

# No 1

REFINER IN NORTH AMERICA



1 HISTORIC YEAR TOPPING OFF  
25 YEARS OF ACHIEVEMENT



VALERO  
ENERGY CORPORATION  
*2005 Summary Annual Report*

# CONTENTS



FINANCIAL HIGHLIGHTS	1
LETTER TO SHAREHOLDERS	2
THUMBS UP FOR ANOTHER RECORD YEAR	6
VALERO HAS GROWN HAND OVER FIST	8
A HANDS-ON APPROACH TO OPERATIONS	12
HANDS DOWN THE BEST STRATEGY	14
VALERO'S BRAND ROLL-OUT GRABS NATIONAL ATTENTION	16
SAFETY, RELIABILITY & PROFITABILITY GO HAND IN HAND	18
EMPLOYEES SINGLE-HANDEDLY MADE VALERO AMERICA'S THIRD BEST EMPLOYER	20
LENDING A HELPING HAND TO OUR COMMUNITIES	22
CONDENSED FINANCIAL STATEMENTS	24
YOU'VE GOT TO HAND IT TO OUR EMPLOYEES FOR THE MANY HONORS THEY'VE EARNED	30
BOARD OF DIRECTORS	31
THE NYSE HANDED OUT COMPLIMENTS FOR MARKING 25 YEARS OF SUCCESS	32
SHAREHOLDER INFORMATION	33



# 25 YEARS OF ACHIEVEMENT

**MADE US NORTH AMERICA'S NUMBER ONE REFINER**

## 2005 TOTAL SHAREHOLDER RETURN

**VLO 128%**

**S&P 500 5%**

## FINANCIAL HIGHLIGHTS

*(Millions of Dollars, Except per Share Amounts)*

	2005	2004
OPERATING REVENUES	<b>\$82,162</b>	\$54,619
OPERATING INCOME	<b>\$ 5,459</b>	\$ 2,979
NET INCOME	<b>\$ 3,590</b>	\$ 1,804
EARNINGS PER COMMON SHARE – ASSUMING DILUTION	<b>\$ 6.10</b>	\$ 3.27
TOTAL ASSETS	<b>\$32,728</b>	\$19,392
STOCKHOLDERS' EQUITY	<b>\$15,050</b>	\$ 7,798
CAPITAL EXPENDITURES AND DEFERRED TURNAROUND AND CATALYST COSTS	<b>\$ 2,574</b>	\$ 1,596

## 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, 2005, which is provided to all shareholders.*





## BILL GREEHEY

CHAIRMAN OF THE BOARD

## BILL KLESSE

CHIEF EXECUTIVE OFFICER &  
VICE CHAIRMAN OF THE BOARD

Pictured at the Valero Memphis Refinery, one of the assets purchased as part of the Premcor acquisition, which catapulted Valero to become the No. 1 refiner in North America.



# THE BUSINESS AT HAND

## A LETTER TO OUR SHAREHOLDERS

It was 25 years ago this month that the first Valero Energy Corporation annual report rolled off the presses. The report's stark cover didn't feature a photo, a graphic or even a logo.

It simply said: "Valero Energy Corporation had a record year which exceeded all expectations. The company moved significantly nearer a major goal: sustained earnings growth from an expanding operating base." — 1980 Annual Report

After six tough years of litigation, which led to the \$1.6 billion settlement of 400 lawsuits against Coastal subsidiary LoVaca Gathering Company, Valero spun off as a separate publicly traded company from Coastal on Jan. 1, 1980. At the time, it was the largest spin-off in the history of Corporate America. While we had great plans and high hopes for the fledgling company, none of us could ever have envisioned the tremendous growth and success that Valero would achieve over the next 25 years!

Since the spin-off, our revenues have climbed from \$1.3 billion to \$82 billion. Total assets have jumped from \$649 million to \$33 billion. And, along with the growth in our asset base, our employee count has swelled from 1,594 employees in 1980 to 21,923 today.

Not surprisingly, the company's business has changed just as dramatically. Valero has grown from a regional energy company in the natural gas industry to become the largest refiner in North America. Today, our operations have expanded to include 18 refineries stretching from the U.S. West Coast to the East Coast and from Canada to the Caribbean.

Valero has also added 5,000 retail and branded wholesale sites in 34 U.S. states. And, this was a big year because Valero signs began dotting the landscape throughout the U.S. as we launched our nationwide roll-out of the Valero retail brand!

**With our record growth has come record earnings.** Valero has achieved 10 consecutive quarters of record earnings. 2005 was the best year in history with net income of \$3.6 billion versus \$64 million 25 years ago. What a difference a quarter-of-a-century can make!

Of course, I am proud to say that our shareholders have shared in our success. In fact, total shareholder return is up 480 percent over the past five years, which compares to a 3 percent increase for the S&P 500 Index for that same period! And, in 2005 alone, shareholder

value has increased 128 percent compared to the S&P's 5 percent increase.

**From these record results, it is obvious that we have had the right strategy.** In 1996, we believed that we were at the bottom of the refining cycle and that we could purchase refining assets for pennies-on-the-dollar of replacement costs. We also believed that historically low refining margins would improve as global demand continued to grow and as the worldwide movement toward cleaner fuels tightened refined product supplies. And, we further believed that the future would belong to the refiners that could process low-cost, heavy sour crude and residual oils that sell at a big discount to easier-to-refine, sweet crude oil.

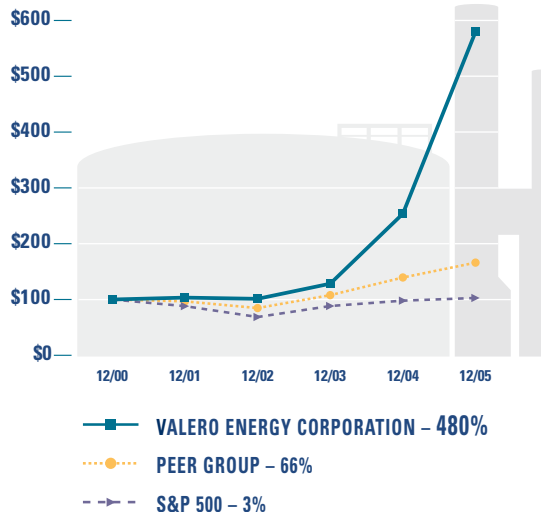
And, we were right on all counts! In 1997, we sold our natural gas liquids and pipelines business for a record \$1.5 billion to PG&E, and spun off our single refinery in Corpus Christi, Texas, to our shareholders as the new Valero. It was a bold move, but one that has paid big dividends for *all* our stakeholders -- employees, communities *and* shareholders!

We began a series of refinery acquisitions, many of which were purchased for just 10 to 20 percent of replacement cost. This string of successful acquisitions culminated in 2005 with our purchase of Premcor Inc. for \$7 billion. The four Premcor refineries added approximately 800,000 barrels per day (BPD) of refining capacity and brought our total throughput to 3.3 million BPD - making Valero the largest refining company in North America!

This acquisition not only made us bigger; it made us better! In 2006, we estimate that we



5-YEAR TOTAL CUMULATIVE SHAREHOLDER RETURN





[Above] Valero's Port Arthur refinery, part of the Premcor acquisition, has a throughput capacity of 295,000 BPD.

will process an additional 250,000 BPD of medium and heavy sour crude as a result of the acquisition of the Premcor refineries alone. This is important when you consider that the sour crude oil discount reached record levels in 2005, averaging \$15.58 per barrel for Maya and \$6.88 for Arab Light/Medium.

It is not surprising then that the former Premcor refineries alone contributed \$810 million to operating income in the last four months of 2005, or about 24 percent of our total operating income for refining during that time. We now believe the Premcor acquisition will be 20 percent accretive to earnings in 2006, far surpassing the 14 percent accretion we estimated at the time we announced the acquisition.

Even with all of the acquisitions we've completed, Valero has never been in stronger financial shape. We have a debt-to-capitalization ratio of only 25 percent, which is even more impressive when you consider we started 2005 at about 31 percent and took on additional debt with the Premcor acquisition. That's a strong testament to our great financial success in 2005!

**Another key factor to our success has been our ability to upgrade and expand our refining assets.** In addition to the refineries we have acquired, we have added 533,000 BPD of refining capacity since we entered the refining business in 1981, which is the equivalent of building three grassroots world-scale refineries! And we don't just grow our refineries, we also make them safer, more reliable and more profitable.

This year alone, capital improvement projects are expected to add nearly \$200 million in operating income. It is also true that safety and reliability go *hand-in-hand*, and I am proud that out of 149 refineries in the U.S., Valero

has 10 of only 20 OSHA-certified VPP Star Sites, a designation reserved for the nation's premier examples of industrial safety.

At Valero, environmental safety has also been one of the company's highest priorities. We are proud to be the only refiner to ever win the Governor's Award for Environmental Excellence in Texas, and we are proud that we remain on track to reduce greenhouse gas emissions by nearly two million tons per year by 2008.

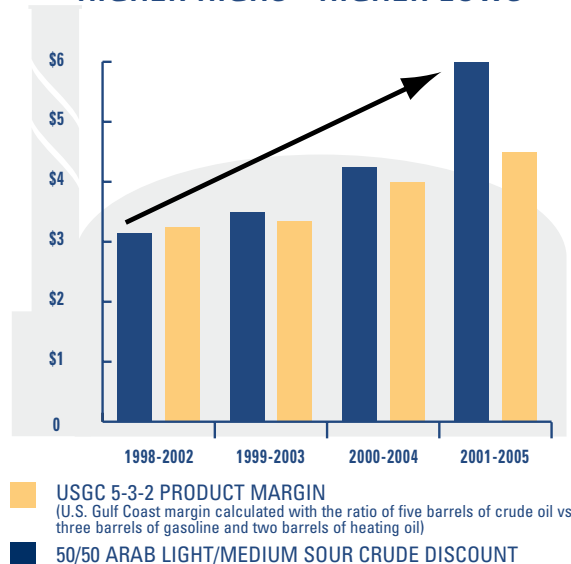
**So, as we reflect on the last 25 years, we can see that Valero's success has been fueled by a number of factors.** Certainly, we have had the right strategy. Valero's aggressive acquisition and capital investment strategy fueled the company's record growth as we added much-needed refining capacity to meet growing consumer demand. Valero not only acquired refineries for pennies-on-the-dollar of replacement costs, but we also invested to make them significantly more profitable.

And of course, one of Valero's biggest advantages has been our strategy of configuring our refineries to process less-expensive heavier, sour crude oil. That has enabled us to turn deep discounts for sour crude oil into record profits.

**But the biggest reason for our success has been our unique culture.**

At Valero, we really do treat our employees as our No. 1 asset. As a result, our employees do more for the company,

#### HIGHER HIGHS • HIGHER LOWS





more for the communities in which they live and more for the shareholders. Never was this more evident than during the back-to-back hurricanes that we experienced in 2005.

These two storms damaged our refineries in St. Charles, Louisiana and Port Arthur, Texas, and threatened five of our other plants along the Gulf Coast. We vowed to do whatever was necessary to help our employees and communities recover.

In response to the company's outpouring of support, our St. Charles and Port Arthur employees worked around the clock and restarted our refineries in record time during a time of record refining margins. They proved yet again that our unique caring and sharing culture has tangible benefits for our shareholders.

I served as CEO of Valero and its predecessor for almost 32 years, but I have to say the response of Valero and our employees during hurricanes Katrina and Rita this past year was one of my proudest moments. The wife of one of our St. Charles employees may have summed it up best when she wrote to the local newspaper and said she was proud to be associated with Valero because we did what FEMA could not do to assist our employees and the community in post-hurricane relief efforts.

As you may know, 2005 was also the year I stepped down as CEO of Valero. It was a very

difficult decision for me because I really do love the Valero employees like family.

But, because the Valero spirit has never been stronger and the company has never been more successful, I feel it's a good time for me to transition out of my role as CEO and focus on my position as Chairman. This will give me the opportunity to continue to be involved in the strategic direction of Valero as well as employee, civic and governmental initiatives. And, it will also give me a little more free time to spend with my family and to work on some important philanthropic initiatives.

During my tenure as CEO, the company has achieved record growth and success, but my proudest achievement has been Valero's unique caring and sharing culture. As I always tell our employees, we won't be remembered for how many refineries we acquired or how much shareholder value we created, however we will be remembered for the difference we've made in the lives of those who are less fortunate.

As a result of our unique culture, we reached No. 3 – our highest ranking yet – on FORTUNE's 2006 list of the "100 Best Companies to Work For"; we earned the Spirit of America award, United Way's top national honor, *twice*; and we were ranked the third best-performing stock in 2005 by Forbes. It really says a lot about Valero that we would receive top honors for being a great employer, a generous corporate citizen and a top-performing stock. And, it shows that you really can take care of all stakeholders!

As Chairman, my highest priority will be to preserve our unique culture because it has been the cornerstone of all our success during the past 25 years and will be the key to our success in the future.

We are fortunate to have one of the best leadership teams around, and I am happy that Bill Klesse has assumed the position of CEO and Vice Chairman of the Board.

As Executive Vice President and COO, Bill did a great job of overseeing our refining and commercial operations. With 37 years of industry experience, he has held leadership positions in many different areas in the refining and marketing business. I worked closely with Bill for several years and became confident in his business judgment as well as his commitment to Valero.

I look forward to working with Bill in his new role as we continue Valero's tremendous growth and success in the coming years.

With such a great company and such great employees, I have no doubt that *the best is yet to come!*

*Bill Guesley*

Chairman of the Board



[Left] Valero signs started popping up across the U.S. as part of the roll-out of the Valero brand.

[Below] After Hurricane Katrina, Valero executives traveled to the company's St. Charles refinery to offer support to employees.



# THUMBS UP

FOR ANOTHER RECORD YEAR







After 25 years of achievement, 2005 was the best year in Valero history!

Everyone, from the board members and employees to the company's business partners, had a *hand* in Valero's success. Thanks to their hard work and dedication, Valero broke records in virtually every area of its business:

- Achieving its best stock performance in a single year, Valero's total shareholder return climbed to 128 percent versus the S&P 500 Index's 5 percent return.
- Net income hit \$3.6 billion, or \$6.10 per common share, the highest earnings in Valero's 25-year history.
- Revenues jumped to a record \$82 billion and assets reached a new high of \$33 billion.
- As a result of the Premcor Inc. acquisition, throughput capacity reached an unprecedented 3.3 million barrels per day (BPD).
- With coast-to-coast operations, the company's refining system grew to become the most geographically diverse of any U.S. refiner.
- Valero became the nation's leader in conversion capacity as it can upgrade more low-quality, less-costly feedstocks into premium products than its peers.
- Valero also assembled the largest retail/branded wholesale network in its history with approximately 5,000 locations in the U.S., Canada and the Caribbean.
- Valero maintained its dominance as:
  - o one of the nation's largest wholesale marketers, selling products through a bulk and rack marketing network in 40 U.S. states, Canada and Latin America;
  - o the largest U.S. producer of petroleum coke, supplying power generation customers and cement manufacturers;

- o the second largest U.S. producer of asphalt, selling to customers in the paving and roofing industries; and
- o one of the nation's largest producers of sulfur with sales primarily to agricultural customers.
- Valero earned more Star Sites in OSHA's Voluntary Protection Program, which recognizes the best industrial safety programs, than any other U.S. refiner. Out of the nation's 149 refineries, there are only 20 Star Sites and Valero owns half of them.
- Valero's commitment to community service reached new heights, with the company and its employees contributing approximately \$45 million and 220,000 volunteer hours to worthy causes.
- Additionally, the company reached No. 3 – its highest ranking ever – on FORTUNE's "100 Best Companies to Work For" list.

With a strong commitment to maintaining safe, reliable and environmentally sound operations, building shareholder value and taking care of its employees and communities, Valero should continue to *hand in* great results in the coming years!

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**“Valero Energy was the top-performing stock on the blue-chip list of Standard & Poor's 500. Thanks to refinery acquisitions in 2005, Valero became the largest North American refining company and is quickly becoming a national household trade name...”**

*-- Columnist David Hendricks, San Antonio Express-News, January 4, 2006*

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# VALERO HAS GROWN

HAND OVER FIST





As part of Valero's senior management team, Mike Ciskowski, Executive Vice President & Chief Financial Officer [left], and Gene Edwards, Executive Vice President - Corporate Development & Strategic Planning, have helped make Valero the No. 1 refiner in North America through strategic acquisitions and capital improvements.

Valero employees have had their *hands full* literally and figuratively during the past eight years.

The company began aggressively acquiring refining assets in 1997 because Valero leaders foresaw that the worldwide movement toward cleaner fuels would tighten refined product supplies – making refineries and refined products significantly more profitable. They also predicted that the future would belong to those refiners that could process cheaper, heavier and more sour feedstocks into premium products.

As they noted in the company's 1996 annual report, "The ability to visualize a changing future is what separates tomorrow's success story from today's competition."

That certainly has proven true for Valero! The company has experienced unprecedented success because its leaders not only saw this unique opportunity, they seized it!

Valero has implemented a winning strategy of acquiring assets for a fraction of their replacement cost and investing in them to improve operations and enable them to process less costly feedstocks.

The company's steadfast pursuit of refineries that meet its acquisition criteria – capacity in excess of 100,000 BPD, upgrade potential, good supply logistics and synergies with its system – has led to record success.

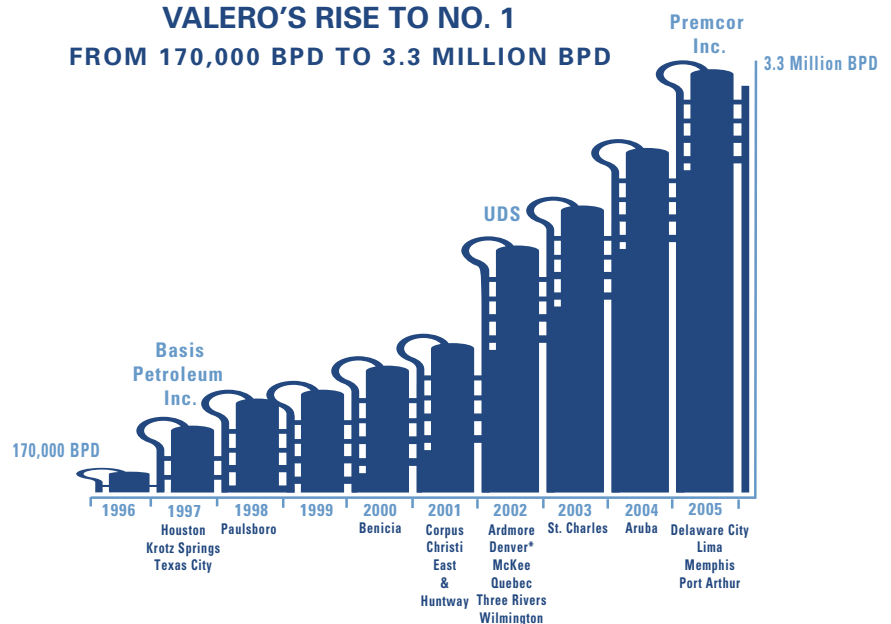
Valero has gone from one refinery with 170,000 BPD of capacity to 18 plants with 3.3 million BPD of capacity. But the real testament to its success has been the 10 consecutive quarters that Valero has achieved record earnings.

"He kind of built a jigsaw puzzle and all of a sudden it became so clear, I said, 'My God, this actually looks a lot better than many people think.' ... He was right. He was absolutely right."

-- Fadel Gheit, Wall Street analyst quoted by the Associated Press about the logic of Bill Greehey's huge bet on refining, January 2006

2005 was a capstone to the past eight years of unprecedented growth and success, as the Premcor acquisition catapulted Valero to become the No. 1 refiner in North America.

### VALERO'S RISE TO NO. 1 FROM 170,000 BPD TO 3.3 MILLION BPD



\*Denver refinery was divested in 2005.





The former Premcor plants pumped out \$810 million in operating income in the last four months of 2005 alone – about 24 percent of Valero’s refining segment income during that period. That was despite the fact that the Port Arthur refinery was shuttered for nearly three weeks and ran at reduced rates for another two weeks as a result of Hurricane Rita.

Similarly, the Aruba and St. Charles refineries, acquired in 2004 and 2003 respectively, have been among the best acquisitions in Valero history. The company implemented smooth transitions, invested in operational improvements, captured synergies with other Valero plants, benefited from higher margins, and improved profitability. The result: both of these acquisitions paid out within about a year of being purchased.

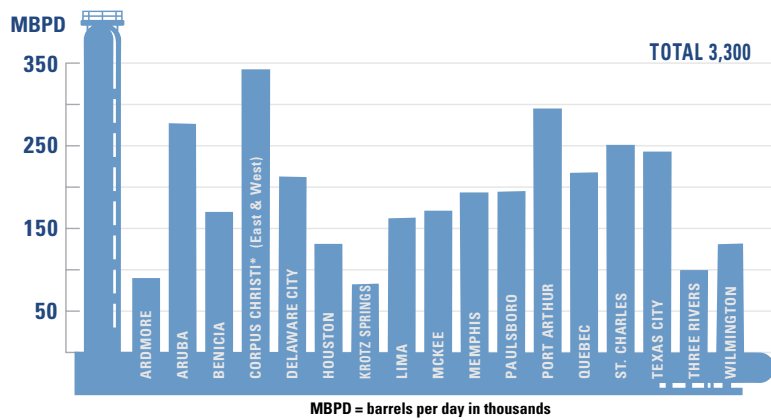
Success stories like these have been repeated time and again at Valero.

“Valero’s fourth fiscal quarter [results] underscored that the renaissance in refining--particularly for processors who can run heavy sour crude or re-refine residual fuel--is in full bloom.”

-- Tom Kloza, *Oil Price Information Service*, February 2005

With its operations *well in hand*, the company is in a great position to continue achieving great success in the coming years.

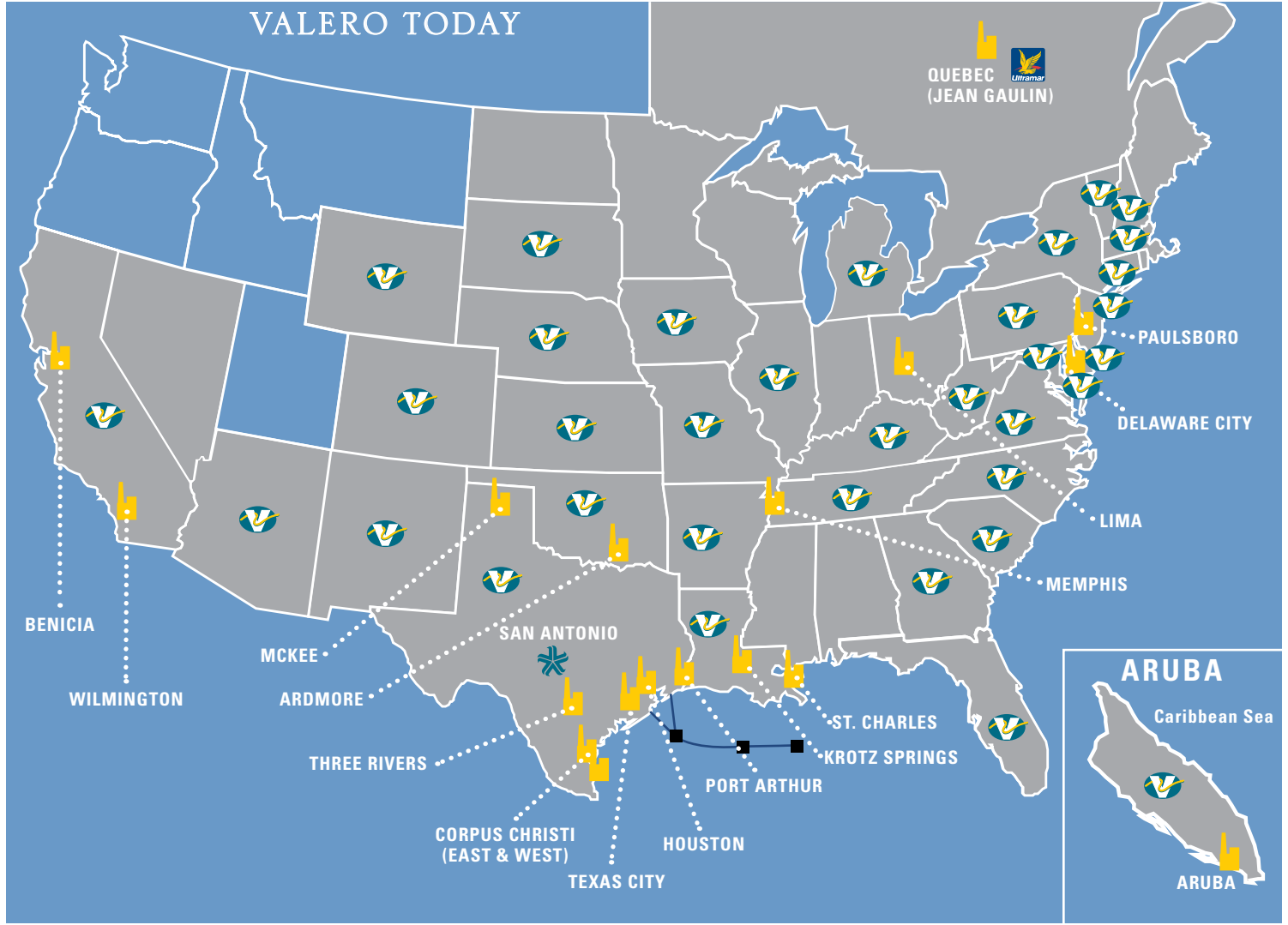
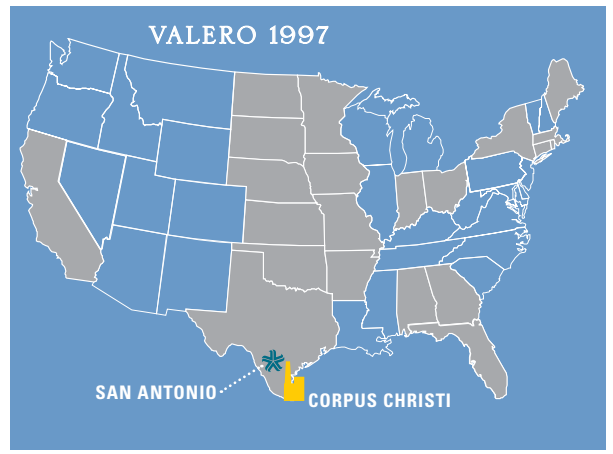
### REFINERY THROUGHPUT CAPACITY



Throughput Capacity: Crude and other feedstocks imported into the refinery and processed in one of the processing units. Imported blendstocks are not included.  
\* Corpus Christi is comprised of two plants.



# A FIRST-HAND LOOK AT VALERO'S COAST-TO-COAST OPERATIONS



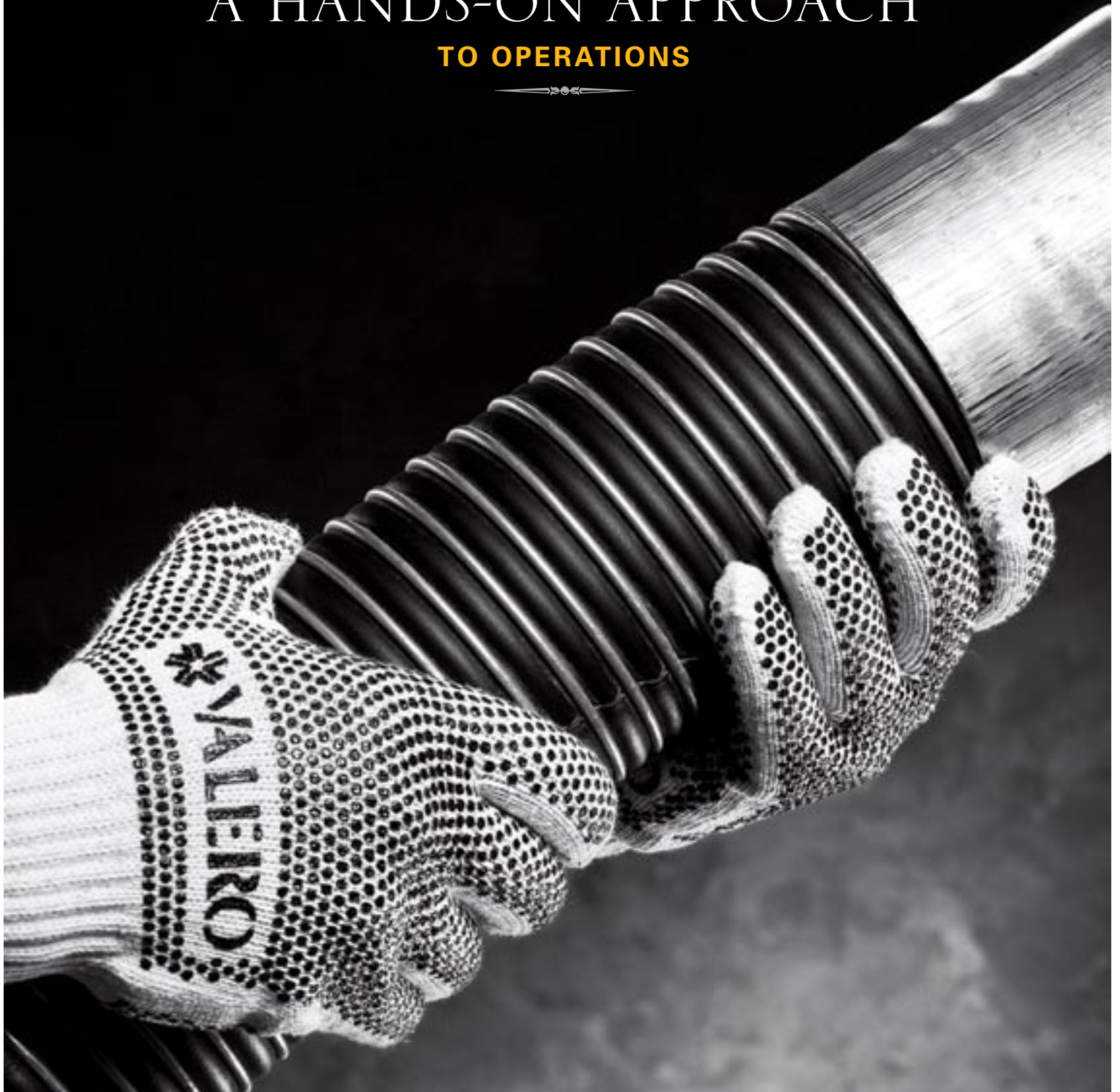
**LEGEND**

- RETAIL & BRANDED WHOLESALE PRESENCE  
- WHOLESALE MARKETING PRESENCE 
- VALERO REFINERIES 
- CAMERON HIGHWAY OIL PIPELINE PROJECT (JOINT VENTURE) 
- THIRD-PARTY OFF SHORE PLATFORMS 
- VALERO HEADQUARTERS 

In 1997, Valero owned one refinery in Corpus Christi, Texas. Today, the company is the most geographically diverse refiner in the U.S. with operations *all over the map!*



# A HANDS-ON APPROACH TO OPERATIONS





At Valero, employees' *hands-on* approach to operations was borne out of necessity in the early years, but has proven to be the key to profitability.

In the early 1980s, Valero employees transformed two small refining units in Corpus Christi, Texas, into one of the world's most technologically advanced and profitable refineries. In their pursuit to build the refinery of the future, these employees developed an expertise in configuring units to run residual fuel oil – the bottom of the barrel after being processed by less complex refineries – and produce premium products. They turned what some called “garbage” into gold.

Since 1997, Valero has pursued this successful strategy on a much larger scale, earning a reputation for acquiring distressed refineries at deep discounts and making strategic investments to improve their profitability.

As Valero has added 17 refineries to its network, it has attracted some of the world's leading refining experts in everything from cat crackers to coke gasification. Not only have they spread the Valero spirit at newly acquired refineries – prioritizing safety, mentoring employees and sharing best practices – but they have consistently optimized key units to maximize profitability.

Their charge has been to ensure that Valero's immense 3.3 million-BPD refining system hums along safely, reliably and efficiently day in and day out. And their passion has been to improve yields, increase capacity, capture synergies, reduce operating costs and configure plants to process deeply discounted feedstocks. Of course, the ultimate goal of all of these strategies is to make the company's refining system more profitable.

And they've succeeded in a big way!

“The company is the ultimate fixer-upper, transforming ailing refineries hemorrhaging money into well-run, highly profitable operations.”

-- CSP Magazine, January 2006

The nation's leader in conversion capacity, Valero is able to upgrade more low-quality feedstocks into higher-value fuels than its peers. And as a result of capital investments, the company has added 533,000 BPD of throughput capacity – the equivalent of building three world-scale refineries.

Valero employees' expertise in expanding, upgrading and improving operations has contributed to the company's record success in



Rich Marcogliese, Executive Vice President – Operations [left], visits with employee Steve Brewer about improvements being made at the newly acquired Memphis refinery. Valero's strategy of investing to improve yields, increase capacity, capture synergies, reduce operating costs and process less costly sour feedstocks is key to its success.

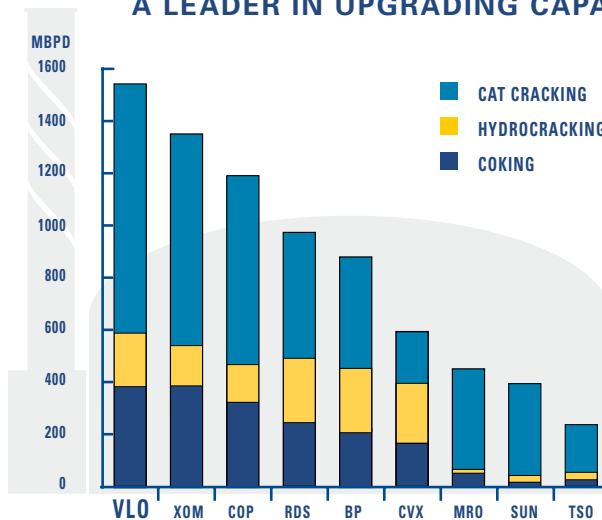
recent years. In fact, capital projects in 2005 and 2006 are expected to add nearly \$200 million in operating income this year alone!

Valero has achieved this success by turning around struggling facilities, like the St. Charles refinery, which was purchased out of bankruptcy in 2003. After investing time and money to improve the refinery's performance in every area, St. Charles claimed the title of Valero's third most profitable refinery in 2005.

There is a similar story at virtually every Valero refinery. That's because of the company's successful acquisition strategy, expertise in improving and upgrading refineries, superior operational flexibility, synergistic refining system and focus on safe, reliable and environmentally sound operations.

But the No. 1 reason for Valero's success: its dedicated and hard-working employees know the refining business like the *back of their hands!*

### A LEADER IN UPGRADING CAPACITY



Valero's upgrading capacity, which is the highest in its peer group, provides superior operational flexibility. Note: Includes US, Canada & Caribbean  
Source: Oil & Gas Journal, Company Web Sites

# HANDS DOWN

THE BEST STRATEGY





Wade Upton, Senior Vice President – Transportation Services [left], and Bob Beadle, Senior Vice President – Crude & Feedstock Supply & Trading [center], work together to secure and ship the most economical crude oils and feedstocks to Valero’s 18 refineries. Processing deeply discounted feedstocks was a big advantage in 2005 as discounts reached record levels.

Never afraid to take a calculated risk, Valero executives made a fortuitous bet when the company entered the refining business more than 20 years ago.

They predicted that as global oil consumption rose, it would be met with more plentiful heavy, sour feedstocks. Seeing an opportunity to gain a competitive advantage, Valero configured its refining system to process these harder-to-refine feedstocks that sell at a discount to sweet crude oil.

Over the years, this bet has paid off *handsomely!*

As oil demand has continued to grow, the incremental demand has been increasingly met by medium and heavier sour crude oils. Because of the limited refining capacity capable of upgrading these crudes, demand hasn’t been as strong for sour crude oils and as a result, supplies have been increasingly more plentiful, resulting in big discounts for complex refiners like Valero.

At the same time, demand for sweet crude oils – fueled by the ongoing domestic and global movement toward cleaner fuels – has been on the rise. To meet the new low-sulfur specifications for fuel, many refiners are relying on sweet crudes, which has further widened the sweet/sour price differential.

And, of course, these bullish fundamentals have *played right into Valero’s hands!*

“With a focus on the harder-to-refine sour types of crude oil, Valero’s profits are being boosted by a glut in supplies of sour crude, which means its feedstock is relatively cheap...If I had to pick one (to invest in out of all refiners), given its scale, ambition, and lower valuation, it would be Valero.”

-- *BusinessWeek*, October 24, 2005

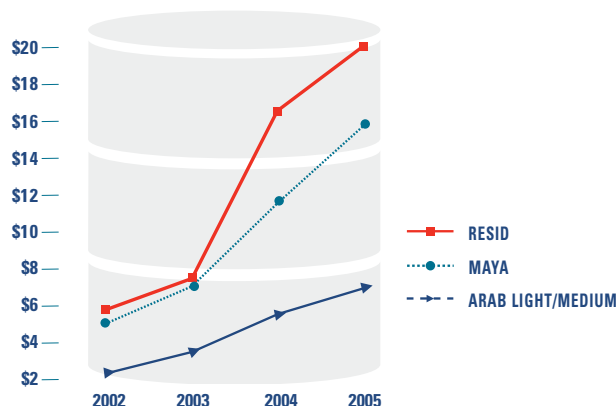
The discounts for the heavier, sour feedstocks – which make up over 60 percent of Valero’s feedstock slate – widened to record levels in 2005 and early 2006.

Recent acquisitions and internal projects have given Valero even more leverage to these discounts. For example, the company estimates that it will process an additional 250,000 BPD of medium and heavy crude in 2006 as a result of its acquisition of the Port Arthur refinery alone.

Internal projects like the 2003 construction of the 45,000-BPD coker at the Valero Texas City Refinery have strengthened this advantage. The coker’s original economics were based upon an historic \$6-7 Maya discount (compared to the benchmark West Texas Intermediate), but in 2005 that discount actually averaged nearly \$16!

Valero’s bet should continue to pay off as discounts for heavy, sour feedstocks are expected to stay wide. Because Valero has the most conversion capacity of any U.S. refiner, this advantage should continue to give the company a *real hand up* on the competition!

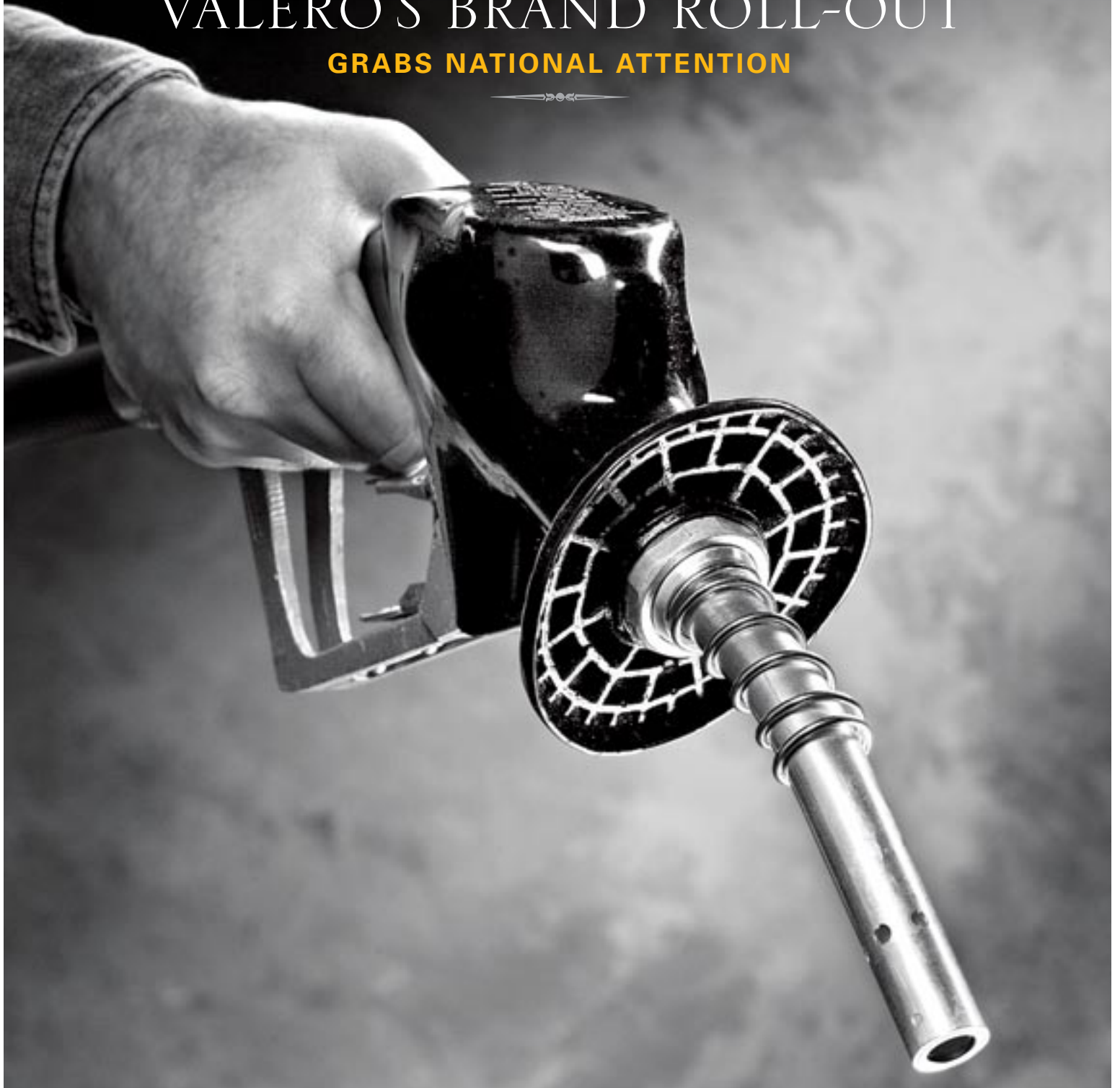
**RECORD DISCOUNTS**  
RESIDUAL FUEL AND SOUR CRUDE OIL DISCOUNTS  
TO WEST TEXAS INTERMEDIATE CRUDE





# VALERO'S BRAND ROLL-OUT

**GRABS NATIONAL ATTENTION**



When Valero set out to acquire the Benicia refinery and related retail sites in northern California in 2000, company leaders *handed down* a challenge: create a retail brand that would look like a major but price like an independent. In a matter of weeks, the company's bold teal-and-yellow design and stylized "V" insignia were born.

Fast forward to 2005: Valero's retail and branded wholesale network had grown to nearly 5,000 sites sporting a variety of brands. But the fastest-growing one was Valero, as teal-and-yellow signs were popping up from California to the Carolinas. And the Valero name was taking on national prominence as the company was poised to become North America's largest refiner.

With its heightened brand awareness, its coast-to-coast operations, and the synergies that could be realized by moving to one brand, the timing couldn't have been better to put the company name on its premier sites.

Valero signs soon began sprouting up on highways and byways across America. Positive reviews followed. Customers loved the bright colors and distinctive look. One distributor said, "It seemed like it was a little outside the norm. But when you actually physically get it up on the site, it's beautiful."

But the most important measure of success: fuel volumes remained steady at existing sites converted to Valero and jumped at new-to-industry and newly remodeled Valero locations.

—  
"We'll get phone calls from independent operators almost begging for the Valero brand. The Valero name and new color scheme draw attention."

— Brad Smith, Double S Petroleum,  
February 2006

With distributors clamoring for the brand, the wholesale division has kept up a breakneck pace of expansion. In 2005 alone, it added over 560 branded wholesale sites, bringing the network to nearly 3,000 locations.

And wholesale has just gotten started! In 2006, it plans to chart new territory, moving into the Pacific Northwest and Great Lakes regions. At the rate it's growing, wholesale should *handily* reach its goal to have 5,000 branded sites by 2008.



There's also great potential in Valero's retail division. It has continued to optimize its network – closing or selling about 440 underperforming stores to date, pushing ahead with its remodeling program and building ten new-to-industry stores in 2005 alone.

At the same time, the retail group has worked to enhance the customer experience and position the network for long-term competitiveness. Just as new signs, lighting and landscaping have spruced up the stores' exteriors, the interiors have received more food selections, exciting soda fountains and expanded coffee bars.

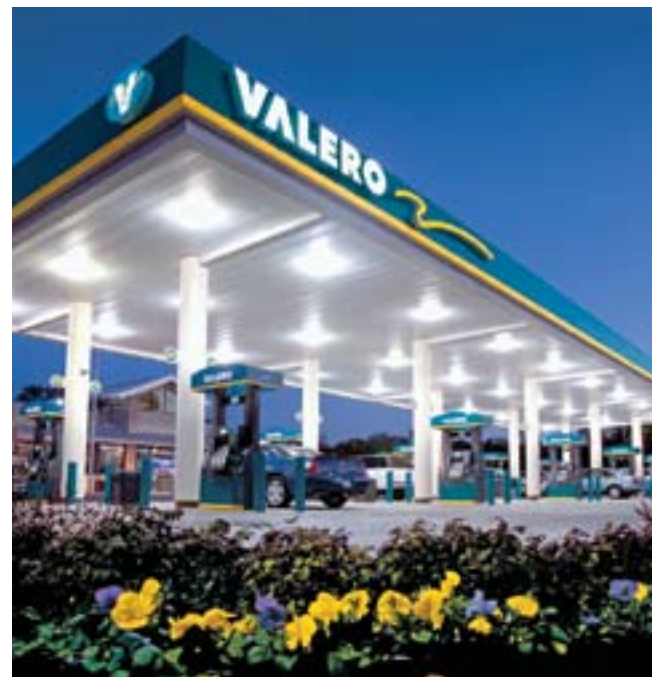
Retail also has extended its Fresh Choices brand to bottled water, snacks and soda; introduced a full line of gift cards; and rolled out new products like DVDs and prepaid mobile phones.

To better supply its locations with the right products at the right time, Valero has opened a 132,000-square-foot distribution center to serve 600 of its

Texas stores. All of this innovation has paid off. Retail store merchandise gross profits jumped more than 14 percent in 2005.

And with plans to complete the Valero brand roll-out by mid-2007, Valero is now poised to benefit *handsomely* from its national brand presence and growing network!

A sign of the times: Gary Arthur, Senior Vice President - Retail & Specialty Products Marketing (left), and Joe Gorder, Executive Vice President - Marketing & Supply, watch as a Valero sign goes up at a Diamond Shamrock store in the midst of a conversion.





# SAFETY, RELIABILITY & PROFITABILITY

GO HAND IN HAND





At Valero, all employees, from top management to the newest hire, have a *hand* in the safety of the company's operations. Not only are they committed to safety, they take ownership of it.

In fact, a group of Texas City employees took so much ownership that a few years ago they took the initiative to research and recommend that their refinery participate in OSHA's Voluntary Protection Program (VPP). They set their sights on achieving certification as a VPP Star Site, a designation reserved only for the best industrial safety and health programs in the nation.

Upon hearing about the program, Valero's top management not only threw their support behind the Texas City employees, they challenged every refinery to pursue Star Site certification.

And, each one has accepted the challenge.

In the past year alone, Valero has added its two Corpus Christi plants and its Ardmore and St. Charles refineries to its stable of certified facilities, bringing its total to 10 VPP Star Sites. Earning this designation is so rigorous that only 20 of the nation's 149 refineries have achieved it, and Valero now owns half of them.

“Valero has set a new standard for safety and health excellence in the refining industry.”

-- John Miles, OSHA Regional Administrator, Corpus Christi VPP Celebration, November 2005

VPP is so effective that it has ushered in a new era in safety at Valero. It has been a major factor in the company's continually improving safety record, especially in 2005.

Valero's U.S. refining system had a total recordable incident rate (TRIR) that improved to a record low of just .76, which is a 23 percent improvement over its 2004 TRIR, and 53 percent better than the three-year industry average of 1.6.

Also, eight Valero refineries completed the year without any employee lost-time injuries, and six had no contractor lost-time injuries.

Environmental safety is as high a priority at Valero as the safety of its workers and neighbors. In fact, the company has invested \$2.4 billion in environmental projects since 1997. An additional \$1.3 billion in projects to



produce cleaner fuels and further reduce emissions at its refineries are planned for this year alone.

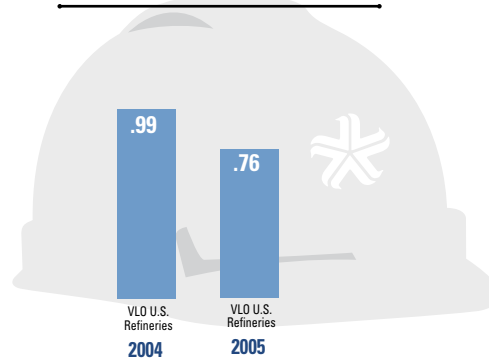
These projects include major investments to produce clean gasoline and diesel that meet the EPA's new fuels standards, which dramatically lowered the sulfur content in motor fuels. The company also continues to install the latest control technology to protect the environment, such as state-of-the-art scrubber units that even further reduce emissions to keep the air clean.

As a result of its efforts to improve efficiency and operational reliability and invest in the latest environmental control technology, Valero estimates it will reduce its greenhouse gas emissions by nearly 2 million tons per year by 2008. At Valero, environmental excellence, safety and reliability work *hand in hand* to make Valero a better refiner. And that helps make the company a better investment!

President Greg King [right] gets a first-hand look at the safety programs in place at a construction site at the Valero Houston Refinery. This plant is one of 10 VPP Star Sites in the Valero system and one of only 20 in the nation.

## VALERO'S TOTAL RECORDABLE INCIDENT RATE (TRIR)

INDUSTRY TRIR AVERAGE OF 1.6



Valero's current TRIR of its U.S. refineries is 53% better than the 3-year industry average recorded by the National Bureau of Labor Statistics.

*Numbers do not include former Premcor refineries since they were not part of Valero in 2004 or for the full year in 2005.*

# EMPLOYEES SINGLE-HANDEDLY

MADE VALERO AMERICA'S THIRD BEST EMPLOYER





Gaining an *upper hand* in business often requires grace under pressure. And in 2005, the pressure was on as Valero rebounded from two of the nation's most powerful storms. In every way imaginable, employees *handily* passed the test!

On August 29, 2005, Hurricane Katrina slammed ashore in Louisiana and passed just to the east of Valero's St. Charles refinery. It caused minor damage at the refinery, but wreaked havoc on the community.

Valero pledged to do whatever was necessary to help its employees and the community recover. It delivered truckloads of supplies; sent cooks to prepare three meals a day, every day; and established a town of 47 residential trailers – dubbed “Valeroville” – to house workers who returned to help restart the plant.

Less than 24 hours after Katrina struck, crews from Valero's other refineries hit the road to help restore power and function in St. Charles.

Bolstered by the outpouring of support, the St. Charles employees worked night and day to restart their refinery in record time. While other refiners were still making repairs, the Valero St. Charles refinery was already producing much-needed fuels. Mission accomplished, *in just nine days*.

Less than a month later, Hurricane Rita churned over the city of Port Arthur, hobbling one of the company's newest refineries. Valero Port Arthur suffered flooding across much of its 5,000 acres, a toppled flare stack and wind-damaged cooling towers.

But as they had with Katrina, workers responded immediately. Supplies, food, water and 69 residential trailers made their way to

Port Arthur even before the rain stopped falling. Fuel and hot meals were offered to anyone in need.

“Valero personnel worked around-the-clock to get much-needed fuel to stranded motorists, Houston hospitals and emergency response crews. Valero's efforts were truly extraordinary during Texas' time of need.”

-- Victoria Ford, Texas Gov. Rick Perry's Deputy Legislative Director, March 2006

Valero's newest employees got a crash course in the company's unique culture. As a result, they worked around the clock to restore electricity to the plant before many areas of the city even had power. Then, they repaired and restarted their plant safely and quickly in true Valero fashion.

Months later, Valero was still providing relief. Nearly \$1.2 million in grants from its Support Aid for Family Emergencies Fund, which does not require repayment, was handed out to employees who suffered damage.

Inspired by Valero's \$1 million donation to the American Red Cross, employees donated nearly \$300,000 and 9,000 volunteer hours to hurricane relief efforts. The unprecedented hurricane response is the embodiment of Valero's caring and sharing culture.

It's a culture that earned Valero the No. 3 spot – its best ranking yet – on FORTUNE's “100 Best Companies to Work For” list. And one that brought two refineries back to life in record time – during a time of record refining margins, which is another example of how Valero shareholders benefit from the company's unique caring and sharing culture.

[Above left to right] Mary Rose Brown, Senior Vice President – Corporate Communications, helps spread the Valero corporate culture to its employees. After the hurricanes, executives hosted barbecues at the impacted refineries and pledged to do whatever was necessary to help.

Bill Greehey, Chairman of the Board, visits with St. Charles Security Lieutenant Melvin Edgar about his harrowing story of trying to ride out Hurricane Katrina at home. “I can guarantee Valero eased the pain,” Edgar said.

“When disaster strikes, this team pulls together. After hurricanes Katrina and Rita hit, Valero dispatched semis filled with supplies, set up temporary housing for employees, fed volunteers – and donated \$1 million to the Red Cross.”

-- FORTUNE, “100 Best Companies to Work For” list, February 27, 2006



# LENDING A HELPING HAND TO OUR COMMUNITIES



An abandoned baby. A youngster on dialysis. A lonely elder. A park in disrepair. Whatever the need, whenever the call, Valero and its employees stand ready to serve. With outstretched hands and open wallets, they invest thousands of hours and millions of dollars each year to improve their communities. It's not a philosophy or frame of mind that began in 2005, only perfected. It's a culture that actually came to life when the company was born 25 years ago, and one that remains vital to Valero's mission today.

From volunteering to donating money, employees vow annually to make a positive difference in people's lives. In fact, that pledge in 2005 led to 220,000 hours of community service companywide, and more than \$45 million contributed to charitable causes.

Thanks to the generosity of Valero employees, United Way agencies received nearly \$12 million – up from \$100,000 in 1980 when the company was first listed on the New York Stock Exchange. A 97 percent employee participation rate, which is among the very highest in the nation, meant that communities from Canada to the Caribbean found funds to keep vital service programs alive.

**“Valero’s genuine spirit of sharing and caring has created a brighter future for countless individuals and families across the nation.”**

*-- Howard Nolan, President and CEO, United Way of San Antonio & Bexar County, August 2005*

The company's caring culture has also spread to its retail employees, who raised more than \$1.2 million for the Muscular Dystrophy Association and over \$884,000 for 38 Children's Miracle Network hospitals.

Valero employees have taken to heart Chairman Bill Greehey's favorite philosophy: *You are never truly a success until you share your success with others.*

Nowhere has that statement been truer than with the success of Valero's largest grassroots fundraiser – the Valero Benefit for Children Golf Classic. Held in conjunction with the Valero Texas Open, this event encourages participants to focus on more than just golf. They focus on raising money for children in each of the communities where Valero has operations, and they help fund educational programs, medicine, child care and more – grants that



Chief Executive Officer Bill Klesse led Valero's record \$12 million United Way campaign in 2005. Agency tours, like this one to the Daughters of Charity Services of San Antonio, helped employees see how their contributions meet the needs of the community.

build up the community by starting with its littlest citizens.

Before Valero became the title sponsor in 2002, the Texas Open raised less than \$5 million during the previous 79 years *combined*. But with Valero's backing, the tournament has raised nearly \$14 million in just four years! In 2005 alone, a record-breaking \$5.35 million was donated to nearly 500 worthy community groups. As a result of the meteoric rise in charity dollars, the tournament has gone from the bottom of the PGA TOUR's charity rankings to the top at No. 3.

The result of this success: children were cared for, the homeless were housed, the hungry were fed and communities were built.

Valero's family of 21,923 employees will always be there to help those who need it most. And by extending a *helping hand* and embracing a caring and sharing spirit, Valero and all of its stakeholders – communities, employees and shareholders – will continue to grow and succeed in the coming years.



# FINANCIAL INFORMATION

## CONDENSED & CONSOLIDATED



The financial information presented on pages 25-29 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 2006 Annual Meeting of Stockholders and Valero's Form 10-K for the year ended December 31, 2005. These documents are provided to all shareholders of record as of March 1, 2006. 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 2005 Annual Report on Form 10-K and the Proxy Statement also may be accessed via the Company's web site at: [www.valero.com](http://www.valero.com).

### 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 sheets of Valero Energy Corporation and subsidiaries (the Company) as of December 31, 2005 and 2004, and the related consolidated statements of income, stockholders' equity, cash flows and comprehensive income for the years then ended appearing in the Company's 2005 Annual Report on Form 10-K (not presented herein). In our report dated March 1, 2006, 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 sheets as of December 31, 2005 and 2004, 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.

KPMG LLP  
San Antonio, Texas  
March 1, 2006

### 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 statements of income, stockholders' equity, cash flows and comprehensive income of Valero Energy Corporation and subsidiaries (the Company) for the year ended December 31, 2003, appearing in the Company's 2005 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 statements of income and cash flows for the year ended December 31, 2003, 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,	2005	2004
<b>ASSETS</b>		
Current Assets	\$ 8,276	\$ 5,264
Property, Plant and Equipment, Net	17,856	10,317
Goodwill	4,926	2,401
Intangible Assets, Deferred Charges and Other Assets, Net	1,670	1,410
<b>TOTAL ASSETS</b>	<b>\$ 32,728</b>	<b>\$ 19,392</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current Liabilities	\$ 7,305	\$ 4,534
Long-Term Debt and Capital Lease Obligations, Less Current Portions	5,156	3,901
Deferred Income Taxes	3,615	2,011
Other Long-Term Liabilities	1,602	1,148
Stockholders' Equity	15,050	7,798
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 32,728</b>	<b>\$ 19,392</b>



# CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(millions of dollars, except per share amounts)

YEAR ENDED DECEMBER 31,	2005	2004	2003
OPERATING REVENUES	\$ 82,162	\$ 54,619	\$ 37,969
<b>COSTS AND EXPENSES:</b>			
Cost of Sales	71,673	47,797	33,587
Refining Operating Expenses	2,926	2,141	1,656
Retail Selling Expenses	771	705	694
General and Administrative Expenses	458	379	299
Depreciation and Amortization Expense	875	618	511
<b>TOTAL COSTS AND EXPENSES</b>	<b>76,703</b>	<b>51,640</b>	<b>36,747</b>
OPERATING INCOME	5,459	2,979	1,222
EQUITY IN EARNINGS OF VALERO L.P.	41	39	30
OTHER INCOME (EXPENSE), NET	53	(48)	15
INTEREST AND DEBT EXPENSE, NET	(266)	(260)	(261)
MINORITY INTEREST IN NET INCOME OF VALERO L.P.	—	—	(2)
DISTRIBUTIONS ON PREFERRED SECURITIES OF SUBSIDIARY TRUSTS	—	—	(17)
INCOME BEFORE INCOME TAX EXPENSE	5,287	2,710	987
INCOME TAX EXPENSE	1,697	906	365
NET INCOME	3,590	1,804	622
PREFERRED STOCK DIVIDENDS	13	13	5
NET INCOME APPLICABLE TO COMMON STOCK	\$ 3,577	\$ 1,791	\$ 617
EARNINGS PER COMMON SHARE (a)	\$ 6.51	\$ 3.51	\$ 1.34
Weighted Average Common Shares Outstanding (in millions) (a)	549	510	459
EARNINGS PER COMMON SHARE — ASSUMING DILUTION (a)	\$ 6.10	\$ 3.27	\$ 1.27
Weighted Average Common Equivalent Shares Outstanding (in millions) (a)	588	552	488
DIVIDENDS PER COMMON SHARE (a)	\$ 0.19	\$ 0.145	\$ 0.105

(a) Share and per share amounts for 2004 and 2003 have been adjusted to reflect the effect of two separate two-for-one stock splits, which were effected in the form of common stock dividends distributed on December 15, 2005 and October 7, 2004.



# CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS



	<i>(millions of dollars)</i>		
YEAR ENDED DECEMBER 31,	2005	2004	2003
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net Income	\$ 3,590	\$ 1,804	\$ 622
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:			
Depreciation and Amortization Expense	875	618	511
Deferred Income Tax Expense	255	345	287
Changes in Current Assets, Current Liabilities and Other, Net	1,079	191	333
Net Cash Provided by Operating Activities	5,799	2,958	1,753
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Capital Expenditures and Deferred Turnaround and Catalyst Costs	(2,574)	(1,596)	(1,112)
Buyout of Assets Under Structured Lease Arrangements	—	(567)	(275)
Proceeds from Sales of Assets	153	108	564
Major Acquisitions	(2,343)	(541)	(309)
Contingent Payments in Connection with Acquisitions	(85)	(53)	(51)
Other, Net	(51)	(36)	(148)
Net Cash Used in Investing Activities	(4,900)	(2,685)	(1,331)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Debt and Capital Lease Borrowings (Repayments), Net	(879)	63	(357)
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
Preferred and Common Stock Dividends	(106)	(79)	(51)
Issuance (Repurchase) of Common Stock, Net	(344)	(183)	26
Other	(2)	—	(4)
Net Cash Provided by (Used in) Financing Activities	(1,331)	207	(136)
VALERO L.P.'S CASH BALANCE AS OF THE DATE THAT VALERO CEASED CONSOLIDATION	—	—	(336)
EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CASH	4	15	40
NET INCREASE (DECREASE) IN CASH AND TEMPORARY CASH INVESTMENTS	(428)	495	(10)
CASH AND TEMPORARY CASH INVESTMENTS AT BEGINNING OF YEAR	864	369	379
CASH AND TEMPORARY CASH INVESTMENTS AT END OF YEAR	\$ 436	\$ 864	\$ 369





# CONDENSED CONSOLIDATED 5-YR FINANCIAL & STATISTICAL REVIEW

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

	2005(a)	2004(b)	2003(c)	2002(d)	2001(e)
<b>OPERATING RESULTS FOR YEAR ENDED DECEMBER 31:</b>					
Operating Revenues	\$ 82,162	\$ 54,619	\$ 37,969	\$ 29,048	\$ 14,988
Operating Income	\$ 5,459	\$ 2,979	\$ 1,222	\$ 471	\$ 1,001
Net Income	\$ 3,590	\$ 1,804	\$ 622	\$ 92	\$ 564
Earnings per Common Share (f)	\$ 6.51	\$ 3.51	\$ 1.34	\$ 0.22	\$ 2.32
Earnings per Common Share— Assuming Dilution (f)	\$ 6.10	\$ 3.27	\$ 1.27	\$ 0.21	\$ 2.21
<b>FINANCIAL POSITION AS OF DECEMBER 31:</b>					
Current Assets	\$ 8,276	\$ 5,264	\$ 3,817	\$ 3,536	\$ 4,136
Property, Plant and Equipment, Net	17,856	10,317	8,195	7,412	7,217
Goodwill	4,926	2,401	2,402	2,580	2,211
Intangible Assets, Deferred Charges and Other Assets, Net	1,670	1,410	1,250	937	836
<b>Total Assets</b>	<b>\$ 32,728</b>	<b>\$ 19,392</b>	<b>\$ 15,664</b>	<b>\$ 14,465</b>	<b>\$ 14,400</b>
Current Liabilities	\$ 7,305	\$ 4,534	\$ 3,064	\$ 3,006	\$ 4,753
Long-Term Debt and Capital Lease Obligations, Less Current Portions	5,156	3,901	4,245	4,494	2,805
Deferred Income Taxes	3,615	2,011	1,605	1,241	1,388
Other Long-Term Liabilities	1,602	1,148	1,015	927	763
Company-Obligated Preferred Securities of Subsidiary Trusts	—	—	—	373	373
Minority Interest in Valero L.P.	—	—	—	116	115
Stockholders' Equity	15,050	7,798	5,735	4,308	4,203
<b>Total Liabilities and Stockholders' Equity</b>	<b>\$ 32,728</b>	<b>\$ 19,392</b>	<b>\$ 15,664</b>	<b>\$ 14,465</b>	<b>\$ 14,400</b>





YEAR ENDED DECEMBER 31,	2005(a)	2004(b)	2003(c)	2002(d)	2001(e)
<b>COMMON STOCK DATA:</b>					
Dividends per Common Share (f)	\$ 0.19	\$ 0.145	\$ 0.105	\$ 0.10	\$ 0.085
Number of Shares Outstanding, End of Year (in millions) (f)	617	511	481	429	417
Number of Registered Shareholders, End of Year	7,233	6,554	6,564	7,174	7,265
Market Price (f):					
High	\$ 58.63	\$ 23.91	\$ 11.77	\$ 12.49	\$ 13.15
Low	\$ 21.01	\$ 11.43	\$ 8.05	\$ 5.79	\$ 7.88
<b>CAPITALIZATION RATIOS (NET OF CASH): (g)</b>					
Long-Term Debt and Capital Lease Obligations, including Current Portions, and Short-Term Debt	25 %	31 %	40 %	50 %	53 %
Stockholders' Equity and Other	75 %	69 %	60 %	50 %	47 %
<b>OTHER DATA:</b>					
Capital Expenditures and Deferred Turnaround and Catalyst Costs	\$ 2,574	\$ 1,596	\$ 1,112	\$ 780	\$ 536
Number of Employees, End of Year	21,923	19,879	19,741	19,878	22,355
<b>OPERATING STATISTICS:</b>					
Throughput Volumes (mbbls per day)	2,488	2,162	1,835	1,595	1,001
Throughput Margin per Barrel	\$ 11.14	\$ 7.44	\$ 5.13	\$ 4.02	\$ 6.12
Operating Costs per Barrel:					
Refining Operating Expenses	\$ 3.22	\$ 2.70	\$ 2.47	\$ 2.29	\$ 2.31
Depreciation and Amortization	0.80	0.66	0.63	0.66	0.63
Total Operating Costs per Barrel	\$ 4.02	\$ 3.36	\$ 3.10	\$ 2.95	\$ 2.94

- (a) Includes the operations related to the Premcor Acquisition beginning September 1, 2005.
- (b) Includes the operations related to the Aruba Acquisition beginning March 5, 2004.
- (c) Includes the operations of the St. Charles Refinery beginning July 1, 2003.
- (d) Includes the operations related to the UDS Acquisition beginning January 1, 2002.
- (e) 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.
- (f) Share and per share amounts for 2004, 2003, 2002 and 2001 have been adjusted to reflect the effect of two separate two-for-one stock splits, which were effected in the form of common stock dividends distributed on December 15, 2005 and October 7, 2004.
- (g) In determining the 2002 and 2001 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.



# YOU'VE GOT TO HAND IT

## TO OUR EMPLOYEES FOR THE MANY HONORS THEY'VE EARNED

When awards are *handed out*, Valero employees get more than their fair share. But rightfully so! No one works harder, shows greater dedication or cares more for others than Valero employees. Because of their *handiwork*, Valero earned the following accolades:

- Named No. 1 refiner in the world – 2005 Platts Top 250 Global Energy Company Awards.
- Ranked No. 3 – highest ranking yet – on FORTUNE's 2006 list of the "100 Best Companies to Work For."
- Ranked one of the top 10 on Forbes' 2006 list of the Platinum 400 Best Big Companies in the Oil & Gas Category. Also recognized by Forbes for having the third best stock performance in 2005.
- Recognized as one of FORTUNE's Blue Ribbon Companies for being named to six of its lists in 2005:
  - o No. 6 among oil companies – America's Most Admired Companies,
  - o No. 8 among oil companies – Global Most Admired Companies,
  - o "100 Best Companies to Work For,"
  - o No. 19 among the 100 Fastest-Growing Companies,
  - o No. 22 among the Fortune 500, and
  - o No. 73 among the Global 500.



Valero's Three Rivers refinery is one of ten plants in the Valero system that has earned Star Site certification in OSHA's Voluntary Protection Program. This process is so tough that only 20 U.S. refineries have achieved it, and Valero owns half of them.

- Ranked No. 3 on Investor's Business Daily's 2005 list of the "Big Cap 20" based on earnings growth.
- Placed No. 4 on Forbes' list of America's Fastest-Growing Big Companies and one of America's Best-Managed Companies.
- Ranked No. 4 on the 2005 "BusinessWeek 50" list, which ranks the best-performing companies on the S&P 500.
- Included in IndustryWeek magazine's 2005 list of the 50 Best U.S. Manufacturers.
- Only the second company to receive United Way's "Spirit of America Award" *twice*.

**FORTUNE**  
**100 BEST**  
**COMPANIES**  
**TO WORK FOR** 2006



One of  
**Forbes**  
Platinum 400  
Best Big Companies  
2006





# BOARD OF DIRECTORS



[LEFT TO RIGHT]

**BOB PROFUSEK** is a partner in the Jones Day law firm and heads their Mergers and Acquisitions department. Mr. Profusek also serves as a director of CTS Corporation. Previously, he served as Executive Vice President of Omnicom Group Inc., and as a director of the managing partner of Valero L.P., a publicly traded limited partnership in which Valero Energy Corporation has an equity ownership interest.

**DR. RON CALGAARD** serves as Chairman of the Ray Ellison Grandchildren Trust, and as a director of The Trust Company, N.A. He recently retired as Chairman and Chief Executive Officer of Austin, Calvert & Flavin, Inc. in San Antonio. 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.

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

**BILL KLESSE** was elected Chief Executive Officer and Vice Chairman of the Board of Valero Energy Corporation upon Bill Greehey's retirement as Chief Executive Officer at the end of 2005. Previously, Mr. Klesse served as Executive Vice President and Chief Operating Officer, and held other leadership positions with Valero and Ultramar Diamond Shamrock. He is also a director of the managing general partner of Valero L.P., a publicly traded limited partnership in which Valero Energy Corporation has an equity 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 as Chairman of the Board of City Public Service, San Antonio's gas and electric utility company.

**BILL GREEHEY** is Chairman of the Board of Valero Energy Corporation. He served as Chairman of the Board and Chief Executive Officer of Valero Energy Corporation and its predecessors from 1974 until he retired as Chief Executive Officer at the end of 2005. Mr. Greehey is also 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.

**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 is also a director of Kerr-McGee Corporation.

**DR. SUSAN KAUFMAN PURCELL** is the Director of the Center for Hemispheric Policy at the University of Miami. Previously, she served as Vice President of the Americas Society and as Vice President of the Council of the Americas. Dr. Purcell also serves as a director of The Brazil Fund, Inc. and the Scudder New Asia Fund, Inc.

**IRL ENGELHARDT** is Chairman of the Board of Peabody Energy Corporation. He served as Peabody's Chairman and Chief Executive Officer from 1993 through 2005 when he retired as Chief Executive Officer. Prior to that, he served as Chief Executive Officer of a predecessor of the company. Mr. Engelhardt is also a director of The Williams Companies, Inc. and is Deputy Chairman of The Federal Reserve Bank of St. Louis.

**BOB MARBUT** is Chairman of the Board and Chief Executive Officer of Argyle Communications, Inc. and SecTecGLOBAL, Inc. He also serves as Executive Chairman of Electronics Line 3000 Ltd., and as Chairman and Co-Chief Executive Officer of Argyle Security Acquisition Corporation. He is a director of Tupperware Corporation and Hearst-Argyle Television, Inc. Previously, Mr. Marbut held top leadership positions with Hearst-Argyle Television, Inc.; Argyle Television, Inc.; Argyle Television Holding, Inc.; and Harte-Hanks Communications, Inc.

**SENATOR DON NICKLES** retired in 2005 as U.S. Senator from Oklahoma after 24 years. As a U.S. Senator, he served as Assistant Republican Leader, Chairman of the Republican Senatorial Committee, Chairman of the Republican Policy Committee and Chairman of the Budget Committee. He also served on the Finance and Energy and Natural Resources committees. Upon his retirement, he formed and became Chairman and Chief Executive Officer of The Nickles Group. He also serves as a director of Chesapeake Energy Corporation and Fortress America Acquisition Corporation.

**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.

# THE NYSE HANDED OUT COMPLIMENTS FOR MARKING 25 YEARS OF SUCCESS



Valero's board of directors rang the closing bell at the New York Stock Exchange on July 14, 2005 to mark the company's 25th anniversary of listing on the exchange. It was a milestone anniversary, as less than 15 percent of the listed companies have survived 25 years.

Pictured left to right are board members Glenn Biggs, Bill Bradford, Ruben Escobedo, Susan Kaufman Purcell, Bill Greehey, Ron Calgaard, Bob Marbut, Jerry Choate and Don Nickles. Not pictured are Irl Engelhardt, Bill Klesse and Bob Profusek.

## PRINCIPAL OFFICERS

Bill Klesse, Chief Executive Officer  
 Greg King, President  
 Mike Ciskowski, Executive Vice President & Chief Financial Officer  
 Gene Edwards, Executive Vice President - Corporate Development & Strategic Planning  
 Joe Gorder, Executive Vice President - Marketing & Supply  
 Rich Marcogliese, Executive Vice President - Operations  
 Gary Arthur, Senior Vice President - Retail & Specialty Products Marketing  
 Bob Beadle, Senior Vice President - Crude & Feedstock Supply & Trading  
 Mary Rose Brown, Senior Vice President - Corporate Communications  
 Wade Upton, Senior Vice President - Transportation Services  
 Kim Bowers, Vice President - Legal Services & Assistant Secretary  
 Jay Browning, Vice President - Corporate Law & Secretary  
 Mike Crownover, Vice President - Human Resources  
 Clay Killinger, Vice President & Controller  
 Norm Renfro, Vice President - Health, Safety & Environmental  
 Hal Zesch, Vice President & Chief Information Officer  
 Donna Titzman, Treasurer  
 Steve Gilbert, Assistant Secretary & Disclosure & Compliance Officer

## AUDIT COMMITTEE

Ruben Escobedo, Chairman  
 Glenn Biggs  
 Irl Engelhardt  
 Susan Kaufman Purcell

## COMPENSATION COMMITTEE

Bob Marbut, Chairman  
 Bill Bradford  
 Jerry Choate  
 Bob Profusek

## EXECUTIVE COMMITTEE

Bill Greehey, Chairman  
 Glenn Biggs  
 Irl Engelhardt  
 Ruben Escobedo  
 Bill Klesse

## FINANCE COMMITTEE

Ron Calgaard, Chairman  
 Bill Greehey  
 Bob Marbut  
 Don Nickles  
 Susan Kaufman Purcell

## NOMINATING/GOVERNANCE COMMITTEE

Jerry Choate, Chairman  
 Bill Bradford  
 Ron Calgaard  
 Don Nickles  
 Bob Profusek

# SHAREHOLDER INFORMATION



## VALERO CORPORATE HEADQUARTERS

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

## WEB SITE

[www.valero.com](http://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](mailto: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](mailto:corporatecommunications@valero.com)

## 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 2006 Annual Meeting of Stockholders Proxy Statement and Form 10-K for the year ended December 31, 2005. This document is provided to all stockholders of record as of March 1, 2006. In addition, persons may request, without charge, a Form 10-K by writing or calling Valero's Investor Relations Department. Valero's 2005 Annual Report on Form 10-K and the Proxy Statement also may be accessed via our web site at: [www.valero.com](http://www.valero.com).

## ANNUAL MEETING

Valero's annual meeting of stockholders will be held at 10 a.m., Thursday, April 27, 2006, 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 certificates should be addressed to:

Computershare Investor Services LLC  
2 N. LaSalle Street  
Chicago, IL 60602  
(888) 470-2938  
(312) 360-5261

## 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 USA.





EVERYONE IN THE VALERO FAMILY DESERVES  
A HAND FOR MAKING THE COMPANY NO. 1.



VALERO ENERGY CORPORATION

*P.O. Box 696000 San Antonio, Texas 78269-6000 [www.valero.com](http://www.valero.com)*