	(25,000 )	2,385,405	362,655	(1,360 )	2,746,700
Total assets	\$ 7,946,094	\$ 8,081,659	\$ 367,594	\$ (7,115,268 )	\$ 9,280,079	\$ 1,410,535	\$ (310,056 )	\$ 10,380,558
<b>LIABILITIES AND EQUITY</b>								
Current liabilities:								
Accounts payable	\$ 4,479	\$ 1,584,007	\$ 384	\$—	\$ 1,588,870	\$ 15,753	\$ (33,650 )	\$ 1,570,973
	783,715	—	—	(783,715 )	—	—	—	—



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Intercompany accounts payable								
Accrued liabilities	38,164	71,934	1,228	—	111,326	14,107	(4,430	) 121,003
Deferred income tax liabilities	224,534	—	—	—	224,534	—	—	224,534
Total current liabilities	1,050,892	1,655,941	1,612	(783,715	) 1,924,730	29,860	(38,080	) 1,916,510
Long-term debt	179,831	34,436	—	(25,000	) 189,267	833,790	—	1,023,057
Liability to HEP	—	242,463	—	—	242,463	—	(242,463	) —
Deferred income tax liabilities	639,021	—	—	—	639,021	5,312	—	644,333
Other long-term liabilities	36,406	76,860	—	—	113,266	37,395	(2,504	) 148,157
Investment in HEP	—	—	131,388	—	131,388	—	(131,388	) —
Equity – HollyFrontier	6,039,944	6,071,959	234,594	(6,306,553	) 6,039,944	405,427	(400,285	) 6,045,086
Equity – noncontrolling interest	—	—	—	—	—	98,751	504,664	603,415
Total liabilities and equity	\$7,946,094	\$8,081,659	\$367,594	\$(7,115,268)	\$9,280,079	\$1,410,535	\$(310,056)	\$10,380,558

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HOLLYFRONTIER CORPORATION  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 (Unaudited) Continued

## Condensed Consolidating Balance Sheet

December 31, 2013	Parent	Guarantor Restricted Subsidiaries	Non- Guarantor Restricted Subsidiaries	Eliminations	HollyFrontier Corp. Before Consolidation of HEP	Non-Guarantor Non-Restricted Subsidiaries and HEP Segment)	Consolidations and Eliminations	Consolidated
	(In thousands)							
<b>ASSETS</b>								
Current assets:								
Cash and cash equivalents	\$931,920	\$1,817	\$14	\$—	\$933,751	\$6,352	\$—	\$940,103
Marketable securities	725,160	—	—	—	725,160	—	—	725,160
Accounts receivable, net	6,095	698,109	8,075	—	712,279	34,736	(38,213 )	708,802
Intercompany accounts receivable	—	149,907	313,623	(463,530 )	—	—	—	—
Inventories	—	1,352,656	—	—	1,352,656	1,591	—	1,354,247
Income taxes receivable	109,376	—	—	—	109,376	—	—	109,376
Prepayments and other	21,843	45,413	—	—	67,256	2,283	(10,783 )	58,756
Total current assets	1,794,394	2,247,902	321,712	(463,530 )	3,900,478	44,962	(48,996 )	3,896,444
Properties, plants and equip, net	30,007	2,633,739	24	—	2,663,770	1,004,975	(274,149 )	3,394,596
Investment in subsidiaries	5,722,025	216,687	—	(5,938,712 )	—	—	—	—
Intangibles and other assets	23,034	2,380,268	25,000	(25,000 )	2,403,302	363,970	(1,573 )	2,765,699
Total assets	\$7,569,460	\$7,478,596	\$346,736	\$(6,427,242)	\$8,967,550	\$1,413,907	\$(324,718)	\$10,056,739
<b>LIABILITIES AND EQUITY</b>								
Current liabilities:								
Accounts payable	\$16,704	\$1,323,603	\$383	\$—	\$1,340,690	\$22,898	\$(38,212 )	\$1,325,376
Intercompany accounts payable	463,530	—	—	(463,530 )	—	—	—	—
	43,254	63,181	795	—	107,230	28,668	(10,783 )	125,115

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Accrued liabilities								
Deferred income tax liabilities	223,999	—	—	—	223,999	—	—	223,999
Total current liabilities	747,487	1,386,784	1,178	(463,530 )	1,671,919	51,566	(48,995 )	1,674,490
Long-term debt	180,054	34,835	—	(25,000 )	189,889	807,630	—	997,519
Liability to HEP	—	245,536	—	—	245,536	—	(245,536 )	—
Deferred income tax liabilities	611,555	—	—	—	611,555	5,287	—	616,842
Other long-term liabilities	35,874	89,416	—	—	125,290	35,918	(2,718 )	158,490
Investment in HEP	—	—	128,871	—	128,871	—	(128,871 )	—
Equity – HollyFrontier	5,994,490	5,722,025	216,687	(5,938,712 )	5,994,490	416,018	(410,888 )	5,999,620
Equity – noncontrolling interest	—	—	—	—	—	97,488	512,290	609,778
Total liabilities and equity	\$7,569,460	\$7,478,596	\$346,736	\$(6,427,242)	\$8,967,550	\$1,413,907	\$(324,718)	\$10,056,739

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## HOLLYFRONTIER CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited) Continued

## Condensed Consolidating Statement of Income and Comprehensive Income

Three Months Ended March 31, 2014	Parent	Guarantor Restricted Subsidiaries	Non-Guarantor Restricted Subsidiaries	Eliminations	HollyFrontier Corp. Before Consolidation of HEP	Non-Guarantor Non-Restricted Subsidiaries (HEP Segment)	Consolidations and Eliminations	Consolidated
	(In thousands)							
Sales and other revenues	\$ 101	\$4,775,123	\$ 971	\$—	\$ 4,776,195	\$ 87,012	\$(72,154 )	\$4,791,053
Operating costs and expenses:								
Cost of products sold	—	4,209,722	—	—	4,209,722	—	(71,102 )	4,138,620
Operating expenses	—	251,476	—	—	251,476	22,812	(322 )	273,966
General and administrative	21,107	2,626	39	—	23,772	3,151	—	26,923
Depreciation and amortization	1,790	67,107	—	—	68,897	15,184	(3,533 )	80,548
Total operating costs and expenses	22,897	4,530,931	39	—	4,553,867	41,147	(74,957 )	4,520,057
Income (loss) from operations	(22,796 )	244,192	932	—	222,328	45,865	2,803	270,996
Other income (expense):								
Earnings (loss) of equity method investments	262,359	16,022	16,283	(279,704 )	14,960	522	(16,283 )	(801 )
Interest income (expense)	(424 )	2,145	130	—	1,851	(10,451 )	(2,342 )	(10,942 )
Loss on early extinguishment of debt	—	—	—	—	—	(7,677 )	—	(7,677 )
Income before income taxes	261,935	18,167	16,413	(279,704 )	16,811	(17,606 )	(18,625 )	(19,420 )
Income tax provision	239,139	262,359	17,345	(279,704 )	239,139	28,259	(15,822 )	251,576
Net income	87,539	—	—	—	87,539	75	—	87,614
Less net income attributable to noncontrolling	151,600	262,359	17,345	(279,704 )	151,600	28,184	(15,822 )	163,962
	—	—	—	—	—	3,637	8,264	11,901

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interest								
Net income attributable to HollyFrontier stockholders	\$ 151,600	\$ 262,359	\$ 17,345	\$ (279,704)	\$ 151,600	\$ 24,547	\$ (24,086 )	\$ 152,061
Comprehensive income attributable to HollyFrontier stockholders	\$ 204,842	\$ 349,384	\$ 17,382	\$ (366,766)	\$ 204,842	\$ 24,585	\$ (24,124 )	\$ 205,303

Condensed Consolidating Statement of Income and Comprehensive Income

Three Months Ended March 31, 2013	Parent	Guarantor Restricted Subsidiaries	Non-Guarantor Restricted Subsidiaries	Eliminations	HollyFrontier Corp. Before Consolidation of HEP	Non-Guarantor Non-Restricted Subsidiaries (HEP Segment)	Consolidations and Eliminations	Consolidated
	(In thousands)							
Sales and other revenues	\$ 531	\$ 4,692,426	\$ 32	\$ —	\$ 4,692,989	\$ 76,484	\$ (61,684 )	\$ 4,707,789
Operating costs and expenses:								
Cost of products sold	—	3,853,128	41	—	3,853,169	—	(60,634 )	3,792,535
Operating expenses	—	239,423	(19 )	—	239,404	26,029	(334 )	265,099
General and administrative	24,131	1,775	60	—	25,966	3,232	—	29,198
Depreciation and amortization	926	60,620	—	—	61,546	13,749	(3,533 )	71,762
Total operating costs and expenses	25,057	4,154,946	82	—	4,180,085	43,010	(64,501 )	4,158,594
Income (loss) from operations	(24,526 )	537,480	(50 )	—	512,904	33,474	2,817	549,195
Other income (expense):								
Earnings of equity method investments	550,910	11,633	11,992	(563,141 )	11,394	657	(11,992 )	59
Interest income (expense)	(7,221 )	1,797	289	—	(5,135 )	(12,382 )	(2,272 )	(19,789 )
	543,689	13,430	12,281	(563,141 )	6,259	(11,725 )	(14,264 )	(19,730 )
Income before income taxes	519,163	550,910	12,231	(563,141 )	519,163	21,749	(11,447 )	529,465
Income tax provision	186,039	—	—	—	186,039	55	—	186,094
Net income	333,124	550,910	12,231	(563,141 )	333,124	21,694	(11,447 )	343,371
Less net income attributable to	—	—	—	—	—	2,890	6,812	9,702

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noncontrolling interest								
Net income attributable to HollyFrontier stockholders	\$ 333,124	\$ 550,910	\$ 12,231	\$ (563,141)	\$ 333,124	\$ 18,804	\$ (18,259 )	\$ 333,669
Comprehensive income attributable to HollyFrontier stockholders	\$ 344,883	\$ 568,415	\$ 12,850	\$ (581,265)	\$ 344,883	\$ 19,423	\$ (18,878 )	\$ 345,428

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## HOLLYFRONTIER CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited) Continued

## Condensed Consolidating Statement of Cash Flows

Three Months Ended March 31, 2014	Parent	Guarantor Restricted Subsidiaries	Non-Guarantor Restricted Subsidiaries	Eliminations	HollyFrontier Corp. Before Consolidation of HEP	Non-Guarantor Non-Restricted Subsidiaries (HEP Segment)	Consolidations and Eliminations	Consolidated
(In thousands)								
Cash flows from operating activities	\$ (23,564 )	\$ 381,180	\$ 17,477	\$ —	\$ 375,093	\$ 39,047	\$ (19,211 )	\$ 394,929
Cash flows from investing activities								
Additions to properties, plants and equipment	(3,163 )	(100,483 )	(31 )	—	(103,677 )	—	—	(103,677 )
Additions to properties, plants and equipment – HEP	—	—	—	—	—	(20,604 )	—	(20,604 )
Investment in Sabine Biofuels	—	(1,000 )	—	—	(1,000 )	—	—	(1,000 )
Net advances to Sabine Biofuels	—	2,586	—	—	2,586	—	—	2,586
Purchases of marketable securities	(244,030 )	—	—	—	(244,030 )	—	—	(244,030 )
Sales and maturities of marketable securities	253,676	—	—	—	253,676	—	—	253,676
Net advances to Parent	—	(302,773 )	(17,412 )	320,185	—	—	—	—
	6,483	(401,670 )	(17,443 )	320,185	(92,445 )	(20,604 )	—	(113,049 )
Cash flows from financing activities								
Net repayments under credit agreement – HEP	—	—	—	—	—	174,700	—	174,700
	—	—	—	—	—	(156,188 )	—	(156,188 )

Redemption of senior notes - HEP								
Inventory repurchase obligation	—	21,126	—	—	21,126	—	—	21,126
Purchase of treasury stock	(13,988 )	—	—	—	(13,988 )	—	—	(13,988 )
Dividends	(158,614 )	—	—	—	(158,614 )	—	—	(158,614 )
Distributions to noncontrolling interest	—	—	—	—	—	(38,092 )	19,211	(18,881 )
Excess tax benefit from equity-based compensation	5,156	—	—	—	5,156	—	—	5,156
Purchase of units for incentive grants - HEP	—	—	—	—	—	(336 )	—	(336 )
Deferred financing costs and other	—	(398 )	75	—	(323 )	—	—	(323 )
Net advances from subsidiaries	320,185	—	—	(320,185)	—	—	—	—
	152,739	20,728	75	(320,185)	146,643 )	(19,916 )	19,211	(147,348 )
Cash and cash equivalents								
Increase (decrease) for the period	135,658	238	109	—	136,005	(1,473 )	—	134,532
Beginning of period	931,920	1,817	14	—	933,751	6,352	—	940,103
End of period	\$1,067,578	\$2,055	\$123	\$—	\$1,069,756	\$4,879	\$—	\$1,074,635



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## HOLLYFRONTIER CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited) Continued

## Condensed Consolidating Statement of Cash Flows

Three Months Ended March 31, 2013	Parent	Guarantor Restricted Subsidiaries	Non-Guarantor Restricted Subsidiaries	Eliminations	HollyFrontier Corp. Before Consolidation of HEP	Non-Guarantor Non-Restricted Subsidiaries (HEP Segment)	Consolidations and Eliminations	Consolidated
	(In thousands)							
Cash flows from operating activities	\$ (56,933 )	\$ 282,983	\$ 10,496	\$ —	\$ 236,546	\$ 29,438	\$ (17,421 )	\$ 248,563
Cash flows from investing activities:								
Additions to properties, plants and equipment	(1,736 )	(65,215 )	—	—	(66,951 )	—	—	(66,951 )
Additions to properties, plants and equipment – HEP	—	—	—	—	—	(5,013 )	—	(5,013 )
Proceeds from sale of property	—	—	—	—	—	2,290	—	2,290
Purchases of marketable securities	(178,251 )	—	—	—	(178,251 )	—	—	(178,251 )
Sales and maturities of marketable securities	143,280	—	—	—	143,280	—	—	143,280
Net advances to Parent	—	(224,667 )	(8,997 )	233,664	—	—	—	—
	(36,707 )	(289,882 )	(8,997 )	233,664	(101,922 )	(2,723 )	—	(104,645 )
Cash flows from financing activities:								
Net borrowings under credit agreement – HEP	—	—	—	—	—	(53,000 )	—	(53,000 )
Proceeds from common unit offerings - HEP	73,444	—	—	—	73,444	73,444	—	146,888
Purchase of treasury stock	(6,610 )	—	—	—	(6,610 )	—	—	(6,610 )

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Contribution from general partner	—	—	(1,499 )	—	(1,499 )	1,499	—	—
Dividends	(102,163 )	—	—	—	(102,163 )	—	—	(102,163 )
Distributions to noncontrolling interest	—	—	—	—	—	(32,709 )	17,421	(15,288 )
Excess tax benefit from equity-based compensation	744	—	—	—	744	—	—	744
Purchase of units for incentive grants - HEP	—	—	—	—	—	(2,719 )	—	(2,719 )
Deferred financing costs and other	—	3,247	—	—	3,247	(274 )	—	2,973
Net advances from subsidiaries	233,664	—	—	(233,664)	—	—	—	—
	199,079	3,247	(1,499 )	(233,664)	32,837 )	(13,759 )	17,421	(29,175 )
Cash and cash equivalents								
Increase (decrease) for the period:	105,439	(3,652 )	—	—	101,787	12,956	—	114,743
Beginning of period	1,748,808	3,652	2	—	1,752,462	5,237	—	1,757,699
End of period	\$1,854,247	\$—	\$2	\$—	\$1,854,249	\$18,193	\$—	\$1,872,442

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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 crude oil processing capacity of 443,000 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, a petroleum refinery in 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").

For the three months ended March 31, 2014, net income attributable to HollyFrontier stockholders was \$152.1 million compared to \$333.7 million for the three months ended March 31, 2013. Overall gross refining margins per produced product sold decreased 37% over the respective three months ended March 31, 2013, which were due principally to significant contraction in WTI to Brent crude differentials.

OUTLOOK

Our profitability is affected by the spread, or differential, between the market prices for crude oil on the world market (which is based on the price for Brent, North Sea Crude) and the price for inland U.S. crude oil (which is based on the price for WTI). This differential constantly changes and at times can be volatile. While we have experienced wide differentials (with Brent prices in excess of WTI prices) in recent years that have significantly enhanced our profitability, the differential between Brent and WTI has narrowed significantly - currently averaging approximately \$7.00 per barrel. Differentials are likely to be volatile in the near term. However, we believe the Brent to WTI differential will widen again upon completion of additional northern tier pipeline capacity into Cushing, Oklahoma and as a result of increasing sweet crude oil inventories on the U.S. Gulf Coast. Ultimately, we believe pipeline tariffs from Cushing to the Gulf Coast plus marine transportation costs to move crude oil from the Gulf Coast to alternative markets will set the inland - coastal differential.

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. The price of RINs may be extremely volatile as observed in 2013, when prices escalated sharply due to real or perceived future shortages in RINs. Although our RINs costs remain material, the price of RINs has decreased significantly from 2013 highs, due in part to regulatory easing of the 2014 annual Renewable Volume Obligation, or RVO. As of March 2014, we are purchasing RINs in order to meet approximately half of our renewable fuel requirements. We cannot predict with certainty our exposure to increased RINs costs in the future, nor can we predict the extent by which costs associated with RFS2 will impact our future results of operations.

A more detailed discussion of our financial and operating results for the three months ended March 31, 2014 and 2013 is presented in the following sections.

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## RESULTS OF OPERATIONS

## Financial Data (Unaudited)

	Three Months Ended March		Change from 2013		
	31, 2014	2013	Change	Percent	
(In thousands, except per share data)					
Sales and other revenues	\$4,791,053	\$4,707,789	\$83,264	2	%
Operating costs and expenses:					
Cost of products sold (exclusive of depreciation and amortization)	4,138,620	3,792,535	346,085	9	
Operating expenses (exclusive of depreciation and amortization)	273,966	265,099	8,867	3	
General and administrative expenses (exclusive of depreciation and amortization)	26,923	29,198	(2,275)	(8)	)
Depreciation and amortization	80,548	71,762	8,786	12	
Total operating costs and expenses	4,520,057	4,158,594	361,463	9	
Income from operations	270,996	549,195	(278,199)	(51)	)
Other income (expense):					
Earnings (loss) of equity method investments	(801)	) 59	(860)	(1,458)	)
Interest income	1,405	1,531	(126)	(8)	)
Interest expense	(12,347)	) (21,320)	) 8,973	(42)	)
Loss on early extinguishment of debt	(7,677)	) —	(7,677)	—	)
	(19,420)	) (19,730)	) 310	(2)	)
Income before income taxes	251,576	529,465	(277,889)	(52)	)
Income tax provision	87,614	186,094	(98,480)	(53)	)
Net income	163,962	343,371	(179,409)	(52)	)
Less net income attributable to noncontrolling interest	11,901	9,702	2,199	23	
Net income attributable to HollyFrontier stockholders	\$152,061	\$333,669	\$(181,608)	(54)	)%
Earnings per share attributable to HollyFrontier stockholders:					
Basic	\$0.76	\$1.64	\$(0.88)	(54)	)%
Diluted	\$0.76	\$1.63	\$(0.87)	(53)	)%
Cash dividends declared per common share	\$0.80	\$0.80	\$—	—	%
Average number of common shares outstanding:					
Basic	198,297	202,726	(4,429)	(2)	)%
Diluted	198,924	203,428	(4,504)	(2)	)%

## Balance Sheet Data

	March 31, 2014	December 31, 2013
	(Unaudited)	
	(In thousands)	
Cash, cash equivalents and total investments in marketable securities	\$1,790,153	\$1,665,263
Working capital	\$2,268,999	\$2,221,954
Total assets	\$10,380,558	\$10,056,739
Long-term debt	\$1,023,057	\$997,519
Total equity	\$6,648,501	\$6,609,398

Other Financial Data (Unaudited)

	Three Months Ended March 31,	
	2014	2013
	(In thousands)	
Net cash provided by operating activities	\$394,929	\$248,563
Net cash used for investing activities	\$(113,049)	\$(104,645)
Net cash used for financing activities	\$(147,348)	\$(29,175)
Capital expenditures	\$124,281	\$71,964
EBITDA <sup>(1)</sup>	\$338,842	\$611,314

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Earnings before interest, taxes, depreciation and amortization, which we refer to as “EBITDA”, is calculated as net income 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 and as a basis for financial covenants. 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 two reportable segments, Refining and HEP. See Note 15 “Segment Information” in the Notes to Consolidated Financial Statements for additional information on our reportable segments.

## Refining Operating Data (Unaudited)

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 effect of 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 Ended March 31,		
	2014	2013	
Mid-Continent Region (El Dorado and Tulsa Refineries)			
Crude charge (BPD) <sup>(1)</sup>	255,030	240,480	
Refinery throughput (BPD) <sup>(2)</sup>	266,910	267,020	
Refinery production (BPD) <sup>(3)</sup>	261,170	260,210	
Sales of produced refined products (BPD)	247,220	242,560	
Sales of refined products (BPD) <sup>(4)</sup>	263,520	253,750	
Refinery utilization <sup>(5)</sup>	98.1	%	92.5 %
Average per produced barrel <sup>(6)</sup>			
Net sales	\$113.28	\$116.55	
Cost of products <sup>(7)</sup>	98.69	93.90	
Refinery gross margin	14.59	22.65	
Refinery operating expenses <sup>(8)</sup>	5.79	5.84	
Net operating margin	\$8.80	\$16.81	
Refinery operating expenses per throughput barrel <sup>(9)</sup>	\$5.36	\$5.31	
Feedstocks:			
Sweet crude oil	74	%	72 %
Sour crude oil	4	%	5 %
Heavy sour crude oil	18	%	13 %
Other feedstocks and blends	4	%	10 %
Total	100	%	100 %
Sales of produced refined products:			
Gasolines	47	%	47 %

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Diesel fuels	29	% 31	%
Jet fuels	9	% 9	%
Fuel oil	2	% 1	%
Asphalt	3	% 4	%
Lubricants	4	% 3	%
LPG and other	6	% 5	%
Total	100	% 100	%

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	Three Months Ended March 31,		
	2014	2013	
<b>Southwest Region (Navajo Refinery)</b>			
Crude charge (BPD) <sup>(1)</sup>	96,190	71,220	
Refinery throughput (BPD) <sup>(2)</sup>	108,620	80,100	
Refinery production (BPD) <sup>(3)</sup>	106,660	74,190	
Sales of produced refined products (BPD)	104,600	71,160	
Sales of refined products (BPD) <sup>(4)</sup>	110,240	89,820	
Refinery utilization <sup>(5)</sup>	96.2	% 71.2	%
<b>Average per produced barrel <sup>(6)</sup></b>			
Net sales	\$ 116.04	\$ 121.97	
Cost of products <sup>(7)</sup>	101.81	94.77	
Refinery gross margin	14.23	27.20	
Refinery operating expenses <sup>(8)</sup>	5.60	8.06	
Net operating margin	\$8.63	\$19.14	
Refinery operating expenses per throughput barrel <sup>(9)</sup>	\$5.39	\$7.16	
<b>Feedstocks:</b>			
Sweet crude oil	5	% —	%
Sour crude oil	77	% 80	%
Heavy sour crude oil	7	% 10	%
Other feedstocks and blends	11	% 10	%
Total	100	% 100	%
<b>Sales of produced refined products:</b>			
Gasolines	55	% 52	%
Diesel fuels	37	% 37	%
Fuel oil	4	% 7	%
Asphalt	1	% 1	%
LPG and other	3	% 3	%
Total	100	% 100	%
<b>Rocky Mountain Region (Cheyenne and Woods Cross Refineries)</b>			
Crude charge (BPD) <sup>(1)</sup>	64,990	68,920	
Refinery throughput (BPD) <sup>(2)</sup>	70,840	74,190	
Refinery production (BPD) <sup>(3)</sup>	68,030	72,870	
Sales of produced refined products (BPD)	71,240	72,390	
Sales of refined products (BPD) <sup>(4)</sup>	74,960	78,540	
Refinery utilization <sup>(5)</sup>	78.3	% 83.0	%
<b>Average per produced barrel <sup>(6)</sup></b>			
Net sales	\$ 110.64	\$ 108.26	
Cost of products <sup>(7)</sup>	94.54	86.54	
Refinery gross margin	16.10	21.72	
Refinery operating expenses <sup>(8)</sup>	9.05	8.11	
Net operating margin	\$7.05	\$13.61	
Refinery operating expenses per throughput barrel <sup>(9)</sup>	\$9.10	\$7.91	



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	Three Months Ended March 31,		
	2014	2013	
Feedstocks:			
Sweet crude oil	43	% 44	%
Sour crude oil	2	% 1	%
Heavy sour crude oil	31	% 34	%
Black wax crude oil	16	% 14	%
Other feedstocks and blends	8	% 7	%
Total	100	% 100	%
Sales of produced refined products:			
Gasolines	53	% 59	%
Diesel fuels	31	% 27	%
Fuel oil	2	% 1	%
Asphalt	6	% 7	%
LPG and other	8	% 6	%
Total	100	% 100	%
Consolidated			
Crude charge (BPD) <sup>(1)</sup>	416,210	380,620	
Refinery throughput (BPD) <sup>(2)</sup>	446,370	421,310	
Refinery production (BPD) <sup>(3)</sup>	435,860	407,270	
Sales of produced refined products (BPD)	423,060	386,110	
Sales of refined products (BPD) <sup>(4)</sup>	448,720	422,110	
Refinery utilization <sup>(5)</sup>	94.0	% 85.9	%
Average per produced barrel <sup>(6)</sup>			
Net sales	\$113.51	\$116.00	
Cost of products <sup>(7)</sup>	98.76	92.68	
Refinery gross margin	14.75	23.32	
Refinery operating expenses <sup>(8)</sup>	6.29	6.68	
Net operating margin	\$8.46	\$16.64	
Refinery operating expenses per throughput barrel <sup>(9)</sup>	\$5.96	\$6.12	
Feedstocks:			
Sweet crude oil	52	% 53	%
Sour crude oil	21	% 19	%
Heavy sour crude oil	17	% 16	%
Black wax crude oil	3	% 2	%
Other feedstocks and blends	7	% 10	%
Total	100	% 100	%
Sales of produced refined products:			
Gasolines	50	% 50	%
Diesel fuels	32	% 31	%
Jet fuels	5	% 6	%
Fuel oil	2	% 2	%
Asphalt	3	% 4	%
Lubricants	2	% 2	%
LPG and other	6	% 5	%

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Total	100	% 100	%
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- (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.

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- (4) Includes refined products purchased for resale.
- (5) Represents crude charge divided by total crude capacity (BPSD). Our consolidated crude capacity is 443,000 BPSD.  
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) Represents operating expenses of our refineries, exclusive of depreciation and amortization.
- (9) Represents refinery operating expenses, exclusive of depreciation and amortization, divided by refinery throughput.

Results of Operations – Three Months Ended March 31, 2014 Compared to Three Months Ended March 31, 2013

Summary

Net income attributable to HollyFrontier stockholders for the three months ended March 31, 2014 was \$152.1 million (\$0.76 per basic and diluted share), a \$181.6 million decrease compared to \$333.7 million (\$1.64 per basic and \$1.63 per diluted share) for the three months ended March 31, 2013. Net income decreased due principally to a year-over-year decrease in first quarter refining margins. Refinery gross margins for the three months ended March 31, 2014 decreased to \$14.75 per produced barrel from \$23.32 for the three months ended March 31, 2013.

Sales and Other Revenues

Sales and other revenues increased 2% from \$4,707.8 million for the three months ended March 31, 2013 to \$4,791.1 million for the three months ended March 31, 2014 due to higher refined product sales volumes, partially offset by a year-over-year decrease in first quarter sales prices. The average sales price we received per produced barrel sold was \$116.00 for the three months ended March 31, 2013 compared to \$113.51 for the three months ended March 31, 2014. Sales and other revenues for the three months ended March 31, 2014 and 2013 include \$15.2 million and \$12.9 million, respectively, in HEP revenues attributable to pipeline and transportation services provided to unaffiliated parties.

Cost of Products Sold

Cost of products sold increased 9% from \$3,792.5 million for the three months ended March 31, 2013 to \$4,138.6 million for the three months ended March 31, 2014, due principally to higher crude oil costs and higher sales volumes of refined products. The average price we paid per barrel for crude oil and feedstocks and the transportation costs of moving the finished products to the market place increased 7% from \$92.68 for the three months ended March 31, 2013 to \$98.76 for the three months ended March 31, 2014.

Gross Refinery Margins

Gross refinery margin per produced barrel decreased 37% from \$23.32 for the three months ended March 31, 2013 to \$14.75 for the three months ended March 31, 2014. This was due to the effects of an increase in crude oil and feedstock prices combined with the decrease in average per barrel sales prices for refined products sold for the quarter. Gross refinery margin does not include the effects of depreciation and amortization. See “Reconciliations to Amounts Reported Under Generally Accepted Accounting Principles” following Item 3 of Part 1 of this Form 10-Q for a reconciliation to the income statement of prices of refined products sold and cost of products purchased.

Operating Expenses

Operating expenses, exclusive of depreciation and amortization, increased 3% from \$265.1 million for the three months ended March 31, 2013 to \$274.0 million for the three months ended March 31, 2014 due principally to higher natural gas fuel costs during the quarter.

**General and Administrative Expenses**

General and administrative expenses decreased 8% from \$29.2 million for the three months ended March 31, 2013 to \$26.9 million for the three months ended March 31, 2014 due principally to lower incentive compensation expense during the quarter.

**Depreciation and Amortization Expenses**

Depreciation and amortization increased 12% from \$71.8 million for the three months ended March 31, 2013 to \$80.5 million for the three months ended March 31, 2014. The increase was due principally to depreciation and amortization attributable to capitalized improvement projects and capitalized refinery turnaround costs.

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### Interest Income

Interest income for the three months ended March 31, 2014 was \$1.4 million compared to \$1.5 million for the three months ended March 31, 2013. This decrease was due to lower investment levels in marketable debt securities during the quarter.

### Interest Expense

Interest expense was \$12.3 million for the three months ended March 31, 2014 compared to \$21.3 million for the three months ended March 31, 2013. This decrease was due to lower year-over-year debt levels principally as a result of the redemption of our \$286.8 million 9.875% senior notes in June 2013. For the three months ended March 31, 2014 and 2013, interest expense included \$10.5 million and \$12.5 million, respectively, in interest costs attributable to HEP operations.

### Loss on Early Extinguishment of Debt

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

### Income Taxes

For the three months ended March 31, 2014, we recorded income tax expense of \$87.6 million compared to \$186.1 million for the three months ended March 31, 2013. This decrease is due principally to lower pre-tax earnings during the three months ended March 31, 2014 compared to the same period of 2013. Our effective tax rates, before consideration of earnings attributable to the noncontrolling interest, were 34.8% and 35.1% for the three months ended March 31, 2014 and 2013, respectively.

## LIQUIDITY AND CAPITAL RESOURCES

### HollyFrontier Credit Agreement

We have a \$1 billion senior secured credit agreement that matures in July 2016 (the “HollyFrontier Credit Agreement”) and may be used to fund working capital requirements, capital expenditures, acquisitions and general corporate purposes. Obligations under the HollyFrontier Credit Agreement are collateralized by our inventory, accounts receivables and certain deposit accounts and guaranteed by our material, wholly-owned subsidiaries. At March 31, 2014, we were in compliance with all covenants, had no outstanding borrowings and had outstanding letters of credit totaling \$4.5 million under the HollyFrontier Credit Agreement.

### HEP Credit Agreement

HEP has a \$650 million senior secured revolving credit facility that matures in November 2018 (the “HEP Credit Agreement”) and is available to fund capital expenditures, investments, acquisitions, distribution payments and working capital and for general partnership purposes. It is also available to fund letters of credit up to a \$50 million sub-limit. At March 31, 2014, HEP was in compliance with all of its covenants, had outstanding borrowings of \$537.7 million and no outstanding letters of credit under the HEP Credit Agreement.

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

HollyFrontier Senior Notes

Our 6.875% senior notes (\$150 million aggregate principal amount maturing November 2018) (the “HollyFrontier Senior Notes”) are unsecured and impose certain restrictive covenants, including limitations on our ability to incur additional debt, incur liens, enter into sale-and-leaseback transactions, pay dividends, enter into mergers, sell assets and enter into certain transactions with affiliates. Additionally, we have certain redemption rights under the HollyFrontier Senior Notes.

At any time, following notice to the trustee, that the HollyFrontier Senior Notes are rated investment grade by both Moody's and Standard & Poor's and no default or event of default exists, we are not subject to many of the foregoing covenants (a "Covenant Suspension"). As of March 31, 2014, the HollyFrontier Senior Notes were rated investment grade by both Standard & Poor's (BBB-) and by Moody's (Baa3). As a result, we are under the Covenant Suspension pursuant to the terms of the indenture governing the HollyFrontier Senior Notes.



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### HollyFrontier Financing Obligation

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

### HEP Senior Notes

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

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

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

### Liquidity

We believe our current cash and cash equivalents, along with future internally generated cash flow and funds available under our credit facilities will provide sufficient resources to fund currently planned capital projects and our liquidity needs for the foreseeable future. In addition, components of our growth strategy include construction of new refinery processing units and the expansion of existing units at our facilities and selective acquisition of complementary assets for our refining operations intended to increase earnings and cash flow.

As of March 31, 2014, our cash, cash equivalents and investments in marketable securities totaled \$1.8 billion. We consider all highly-liquid instruments with a maturity of three months or less at the time of purchase to be cash equivalents. Cash equivalents are stated at cost, which approximates market value. These primarily consist of investments in conservative, highly-rated instruments issued by financial institutions, government and corporate entities with strong credit standings and money market funds.

We have a Board approved stock repurchase program that authorizes us to repurchase common stock in the open market or through privately negotiated transactions. The timing and amount of stock repurchases will depend on market conditions, corporate, regulatory and other relevant considerations. This program may be discontinued at any time by the Board of Directors. As of March 31, 2014, we had remaining authorization to repurchase up to \$311.6 million under this stock repurchase program.

Cash and cash equivalents increased \$134.5 million for the three months ended March 31, 2014. Net cash provided by operating activities of \$394.9 million exceeded cash used for investing and financing activities of \$113.0 million and \$147.3 million, respectively. Working capital increased by \$47.0 million during the three months ended March 31, 2014.

### Cash Flows – Operating Activities

Three Months Ended March 31, 2014 Compared to Three Months Ended March 31, 2013

Net cash flows provided by operating activities were \$394.9 million for the three months ended March 31, 2014 compared to \$248.6 million for the three months ended March 31, 2013, an increase of \$146.4 million. Net income for the three months ended March 31, 2014 was \$164.0 million, a decrease of \$179.4 million compared to \$343.4 million for the three months ended March 31, 2013. Non-cash adjustments to net income consisting of depreciation and amortization, earnings of equity method investments, net of distributions, the write-off of an unamortized discount on the early extinguishment of debt, deferred income taxes, equity-based compensation expense and fair value changes to derivative instruments totaled \$73.4 million for the three months ended March 31, 2014 compared to \$6.7 million for the same period in 2013. Changes in working capital items increased cash flows by \$152.7 million for the three months ended March 31, 2014 compared to a decrease of \$32.0 million for the three months ended March 31, 2013. Additionally, for the three months ended March 31, 2014, turnaround expenditures decreased to \$4.3 million from \$69.8 million for the same period of 2013.

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### Cash Flows – Investing Activities and Planned Capital Expenditures

#### Three Months Ended March 31, 2014 Compared to Three Months Ended March 31, 2013

Net cash flows used for investing activities were \$113.0 million for the three months ended March 31, 2014 compared to \$104.6 million for the three months ended March 31, 2013, an increase of \$8.4 million. Cash expenditures for properties, plants and equipment for the first three months of 2014 increased to \$124.3 million from \$72.0 million for the same period in 2013. These include HEP capital expenditures of \$20.6 million and \$5.0 million for the three months ended March 31, 2014 and 2013, respectively. In addition, for the three months ended March 31, 2014, we invested \$1.0 million in Sabine Biofuels and received total net repayments of \$2.6 million of amounts previously advanced under Sabine Biofuels' working capital facility. Additionally, we received proceeds of \$2.3 million from the sale of property and equipment for the three months ended March 31, 2013. Also for the three months ended March 31, 2014 and 2013, we invested \$244.0 million and \$178.3 million, respectively, in marketable securities and received proceeds of \$253.7 million and \$143.3 million, respectively, from the sale or maturity of marketable securities.

### Planned Capital Expenditures

#### HollyFrontier Corporation

Each year our Board of Directors approves our annual capital budget which includes specific projects that management is authorized to undertake. Additionally, when conditions warrant or as new opportunities arise, additional projects may be approved. The funds appropriated for a particular capital project may be expended over a period of several years, depending on the time required to complete the project. Therefore, our planned capital expenditures for a given year consist of expenditures appropriated in that year's capital budget plus expenditures for projects appropriated in prior years which have not yet been completed. Our appropriated capital budget for 2014 is \$185.0 million including both sustaining capital and major capital projects. We expect to spend approximately \$400.0 million to \$450.0 million in cash for capital projects appropriated in 2014 and prior years. This spending is comprised of \$142.0 million to \$160.0 million at the Woods Cross Refinery, \$54.0 million to \$61.0 million at the Tulsa Refineries, \$85.0 million to \$96.0 million at the El Dorado Refinery, \$80.0 million to \$90.0 million at the Cheyenne Refinery, \$24.0 million to \$27.0 million at the Navajo Refinery and \$15.0 million to \$16.0 million for miscellaneous other projects. In addition, we expect to spend approximately \$77.0 million on refinery turnarounds. Refinery turnaround spending is amortized over the useful life of the turnaround.

A significant portion of our current capital spending is associated with compliance-oriented capital improvements. This spending is required due to existing consent decrees (for projects including FCC unit flue gas scrubbers and tail gas treatment units), federal fuels regulations (particularly, MSAT2 which mandates a reduction in the benzene content of blended gasoline), refinery waste water treatment improvements and other similar initiatives. Our refinery operations and related emissions are highly regulated at both federal and state levels, and we invest in our facilities as needed to remain in compliance with these standards. Additionally, when faced with new emissions or fuels standards, we seek to execute projects that facilitate compliance and also improve the operating costs and / or yields of associated refining processes.

#### El Dorado Refinery

Capital projects at the El Dorado Refinery include naphtha fractionation, an additional hydrogen plant and a Low-Nox addition to the FCC unit flue gas scrubber. Continuing project work is planned to include upgrades to the FCC unit to improve liquid yield, upgrades to the crude unit desalter and a new tail gas treatment unit to reduce air emissions in compliance with the El Dorado Refinery's existing EPA consent decree.

#### Tulsa Refineries

Capital spending for the Tulsa Refineries in 2014 includes previously approved capital appropriations for a gasoline-blending system and numerous infrastructure upgrades. Spending on maintenance capital items and general improvements continues at an elevated level at the Tulsa Refineries due to lower maintenance capital expenditures made prior to HollyFrontier's purchase of the facilities.

#### Navajo Refinery

The Navajo Refinery capital spending in 2014 will be principally directed toward previously approved capital appropriations as well as maintenance capital spending. Included among previously approved capital projects is a \$25.0 million upgrade to the Navajo Refinery's waste water treatment system.

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### Cheyenne Refinery

We are continuing with our previously approved plan to install a new hydrogen plant at the Cheyenne Refinery. The hydrogen plant, along with a now-completed naphtha fractionation project, is anticipated to allow us to reduce benzene content in Cheyenne gasoline production, while at the same time improving the refinery's overall liquid yields and light oils production. Previously appropriated projects still underway at Cheyenne include wastewater treatment plant improvements, a wet gas scrubber for the FCC unit to reduce air emissions and a redundant tail gas unit associated with the sulfur recovery process.

### Woods Cross Refinery

Engineering and construction continue on our previously announced expansion project to increase planned processing capacity to 45,000 BPSD, at an expected cost of \$300.0 million. On November 18, 2013, the Utah Division of Air Quality issued a revised air quality permit (the "Approval Order") authorizing the expansion. On December 18, 2013, two local environmental groups filed an administrative appeal challenging the issuance of the Approval Order and seeking a stay of the Approval Order. On March 25, 2014, the administrative law judge issued a recommendation to the Executive Director of the Utah Department of Environmental Quality (the "DEQ") recommending that the motion to stay the Approval Order be denied. The matter is now pending before the Executive Director of the DEQ. A final decision on the merits of the appeal will be made after briefing is completed. The expansion is expected to be completed in the fourth quarter of 2015. This project work includes a new rail loading rack for intermediates and finished products associated with refining waxy crude oil. Long lead equipment has been ordered and detailed engineering is approximately 70% completed. The expansion, and expected completion timeline and cost, are subject to the Woods Cross refinery successfully obtaining the Approval Order.

Regulatory compliance items or other presently existing or future environmental regulations / consent decrees could cause us to make additional capital investments beyond those described above and incur additional operating costs to meet applicable requirements, including those related to Federal Tier 3 gasoline standards.

### HEP

Each year the Holly Logistic Services, L.L.C. board of directors approves HEP's annual capital budget, which specifies capital projects that HEP management is authorized to undertake. Additionally, at times when conditions warrant or as new opportunities arise, special projects may be approved. The funds allocated for a particular capital project may be expended over a period of several years, depending on the time required to complete the project. Therefore, HEP's planned capital expenditures for a given year consist of expenditures approved for capital projects included in its current year capital budget as well as, in certain cases, expenditures approved for capital projects in capital budgets for prior years. The 2014 HEP capital budget is comprised of \$7.3 million for maintenance capital expenditures and \$26.2 million for expansion capital expenditures. HEP expects to spend approximately \$52.0 million in cash for capital projects approved in 2014 plus those approved in prior years but not yet completed, such as the projects discussed below.

HEP is proceeding with the expansion of its crude oil transportation system in southeastern New Mexico in response to increased crude oil production in the area. The expansion should provide shippers with additional pipeline takeaway capacity to either common carrier pipeline stations for transportation to major crude oil markets or to our New Mexico refining facilities. To complete the project, HEP is converting an existing refined products pipeline to crude oil service, constructing several new pipeline segments, expanding an existing pipeline and building new truck unloading stations and crude storage capacity. Excluding the value of the existing pipeline to be converted, total capital expenditures are expected to cost between \$45.0 million and \$50.0 million. The project is expected to provide increased capacity of up to 100,000 BPD across HEP's system and is expected to be in full service by August 2014.

UNEV is proceeding with a project to enhance its product terminal in Las Vegas, Nevada. HEP expects that the project will cost approximately \$13.0 million with construction expected to be completed no later than the second

quarter of 2014.

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Cash Flows – Financing Activities

Three Months Ended March 31, 2014 Compared to Three Months Ended March 31, 2013

Net cash flows used for financing activities were \$147.3 million for the three months ended March 31, 2014 compared to \$29.2 million for the three months ended March 31, 2013, an increase of \$118.2 million. During the three months ended March 31, 2014, we purchased \$14.0 million in common stock, paid \$158.6 million in dividends and recognized \$5.2 million excess tax benefits on our equity-based compensation. Additionally, we sold inventories to third parties with the obligation to repurchase later at contractually fixed prices. Proceeds of \$21.1 million received under these transactions are presented as a financing source of cash and are presented in our consolidated balance sheets as an accrued liability at March 31, 2014. Also during this period, HEP received \$421.3 million and repaid \$246.6 million under the HEP Credit Agreement, paid \$156.2 million upon the redemption of HEP's 8.25% senior notes, paid distributions of \$18.9 million to noncontrolling interests and purchased \$0.3 million in HEP common units for recipients of its incentive grants. During the three months ended March 31, 2013, we received \$73.4 million from the sale of HEP common units, purchased \$6.6 million in common stock, paid \$102.2 million in dividends and recognized \$0.7 million excess tax benefits on our equity-based compensation. Also during this period, HEP received \$57.0 million and repaid \$110.0 million under the HEP Credit Agreement, paid distributions of \$15.3 million to noncontrolling interests, purchased \$2.7 million in HEP common units in the open market for recipients of its incentive grants and received proceeds of \$73.4 million upon its March 2013 common unit offering.

Contractual Obligations and Commitments

HollyFrontier Corporation

There were no significant changes to our contractual obligations during the three months ended March 31, 2014.

HEP

During the three months ended March 31, 2014, HEP received net borrowings of \$174.7 million resulting in \$537.7 million of outstanding borrowings under the HEP Credit Agreement at March 31, 2014.

In March 2014, HEP redeemed its \$150.0 million aggregate principal amount of 8.25% senior notes maturing March 2018.

There were no other significant changes to HEP's long-term contractual obligations during this period.

CRITICAL ACCOUNTING POLICIES

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities as of the date of the financial statements. Actual results may differ from these estimates under different assumptions or conditions.

Our significant accounting policies are described in "Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Critical Accounting Policies" in our Annual Report on Form 10-K for the year ended December 31, 2013. Certain critical accounting policies that materially affect the amounts recorded in our consolidated financial statements include the assessment and consolidation of variable interest entities, the use of the LIFO method of valuing certain inventories, the amortization of deferred costs for regular major maintenance and repairs at our refineries, assessing the possible impairment of certain long-lived assets and goodwill, accounting for

derivative instruments and assessing contingent liabilities for probable losses.

We use the LIFO method of valuing inventory. Under the LIFO method, an actual valuation of inventory can only be made at the end of each year based on the inventory levels at that time. Accordingly, interim LIFO calculations are based on management's estimates of expected year-end inventory levels and are subject to the final year-end LIFO inventory valuation.

Goodwill represents the excess of the cost of an acquired entity over the fair value of the assets acquired and liabilities assumed. Goodwill is not subject to amortization and is tested annually or more frequently if events or circumstances indicate the possibility of impairment. As of March 31, 2014, there have been no impairments to goodwill.



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## RISK MANAGEMENT

We use certain strategies to reduce some commodity price and operational risks. We do not attempt to eliminate all market risk exposures when we believe that the exposure relating to such risk would not be significant to our future earnings, financial position, capital resources or liquidity or that the cost of eliminating the exposure would outweigh the benefit.

## Commodity Price Risk Management

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

- our inventory positions;
- natural gas purchases;
- costs of crude oil and related grade differentials;
- prices of refined products; and
- our refining margins.

As of March 31, 2014, we have the following notional contract volumes related to all outstanding derivative contracts used to mitigate commodity price risk:

Contract Description	Total Outstanding Notional	Notional Contract Volumes by Year of Maturity				Unit of Measure
		2014	2015	2016	2017	
Natural gas price swap - long	72,000,000	14,400,000	19,200,000	19,200,000	19,200,000	MMBTU
Natural gas price swap - short	36,000,000	7,200,000	9,600,000	9,600,000	9,600,000	MMBTU
WTI price swap - long	24,042,500	19,662,500	4,380,000	—	—	Barrels
Ultra-low sulfur diesel price swap - short	14,142,500	9,762,500	4,380,000	—	—	Barrels
Sub octane gasoline price swap - short	9,900,000	9,900,000	—	—	—	Barrels
WCS price swap - long	4,812,500	4,812,500	—	—	—	Barrels
NYMEX futures (WTI) - short	2,914,000	2,914,000	—	—	—	Barrels
Forward sales - diesel and gasoline	825,000	825,000	—	—	—	Barrels

The following sensitivity analysis provides the hypothetical effects of market price fluctuations to the commodity positions hedged under our derivative contracts:

Commodity-based Derivative Contracts	Estimated Change in Fair Value at March 31,	
	2014	2013
	(In thousands)	
Hypothetical 10% change in underlying commodity prices	\$72,458	\$27,011

## Interest Rate Risk Management

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

As of March 31, 2014, HEP had three interest rate swap contracts that hedge its exposure to the cash flow risk caused by the effects of LIBOR changes on \$305.0 million in credit agreement advances. The first interest rate swap effectively converts \$155.0 million of LIBOR based debt to fixed rate debt having an interest rate of 0.99% plus an

applicable margin of 2.00% as of March 31, 2014, which equaled an effective interest rate of 2.99%. This swap matures in February 2016. HEP has two additional interest rate swaps with identical terms which effectively convert \$150.0 million of LIBOR based debt to fixed rate debt having an interest rate of 0.74% plus an applicable margin of 2.00% as of March 31, 2014, which equaled an effective interest rate of 2.74%. Both of these swap contracts mature in July 2017. These swap contracts have been designated as cash flow hedges.

The market risk inherent in our fixed-rate debt and positions is the potential change arising from increases or decreases in interest rates as discussed below.

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For the fixed rate HollyFrontier Senior Notes and HEP Senior Notes, changes in interest rates will generally affect fair value of the debt, but not our earnings or cash flows. The outstanding principal, estimated fair value and estimated change in fair value (assuming a hypothetical 10% change in the yield-to-maturity rates) for these debt instruments as of March 31, 2014 is presented below:

	Outstanding Principal	Estimated Fair Value	Estimated Change in Fair Value
	(In thousands)		
HollyFrontier Senior Notes	\$ 150,000	\$ 160,688	\$ 3,288
HEP Senior Notes	\$ 300,000	\$ 319,500	\$ 8,357

For the variable rate HEP Credit Agreement, changes in interest rates would affect cash flows, but not the fair value. At March 31, 2014, outstanding borrowings under the HEP Credit Agreement were \$537.7 million. By means of its cash flow hedges, HEP has effectively converted the variable rate on \$305.0 million of outstanding principal to a weighted average fixed rate of 2.87%. For the remaining unhedged Credit Agreement borrowings of \$232.7 million, a hypothetical 10% change in interest rates applicable to the HEP Credit Agreement would not materially affect cash flows.

At March 31, 2014, our marketable securities included investments in investment grade, highly-liquid investments with maturities generally not greater than one year from the date of purchase and hence the interest rate market risk implicit in these investments is low. Due to the short-term nature of our cash and cash equivalents, a hypothetical 10% increase in interest rates would not have a material effect on the fair market value of our portfolio. Since we have the ability to liquidate this portfolio, we do not expect our operating results or cash flows to be materially affected by the effect of a sudden change in market interest rates on our investment portfolio.

Our operations are subject to hazards of petroleum processing operations, including fire, explosion and weather-related perils. We maintain various insurance coverages, including business interruption insurance, subject to certain deductibles. We are not fully insured against certain risks because such risks are not fully insurable, coverage is unavailable, or premium costs, in our judgment, do not justify such expenditures.

Financial information is reviewed on the counterparties in order to review and monitor their financial stability and assess their ongoing ability to honor their commitments under the derivative contracts. We have not experienced, nor do we expect to experience, any difficulty in the counterparties honoring their commitments.

We have a risk management oversight committee consisting of members from our senior management. This committee oversees our risk enterprise program, monitors our risk environment and provides direction for activities to mitigate identified risks that may adversely affect the achievement of our goals.

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

See “Risk Management” under “Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

#### Reconciliations to Amounts Reported Under Generally Accepted Accounting Principles

Reconciliations of earnings before interest, taxes, depreciation and amortization (“EBITDA”) to amounts reported under generally accepted accounting principles in financial statements.

Earnings before interest, taxes, depreciation and amortization, which we refer to as EBITDA, is calculated as net income attributable to HollyFrontier stockholders 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 and as a basis for financial covenants.

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Set forth below is our calculation of EBITDA.

	Three Months Ended March 31,	
	2014	2013
	(In thousands)	
Net income attributable to HollyFrontier stockholders	\$152,061	\$333,669
Add income tax provision	87,614	186,094
Add interest expense <sup>(1)</sup>	20,024	21,320
Subtract interest income	(1,405	) (1,531
Add depreciation and amortization	80,548	71,762
EBITDA	\$338,842	\$611,314

(1) Includes loss on early extinguishment of debt of \$7.7 million for the three months ended March 31, 2014.

Reconciliations of refinery operating information (non-GAAP performance measures) to amounts reported under generally accepted accounting principles in financial statements.

Refinery gross margin and net operating margin are non-GAAP performance measures that are used by our management and others to compare our refining performance to that of other companies in our industry. We believe these margin measures are helpful to investors in evaluating our refining performance on a relative and absolute basis.

Refinery gross margin per barrel is the difference between average net sales price and average cost of products per barrel of produced refined products. Net operating margin per barrel is the difference between refinery gross margin and refinery operating expenses per barrel of produced refined products. These two margins do not include the effect of depreciation and amortization. Each of these component performance measures can be reconciled directly to our consolidated statements of income.

Other companies in our industry may not calculate these performance measures in the same manner.

#### Refinery Gross and Net Operating Margins

Below are reconciliations to our consolidated statements of income for (i) net sales, cost of products and operating expenses, in each case averaged per produced barrel sold, and (ii) net operating margin and refinery gross margin. Due to rounding of reported numbers, some amounts may not calculate exactly.

#### Reconciliation of produced product sales to total sales and other revenues

	Three Months Ended March 31,	
	2014	2013
	(Dollars in thousands, except per barrel amounts)	
Consolidated		
Average sales price per produced barrel sold	\$113.51	\$116.00
Times sales of produced refined products sold (BPD)	423,060	386,110
Times number of days in period	90	90
Produced refined product sales	\$4,321,939	\$4,030,988
Total produced refined products sold	\$4,321,939	\$4,030,988
Add refined product sales from purchased products and rounding <sup>(1)</sup>	269,615	409,891
Total refined product sales	4,591,554	4,440,879

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Add direct sales of excess crude oil <sup>(2)</sup>	165,407	236,250
Add other refining segment revenue <sup>(3)</sup>	18,119	15,297
Total refining segment revenue	4,775,080	4,692,426
Add HEP segment sales and other revenues	87,012	76,484
Add corporate and other revenues	1,115	563
Subtract consolidations and eliminations	(72,154)	) (61,684
Sales and other revenues	\$4,791,053	\$4,707,789

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## Reconciliation of average cost of products per produced barrel sold to total cost of products sold

	Three Months Ended March 31,	
	2014	2013
	(Dollars in thousands, except per barrel amounts)	
Consolidated		
Average cost of products per produced barrel sold	\$98.76	\$92.68
Times sales of produced refined products (BPD)	423,060	386,110
Times number of days in period	90	90
Cost of products for produced products sold	\$3,760,327	\$3,220,621
Total cost of products for produced products sold	\$3,760,327	\$3,220,621
Add refined product costs from purchased products and rounding <sup>(1)</sup>	268,808	394,087
Total cost of refined products sold	4,029,135	3,614,708
Add crude oil cost of direct sales of excess crude oil <sup>(2)</sup>	166,283	226,268
Add other refining segment cost of products sold <sup>(4)</sup>	14,304	12,193
Total refining segment cost of products sold	4,209,722	3,853,169
Subtract consolidations and eliminations	(71,102	) (60,634
Costs of products sold (exclusive of depreciation and amortization)	\$4,138,620	\$3,792,535

## Reconciliation of average refinery operating expenses per produced barrel sold to total operating expenses

	Three Months Ended March 31,	
	2014	2013
	(Dollars in thousands, except per barrel amounts)	
Consolidated		
Average refinery operating expenses per produced barrel sold	\$6.29	\$6.68
Times sales of produced refined products (BPD)	423,060	386,110
Times number of days in period	90	90
Refinery operating expenses for produced products sold	\$239,494	\$232,129
Total refinery operating expenses for produced products sold	\$239,494	\$232,129
Add other refining segment operating expenses and rounding <sup>(5)</sup>	11,114	7,756
Total refining segment operating expenses	250,608	239,885
Add HEP segment operating expenses	22,812	26,029
Add corporate and other costs	868	(481
Subtract consolidations and eliminations	(322	) (334
Operating expenses (exclusive of depreciation and amortization)	\$273,966	\$265,099

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Reconciliation of net operating margin per barrel to refinery gross margin per barrel to total sales and other revenues

	Three Months Ended March 31,	
	2014	2013
	(Dollars in thousands, except per barrel amounts)	
Consolidated		
Net operating margin per barrel	\$8.46	\$16.64
Add average refinery operating expenses per produced barrel	6.29	6.68
Refinery gross margin per barrel	14.75	23.32
Add average cost of products per produced barrel sold	98.76	92.68
Average sales price per produced barrel sold	\$113.51	\$116.00
Times sales of produced refined products sold (BPD)	423,060	386,110
Times number of days in period	90	90
Produced refined products sales	\$4,321,939	\$4,030,988
Total produced refined products sales	\$4,321,939	\$4,030,988
Add refined product sales from purchased products and rounding <sup>(1)</sup>	269,615	409,891
Total refined product sales	4,591,554	4,440,879
Add direct sales of excess crude oil <sup>(2)</sup>	165,407	236,250
Add other refining segment revenue <sup>(3)</sup>	18,119	15,297
Total refining segment revenue	4,775,080	4,692,426
Add HEP segment sales and other revenues	87,012	76,484
Add corporate and other revenues	1,115	563
Subtract consolidations and eliminations	(72,154	) (61,684
Sales and other revenues	\$4,791,053	\$4,707,789

(1) We purchase finished products when opportunities arise that provide a profit on the sale of such products, or to meet delivery commitments.

We purchase crude oil that at times exceeds the supply needs of our refineries. Quantities in excess of our needs are sold at market prices to purchasers of crude oil that are recorded on a gross basis with the sales price recorded

(2) as revenues and the corresponding acquisition cost as inventory and then upon sale as cost of products sold.

Additionally, at times we enter into buy/sell exchanges of crude oil with certain parties to facilitate the delivery of quantities to certain locations that are netted at carryover cost.

(3) Other refining segment revenue includes the incremental revenues associated with NK Asphalt and miscellaneous revenue.

(4) Other refining segment cost of products sold includes the incremental cost of products for NK Asphalt and miscellaneous costs.

(5) Other refining segment operating expenses include the marketing costs associated with our refining segment and the operating expenses of NK Asphalt.

## Item 4. Controls and Procedures

Evaluation of disclosure controls and procedures. Our principal executive officer and principal financial officer have evaluated, as required by Rule 13a-15(b) under the Securities Exchange Act of 1934 (the "Exchange Act"), our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e)) under the Exchange Act as of the end of the period covered by this Quarterly Report on Form 10-Q. Our disclosure controls and procedures are designed to provide reasonable assurance that the information we are required to disclose in the reports that we file or



submit under the Exchange Act is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure and is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. Based upon the evaluation, our principal executive officer and principal financial officer have concluded that our disclosure controls and procedures were effective at the reasonable assurance level as of March 31, 2014.

Changes in internal control over financial reporting. There have been no changes in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that occurred during our last fiscal quarter that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

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PART II. OTHER INFORMATION

Item 1. Legal Proceedings

Commitment and Contingency Reserves

We periodically establish reserves for certain legal proceedings. The establishment of a reserve involves an estimation process that includes the advice of legal counsel and subjective judgment of management. While management believes these reserves to be adequate, future changes in the facts and circumstances could result in the actual liability exceeding the estimated ranges of loss and amounts accrued.

While the outcome and impact on us cannot be predicted with certainty, management believes that the resolution of these proceedings through settlement or adverse judgment will not have a material adverse effect on our consolidated financial position or cash flow. Operating results, however, could be significantly impacted in the reporting periods in which such matters are resolved.

Environmental Matters

We are reporting the following proceedings to comply with SEC regulations which require us to disclose proceedings arising under federal, state or local provisions regulating the discharge of materials into the environment or protecting the environment if we reasonably believe that such proceedings may result in monetary sanctions of \$100,000 or more. Our respective subsidiaries have or will develop corrective action plans regarding these disclosures that will be implemented in consultation with the respective federal and state agencies. It is not possible to predict the ultimate outcome of these proceedings, although none are currently expected to have a material effect on our consolidated financial position.

Frontier Refining LLC ("FR"), our wholly-owned subsidiary, has undertaken environmental audits at the Cheyenne Refinery regarding compliance with federal and state environmental requirements. By letters dated October 5, 2012, November 7, 2012, and January 10, 2013, and pursuant to EPA's audit policy to the extent applicable, FR submitted reports to the EPA voluntarily disclosing non-compliance with certain emission limitations, reporting requirements, and provisions of a 2009 federal consent decree. By letters dated October 31, 2012, February 6, 2013, June 21, 2013, July 9, 2013 and July 25, 2013, and pursuant to applicable Wyoming audit statutes, FR submitted environmental audit reports to the Wyoming Department of Environmental Quality ("WDEQ") voluntarily disclosing non-compliance with certain notification, reporting, and other provisions of the refinery's state air permit and other environmental regulatory requirements. Additional self-disclosures and follow-up correspondence are anticipated as the audit activities are completed. No further action has been taken by either agency at this time. The Cheyenne Refinery also has two outstanding Notices of Violations issued in 2011 and 2013 that are subject to ongoing settlement negotiations with the WDEQ. The Notices of Violations issued in 2010 have been settled. Additional air and other environmental audits for the Cheyenne Refinery are scheduled for 2014.

Between November 2010 and February 2012, certain of our subsidiaries submitted multiple reports to the EPA to voluntarily disclose non-compliance with fuels regulations at the Cheyenne, El Dorado, Navajo, Tulsa and Woods Cross refineries and at the Cedar City, Utah and Henderson, Colorado terminals. The EPA has requested additional information regarding certain of these reports, and our subsidiaries have complied with all requests received to date.

Other

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

cash flows.

#### Item 1A. Risk Factors

There have been no material changes in our risk factors as previously disclosed in Part 1, “Item 1A. Risk Factors” of our Annual Report on Form 10-K for the fiscal year ended December 31, 2013. You should carefully consider the risk factors discussed in our 2013 Form 10-K, which could materially affect our business, financial condition or future results. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition or future results.

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## Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

## (c) Common Stock Repurchases Made in the Quarter

Under our common stock repurchase programs, repurchases are being made from time to time in the open market or privately negotiated transactions based on market conditions, securities law limitations and other factors. The following table includes repurchases made under these programs during the first quarter of 2014.

Period	Total Number of Shares Purchased (1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
January 2014	—	\$—	—	\$311,571,488
February 2014	25,000	\$45.62	—	\$311,571,488
March 2014	104,013	\$48.57	—	\$311,571,488
Total for January to March 2014	129,013		—	

(1) Shares repurchased in the first quarter of 2014 were not purchased under our approved general stock repurchase program, but rather pursuant to separate authority from our Board of Directors. These repurchases were made in the open market.

## Item 6. Exhibits

The Exhibit Index on page 50 of this Quarterly Report on Form 10-Q lists the exhibits that are filed or furnished, as applicable, as part of the Quarterly Report on Form 10-Q.

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SIGNATURES

Pursuant to the requirements of the Securities and Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

HOLLYFRONTIER CORPORATION  
(Registrant)

Date: May 6, 2014

/s/ Douglas S. Aron  
Douglas S. Aron  
Executive Vice President and  
Chief Financial Officer  
(Principal Financial Officer)

Date: May 6, 2014

/s/ J. W. Gann, Jr.  
J. W. Gann, Jr.  
Vice President, Controller and  
Chief Accounting Officer  
(Principal Accounting Officer)

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Exhibit Index

Exhibit Number	Description
3.1	Amended and Restated Certificate of Incorporation of HollyFrontier Corporation (incorporated by reference to Exhibit 3.1 of Registrant's Current Report on Form 8-K filed July 8, 2011, File No. 1-03876).
3.2	Amended and Restated By-Laws of HollyFrontier Corporation (incorporated by reference to Exhibit 3.1 of Registrant's Current Report on Form 8-K filed February 20, 2014, File No. 1-03876).
10.1	Second Amended and Restated Pipeline Delivery, Tankage and Loading Rack Throughput Agreement (El Dorado), dated January 7, 2014, between Frontier El Dorado Refining LLC and El Dorado Logistics LLC (incorporated by reference to Exhibit 10.1 to Registrant's Current Report on Form 8-K filed January 13, 2014, File No. 1-03876).
10.2	Ninth Amended and Restated Omnibus Agreement, dated January 7, 2014, among HollyFrontier Corporation, Holly Energy Partners, L.P. and certain of their respective subsidiaries (incorporated by reference to Exhibit 10.2 of Registrant's Current Report on Form 8-K filed January 13, 2014, File No. 1-03876).
10.3	Third Amendment to Lease and Access Agreement (El Dorado), dated January 7, 2014, between Frontier El Dorado Refining LLC and El Dorado Logistics LLC (incorporated by reference to Exhibit 10.36 of Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2013, File No. 1-03876).
31.1*	Certification of Chief Executive Officer under Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of Chief Financial Officer under Section 302 of the Sarbanes-Oxley Act of 2002.
32.1**	Certification of Chief Executive Officer under Section 906 of the Sarbanes-Oxley Act of 2002.
32.2**	Certification of Chief Financial Officer under Section 906 of the Sarbanes-Oxley Act of 2002.
101+	The following financial information from HollyFrontier Corporation's Quarterly Report on Form 10-Q for the quarter ended March 31, 2014, formatted in XBRL (Extensible Business Reporting Language): (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Income, (iii) Consolidated Statements of Comprehensive Income, (iv) Consolidated Statements of Cash Flows, and (v) Notes to the Consolidated Financial Statements.

\* Filed herewith.

\*\* Furnished herewith.

+ Filed electronically herewith.