

CVR ENERGY INC  
Form 10-Q  
August 01, 2016  
Table of Contents

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

Form 10-Q  
(Mark One)

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

For the quarterly period ended June 30, 2016

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 001-33492

CVR ENERGY, INC.  
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	61-1512186 (I.R.S. Employer Identification No.)
---	---

2277 Plaza Drive, Suite 500 Sugar Land, Texas (Address of principal executive offices)	77479 (Zip Code)
--	---------------------

(281) 207-3200  
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller

Edgar Filing: CVR ENERGY INC - Form 10-Q

reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer  Non-accelerated filer

Smaller reporting  
company

(Do not check if smaller reporting company.)

Indicate by check mark whether the registrant is a shell company (as defined by Rule 12b-2 of the Exchange Act).

Yes  No

There were 86,831,050 shares of the registrant's common stock outstanding at July 26, 2016.

---

CVR ENERGY, INC. AND SUBSIDIARIES

INDEX TO QUARTERLY REPORT ON FORM 10-Q  
For The Quarter Ended June 30, 2016

	Page No.
<u>Part I. Financial Information</u>	
<u>Item 1. Financial Statements</u>	<u>7</u>
<u>Condensed Consolidated Balance Sheets - June 30, 2016 (unaudited) and December 31, 2015</u>	<u>7</u>
<u>Condensed Consolidated Statements of Operations - Three and Six Months Ended June 30, 2016 and 2015 (unaudited)</u>	<u>8</u>
<u>Condensed Consolidated Statements of Comprehensive Income - Three and Six Months Ended June 30, 2016 and 2015 (unaudited)</u>	<u>9</u>
<u>Condensed Consolidated Statement of Changes in Equity - Six Months Ended June 30, 2016 (unaudited)</u>	<u>10</u>
<u>Condensed Consolidated Statements of Cash Flows - Six Months Ended June 30, 2016 and 2015 (unaudited)</u>	<u>11</u>
<u>Notes to the Condensed Consolidated Financial Statements - June 30, 2016 (unaudited)</u>	<u>13</u>
<u>Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>42</u>
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	<u>81</u>
<u>Item 4. Controls and Procedures</u>	<u>82</u>
<u>Part II. Other Information</u>	
<u>Item 1. Legal Proceedings</u>	<u>83</u>
<u>Item 1A. Risk Factors</u>	<u>83</u>
<u>Item 6. Exhibits</u>	<u>84</u>
<u>Signatures</u>	<u>85</u>



Table of Contents

GLOSSARY OF SELECTED TERMS

The following are definitions of certain terms used in this Quarterly Report on Form 10-Q for the quarter ended June 30, 2016 (this "Report").

2015 Form 10-K — Our Annual Report on Form 10-K for the year ended December 31, 2015 filed with the SEC on February 19, 2016.

2021 Notes — \$320.0 million aggregate principal amount of 6.5% Senior Notes due 2021, which were issued by CVR Nitrogen and CVR Nitrogen Finance Corporation.

2022 Notes — \$500.0 million aggregate principal amount of 6.5% Senior Notes due 2022, which were issued by Refining, LLC and Coffeyville Finance on October 23, 2012 and fully and unconditionally guaranteed by the Refining Partnership and each of Refining LLC's domestic subsidiaries other than Coffeyville Finance.

2023 Notes — \$645.0 million aggregate principal amount of 9.25% Senior Notes due 2023, which were issued through CVR Partners and CVR Nitrogen Finance Corporation.

2-1-1 crack spread — The approximate gross margin resulting from processing two barrels of crude oil to produce one barrel of gasoline and one barrel of distillate. The 2-1-1 crack spread is expressed in dollars per barrel.

Amended and Restated ABL Credit Facility — The Refining Partnership's senior secured asset based revolving credit facility with a group of lenders and Wells Fargo as administrative agent and collateral agent.

ammonia — Ammonia is a direct application fertilizer and is primarily used as a building block for other nitrogen products for industrial applications and finished fertilizer products.

barrel — Common unit of measure in the oil industry which equates to 42 gallons.

blendstocks — Various compounds that are combined with gasoline or diesel from the crude oil refining process to make finished gasoline and diesel fuel; these may include natural gasoline, fluid catalytic cracking unit or FCCU gasoline, ethanol, reformate or butane, among others.

bpd — Abbreviation for barrels per day.

bpcd — Abbreviation for barrels per calendar day, which refers to the total number of barrels processed in a refinery within a year, divided by 365 days, thus reflecting all operational and logistical limitations.

bulk sales — Volume sales through third-party pipelines, in contrast to tanker truck quantity rack sales.

capacity — Capacity is defined as the throughput a process unit is capable of sustaining, either on a barrel per calendar or stream day basis. The throughput may be expressed in terms of maximum sustainable, nameplate or economic capacity. The maximum sustainable or nameplate capacities may not be the most economical. The economic capacity is the throughput that generally provides the greatest economic benefit based on considerations such as crude oil and other feedstock costs, product values and downstream unit constraints.

catalyst — A substance that alters, accelerates, or instigates chemical changes, but is neither produced, consumed nor altered in the process.

Edgar Filing: CVR ENERGY INC - Form 10-Q

Change of Control Offer — The offer commenced on April 29, 2016 by CVR Nitrogen and CVR Nitrogen Finance Corporation to purchase any and all of the outstanding 2021 Notes at 101% of par value.

Coffeyville Fertilizer Facility — CVR Partners' nitrogen fertilizer manufacturing facility located in Coffeyville, Kansas.

Coffeyville Finance — Coffeyville Finance Inc., a wholly-owned subsidiary of Refining LLC and indirect wholly-owned subsidiary of the Refining Partnership.

corn belt — The primary corn producing region of the United States, which includes Illinois, Indiana, Iowa, Minnesota, Missouri, Nebraska, Ohio and Wisconsin.

3

---

Table of Contents

crack spread — A simplified calculation that measures the difference between the price for light products and crude oil. For example, the 2-1-1 crack spread is often referenced and represents the approximate gross margin resulting from processing two barrels of crude oil to produce one barrel of gasoline and one barrel of distillate.

Credit Parties — CRLLC and certain subsidiaries party to the Amended and Restated ABL Credit Facility.

CRLLC — Coffeyville Resources, LLC, a wholly-owned subsidiary of the Company.

CRLLC Facility — The Nitrogen Fertilizer Partnership's \$300.0 million senior term loan credit facility with CRLLC, which was repaid in full and terminated on June 10, 2016.

CRNF — Coffeyville Resources Nitrogen Fertilizers, LLC a subsidiary of the Nitrogen Fertilizer Partnership.

CRRM — Coffeyville Resources Refining and Marketing, LLC, a wholly-owned subsidiary of Refining LLC and indirect wholly-owned subsidiary of the Refining Partnership.

CVR Energy or CVR or Company — CVR Energy, Inc.

CVR Nitrogen — CVR Nitrogen, LP (formerly known as East Dubuque Nitrogen Partners, L.P. and also formerly known as Rentech Nitrogen Partners L.P.).

CVR Nitrogen GP — CVR Nitrogen GP, LLC (formerly known as East Dubuque Nitrogen GP, LLC and also formerly known as Rentech Nitrogen GP, LLC).

CVR Partners or the Nitrogen Fertilizer Partnership — CVR Partners, LP.

CVR Refining or the Refining Partnership — CVR Refining, LP.

distillates — Primarily diesel fuel, kerosene and jet fuel.

East Dubuque Facility — CVR Partners' nitrogen fertilizer manufacturing facility located in East Dubuque, Illinois.

East Dubuque Merger — The transactions contemplated by the Merger Agreement, whereby the Nitrogen Fertilizer Partnership acquired CVR Nitrogen and CVR Nitrogen GP on April 1, 2016.

EPA — The United States Environmental Protection Agency.

ethanol — A clear, colorless, flammable oxygenated hydrocarbon. Ethanol is typically produced chemically from ethylene, or biologically from fermentation of various sugars from carbohydrates found in agricultural crops and cellulosic residues from crops or wood. It is used in the United States as a gasoline octane enhancer and oxygenate.

Exchange Act — Securities Exchange Act of 1934, as amended.

farm belt — Refers to the states of Illinois, Indiana, Iowa, Kansas, Minnesota, Missouri, Nebraska, North Dakota, Ohio, Oklahoma, South Dakota, Texas and Wisconsin.

feedstocks — Petroleum products, such as crude oil and natural gas liquids, that are processed and blended into refined products, such as gasoline, diesel fuel and jet fuel, during the refining process.

FIFO — First-in, first-out.

GAAP — U.S. generally accepted accounting principles.

Group 3 — A geographic subset of the PADD II region comprising refineries in Oklahoma, Kansas, Missouri, Nebraska and Iowa. Current Group 3 refineries include the Refining Partnership's Coffeyville and Wynnewood refineries; the Valero Ardmore refinery in Ardmore, OK; HollyFrontier's Tulsa refinery in Tulsa, OK and El Dorado refinery in El Dorado, KS; Phillips 66's Ponca City refinery in Ponca City, OK; and CHS Inc.'s refinery in McPherson, KS.

4

---



Table of Contents

heavy crude oil — A relatively inexpensive crude oil characterized by high relative density and viscosity. Heavy crude oils require greater levels of processing to produce high value products such as gasoline and diesel fuel.

independent petroleum refiner — A refiner that does not have crude oil exploration or production operations. An independent refiner purchases the crude oil throughputs in its refinery operations from third parties.

light crude oil — A relatively expensive crude oil characterized by low relative density and viscosity. Light crude oils require lower levels of processing to produce high value products such as gasoline and diesel fuel.

Magellan — Magellan Midstream Partners L.P., a publicly traded company, whose business is the transportation, storage and distribution of refined petroleum products.

Merger Agreement — The Agreement and Plan of Merger, dated as of August 9, 2015, whereby the Nitrogen Fertilizer Partnership acquired CVR Nitrogen and CVR Nitrogen GP.

MMBtu — One million British thermal units or Btu: a measure of energy. One Btu of heat is required to raise the temperature of one pound of water one degree Fahrenheit.

MSCF — One thousand standard cubic feet, a customary gas measurement unit.

natural gas liquids — Natural gas liquids, often referred to as NGLs, are both feedstocks used in the manufacture of refined fuels, as well as products of the refining process. Common NGLs used include propane, isobutane, normal butane and natural gasoline.

Nitrogen Fertilizer Partnership credit facility — CRNF's \$150.0 million term loan, \$25.0 million revolving and \$50.0 million uncommitted incremental credit facility, guaranteed by the Nitrogen Fertilizer Partnership, entered into with a group of lenders including Goldman Sachs Lending Partners LLC, as administrative and collateral agent.

PADD II — Midwest Petroleum Area for Defense District which includes Illinois, Indiana, Iowa, Kansas, Kentucky, Michigan, Minnesota, Missouri, Nebraska, North Dakota, Ohio, Oklahoma, South Dakota, Tennessee and Wisconsin.

petroleum coke (pet coke) — A coal-like substance that is produced during the refining process.

product pricing at gate — Product pricing at gate represents net sales less freight revenue divided by product sales volume in tons. Product pricing at gate is also referred to as netback.

rack sales — Sales which are made at terminals into third-party tanker trucks.

refined products — Petroleum products, such as gasoline, diesel fuel and jet fuel, that are produced by a refinery.

Refining LLC — CVR Refining, LLC, a wholly-owned subsidiary of the Refining Partnership.

Refining Partnership IPO — The initial public offering of 27,600,000 common units representing limited partner interests of the Refining Partnership, which closed on January 23, 2013 (which includes the underwriters' subsequently exercised option to purchase additional common units).

RFS — Renewable Fuel Standard of the EPA.

RINs — Renewable fuel credits, known as renewable identification numbers.

SEC — Securities and Exchange Commission.

Second Underwritten Offering — The second underwritten offering of 7,475,000 common units of the Refining Partnership, which closed on June 30, 2014 (which includes the underwriters' subsequently exercised option to purchase additional common units).

sour crude oil — A crude oil that is relatively high in sulfur content, requiring additional processing to remove the sulfur. Sour crude oil is typically less expensive than sweet crude oil.

5

---

Table of Contents

spot market — A market in which commodities are bought and sold for cash and delivered immediately.

sweet crude oil — A crude oil that is relatively low in sulfur content, requiring less processing to remove the sulfur. Sweet crude oil is typically more expensive than sour crude oil.

Tender Offer — The cash tender offer commenced on April 29, 2016 by CVR Nitrogen and CVR Nitrogen Finance Corporation to purchase any and all of the outstanding 2021 Notes at 101.5% of par value.

throughput — The volume processed through a unit or a refinery or transported on a pipeline.

turnaround — A periodically required standard procedure to inspect, refurbish, repair and maintain the refinery or nitrogen fertilizer plant assets. This process involves the shutdown and inspection of major processing units and occurs every four to five years for the refineries and every two to three years for the nitrogen fertilizer plant.

UAN — An aqueous solution of urea and ammonium nitrate used as a fertilizer.

Underwritten Offering — The underwritten offering of 13,209,236 common units of the Refining Partnership, which closed on May 20, 2013 (which includes the underwriters' subsequently exercised option to purchase additional common units).

Vitol — Vitol Inc.

Vitol Agreement — The Amended and Restated Crude Oil Supply Agreement between CRRM and Vitol.

WCS — Western Canadian Select crude oil, a medium to heavy, sour crude oil, characterized by an American Petroleum Institute gravity ("API gravity") of between 20 and 22 degrees and a sulfur content of approximately 3.3 weight percent.

Wells Fargo — Wells Fargo Bank, National Association.

Wells Fargo Credit Agreement — CVR Nitrogen's credit agreement with Wells Fargo, as successor-in-interest by assignment from General Electric Company, as administrative agent, which was repaid in April 2016 and terminated.

WTI — West Texas Intermediate crude oil, a light, sweet crude oil, characterized by an API gravity between 39 and 41 degrees and a sulfur content of approximately 0.4 weight percent that is used as a benchmark for other crude oils.

WTS — West Texas Sour crude oil, a relatively light, sour crude oil, characterized by an API gravity of between 30 and 32 degrees and a sulfur content of approximately 2.0 weight percent.

yield — The percentage of refined products that is produced from crude oil and other feedstocks.

Table of Contents

## PART I. FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

## CVR ENERGY, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED BALANCE SHEETS

	June 30, 2016 (unaudited) (in millions, except share data)	December 31, 2015 (unaudited) (in millions, except share data)
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents (including \$235.6 and \$237.3, respectively, of consolidated variable interest entities ("VIEs"))	\$690.6	\$765.1
Accounts receivable of VIEs, net of allowance for doubtful accounts of \$0.6 and \$0.3, respectively	150.0	95.8
Inventories of VIEs	325.0	289.9
Prepaid expenses and other current assets (including \$79.7 and \$101.2, respectively, of VIEs)	88.1	104.3
Income tax receivable (including \$0.2 and \$0.0, respectively, of VIEs)	7.0	6.9
Due from parent	14.6	11.6
Total current assets	1,275.3	1,273.6
Property, plant and equipment, net of accumulated depreciation (including \$2,698.6 and \$1,942.6, respectively, of VIEs)	2,723.5	1,967.1
Intangible assets of VIEs, net	0.2	0.2
Goodwill of VIEs	41.0	41.0
Other long-term assets (including \$13.1 and \$13.0, respectively, of VIEs)	16.4	17.5
Total assets	\$4,056.4	\$3,299.4
<b>LIABILITIES AND EQUITY</b>		
Current liabilities:		
Note payable and capital lease obligations of VIEs	\$1.7	\$1.6
Current portion of long-term debt of VIEs	—	124.8
Accounts payable (including \$240.1 and \$258.0, respectively, of VIEs)	241.9	261.5
Personnel accruals (including \$18.3 and \$21.7, respectively, of VIEs)	34.8	45.7
Accrued taxes other than income taxes of VIEs	27.0	23.5
Deferred revenue of VIEs	1.3	3.1
Other current liabilities (including \$69.9 and \$23.9, respectively, of VIEs)	70.3	24.4
Total current liabilities	377.0	484.6
Long-term liabilities:		
Long-term debt and capital lease obligations of VIEs, net of current portion	1,165.5	540.7
Deferred income taxes (including \$0.5 and \$0.1, respectively, of VIEs)	668.9	639.7
Other long-term liabilities (including \$6.4 and \$3.1, respectively, of VIEs)	31.6	33.9
Total long-term liabilities	1,866.0	1,214.3
Commitments and contingencies		
Equity:		
CVR stockholders' equity:		
Common stock \$0.01 par value per share, 350,000,000 shares authorized, 86,929,660 shares issued	0.9	0.9

Edgar Filing: CVR ENERGY INC - Form 10-Q

Additional paid-in-capital	1,197.6	1,174.7
Retained deficit	(263.8 )	(189.2 )
Treasury stock, 98,610 shares at cost	(2.3 )	(2.3 )
Accumulated other comprehensive income, net of tax	0.3	—
Total CVR stockholders' equity	932.7	984.1
Noncontrolling interest	880.7	616.4
Total equity	1,813.4	1,600.5
Total liabilities and equity	\$4,056.4	\$3,299.4

See accompanying notes to the condensed consolidated financial statements.

7

---

Table of Contents

## CVR ENERGY, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
	(unaudited)			
	(in millions, except per share data)			
Net sales	\$1,283.2	\$1,624.2	\$2,188.7	\$3,013.1
Operating costs and expenses:				
Cost of product sold (exclusive of depreciation and amortization)	976.9	1,192.2	1,713.7	2,265.8
Direct operating expenses (exclusive of depreciation and amortization)	138.3	115.4	279.7	226.9
Flood insurance recovery	—	(27.3)	—	(27.3)
Selling, general and administrative expenses (exclusive of depreciation and amortization)	26.6	27.2	53.8	52.4
Depreciation and amortization	50.7	42.5	90.7	84.5
Total operating costs and expenses	1,192.5	1,350.0	2,137.9	2,602.3
Operating income	90.7	274.2	50.8	410.8
Other income (expense):				
Interest expense and other financing costs	(18.5)	(11.9)	(30.6)	(24.6)
Interest income	0.1	0.3	0.3	0.4
Loss on derivatives, net	(1.9)	(12.6)	(3.1)	(64.0)
Loss on extinguishment of debt	(5.1)	—	(5.1)	—
Other income, net	0.1	0.2	0.4	36.3
Total other expense	(25.3)	(24.0)	(38.1)	(51.9)
Income before income tax expense	65.4	250.2	12.7	358.9
Income tax expense (benefit)	21.6	58.1	(0.2)	82.1
Net income	43.8	192.1	12.9	276.8
Less: Net income attributable to noncontrolling interest	15.4	90.2	0.7	120.1
Net income attributable to CVR Energy stockholders	\$28.4	\$101.9	\$12.2	\$156.7
Basic and diluted earnings per share	\$0.33	\$1.17	\$0.14	\$1.80
Dividends declared per share	\$0.50	\$0.50	\$1.00	\$1.00
Weighted-average common shares outstanding:				
Basic and diluted	86.8	86.8	86.8	86.8

See accompanying notes to the condensed consolidated financial statements.

Table of Contents

## CVR ENERGY, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2016	2015	2016	2015
	(unaudited)			
	(in millions)			
Net income	\$43.8	\$192.1	\$12.9	\$276.8
Other comprehensive income				
Unrealized gain on available-for-sale securities, net of tax of \$0.2, \$0, \$0.2 and \$12.6, respectively	0.3	—	0.3	19.2
Net gain reclassified into income on sale of available-for-sale securities, net of tax of \$0, \$0, \$0 and (\$8.0), respectively (Note 12)	—	—	—	(12.1 )
Net gain reclassified into income on reclassification of available-for-sale securities to trading securities, net of tax of \$0, \$0, \$0 and (\$4.6), respectively (Note 12)	—	—	—	(7.1 )
Change in fair value of interest rate swaps, net of tax of \$0, \$0, \$0 and \$0, respectively	—	—	0.1	(0.1 )
Net loss reclassified into income on settlement of interest rate swaps, net of tax of \$0, \$0.1, \$0 and \$0.1, respectively (Note 13)	—	0.2	—	0.4
Total other comprehensive income	0.3	0.2	0.4	0.3
Comprehensive income	44.1	192.3	13.3	277.1
Less: Comprehensive income attributable to noncontrolling interest	15.4	90.4	0.7	120.3
Comprehensive income attributable to CVR Energy stockholders	\$28.7	\$101.9	\$12.6	\$156.8

See accompanying notes to the condensed consolidated financial statements.

Table of Contents

## CVR ENERGY, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Common Stockholders								
	Shares	Par Value	Additional Paid-In Capital	Retained Deficit	Treasury Stock	Accumulated Other Comprehensive Income	Edtall CVR Stockholders' Equity	Noncontrolling Interest	Total Equity
	Issued	\$0.01 Common Stock							
	(unaudited)								
	(in millions, except share data)								
Balance at December 31, 2015	86,929,660	\$ 0.9	\$ 1,174.7	\$(189.2)	\$(2.3 )	\$ —	\$ 984.1	\$ 616.4	\$ 1,600.5
Dividends paid to CVR Energy stockholders	—	—	—	(86.8 )	—	—	(86.8 )	—	(86.8 )
Distributions from CVR Partners to public unitholders	—	—	—	—	—	—	—	(29.3 )	(29.3 )
Impact of CVR Partners' common units issuance for the East Dubuque Merger, net of tax of \$20.0	—	—	22.9	—	—	—	22.9	292.8	315.7
Net income	—	—	—	12.2	—	—	12.2	0.7	12.9
Unrealized gain on available for sale securities, net of tax of \$0.2	—	—	—	—	—	0.3	0.3	—	0.3
Net gain on interest rate swaps, net of tax	—	—	—	—	—	—	—	0.1	0.1
Balance at June 30, 2016	86,929,660	\$ 0.9	\$ 1,197.6	\$(263.8)	\$(2.3 )	\$ 0.3	\$ 932.7	\$ 880.7	\$ 1,813.4

See accompanying notes to the condensed consolidated financial statements.



Table of Contents

## CVR ENERGY, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six Months Ended June 30, 2016    2015 (unaudited) (in millions)	
Cash flows from operating activities:		
Net income	\$12.9	\$276.8
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	90.7	84.5
Allowance for doubtful accounts	0.2	0.1
Amortization of deferred financing costs and original issue discount	1.3	1.4
Amortization of debt fair value adjustment	1.3	—
Deferred income taxes expense (benefits)	2.9	(17.6 )
Loss on disposition of assets	0.4	1.4
Loss on extinguishment of debt	5.1	—
Share-based compensation	3.0	5.9
Gain on sale of available-for-sale securities	—	(20.1 )
Unrealized gain on securities	(0.3 )	—
Loss on derivatives, net	3.1	64.0
Current period settlements on derivative contracts	28.5	(34.8 )
Changes in assets and liabilities:		
Accounts receivable	(45.4 )	(43.7 )
Inventories	15.1	(19.9 )
Prepaid expenses and other current assets	(5.4 )	34.2
Due to/from parent	(3.0 )	65.3
Other long-term assets	(0.1 )	(0.3 )
Accounts payable	(21.9 )	9.6
Accrued income taxes	(0.1 )	6.8
Deferred revenue	(31.6 )	(11.7 )
Other current liabilities	10.7	(25.8 )
Other long-term liabilities	2.5	0.3
Net cash provided by operating activities	69.9	376.4
Cash flows from investing activities:		
Capital expenditures	(82.8 )	(86.7 )
Acquisition of CVR Nitrogen, net of cash acquired	(63.9 )	—
Purchase of securities	(4.2 )	—
Purchase of available-for-sale securities	(4.2 )	—
Proceeds from sale of available-for-sale securities	—	68.0
Net cash used in investing activities	(155.1 )	(18.7 )
Cash flows from financing activities:		
Payment of capital lease obligations	(0.8 )	(0.7 )
Principal and premium payments on 2021 Notes	(320.5 )	—
Principal payments on CRNF credit facility	(125.0 )	—
Payment of revolving debt	(49.1 )	—
Payment of deferred financing costs	(6.6 )	—

Edgar Filing: CVR ENERGY INC - Form 10-Q

Proceeds on issuance of 2023 Notes, net of original issue discount	628.8	—
Dividends to CVR Energy's stockholders	(86.8 )	(86.8 )
Distributions to CVR Refining's noncontrolling interest holders	—	(56.8 )
Distributions to CVR Partners' noncontrolling interest holders	(29.3 )	(29.4 )
Net cash provided by (used in) financing activities	10.7	(173.7 )
Net increase (decrease) in cash and cash equivalents	(74.5 )	184.0
Cash and cash equivalents, beginning of period	765.1	753.7
Cash and cash equivalents, end of period	\$690.6	\$937.7
Supplemental disclosures:		
Cash paid for income taxes, net of refunds	\$(0.2 )	\$27.7

11

---

Edgar Filing: CVR ENERGY INC - Form 10-Q

Cash paid for interest, net of capitalized interest of \$3.4 and \$1.2 in 2016 and 2015, respectively	\$25.0	\$23.1
Non-cash investing and financing activities:		
Construction in process additions included in accounts payable	\$9.9	\$21.3
Change in accounts payable related to construction in process additions	\$(12.4)	\$(0.3)
Receivable for sale of available-for-sale securities included in prepaid expenses and other current assets	\$—	\$25.9
Investment in available-for-sale securities reclassified to trading securities	\$—	\$37.4
Fair value of common units issued in a business combination	\$335.7	\$0.0
Fair value of debt assumed in a business combination	\$367.5	\$0.0
Reduction of proceeds from 2023 Notes from underwriting discount	\$16.1	\$0.0

See accompanying notes to the condensed consolidated financial statements.

Table of Contents

CVR ENERGY, INC. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2016

(unaudited)

(1) Organization and History of the Company and Basis of Presentation

Organization

The "Company," "CVR Energy" or "CVR" are used in this Report to refer to CVR Energy, Inc. and, unless the context otherwise requires, its subsidiaries.

CVR is a diversified holding company primarily engaged in the petroleum refining and nitrogen fertilizer manufacturing industries through its holdings in CVR Refining, LP ("CVR Refining" or the "Refining Partnership") and CVR Partners, LP ("CVR Partners" or the "Nitrogen Fertilizer Partnership"). The Refining Partnership is an independent petroleum refiner and marketer of high value transportation fuels. The Nitrogen Fertilizer Partnership produces and markets nitrogen fertilizers in the form of UAN and ammonia. The Company reports in two business segments: the petroleum segment (the operations of CVR Refining) and the nitrogen fertilizer segment (the operations of CVR Partners).

CVR's common stock is listed on the NYSE under the symbol "CVI." On May 7, 2012, an affiliate of Icahn Enterprises L.P. ("IEP") announced that they had acquired control of CVR pursuant to a tender offer for all of the Company's common stock (the "IEP Acquisition"). As of June 30, 2016, IEP and its affiliates owned approximately 82% of the Company's outstanding shares.

CVR Partners, LP

On April 13, 2011, the Nitrogen Fertilizer Partnership completed the initial public offering of its common units representing limited partnership interests (the "Nitrogen Fertilizer Partnership IPO"). The common units, which are listed on the NYSE, began trading on April 8, 2011 under the symbol "UAN." In connection with the Nitrogen Fertilizer Partnership IPO and through May 27, 2013, the Company recorded a 30% noncontrolling interest for the common units sold into the public market. On May 28, 2013, Coffeyville Resources, LLC ("CRLLC"), a wholly-owned subsidiary of the Company, completed a registered public offering whereby it sold 12,000,000 Nitrogen Fertilizer Partnership common units to the public (the "Secondary Offering").

Immediately subsequent to the closing of the Secondary Offering and through March 31, 2016, public security holders held approximately 47% of the outstanding Nitrogen Fertilizer Partnership common units, and CRLLC held approximately 53% of the outstanding Nitrogen Fertilizer Partnership common units. As a result of the Nitrogen Fertilizer Partnership's acquisition of CVR Nitrogen, LP and issuance of the unit consideration, the noncontrolling interest related to the Nitrogen Fertilizer Partnership reflected in our Consolidated Financial Statements on April 1, 2016 and from such date and as of June 30, 2016 was approximately 66%. In addition, CRLLC owns 100% of the Nitrogen Fertilizer Partnership's general partner, CVR GP, LLC, which only holds a non-economic general partner interest. The noncontrolling interest reflected on the Condensed Consolidated Balance Sheets of CVR is impacted by the net income of, and distributions from, the Nitrogen Fertilizer Partnership.

The Nitrogen Fertilizer Partnership has adopted a policy pursuant to which the Nitrogen Fertilizer Partnership will distribute all of the available cash it generates each quarter. The available cash for each quarter will be determined by the board of directors of the Nitrogen Fertilizer Partnership's general partner following the end of such quarter. The

partnership agreement does not require that the Nitrogen Fertilizer Partnership make cash distributions on a quarterly basis or at all, and the board of directors of the general partner of the Nitrogen Fertilizer Partnership can change the Nitrogen Fertilizer Partnership's distribution policy at any time.

The Nitrogen Fertilizer Partnership is operated by CVR's senior management (together with other officers of the general partner) pursuant to a services agreement among CVR, the general partner and the Nitrogen Fertilizer Partnership. The Nitrogen Fertilizer Partnership's general partner manages the operations and activities of the Nitrogen Fertilizer Partnership, subject to the terms and conditions specified in the partnership agreement. The operations of the general partner in its capacity as general partner are managed by its board of directors. Actions by the general partner that are made in its individual capacity are made by CRLLC as the sole member of the general partner and not by the board of directors of the general partner. The members of the board of directors of the general partner are not elected by the Nitrogen Fertilizer Partnership's common unitholders and are not subject to re-election on a regular basis. The officers of the general partner manage the day-to-day affairs of the business of the Nitrogen Fertilizer Partnership. CVR, the Nitrogen Fertilizer Partnership, their respective subsidiaries and the general partner are parties to a number of agreements to regulate certain business relations between them. Certain of these agreements were amended in connection with the Nitrogen Fertilizer Partnership IPO.

Table of Contents

CVR ENERGY, INC. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

June 30, 2016

(unaudited)

CVR Refining, LP

On January 23, 2013, the Refining Partnership completed the initial public offering of its common units representing limited partner interests. The common units, which are listed on the NYSE, began trading on January 17, 2013 under the symbol "CVRR." On May 20, 2013, the Refining Partnership completed an underwritten offering (the "Underwritten Offering") by selling additional common units to the public. In connection with the Underwritten Offering, American Entertainment Properties Corporation ("AEPC"), an affiliate of IEP, also purchased common units in a privately negotiated transaction with a subsidiary of CVR, which was completed on May 29, 2013.

On June 30, 2014, the Refining Partnership completed a second underwritten offering (the "Second Underwritten Offering"). Additionally, on July 24, 2014, the Refining Partnership sold additional common units to the public in connection with the underwriters' exercise of their option to purchase additional common units.

Immediately subsequent to the closing of the underwriters' option for the Second Underwritten Offering and as of June 30, 2016, public security holders held approximately 34% of the Refining Partnership's outstanding common units (including common units owned by affiliates of IEP, representing approximately 4% of the Refining Partnership's outstanding common units), and CVR Refining Holdings, LLC ("CVR Refining Holdings") held approximately 66% of the Refining Partnership's outstanding common units. In addition, CVR Refining Holdings owns 100% of the Refining Partnership's general partner, CVR Refining GP, LLC ("CVR Refining GP"), which only holds a non-economic general partner interest. The noncontrolling interest reflected on the Condensed Consolidated Balance Sheets of CVR is impacted by the net income of, and distributions from the Refining Partnership.

The Refining Partnership has adopted a policy pursuant to which it will distribute all of the available cash it generates each quarter. The available cash for each quarter will be determined by the board of directors of the Refining Partnership's general partner following the end of such quarter. The partnership agreement does not require that the Refining Partnership make cash distributions on a quarterly basis or at all, and the board of directors of the general partner of the Refining Partnership can change the distribution policy at any time.

The Refining Partnership is party to a services agreement pursuant to which the Refining Partnership and its general partner obtain certain management and other services from CVR Energy. The Refining Partnership's general partner manages the Refining Partnership's activities subject to the terms and conditions specified in the Refining Partnership's partnership agreement. The operations of its general partner, in its capacity as general partner, are managed by its board of directors. Actions by its general partner that are made in its individual capacity are made by CVR Refining Holdings as the sole member of the Refining Partnership's general partner and not by the board of directors of its general partner. The members of the board of directors of the Refining Partnership's general partner are not elected by the Refining Partnership's common unitholders and are not subject to re-election on a regular basis. The officers of the general partner manage the day-to-day affairs of the business of the Refining Partnership.

Basis of Presentation

The accompanying condensed consolidated financial statements were prepared in accordance with U.S. generally accepted accounting principles ("GAAP") and in accordance with the rules and regulations of the Securities and Exchange Commission ("SEC"). The condensed consolidated financial statements include the accounts of CVR and its direct and indirect subsidiaries including the Nitrogen Fertilizer Partnership, the Refining Partnership and their

respective subsidiaries, as discussed further below. The ownership interests of noncontrolling investors in CVR's subsidiaries are recorded as a noncontrolling interest included as a separate component of equity for all periods presented. All intercompany account balances and transactions have been eliminated in consolidation. Certain information and footnotes required for complete financial statements under GAAP have been condensed or omitted pursuant to SEC rules and regulations. These condensed consolidated financial statements should be read in conjunction with the December 31, 2015 audited consolidated financial statements and notes thereto included in CVR's Annual Report on Form 10-K for the year ended December 31, 2015, which was filed with the SEC on February 19, 2016 (the "2015 Form 10-K").

Table of Contents

CVR ENERGY, INC. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

June 30, 2016

(unaudited)

The Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2015-02, "Consolidations (Topic 810) - Amendments to the Consolidation Analysis" ("ASU 2015-02"), which amended previous consolidation guidance, including introducing a separate consolidation analysis specific to limited partnerships and other similar entities. Under this analysis, limited partnerships and other similar entities are considered a variable interest entity ("VIE") unless the limited partners hold substantive kick-out rights or participating rights. Management has determined that the Refining Partnership and the Nitrogen Fertilizer Partnership are VIEs because the limited partners of CVR Refining and CVR Partners lack both substantive kick-out rights and participating rights. As such, management evaluated the qualitative criteria under FASB ASC Topic 810 - Consolidation in conjunction with ASU 2015-02 to make a determination whether the Refining Partnership and the Nitrogen Fertilizer Partnership should be consolidated on the Company's financial statements. ASC Topic 810-10 requires the primary beneficiary of a variable interest entity's activities to consolidate the VIE. The primary beneficiary is identified as the enterprise that has a) the power to direct the activities of the VIE that most significantly impact the entity's economic performance and b) the obligation to absorb losses of the entity that could potentially be significant to the VIE or the right to receive benefits from the entity that could potentially be significant to the VIE. The standard requires an ongoing analysis to determine whether the variable interest gives rise to a controlling financial interest in the VIE. Based upon the general partner's roles and rights as afforded by the partnership agreements and its exposure to losses and benefits of each of the partnerships through its significant limited partner interests, intercompany credit facilities, and services agreements, CVR determined that it is the primary beneficiary of both the Refining Partnership and the Nitrogen Fertilizer Partnership. Based upon that evaluation, the consolidated financial statements of CVR continue to consolidate both the Refining and Nitrogen Fertilizer Partnerships.

In the opinion of the Company's management, the accompanying condensed consolidated financial statements reflect all adjustments (consisting only of normal recurring adjustments) that are necessary to fairly present the financial position of the Company as of June 30, 2016 and December 31, 2015, the results of operations and comprehensive income for the three and six month periods ended June 30, 2016 and 2015, changes in equity for the six month period ended June 30, 2016 and cash flows of the Company for the six month periods ended June 30, 2016 and 2015.

The preparation of the condensed consolidated financial statements in conformity with GAAP requires management to make certain estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and the disclosure of contingent assets and liabilities. Actual results could differ from those estimates. Results of operations and cash flows for the interim periods presented are not necessarily indicative of the results that will be realized for the year ending December 31, 2016 or any other interim or annual period.

(2) Recent Accounting Pronouncements

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers", which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The standard was originally effective for interim and annual periods beginning after December 15, 2016 and permits the use of either the retrospective or cumulative effect transition method. Early adoption is not permitted. On July 9, 2015, the FASB approved a one-year deferral of the effective date making the standard effective for interim and annual periods beginning after December 15, 2017. The FASB will continue to permit entities to adopt the standard on the original effective date if they choose. The Company has not yet selected a transition method and is currently evaluating the standard and the impact on its consolidated financial statements and footnote disclosures.



In February 2015, the FASB issued ASU No. 2015-02, "Consolidations (Topic 810) - Amendments to the Consolidation Analysis" ("ASU 2015-02"), which amended previous consolidation guidance, including introducing a separate consolidation analysis specific to limited partnerships and other similar entities. Under this analysis, limited partnerships and other similar entities will be considered a VIE unless the limited partners hold substantive kick-out rights or participating rights. The standard is effective for interim and annual periods beginning after December 15, 2015. The Company adopted ASU 2015-02 as of January 1, 2016. Refer to Note 1 ("Organization and History of the Company and Basis of Presentation") for more information.

In April 2015, the FASB issued ASU 2015-03, "Simplifying the Presentation of Debt Issuance Costs" ("ASU 2015-03"). The new standard requires that all costs incurred to issue debt be presented in the balance sheet as a direct deduction from the carrying value of the debt. The standard is effective for interim and annual periods beginning after December 15, 2015 and is required to be applied on a retrospective basis. Early adoption is permitted. The Company adopted ASU 2015-03 as of January 1, 2016 and applied the standard retrospectively to the Condensed Consolidated Balance Sheet. Refer to Note 9 ("Long-Term Debt") for further details.

Table of Contents

CVR ENERGY, INC. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

June 30, 2016

(unaudited)

In February 2016, the FASB issued ASU 2016-02, "Leases" ("ASU 2016-02"). The new standard revises accounting for operating leases by a lessee, among other changes, and requires a lessee to recognize a liability to make lease payments and an asset representing its right to use the underlying asset for the lease term in the balance sheet. The standard is effective for the first interim and annual periods beginning after December 15, 2018, with early adoption permitted. At adoption, ASU 2016-02 will be applied using a modified retrospective approach. The Company is currently evaluating the standard and the impact on its consolidated financial statements and footnotes disclosures.

(3) Acquisition

On April 1, 2016, the Nitrogen Fertilizer Partnership completed the previously announced transactions (the "East Dubuque Merger") contemplated by the Agreement and Plan of Merger, dated as of August 9, 2015 (the "Merger Agreement"), whereby the the Nitrogen Fertilizer Partnership acquired CVR Nitrogen, LP ("CVR Nitrogen") (formerly known as East Dubuque Nitrogen Partners, L.P. and also formerly known as Rentech Nitrogen Partners L.P.) and CVR Nitrogen GP, LLC ("CVR Nitrogen GP") (formerly known as East Dubuque Nitrogen GP, LLC and also formerly known as Rentech Nitrogen GP, LLC), a Delaware limited liability company. Pursuant to the East Dubuque Merger, the Nitrogen Fertilizer Partnership acquired a nitrogen fertilizer manufacturing facility located in East Dubuque, Illinois (the "East Dubuque Facility").

Under the terms of the Merger Agreement, holders of CVR Nitrogen common units eligible to receive consideration received 1.04 common units (the "unit consideration") representing limited partner interests in CVR Partners ("CVR Partners common units") and \$2.57 in cash, without interest, (the "cash consideration" and together with the unit consideration, the "merger consideration") for each CVR Nitrogen common unit. Pursuant to the Merger Agreement, CVR Partners issued approximately 40.2 million CVR Partners common units and paid approximately \$99.2 million in cash consideration to CVR Nitrogen common unitholders and certain holders of CVR Nitrogen phantom units discussed below.

Phantom units granted and outstanding under CVR Nitrogen's equity plans and held by an employee who continued in the employment of a CVR Partners-affiliated entity upon closing of the East Dubuque Merger were canceled and replaced with new incentive awards of substantially equivalent value and on similar terms. See Note 4 ("Share-Based Compensation") for further discussion. Each phantom unit granted and outstanding and held by (i) an employee who did not continue in employment of a CVR Partners-affiliated entity, or (ii) a director of CVR Nitrogen GP, upon closing of the East Dubuque Merger, vested in full and the holders thereof received the merger consideration.

In accordance with the FASB's Accounting Standards Codification ("ASC") Topic 805 — Business Combinations ("ASC 805"), the Nitrogen Fertilizer Partnership accounted for the East Dubuque Merger as an acquisition of a business with CVR Partners as the acquirer. ASC 805 requires that the consideration transferred be measured at the current market price at the date of the closing of the East Dubuque Merger. The aggregate merger consideration was approximately \$802.4 million, including the fair value of the unit consideration of \$335.7 million, the cash consideration of \$99.2 million, and \$367.5 million fair value of assumed debt.

Parent Affiliate Units

In March 2016, CVR Energy purchased 400,000 CVR Nitrogen common units, representing approximately 1% of the then outstanding CVR Nitrogen limited partner interests. Pursuant to the Merger Agreement, any CVR Nitrogen

common units held of record by an affiliate of CVR Partners and designated in writing as parent affiliate units remained outstanding as CVR Nitrogen common units following the effective time of the East Dubuque Merger and such affiliate did not receive any merger consideration for those units. As such, CVR Energy did not receive merger consideration for these designated CVR Nitrogen common units. As a result of the East Dubuque Merger, on April 1, 2016, the fair value of the CVR Nitrogen common units of \$4.6 million was reclassified as an investment in consolidated subsidiary, which is a non-cash investing activity during the second quarter of 2016. Subsequent to the East Dubuque Merger, the Nitrogen Fertilizer Partnership purchased the 400,000 CVR Nitrogen common units from CVR Energy during the second quarter of 2016 for \$5.0 million. The Nitrogen Fertilizer Partnership owns 100% of the outstanding limited partners interests of CVR Nitrogen as of June 30, 2016.

## Purchase Price Consideration

A summary of the total purchase price is as follows:

	Purchase Price (in millions)
Fair value of CVR Partners common units issued, as of the close of the East Dubuque Merger	\$ 335.7
Cash payment to CVR Nitrogen common unitholders and certain phantom unit holders	99.2
Fair value of consideration transferred	434.9
Fair value of parent affiliate units (1)	4.6
Total purchase price consideration to be allocated	\$ 439.5

The fair value of the unit consideration was determined as follows:

	Fair Value of Unit Consideration (in thousands, except per unit data)
CVR Nitrogen common units outstanding, as of the close of the merger	38,985
Less: Parent affiliate units (1)	400
Net units subject to merger consideration	38,585
Unit consideration per CVR Nitrogen common unit	1.04
Number of CVR Partners common units to be issued for merger consideration	40,129
Number of CVR Partners common units to be issued for CVR Nitrogen phantom units issued to noncontinuing employees and CVR Nitrogen board members (2)	26
Total number of CVR Partners units to be issued	40,155
Fair value per CVR Partners common unit, as of the close of the East Dubuque Merger	\$ 8.36
Fair value of CVR Partners common units issued	\$ 335.7

(1) See above for discussion of parent affiliate units.

As discussed above, each phantom unit granted and outstanding and held by (i) an employee who did not continue (2) in the employment of a CVR Partners-affiliated entity, or (ii) a director of CVR Nitrogen GP, upon closing of the East Dubuque Merger, vested in full and the holders thereof received the merger consideration.

## Merger-Related Indebtedness

CVR Nitrogen's debt arrangements that remained in place after the closing date of the East Dubuque Merger included \$320.0 million of its 6.5% notes due 2021 (the "2021 Notes"). A portion of the 2021 Notes were repurchased in June 2016, as discussed further in Note 9 ("Long-Term Debt").

Immediately prior to the East Dubuque Merger, CVR Nitrogen also had outstanding balances under a credit agreement with Wells Fargo Bank, National Association, as successor-in-interest by assignment from General Electric Company, as administrative agent (the "Wells Fargo Credit Agreement"). The Wells Fargo Credit Agreement consisted of a \$50.0 million senior secured revolving credit facility with a \$10.0 million letter of credit sublimit. In connection with the closing of the East Dubuque Merger, the Nitrogen Fertilizer Partnership paid \$49.4 million for the outstanding balance, accrued interest and fees under the Wells Fargo Credit Agreement and the Wells Fargo Credit Agreement

was canceled.

17

---

### Preliminary Purchase Price Allocation

Under the acquisition method of accounting, the purchase price was allocated to CVR Nitrogen's net tangible assets based on their fair values as of April 1, 2016. Determining the fair value of net tangible assets requires judgment and involves the use of significant estimates and assumptions. The Nitrogen Fertilizer Partnership based its fair value estimates on assumptions it believes to be reasonable but are inherently uncertain. Although the Nitrogen Fertilizer Partnership believes its estimates of the fair value of the assets and liabilities acquired are accurate, these estimates are preliminary and are subject to change during the measurement period. This measurement period may extend up to one year from the acquisition date.

The following table, set forth below, displays the estimated purchase price allocated to CVR Nitrogen's net tangible assets based on their fair values as of April 1, 2016. There were no identifiable intangible assets.

	Purchase Price Allocation (in millions)
Cash	\$ 35.4
Accounts receivable	8.9
Inventories	49.5
Prepaid expenses and other current assets	5.2
Property, plant and equipment	774.9
Other long-term assets	1.1
Deferred revenue	(29.8 )
Other current liabilities	(37.0 )
Long-term debt	(367.5 )
Other long-term liabilities	(1.2 )
Total fair value of net assets acquired	439.5
Less: Cash acquired	35.4
Total consideration transferred, net of cash acquired	\$ 404.1

### Pro Forma Financial Information

Pro forma financial information for the three and six months ended June 30, 2016 would not be materially different from the Company's results of operations presented in the Condensed Consolidated Statement of Operations for the three and six months ended June 30, 2016.

### Expenses Associated with the East Dubuque Merger

During the three and six months ended June 30, 2016, the Nitrogen Fertilizer Partnership incurred \$1.2 million and \$2.5 million, respectively, of legal and other professional fees and other merger related expenses, which were included in selling, general and administrative expenses (exclusive of depreciation and amortization).

### Noncontrolling Interest in CVR Partners

A summary of the effect of the change in CVR Energy's ownership interest in CVR Partners on the equity attributable to CVR Energy, as a result of CVR Partners issuance of the unit consideration in connection with the East Dubuque Merger, is as follows:

	Noncontrolling Interest (in millions)
Fair value of CVR Partners common units issued, as of the close of the East Dubuque Merger	\$ 335.7
Less: Change in CVR Energy's noncontrolling interest in CVR Partner's equity due to the East Dubuque Merger	292.8
Adjustment to additional paid-in capital, as of the close of the East Dubuque Merger	\$ 42.9

Table of Contents

CVR ENERGY, INC. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

June 30, 2016

(unaudited)

(4) Share-Based Compensation

Long-Term Incentive Plan – CVR Energy

CVR has a Long-Term Incentive Plan ("LTIP"), which permits the grant of options, stock appreciation rights, restricted shares, restricted stock units, dividend equivalent rights, share awards and performance awards (including performance share units, performance units and performance-based restricted stock). As of June 30, 2016, only performance units remain outstanding under the LTIP. Individuals who are eligible to receive awards and grants under the LTIP include the Company's or its subsidiaries' employees, officers, consultants, advisors and directors. The LTIP authorized a share pool of 7,500,000 shares of the Company's common stock, 1,000,000 of which may be issued in respect of incentive stock options.

Performance Unit Awards

In December 2015, the Company entered into a performance unit award agreement (the "2015 Performance Unit Award Agreement") with its Chief Executive Officer. Compensation cost for the 2015 Performance Unit Award Agreement will be recognized over the performance cycle from January 1, 2016 to December 31, 2016. The performance unit award represents the right to receive, upon vesting, a cash payment equal to a defined threshold in accordance with the award agreement, multiplied by a performance factor that is based upon the achievement of certain operating objectives. Total compensation expense for the three and six months ended June 30, 2016 related to the performance unit award was approximately \$0.9 million and \$1.8 million, respectively. As of June 30, 2016, the Company had a liability of \$1.8 million for non-vested performance unit awards, which is recorded in personnel accruals on the Condensed Consolidated Balance Sheet.

Long-Term Incentive Plan – CVR Partners

Phantom Units

CVR Partners has a long-term incentive plan ("CVR Partners LTIP") that provides for the grant of options, unit appreciation rights, distribution equivalent rights, restricted units, phantom units and other unit-based awards. The maximum number of common units issuable under the CVR Partners LTIP is 5,000,000. Individuals who are eligible to receive awards under the CVR Partners LTIP include (i) employees of the Nitrogen Fertilizer Partnership and its subsidiaries, (ii) employees of its general partner, (iii) members of the board of directors of its general partner and (iv) employees, consultants and directors of CVR Energy.

Through the CVR Partners LTIP, awards of phantom units and distribution equivalent rights have been granted to employees of the Nitrogen Fertilizer Partnership and its subsidiaries and its general partner. These awards are generally graded-vesting awards, which are expected to vest over three years with one-third of the award vesting each year. Compensation expense is recognized on a straight-line basis over the vesting period of the respective tranche of the award. Each phantom unit and distribution equivalent right represents the right to receive, upon vesting, a cash payment equal to (i) the average fair market value of one unit of the Nitrogen Fertilizer Partnership's common units in accordance with the award agreement, plus (ii) the per unit cash value of all distributions declared and paid by the Nitrogen Fertilizer Partnership from the grant date to and including the vesting date. The awards, which are liability-classified, are remeasured at each subsequent reporting date until they vest.



In connection with the East Dubuque Merger as described in Note 3 ("Acquisition"), 195,980 phantom units were granted to certain CVR Nitrogen employees. A related liability of \$0.6 million was recorded as part of the opening balance sheet and included in personnel accruals in the purchase price allocation in Note 3 ("Acquisition"). Subsequent to the East Dubuque Merger, 58,730 awards were subject to an accelerated vesting date and were paid in full resulting in the early recognition of \$0.3 million as compensation expense in selling, general and administrative expenses (exclusive of depreciation and amortization).

Table of Contents

## CVR ENERGY, INC. AND SUBSIDIARIES

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

June 30, 2016

(unaudited)

A summary of the phantom unit activity and changes under the CVR Partners LTIP during the six months ended June 30, 2016 is presented below:

	Phantom Units	Weighted-Average Grant-Date Fair Value
Non-vested at January 1, 2016	391,903	\$ 8.71
Granted	199,455	8.07
Vested	(58,730 )	8.08
Forfeited	(5,975 )	8.96
Non-vested at June 30, 2016	526,653	\$ 8.54

As of June 30, 2016, there was approximately \$2.6 million of total unrecognized compensation cost related to the awards under the CVR Partners LTIP to be recognized over a weighted-average period of 1.5 years. Total compensation expense recorded for the three months ended June 30, 2016 and 2015 related to the awards under the CVR Partners LTIP was approximately \$0.8 million and \$0.4 million, respectively. Total compensation expense recorded for the six months ended June 30, 2016 and 2015 related to the awards under the CVR Partners LTIP was approximately \$1.3 million and \$1.0 million, respectively.

As of June 30, 2016 and December 31, 2015, the Nitrogen Fertilizer Partnership had a liability of \$2.2 million and \$0.7 million, respectively, for cash settled non-vested phantom unit awards and associated distribution equivalent rights, which is recorded in personnel accruals on the Condensed Consolidated Balance Sheets.

## Performance-Based Phantom Units

In May 2014, the Nitrogen Fertilizer Partnership entered into a Phantom Unit Agreement with the Chief Executive Officer and President of its general partner that included performance-based phantom units and distribution equivalent rights. Compensation cost is being recognized over the annual performance cycles, as the services are provided. Each phantom unit and distribution equivalent right represents the right to receive, upon vesting, a cash payment equal to (i) the average closing price of the Nitrogen Fertilizer Partnership's common units in accordance with the award agreement, multiplied by a performance factor that is based upon the level of the Nitrogen Fertilizer Partnership's production of UAN, and (ii) the per unit cash value of all distributions declared and paid by the Nitrogen Fertilizer Partnership from the grant date to and including the vesting date. Total compensation expense recorded for the three and six months ended June 30, 2016 and 2015 related to the award was nominal. Based on current estimates of performance thresholds for the remaining 2016 performance cycle, unrecognized compensation expense and the liability associated with the unvested phantom units at June 30, 2016 were also nominal.

## Long-Term Incentive Plan – CVR Refining

CVR Refining has a long-term incentive plan ("CVR Refining LTIP") that provides for the grant of options, unit appreciation rights, restricted units, phantom units, unit awards, substitute awards, other-unit based awards, cash awards, performance awards, and distribution equivalent rights. The maximum number of common units issuable under the CVR Refining LTIP is 11,070,000. Individuals who are eligible to receive awards under the CVR Refining LTIP include (i) employees of the Refining Partnership and its subsidiaries, (ii) employees of the general partner, (iii) members of the board of directors of the general partner and (iv) certain employees, consultants and directors of CRLLC and CVR Energy who perform services for the benefit of the Refining Partnership.

Awards of phantom units and distribution equivalent rights have been granted to employees of the Refining Partnership and its subsidiaries, its general partner and certain employees of CRLLC and CVR Energy who perform services solely for the benefit of the Refining Partnership. The awards are generally graded-vesting awards, which are expected to vest over three years with one-third of the awards vesting each year. Compensation expense is recognized on a straight-line basis over the vesting period of the respective tranche of the award. Each phantom unit and distribution equivalent right represents the right to receive, upon vesting, a cash payment equal to (i) the average fair-market value of one unit of the Refining Partnership's common units in accordance with the award agreement, plus (ii) the per unit cash value of all distributions declared and paid by the Refining Partnership from the grant date to and including the vesting date. The awards, which are liability-classified, are remeasured at each subsequent reporting date until they vest.

20

---

Table of Contents

CVR ENERGY, INC. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

June 30, 2016

(unaudited)

A summary of phantom unit activity and changes under the CVR Refining LTIP during the six months ended June 30, 2016 is presented below:

	Units	Weighted-Average Grant-Date Fair Value
Non-vested at January 1, 2016	511,591	\$ 19.68
Granted	6,113	12.27
Vested	—	—
Forfeited	(23,640 )	19.01
Non-vested at June 30, 2016	494,064	\$ 19.62

As of June 30, 2016, there was approximately \$2.3 million of total unrecognized compensation cost related to the awards under the CVR Refining LTIP to be recognized over a weighted-average period of 1.2 years. Total compensation expense (credit) recorded for the three months ended June 30, 2016 and 2015 related to the awards under the CVR Refining LTIP was approximately \$(0.3) million and \$0.6 million, respectively. Total compensation expense recorded for the six months ended June 30, 2016 and 2015 related to the awards under the CVR Refining LTIP was nominal and approximately \$2.0 million, respectively.

As of June 30, 2016 and December 31, 2015, the Refining Partnership had a liability of approximately \$2.2 million and \$2.3 million, respectively, for non-vested phantom unit awards and associated distribution equivalent rights, which is recorded in personnel accruals on the Condensed Consolidated Balance Sheets.

In December 2014, the Company granted an award of 227,927 incentive units in the form of stock appreciation rights ("SARs") to an executive of CVR Energy. In April 2015, the award granted was canceled and replaced by an award of notional units in the form of SARs by CVR Refining pursuant to the CVR Refining LTIP. The replacement award is structured on the same economic and other terms as the incentive unit award and did not result in a material impact. Each SAR vests over three years and entitles the executive to receive a cash payment in an amount equal to the excess of the fair market value of one unit of the Refining Partnership's common units for the first ten trading days in the month prior to vesting over the grant price of the SAR. The fair value will be adjusted to include all distributions declared and paid by the Refining Partnership during the vesting period. The fair value of each SAR is estimated at the end of each reporting period using the Black-Scholes option-pricing model. Assumptions utilized to value the award have been omitted due to immateriality of the award. Total compensation expense during the three and six months ended June 30, 2016 and 2015 and the liability as of June 30, 2016 were not material.

**Incentive Unit Awards**

The Company has granted awards of incentive units and distribution equivalent rights to certain employees of CRLLC, CVR Energy and CVR GP, LLC. The awards are generally graded vesting awards, which are expected to vest over three years with one-third of the award vesting each year. Compensation expense is recognized on a straight-line basis over the vesting period of the respective tranche of the award. Each incentive unit and distribution equivalent right represents the right to receive, upon vesting, a cash payment equal to (i) the average fair market value of one unit of the Refining Partnership's common units in accordance with the award agreement, plus (ii) the per unit cash value of all distributions declared and paid by the Refining Partnership from the grant date to and including the vesting date. The awards, which are liability-classified, are remeasured at each subsequent reporting date until they

vest.

21

---

Table of Contents

CVR ENERGY, INC. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

June 30, 2016

(unaudited)

A summary of incentive unit activity and changes during the six months ended June 30, 2016 is presented below:

	Incentive Units	Weighted-Average Grant-Date Fair Value
Non-vested at January 1, 2016	604,942	\$ 19.64
Granted	17,761	11.41
Vested	(2,451 )	19.73
Forfeited	(31,129 )	19.42
Non-vested at June 30, 2016	589,123	\$ 19.41

As of June 30, 2016, there was approximately \$2.8 million of total unrecognized compensation cost related to incentive unit awards to be recognized over a weighted-average period of approximately 1.2 years. Total compensation expense (credit) for the three months ended June 30, 2016 and 2015 related to the awards was approximately \$(0.2) million and \$0.9 million, respectively. Total compensation expense for the six months ended June 30, 2016 and 2015 related to the awards was approximately \$0.1 million and \$2.4 million, respectively.

As of June 30, 2016 and December 31, 2015, the Company had a liability of approximately \$2.7 million and \$2.6 million, respectively, for non-vested incentive units and associated distribution equivalent rights, which is recorded in personnel accruals on the Condensed Consolidated Balance Sheets.

Table of Contents

## CVR ENERGY, INC. AND SUBSIDIARIES

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

June 30, 2016

(unaudited)

## (5) Inventories

Inventories consist primarily of domestic and foreign crude oil, blending stock and components, work-in-progress, fertilizer products, and refined fuels and by-products. For all periods presented, inventories are valued at the lower of the first-in, first-out ("FIFO") cost or market for fertilizer products, refined fuels and by-products. Refinery unfinished and finished products inventory values were determined using the ability-to-bear process, whereby raw materials and production costs are allocated to work-in-process and finished products based on their relative fair values. Other inventories, including other raw materials, spare parts, and supplies, are valued at the lower of moving-average cost, which approximates FIFO, or market. The cost of inventories includes inbound freight costs.

Inventories consisted of the following:

	June 30, 2016	December 31, 2015
	(in millions)	
Finished goods	\$ 131.8	\$ 114.5
Raw materials and precious metals	102.3	81.2
In-process inventories	17.6	35.8
Parts and supplies	73.3	58.4
Total Inventories	\$ 325.0	\$ 289.9

## (6) Property, Plant and Equipment

Property, plant and equipment consisted of the following:

	June 30, 2016	December 31, 2015
	(in millions)	
Land and improvements	\$ 46.5	\$ 38.6
Buildings	64.4	53.6
Machinery and equipment	3,510.5	2,723.0
Automotive equipment	24.7	24.8
Furniture and fixtures	22.7	21.3
Leasehold improvements	3.4	3.6
Aircraft	3.6	3.6
Railcars	16.7	16.3
Construction in progress	156.9	122.3
	3,849.4	3,007.1
Accumulated depreciation	1,125.9	1,040.0
Total property, plant and equipment, net	\$ 2,723.5	\$ 1,967.1

Capitalized interest recognized as a reduction in interest expense for the three months ended June 30, 2016 and 2015 totaled approximately \$1.9 million and \$0.8 million, respectively. Capitalized interest recognized as a reduction in interest expense for the six months ended June 30, 2016 and 2015 totaled approximately \$3.4 million and \$1.2 million, respectively. Land, buildings and equipment that are under a capital lease obligation had an original carrying value of approximately \$24.8 million at both June 30, 2016 and December 31, 2015. Amortization of assets held under capital leases is included in depreciation expense.





Table of Contents

CVR ENERGY, INC. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

June 30, 2016

(unaudited)

(7) Cost Classifications

Cost of product sold (exclusive of depreciation and amortization) includes cost of crude oil, other feedstocks, blendstocks, purchased refined products, pet coke expenses, renewable identification numbers ("RINs") expenses and freight and distribution expenses. Cost of product sold excludes depreciation and amortization of approximately \$1.7 million and \$1.8 million for the three months ended June 30, 2016 and 2015, respectively. For the six months ended June 30, 2016 and 2015, cost of product sold excludes depreciation and amortization of approximately \$3.3 million and \$3.6 million, respectively.

Direct operating expenses (exclusive of depreciation and amortization) include direct costs of labor, maintenance and services, energy and utility costs, property taxes, environmental compliance costs, as well as chemicals and catalysts and other direct operating expenses. Direct operating expenses exclude depreciation and amortization of approximately \$46.7 million and \$38.8 million for the three months ended June 30, 2016 and 2015, respectively. For the six months ended June 30, 2016 and 2015, direct operating expenses exclude depreciation and amortization of approximately \$83.0 million and \$77.3 million, respectively.

Selling, general and administrative expenses (exclusive of depreciation and amortization) consist primarily of legal expenses, treasury, accounting, marketing, human resources, information technology and maintaining the corporate and administrative offices in Texas and Kansas. Selling, general and administrative expenses exclude depreciation and amortization of approximately \$2.3 million and \$1.9 million for the three months ended June 30, 2016 and 2015, respectively. For the six months ended June 30, 2016 and 2015, selling, general and administrative expenses exclude depreciation and amortization of approximately \$4.4 million and \$3.6 million, respectively.

(8) Income Taxes

On May 19, 2012, CVR became a member of the consolidated federal tax group of AEPC, a wholly-owned subsidiary of IEP, and subsequently entered into a tax allocation agreement with AEPC (the "Tax Allocation Agreement"). The Tax Allocation Agreement provides that AEPC will pay all consolidated federal income taxes on behalf of the consolidated tax group. CVR is required to make payments to AEPC in an amount equal to the tax liability, if any, that it would have paid if it were to file as a consolidated group separate and apart from AEPC. As of June 30, 2016, the Company's Condensed Consolidated Balance Sheet reflected a receivable of \$14.6 million for an overpayment of federal income taxes due to AEPC under the Tax Allocation Agreement. The overpayment will be applied as a credit against the Company's estimated tax. During the three and six months ended June 30, 2016 and 2015, the Company paid \$0.0 million and \$27.5 million, respectively, to AEPC under the Tax Allocation Agreement.

The Company recognizes liabilities, interest and penalties for potential tax issues based on its estimate of whether, and the extent to which, additional taxes may be due as determined under FASB ASC Topic 740 — Income Taxes. As of June 30, 2016, the Company had unrecognized tax benefits of approximately \$44.1 million, of which \$28.7 million, if recognized, would impact the Company's effective tax rate. Approximately \$25.9 million of unrecognized tax benefits were netted with deferred tax asset carryforwards. The remaining unrecognized tax benefits are included in other long-term liabilities in the Condensed Consolidated Balance Sheets. The Company has accrued interest of \$6.7 million related to uncertain tax positions. The Company's accounting policy with respect to interest and penalties related to tax uncertainties is to classify these amounts as income taxes.

CVR and its subsidiaries file U.S. federal and various state income and franchise tax returns. At June 30, 2016, the Company's tax filings are generally open to examination in the United States for the tax years ended December 31, 2012 through December 31, 2015 and in various individual states for the tax years ended December 31, 2011 through December 31, 2015.

The Company's effective tax rate for the three and six months ended June 30, 2016 was 33.0% and (1.6)%, respectively, and the Company's effective tax rate for the three and six months ended June 30, 2015 was 23.2% and 22.9%, respectively, as compared to the Company's combined federal and state expected statutory tax rate of 39.4% and 39.6% for each of the three and six months ended June 30, 2016 and 2015, respectively. The Company's effective tax rate for the three and six months ended June 30, 2016 and 2015 varies from the statutory rate primarily due to the reduction of income subject to tax associated with the noncontrolling ownership interests of CVR Refining's and CVR Partners' earnings (loss), as well as benefits for domestic production activities and state income tax credits. The effective tax rate for the three and six months ended June 30, 2016 varies from the three and six months ended June 30, 2015 due to the correlation between the amount of credits projected to be generated in each year in relative comparison with the projected pre-tax income (loss) for the respective periods and the expiration of the statute of limitations on previously unrecognized tax benefits in the first quarter of 2016.

Table of Contents

## CVR ENERGY, INC. AND SUBSIDIARIES

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

June 30, 2016

(unaudited)

## (9) Long-Term Debt

Long-term debt consisted of the following:

	June 30, 2016	December 31, 2015
	(in millions)	
6.5% Senior Notes due 2022	\$500.0	\$ 500.0
9.25% Senior Notes due 2023	645.0	—
6.5% Notes due 2021	4.2	—
CRNF credit facility	—	125.0
Capital lease obligations	47.7	48.5
Total debt	1,196.9	673.5
Unamortized debt issuance cost	(13.7 )	(6.4 )
Unamortized debt discount	(16.0 )	—
Current portion of long-term debt and capital lease obligations	(1.7 )	(126.4 )
Long-term debt, net of current portion	\$1,165.5	\$ 540.7

During the first quarter of 2016, the Company adopted ASU 2015-03, which requires that costs incurred to issue debt be presented in the balance sheet as a direct deduction from the carrying value of the debt. Prior to adoption of the ASU, all debt issuance costs were presented as assets. As a result of adoption of the standard, unamortized debt issuances costs of \$13.7 million and \$6.4 million were reclassified as a direct deduction from the carrying value of the related debt balances as of June 30, 2016 and December 31, 2015, respectively, in the Condensed Consolidated Balance Sheets (including \$0.0 million and \$0.2 million as a deduction from current portion of long-term debt and \$29.6 million and \$6.2 million as a deduction from long-term debt, respectively). Debt issuance costs related to the asset-based lending facilities continue to be presented as assets in the Condensed Consolidated Balance Sheets.

## 2022 Senior Notes

The Refining Partnership has \$500.0 million aggregate principal amount of 6.5% Senior Notes due 2022 (the "2022 Notes") outstanding, which were issued by CVR Refining, LLC ("Refining LLC") and Coffeyville Finance Inc. ("Coffeyville Finance") on October 23, 2012. The 2022 Notes were issued at par and mature on November 1, 2022, unless earlier redeemed or repurchased by the issuers. Interest is payable on the 2022 Notes semi-annually on May 1 and November 1 of each year, commencing on May 1, 2013.

The 2022 Notes contain customary covenants for a financing of this type that limit, subject to certain exceptions, the incurrence of additional indebtedness or guarantees, the creation of liens on assets, the ability to dispose of assets, the ability to make certain payments on contractually subordinated debt, the ability to merge, consolidate with or into another entity and the ability to enter into certain affiliate transactions. The 2022 Notes provide that the Refining Partnership can make distributions to holders of its common units provided, among other things, it has a minimum fixed charge coverage ratio and there is no default or event of default under the 2022 Notes. As of June 30, 2016, the Refining Partnership was in compliance with the covenants contained in the 2022 Notes.

At June 30, 2016, the estimated fair value of the 2022 Notes was approximately \$430.0 million. This estimate of fair value is Level 2 as it was determined by quotations obtained from a broker-dealer who makes a market in these and similar securities.



Table of Contents

CVR ENERGY, INC. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

June 30, 2016

(unaudited)

Amended and Restated Asset Based (ABL) Credit Facility

The Refining Partnership has a senior secured asset based revolving credit facility (the "Amended and Restated ABL Credit Facility") with a group of lenders and Wells Fargo Bank, National Association ("Wells Fargo"), as administrative agent and collateral agent. The Amended and Restated ABL Credit Facility has an aggregate principal amount of up to \$400.0 million with an incremental facility, which permits an increase in borrowings of up to \$200.0 million subject to receipt of additional lender commitments and certain other conditions. The proceeds of the loans may be used for capital expenditures and working capital and general corporate purposes of the Refining Partnership and its subsidiaries. The Amended and Restated ABL Credit Facility provides for loans and letters of credit in an amount up to the aggregate availability under the facility, subject to meeting certain borrowing base conditions, with sub-limits of 10% of the total facility commitment for swingline loans and 90% of the total facility commitment for letters of credit. The Amended and Restated ABL Credit Facility is scheduled to mature on December 20, 2017.

The Amended and Restated ABL Credit Facility also contains customary covenants for a financing of this type that limit the ability of the Refining Partnership and its subsidiaries to, among other things, incur liens, engage in a consolidation, merger, purchase or sale of assets, pay dividends, incur indebtedness, make advances, investments and loans, enter into affiliate transactions, issue equity interests or create subsidiaries and unrestricted subsidiaries. The Amended and Restated ABL Credit Facility also contains a fixed charge coverage ratio financial covenant, as defined therein. The Refining Partnership was in compliance with the covenants of the Amended and Restated ABL Credit Facility as of June 30, 2016.

As of June 30, 2016, the Refining Partnership and its subsidiaries had availability under the Amended and Restated ABL Credit Facility of \$255.1 million and had letters of credit outstanding of approximately \$28.3 million. There were no borrowings outstanding under the Amended and Restated ABL Credit Facility as of June 30, 2016. Availability under the Amended and Restated ABL Credit Facility was limited by borrowing base conditions as of June 30, 2016.

Nitrogen Fertilizer Partnership Credit Facility

The Nitrogen Fertilizer Partnership's credit facility included a term loan facility of \$125.0 million and a revolving credit facility of \$25.0 million with an uncommitted incremental facility of up to \$50.0 million. The credit facility was scheduled to mature on April 13, 2016. No amounts were outstanding under the revolving credit facility on April 1, 2016. On April 1, 2016, in connection with the completion of the East Dubuque Merger, the Nitrogen Fertilizer Partnership repaid all amounts outstanding under the credit facility and paid \$0.3 million for accrued and unpaid interest. Effective upon such repayment, the credit facility and all related loan documents and security interests were terminated and released. The repayment was funded from amounts drawn on a senior term loan credit facility with CRLLC. The Nitrogen Fertilizer Partnership recognized a nominal amount of loss on debt extinguishment in connection with the termination of the credit facility.

Borrowings under the credit facility bore interest at either a Eurodollar rate or a base rate plus in either case a margin based on a pricing grid determined by the trailing four quarter leverage ratio. The margin for borrowings under the credit facility ranged from 3.50% to 4.25% for Eurodollar loans and 2.50% to 3.25% for base rate loans. During the periods presented, the interest rate was either the Eurodollar rate plus a margin of 3.50% or, for base rate loans, the prime rate plus 2.50%.

2023 Senior Notes

On June 10, 2016, CVR Partners and CVR Nitrogen Finance Corporation, an indirect wholly-owned subsidiary of CVR Partners (together the "2023 Notes Issuers"), certain subsidiary guarantors named therein and Wilmington Trust, National Association, as trustee and as collateral trustee, completed a private offering of \$645.0 million aggregate principal amount of 9.25% Senior Secured Notes due 2023 (the "2023 Notes"). The 2023 Notes mature on June 15, 2023, unless earlier redeemed or repurchased by the issuers. Interest on the 2023 Notes is payable semi-annually in arrears on June 15 and December 15 of each year, beginning on December 15, 2016. The 2023 Notes are guaranteed on a senior secured basis by all of the Nitrogen Fertilizer Partnership's existing subsidiaries.

Table of Contents

CVR ENERGY, INC. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

June 30, 2016

(unaudited)

The 2023 Notes were issued at a \$16.1 million discount, which is being amortized over the term of the 2023 Notes as interest expense using the effective-interest method. The Nitrogen Fertilizer Partnership received approximately \$622.9 million of cash proceeds, net of the original issue discount and underwriting fees, but before deducting other third-party fees and expenses associated with the offering. The net proceeds from the sale of the 2023 Notes were used to: (i) repay all amounts outstanding under the senior term loan credit facility with CRLLC; (ii) finance the 2021 Notes Tender Offer (defined and discussed below) and (iii) to pay related fees and expenses.

The debt issuance costs of the 2023 Notes totaled approximately \$7.9 million and are being amortized over the term of the 2023 Notes as interest expense using the effective-interest amortization method.

The 2023 Notes contain customary covenants for a financing of this type that, among other things, restrict the Nitrogen Fertilizer Partnership's ability and the ability of certain of its subsidiaries to: (i) sell assets; (ii) pay distributions on, redeem or repurchase the Nitrogen Fertilizer Partnership's units or redeem or repurchase its subordinated debt; (iii) make investments; (iv) incur or guarantee additional indebtedness or issue preferred units; (v) create or incur certain liens; (vi) enter into agreements that restrict distributions or other payments from the Nitrogen Fertilizer Partnership's restricted subsidiaries to the Nitrogen Fertilizer Partnership; (vii) consolidate, merge or transfer all or substantially all of the Nitrogen Fertilizer Partnership's assets; (viii) engage in transactions with affiliates; and (ix) create unrestricted subsidiaries. As of June 30, 2016, the Nitrogen Fertilizer Partnership was in compliance with the covenants contained in the 2023 Notes.

At June 30, 2016, the estimated fair value of the 2023 Notes was approximately \$656.3 million. This estimate of fair value is Level 2 as it was determined by quotations obtained from a broker-dealer who makes a market in these and similar securities.

2021 Notes

Prior to the East Dubuque Merger, CVR Nitrogen and CVR Nitrogen Finance Corporation (the "2021 Note Issuers") issued \$320.0 million of 6.5% senior notes due 2021 (the "2021 Notes"). The 2021 Notes bear interest at a rate of 6.5% per annum, payable semi-annually in arrears on April 15 and October 15 of each year. The 2021 Notes are scheduled to mature on April 15, 2021, unless repurchased or redeemed earlier in accordance with their terms.

On April 29, 2016, the 2021 Notes Issuers commenced a cash tender offer (the "Tender Offer") to purchase any and all of the outstanding 2021 Notes. In connection with the Tender Offer, the 2021 Notes Issuers solicited the consents of holders of the notes to certain proposed amendments to the indenture governing the notes (the "Consent Solicitation"). As a result of the Tender Offer, on June 10, 2016, the 2021 Notes Issuers repurchased approximately \$315.2 million of 2021 Notes, representing approximately 98.5% of the total outstanding principal amount of the notes at a purchase price of \$1,015 per \$1,000 in principal amount. The total amount paid related to the Tender Offer was approximately \$320.0 million, including an approximate \$4.7 million premium. Additionally, the 2021 Notes Issuers paid \$3.1 million for accrued and unpaid interest for the tendered notes up to the settlement date. The Nitrogen Fertilizer Partnership received the requisite consents in respect of the 2021 Notes in connection with the Consent Solicitation to amend the indenture governing the 2021 Notes. As a result, the 2021 Notes Issuers executed a supplemental indenture, dated as of June 10, 2016, which eliminated or modified substantially all of the restrictive covenants relating to CVR Nitrogen and its subsidiaries, eliminated all events of default other than failure to pay principal, premium or interest on the 2021 Notes, eliminated all conditions to satisfaction and discharge, and released the liens on the collateral securing the 2021 Notes. The repurchase of a portion of the 2021 Notes resulted in a loss on

extinguishment of debt of approximately 5.1 million for the three and six months ended June 30, 2016, which includes the Tender Offer premium of \$4.7 million and the write-off of the unamortized portion of the purchase accounting adjustment of \$0.4 million.

Concurrently with, but separately from the Tender Offer, the 2021 Notes Issuers also commenced an offer to purchase all of the outstanding 2021 Notes at a price equal to 101% of the principal amount thereof, as required as a result of the East Dubuque Merger (the "Change of Control Offer"). The offer expired on June 28, 2016. As a result of the Change of Control Offer, the Nitrogen Fertilizer Partnership repurchased \$0.6 million of 2021 Notes at a purchase price of \$1,010 per \$1,000 in principal amount. The total amount paid related to the Change of Control offer was approximately \$0.6 million, including a nominal amount of premium and accrued and unpaid interest.



Table of Contents

## CVR ENERGY, INC. AND SUBSIDIARIES

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

June 30, 2016

(unaudited)

The \$4.2 million of principal amount of the 2021 Notes that remained outstanding following the consummation of the Tender Offer and the Change of Control Offer will continue to be obligations of the Nitrogen Fertilizer Partnership. At June 30, 2016, the estimated fair value of the 2021 Notes was approximately \$4.2 million. This estimate of fair value is Level 2 as it was determined by quotations obtained from a broker-dealer who makes a market in these and similar securities.

## Capital Lease Obligations

The Refining Partnership maintains two leases, accounted for as a capital lease and a finance obligation, related to Magellan Pipeline Terminals, L.P. ("Magellan Pipeline") and Excel Pipeline LLC ("Excel Pipeline"). The underlying assets and related depreciation are included in property, plant and equipment. The capital lease, which relates to a sales-lease back agreement with Sunoco Pipeline, L.P. for its membership interest in the Excel Pipeline, has 160 months remaining of its term and will expire in September 2029. The financing agreement, which relates to the Magellan Pipeline terminals, bulk terminal and loading facility has a lease term with 159 months remaining and will expire in September 2029.

## (10) Earnings Per Share

Basic and diluted earnings per share are computed by dividing net income attributable to CVR stockholders by the weighted-average number of shares of common stock outstanding. The components of the basic and diluted earnings per share calculation are as follows:

	Three Months Ended		Six Months Ended	
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
	(in millions, except per share data)			
Net income attributable to CVR Energy stockholders	\$28.4	\$101.9	\$12.2	\$156.7
Weighted-average shares of common stock outstanding - Basic and diluted	86.8	86.8	86.8	86.8
Basic and diluted earnings per share	\$0.33	\$1.17	\$0.14	\$1.80

There were no dilutive awards outstanding during the three and six months ended June 30, 2016 and 2015, as all unvested awards under the LTIP were liability-classified awards. See Note 4 ("Share-Based Compensation").

Table of Contents

CVR ENERGY, INC. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

June 30, 2016

(unaudited)

## (11) Commitments and Contingencies

## Leases and Unconditional Purchase Obligations

The minimum required payments for CVR's lease agreements and unconditional purchase obligations are as follows:

	Operating Leases	Unconditional Purchase Obligations <sup>(1)</sup>
	(in millions)	
Six Months Ending December 31, 2016	\$4.2	\$ 92.8
Year Ending December 31,		
2017	6.6	134.0
2018	4.9	126.2
2019	3.1	125.3
2020	2.4	109.7
Thereafter	4.8	737.3
	\$26.0	\$ 1,325.3

This amount includes approximately \$770.0 million payable ratably over fifteen years pursuant to petroleum transportation service agreements between Coffeyville Resources Refining & Marketing, LLC ("CRRM") and each of TransCanada Keystone Pipeline Limited Partnership and TransCanada Keystone Pipeline, LP (together, (1) "TransCanada"). The purchase obligation reflects the exchange rate between the Canadian dollar and the U.S. dollar as of June 30, 2016, where applicable. Under the agreements, CRRM receives transportation of at least 25,000 barrels per day of crude oil with a delivery point at Cushing, Oklahoma for a term of 20 years on TransCanada's Keystone pipeline system.

CVR leases various equipment, including railcars and real properties, under long-term operating leases which expire at various dates. For each of the three months ended June 30, 2016 and 2015, lease expense totaled approximately \$2.0 million and \$2.1 million, respectively. For each of the six months ended June 30, 2016 and 2015, lease expense totaled approximately \$4.2 million and \$4.3 million. The lease agreements have various remaining terms. Some agreements are renewable, at CVR's option, for additional periods. It is expected, in the ordinary course of business, that leases may be renewed or replaced as they expire.

Additionally, in the normal course of business, the Company has long-term commitments to purchase oxygen, nitrogen, electricity, storage capacity and pipeline transportation services. For the three months ended June 30, 2016 and 2015, total expense of approximately \$34.0 million and \$34.3 million, respectively, was incurred related to long-term commitments. For the six months ended June 30, 2016 and 2015, total expense of approximately \$68.8 million and \$66.5 million, respectively, was incurred related to long-term commitments.

## Crude Oil Supply Agreement

On August 31, 2012, CRRM, and Vitol Inc. ("Vitol") entered into an Amended and Restated Crude Oil Supply Agreement (as amended, the "Vitol Agreement"). Under the Vitol Agreement, Vitol supplies the petroleum business with crude oil and intermediation logistics, which helps to reduce the Refining Partnership's inventory position and

mitigate crude oil pricing risk. The Vitol Agreement will automatically renew for successive one-year terms (each such term, a "Renewal Term") unless either party provides the other with notice of nonrenewal at least 180 days prior to the expiration of any Renewal Term. The Vitol Agreement currently extends through December 31, 2017.

Table of Contents

CVR ENERGY, INC. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

June 30, 2016

(unaudited)

Litigation

From time to time, the Company is involved in various lawsuits arising in the normal course of business, including matters such as those described below under, "Environmental, Health and Safety ("EHS") Matters." Liabilities related to such litigation are recognized when the related costs are probable and can be reasonably estimated. These provisions are reviewed at least quarterly and adjusted to reflect the impacts of negotiations, settlements, rulings, advice of legal counsel, and other information and events pertaining to a particular case. It is possible that management's estimates of the outcomes will change due to uncertainties inherent in litigation and settlement negotiations. Except as described below, there were no new proceedings or material developments in proceedings that CVR previously reported in its 2015 Form 10-K. In the opinion of management, the ultimate resolution of any other litigation matters is not expected to have a material adverse effect on the accompanying condensed consolidated financial statements. There can be no assurance that management's beliefs or opinions with respect to liability for potential litigation matters will prove to be accurate.

Environmental, Health and Safety ("EHS") Matters

The petroleum and nitrogen fertilizer businesses are subject to various stringent federal, state, and local EHS rules and regulations. Liabilities related to EHS matters are recognized when the related costs are probable and can be reasonably estimated. Estimates of these costs are based upon currently available facts, existing technology, site-specific costs and currently enacted laws and regulations. In reporting EHS liabilities, no offset is made for potential recoveries.

CRRM, CRNF, Coffeyville Resources Crude Transportation, LLC ("CRCT"), Wynnewood Refining Company, LLC ("WRC") and Coffeyville Resources Terminal, LLC ("CRT") own and/or operate manufacturing and ancillary operations at various locations directly related to petroleum refining and distribution and nitrogen fertilizer manufacturing. Therefore, CRRM, CRNF, CRCT, WRC and CRT have exposure to potential EHS liabilities related to past and present EHS conditions at these locations. Under the Comprehensive Environmental Response, Compensation, and Liability Act ("CERCLA"), the Resource Conservation and Recovery Act ("RCRA"), and related state laws, certain persons may be liable for the release or threatened release of hazardous substances. These persons can include the current owner or operator of property where a release or threatened release occurred, any persons who owned or operated the property when the release occurred, and any persons who disposed of, or arranged for the transportation or disposal of, hazardous substances at a contaminated property. Liability under CERCLA is strict, and under certain circumstances, joint and several, so that any responsible party may be held liable for the entire cost of investigating and remediating the release of hazardous substances. Similarly, the Oil Pollution Act generally subjects owners and operators of facilities to strict, joint and several liability for all containment and clean-up costs, natural resource damages, and potential governmental oversight costs arising from oil spills into the waters of the United States, which has been broadly interpreted to include most water bodies including intermittent streams.

CRRM, CRNF, CRCT, WRC and CRT are subject to extensive and frequently changing federal, state and local environmental and health and safety laws and regulations governing the emission and release of hazardous substances into the environment, the treatment and discharge of waste water, and the storage, handling, use and transportation of petroleum and nitrogen products, and the characteristics and composition of gasoline and diesel fuels. The ultimate impact of complying with evolving laws and regulations is not always clearly known or determinable due in part to the fact that our operations may change over time and certain implementing regulations for laws, such as the federal Clean Air Act, have not yet been finalized, are under governmental or judicial review or are being revised. These laws

and regulations could result in increased capital, operating and compliance costs.

As previously reported, the petroleum and nitrogen fertilizer businesses are party to, or otherwise subject to administrative orders and consent decrees with federal, state and local environmental authorities, as applicable, addressing corrective actions under RCRA, the Clean Air Act and the Clean Water Act. The petroleum business also is subject to (i) the Mobile Source Air Toxic II ("MSAT II") rule which requires reductions of benzene in gasoline; (ii) the Renewable Fuel Standard ("RFS"), which requires refiners to either blend "renewable fuels" in with their transportation fuels or purchase renewable fuel credits, known as RINs, in lieu of blending; and (iii) "Tier 3" gasoline sulfur standards. Except as otherwise described below, there have been no new developments or material changes to the environmental accruals or expected capital expenditures related to compliance with the foregoing environmental matters from those provided in the 2015 Form 10-K. CRRM, CRNF, CRCT, WRC and CRT each believe it is in substantial compliance with existing EHS rules and regulations. There can be no assurance that the EHS matters described or referenced herein or other EHS matters which may develop in the future will not have a material adverse effect on the Company's business, financial condition or results of operations.

30

---

Table of Contents

CVR ENERGY, INC. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

June 30, 2016

(unaudited)

On July 25, 2016, CRCT received an advance copy of a Notice of Probable Violation, Proposed Civil Penalty and Proposed Compliance Order (the "NOPV") from the U.S. Department of Transportation's Pipeline and Hazardous Materials Safety Administration (the "PHMSA"). The NOPV alleges violations of the Pipeline Safety Regulations, Title 49, Code of Federal Regulations. The alleged violations include alleged failures (during various time periods) to (i) conduct quarterly notification drills, (ii) maintain certain required records, (iii) utilize certain required safety equipment (including line markers), (iv) take certain pipeline integrity management activities, (v) conduct certain cathodic protection testing, and (vi) make certain atmospheric corrosion inspections. The preliminary assessed civil penalty is approximately \$0.5 million and the NOPV contained a compliance order outlining remedial compliance steps to be undertaken by CRCT. CRCT is reviewing the allegations contained in the NOPV and will engage in discussions with PHMSA to attempt to resolve these matters. Although CVR Refining cannot predict with certainty the ultimate resolution of the claims asserted, CVR Refining does not believe that the claims in the NOPV will have a material adverse effect on CVR Refining's business, financial condition or results of operations.

At June 30, 2016, the Company's Condensed Consolidated Balance Sheet included total environmental accruals of \$5.6 million, as compared to \$3.6 million at December 31, 2015. Management periodically reviews and, as appropriate, revises its environmental accruals. Based on current information and regulatory requirements, management believes that the accruals established for environmental expenditures are adequate.

Environmental expenditures are capitalized when such expenditures are expected to result in future economic benefits. For the three months ended June 30, 2016 and 2015, capital expenditures were approximately \$2.6 million and \$7.4 million, respectively. For the six months ended June 30, 2016 and 2015, capital expenditures were approximately \$6.1 million and \$18.3 million, respectively. These expenditures were incurred for environmental compliance and efficiency of the operations.

The cost of RINs for the three months ended June 30, 2016 and 2015 was approximately \$51.0 million and \$37.5 million, respectively. The cost of RINs for the six months ended June 30, 2016 and 2015 was approximately \$94.1 million and \$74.1 million, respectively. As of June 30, 2016 and December 31, 2015, the petroleum business' biofuel blending obligation was approximately \$50.7 million and \$9.5 million, respectively, which was recorded in other current liabilities on the Condensed Consolidated Balance Sheets.

#### Flood, Crude Oil Discharge and Insurance

As previously disclosed in the 2015 Form 10-K, CRRM filed a lawsuit against certain of its environmental insurance carriers requesting insurance coverage indemnification for the June/July 2007 flood and crude oil discharge losses at CRRM's Coffeyville refinery. During the second quarter of 2015, CRRM entered into a settlement agreement and release with the insurance carriers involved in the lawsuit, pursuant to which (i) CRRM received settlement proceeds of approximately \$31.3 million, (ii) the parties mutually released each other from all claims relating to the flood and crude oil discharge and (iii) all pending appeals have been dismissed. Of the settlement proceeds received, \$27.3 million were recorded as a flood insurance recovery in the Condensed Consolidated Statements of Operations for the three and six months ended June 30, 2015. The remaining \$4.0 million of settlement proceeds reduced CVR Refining's \$4.0 million receivable related to this matter, which was included in other assets on the Condensed Consolidated Balance Sheets.

#### Affiliate Pension Obligations

Mr. Carl C. Icahn, through certain affiliates, owns approximately 82% of the Company's capital stock. Applicable pension and tax laws make each member of a "controlled group" of entities, generally defined as entities in which there is at least an 80% common ownership interest, jointly and severally liable for certain pension plan obligations of any member of the controlled group. These pension obligations include ongoing contributions to fund the plan, as well as liability for any unfunded liabilities that may exist at the time the plan is terminated. In addition, the failure to pay these pension obligations when due may result in the creation of liens in favor of the pension plan or the Pension Benefit Guaranty Corporation ("PBGC") against the assets of each member of the controlled group.

Table of Contents

CVR ENERGY, INC. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

June 30, 2016

(unaudited)

As a result of the more than 80% ownership interest in CVR Energy by Mr. Icahn's affiliates, the Company is subject to the pension liabilities of all entities in which Mr. Icahn has a direct or indirect ownership interest of at least 80%. Two such entities, ACF Industries LLC ("ACF") and Federal-Mogul, are the sponsors of several pension plans. All the minimum funding requirements of the Code and the Employee Retirement Income Security Act of 1974, as amended by the Pension Protection Act of 2006, for these plans have been met as of June 30, 2016 and December 31, 2015. If the ACF and Federal-Mogul plans were voluntarily terminated, they would be underfunded by approximately \$533.3 million and \$589.2 million as of June 30, 2016 and December 31, 2015, respectively. These results are based on the most recent information provided by Mr. Icahn's affiliates based on information from the plans' actuaries. These liabilities could increase or decrease, depending on a number of factors, including future changes in benefits, investment returns, and the assumptions used to calculate the liability. As members of the controlled group, CVR Energy would be liable for any failure of ACF and Federal-Mogul to make ongoing pension contributions or to pay the unfunded liabilities upon a termination of their respective pension plans. In addition, other entities now or in the future within the controlled group that includes CVR Energy may have pension plan obligations that are, or may become, underfunded, and the Company would be liable for any failure of such entities to make ongoing pension contributions or to pay the unfunded liabilities upon a termination of such plans. The current underfunded status of the ACF and Federal-Mogul pension plans requires such entities to notify the PBGC of certain "reportable events," such as if CVR Energy were to cease to be a member of the controlled group, or if CVR Energy makes certain extraordinary dividends or stock redemptions. The obligation to report could cause the Company to seek to delay or reconsider the occurrence of such reportable events. Based on the contingent nature of potential exposure related to these affiliate pension obligations, no liability has been recorded in the condensed consolidated financial statements.

## (12) Fair Value Measurements

In accordance with FASB ASC Topic 820 — Fair Value Measurements and Disclosures ("ASC 820"), the Company utilizes the market approach to measure fair value for its financial assets and liabilities. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets, liabilities or a group of assets or liabilities, such as a business.

ASC 820 utilizes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. The following is a brief description of those three levels:

Level 1 — Quoted prices in active markets for identical assets and liabilities

Level 2 — Other significant observable inputs (including quoted prices in active markets for similar assets or liabilities)

Level 3 — Significant unobservable inputs (including the Company's own assumptions in determining the fair value)

The following table sets forth the assets and liabilities measured at fair value on a recurring basis, by input level, as of June 30, 2016 and December 31, 2015:

Location and Description	June 30, 2016			Total
	Level 1	Level 2	Level 3	
Cash equivalents	\$15.7	\$—	\$	—\$15.7



Edgar Filing: CVR ENERGY INC - Form 10-Q

Other current assets (investments)	4.8	—	—	4.8
Other current assets (other derivative agreements)	—	13.3	—	13.3
Total Assets	\$20.5	\$13.3	\$	—\$33.8
Other current liabilities (other derivative agreements)	—	(0.3 )	—	(0.3 )
Other current liabilities (biofuel blending obligations)	—	(20.8 )	—	(20.8 )
Total Liabilities	\$—	\$(21.1)	\$	—\$(21.1)

32

---

Table of Contents

## CVR ENERGY, INC. AND SUBSIDIARIES

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

June 30, 2016

(unaudited)

Location and Description	December 31, 2015			Total
	Level 1	Level 2	Level 3	
	(in millions)			
Cash equivalents	\$ 15.7	\$—	\$	—\$15.7
Other current assets (investments)	0.1	—	—	0.1
Other current assets (other derivative agreements)	—	44.7	—	44.7
Total Assets	\$ 15.8	\$44.7	\$	—\$60.5
Other current liabilities (other derivative agreements)	—	(0.1 )	—	(0.1 )
Other current liabilities (interest rate swaps)	—	(0.1 )	—	(0.1 )
Other long-term liabilities (biofuel blending obligation)	—	(2.7 )	—	(2.7 )
Total Liabilities	\$—	\$(2.9 )	\$	—\$(2.9 )

As of June 30, 2016 and December 31, 2015, the only financial assets and liabilities that are measured at fair value on a recurring basis are the Company's cash equivalents, investments, derivative instruments and the uncommitted biofuel blending obligation. Additionally, the fair value of the Company's debt issuances is disclosed in Note 9 ("Long-Term Debt").

In March 2016, CVR Energy purchased 400,000 CVR Nitrogen common units in the public market. As of March 31, 2016, the fair value of the common units was based on quoted prices for the identical securities (Level 1 inputs). As a result of the East Dubuque Merger, the carrying amount of the investment in the CVR Nitrogen common units was reclassified as an investment in consolidated subsidiary and is eliminated in consolidation. Subsequent to the East Dubuque Merger, the Nitrogen Fertilizer Partnership purchased the 400,000 CVR Nitrogen common units from CVR Energy during the second quarter of 2016.

In June 2016, CVR Energy purchased shares of an unaffiliated public company's common units in the public market at a cost of \$4.2 million. As of June 30, 2016, the fair value of the Company's marketable securities were based on quoted prices for the identical securities (Level 1 inputs). The company's investment in marketable securities are classified as available-for-sale and, as a result, an unrealized gain of \$0.5 million was included in accumulated other comprehensive income ("AOCI") in the Condensed Consolidated Balance Sheet as of June 30, 2016.

The Refining Partnership's commodity derivative contracts and the uncommitted biofuel blending obligation, which use fair value measurements and are valued using broker quoted market prices of similar instruments, are considered Level 2 inputs. The Nitrogen Fertilizer Partnership had interest rate swaps that were measured at fair value on a recurring basis using Level 2 inputs. The fair value of these interest rate swap instruments was based on discounted cash flow models that incorporated the cash flows of the derivatives, as well as the current LIBOR rate and a forward LIBOR curve, along with other observable market inputs. The Company had no transfers of assets and liabilities between any of the above levels during the six months ended June 30, 2016.

During the six months ended June 30, 2015, the Company received proceeds of \$68.0 million for the sale of a portion of its investment in available-for-sale securities. The aggregate cost basis for the available-for-sale securities sold was approximately \$47.9 million. Upon the sale of the available-for-sale securities, the Company reclassified an unrealized gain of \$20.1 million from AOCI and recognized a realized gain in other income in the Condensed Consolidated Statements of Operations for the six months ended June 30, 2015. At the end of the second quarter of 2015, the

Company's remaining available-for-sale securities with an aggregate cost basis of approximately \$25.7 million were reclassified to trading securities based on management's ability and intent with respect to the securities. In connection with the transfer to trading securities, an unrealized gain previously recorded in AOCI of \$11.7 million was reclassified to other income and is reflected in the Condensed Consolidated Statements of Operations for the six months ended June 30, 2015. During the three months ended June 30, 2015, the trading securities were sold, and the Company received proceeds of \$37.8 million and recognized an additional realized gain of \$0.4 million in other income for the three and six months ended June 30, 2015.

Table of Contents

CVR ENERGY, INC. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

June 30, 2016

(unaudited)

## (13) Derivative Financial Instruments

Loss on derivatives, net and current period settlements on derivative contracts were as follows:

	Three Months		Six Months	
	Ended		Ended	
	June 30,		June 30,	
	2016	2015	2016	2015
	(in millions)			
Current period settlements on derivative contracts	\$7.1	\$(28.5)	\$28.5	\$(34.8)
Loss on derivatives, net	(1.9 )	(12.6 )	(3.1 )	(64.0 )

The Refining Partnership and Nitrogen Fertilizer Partnership are subject to price fluctuations caused by supply conditions, weather, economic conditions, interest rate fluctuations and other factors. To manage price risk on crude oil and other inventories and to fix margins on certain future production, the Refining Partnership from time to time enters into various commodity derivative transactions.

The Refining Partnership has adopted accounting standards which impose extensive record-keeping requirements in order to designate a derivative financial instrument as a hedge. The Refining Partnership holds derivative instruments, such as exchange-traded crude oil futures and certain over-the-counter forward swap agreements, which it believes provide an economic hedge on future transactions, but such instruments are not designated as hedges for GAAP purposes. Gains or losses related to the change in fair value and periodic settlements of these derivative instruments are classified as loss on derivatives, net in the Condensed Consolidated Statements of Operations. There are no premiums paid or received at inception of the derivative contracts and upon settlement, there is no cost recovery associated with these contracts.

The Refining Partnership maintains a margin account to facilitate other commodity derivative activities. A portion of this account may include funds available for withdrawal. These funds are included in cash and cash equivalents within the Condensed Consolidated Balance Sheets. The maintenance margin balance is included within other current assets within the Condensed Consolidated Balance Sheets. Dependent upon the position of the open commodity derivatives, the amounts are accounted for as other current assets or other current liabilities within the Condensed Consolidated Balance Sheets. From time to time, the Refining Partnership may be required to deposit additional funds into this margin account. For the three months ended June 30, 2016 and 2015, the Refining Partnership recognized net losses of \$0.1 million and \$0.4 million, respectively, which are recorded in loss on derivatives, net in the Condensed Consolidated Statement of Operations. For the six months ended June 30, 2016 and 2015, the Refining Partnership recognized net losses of \$0.4 million and \$1.4 million, respectively, which are recorded in loss on derivatives, net in the Condensed Consolidated Statement of Operations.

## Commodity Swaps

The Refining Partnership enters into commodity swap contracts in order to fix the margin on a portion of future production. Additionally, the Refining Partnership may enter into price and basis swaps in order to fix the price on a portion of its commodity purchases and product sales. The physical volumes are not exchanged and these contracts are net settled with cash. The contract fair value of the commodity swaps is reflected on the Condensed Consolidated Balance Sheets with changes in fair value currently recognized in the Condensed Consolidated Statements of Operations. Quoted prices for similar assets or liabilities in active markets (Level 2) are considered to determine the

fair values for the purpose of marking to market the hedging instruments at each period end. At December 31, 2015, the Refining Partnership had open commodity hedging instruments consisting of 2.5 million barrels of crack spreads primarily to fix the margin on a portion of its future gasoline and distillate production. During the first quarter of 2016, the Refining Partnership settled a number of the open crack spread positions and entered into offsetting positions to effectively lock in the gain on the remaining positions to be settled during 2016. At June 30, 2016, the Refining Partnership had open commodity hedging instruments consisting of 0.4 million barrels net of crack spreads and 0.6 million barrels of price and basis swaps. The fair value of the outstanding contracts at June 30, 2016 was a net unrealized gain of \$13.0 million, of which \$13.3 million was included in current assets and \$0.3 million was included in current liabilities. For the three months ended June 30, 2016 and 2015, the Refining Partnership recognized a net loss of \$1.8 million and a net loss of \$12.2 million, respectively. For the six months ended June 30, 2016 and 2015, the Refining Partnership recognized a net loss of \$2.7 million and a net loss of \$62.6 million, respectively. These recognized net losses are recorded in loss on derivatives, net in the Condensed Consolidated Statements of Operations.

Table of Contents

CVR ENERGY, INC. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

June 30, 2016

(unaudited)

Nitrogen Fertilizer Partnership Interest Rate Swaps

CRNF had two floating-to-fixed interest rate swap agreements for the purpose of hedging the interest rate risk associated with a portion of the nitrogen fertilizer business' \$125.0 million floating rate term debt which matured in April 2016, as further discussed in Note 9 ("Long-Term Debt"). The aggregate notional amount covered under these agreements, which commenced on August 12, 2011 and expired on February 12, 2016, totaled \$62.5 million (split evenly between the two agreements). Under the terms of the interest rate swap agreement entered into on June 30, 2011, CRNF received a floating rate based on three month LIBOR and paid a fixed rate of 1.94%. Under the terms of the interest rate swap agreement entered into on July 1, 2011, CRNF received a floating rate based on three month LIBOR and paid a fixed rate of 1.975%. Both swap agreements settled every 90 days. The effect of these swap agreements was to lock in a fixed rate of interest of approximately 1.96% plus the applicable margin paid to lenders over three month LIBOR as calculated under the CRNF credit facility. The agreements were designated as cash flow hedges at inception and accordingly, the effective portion of the gain or loss on the swap was reported as a component of AOCI and was reclassified into interest expense when the interest rate swap transaction affects earnings. Any ineffective portion of the gain or loss was recognized immediately in current interest expense on the Condensed Consolidated Statements of Operations. The interest rate swaps agreements terminated in February 2016.

The realized loss on the interest rate swaps re-classified from AOCI into interest expense and other financing costs on the Condensed Consolidated Statements of Operations was \$0.0 million and \$0.3 million for the three months ended June 30, 2016 and 2015, respectively. For each of the three and six months ended June 30, 2016 and 2015, the Nitrogen Fertilizer Partnership recognized a nominal decrease in fair value of the interest rate swap agreements, which was unrealized in AOCI. The realized loss on the interest rate swaps re-classified from AOCI into interest expense and other financing costs on the Condensed Consolidated Statements of Operations was \$0.1 million and \$0.5 million for the six months ended June 30, 2016 and 2015, respectively.

Counterparty Credit Risk

The Refining Partnership's exchange-traded crude oil futures and certain over-the-counter forward swap agreements are potentially exposed to concentrations of credit risk as a result of economic conditions and periods of uncertainty and illiquidity in the credit and capital markets. The Refining Partnership manages credit risk on its exchange-traded crude oil futures by completing trades with an exchange clearinghouse, which subjects the trades to mandatory margin requirements until the contract settles. The Refining Partnership also monitors the creditworthiness of its commodity swap counterparties and assesses the risk of nonperformance on a quarterly basis. Counterparty credit risk identified as a result of this assessment is recognized as a valuation adjustment to the fair value of the commodity swaps recorded in the Condensed Consolidated Balance Sheets. As of June 30, 2016, the counterparty credit risk adjustment was not material to the condensed consolidated financial statements. Additionally, the Refining Partnership does not require any collateral to support commodity swaps into which it enters; however, it does have master netting arrangements that allow for the setoff of amounts receivable from and payable to the same party, which mitigates the risk associated with nonperformance.

Offsetting Assets and Liabilities

The commodity swaps and other commodity derivatives agreements discussed above include multiple derivative positions with a number of counterparties for which the Refining Partnership has entered into agreements governing

the nature of the derivative transactions. Each of the counterparty agreements provides for the right to setoff each individual derivative position to arrive at the net receivable due from the counterparty or payable owed by the Refining Partnership. As a result of the right to setoff, the Refining Partnership's recognized assets and liabilities associated with the outstanding derivative positions have been presented net in the Condensed Consolidated Balance Sheets. In accordance with guidance issued by the FASB related to "Disclosures about Offsetting Assets and Liabilities," the tables below outline the gross amounts of the recognized assets and liabilities and the gross amounts offset in the Condensed Consolidated Balance Sheets for the various types of open derivative positions at the Refining Partnership.

35

---

Table of Contents

## CVR ENERGY, INC. AND SUBSIDIARIES

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

June 30, 2016

(unaudited)

The offsetting assets and liabilities for the Refining Partnership's derivatives as of June 30, 2016 are recorded as current assets and current liabilities in prepaid expenses and other current assets and other current liabilities, respectively, in the Condensed Consolidated Balance Sheets as follows:

Description	As of June 30, 2016		Net	Cash	Net
	Gross Current Assets	Gross Amounts Offset	Current Assets Presented	Collateral Not Offset	
	(in millions)				
Commodity Swaps	\$13.3	\$	—\$ 13.3	\$	—\$ 13.3
Total	\$13.3	\$	—\$ 13.3	\$	—\$ 13.3

Description	As of June 30, 2016		Net	Cash	Net
	Gross Current Liabilities	Gross Amounts Offset	Current Liabilities Presented	Collateral Not Offset	
	(in millions)				
Commodity Swaps	\$0.3	\$	—\$ 0.3	\$	—\$ 0.3
Total	\$0.3	\$	—\$ 0.3	\$	—\$ 0.3

The offsetting assets and liabilities for the Refining Partnership's derivatives as of December 31, 2015 are recorded as current assets and current liabilities in prepaid expenses and other current assets and other current liabilities, respectively, in the Condensed Consolidated Balance Sheets as follows:

Description	As of December 31, 2015		Net	Cash	Net
	Gross Current Assets	Gross Amounts Offset	Current Assets Presented	Collateral Not Offset	
	(in millions)				
Commodity Swaps	\$44.8	\$ (0.1 )	\$ 44.7	\$	—\$ 44.7
Total	\$44.8	\$ (0.1 )	\$ 44.7	\$	—\$ 44.7

Description	As of December 31, 2015		Net	Cash	Net
	Gross Current Liabilities	Gross Amounts Offset	Current Liabilities Presented	Collateral Not Offset	
	(in millions)				
Commodity Swaps	\$0.1	\$	—\$ 0.1	\$	—\$ 0.1
Total	\$0.1	\$	—\$ 0.1	\$	—\$ 0.1

(14) Related Party Transactions



Icahn Enterprises

In May 2012, IEP announced that it had acquired control of CVR pursuant to a tender offer to purchase all of the issued and outstanding shares of the Company's common stock. As of June 30, 2016, IEP and its affiliates owned approximately 82% of the Company's outstanding common shares.

36

---

Table of Contents

## CVR ENERGY, INC. AND SUBSIDIARIES

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

June 30, 2016

(unaudited)

The following is a summary of dividends paid to the Company's stockholders, including IEP, for the respective quarters to which the distributions relate:

	December 31, 2015	March 31, 2016	Total Dividends Paid in 2016
	(in millions, except per share data)		
Amount paid to IEP	\$35.6	\$35.6	\$ 71.2
Amounts paid to public stockholders	7.8	7.8	15.6
Total amount paid	\$43.4	\$43.4	\$ 86.8
Per common share	\$0.50	\$0.50	\$ 1.00
Shares outstanding	86.8	86.8	

## Tax Allocation Agreement

CVR is a member of the consolidated federal tax group of AEPC, a wholly-owned subsidiary of IEP, and has entered into a Tax Allocation Agreement. Refer to Note 8 ("Income Taxes") for a discussion of related party transactions under the Tax Allocation Agreement.

## Insight Portfolio Group

Insight Portfolio Group LLC ("Insight Portfolio Group") is an entity formed by Mr. Carl C. Icahn in order to maximize the potential buying power of a group of entities with which Mr. Icahn has a relationship in negotiating with a wide range of suppliers of goods, services and tangible and intangible property at negotiated rates. In January 2013, CVR Energy acquired a minority equity interest in Insight Portfolio Group and agreed to pay a portion of Insight Portfolio Group's operating expenses in 2013 and subsequent periods. The Company paid Insight Portfolio Group approximately \$0.1 million during each of the three and six months ended June 30, 2016 and 2015. The Company may purchase a variety of goods and services as a member of the buying group at prices and terms that management believes would be more favorable than those which would be achieved on a stand-alone basis.

## Commitment Letter

Simultaneously with the execution of the Merger Agreement, the Nitrogen Fertilizer Partnership entered into a commitment letter (the "Commitment Letter") with CRLLC, pursuant to which CRLLC committed to, on the terms and subject to the conditions set forth in the Commitment Letter, make available to the Nitrogen Fertilizer Partnership term loan financing of up to \$150.0 million, which amounts would be available solely to fund the repayment of all of the loans outstanding under the Wells Fargo Credit Agreement, the cash consideration and expenses associated with the East Dubuque Merger. The term loan facility, if drawn, would have a one year term and would bear interest at a rate of three-month LIBOR plus 3.0% per annum. Calculation of interest would be on the basis of the actual number of days elapsed over a 360-day year. In connection with the Nitrogen Fertilizer Partnership's entry into the CRLLC Facility (defined and discussed below), the Commitment Letter was terminated.

## CRLLC Guaranty

On February 9, 2016, CRLLC and the Nitrogen Fertilizer Partnership entered into a guaranty pursuant to which CRLLC agreed to guaranty the indebtedness outstanding under the Nitrogen Fertilizer Partnership's credit facility. In connection with the Nitrogen Fertilizer Partnership's entry into the CRLLC Facility (defined and discussed below), the CRLLC guaranty was terminated.

Table of Contents

CVR ENERGY, INC. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

June 30, 2016

(unaudited)

CRLLC Facility with the Nitrogen Fertilizer Partnership

On April 1, 2016, in connection with the closing of the East Dubuque Merger, the Nitrogen Fertilizer Partnership entered into a \$300.0 million senior term loan credit facility (the "CRLLC Facility") with CRLLC as the lender, the proceeds of which were used by the Nitrogen Fertilizer Partnership (i) to fund the repayment of amounts outstanding under the Wells Fargo Credit Agreement discussed in Note 3 ("Acquisition") (ii) to pay the cash consideration and to pay fees and expenses in connection with the East Dubuque Merger and related transactions and (iii) to repay all of the loans outstanding under the Nitrogen Fertilizer Partnership credit facility. The CRLLC Facility had a term of two years and an interest rate of 12.0% per annum. Interest was calculated on the basis of the actual number of days elapsed over a 360-day year and payable quarterly. In April 2016, the Nitrogen Fertilizer Partnership borrowed \$300.0 million under the CRLLC Facility. On June 10, 2016, the Nitrogen Fertilizer Partnership paid off the \$300.0 million outstanding under the CRLLC Facility, paid \$7.0 million in interest and the CRLLC Facility was terminated.

AEPC Facility with Nitrogen Fertilizer Partnership

On April 1, 2016, in connection with the closing of the East Dubuque Merger, the Nitrogen Fertilizer Partnership entered into a \$320.0 million senior term loan facility (the "AEPC Facility") with American Entertainment Properties Corporation ("AEPC"), an affiliate of IEP, as the lender, which was to be used (i) by CVR Partners to provide funds to CVR Nitrogen to make a change of control offer and, if applicable, a "clean-up" redemption in accordance with the indenture governing the 2021 Notes or (ii) by CVR Partners or CVR Nitrogen to make a tender offer for the 2021 Notes and, in each case, pay fees and expenses related thereto. The AEPC Facility had a term of two years and bore interest at a rate of 12.0% per annum. Calculation of interest was on the basis of the actual number of days elapsed over a 360-day year and payable quarterly. The Nitrogen Fertilizer Partnership was permitted to voluntarily prepay in whole or in part the borrowings under the AEPC Facility without premium or penalty. In connection with the repayment of the substantial majority of the 2021 Notes, the AEPC Facility was terminated.

Railcar Lease Agreements

In the second quarter of 2016, the Nitrogen Fertilizer Partnership entered into agreements to lease a total of 115 UAN railcars from American Railcar Leasing, LLC ("ARL"), a company controlled by Mr. Icahn. The lease agreements have a term of seven years. The Nitrogen Fertilizer Partnership anticipates physical receipt of these leased railcars and associated lease payment obligations to begin in the second half of 2016.

(15) Business Segments

The Company measures segment profit as operating income for petroleum and nitrogen fertilizer, CVR's two reporting segments, based on the definitions provided in FASB ASC Topic 280 – Segment Reporting. All operations of the segments are located within the United States.

Petroleum

Principal products of the petroleum segment are refined fuels, propane, and petroleum refining by-products, including pet coke. The petroleum segment's Coffeyville refinery sells pet coke to CRNF for use in the manufacture of nitrogen fertilizer at the adjacent nitrogen fertilizer plant. For the petroleum segment, a per-ton transfer price is used to record intercompany sales on the part of the petroleum segment and corresponding intercompany cost of product sold

(exclusive of depreciation and amortization) for the nitrogen fertilizer segment. The per ton transfer price paid, pursuant to the pet coke supply agreement that became effective October 24, 2007, is based on the lesser of a pet coke price derived from the price received by the nitrogen fertilizer segment for UAN (subject to a UAN based price ceiling and floor) and a pet coke price index for pet coke. Intercompany net sales included in petroleum net sales were approximately \$0.5 million and \$2.1 million for the three months ended June 30, 2016 and 2015, respectively. Intercompany net sales included in petroleum net sales were approximately \$0.9 million and \$4.2 million for the six months ended June 30, 2016 and 2015, respectively.

Table of Contents

CVR ENERGY, INC. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

June 30, 2016

(unaudited)

The petroleum segment recorded intercompany cost of product sold (exclusive of depreciation and amortization) for the hydrogen purchases described below under "Nitrogen Fertilizer" of approximately \$0.5 million and \$2.0 million for the three months ended June 30, 2016 and 2015, respectively. For the six months ended June 30, 2016 and 2015, the petroleum segment recorded intercompany cost of product sold (exclusive of depreciation and amortization) of approximately \$1.6 million and \$8.5 million, respectively.

Nitrogen Fertilizer

The principal product of the nitrogen fertilizer segment is nitrogen fertilizer. Intercompany cost of product sold (exclusive of depreciation and amortization) for the pet coke transfer described above was approximately \$0.5 million and \$2.1 million for the three months ended June 30, 2016 and 2015, respectively. Intercompany cost of product sold (exclusive of depreciation and amortization) for the pet coke transfer described above was approximately \$1.3 million and \$3.9 million for the six months ended June 30, 2016 and 2015, respectively.

Pursuant to a feedstock agreement, the Company's segments have the right to transfer hydrogen between the Coffeyville refinery and nitrogen fertilizer plant. Sales of hydrogen to the petroleum segment have been reflected as net sales for the nitrogen fertilizer segment. Receipts of hydrogen from the petroleum segment have been reflected in cost of product sold (exclusive of depreciation and amortization) for the nitrogen fertilizer segment, when applicable. For the three months ended June 30, 2016 and 2015, the net sales generated from intercompany hydrogen sales were \$0.5 million and \$2.0 million, respectively. For the six months ended June 30, 2016 and 2015, the net sales generated from intercompany hydrogen sales were \$1.6 million and \$8.5 million, respectively. As these intercompany sales and cost of product sold are eliminated, there is no financial statement impact on the condensed consolidated financial statements.

Other Segment

The other segment reflects intercompany eliminations, corporate cash and cash equivalents, income tax activities and other corporate activities that are not allocated to the operating segments.

Table of Contents

## CVR ENERGY, INC. AND SUBSIDIARIES

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

June 30, 2016

(unaudited)

The following table summarizes certain operating results and capital expenditures information by segment:

	Three Months		Six Months Ended	
	Ended		June 30,	
	June 30,		June 30,	
	2016	2015	2016	2015
	(in millions)			
Net sales				
Petroleum	\$1,164.4	\$1,547.5	\$1,998.4	\$2,852.0
Nitrogen Fertilizer	119.8	80.8	192.9	173.9
Intersegment elimination	(1.0 )	(4.1 )	(2.6 )	(12.8 )
Total	\$1,283.2	\$1,624.2	\$2,188.7	\$3,013.1
Cost of product sold (exclusive of depreciation and amortization)				
Petroleum	\$941.9	\$1,180.9	\$1,664.2	\$2,237.1
Nitrogen Fertilizer	36.0	15.4	52.4	41.2
Intersegment elimination	(1.0 )	(4.1 )	(2.9 )	(12.5 )
Total	\$976.9	\$1,192.2	\$1,713.7	\$2,265.8
Direct operating expenses (exclusive of depreciation and amortization)				
Petroleum	\$84.0	\$90.3	\$201.7	\$177.3
Nitrogen Fertilizer	54.2	25.1	77.9	49.6
Other	0.1	—	0.1	—
Total	\$138.3	\$115.4	\$279.7	\$226.9
Depreciation and amortization				
Petroleum	\$31.6	\$34.2	\$63.1	\$68.2
Nitrogen Fertilizer	17.6	7.0	24.5	13.8
Other	1.5	1.3	3.1	2.5
Total	\$50.7	\$42.5		