FIRST TRUST/ABERDEEN EMERGING OPPORTUNITY FUND
Form N-CSRS
September 07, 2018

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

FORM N-CSR

CERTIFIED SHAREHOLDER REPORT OF REGISTERED MANAGEMENT INVESTMENT COMPANIES

Investment Company Act file number 811-21905

First Trust/Aberdeen Emerging Opportunity Fund
(Exact name of registrant as specified in charter)
120 East Liberty Drive, Suite 400
Wheaton, IL 60187
(Address of principal executive offices) (Zip code)
W. Scott Jardine, Esq.
First Trust Portfolios L.P.
120 East Liberty Drive, Suite 400
Wheaton, IL 60187
(Name and address of agent for service)

registrant's telephone number, including area code: (630) 765-8000

Date of fiscal year end: December 31

Date of reporting period: June 30, 2018

Form N-CSR is to be used by management investment companies to file reports with the Commission not later than 10 days after the transmission to stockholders of any report that is required to be transmitted to stockholders under Rule 30e-1 under the Investment Company Act of 1940 (17 CFR 270.30e-1). The Commission may use the information provided on Form N-CSR in its regulatory, disclosure review, inspection, and policymaking roles.

A registrant is required to disclose the information specified by Form N-CSR, and the Commission will make this information public. A registrant is not required to respond to the collection of information contained in Form N-CSR unless the Form displays a currently valid Office of Management and Budget ("OMB") control number. Please direct comments concerning the accuracy of the information collection burden estimate and any suggestions for reducing the burden to Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549. The OMB has reviewed this collection of information under the clearance requirements of 44 U.S.C. § 3507.

Item 1. Reports to Stockholders.

The Report to Shareholders is attached herewith.

First Trust/Aberdeen
Emerging Opportunity Fund (FEO)
Semi-Annual Report
For the Six Months Ended
June 30, 2018

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First Trust/Aberdeen Emerging Opportunity Fund (FEO)

Semi-Annual Report

June 30, 2018

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Caution Regarding Forward-Looking Statements

This report contains certain forward-looking statements within the meaning of the Securities Act of 1933, as amended, and the Securities Exchange Act of 1934, as amended. Forward-looking statements include statements regarding the goals, beliefs, plans or current expectations of First Trust Advisors L.P. (“First Trust” or the “Advisor”) and/or Aberdeen Asset Management Inc. (“Aberdeen” or the “Sub-Advisor”) and their respective representatives, taking into account the information currently available to them. Forward-looking statements include all statements that do not relate solely to current or historical fact. For example, forward-looking statements include the use of words such as “anticipate,” “estimate,” “intend,” “expect,” “believe,” “plan,” “may,” “should,” “would” or other words that convey uncertainty of future e outcomes.

Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of First Trust/Aberdeen Emerging Opportunity Fund (the “Fund”) to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. When evaluating the information included in this report, you are cautioned not to place undue reliance on these forward-looking statements, which reflect the judgment of the Advisor and/or Sub-Advisor and their respective representatives only as of the date hereof. We undertake no obligation to publicly revise or update these forward-looking statements to reflect events and circumstances that arise after the date hereof.

Performance and Risk Disclosure

There is no assurance that the Fund will achieve its investment objective. The Fund is subject to market risk, which is the possibility that the market values of securities owned by the Fund will decline and that the value of the Fund shares may therefore be less than what you paid for them. Accordingly, you can lose money by investing in the Fund. See “Risk Considerations” in the Additional Information section of this report for a discussion of certain other risks of investing in the Fund.

Performance data quoted represents past performance, which is no guarantee of future results, and current performance may be lower or higher than the figures shown. For the most recent month-end performance figures, please visit www.ftportfolios.com or speak with your financial advisor. Investment returns, net asset value and common share price will fluctuate and Fund shares, when sold, may be worth more or less than their original cost. The Advisor may also periodically provide additional information on Fund performance on the Fund's web page at www.ftportfolios.com.

How to Read This Report

This report contains information that may help you evaluate your investment in the Fund. It includes details about the Fund and presents data and analysis that provide insight into the Fund's performance and investment approach.

By reading the portfolio commentary by the portfolio management team of the Fund, you may obtain an understanding of how the market environment affected the Fund's performance. The statistical information that follows may help you understand the Fund's performance compared to that of relevant market benchmarks.

It is important to keep in mind that the opinions expressed by personnel of First Trust and Aberdeen are just that: informed opinions. They should not be considered to be promises or advice. The opinions, like the statistics, cover the period through the date on the cover of this report. The material risks of investing in the Fund are spelled out in the prospectus, the statement of additional information, this report and other Fund regulatory filings.

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Shareholder Letter
First Trust/Aberdeen Emerging Opportunity Fund (FEO)
Semi-Annual Letter from the Chairman and CEO
June 30, 2018

Dear Shareholders,

First Trust is pleased to provide you with the semi-annual report for the First Trust/Aberdeen Emerging Opportunity Fund which contains detailed information about your investment for the six months ended June 30, 2018, including a market overview and a performance analysis for the period. We encourage you to read this report carefully and discuss it with your financial advisor.

As 2018 began, there was much enthusiasm for the "Tax Cuts and Jobs Act of 2017" tax reform bill, which President Trump had signed into law on December 22, 2017, and the potential increase in take-home pay for many Americans, as well as the reduction in the federal corporate tax rate from 35% to 21% that the new tax package would bring. Early in the new year, many investors were watching the Federal Reserve (the "Fed") and its signaled intent to continue raising interest rates at a gradual pace (it had raised rates three times in 2017). Based on strong job growth and the economic outlook in the U.S., the Fed did, in fact, raise interest rates this year, on March 21 and June 13. Additionally, they indicated at their June 2018 meeting that two additional rate hikes are expected before year-end.

For the entire first quarter of 2018, increased market volatility was the norm for U.S. markets. The Dow Jones Industrial Average ("DJIA") was off to a strong start in January continuing its very strong performance displayed throughout 2017. However, February was a different story. Early in the month, the DJIA plunged 567 points and sank into "correction" territory (defined as a drop of 10% from the index's high) and in just two weeks during February, was down more than 3,200 points. However, as February came to a close, the DJIA was back on track and up from the lows experienced earlier in the month.

For the second quarter of 2018, market volatility continued. Increasing trade tensions have had an impact on markets around the world and could continue to do so in the future. The talk from President Trump on tariffs and trade agreements gave many investors pause about the U.S. stock market and its long-standing economic growth and what the future might hold. The DJIA closed out both April and May slightly down but ended June slightly up. Despite this volatility, we continue to believe that the combination of low interest rates, low inflation and strong corporate earnings still point to a positive economic environment and further growth, though we understand that past performance can never guarantee future performance.

Globally, markets underperformed moderately in the first half of 2018, as the MSCI AC World Index, which captures 23 developed markets and 24 emerging markets, ended the six-month period down just slightly. Analysts believe European companies are set up for growing earnings and credit upswings, which seems to bode well for global market performance. In addition, we believe the longer-term drivers of positive demographics, lower debt levels and improving productivity may lead to a multi-year cyclical upswing in emerging market economic fundamentals.

We continue to believe that one should invest for the long term and be prepared for market movements, which can happen at any time. You can do this by keeping current on your portfolio and investing goals and by speaking regularly with your investment professional. As we've said before, markets go up and they also go down, but savvy investors are prepared for either through careful attention to investment goals.

Thank you for giving First Trust the opportunity to be a part of your financial plan. We value our relationship with you and will report on your investment again in six months.

Sincerely,

James A. Bowen
Chairman of the Board of Trustees
Chief Executive Officer of First Trust Advisors L.P.

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First Trust/Aberdeen Emerging Opportunity Fund (FEO)
"AT A GLANCE"
As of June 30, 2018 (Unaudited)

Fund Statistics	
Symbol on New York Stock Exchange	FEO
Common Share Price	$13.60
Common Share Net Asset Value ("NAV")	$15.44
Premium (Discount) to NAV	(11.92)%
Net Assets Applicable to Common Shares	$79,793,409
Current Quarterly Distribution per Common Share[1]	$0.3500
Current Annualized Distribution per Common Share	$1.4000
Current Distribution Rate on Common Share Price[2]	10.29%
Current Distribution Rate on NAV[2]	9.07%

Common Share Price & NAV (weekly closing price)

Performance					
		Average Annual Total Return			
	6 Months Ended 6/30/18	1 Year Ended 6/30/18	5 Years Ended 6/30/18	10 Years Ended 6/30/18	Inception (8/28/06) to 6/30/18
Fund Performance[3]					
NAV	-9.55%	-4.02%	2.58%	5.72%	6.83%
Market Value	-12.62%	-7.40%	2.25%	6.08%	5.28%
Index Performance					
Blended Index[4]	-6.41%	1.30%	3.34%	4.25%	6.04%
Bloomberg Barclays Global Emerging Markets Index	-3.89%	-0.44%	4.13%	6.06%	6.27%
FTSE All World Emerging Market Index	-6.77%	7.65%	5.08%	2.58%	5.67%

(1) Most recent distribution paid or declared through 6/30/2018. Subject to change in the future.

(2) Distribution rates are calculated by annualizing the most recent distribution paid or declared through the report date and then dividing by Common Share Price or NAV, as applicable, as of 6/30/2018. Subject to change in the future.

(3) Total return is based on the combination of reinvested dividend, capital gain, and return of capital distributions, if any, at prices obtained by the Dividend Reinvestment Plan and changes in NAV per share for NAV returns and changes in Common Share Price for market value returns. Total returns do not reflect sales load and are not annualized for periods of less than one year. Past performance is not indicative of future results.

(4) Blended Index consists of the following: JPMorgan Emerging Markets Bond Index - Global Diversified (32.5%); JPMorgan Government Bond Index - Emerging Markets Diversified (32.5%); MSCI Global Emerging Markets Index (35.0%).

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First Trust/Aberdeen Emerging Opportunity Fund (FEO)
"AT A GLANCE" (Continued)
As of June 30, 2018 (Unaudited)

Credit Quality[5]	% of Total Fixed-Income Investments
A	4.8%
A-	11.2
BBB	10.6
BBB-	18.7
BB+	5.0
BB	4.2
BB-	12.3
B+	10.7
B	11.2
B-	5.8
CCC+	0.2
Not Rated	5.3
Total	100.0%

Top 10 Countries[6]	% of Total Investments
Brazil	10.6%
India	7.0
Russia	6.9
Mexico	6.2
South Africa	5.7
Turkey	5.6
Cayman Islands	5.2
Indonesia	4.5
China	4.2
South Korea	4.1
Total	60.0%

Top Ten Holdings	% of Total Investments
Brazil Notas do Tesouro Nacional, Series F, 10.00%, 1/01/29	3.6%
Russian Federal Bond - OFZ, 7.05%, 1/19/28	3.5
Tencent Holdings Ltd.	3.3
Turkey Government Bond, 8.80%, 9/27/23	2.9
Samsung Electronics Co., Ltd. (Preference Shares)	2.6
Republic of South Africa Government Bond, 10.50%, 12/21/26	2.4
Peruvian Government International Bond, 6.90%, 8/12/37	2.4
Taiwan Semiconductor Manufacturing Co., Ltd.	2.1
Indonesia Treasury Bond, 8.38%, 3/15/34	1.9
Republic of Poland Government Bond, 4.00%, 10/25/23	1.5
Total	26.2%

Industry Classification	% of Total Investments
Sovereigns	39.7%

Banks	9.1
Internet Software & Services	4.3
Real Estate Management & Development	3.2
Construction Materials	3.1
Metals & Mining	2.8
Wireless Telecommunication Services	2.6
Technology Hardware, Storage & Peripherals	2.6
Insurance	2.4
Utilities	2.4
Semiconductors & Semiconductor Equipment	2.1
Beverages	1.6
Exploration & Production	1.6
Thrifts & Mortgage Finance	1.5
Transportation Infrastructure	1.4
Food & Staples Retailing	1.3
Automobiles	1.3
Oil, Gas & Consumable Fuels	1.2
Hotels, Restaurants & Leisure	1.2
Integrated Oils	1.1
Pipelines	1.1
Multiline Retail	1.0
Power Generation	0.9
IT Services	0.8
Capital Markets	0.8
Tobacco	0.7
Chemicals	0.7
Food & Beverage	0.7
Government Development Banks	0.7
Household Products	0.7
Oil & Gas Services & Equipment	0.6
Central Bank	0.6
Specialty Retail	0.4
Personal Products	0.4
Retail - Consumer Discretionary	0.4
Pharmaceuticals	0.3
Communications Equipment	0.3
Life Insurance	0.3
Real Estate	0.3
Software & Services	0.3
Wireline Telecommunication Services	0.3
Commercial Finance	0.3
Airlines	0.3
Food Products	0.2
Life Sciences Tools & Services	0.2
Diversified Financial Services	0.2
Industrial Other	0.0*
Electronic Equipment, Instruments & Components	0.0*
Total	100.0%

* Amount is less than 0.05%.

(5) The credit quality and ratings information presented above reflects the ratings assigned by one or more nationally recognized statistical rating organizations (NRSROs), including Standard & Poor's Ratings Group, a division of the McGraw Hill Companies, Inc., Moody's Investors Service, Inc., Fitch Ratings or a comparably rated NRSRO. For situations in which a security is rated by more than one NRSRO and the ratings are not equivalent, the highest ratings are used. Sub-investment grade ratings are those rated BB+/Ba1 or lower. Investment grade ratings are those rated BBB-/Baa3 or higher. The credit ratings shown relate to the creditworthiness of the issuers of the underlying securities in the Fund, and not to the Fund or its shares. Credit ratings are subject to change.

(6) Fixed-income portfolio securities are included in a country based upon their underlying credit exposure as determined by Aberdeen Asset Management Inc., the sub-advisor.

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Portfolio Commentary
First Trust/Aberdeen Emerging Opportunity Fund (FEO)
Semi-Annual Report
June 30, 2018 (Unaudited)

Advisor

First Trust Advisors L.P. ("First Trust" or the "Advisor") is the investment advisor to the First Trust/Aberdeen Emerging Opportunity Fund (the "Fund"). First Trust is responsible for the ongoing monitoring of the Fund's investment portfolio, managing the Fund's business affairs and providing certain administrative services necessary for the management of the Fund.

Sub-Advisor

Aberdeen Asset Management Inc. ("Aberdeen" or the "Sub-Advisor"), a Securities and Exchange Commission registered investment advisor, is an indirect wholly-owned subsidiary of Standard Life Aberdeen plc. Standard Life Aberdeen plc is a publicly-traded global provider of long-term savings and investments listed on the London Stock Exchange, managing assets for institutional and retail clients from offices around the world.

Portfolio Management Team

Investment decisions for the Fund are made by Aberdeen using a team approach and not by any one individual. By making team decisions, Aberdeen seeks to ensure that the investment process results in consistent returns across all portfolios with similar objectives. Aberdeen does not employ separate research analysts. Instead, Aberdeen's investment managers combine analysis with portfolio management. Each member of the team has sector and portfolio responsibilities such as day-to-day monitoring of liquidity. The overall result of this matrix approach is a high degree of cross-coverage, leading to a deeper understanding of the securities in which Aberdeen invests. Below are the members of the team with significant responsibility for the day-to-day management of the Fund's portfolio.

Equity Management Team

Devan Kaloo
Global Head of Equities

Joanne Irvine
Deputy Head, Global Emerging Markets Equity

Nick Robinson
Investment Director, Global Emerging Markets Equity

Catriona Macnair
Investment Manager, Global Emerging Market Equity

Fixed-Income Management Team

Brett Diment
Head of Global Emerging Market Debt

Kevin Daly
Senior Investment Manager, Emerging Market Debt

Edwin Gutierrez
Head of Emerging Market Sovereign Debt

Max Wolman
Senior Investment Manager, Emerging Market Debt

Commentary

First Trust/Aberdeen Emerging Opportunity Fund

The Fund's investment objective is to provide a high level of total return. The Fund pursues its investment objective by investing at least 80% of its Managed Assets in a diversified portfolio of equity and fixed-income securities of issuers in emerging market countries. "Managed Assets" means the total asset value of the Fund minus the sum of the Fund's liabilities other than the principal amount of borrowings, if any. There can be no assurance that the Fund will achieve its investment objective. The Fund may not be appropriate for all investors.

Fund Recap

The Fund had a net asset value ("NAV") total return[1] of -9.55% and a market value total return of -12.62% for the six months ended June 30, 2018 compared to the Fund's Blended Index total return of -6.41% over the same period. In addition to the Blended Index[2], the Fund currently uses other indexes for comparative purposes. The total returns for the six months ended June 30, 2018 for these indices were as follows: the Bloomberg Barclays Global Emerging Markets Index was -3.89% and the FTSE All World Emerging Market Index was -6.77%.

1 Total return is based on the combination of reinvested dividend, capital gain and return of capital distributions, if any, at prices obtained by the Dividend Reinvestment Plan and changes in NAV per share for NAV returns and changes in Common Share Price for market value returns. Total returns do not reflect sales load and are not annualized for periods of less than one year. Past performance is not indicative of future results.

2 Blended Index consists of the following: JP Morgan Emerging Markets Bond Index - Global Diversified (32.5%); JP Morgan Government Bond Index - Emerging Markets Diversified (32.5%); MSCI Global Emerging Markets Index (35.0%).

An important factor impacting the return of the Fund relative to its Blended Index was the Fund's use of financial leverage through the use of bank borrowings. The Fund uses leverage because its managers believe that, over time, leverage provides opportunities for additional income and total return for common shareholders. However, the use of leverage can also expose common shareholders to additional volatility. For example, as the prices of securities held by the Fund decline, the negative impact of the evaluation changes on Common Share NAV and Market Value total return is magnified by the use of leverage. Conversely, leverage may enhance Common Share returns during periods when the prices of securities held by the Fund generally are rising. Unlike the Fund, the Bloomberg Barclays Global Emerging Markets Index, the FTSE All World Emerging Market Index and the components of the Blended Index are not leveraged. Leverage had a negative impact on the performance of the Fund over this reporting period.

Fixed Income Commentary

Market Recap

The first half of 2018 witnessed a period of market volatility and weakness particularly in the emerging market economies. This was primarily seen in the second quarter coming from increased rhetoric around trade wars and the negative impact this would have on China's economy, which was already showing signs of cooling. The market was also concerned about the continued rate hikes expected from the Federal Reserve (the "Fed") for the remainder of the year. With weak economic data from Europe, during the period, the U.S. dollar strengthened against the Euro, which is usually a sign of emerging market exchange rate weakness.

Over the first half of the year there were a number of elections which took place in various large emerging market countries such as Mexico and Turkey. This caused further market weakness given the uncertainties following the outcomes of the elections. President Erdogan was re-elected to the Turkish presidency as expected, however his economic policies and meddling with monetary policies have been a concern for investors in Turkey. In Mexico, Andres Manual Lopez Obrador, the left-wing candidate, won the presidential election as highly anticipated. However, leading up to the elections, the market became increasingly concerned around his campaign platform to unwind some of the reforms which had occurred under President Enrique Pena Nieto.

Performance Analysis

The Fund's emerging market bond portfolio slightly underperformed the emerging market debt portion of its Blended Index over the period in both hard currency and local currency bonds.

The Fund's overweight exposure and good stock selection in Honduras and Ukraine contributed positively to the Fund's performance, whereas the Fund's overweight exposure to Argentina, Ecuador, Indonesia and Brazil detracted from Fund performance. The Fund's underweight position in Turkey, Romania and Hungary and zero holdings in Lebanon positively impacted performance, whereas the Fund's underweight position in Malaysia detracted from performance.

Market and Fund Outlook

As we end the first half of the year, the start of the summer holiday period should provide a good opportunity for market participants to reflect on the return of volatility to the market. Sentiment turned negative in mid-April when the U.S. dollar started to appreciate against both developed and emerging market currencies. This event also coincided with the IMF/World Bank Spring meetings and helped provide an excuse for a decline in investors' risk tolerance. While portfolio flow data has turned negative in the last three months, year-to-date figures have shown a significant allocation to the asset class – JP Morgan estimates that local currency debt has seen nearly US$14bn of inflows, while hard currency has been bolstered by nearly US$7.5bn. The recent sell-off has probably been driven by non-dedicated investors rather than emerging market investors.

Liquidity in risk assets has fallen as the Fed continues its course of policy normalization, while geopolitical considerations (especially in regard to global trade) have also provided investors with another excuse to exercise caution. We believe that despite the external environment, emerging market countries remain in a far stronger position now to withstand these headwinds compared to the 2013 "taper tantrum" episode or the 2015 commodity price crash. This should allow good investment opportunities in favored credits where we deem valuations to have overshot long-term fundamentals, in our view.

Equity Commentary

Market Recap

Emerging market equities were volatile in the first half of 2018, rattled by fears of faster policy normalization in the U.S. and global trade conflicts. The Fed raised interest rates twice, which strengthened the U.S. dollar. This compelled several emerging-market central banks to hike rates. Almost all sectors fell, except Health Care, as well as Energy, which was supported by higher oil prices.

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Portfolio Commentary (Continued)
First Trust/Aberdeen Emerging Opportunity Fund (FEO)
Semi-Annual Report
June 30, 2018 (Unaudited)

Trade tensions escalated, and President Trump's steel and aluminum tariffs triggered retaliation from Mexico, India and the European Union. The U.S. and China also went ahead with 25% duties on US$34 billion of each other's exports from July. While mainland markets were fairly resilient amid upbeat corporate earnings, signs of a moderating economy and renminbi weakness caused a pullback at the period's end. Separately, China's legislative body approved administrative overhauls that included merging its banking and insurance regulators. We view this positively, as it promotes sustainable development of the financial sector.

Sentiment in India was hurt by the re-introduction of a long-term capital gains tax on equities, as well as a US$2 billion fraud at state-owned Punjab National Bank. We continue to prefer private-sector lenders for their better credit-control and risk-management standards. Elsewhere, Indonesia and the Philippines were among the hardest-hit markets due to various macroeconomic worries, while both nations' central banks hiked rates to defend their currencies. Malaysia was surprised by the Pakatan Harapan's shock election victory, which toppled the six-decade long Barisan Nasional regime.

Politics also drove markets in Latin America and Eastern Europe. Losses in Mexico were capped as investors became more receptive of Andres Manuel Lopez Obrador ahead of his presidential election victory, following his more moderate rhetoric. In contrast, Brazil slumped amid concerns over its political and fiscal prospects, after the government reinstated diesel subsidies to end a nationwide truckers strike against higher fuel prices that had weighed on economic activity.

In Turkey, President Recep Tayyip Erdogan was re-elected and gained sweeping new executive powers. However, stocks and the lira declined amid continued jitters over fiscal and monetary policy, which was further compounded by a debt-rating downgrade by S&P. Russia shrugged off tightening U.S. sanctions and worsening relations with the West following Russia's alleged assassination attempt on an ex-spy, and was instead helped by recovering energy prices and the central bank's rate cuts.

Performance Analysis

Over the six-month period ended June 30, 2018, the emerging market equity portion of the Fund fell by 10.89%, lagging the benchmark by 4.39%.

The large exposure to Brazil was responsible for the bulk of the Fund's underperformance, as the prolonged truckers' strike hurt economic activity and weakened the real and heightened political risk perception. At the stock level, fuel distributor Ultrapar sold off on expectations of weaker quarterly profits amid intensifying competition. Lender Banco Bradesco and retailer Lojas Renner also tracked the market lower, despite solid operational performances and earnings. Meanwhile, food producer BRF was hampered by weak earnings, leadership uncertainty and ongoing investigations into the provision of substandard meat. However, we are heartened by the new CEO's appointment, which we believe should bring much-needed leadership to steer the company forward.

The Fund's exposure to the Consumer sector also hurt. Russian retailer Magnit was pressured by a weak retail environment, while its extended store-refurbishment program dented same-store sales. Investors were additionally caught off-guard by the resignation of CEO Sergey Galitsky and the subsequent sale of most of his stake. Indonesian conglomerate Astra International was also among the laggards due to tougher regulations and weak selling prices.

Elsewhere, the underweight to China was negative, though this was mitigated by the non-benchmark exposure to Hong Kong. Hong Kong-listed developer China Resources Land was a top performer as investors were encouraged by its solid earnings and growth prospects, while cement maker Anhui Conch did well as cement prices rose amid falling inventories. Stock selection in India was the largest contributor to relative performance. IT company Tata Consultancy Services rallied amid positive sentiment towards the Technology sector. Lender Kotak Mahindra Bank and mortgage-provider HDFC also rose, driven by healthy loan growth and stable asset quality.

Market Outlook

We believe volatility is likely to persist in emerging markets, as expectations for faster-than-expected policy normalization and a strengthening U.S. dollar curb investors' risk appetite. Escalating global trade tensions are another concern, as supply chain disruptions could hurt corporate profits. Political ambiguity over electoral outcomes and

policy continuity across major markets further clouds the outlook. Fortunately, many emerging-market economies now have better fundamentals, with lower current account deficits and healthier currency reserves to buffer against shocks. Despite the trade-related fears, growth is still recovering in markets such as Brazil and India. While near-term capital flight and pressure on currencies may result in a degree of monetary tightening across the emerging world in the short term, the economic trajectory remains one of cyclical recovery, in our view. We believe this should also be reflected by a continued rebound in corporate earnings. We remain optimistic that our holdings' quality will help the portfolio weather the present storms and benefit from the asset class' long-term potential.

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First Trust/Aberdeen Emerging Opportunity Fund (FEO)
Portfolio of Investments
June 30, 2018 (Unaudited)

Principal Value (Local Currency)	Description	Stated Coupon	Stated Maturity	Value (US Dollars)
FOREIGN SOVEREIGN BONDS AND NOTES (a) – 41.8%				
	Angola – 0.4%			
297,000	Angolan Government International Bond (USD) (b)	9.38%	05/08/48	$300,682
	Argentina – 2.0%			
21,110,000	Argentina POM Politica Monetaria, Argentina Central Bank 7 day repurchase reference rate (ARS) (c)	40.00%	06/21/20	755,832
266,387	Argentine Republic Government International Bond (USD)	8.28%	12/31/33	240,415
350,000	Argentine Republic Government International Bond (USD)	7.13%	07/06/36	282,188
420,000	Argentine Republic Government International Bond (USD)	6.88%	01/11/48	316,474
				1,594,909
	Bahrain – 0.6%			
270,000	Bahrain Government International Bond (USD)	7.00%	01/26/26	253,592
278,000	Bahrain Government International Bond (USD) (b)	7.00%	10/12/28	249,919
				503,511
	Belarus – 0.4%			
307,000	Republic of Belarus International Bond (USD) (b)	6.20%	02/28/30	291,147
	Brazil – 3.8%			
13,050,000	Brazil Notas do Tesouro Nacional, Series F (BRL)	10.00%	01/01/29	3,042,838
	Ecuador – 0.3%			
230,000	Ecuador Government International Bond (USD) (b)	8.75%	06/02/23	216,303
	Egypt – 0.6%			
246,000	Egypt Government International Bond (USD) (b)	6.13%	01/31/22	242,543
280,000	Egypt Government International Bond (USD) (b)	7.90%	02/21/48	255,729
				498,272
	El Salvador – 0.4%			
300,000	El Salvador Government International Bond (USD)	7.65%	06/15/35	294,804
	Ethiopia – 0.7%			
540,000	Ethiopia International Bond (USD) (b)	6.63%	12/11/24	530,013

Principal Value	Description	Stated Coupon	Stated Maturity	Value
	Ghana – 1.6%			
560,000	Ghana Government International Bond (USD)	8.13%	01/18/26	575,377
270,000	Ghana Government International Bond (USD) (b)	7.63%	05/16/29	264,179
2,150,000	Republic of Ghana Government Bond (GHS)	21.50%	03/09/20	473,603
				1,313,159
	Honduras – 0.5%			
410,000	Honduras Government International Bond (USD) (b)	7.50%	03/15/24	439,110
	Indonesia – 2.0%			
23,200,000,000	Indonesia Treasury Bond (IDR)	8.38%	03/15/34	1,623,029
	Iraq – 0.9%			
200,000	Iraq International Bond (USD) (b)	6.75%	03/09/23	192,674
610,000	Iraq International Bond (USD)	5.80%	01/15/28	549,071
				741,745
	Kenya – 0.2%			
200,000	Kenya Government International Bond (USD)	6.88%	06/24/24	197,984
	Malaysia – 1.4%			
4,700,000	Malaysia Government Bond (MYR)	3.89%	03/15/27	1,122,086

See Notes to Financial Statements

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First Trust/Aberdeen Emerging Opportunity Fund (FEO)
Portfolio of Investments (Continued)
June 30, 2018 (Unaudited)

Principal Value (Local Currency)	Description	Stated Coupon	Stated Maturity	Value (US Dollars)
	FOREIGN SOVEREIGN BONDS AND NOTES (a) (Continued)			
	Mexico – 2.6%			
4,000,000	Mexican Bonos (MXN)	6.50%	06/09/22	$193,396
16,000,000	Mexican Bonos (MXN)	5.75%	03/05/26	720,160
23,200,000	Mexican Bonos (MXN)	7.75%	11/13/42	1,178,115
				2,091,671
	Nigeria – 1.8%			
414,000,000	Nigeria Government Bond (NGN)	12.50%	01/22/26	1,074,110
200,000	Nigeria Government International Bond (USD) (b)	7.88%	02/16/32	196,712
200,000	Nigeria Government International Bond (USD) (b)	7.63%	11/28/47	182,829
				1,453,651
	Oman – 0.3%			
270,000	Oman Government International Bond (USD) (b)	6.75%	01/17/48	245,349
	Pakistan – 0.3%			
280,000	Pakistan Government International Bond (USD) (b)	6.88%	12/05/27	243,968
	Peru – 2.5%			
6,010,000	Peruvian Government International Bond (PEN)	6.90%	08/12/37	1,975,407
	Poland – 2.9%			
4,450,000	Republic of Poland Government Bond (PLN)	4.00%	10/25/23	1,273,643
4,100,000	Republic of Poland Government Bond (PLN)	2.50%	07/25/27	1,036,469
				2,310,112
	Russia – 4.6%			
189,000,000	Russian Federal Bond - OFZ (RUB)	7.05%	01/19/28	2,911,535
33,000,000	Russian Federal Bond - OFZ (RUB)	7.70%	03/23/33	527,800
200,000	Russian Foreign Bond - Eurobond (USD)	5.88%	09/16/43	215,438
				3,654,773
	Rwanda – 0.6%			

200,000	Rwanda International Government Bond (USD) (b)	6.63%	05/02/23	199,478
300,000	Rwanda International Government Bond (USD)	6.63%	05/02/23	299,216
				498,694
	South Africa – 3.5%			
24,800,000	Republic of South Africa Government Bond (ZAR)	10.50%	12/21/26	1,981,990
820,000	Republic of South Africa Government International Bond (USD)	4.88%	04/14/26	790,511
				2,772,501
	Sri Lanka – 0.7%			
550,000	Sri Lanka Government International Bond (USD) (b)	6.75%	04/18/28	520,383
	Suriname – 0.3%			
270,000	Republic of Suriname (USD) (b)	9.25%	10/26/26	260,550
	Tanzania – 0.2%			
133,335	Tanzania Government International Bond, 6 Mo. LIBOR + 6.00% (USD) (c)	8.24%	03/09/20	136,201
	Tunisia – 0.7%			
600,000	Banque Centrale de Tunisie International Bond (USD)	5.75%	01/30/25	530,427
	Turkey – 3.8%			
1,900,000	Turkey Government Bond (TRY)	10.40%	03/27/19	393,330
15,200,000	Turkey Government Bond (TRY)	8.80%	09/27/23	2,422,021

See Notes to Financial Statements

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First Trust/Aberdeen Emerging Opportunity Fund (FEO)
Portfolio of Investments (Continued)
June 30, 2018 (Unaudited)

Principal Value (Local Currency)	Description	Stated Coupon	Stated Maturity	Value (US Dollars)
	FOREIGN SOVEREIGN BONDS AND NOTES (a) (Continued)			
	Turkey (Continued)			
1,140,000	Turkey Government Bond (TRY)	10.40%	03/20/24	$194,059
				3,009,410
	Ukraine – 1.2%			
865,000	Ukraine Government International Bond (USD) (b)	7.75%	09/01/24	822,701
188,000	Ukraine Government International Bond (USD) (b) (d)	(e)	05/31/40	119,603
				942,304
	Total Foreign Sovereign Bonds and Notes			33,354,993
	(Cost $34,776,358)			
	FOREIGN CORPORATE BONDS AND NOTES (a) (f) – 18.7%			
	Argentina – 0.2%			
200,000	Genneia S.A. (USD) (b)	8.75%	01/20/22	193,432
	Azerbaijan – 0.7%			
495,000	Southern Gas Corridor CJSC (USD) (b)	6.88%	03/24/26	534,818
	Barbados – 0.3%			
250,000	Sagicor Finance 2015 Ltd. (USD) (b)	8.88%	08/11/22	276,875
	Brazil – 2.7%			
277,000	Azul Investments LLP (USD) (b)	5.88%	10/26/24	235,799
270,000	Braskem Netherlands Finance BV (USD)	4.50%	01/10/28	248,738
280,000	CSN Resources S.A. (USD) (b)	7.63%	02/13/23	253,053
330,000	GTL Trade Finance, Inc. (USD)	7.25%	04/16/44	335,775
350,000	OAS Finance Ltd. (USD) (d) (g) (h) (i)	8.88%	(j)	21,000
200,000	OAS Investments GmbH (USD) (g) (h) (i)	8.25%	10/19/19	12,000
262,800	Odebrecht Drilling Norbe VIII/IX Ltd. (USD)	6.35%	12/01/21	248,346
650,000	Petrobras Global Finance BV (USD)	8.75%	05/23/26	704,925

102,052	QGOG Atlantic/Alaskan Rigs Ltd. (USD)	5.25%	07/30/18	98,735
				2,158,371
	China – 0.6%			
260,000	Shimao Property Holdings Ltd. (USD)	8.38%	02/10/22	273,962
200,000	Yingde Gases Investment Ltd. (USD) (b)	6.25%	01/19/23	189,238
				463,200
	Colombia – 0.3%			
207,000	Banco GNB Sudameris S.A. (USD) (b) (d)	6.50%	04/03/27	211,918
	Dominican Republic – 0.9%			
720,000	AES Andres BV / Dominican Power Partners / Empresa Generadora de Electricidad Itabo (USD) (b)	7.95%	05/11/26	745,200
	El Salvador – 0.4%			
310,000	Grupo Unicomer Co., Ltd. (USD) (b)	7.88%	04/01/24	327,050
	Georgia – 0.7%			
200,000	Bank of Georgia JSC (USD) (b)	6.00%	07/26/23	199,928
350,000	Georgian Oil and Gas Corp. JSC (USD) (b)	6.75%	04/26/21	353,442
				553,370
	Ghana – 0.3%			
278,000	Tullow Oil PLC (USD) (b)	7.00%	03/01/25	263,405

See Notes to Financial Statements

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First Trust/Aberdeen Emerging Opportunity Fund (FEO)
Portfolio of Investments (Continued)
June 30, 2018 (Unaudited)

Principal Value (Local Currency)	Description	Stated Coupon	Stated Maturity	Value (US Dollars)
FOREIGN CORPORATE BONDS AND NOTES (a) (f) (Continued)				
	Guatemala – 0.5%			
400,000	Comunicaciones Celulares S.A. Via Comcel Trust (USD) (b)	6.88%	02/06/24	$411,170
	Honduras – 0.4%			
280,000	Inversiones Atlantida S.A. (USD) (b)	8.25%	07/28/22	289,075
	India – 1.0%			
40,000,000	NTPC Ltd. (INR)	7.25%	05/03/22	568,916
275,000	Vedanta Resources PLC (USD) (b)	6.13%	08/09/24	242,391
				811,307
	Indonesia – 0.6%			
200,000	Medco Platinum Road Pte Ltd. (USD) (b)	6.75%	01/30/25	176,380
278,000	Perusahaan Listrik Negara PT (USD) (b)	5.45%	05/21/28	283,462
				459,842
	Kazakhstan – 0.4%			
308,000	Tengizchevroil Finance Co. International Ltd. (USD) (b)	4.00%	08/15/26	289,422
	Mexico – 1.2%			
270,000	Axtel SAB de CV (USD) (b)	6.38%	11/14/24	256,838
4,800,000	Petroleos Mexicanos (MXN)	7.19%	09/12/24	212,721
270,000	Sixsigma Networks Mexico SA de CV (USD) (b)	7.50%	05/02/25	260,415
279,000	Unifin Financiera SAB de CV SOFOM ENR (USD) (b) (d)	8.88%	(j)	250,545
				980,519
	Nigeria – 1.7%			
290,000	Access Bank PLC (USD) (b)	10.50%	10/19/21	303,317
290,000	IHS Netherlands Holdco BV (USD) (b)	9.50%	10/27/21	279,082
290,000		9.25%	04/01/23	284,200

	SEPLAT Petroleum Development Co., PLC (USD) (b)			
520,000	United Bank for Africa PLC (USD) (b)	7.75%	06/08/22	507,335
				1,373,934
	Oman – 0.4%			
325,000	Oztel Holdings SPC Ltd. (USD) (b)	6.63%	04/24/28	309,631
	Russia – 1.4%			
290,000	Credit Bank of Moscow Via CBOM Finance PLC (USD) (d)	7.50%	10/05/27	237,002
394,000	Evraz Group S.A. (USD) (b)	5.38%	03/20/23	387,696
290,000	Gazprom OAO Via Gaz Capital S.A. (USD)	4.95%	03/23/27	280,307
200,000	GTH Finance BV (USD) (b)	7.25%	04/26/23	207,521
				1,112,526
	South Africa – 1.2%			
17,000,000	Eskom Holdings SOC Ltd. (ZAR)	7.50%	09/15/33	929,457
	Turkey – 1.4%			
339,000	Hazine Mustesarligi Varlik Kiralama AS (USD) (b)	5.00%	04/06/23	321,016
280,000	Turkiye Garanti Bankasi AS (USD)	5.88%	03/16/23	266,490
288,000	Turkiye Vakiflar Bankasi TAO (USD)	6.00%	11/01/22 Promissory Notes	

543

—

Amortization of discount and deferred debt issuance costs

1,645

290

Commitment fees

167

113

Total interest incurred	10,477	8,753
Less capitalized interest	72	204
Net interest expense	$ 10,405	$ 8,549
Cash paid for interest	$ 15,292	$ 14,439

We recognized a charge of $2.6 million upon the early extinguishment of certain long-term debt for the three months ended March 31, 2012. This charge represents the premium paid to our 6.25% senior note holders upon their tender of an aggregate principal amount of $157.8 million and related net discount.

HOLLY ENERGY PARTNERS, L.P.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited) Continued

Note 8: Significant Customers

All revenues are domestic revenues, of which 96% are currently generated from our two largest customers: HFC and Alon. The vast majority of our revenues are derived from activities conducted in the southwest United States.

The following table presents the percentage of total revenues generated by each of these customers:

	Three Months Ended March 31,			
	2012		2011	
HFC	83	%	76	%
Alon	13	%	20	%

Note 9: Related Party Transactions

We serve HFC's refineries under long-term pipeline and terminal, tankage and throughput agreements expiring from 2019 to 2026. Under these agreements, HFC agreed to transport, store and throughput volumes of refined product and crude oil on our pipelines and terminal, tankage and loading rack facilities that result in minimum annual payments to us. These minimum annual payments or revenues are subject to annual tariff rate adjustments on July 1, based on the Producer Price Index (“PPI”) or Federal Energy Regulatory Commission (“FERC”) index. As of March 31, 2012, these agreements with HFC will result in minimum annualized payments to us of $191.8 million.

If HFC fails to meet its minimum volume commitments under the agreements in any quarter, it will be required to pay us in cash the amount of any shortfall by the last day of the month following the end of the quarter. Under certain of these agreements, a shortfall payment may be applied as a credit in the following four quarters after minimum obligations are met.

Under certain provisions of an omnibus agreement we have with HFC (the “Omnibus Agreement”) we pay HFC an annual administrative fee for the provision by HFC or its affiliates of various general and administrative services to us, currently $2.3 million. This fee does not include the salaries of pipeline and terminal personnel or the cost of their employee benefits, which are charged to us separately by HFC. Also, we reimburse HFC and its affiliates for direct expenses they incur on our behalf.

Related party transactions with HFC are as follows:

- Revenues received from HFC were $52.8 million and $34.1 million for the three months ended March 31, 2012 and 2011, respectively.
- HFC charged general and administrative services under the Omnibus Agreement of $0.6 million for the three months ended March 31, 2012 and 2011.
- We reimbursed HFC for costs of employees supporting our operations of $7.6 million and $5.0 million for the three months ended March 31, 2012 and 2011, respectively.
- We distributed $15.3 million and $9.7 million for the three months ended March 31, 2012 and 2011, respectively, to HFC as regular distributions on its common units and general partner interest, including general partner incentive distributions.
- Accounts receivable from HFC were $30.9 million and $31.0 million at March 31, 2012 and December 31, 2011, respectively.

- Accounts payable to HFC were $6.2 million and $5.3 million at March 31, 2012 and December 31, 2011, respectively.
- Revenues for the three months ended March 31, 2012 include $1.7 million of shortfall payments billed in 2011, as HFC did not exceed its minimum volume commitment in any of the subsequent four quarters. Deferred revenue in the consolidated balance sheets at March 31, 2012 and December 31, 2011, includes $3.4 million and $4.0 million, respectively, relating to certain shortfall billings. It is possible that HFC may not exceed its minimum obligations to receive credit for any of the $3.4 million deferred at March 31, 2012.
- We acquired tankage and terminal assets from HFC in 2011. See Note 2 for a description of this transaction.

HOLLY ENERGY PARTNERS, L.P.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited) Continued

Note 10: Partners' Equity

HFC currently holds 11,097,615 of our common units and the 2% general partner interest, which together constitute a 42% ownership interest in us.

Allocations of Net Income
Net income attributable to HEP. is allocated between limited partners and the general partner interest in accordance with the provisions of the partnership agreement. HEP net income allocated to the general partner includes incentive distributions that are declared subsequent to quarter end. After the amount of incentive distributions is allocated to the general partner, the remaining net income attributable to HEP is allocated to the partners based on their weighted-average ownership percentage during the period.

The following table presents the allocation of the general partner interest in net income for the periods presented below:

	Three Months Ended March 31,	
	2012	2011
	(In thousands)	
General partner interest in net income	$336	$237
General partner incentive distribution	5,171	3,325
Total general partner interest in net income	$5,507	$3,562

Cash Distributions
Our general partner, HEP Logistics, is entitled to incentive distributions if the amount we distribute with respect to any quarter exceeds specified target levels.

On April 25, 2012, we announced our cash distribution for the first quarter of 2012 of $0.895 per unit. The distribution is payable on all common and general partner units and will be paid May 15, 2012 to all unitholders of record on May 8, 2012.

The following table presents the allocation of our regular quarterly cash distributions to the general and limited partners for the periods in which they apply. Our distributions are declared subsequent to quarter end; therefore, the amounts presented do not reflect distributions paid during the periods presented below.

	Three Months Ended March 31,	
	2012	2011
	(In thousands, except per unit data)	
General partner interest	$606	$453
General partner incentive distribution	5,171	3,325
Total general partner distribution	5,777	3,778
Limited partner distribution	24,488	18,877
Total regular quarterly cash distribution	$30,265	$22,655
Cash distribution per unit applicable to limited partners	$0.895	$0.855

As a master limited partnership, we distribute our available cash, which historically has exceeded our net income because depreciation and amortization expense represents a non-cash charge against income. The result is a decline in our partners' equity since our regular quarterly distributions have exceeded our quarterly net income. Additionally, if the assets contributed and acquired from HFC had occurred while we were not a consolidated variable interest entity of HFC, our acquisition cost in excess of HFC's historical basis in the transferred assets of $295.6 million would have been recorded in our financial statements as increases to our properties and equipment and intangible assets instead of decreases to our partners' equity.

Note 11: Supplemental Guarantor/Non-Guarantor Financial Information

Obligations of HEP ("Parent") under the Senior Notes have been jointly and severally guaranteed by each of its direct and indirect wholly-owned subsidiaries ("Guarantor Subsidiaries"). These guarantees are full and unconditional.

HOLLY ENERGY PARTNERS, L.P.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited) Continued

The following financial information presents condensed consolidating balance sheets, statements of income, and statements of cash flows of the Parent and the Guarantor Subsidiaries. The information has been presented as if the Parent accounted for its ownership in the Guarantor Subsidiaries using the equity method of accounting.

Additionally, the following financial information does not include condensed consolidating statements of comprehensive income since all other comprehensive income activity relates to the Parent and not to the Guarantor Subsidiaries.

Condensed Consolidating Balance Sheet

March 31, 2012	Parent	Guarantor Subsidiaries	Eliminations	Consolidated
	(In thousands)			
ASSETS				
Current assets:				
Cash and cash equivalents	$2	$12,400	$—	$12,402
Accounts receivable	—	34,784	—	34,784
Intercompany accounts receivable (payable)	107,624	(107,624)	—	—
Prepaid and other current assets	246	2,157	—	2,403
Total current assets	107,872	(58,283)	—	49,589
Properties and equipment, net	—	534,244	—	534,244
Investment in subsidiaries	684,863	—	(684,863)	—
Transportation agreements, net	—	99,806	—	99,806
Goodwill	—	256,498	—	256,498
Investment in SLC Pipeline	—	25,382	—	25,382
Other assets	1,323	5,996	—	7,319
Total assets	$794,058	$863,643	$(684,863)	$972,838
LIABILITIES AND PARTNERS' EQUITY				
Current liabilities:				
Accounts payable	$4	$12,589	$—	$12,593
Accrued interest	1,775	33	—	1,808
Deferred revenue	—	3,440	—	3,440
Accrued property taxes	—	1,801	—	1,801
Other current liabilities	611	1,282	—	1,893
Current portion of long-term debt	27,239	—	—	27,239
Total current liabilities	29,629	19,145	—	48,774
Long-term debt, net of current portion	442,956	155,000	—	597,956
Other long-term liabilities	—	4,635	—	4,635
Partners' equity	321,473	684,863	(684,863)	321,473
Total liabilities and partners' equity	$794,058	$863,643	$(684,863)	$972,838

HOLLY ENERGY PARTNERS, L.P.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited) Continued

Condensed Consolidating Balance Sheet

December 31, 2011	Parent	Guarantor Subsidiaries	Eliminations	Consolidated
	(In thousands)			
ASSETS				
Current assets:				
Cash and cash equivalents	$2	$3,267	$—	$3,269
Accounts receivable	—	34,071	—	34,071
Intercompany accounts receivable (payable)	17,745	(17,745)	—	—
Prepaid and other current assets	266	2,378	—	2,644
Total current assets	18,013	21,971	—	39,984
Properties and equipment, net	—	536,425	—	536,425
Investment in subsidiaries	651,217	—	(651,217)	—
Transportation agreements, net	—	101,543	—	101,543
Goodwill	—	256,498	—	256,498
Investment in SLC Pipeline	—	25,302	—	25,302
Other assets	1,322	5,882	—	7,204
Total assets	$670,552	$947,621	$(651,217)	$966,956
LIABILITIES AND PARTNERS' EQUITY				
Current liabilities:				
Accounts payable	$—	$11,406	$—	$11,406
Accrued interest	7,498	782	—	8,280
Deferred revenue	—	4,032	—	4,032
Accrued property taxes	—	2,196	—	2,196
Other current liabilities	689	1,088	—	1,777
Total current liabilities	8,187	19,504	—	27,691
Long-term debt	332,988	272,900	—	605,888
Other long-term liabilities	—	4,000	—	4,000
Partners' equity	329,377	651,217	(651,217)	329,377
Total liabilities and partners' equity	$670,552	$947,621	$(651,217)	$966,956

HOLLY ENERGY PARTNERS, L.P.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited) Continued

Condensed Consolidating Statement of Income

Three Months Ended March 31, 2012	Parent	Guarantor Subsidiaries	Eliminations	Consolidated
	(In thousands)			
Revenues:				
Affiliates	$—	$52,793	$—	$52,793
Third parties	—	10,722	—	10,722
	—	63,515	—	63,515
Operating costs and expenses:				
Operations	—	16,988	—	16,988
Depreciation and amortization	—	10,264	—	10,264
General and administrative	1,442	597	—	2,039
	1,442	27,849	—	29,291
Operating income (loss)	(1,442)	35,666	—	34,224
Equity in earnings of subsidiaries	32,725	—	(32,725)	—
Equity in earnings of SLC Pipeline	—	831	—	831
Interest income (expense)	(6,708)	(3,697)	—	(10,405)
Loss on early extinguishment of debt	(2,596)	—	—	(2,596)
	23,421	(2,866)	(32,725)	(12,170)
Income before income taxes	21,979	32,800	(32,725)	22,054
State income tax expense	—	(75)	—	(75)
Net income	$21,979	$32,725	$(32,725)	$21,979

Condensed Consolidating Statement of Income

Three Months Ended March 31, 2011	Parent	Guarantor Subsidiaries	Eliminations	Consolidated
	(In thousands)			
Revenues:				
Affiliates	$—	$34,107	$—	$34,107
Third parties	—	10,910	—	10,910
	—	45,017	—	45,017
Operating costs and expenses:				
Operations	—	12,796	—	12,796
Depreciation and amortization	—	7,640	—	7,640
General and administrative	751	612	—	1,363
	751	21,048	—	21,799
Operating income (loss)	(751)	23,969	—	23,218
Equity in earnings of subsidiaries	22,042	—	(22,042)	—
Equity in earnings of SLC Pipeline	—	740	—	740
Interest income (expense)	(6,122)	(2,427)	—	(8,549)
Other	—	(12)	—	(12)
	15,920	(1,699)	(22,042)	(7,821)
Income before income taxes	15,169	22,270	(22,042)	15,397
State income tax expense	—	(228)	—	(228)

Net income	$15,169	$22,042	$(22,042)	$15,169

HOLLY ENERGY PARTNERS, L.P.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited) Continued

Condensed Consolidating Statement of Cash Flows

Three Months Ended March 31, 2012	Parent	Guarantor Subsidiaries	Eliminations	Consolidated
	(In thousands)			
Cash flows from operating activities	$(106,452)	$134,675	$—	$28,223
Cash flows from investing activities				
Additions to properties and equipment	—	(6,327)	—	(6,327)
Cash flows from financing activities				
Net repayments under credit agreement	—	(45,000)	—	(45,000)
Proceeds from issuance of senior notes	294,750	—	—	294,750
Repayments of senior notes	(157,761)	—	—	(157,761)
Repayment of promissory notes	—	(72,900)	—	(72,900)
Distributions to HEP unitholders	(29,716)	—	—	(29,716)
Purchase of units for incentive grants	(1,283)	—	—	(1,283)
Deferred financing costs	—	(1,123)	—	(1,123)
Other	462	(192)	—	270
	106,452	(119,215)	—	(12,763)
Cash and cash equivalents				
Increase for the period	—	9,133	—	9,133
Beginning of period	2	3,267	—	3,269
End of period	$2	$12,400	$—	$12,402

Condensed Consolidating Statement of Cash Flows

Three Months Ended March 31, 2011	Parent	Guarantor Subsidiaries	Eliminations	Consolidated
	(In thousands)			
Cash flows from operating activities	$22,604	$(7,382)	$—	$15,222
Cash flows from investing activities				
Additions to properties and equipment	—	(11,475)	—	(11,475)
Cash flows from financing activities				
Net borrowings under credit agreement	—	23,000	—	23,000
Distributions to HEP unitholders	(22,205)	—	—	(22,205)
Purchase of units for incentive grants	(399)	—	—	(399)
Deferred financing costs	—	(3,044)	—	(3,044)
	(22,604)	19,956	—	(2,648)
Cash and cash equivalents				
Increase for the period	—	1,099	—	1,099
Beginning of period	2	401	—	403

End of period	$2	$1,500	$—	$1,502

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HOLLY ENERGY PARTNERS, L.P.

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

This Item 2, including but not limited to the sections on “Results of Operations” and “Liquidity and Capital Resources,” contains forward-looking statements. See “Forward-Looking Statements” at the beginning of Part I of this Quarterly Report on Form 10-Q. In this document, the words “we,” “our,” “ours” and “us” refer to Holly Energy Partners, L.P. (“HEP”) and its consolidated subsidiaries or to HEP or an individual subsidiary and not to any other person.

OVERVIEW

HEP is a Delaware limited partnership. We own and operate petroleum product and crude oil pipelines and terminal, tankage and loading rack facilities that support the refining and marketing operations of HollyFrontier Corporation (“HFC”) in the Mid-Continent, Southwest and Rocky Mountain regions of the United States. HFC currently owns a 42% interest in us including the 2% general partnership interest.

We also own and operate refined product pipelines and terminals, located primarily in Texas, that service Alon’s (“Alon”) refinery in Big Spring, Texas. Additionally, we own a 25% joint venture interest in the SLC Pipeline (the “SLC Pipeline”), a 95-mile intrastate crude oil pipeline system that serves refineries in the Salt Lake City area.

We generate revenues by charging tariffs for transporting petroleum products and crude oil through our pipelines, by charging fees for terminalling and storing refined products and other hydrocarbons and providing other services at our storage tanks and terminals. We do not take ownership of products that we transport, terminal or store, and therefore, we are not directly exposed to changes in commodity prices.

Legacy Frontier Pipeline and Tankage Asset Transaction

On November 9, 2011, we acquired from HFC certain tankage, loading rack and crude receiving assets located at HFC’s El Dorado and Cheyenne refineries. We paid non-cash consideration consisting of promissory notes with an aggregate principal amount of $150 million and 3,807,615 of our common units.

Agreements with HFC and Alon

We serve HFC’s refineries under long-term pipeline and terminal, tankage and throughput agreements expiring from 2019 to 2026. Under these agreements, HFC agreed to transport, store and throughput volumes of refined product and crude oil on our pipelines and terminal, tankage and loading rack facilities that result in minimum annual payments to us. These minimum annual payments or revenues are subject to annual tariff rate adjustments on July 1, based on the Producer Price Index (“PPI”) or Federal Energy Regulatory Commission (“FERC”) index. As of March 31, 2012, these agreements with HFC will result in minimum annualized payments to us of $191.8 million.

If HFC fails to meet its minimum volume commitments under the agreements in any quarter, it will be required to pay us in cash the amount of any shortfall by the last day of the month following the end of the quarter. Under certain of the agreements, a shortfall payment may be applied as a credit in the following four quarters after minimum obligations are met.

We also have a pipelines and terminals agreement with Alon expiring in 2020 under which Alon has agreed to transport on our pipelines and throughput through our terminals volumes of refined products that result in a minimum level of annual revenue that also is subject to annual tariff rate adjustments. Additionally, we have a capacity lease agreement with Alon under which we lease Alon space on our Orla to El Paso pipeline for the shipment of refined product. The terms under this agreement expire beginning in 2018 through 2022. As of March 31, 2012, these agreements with Alon will result in minimum annualized payments to us of $30.9 million.

A significant reduction in revenues under these agreements could have a material adverse effect on our results of operations.

Under certain provisions of the Omnibus Agreement (“Omnibus Agreement”) that we have with HFC, we pay HFC an annual administrative fee, currently $2.3 million, for the provision by HFC or its affiliates of various general and administrative services to us. This fee does not include the salaries of pipeline and terminal personnel or the cost of their employee benefits, which are separately charged to us by HFC. We also reimburse HFC and its affiliates for direct expenses they incur on our behalf.

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RESULTS OF OPERATIONS (Unaudited)

Income, Distributable Cash Flow and Volumes
The following tables present income, distributable cash flow and volume information for the three months ended March 31, 2012 and 2011.

	Three Months Ended March 31,		Change from
	2012	2011	2011
	(In thousands, except per unit data)		
Revenues			
Pipelines:			
Affiliates—refined product pipelines	$12,357	$9,858	$2,499
Affiliates—intermediate pipelines	7,045	4,633	2,412
Affiliates—crude pipelines	10,545	9,321	1,224
	29,947	23,812	6,135
Third parties—refined product pipelines	8,328	9,155	(827)
	38,275	32,967	5,308
Terminals, tanks and loading racks:			
Affiliates	22,846	10,295	12,551
Third parties	2,394	1,755	639
	25,240	12,050	13,190
Total revenues	63,515	45,017	18,498
Operating costs and expenses			
Operations	16,988	12,796	4,192
Depreciation and amortization	10,264	7,640	2,624
General and administrative	2,039	1,363	676
	29,291	21,799	7,492
Operating income	34,224	23,218	11,006
Equity in earnings of SLC Pipeline	831	740	91
Interest expense, including amortization	(10,405)	(8,549)	(1,856)
Loss on early extinguishment of debt	(2,596)	—	(2,596)
Other expense	—	(12)	12
	(12,170)	(7,821)	(4,349)
Income before income taxes	22,054	15,397	6,657
State income tax	(75)	(228)	153
Net income	21,979	15,169	6,810
Less general partner interest in net income, including incentive distributions [(1)]	5,507	3,562	1,945
Limited partners' interest in net income	$16,472	$11,607	$4,865
Limited partners' earnings per unit—basic and diluted [(1)]	$0.60	$0.53	$0.07
Weighted average limited partners' units outstanding	27,361	22,079	5,282
EBITDA [(2)]	$45,319	$31,586	$13,733
Distributable cash flow [(3)]	$36,555	$20,772	$15,783
Volumes (bpd)			
Pipelines:			
Affiliates—refined product pipelines	97,226	77,218	20,008
Affiliates—intermediate pipelines	123,568	68,617	54,951
Affiliates—crude pipelines	153,662	136,257	17,405
	374,456	282,092	92,364

Third parties—refined product pipelines	64,287	48,528	15,759
	438,743	330,620	108,123
Terminals and loading racks:			
Affiliates	262,230	157,932	104,298
Third parties	52,383	40,356	12,027
	314,613	198,288	116,325
Total for pipelines and terminal assets (bpd)	753,356	528,908	224,448

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(1) Net income is allocated between limited partners and the general partner interest in accordance with the provisions of the partnership agreement. Net income allocated to the general partner includes incentive distributions declared subsequent to quarter end. Net income attributable to the limited partners is divided by the weighted average limited partner units outstanding in computing the limited partners' per unit interest in net income.

(2) EBITDA is calculated as net income plus (i) interest expense, net of interest income, (ii) state income tax and (iii) depreciation and amortization. EBITDA is not a calculation based upon U.S. generally accepted accounting principles ("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 also is used by our management for internal analysis and as a basis for compliance with financial covenants.

Set forth below is our calculation of EBITDA.

	Three Months Ended March 31,	
	2012	2011
	(In thousands)	
Net income	$21,979	$15,169
Add (subtract):		
Interest expense	8,760	8,259
Loss on early extinguishment of debt	2,596	—
Amortization of discount and deferred debt charges	1,645	290
State income tax	75	228
Depreciation and amortization	10,264	7,640
EBITDA	$45,319	$31,586

(3) Distributable cash flow is not a calculation based upon GAAP. However, the amounts included in the calculation are derived from amounts separately presented in our consolidated financial statements, with the exception of billed crude revenue settlement and maintenance capital expenditures. Distributable cash flow should not be considered in isolation or 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. Distributable cash flow is not necessarily comparable to similarly titled measures of other companies. Distributable cash flow is presented here because it is a widely accepted financial indicator used by investors to compare partnership performance. It is also used by management for internal analysis and for our performance units. We believe that this measure provides investors an enhanced perspective of the operating performance of our assets and the cash our business is generating.

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Set forth below is our calculation of distributable cash flow.

	Three Months Ended March 31, 2012	2011
	(In thousands)	
Net income	$21,979	$15,169
Add (subtract):		
Depreciation and amortization	10,264	7,640
Amortization of discount and deferred debt charges	1,645	290
Loss on early extinguishment of debt	2,596	—
Billed crude revenue settlement	918	—
Increase (decrease) in deferred revenue	(592)	(1,104)
Maintenance capital expenditures [4]	(307)	(1,229)
Other non-cash adjustments	52	6
Distributable cash flow	$36,555	$20,772

(4) Maintenance capital expenditures are capital expenditures made to replace partially or fully depreciated assets in order to maintain the existing operating capacity of our assets and to extend their useful lives. Maintenance capital expenditures include expenditures required to maintain equipment reliability, tankage and pipeline integrity and safety and to address environmental regulations.

	March 31, 2012	December 31, 2011
	(In thousands)	
Balance Sheet Data		
Cash and cash equivalents	$12,402	$3,269
Working capital	$815	$12,293
Total assets	$972,838	$966,956
Long-term debt	$597,956	$605,888
Partners' equity[5]	$321,473	$329,377

(5) As a master limited partnership, we distribute our available cash, which historically has exceeded our net income because depreciation and amortization expense represents a non-cash charge against income. The result is a decline in partners' equity since our regular quarterly distributions have exceeded our quarterly net income. Additionally, if the assets contributed and acquired from HFC while under common control of HFC had been acquired from third parties, our acquisition cost in excess of HFC's basis in the transferred assets of $295.6 million would have been recorded in our financial statements as increases to our properties and equipment and intangible assets instead of decreases to partners' equity.

Results of Operations—Three Months Ended March 31, 2012 Compared with Three Months Ended March 31, 2011

Summary

Net income for the three months ended March 31, 2012 was $22.0 million, a $6.8 million increase compared to the three months ended March 31, 2011. This increase in earnings is due principally to increased pipeline shipments, earnings attributable to our recent acquisitions and annual tariff increases. These factors were offset partially by a decrease in previously deferred revenue realized, increased operating costs and expenses and a loss incurred on the early extinguishment of certain long-term debt.

Revenues for the three months ended March 31, 2012 include the recognition of $1.7 million of prior shortfalls billed to shippers in 2011. Deficiency payments of $1.1 million associated with certain guaranteed shipping contracts were deferred during the three months ended March 31, 2012. Such deferred revenue will be recognized in earnings either as payment for shipments in excess of guaranteed levels, or when shipping rights expire unused.

Revenues

Total revenues for the three months ended March 31, 2012 were $63.5 million, an $18.5 million increase compared to the three

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months ended March 31, 2011. This is due principally to overall increased pipeline shipments, revenues attributable to our November 2011 asset acquisitions and the effect of annual tariff increases, partially offset by a $2.4 million decrease in previously deferred revenue realized.

Overall pipeline volumes were up 33% compared to the three months ended March 31, 2011. During the first quarter of 2011, related-party throughput volumes were below target levels due to production downtime at HFC's Navajo refinery following a plant-wide power outage in January 2011.

Revenues from our refined product pipelines were $20.7 million, an increase of $1.7 million compared to the three months ended March 31, 2011. This includes the effects of a $2.4 million decrease in previously deferred revenue realized. Volumes shipped on our refined product pipelines averaged 161.5 thousand barrels per day ("mbpd") compared to 125.7 mbpd for the same period last year.

Revenues from our intermediate pipelines were $7.0 million, an increase of $2.4 million compared to the three months ended March 31, 2011. This includes $1.2 million in revenues attributable to the Tulsa interconnect pipelines which commenced operations in September 2011, and a $0.5 million increase in previously deferred revenue realized. Volumes shipped on our intermediate pipelines averaged 123.6 mbpd compared to 68.6 mbpd for the same period last year.

Revenues from our crude pipelines were $10.5 million, an increase of $1.2 million compared to the three months ended March 31, 2011. Volumes shipped on our crude pipelines increased to an average of 153.7 mbpd compared to 136.3 mbpd for the same period last year.

Revenues from terminal, tankage and loading rack fees were $25.2 million, an increase of $13.2 million compared to the three months ended March 31, 2011. This increase is due principally to $11.7 million in revenues attributable to our terminal, tankage and loading racks serving HFC's El Dorado and Cheyenne refineries. Refined products terminalled in our facilities increased to an average of 314.6 mbpd compared to 198.3 mbpd for the same period last year.

Operations Expense

Operations expense for the three months ended March 31, 2012 increased by $4.2 million compared to the three months ended March 31, 2011. This increase is due principally to operating costs attributable to our recently acquired assets serving HFC's El Dorado and Cheyenne refineries of $1.4 million and year-over-year increases in first quarter maintenance service and payroll costs.

Depreciation and Amortization

Depreciation and amortization for the three months ended March 31, 2012 increased by $2.6 million compared to the three months ended March 31, 2011. This increase is due principally to depreciation attributable to our recent asset acquisitions from HFC of $1.0 million and capital projects.

General and Administrative

General and administrative costs for the three months ended March 31, 2012 increased by $0.7 million compared to the three months ended March 31, 2011 due to higher professional fees related to our recent transactions.

Equity in Earnings of SLC Pipeline

Our equity in earnings of the SLC Pipeline was $0.8 million for the three months ended March 31, 2012 compared to $0.7 million for the three months ended March 31, 2011.

Interest Expense

Interest expense for the three months ended March 31, 2012 totaled $10.4 million, an increase of $1.9 million compared to the three months ended March 31, 2011. This increase reflects interest on a year-over-year increase in debt levels. Our aggregate effective interest rate was 7.9% for the three months ended March 31, 2012 compared to 6.8% for the same period of 2011.

Loss on Early Extinguishment of Debt

We recognized a charge of $2.6 million upon the early extinguishment of our 6.25% senior notes for the three months ended March 31, 2012. This charge relates to the premium paid to note holders upon their tender of an aggregate principal amount of $157.8 million and related financing costs that were previously deferred.

State Income Tax

We recorded state income taxes of $75,000 and $228,000 for the three months ended March 31, 2012 and 2011, respectively, which are solely attributable to the Texas margin tax.

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LIQUIDITY AND CAPITAL RESOURCES

Overview

We have a $375 million senior secured revolving credit facility expiring in February 2016 (the "Credit Agreement") that is available to fund capital expenditures, investments, acquisitions, distribution payments and working capital and for general partnership purposes. Also it is available to fund letters of credit up to a $50 million sub-limit and to fund distributions to unitholders up to a $30 million sub-limit. In February 2012 we amended our previous credit agreement increasing the size of the credit facility from $275 million to $375 million.

During the three months ended March 31, 2012, we received advances totaling $36.0 million and repaid $81.0 million, resulting in net repayments of $45.0 million under the Credit Agreement. There was an outstanding balance of $155.0 million at March 31, 2012.

Under our registration statement filed with the SEC using a "shelf" registration process, we currently have the ability to raise up to $781.0 million by offering securities, through one or more prospectus supplements that would describe, among other things, the specific amounts, prices and terms of any securities offered and how the proceeds would be used. Any proceeds from the sale of securities would be used for general business purposes, which may include, among other things, funding acquisitions of assets or businesses, working capital, capital expenditures, investments in subsidiaries, the retirement of existing debt and/or the repurchase of common units or other securities.

We believe our current cash balances, future internally generated funds and funds available under the Credit Agreement will provide sufficient resources to meet our working capital liquidity needs for the foreseeable future.

In February, we paid regular quarterly cash distributions of $0.885 on all units in an aggregate amount of $29.7 million. Included in these distributions were $4.9 million of incentive distribution payments to the general partner.

Cash and cash equivalents increased by $9.1 million during the three months ended March 31, 2012. The cash flows provided by operating activities of $28.2 million exceeded the combined cash flows used for investing and financing activities of $6.3 million and $12.8 million, respectively. Working capital decreased by $11.5 million to $0.8 million at March 31, 2012 from $12.3 million at December 31, 2011.

Cash Flows—Operating Activities

Cash flows from operating activities increased by $13.0 million from $15.2 million for the three months ended March 31, 2011 to $28.2 million for the three months ended March 31, 2012. This increase is due principally to $18.5 million in additional cash collections from our customers, partially offset by payments attributable to increased interest and operating expenses.

Our major shippers are obligated to make deficiency payments to us if they do not meet their minimum volume shipping obligations. Under certain agreements with these shippers, they have the right to recapture these amounts if future volumes exceed minimum levels. We billed $1.7 million during the three months ended March 31, 2011 related to shortfalls that subsequently expired without recapture and were recognized as revenue during the three months ended March 31, 2012. Another $1.1 million is included in our accounts receivable at March 31, 2012 related to shortfalls that occurred during the first quarter of 2012.

Cash Flows—Investing Activities

Cash flows used for investing activities decreased by $5.1 million from $11.5 million for the three months ended March 31, 2011 to $6.3 million for the three months ended March 31, 2012. During the three months ended March 31, 2012 and 2011, we invested $6.3 million and $11.5 million in additions to properties and equipment, respectively.

Cash Flows—Financing Activities

Cash flows used for financing activities were $12.8 million for the three months ended March 31, 2012 compared to $2.6 million for the three months ended March 31, 2011, an increase of $10.1 million. During the three months ended March 31, 2012, we received $36.0 million and repaid $81.0 million in advances under the Credit Agreement, received net proceeds of $294.8 million from the issuance of our 6.5% senior notes, and repaid $157.8 million and $72.9 million of our 6.25% senior notes and promissory notes, respectively. Additionally, we paid $29.7 million in regular quarterly cash distributions to our general and limited partners, paid $1.1 million in financing costs to amend our previous credit agreement and paid $1.3 million for the purchase of common units for recipients of our incentive grants. During the three months ended March 31, 2011, we received $30.0 million and repaid $7.0 million in advances under the Credit Agreement. Additionally, we paid $22.2 million in regular quarterly cash distributions to our general and limited partners, incurred $3.0 million in financing costs upon the issuance of the 8.25% Senior Notes, and paid $0.4 million for the purchase of common units for recipients of our incentive grants.

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Capital Requirements

Our pipeline and terminalling operations are capital intensive, requiring investments to maintain, expand, upgrade or enhance existing operations and to meet environmental and operational regulations. Our capital requirements consist of maintenance capital expenditures and expansion capital expenditures. Repair and maintenance expenses associated with existing assets that are minor in nature and do not extend the useful life of existing assets are charged to operating expenses as incurred.

Each year the Holly Logistic Services, L.L.C. (“HLS”) board approves our annual capital budget, which specifies capital projects that our 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 in excess of a year, depending on the time required to complete the project. Therefore, our planned capital expenditures for a given year consist of expenditures approved for capital projects included in the current year’s capital budget as well as, in certain cases, expenditures approved for capital projects in capital budgets for prior years. The 2012 capital budget is comprised of $8.9 million for maintenance capital expenditures and $25.8 million for expansion capital expenditures.

We recently have made certain modifications to our crude oil gathering and trunk line system that effectively have increased our ability to gather and transport an additional 10,000 bpd of Delaware Basin crude oil in response to increased drilling activity in southeast New Mexico. Furthermore, we have developed a project to replace a 5-mile section of this pipeline system that will allow for an additional 15,000 bpd of capacity that will be executed as needed if Delaware Basin crude volumes continue to increase. This project is estimated to cost approximately $2.0 million. We have a second project that consists of the reactivation and conversion to crude oil service of a 70-mile, 8-inch petroleum products pipeline owned by us. Once in service, this pipeline will initially be capable of transporting up to 35,000 bpd of crude oil from southeast New Mexico to third-party common carrier pipelines in west Texas for further transport to major crude oil markets. The scope of this project is being finalized. Subject to receipt of acceptable shipper support and board approval, this project could be operational in early 2013.

We are in discussions with HFC regarding our option to purchase its 75% equity interest in the UNEV Pipeline, a joint venture pipeline that is capable of transporting refined petroleum products from Salt Lake City, Utah to Las Vegas, Nevada. The initial capacity of this pipeline is 62,000 bpd, with the capacity for further expansion to 120,000 bpd. The total construction cost of this pipeline, including terminals, ethanol blending and storage facilities, was approximately $410.0 million. HFC's share of the cost is $308.0 million. The pipeline was mechanically complete in November 2011, and initial start-up activities commenced in December 2011. We are not obligated to purchase the UNEV Pipeline nor are we subject to any fees or penalties if HLS' board of directors decides not to proceed with this opportunity.

We expect that our currently planned sustaining and maintenance capital expenditures, as well as expenditures for acquisitions and capital development projects such as our option to purchase HFC’s interest in the UNEV Pipeline described above, will be funded with existing cash generated by operations, the sale of additional limited partner common units, the issuance of debt securities and advances under our Credit Agreement, or a combination thereof. With volatility and uncertainty at times in the credit and equity markets, there may be limits on our ability to issue new debt or equity financing. Additionally, due to pricing movements in the debt and equity markets, we may not be able to issue new debt and equity securities at acceptable pricing. Without additional capital beyond amounts available under the Credit Agreement, our ability to fund some of these capital projects, especially the UNEV Pipeline, may be limited.

Credit Agreement

Our obligations under the Credit Agreement are collateralized by substantially all of our assets. Indebtedness under the Credit Agreement is recourse to HEP Logistics Holdings, L.P., ("HEP Logistics"), our general partner, and

guaranteed by our material wholly-owned subsidiaries. Any recourse to HEP Logistics would be limited to the extent of its assets, which other than its investment in us, are not significant. We may prepay all loans at any time without penalty, except for payment of certain breakage and related costs.

The Credit Agreement imposes certain requirements on us including: a prohibition against distribution to unitholders if, before or after the distribution, a potential default or an event of default as defined in the agreement would occur; limitations on our ability to incur debt, make loans, acquire other companies, change the nature of our business, enter a merger or consolidation, or sell assets; and covenants that require maintenance of a specified EBITDA to interest expense ratio, total debt to EBITDA ratio and senior debt to EBITDA ratio. If an event of default exists under the agreement, the lenders will be able to accelerate the maturity of the debt and exercise other rights and remedies.

Senior Notes

In March 2012, we issued $300 million in aggregate principal amount outstanding of 6.5% senior notes maturing March 1, 2020. The $294.8 million in net proceeds from the issuance were used to fund $157.8 million aggregate principal amount of 6.25% senior notes tendered pursuant to a cash tender offer and consent solicitation announced in February 2012, to repay $72.9 million

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in Promissory Notes due to HFC as discussed below, related fees, expenses and accrued interest in connection with these transactions and to repay borrowings under the Credit Agreement.

In April 2012, we called for redemption $27.2 million aggregate principal amount of 6.25% senior notes that remained outstanding following the cash tender offer and consent solicitation.

In March 2010, we issued $150 million in aggregate principal amount outstanding of 8.25% senior notes maturing March 15, 2018. A portion of the $147.5 million in net proceeds from the issuance was used to fund our $93.0 million purchase of the Tulsa and Lovington storage assets from HFC on March 31, 2010. Additionally, we used a portion to repay $42.0 million in outstanding Credit Agreement borrowings, with the remaining proceeds available for general partnership purposes, including working capital and capital expenditures.

Our 6.5% senior notes and 8.25% senior notes (collectively, the “Senior Notes”) are unsecured and impose certain restrictive covenants which we are subject to and currently in compliance with, including limitations on our 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 Senior Notes are rated investment grade by both Moody’s and Standard & Poor’s and no default or event of default exists, we will not be subject to many of the foregoing covenants. Additionally, we have certain redemption rights under the Senior Notes.

Indebtedness under the Senior Notes is recourse to HEP Logistics, and guaranteed by our wholly-owned subsidiaries. However, any recourse to HEP Logistics would be limited to the extent of its assets, which other than its investment in us, are not significant.

Promissory Notes
In November 2011, we issued senior unsecured promissory notes to HFC (the “Promissory Notes”) having an aggregate principal amount of $150.0 million to finance a portion of our November 9, 2011 acquisition of certain tankage, loading rack and crude receiving assets located at HFC's El Dorado and Cheyenne refineries. In December 2011, we repaid $77.1 million of outstanding principal using proceeds received in our December 2011 common unit offering and existing cash. We repaid the remaining $72.9 million balance in March 2012.

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

	March 31, 2012	December 31, 2011
	(In thousands)	
Credit Agreement	$155,000	$200,000
6.5% Senior Notes		
Principal	300,000	—
Unamortized discount	(5,214)	—
	294,786	—
6.25% Senior Notes		
Principal	27,254	185,000
Unamortized net discount	(15)	(105)
	27,239	184,895
8.25% Senior Notes		
Principal	150,000	150,000
Unamortized discount	(1,830)	(1,907)
	148,170	148,093

Promissory Notes	—	72,900
Total debt	625,195	605,888
Less current portion of long-term debt	27,239	—
Total long-term debt, net of current portion	$597,956	$605,888

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See “Risk Management” for a discussion of our interest rate swap.

Contractual Obligations
In February 2012, we amended our previous credit agreement increasing the size of the credit facility from $275 million to $375 million. The Credit Agreement expires in February 2016. During the three months ended March 31, 2012, we repaid net advances of $45.0 million resulting in $155.0 million of outstanding borrowings under the Credit Agreement at March 31, 2012.

In March 2012, we issued $300 million in aggregate principle amount of 6.5% senior notes maturing March 2020.

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

Impact of Inflation
Inflation in the United States has been relatively moderate in recent years and did not have a material impact on our results of operations for the three months ended March 31, 2012 and 2011. Historically, the PPI has increased an average of 3.6% annually over the past 5 calendar years.

The substantial majority of our revenues are generated under long-term contracts that provide for increases in our rates and minimum revenue guarantees annually for increases in the PPI. Certain of these contracts have provisions that limit the level of annual PPI percentage rate increases. Although the recent PPI increase may not be indicative of additional increases to be realized in the future, a significant and prolonged period of inflation could adversely affect our cash flows and results of operations if costs increase at a rate greater than the fees we charge our shippers.

Environmental Matters
Our operation of pipelines, terminals, and associated facilities in connection with the transportation and storage of refined products and crude oil is subject to stringent and complex federal, state, and local laws and regulations governing the discharge of materials into the environment, or otherwise relating to the protection of the environment. As with the industry generally, compliance with existing and anticipated laws and regulations increases our overall cost of business, including our capital costs to construct, maintain, and upgrade equipment and facilities. While these laws and regulations affect our maintenance capital expenditures and net income, we believe that they do not affect our competitive position in that the operations of our competitors are similarly affected. We believe that our operations are in substantial compliance with applicable environmental laws and regulations. However, these laws and regulations, and the interpretation or enforcement thereof, are subject to frequent change by regulatory authorities, and we are unable to predict the ongoing cost to us of complying with these laws and regulations or the future impact of these laws and regulations on our operations. Violation of environmental laws, regulations, and permits can result in the imposition of significant administrative, civil and criminal penalties, injunctions, and construction bans or delays. A discharge of hydrocarbons or hazardous substances into the environment could, to the extent the event is not insured, subject us to substantial expense, including both the cost to comply with applicable laws and regulations and claims made by employees, neighboring landowners and other third parties for personal injury and property damage.

Under the Omnibus Agreement and certain transportation agreements with HFC, HFC has agreed to indemnify us, subject to certain limitations, for environmental noncompliance and remediation liabilities associated with assets transferred to us from HFC and occurring or existing prior to the date of such transfers. The Omnibus Agreement provides environmental indemnification with respect to certain transferred assets of up to $15 million through 2021, plus additional indemnification of $2.5 million through 2015 for certain of these assets and up to $7.5 million through 2023 for certain other assets. HFC’s indemnification obligations under the Omnibus Agreement do not apply to (i) the Tulsa west loading racks acquired in August 2009, (ii) the 16-inch intermediate pipeline acquired in June 2009, (iii) the Roadrunner Pipeline, (iv) the Beeson Pipeline, (v) the logistics and storage assets acquired from Sinclair in

December 2009, or (vi) the Tulsa east storage tanks and loading racks acquired in March 2010. For the Tulsa loading racks acquired from HFC in August 2009 and the Tulsa logistics and storage assets acquired from Sinclair in December 2009, HFC agreed to indemnify us for environmental liabilities arising from our pre-ownership operations of these assets. Additionally, HFC agreed to indemnify us for any liabilities arising from its operation of our loading racks located at HFC's Tulsa refinery west facility.

We have an environmental agreement with Alon with respect to pre-closing environmental costs and liabilities relating to the pipelines and terminals acquired from Alon in 2005, under which Alon will indemnify us through 2015, subject to a $100,000 deductible and a $20 million maximum liability cap.

There are environmental remediation projects that are currently in progress that relate to certain assets acquired from HFC. Certain of these projects were underway prior to our purchase and represent liabilities of HFC as the obligation for future remediation activities was retained by HFC. At March 31, 2012, we have an accrual of $1.1 million that relates to environmental clean-up

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projects for which we have assumed liability. The remaining projects, including assessment and monitoring activities, are covered under the HFC environmental indemnification discussed above and represent liabilities of HFC.

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 "Item 7. Management's Discussion and Analysis of Financial Condition and Operations—Critical Accounting Policies" in our Annual Report on Form 10-K for the year ended December 31, 2011. Certain critical accounting policies that materially affect the amounts recorded in our consolidated financial statements include revenue recognition, assessing the possible impairment of certain long-lived assets and goodwill, and assessing contingent liabilities for probable losses. There have been no changes to these policies in 2012. We consider these policies to be the most critical to understanding the judgments that are involved and the uncertainties that could impact our results of operations, financial condition and cash flows.

New Accounting Pronouncements

Presentation of Comprehensive Income
Effective January 1, 2012, we adopted the accounting standard update that requires the presentation of net income and other comprehensive income in one continuous statement or in two separate, but consecutive, statements and eliminated the option to present the components of other comprehensive income in the statement of partners' equity.

Intangibles-Goodwill and Other: Testing Goodwill for Impairment
Effective January 1, 2012, we adopted the accounting standard update that allows entities an option to first assess qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. Under this option, we no longer are required to calculate the fair value of a reporting unit unless we determine, based on that qualitative assessment, that it is more likely than not that the reporting unit's fair value is less than its carrying amount. The adoption of this accounting standard did not have an impact on our financial condition, results of operations and cash flows.

RISK MANAGEMENT

We use interest rate swaps (derivative instruments) to manage our exposure to interest rate risk.

As of March 31, 2012, we have an interest rate swap, designated as a cash flow hedge, that hedges our exposure to the cash flow risk caused by the effects of LIBOR changes on a $155.0 million Credit Agreement advance. This interest rate swap effectively converts $155.0 million of our LIBOR based debt to fixed rate debt having an interest rate of 0.99% plus an applicable margin currently 2.25%, which equaled an effective interest rate of 3.24% as of March 31, 2012. This swap contract matures in February 2016.

We review publicly available information on our counterparty in order to review and monitor its financial stability and assess its ongoing ability to honor its commitments under the interest rate swap contract. This counterparty is a large financial institution. Furthermore, we have not experienced, nor do we expect to experience, any difficulty in the counterparty honoring its respective commitment.

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

At March 31, 2012, we had an outstanding principal balance on our 6.5% Senior Notes and 8.25% Senior Notes of $300 million, and $150 million, respectively. A change in interest rates would generally affect the fair value of the Senior Notes, but not our earnings or cash flows. At March 31, 2012, the fair values of our 6.5% Senior Notes and 8.25% Senior Notes were $305.3 million and $161.3 million, respectively. We estimate a hypothetical 10% change in the yield-to-maturity applicable to the 6.5% Senior Notes and 8.25% Senior Notes at March 31, 2012 would result in a change of approximately $11.7 million and $5.1 million, respectively, in the fair value of the underlying notes.

For the variable rate Credit Agreement, changes in interest rates would affect cash flows, but not the fair value. At March 31,

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2012, borrowings outstanding under the Credit Agreement were $155.0 million. By means of our cash flow hedge, we have effectively converted the variable rate on $155.0 million of outstanding borrowings to a fixed rate of 3.24%.

At March 31, 2012, our cash and cash equivalents included highly liquid investments with a maturity of three months or less at the time of purchase. 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 normal hazards of 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.

We have a risk management oversight committee that is made up of members from our senior management. This committee monitors our risk environment and provides direction for activities to mitigate, to an acceptable level, identified risks that may adversely affect the achievement of our goals.

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Item 3. Quantitative and Qualitative Disclosures About Market Risk

Market risk is the risk of loss arising from adverse changes in market rates and prices. See “Risk Management” under “Management’s Discussion and Analysis of Financial Condition and Results of Operations” for a discussion of market risk exposures that we have with respect to our cash and cash equivalents and long-term debt. which disclosure should be read in conjunction with the quantitative and qualitative disclosures about market risk contained in our Annual Report on Form 10-K for the fiscal year ended December 31, 2011. We utilize derivative instruments to hedge our interest rate exposure, as discussed under “Risk Management.”

Since we do not own products shipped on our pipelines or terminalled at our terminal facilities, we do not have market risks associated with commodity prices.

Item 4. Controls and Procedures

(a) 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 as of March 31, 2012.

(b) 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

We are a party to various legal and regulatory proceedings, none of which we believe will have a material 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, 2011. In addition to the other information set forth in this quarterly report, you should carefully consider the factors discussed in our 2011 Form 10-K, which could materially affect our business, financial condition or future results. The risks described in this quarterly report and in our 2011 Form 10-K are not the only risks we face. 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.

Item 5(a). Other Information.

(a) Mortgages. Effective January 31, 2012, in connection with our acquisition from HFC of certain tankage, loading rack and crude receiving assets located at HFC's El Dorado and Cheyenne refineries in November 2011, our wholly-owned subsidiaries Cheyenne Logistics LLC and El Dorado Logistics LLC each executed a mortgage for the benefit of HFC with respect to such assets located at the Cheyenne refinery and the El Dorado refinery, respectively. Each mortgage grants HFC a second priority lien on the applicable assets and provides HFC with certain rights to take possession of and/or operate such assets upon a default of the mortgage, in each case consistent with the mortgages that we have executed in favor of HFC in connection with our previous acquisitions from HFC. The descriptions of the mortgages herein are qualified by reference to the copy of the Cheyenne mortgage, filed as Exhibit 10.61 to our Annual Report on Form 10-K for our fiscal year ended December 31, 2011, and the El Dorado mortgage, filed as Exhibit 10.2 to this report, each of which is incorporated by reference into this report in its entirety.

Item 6. Exhibits

The Exhibit Index on page 38 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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HOLLY ENERGY PARTNERS, L.P.
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.

HOLLY ENERGY PARTNERS, L.P.
(Registrant)

By: HEP LOGISTICS HOLDINGS, L.P.
its General Partner

By: HOLLY LOGISTIC SERVICES, L.L.C.
its General Partner

Date: May 1, 2012

/s/ Bruce R. Shaw
Bruce R. Shaw
Senior Vice President and
Chief Financial Officer
(Principal Financial Officer)

/s/ Scott C. Surplus
Scott C. Surplus
Vice President and Controller
(Principal Accounting Officer)

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Exhibit Index

Exhibit Number	Description
3.1	First Amended and Restated Agreement of Limited Partnership of Holly Energy Partners, L.P. (incorporated by reference to Exhibit 3.1 of Registrant's Quarterly Report on Form 10-Q for its quarterly period ended June 30, 2004, File No. 1-32225).
3.2	Amendment No. 1 to the First Amended and Restated Agreement of Limited Partnership of Holly Energy Partners, L.P., dated February 28, 2005 (incorporated by reference to Exhibit 3.1 of Registrant's Form 8-K Current Report dated February 28, 2005, File No. 1-32225).
3.3	Amendment No. 2 to the First Amended and Restated Agreement of Limited Partnership of Holly Energy Partners, L.P., as amended, dated July 6, 2005 (incorporated by reference to Exhibit 3.1 of Registrant's Form 8-K Current Report dated July 6, 2005, File No. 1-32225).
3.4	Amendment No. 3 to First Amended and Restated Agreement of Limited Partnership of Holly Energy Partners, L.P., dated April 11, 2008 (incorporated by reference to Exhibit 4.1 of Registrant's Current Report on Form 8-K filed April 15, 2008, File No. 1-32225).
3.5	First Amended and Restated Agreement of Limited Partnership of Holly Energy Partners - Operating Company, L.P. (incorporated by reference to Exhibit 3.2 of Registrant's Quarterly Report on Form 10-Q for its quarterly period ended June 30, 2004, File No. 1-32225).
3.6	First Amended and Restated Agreement of Limited Partnership of HEP Logistics Holdings, L.P. (incorporated by reference to Exhibit 3.4 of Registrant's Quarterly Report on Form 10-Q for its quarterly period ended June 30, 2004, File No. 1-32225).
3.7	First Amended and Restated Limited Liability Company Agreement of Holly Logistic Services, L.L.C. (incorporated by reference to Exhibit 3.5 of Registrant's Quarterly Report on Form 10-Q for its quarterly period ended June 30, 2004, File No. 1-32225).
3.8	Amendment No. 1 to the First Amended and Restated Limited Liability Company Agreement of Holly Logistic Services, L.L.C., dated April 27, 2011 (incorporated by reference to Exhibit 3.1 of Registrant's Form 8-K Current Report dated May 3, 2011, File No. 1-32225).
3.9	First Amended and Restated Limited Liability Company Agreement of HEP Logistics GP, L.L.C. (incorporated by reference to Exhibit 3.6 of Registrant's Quarterly Report on Form 10-Q for its quarterly period ended June 30, 2004, File No. 1-32225).
4.1	Indenture, dated March 12, 2012, among Holly Energy Partners, L.P., Holly Energy Finance Corp., the Subsidiary Guarantors named therein and U.S. Bank National Association, as Trustee (incorporated by reference to Exhibit 4.1 of Registrant's Current Report on Form 8-K dated March 12, 2012, File No. 1-32225).
4.2	Tenth Supplemental Indenture, dated as of March 12, 2012, by and among Holly Energy Partners, L.P., Holly Energy Finance Corp., the Subsidiary Guarantors named therein and U.S. Bank National Association, as Trustee, to the Indenture, dated as of February 28, 2005, as amended and supplemented, by and among Holly Energy Partners, L.P., Holly Energy Finance Corp., the Subsidiary Guarantors named therein and U.S.

	Bank National Association, as Trustee (incorporated by reference to Exhibit 4.2 of Registrant's Current Report on Form 8-K dated March 12, 2012, File No. 1-32225).
10.1	Mortgage and Deed of Trust, dated January 31, 2012, by Cheyenne Logistics LLC for the benefit of HollyFrontier Corporation (incorporated by reference to Exhibit 10.61 of Registrant's Annual Report on Form 10-K for its fiscal year ended December 31, 2011, File No. 1-32225).
10.2+	Mortgage and Deed of Trust, dated January 31, 2012, by El Dorado Logistics LLC for the benefit of HollyFrontier Corporation.

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10.3	Agreement and Amendment No.1 to Second Amended and Restated Credit Agreement dated February 3, 2012, among Holly Energy Partners - Operating, L.P., certain of its subsidiaries acting as guarantors, Wells Fargo Bank, N.A., as administrative agent, an issuing bank and a lender, and certain other lenders party thereto (incorporated by reference to Exhibit 10.1 of Registrant's Current Report on Form 8-K dated February 9, 2012, File No. 1-32225).
10.4	Purchase Agreement, dated February 28, 2012, among Holly Energy Partners, L.P., Holly Energy Finance Corp., and each of the guarantors party thereto and Citigroup Global Markets Inc., UBS Securities LLC, and Wells Fargo Securities, LLC, as representatives of the initial purchasers named therein (incorporated by reference to Exhibit 10.1 of Registrant's Current Report on Form 8-K dated March 5, 2012, File No. 1-32225).
12.1+	Computation of Ratio of Earnings to Fixed Charges.
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 Holly Energy Partners, L.P.'s Quarterly Report on Form 10-Q for the quarter ended March 31, 2012, 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, (v) Consolidated Statement of Partners' Equity, and (vi) Notes to Consolidated Financial Statements.

+ Filed herewith.
++ Furnished herewith.
** Furnished electronically herewith.