



VALERO ENERGY CORPORATION 2009 SUMMARY ANNUAL REPORT

2009 marked an exceptionally challenging year for Valero and the refining industry. We worked hard to enhance our profitability amid difficult market conditions by focusing on reducing our operating costs, improving our operations, upgrading our portfolio of assets and executing on attractive acquisitions. We will continue this work in 2010, guided by our Commitment to Excellence and the three essential drivers that guide our actions:

1

Our products  
improve  
people's lives.

2

We are committed to our vision  
to be a world-class competitor  
in the global energy business,  
generating industry-leading returns  
on investments in an employee-  
focused, socially conscious,  
community-minded, safe, reliable and  
environmentally responsible way.

3

We will strengthen our company  
to restore profitability.





## Our products improve people's lives.

Throughout its history, the petroleum refining industry has experienced cyclical ups and downs. But one thing remains constant – our products improve people's lives. Petroleum products power the world economy efficiently, reliably and economically. Gasoline, diesel, heating oil, jet fuel, lubricants and hundreds of petrochemical building blocks greatly enhance our world. The addition of alternative fuels to our product slate contributes to important growing sources of energy, with corn-based ethanol playing a significant role.

The fuels produced by Valero give consumers the freedom to drive to work or play. Highways connect our cities and towns. Our military has a domestic fuel supply to protect our country. If you think about what we accomplish – the complexity of our processes compared with the low prices charged to deliver these products to market – the results are amazing. From fuels to plastics to polymers, sulfur to asphalt, Valero is a vehicle for progress.

# Our products








improve people's lives.









**We are committed to our vision to be a world-class competitor in the global energy business, generating industry-leading returns on our investments.**

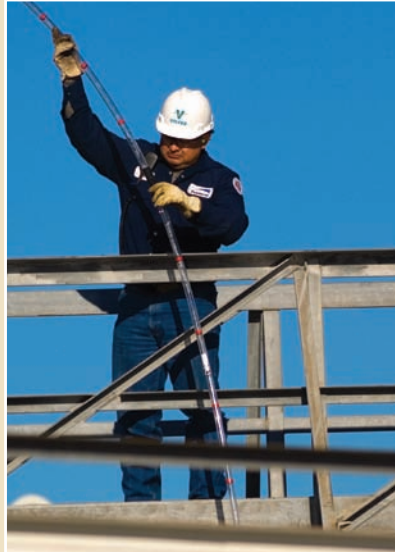
In challenging times, it is easy to focus on the short-term and lose sight of a long-term vision for the future. Valero is engaged in a disciplined strategy to realize our vision using an employee-focused, socially conscious, community-minded, safe, reliable and environmentally responsible approach.

Aggressive steps are necessary to meet the many challenges of the future. We face a difficult economic recovery, government actions that attack our industry, and a surplus of global refining capacity. Now more than ever, every investment we make, every action we take, must be directly and efficiently tied to the achievement of our vision. With excellence as our guiding principle, we believe that we will achieve our long-term vision as the economy regains its strength. Our discipline and integrity will allow Valero to emerge from this business cycle stronger and more competitive than ever, benefiting all of our stakeholders.

Our vision is to be a world-class competitor in the global energy business,







generating industry-leading returns  
on our investments.





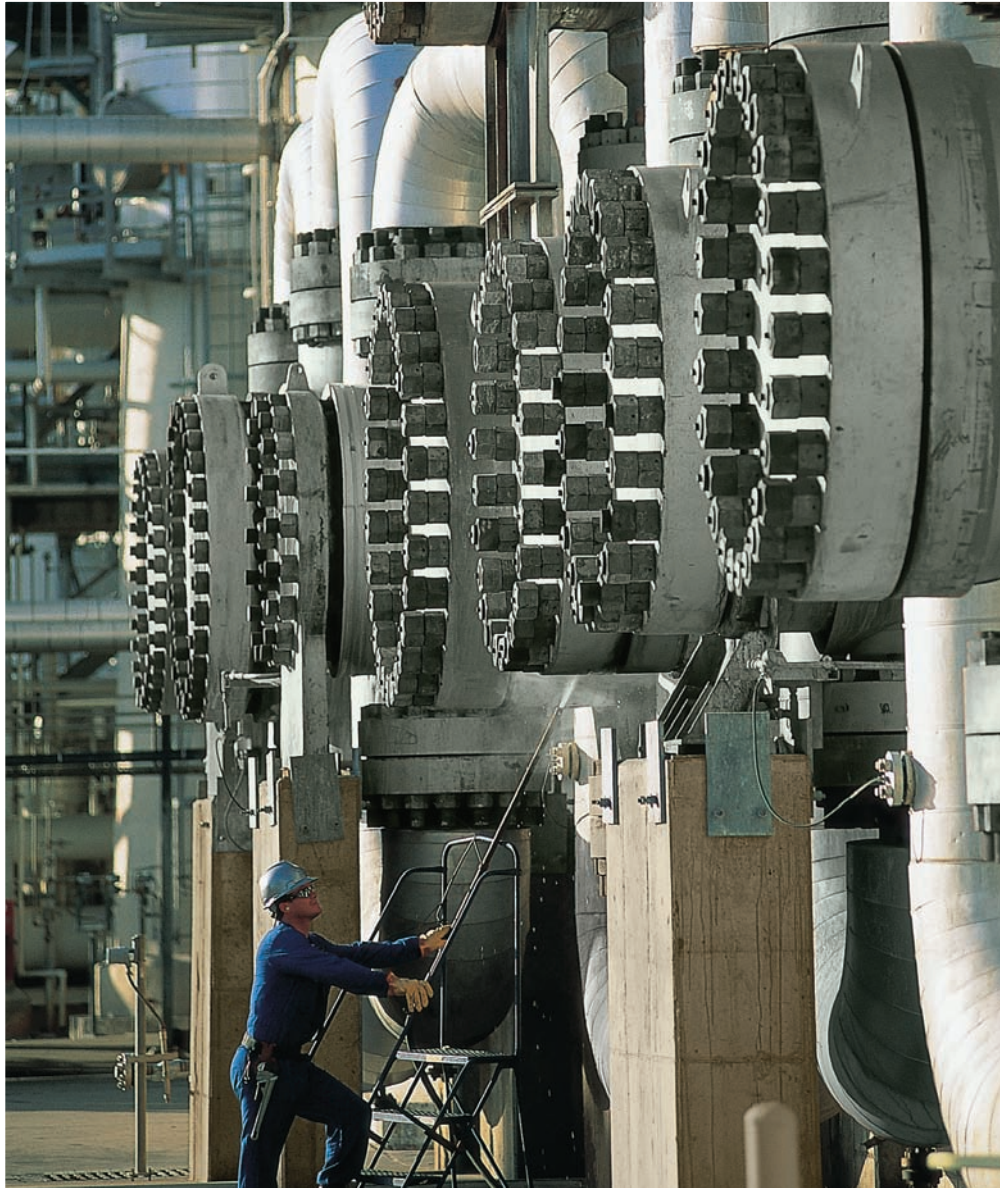




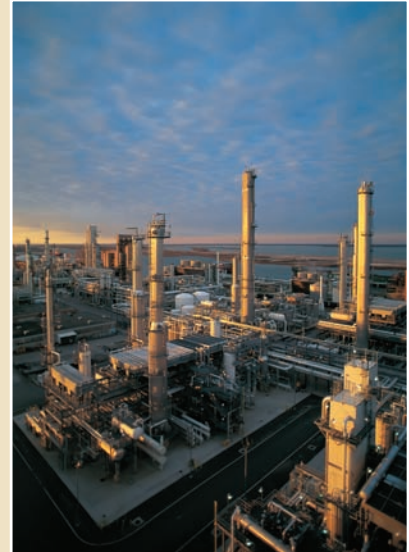
## We will strengthen our company to restore profitability.

Every day, more than 20,000 Valero employees come to work with a goal to strengthen our company and restore profitability. The past two years have served to focus Valero's team on a critical analysis of everything we do and how we do it. The results are what will set us apart from others in the industry in 2010 and beyond. We have made great strides in upgrading our portfolio to focus on those assets that maximize returns to investors. By taking action to idle or shut down uncompetitive operations, we improved the profit outlook for the company. Responding to the tough margin environment for heavy sour crude, we have seized on the unique flexibility of our assets to process a wider variety of crudes to enhance profitability. We have strategically reduced capital spending to respond to market conditions, while at the same time maintaining and upgrading our assets and reducing our impact on the environment. With individual employees acting as stewards of the company's dollars, we have reduced costs in significant ways. While 2010 will be another difficult year for refiners, we believe the actions we have taken, and continue to take, will strengthen our company and return Valero to profitability as the economy recovers.

We will strengthen our company







to restore profitability.

# Valero Map of Operations



*Valero Energy Corporation is a Fortune 500 company based in San Antonio with approximately 20,700 dedicated employees. A network of 15 refineries gives Valero the capacity to process approximately 2.8 million barrels per day, delivering clean fuels and other petroleum products to consumers efficiently and reliably. Valero is also a leading ethanol producer with 10 ethanol plants in the Midwest and a combined processing capacity of 1.1 billion gallons per year. Meanwhile, Valero's retail and branded wholesale network is marketed throughout North America under the brands Valero, Diamond Shamrock, Shamrock, Ultramarc and Beacon. Please visit [www.valero.com](http://www.valero.com) for more information.*

# Financial Summary

## Summary Annual Report

This summary annual report format provides only a financial summary. The company's full, audited financial statements are contained in its Annual Report on Form 10-K for the year ended December 31, 2009, which has been filed with the SEC and made available to all stockholders. This information is also available at [www.valero.com](http://www.valero.com)

*[Millions of dollars, except per-share amounts]*

	2009 As Reported	2008 As Reported
OPERATING REVENUES	\$ 68,144	\$ 113,136
OPERATING INCOME (LOSS)	\$ (58)	\$ 761
LOSS FROM CONTINUING OPERATIONS	\$ (352)	\$ (1,012)
LOSS PER COMMON SHARE FROM CONTINUING OPERATIONS	\$ (0.65)	\$ (1.93)
TOTAL ASSETS	\$ 35,629	\$ 34,417
STOCKHOLDERS' EQUITY	\$ 14,725	\$ 15,620
CAPITAL EXPENDITURES AND DEFERRED TURNAROUND AND CATALYST COSTS	\$ 2,721	\$ 3,301

**Note:** The operating income (loss), loss from continuing operations, and loss per common share from continuing operations reflected above include the effect of certain special items that are described in various notes to our consolidated financial statements in our Annual Report on Form 10-K for the year ended December 31, 2009.







# To Our Stockholders

2009 was an exceptionally challenging year for Valero and the refining industry. Low demand for refined products, as a result of the weak economy and high inventories around the world, resulted in low product margins. Additionally, lower production of heavy sour crudes, particularly out of Mexico, and OPEC's cutbacks of heavier grades of crude oil contributed to narrower differentials, substantially limiting the profitability of our larger, complex coking refineries. Consequently, our financial results were disappointing. For the year, we had a loss of \$55 million, or \$0.10 per share, excluding special items and discontinued operations in Delaware City.\*

I can assure you that our financial results do not reflect the many accomplishments achieved by our hard-working, dedicated employees. Here are a few highlights:

**Safety** – Valero employees recorded the second-lowest recordable injury rate in company history. Our contractors achieved their lowest-ever recordable injury rate. Year after year, our safety statistics significantly beat the industry average, and we continue to be very supportive of OSHA's Voluntary Protection Program (VPP), with 11 sites now certified as VPP Star Sites.

**Environmental Progress** – We are in the final stages of construction of a state-of-the-art flue gas scrubber at our Benicia refinery in California that will cut sulfur dioxide emissions by 95 percent and nitrogen oxide releases by 55 percent annually. We continue to implement best practices across our system that have reduced flaring events, wastewater discharges and refinery spills to water. Since 2005, we have improved these incidences by an average of 75 percent in each category.

**Cost Reductions** – With critical focus on being a world-class competitor in the refining industry, we reduced our non-energy operating costs at our refineries by \$215 million versus 2008 – while significantly improving our industry benchmarking rank through operational excellence initiatives. Moreover, our ongoing expense-reduction efforts at the corporate level resulted in an additional savings of \$70 million in 2009. Many of these savings were afforded through employees acting as stewards of the company's dollars. These efforts reflect an ongoing focus to reduce operating expenses and maximize productivity.

**Financial Strength** – A strategic decision to shut down the Delaware City refinery in October 2009 is expected to result in an improved cash position of about \$900 million by the end of 2010. This is

\*The company reported, on a GAAP basis, a loss from continuing operations of \$352 million, or \$0.65 per share, for the full-year 2009. Excluding special items, the loss is reflected accurately at \$55 million, or \$0.10 per share. The Delaware City refinery, which was shut down in 4Q2009, is classified as discontinued operations. The special items are fully discussed in the notes to our consolidated financial statements in our Annual Report on Form 10-K for the year ended December 31, 2009.



attributed to the elimination of substantial operating losses, a reduction in capital expenditures, and cash benefits from selling the inventory and tax refunds. In Aruba, we temporarily discontinued operations, reducing cash operating losses by \$10 million per month. We also agreed to a tax framework with the government of Aruba to foster a more stable tax system for the next 20 years and positively impact any strategic alternative identified for the Aruba refinery. Importantly, we maintained our investment-grade credit rating. At year-end, we had nearly \$5 billion of liquidity and a net debt-to-capital ratio of 31 percent. We also reduced our dividend to reflect the low-margin environment. Our financial position allowed us to continue investing in our plants for the future. In 2009, we invested more than \$2.7 billion in our assets.

**Alternative Energy** – Valero entered the ethanol business in 2009 with the well-timed acquisition of seven ethanol plants in the Midwest. We were able to build our position in the ethanol business for an average of 35 percent of estimated replacement value. With the more recent acquisition of three additional plants, we have quickly grown to 10 plants with more than 1.1 billion gallons per year of capacity – making us one of the largest producers of ethanol in the country. With a favorable margin outlook for ethanol and the low cost of these acquisitions, Valero has established a competitive position in the ethanol business.

**Profitable Retail Business** – Valero's retail business (U.S. and Canada) had its second-best profit year, with \$293 million in operating income. Valero Corner Store merchandise sales increased by \$74 million from 2008, despite the weak economy. In the U.S., we built three new stores and upgraded 116. In Canada, we built three new stores and refurbished another three in 2009. Our customers will see a new and improved format at some of our sites, as well as several new product lines that will improve our brand recognition in the years to come. And, our home heat business continues to grow with 141,500 customers.

**Commitment to Our Communities** – Year after year, Valero employees are proud ambassadors in the community, from the Valero Texas Open and Benefit for Children Golf Classic to the United Way, National MS Society, Habitat for Humanity and dozens of local food banks and children's charities. In 2009, Valero Volunteers devoted more than 142,000 hours to charities across the U.S. and Canada. Meanwhile, the Valero Energy Foundation – Valero's philanthropic arm – contributed more than \$25 million to worthy charities and events. We are honored to be part of hundreds of outreach missions each year and will continue to make community service a priority for our employees.

**Voices for Energy** – In July 2009, Valero launched "Voices for Energy," a full-scale advocacy effort to oppose proposed federal climate-change legislation. This educational campaign focused on the negative impact proposed climate-change legislation will have on consumers, the economy and American jobs.

Valero's Voices for Energy Web site ([www.voicesforenergy.com](http://www.voicesforenergy.com)) provides streamlined legislative communication, making it easy for consumers to write their respective elected officials. In my role as Chairman of the National Petrochemical & Refiners Association, I testified before the U.S. Senate Environment and Public Works Committee on a proposed version of climate-change legislation. My testimony focused on how the bill would remove our nation's competitive advantage, further damage our economy, destroy jobs and threaten our national security. I believe Valero's efforts were critical to this bill being tabled in 2009. We will continue to emphasize the devastating effects on the United States posed by this legislation as the issue works its way through Congress in 2010. We encourage you to get involved in the ongoing debate. Many of the pending bills, regulatory efforts, and other similar actions are bad for jobs in America.

Looking at all of these accomplishments, we are clearly better positioned to face another potentially challenging year. Most importantly, these accomplishments demonstrate a clear strategy to achieve our long-term vision to become a world-class competitor in the global energy business by continuing to:

- Improve safety and environmental performance
- Improve reliability with continued focus on operational excellence initiatives
- Maintain financial strength
- Reduce operating costs
- Improve optimization and product yields
- Invest in our people and our assets
- Invest in communities where we live and work

Every day, we are proud of the products we deliver. They are essential, reliable and economical. Our people build better communities, and we offer excellent jobs. This is the true measure of our worth. As this economy recovers, we believe that our discipline and focus will bring better returns and greater shareholder value.

I would like to thank Board of Directors member Bill Bradford, who retired this year after 18 years of service to Valero and its predecessors. His guidance over the years contributed to our company's success.

As always, I would also like to thank our employees for their hard work and dedication to our company. And, thank you for your support and interest in our company. With excellence as our guide, we continue to strengthen our company's competitive position and contributions to society.



Bill Klesse  
Chairman of the Board, Chief Executive Officer  
and President







# Q and A

As Valero strives to be a world-class competitor in the global energy business, the company is undergoing a critical analysis of every aspect of its business – implementing aggressive action plans to achieve its goals and restore profitability.

Valero's executive management team, led by CEO Bill Klesse and five Executive Vice Presidents, is driving these initiatives to achieve the company's vision and ensure the best results for all stakeholders.

## What are Valero's financial priorities?

**CISKOWSKI:** First and foremost, we are focused on maintaining our financial strength and investment-grade credit rating. We have taken action to bolster our liquidity as we face another challenging year. In a well-received offering in early 2010, Valero issued \$1.25 billion in debt primarily to refinance existing debt. In addition, we expect to receive over \$1 billion in cash from the liquidation of inventories at our shut-down Delaware City refinery and a federal tax refund. We have reduced our capital spending budget for 2010 to \$2 billion, which is \$700 million lower than 2009 and \$1.3 billion lower than 2008. Also, we reduced our dividend in response to continued poor industry conditions. We expect that these actions will enable the company to maintain financial strength while we manage difficult and uncertain industry conditions.



**Kim Bowers**  
Executive Vice President  
& General Counsel



**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  
& Chief Operating Officer

# Q and A

How have you increased the competitiveness of Valero's refineries during the downturn?

**MARCOGLIESE:** In 2009, we took many steps to improve the profitability of our refineries. The permanent closure of the Delaware City refinery and the temporary closure of the Aruba refinery in 2009 eliminated a substantial drag on earnings. Through cost-saving measures taken at all of our refineries, we reduced non-energy operating costs by \$215 million. Also, a recent industry benchmarking study indicated that Valero made significant improvement versus its competitors in the categories of non-energy operating expenses, maintenance costs and personnel efficiency through our focus on excellence and best practices. In 2010, we will continue to focus on reducing costs and increasing the competitiveness of our refineries, without jeopardizing our continued commitment to the safety of our employees, neighbors, communities and the environment.

Valero's ability to process medium and heavy sour crudes has been its mark of distinction in the past. With rapid contraction of the sour crude oil differential, what is Valero's outlook for feedstock supply in the future?

**GORDER:** Given the narrowing of differentials for medium and heavy sour crude, we capitalized on our feedstock flexibility in order to optimize our profitability. In 2009, we reduced our consumption of heavy and medium grades in favor of more economical feedstocks. We introduced eight new crude oils and ran 77 different varieties of crude oil. Going forward, we will continue to adapt to changing market conditions and implement projects to increase the flexibility of our refineries.

We also look forward to adding Canadian crude to further diversify our feedstock sourcing in early 2013. TransCanada's Keystone XL pipeline has the capacity to deliver up to 600,000 barrels per day of Canadian crude oil to the Gulf Coast. This large new source of crude oil for the Gulf Coast market will further diversify our feedstock slate and increase our ability to optimize our profitability.



Despite a difficult year and a difficult point in the cycle for Valero, the company aggressively entered the alternative energy business in 2009. Going forward, what is Valero's alternative energy strategy?

**EDWARDS:** Alternative fuels will continue to be part of the transportation fuel supply mix. We look at ethanol as a natural fit for us since we manufacture transportation fuels. Over the past few years, Valero studied the business and waited for the right moment to enter the industry. During 2009, we executed a well-timed acquisition of seven ethanol plants at 35 percent of estimated replacement cost. The plants generated \$165 million in operating income in just under three quarters of operation in 2009. In 2010, we are already integrating three new ethanol facilities, making our Renewables division one of the largest ethanol producers in the country. We have brought significant value to this business, given our operating and logistics experience.

Corn-based ethanol is just one part of Valero's alternative energy portfolio. We have also made several seed investments in biofuel technologies for ethanol and biodiesel, and our infrastructure has the capability to "bolt-on" future cellulosic production capacity. In addition, we own a 50 mega-watt wind farm in the Texas Panhandle, near our McKee refinery, generating wind energy and helping reduce Valero's carbon footprint.

Valero's commitments to safety and the environment have always been top priority. How do these commitments, and Valero's overall social responsibility, play a role in the success of the company?

**BOWERS:** The success of the company has always been measured by more than financials. It is realized in our employees' ability to work safely, protect the environment, and just as importantly, take their commitment to excellence into their community to make lasting change. Valero recognizes that the neighborhoods and communities surrounding our refineries, ethanol plants, retail stores and terminals are a part of who we are. We have an obligation to work as efficiently, smartly and as safely as we can so that everyone can benefit. Valero employees and contractors consistently post very low injury rates; investments in clean fuel and cleaner refining processes continue to be made; and, our volunteer network is a national pacesetter in community involvement. Meanwhile, the Valero Energy Foundation strengthens communities through its own financial gifts, contributing more than \$25 million in 2009 to worthy charities and events. Valero employees also pay it forward, pledging \$12 million to United Way agencies in 2009.





## Board of Directors

### STANDING, LEFT TO RIGHT:

**Bob Marbut**

Executive Chairman and Director of Electronic Line 3000 Ltd.; former Director of Ultramar Diamond Shamrock Corporation

**Dr. Ronald K. Calgaard**

Chairman of the Ray Ellison Grandchildren Trust in San Antonio, Texas; former President of Trinity University of San Antonio

**Sen. Donald L. Nickles**

Retired U.S. Senator (R-Okla.); Chairman and CEO of The Nickles Group

**Dr. Susan Kaufman Purcell**

Director of the Center for Hemispheric Policy at the University of Miami

**Jerry D. Choate**

Former Chairman of the Board and CEO of Allstate Corporation

**Stephen M. Waters**

Managing Partner of Compass Advisers, LLP; Chief Executive of Compass Partners European Equity Fund

### SEATED, LEFT TO RIGHT:

**Irl F. Engelhardt**

Chairman and Executive Advisor of Patriot Coal Corporation; former Chairman and CEO of Peabody Energy Corporation

**William R. Klesse**

Chairman of the Board, Chief Executive Officer and President of Valero Energy Corporation

**Robert A. Profusek**

A Partner in the law firm of Jones Day and Practice Leader of Mergers & Acquisitions

**Ruben M. Escobedo**

Retired owner of Ruben Escobedo & Company, CPAs, in San Antonio, Texas



# Stockholder Information

## Annual Meeting

Valero's annual meeting of stockholders is scheduled to be held at 10 a.m., Thursday, April 29, 2010, at Valero's corporate headquarters, located at One Valero Way in San Antonio, Texas. Valero's 2009 Annual Report on Form 10-K and the proxy statement for the 2010 Annual Meeting of Stockholders can be accessed at [www.valero.com](http://www.valero.com) (Investor Relations section).

## 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  
250 Royall Street  
Canton, MA 02021  
(888) 470-2938  
(312) 360-5261  
[www.computershare.com/contactus](http://www.computershare.com/contactus)

## 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

Certain 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 2010 Annual Meeting of Stockholders Proxy Statement and Form 10-K for the year ended December 31, 2009. This document is provided to all stockholders of record as of March 1, 2010. In addition, persons may request, without charge, a Form 10-K by writing or calling Valero's Investor Relations Department. Valero's 2009 Annual Report on Form 10-K and the Proxy Statement also may be accessed at [www.valero.com](http://www.valero.com).

# Contact 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:  
Media Relations Department  
P.O. Box 696000  
San Antonio, TX 78269-6000  
(800) 531-7911 or (210) 345-2928  
(210) 345-2103 (fax)  
[corporatecommunications@valero.com](mailto:corporatecommunications@valero.com)



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