THE BIG PICTURE

VALERO ENERGY CORPORATION 2002 SUMMARY ANNUAL REPORT

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WE'RE BIGGER & BETTER THAN EVER!

Valero Energy Corporation (NYSE: VLO) is a bigger, better company after experiencing five years of record-breaking growth, culminating with the company's acquisition of Ultramar Diamond Shamrock Corporation on Dec. 31, 2001. Today, Valero is a Fortune 100 company based in San Antonio, with approximately 20,000 employees and annual revenues of nearly $30 billion. The company currently owns and operates 12 refineries in the United States and Canada with a combined throughput capacity of nearly 2 million barrels per day (BPD), making it one of the nation's top refiners of petroleum products. Through its pipeline network and ownership interest in Valero L.P. (NYSE: VLI), Valero has a stake in 4,800 miles of refined product and crude oil pipelines, which complement its refining and marketing assets in the U.S. Southwest and Mid-Continent regions. Valero markets its products through an extensive network that includes approximately 4,100 retail and branded wholesale sites in the United States and Canada under various brand names including Diamond Shamrock, Valero, Ultramar, Beacon and Total. In addition to this network, Valero markets on a wholesale basis through a bulk and rack marketing network in 40 U.S. states, Canada and Latin America.

◂ Valero's Three Rivers Refinery


CAP LAURENT

TO OUR SHAREHOLDERS

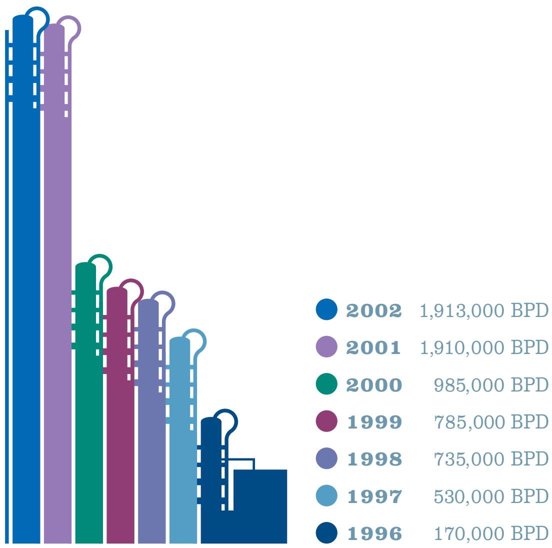
While 2002 was a difficult year for the refining industry, it was a year of major accomplishments at Valero.

The acquisition of Ultramar Diamond Shamrock (UDS) at the close of 2001 made Valero the largest independent refining and marketing company in the United States. The acquisition tripled our assets, doubled our revenues, and increased our employee headcount by almost seven times!

Today we have the most complex and geographically diverse refining system in North America with 12 refineries stretching from California to Canada, 4,100 retail and branded wholesale sites, a stake in 4,800 miles of crude oil and product pipelines and approximately 20,000 employees. It's hard to believe that it's been less than six years since Valero had only a single 170,000 barrel-per-day (BPD) refinery on the Gulf Coast and just 215 employees!

We are proud of this tremendous growth, not only because it gives Valero the size and scope to remain competitive in a rapidly consolidating industry, but also because we have been able to integrate our new employees and assets effectively and efficiently—without losing the special "caring and sharing" spirit that has been the cornerstone of Valero's unique culture and success for the past 23 years.

The fact that Valero was once again named as "One of The 100 Best Companies to Work for in America" by *Fortune* magazine is a testament to the tremendous success of our integration effort. This is evidenced by the fact that two-thirds of the scoring for this honor is based on confidential surveys completed by our employees, 80 percent of whom have been with the company a year or less!



TOTAL REFINING THROUGHPUT CAPACITY

One of the other great accomplishments in 2002 was our highly successful systems integration, which we achieved in a record nine months. This full conversion to a common SAP system is critically important because it gives us the timely information we need to make better business decisions and to control costs more effectively.

Another really big accomplishment in 2002 was the identification and implementation of $235 million in recurring synergies and $85 million in non-recurring synergies. These savings helped offset some of the impact of the year's challenging earnings environment. In 2003, we expect to achieve an additional $100 million of recurring synergies and another $80 million in non-recurring synergies as well. These synergies should have a much more dramatic impact on our bottom line in 2003 with the improved margin environment that is anticipated.

We will also benefit from several capital projects, which we completed in 2002, that should add more than $100 million to operating income in 2003.



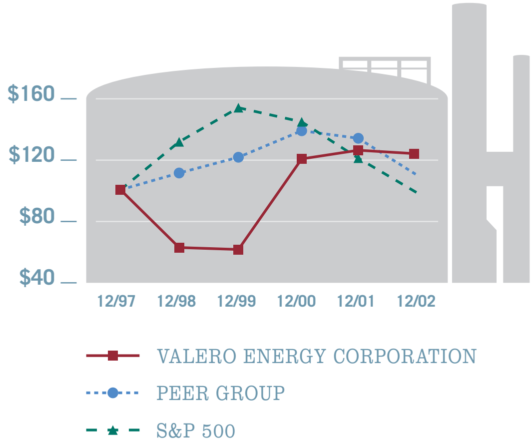


2002 AN ANOMALY

While we are proud of our significant achievements in 2002, it was a tough year for the refining industry. The year got off to a rough start as the economy was still reeling from the terrorist attacks of September 11, 2001. We also experienced the warmest winter in the Northeast in a century. These two factors substantially reduced both oil and refined product demand, which resulted in poor refined product margins. The sluggish demand also caused OPEC to shut in crude oil production, which substantially reduced the production of heavy, sour crude oil and resulted in extremely narrow sour crude oil discounts.

In addition to all of these difficult market conditions, we also had six of our 12 refineries down for required maintenance in the first quarter of 2002. Given all of these factors, it is not surprising that we lost money in the first quarter. However, Valero employees can take great pride in the fact that we made money each and every quarter the rest of the year—despite the dismal margin environment. We ended the year with revenues of $27 billion, operating income of $471 million, and net income of $92 million or $.83 per share. And, I am proud to say that despite the challenging market conditions, Valero still outperformed its peers, as well as the S&P 500 Index, in shareholder return. Valero's shareholder return was down by only 3.5 percent, while the Dow Jones Energy Index was down 15.4 percent, and the S&P 500 Index was down 23 percent.

COMPARISON OF 5-YEAR CUMULATIVE TOTAL RETURN



The good news is that 2003 is shaping up to be a record year for Valero. Refined product margins are at historically high levels and are expected to remain strong throughout the year—supported by good consumer demand, coupled with lower-than-average inventory levels that are largely the result of a colder-than-normal winter, the Venezuelan Oil Worker's Strike, and the historically high level of planned maintenance at U.S. refineries in the first quarter of 2003.

Meanwhile, Valero has only one refinery scheduled for major maintenance this year. So, while other refineries are down, we'll be producing and benefiting from the strong margin environment. In fact, total throughput volumes are expected to be up 10 percent over last year.

Valero is also benefiting from widening sour crude oil discounts as Venezuelan crude oil has begun returning to the market and OPEC production has increased. For example, the discount for Arab Medium sour crude oil was $2.50 per barrel in April of 2002. It has more than doubled to $5.30 per barrel for April of 2003. This is really important because every $1.00 improvement in the sour crude oil discount improves our earnings by about $2.00 per share.

These improved market conditions have already resulted in a 10 percent increase in our stock price so far this year.

LONG-TERM OUTLOOK JUST AS BULLISH

And the long-term outlook for the refining industry—and for Valero in particular—is just as bullish.

Since 1981, the number of U.S. refineries has been cut in half—from 324 to 141. And there is no substantial new capacity coming on-line. In fact, the lower sulfur gasoline and diesel specifications imposed by the federal government, which will go into effect in the next few years, are expected to reduce gasoline

volumes in the U.S. by 100,000 BPD and distillate volumes by 320,000 BPD. These costly sulfur reduction modifications are also expected to result in the closure of a number of smaller refineries and the tighter fuel specifications are expected to result in reduced refined product imports into the U.S. As a result, U.S. demand growth is expected to outpace capacity growth in the coming years. This should result in a better-than-average margin environment, which is important because every $1.00 improvement in our system's average refining margin, improves per share earnings by about $4.00.

And, as crude oil production increases in the coming years, heavy, sour crude oil production is expected to outpace sweet crude oil production by a four-to-one ratio, which should translate into high sour crude oil discounts going forward.

A NEW ERA FOR REFINING

So, while many talk about the volatility of earnings in the refining industry, I believe we have entered into a new era where margins will be higher and where periods of low refining margins will be less frequent and shorter in duration.

While 2002 was a challenging year, 2000 and 2001 were both record years for Valero and now 2003 is shaping up to be a record year as well. How many industries have done as well? Valero has significantly outperformed its peers, as well as the S&P 500 Index over the last five years. Valero shareholders enjoyed a total cumulative return of 24 percent—far better than the 16 percent return of our peer group and the S&P's three percent loss!

We are in the right business at the right time. Everything has come together—from low gasoline and distillate inventories, to strong demand, to wider sour crude oil discounts—to create a very bullish outlook. And, no refiner is better positioned to benefit from these long-term bullish fundamentals than Valero.

We will benefit from our geographic diversity and our more diversified business lines. We will also benefit from our leverage to less expensive, heavy sour crude oil feedstocks and the higher-margin, cleaner-burning fuels and premium products we make.

And, most importantly, we will continue to benefit from the hard work and dedication of our 20,000 employees, who are the best in the industry and our number-one asset.

That is why I always say and firmly believe, the best is yet to come!

CHAIRMAN OF THE BOARD
AND CHIEF EXECUTIVE OFFICER

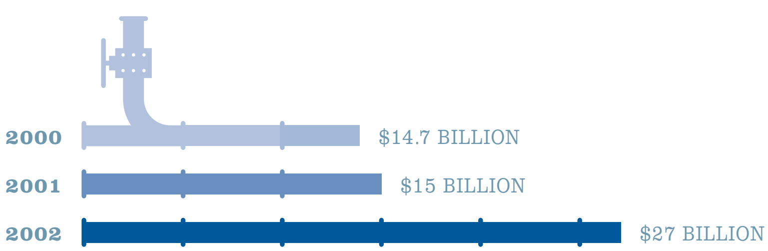
P.S. While I do believe the best is yet to come, 2003 will be "bittersweet" in one respect. Two of my very favorite long-time executives—Bill Latham, Senior Vice President of Information Services and Chief Information Officer, and John Krueger, Senior Vice President and Controller—both retired at the close of 2002. These two individuals were largely responsible for the systems integration that we accomplished in a record nine months in 2002. And both have been tireless supporters of Valero for many, many years. Both Bill and John truly epitomize the Valero work ethic and standard of excellence, and they will be missed! But we're thankful for all of their many contributions and wish them all of life's best in retirement.

SUMMARY
ANNUAL REPORT

In an effort to provide shareholders with more effective communications, Valero Energy Corporation has adopted a summary annual report format, which provides condensed financial disclosure. The company's full financial statements are contained in its Annual Report on Form 10-K for the year ended December 31, 2002, which is provided to all shareholders.

FINANCIAL HIGHLIGHTS
(MILLIONS OF DOLLARS, EXCEPT PER SHARE AMOUNTS)

year ended December 31,	2002
operating revenues	$ 26,976
operating income	$ 471
net income	$ 92
earnings per common share — assuming dilution	$ 0.83
total assets	$ 14,465
stockholders' equity	$ 4,308
capital expenditures and deferred turnaround and catalyst costs	$ 780
book value per common share	$ 40.21



OPERATING REVENUES

Asphalt from Valero's Wilmington Refinery

BIGGER & BETTER
FROM COAST TO COAST

- Nation's largest independent refiner and marketer with a total throughput capacity of nearly 2 million barrels per day (BPD).
- Second largest asphalt refiner in the nation.
- One of the largest wholesale marketers, selling through a bulk and rack marketing network in 40 U.S. states, Canada and Latin America.
- Innovative industry leader in the production and marketing of clean-burning fuels.

REFINING SYSTEM

WEST COAST:	
Benicia	180,000 BPD
Wilmington	140,000 BPD
GULF COAST:	
Corpus Christi	340,000 BPD
Texas City	243,000 BPD
Houston	135,000 BPD
Three Rivers	98,000 BPD
Krotz Springs	85,000 BPD
MID-CONTINENT:	
McKee	170,000 BPD
Ardmore	85,000 BPD
Denver	27,000 BPD
NORTHEAST:	
Quebec (Jean Gaulin)	215,000 BPD
Paulsboro	195,000 BPD
TOTAL:	1,913,000 BPD

PRODUCTS

Reformulated gasoline (RFG)
Conventional gasoline
Premium grades of reformulated and conventional gasoline
California Air Resources Board (CARB) Phase II gasoline
CARB diesel
Customized clean-burning gasoline blends for export markets
Clean-burning oxygenates
Gasoline blendstocks
Low-sulfur diesel & Ultra low-sulfur diesel
Jet fuel (commercial and military)
Aviation gasoline
Kerosene
Home heating oil and stove oil
Petrochemicals (mixed xylenes, benzene, toluene, chemical- and refinery-grade propylene and pseudocumene)
Asphalt
Lube oils (industrial and automotive)
Sulfur
Crude mineral spirits
Bunker oils
Petroleum coke
Anhydrous ammonia
Propane
Octene

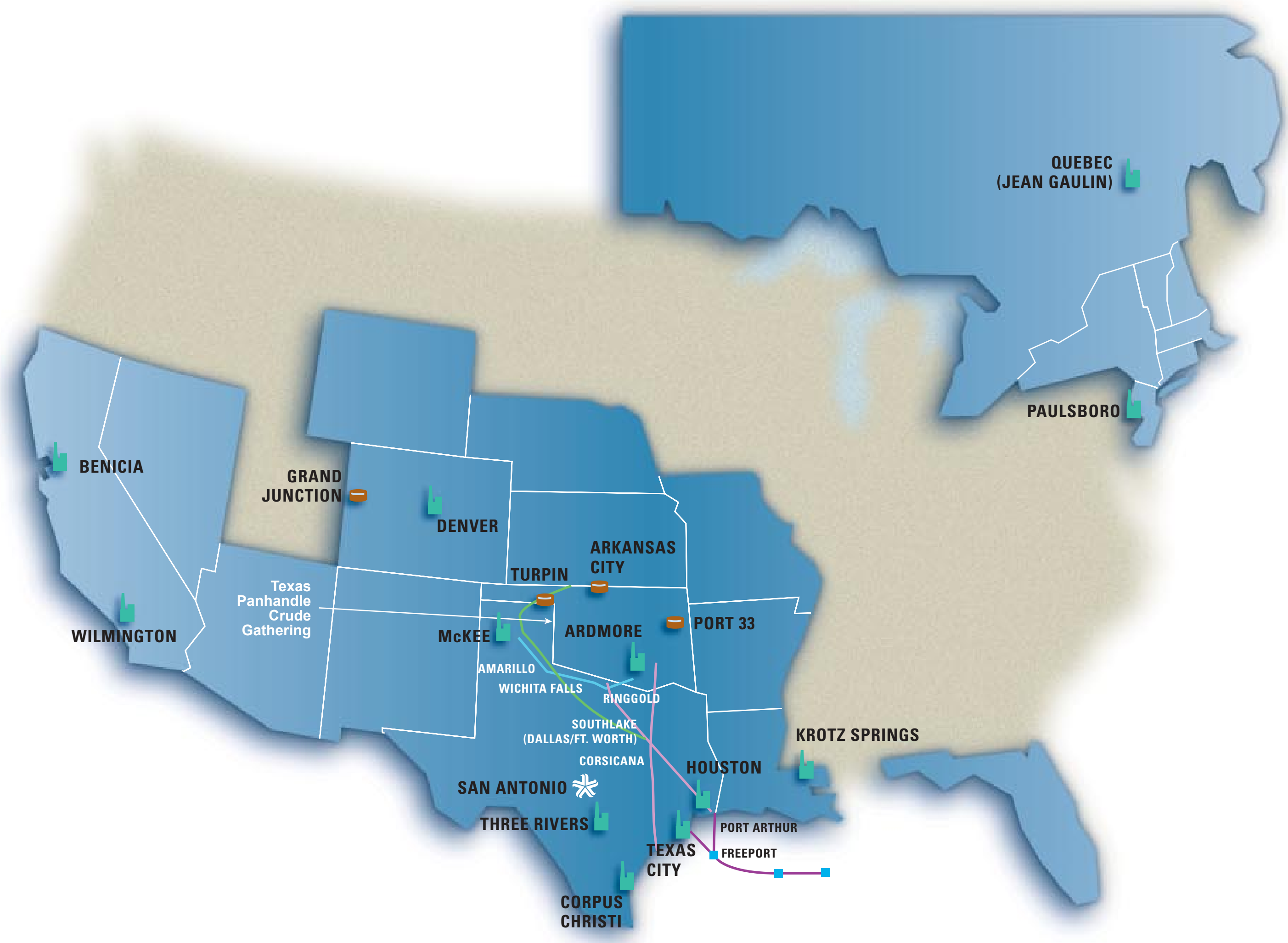
MARKETING

Valero is one of the largest retail marketers in the United States and the largest independent gasoline retailer in Quebec and the Canadian Atlantic provinces. The company markets through approximately 4,100 retail and branded wholesale sites – the majority of which are branded:

Diamond Shamrock
Ultramar
Valero
Beacon
Total

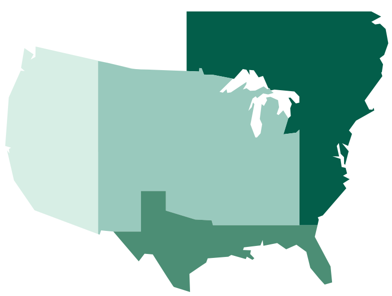
BIGGER & BETTER
FROM COAST TO COAST

VALERO ENERGY CORPORATION'S REFINING, MARKETING & MID-STREAM SYSTEM



GEOGRAPHIC DIVERSITY OF REFINERY SYSTEM

(Based on throughput capacity.)

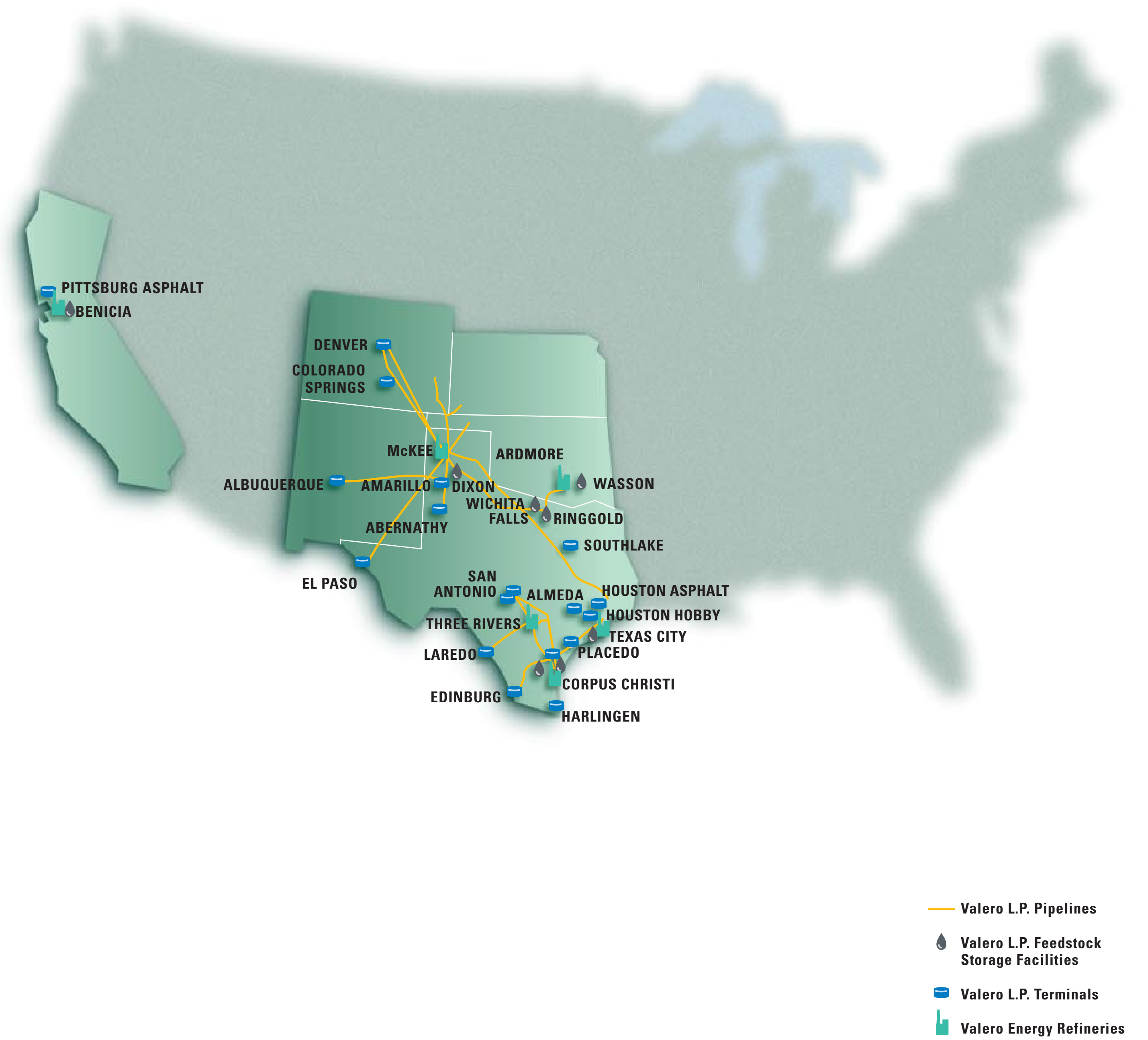


- **17%** WEST COAST
- **15%** MID-CONTINENT
- **47%** GULF COAST
- **21%** NORTHEAST

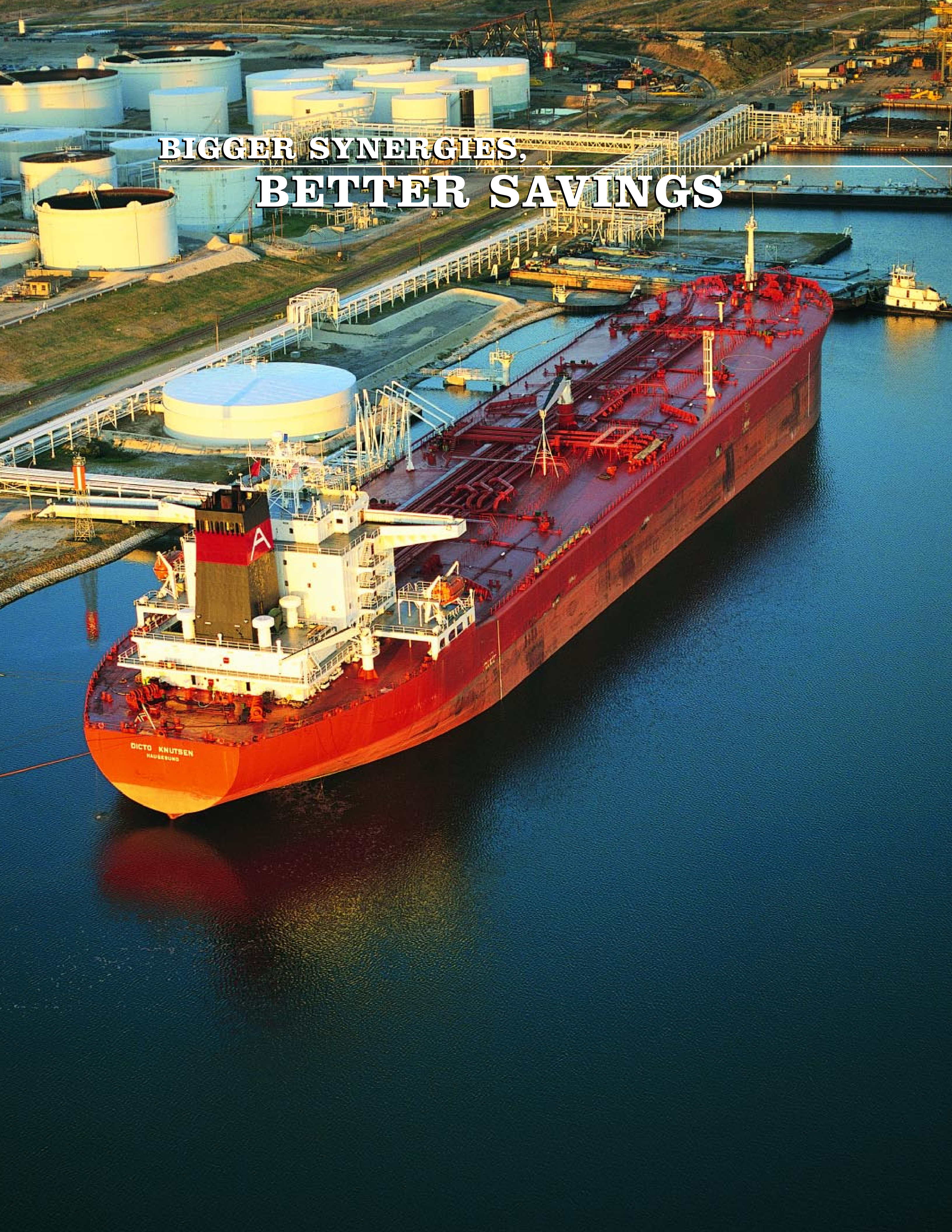
Valero Pipelines
Valero Crude Pipelines
Third-Party Pipelines
Proposed Cameron Highway Oil Pipeline Project
Third-Party, Off-Shore Platforms
Retail & Branded Wholesale Presence
Valero Refineries
Valero Terminals
Valero Headquarters

VALERO L.P.'S MID-STREAM LOGISTICS SYSTEM

Valero Energy Corporation has a 49.5 percent ownership interest in Valero L.P., a master limited partnership that owns and operates crude oil and refined product pipelines, feedstock storage facilities, and refined product terminals primarily in Texas, New Mexico, Colorado, Oklahoma and California. The partnership transports refined products from Valero Energy's refineries to established and growing markets in the Mid-Continent, Southwest and the Texas-Mexico border region. In addition, the pipelines primarily supply Valero Energy's McKee, Ardmore and Three Rivers refineries with crude oil as well as provide access to domestic and foreign crude oil sources.



BIGGER SYNERGIES, BETTER SAVINGS



$320 MILLION IN SYNERGIES IN 2002 & $180 MILLION MORE EXPECTED IN 2003

In 2002, Valero became a bigger and better refiner, marketer, neighbor, employer and corporate citizen as a result of its acquisition of Ultramar Diamond Shamrock Corporation (UDS). To sum it up, Valero became a bigger and better company.

One of the major reasons for the success of the UDS acquisition was the tremendous opportunity to capture synergies by combining the two organizations. In fact, there were so many opportunities and so much enthusiasm that Valero employees came up with 2,000 potential synergies and more than half of those ideas were implemented.

2002 SYNERGY OVERVIEW
(DOLLARS IN MILLIONS)

TYPE OF SYNERGY	RECURRING	NON-RECURRING	TOTAL
EXPENSE SYNERGIES	$100	$20	$120
GROSS MARGIN SYNERGIES	$80	$60	$140
G&A SYNERGIES	$55	$5	$60
OVERALL TOTAL	**$235**	**$85**	**$320**

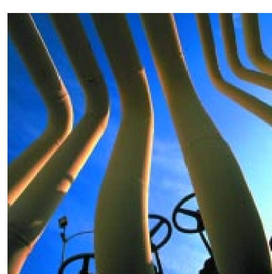
As a result, Valero realized $235 million in recurring synergies and $85 million in non-recurring synergies. And that's not all. In 2003, Valero expects to capture an additional $100 million in recurring and another $80 million in non-recurring synergies.

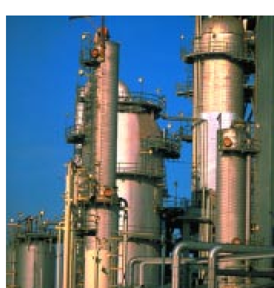
Valero was able to achieve these synergies by focusing on everything from best practices, operations and crude sourcing to product supply, energy savings and procurement. For example:

- With a larger refining system, Valero does not need to maintain as much inventory at each refinery so the company now manages its inventories on a regional basis versus a single refinery basis. As a result, Valero was able to reduce inventories from 69 million barrels to 54 million barrels by year-end, which reduced its cash requirements by $450 million.
- Valero also has leveraged its increased size to negotiate more favorable contracts with suppliers. The company saved more than $11 million by re-negotiating the power contract for its Texas City, Houston, Three Rivers and Corpus Christi refineries, as well as its pipeline system and retail operations in East Texas.

Synergies, like these examples, helped bolster Valero's 2002 earnings, however if refining margins had been better, the synergies would have been even higher. Going forward, these synergies are expected to have a much more dramatic impact as refining margins have returned to more normal levels.

Because of the UDS acquisition, Valero is capturing bigger synergies and realizing better cost savings and profit improvements than ever before.





◄
Dock at Valero's
Corpus Christi Refinery

12 REFINERIES ACROSS NORTH AMERICA & NEARLY 2 MILLION BPD OF CAPACITY

With the UDS acquisition, Valero became one of the nation's biggest refiners with 12 refineries and a throughput capacity of nearly 2 million barrels per day (BPD). And, bigger in this case is definitely better because Valero achieved greater geographic diversity while maintaining its leverage to low-cost feedstocks and premium products.

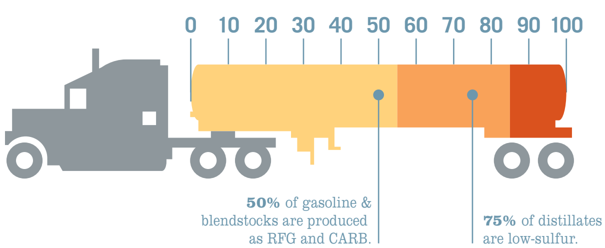
By adding refineries in locations stretching from Canada to California, Valero staked its claim as the most geographically diverse refiner in the United States. Because margins vary at different times for different products at different locations, having a geographically diverse refining system helped balance Valero's earnings. When margins were weak in one area of the system, they were often offset by stronger margins in other areas of the network. For example, Valero's Mid-Continent and Canadian refining systems—where Valero previously had no presence—contributed $250 million to operating income in 2002, which represented approximately 40 percent of the total refining contribution for the year.

And because these newly acquired refineries were generally high-conversion facilities, Valero's network remained the most complex refining system in the United States. The majority of Valero's refineries are capable of processing lower cost feedstocks, such as resid and sour crude oil, into premium products, such as reformulated gasoline (RFG), low-sulfur diesel and jet fuel.
As a result, Valero's refining system has a complexity rating of 11.9 versus the U.S. average of 10.4 as ranked by the Nelson Complexity Scale.

Making these advantages all the more powerful is the fact that Valero has substantially more leverage to refining margins than its nearest competitor. For every $1.00 improvement in margins, Valero should realize a $4.00 increase in earnings per share.

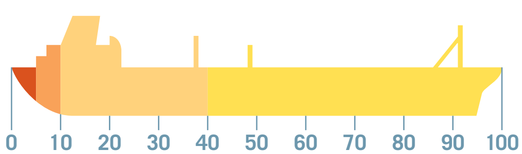
The bottom line is being a bigger refiner means better returns for Valero's shareholders.

PRODUCT SLATE



55% GASOLINE & BLENDSTOCKS
30% DISTILLATES
15% ASPHALT, LUBES & PETROCHEMICALS

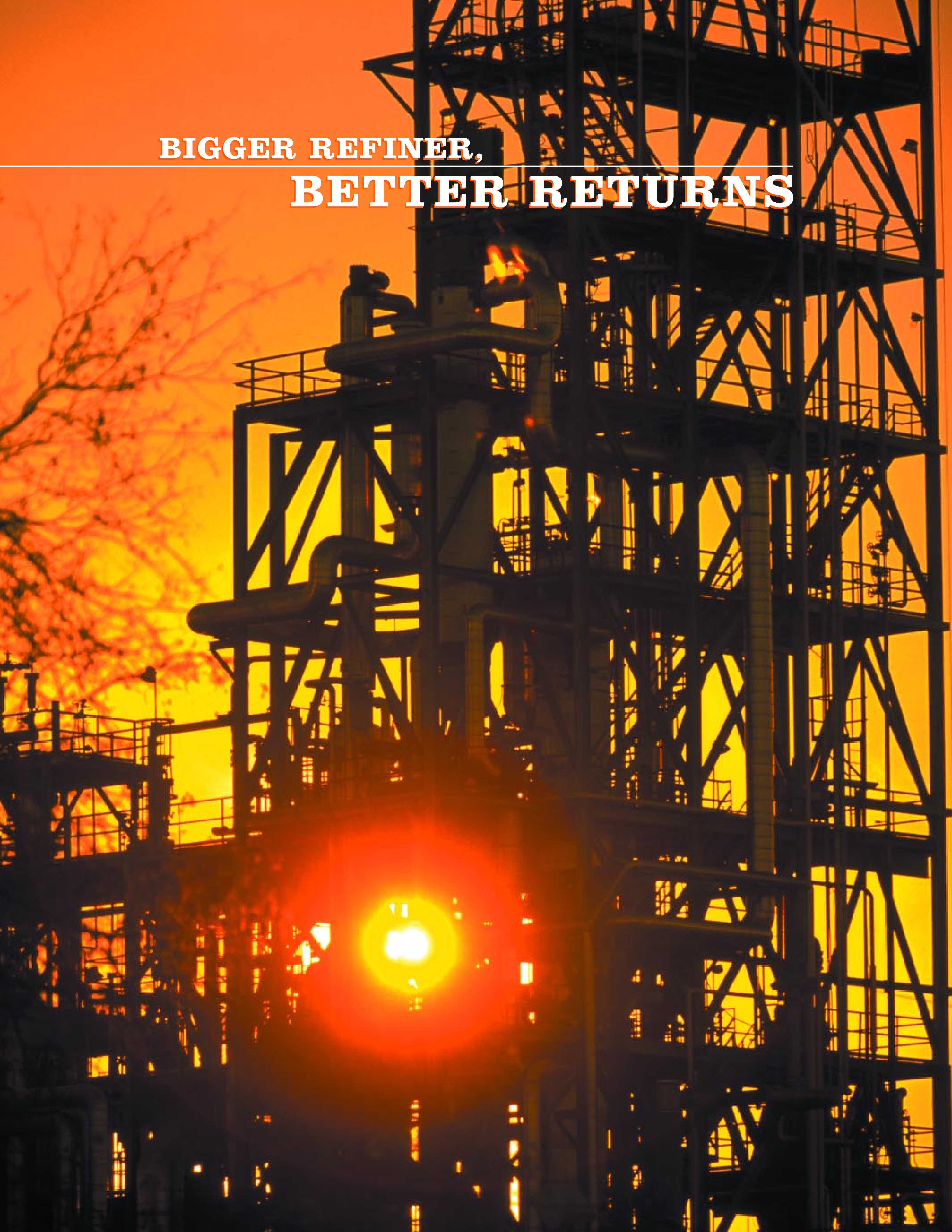
FEEDSTOCK SLATE



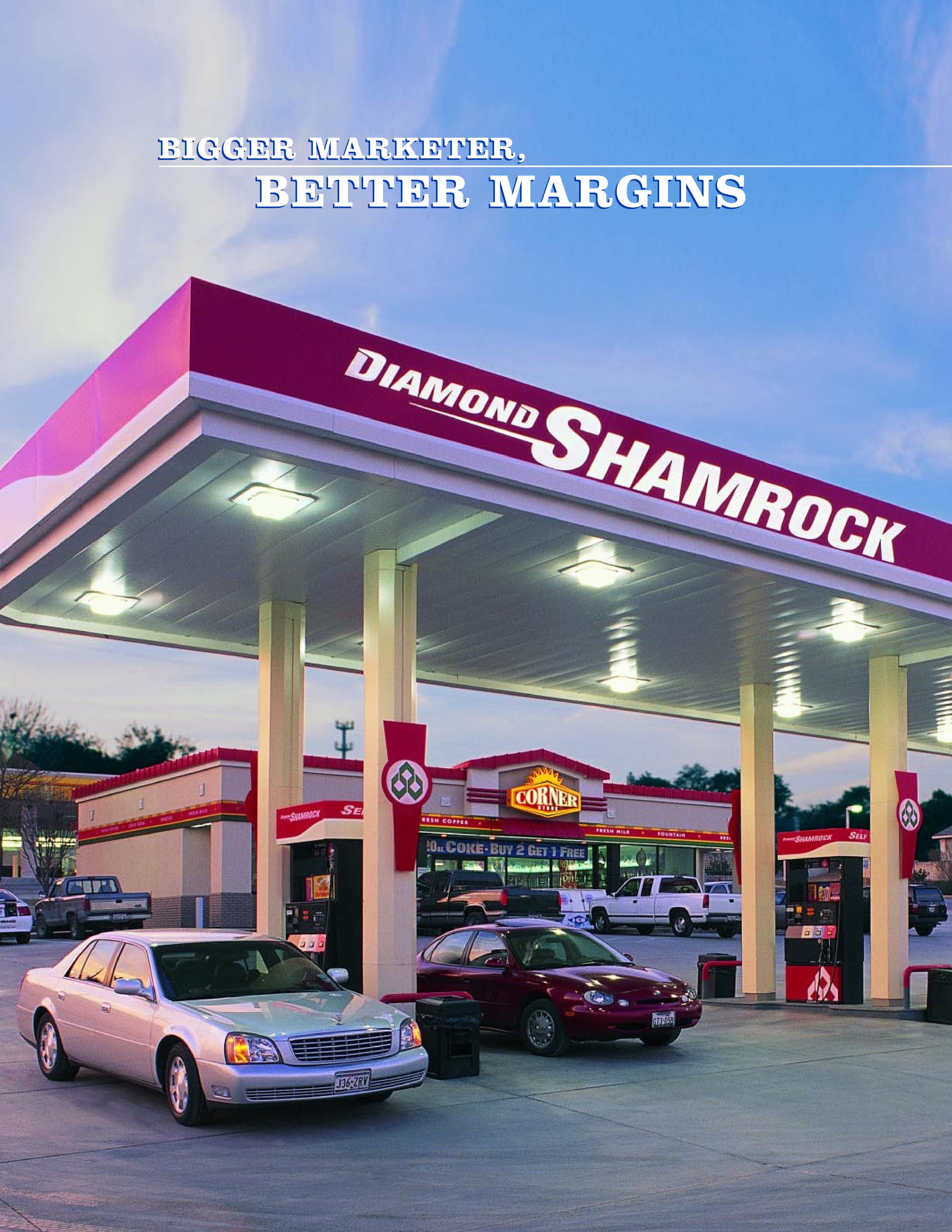
05% OTHER FEEDSTOCKS
05% BLENDSTOCKS
30% SWEET CRUDE OIL
60% SOUR FEEDSTOCKS

Valero's Three Rivers Refinery

BIGGER REFINER, BETTER RETURNS



BIGGER MARKETER, BETTER MARGINS



10 BILLION GALLONS OF PRODUCT SOLD THROUGH WHOLESALE & RETAIL

To say that Valero is a big marketer would be an understatement. When Valero acquired UDS, it became one of the biggest marketers in North America.

In 2002, approximately 10 percent of Valero's production was distributed through its 1,265 U.S. retail sites, its 1,100 Canadian retail sites and its Northeast home heating oil business. While retail volume was important to Valero, profitability was more important so the company set out to optimize its U.S. retail network. And in the span of a year, Valero improved the profitability of this division by investing in top-performing stores and closing marginal stores.

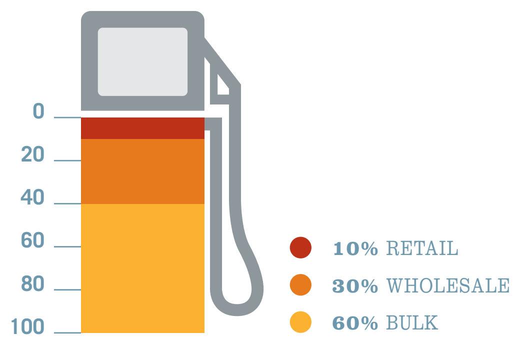
While retail is an important part of Valero's marketing strategy, Valero sells more volume—about 30 percent of its production—through wholesale channels. Of that amount, one-quarter was sold through the company's 1,800 branded sites and the other three-quarters was sold through unbranded channels. To increase its branded sales, Valero initiated an aggressive effort to grow its branded wholesale network and set a goal of more than doubling this network to 4,650 sites across the United States by the end of 2006. The capital costs to re-image branded wholesale sites are relatively low and the returns are high with an approximate 20 percent return on capital employed.

Another important component of wholesale marketing is asphalt and specialty products. As the nation's second largest asphalt producer, Valero markets performance-grade paving asphalt, quality-roofing asphalt, specialty-grade industrial asphalt and modified asphalt through 13 terminals in 20 states. It also markets a variety of petrochemicals, including aromatic solvents (benzene, toluene and xylene) to customers in the chemical industry for further processing into products such as paints, plastics and adhesives.

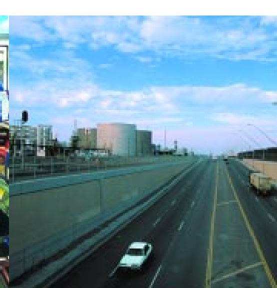
The remainder of Valero's production—about 60 percent—is marketed through bulk channels. These sales are made to customers throughout the United States, Canada and Latin America, and the products are shipped by pipeline, barge and tanker.

Through its increased size and its efforts to improve the profitability of its retail and wholesale networks, Valero is proving that being a bigger marketer means better margins.

GASOLINE & DISTILLATE DISTRIBUTION CHANNELS



◄ Diamond Shamrock Corner Store in San Antonio



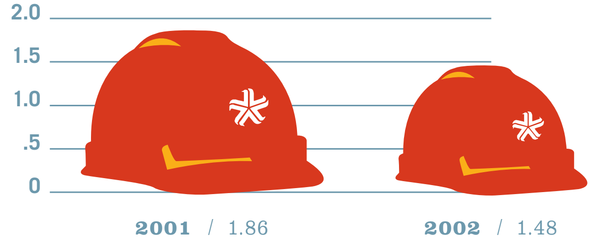
3 VPP STAR SITES OUT OF ONLY 13 NATIONWIDE

As Valero has grown, its commitment to safety and environmental excellence has also grown. Today, Valero has more resources, more experienced employees, more best practices and better safety and environmental programs in place as a result of the growth in its refining and marketing network.

In 2002, Valero improved its safety performance in every area of its business, reducing the employee recordable injury rate from the previous year in refining, pipelines/terminals and retail. In fact, the company's refining system reduced the total recordable injury rate from 1.86 to 1.48—a 20 percent improvement—and 41 percent better than the three-year industry average of 2.5.*

TOTAL RECORDABLE INJURY RATE

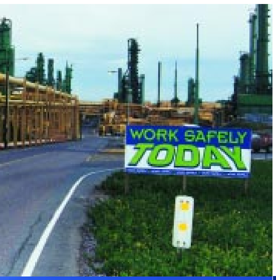
*THIS MEASURES THE NUMBER OF RECORDABLE INJURIES PER 200,000 MAN HOURS. THE 3-YEAR INDUSTRY AVERAGE IS 2.5 AS RECORDED BY THE NATIONAL BUREAU OF LABOR STATISTICS.

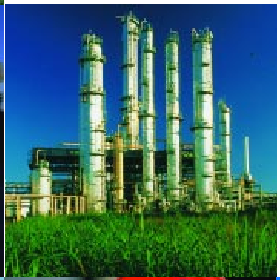


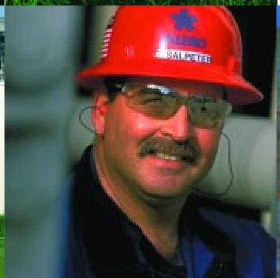
What's more, Valero is the only refiner to commit all of its refineries to achieve certification through OSHA's Voluntary Protection Program (VPP). Earning certification is a rigorous and complex process designed to ensure that only the best safety programs qualify. It's such a stringent program that Valero's Three Rivers, Krotz Springs and Texas City refineries are three of only 13 refineries in the United States that have achieved Star Site designation.

Valero has earned its reputation as an environmental leader by producing environmentally friendly fuels in refineries equipped with the best available control technology. Whether the company is installing a state-of-the-art scrubber to reduce emissions at its Texas City refinery or leading the industry as one of the first to produce Ultra Low-Sulfur Diesel, Valero is at the forefront of these environmental initiatives.

Because Valero is sharing resources and best practices across a bigger system, it is able to make a bigger impact. This also makes Valero a better neighbor.

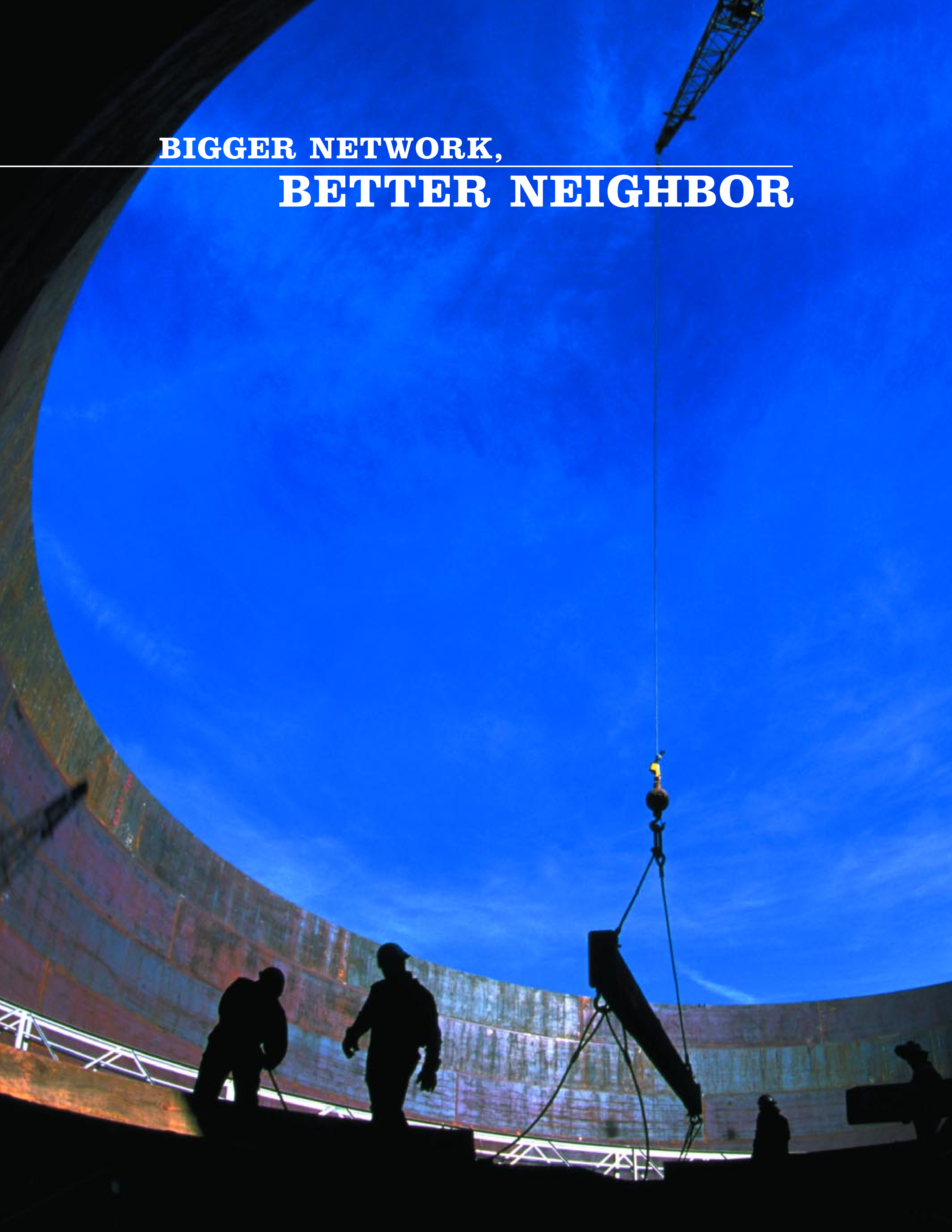






▸ Valero's McKee Refinery

BIGGER NETWORK,
BETTER NEIGHBOR



BIGGER COMMITMENT, BETTER COMPANY

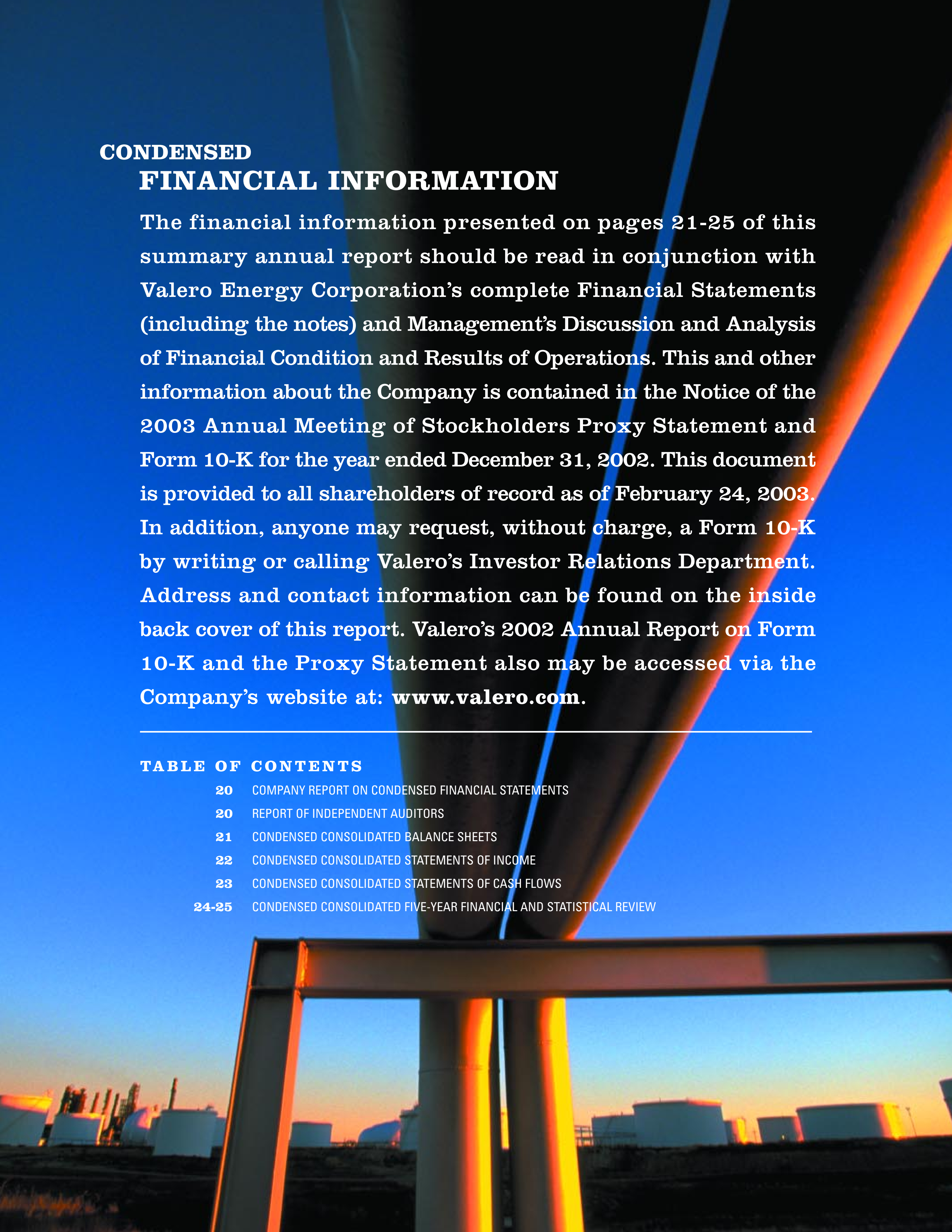
6.5 MILLION REASONS THAT VALERO IS A BETTER COMPANY TODAY

It's remarkable to consider that Valero more than doubled in size and added 18,000 employees in less than a year as a result of the UDS acquisition. But it's even more remarkable considering the fact that the company was able to retain its unique corporate culture. In fact, Valero did such a great job of integrating the employees that it moved up the list of Fortune Magazine's "100 Best Companies to Work for in America," which is significant because 80 percent of the employees were new to the company.

One of the reasons for this success is Valero's special caring and sharing spirit, which encourages employees to care for their colleagues and communities. And Valero's employees—old and new—showed their spirit and gave generously of their time and money in 2002.

Valero and its employees donated a record-breaking total of $6.5 million to the United Way. Not only was it the biggest contribution Valero had ever given, it was 30 percent higher than the combined total for both companies' separate campaigns during the previous year. In addition, the company's employees donated a record-breaking 140,000 hours of time to volunteer for everything from food drives and fund-raisers to community events and clean-up projects.

Making a difference in the lives of others has been the foundation of Valero's success for more than 20 years. And with Valero's tremendous growth, its employees have made an even bigger commitment and have been able to make a bigger impact on their communities. As a result, Valero is a better company than ever before.



CONDENSED
FINANCIAL INFORMATION

The financial information presented on pages 21-25 of this summary annual report should be read in conjunction with Valero Energy Corporation's complete Financial Statements (including the notes) and Management's Discussion and Analysis of Financial Condition and Results of Operations. This and other information about the Company is contained in the Notice of the 2003 Annual Meeting of Stockholders Proxy Statement and Form 10-K for the year ended December 31, 2002. This document is provided to all shareholders of record as of February 24, 2003. In addition, anyone may request, without charge, a Form 10-K by writing or calling Valero's Investor Relations Department. Address and contact information can be found on the inside back cover of this report. Valero's 2002 Annual Report on Form 10-K and the Proxy Statement also may be accessed via the Company's website at: **www.valero.com**.

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COMPANY REPORT ON
CONDENSED FINANCIAL STATEMENTS

The management of Valero Energy Corporation and subsidiaries (the Company) is responsible for the preparation and reliability of the condensed consolidated financial statements included in this report and for ascertaining that the data accurately reflects the financial position, results of operations and cash flows of the Company. The condensed consolidated financial statements were prepared in accordance with generally accepted accounting principles appropriate in the circumstances and accordingly include amounts that are based on estimates and judgments made by management. Our independent auditors, Ernst & Young, have audited the Company's consolidated financial statements from which the condensed consolidated financial statements have been derived.

The Company maintains a system of internal controls, including an internal audit program, which it believes provides reasonable assurance that the accounting records provide a reliable basis for the preparation of the condensed consolidated financial statements and provides reasonable assurance that transactions and events are recorded properly, that adequate accounting records are maintained, and that assets are safeguarded against loss or unauthorized use. The Company reviews, modifies and improves its system of internal controls in response to changes in business conditions and operations.

The Audit Committee, which is composed solely of directors who are not officers or employees of the Company, is responsible for providing oversight and assurance that management fulfills its responsibilities in connection with financial reporting. The Audit Committee generally meets three times a year with the independent auditors, internal auditors and management of the Company. The independent auditors and internal auditors have full, free and separate access to meet with the Audit Committee to discuss the results of their audit and reviews. The Audit Committee reports the results of its meetings and its recommendations to the Board of Directors on a regular basis, including its recommendation for the appointment of the Company's independent auditors.

REPORT OF
INDEPENDENT AUDITORS

To the Board of Directors and Stockholders of Valero Energy Corporation and Subsidiaries

We have audited, in accordance with auditing standards generally accepted in the United States, the consolidated balance sheet of Valero Energy Corporation and subsidiaries as of December 31, 2002, and the related consolidated statements of income, stockholders' equity, cash flows and comprehensive income for the year then ended, appearing in the Company's 2002 Annual Report on Form 10-K (not presented herein). In our report dated March 19, 2003, also appearing in that Annual Report, we expressed an unqualified opinion on those consolidated financial statements. The consolidated financial statements of Valero Energy Corporation and subsidiaries as of December 31, 2001, and for each of the two years in the period ended December 31, 2001, also appearing in that Annual Report, were audited by other auditors who have ceased operations and whose report dated March 5, 2002 expressed an unqualified opinion on those statements before the revisions described in Notes 20 and 27. Also, in our report dated March 19, 2003, we expressed an opinion that such reclassification adjustments made to revise the 2001 and 2000 financial statements are appropriate and have been properly applied.

In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 2002, and the related condensed consolidated statements of income and cash flows for the year then ended is fairly stated, in all material respects, in relation to the consolidated financial statements from which it has been derived.

Ernst & Young, LLP, San Antonio, Texas, March 19, 2003

CONDENSED CONSOLIDATED BALANCE SHEETS

(millions of dollars)

December 31,	2002	2001
ASSETS		
current assets	$ 3,536	$ 4,136
property, plant and equipment, net	7,412	7,217
goodwill	2,580	2,211
intangible assets, deferred charges and other assets, net	937	836
total assets	$ 14,465	$ 14,400
LIABILITIES AND STOCKHOLDERS' EQUITY		
current liabilities (including $2,055 payable to UDS shareholders in 2001)	$ 3,006	$ 4,753
long-term debt, less current portion	4,494	2,517
capital lease obligations	—	288
deferred income tax liabilities	1,301	1,388
other long-term liabilities	867	763
company-obligated preferred securities of subsidiary trusts	373	373
minority interest in consolidated partnership	116	115
stockholders' equity	4,308	4,203
total liabilities and stockholders' equity	$ 14,465	$ 14,400

◄ Dock in Quebec, Canada by Jean Gaulin Refinery

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(millions of dollars, except per share amounts)

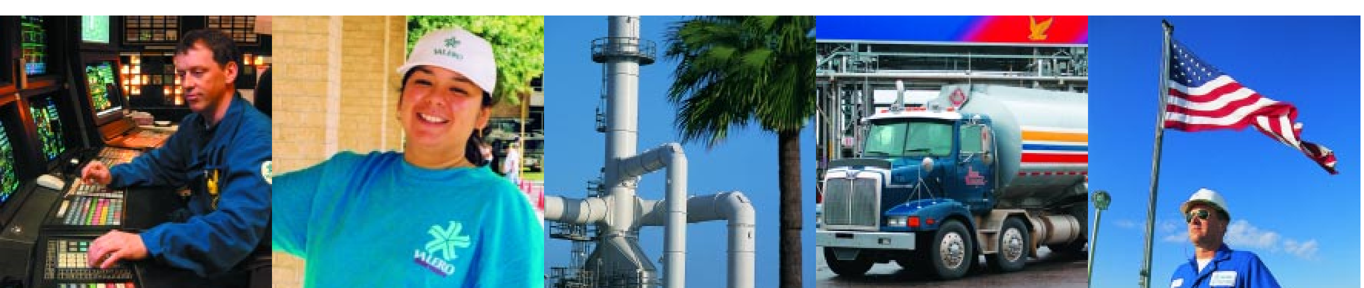
year ended December 31,	2002	2001	2000
OPERATING REVENUES	**$ 26,976**	$ 14,988	$ 14,671
COSTS AND EXPENSES:			
cost of sales	**23,795**	12,745	13,077
refining operating expenses	**1,332**	845	683
retail selling expenses	**647**	6	2
administrative expenses	**282**	153	124
depreciation and amortization expense	**449**	238	174
total costs and expenses	**26,505**	13,987	14,060
OPERATING INCOME	**471**	1,001	611
OTHER INCOME (EXPENSE), NET	**9**	(5)	—
INTEREST AND DEBT EXPENSE, NET	**(286)**	(88)	(76)
MINORITY INTEREST IN NET INCOME OF CONSOLIDATED PARTNERSHIP	**(14)**	—	—
DISTRIBUTIONS ON PREFERRED SECURITIES OF SUBSIDIARY TRUSTS	**(30)**	(13)	(7)
INCOME BEFORE INCOME TAX EXPENSE	**150**	895	528
INCOME TAX EXPENSE	**58**	331	189
NET INCOME	**$ 92**	$ 564	$ 339
EARNINGS PER COMMON SHARE	**$ 0.86**	$ 9.28	$ 5.79
weighted average common shares outstanding (in millions)	**105.8**	60.7	58.5
EARNINGS PER COMMON SHARE — ASSUMING DILUTION	**$ 0.83**	$ 8.83	$ 5.60
weighted average common equivalent shares outstanding (in millions)	**110.1**	63.8	60.5
DIVIDENDS PER SHARE OF COMMON STOCK	**$ 0.40**	$ 0.34	$ 0.32




CONDENSED
CONSOLIDATED STATEMENTS OF CASH FLOWS

(millions of dollars, except per share amounts)

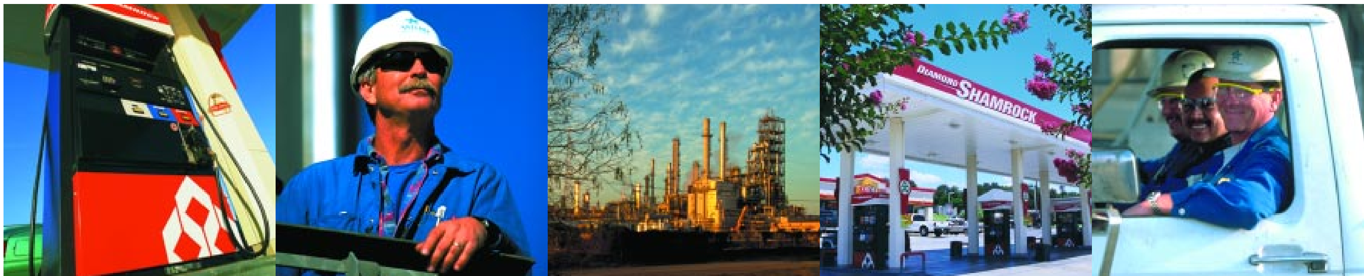
year ended December 31,	2002	2001	2000
CASH FLOWS FROM OPERATING ACTIVITIES:			
net income	$ 92	$ 564	$ 339
adjustments to reconcile net income			
to net cash provided by operating activities:			
depreciation and amortization expense	449	238	174
deferred income tax expense	2	270	103
changes in current assets, current liabilities and other, net	(271)	(167)	(15)
net cash provided by operating activities	272	905	601
CASH FLOWS FROM INVESTING ACTIVITIES:			
capital expenditures and deferred turnaround and catalyst costs	(780)	(536)	(302)
proceeds from disposition of assets held for sale	1,226	—	—
payments related to the Golden Eagle Business	(183)	—	—
UDS acquisition, including related advance	—	(2,533)	—
other acquisitions	—	(184)	(890)
earn-out payments in connection with acquisitions	(24)	(55)	—
other, net	10	6	(1)
net cash provided by (used in) investing activities	249	(3,302)	(1,193)
CASH FLOWS FROM FINANCING ACTIVITIES:			
cash payment to UDS shareholders	(2,055)	—	—
financing required to fund UDS acquisition, net	—	2,053	—
debt borrowings, net	1,642	697	279
proceeds from offering of preferred securities of subsidiary trust, net	—	—	167
proceeds from common stock offering, net	—	—	167
cash distributions to minority interest in consolidated partnership	(14)	—	—
common stock dividends	(42)	(21)	(19)
issuance (repurchase) of stock, net	57	(78)	(47)
net cash provided by (used in) financing activities	(412)	2,651	547
EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CASH	1	—	—
NET INCREASE (DECREASE) IN CASH AND TEMPORARY CASH INVESTMENTS	110	254	(45)
CASH AND TEMPORARY CASH INVESTMENTS AT BEGINNING OF YEAR	269	15	60
CASH AND TEMPORARY CASH INVESTMENTS AT END OF YEAR	$ 379	$ 269	$ 15



CONDENSED CONSOLIDATED
FIVE-YEAR FINANCIAL AND STATISTICAL REVIEW

(millions of dollars, except per share amounts)

year ended December 31,	2002(a)	2001(b)	2000(c)	1999	1998(d)(e)
OPERATING RESULTS:					
operating revenues	**$ 26,976**	$ 14,988	$ 14,671	$ 7,961	$ 5,539
operating income (loss)	**$ 471**	$ 1,001	$ 611	$ 72	$ (48)
net income (loss)	**$ 92**	$ 564	$ 339	$ 14	$ (47)
earnings (loss) per common share	**$ 0.86**	$ 9.28	$ 5.79	$ 0.25	$ (0.84)
earnings (loss) per common share—assuming dilution	**$ 0.83**	$ 8.83	$ 5.60	$ 0.25	$ (0.84)
FINANCIAL POSITION AS OF DECEMBER 31:					
current assets	**$ 3,536**	$ 4,136	$ 1,285	$ 823	$ 632
property, plant and equipment, net	**7,412**	7,217	2,677	1,914	1,886
goodwill	**2,580**	2,211	—	—	—
intangible assets, deferred charges and other assets, net	**937**	836	346	242	208
total assets	**$ 14,465**	$ 14,400	$ 4,308	$ 2,979	$ 2,726
current liabilities	**$ 3,006**	$ 4,753	$ 1,039	$ 719	$ 498
long-term debt, less current portion	**4,494**	2,517	1,042	786	822
capital lease obligations	—	288	—	—	—
deferred income tax liabilities	**1,301**	1,388	407	275	211
other long-term liabilities	**867**	763	120	114	110
company-obligated preferred securities of subsidiary trusts	**373**	373	173	—	—
minority interest in consolidated partnership	**116**	115	—	—	—
stockholders' equity	**4,308**	4,203	1,527	1,085	1,085
total liabilities and stockholders' equity	**$ 14,465**	$ 14,400	$ 4,308	$ 2,979	$ 2,726



year ended December 31,	**2002**(a)	**2001**(b)	**2000**(c)	**1999**	**1998**(d)
COMMON STOCK DATA:					
cash dividends per share	**$ 0.40**	$ 0.34	$ 0.32	$ 0.32	$ 0.32
number of shares outstanding,					
end of year (in thousands)	**107,137**	104,197	60,838	56,067	55,937
number of registered shareholders	**7,174**	7,265	5,207	5,479	5,544
total estimated beneficial shareholders	**52,000**	50,500	14,000	11,000	15,000
market price:					
high	**$ 49.97**	$ 52.60	$ 38.63	$ 25.31	$ 36.50
low	**$ 23.15**	$ 31.50	$ 18.50	$ 16.69	$ 17.63
CAPITALIZATION RATIOS (NET OF CASH): (f)					
long-term debt, including current portion,					
and short-term debt	**50 %**	53 %	40 %	40 %	47 %
stockholders' equity and other	**50 %**	47 %	60 %	60 %	53 %
OTHER DATA:					
capital additions (in millions)	**$ 628**	$ 394	$ 195	$ 101	$ 166
book value per common share	**$ 40.21**	$ 40.33	$ 25.10	$ 19.35	$ 19.40
number of employees (end of year)	**19,878**	22,355	3,129	2,511	2,495
OPERATING STATISTICS:					
throughput volumes (mbbls per day)	**1,595**	1,001	857	712	579
throughput margin per barrel	**$ 4.06**	$ 6.12	$ 5.08	$ 2.90	$ 3.50 (g)
operating costs per barrel:					
cash (fixed and variable)	**$ 2.29**	$ 2.31	$ 2.18	$ 1.83	$ 2.03
depreciation and amortization	**0.66**	0.63	0.53	0.52	0.55
total operating costs per barrel	**$ 2.95**	$ 2.94	$ 2.71	$ 2.35	$ 2.58

(a) Includes the operations of UDS beginning January 1, 2002.

(b) Includes the operations of Huntway and the operations related to the El Paso Corpus Christi refinery and related refined product logistics business beginning June 1, 2001. The results of operations, operating statistics and cash flow information exclude the operations of UDS, while the financial position, common stock data, capitalization ratios and employees include the effect of UDS, which was acquired by Valero on December 31, 2001.

(c) Includes the operations related to the Benicia refinery and the California distribution assets beginning May 16, 2000 and the operations related to the California service stations beginning June 16, 2000.

(d) Includes the operations of the Paulsboro refinery beginning September 17, 1998.

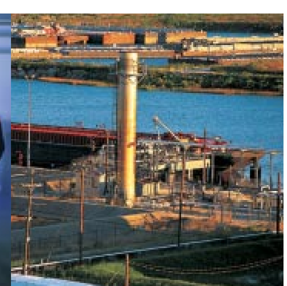
(e) The 1998 operating loss includes a $170.9 million write-down of inventories to market value, which resulted in a $111.1 million reduction in net income, or $1.98 per share.

(f) In determining the 2002, 2001 and 2000 ratios, 20% of the outstanding balance of Valero's company-obligated preferred securities of subsidiary trust (PEPS Units) issued in 2000 was deemed to be debt. In addition, for the 2002 and 2001 ratios, 50% of the $200 million company-obligated preferred securities of subsidiary trust assumed in the UDS Acquisition was deemed to be debt, and in 2001 the payable to UDS shareholders was included as debt.

(g) Excludes an $0.81 per barrel reduction resulting from $170.9 million of pre-tax write-downs of inventories to market value.







OUR SENIOR MANAGEMENT TEAM

Valero's management and employees have worked together to grow the company from 170,000 BPD of refining capacity to its current 2 million BPD, making Valero a bigger, better company in just six years.

BILL GREEHEY, Chairman of the Board and CEO, led Valero's successful acquisition of UDS, which more than doubled the size of the company and turned it into the third largest U.S. refiner. Valero now has the most geographically diversified refining system in the country and it has operations in Canada, including the Jean Gaulin refinery in Quebec, which is serviced by a unique "pipeline on wheels" called the Ultratrain.

Under the leadership of President **GREG KING,** Valero challenged all of its refineries to earn Star Site status in OSHA's Voluntary Protection Program (VPP)—something no other refiner has committed to do. The Texas City refinery is one of three Valero plants that has already earned this important safety designation.

MARY ROSE BROWN, Senior Vice President of Corporate Communications, and **KEITH BOOKE,** Executive Vice President and Chief Administrative Officer, led the employee relations and communications during the UDS acquisition. The employees' high morale following the acquisition helped Valero capture its highest ranking on Fortune Magazine's list of the "100 Best Companies to Work for in America."

BILL KLESSE, Executive Vice President and Chief Operating Officer, and **JOHN HOHNHOLT,** Senior Vice President of Development and Planning & Economics, worked together to capture $320 million in synergies after the UDS acquisition. This effort involved all employees, and it required close coordination between Refining Operations and Development because the majority of the 2,000 potential synergies involved optimizing the company's new 12-refinery system. (Pictured left to right.)

GARY ARTHUR JR., Senior Vice President of Marketing, and **GENE EDWARDS,** Senior Vice President of Supply and Trading, oversaw the integration of UDS' trading and marketing activities. With the addition of major retail and branded wholesale networks, Valero expanded the amount of supply distributed through different channels with 10 percent marketed through retail, 30 percent through wholesale and 60 percent through bulk. (Pictured left to right.)

RICH MARCOGLIESE, Senior Vice President of Refining Operations, **DANNY GIBBONS,** Executive Vice President and Chief Financial Officer, and **MIKE CISKOWSKI,** Senior Vice President of Corporate Development, helped oversee the acquisition and integration of the former UDS facilities. This transaction made Valero a bigger, better company because it provided the size and scope needed to attract capital, as well as the geographic diversity, synergistic assets and new business lines helpful to stabilizing earnings. (Pictured left to right.)

JOHN KRUEGER, Senior Vice President and Controller, and **BILL LATHAM,** Senior Vice President and Chief Information Officer, directed the implementation of Valero's integrated business model and common information systems at its newly acquired facilities. These systems were put in place within a record nine months, enabling Valero to capture the daily information needed to make informed business decisions and better control costs.* (Pictured left to right.)

*John Krueger and Bill Latham retired on December 31, 2002.

OUR PRINCIPAL OFFICERS

Bill Greehey
Chairman of the Board &
Chief Executive Officer

Greg King
President

Keith Booke
Executive Vice President &
Chief Administrative Officer

Danny Gibbons
Executive Vice President &
Chief Financial Officer

Bill Klesse
Executive Vice President &
Chief Operating Officer

Gary Arthur Jr.
Senior Vice President
Marketing

Bob Beadle
Senior Vice President
Crude and Feedstock
Supply and Trading

Mary Rose Brown
Senior Vice President
Corporate Communications

Mike Ciskowski
Senior Vice President
Corporate Development

Gene Edwards
Senior Vice President
Supply and Trading

John Hohnholt
Senior Vice President
Development and
Planning & Economics

Rich Marcogliese
Senior Vice President
Refining Operations

Ken Applegate
Vice President
Wholesale Marketing

Steve Blank
Vice President
Finance

Kim Bowers
Vice President
Legal Services

Jay Browning
Vice President &
Corporate Secretary

Clay Killinger
Vice President &
Controller

Steve Motz
Vice President
Retail Marketing

Hal Zesch
Vice President &
Chief Information Officer

Donna Titzman
Treasurer

OUR BOARD OF DIRECTORS

PICTURED LEFT TO RIGHT FROM BOTTOM

WILLIAM E. GREEHEY is Chairman of the Board and Chief Executive Officer of Valero Energy Corporation. He also serves as Chairman of the Board of the managing partner of Valero L.P., a publicly traded limited partnership in which Valero Energy Corporation has a substantial ownership interest.

DR. SUSAN KAUFMAN PURCELL serves as Vice President of the Americas Society in New York and as Vice President of the Council of the Americas. She also serves as a director of The Brazil Fund, Inc., Scudder Global High Income Fund, Inc., The Korea Fund, Inc. and Scudder New Asia Fund, Inc.

BOB MARBUT is Chairman and Chief Executive Officer of SecTecGLOBAL, Inc. Previously, he held leadership positions with Hearst-Argyle Television, Inc., Argyle Television before it merged with Hearst Broadcasting, Argyle Television Holding, and Harte-Hanks Communications, Inc. He is a director of Tupperware Corporation and Hearst-Argyle Television, Inc.

DR. RONALD K. CALGAARD served as President of Trinity University in San Antonio from 1979 until his retirement in 1999, at which time he was appointed President Emeritus of the University. He currently serves as Chairman of Austin Calvert & Flavin, Inc. in San Antonio and as a director of The Trust Company.

RUBEN M. ESCOBEDO has had his own certified public accounting firm, Ruben Escobedo & Company, CPAs, in San Antonio since its formation in 1977. He also serves as a director of Cullen/Frost Bankers, Inc.

JERRY D. CHOATE retired from the Allstate Corporation, where he had served as Chairman of the Board and Chief Executive Officer from 1995 through the end of 1998. He currently serves as a director of Amgen, Inc. and Van Kampen Mutual Funds.

W. "H" CLARK is the retired Chief Executive Officer and Chairman of the Board of Nalco Chemical Company. Currently, he is the President of W. "H" Clark Associates, Ltd. and a director of Merrill Lynch Corporation, Bethlehem Steel Corporation, Georgia Pacific Corporation, Millennium Chemicals Corporation, The Merchants Exchange and Exchange Cubed.

W. E. "BILL" BRADFORD is the retired Chairman of Halliburton Company. Prior to the Halliburton-Dresser Industries merger, he was Chairman and Chief Executive Officer of Dresser Industries, Inc., and he held various positions in production and management during his tenure there. Mr. Bradford currently serves as a director of Kerr-McGee Corporation.

ROBERT G. DETTMER served as Executive Vice President and Chief Financial Officer of PepsiCo, Inc., one of the largest consumer products companies in the world, from 1986 until his retirement in 1996.

DR. DONALD M. CARLTON retired in 1998 as President and Chief Executive Officer of Radian International LLC, an engineering/technology firm that is a subsidiary of URS Corporation. He serves as a director of American Electric Power Company and National Instruments Corporation and as a trustee of 26 Smith Barney/Citi Mutual Funds.

E. GLENN BIGGS is President of Biggs & Co., which is engaged in developmental projects and financial planning, and he serves as Chairman of Hester Asset Management Corporation and Southwestern Bancorp. Previously, he served in leadership positions with First National Bank and Interfirst Bank, both in San Antonio.

SHAREHOLDER INFORMATION

VALERO CORPORATE HEADQUARTERS
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San Antonio, TX 78212-3186
(210) 370-2000

VALERO NORTH CAMPUS
6000 N. Loop 1604 W.
San Antonio, TX 78249-1112
(210) 592-2000

WEBSITE
www.valero.com

INVESTOR INQUIRIES
For investor inquiries, please contact:

Investor Relations Department
P.O. Box 500
San Antonio, TX 78292-0500
(800) 531-7911 or (210) 370-2139
(210) 370-2103 (fax)
investorrelations@valero.com

MEDIA INQUIRIES
For media inquiries, please contact:

Corporate Communications Department
P.O. Box 500
San Antonio, TX 78292-0500
(800) 531-7911 or (210) 370-2314
(210) 370-2327 (fax)
corporatecommunications@valero.com

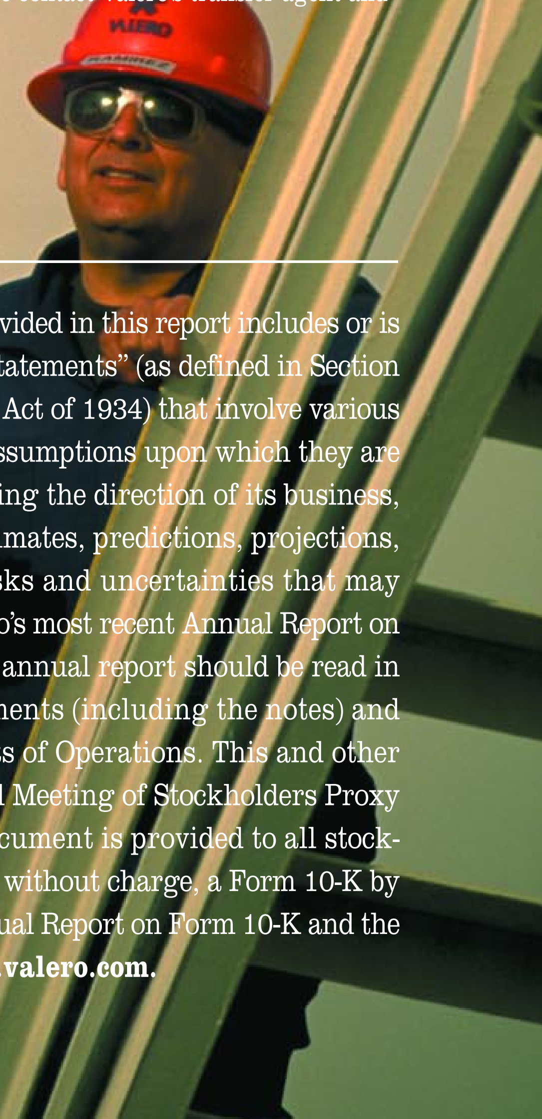
ANNUAL MEETING Valero's annual meeting of stockholders will be held on Thursday, April 24, 2003, at 10:00 a.m. at the Westin La Cantera Resort, 16641 La Cantera Parkway, in San Antonio.

VALERO ENERGY CORPORATION STOCK Valero's common stock is listed for trading on the New York Stock Exchange under the ticker symbol "VLO."

TRANSFER AGENT AND REGISTRAR Computershare Investor Services has been appointed transfer agent, registrar and dividend disbursing agent for Valero's common stock. Inquiries with respect to stock accounts and dividends and all requests to transfer certificates should be addressed to:

Computershare Investor Services
P.O. Box A3504
Chicago, IL 60690-3504
(888) 470-2938

DIVIDEND WITHHOLDING Under federal income tax law, you are subject to certain penalties, as well as withholding with respect to your dividend payments, if you have not provided Valero with your correct social security number or other taxpayer identification number. For this reason, any security holder who has not provided a taxpayer identification number should obtain a Form W-9 (Payer's Request for Taxpayer Identification Number). To request a Form W-9, please contact Valero's transfer agent and registrar at the address shown above.



FORWARD-LOOKING STATEMENTS Much of the information provided in this report includes or is based upon estimates, predictions, projections and other "forward-looking statements" (as defined in Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934) that involve various risks and uncertainties. While these forward-looking statements, and any assumptions upon which they are based, are made in good faith and reflect Valero's current judgment regarding the direction of its business, actual results will almost always vary, sometimes materially, from any estimates, predictions, projections, assumptions, or other future performance suggested herein. Certain risks and uncertainties that may affect Valero are detailed from time to time in its SEC reports, including Valero's most recent Annual Report on Form 10-K. The financial and other information provided in this summary annual report should be read in conjunction with Valero Energy Corporation's complete Financial Statements (including the notes) and Management's Discussion and Analysis of Financial Condition and Results of Operations. This and other information about Valero is contained in Valero's Notice of the 2003 Annual Meeting of Stockholders Proxy Statement and Form 10-K for the year ended December 31, 2002. This document is provided to all stockholders of record as of February 24, 2003. In addition, persons may request, without charge, a Form 10-K by writing or calling Valero's Investor Relations Department. Valero's 2002 Annual Report on Form 10-K and the Proxy Statement also may be accessed via our Internet website at: **www.valero.com.**

VALERO ENERGY
CORPORATION

P.O. BOX 500
SAN ANTONIO, TX
78292-0500

www.valero.com

Valero has always said its employees are its number-one asset and this point is dramatically illustrated in the photomosaic on the cover of this year's annual report. Approximately 600 photos of Valero's employees and assets were used to create this unique piece of art.

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