IT PAYS TO BE DIFFERENT

VALERO ENERGY CORPORATION

2004 Summary Annual Report

TABLE OF CONTENTS

AND BEING DIFFERENT HAS PAID OFF FOR OUR SHAREHOLDERS!

2004 TOTAL SHAREHOLDER RETURN

S&P 11% **VLO 98%**

FINANCIAL HIGHLIGHTS

(Millions of Dollars, Except per Share Amounts)

	2004	2003
OPERATING REVENUES	**$ 54,619**	$ 37,969
OPERATING INCOME	**$ 2,979**	$ 1,222
NET INCOME	**$ 1,804**	$ 622
EARNINGS PER COMMON SHARE – ASSUMING DILUTION	**$ 6.53**	$ 2.55
TOTAL ASSETS	**$ 19,392**	$15,664
STOCKHOLDERS' EQUITY	**$ 7,798**	$ 5,735
CAPITAL EXPENDITURES AND DEFERRED TURNAROUND AND CATALYST COSTS	**$ 1,596**	$ 1,112

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, 2004, which is provided to all shareholders.

BILL GREEHEY

CHAIRMAN & CEO

LETTER TO THE SHAREHOLDERS

It pays to be different.
And, our difference is paying off for our shareholders!

In 1997, when others were getting *out* of the refining business, Valero decided to grow its refining business in a big way!

That's because we believed we were at the bottom of the refining cycle and that we would be able to acquire refining assets at deep discounts to replacement costs and that the worldwide movement to cleaner fuels would tighten refined product supplies – making refineries and the products they produce significantly more profitable. We also believed that the best profits of *all* would belong to refiners that could process plentiful, cheaper, heavier sour crude feedstocks into premium products.

And we were right on all counts! Since 1997, we have acquired 14 refineries – from Canada to the Caribbean – for a fraction of their replacement value. In fact, we estimate that our refineries have a $43 billion replacement cost, while our refinery book value is less than $9 billion.

Meanwhile, as the chart on this page dramatically depicts, the profit margins on the key products these refineries produce have gotten better and better, and the discounts on the sour crude feedstocks we process at these refineries, have gotten wider and wider.

Two of our most recent acquisitions epitomize the success of our acquisition strategy. We acquired our St. Charles refinery for $400 million in July of 2003 for approximately 20 percent of replacement cost. In 2004 alone, it earned $335 million in operating income.

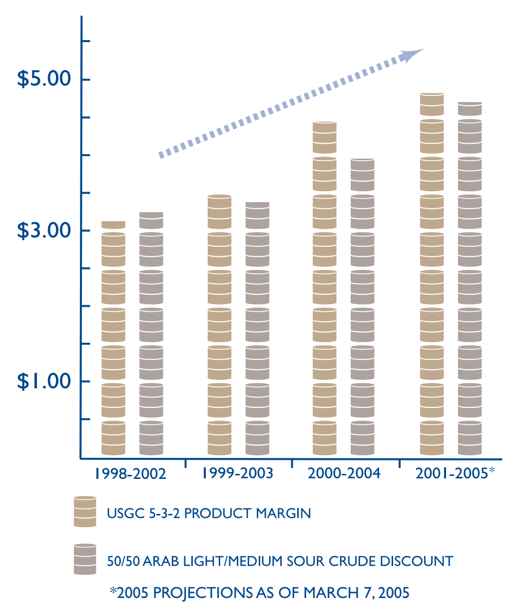
Then, in March of 2004, we acquired our Aruba refinery for $365 million, which represents about 15 percent of replacement cost. In the 10 months we owned this refinery in 2004, it earned $290 million in operating income. Both refineries process heavy Maya sour crude and we based our original economics to purchase these refineries on a $6 to $7 per barrel discount to West Texas Intermediate, a benchmark sweet crude. In 2004, these discounts averaged over $11 per barrel and the discount has averaged more than $17 per barrel so far this year. Both refineries are expected to make more operating income in 2005 than we paid for them!

As a result of many successful acquisitions such as these, Valero is now the nation's largest independent refiner and has a throughput capacity of 2.5 million barrels per day (BPD), which represents about 12 percent of total U.S. refining capacity. And, Valero also has one of the most complex and geographically diverse refining systems in North America today.

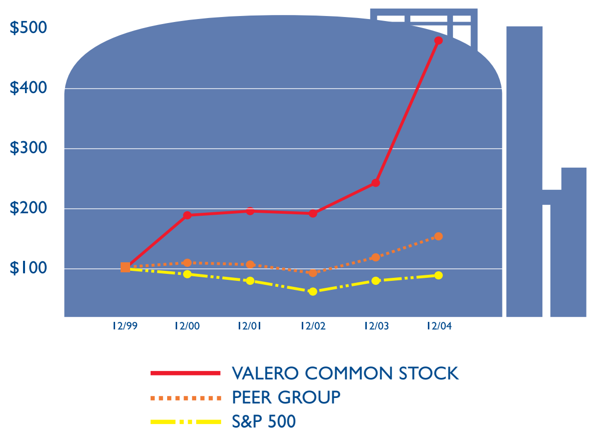
The complexity of our refineries is a key difference for Valero – allowing us to benefit from historic discounts on the feedstocks we run at our refineries, while benefiting from historic product margins at the same time!

That is why we've enjoyed record earnings, a record stock price, record total shareholder return and why we have been able to outperform our peer group companies as well as the S&P 500 Index.

ROLLING 5-YEAR AVERAGE PRODUCT MARGINS & SOUR CRUDE DISCOUNTS



COMPARISON OF 5-YEAR CUMULATIVE TOTAL RETURN



Valero's shareholders have benefited from total shareholder return of 380 percent over the last five years – compared to the 11 percent *loss* of the S&P 500 Index over the same time period!

We are truly in the right business with the right strategy and the right assets at the right time.

And just as importantly, Valero also has the right culture. We have always believed our employees are our No. 1 asset and that if we take care of our employees, they will take care of the company, the shareholders and the communities in which we live and operate.

And they do! At Valero, our employees are the best in the industry. They are talented, hard-working and dedicated to Valero's success in every way.

So, I guess it's not surprising that 2004 was a record year for Valero in *every* respect.

ANOTHER RECORD YEAR

We generated a record $55 billion in revenues, which were up 44 percent over 2003. Based on the current Fortune 500 ranking, our revenues would place Valero among the top 20 largest publicly traded companies in the United States today.

Better yet, Valero ranked No.1 on Forbes magazine's list of America's Best Big Companies for our 2004 earnings growth and shareholder return!

Net income was a record $1.8 billion, or $6.53 per share, which is nearly *triple* the net income of $622 million, or $2.55 per share, that we earned in 2003.

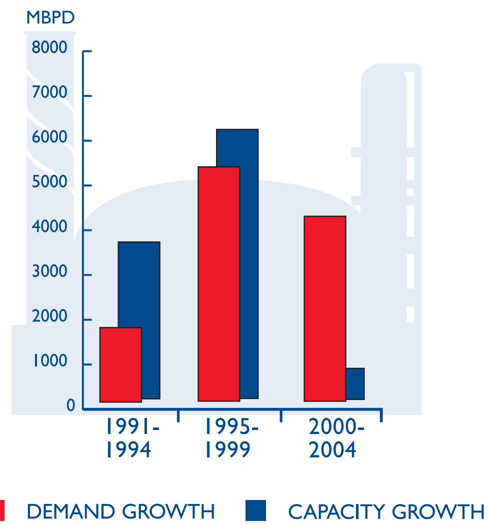
In 2004 alone, Valero's total shareholder return was an incredible 98 percent. And, because of the outstanding performance of our stock last year, we had the first stock split in Valero's history!

We also increased our dividend by 38 percent and ended the year with a very strong balance sheet with our debt-to-capitalization ratio down to about 30 percent – despite our many acquisitions and strategic investments these last few years!

2004 was also a year of record recognition for Valero. In addition to naming us The Best Big Company in America, Forbes magazine also listed Valero as one of America's Best Managed Companies. And, Fortune Magazine named Valero as one of America's Most Admired Companies and ranked Valero third among America's largest companies in its annual listing of "The 100 Best Companies to Work For." Fortune Magazine also selected Valero to receive the Employee Pride Award – one of only five special awards given to the top employers on its prestigious ranking. Valero was also named "Oil Company of the Year" in the Platts Global Energy Awards program in 2004, and became only the second company in history to receive the Spirit of America Award – United Way's highest honor – for a second time.

It is a tremendous tribute to Valero's unique culture and a strong testament to its success, to have been honored as an industry leader, a top employer, a leader in community service and a leader in shareholder return in 2004. It clearly demonstrates that a company can achieve great success while looking out for *all* of its stakeholders. And, everyone at Valero takes great pride in being a part of such a sharing and caring culture. We firmly believe it is the cornerstone of all our past and future success. And, as long as we maintain our special culture, I believe we will continue to have a very bright future.

GLOBAL DEMAND GROWTH
COMPARED TO CAPACITY GROWTH



Source: Purvin & Gertz

THE BEST IS YET TO COME!

And, our future is bright! All of the fundamentals are in place to make 2005 an even better year than 2004.

Worldwide demand for refined products – fueled by a strong global economy – continues to outpace refining capacity increases and supports strong product margins going forward.

And, as oil demand continues to grow, the demand increase is being met by medium and heavier sour crude oil. Since there is limited refining capacity capable of upgrading these types of crudes, they become increasingly more surplus, which helps keep the discounts on the sour feedstocks that make up approximately 60 percent of Valero's feedstock slate at historic levels. In fact, we started out 2005 with discounts that are twice as wide as those we enjoyed during the same time period in 2004.

And, there is nothing on the horizon today to change these bullish fundamentals.

In 2005, most experts are projecting that the crude oil demand increase will be second only to 2004, which was the largest demand increase in recent history. Obviously, this means sour crude discounts are expected to remain wide.

And, the movement to cleaner fuels continues to support both the sour crude discount and refined product margins. The maximum sulfur content in gasoline drops from 90 parts per million (ppm) to 30 ppm in 2006. And, on-road diesel drops from 500 ppm to 15 ppm. These reductions should further reduce supply and further limit imports – strengthening product margins. And, since many refiners depend upon sweet crude to meet these lower sulfur specifications, they also support wide sour crude discounts going forward.

We will also benefit from a full year of operations at our Aruba refinery, which is expected to add $85 million in incremental operating income in 2005. And, the strategic projects we completed in our refineries are expected to add $175 million in incremental operating income.

So 2005 is shaping up to be yet another record year. As you can clearly see, our difference has paid big dividends for Valero and its shareholders, and all the fundamentals indicate that it should continue to pay off in a big way for the foreseeable future!

That is why I always say, The Best is Yet to Come!

Chairman of the Board
and Chief Executive Officer

P.S. In a year of such tremendous success, we would be remiss if we did not acknowledge the significant role that John Hohnholt, Sr. Vice President of Technology, Planning and Development, played in that success. Although we lost John to heart failure in May of 2004, everyone at Valero will always be grateful to him for his vision, hard work, dedication, caring nature and technical brilliance, which helped shape Valero's winning strategy as well as our caring culture. John truly epitomized the Valero caring and sharing spirit and "can do" attitude. We are thankful for his countless contributions to Valero and to the community – all of which helped make Valero the great company that it is today.

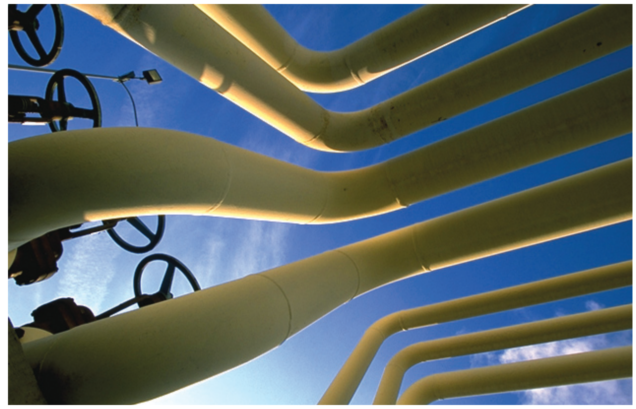
CORPUS CHRISTI

TEXAS

IT PAYS TO BE DIFFERENT

Valero is different from its peers, and proud of it!

In 1997, Valero had a single 170,000-barrel-per-day (BPD) refinery in Corpus Christi, Texas. Today, Valero has one of the most geographically diverse refining systems in North America with 15 refineries stretching from Canada and the U.S. Gulf Coast and West Coast to the Caribbean.



Valero has quickly emerged as the largest independent refiner in North America, with a total throughput capacity of 2.5 million BPD, which represents about 12 percent of total U.S. refining capacity. Valero is also proud to be one of the best companies to work for in America today as well as one of the top-performing publicly traded U.S. companies.

The record $55 billion in revenues that Valero earned in 2004 would place it among the top 20 largest publicly traded companies in the U.S. based on the current Fortune 500 rankings. But even more importantly, Valero was ranked No. 1 on Forbes magazine's list of the 400 Best Big Companies in America for its 2004 earnings growth and shareholder return!

Valero achieved this tremendous success through its aggressive acquisition and capital investment strategy – acquiring refineries for pennies-on-the-dollar of replacement cost and then investing in them to make them significantly more profitable.

And the really big pay off comes from Valero's unique sour crude processing advantage. With one of the world's most complex refining systems, Valero benefits from its ability to process less costly, heavier sour crude feedstocks, which has enabled it to turn record sour crude discounts into record profits.

In addition to being a leading refiner, Valero is one of the nation's largest retailers with 4,700 retail and wholesale branded sites. The company also has an equity ownership interest in one of the fastest-growing limited partnerships, Valero L.P., which owns crude oil and refined product pipelines, as well as refined product terminals and feedstock storage facilities.

But the most important difference about Valero is its winning corporate culture. At Valero, employees *know* they are the company's No. 1 asset and it is their caring and sharing spirit and "can do" attitude that sets Valero apart from its peers!

Valero's unique strategy and unique culture are the primary reasons why being different has paid off for Valero and its shareholders!

ACQUISITION STRATEGY PAYING BIG DIVIDENDS

Since selling its natural gas operations to focus on refining and marketing in 1997, Valero has experienced record-breaking growth and success because of its aggressive acquisition strategy.

In seven years, the company has grown from a single refinery to a 15-refinery system to become the largest independent refiner in the United States. Valero also has added a network of more than 4,700 retail and wholesale branded sites and an extensive pipelines and terminals business, called Valero L.P. As a result, Valero's assets have increased more than 800 percent, from less than

***Mike Ciskowski**, Executive Vice President & Chief Financial Officer, and **Joe Gorder**, Senior Vice President of Corporate Development, (left to right) work together to ensure Valero's acquisition strategy pays off in a big way. The St. Charles and Aruba refineries have proven to be two of the most successful acquisitions in Valero's history.*

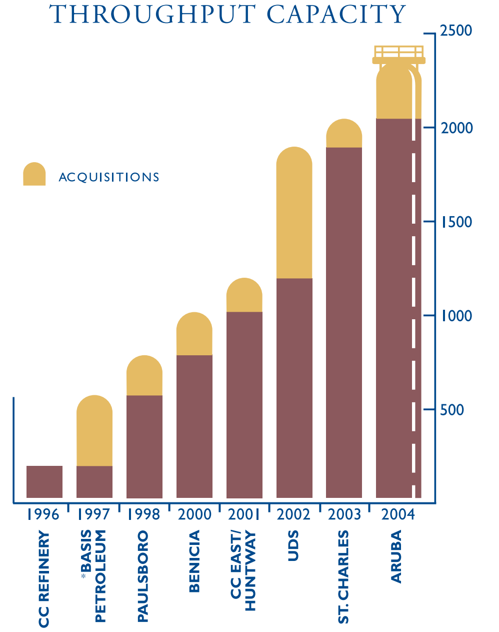
ACQUISITION STRATEGY PAYING BIG DIVIDENDS

$2 billion to approximately $19 billion today, and revenues have increased by over 1,800 percent, from less than $3 billion to nearly $55 billion.

The company has accomplished this tremendous growth by acquiring assets at a fraction of their replacement cost, integrating them smoothly and in record time, and making only acquisitions that are significantly accretive to earnings. These acquisitions have created profitable synergies, strengthened Valero's geographic diversity, and increased its capacity to process less costly heavier sour crude oil into clean fuels.

Two of the best examples of this strategy are the recent acquisitions of the Aruba and St. Charles refineries, which have proven to be among the best acquisitions in Valero's history. Both refineries have had smooth transitions, made major operational improvements, and contributed significantly to earnings. Valero acquired its St. Charles refinery for $400 million in July of 2003. In 2004 alone, it earned $335 million in operating income.

2.5 MILLION BPD
THROUGHPUT CAPACITY



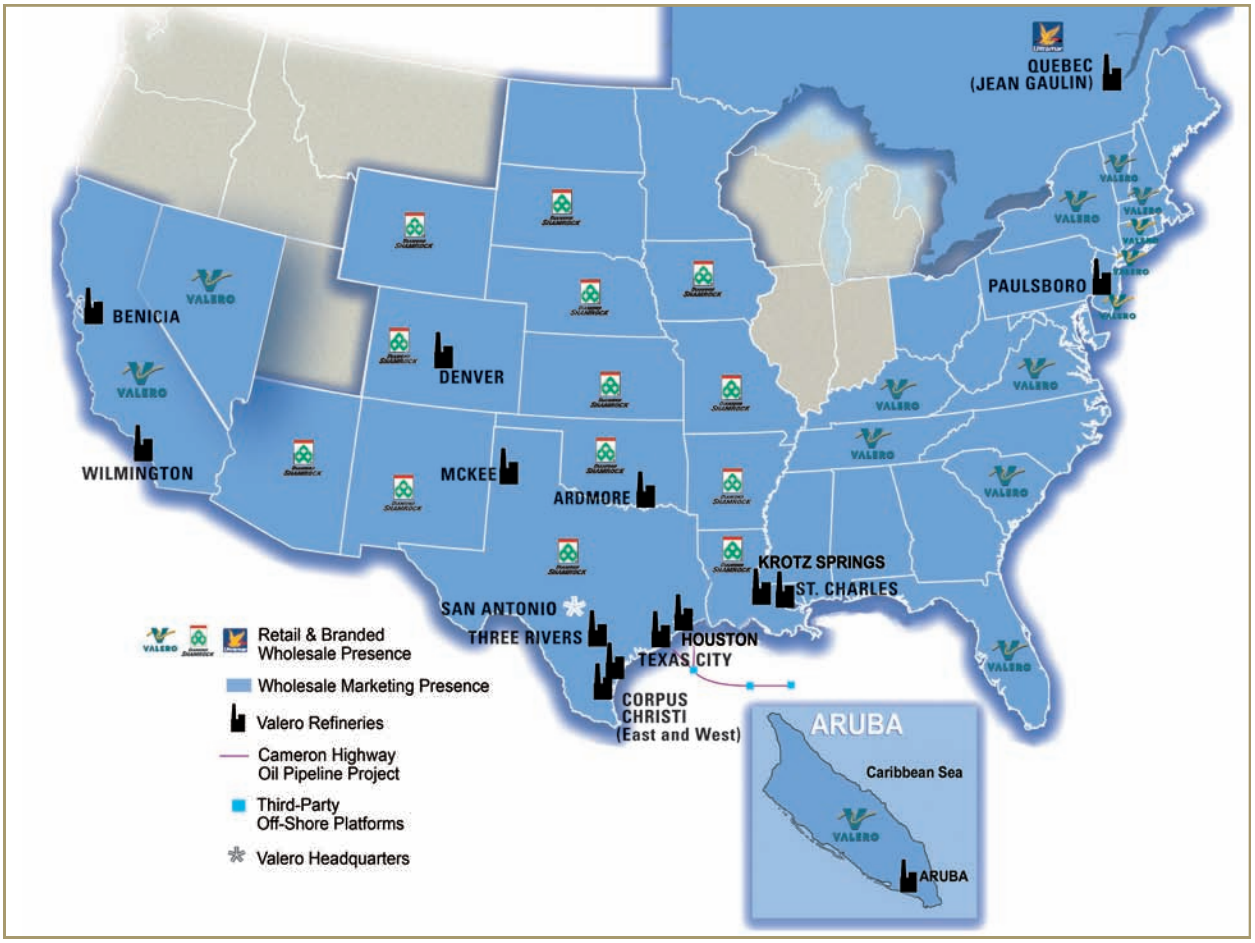
*The Basis Petroleum acquisition included three refineries in Texas and Louisiana.

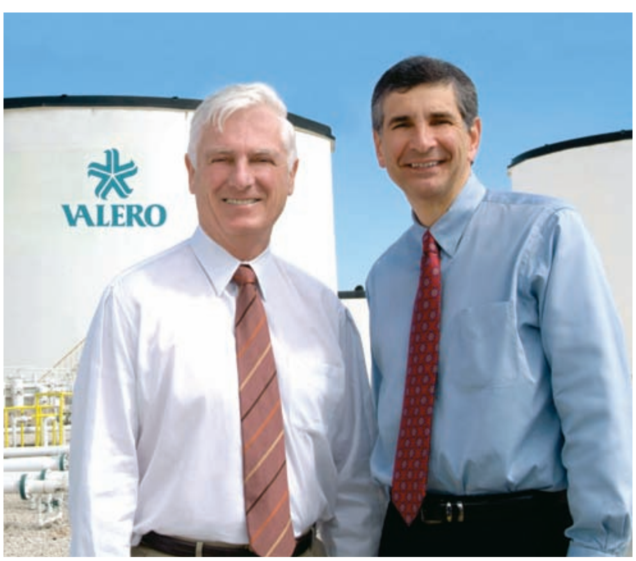
Then, in March of 2004, Valero acquired its Aruba refinery for $365 million. In the 10 months Valero owned this refinery in 2004, it earned $290 million in operating income. Like the Texas City coker, both of these refineries process heavy Maya sour crude and in 2005, both refineries are expected to make more operating income than Valero paid for them!

These acquisitions are proof positive that Valero's acquisition strategy is paying big dividends for the company's shareholders.

SUPERIOR OPERATIONS, SPECTACULAR RESULTS

Valero's expertise in expanding and upgrading its refineries, capturing synergies among plants and improving its operations, has paid off in many ways for Valero and its shareholders!



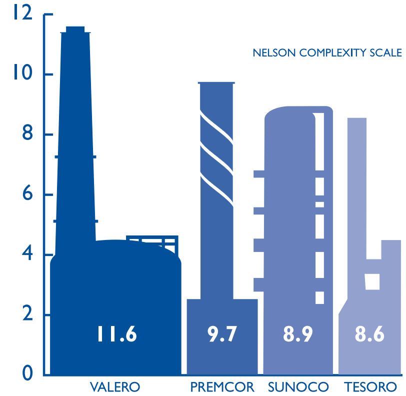


In 1997, Valero's plan was to acquire refineries at deep discounts to replacement costs and make strategic investments in these distressed assets that would improve yields, reduce operating costs and make these refineries more profitable by optimizing their ability to process less costly sour crude oils.

***Bill Klesse**, Executive Vice President & Chief Operating Officer, and **Rich Marcogliese**, Senior Vice President of Refinery Operations, (left to right) oversee Valero's extensive and complex refining operations. With the company's commitment to making strategic investments, operational improvements and refinery upgrades, it's no surprise that Valero is one of the most profitable refiners in North America.*

This strategy is the root of Valero's success and this successful strategy continues today. In fact, the strategic projects Valero implemented in its refineries in 2004 and 2005 are expected to add $175 million in incremental operating income in 2005 alone!

And, as a result of the capital investments made since Valero decided to focus on growing its refinery system in 1997, Valero has added approximately 381,000 barrels per day of refining capacity – the equivalent of a world-scale refinery!

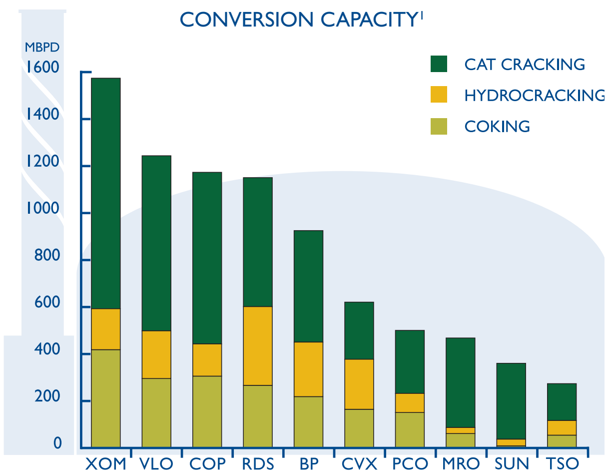


REFINERY COMPLEXITY COMPARISON
AS OF JULY 2004

INTELLECTUAL ASSETS ARE THE BEST INVESTMENTS

As an independent refiner, Valero has other unique assets that contribute to its operational success – people who are experts in specific areas. For example, Valero has an expert on cat crackers, an expert on reformers, and an expert on cokers. So, when the company acquires a refinery – especially one that may have had operating problems in the past – Valero sends its best people from its various refineries to work side-by-side with the new employees. Valero's seasoned workers observe, mentor, share best practices and train the new employees – always making safety the top priority.

A LEADER IN UPGRADING CAPACITY
CONVERSION CAPACITY[1]



Note: Includes US, Canada & Caribbean
Source: Oil & Gas Journal, Company Website

[1] Conversion Capacity = Sum of Coking, Hydrocracking and Cat Cracking Capacity

Valero's successful strategy includes a synergistic refining system that breeds efficiency, superior operational flexibility, outstanding refinery leadership teams and excellent refinery-upgrading capacity. These qualities combined with the increasing global demand for cleaner-burning fuels and other high-value products makes the company's strategy a long-term winner.

TEXAS CITY

COKER

SWEET RETURNS ON SOUR CRUDE

There are many positive attributes that set Valero apart from its peers. And certainly, Valero's sour crude processing advantage is one of the most profitable!

When Valero entered the refining business in 1984, by commissioning the last grassroots refinery ever to be built in the U.S., its goal was to take advantage of the environmental movement and process cheaper, heavier sour feedstocks into premium, cleaner-burning fuels.

It proved to be a winning strategy. And, this advantage has grown as Valero has grown!

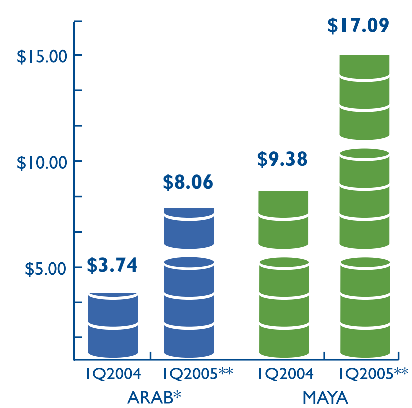
Today, Valero has one of the most complex and profitable refining systems in North America. Meanwhile, the heavier, sour crude feedstocks, which make up about 60 percent of Valero's feedstock slate, have experienced record discounts.

These discounts are largely the result of strong worldwide crude demand, spurred by a strong global economy. And, the incremental barrel being produced to meet this rising demand is typically heavier, sour crude oil, which makes it more surplus.

At the same time, many refiners are relying on sweeter crude oil to meet increasingly lower sulfur specifications in fuel, which also helps widen the sweet/sour crude differential.

And, Valero continues to capitalize on its success by investing in projects that optimize its sour crude strategy. For example, Valero's $350 million investment in a 45,000 barrel per day coker at its Texas City refinery, increased the plant's ability to process heavy, sour Maya crude. The original economics for the investment were based upon $6 to $7 Maya discounts to WTI, which are now more than $17! As a result, the coker generated nearly $200 million in operating income in 2004 alone!

RECORD SOUR CRUDE DISCOUNTS



* 50/50 ARAB LIGHT/MEDIUM **AS OF MARCH 22, 2005

Valero's recently acquired refineries in St. Charles and Aruba also process Maya crude, and the record discounts helped these assets contribute $625 million to operating income in 2004.

The complexity of its refineries is a key difference for Valero – allowing it to turn historic sour crude discounts into sweet returns for Valero's shareholders!

***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 has really paid off in 2004 as the company benefited from record sour crude discounts.*

ORLANDO

FLORIDA

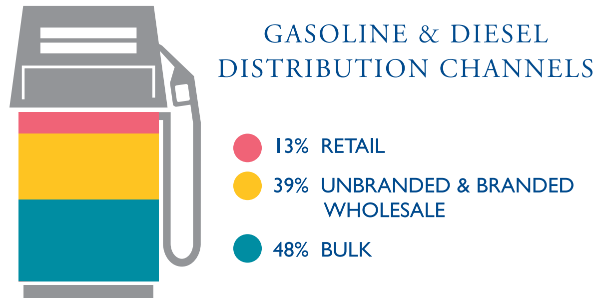
PUMPING UP RETAIL/WHOLESALE PROFITS

SINCE GETTING INTO THE RETAIL BUSINESS IN A BIG WAY WITH THE ULTRAMAR DIAMOND SHAMROCK ACQUISITION IN 2001, VALERO HAS IMPLEMENTED A STRATEGY THAT HAS *PUMPED UP* ITS RETAIL AND WHOLESALE PROFITS IN AN EVEN BIGGER WAY.

In its retail marketing division, Valero's strategy has been to invest in its top-performing stores and close or sell its marginal sites. As a result of its investments, Valero has realized an 8 percent increase in gross profit on merchandise sales per U.S. retail store over 2003. While growth has not been the main focus of its retail strategy, Valero did build nearly a dozen new-to-industry sites in growing markets in 2004.

To expand and improve upon its branded wholesale network, Valero launched an aggressive marketing effort to sign up new distributor sites and re-image existing locations. In 2004 alone, Valero added 520 branded wholesale sites to its network and re-imaged 860 existing locations. While the company's network has expanded from coast to coast, the most significant growth has been along the East Coast where Valero has forged new territory from Maine to Miami.

And, the company isn't stopping there. It plans to build on this success by growing the current network of 2,700 wholesale sites to nearly 5,000 by 2007. Not only does this strategy pay off because the company makes a significant uplift by selling this product into wholesale channels, it also pays because it takes this product out of the spot market enabling the company to optimize margins.



Another area of growth has been Valero's asphalt marketing business. The company sold more than 56,000 barrels per day of asphalt products in 2004, maintaining its position as the nation's second largest producer and marketer of asphalt and achieving record earnings.

Because of its winning strategy, Valero is not only one of the nation's largest retailers, it is now one of the most profitable.

***Gary Arthur**, Senior Vice President of Retail & Specialty Products Marketing, and **Gene Edwards**, Senior Vice President of Product Supply & Trading and Wholesale Marketing, (left to right) oversee Valero's successful retail and wholesale marketing programs. The retail division invested in top-performing stores, which resulted in greater per-store profits and a stronger network, and the wholesale group continued to expand from coast to coast, adding 520 branded outlets and re-imaging 860 existing sites.*

ARDMORE

OKLAHOMA

SAFETY PAYS

Valero's leadership in safety and environmental excellence has paid off as it has made the company a better neighbor and a better business.

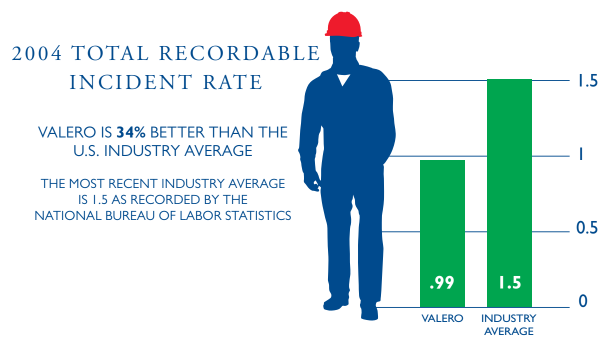
In 2004, Valero improved its safety performance in every area of its business and outperformed the industry as well. In fact, its U.S. refining system's total recordable incident rate of just 0.99 is 34 percent better than the industry average.

Driving this outstanding safety performance is Valero's strong commitment to OSHA's Voluntary Protection Program (VPP). In 2004, Valero's Wilmington and Ardmore refineries joined the prestigious list of VPP Star Sites, bringing the company's total to seven VPP Star Sites. Only 18 of the 149 U.S. refineries have achieved this designation.

As a result of the company's outstanding safety performance, the National Petrochemical & Refiners Association (NPRA) awarded 20 safety awards to eight of Valero's refineries, and gave its highest honor – the 2004 Distinguished Safety Award – to the company's Wilmington refinery.

In addition to being a safety leader, Valero is a leader in environmental excellence. The company has invested $1.2 billion in environmental projects over the last few years and plans to invest an additional $1.9 billion over the next three years.

These projects include everything from installing new, state-of-the-art scrubbers designed to remove sulfur dioxide and particulate emissions at nine of its refineries, to building additional sulfur recovery units at five plants to remove sulfur from refined products so that it's not emitted to the environment. Also, by implementing the latest control technology to improve combustion efficiency and improving operational reliability, Valero is on target to reduce greenhouse gases by approximately 1.8 million tons per year by 2008.



UNIQUE CULTURE—THE BIG PAY OFF

At Valero, Employees are the No. 1 Asset.

Valero's corporate culture can be summed up in one word: pride. The company's employees have pride in the company, their jobs, their fellow employees and their communities.

Employee pride is such an important part of the Valero culture that the company was honored with

*President **Greg King** and **Mary Rose Brown**, Senior Vice President of Corporate Communications, share the belief that if you take care of the employees, they will take care of the shareholders. So it is no surprise that Valero ranked No. 1 for earnings growth and shareholder return by Forbes, as well as a top employer by Fortune Magazine.*

the 2004 "Pride Award" from the Great Place to Work Institute. This national award is given to the company on Fortune Magazine's list of the "100 Best Companies to Work For" with the most employee pride.

On the heels of receiving this recognition, Valero was once again the only energy company ranked as one of Fortune's "100 Best Companies to Work For" in 2005. In fact, the company was ranked No. 3 among the largest employers on the list and No. 23 on the overall list.

In addition to being honored as a top employer, Valero was recognized as one of the top performers in its industry and in corporate America.

Valero was ranked No. 1 on Forbes' list of the "Platinum 400–Best Big Companies" for 2004 earnings growth and shareholder return; was listed as one of the "Best-Managed Companies in America" in Forbes' Jan. 10, 2005 edition; and was selected as the "2004 Oil Company of the Year" from companies around the world as part of the Platts Global Energy Awards program.

All of this success is the result of Valero's special caring and sharing spirit. Employees are the No. 1 asset at Valero so they do more for their company and their communities – proof that if you take care of the employees, they'll take care of the shareholders.

And without a doubt, Valero's five-year, total shareholder return of 380 percent versus the S&P's 11 percent *loss* is the biggest testament to the success of Valero's unique culture.

Executive Vice President & Chief Administrative Officer, ***Keith Booke,*** *accepts the United Way's Spirit of America award. Valero is only the second company to receive this prestigious award twice.*

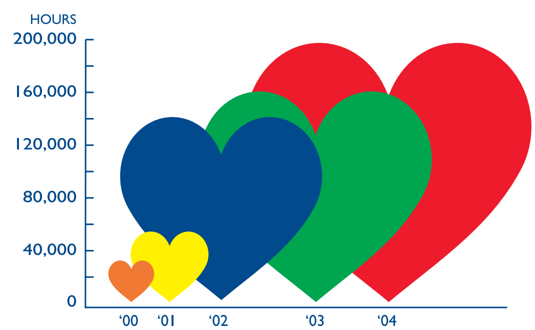
Valero's commitment to community service has touched tens of thousands of lives, helped hundreds of nonprofit groups, and positively impacted countless communities from Canada to California to the Caribbean.

In 2004, 95 percent of Valero's employees contributed to the United Way, donating a record-breaking $9 million when combined with the company match. As a result of its longstanding commitment to charity, Valero became only the second company to receive the United Way's highest national honor, the "Spirit of America" award, *twice*.

What's more, Valero led the way in raising an unprecedented $4 million for charity through the 2004 Valero Texas Open – making it one of the top five tournaments on the PGA TOUR in terms of charitable contributions. Valero's retail stores also raised a record-breaking $1.2 million for the Muscular Dystrophy Association and $857,000 for Children's Miracle Network.

In addition to these charitable contributions, Valero employees donated 200,000 volunteer hours to worthy projects in their communities. The company's volunteers did everything from hosting Christmas dinners for disadvantaged children and mentoring at-risk youth to delivering meals to the elderly.

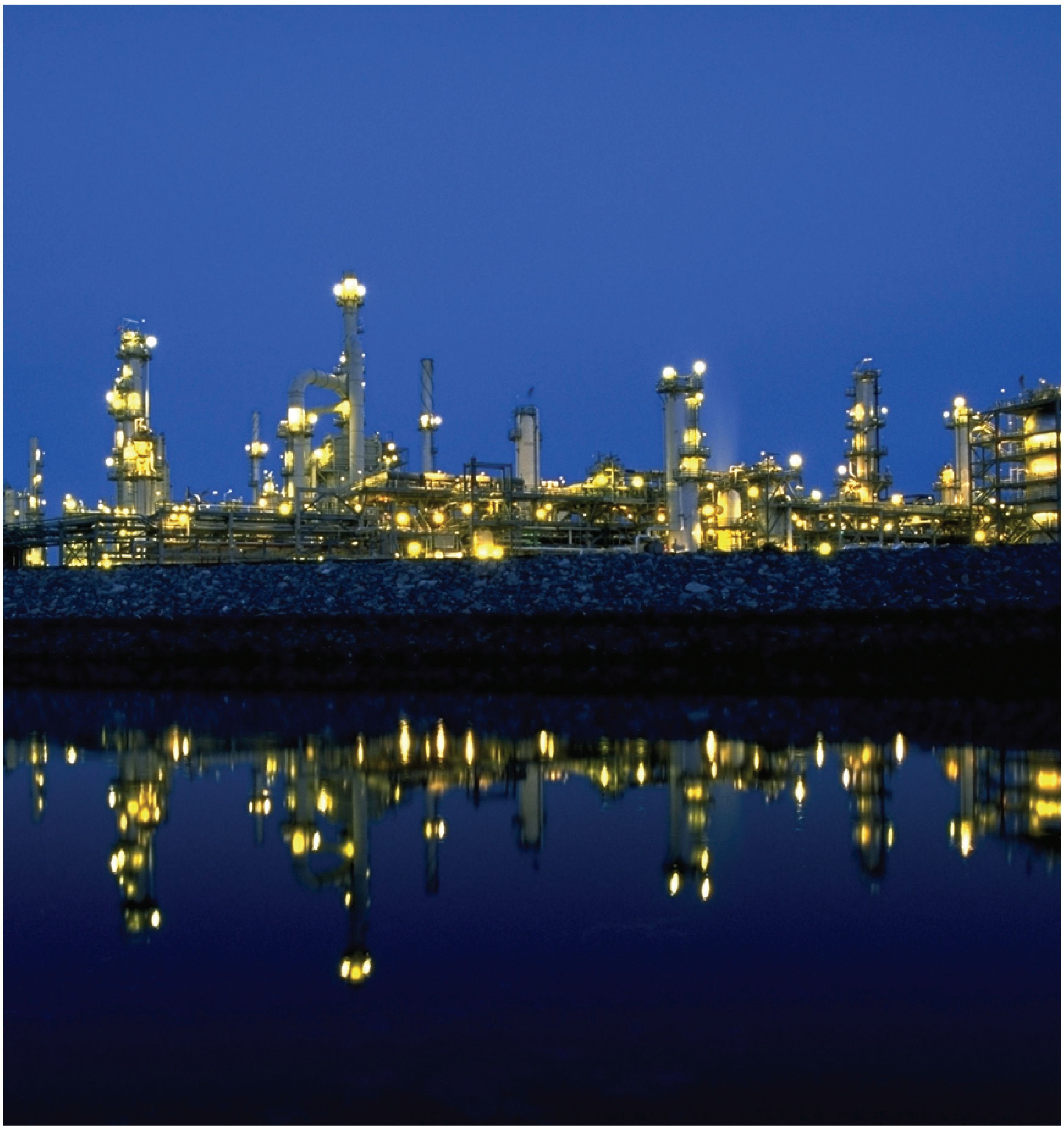
And, these are just a few examples of Valero's commitment to community service. Not only has this commitment provided great returns for the company's communities and employees, it has paid off for the shareholders as it has made Valero the success that it is today.



VOLUNTEER HOURS

CONDENSED CONSOLIDATED 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 2005 Annual Meeting of Stockholders and Valero's Form 10-K for the year ended December 31, 2004. These documents are provided to all shareholders of record as of March 1, 2005. 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 2004 Annual Report on Form 10-K and the Proxy Statement also may be accessed via the Company's web site at: www.valero.com.



REPORTS OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRMS

The Board of Directors and Stockholders of Valero Energy Corporation and Subsidiaries:

We have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Valero Energy Corporation and subsidiaries (the Company) as of December 31, 2004, and the related consolidated statements of income, stockholders' equity, cash flows and comprehensive income for the year then ended appearing in the Company's 2004 Annual Report on Form 10-K (not presented herein); and in our report dated March 11, 2005, also appearing in that Annual Report, we expressed an unqualified opinion on those consolidated financial statements.

In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 2004, and the related condensed consolidated statements of income and cash flows for the year then ended are fairly stated, in all material respects, in relation to the consolidated financial statements from which it has been derived.

KPMG LLP
San Antonio, Texas
March 11, 2005

To the Board of Directors and Stockholders of Valero Energy Corporation

We have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Valero Energy Corporation and subsidiaries (the Company) as of December 31, 2003, and the related consolidated statements of income, stockholders' equity, cash flows and comprehensive income for each of the two years in the period then ended, appearing in the Company's 2004 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.

In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 2003, and the related condensed consolidated statements of income and cash flows for each of the two years in the period 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,	2004	2003
ASSETS		
Current Assets	$ 5,264	$ 3,817
Property, Plant and Equipment, Net	10,317	8,195
Goodwill	2,401	2,402
Intangible Assets, Deferred Charges and Other Assets, Net	1,410	1,250
TOTAL ASSETS	$ 19,392	$ 15,664
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities	$ 4,534	$ 3,064
Long-Term Debt and Capital Lease Obligations, Less Current Portions	3,901	4,245
Deferred Income Taxes	2,011	1,605
Other Long-Term Liabilities	1,148	1,015
Stockholders' Equity	7,798	5,735
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 19,392	$ 15,664

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(millions of dollars, except per share amounts)

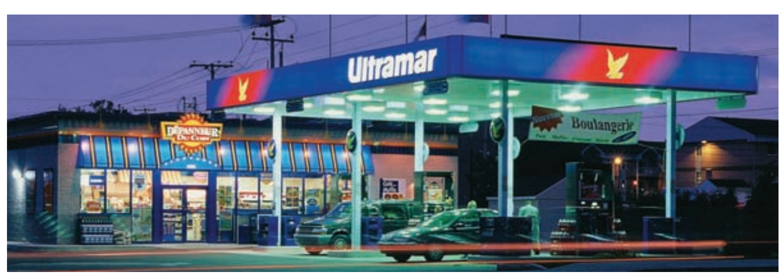
YEAR ENDED DECEMBER 31,	2004	2003	2002
OPERATING REVENUES	$ 54,619	$ 37,969	$ 29,048
COSTS AND EXPENSES:			
Cost of Sales	47,797	33,587	25,863
Refining Operating Expenses	2,141	1,656	1,332
Retail Selling Expenses	705	694	675
General and Administrative Expenses	379	299	258
Depreciation and Amortization Expense	618	511	449
TOTAL COSTS AND EXPENSES	51,640	36,747	28,577
OPERATING INCOME	2,979	1,222	471
EQUITY IN EARNINGS OF VALERO L.P.	39	30	—
OTHER INCOME (EXPENSE), NET	(48)	15	9
INTEREST AND DEBT EXPENSE, NET	(260)	(261)	(286)
MINORITY INTEREST IN NET INCOME OF VALERO L.P.	—	(2)	(14)
DISTRIBUTIONS ON PREFERRED SECURITIES OF SUBSIDIARY TRUSTS	—	(17)	(30)
INCOME BEFORE INCOME TAX EXPENSE	2,710	987	150
INCOME TAX EXPENSE	906	365	58
NET INCOME	1,804	622	92
PREFERRED STOCK DIVIDENDS	13	5	—
NET INCOME APPLICABLE TO COMMON STOCK	$ 1,791	$ 617	$ 92
EARNINGS PER COMMON SHARE (a)	$ 7.02	$ 2.69	$ 0.43
Weighted Average Common Shares Outstanding (in millions) (a)	255.1	229.7	211.6
EARNINGS PER COMMON SHARE — ASSUMING DILUTION (a)	$ 6.53	$ 2.55	$ 0.42
Weighted Average Common Equivalent Shares Outstanding (in millions) (a)	276.1	244.0	220.2
DIVIDENDS PER COMMON SHARE (a)	$ 0.29	$ 0.21	$ 0.20

(a) Share and per share amounts for 2003 and 2002 have been adjusted to reflect the effect of a two-for-one stock split, which was effected in the form of a stock dividend distributed on October 7, 2004.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(millions of dollars)

YEAR ENDED DECEMBER 31,	2004	2003	2002
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net Income	$ 1,804	$ 622	$ 92
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:			
Depreciation and Amortization Expense	618	511	449
Deferred Income Tax Expense	345	287	2
Changes in Current Assets, Current Liabilities & Other, Net	190	333	(271)
Net Cash Provided by Operating Activities	2,957	1,753	272
CASH FLOWS FROM INVESTING ACTIVITIES:			
Capital Expenditures and Deferred Turnaround and Catalyst Costs	(1,596)	(1,112)	(780)
Buyout of Assets Under Structured Lease Arrangements	(567)	(275)	—
Proceeds from Sale of Assets to Valero L.P.	—	380	—
Proceeds from Sale of Tesoro Notes	—	90	—
Proceeds from Disposition of Assets Held for Sale	—	—	1,226
Payments Related to the Golden Eagle Business	—	—	(183)
Acquisitions and Investments	(577)	(451)	—
Contingent Payments in Connection with Acquisitions	(53)	(51)	(24)
Other, Net	108	88	10
Net Cash Provided by (Used in) Investing Activities	(2,685)	(1,331)	249
CASH FLOWS FROM FINANCING ACTIVITIES:			
Cash Payment to UDS Shareholders	—	—	(2,055)
Debt and Capital Lease Borrowings (Repayments), Net	63	(357)	1,642
Redemption of Preferred Securities of Subsidiary Trust	—	(200)	—
Proceeds from Common Stock Offerings, Net	406	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	(79)	(51)	(42)
Issuance (Repurchase) of Stock, Net	(183)	26	57
Net Cash Provided by (Used in) Financing Activities	207	(136)	(412)
VALERO L.P.'S CASH BALANCE AS OF THE DATE THAT VALERO CEASED CONSOLIDATION	—	(336)	—
EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CASH	15	40	1
NET INCREASE (DECREASE) IN CASH AND TEMPORARY CASH INVESTMENTS	494	(10)	110
CASH AND TEMPORARY CASH INVESTMENTS AT BEGINNING OF YEAR	369	379	269
CASH AND TEMPORARY CASH INVESTMENTS AT END OF YEAR	$ 863	$ 369	$ 379



CONDENSED CONSOLIDATED 5-YR FINANCIAL & STATISTICAL REVIEW

(millions of dollars, except per share and per barrel amounts)

	2004(a)	**2003**(b)	**2002**(c)	**2001**(d)	**2000**(e)
OPERATING RESULTS FOR YEAR ENDED DECEMBER 31:					
Operating Revenues	**$ 54,619**	$ 37,969	$ 29,048	$ 14,988	$ 14,671
Operating Income	**$ 2,979**	$ 1,222	$ 471	$ 1,001	$ 611
Net Income	**$ 1,804**	$ 622	$ 92	$ 564	$ 339
Earnings per Common Share (f)	**$ 7.02**	$ 2.69	$ 0.43	$ 4.64	$ 2.90
Earnings per Common Share—Assuming Dilution (f)	**$ 6.53**	$ 2.55	$ 0.42	$ 4.42	$ 2.80
FINANCIAL POSITION AS OF DECEMBER 31:					
Current Assets	**$ 5,264**	$ 3,817	$ 3,536	$ 4,136	$ 1,285
Property, Plant and Equipment, Net	**10,317**	8,195	7,412	7,217	2,677
Goodwill	**2,401**	2,402	2,580	2,211	—
Intangible Assets, Deferred Charges and Other Assets, Net	**1,410**	1,250	937	836	346
Total Assets	**$ 19,392**	$ 15,664	$ 14,465	$ 14,400	$ 4,308
Current Liabilities	**$ 4,534**	$ 3,064	$ 3,006	$ 4,753	$ 1,039
Long-Term Debt and Capital Lease Obligations, Less Current Portions	**3,901**	4,245	4,494	2,805	1,042
Deferred Income Taxes	**2,011**	1,605	1,241	1,388	407
Other Long-Term Liabilities	**1,148**	1,015	927	763	120
Company-Obligated Preferred Securities of Subsidiary Trusts	**—**	—	373	373	173
Minority Interest in Valero L.P.	**—**	—	116	115	—
Stockholders' Equity	**7,798**	5,735	4,308	4,203	1,527
Total Liabilities and Stockholders' Equity	**$ 19,392**	$ 15,664	$ 14,465	$ 14,400	$ 4,308

YEAR ENDED DECEMBER 31,	2004(a)	2003(b)	2002(c)	2001(d)	2000(e)
COMMON STOCK DATA:					
Dividends per Common Share (f)	**$ 0.29**	$ 0.21	$ 0.20	$ 0.17	$ 0.16
Number of Shares Outstanding, End of Year (in millions) (f)	**255.5**	240.5	214.3	208.4	121.7
Number of Registered Shareholders, End of Year	**6,554**	6,564	7,174	7,265	5,207
Market Price (f):					
High	**$ 47.82**	$ 23.54	$ 24.99	$ 26.30	$ 19.32
Low	**$ 22.85**	$ 16.10	$ 11.58	$ 15.75	$ 9.25
CAPITALIZATION RATIOS (NET OF CASH): (g)					
Long-Term Debt and Capital Lease Obligations, including Current Portions, and Short-Term Debt	**31 %**	40 %	50 %	53 %	40 %
Stockholders' Equity and Other	**69 %**	60 %	50 %	47 %	60 %
OTHER DATA:					
Capital Expenditures and Deferred Turnaround and Catalyst Costs	**$ 1,596**	$ 1,112	$ 780	$ 536	$ 302
Number of Employees, End of Year	**19,879**	19,741	19,878	22,355	3,129
OPERATING STATISTICS:					
Throughput Volumes (mbbls per day)	**2,162**	1,835	1,595	1,001	857
Throughput Margin per Barrel	**$ 7.44**	$ 5.13	$ 4.02	$ 6.12	$ 5.08
Operating Costs per Barrel:					
Refining Operating Expenses	**$ 2.70**	$ 2.47	$ 2.29	$ 2.31	$ 2.18
Depreciation and Amortization	**0.66**	0.63	0.66	0.63	0.53
Total Operating Costs per Barrel	**$ 3.36**	$ 3.10	$ 2.95	$ 2.94	$ 2.71

(a) Includes the operations related to the Aruba Acquisition beginning March 5, 2004.

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

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

(d) Includes the operations related to the acquisitions from Huntway Refining Company and El Paso Corporation 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.

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

(f) Share and per share amounts for 2003, 2002, 2001 and 2000 have been adjusted to reflect the effect of a two-for-one stock split, which was effected in the form of a stock dividend distributed on October 7, 2004.

(g) 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 from Bottom

Bob Marbut is Chairman of the Board and Chief Executive Officer of SecTecGLOBAL, Inc. and Argyle Communications, Inc. He also serves as a director of Tupperware Corporation and Hearst-Argyle Television, Inc., and is Executive Chairman of Electronics Line 3000 Ltd. Previously, Mr. Marbut served as Chief Executive Officer of Hearst-Argyle Television, Inc., Argyle Television, Inc., Argyle Television Holding, Inc. and Harte-Hanks Communications, Inc.

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.

Senator Don Nickles served in the Oklahoma State Senate for two years, and then went on to serve in the U.S. Senate for 24 years. As a U.S. Senator, he held many leadership positions and served on several key committees, including the Budget and the Energy and Natural Resources Committees. Upon his retirement, he formed The Nickles Group, a Washington-based consulting and business venture firm. Senator Nickles also serves on the Board of Chesapeake Energy Corporation.

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.

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.

Dr. Susan Kaufman Purcell is the Director of the Center for Hemispheric Policy at the University of Miami. Additionally, she serves as a director of The Brazil Fund, Inc., Scudder Global High Income Fund, Inc., Scudder New Asia Fund, Inc. and Scudder Global Commodities Stock Fund, Inc. Previously, she served as Vice President of the Americas Society and as Vice President of the Council of the Americas.

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 an equity ownership interest.

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

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 as Chairman of the Board of City Public Service, San Antonio's gas and electricity utility company.

SHAREHOLDER INFORMATION

Valero Corporate Headquarters

One Valero Way
San Antonio, TX 78249-1616
(210) 345-2000

Web Site

www.valero.com

Investor Inquiries

For investor inquiries, please contact:

Investor Relations Department
P.O. Box 696000
San Antonio, TX 78269-6000
(800) 531-7911 or (210) 345-2198
(210) 345-2103 (fax)
investorrelations@valero.com

Media Inquiries

For media inquiries, please contact:

Corporate Communications Department
P.O. Box 696000
San Antonio, TX 78269-6000
(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 at 10:00 a.m., Thursday, April 28, 2005, at Valero's corporate headquarters 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 Common 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 shares 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 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 2005 Annual Meeting of Stockholders Proxy Statement and Form 10-K for the year ended December 31, 2004. This document is provided to all stockholders of record as of March 1, 2005. In addition, persons may request, without charge, a Form 10-K by writing or calling Valero's Investor Relations Department. Valero's 2004 Annual Report on Form 10-K and the Proxy Statement also may be accessed via our web site at: **www.valero.com**.

Printed in the U.S.A.

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