an OLD WORLD INDUSTRY

in a whole NEW WORLD

VALERO ENERGY CORPORATION

2003 Summary Annual Report

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and WE'RE ON TOP

of that WORLD

our financial highlights

(Millions of Dollars, Except Per Share Amounts)

Year Ended December 31,	2003	2002
Operating Revenues	$ 37,969	$ 29,048
Operating Income	$ 1,222	$ 471
Net Income	$ 622	$ 92
Earnings Per Common Share-Assuming Dilution	$ 5.09	$ 0.83
Total Assets	$ 15,664	$ 14,465
Stockholders' Equity	$ 5,735	$ 4,308
Capital Expenditures and Deferred Turnaround and Catalyst Costs	$ 1,112	$ 780

VALERO ENERGY CORPORATION • 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, 2003, which is provided to all shareholders.

letter to the shareholders

Refining — it really is an old world industry in a whole new world! That is one of the primary reasons for Valero's record year in 2003 and the very bright future we see for 2004 and beyond.

2003 was the year when the bullish fundamentals and positive long-term trends that we have been predicting for the last several years came together in a big way.

As the chart at the bottom of this page dramatically depicts, U.S. Gulf Coast refining margins were only above $5 per barrel about 2% of the time between 1992 and 1999. However, since 2000, that margin has been over $5 per barrel nearly 30% of the time. And, as you can see, the highs have been much higher while the lows have not been as low and have been shorter in duration.

We have truly entered a new era in refining. And, as a result, 2003 was a record year for Valero in every way!

We generated a record $38 billion in revenues and ended 2003 with per share earnings of $5.09 on record net income of $622 million — the most profitable year in the company's history!

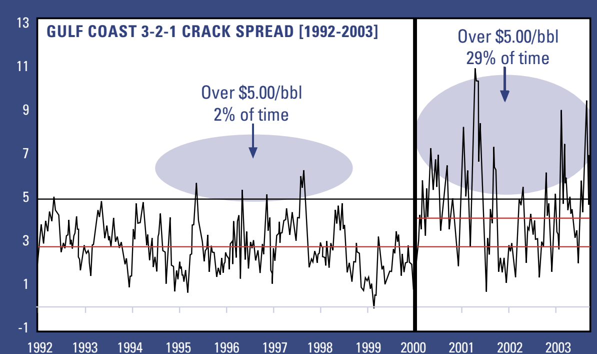
Not surprisingly, we had a total shareholder return of 27% in 2003 alone. But what is even more impressive is the fact that our shareholders have received a 131% total cumulative return over the last five years compared to our peer group's 31% return and the S&P 500 Index's 3% loss over that same period!

A Record Year

In 2003, we set records in virtually every area of our business. Our Canadian operations had the best year in their history. With $390 million in operating income — $155 million better than their previous record — these operations accounted for 32% of our operating income for the year and clearly demonstrate the benefit of Valero's geographic diversity.

Our retail division also had a record year, contributing approximately $115 million in operating income. What's more, we achieved these record earnings with 280 fewer sites, which is a testament to the success of our strategy of investing in the sites with potential and divesting the under-performing stores.

Our wholesale business had a record year as well, contributing $125 million to operating income while adding 600 new branded sites and re-imaging more than 800 locations. With 2,400 branded wholesale sites today, we are on track to double our network to 5,000 locations by the end of 2007.

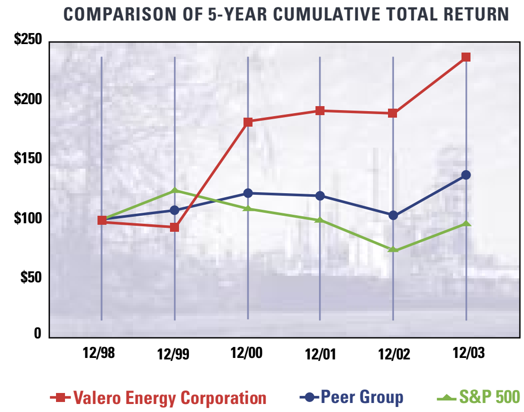


Source: Simmons & Company

Chairman and CEO
Bill Greehey at the
Newly Acquired Valero
Aruba Refinery

And, of course, we continued to invest in both the internal and external expansion of our refining system, which has grown from a single refinery with 170,000 barrels per day (BPD) of capacity in 1997 to a 15-refinery system with more than 2.4 million BPD of capacity today.

In Texas City, we completed construction of a 45,000-BPD delayed coker and our timing couldn't have been better! Coker margins have been well over $9 per barrel since it went into full service on December 1. Obviously, with margins like these, we expect the coker will have a significant impact on 2004 earnings as well.

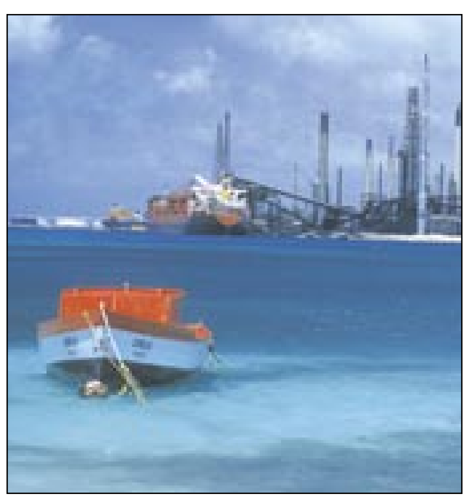


In terms of external expansion, I believe the St. Charles refinery in Louisiana may very well turn out to be one of the greatest acquisitions in Valero's history. When you consider the fact that we purchased the St. Charles refinery for $400 million and the fact that more than $2 billion had been invested in the plant since 1985, we got this highly complex refinery for only 20 cents-on-the-dollar of its replacement cost.

As part of Valero's larger system, the plant has benefited from reduced overhead costs, enhanced purchasing leverage and synergies with Valero's other Gulf Coast facilities. The plant also has a highly motivated workforce and a bright, energetic leadership team. As a result, this plant, which we purchased out of bankruptcy, generated approximately $40 million in operating income in the six months it was part of Valero in 2003. We are currently expanding the plant, including the crude and coker units, which will increase the plant's throughput by 30,000 BPD to 245,000 BPD. We expect this refinery will be a big contributor to operating income in 2004 and will pay for itself in less than three years.

And, while the acquisition of our new 315,000-BPD Aruba refinery actually took place in March of 2004, it was the result of significant effort in 2003 that we expect will boost our company's earnings in 2004 and beyond. It is a great acquisition for Valero because we acquired the refinery for about 15% of its $2.4 billion replacement cost and we immediately benefited from more than $640 million which has been invested in this refinery over the last five years. The refinery benefits from processing Maya sour crude oil as one of its main feedstocks, which is currently selling at a discount of more than $9 per barrel. The refinery is a great fit for our system because it produces a high yield of intermediate feedstocks, which can be used to back out more costly third party purchases at our other refineries. And, the acquisition also included highly profitable marine, bunkering and marketing operations.

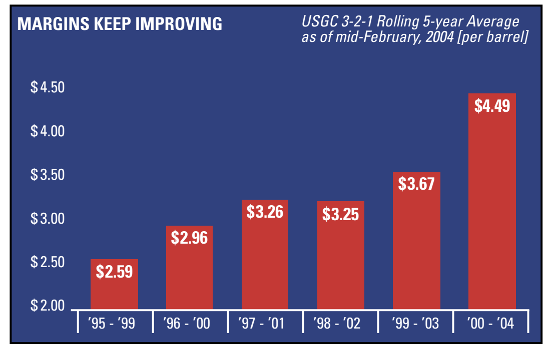
As you can see, 2003 was a record year with record accomplishments. And, I am proud to say that despite the tremendous workload that comes with a year of so many accomplishments, we maintained the unique culture of caring and sharing that is the cornerstone of Valero's ongoing success.



Valero and its employees donated a record $7.5 million to United Way and contributed more than 160,000 hours of volunteer time to improve the communities where we live and work. And, we were proud to once again be selected as one of the "100 Best Companies to Work for in America" by Fortune Magazine — moving up from number 70 to number 32 on the most recent ranking.

2004 to *Top* 2003

But as great as the year was, 2004 is shaping up to be even better! Gasoline demand is up 1.7% year-to-date — fueled by a strong economy and the ever-increasing number of SUV's on the road. Meanwhile gasoline supplies have tightened due to increasingly stringent fuel specifications, which reduce the amount of gasoline that can be made from a barrel of oil and make it more difficult to import gasoline into the U.S. It is not surprising then, that gasoline margins are at historic highs. In fact, if you look at the futures market, refined product margins are currently expected to be 20% better than 2003. And every $1 improvement in refining margins improves Valero's earnings by almost $4 per share.



But that's only the beginning, on top of that, sour crude discounts are also currently forecast to be at least 20% better than 2003 and every $1 improvement in the sour crude discount improves our per share earnings by $2.25. The discounts have widened as many refiners have turned to sweeter crude oils to meet lower sulfur fuel specifications — making sour crude oils more surplus. Also, strong world-wide crude oil demand, spurred by a strong global economy, has increased sour crude oil production, which continues to widen the discount on the sour crude oils that make up 73% of Valero's slate.

In addition, our throughput volumes should be 20% higher than last year. We will have a full year of contributions from the St. Charles refinery and almost 10 months of contributions from our new Aruba operations. And, we will have a full year's benefit from the new coker in Texas City. Given all of these improvements over 2003, we expect 2004 to top 2003 in every way!

The new era for refining is here to stay. And no refiner is better positioned to benefit from it than Valero. We have grown to be one of the top refining companies in the U.S. and have the most geographically diverse and complex refining system in North America, complemented by a highly profitable and growing wholesale and retail network and a major stake in 4,500 miles of crude oil and refined product pipelines as well as product terminals and crude tanks.

We are in the right business with the right assets, the right products and the right strategy at the right time. And, we have the best employees in the industry, who really are our number one asset.

We are fortunate to see our old world industry entering a whole new world — and even more fortunate that Valero is on top of that world. And, that's why I still say, the best is yet to come!

Chairman of the Board
and Chief Executive Officer

world-class refiner & marketer

Valero has good reason to be on *top of the world!* With the size, scope and quality of its system, Valero is uniquely positioned to benefit from the new margin environment that industry experts have been predicting. Over the last seven years, Valero has grown into a *world-class* refining and marketing company that's ranked #34 among the Fortune 500 and earning annual revenues of $38 billion.

With 15 refineries throughout the U.S. and in Canada and the Caribbean, Valero has the most geographically diverse refining system among its peers. The company's system has a combined throughput capacity of approximately 2.4 million barrels per day (BPD), and Valero's U.S. production represents approximately 12% of the total U.S. refining capacity, making it the nation's largest independent refiner. As a result of its size, Valero has the most leverage to refining margins with every $1 improvement in its refining margin improving earnings by almost $4 per share. Valero's system is also the most complex among the independent refiners because the company has stayed true to its strategy of processing the most economical feedstocks into premium products.

Another reason that Valero is in such a great position is its ownership stake in Valero L.P., the master limited partnership that owns approximately 4,500 miles of crude oil and refined product pipelines, as well as refined product terminals and feedstock storage facilities. In addition to its refining and logistics businesses, Valero is also one of the nation's largest retailers with over 4,500 retail and wholesale outlets in the U.S., Canada and the Caribbean under various brand names.

For all of these reasons and the many advantages featured on the following pages, Valero expects to *top* its previous earnings and achievements in the years ahead!

top acquisition strategy

Since Valero spun off its natural gas assets and focused on refining and marketing in 1997, the company has completed a string of very successful acquisitions transforming Valero into the company that it is today.

Valero has developed a reputation for acquiring quality assets for a fraction of their replacement value, successfully integrating operations in record time, delivering improved profits, and working to ensure these acquisitions are accretive to earnings. Valero's success is due to the company's steadfast pursuit of assets that meet its acquisition criteria, including refineries with capacity in excess of 100,000 BPD, upgrade potential, good supply logistics and synergies with its existing refining system.

Over the years, Valero has acquired a number of refineries at distressed prices that have proven to be accretive to earnings. In its largest transaction to date, Valero more than doubled in size by acquiring Ultramar Diamond Shamrock in record time without any layoffs.

In 2003, Valero had its busiest year in terms of the number of transactions completed. The company acquired its St. Charles refinery for less than 20 cents-on-the-dollar replacement cost, and purchased a natural gas liquids storage facility and an idled MTBE plant from Link Energy – paying only $20 million for $400 million worth of assets. Additionally, the company entered into a 50/50 joint venture with GulfTerra Energy Partners L.P. to develop a crude oil pipeline from the Gulf of Mexico to the Gulf Coast, along with other smaller transactions. Then earlier this year, Valero acquired its Aruba refinery for 15 cents-on-the-dollar replacement cost.

Valero isn't stopping there either! The company will continue to look for acquisition opportunities that will fit its criteria and be accretive to earnings.

Joe Gorder, Senior Vice President of Corporate Development, and **Mike Ciskowski**, Executive Vice President & Chief Financial Officer, (left to right) helped oversee the successful acquisition and integration of the St. Charles and Aruba refineries. Valero has been successful in targeting refineries that can be purchased for a small percentage of replacement cost, then improving operations and upgrading them to improve profitability.

TOTAL ASSETS as of December 31
2003
$15.7
2002
$14.5
2001
$14.4
2000
$4.3
1999
$3.0
in billions of dollars

top refiner

Valero's expertise in expanding and upgrading its refineries, capturing synergies and improving operations has made it a *world-class* refiner.

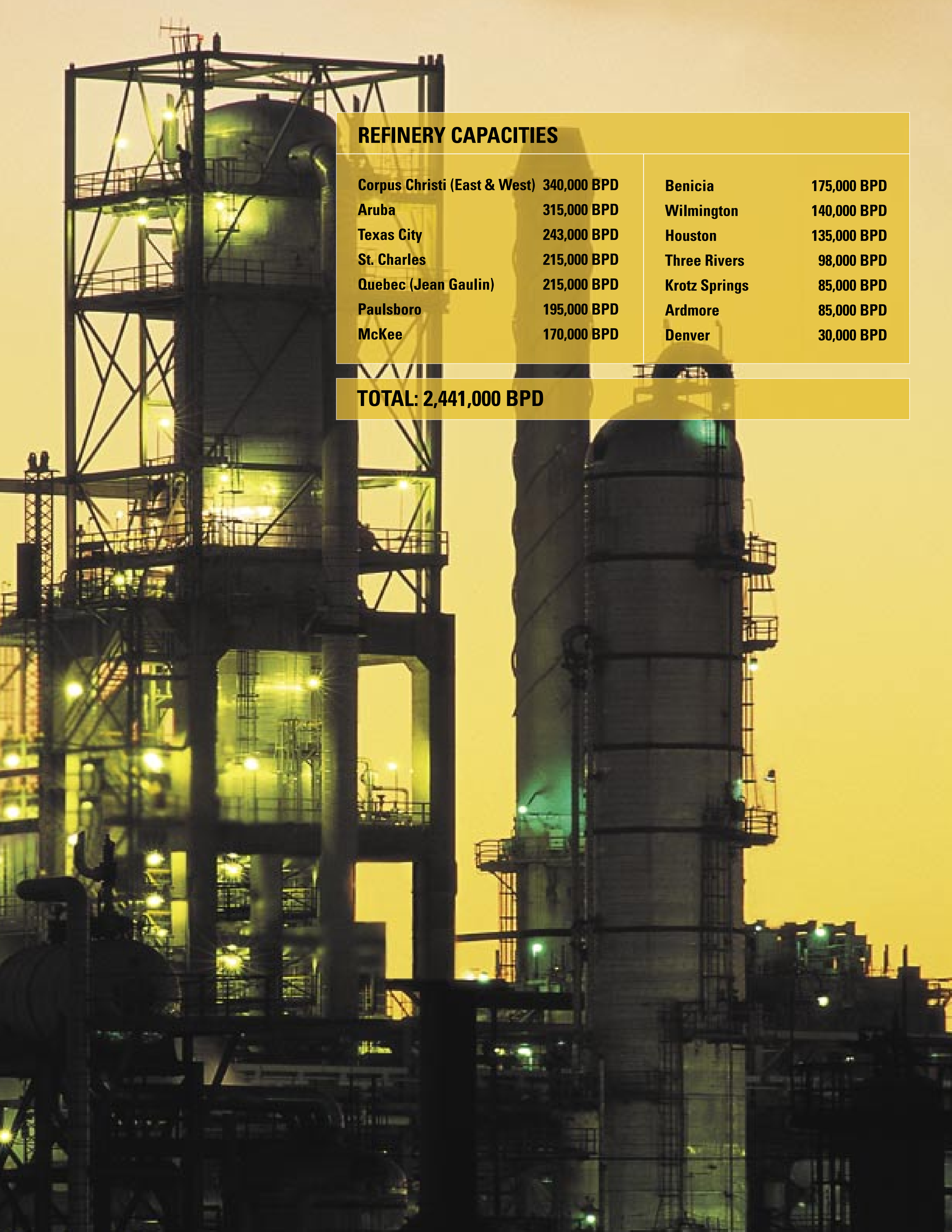
As a result of capital improvements made since 1996, the company has added approximately 250,000 BPD of throughput capacity – the size of a world-scale refinery. Valero invested $400 million in these improvements, which is a small price to pay considering that it would cost more than $3 billion to build a refinery of the same size and complexity today.

Valero also has continued to make investments to increase its refining system's complexity and improve gross margin by upgrading heavier, lower-cost feedstocks that are also lower in quality (e.g. sour crude oil). One example is the delayed coker recently constructed at the Texas City refinery. Not only did this project increase the throughput capacity and yield of light products, it enabled the plant to process a heavier, sour crude oil, which is expected to lower the refinery's feedstock costs by as much as $1 per barrel.

In addition, Valero has captured significant synergies after every major acquisition by incorporating these refineries into the company's multi-refinery system. Over the last two years, Valero has realized more than $400 million in one-time and recurring synergies from the Ultramar Diamond Shamrock acquisition. This was a result of focusing on everything from best practices, operating synergies and crude sourcing to energy savings and procurement. In addition, the recently acquired St. Charles and Aruba refineries present Valero with an opportunity to capture significant synergies going forward.

Valero clearly has a very profitable refining system because of its focus on refining, the size of its system, the caliber of its refineries, and the expertise of its employees.

John Hohnholt, Senior Vice President of Technology, Planning & Development, and **Rich Marcogliese**, Senior Vice President of Refinery Operations, (left to right) work together to make strategic investments and operational improvements to Valero's refineries. Valero has developed one of the largest and most complex refining systems by upgrading the company's plants to process sour crude oil, increasing throughput capacities and improving yields.



REFINERY CAPACITIES

Corpus Christi (East & West)	340,000 BPD	Benicia	175,000 BPD
Aruba	315,000 BPD	Wilmington	140,000 BPD
Texas City	243,000 BPD	Houston	135,000 BPD
St. Charles	215,000 BPD	Three Rivers	98,000 BPD
Quebec (Jean Gaulin)	215,000 BPD	Krotz Springs	85,000 BPD
Paulsboro	195,000 BPD	Ardmore	85,000 BPD
McKee	170,000 BPD	Denver	30,000 BPD

TOTAL: 2,441,000 BPD

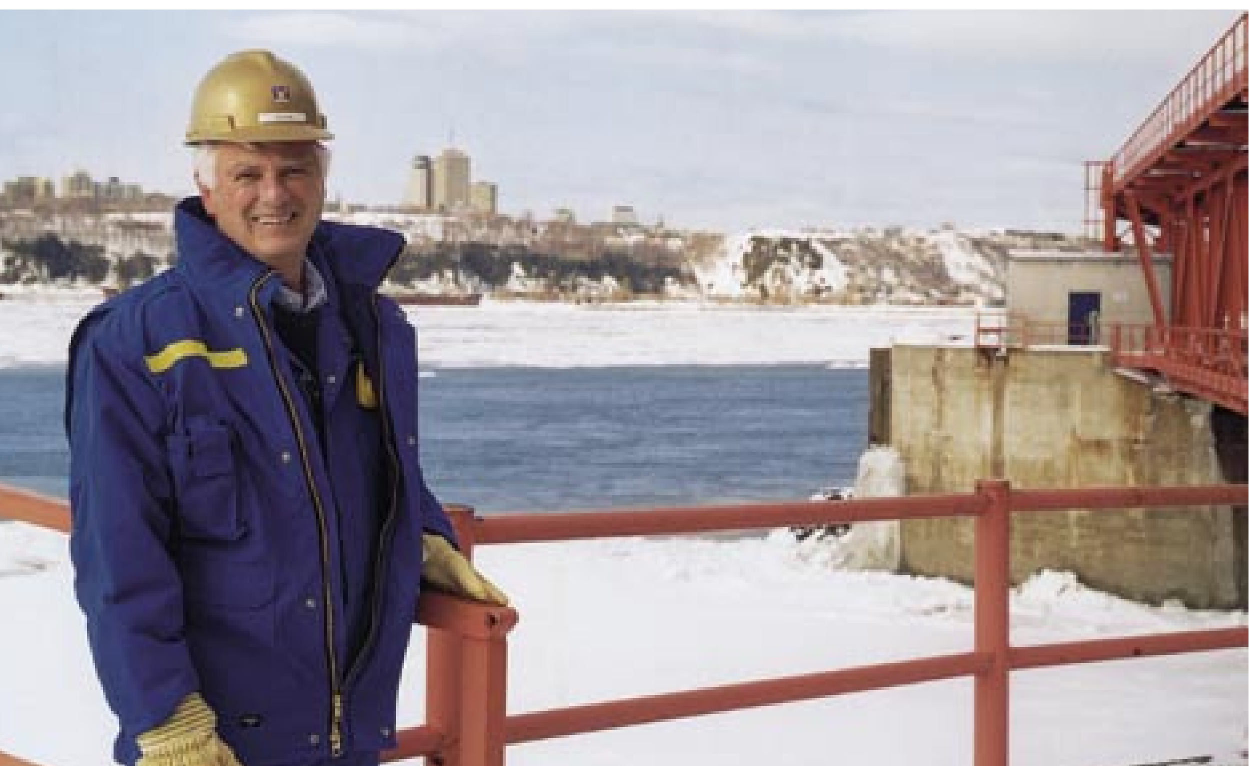
top geographic diversity

With refineries stretching from Canada to California, Valero has the most geographically diverse system among the independent refiners. What's more, the company recently expanded its system to the Caribbean with its acquisition of the Aruba refinery.

Valero's tremendous growth over the last few years has enabled the company to reach new markets and increase its exposure to some of the best refining markets in North America. With a sizeable presence in four of the five U.S. refining regions, Valero is able to capitalize on the upswings in regional margins since refining margins don't always move together. If one region is outperforming another, Valero is in a position to take advantage of it.

As Valero's refining footprint has grown, so has its wholesale network, which now has locations from the East Coast to the West Coast. In addition, Valero's retail business is a market leader throughout the Southwest with stores in 11 states. And in Canada, Ultramar is the largest independent gasoline retailer in Quebec and the Canadian Atlantic provinces.

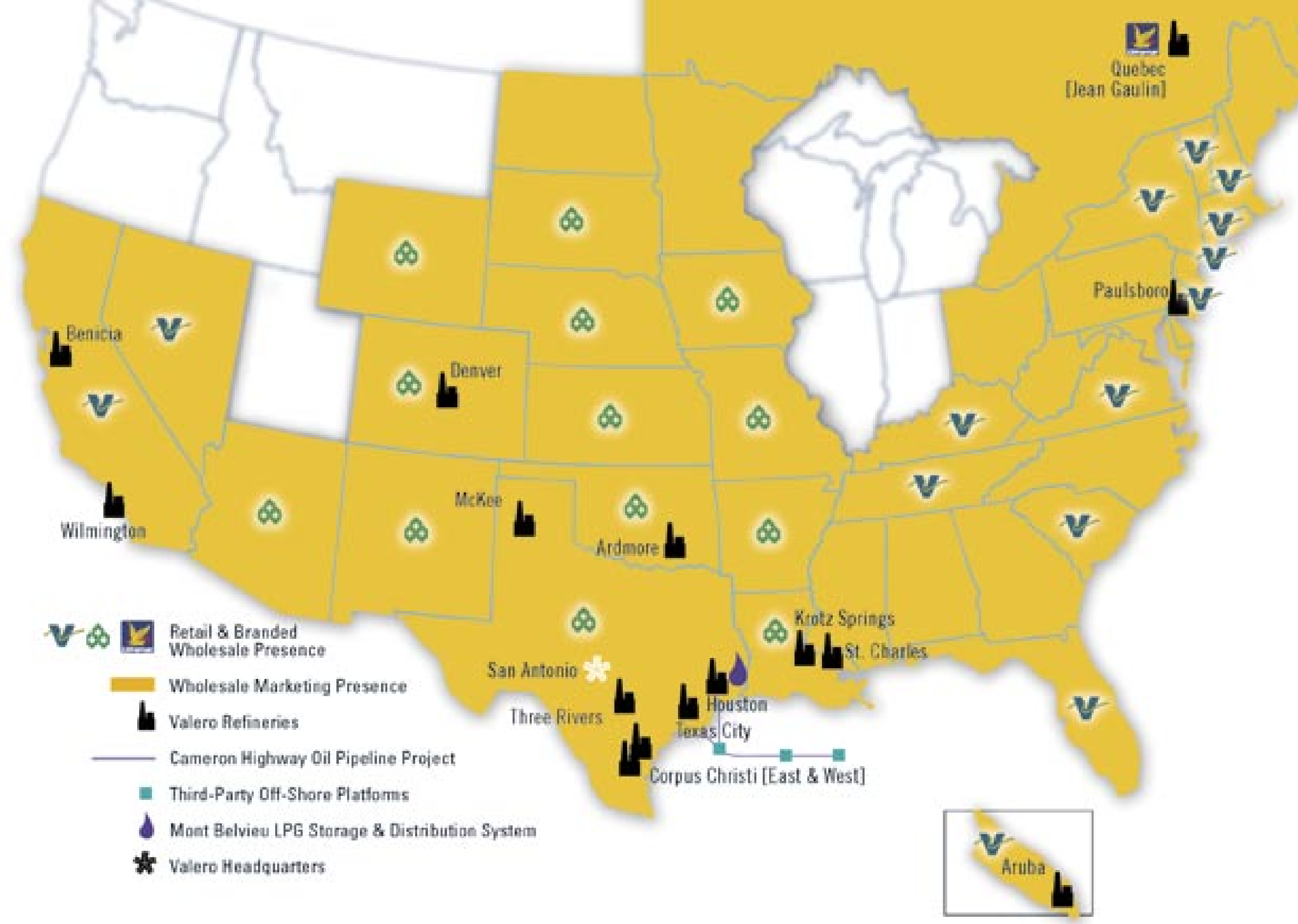
Without a doubt, Valero's recent growth has really put the company on the map!

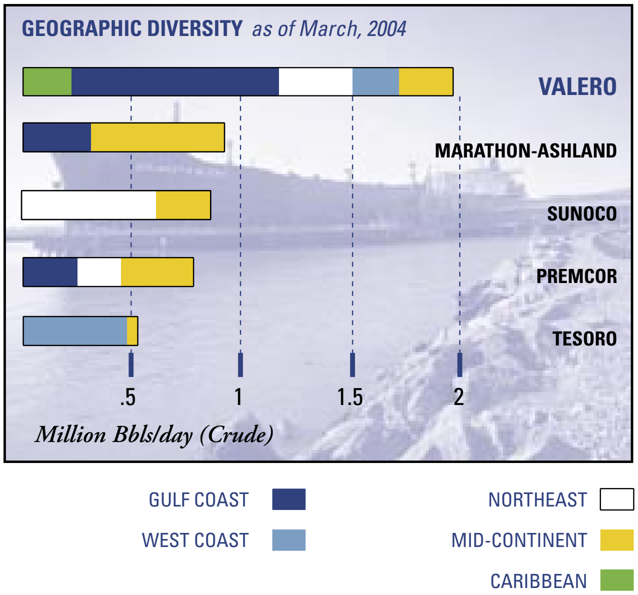


Bill Klesse, Executive Vice President & Chief Operating Officer, oversees a geographically diverse network of operations stretching from the Jean Gaulin refinery in Quebec to the U.S. Gulf Coast and West Coast. Valero's geographic diversity strengthens the company's competitive position, while adding stability to its earnings.

Valero L.P.

Valero Energy has a 46% ownership interest in Valero L.P., which owns and operates crude oil and refined product pipelines, refined product terminals and refinery crude oil tank assets predominantly in Texas, New Mexico, Colorado, Oklahoma, California and New Jersey. Its pipelines and storage facilities primarily supply eight of Valero Energy's key refineries with domestic and foreign crude oil and other feedstocks, and these assets deliver refined products to established and growing markets in the Mid-Continent, Southwest and the Texas-Mexico border region of the United States.


Quebec
[Jean Gaulin]
Benicia
Paulsboro
Denver
Wilmington
McKee
Ardmore
Krotz Springs
St. Charles
San Antonio
Houston
Texas City
Three Rivers
Corpus Christi [East & West]
Aruba
Retail & Branded
Wholesale Presence
Wholesale Marketing Presence
Valero Refineries
Cameron Highway Oil Pipeline Project
Third-Party Off-Shore Platforms
Mont Belvieu LPG Storage & Distribution System
Valero Headquarters


GEOGRAPHIC DIVERSITY as of March, 2004
VALERO
MARATHON-ASHLAND
SUNOCO
PREMCOR
TESORO
.5
1
1.5
2
Million Bbls/day (Crude)
GULF COAST
WEST COAST
NORTHEAST
MID-CONTINENT
CARIBBEAN

top feedstock & product slates

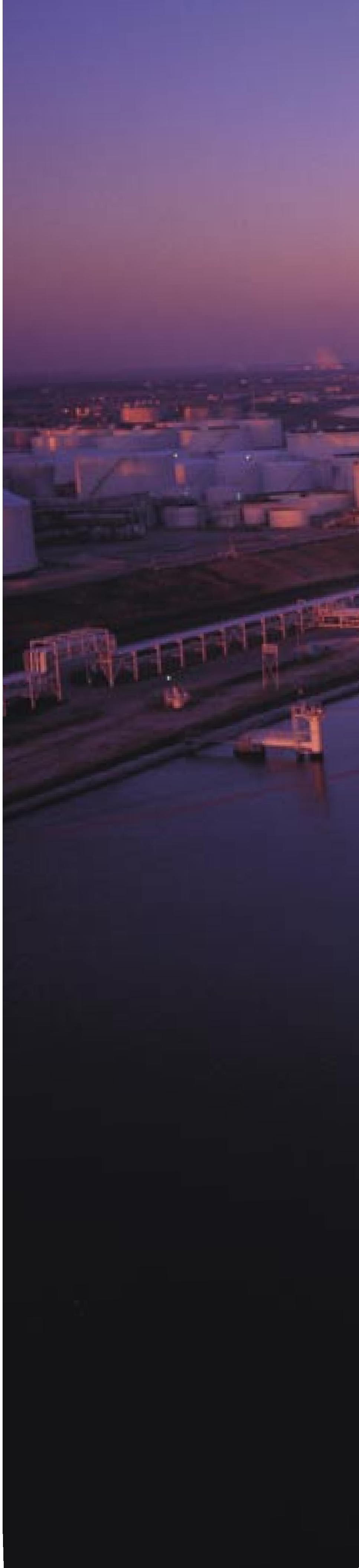
Valero's feedstock and product slates have helped the company gain a competitive edge over other refiners.

In fact, Valero has the most complex refining system among the independent refiners with a complexity rating of 11.6 versus its peer group's average of 9.2 as ranked by the Nelson Complexity Scale. That means that Valero's refineries are able to produce a high percentage of clean-burning and low-sulfur products from lower-quality crude oils, which sell at a discount to sweet crude oil.

What's more, Valero is investing in its refining system to increase its sour crude oil capacity from about 73% to 78% of total crude capacity. This is important because every $1 improvement in the sour crude discount generally improves Valero's earnings by about $2.25 per share!

In addition, Valero has one of the most extensive slates of high-value, clean-burning products in the industry. Nearly 40% of Valero's gasoline slate is clean-burning, including reformulated gasoline, California's CARB gasoline, boutique fuels and blendstocks. And, 75% of the company's distillates are low-sulfur diesel and jet fuel. In fact, Valero was one of the first refiners in the U.S. Southwest and California to introduce ultra low-sulfur diesel well ahead of the Environmental Protection Agency's 2006 deadline.

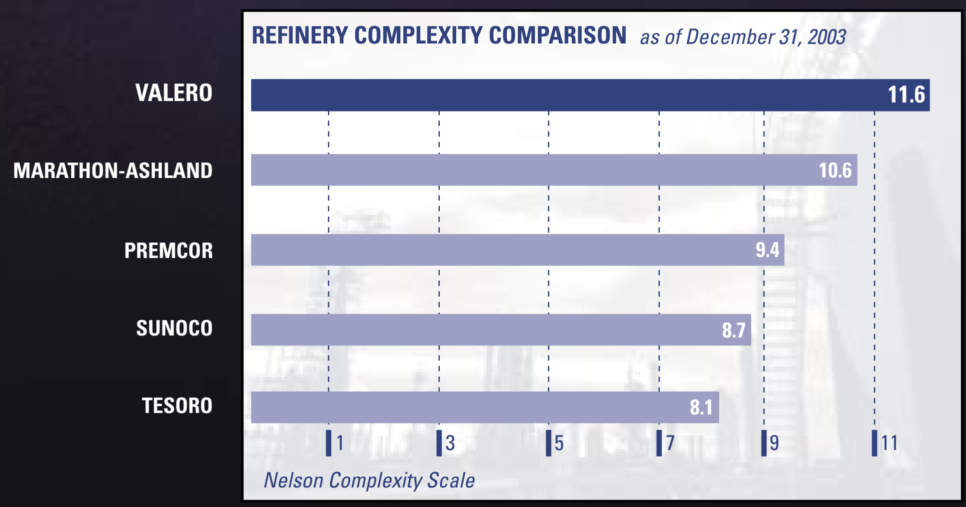
Since Valero entered the refining business in the early '80s, the company's strategy has been to process the most economical crude oils into premium products. It was the right strategy then, and as Valero's earnings show, it's still the right one!



Bob Beadle, Senior Vice President of Crude & Feedstock Supply & Trading, works to ensure that Valero's refineries are running the most economical crude oils and feedstocks. The company's strategy of investing in its refineries to enable them to process sour crude, which sells at a discount to sweet crude, gives Valero an advantage over its peers.

PRODUCT LISTING

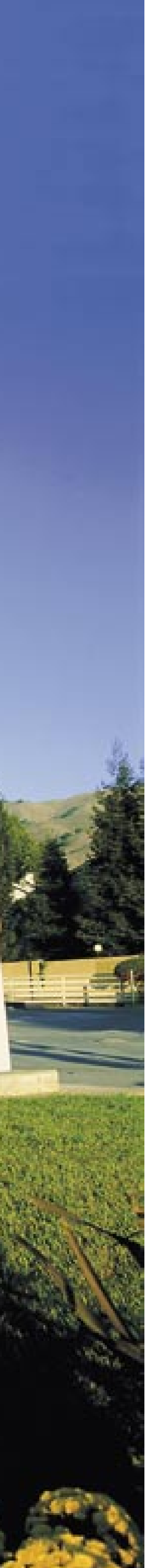
Reformulated Gasoline (RFG)
Reformulated Blendstock for Oxygenated Blending (RBOB)
Low-Sulfur Gasoline (*less than 30 parts per million*) – Atlanta grade
Conventional Gasoline
Premium Grades of Reformulated & Conventional Gasoline
California Air Resources Board (CARB) Phase III Gasoline
CARB Diesel
Customized Clean-Burning Gasoline Blends for Export Markets
Clean-Burning Oxygenates
Gasoline Blendstocks (*Alkylate, Raffinate, Naphtha, Reformate*)
Low-Sulfur Diesel & Ultra Low-Sulfur Diesel (*less than 15 parts per million*)
Jet Fuel (*Commercial & Military*)
Aviation Gasoline
Kerosene
Home Heating Oil & Stove Oil
Petrochemicals (*Mixed Xylenes, Benzene, Toluene, Chemical– and Refinery-Grade Propylene and Pseudocumene*)
Asphalt
Lube Oils (*Industrial & Automotive*)
Sulfur
Crude Mineral Spirits
Bunker Oils, No. 6 Fuel Oil
Petroleum Coke
Anhydrous Ammonia
Propane
Octene
Low-Sulfur Vacuum Gas Oil
High-Sulfur Vacuum Gas Oil
Iso-Butane



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 over 4,500 retail and branded wholesale sites – the majority of which are branded:

DIAMOND SHAMROCK   VALERO   BEACON   Ultramar



top wholesale & retail strategy

Because of its successful marketing strategy, Valero's retail and wholesale divisions *topped* their past performance by reporting record earnings in 2003.

In retail marketing, Valero has successfully executed its strategy of investing in top-performing stores and selling or closing marginal sites. To date, about one-third of the network has been re-imaged and the vast majority of the remaining stores should be completed by 2006. As a result of gains in fuel and merchandise sales, Valero expects a 15% return on capital employed for these newly re-imaged locations.

While retail has been working to rationalize its network, wholesale has been aggressively growing its branded distributor network across the country. In 2003, Valero added more than 600 new branded sites and re-imaged over 800 new and existing locations. A big part of that expansion included introducing the Valero brand on the East Coast – giving the company a presence from Bangor, Maine, to Miami, Florida! With 2,400 branded distributor sites in the network today, Valero is well on the way to reaching its goal of 5,000 sites by the end of 2007. Because capital costs are relatively low, Valero can achieve significant growth with minimal capital and expected returns in the range of 20%.

Also reporting significant growth last year, asphalt marketing sold a record-breaking 22.6 million barrels. And, the company continued to grow its lubes and petrochemicals business through favorable partnerships and agreements.

As these results illustrate, the company's marketing strategy is helping to put Valero's brands on *top!*

Gene Edwards, Senior Vice President of Product Supply & Trading and Wholesale Marketing, and **Gary Arthur**, Senior Vice President of Retail & Specialty Products Marketing, (left to right) helped lead wholesale and retail marketing to achieve record earnings. Valero's wholesale network grew to 2,400 branded distributor sites, and the retail division invested in re-imaging stores which resulted in greater profits with fewer stores.

Valero's recordable injury rate is more than twice as good as the industry average as measured by the number of recordable injuries per 200,000 man hours. The 3-year industry average is 2.3 as recorded by the National Bureau of Labor Statistics.

top safety & environmental record

With an unwavering commitment to safety and environmental excellence, Valero is a step ahead of other refiners.

In 2003, Valero achieved the best safety record in the company's history. Its refining system reduced the total recordable injury rate from 1.48 to .95, which is twice as good as the three-year industry average of 2.3. Valero also recorded a lost-time incident rate of .22, which is more than three times better than the three-year industry average of .7.

Valero has five refineries that have earned Star Site status in OSHA's Voluntary Protection Program (VPP). The VPP safety requirements are so demanding and the certification process so complex, that of the 149 refineries in the U.S., only 16 have achieved this prestigious designation.

A leader in environmental excellence, Valero has spent approximately $700 million on environmental capital projects during the past two years alone and plans to spend approximately $1.75 billion more over the next five years. Valero has installed new, state-of-the-art scrubbers at three of its refineries, with work underway at four others, which will reduce sulfur dioxide emissions by over 93%. The company has also committed to make environmental upgrades in Aruba, including a new sulfur plant that will reduce sulfur emissions by 80%.

In addition, the company is currently implementing the latest control technology to improve combustion efficiency at several refineries, a process that reduces carbon dioxide emissions. By improving operational reliability and making other improvements, Valero expects to reduce greenhouse gases by approximately 1.8 million tons per year during the next five years.

Not only do these programs make Valero a better neighbor, they make it a better company!

Under the leadership of President **Greg King**, Valero's commitment to the environment and safety continued to set even higher industry standards. Outpacing many refiners in the production of clean products, Valero also has more OSHA-certified VPP Star Sites than any other refiner.

top culture

More than ever before, Valero's commitment to giving back to others made a difference in communities all across North America last year. Whether donating time to build a playground, hosting Christmas dinners for low-income citizens or contributing to United Way, Valero employees went above and beyond to help others.

In fact, Valero employees donated a record amount of time and money to good causes in all of the company's communities. Valero and its employees supported the United Way like never before, donating $7.5 million -- $1 million more than last year's record campaign! Employees also donated an impressive 160,000 volunteer hours to help worthy causes. And, the Valero Texas Open and Benefit for Children Golf Classic raised an unprecedented $2.8 million for charity, placing the tournament among the top five on the PGA TOUR in terms of charitable contributions.

In addition, Valero's retail stores raised more than $915,000 -- a 29 percent increase over the previous year -- for Children's Miracle Network and approximately $914,000 for the Muscular Dystrophy Association. Valero's caring and sharing spirit is also one of the key reasons the company is consistently ranked among Fortune Magazine's "100 Best Companies to Work For in America."

Valero's record of community service has helped make it a good neighbor, which is an essential part of being a good business. Making a difference in the lives of others has been the cornerstone of Valero's past success and is the key to its future success.

Keith Booke, Executive Vice President & Chief Administrative Officer, and **Mary Rose Brown**, Senior Vice President of Corporate Communications, help oversee Valero's award-winning employee and community relations programs. These initiatives help countless individuals throughout North America, including young people like Amanda who lives in the "Valero House" as she transitions from a youth center to independent living.


NK YOU VALERO

condensed financial information

The financial information presented on pages 23-27 of this summary annual report should be read in conjunction with Valero Energy Corporation's complete Consolidated 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 Valero's Proxy Statement for the 2004 Annual Meeting of Stockholders and Valero's Form 10-K for the year ended December 31, 2003. These documents are provided to all shareholders of record as of March 1, 2004. 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 2003 Annual Report on Form 10-K and the Proxy Statement also may be accessed via the Company's website at: www.valero.com.

report of independent auditors

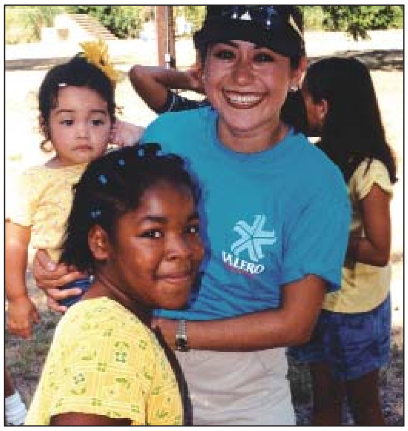
To the Board of Directors and Stockholders of Valero Energy Corporation and Subsidiaries:

We have audited, in accordance with auditing standards generally accepted in the United States, the consolidated balance sheets of Valero Energy Corporation and subsidiaries (the Company) as of December 31, 2003 and 2002, and the related consolidated statements of income, stockholders' equity, cash flows and comprehensive income for the years then ended, appearing in the Company's 2003 Annual Report on Form 10-K (not presented herein). In our report dated March 11, 2004, 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 for the year 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 21 and 28. Also, in our report dated March 11, 2004, we expressed an opinion that such reclassification adjustments made to revise the 2001 financial statements are appropriate and have been properly applied.

In our opinion, the information set forth in the accompanying condensed consolidated balance sheets as of December 31, 2003 and 2002, and the related condensed consolidated statements of income and cash flows for the years then ended are fairly stated, in all material respects, in relation to the consolidated financial statements from which it has been derived.

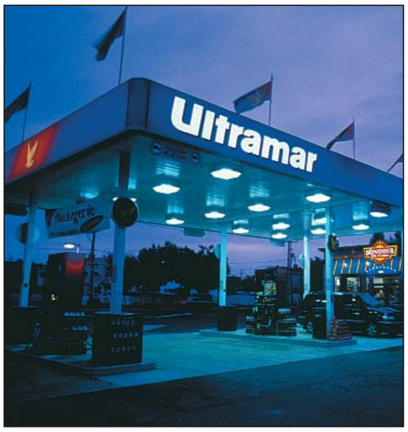
Ernst & Young LLP
San Antonio, Texas
March 11, 2004



condensed consolidated balance sheets

(millions of dollars)

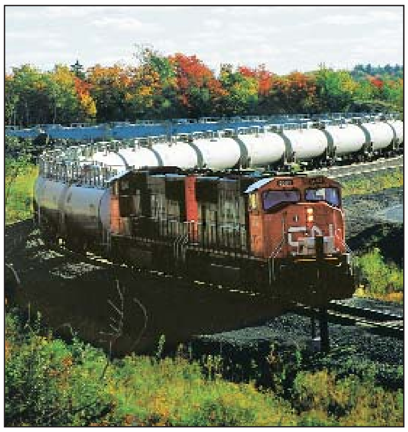
DECEMBER 31,	2003	2002
ASSETS		
Current Assets	$ 3,817	$ 3,536
Property, Plant and Equipment, Net	8,195	7,412
Goodwill	2,402	2,580
Intangible Assets, Deferred Charges and Other Assets, Net	1,250	937
TOTAL ASSETS	$ 15,664	$ 14,465
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities	$ 3,064	$ 3,006
Long-Term Debt and Capital Lease Obligations, Less Current Portion	4,245	4,494
Deferred Income Tax Liabilities	1,605	1,241
Other Long-Term Liabilities	1,015	927
Company-Obligated Preferred Securities of Subsidiary Trusts	—	373
Minority Interest in Valero L.P.	—	116
Stockholders' Equity	5,735	4,308
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 15,664	$ 14,465



condensed consolidated statements of income

(millions of dollars, except per share amounts)

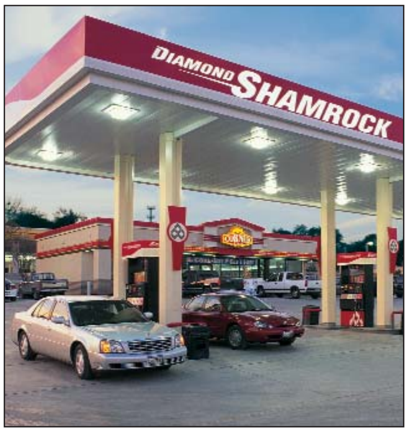
YEAR ENDED DECEMBER 31,	2003	2002	2001
OPERATING REVENUES	$ 37,969	$ 29,048	$ 14,988
COSTS AND EXPENSES:			
Cost of Sales	33,587	25,863	12,745
Refining Operating Expenses	1,656	1,332	845
Retail Selling Expenses	694	675	6
Administrative Expenses	299	258	153
Depreciation and Amortization Expense	511	449	238
TOTAL COSTS AND EXPENSES	36,747	28,577	13,987
OPERATING INCOME	1,222	471	1,001
EQUITY IN EARNINGS OF VALERO L.P.	30	—	—
OTHER INCOME (EXPENSE), NET	15	9	(5)
INTEREST AND DEBT EXPENSE, NET	(261)	(286)	(88)
MINORITY INTEREST IN NET INCOME OF VALERO L.P.	(2)	(14)	—
DISTRIBUTIONS ON PREFERRED SECURITIES OF SUBSIDIARY TRUSTS	(17)	(30)	(13)
INCOME BEFORE INCOME TAX EXPENSE	987	150	895
INCOME TAX EXPENSE	365	58	331
NET INCOME	622	92	564
PREFERRED STOCK DIVIDENDS	5	—	—
NET INCOME APPLICABLE TO COMMON STOCK	$ 617	$ 92	$ 564
EARNINGS PER COMMON SHARE	$ 5.37	$ 0.86	$ 9.28
Weighted Average Common Shares Outstanding (in millions)	114.9	105.8	60.7
EARNINGS PER COMMON SHARE — ASSUMING DILUTION	$ 5.09	$ 0.83	$ 8.83
Weighted Average Common Equivalent Shares Outstanding (in millions)	122.0	110.1	63.8
DIVIDENDS PER COMMON SHARE	$ 0.42	$ 0.40	$ 0.34



condensed consolidated statements of cash flows

(millions of dollars)

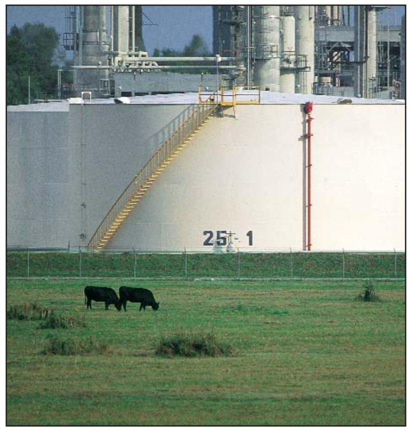
YEAR ENDED DECEMBER 31,	**2003**	2002	2001
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net Income	**$ 622**	$ 92	$ 564
Adjustments to Reconcile Net Income			
to Net Cash Provided by Operating Activities:			
Depreciation and Amortization Expense	**511**	449	238
Deferred Income Tax Expense	**287**	2	270
Changes in Current Assets,			
Current Liabilities & Other, Net	**333**	(271)	(167)
Net Cash Provided by Operating Activities	**1,753**	272	905
CASH FLOWS FROM INVESTING ACTIVITIES:			
Capital Expenditures and Deferred Turnaround			
and Catalyst Costs	**(1,112)**	(780)	(536)
Exercise of Purchase Options Under Leases	**(275)**	—	—
Proceeds from Sale of Assets to Valero L.P.	**380**	—	—
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 and Investments	**(451)**	—	(184)
Earn-out Payments in Connection with Acquisitions	**(51)**	(24)	(55)
Proceeds from Sale of Tesoro Notes	**90**	—	—
Other, Net	**88**	10	6
Net Cash Provided by (Used in) Investing Activities	**(1,331)**	249	(3,302)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Cash Payment to UDS Shareholders	**—**	(2,055)	—
Financing Required to Fund UDS Acquisition, Net	**—**	—	2,053
Debt and Capital Lease Borrowings (Repayments), Net	**(357)**	1,642	697
Redemption of Preferred Securities of Subsidiary Trust	**(200)**	—	—
Proceeds from Common Stock Offering, Net	**250**	—	—
Proceeds from Common Unit Issuance by Valero L.P., Net	**200**	—	—
Cash Distributions to Minority Interest in Valero L.P.	**(4)**	(14)	—
Preferred and Common Stock Dividends	**(51)**	(42)	(21)
Issuance (Repurchase) of Stock, Net	**26**	57	(78)
Net Cash Provided by (Used in) Financing Activities	**(136)**	(412)	2,651
VALERO L.P.'S CASH BALANCE AS OF THE DATE THAT VALERO CEASED CONSOLIDATION	**(336)**	—	—
EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CASH	**40**	1	—
NET INCREASE (DECREASE) IN CASH AND TEMPORARY CASH INVESTMENTS	**(10)**	110	254
CASH AND TEMPORARY CASH INVESTMENTS AT BEGINNING OF YEAR	**379**	269	15
CASH AND TEMPORARY CASH INVESTMENTS AT END OF YEAR	**$ 369**	$ 379	$ 269



condensed consolidated five-year financial & statistical review

(millions of dollars, except per share amounts)

YEAR ENDED DECEMBER 31,	2003(a)	2002(b)	2001(c)	2000(d)	1999
OPERATING RESULTS:					
Operating Revenues	**$ 37,969**	$ 29,048	$ 14,988	$ 14,671	$ 7,961
Operating Income	**$ 1,222**	$ 471	$ 1,001	$ 611	$ 72
Net Income	**$ 622**	$ 92	$ 564	$ 339	$ 14
Earnings per Common Share	**$ 5.37**	$ 0.86	$ 9.28	$ 5.79	$ 0.25
Earnings per Common Share—Assuming Dilution	**$ 5.09**	$ 0.83	$ 8.83	$ 5.60	$ 0.25
FINANCIAL POSITION AS OF DECEMBER 31:					
Current Assets	**$ 3,817**	$ 3,536	$ 4,136	$ 1,285	$ 823
Property, Plant and Equipment, Net	**8,195**	7,412	7,217	2,677	1,914
Goodwill	**2,402**	2,580	2,211	—	—
Intangible Assets, Deferred Charges and Other Assets, Net	**1,250**	937	836	346	242
Total Assets	**$ 15,664**	$ 14,465	$ 14,400	$ 4,308	$ 2,979
Current Liabilities	**$ 3,064**	$ 3,006	$ 4,753	$ 1,039	$ 719
Long-Term Debt and Capital Lease Obligations, Less Current Portion	**4,245**	4,494	2,805	1,042	786
Deferred Income Tax Liabilities	**1,605**	1,241	1,388	407	275
Other Long-Term Liabilities	**1,015**	927	763	120	114
Company-Obligated Preferred Securities of Subsidiary Trusts	**—**	373	373	173	—
Minority Interest in Valero L.P.	**—**	116	115	—	—
Stockholders' Equity	**5,735**	4,308	4,203	1,527	1,085
Total Liabilities and Stockholders' Equity	**$ 15,664**	$ 14,465	$ 14,400	$ 4,308	$ 2,979



YEAR ENDED DECEMBER 31,	2003(a)	2002(b)	2001(c)	2000(d)	1999
COMMON STOCK DATA:					
Dividends per Common Share	**$ 0.42**	$ 0.40	$ 0.34	$ 0.32	$ 0.32
Number of Shares Outstanding, End of Year (in thousands)	**120,266**	107,137	104,197	60,838	56,067
Number of Registered Shareholders	**6,564**	7,174	7,265	5,207	5,479
Total Estimated Beneficial Shareholders	**54,000**	52,000	50,500	14,000	11,000
Market Price:					
High	**$ 47.08**	$ 49.97	$ 52.60	$ 38.63	$ 25.31
Low	**$ 32.20**	$ 23.15	$ 31.50	$ 18.50	$ 16.69
CAPITALIZATION RATIOS (NET OF CASH): (e)					
Long-Term Debt and Capital Lease Obligations, including Current Portion, and Short-Term Debt	**40 %**	50 %	53 %	40 %	40 %
Stockholders' Equity and Other	**60 %**	50 %	47 %	60 %	60 %
OTHER DATA:					
Capital Additions (in millions)	**$ 976**	$ 628	$ 394	$ 195	$ 101
Number of Employees (end of year)	**19,741**	19,878	22,355	3,129	2,511
OPERATING STATISTICS:					
Throughput Volumes (mbbls per day)	**1,835**	1,595	1,001	857	712
Throughput Margin per Barrel	**$ 5.13**	$ 4.02	$ 6.12	$ 5.08	$ 2.90
Operating Costs per Barrel:					
Refining Operating Expenses	**$ 2.47**	$ 2.29	$ 2.31	$ 2.18	$ 1.83
Depreciation and Amortization	**0.63**	0.66	0.63	0.53	0.52
Total Operating Costs per Barrel	**$ 3.10**	$ 2.95	$ 2.94	$ 2.71	$ 2.35

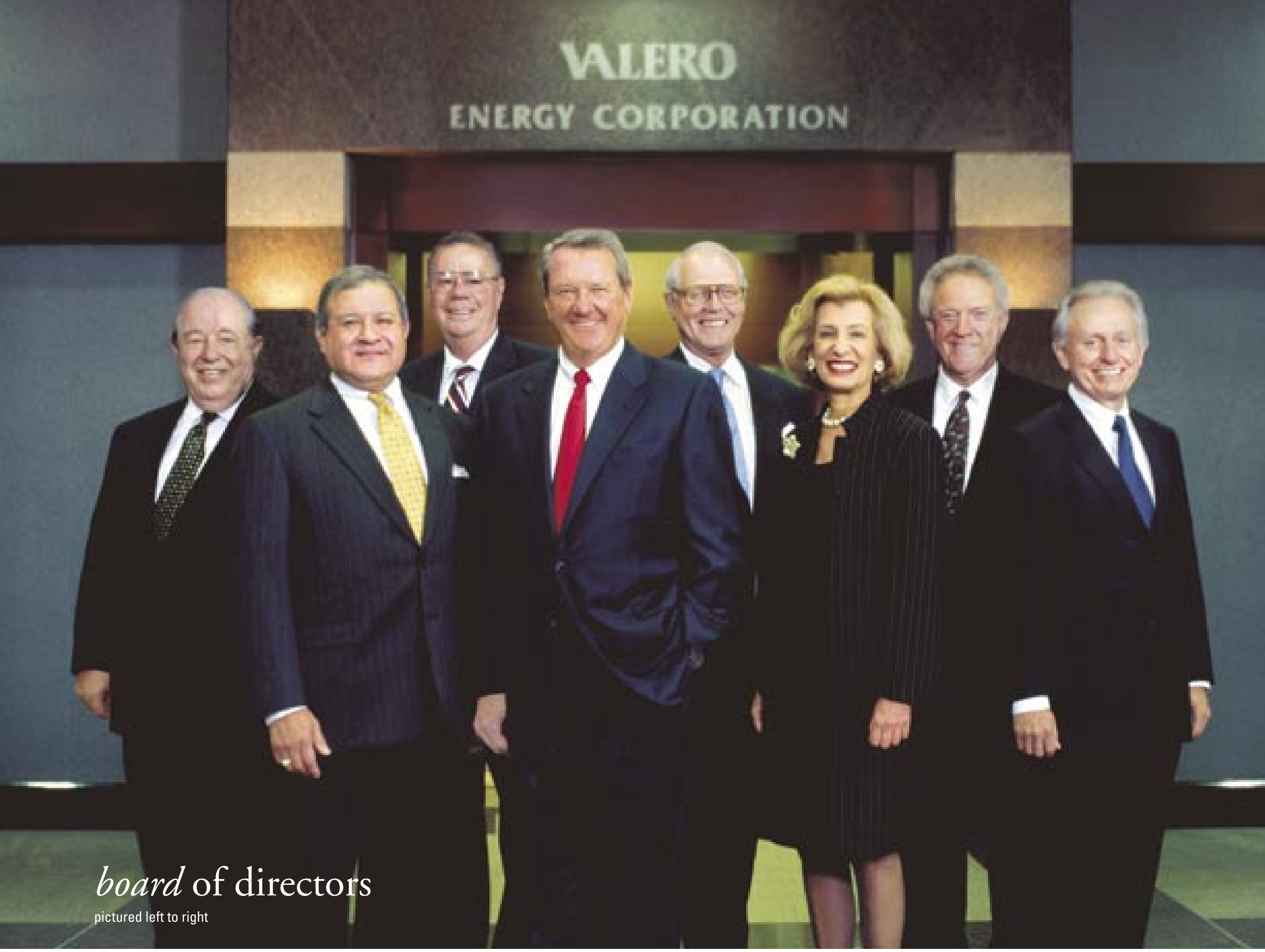
(a) Includes the operations of the St. Charles Refinery beginning July 1, 2003.

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

(c) 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.

(d) 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.

(e) 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.



board of directors

pictured left to right

Dr. Ron Calgaard serves as Chairman of the Board and Chief Executive Officer of Austin, Calvert & Flavin, Inc. in San Antonio and as a director of The Trust Company. Previously, he held the position of 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.

Ruben 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.

Bill Bradford is the retired Chairman of the Board of Halliburton Company. Prior to the Halliburton-Dresser merger, he was Chairman of the Board 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.

Bill 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.

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

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. In addition to these positions, she 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.

Jerry Choate is retired from the Allstate Corporation, where he served as Chairman of the Board and Chief Executive Officer from 1995 through 1998. Additionally, Mr. Choate currently serves as a director of Amgen, Inc. and Van Kampen Mutual Funds.

Bob Marbut is Chairman of the Board and Chief Executive Officer of SecTecGLOBAL, Inc. and Argyle Communications, Inc. Previously, he held leadership positions with Hearst-Argyle Television, Inc., Argyle Television, Inc., Argyle Television Holding, Inc. and Harte-Hanks Communications, Inc. He is a director of Tupperware Corporation and Hearst-Argyle Television, Inc.

shareholder information

Valero Corporate Headquarters
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San Antonio, TX 78292-0500
(210) 345-2000

Website
www.valero.com

Investor Inquiries
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(800) 531-7911 or (210) 345-2139
(210) 345-2103 (fax)
investorrelations@valero.com

Media Inquiries
For media inquiries, please contact:
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P.O. Box 500
San Antonio, TX 78292-0500
(800) 531-7911 or (210) 345-2314
(210) 345-2327 (fax)
corporatecommunications@valero.com

Annual Meeting
Valero's annual meeting of stockholders will be held on Thursday, April 29, 2004, at 10:00 a.m. at Valero's office located at One Valero Way (near the Southwest corner of the intersection of I.H. 10 and Loop 1604 West) in San Antonio, Texas.

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.

♻ Printed in the U.S.A.

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 Consolidated 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 2004 Annual Meeting of Stockholders Proxy Statement and Form 10-K for the year ended December 31, 2003. This document is provided to all stockholders of record as of March 1, 2004. In addition, persons may request, without charge, a Form 10-K by writing or calling Valero's Investor Relations Department. Valero's 2003 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, Texas 78292-0500 www.valero.com