

# European Investor Presentation

*June 25-28, 2007*



# Introduction

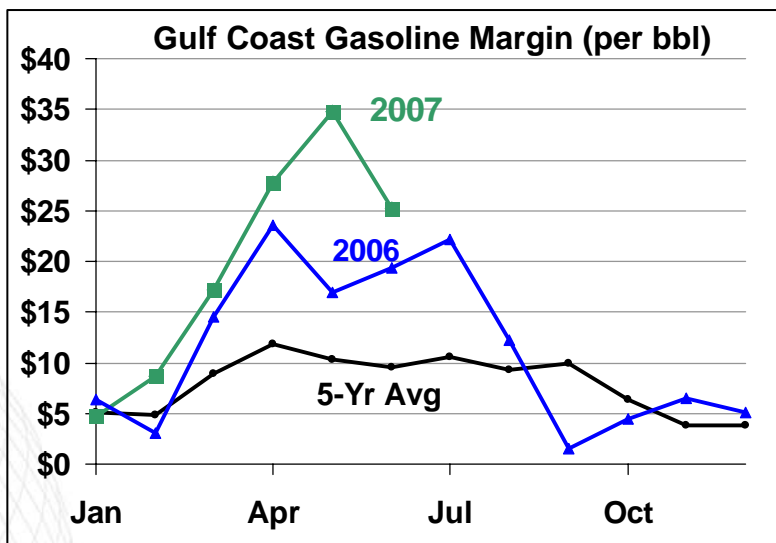
**Greg King**  
President

**Rich Marcogliese**  
EVP – Refining Operations

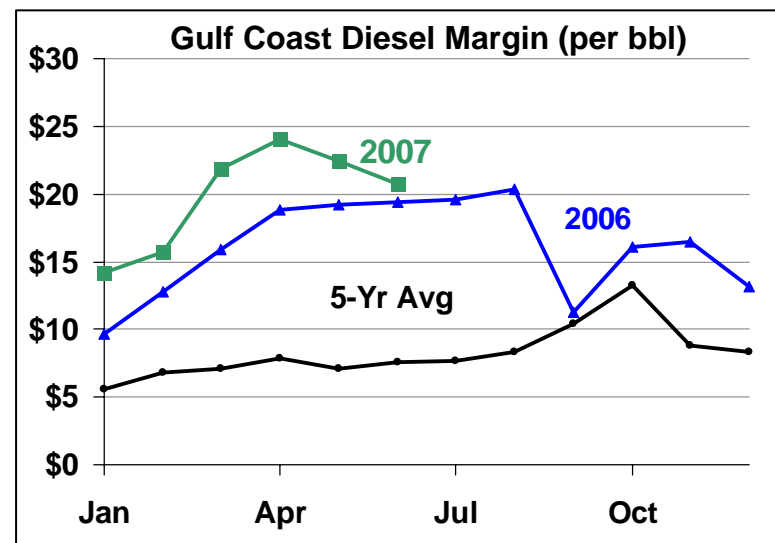
**Mike Ciskowski**  
EVP – Chief Financial Officer

**Eric Fisher**  
VP – Investor and Corporate Communications

# 2007 Refining Margins *Stronger Than Last Year*



Source: Platts conventional unleaded 87; 2007 data through June 20



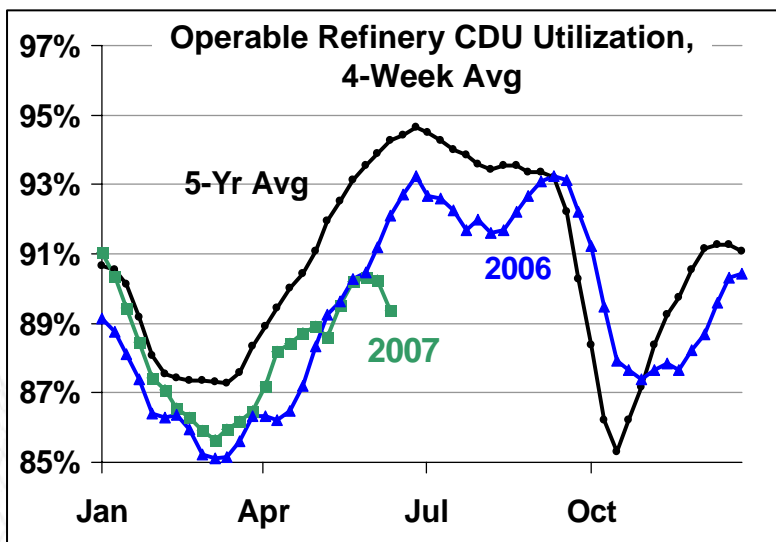
Source: Platts; 2007 data through June 20 = ULSD; Prior years data = LSD

- **YTD Gulf Coast gasoline margins 30% higher than YTD 2006**
- **YTD Gulf Coast diesel margins 15% higher than YTD 2006**
- **Forward curve shows 2007 Gulf Coast 3-2-1 crack spread 50% higher than 2006**
  - 2007 = \$16.10 per barrel
  - 2006 = \$10.60 per barrel



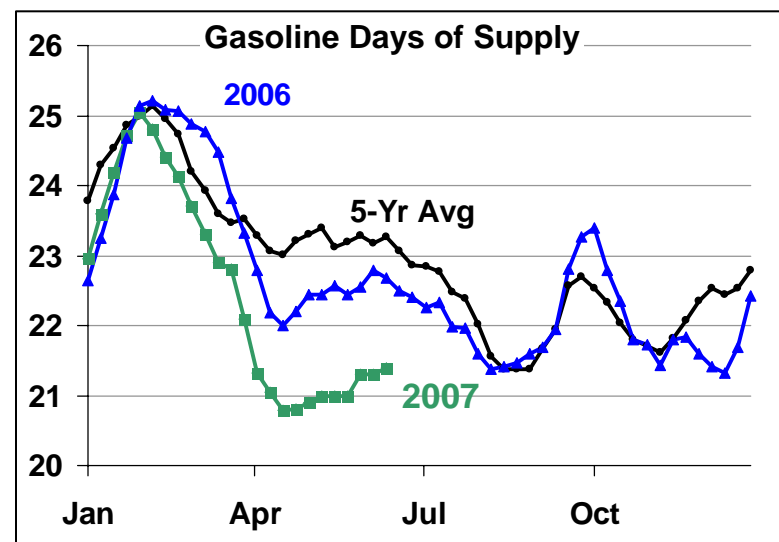
# Gasoline Fundamentals

## *Bullish Factors Continue*



Source: DOE; 2007 data through June 15

- **Refinery utilization has been relatively low given margins**
  - More stringent specifications
  - More complicated refining operations
  - Tightness in labor and equipment for maintenance activities, delays
  - Unplanned outages
  - Industry-wide emphasis on safety

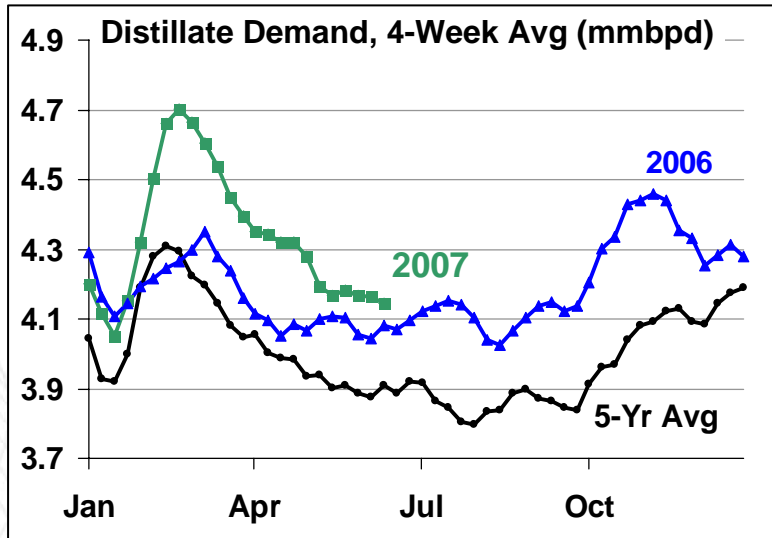


Source: DOE; 2007 data through June 15

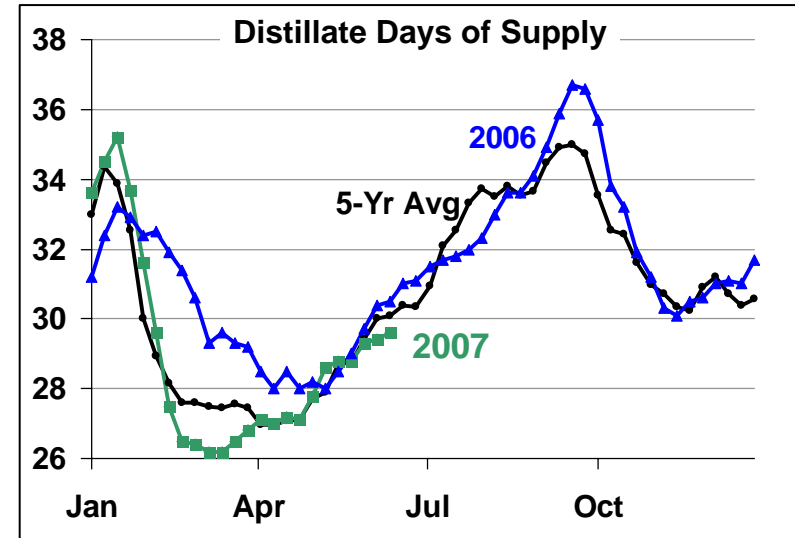
- **Demand at high levels**
  - YTD growth at 1.7% over 2006
  - Strong worldwide economies
  - High global demand for gasoline and blending components
- **YTD imports of gasoline and components down 8% over 2006**
- **Days of supply far below historical levels**

# Distillate Fundamentals

## *Strong Outlook for Distillate*



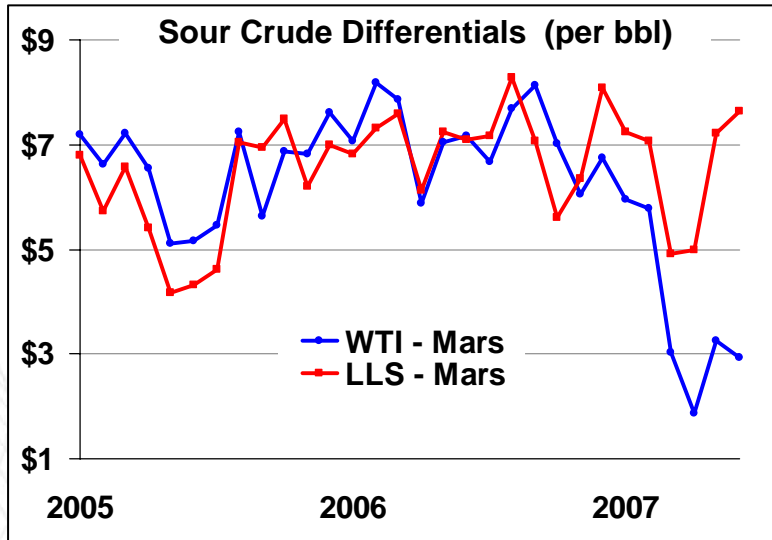
Source: DOE; 2007 data through June 15



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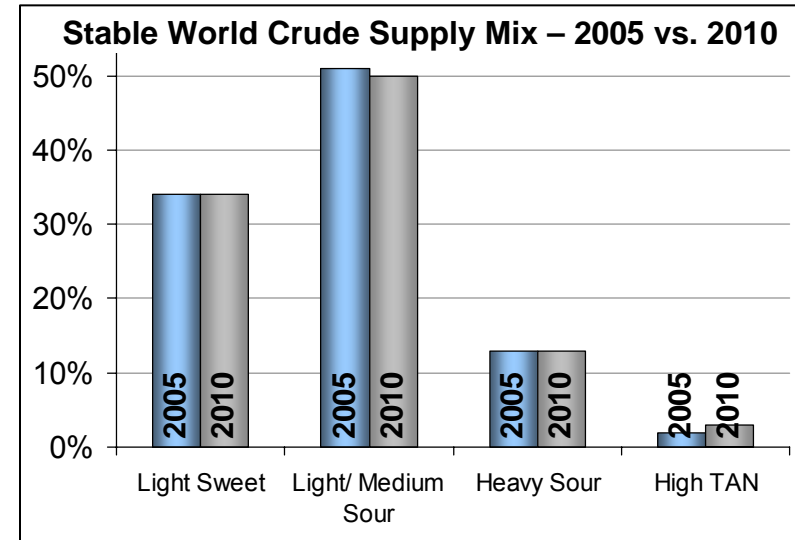
- **Record demand**
  - YTD total distillates growth 4.2%, YTD diesel (LSD + ULSD) growth 11.4%
- **Key growth drivers**
  - Good economy, weather, and ULSD's lower miles per gallon
- **Days of supply below last year and 5-year average**
- **Off-road diesel sulfur spec fell from 2,000 to 500 ppm on 6/1/07**
  - Shifts off-road diesel demand to on-road (ULSD + LSD) market

# Feedstock Differentials Remain Wide



Source: Platts; 2007 data through June 20

- **Feedstock differentials expected to remain wide**
- **Oversupply of crude oil in WTI pricing hub of Cushing, OK depressing WTI relative to similar grades like Light Louisiana Sweet (LLS)**
  - Due to recent Mid-Continent refinery outages and greater supply of Canadian crude oils



Source: Industry reports

- **Worldwide crude supply mix expected to be stable going forward**
- **Heavy sour hold steady**
- **Near-term significant new production is light sweet crude**
  - Demand for light sweet crude growing rapidly to meet worldwide clean fuels requirements

# Industry Trends Support Strong Margins

- **World oil demand growth continues**
  - 2007 estimates 1.6 million barrels per day increase (1.9% growth)
- **Industry refinery expansions and new construction costing much more and taking much longer**
  - Since 2004, prices of steel up 74% and heavy-wall reactors up 133% and lead times longer (heavy-wall reactors 36+ months)
  - Gulf Coast skilled labor costs up 60%, but productivity down 35% from 2004
- **Refineries more complex and units more interdependent than ever**
  - Results in longer turnarounds and maintenance periods
  - Downtime at one unit impacts refinery-wide throughput
- **More stringent regulations reduce system flexibility tremendously**
  - Product specifications and regulations more difficult to meet
  - Reduced ability to blend off-spec products

**Result**

***Industry margins to stay higher for longer***



# Valero's Strategic Focus Has Shifted

- **Aggressive acquisition strategy was the right call over the past decade**
- **Acquisition market has changed**
  - Asset values have risen relative to our valuation and replacement cost
  - Bargains are gone
- **Now time to focus on**
  - Bottom-line growth in EPS and cash flow per share
  - Substantial opportunities to improve operations (Solomon rankings)
  - Strategic projects for organic growth
  - Returning cash to shareholders

***GOAL – Become a better positioned, better performing, and more valuable company for the long-term***



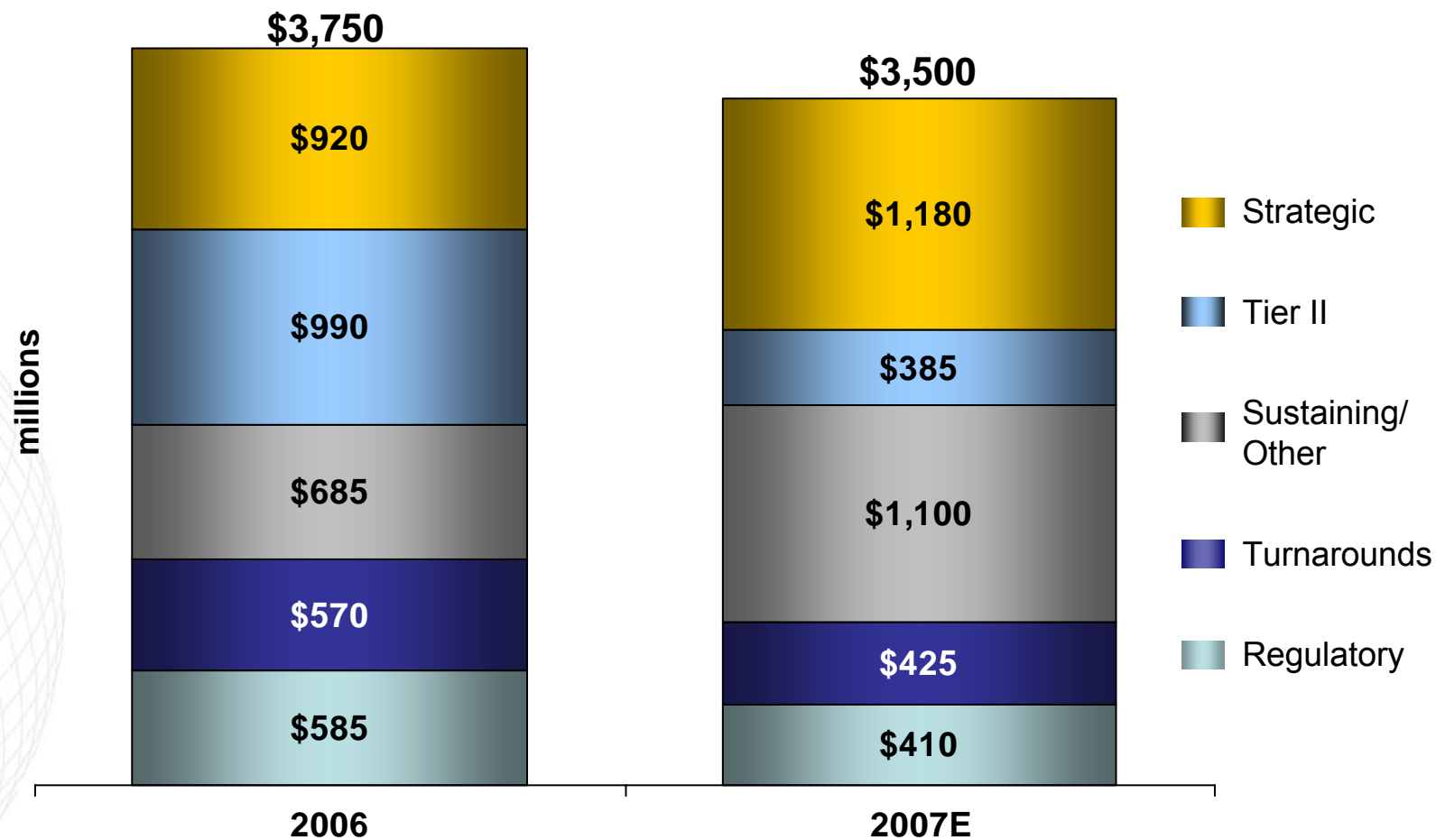
# Valero's Key Initiatives

- **Evaluating all capital projects in light of higher costs and changing markets**
  - Removing or deferring some strategic projects
  - Focusing on value-added, organic growth projects at flagship and niche refineries
- **Targeting at least \$1 billion in annual operating income improvements over next 5 years**
  - Energy, reliability, other operating costs
- **Higher performance expectations and more accountability across all lines of business**
  - Restructuring retail business, centralizing services like refinery accounting and procurement
- **Selective portfolio optimization**
  - Some assets in our portfolio more strategic and valuable to others
  - Executed agreement, subject to regulatory approval, to sell Lima, OH refinery to Husky Energy for \$1.9 billion plus working capital – expect to close by July 1
- **Balanced approach to allocating cash**

# Balanced Approach to Investing Cash

- **Capital expenditures – maintaining \$3.5 billion budget for 2007**
- **Dividends – increased twice in 2006 and by 50% already in 2007**
  - Goal is to pay dividends in-line with peer group
- **Stock buybacks**
  - Board approved additional \$4 billion share repurchase authorization – total of \$6 billion authorized plus anti-dilution
    - \$1 billion purchased through April
    - \$3 billion purchased under accelerated share repurchase (ASR) program
    - Remaining \$2 billion to be used for additional buybacks in 2007
  - Continue purchases under anti-dilution program
  - By year-end 2007, estimate 85-90 million (14%-15%) net share reduction
- **Debt**
  - Paying off callable higher coupon and maturing debt – \$465 million in 2007
  - Targeting net book debt-to-cap ratio around 25%
  - Issued \$2.25 billion of long-term notes and used cash on hand to repay \$3 billion bridge loan for ASR
  - Intend to maintain investment grade rating

# Capital Expenditures Details



- Regulatory and Tier II capital spending drops by \$780 million from 2006 actual to 2007 budget

# 2007 Estimated Cash

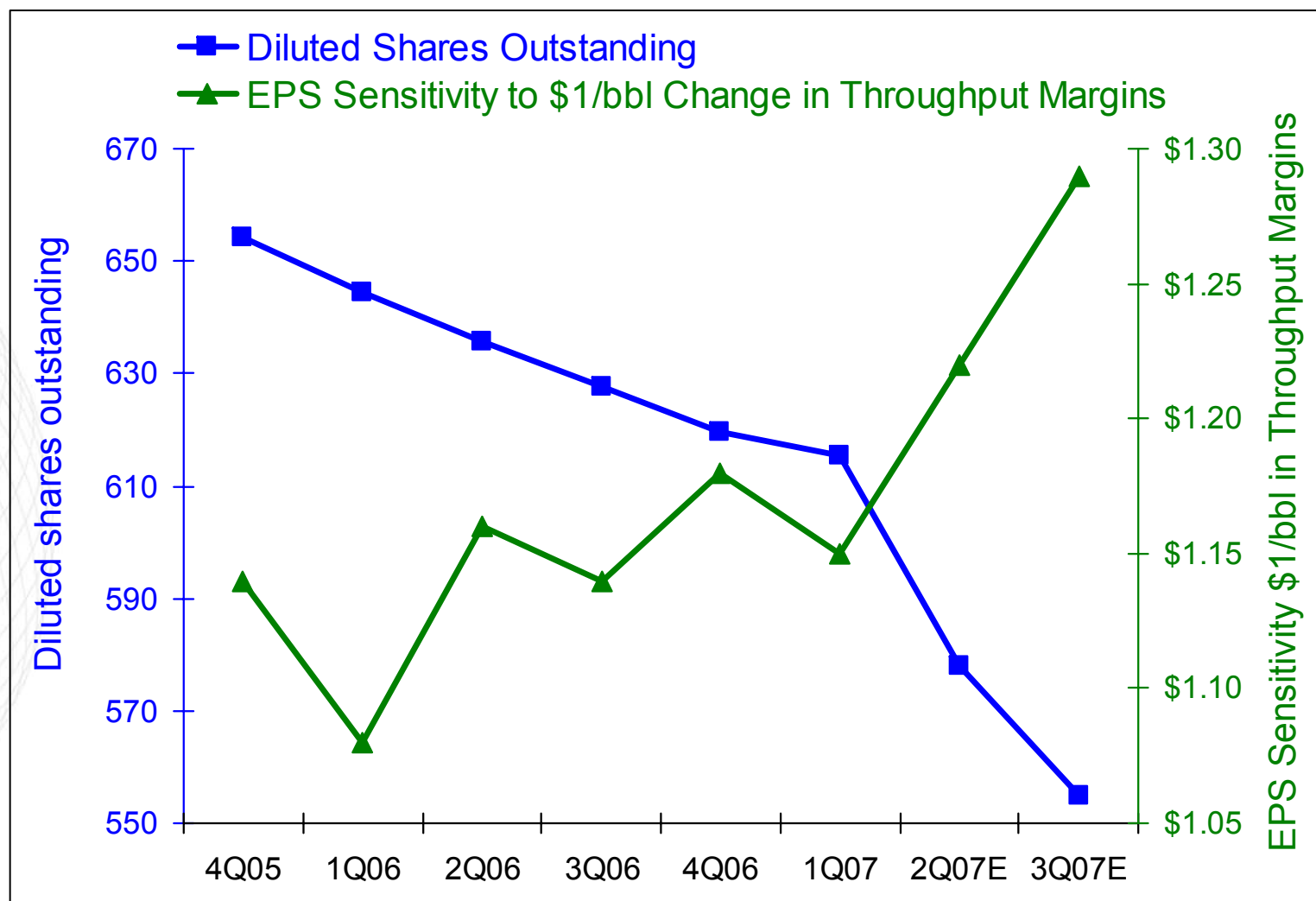
(millions, except per share amounts)	
<b>EPS (First Call mean estimate on June 20, not Valero guidance)</b>	<b><u>\$9.51</u></b>
<b>Net Income (First Call mean estimate using 570mm shares)</b>	<b>\$5,420</b>
<b>Depreciation and Amortization</b>	<b>1,400</b>
<b>Deferred Taxes and Other Charges</b>	<b><u>200</u></b>
<b>Cash from Operations based on First Call</b>	<b>7,020</b>
<b>Capital Expenditures and Turnarounds</b>	<b>-3,500</b>
<b>Earnout Payments</b>	<b>-75</b>
<b>Investments in J.V.</b>	<b>-215</b>
<b>Common Stock Dividends</b>	<b>-275</b>
<b>Debt Repayments</b>	<b>-465</b>
<b>Lima disposition, net of taxes</b>	<b>1,800</b>
<b>New Debt Issued</b>	<b>2,250</b>
<b>Other Potential Debt Issuances</b>	<b><u>750</u></b>
<b>Cash Available for Stock Buybacks based on First Call</b>	<b>7,290</b>
<b>Stock Buybacks (including anti-dilution)</b>	<b><u>-7,000</u></b>
<b>Estimated Remaining Cash based on First Call</b>	<b>\$290</b>

Key Assumptions:

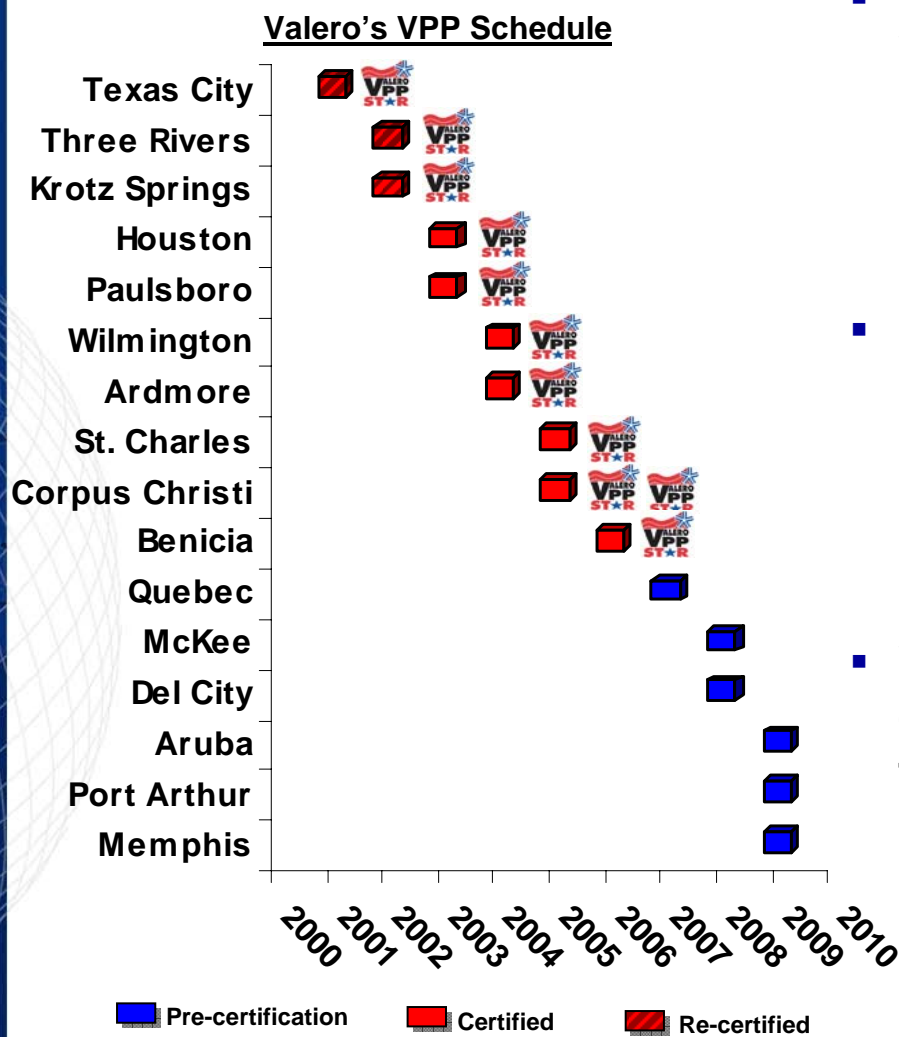
- Based on First Call mean earnings estimate, **not Valero guidance**
- Lima sale effective July 1
- No change in working capital



# Reducing Share Count, Increasing Leverage to Refining Margins



# Valero's Commitment to Safety and the Environment



## Continued commitment to OSHA's Voluntary Protection Program (VPP)

- VPP is a recognized OSHA program for excellence in safety
- Valero has 11 of only 23 VPP Star Sites in the U.S.

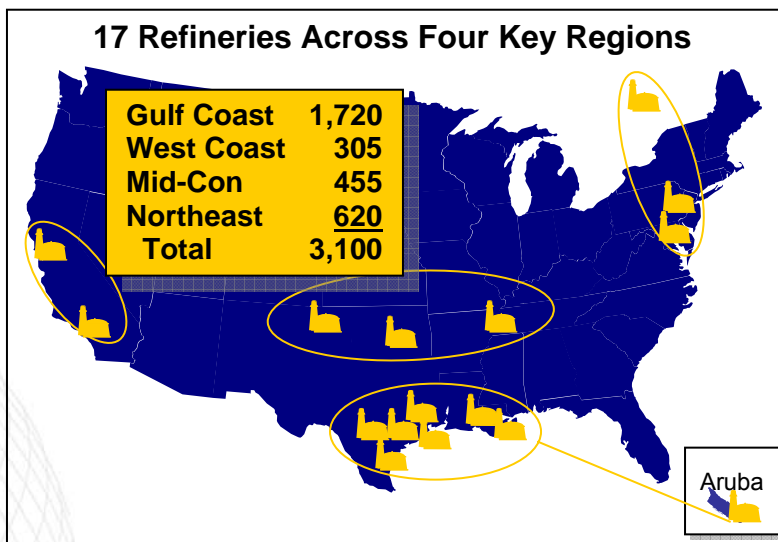
## New Process Safety Management (PSM) initiative underway

- Created VP position in Operations to focus efforts on safety
- Achieve best-in-class PSM at all our facilities

## Valero has spent \$4.3 billion on environmental initiatives in the past five years

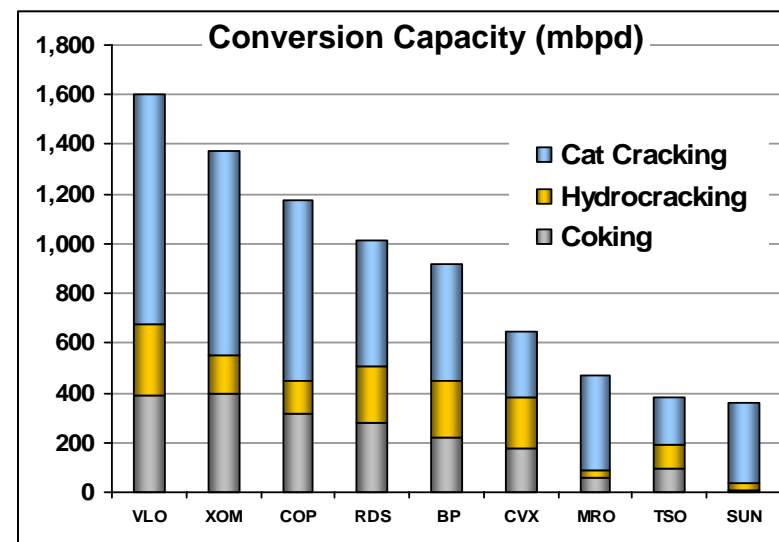
- Will spend \$0.5 billion more to finish Tier II gasoline and ULSD efforts
- Since 2001, our fluid catalytic cracker and coker throughputs are up 12%, but NO<sub>x</sub> emissions from those units reduced by 70%

# Valero's Advantages



Throughput capacities in thousand barrels per day; Excludes 165,000 bpd Lima, OH refinery

- **3.1 million barrels per day of throughput capacity**
  - Scale helps mitigate effect of specific outages
- **Geographically diverse**
  - Valero participates in four key regions
- **Optimization among regional refining systems**



Source: Company reports; VLO figures exclude Lima, OH refinery

- **High-complexity system and leader in conversion capacity**
  - Enables us to convert more low-quality, discounted feedstocks into high-quality products
- **Refining system designed for feedstock flexibility**
  - Increased variety of heavy sour and resid feedstocks from 27 in 2002 to 40 in 2006

# Operations Improvements

- **Energy efficiency**

- 1st quartile performance  $\approx$  \$360mm operating income improvement
- Examples: new FCCU power recovery turbines at St. Charles, hydrogen plant at Benicia, and multi-site heater efficiency

- **Mechanical availability (reliability)**

- 1% improvement  $\approx$  \$240mm operating income improvement
- Examples: Port Arthur coke drum replacement and Aruba utility upgrades

- **Non-energy operating costs**

- 1st quartile performance  $\approx$  \$400mm operating income improvement
- Examples: refinery accounting and procurement centralization, planning and scheduling efficiencies at Delaware City



**\$1 billion in operating income improvements in 5 years**



# 2007 Major Strategic Projects

Refinery	Project	Start Up	Total Cost <sup>1</sup> (\$mm)	Est. Annual EBITDA (\$mm)	IRR <sup>1</sup>
Port Arthur	Crude Expansion	1Q	\$157 <sup>2</sup>	\$95	40% <sup>2</sup>
Houston	Mild Hydrocracker	2Q	412	28	30%
Corpus Christi	Iso-Octene unit	2Q	77	30	26%
St. Charles	Mild Hydrocracker	3Q	424	125	31%
Benicia	ULSD Hydrotreater	3Q	105	45	28%
Wilmington	Alky Expansion	4Q	195	45	23%
Corpus Christi	ULSD Hydrotreater	4Q	260	20	14%

<sup>1</sup> Total project cost includes non-strategic capital costs. Internal rates of return based on strategic portion of capital only.

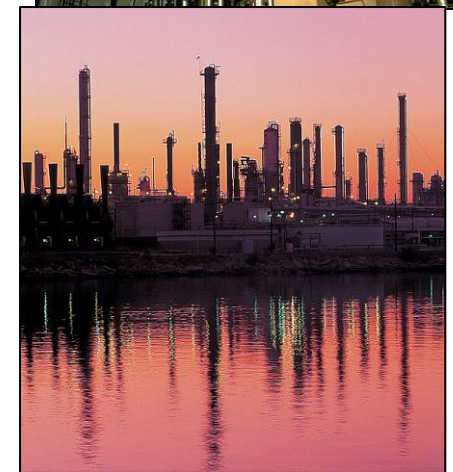
<sup>2</sup> VLO portion, on which the IRR is based. Premcor spent \$150 million prior to acquisition.

- **Continuing to invest in meaningful organic growth projects**
  - Sour-up and product upgrading opportunities
- **Completed Port Arthur crude expansion, Houston and St. Charles mild hydrocrackers in 2007**
- **Evaluating large hydrocracker and expansion projects at St. Charles and Port Arthur focused on diesel production**

# Valero – Best Value in Refining

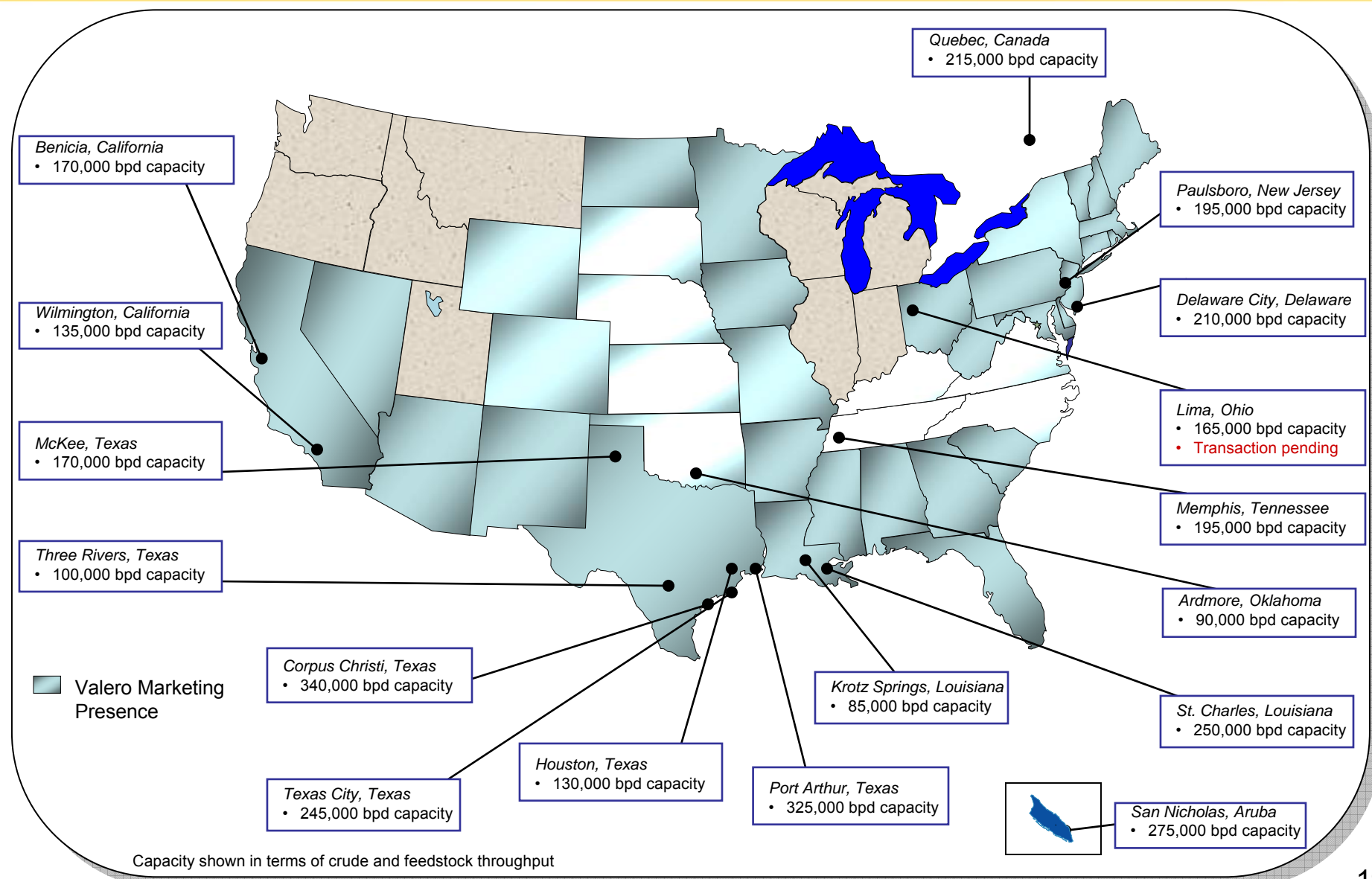
- **Compelling fundamentals driving strong industry margins**
  - Expect strong margin environment through end of decade
- **Improving returns, growing EPS and cash flow per share through**
  - Operating improvements
  - Organic growth projects
  - Stock buybacks
  - Acquisitions that meet our criteria
- **Doing what we said we'd do –**  
**Executing to create long-term, sustainable shareholder value**

***GOAL – Become a better positioned, better performing, and more valuable company for the long-term***



# Appendix

# Map of Valero Refineries





# Safe Harbor Statement

**Statements contained in this presentation that state the Company's or management's expectations or predictions of the future are forward-looking statements intended to be covered by the safe harbor provisions of the Securities Act of 1933 and the Securities Exchange Act of 1934. The words "believe," "expect," "should," "estimates," and other similar expressions identify forward-looking statements. It is important to note that actual results could differ materially from those projected in such forward-looking statements. For more information concerning factors that could cause actual results to differ from those expressed or forecasted, see Valero's annual reports on Form 10-K and quarterly reports on Form 10-Q, filed with the Securities and Exchange Commission, and available on Valero's website at [www.valero.com](http://www.valero.com).**